



**Dominic D Smith**  
SVP & Company Secretary

**QR National Limited**  
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28 February 2011

Company Announcements Office  
Australian Securities Exchange Limited  
Riverside Centre, Level 5  
123 Eagle Street  
BRISBANE QLD 4000

### **QR National – Half Year Report Release**

Please find attached a copy of the Company's Half Year Report for the period ended 31 December 2010, along with the media release and the Half Year Results presentation.

In accordance with the relief from dual lodgement of financial statements under ASIC Class Order 98/104, the Half Year Report will not be lodged separately with ASIC.

The Half Year Results presentation will be delivered to an analyst briefing which will commence at 10.00am (AEST). This briefing will be web-cast and accessible via the Company's website at [www.qrnational.com.au](http://www.qrnational.com.au).

Yours faithfully

A handwritten signature in black ink, appearing to read 'D. Smith'.

**Dominic D Smith**  
SVP & Company Secretary



## RECENTLY PRIVATISED QR NATIONAL DELIVERS A SOLID FIRST HALF RESULT

- Solid first half performance with underlying EBITDA up 17 per cent to \$446 million
- Smooth transition to privatisation with transformation initiatives gaining traction
- A continued focus on revenue quality uplift and growth opportunities
- Coal and iron ore global growth trajectory continues

QR National announced its first result as a listed Company with solid revenue, EBITDA and EBIT improvements recorded in the first half of financial year 2011 (FY11).

QR National's Managing Director & CEO Lance Hockridge said: "The period reflects a solid first half performance including the smooth transition to privatisation, and traction at an operational level from transformation initiatives".

Half year ended 31 December (1H)	2011	2010	Change
QR National Group	\$'m	\$'m	%
Revenue	1,748	1,482	+ 18
Underlying EBITDA	446	381	+ 17
Underlying EBIT	226	173	+ 31
Statutory NPAT	278	(132)	n/a

2010 results from continuing operations

Revenue of \$1.7 billion increased by \$266 million (18 per cent) over the prior comparable period primarily due to uplifts in Network Services and Freight; and in the Coal division, revenue quality improved with new market-based contracts and above-rail revenue per tonnage increases. Strong volumes were delivered through the Central Queensland Coal systems despite record rainfall during the second quarter.

QR National generated net underlying operating cash flows of \$162 million in the first half of FY2011. Capital investment during the period totalled \$699 million including \$208 million on GAPE X50 which remains on schedule and on budget, and \$288 million in above-rail coal growth assets. Net debt at 31 December 2010 was \$295 million with \$2.7 billion of undrawn facilities available to fund future growth, and maintained an investment grade credit rating.

In line with the Offer Document no interim dividend was declared.

In commenting on the operational impacts of the wet weather in Queensland, Mr Hockridge said, "Record rainfall across the Central Queensland Coal Systems in the second quarter significantly affected coal volumes and impacted the half year. Devastating floods followed in January. Our focus has been on swift action and working closely with customers to maximise railings of available coal. All our systems were operational within a short timeframe and we now have more trains available than coal supply. This reflects the resilience of our assets in the face of extreme weather conditions."

QR National's focus on safety has also seen improvements in the lost time injury frequency rate results across the organisation. "QR National's safety performance, which underpins the Company's changing culture, gained significant traction over the period. There was a 41 per cent improvement in the lost time injury frequency rate for the calendar year 2010." Mr Hockridge said.

During the first half and to February 2011 QR National announced the following key coal contracts:

- Jellinbah Resources – up to 5.1 mtpa from its Jellinbah East coal mine to the Port of Gladstone
- Peabody Energy – up to 9mtpa from its Goonyella mines to DBCT
- Anglo American - 2.7mtpa over three years to the Port of Gladstone
- Jellinbah Resources - up to 6mtpa over ten years from Lake Vermont to Abbot Point Coal Terminal - QRN's first above rail contract for GAPE tonnes

In Iron Ore, QR National announced the signing of a Heads of Agreement for up to four million tonnes per annum with Mineral Resources Limited which builds on the momentum of iron ore growth in Western Australia.

The Company has progressed its reform initiatives including the proposed Voluntary Redundancy program. This demonstrates the Company's commitment to moving to industry peer benchmarks.

## Divisional Performance

Half year ended 31 December	Underlying EBITDA	HY11 \$'m	HY10 \$'m	Change \$'m	Change %
Network Services		246	213	+33	+15
Coal		203	230	-27	-12
Freight		43	(14)	+57	>100
Other		(46)	(48)	+2	+4
Total		446	381	+65	+17

2010 results from continuing operations

## **QR National Network Services**

First half revenue of \$643 million and underlying EBITDA of \$246 million were up on the prior comparable period by 22 per cent and 15 per cent respectively. The improvement in underlying EBITDA reflects increased activity in Rollingstock Services and the introduction of new contracts with Queensland Rail. Railings were broadly in line with first half 2010 despite record rainfall in the second quarter.

## **QR National Coal**

Overall first half revenue of \$895 million grew by 3 per cent and revenue per NTK (net tonne kilometre) by 8 per cent, despite the wet weather. A solid improvement in revenue quality resulted from the commencement of new contracts and growth in margins from contract renegotiations and haul mix.

The record wet weather during the second quarter and the Pacific National derailment on the Goonyella system in December 2010 reduced volumes in the second Quarter by approximately seven million tonnes compared to the prior comparable period. As well as the lost tonnes there was a cost impact in the half of \$13 million due to an inability to fully pass through the access take or pay charge to customers which relates to legacy contracts. The level of recovery of revenue through deficit tonnage charges will not be known until customers' final railings are known for FY11.

In NSW, performance improved with the early instalment of capacity in the Hunter Valley allowing QR National to take advantage of additional spot tonnes offered in the market.

As foreshadowed in the Offer Document, margins at the EBITDA and EBIT levels were also depressed due to forward investment in capacity, and additional depreciation from new rollingstock, to meet future growth requirements.

## **QR National Freight**

Revenue grew 18 per cent, or \$104 million, to \$686 million, over the prior comparable period. This included an uplift of \$56 million to \$73 million from the Transport Services Contract with the Queensland Government and \$15 million growth from Intermodal. Growth in iron ore revenues in the Bulk Freight division offset a reduction in grain volumes in Western Australia.

Underlying EBITDA grew by \$57 million to \$43 million, largely reflecting the regional freight Transport Services Contract. Capital expenditure grew from \$50 million to \$90 million to support iron ore growth projects.

## Outlook

For the remainder of FY2011, the assessment of the impact of the flood and cyclone on operations is as follows:

- In an ASX announcement dated 20 January 2011, QR National estimated a reduction in coal haulage volumes of between 15-20 million tonnes to the end of quarter three. Updated information from customers and further analysis indicates total coal haulage reduction is now estimated to be 25 million tonnes for the financial year 2011.
- Looking forward, it is still unclear when customers will be back at full railings. Softer volumes than normal are now expected for coal haulage for quarter four, with downside risk of continuing wet weather and uncertainty around final customer tonnages. On the upside, QR National can accommodate a step-up in haulage, which may be driven by customers in response to strong price conditions.
- In Network Services, the costs of track repairs to date, excluding the Rolleston branch line, is at \$4 million. Recovery of these costs under the regulatory process is progressing.
- Reduced revenues for track access will be recovered through the regulatory revenue cap mechanism in 2013 to the extent that volumes are lower than forecast for the year less the reduced maintenance allowance.
- In QR National Freight we have assessed the overall impact of flood, cyclone damage and lost tonnages at up to a further \$7 million EBIT.
- QR National has brought forward maintenance and other initiatives to ensure that the company is well positioned to maximise throughput for the remainder of this financial year and into FY2012.

Taking these factors into account, and given the highly unusual circumstances, QR National is indicating underlying EBIT for Financial Year 2011 to be in the range of \$380 million to \$410 million, (statutory EBIT \$280 million to \$310 million) as a result of the aftermath of floods and cyclones. No allowance has been made for the cost impact of the proposed Voluntary Redundancy Program.

“Looking further ahead the Company continues to focus on growing returns to our shareholders through high quality service to customers, working our assets harder, enhancing productivity and efficiency, and embedding a strong capital discipline into the business. Major infrastructure projects, including GAPE X50 and Blackwater Electrification, remain on schedule,” Mr Hockridge said.

He concluded “Global demand for Australian coal and iron ore is expected to continue along the current strong growth trajectory. This demand will underpin QR National’s own growth and diversity initiatives”.

# **QR National Limited**

ABN 14 146 335 622

## **Interim financial report for the half-year ended 31 December 2010**

# **QR National Limited**

## **ASX Half-year information - 31 December 2010**

Lodged with the ASX under Listing Rule 4.2A.  
This information should be read in conjunction with the  
30 June 2010 Annual report of QR Limited

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QR National Limited  
For the half-year ended 31 December 2010  
(Previous corresponding period: Half-year ended 31 December 2009)

Results for Announcement to the Market  
31 December 2010

		%		\$m
<b>Revenue</b> from ordinary activities	up	18.2	to	1,691.7
<b>Profit / (loss)</b> from ordinary activities after tax attributable to members	up	1,406.6	to	277.5
<b>Net profit / (loss)</b> for the period attributable to members	up	1,406.6	to	277.5

**Dividends / distributions**

Details of the dividends paid by the Group are provided in note 12 to the interim financial report.

Key Ratios	2010		2009	
	December		December	
Basic earnings per share (cents)	11.37		(0.87)	
Net tangible assets per share (\$)	2.82		1.66	

**Commentary on results for the period**

Commentary on the results for the half-year is provided in the Directors' report.

**Details of associates and joint venture entities**

	Dec-10	Dec-09
	%	%
CHCQ	15	15
Chun Wo / CRGL	20	20
KMQR Sdn Bhd	30	30
ARG Risk Management	50	50
QLM Pty Ltd	50	50
Integrated Logistics Company Pty Ltd	14	-

The profit contribution from any one of these joint venture entities is not material to the Group's profit or the profit for the previous corresponding period.

**QR National Limited** ABN 14 146 335 622  
**Interim financial report - 31 December 2010**

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QR National Limited is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Level 14, Rail Centre 1, 305 Edward Street  
BRISBANE QLD 4000

## Directors' report

The directors present their report on the consolidated entity consisting of QR National Limited ("the Company") and the entities it controlled at the end of, or during, the half-year ended 31 December 2010 ("the Group").

### Directors

The following persons were directors of the Company from the incorporation date of 14 September 2010 and up to the date of this report:

#### Non-Executive:

J B Prescott AC (Chairman)

J Atkin

R R Caplan

A J Davies

G T John AO

P C Kenny

A J P Staines

G T Tilbrook

#### Executive:

L E Hockridge (Managing Director and CEO)

### Principal activities

QR National Limited was incorporated on 14 September 2010 to be the holding company for QR Limited. QR National Limited completed an Initial Public Offering ("IPO") and listed on the ASX on 22 November 2010.

During the half-year the principal continuing activities of the Group consisted of:

- (a) Freight comprising bulk, intermodal, logistics and retail services nationally;
- (b) Coal network access services in Queensland;
- (c) Coal transportation in Queensland and New South Wales; and
- (d) Other rail and transport associated services comprising assets, infrastructure, rollingstock and component services and engineering services.

### Significant changes in the state of affairs

QR National Limited became QR Limited's non-operating holding company by issuing shares to the State of Queensland in exchange for the State's existing shares in QR Limited on 21 September 2010. The Group comprising QR National, QR Limited and QR Limited's controlled entities was formed on this date. The Company was listed on the Australian Securities Exchange (ASX) on 22 November 2010. The State of Queensland transferred 1,618,563,265 of its shares to successful applicants at a retail price of \$2.45 and an institutional price of \$2.55 per share, retaining a 33.67% ownership interest in the Company. The debt payable to Queensland Treasury Corporation was transferred to the State of Queensland via Transfer Notice prior to the listing and the Company has received a capital contribution in exchange.

### Review of operations

The profit after tax of the Group for the half-year ended 31 December 2010 is \$277.5 million (2009: loss of \$21.2 million).

The reported profit does not reflect the underlying results due to the impact of individually significant items. To present underlying earnings of the Group on a similar basis to the pro-forma earnings disclosed in the prospectus dated 8 October 2010, the following adjustments have been made:

	Dec-10	Dec-09
Earnings before interest and tax ("EBIT") from continuing operations (refer note 4)	131.4	(72.2)
Individually significant items		
- net impairment expense and reversals	-	195.5
- derivative transactions not accounted for as hedges	-	19.1
- stamp duty relating to corporate restructure and business acquisition	11.0	24.9
- bonuses paid to employees on listing, including on-costs	41.9	-
- shares gifted to employees on listing	9.0	-
- retention payments	6.3	-
- restructuring costs	26.8	6.4
- gains on sale of certain properties	-	(1.1)
EBIT from continuing operations after adjusting for individually significant items	<u>226.4</u>	<u>172.6</u>

**Review of operations (continued)**

A summary of consolidated revenues and results (EBIT) for the half-year by business segments is set out below:

	Segment revenues		Segment results	
	31 December 2010 \$m	31 December 2009 \$m	31 December 2010 \$m	31 December 2009 \$m
Coal	895.1	865.8	100.9	143.7
Freight	686.1	581.3	14.5	(239.9)
Network Services	642.6	529.2	167.0	134.1
Unallocated/intersegment eliminations	(476.2)	(493.1)	(151.0)	(110.1)
Total Group revenue/EBIT	<u>1,747.6</u>	<u>1,483.2</u>	<u>131.4</u>	<u>(72.2)</u>

Comments on the operations and the results of those operations are set out below:

(a) *Coal*

Revenue for the half-year ended 31 December 2010 increased by \$29.3 million (3%), from \$865.8 million for the half-year ended 31 December 2009 to \$895.1 million with haulage of coal volumes of approximately 100mt. A solid improvement in revenue quality resulted from the commencement of new contracts and growth in margins from contract renegotiations and haul mix.

The record wet weather during the second quarter and the Pacific National derailment on the Goonyella system reduced volumes in the second quarter by approximately seven million tonnes compared to the prior comparable period. As well as the lost tonnes there was a cost impact in the half of \$13 million due to an inability to fully pass through the access take or pay to customers in relation to legacy contracts. The level of recovery of revenue through deficit tonnage charges will not be known until customers' final railings are known for the 2011 financial year.

In New South Wales, performance improved with the early instalment of capacity in the Hunter Valley allowing the Company to take advantage of additional spot tonnes offered in the market.

EBIT for the half-year ended 31 December 2010 decreased by \$42.8 million (30%), from \$143.7 million for the half-year ended 31 December 2009 to \$100.9 million. As foreshadowed in the Offer Document, margins at the EBIT level were also depressed due to forward investment in capacity, and additional depreciation from new rollingstock, to meet future growth requirements.

(b) *Freight*

Revenues for the half-year ended 31 December 2010 increased by \$104.8 million (18%), from \$581.3 million for the half-year ended 31 December 2009 to \$686.1 million. This reflects an uplift of \$56 million to \$73 million from the Transport Services Contract with the Queensland Government and \$15 million growth from Intermodal. Growth in iron ore revenues in the Bulk Freight division offset a reduction in grain volumes in Western Australia.

EBIT for the half-year ended 31 December 2010 increased by \$254.4 million (>100%), from \$(239.9) million for the half-year ended 31 December 2009 to \$14.5 million. The results for the half-year ended 31 December 2009 included net impairment charges and reversals of \$195.5 million. The most significant relating to goodwill and rollingstock of ARG. The remaining improvement largely reflects the contracted TSC for Regional Freight together with the increased returns from Intermodal.

(c) *Network Services*

Revenues for the half-year ended 31 December 2010 increased by \$113.4 million (21%), from \$529.2 million for the half-year ended 31 December 2009 to \$642.6 million. Revenues increased primarily due to pre-privatisation restructuring that incorporated the Services business.

EBIT for the half-year ended 31 December 2010 increased \$32.9 million (25%), from \$134.1 million for the half-year ended 31 December 2009 to \$167.0 million. The improvement in EBIT reflects increased activity in Rollingstock Services and the introduction of new contracts with Queensland Rail. Railings were broadly in line with the half-year ended 31 December 2009 despite record rainfall in the second quarter.

**Dividends**

Dividends paid to members during the financial half-year were as follows:

	31 December 2010 \$m	31 December 2009 \$m
Final ordinary dividend for the half-year ended 30 June 2009 of 6.3 cents per fully paid share paid in December 2009	-	215.1
Special ordinary dividend for the period to 21 September 2010 of 3.54 cents per fully paid share paid in November 2010	<u>86.4</u>	<u>-</u>
	<u>86.4</u>	<u>215.1</u>

**Auditor's independence declaration**

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 6.

**Rounding of amounts**

The Group is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the directors' report and interim financial report. Amounts in the directors' report and interim financial report have been rounded off to the nearest hundred thousand dollars in accordance with that Class Order.

This Directors' report is made in accordance with a resolution of Directors.



J B Prescott AC  
 Chairman

Brisbane Qld  
 28 February 2011



## Auditor's Independence Declaration

As lead auditor for the review of QR National Limited for the half year ended 31 December 2010, I declare that to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of QR National Limited and the entities in controlled during the period.

A handwritten signature in black ink, appearing to read 'Robert Hubbard', is written over a light blue horizontal line.

Robert Hubbard  
Partner  
PricewaterhouseCoopers

Brisbane  
28 February 2011

**QR National Limited**  
**Consolidated income statement**  
**For the half-year ended 31 December 2010**

	Notes	31 December 2010 \$m	31 December 2009 \$m
<b>Revenue from continuing operations</b>	5	<b>1,691.7</b>	1,431.0
Other income		<b>55.9</b>	52.2
Consumables		<b>(731.8)</b>	(612.5)
Employee benefits expense		<b>(622.3)</b>	(475.0)
Depreciation and amortisation expense		<b>(219.2)</b>	(208.2)
Other expenses		<b>(41.7)</b>	(257.5)
Finance costs		<b>(126.9)</b>	(113.3)
<b>Profit/(loss) before income tax</b>	6	<b>5.7</b>	(183.3)
Income tax benefit/(expense)	7	<b>271.8</b>	51.0
<b>Profit/(loss) from continuing operations</b>		<b>277.5</b>	(132.3)
Profit from discontinued operations	8	-	111.1
<b>Profit/(loss) for the half-year</b>		<b>277.5</b>	(21.2)
		<b>Cents</b>	<b>Cents</b>
<b>Earnings per share for profit/(loss) from continuing operations attributable to the ordinary equity holders of the company:</b>			
Basic and diluted earnings per share		<b>11.37</b>	(5.42)
<b>Earnings per share for profit/(loss) attributable to the ordinary equity holders of the Company:</b>			
Basic and diluted earnings per share	15	<b>11.37</b>	(0.87)

*The above consolidated income statement should be read in conjunction with the accompanying notes.*

**QR National Limited**  
**Consolidated statement of comprehensive income**  
**For the half-year ended 31 December 2010**

	<b>31 December 2010 \$m</b>	<b>31 December 2009 \$m</b>
<b>Profit/(loss) for the half-year</b>	<b>277.5</b>	<b>(21.2)</b>
<b>Other comprehensive income</b>		
Changes in the fair value of cash flow hedges recognised in equity	(18.0)	(8.9)
Changes in the fair value of cash flow hedges recognised in the income statement	9.4	2.8
Income tax relating to components of other comprehensive income	7 <u>2.6</u>	<u>1.8</u>
<b>Other comprehensive income for the half-year, net of tax</b>	<b><u>(6.0)</u></b>	<b><u>(4.3)</u></b>
<b>Total comprehensive income for the half-year</b>	<b><u>271.5</u></b>	<b><u>(25.5)</u></b>

*The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.*

**QR National Limited**  
**Consolidated balance sheet**  
**As at 31 December 2010**

	Notes	31 December 2010 \$m	30 June 2010 \$m
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents		44.3	7.9
Trade and other receivables		397.8	531.5
Inventories		182.0	167.0
Derivative financial instruments		18.1	16.4
Other current assets		25.3	9.5
Assets held for distribution	8(c)	-	346.9
<i>Total current assets</i>		<u>667.5</u>	<u>1,079.2</u>
<b>Non-current assets</b>			
Other receivables		1.7	0.8
Investments accounted for using the equity method		0.5	0.5
Derivative financial instruments		6.1	6.2
Other financial assets		36.0	35.8
Property, plant and equipment		7,886.6	7,383.8
Intangible assets		30.4	39.4
Inventories		21.7	24.2
Other non-current assets		3.6	4.0
<i>Total non-current assets</i>		<u>7,986.6</u>	<u>7,494.7</u>
<b>Total assets</b>		<u>8,654.1</u>	<u>8,573.9</u>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables		360.8	335.0
Borrowings	9	-	4,266.1
Derivative financial instruments		27.2	15.1
Provisions		295.7	290.4
Other current liabilities		33.5	34.7
Liabilities held for distribution	8(c)	-	16.1
<i>Total current liabilities</i>		<u>717.2</u>	<u>4,957.4</u>
<b>Non-current liabilities</b>			
Borrowings	10	339.0	-
Deferred tax liabilities		250.7	529.1
Provisions		82.9	71.2
Derivative financial instruments		8.9	8.1
Other non-current liabilities		343.7	324.1
<i>Total non-current liabilities</i>		<u>1,025.2</u>	<u>932.5</u>
<b>Total liabilities</b>		<u>1,742.4</u>	<u>5,889.9</u>
<b>Net assets</b>		<u>6,911.7</u>	<u>2,684.0</u>
<b>EQUITY</b>			
Contributed equity	11	6,109.6	2,067.0
Reserves		(8.0)	(2.0)
Retained earnings		810.1	619.0
<b>Total equity</b>		<u>6,911.7</u>	<u>2,684.0</u>

*The above consolidated balance sheet should be read in conjunction with the accompanying notes.*

QR National Limited  
Consolidated statement of changes in equity  
For the half-year ended 31 December 2010

<u>Attributable to owners of QR National Limited</u>				
Notes	Contributed equity \$m	Reserves \$m	Retained earnings \$m	Total equity \$m
<b>Balance at 1 July 2009</b>	<b>3,412.9</b>	<b>(1.5)</b>	<b>708.2</b>	<b>4,119.6</b>
Profit for the half-year	-	-	(21.2)	(21.2)
Other comprehensive income for the half-year	-	(4.3)	-	(4.3)
<b>Total comprehensive income for the half-year</b>	<b>-</b>	<b>(4.3)</b>	<b>(21.2)</b>	<b>(25.5)</b>
<b>Balance at 31 December 2009</b>	<b><u>3,412.9</u></b>	<b><u>(5.8)</u></b>	<b><u>687.0</u></b>	<b><u>4,094.1</u></b>
<b>Balance at 1 July 2010</b>	<b>2,067.0</b>	<b>(2.0)</b>	<b>619.0</b>	<b>2,684.0</b>
Profit for the half-year	-	-	277.5	277.5
Other comprehensive income for the half-year	-	(6.0)	-	(6.0)
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>(6.0)</b>	<b>277.5</b>	<b>271.5</b>
<b>Transactions with owners in their capacity as owners:</b>				
Capital distribution to Queensland Rail Limited	11(c) (332.3)	-	-	(332.3)
Capital distribution to State of Queensland	11(c) (23.0)	-	-	(23.0)
Capital contribution from State of Queensland	11(b) 4,397.3	-	-	4,397.3
Share-based payments	0.6	-	-	0.6
Dividends provided for or paid	12 -	-	(86.4)	(86.4)
	<b><u>4,042.6</u></b>	<b><u>-</u></b>	<b><u>(86.4)</u></b>	<b><u>3,956.2</u></b>
<b>Balance at 31 December 2010</b>	<b><u>6,109.6</u></b>	<b><u>(8.0)</u></b>	<b><u>810.1</u></b>	<b><u>6,911.7</u></b>

*The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.*

**QR National Limited**  
**Consolidated cash flow statement**  
**For the half-year ended 31 December 2010**

	31 December 2010 \$m	31 December 2009 \$m
<b>Cash flows from operating activities</b>		
Receipts from customers	2,040.3	2,389.7
Interest received	0.8	1.7
Payments to suppliers and employees	(1,531.5)	(1,872.8)
Interest and other cost of finance paid	(207.0)	(243.1)
Income taxes paid	(2.3)	(2.6)
<i>Net cash inflow (outflow) from operating activities</i>	<u>300.3</u>	<u>272.9</u>
<b>Cash flows from investing activities</b>		
Payments made to acquire property, plant and equipment	(676.6)	(825.2)
Payments for available-for-sale financial assets	(0.2)	-
Proceeds from sale of property, plant and equipment	13.3	9.2
Payments for acquisition of business	(6.1)	-
<i>Net cash (outflow) inflow from investing activities</i>	<u>(669.6)</u>	<u>(816.0)</u>
<b>Cash flows from financing activities</b>		
Proceeds from borrowings	1,193.3	893.9
Repayment of borrowings	(701.1)	(221.5)
Dividends paid to company's shareholders	(86.4)	(215.1)
<i>Net cash inflow (outflow) from financing activities</i>	<u>405.8</u>	<u>457.3</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>36.5</b>	<b>(85.8)</b>
Cash and cash equivalents at the beginning of the half-year	7.3	105.1
<i>Cash and cash equivalents at end of the half-year</i>	<u>43.8</u>	<u>19.3</u>
Cash and cash equivalents	44.3	19.8
Less: Trust monies	(0.5)	(0.5)
<i>Cash and cash equivalents in the statement of cash flows</i>	<u>43.8</u>	<u>19.3</u>

*The above consolidated cash flow statement should be read in conjunction with the accompanying notes.*

*The consolidated cash flow statement for the period ended 31 December 2009 represents the operations of the combined continuing and discontinued business. Note 8 provides an overview of discontinued cash flows.*

*For non-cash financing activities, refer note 9.*

## 1 Basis of preparation

QR National Limited ("the Company") is a company domiciled in Australia. The financial statements of the Company as at and for the period ended 31 December 2010 comprises the Company and its subsidiaries (together referred to as "the Group" or "QR National"). The financial statements are presented in the Australian currency.

This general purpose interim financial report for the half-year reporting period ended 31 December 2010 has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*. Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards ("AIFRS").

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report of QR Limited for the year ended 30 June 2010 and any public announcements made by QR National Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001* and the Australian Securities Exchange Listing Rules. The annual report for the year ended 30 June 2010 is accessible at <http://www.queenslandrail.com.au/AboutUs/Documents/QR%20LIMITED%20ANNUAL%20REPORT%202009-10.pdf>

These financial statements have been prepared under the historical cost convention, except for certain financial assets and liabilities which are measured at fair value.

The Company is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the half-year financial report. Amounts have been rounded off in accordance with that Class Order to the nearest hundred thousand dollars, unless otherwise indicated.

### *Group restructure*

QR National Limited was incorporated on 14 September 2010 and did not undertake any trading activities between its incorporation and 21 September 2010 when it became a non-operating holding company for a group comprising itself, QR Limited and QR Limited's controlled entities, by issuing shares to the State of Queensland in exchange for the State of Queensland's existing shares in QR Limited.

Up until 30 June 2010, QR Limited was the ultimate parent entity of a group which owned the QR National business and the Queensland Rail business. The Queensland Rail business was separated through (i) a restructuring whereby certain assets and liabilities attributable to the Queensland Rail business were transferred to QR Limited's wholly-owned subsidiary Queensland Rail Limited (formerly named QR Passenger Pty Ltd) and (ii) the subsequent transfer by QR Limited of its shares in Queensland Rail Limited to the State.

The separation of the Queensland Rail assets was completed in accordance with a Transfer Notice requiring a capital distribution at book value to the State as owner of the Group.

Immediately following the restructure, QR Limited and its remaining subsidiaries conducted only the QR National business. Subsequently, QR National Limited became QR Limited's non-operating holding company and the group comprising QR National Limited, QR Limited and QR Limited's controlled entities was formed. The consolidated financial statements of QR National Limited have been prepared as a continuation of the financial statements of QR Limited. Accordingly, consolidated comparative information is provided for the balance sheet and related information as at 30 June 2010 and for the income statement, statement of comprehensive income, statement of changes in equity, cash flow statement and related information for the half year ended 31 December 2009 of QR Limited and its controlled entities.

## 2 Significant accounting policies

The accounting policies adopted are consistent with those of the previous financial year. Since 1 July 2010, the Group has adopted a number of Australian Accounting Standards and Interpretations that are mandatory for annual reporting periods beginning on or after 1 July 2010. Adoption of these new standards and interpretations has not had any material effect on the financial position or performance of the Group.

Where necessary, comparative information has been restated to conform with changes in presentation in the current year.

### 3 Critical accounting estimates and judgements

The preparation of interim financial statements requires management to make estimates, judgements, and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the Group and that are believed to be reasonable in the circumstances. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

The same significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty as those that applied to the financial report as at and for the year ended 30 June 2010 have been made for 31 December 2010. During the half-year, significant estimates have been made in the resetting of the tax cost bases upon entering the Australian tax consolidation regime (refer note 7) and forecasting annual tonnages to determine the amount of annual net take or pay the Group is entitled to receive in respect of the half-year in accordance with the Access Undertaking agreements.

### 4 Segment information

#### Operating segments

The following summary describes the operations in each of the Group's reportable segments:

##### *Coal*

Transport of coal from mines in Queensland and NSW to end customers and ports.

##### *Freight*

Transport of bulk mineral commodities (including iron ore), agricultural products, mining and industrial inputs and general freight throughout Queensland and Western Australia, and containerised freight throughout Australia.

##### *Network Services*

Provision of access to, and operation and management of the Queensland coal network.

Provision of design, construction, overhaul, maintenance and management services to the Group as well as external customers.

Interest expense for the entire Group is recorded corporately and not allocated to specific segments. Items of revenue and expense of a corporate nature, ineffective hedging gains and losses as well as those relating to minor operations within the Group are included in Unallocated EBIT in the table below. Asset and liability positions of the Group are only reviewed at the consolidated level.

#### 4 Segment information (continued)

31 December 2010	Coal \$m	Freight \$m	Network Services \$m	Total \$m
<b>Segment revenue</b>				
Sales to external customers	870.0	604.9	176.7	1,651.6
Intersegment sales	6.4	52.3	453.3	512.0
Total sales revenue	876.4	657.2	630.0	2,163.6
Other income	18.7	28.9	12.6	60.2
Total segment revenue and other income	<u>895.1</u>	<u>686.1</u>	<u>642.6</u>	<u>2,223.8</u>
Intersegment elimination				(512.0)
Unallocated revenue and other income				35.8
Consolidated revenue and other income				<u>1,747.6</u>
<b>Segment result</b>				
EBIT	<u>100.9</u>	<u>14.5</u>	<u>167.0</u>	282.4
Unallocated EBIT				(151.0)
EBIT from continuing operations				131.4
Net finance costs				(125.7)
Profit before income tax				5.7
Income tax expense				271.8
Profit for the half-year from continuing operations				<u>277.5</u>
<b>31 December 2009</b>				
	Coal \$m	Freight \$m	Network Services \$m	Total \$m
<b>Segment revenue</b>				
Sales to external customers	822.5	509.1	97.7	1,429.3
Intersegment sales	22.9	43.9	431.1	497.9
Total sales revenue	845.4	553.0	528.8	1,927.2
Other income	20.4	28.3	0.4	49.1
Total segment revenue and other income	<u>865.8</u>	<u>581.3</u>	<u>529.2</u>	1,976.3
Intersegment elimination				(497.9)
Unallocated revenue and other income				4.8
Consolidated revenue and other income				<u>1,483.2</u>
<b>Segment result</b>				
EBIT	<u>143.7</u>	<u>(239.9)</u>	<u>134.1</u>	37.9
Unallocated EBIT				(110.1)
EBIT from continuing operations				(72.2)
Net finance costs				(111.1)
Profit before income tax				(183.3)
Income tax expense				51.0
Profit for the half-year from continuing operations				<u>(132.3)</u>

#### 5 Revenue from continuing operations

	31 December 2010 \$m	31 December 2009 \$m
Services revenue		
Track access	468.7	407.9
Freight transport	979.2	973.7
Other services revenue	140.3	22.2
Other revenue	<u>103.5</u>	<u>27.2</u>
	<u>1,691.7</u>	<u>1,431.0</u>

## 6 Profit/(loss) before income tax

	<b>31 December 2010</b>	31 December 2009
	<b>\$m</b>	\$m

Profit/(loss) before income tax for the half-year includes the following items that are individually significant and generally outside the ordinary course of the business and are either individually, or in aggregate, material to the Group:

### Revenue

Gains on sale of certain properties	-	1.1
	-	1.1

### Expenses

Net impairment expense and reversals	-	195.5
Derivative transactions not accounted for as hedges	-	19.1
Stamp duty relating to corporate restructure and business acquisition	11.0	24.9
Bonuses paid to employees on listing, including on-costs	41.9	-
Shares gifted to employees on listing	9.0	-
Retention payments	6.3	-
Restructuring costs	26.8	6.4
	95.0	245.9

The following items are considered individually significant in understanding the underlying financial performance of the Group for the current and prior half-year:

- Net impairment charges and reversals of \$195.5 million were recognised against the assets of QRN Freight in the half-year ended 31 December 2009. The most significant of these related to an impairment charge of \$180.0 million recognised against the goodwill and rollingstock assets of ARG.
- The derivative transactions not accounted for as hedges of \$19.1 million in the prior half-year comprises unrealised gains and losses on fuel purchases and realised gains and losses on hedging of capital expenditure denominated in foreign currency. The Group did not meet certain technical accounting criteria to allow it to apply hedge accounting to these transactions and therefore hedge accounting was not applied in the prior half-year. These transactions meet the criteria for hedge accounting in the current period.
- Payment of \$24.9 million in stamp duty in relation to the 2006 acquisition of the Australian Railroad Group (for which the assessment is still being challenged) in the prior half-year.
- NSW stamp duty, for which an accrual of \$11.0 million has been made, was triggered on 21 September 2010 with the interposition of QR National Limited as part of the pre IPO structuring.
- On listing on the ASX, eligible employees of the Group each received a cash bonus of \$4,000 and the offer of \$1,000 of shares in the Company, totalling \$50.9 million including on-costs. In addition, there was an expense of \$6.3 million related to retention payments for management and employees.
- Restructuring costs in each half-year include work on the sale scoping exercise undertaken by the State, restructuring and separation of the discontinued businesses which were transferred to Queensland Rail and work on the listing of the Company on the ASX.

## 7 Income tax (benefit)/expense

	<b>31 December 2010</b>	31 December 2009
	<b>\$m</b>	\$m

Income tax (benefit)/expense on profit from continuing operations	(271.8)	(51.0)
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## 7 Income tax (benefit)/expense (continued)

	31 December 2010 \$m	31 December 2009 \$m
<b>(a) Numerical reconciliation of income tax (benefit)/expense to prima facie tax payable</b>		
Profit/(loss) from continuing operations before income tax expense	<u>5.7</u>	<u>(183.3)</u>
Tax at the Australian tax rate of 30% (2009 - 30%)	1.7	(55.0)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Share-based payments	2.7	-
Stamp duty	3.3	7.5
Sundry items	<u>1.7</u>	<u>(3.5)</u>
	9.4	(51.0)
 Tax impact from resetting of tax bases under Tax Consolidation/Tax Privatisation Legislation	 <u>(281.2)</u>	 <u>-</u>
Income tax (benefit)/expense	<u>(271.8)</u>	<u>(51.0)</u>

### *Privatisation and Tax Consolidation*

Entities within the Group exited the State administered National Tax Equivalents Regime upon privatisation on 22 November 2010. At the same time, QR National Limited and its wholly owned Australian subsidiaries entered the Federal Tax Regime.

QR National Limited and its wholly owned Australian subsidiaries intend to implement the tax consolidation legislation as of 22 November 2010. All Australian wholly owned companies in the QR National Limited Group are part of the tax consolidated group and are therefore taxed as a single entity. In this regard, the Australian Taxation Office has not yet been formally notified. The Group will notify the Australian Tax Office when it lodges its 2011 income tax return that it had formed an income tax consolidated group to apply from 22 November 2010.

The head entity and the controlled entities in the tax consolidated group account for their own current and deferred tax amounts. Entities calculate their current and deferred tax balances as if each entity in the tax consolidated group continues to be a stand alone taxpayer in its own right.

In addition to its own current and deferred tax amounts, QR National Limited also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

Deferred tax balances relating to assets that had their tax values reset on joining the tax consolidated group have been remeasured based on the carrying amount of those assets in the tax consolidated group and their reset tax values. The adjustment to these deferred tax balances is recognised in the consolidated financial statements against income tax expense.

During the period ended 31 December 2010, as a consequence of the privatisation of QR National Limited and the proposed election to consolidate its wholly owned Australian subsidiaries under the Australian tax consolidation regime, the Group has reset the tax base of its assets and liabilities as required by the specific privatisation tax rules and the tax consolidation regime. This has resulted in a net tax benefit of \$281.2 million in the period ended 31 December 2010. The final impact of the Group resetting its assets and liabilities as required by specific tax privatisation rules and the tax consolidation regime will be reflected in the 30 June 2011 annual report.

The entities within the QR National Limited tax consolidated group have entered into a tax sharing agreement which, in the opinion of the directors, limits the joint and several liability of the wholly-owned entities in the case of a default by the head entity.

## 7 Income tax (benefit)/expense (continued)

The tax consolidated group has also entered into a tax funding agreement whereby the wholly-owned entities fully compensate QR National Limited for any current tax payable assumed and are compensated by QR National Limited for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to QR National Limited under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly-owned entities' financial statements and are recognised as current intercompany receivables or payables.

## 8 Discontinued operations and assets and liabilities held for distribution

### Disposal of passenger and non-coal network business

#### (a) Description

On 30 June 2010, QR Limited was separated into two distinct businesses which comprise the continuing and discontinued operations presented in these financial statements as follows:

- Continuing operations: The continuing operations are known as QR National and comprise the principal commercial rail freight operations, including the operation and management of the Central Queensland Coal Network infrastructure, the above rail coal haulage operations, the above rail freight activities and selected services businesses.
- Discontinued operations: The discontinued operations are known as Queensland Rail and include the core public passenger business and assets, the metropolitan rail networks, the regional non-coal freight networks (excluding lines primarily dedicated to coal) and selected services businesses.

The financial separation of the continuing and discontinued operations was performed with regard to the measurement principles set out in AASB 5 *Assets Held for Sale and Discontinued Operations*.

Financial information relating to the discontinued operation for the comparative period is set out below.

#### (b) Financial performance and cash flow information

The financial performance and cash flow information presented are for the half-year ended 31 December 2009.

	31 December 2009 \$m
Revenue	889.3
Other income	1.9
Expenses	(732.6)
Profit before income tax	158.6
Income tax expense	(47.5)
<b>Profit from discontinued operation</b>	<b>111.1</b>
Net cash inflow from operating activities	286.3
Net cash (outflow) from investing activities	(305.4)
Net cash inflow from financing activities	19.2
<b>Net increase in cash generated by the discontinued operation</b>	<b>0.1</b>

## 8 Discontinued operations and assets and liabilities held for distribution (continued)

### (c) Assets and liabilities distributed to owners during the current period

At 30 June 2010 the Group held the following residual assets and liabilities for distribution to Queensland Rail Limited: property, plant and equipment of \$346.9 million; net deferred tax liabilities of \$7.5 million; and provision for insurance claims held within a QR Limited subsidiary, On Track Insurance Pty Ltd ("OTI") of \$8.6 million.

The property, plant and equipment and related deferred tax liabilities were transferred to Queensland Rail Limited on 31 August 2010 pursuant to directions issued by the Treasurer and Minister for Employment and Economic Development.

The provision for insurance claims and related deferred tax assets held by OTI were transferred to Queensland Rail Limited on 6 October 2010 pursuant to directions issued by the Treasurer and Minister for Employment and Economic Development on 4 October 2010.

The transfer of these assets and liabilities has been effected at book values in accordance with accepted accounting methods pertaining to common control transactions.

## 9 Current liabilities - Borrowings

	31 December 2010 \$m	30 June 2010 \$m
<b>Unsecured</b>		
Queensland Treasury Corporation borrowings	-	4,266.1
Total current borrowings	-	4,266.1

Queensland Treasury Corporation borrowings of \$4,388.3 million were replaced by a capital contribution from the State of Queensland via Transfer Notice just prior to the listing on the ASX (refer note 11(b)).

## 10 Non-current liabilities - Borrowings

	31 December 2010 \$m	30 June 2010 \$m
<b>Secured</b>		
Syndicated Debt Facility	339.0	-
Total non-current borrowings	339.0	-

The Group entered into a \$3,000 million Syndicated Facility Agreement on 7 October 2010, with first draw down of the facility in November 2010. A syndicate of lenders will provide \$1,425 million in a facility expiring in 2013 and \$1,575 million in facilities expiring in 2015.

The Syndicated Debt Facility is secured by a negative pledge that imposes certain covenants on the Group to ensure that certain financial ratios are met, and restricts the amount of security that subsidiaries can provide over their assets.

## 11 Contributed equity

QR National Limited was incorporated on 14 September 2010. As discussed in note 1, as these financial statements have been prepared as a continuation of QR Limited, the contributed equity as at 30 June 2010 reflects the contributed equity of QR Limited as at that date. On 21 September 2010, the shares in QR Limited were transferred to QR National in exchange for the QR National shares issued to the State of Queensland.

	31 December 2010 Shares '000	30 June 2010 Shares '000	31 December 2010 \$m	30 June 2010 \$m
<b>(a) Issued capital</b>				
Ordinary shares				
Fully paid	<u>2,440,000</u>	<u>3,792,757</u>	<u>1,711.7</u>	<u>2,067.0</u>
<b>(b) Other contributed equity</b>				
Share-based payments			0.6	-
Capital contributions from State on retirement of borrowings (note 9)			4,388.3	-
Capital contribution from the State for employee gift shares			<u>9.0</u>	<u>-</u>
			<u>4,397.9</u>	<u>-</u>
<b>Total contributed equity</b>			<u>6,109.6</u>	<u>2,067.0</u>

### (c) Movements in ordinary share capital:

Date	Details	Number of shares	Issue price	\$m
1 July 2010	Opening balance	3,792,757,000		2,067.0
31 August 2010	Capital distribution to Queensland Rail Limited			(332.3)
21 September 2010	Change in legal capital structure from QR Limited to QR National Limited			
	Elimination of existing shares in QR Limited	(3,792,757,000)		-
	Share issuance to the State of Queensland in exchange for QR Limited shares	100		-
6 October 2010	Capital distribution on disposal of OTI pursuant to Transfer Notice	-	\$-	(23.0)
6 October 2010	Share split	2,439,999,900	\$-	-
31 December 2010	Closing balance	<u>2,440,000,000</u>		<u>1,711.7</u>

## 12 Dividends

	31 December 2010 \$m	31 December 2009 \$m
<b>Ordinary shares</b>		
Final dividend for the year ended 30 June 2009 of 6.3 cents per fully paid share paid in December 2009	-	215.1
Special dividend for the period to 21 September 2010 of 3.54 cents per fully paid share paid November 2010	<u>86.4</u>	<u>-</u>
	<u>86.4</u>	<u>215.1</u>

## 13 Contingencies

There have been no material changes in contingent assets and liabilities since 30 June 2010.

## 14 Related party transactions

Except as described below, arrangements for related parties continue to be in place as disclosed in the 30 June 2010 financial report.

### *Transport Services Contracts ("TSC's")*

The Group has entered into Transport Services Contracts with the State (acting through the Department of Transport and Main Roads) to provide general freight and livestock transportation services. The contracts commenced on 1 July 2010 and expire on 30 June 2015 and 31 December 2015 respectively. Revenue recognised under TSC's in the six months ended 31 December 2010 amounted to \$73.3 million.

Under the contracts, for the initial two and a half years, the Group will receive monthly base payments and quarterly payments in aggregate totalling \$150 million for the year ended 30 June 2011, \$148.1 million for the year ended 30 June 2012 and \$75.1 million for the six months ended 31 December 2012.

After 31 December 2012, and until expiry of the contract, there is a process to calculate payment amounts for the services then required by the State of Queensland as detailed in the contract.

In addition, the contracts provide for additional payments of \$90 million (general freight) and \$13 million (livestock) between 31 December 2012 and the expiry of the contracts.

### *Incentive schemes*

Certain executives have been invited to participate in Short term incentive awards ("STIA") which are payable in cash at the discretion of the Board following satisfaction of specified performance hurdles with respect to EBIT, safety and the Company's transformation process. In addition, certain senior executives will also be entitled to a deferred component of STIA ("STIAD") to be awarded as rights in 2011 and 2012, equivalent to 50% of the STIA they receive in the relevant year of award. These tranches will only vest and become exercisable provided that the executive remains employed by QR National at the date of vesting. Half of the first tranche of rights issued based on the 2011 STIAD will vest in September 2012 and the other half in September 2013. Half of the second tranche of rights issued based on the 2012 STIAD will vest in September 2013 and the other half in September 2014.

The Chief Executive Officer ("CEO") is entitled to a STIAD in the form of rights to acquire shares in the Company offered in two tranches of 333,333 rights/shares each. These rights will vest in November 2011 and November 2012 respectively subject to the Company achieving the EBIT performance hurdle outlined in the Share Offer document. The fair value of rights at grant date was \$2.07 each. Approximately \$1.4 million will be recognised as an expense for these tranches for the CEO over the vesting period, of which \$0.1 million has been recognised as at 31 December 2010.

## 14 Related party transactions (continued)

Long term incentive awards ("LTIA") have also been offered to senior executives including the CEO. Vesting of the LTIA is subject to two performance hurdles amounting to 50% of the rights each:

- Total shareholder returns ("TSR") over the performance period relative to a peer group of companies; and
- Achievement of the EBIT targets outlined in the Share Offer document as well as earnings per share ("EPS") growth of at least 7.5% for the financial year ending 30 June 2013.

A right will only vest on the satisfaction of the relevant performance hurdle that is measured by reference to the three years following the award ("performance period") or a re-testing which will occur one year thereafter. The fair value of the share rights has been determined by independent valuation using the Monte-Carlo simulation at \$0.94 per right for the TSR component and \$1.14 per right for the EPS component.

## 15 Earnings per share

	31 December 2010 Cents	31 December 2009 Cents
Basic and diluted earnings per share	11.37	(0.87)
Profit/(loss) for the half-year	<b>\$m</b> 277.5	<b>\$m</b> (21.2)
	<b>Number</b> <b>'000</b>	<b>Number</b> <b>'000</b>
Weighted average number of ordinary shares used as the denominator in calculating basic and diluted earnings per share	<u>2,440,000</u>	<u>2,440,000</u>

All shares issued by QR National Limited are fully paid ordinary shares that participate equally in profit distributions.

For calculating the earnings per share for the comparative period the weighted average number of ordinary shares used as the denominator is taken to be the number of ordinary shares issued by QR National Limited for the acquisition of QR Limited in the corporate restructure that occurred in September 2010.

## 16 Events occurring after the reporting period

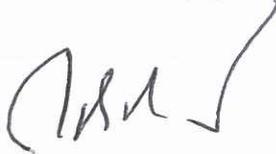
The Group has been adversely affected by widespread and unseasonal rainfall across Queensland during December 2010 and January 2011 causing the closure of railway lines. All systems in the Central Queensland Coal Network were re-opened by late January 2011, although speed restrictions were applied in some areas. Reduced revenues for track access in the 2010/11 financial year to the extent that volumes are lower than forecast will be recovered through the regulatory revenue cap mechanism in the 2012/13 financial year. Due to lower volumes, the variable component of access fees for ordinary maintenance will result in a reduction in maintenance allowance. In the Coal business, volumes are estimated to be down by 25 million tonnes to the end of quarter three of the 2010/11 financial year.

There has not arisen in the interval between 31 December 2010 and the date of this report any other item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group.

In accordance with a resolution of the Directors of the Company, I state that:

In the opinion of the Directors of the Company:

- (a) the financial statements and notes set out on pages 7 to 21 are in accordance with the *Corporations Act 2001*, including:
  - (i) complying with the Australian Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
  - (ii) giving a true and fair view of the company's and consolidated entity's financial position as at 31 December 2010 and of its performance for the half-year ended on that date, and
- (b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.



On behalf of the Board

JB Prescott AC  
Chairman

Brisbane Qld  
28 February 2011



## **Independent auditor's review report to the members of QR National Limited**

### **Report on the Half-Year Financial Report**

We have reviewed the accompanying half-year financial report of QR National Limited, which comprises the balance sheet as at 31 December 2010, and the income statement, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, selected explanatory notes and the directors' declaration for the QR National Limited Group (the consolidated entity). The consolidated entity comprises both QR National Limited (the company) and the entities it controlled during that half-year.

#### *Directors' responsibility for the half-year financial report*

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001* and for such control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement whether due to fraud or error.

#### *Auditor's responsibility*

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of QR National Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. It also includes reading the other information included with the financial report to determine whether it contains any material inconsistencies with the financial report. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our review was not designed to provide assurance on internal controls.

Our review did not involve an analysis of the prudence of business decisions made by directors or management.

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**PwC, ABN 52 780 433 757**

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**Independent auditor's review report to the members of  
QR National Limited (continued)**

*Matters relating to the electronic presentation of the reviewed financial report*

This review report relates to the financial report of the company for the half-year ended 31 December 2010 included on QR National Limited's web site. The company's directors are responsible for the integrity of the QR National Limited web site. We have not been engaged to report on the integrity of this web site. The review report refers only to the statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the reviewed financial report to confirm the information included in the reviewed financial report presented on this web site.

*Independence*

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

*Conclusion*

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of QR National Limited is not in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*



PricewaterhouseCoopers



Robert Hubbard  
Partner

Brisbane  
28 February 2011



# Interim Results FY2011

**Lance Hockridge**  
Managing Director and CEO

**Deborah O'Toole**  
Executive Vice President and CFO

**28 February 2011**



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# Highlights



**Solid first half performance**

**Smooth transition to privatisation with transformation gaining traction**

**A continued focus on revenue quality uplift and growth opportunities**

**Long term growth underpinned by global demand for coal and iron ore**

- ▶ Underlying EBITDA of \$446 million up 17%
- ▶ Underlying EBIT of \$226 million up 31%
- ▶ Statutory profit of \$278 million up >100%
- ▶ Coal volumes of 99.6mt are broadly in line with HY10 despite record rainfall in Q2

# Smooth transition to privatisation with transformation gaining traction



- ▶ Smooth transition from Government ownership to ASX listed entity
  
- ▶ Safety performance continues to improve
  - ▶ 41% improvement in LTIFR for calendar year 2010
  - ▶ LTIFR now 4.2
  
- ▶ Transformation initiatives are gaining traction
  - ▶ Operating model
  - ▶ Commercial excellence
  - ▶ Capital productivity
  - ▶ Addressing administrative overheads

# A continued focus on revenue quality uplift & growth opportunities

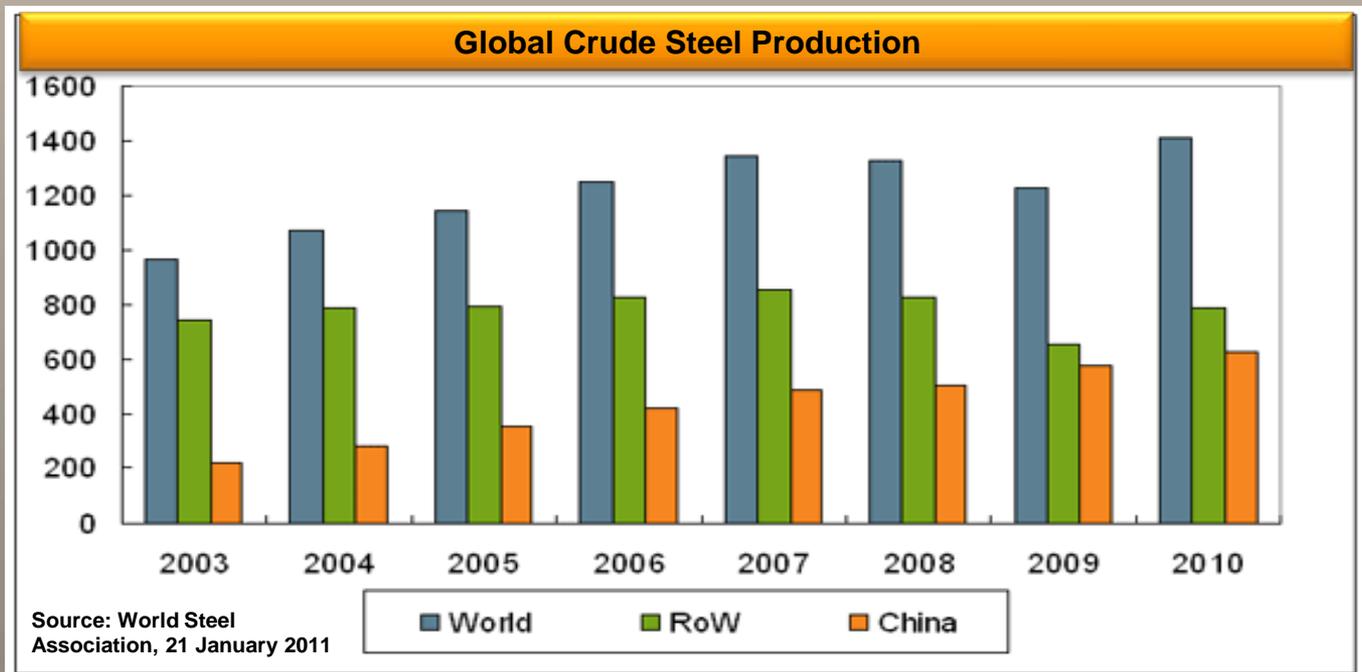


- ▶ Revenue quality uplift in new & renegotiated coal contracts in coal
  
- ▶ Coal contracts announced in HY11
  - ▶ Jellinbah Resources – up to 5.1mta to the Port of Gladstone
  - ▶ Peabody Energy – up to 9mta to DBCT
  
- ▶ Coal contracts announced since 31 December 2010
  - ▶ Anglo American – 2.7mta over 3 years to DBCT
  - ▶ Jellinbah Resources – up to 6mta over 10 years to Abbot Point
  
- ▶ Iron ore heads of agreement with Mineral Resources announced
  
- ▶ GAPE X50, Blackwater Electrification and Hunter Valley Rollingstock capital projects remain on schedule and will underpin future growth

# Coal and iron ore global growth trajectory continues



- ▶ World crude steel output increased by 15% in 2010
  - ▶ Global demand for Australian coal is expected to maintain current growth levels
  - ▶ Demand for Australia's iron ore resources is expected to follow a similar growth trajectory to coal
- ▶ The temporary coal shortages have placed upward pressure on prices



# Effective organisation wide response to impacts of extreme weather



- ▶ Flood Recovery Task Force established
- ▶ All QR National's CQCN systems operational
- ▶ Assets were fully protected during the weather events
- ▶ QR National is positioned well to service customers as volumes pick up
- ▶ Maintenance programs have been brought forward to maximise our ability for higher railings in Q4
- ▶ QR National's repair costs for CQCN system were not material
- ▶ QRN Network's lost revenue and repair costs expected to be recovered in future years



# Financial Overview



# Solid EBITDA improvement with uplift in revenue quality



## EBITDA improvement over FY10

- ▶ HY11 EBITDA of \$446m up 17% on HY10
- ▶ Improvements in Freight and Network Services
- ▶ Coal earnings generally in line with prior periods despite record rainfall

## Revenue quality uplift

- ▶ Revenue quality producing higher returns under new market based contracts
- ▶ One off impact of weather on volumes for FY11

## Cash benefits

- ▶ UT3 catch up payment received in the first half
- ▶ Underlying net operating cash flows of \$162m in the first half
- ▶ Nil cash tax payable in FY11

## Strong balance sheet to support growth

- ▶ \$3bn facility to fund growth projects - \$2.7bn undrawn as at 31 December
- ▶ Investment grade credit rating maintained

# Financial Summary

## Underlying Results



	<b>HY10A</b>	<b>HY11A</b>	<b>Variance</b>
<b>Revenue</b>	<b>1,482</b>	<b>1,748</b>	<b>↑ 18%</b>
<b>EBITDA</b>	<b>381</b>	<b>446</b>	<b>↑ 17%</b>
<b>EBIT</b>	<b>173</b>	<b>226</b>	<b>↑ 31%</b>
<b>NPAT</b>	<b>N/A<sup>(1)</sup></b>	<b>71<sup>(2)</sup></b>	<b>↑ 1%</b>
<b>EPS (cps)</b>	<b>N/A<sup>(1)</sup></b>	<b>2.89</b>	<b>↑ 1%</b>

(1) Refer p96 Offer Document, last paragraph, income tax expense NOT disclosed as not meaningful or appropriate and therefore cannot include NPAT

(2) HY11 underlying NPAT includes interest on QTC debt (not included in FY11 proforma in the Offer Document ref p107)

# Continued investment of operating cash flows to fund future growth



## Underlying cash flow statement

HY11

### Operating activities

EBITDA	446
Other changes in working capital	(79)
Interest paid	(207)
Other non-cash items	2
<b>Net cash inflow/(outflow) from operating activities</b>	<b>162</b>
Payments made to acquire assets	(699)
<b>Free cash (out) flow</b>	<b>(537)</b>

## Balance sheet

HY11

Working capital	(94)
Property, plant and equipment	7,887
Net debt	(295)
Other	(586)
<b>Net assets</b>	<b>6,912</b>

## Comments

- Investment of operating cash flows to fund future growth
- Capital investments of \$699m during the first half including GAPE \$208m and above rail Coal \$288m
- Receipt of UT3 receivable in the first half
- Interest costs include the payment of establishment fees and interest cost under previous Government ownership structure

# Committed capital projects on schedule



## GAPE X50

- ▶ Project at halfway point. All major milestones achieved on scope and budget

## Blackwater Electrification

- ▶ Largest electrical upgrade on the coal network since 1980s
- ▶ Projects remain on schedule for commissioning in the latter half of 2012

## Hunter Valley Coal

- ▶ Expansion in NSW is progressing well with investments of over \$360 million in rollingstock to support its NSW contracts
- ▶ Eleven consists are now operational

## WA Iron Ore

- ▶ Locomotives and wagons have been ordered for new iron ore projects

## System expansions

- ▶ Scoping and design work underway pending mine and port commitments

## Summary

- ▶ Total capital spend in HY11 of \$699 million
- ▶ Full financial year capital spend likely to be below plan largely due to changes in the timing of uncommitted projects

# Operating metric comparison



QR National Group Operating metric	HY10A	HY11A
Revenue / NTK (A\$/000 NTK)	44.6	53.5
Labour Costs / Revenue	32%	32%
NTK/employee (MNTK)	7.0 <sup>(3)</sup>	6.9
Opex <sup>(1)</sup> / NTK (A\$/000 NTK)	39.4	46.6
EBITDA Margin	26%	26%
Operating Ratio <sup>(2)</sup>	88%	87%

- (1) Opex defined as operating expense including depreciation and amortisation  
 (2) Operating ratio defined as (1 - EBIT margin)  
 (3) HY10A employee numbers have been based on 30 June 2010 headcount  
 (4) Track maintenance excludes ballast undercutting, derailments repairs, weather event repairs and electric traction maintenance

Divisions	Operating metric	HY10A	HY11A
Coal	Revenue / NTK (A\$/000 NTK)	36.5	39.5
	Opex <sup>(1)</sup> / NTK (A\$/000 NTK)	30.4	35.1
	EBITDA Margin	27%	23%
	Operating Ratio <sup>(2)</sup>	83%	89%
Freight	Revenue / NTK (A\$/000 NTK)	61.2	68.5
	Opex <sup>(1)</sup> / NTK (A\$/000 NTK)	65.9	67.0
	EBITDA Margin	(2%)	6%
	Operating Ratio <sup>(2)</sup>	108%	98%
Network Services	Access Revenue / NTK (A\$/000 NTK)	14.5	16.0
	Maintenance \$ /'000 NTK <sup>(4)</sup>	2.62	2.51
	NTK / Track km (000's)	10,204	10,049
	EBITDA Margin	40%	38%



# Business Review



# QR National Network Services Profit & Loss



	HY10A	HY11A
<b>Tonnages (million)</b>	<b>94.8</b>	<b>93.4</b>
<b>NTK (billion)</b>	<b>23.0</b>	<b>22.7</b>
<b>Revenue</b>	<b>529</b>	<b>643</b>
<i>Growth %</i>	-	21%
<b>EBITDA</b>	<b>213</b>	<b>246</b>
<i>Margin %</i>	40%	38%
<b>EBIT</b>	<b>134</b>	<b>169</b>
<i>Margin %</i>	25%	26%
<b>Capital Expenditure</b>	<b>184</b>	<b>304</b>

## Key drivers

- First half revenue and EBITDA up on prior comparative period
- Network revenues in line with UT3 expectations taking account of volumes
- Pre IPO restructure of Network business to incorporate Services
- Increased activity in Rollingstock Services business
- New Services contracts with Queensland Rail

# QR National Coal Profit & Loss



	HY10A	HY11A	Key drivers
<b>Tonnages (million)</b>	<b>103.1</b>	<b>99.6</b>	<ul style="list-style-type: none"> <li>▶ Above rail revenue uplift from new performance based contracts</li> <li>▶ NSW growth expansion tonnes</li> <li>▶ Unseasonal wet weather in Q2 resulting in reduced tonnages</li> <li>▶ Forward investment in capacity to underpin growth</li> </ul>
<b>NTK (billion)</b>	<b>23.7</b>	<b>22.6</b>	
<b>Revenue</b>	<b>866</b>	<b>895</b>	
<i>Growth %</i>	-	3%	
<b>EBITDA</b>	<b>230</b>	<b>203</b>	
<i>Margin %</i>	27%	23%	
<b>EBIT</b>	<b>144</b>	<b>101</b>	
<i>Margin %</i>	17%	11%	
<b>Capital Expenditure</b>	<b>349</b>	<b>284</b>	

# QR National Freight Profit & Loss



	HY10A	HY11A
<b>Tonnages (million)</b>	<b>32.8</b>	<b>32.7</b>
<b>NTK (billion)</b>	<b>9.5</b>	<b>10.0</b>
<b>Revenue</b>	<b>582</b>	<b>686</b>
<i>Growth %</i>	-	18%
<b>EBITDA</b>	<b>(14)</b>	<b>43</b>
<i>Margin %</i>	(2%)	6%
<b>EBIT</b>	<b>(44)</b>	<b>15</b>
<i>Margin %</i>	(8%)	2%
<b>Capital Expenditure</b>	<b>50</b>	<b>90</b>

## Key drivers

- ▶ TSC for regional services
- ▶ Intermodal contracts secured
- ▶ Growth in Iron Ore
- ▶ Reduction in grain volumes
- ▶ Cost and efficiency focus



# Transformation Program



# QR National's transformation is gaining traction



## Enterprise wide projects

## Key results

### World class safety

- ▶ 41% reduction in LTIFR over calendar year 2010 – now 4.2
- ▶ Safety Interactions progressing toward target at 6,000 per month
- ▶ Established Safety, Health and Environment communities of competency

### Strong and empowered leadership

- ▶ Significant change in the Executive & Management Leadership Teams
- ▶ New organisational values launched February 2011
- ▶ Front line supervisor training rolled out to 660 staff – completed February 11

### Commercial excellence

- ▶ EBIT uplift from all new or renegotiated contracts achieved
- ▶ Dedicated customer relationship management
- ▶ Operating model projects established in Blackwater, Moura and Goonyella systems and payload improvements are being realised

### World class capital productivity

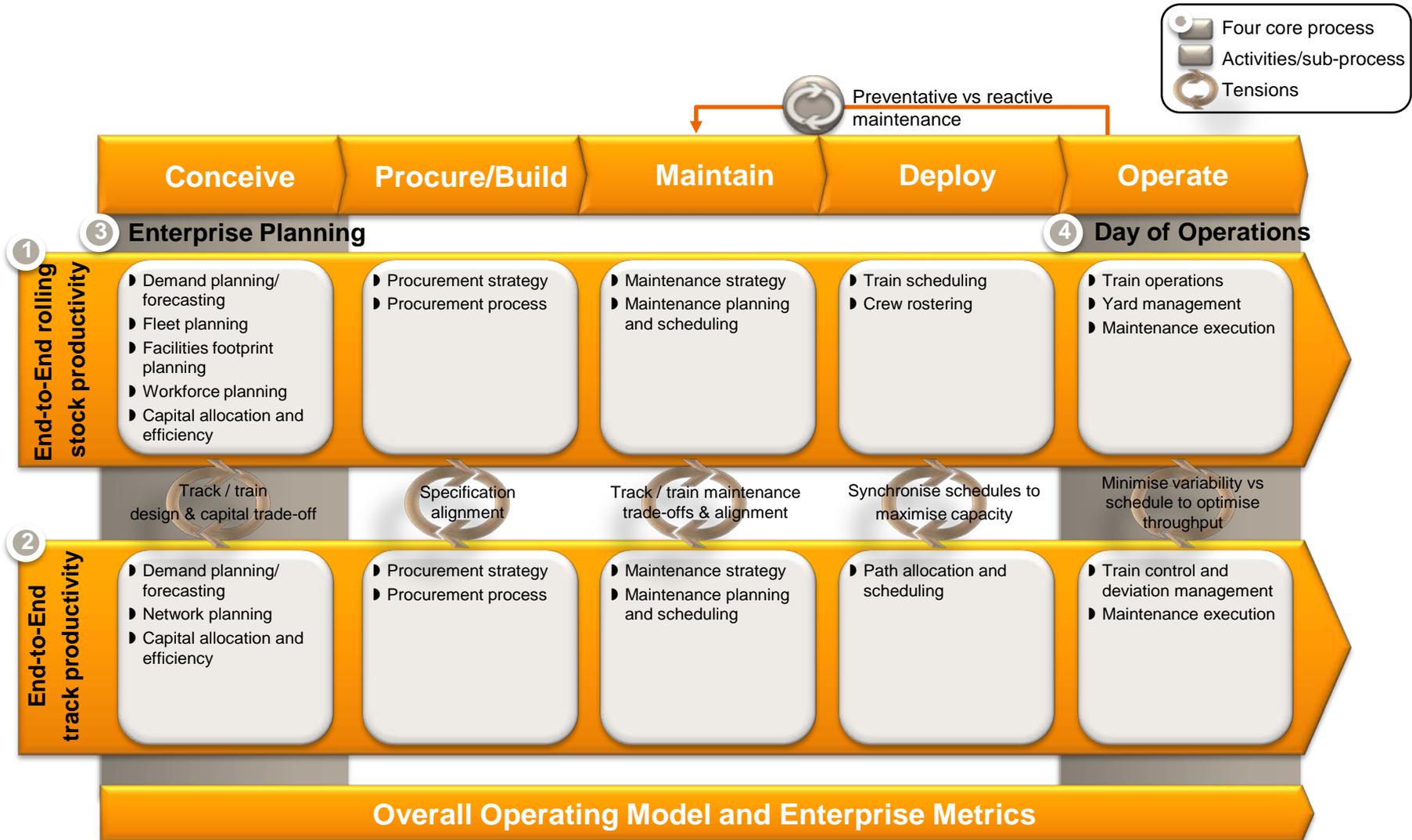
- ▶ Capital management disciplines and processes embedded
- ▶ Cost optimisation process established for significant capital projects
- ▶ Established Rail Fleet Planning community of competency

### Procurement excellence

- ▶ Procurement OPEX savings realised in FY11
- ▶ Centralised procurement coordination structure in place
- ▶ Improved procurement capability – recruitment and training

### End to end maintenance

- ▶ Established Asset Reliability community of competency
- ▶ Rollingstock maintenance practices review completed
- ▶ Reliability Centred Maintenance program driving improvements in reliability and availability of locomotives





# Outlook

## ► Financial

## ► Queensland Coal

## ► Global demand

## ► Growth

## ► Programs

- Volume impact from floods now expected to be 25 million tonnes for the remainder of FY11
- Underlying EBIT for FY11 to be in the range of \$380 million to \$410 million (Statutory EBIT \$280 million to \$310 million)
- Readiness for customers to return to normal volumes in 4Q FY11 after floods and cyclone
- Global demand for Australian coal is expected to maintain current growth trajectory
- Coal shortages resulting from floods will place upward pressure on prices
- Growth in Mid West Iron Ore is expected to continue – underpinning QR National’s growth & diversification
- Existing projects on time and budget and new projects expected to advance in 2H FY11
- Continued focus on delivering safety improvements, corporate wide reform and cost reductions through transformation program



# Questions



# Additional Slides

# FY10 vs FY11 Half Year Profit & Loss



	<b>HY10</b> Underlying Result	HY10 Significant Items	HY10 Actual	<b>HY11</b> Underlying Result	HY11 Significant Items	HY11 Actual
<b>Revenue</b>	<b>1,482.1</b>	<b>1.1</b>	<b>1,483.2</b>	<b>1,747.5</b>	<b>0.0</b>	<b>1,747.5</b>
Consumables <sup>(1)</sup>	(612.5)	0.0	(612.5)	(731.8)	0.0	(731.8)
Employee benefits expense	(475.0)	0.0	(475.0)	(565.1)	(57.2)	(622.3)
Other expenses	(13.9)	(245.9)	(259.8)	(5.0)	(37.8)	(42.8)
<b>EBITDA</b>	<b>380.7</b>	<b>(244.8)</b>	<b>136.0</b>	<b>445.6</b>	<b>(95.0)</b>	<b>350.6</b>
<b>EBIT</b>	<b>172.6</b>	<b>(244.8)</b>	<b>(72.2)</b>	<b>226.4</b>	<b>(95.0)</b>	<b>131.4</b>
Net finance cost	(111.1)	0.0	(111.1)	(125.6)	0.0	(125.6)
Tax expense	7.9	43.1	51.0	(30.3)	302.1	271.8
<b>NPAT</b>	<b>69.5</b>	<b>(201.8)</b>	<b>(132.3)</b>	<b>70.5</b>	<b>207.1</b>	<b>277.5</b>
<b>EPS (cps)</b>	<b>2.85</b>	<b>(8.27)</b>	<b>(5.42)</b>	<b>2.89</b>	<b>8.49</b>	<b>11.37</b>
<b><i>EBIT breakdown by Division</i></b>						
<i>QRN Network Services</i>	<i>134.1</i>	<i>0.0</i>	<i>134.1</i>	<i>168.8</i>	<i>(1.8)</i>	<i>167.0</i>
<i>QRN Coal</i>	<i>143.7</i>	<i>0.0</i>	<i>143.7</i>	<i>100.9</i>	<i>0.0</i>	<i>100.9</i>
<i>QRN Freight</i>	<i>(44.4)</i>	<i>(195.5)</i>	<i>(239.9)</i>	<i>14.5</i>	<i>0.0</i>	<i>14.5</i>
<i>Corporate</i>	<i>(60.9)</i>	<i>(49.2)</i>	<i>(110.1)</i>	<i>(57.9)</i>	<i>(93.2)</i>	<i>(151.1)</i>

1. Consumables expenditure includes fuel costs, access costs payable to third parties, and expenditure of general repairs and maintenance and administrative supplies

NB: A\$m unless otherwise stated, underlying earnings from continuing operations

# Update on Voluntary Redundancy Program



- ▶ Consultation with employees & unions commenced on Monday 7 February
- ▶ 3,500 employees are in the scope of the proposed VR program
- ▶ Purpose of the VR scheme is to reduce numbers to enable QR National to be more competitive
- ▶ In particular, the scheme targets corporate units & the corporate functions within each business area
- ▶ Other areas of focus include Operational Excellence; QRN's Rollingstock Services in Redbank, Rockhampton & Townsville; and selected parts of QRN's Freight business
- ▶ Expressions of interest expected to occur March 4-25, with program finalised in quarter four
- ▶ Employees and unions have been advised that restructure process likely to follow the VR program

# Investing in our People and their Communities



- ▶ Increased in-take of apprentices, trainees and graduates from 75 per year to 300 per year within the next three years.
- ▶ Flood & cyclone recovery relief efforts in local community (volunteers)
- ▶ Development for corporate community investment programs
- ▶ Supporting communities with local employment – no adoption of “fly in fly out” resourcing



# Additional Information for Analysts

Half year ended 31 December 2010

## Reconciliation of the statutory Financial Statements to the underlying results

QR National's underlying revenue, EBITDA, EBIT, PBT and PAT are presented after making certain adjustments as considered appropriate by QR National to provide investors with information on what it believes to be the underlying financial and operating performance of its business presented on a consistent basis with the pro forma Forecast Financial Information and pro forma historical information, with the exception of timing related differences which have been excluded. These adjustments are illustrated and discussed below.

**Table 1** Reconciliation of the statutory Financial Statements to the underlying results

\$m	HY10	HY10		HY11	HY11	
	Underlying Results	Adjustments	Statutory	Underlying results	Adjustments	Statutory
<b>Revenue</b>	1,482.1	(1.1)	1,483.2	1,747.5	-	1,747.5
Consumables	(612.5)	-	(612.5)	(731.8)	-	(731.8)
Employee Benefits Expense	(475.0)	-	(475.0)	(565.1)	57.2	(622.3)
Other Expenses	(11.7)	245.9	(257.6)	(3.8)	37.8	(41.6)
Interest income (add back)	(2.2)	-	(2.2)	(1.2)	-	(1.2)
<b>EBITDA</b>	<b>380.7</b>	<b>244.8</b>	<b>136.0</b>	<b>445.6</b>	<b>95.0</b>	<b>350.6</b>
<b>EBIT</b>	<b>172.6</b>	<b>244.8</b>	<b>(72.2)</b>	<b>226.4</b>	<b>95.0</b>	<b>131.4</b>
Net Finance Cost	(111.1)	-	(111.1)	(125.6)	-	(125.6)
Tax Expense	7.9	(43.1)	51.0	(30.3)	(302.1)	271.8
<b>NPAT</b>	<b>69.5</b>	<b>201.8</b>	<b>(132.3)</b>	<b>70.5</b>	<b>(207.1)</b>	<b>277.5</b>
<b>EPS (cps)</b>	<b>2.85</b>	<b>8.27</b>	<b>(5.42)</b>	<b>2.89</b>	<b>(8.49)</b>	<b>11.37</b>

**Table 2** Reconciliation of the statutory revenue, EBITDA, EBIT, PBT and PAT to the underlying results

\$m	Statutory Result		Adjustments			Underlying Results
	QR National	Timing Related	Transaction Related	Individually Significant Items	QR National	
<b>HY11</b>						
Revenue from continuing operations	1,747.5	-	-	-	1,747.5	
EBITDA	350.6	-	95.0	-	445.6	
EBIT	131.4	-	95.0	-	226.4	
PBT	5.7	-	95.0	-	100.7	
PAT	277.5	-	(207.1)	-	70.5	
<b>HY10</b>						
Revenue from continuing operations	1,483.2	-	-	(1.1)	1,482.1	
EBITDA	136.0	-	6.4	238.4	380.7	
EBIT	(72.2)	-	6.4	238.4	172.6	
PBT	(183.3)	-	6.4	238.4	61.5	
PAT	(132.3)	-	4.5	197.3	69.5	

**Table3** Reconciliation of statutory EBITDA by Business Unit to the underlying result

\$m	HY10 Underlying Results	HY10 Adjustments	HY10 Actual	HY11 Underlying results	HY11 Adjustments	HY11 Actual
<b>EBITDA Breakdown by Business Unit</b>						
QRN Network Services	212.6	-	212.6	245.5	1.8	243.7
QRN Coal	230.4	-	230.4	202.9	-	202.9
QRN Freight	(14.3)	195.5	(209.8)	43.2	-	43.2
Other	(48.0)	49.2	(97.2)	(46.0)	93.2	(139.2)
<b>Total</b>	<b>380.7</b>	<b>244.8</b>	<b>136.0</b>	<b>445.6</b>	<b>95.0</b>	<b>350.6</b>

**Table 4** Reconciliation of statutory EBIT by Business Unit to the underlying result

\$m	HY10 Underlying Results	HY10 Adjustments	HY10 Actual	HY11 Underlying results	HY11 Adjustments	HY11 Actual
<b>EBIT Breakdown by Business Unit</b>						
QRN Network Services	134.1	-	134.1	168.8	1.8	167.0
QRN Coal	143.7	-	143.7	100.9	-	100.9
QRN Freight	(44.4)	195.5	(239.9)	14.5	-	14.5
Other	(60.9)	49.2	(110.1)	(57.9)	93.2	(151.1)
<b>Total</b>	<b>172.6</b>	<b>244.8</b>	<b>(72.2)</b>	<b>226.4</b>	<b>95.0</b>	<b>131.4</b>

## TRANSACTION RELATED ADJUSTMENTS

In HY11, QR National incurred transaction related costs totalling \$95.0m relating to:

- \$37.8m of non-operating costs in HY11 in respect of the restructuring and separation of the discontinued businesses which were transferred to Queensland Rail, and in respect of the Offer. These costs comprise advisory and system separation costs incurred in respect of the restructure and the Offer, and stamp duty estimated as payable in New South Wales;
- Employee benefits expense of \$57.2m which included payments to employees under enterprise agreements negotiated with union representatives, the employee gift offer and expense related to incentive schemes for management and employees in relation to the Offer; and
- The tax impact of the above adjustments was a \$20.9m tax benefit. In addition, as part of the restructuring, QR National entered the federal tax regime. The large tax expense credit relates to the resetting of the tax base of QR National's assets and liabilities at IPO as a result of relevant tax privatisation and tax consolidation legislation. This has resulted in a \$281.2m tax expense credit through a reduction in the company's deferred tax liability and increase the company's deferred tax asset.

In HY10, QR National incurred transaction related costs totalling \$6.4m (FY10 \$34.0m) relating to:

- work on the sale scoping exercise undertaken by the State and restructuring and separation of the discontinued businesses which were transferred to Queensland Rail, collectively \$6.4m (FY10 \$16.0m). These costs are not reflective of its ongoing business activities and accordingly, they have been added back in preparing the underlying Financial Information; and
- the termination of a number of cross-border lease arrangements \$nil (FY10 \$18.0m).

## INDIVIDUALLY SIGNIFICANT ITEMS

In HY10, QR National incurred costs totalling \$238.4m (FY10 \$311.5m) relating to items that have been identified as being individually significant and generally outside the ordinary course of business and are either individually or in aggregate, material to the group. The individually significant items were:

- Impairment expenses and reversals - net impairment charges and reversals of \$195.5m were recognised against the assets of QRN Freight (FY10 \$198.0m). The most significant of these related to an impairment charge of \$180.0m recognised against the goodwill and rollingstock assets of ARG in HY10.
- Derivative transactions not accounted for as hedges - QR National entered into fuel and foreign exchange derivative transactions that did not meet the criteria set out in Australian Accounting Standards to qualify for hedge accounting and, accordingly, unrealised gain and losses were recognised in the historical income statement. Further, realised gains and losses on foreign exchange derivative transactions related to capital expenditure, that would have been recognised as part of the cost of an asset had the foreign exchange derivative transactions qualified for hedge accounting, were also recognised in the historical income statement.

These transactions will meet the criteria set out in Australian Accounting Standards to qualify for hedge accounting (as cash flow hedge transactions) during FY11. As a result, any unrealised gains and losses are recognised in the hedge reserve during the current period and realised gains and losses on foreign exchange derivatives related to capital expenditure are recognised as part of the cost of an asset. In order to provide comparability between the periods, hedging gains and (losses) of \$19.1m (FY10 \$33.5m), have been adjusted.

- Gains and losses on the sale of certain properties - QR Limited recognised a \$1.1m gain (FY10 \$20.0m loss) on the disposal of a number of assets during the period.
- Charge in relation to stamp duty incurred in HY10 relating to an acquisition prior to FY08 - in HY10, QR Limited recognised a stamp duty cost of \$24.9m (FY10 \$24.9m) which relates to the 2006 acquisition of ARG. This amount has been paid under QR Limited's consortium agreement with Prime Infrastructure Group, formerly known as Babcock & Brown Infrastructure and parent entity of WestNet Rail Holdings No. 1 Pty Ltd. Prime Infrastructure Group is challenging the relevant state revenue authority's assessment of this amount and if Prime Infrastructure Group is successful, QR National would recover the amount paid (net of costs).
- Provision for rehabilitation of contaminated land - QR Limited made a revision to an accounting estimate in relation to the provision for environmental remediation exposures, which resulted in the recognition of a provision of \$nil (FY10 \$35.0m) in relation to rehabilitation of contaminated land, representing the cumulative effect of recognition of obligations attributable to prior periods that were not recognised as liabilities as no constructive obligation existed whilst QR National was part of a State-owned entity.

## RECONCILIATION OF UNDERLYING RESULTS TO OFFER DOCUMENT

The pro-forma results in the offer document make adjustments for timing related transactions where income is required to be booked in one financial year under AIFRS, however the transaction related to a different financial year. The group has not adjusted for the effects of these timing adjustments in underlying earnings.

The offer document adjusted QR National's results to reflect a reallocation of revenue from deficit tonnage charges and revenue cap adjustments to a period earlier than is appropriate under Australian Accounting Standards and IFRS. Adjustments were made to:

- recognise revenue from deficit tonnage charges in QRN Coal in the period in which the service was due to be provided. In preparing statutory financial statements, this revenue is recognised in the period following that in which the service was due to be provided where the customer elects to pay the charges rather than reduce future tonnage entitlements. \$5.1m (HY10 \$23.9m) deficit tonnage charges revenue has been booked in the current financial period which relates to services provided in prior financial period; and
- recognise revenue from revenue cap adjustments in QRN Network Services in the period in which the service was provided. Revenue cap adjustments arise from variances from the forecast used by the QCA in determining access tariffs such that QRN Network Services may over or under recover revenues relative to allowable revenue in a particular period. In preparing statutory financial statements, such revenue cap adjustments are recognised as adjustments to revenue in the period in which they are charged/refunded to customers, which is generally two financial years after the period in which the service was provided. \$16.5m (HY10 \$22.0m) of revenue cap adjustments have been recognised in the current period which relate to under/over recovery of revenue cap from prior years. Any recovery of current year shortfalls via the revenue cap will be received in FY13 once full year system tonnages are determined.

The pro-forma results in the offer document adjusted for net finance costs on borrowings from QTC which were removed in presenting the net finance expense. The group has not adjusted for the borrowing costs from QTC in underlying earnings.