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12 October 2012

ASX Market Announcements
ASX Limited
20 Bridge Street
Sydney NSW 2000

BY ELECTRONIC LODGEMENT

QR National – Notice of Extraordinary General Meeting, Explanatory Memorandum, Proxy Form & Independent Expert’s Report

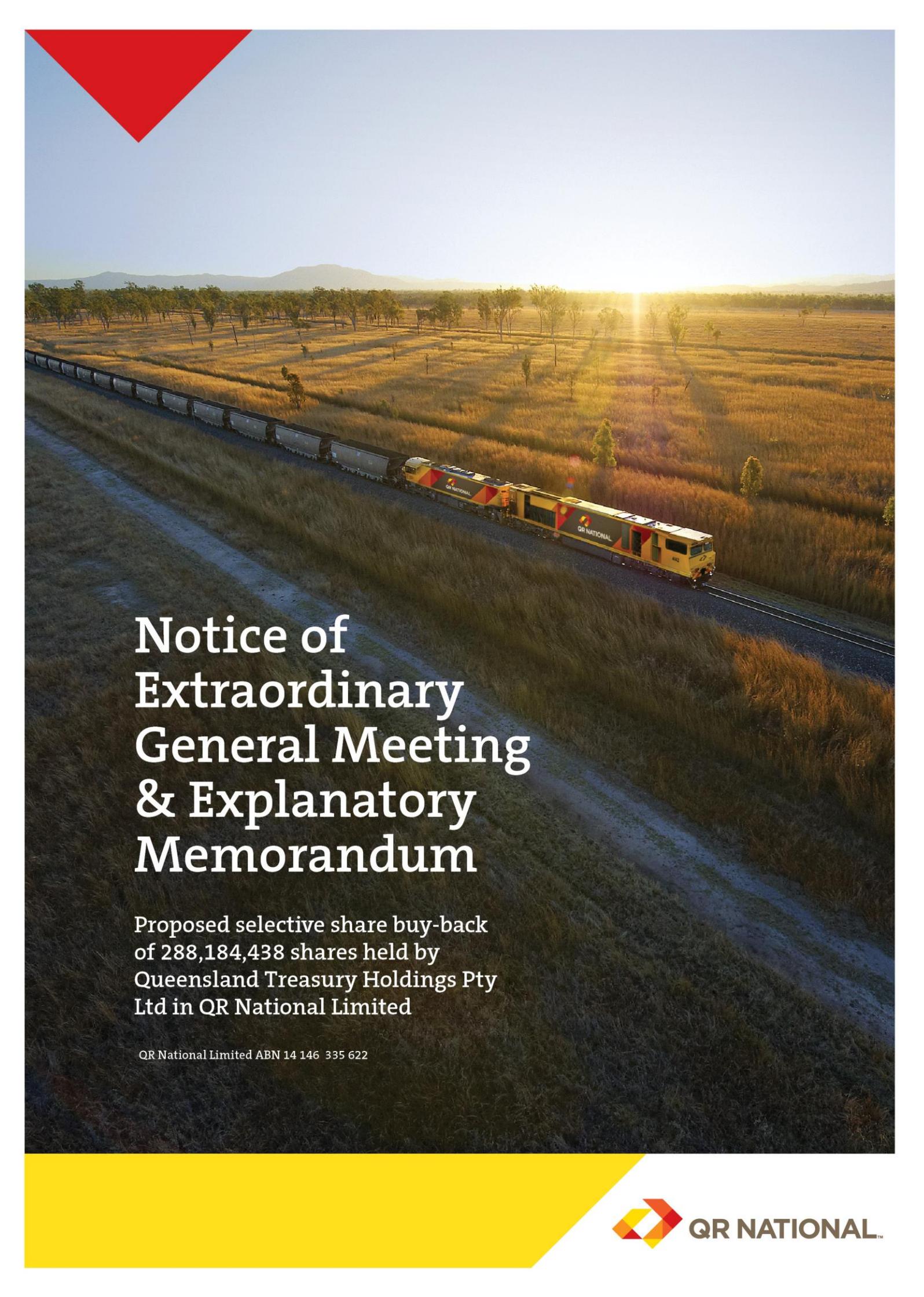
Please find attached a copy of QR National’s Notice of Extraordinary General Meeting, Explanatory Memorandum, Proxy Form and an Independent Expert’s Report by Grant Samuel & Associates relating to the proposed Selective Share Buy-back announced to the market on 8 October 2012.

A copy of these materials is available on the Company’s website www.qrnational.com.au.

Yours faithfully
QR National

Vicki Clarkson
Assistant Company Secretary





Notice of Extraordinary General Meeting & Explanatory Memorandum

Proposed selective share buy-back
of 288,184,438 shares held by
Queensland Treasury Holdings Pty
Ltd in QR National Limited

QR National Limited ABN 14 146 335 622



Dear Shareholders,

On behalf of the Board of QR National Limited (the **Company**), I am pleased to invite you to attend the Extraordinary General Meeting (**EGM**) of the Company's shareholders on 21 November 2012 in Room M4 at the Brisbane Convention and Exhibition Centre, Corner of Merivale and Glenelg Streets, South Brisbane, Queensland, 4101.

The meeting is scheduled to start at 12:00pm (Brisbane time) and will follow the Company's Annual General Meeting (**AGM**) which has moved from 7 to 21 November 2012 and is scheduled to start at 10:00am (Brisbane time) at the same location.

The purpose of the EGM is to consider the Selective Share Buy-back by the Company of 288,184,438 shares currently owned by Queensland Treasury Holdings Pty Ltd (**QTH**) at a price of \$3.47 per share, for total consideration of \$1,000 million. The Company will fund the Selective Share Buy-back from its existing debt facilities.

The Board unanimously recommends shareholders vote in favour of the proposal, as it is expected to optimise QR National's capital structure, deliver EPS accretion and improved returns on equity for shareholders, improve liquidity in the Company's shares and reduce potential uncertainty resulting from QTH's shareholding.

Enclosed are the Notice of Meeting, Explanatory Memorandum, proxy form and Independent Expert's Report for the EGM. These materials do not replace those already distributed in relation to the AGM. The EGM is a further meeting required to consider the Selective Share Buy-back announced to the market on 8 October 2012. For further details on the resolution proposed at the EGM, please refer to the Notice of Meeting.

I urge all shareholders to read these materials, including the enclosed Independent Expert's Report, carefully before voting on the proposed resolution. Importantly, the Independent Expert concludes that, in its opinion, the proposed transaction is fair and reasonable to non-QTH shareholders. A copy of the Independent Expert's Report is available on the Company's website at www.qrnational.com.au/Investor/Pages/Reports.aspx and is also available to shareholders in hard copy, at no cost, on request.

If you are not able to attend the meetings, I encourage you to appoint a proxy to attend and vote on your behalf. You may appoint a proxy by:

- using the Share Registry's website at www.investorvote.com.au and following the instructions on the proxy form; or
- completing the enclosed proxy form.

In order to be valid, online proxies and proxy forms relating to the EGM must be received by the Company's Share Registry, Computershare, no later than 12:00pm (Brisbane time) on 19 November 2012.

If you plan to attend the meeting, please bring the enclosed proxy form with you to assist us in registering your attendance.

On behalf of all Directors of the Company, we look forward to seeing you at the meeting.

Yours Sincerely

John B Prescott AC
Chairman & Independent Non-Executive Director
QR National Limited

Notice of Extraordinary General Meeting

QR National Limited ABN 14 146 335 622

Notice is given that the Company will hold an Extraordinary General Meeting (**EGM**) at 12:00pm (Brisbane time) on Wednesday, 21 November 2012 in Room M4 at the Brisbane Convention and Exhibition Centre, Corner of Merivale and Glenelg Streets, South Brisbane, Queensland, Australia 4101, for the purpose of transacting the business set out in this Notice of Meeting (**Notice**).

If you are unable to attend the meeting you are encouraged to complete and return the proxy form attached to this Notice.

You can lodge your completed proxy form with the Company's Share Registry, Computershare by:

- mailing it to Computershare using the reply paid envelope;
- posting it to GPO Box 242, Melbourne VIC 3001 Australia;
- lodging it online at Computershare's website <https://www.investorvote.com.au/> and logging in using the control number found on the front of your accompanying proxy form;
- faxing it to 1800 783 447 (within Australia) or +61 3 9473 2555 (outside Australia); or
- Intermediary Online subscribers (Institutions/Custodians) may lodge their proxy instruction online by visiting www.intermediaryonline.com.

The completed proxy form must be received by Computershare no later than 12:00pm (Brisbane time) on 19 November 2012.

If you appoint a proxy, the Company encourages you to direct your proxy how to vote on each item by marking the appropriate box on the proxy form.

Business

1. Selective Share Buy-back

To consider and, if thought fit, to pass the following as a special resolution:

"That, in accordance with section 257D of the Corporations Act and ASX Listing Rule 10.1 and for all other purposes, approval is given for:

- the terms of the Buy-back Agreement entered into on 8 October 2012 between the Company and Queensland Treasury Holdings Pty Ltd (ABN 52 011 027 295), a copy of which is tabled at the Extraordinary General Meeting and signed by the Chairman for the purposes of identification and details of which are set out in the Explanatory Memorandum accompanying this Notice of Extraordinary General Meeting; and*
- the Company to conduct a selective buy-back of 288,184,438 fully paid ordinary shares from Queensland Treasury Holdings Pty Ltd (ABN 52 011 027 295) upon the terms of, and subject to, the conditions set out in the Buy-back Agreement."*

Important Notice – Independent Expert's Report

Grant Samuel & Associates has prepared an Independent Expert's Report on the proposed transaction and has concluded that, in its opinion, the proposed transaction is fair and reasonable to all shareholders entitled to vote on the resolution.

Additional Information

The Explanatory Memorandum set out on pages 6 to 16 provides more information on the business of the meeting. The Explanatory Memorandum and Voting Notes form part of this Notice.

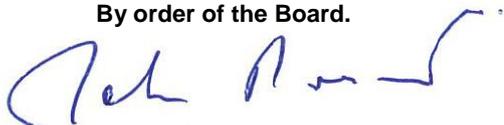
Voting Restriction

The Company is required under the Corporations Act to disregard any votes cast on the proposed resolution by or on behalf of QTH or any associate of QTH. The Company is required under the ASX Listing Rules to notify shareholders of this voting exclusion.

In accordance with the ASX Listing Rules, the Company need not disregard a vote if it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form or it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

The Chairman of the meeting intends to vote undirected proxies in favour of the Selective Share Buy-back.

By order of the Board.



John B Prescott AC
Chairman & Independent Non-Executive Director
Brisbane
12 October 2012

Voting Notes

Voting Entitlement

The Board has determined in accordance with the Company's Constitution, regulation 7.11.37 of the Corporations Regulations 2001 (Cth) and ASX Settlement Operating Rule 5.6.1 that a person's entitlement to vote at each of the AGM and EGM will be taken to be the entitlement for that person as set out in the Register of Members at 7:00pm (Sydney time) on 19 November 2012. Transactions registered after that time will, accordingly, be disregarded in determining which shareholders are entitled to attend and vote at the meeting.

Voting Restrictions

The Selective Share Buy-back resolution is subject to applicable voting restrictions as set out in the Notice under the heading "Voting Restriction".

Important information is set out below in relation to undirected proxies that you should read before completing your proxy form.

Methods of Voting

Ordinary shareholders can vote in the following ways:

- By attending the meeting and voting either in person or, by attorney or, in the case of corporate shareholders, by corporate representative.
- By appointing a proxy to vote on their behalf using the proxy form enclosed with this Notice or online at Computershare's website: www.investorvote.com.au.

Attending the Meeting

If you attend the meeting, please bring your personalised proxy form with you. The bar code at the top of the form will help you to register. If you do not bring your form with you, you will still be able to attend the meeting but representatives from Computershare will need to verify your identity. You will be able to register from 9:00am (Brisbane time) on the day of the meeting.

Corporate Shareholders

Corporate shareholders who wish to appoint a representative to attend the meeting on their behalf must provide that person with a properly executed letter or other document confirming that they are authorised to act as the company's representative.

The authorisation may be effective either for this meeting only or for all meetings of the Company. Shareholders can download and fill out the "Appointment of Corporate Representative" form from the Computershare website: www.investorcentre.com/qrn.

The form is available by clicking on the "Downloadable Forms" tab on the information menu.

Voting by Proxy

If you are entitled to attend and vote at the meeting, you can appoint a proxy to attend and vote on your behalf.

A proxy need not be a shareholder of the Company and may be an individual or a body corporate.

A personalised proxy form is included with this Notice.

If you are entitled to cast two or more votes, you may appoint two proxies and may specify the proportion or number of votes each proxy is appointed to exercise.

If you do not specify a proportion or number, each proxy may exercise half of the votes. If you require a second proxy form, please contact Computershare Investor Services Pty Limited on 1800 776 476 (within Australia) or +61 3 9938 4376 (outside Australia).

If you appoint a proxy, the Company encourages you to direct your proxy on how to vote by marking the appropriate box on the proxy form.

Lodging Your Proxy Form

You can lodge your completed proxy form by:

- mailing it to Computershare using the reply paid envelope.
- posting it to GPO Box 242, Melbourne VIC 3001 Australia.
- lodging it online at Computershare's website: **www.investorvote.com.au** and logging in using the control number found on the front of your accompanying proxy form:

(note: you will be taken to have signed your proxy form if you lodge it in accordance with the instructions on the website).

- faxing it to 1800 783 447 (within Australia) or +61 3 9473 2555 (outside Australia).
- Intermediary Online subscribers (Institutions / Custodians) may lodge their proxy instruction online by visiting **www.intermediaryonline.com**.

Your completed EGM proxy form (and any necessary supporting documentation) must be lodged online or received by Computershare no later than 12:00pm (Brisbane time) on 19 November 2012, being 48 hours before the commencement of the EGM.

If the proxy form is signed by an attorney, the original power of attorney under which the proxy form was signed (or a certified copy) must also be received by Computershare by 12:00pm (Brisbane time) on 19 November 2012 unless it has been previously provided to Computershare.

If you appoint a proxy, you may still attend the meeting. However, your proxy's rights to speak and vote are suspended while you are present. Accordingly, you will be asked to revoke your proxy if you register at the meeting.

Proxies already cast in relation to the AGM remain valid unless withdrawn prior to that meeting.

Undirected and Directed Proxies

Where permitted to do so, the Chairman of the meeting will vote all available proxies on, and in favour of, the motion.

If you appoint a proxy, the Company encourages you to clearly instruct your proxy how to vote by marking the appropriate box on the proxy form.

Poll

Voting will be determined by a poll at the meeting rather than a show of hands.

Shareholders and proxy holders attending the meeting will be provided with poll voting cards. Shareholders not attending the meeting may use the enclosed proxy form.

Questions from Shareholders

Discussion will take place on the item of business set out in this Notice, prior to shareholders being asked to vote. Shareholders will have the opportunity to ask questions.

The Company will endeavour to address the more frequently asked questions at the meeting.

Webcast

A webcast of the meeting will be available on the Company's website **www.qrnational.com.au**. If you attend the meeting in person you may be included in photographs or the webcast recording.

Results of the Meeting

Voting results will be announced on the Australian Securities Exchange (**ASX**) as soon as practicable after the meeting and also made available on the Company's website **www.qrnational.com.au**.

Board Recommendation

The Board unanimously recommends that shareholders vote in favour of the Selective Share Buy-back.

The Chairman of the meeting intends to vote all available proxies in favour of the Selective Share Buy-back.

An aerial photograph showing a long freight train with a yellow and black locomotive at the front, moving along a set of double-track railway lines. The train is surrounded by lush green trees and vegetation. To the left of the tracks is a paved road with white lane markings. To the right is a wide, shallow river or waterway with a sandy bank. The scene is captured from a high angle, looking down at the train as it travels through a rural landscape.

Explanatory Memorandum

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Important Dates

Record date to determine entitlement to vote	7:00pm (Sydney time) 19 November 2012
Closing date for lodgement of proxy forms	12:00pm (Brisbane time) 19 November 2012
Extraordinary General Meeting	12:00pm (Brisbane time) 21 November 2012
Expected payment of Selective Share Buy-back funds to QTH and cancellation of shares*	26 November 2012

*Assumes the Selective Share Buy-back is approved at the EGM.

Note: All times represent Brisbane time unless indicated otherwise. These dates are indicative only and subject to change.

Explanatory Memorandum

1. Overview of the Selective Share Buy-back

1.1 Background

On 23 August 2012, the Company announced its annual results for FY2012 as well as an on-market buy-back of up to 10% of its issued share capital (being up to 244 million shares of 2,440 million shares on issue). Since then, the Company has acquired 14,531,059 shares for a total consideration of \$49,798,337.

On 8 October 2012, QTH announced its intention to divest \$1,500 million of its shares in the Company, through:

- the placement of 144,092,219 shares (representing an approximately 5.9% interest) to institutional investors (“**Institutional Placement**”) for \$500 million – this was completed on 11 October 2012; and
- the Selective Share Buy-back by the Company of \$1,000 million worth of shares (subject to shareholder approval).

QTH, which is jointly owned by the Queensland Government and Queensland Treasury Corporation, is the largest shareholder in the Company, and at the time of the announcement held 821,506,536 shares in the Company (approximately 34% stake in the Company). Immediately following these divestments, QTH will retain approximately 389.2 million shares in the Company (approximately 18.2% stake in the Company after cancellation of the shares bought back from QTH).

In relation to the Selective Share Buy-back, QTH and the Company entered into a Buy-back Agreement on 8 October 2012 under which the Company has agreed to buy back 288,184,438 shares (approximately 11.9% stake in the Company) at the Selective Share Buy-back Price of \$3.47 per share for a total of \$1,000 million, subject to (among other things) the Institutional Placement occurring (which it did on 8 October 2012) and shareholder approval of the Selective Share Buy-back in accordance with section 257D of the Corporations Act and ASX Listing Rule 10.1.

In conjunction with QTH's announcement, the Company suspended its on-market buy-back.

The Directors consider that the Selective Share Buy-back is in the best interests of the Company and those shareholders entitled to vote on the proposed resolution at the EGM.

1.2 Mechanics of the Selective Share Buy-back

If shareholder approval is given for the Selective Share Buy-back, the following will occur:

- total funds of \$1,000 million will be drawn down from existing debt facilities and will be paid to QTH; and
- the shares bought back from QTH will be cancelled pursuant to section 257H of the Corporations Act. This will reduce the total shares on issue from 2,425,468,941 to 2,137,284,503.

1.3 Benefits of the Selective Share Buy-back

The Directors consider that the Selective Share Buy-back is in the best interests of the Company as a whole and is fair and reasonable to non-QTH Shareholders for the following reasons:

i. **The Selective Share Buy-back is expected to optimise QR National's capital structure and deliver EPS accretion and improved returns on shareholders' equity**

The Selective Share Buy-back will be funded by existing debt facilities (see section 1.2), and will increase the Company's 2012 Adjusted Gearing from 13.7% to 25.6%. As a result of this more efficient capital structure, the Selective Share Buy-back is expected to deliver EPS accretion and improved returns on equity for shareholders from FY2013 (see section 2.1).

The Board considers the Selective Share Buy-back to be preferable to buying back an equivalent number of shares under an on-market buy-back as the Selective Share Buy-back is expected to accelerate EPS accretion and provide price certainty for the Company to a greater extent than the on-market buy-back.

Further details on the financial impact of the Selective Share Buy-back are provided in section 2.

ii. The Selective Share Buy-back Price is fair and reasonable

The Directors consider that the price of \$3.47 per share at which the Company has agreed to buy back 288,184,438 of QTH's shares is fair because it:

- is the same price paid by institutional investors for the \$500 million Institutional Placement;
- is expected to be EPS accretive for shareholders.

The Independent Expert, Grant Samuel & Associates, has also concluded that, in its opinion, the Selective Share Buy-back is fair and reasonable to non-QTH shareholders.

iii. The Selective Share Buy-back may help to remove uncertainty in the context of QTH's stake

The Queensland Government has made public comments that QTH does not intend to be a long term shareholder in the Company and has indicated that it intends to ultimately divest its entire shareholding in the Company. As such, some investors may be factoring in a discount to the Company's share price on the basis that QTH is expected to sell a significant number of shares in the future. A share sale of this scale would often be at a discount to the market price, which in turn may lower the market price for the Company's shares.

On 8 October 2012, the Queensland Government stated that, whilst it will continue to review its investment in the Company, it has no current intention to sell any of its remaining shares in the near term.

iv. The Selective Share Buy-back is expected to increase the Company's free float and hence its liquidity

At the time of the announcement of the Institutional Placement and the Selective Share Buy-back on 8 October 2012, the Company had approximately 66% of its shares freely traded on ASX. This is primarily a result of QTH's approximately 34% stake in the Company being escrowed from listing until the release of the FY2012 results on 23 August 2012 and QTH's retention of its stake since then. Following the Institutional Placement, the Company now has approximately 72% of its shares freely traded on ASX. If the Selective Share Buy-back is approved, the Company will have approximately 82% of its shares freely tradable.

1.4 Potential disadvantages of the Selective Share Buy-back

The Directors consider that the Selective Share Buy-back will not result in any material disadvantage to shareholders. However, in making their decision, shareholders should consider that following the Selective Share Buy-back, the Company's 2012 Adjusted Gearing will increase from 13.7% to 25.6%. The Directors consider the new capital structure is consistent with the Company's future objectives and will not have an impact on QR National's ability to pursue a range of growth opportunities available to the Company.

1.5 What if the Selective Share Buy-back does not proceed?

If the Selective Share Buy-back is not approved by shareholders, the shares owned by QTH will not be cancelled and QTH will retain approximately 28% of the Company. The Institutional Placement was not conditional on shareholder approval and took place on 8 October 2012. Implications of the Selective Share Buy-back not proceeding may include:

- The expected EPS accretion and improvement in return on shareholders' equity resulting from the Selective Share Buy-back as contemplated in section 1.3(i) may not be realised.
- The market may continue to place a larger discount on the market price of QR National shares than would be the case if the Selective Share Buy-back were to occur as discussed in section 1.3(iii). This uncertainty is likely to continue until QTH sells its residual shareholding in the Company.

1.6 Approvals required to proceed

In order for the Selective Share Buy-back proposal to proceed, those shareholders eligible to vote must approve the proposed resolution by a 75% majority of votes cast. The Company is required under the Corporations Act to disregard any votes cast on the proposed resolution by or on behalf of

QTH or any associate of QTH. The Company is required under the ASX Listing Rules to notify shareholders of this voting exclusion.

1.7 Independent Expert's Report

As required by the ASX Listing Rules and as recommended in ASIC Regulatory Guide 110, the Company has appointed Grant Samuel & Associates to prepare an Independent Expert's Report to consider whether the Selective Share Buy-back is fair and reasonable to non-QTH shareholders. The Independent Expert has concluded that, in its opinion, the Selective Share Buy-back is fair and reasonable to those shareholders. The Independent Expert's Report is enclosed with the Notice. You are encouraged to read the report in full.

Grant Samuel & Associates has given, and has not withdrawn, its consent to the inclusion of its report in the Notice in the form and the context in which it appears.

1.8 Directors' Recommendation

The Company's Directors consider that the Selective Share Buy-back is in the best interests of shareholders. The Board recommends that you vote in favour of the resolution to approve the Selective Share Buy-back.

2. Effect of the Selective Share Buy-back on the Company

In order to analyse the financial impact of the Selective Share Buy-back on the Company, the following assumptions have been made:

- The \$1,000 million Selective Share Buy-back will be wholly funded by debt drawn down from existing debt facilities, with an associated pre-tax interest charge of 6.4% per annum and a corporate tax rate of 30%; and
- 288,184,438 shares will be bought back from QTH.

2.1 Expected improvement in EPS and return on Shareholders' equity

At the current level of interest rates, the Company expects the Selective Share Buy-back to improve the Company's EPS and return on shareholders' equity from FY2013 as a result of:

- a smaller number of shares; and
- a lower shareholders' equity balance.

The Company expects that both of these consequences of the Selective Share Buy-back will have a positive impact on the Company's EPS and will collectively create a more efficient capital structure for the Company, which is expected to outweigh the additional interest expense on the funds outlaid to buy back those shares.

Set out below is a summary of the Company's pro forma financial performance for the 12 months ended 30 June 2012, incorporating the impact of the Selective Share Buy-back.

A\$ million	12 months 30 June 2012 Historic	Selective Share Buy-back adjustments	12 months 30 June 2012 Pro Forma ¹
Revenue	3,504.0	-	3,504.0
Underlying EBITDA	1,048.2	-	1,048.2
Depreciation and amortisation	(463.7)	-	(463.7)
Underlying EBIT	584.5	-	584.5
Net finance cost	(39.0)	(64.0)	(103.0)
Underlying PBT	545.5	-	481.5
Income tax expense	(125.6)	19.2	(106.4)
Underlying NPAT	419.9	-	375.1

Note 1: Adjusted for the Selective Share Buy-back.

2.2 Increased Gearing and Leverage

In its audited FY2012 financial statements, the Company reported net debt of approximately \$1,103 million. Since that date and as a result of the on-market buy-back, the Company's adjusted net debt has increased to approximately \$1,153 million.

As a result of the Selective Share Buy-back there will be an increase in net debt from approximately \$1,153 million to \$2,153 million due to the impact of the new debt to fund the Selective Share Buy-back.

When compared to the Company's 2012 Adjusted capital structure, the Selective Share Buy-back results in the following:

- pro forma Gearing increasing from 13.7% to 25.6%;
- pro forma Leverage increasing from 1.1x to 2.1x; and
- pro forma EBIT Interest Cover decreasing from 13.9x to 5.5x.

This is illustrated in the table below¹.

	12 months 30 June 2012 Historic	On-market buy-back adjustments	12 months 30 June 2012 Adjusted (for on- market buy- back	Selective Share Buy- back adjustments	12 months 30 June 2012 Pro Forma (for Selective Share Buy- back)
Shares on issue (m)	2,440.0	(14.5)	2,425.5	(288.2)	2,137.3
Shareholders' equity (A\$ m)	7,294.2	(49.8)	7,244.4	(1,000.0)	6,244.4
Net debt (A\$ m)	1,102.8	49.8	1,152.6	1,000.0	2,152.6
Gearing (%)	13.1%		13.7%		25.6%
Leverage (x)	1.1x		1.1x		2.1x
EBIT Interest Cover (x)	15.0x		13.9x		5.5x

While the Selective Share Buy-back will increase the Company's pro forma Gearing and Leverage and reduce pro forma EBIT Interest Cover, the Directors note the Company's credit rating is expected to be retained.

2.3 Dividend policy unchanged

The increased Gearing following the completion of the Selective Share Buy-back is not expected to impact the Company's dividend policy. In addition, the Company does not have franking credits to distribute to shareholders.

2.4 No material non-financial impacts

The Selective Share Buy-back will lead to QTH substantially reducing its shareholding in the Company (the Institutional Placement involves the transfer of shares and therefore will not affect the proportionate holding of shareholders as a whole). Upon completion of the Selective Share Buy-back and cancellation of the shares bought back, the proportionate shareholding of each shareholder other than QTH will increase by approximately 13.5%. For example, a shareholder with a 1% holding prior to the Selective Share Buy-back would hold 1.13% after completion of the Selective Share Buy-back. As the proportional increase in the holding of each shareholder is small, the Directors believe that the Selective Share Buy-back will not have a significant impact on the control of the Company.

¹ All values in the table have been rounded.

Apart from the impact on the Company's share register, there are no material non-financial impacts on the Company as a result of the Selective Share Buy-back.

3. Summary of the Selective Share Buy-back Agreement

3.1 Number of shares and Selective Share Buy-back consideration

Under the Buy-back Agreement, QR National has agreed to buy back \$1,000 million of QTH's shares (288,184,438 shares, rounding down to the nearest share), subject to non-QTH shareholder approval. The shares will be bought back at the Selective Buy-back Price of \$3.47 per share.

At the date of the Notice, the shares proposed to be bought back represent approximately 11.9% of the Company's issued capital.

The total consideration payable to QTH is \$1,000 million, which the Company will pay in cash upon completion of the Selective Share Buy-back.

3.2 Conditions precedent

Completion of the Buy-back Agreement remains subject to the Selective Share Buy-back being approved by a special resolution of the shareholders of the Company (other than QTH and its associates) as required under the Corporations Act and the ASX Listing Rules.

If this remaining condition precedent is satisfied, completion of the Selective Share Buy-back is expected to occur on or around 26 November 2012. Otherwise, if the condition precedent is not satisfied by 30 November 2012, the Buy-back Agreement may be terminated.

3.3 Effect of the Buy-back Agreement

Pursuant to section 257H of the Corporations Act:

- all rights attaching to those QTH shares subject to the Buy-back Agreement were suspended upon the Buy-back Agreement coming into effect. This means that in respect of those shares, QTH has been unable to vote or receive dividends that were declared after that time;
- the Company is prohibited from disposing of the shares once they are bought back; and
- immediately after the registration of the transfer of the shares to the Company, those shares will be cancelled.

3.4 Other provisions of the Buy-back Agreement

Under the Buy-back Agreement, QTH represents and warrants to the Company including that:

- QTH is the registered and beneficial owner of the shares the subject of the Buy-back Agreement which are free from all Encumbrances;
- there is no restriction on the transfer of the shares which are the subject of the Buy-back Agreement; and
- it is not in possession of any "inside information" within the meaning given in Part 7.10, Division 3 of the Corporations Act.

Under the Buy-back Agreement, the Company represents and warrants to QTH including that:

- the Buy-back Agreement and, subject to satisfaction of the conditions precedent, completion of the Selective Share Buy-back, does not conflict with, or result in, a breach of any obligation or constitute or result in any default under any provision of its Constitution or any material provision of any agreement, law, order or otherwise;
- it is in compliance with its obligations under Chapter 2M and section 674 of the Corporations Act and Listing Rule 3.1, and is not relying on an exception in Listing Rule 3.1A to not disclose any price sensitive information known to it;
- it is not in possession of any "inside information" within the meaning given in Part 7.10, Division 3 of the Corporations Act;
- it has the power to enter into and perform the Buy-back Agreement and has obtained all consents and authorisations necessary to enable it do so, except for shareholder approval of the Selective Share Buy-back; and

- the debt funding available to the Company under its existing \$3.0 billion debt facility will be sufficient to fully fund the buy-back (see section 4.1 below).

The Buy-back Agreement may be terminated if the remaining condition precedent is not satisfied, there is a breach of warranty by a party or if agreed to by the parties. If the Buy-back Agreement is terminated, the Selective Share Buy-back will not go ahead unless the parties agree otherwise.

Each party indemnifies the other party and its representatives against all loss suffered or incurred by the other party and its representatives arising directly or indirectly out of or in connection with any breach of the Buy-back Agreement by the indemnifying party or its representatives (including a breach of the warranties given under the Buy-back Agreement), except to the extent the loss is caused by the fraud, negligence or wilful misconduct of the other party or any of its representatives.

3.5 Proposed timetable

The indicative timetable for the Selective Share Buy-back is:

Date of Extraordinary General Meeting	21 November 2012
Expected completion of Selective Share Buy-back	26 November 2012

3.6 Inspection of the Buy-back Agreement

A copy of the Buy-back Agreement is available for inspection by shareholders at the Registered Office of the Company and will be available for inspection by shareholders at the EGM.

4. Other Arrangements Relevant to the Selective Share Buy-back

4.1 Debt financing for the Selective Share Buy-back

Debt funding for the Selective Share Buy-back will be drawn from the Company's existing \$3.0 billion debt facility. As at 30 June 2012, and after taking into account purchases made under the on-market buy-back (\$49,798,337), the Company's existing debt facility on a 2012 Adjusted basis was drawn to approximately \$1,270 million. The remaining undrawn capacity on a 2012 Adjusted basis was approximately \$1,730 million, meaning that the Selective Share Buy-back will be fully funded. There are no conditions precedent to draw down that are not within the control of QR National or administrative in nature.

4.2 Legal and regulatory requirements

i. Financial Statements

The Company will provide a copy of the audited financial statements of the Company for the 2012 financial year, free of charge, to any shareholder who requests it prior to the EGM.

ii. Legislative requirements

The buy-back is a selective share buy-back. Under section 257A of the Corporations Act, the Company may only buy back its own shares if:

- the buy-back does not materially prejudice the Company's ability to pay its creditors; and
- the Company follows the procedures set out in the Corporations Act.

Section 257D of the Corporations Act requires that the terms of the Buy-back Agreement be approved by a special resolution passed at a general meeting of the Company, with no votes being cast in favour of the resolution by any person whose shares are proposed to be bought back or by their associates.

Accordingly, the proposed resolution is a special resolution and neither QTH (as a party to the Buy-back Agreement and the party whose shares are being bought back) nor any of its associates are permitted to vote on the proposed resolution.

As QTH is a substantial shareholder of the Company, approval by shareholders under Listing Rule 10.1 is also required. Such approval is sought under the proposed resolution.

The Directors consider that the proposed Selective Share Buy-back will not materially prejudice the Company's ability to pay its creditors.

4.3 Share price information

The Company's closing share price on 5 October 2012, being the last trading day immediately prior to the Queensland Government's announcement of its decision to divest \$1,500 million of QTH's shares in the Company, was \$3.47. The VWAP in the 30 days immediately prior to the announcement was approximately \$3.43. The closing share price on 11 October 2012, being the last trading day prior to the finalisation of this Notice was \$3.62.

Key share price trading data at various dates is set out below.

QR National Share trading data (\$ per share)

Time Period	High	Low	VWAP
30 days prior to announcement (6 September 2012–5 October 2012)	\$3.54	\$3.35	\$3.43
4 trading days prior to finalisation of this Notice	\$3.71	\$3.57	\$3.65

Source: IRESS

4.4 Other information

There is no other information known to the Company that is material to the decision as to how to vote on the proposed resolution. No Director or associate of a Director is participating in the Selective Share Buy-back.

Any shareholder who has any doubt about the information provided in the Notice and the Explanatory Memorandum, or the action that they should take, should consult their financial, taxation or other professional adviser.

Glossary of Terms

Term	Definition
2012 Adjusted	FY2012 financial position adjusted to reflect the impact of the on-market buy-back program
2012 Pro Forma	2012 Adjusted financial position adjusted to reflect the impact of the Selective Share Buy-back
A\$, \$ or cents	Australian Currency
ASIC	Australian Securities and Investments Commission
Associate	As defined in the Corporations Act
ASX	ASX Limited (ACN 008 624 691) or the Australia Securities Exchange, as appropriate
ASX Settlement Operating Rules	The operating rules of ASX Settlement Pty Limited in its capacity as a Clearing and Settlement (CS) facility licensee
Buy-back Agreement	The Buy-back Agreement executed by QR National Limited and Queensland Treasury Holdings Pty Ltd entered into on 8 October 2012
Constitution	The Company's constitution dated 10 November 2011, as may be amended from time to time
Corporations Act	Corporations Act 2001 (Cth)
Director	A member of the Board
EBIT	Earnings before interest and taxation expenses
EBITDA	Earnings before interest, taxation, depreciation and amortisation expenses
EBIT Interest Cover	Underlying EBIT to net finance cost
Encumbrance	any mortgage, pledge, lien, charge, assignment, option, hypothecation, security interest, title retention, preferential right or trust arrangement or any other security agreement or arrangement or any other arrangement having the same effect
EPS	Earnings per share
Explanatory Memorandum	The Explanatory Memorandum dated 12 October 2012 contained in this document, and any supplementary or replacement Explanatory Memorandum
FY20XX	The financial year ending 30 June 20XX
Gearing	Net debt to Net debt plus Shareholders' equity
Grant Samuel & Associates	Grant Samuel & Associates Pty Limited (ABN 28 050 036 372)
Independent Expert	Grant Samuel & Associates
Independent Expert's Report	The Independent Expert's Report prepared by Grant Samuel & Associates at the request of the Board in relation to the Selective Share Buy-back
IRESS	IRESS Market Technology Limited (ACN 060 313 359)
Leverage	Net debt to Underlying EBITDA
Listing Rules	Official listing rules of ASX Limited
NPAT	Net profit after taxation expenses
proposed resolution	The proposed special resolution to approve the Selective Share Buy-back
Queensland Government	The State of Queensland
Queensland Treasury Holdings or QTH	Queensland Treasury Holdings Pty Ltd (ABN 52 011 027 295)
Registered Office	The registered office of the Company, being Level 17, 175 Eagle Street, Brisbane QLD 4000, Australia
Selective Share Buy-back	Selective buy-back by the Company of 288,184,438 shares held by QTH at the Selective Share Buy-back Price, pursuant to the terms of the Buy-back Agreement
Selective Share Buy-back Price	\$3.47
share(s)	A fully paid ordinary share in the Company
shareholder(s)	A holder of shares in QR National
Share Registry	Computershare Limited (ABN 71 005 485 825)
VWAP	Volume weighted average share price

HOW TO GET TO THE EXTRAORDINARY AND ANNUAL GENERAL MEETINGS

The Annual and Extraordinary General Meetings are to be held at the Brisbane Convention and Exhibition Centre (BCEC), Room M4, Corner of Merivale and Glenelg Streets, South Bank, Queensland, Australia 4101. The BCEC is in the South Bank riverside precinct, and is centrally located in Brisbane and accessible by all modes of transport. If you enter the Brisbane Convention and Exhibition Centre through the Main Entry, corner of Merivale and Glenelg Streets, follow the signs up the escalators to the Mezzanine Level (see diagram below).

Car

Various car parking options are available close to the venue and are detailed in the map above. A schedule of fees for parking at the venue is available at: <http://www.bcec.com.au/venue-and-services/car-parking.aspx>.

Train

South Bank Station is within a five minute walk of the BCEC and can be accessed from Tribune Street. Train timetables are available at: www.translink.com.au. Airport to the Centre is approximately 22min ride by Airtrain.

Bus

South Bank is serviced by two bus stations: The Cultural Centre Busway on Melbourne Street and the South Bank Busway corner of Colchester and Tribune Streets, South Bank. A free city loop bus service circles Brisbane's Central Business District including South Bank.

CityCat

A popular and speedy way to travel the river, the CityCat terminal is located outside the riverside restaurants on the riverside promenade at South Bank. CityCats operate daily from 5.30am to 10.30pm.

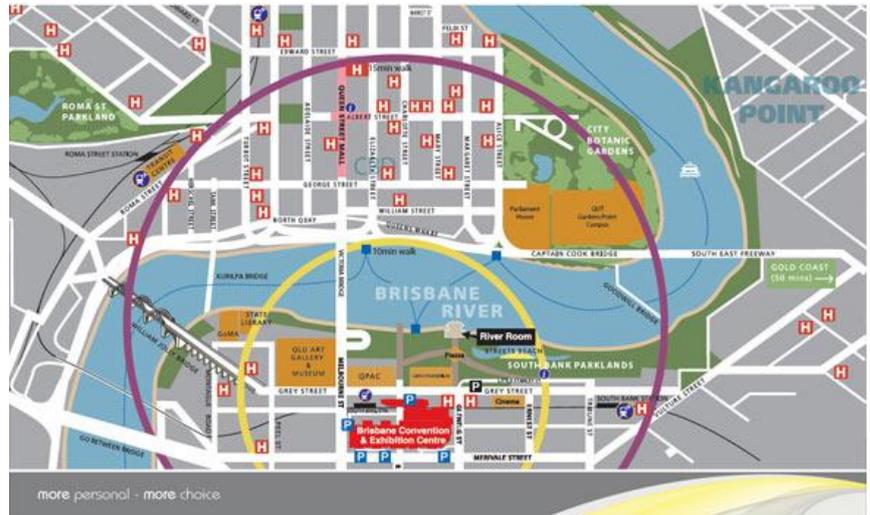
For train, bus and City Cat timetable information please telephone TransLink on 131 230 or visit: www.translink.com.au.

Taxi

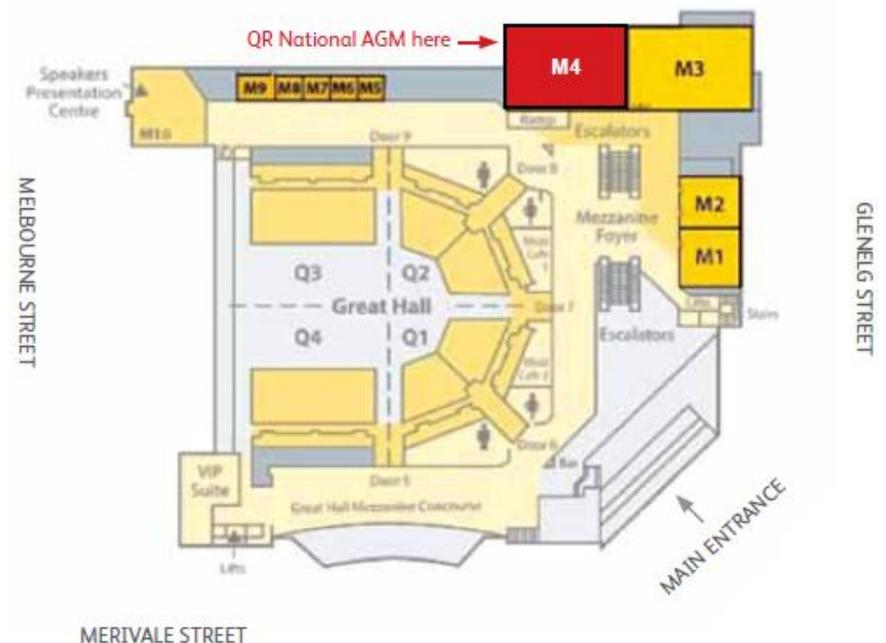
Taxis can take you to the main doors of the BCEC – please provide the above address to your driver.

Accessibility

Parking is available for people with disabilities in all areas of the BCEC car park which can be accessed by lifts and ramps. Restrooms are located on every level in the BCEC adjacent to all meeting rooms. The BCEC has its own designated taxi rank and all stairs have handrails. The BCEC also provides Multi channel infrared translation system providing translation facilities for non-English speaking delegates and for the hearing and sight impaired.



H Hotels 10 min walk 15 min walk



Lodge your vote:**Online:**
www.investorvote.com.au**By Mail:**
Computershare Investor Services Pty Limited
GPO Box 242 Melbourne
Victoria 3001 AustraliaAlternatively you can fax your form to
(within Australia) 1800 783 447
(outside Australia) +61 3 9473 2555For Intermediary Online subscribers only
(custodians) www.intermediaryonline.com**For all enquiries call:**
(within Australia) 1800 776 476
(outside Australia) +61 3 9938 4376H 000001 000 QRN
MR SAM SAMPLE
FLAT 123
123 SAMPLE STREET
THE SAMPLE HILL
SAMPLE ESTATE
SAMPLEVILLE VIC 3030

Proxy Form for Extraordinary General Meeting



Vote online or view the Notice of Meeting and Explanatory Memorandum, 24 hours a day, 7 days a week:

www.investorvote.com.au**Cast your proxy vote****Access the Notice of Meeting and Explanatory Memorandum****Review and update your securityholding****Your secure access information is:****Control Number: 999999****SRN/HIN: 1999999999****PLEASE NOTE:** For security reasons it is important that you keep your SRN/HIN confidential. **For your vote to be effective it must be received by 12:00 noon (Brisbane time) Monday 19 November 2012**

How to Vote on Items of Business

All your securities will be voted in accordance with your directions.

Appointment of Proxy

Voting 100% of your holding: Direct your proxy how to vote by marking one of the boxes opposite each item of business. If you do not mark a box your proxy may vote as they choose. If you mark more than one box on an item your vote will be invalid on that item.**Voting a portion of your holding:** Indicate a portion of your voting rights by inserting the percentage or number of securities you wish to vote in the For, Against or Abstain box or boxes. The sum of the votes cast must not exceed your voting entitlement or 100%.**Appointing a second proxy:** You are entitled to appoint up to two proxies to attend the meeting and vote on a poll. If you appoint two proxies you must specify the percentage of votes or number of securities for each proxy, otherwise each proxy may exercise half of the votes. When appointing a second proxy write both names and the percentage of votes or number of securities for each in Step 1 overleaf.**A proxy need not be a securityholder of the Company.**

Signing Instructions for Postal Forms

Individual: Where the holding is in one name, the securityholder must sign.**Joint Holding:** Where the holding is in more than one name, all of the securityholders should sign.**Power of Attorney:** If you have not already lodged the Power of Attorney with the registry, please attach a certified photocopy of the Power of Attorney to this form when you return it.**Companies:** Where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the company (pursuant to section 204A of the Corporations Act 2001) does not have a Company Secretary, a Sole Director can also sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please sign in the appropriate place to indicate the office held. Delete titles as applicable.

Attending the Meeting

Bring this form to assist registration. If a representative of a corporate securityholder or proxy is to attend the meeting you will need to provide the appropriate "Certificate of Appointment of Corporate Representative" prior to admission.

A form of the certificate may be obtained from Computershare or online at www.investorcentre.com/qrn under the information tab, "Downloadable Forms".**Comments & Questions:** If you have any comments or questions for the company, please write them on a separate sheet of paper and return with this form.**GO ONLINE TO VOTE,
or turn over to complete the form** →

MR SAM SAMPLE
FLAT 123
123 SAMPLE STREET
THE SAMPLE HILL
SAMPLE ESTATE
SAMPLEVILLE VIC 3030

Change of address. If incorrect, mark this box and make the correction in the space to the left. Securityholders sponsored by a broker (reference number commences with 'X') should advise your broker of any changes.



I 9999999999

I ND

Proxy Form

Please mark to indicate your directions

STEP 1 Appoint a Proxy to Vote on Your Behalf

XX

I/We being a member/s of QR National Limited hereby appoint

the Chairman of the meeting OR

PLEASE NOTE: Leave this box blank if you have selected the Chairman of the Meeting. Do not insert your own name(s).

or failing the individual or body corporate named, or if no individual or body corporate is named, the Chairman of the Meeting, as my/our proxy to act generally at the meeting on my/our behalf and to vote in accordance with the following directions (or if no directions have been given, and to the extent permitted by law, as the proxy sees fit) at the Extraordinary General Meeting of QR National Limited to be held at in Room M4, Brisbane Convention and Exhibition Centre, Corner of Merivale and Glenelg Streets, South Brisbane, Queensland, 4101, Australia on Wednesday, 21 November 2012 at 12:00 noon (Brisbane time) and at any adjournment or postponement of that Meeting.

STEP 2 Items of Business

PLEASE NOTE: If you mark the **Abstain** box for an item, you are directing your proxy not to vote on your behalf on a show of hands or a poll and your votes will not be counted in computing the required majority.

Special Resolution

1 Selective Share Buy-back

For	Against	Abstain
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

The Chairman of the Meeting intends to vote undirected proxies in favour of the item of business.

SIGN Signature of Securityholder(s) *This section must be completed.*

Individual or Securityholder 1

Sole Director and Sole Company Secretary

Securityholder 2

Director

Securityholder 3

Director/Company Secretary

Contact Name _____

Contact Daytime Telephone _____

Date / /

QRN

4 0 0 0 0 0 A

Computershare +



10 October 2012

The Directors
QR National Limited
Level 17
175 Eagle Street
Brisbane Qld 4000

Dear Directors

Buyback Proposal

1 Introduction

On 8 October 2012, QR National Limited (“QR National”) announced a proposal to buy back 288.2 million shares held by the State of Queensland through Queensland Treasury Holdings Pty Ltd (referred to in this report as the “State of Queensland”) at a price of \$3.47 per share (“the Buyback Proposal”). The Buyback Proposal is part of a broader proposal (“the Transaction”) pursuant to which the State of Queensland has sold 144.1 million QR National shares (representing a 5.9% interest in QR National) to a group of investment institutions at the same price of \$3.47 per share (“the Institutional Selldown”).

If the Transaction is implemented, the State of Queensland will have a residual interest in QR National of 18.2%, compared to its current shareholding of 33.9%. There are no restrictions on the remaining State of Queensland shareholding.

The Buyback Proposal is subject to the approval of QR National shareholders in accordance with Section 257D of the Corporations Act and Chapter 10 of the Listing Rules of the Australian Securities Exchange (“Listing Rule 10”). If the Buyback Proposal is approved, QR National will pay the State of Queensland a total of \$1.0 billion for 288.2 million shares in QR National, to be funded from its existing debt facilities. The shares bought back will be cancelled, reducing the number of issued shares in QR National from 2,425.5 million to 2,137.3 million.

The Buyback Proposal follows the announcement by QR National of an intention to undertake an on-market buyback of up to 10% of its issued capital on 23 August 2012. As at 5 October 2012 (the last trading day prior to announcement of the Buyback Proposal), QR National had acquired 14.5 million shares at a cost of \$49.8 million. If the Buyback Proposal is approved, it will replace the on-market buyback. The on-market buyback was suspended following the announcement of the Buyback Proposal.

QR National has engaged Grant Samuel & Associates Pty Limited (“Grant Samuel”) to prepare an independent expert’s report for the purposes of Listing Rule 10.1 stating whether, in Grant Samuel’s opinion, the Buyback Proposal is fair and reasonable to the shareholders of QR National other than the State of Queensland and its associates (“non associated shareholders”). A copy of the report is to accompany the Notice of Meeting and Explanatory Memorandum (“Explanatory Memorandum”) to be sent to shareholders by QR National.

2 Opinion

In Grant Samuel’s opinion, the Buyback Proposal is fair and reasonable to the non associated shareholders of QR National.



3 Summary of Key Conclusions

A selective share buyback at (or below) the prevailing share price is by definition fair unless the sharemarket is mispricing the company's shares (i.e. overvaluing the shares) or the buyback will have a material impact on the company so as to result in an adverse change in the share price.

Based on the analysis undertaken by Grant Samuel, there is no evidence to suggest that the market price does not represent the fair market value of QR National shares at the present time. The market for QR National shares appears to be well informed and there is nothing to suggest that QR National shares are mispriced:

- the QR National share price has been stable and QR National shares have traded in a narrow range in the weeks prior to announcement of the Buyback Proposal. The relative performance of QR National shares and those of its peers has been reasonably consistent over the last six months, with periods of outperformance or underperformance able to be explained by company specific factors;
- market metrics such as forecast price earnings multiples show that QR National is trading towards the top end of the range of price earnings multiples of its domestic and international peers although this has been a consistent feature and is in line with QR National's growth outlook. An analysis of dividend yields shows a similar result after taking into account differences in capital intensity and dividend payout ratios;
- QR National is closely followed by a wide range of analysts and commentators. While QR National is currently trading below brokers' estimates of its 12 month price target, this is not surprising given current market conditions and indicates that brokers see upside potential in QR National's share price;
- management of QR National has confirmed that there is no information about the business which, in their opinion, would materially affect the share price but is not in the public domain;
- the relatively high level of share turnover and the tight bid/ask spread for QR National shares indicates that it is a reasonably liquid stock. QR National has trading statistics similar to those of its peers, notwithstanding that its free float¹ is only approximately 66% of issued shares. Its share price volatility is also consistent with that of its peers; and
- analysis of reported short positions indicates that QR National's share price, particularly in recent months, has not been impacted by any material level of short selling.

The effect of the Buyback Proposal on ownership and control of QR National and on its key financial metrics is unlikely to have an adverse impact on the QR National share price.

The buyback price of \$3.47 is within a range that could be considered as corresponding to the current market price. The price is equal to the closing price and the volume weighted average price ("VWAP") on 5 October 2012, the last trading day prior to the announcement of the Buyback Proposal. While it is a 1.2% premium to the VWAPs over the week and month prior to the announcement of the Buyback Proposal:

- it is the same price at which major investment institutions have agreed to buy \$500 million worth of QR National shares from the State of Queensland as part of the broader Transaction;
- QR National shares have traded in the range \$3.35 to \$3.54 over the five weeks prior to the announcement of the Buyback Proposal;
- the premium to the 1 week and 1 month VWAPs of 4 cents (1.2%) is immaterial; and
- if QR National was to acquire a similar sized quantity of shares through the on-market buyback, it is likely that there would be considerable upward pressure on the QR National share price resulting in a cost greater than \$3.47 per share.

On this basis, the Buyback Proposal is fair. As it is fair, it is also reasonable. In any event, the benefits and advantages of the Buyback Proposal and the broader Transaction (including the Institutional Selldown) outweigh the costs, disadvantages and risks.

¹ Free float is a term used to describe the shares that are freely tradeable on the securities exchange and excludes shares held in large blocks that are not expected to be sold in the foreseeable future.



The major benefits for non associated shareholders if the Transaction is implemented are summarised below:

- it facilitates a move towards a more efficient capital structure for QR National. QR National is currently undergeared (with pro forma gearing² at 30 June 2012 of 13.7%). If the Buyback Proposal is implemented, QR National's pro forma gearing at 30 June 2012 increases to 25.6%, closer to the level that QR National management regards as the most appropriate level of gearing for QR National (in the mid to high thirties) at this point in time. While the on-market buyback was designed to achieve a similar outcome, the Buyback Proposal does so more quickly and with more certainty;
- pro forma earnings per share will increase and there is therefore scope to increase dividends per share in the future while maintaining the same dividend payout ratio should QR National decide to do so. Both of these factors should have a positive impact on the QR National share price. However, it should be recognised that the positive impact on earnings per share is simply the result of increasing the leverage in the capital structure;
- an increase in the liquidity of QR National shares. The free float will increase from 66% to 82%, increasing QR National's weighting in key indices and creating a larger pool of shares available to trade. In particular, there should be greater demand for shares, at least initially, as index based investors adjust their portfolios; and
- the State of Queensland's 33.9% shareholding creates an overhang³ in the market for QR National shares, particularly as the State of Queensland has publicly flagged its intention to realise its shareholding. Removal of this overhang would be beneficial for the non associated shareholders. The Transaction reduces the State of Queensland's holding from 33.9% to 18.2% but does not eliminate the overhang and, arguably, may exacerbate the issue in the short term (as it might be assumed the State of Queensland will want to realise its residual holding in a reasonably short time frame). On the other hand, the Transaction is an important first step in facilitating an orderly exit for the State of Queensland. The residual 18.2% interest is a more manageable holding to sell whether through the market or otherwise.

The costs, disadvantages and risks of the Transaction are:

- the Buyback Proposal increases QR National's debt by \$1.0 billion and its pro forma gearing from 13.7% to 25.6%. It also reduces the funds available under its existing debt facilities to \$730.2 million (based on pro forma 30 June 2012 borrowings). However:
 - the increase in debt is only approximately \$150 million more than the debt that would have been incurred (and gearing is only 1.8 percentage points higher than) if QR National had acquired the maximum 10% of its issued shares through the on-market buyback (assuming it would have paid the same price as the buyback price). In any event, the resultant gearing is consistent with management's objective of moving towards a more efficient capital structure;
 - QR National expects to retain its BBB+ and Baa1 credit ratings as it remains within key Standard & Poor's Financial Services LLC ("S&P") and Moody's Investors Service Pty Limited ("Moody's") metrics. Following announcement of the Buyback Proposal, S&P released an update stating that QR National's credit rating was not immediately affected by the Buyback Proposal but that it would reduce the buffer in QR National's financial ratios. While Moody's has not made any comment on the Buyback Proposal, on announcement of the on-market buyback, Moody's issued an update that stated that the on-market buyback was credit negative but could be accommodated within QR National's Baa1 ratings and stable outlook. The credit ratings are premised on an expected capital expenditure program over the coming years of \$1.0-1.5 billion per annum (in the case of S&P) and \$1.2-1.6 billion (in the case of Moody's) and it is possible that the Buyback Proposal, which is over and above the capital expenditure program, may cause S&P and Moody's to revise QR National's credit rating downwards in the future. Any reduction in QR National's credit rating would have a negative impact on the interest rate it pays and on its ability to raise funds;

² Gearing is net borrowings divided by net assets plus net borrowings.

³ An overhang is the downward pressure on the market price of shares which arises when the market expects a significant parcel of shares to be sold in the short term.



- although the Buyback Proposal results in a weakening of debt covenant ratios under QR National's Syndicated Facility Agreement, it should not result in QR National coming close to breaching any of its existing covenants;
- this higher level of gearing remains below that of its peers, which have gearing levels at 30 June 2012 that range from 30% to 70%; and
- QR National believes it will continue to have the ability to fund its growth plans which, when combined with sustaining capital expenditure, are expected to require aggregate capital expenditures in excess of \$1.0 billion per year in future years. Apart from the remaining capacity within its existing facilities, QR National has a number of funding alternatives for future capital expenditure including internal reserves (QR National generates \$1 billion per annum in operating cash flow and this is expected to grow in future years), increased or new debt facilities, equity, project finance, bonds and partnering with customers and infrastructure providers to share the cost of investment.

Furthermore, in Grant Samuel's view, it is possible the fall in commodity prices over recent months (particularly coal and iron ore prices), if sustained, may result in deferral or even cancellation of some planned coal mine development projects, which may in turn result in lower levels of capital expenditure for QR National in the next few years;

- pro forma net tangible assets ("NTA") per share as at 30 June 2012 will decrease from \$2.98 to \$2.91 as a result of the Buyback Proposal. However, NTA per share is not an important measure of value for a company such as QR National and the reduction in NTA per share is unlikely to have any material negative impact on the QR National share price; and
- QR National will incur costs of less than \$5 million in relation to the Transaction. These costs are one off and are not material in the overall context of QR National.

In summary, shareholders are likely to be better off if the Buyback Proposal is implemented than under the status quo. This view is supported by trading in QR National shares since announcement of the Buyback Proposal on 8 October 2012. Over the period to 10 October 2012, QR National shares have traded in the range \$3.57-3.71 and at a VWAP of \$3.66, a 5.5-6.7% increase on share prices prior to announcement of the Buyback Proposal.

4 Other Matters

This report is general financial product advice only and has been prepared without taking into account the objectives, financial situation or needs of individual QR National shareholders. Accordingly, before acting in relation to their investment, shareholders should consider the appropriateness of the advice having regard to their own objectives, financial situation or needs. Shareholders should read the Explanatory Memorandum issued by QR National in relation to the Buyback Proposal.

Voting for or against the Buyback Proposal is a matter for individual shareholders based on their views as to value, their expectations about market conditions and their particular circumstances including risk profile and liquidity preference. Shareholders who are in doubt as to the action they should take in relation to the Buyback Proposal should consult their own professional adviser.

Grant Samuel has prepared a Financial Services Guide as required by the Corporations Act, 2001. The Financial Services Guide is included at the beginning of the full report.

This letter is a summary of Grant Samuel's opinion. The full report from which this summary has been extracted is attached and should be read in conjunction with this summary.

The opinion is made as at the date of this letter and reflects circumstances and conditions as at that date.

Yours faithfully

GRANT SAMUEL & ASSOCIATES PTY LIMITED

Grant Samuel & Associates



**Financial Services Guide
and
Independent Expert's Report
in relation to the
Buyback Proposal**

Grant Samuel & Associates Pty Limited
(ABN 28 050 036 372)

10 October 2012



Financial Services Guide

Grant Samuel & Associates Pty Limited ("Grant Samuel") holds Australian Financial Services Licence No. 240985 authorising it to provide financial product advice on securities and interests in managed investments schemes to wholesale and retail clients.

The Corporations Act, 2001 requires Grant Samuel to provide this Financial Services Guide ("FSG") in connection with its provision of an independent expert's report ("Report") which is included in a document ("Disclosure Document") provided to members by the company or other entity ("Entity") for which Grant Samuel prepares the Report.

Grant Samuel does not accept instructions from retail clients. Grant Samuel provides no financial services directly to retail clients and receives no remuneration from retail clients for financial services. Grant Samuel does not provide any personal retail financial product advice to retail investors nor does it provide market-related advice to retail investors.

When providing Reports, Grant Samuel's client is the Entity to which it provides the Report. Grant Samuel receives its remuneration from the Entity. In respect of the Report for QR National Limited ("QR National") in relation to the Buyback Proposal ("the QR National Report"), Grant Samuel will receive a fixed fee of \$295,000 plus reimbursement of out-of-pocket expenses for the preparation of the Report (as stated in Section 5.3 of the QR National Report).

No related body corporate of Grant Samuel, or any of the directors or employees of Grant Samuel or of any of those related bodies or any associate receives any remuneration or other benefit attributable to the preparation and provision of the AR National Report.

Grant Samuel is required to be independent of the Entity in order to provide a Report. The guidelines for independence in the preparation of Reports are set out in Regulatory Guide 112 issued by the Australian Securities & Investments Commission on 30 March 2011. The following information in relation to the independence of Grant Samuel is stated in Section 5.3 of the QR National Report:

"Grant Samuel and its related entities do not have at the date of this report, and have not had within the previous two years, any business or professional relationship with QR National or the State of Queensland or any financial or other interest that could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation to the Buyback Proposal.

Grant Samuel commenced analysis for the purposes of this report in May 2012 prior to the announcement of the Buyback Proposal. This work did not involve Grant Samuel participating in the setting the terms of, or any negotiations leading to, the Buyback Proposal.

Grant Samuel had no part in the formulation of the Buyback Proposal. Its only role has been the preparation of this report.

Grant Samuel will receive a fixed fee of \$295,000 for the preparation of this report. This fee is not contingent on the outcome of the Buyback Proposal. Grant Samuel's out of pocket expenses in relation to the preparation of the report will be reimbursed. Grant Samuel will receive no other benefit for the preparation of this report.

Grant Samuel considers itself to be independent in terms of Regulatory Guide 112 issued by the ASIC on 30 March 2011."

Grant Samuel has internal complaints-handling mechanisms and is a member of the Financial Ombudsman Service, No. 11929. If you have any concerns regarding the QR National Report, please contact the Compliance Officer in writing at Level 19, Governor Macquarie Tower, 1 Farrer Place, Sydney NSW 2000. If you are not satisfied with how we respond, you may contact the Financial Ombudsman Service at GPO Box 3 Melbourne VIC 3001 or 1300 780 808. This service is provided free of charge.

Grant Samuel holds professional indemnity insurance which satisfies the compensation requirements of the Corporations Act, 2001.

Grant Samuel is only responsible for the QR National Report and this FSG. Complaints or questions about the Disclosure Document should not be directed to Grant Samuel which is not responsible for that document. Grant Samuel will not respond in any way that might involve any provision of financial product advice to any retail investor.



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Appendix

1 Broker Consensus Forecasts

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1 Terms of the Transaction

On 8 October 2012, QR National Limited (“QR National”) announced a proposal to buy back 288.2 million shares held by the State of Queensland through Queensland Treasury Holdings Pty Ltd (referred to in this report as the “State of Queensland”) at a price of \$3.47 per share (“the Buyback Proposal”).

The Buyback Proposal is part of a broader proposal (“the Transaction”) pursuant to which the State of Queensland has sold 144.1 million QR National shares (representing a 5.9% interest in QR National) to a group of investment institutions at the same price of \$3.47 per share (“the Institutional Selldown”).

If the Transaction is implemented, the State of Queensland will have a residual holding in QR National of 389.2 million shares. This holding will represent an interest of 18.2% in QR National, compared to its current shareholding of 33.9%. There are no restrictions on the remaining State of Queensland shareholding.

The Buyback Proposal is subject to the following key conditions:

- approval by special resolution of QR National shareholders other than the State of Queensland and its associates;
- an independent expert opining that the Buyback Proposal is fair and reasonable to QR National shareholders other than the State of Queensland and its associates; and
- the Institutional Selldown taking place.

The Institutional Selldown will complete on 11 October 2012. If the remaining conditions are not satisfied or waived by 30 November 2012, the agreement between QR National and the State of Queensland may be terminated and the Buyback Proposal will not be implemented.

If the Buyback Proposal is approved:

- QR National will draw down a total of \$1.0 billion from its existing bank debt facilities and this amount will be paid to the State of Queensland in return for 288.2 million shares in QR National; and
- the shares bought back from the State of Queensland will be cancelled, reducing the number of issued shares in QR National from 2,425.5 million¹ to 2,137.3 million.

The Buyback Proposal follows the announcement by QR National of an intention to undertake an on-market buyback of up to 10% of its issued capital on 23 August 2012. The on-market buyback commenced on 6 September 2012 and, as at 5 October 2012, QR National had acquired 14.5 million shares at a cost of \$49.8 million. If approved, the Buyback Proposal will replace the on-market buyback. The on-market buyback was suspended following the announcement of the Buyback Proposal.

¹ After allowing for the 14.5 million shares bought back by QR National under its on-market buyback up to 5 October 2012.



2 Scope of the Report

2.1 Purpose of the Report

The Buyback Proposal is subject to the approval of QR National shareholders in accordance with:

- Section 257D of the Corporations Act (“Section 257D”); and
- Chapter 10 of the Listing Rules of the Australian Securities Exchange (“Listing Rule 10”).

Section 257D deals with the shareholder approval process for selective buybacks. Under Section 257D, a selective buyback must be approved by a special resolution passed at a general meeting of the company, with no votes cast in favour of the resolution by any person whose shares are proposed to be bought back or by their associates, or alternatively, a resolution passed at a general meeting by all ordinary shareholders. Section 257D does not require the provision of an independent expert’s report. However, Regulatory Guide 110 issued by the Australian Securities & Investments Commission (“ASIC”) does provide that if a company proposes to buy back a significant percentage of its shares or the holding of a major shareholder, the company should consider providing an independent expert’s report.

Listing Rule 10 deals with transactions between a listed company and persons in a position of influence over that company. In particular, Listing Rule 10.1 prohibits an entity from acquiring a substantial asset from a related party or a substantial shareholder without the approval of non associated shareholders. Substantial assets are defined as assets with a value exceeding 5% of shareholders’ funds. Substantial shareholders are defined as persons entitled to at least 10% of the voting rights at any time in the six months prior to the transaction. The State of Queensland holds 33.9% of the voting shares in QR National. Under the proposed transaction, QR National will acquire part of that shareholding from the State of Queensland for \$1.0 billion, which exceeds 5% of QR National’s shareholders’ funds of \$7.294 billion as at 30 June 2012. Therefore, approval of shareholders not associated with the State of Queensland (the “non associated shareholders”) is required. Listing Rule 10.10 requires the notice of meeting at which such approval is sought to include an independent expert’s report on whether the transaction is fair and reasonable to the non associated shareholders.

QR National has engaged Grant Samuel & Associates Pty Limited (“Grant Samuel”) to prepare an independent expert’s report for the purposes of Listing Rule 10.1 stating whether, in Grant Samuel’s opinion, the proposed transaction is fair and reasonable to the non associated shareholders. A copy of the report is to accompany the Notice of Meeting and Explanatory Memorandum (“the Explanatory Memorandum”) to be sent to shareholders by QR National.

This report is general financial product advice only and has been prepared without taking into account the objectives, financial situation or needs of individual QR National shareholders. Accordingly, before acting in relation to their investment, shareholders should consider the appropriateness of the advice having regard to their own objectives, financial situation or needs. Shareholders should read the Explanatory Memorandum issued by QR National in relation to the Buyback Proposal.

Voting for or against the Buyback Proposal is a matter for individual shareholders based on their views as to value, their expectations about future market conditions and their particular circumstances including risk profile and liquidity preference. Shareholders who are in doubt as to the action they should take in relation to the Buyback Proposal should consult their own professional adviser.

Similarly, it is a matter for individual shareholders as to whether to buy, hold or sell shares in QR National. This is an investment decision independent of a decision to vote for or against the Buyback Proposal upon which Grant Samuel does not offer an opinion. Shareholders should consult their own professional adviser in this regard.



2.2 Basis of Evaluation

The Australian Securities Exchange (“ASX”) does not provide specific guidance as to the analysis required in assessing whether a proposed transaction is fair and reasonable to non associated shareholders for the purposes of Listing Rule 10. However, ASIC has issued Regulatory Guide 111 which establishes guidelines in respect of independent expert’s reports under the Corporations Act. ASIC Regulatory Guide 111 differentiates between the analysis required for control transactions and other transactions. In the context of control transactions (whether by takeover bid, by scheme of arrangement, by the issue of securities or by selective capital reduction or buyback), the expert is required to distinguish between “fair” and “reasonable”. A proposal that was “fair and reasonable” or “not fair but reasonable” would be in the best interests of shareholders. For most other transactions the expert is to weigh up the advantages and disadvantages of the proposal for shareholders. If the advantages outweigh the disadvantages, the proposal would be in the best interests of shareholders.

ASIC Regulatory Guide 111 provides that where an expert assesses whether a transaction with a person in a position of influence requiring approval of shareholders under Listing Rule 10 is “fair and reasonable”, this involves a separate assessment of whether the transaction is “fair” and “reasonable”, as in a control transaction.

An asset acquisition under Listing Rule 10 will be “fair” if the value of the financial benefit being offered by the company to the person in a position of influence is equal to or less than the value of the assets being acquired. For this comparison, value is determined assuming a knowledgeable and willing, but not anxious, buyer and a knowledgeable and willing, but not anxious, seller acting at arm’s length and, for control transactions, assuming 100% ownership of the target. In valuing the financial benefit offered and the assets being acquired by the company, all material terms of the proposed transaction should be taken into account.

The shares bought back by QR National will be cancelled in accordance with the Corporations Act. Therefore, the Buyback Proposal is not a control transaction (as there is no acquisition of, or increase in, a controlling stake in the company) and there is no requirement to value QR National assuming 100% ownership.

Reasonableness involves an analysis of other factors (i.e. factors that do not bear directly on value) that shareholders might consider in their assessment of a proposal.

Fairness is a more demanding criteria. A “fair” proposal will always be “reasonable” but a “reasonable” proposal will not necessarily be “fair”. A proposed transaction under Listing Rule 10 could be considered “reasonable” if there were valid reasons to accept or vote in favour notwithstanding that it was not “fair”.

Grant Samuel has determined whether the Buyback Proposal is fair by comparing the value of the financial benefit being offered by QR National to the State of Queensland with the value of the assets being acquired. The Buyback Proposal will be fair if the consideration paid to buy back the QR National shares is equal to or less than the fair market value of the QR National shares acquired. As part of its consideration as to whether the market price of QR National shares is an appropriate measure of their value, Grant Samuel has reviewed, among other factors, the depth of the market for QR National shares and the volatility of the QR National share price.

In considering whether the Buyback Proposal is reasonable, the factors that have been considered include:

- the impact on QR National’s business and operations, including its ongoing relationship with the State of Queensland;
- the financial impact on QR National if the Buyback Proposal proceeds, including the impact on earnings per share, net tangible assets per share and financial position including gearing and its ability to finance growth opportunities;



- the impact of the Buyback Proposal on ownership and control of QR National;
- the likely impact of the Buyback Proposal on investor sentiment, QR National's share price and QR National's market rating; and
- other factors including opportunity costs, alternative options and QR National's bargaining position.

2.3 Sources of the Information

The following information was utilised and relied upon, without independent verification, in preparing this report:

Publicly Available Information

- the Explanatory Memorandum (including earlier drafts);
- QR National Share Offer Document dated 8 October 2010;
- QR National annual report for the years ended 30 June 2011 and 2012;
- press releases, public announcements, media and analyst presentation material and other public filings by QR National including information available on its website;
- brokers' reports and recent press articles on QR National and the Australian rail freight industry; and
- sharemarket data and related information on QR National and Australian and international listed companies engaged in the rail freight or the transportation industry.

Non Public Information provided by QR National

- budget for the year ending 30 June 2013 and corporate plan for the years ending 30 June 2014 to 2017 prepared by QR National management;
- credit rating reports prepared by Standard & Poor's Financial Services LLC ("S&P") and Moody's Investors Services Pty Limited ("Moody's");
- the debt covenants that apply under QR National's Syndicated Facility Agreement and calculation of these ratios for the years ending 30 June 2013 to 2017 under the status quo and assuming a \$1.0 billion buyback; and
- other confidential documents, board papers, presentations and working papers.

In preparing this report, representatives of Grant Samuel held discussions with, and obtained information from, senior management of QR National and its advisers.

2.4 Limitations and Reliance on Information

Grant Samuel believes that its opinion must be considered as a whole and that selecting portions of the analysis or factors considered by it, without considering all factors and analyses together, could create a misleading view of the process underlying the opinion. The preparation of an opinion is a complex process and is not necessarily susceptible to partial analysis or summary.

Grant Samuel's opinion is based on economic, sharemarket, business trading, financial and other conditions and expectations prevailing at the date of this report. These conditions can change significantly over relatively short periods of time. If they did change materially, subsequent to the date of this report, the opinion could be different in these changed circumstances.

This report is also based upon financial and other information provided by QR National and its advisers. Grant Samuel has considered and relied upon this information. QR National has represented in writing to Grant Samuel that, to its knowledge, the information provided by it was



complete and not incorrect or misleading in any material aspect. Grant Samuel has no reason to believe that any material facts have been withheld.

The information provided to Grant Samuel has been evaluated through analysis, inquiry and review to the extent that it considers necessary or appropriate for the purposes of forming an opinion as to whether the Buyback Proposal is fair and reasonable having regard to the interests of the non associated shareholders of QR National. However, Grant Samuel does not warrant that its inquiries have identified or verified all of the matters that an audit, extensive examination or “due diligence” investigation might disclose. While Grant Samuel has made what it considers to be appropriate inquiries for the purposes of forming its opinion, “due diligence” of the type undertaken by companies and their advisers in relation to, for example, prospectuses or profit forecasts, is beyond the scope of an independent expert. Accordingly, this report and the opinions expressed in it should be considered more in the nature of an overall review of the anticipated commercial and financial implications rather than a comprehensive audit or investigation of detailed matters.

An important part of the information used in forming an opinion of the kind expressed in this report is comprised of the opinions and judgement of management. This type of information was also evaluated through analysis, inquiry and review to the extent practical. However, such information is often not capable of external verification or validation.

Preparation of this report does not imply that Grant Samuel has audited in any way the management accounts or other records of QR National. It is understood that the accounting information that was provided was prepared in accordance with generally accepted accounting principles and in a manner consistent with the method of accounting in previous years (except where noted).

QR National is responsible for the information contained in the budget and the corporate plan (“the forward looking information”). The forward looking information was utilised by Grant Samuel in its analysis but was not directly relied on for the purposes of forming its opinion as to whether the Buyback Proposal is fair and reasonable to the non associated shareholders of QR National.

Grant Samuel has no reason to believe that the forward looking information reflects any material bias, either positive or negative. However, the achievability of the forward looking information is not warranted or guaranteed by Grant Samuel. Future profits and cash flows are inherently uncertain. They are predictions by management of future events that cannot be assured and are necessarily based on assumptions, many of which are beyond the control of the company or its management. Actual results may be significantly more or less favourable.

While QR National has made guidance statements about coal haulage volumes for the year ending 30 June 2013, the directors of QR National have not provided any guidance about earnings for the year ending 30 June 2013 and have decided not to include the forecast in the Explanatory Memorandum. Therefore this information has not been disclosed in this report.

To provide an indication of the impact of the Buyback Proposal on the expected financial performance of QR National, Grant Samuel has considered brokers’ forecasts for QR National (see Appendix 1). Grant Samuel has used the median of the brokers’ forecasts to calculate parameters to enable comparison with its peers and the impact of the Buyback Proposal. These medians are sufficiently close to QR National’s budget to be useful for analytical purposes.

In forming its opinion, Grant Samuel has also assumed that:

- matters such as title, compliance with laws and regulations and contracts in place are in good standing and will remain so and that there are no material legal proceedings, other than as publicly disclosed;
- the information set out in the Explanatory Memorandum sent by QR National to its shareholders is complete, accurate and fairly presented in all material respects;

G R A N T S A M U E L



- the publicly available information relied on by Grant Samuel in its analysis was accurate and not misleading;
- the Buyback Proposal will be implemented in accordance with its terms; and
- the legal mechanisms to implement the Buyback Proposal are correct and will be effective.

To the extent that there are legal issues relating to assets, properties, or business interests or issues relating to compliance with applicable laws, regulations, and policies, Grant Samuel assumes no responsibility and offers no legal opinion or interpretation on any issue.



3 Profile of QR National

3.1 Background

QR Limited (the predecessor organisation of QR National) commenced operations in 1865 with the opening of the first railway line in Queensland, from Ipswich to Bigges Camp (Grandchester). Over the next 100 years it expanded its Queensland rail operations to ports, mines and settlements and developed major heavy haul rail lines. During the 1990s it undertook a national expansion strategy and over the next decade it significantly expanded its operations through acquisition and organic growth:

- QR Limited acquired Interail, a New South Wales rail freight business, in 2002, CRT, a specialised Victorian logistics business, in 2005 and ARG, a Western Australian bulk freight haulier, in 2006; and
- QR Limited commenced freight operations between Melbourne, Sydney and Brisbane in 2004, coal haulage in the Hunter Valley in New South Wales in 2005 and Melbourne-Perth intermodal services in 2007, creating a national freight network from Cairns to Perth.

In December 2009, the Premier of Queensland announced that the QR Limited coal and freight business would be sold by way of an initial public offering (“IPO”) and listed on the ASX as part of the Queensland Government’s major asset sale program. To facilitate the IPO, QR Limited was separated into two businesses on 30 June 2010:

- Queensland Rail, which includes the 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 State of Queensland retains full ownership of Queensland Rail; and
- QR National, comprising the principal commercial rail freight operations, including operation and management of the Central Queensland Coal Network infrastructure, the above rail haulage operations, the above rail freight activities and selected services businesses.

A number of commercial agreements were established between QR National and Queensland Rail as part of the separation of the two businesses.

QR National listed on the ASX on 22 November 2010 and currently has a market capitalisation of \$8.4 billion. It employs approximately 9,000 people.

QR National operates through three divisions:

- **QRN Coal**

QRN Coal is the world’s largest rail transporter of coal from mine to port for export markets and transports approximately 200 million tonnes of coal per annum. It services customers from more than 50 mine sites in six major coal chain systems in Queensland (Newlands, Goonyella, Blackwater, Moura and West Moreton systems) and New South Wales (Hunter Valley system).

QRN Coal’s customers are coal exporters (the owners and operators of coal mines located in Queensland and New South Wales) and domestic users (including the owners and operators of coal-fired power generation facilities in Queensland and New South Wales). In the year ended 30 June 2012, coal exporters represented approximately 95% of QRN Coal’s volume. Reflecting the capital intensive nature of the business, coal haulage contracts are typically medium to long term (5-10 years) and include an obligation on customers to pay for the haulage of a minimum volume of coal, known as “take-or-pay” arrangements.

QRN Coal has invested significant capital into its Queensland and New South Wales operations to underpin forecast growth in customer demand and to ensure the continued upgrade of the rollingstock fleet.



■ Network Services

Network Services comprises three businesses:

- Network, which operates and manages the Central Queensland Coal Network, the largest export coal rail network in Australia with a contracted capacity of 272² million tonnes per annum as at 30 June 2012. This 2,670 kilometre track network services four major coal systems in Queensland's Bowen Basin coal region – Newlands, Goonyella, Blackwater and Moura. It is an open access rail network used by multiple train operators and access revenues are regulated by the Queensland Competition Authority;
- Infrastructure Services, responsible for all infrastructure construction and maintenance activities for the Central Queensland Coal Network. It also provides support services in New South Wales, Western Australia and other locations where required. Infrastructure Services' principal customer is QR National. The Infrastructure Services business is involved in the upgrade and construction of rail infrastructure required for the network expansion projects. The business also has rail grinding contracts with two rail network operators, ARTC and WestNet Rail; and
- Rollingstock Services, responsible for wagon manufacture, locomotive and wagon overhauls and repairs, rollingstock refurbishment and component rebuild and repair. In addition, the business provides a service to maintain and overhaul track maintenance machines. Network Services is one of the largest rollingstock maintenance and manufacturing businesses in the southern hemisphere. The business has three workshop facilities located at Redbank near Brisbane, Rockhampton in central Queensland and Townsville in north Queensland.

A core element of Network Services' strategy is the expansion of its coal rail network. QR National has a number of projects at various stages of commitment, as well as other potential projects which are currently under assessment. The \$1.1 billion Goonyella to Abbot Point Expansion, which involved the construction of rail infrastructure to support the expansion of the Abbot Point Coal Terminal from a capacity of 25 million tonnes per annum to 50 million tonnes per annum, commenced its first railings in December 2011 and was completed in August 2012. An expansion of the Blackwater electric traction system was commissioned in June 2012.

A recently announced key project is the \$900 million Wiggins Island Rail Project, which involves construction of rail capacity for haulage to a new export terminal at Gladstone. The new infrastructure will deliver an additional 27 million tonnes per annum from the southern Bowen Basin coal region. Early works commenced in March 2012 and first railings are scheduled for mid-2014 with all remaining works due for completion by March 2015. QR National is also investing \$185 million in the initial stage of the Goonyella Rail Expansion Project (including \$82 million for track duplication south of Hay Point which is expected to be commissioned by the end of 2013) which will increase coal haulage capacity from 129 million tonnes per annum to 140 million tonnes per annum.

Other potential projects that could expand the network include Wiggins Island Rail Project Stage 2 (an additional 30 million tonnes per annum), Central Queensland Integrated Rail Project (expansion of Abbot Point through growth in production from the Bowen Basin and commercialisation of the Galilee Basin, at least 25 million tonnes per annum) and the Pilbara Rail System.

■ Freight

Freight transports approximately 65 million tonnes per annum of bulk materials and commodities including iron ore, agricultural products, mining and industrial inputs and general and containerised freight. The business is Australia's largest iron ore haulier outside Western Australia's Pilbara region. In addition to rail haulage, Freight provides road

² Contracted capacity as at 30 June 2012 includes the impact of the Goonyella to Abbot Point Expansion ("GAPE") at full ramp up.

logistics (through QR National owned and third party subcontracted trucks) and terminal services (through a network of five capital city freight terminals and over 40 freight distribution centres and depots) nationally.

Growth initiatives include investment in iron ore and intermodal above rail capacity to support the expected increase in volumes from iron ore mine developments in Western Australia including in the Mid West and Yilgarn regions.

3.2 Financial Performance

Historical Performance

The historical financial performance of QR National for the five years ended 30 June 2012 is summarised below:

QR National - Financial Performance³ (\$ millions)					
	Year ended 30 June				
	2008 historical pro forma	2009 historical pro forma	2010 historical pro forma	2011 historical	2012 historical
<i>QRN Coal volumes (million tonnes)</i>	184.1	186.7	198.4	181.6	185.6
Revenue	2,344.0	2,605.0	2,865.9	3,196.7	3,504.0
Underlying EBITDA⁴	359.0	505.0	716.0	840.5	1,048.2
Depreciation and amortisation	(318.0)	(357.0)	(427.0)	(457.2)	(463.7)
Underlying EBIT⁵	41.0	148.0	289.0	383.3	584.5
Net interest expense				(137.8)	(39.0)
Profit before tax				245.5	545.5
Underlying income tax expense				(73.6)	(125.6)
Underlying profit after tax				171.9	419.9
One off adjustments				(161.7)	8.8
One off income tax benefit				350.7	12.2
Statutory profit after tax				360.9	440.9
Statistics					
<i>Underlying earnings per share</i>	<i>na⁶</i>	<i>na</i>	<i>na</i>	7.3¢	17.2¢
<i>Dividends per share</i>	<i>na</i>	<i>na</i>	<i>na</i>	3.7¢	8.3¢
<i>Dividend payout ratio</i>	<i>na</i>	<i>na</i>	<i>na</i>	52.5%	48.2%
<i>Amount of dividend franked</i>	<i>na</i>	<i>na</i>	<i>na</i>	0%	0%
<i>Revenue growth</i>	<i>nc⁷</i>	11.1%	10.0%	11.5%	9.6%
<i>Underlying EBITDA growth</i>	<i>nc</i>	40.7%	41.8%	17.4%	24.7%
<i>Underlying EBIT growth</i>	<i>nc</i>	261.0%	95.3%	32.7%	52.5%
<i>Underlying EBITDA margin</i>	15.3%	19.4%	25.0%	26.3%	29.9%
<i>Underlying EBIT margin</i>	1.7%	5.7%	10.1%	12.0%	16.7%
<i>Net borrowings/EBITDA</i>	<i>nc</i>	<i>nc</i>	<i>nc</i>	1.1x	1.1x
<i>Interest cover⁸</i>	<i>nc</i>	<i>nc</i>	<i>nc</i>	6.1x	26.9x

Source: QR National and Grant Samuel analysis

³ Financial statements prepared in accordance with the Australian equivalent to international financial reporting standards ("AIFRS") unless otherwise stated. In the year ended 30 June 2012, QR National's financial statements were prepared on the basis of a voluntary change in accounting policy relating to mechanised ballast undercutting. The new accounting policy is to capitalise all mechanised ballast undercutting costs as assets with a useful life of eight years. In prior years, ballast undercutting expenditure was charged against the profit and loss as incurred. The new accounting policy has been applied retrospectively from 1 September 2008 onwards.

⁴ Underlying EBITDA is earnings before net interest expense, tax, depreciation and amortisation and one off items.

⁵ Underlying EBIT is earnings before net interest expense, tax and one off items.

⁶ na = not available

⁷ nc = not calculated

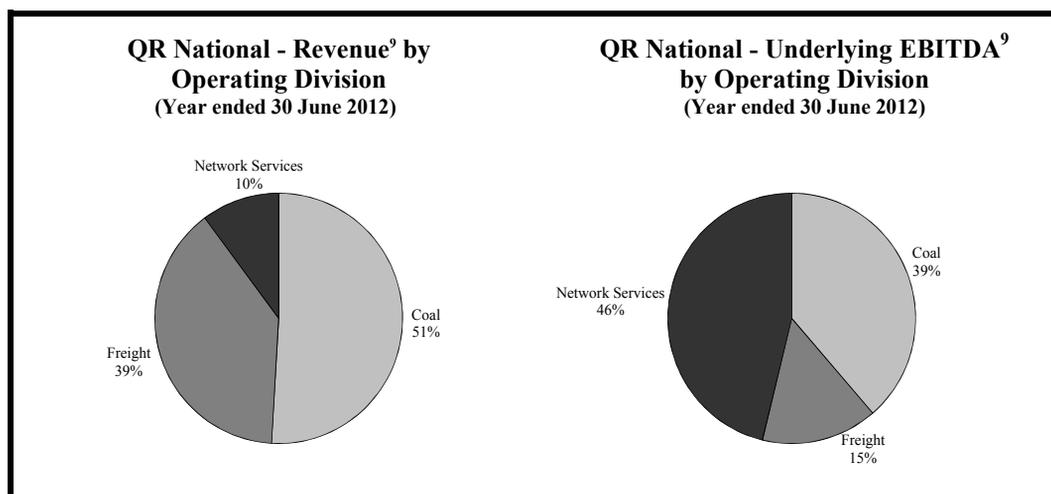
⁸ Interest cover is EBITDA divided by net interest expense.



Analysis and Commentary

QR National's statutory historical financial information is either not available or not particularly meaningful as it was only established as a separate business on 30 June 2010 and was privatised and listed on the ASX on 22 November 2010. As a result, the financial information shown in the table above for the years ended 30 June 2008 to 2010 is pro forma financial information which has been prepared on the basis that QR National was a separate entity from 1 July 2007.

The majority of QR National's underlying EBITDA is generated by its Network Services and QRN Coal divisions as shown in the chart below:



Source: QR National

While the Freight business generates approximately 40% of QR National's revenue, it generates only 15% of underlying EBITDA as it is a significantly lower margin business (EBITDA margin of 11% in the year ended 30 June 2012) than the Network Services business (EBITDA margin of 44% in the year ended 30 June 2012) as a result of its lower market share and strong competition, limited economies of scale and exposure to levels of consumer demand. In addition, in the year ended 30 June 2012, revenue from the Freight business included \$33 million of accrued additional payments earned through meeting performance criteria under Transport Services Contracts (for regional freight and livestock transport services) from the State of Queensland.

QR National's revenue growth has consistently been at or in excess of 10% per annum for the last five years. Key features of QR National's revenue include:

- the performance of QR National is highly leveraged to the Australian resources industry, with approximately 85% of revenue derived from Australian resources. Revenue increases with increases in volumes (particularly of coal) hauled. Lower Queensland coal volumes in the year ended 30 June 2011 (as a result of floods and cyclones) and the year ended 30 June 2012 (as a result of slower than expected recovery from floods, industrial relations issues, lower than anticipated demand for coal rail transport and wet weather) were partially offset by increases in tonnages in New South Wales;
- a significant proportion of Network Services' revenue (\$1,210.1 million in the year ended 30 June 2012¹⁰) is regulated and is therefore (subject to timing differences) certain. Access revenue is subject to a revenue cap mechanism which ensures that QR National recovers its full regulated revenue over the regulatory period. The majority of under/over recovery in access tariffs (net of take or pay charges) is charged/refunded in the second year following the period in which the actual railings varied from planned levels. The regulated asset base

⁹ Revenue is before unallocated revenue of \$29.1 million and underlying EBITDA is before unallocated EBITDA of \$(93.0) million.

¹⁰ Including intersegment revenue of \$859.5 million.



was set at \$3.4 billion from 1 July 2009 and the next renewal of the access undertaking is due in June 2013; and

- the majority of QRN Coal’s revenue is generated under medium to long term contracts. Since its privatisation, QR National has commenced a process of converting legacy contracts to more commercial terms that include performance incentives and tiered rates. These renegotiated contracts result in significantly improved quality of earnings and in the year ended 30 June 2012 created an additional \$59 million in revenue. As at 30 June 2012, QR National had renegotiated 38% of its contracts (by volume). QRN Coal’s revenue also benefits from deficit tonnage charges which are recognised in the period following that in which the service was due to be provided where a customer elects to pay the charges rather than reduce future tonnage entitlements.

The growth in revenue has resulted in a significant increase in underlying EBITDA and underlying EBIT, particularly in the years ended 30 June 2009 and 2010. Margins have also increased over these periods reflecting, in particular, the impact of increased utilisation of installed capacity. The Queensland floods and cyclones had a negative impact on underlying EBIT of \$187 million in the year ended 30 June 2011, which was partially recovered in the year ending 30 June 2012 (through deficit recovery charges of \$28.6 million) and will be partially recovered in the year ending 30 June 2013 (through revenue cap adjustments of \$49 million). Further improvements in margins in the year ended 30 June 2011 and the year ended 30 June 2012 have resulted from cost efficiencies and productivity gains from the ongoing transformation program underway across the business (including the voluntary redundancy program and workforce renewal, payload increases, improved fleet management and procurement savings). In the year ended 30 June 2012, QR National’s underlying EBIT margin also benefited from an upwards revision of the useful life of coal locomotives and a reduction in the value ascribed to the initial overhaul component of locomotives, which reduced depreciation expense by \$35 million.

One off adjustments in the year ended 30 June 2011 represent IPO transaction costs and the voluntary redundancy scheme and the one off income tax benefit in the year ended 30 June 2011 includes \$290 million related to the resetting of the tax base of its assets and liabilities on privatisation. In the year ended 30 June 2012, the one off adjustment represents the reversal of a provision for stamp duty raised in the prior year.

Outlook

QR National has not publicly released earnings forecasts for the year ending 30 June 2013 or beyond, other than to say on 23 August 2012, at the time of release of its results for the year ended 30 June 2012, that its latest expectations were for an increase in coal haulage volumes to 195-205 million tonnes for the year ending 30 June 2013. To provide an indication of the expected future financial performance of QR National, Grant Samuel has considered brokers’ forecasts for QR National (see Appendix 1):

QR National – Outlook ¹¹			
	Year end 30 June		
	2012 actual	Broker Consensus (Median)	
		2013	2014
Adjusted underlying net profit after tax (\$ millions)	419.9	520.2	561.1
Adjusted underlying earnings per share (cents)	17.2	21.3	23.0

Source: Grant Samuel analysis (see Appendix 1)

The median adjusted consensus brokers’ forecast indicates underlying net profit after tax for the year ending 30 June 2013 of \$520.2 million (before taking into account the impact of the on-

¹¹ The outlook for QR National is shown before taking into account the impact of the on-market buyback.



market buyback), which is sufficiently close to QR National's budget to be useful for analytical purposes.

3.3 Financial Position

The financial position of QR National as at 30 June 2012 (actual and pro forma for the impact of the on-market share buyback) is summarised below:

QR National - Financial Position (\$ millions)		
	As at 30 June 2012	
	actual	pro forma (after on-market buyback)
Debtors and prepayments	556.1	556.1
Inventories	215.8	215.8
Creditors, accruals and provisions	(349.6)	(349.6)
Net working capital	422.3	422.3
Property, plant and equipment	9,037.2	9,037.2
Investments and other financial assets	78.0	78.0
Intangible assets	16.6	16.6
Inventories	8.7	8.7
Assets held for sale (land and rollingstock)	8.7	8.7
Derivative financial instruments (net)	(3.2)	(3.2)
Deferred tax liabilities (net)	(363.5)	(363.5)
Provisions	(452.7)	(452.7)
Other (net)	(355.1)	(355.1)
Total funds employed	8,397.0	8,397.0
Cash and deposits	98.8	98.8
Borrowings	(1,220.0)	(1,269.8)
Capitalised establishment costs	18.4	18.4
Net borrowings	(1,102.8)	(1,152.6)
Net assets	7,294.2	7,244.4
Statistics		
<i>Shares on issue at period end (million)</i>	<i>2,440.0</i>	<i>2,425.5</i>
<i>Total assets (\$ millions)</i>	<i>10,020.5</i>	<i>10,020.5</i>
<i>Net assets per share</i>	<i>\$2.99</i>	<i>\$2.99</i>
<i>NTA¹² per share</i>	<i>\$2.98</i>	<i>\$2.98</i>
<i>Gearing¹³</i>	<i>13.1%</i>	<i>13.7%</i>

Source: QR National and Grant Samuel analysis

The balance sheet shows the capital intensive nature of QR National's business, with property, plant and equipment representing approximately 90% of total assets as at 30 June 2012.

Provisions are primarily employee benefits (annual leave, long service leave and retirement allowances). Other liabilities (net) are primarily income in advance (amounts received from customers as prepayment of future rentals under agreements relating to customer specific infrastructure).

In October 2010, QR National entered into a \$3.0 billion Syndicated Facility Agreement under which a syndicate of lenders has agreed to provide \$1.425 billion in a facility expiring in 2014¹⁴

¹² NTA is net tangible assets, which is calculated as net assets less intangible assets.

¹³ Gearing is net borrowings divided by net assets plus net borrowings.

¹⁴ This facility was extended for a further 12 months (from 2013 to 2014) in October 2012.



and \$1.575 billion in facilities expiring in 2015. As at 30 June 2012, these facilities were drawn to \$1.220 billion. The Syndicated Debt Facility Agreement imposes certain covenants on QR National to ensure that certain financial ratios are met and restricts the amount of security that QR National can provide over its assets in certain circumstances. Gearing as at 30 June 2012 was relatively low at 13.1%.

Under the on-market buyback that opened on 6 September 2012, QR National has bought back 14.5 million shares at a cost of \$49.8 million up to 5 October 2012. This has resulted in an increase in pro forma net borrowings to \$1,152.6 million and a commensurate reduction in net assets. Pro forma gearing as at 30 June 2012 has increased to 13.7%.

If QR National had acquired the maximum of 10% allowed under the on-market buyback, net borrowings would have increased by a further \$800 million (approximately, depending on the price paid).

QR National has a BBB+ (stable outlook) corporate credit rating from S&P and a Baa1 (stable outlook) issuer ratings from Moody's.

3.4 Cash Flow

QR National's cash flow for the five years ended 30 June 2012 is summarised below:

QR National - Cash Flow (\$ millions)					
	Year ended 30 June				
	2008 historical pro forma	2009 historical pro forma ¹⁵	2010 historical pro forma ¹⁵	2011 historical	2012 historical
Underlying EBITDA	359.0	505.0	716.0	840.5	1,048.2
Changes in working capital and other adjustments	54.0	(63.0)	(28.0)	(51.3)	(46.0)
Capital expenditure	(730.0)	(1,632.0)	(1,073.0)	(1,364.3)	(1,156.3)
Operating cash flow before net interest and tax and after capital expenditure	(317.0)	(1,190.0)	(385.0)	(575.1)	(154.1)
Tax paid				(2.3)	-
Net interest paid				(231.3)	(78.2)
Dividends paid				(86.4)	(180.6)
Other acquisitions and disposals				22.9	4.6
Capital contribution from the State of Queensland				4,397.3	-
Other				20.2	-
Net cash generated (used)				3,545.3	(408.3)
<i>Net borrowing – opening¹⁶</i>				(4,258.2)	(712.9)
<i>Net borrowings – closing¹⁶</i>				(712.9)	(1,121.2)

Source: QR National and Grant Samuel analysis

The table above shows QR National's pro forma cash flow for the three years ended 30 June 2010 assuming that QR National was a separate entity from 1 July 2007. While QR National generates significant (and increasing) cash flow from its operations (almost \$790 million in the year ended 30 June 2011 and in excess of \$1 billion in the year ended 30 June 2012), capital expenditure has generally been in excess of \$1 billion annually, reflecting the capital intensive nature of its business. Approximately \$200-300 million per year relates to sustaining capital expenditure with the balance invested in growth projects. In the short to medium term, sustaining capital expenditure is expected to be around \$250 million per annum, consistent with the historical trend.

¹⁵ Historical pro forma cash flow for the years ended 30 June 2009 and 2010 has not been adjusted to reflect the impact of the voluntary change in accounting policy relating to mechanised ballast undercutting.

¹⁶ Net borrowings is shown before capitalised establishment costs of \$26.8 million at 20 June 2011 and \$18.4 million at 30 June 2012.



A number of key QRN Network projects (either underway or planned) will result in significant capital expenditure in future years (when combined with sustaining capital expenditure across the group, the total is more than of \$1 billion per year):

QR National – Key Projects			
Project	Estimated Cost (\$ millions)	Status	Timing
Wiggins Island Rail Project (Stage 1)	900	approved	2012-2015
Surat Basin Rail (“Southern Missing Link”)	>1,000 ¹⁷	awaiting approval ¹⁸	2013+
Pilbara Rail System	unknown	feasibility study	2013+
Central Queensland Integrated Rail Project	2,000+	granted project of “State Significance” status	2014+

Source: QR National

QR National also obtained a one off tax benefit in the year ended 30 June 2011 as a result of resetting the tax base of its assets and liabilities which resulted in a net tax benefit of \$290.3 million. While QR National paid no income tax in the year ended 30 June 2012, it is expected to pay income tax at the corporate tax rate of 30% in subsequent years.

3.5 Capital Structure and Ownership

3.5.1 Capital Structure

As at 5 October 2012, QR National had the following securities on issue:

- 2,425.5 million ordinary shares (net of shares acquired under the on-market buyback); and
- 9.854 million performance rights.

Performance rights are issued to eligible executives on terms and conditions (including performance hurdles) determined by the Board. Each performance right is a right to receive one fully paid share in QR National on the vesting date (three years after the issue date) at no cost provided that all terms and conditions are satisfied and the executive remains employed by QR National at that date. QR National can either issue new shares or purchase shares on-market for allocation on vesting of performance rights. Performance rights have no dividend or voting rights prior to vesting.

On 23 August 2012, QR National announced an intention to undertake an on-market buyback of up to 10% of its issued capital (244.0 million shares). The buyback opened on 6 September 2012. As at 5 October 2012, QR National had bought back a total of 14.5 million shares, reducing its issued capital from 2,440.0 million ordinary shares to 2,425.5 million ordinary shares. The on-market buyback was suspended following the announcement of the Buyback Proposal on 8 October 2012.

¹⁷ In excess of \$1 billion is total cost. Surat Basin Rail is a joint venture comprising QR National, Xstrata and ATEC Rail and the final ownership structure (and share of cost to be funded) has not been finalised.

¹⁸ Approval is subject to Wiggins Island Coal Export Terminal Stage 2 going ahead.



3.5.2 Ownership

QR National has approximately 59,000 registered shareholders. The top 20 registered shareholders account for approximately 90% of the ordinary issued shares.

Other than the State of Queensland, the top 20 registered shareholders are principally institutions or nominee companies. While more than 85% of registered shareholders are classified as retail (i.e. holding 5,000 or fewer shares in QR National), these shareholders hold approximately 3% of issued shares.

QR National has received notices from the following substantial shareholders:

QR National – Substantial Shareholders as at 5 October 2012				
Shareholder	Date of Notice	Number of Shares	Percentage	
			Before on-market buyback	After on-market buyback
State of Queensland	3 December 2010	821,506,536	33.7%	33.9%
Perpetual Limited	24 August 2012	177,411,467	7.3%	7.3%
The Children’s Investment Fund Management	8 May 2012	125,051,143	5.1%	5.2%
Commonwealth Bank of Australia	23 January 2012	122,611,329	5.0%	5.1%

Source: QR National

The on-market buyback has had the effect of marginally increasing the percentage interests held by these parties.

3.6 Share Price Performance

A discussion of QR National’s share price performance, the liquidity of trading in QR National shares and the relative performance of QR National shares is set out in Section 4.2.2.



4 Evaluation of the Proposal

4.1 Summary

In Grant Samuel's opinion, the Buyback Proposal is fair and reasonable to the non associated shareholders of QR National.

A selective share buyback at (or below) the prevailing share price is by definition fair unless the sharemarket is mispricing the company's shares (i.e. overvaluing the shares) or the buyback will have a material impact on the company so as to result in an adverse change in the share price.

Based on the analysis undertaken by Grant Samuel, there is no evidence to suggest that the market price does not represent the fair market value of QR National shares at the present time. The market for QR National shares appears to be well informed and there is nothing to suggest that QR National shares are mispriced.

The effect of the Buyback Proposal on ownership and control of QR National and on its key financial metrics is unlikely to have an adverse impact on the QR National share price.

The buyback price of \$3.47 is within a range that could be considered as corresponding to the current market price. On this basis, the Buyback Proposal is fair. As it is fair, it is also reasonable. In any event, the benefits and advantages of the Buyback Proposal and the broader Transaction (including the Institutional Sell-down) outweigh the costs, disadvantages and risks.

The major benefits for non associated shareholders if the Transaction is implemented are summarised below:

- it facilitates a move towards a more efficient capital structure for QR National. If the Buyback Proposal is implemented, QR National's pro forma gearing at 30 June 2012 increases from 13.7% to 25.6%, closer to the level that QR National management regards as the most appropriate level of gearing for QR National at this time. While the on-market buyback was designed to achieve a similar outcome, the Buyback Proposal does so more quickly and with more certainty;
- pro forma earnings per share will increase and there is therefore scope to increase dividends per share while maintaining the same dividend payout ratio. However, it should be recognised that the positive impact on earnings per share is simply the result of increasing the leverage in the capital structure;
- an increase in the liquidity of QR National shares. The free float¹⁹ will increase from approximately 66% to approximately 82%, increasing QR National's weighting in key indices and creating a larger pool of shares available to trade. In particular, there should be greater demand for shares, at least initially, as index based investors adjust their portfolios; and
- the Transaction reduces the overhang²⁰ resulting from the State of Queensland's 33.9% shareholding. It does not eliminate the overhang as the State of Queensland will still have a holding of 18.2% and, arguably, may exacerbate the issue in the short term (as it might be assumed the State of Queensland will want to realise its residual holding in a reasonably short time frame). On the other hand, the Transaction is an important first step in facilitating an orderly exit for the State of Queensland as the residual 18.2% interest is a more manageable holding to sell.

¹⁹ Free float is a term used to describe the shares that are freely tradeable on the securities exchange and excludes shares held in large blocks that are not expected to be sold in the foreseeable future.

²⁰ Overhang is the downward pressure on the market price of shares which arises when the market expects a significant parcel of shares to be sold in the short term.



The costs, disadvantages and risks of the Transaction are:

- the Buyback Proposal increases QR National's debt by \$1.0 billion and its pro forma gearing from 13.7% to 25.6%. It also reduces the funds available under its existing debt facilities to \$730.2 million (based on pro forma 30 June 2012 borrowings). However:
 - the increase in debt and gearing is only slightly more than if QR National had acquired the maximum 10% of its issued shares through the on-market buyback (assuming it would have paid the same price as the buyback price). In any event, the resultant gearing is consistent with management's objective of moving towards a more efficient capital structure;
 - QR National expects to retain its BBB+ and Baa1 credit ratings;
 - while debt covenant ratios under QR National's Syndicated Facility Agreement will be weaker, the Buyback Proposal should not result in QR National coming close to breaching any of its existing covenants;
 - this higher level of gearing remains below that of its peers; and
 - QR National believes it will continue to have the ability to fund its growth plans. Apart from the remaining capacity within its existing facilities, QR National has a number of funding alternatives for future capital expenditure including internal reserves, increased or new debt facilities, equity, project finance, bonds and partnering;
- pro forma NTA per share as at 30 June 2012 will decrease from \$2.98 to \$2.91 as a result of the Buyback Proposal. However, the reduction in NTA per share is unlikely to have any material negative impact on the QR National share price; and
- QR National will incur costs of less than \$5 million in relation to the Transaction. These costs are one off and are not material in the overall context of QR National.

In summary, shareholders are likely to be better off if the Buyback Proposal is implemented than under the status quo. This view is supported by trading in QR National shares since announcement of the Buyback Proposal on 8 October 2012. Over the period to 10 October 2012, QR National shares have traded in the range \$3.57-3.71 and at a VWAP²¹ of \$3.66, a 5.5-6.7% increase on share prices prior to announcement of the Buyback Proposal.

4.2 Fairness

4.2.1 Approach

An assessment of whether the Buyback Proposal is fair requires a comparison of the price at which the share buyback will take place with an estimate of the fair market value of that parcel of QR National shares.

It is normal practice to use the current market price as a starting point for fair market value, particularly for large companies such as QR National that enjoy high levels of market liquidity and are closely followed by a wide range of analysts and other commentators.

However, there are two questions to be addressed:

- is there any reason why the market price is not a true reflection of the fair market value of QR National shares; and
- will the Buyback Proposal, if implemented, have a material impact on the company's operations, financial metrics, growth prospects, risk profile or other factors that would be likely to result in an adverse change in the share price?

²¹ VWAP is the volume weighted average price.



In considering these questions, Grant Samuel has:

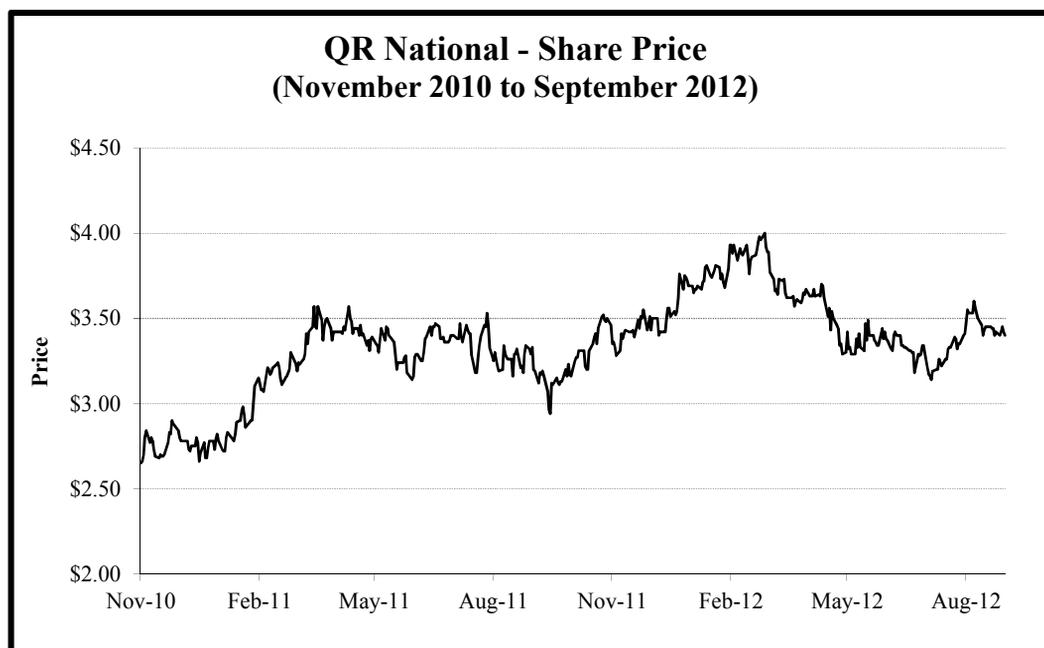
- analysed recent trading in QR National shares;
- analysed earnings and other multiples implied by the QR National share price compared to its domestic and international peers;
- reviewed broker research on QR National and its peers; and
- analysed the impact of the Buyback Proposal on QR National's key financial metrics.

If the current market price is a reasonable proxy for fair market value, the next question is how does the buyback price compare to the current market price. A selective share buyback at (or below) the prevailing market price is, by definition, fair. A price above the current market price may or may not be fair depending on other factors.

4.2.2 Analysis of QR National's Share Price

(i) Background

The movement in QR National's share price since listing on the ASX is shown below:



Source: IRESS. Chart shows daily closing prices.

QR National listed on the ASX on 22 November 2010 following an IPO in which institutional investors paid \$2.55 per share and retail investors paid \$2.45 per share. QR National shares traded as low as \$2.53 but closed at \$2.65 on the first day of trading.

QR National's share price increased significantly from November 2010 to early May 2011, reaching a high of \$3.59 in early April 2011, in part reflecting QR National's inclusion in S&P/ASX indices from 8 March 2011 as well as the announcement of its half year results on 28 February 2011, which confirmed limited infrastructure damage and a rapid recovery from the December 2010/January 2011 Queensland floods and cyclones. QR National's shares generally traded in the range \$3.00-3.50 through to the end of 2011. The share price increased again over the period from November 2011 to March 2012, reaching an all time high of \$4.03 in mid-March 2012 as new contracts were announced and QR National released its results for the six months ended 31 December 2011 (which confirmed unchanged guidance for the year ending 30 June 2011 despite continuing flood impacts). The QR National share price subsequently fell to around \$3.60-3.70 following the downward revision of full year guidance announced on 23 March 2012. Since



June 2012, QR National shares have generally traded in the range \$3.20-3.50. The closing price on 5 October 2012, the day prior to the announcement of the Buyback Proposal was \$3.47.

The essential question is whether the recent performance and current share price reflect the rational view of a well informed market, or alternatively, are QR National shares mispriced. This question requires consideration of factors such as the following:

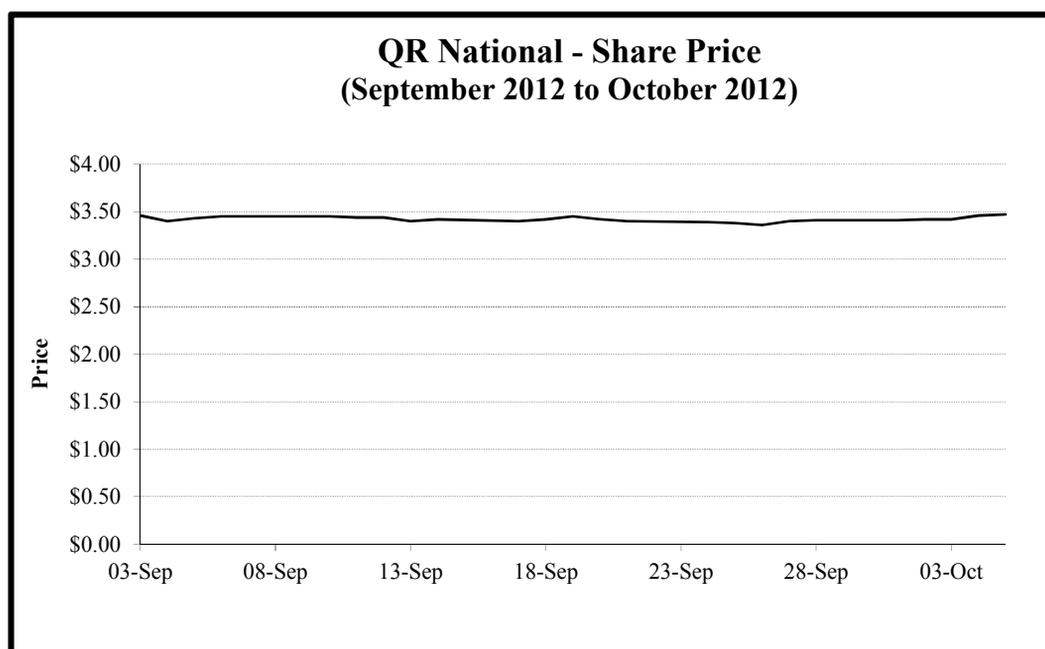
- is the recent performance consistent with fundamental drivers?;
- is QR National out of line with its peers?;
- is the market informed about critical issues affecting QR National’s business (e.g. the outlook for export coal markets, industrial relations issues, expansion plans) or is there important information about the business which would affect the share price but is not in the public domain?; and/or
- is trading in QR National shares abnormal or being materially affected by factors such as short selling?

(ii) Overview of Recent Share Price Performance

The QR National share price fell to as low as \$3.07 in July 2012 (approximately 24% below its peak price of \$4.03 in mid March 2012). QR National’s weaker share price performance in recent months relative to its peers appears to be a rational response to a combination of:

- QR National’s late March announcement of a downward revision of full year guidance (QR National’s share price fell by 3% on that day and by a further 3% on the following two days); and
- QR National’s exposure to the Australian coal market. The share prices of Australian listed coal companies have fallen significantly since the beginning of 2012 due to falls in coal prices and concerns about demand for coal particularly given the more subdued growth outlook for China. Despite much of QR National’s revenue from coal being locked in based on set volumes, this negativity has probably had a flow on effect to QR National’s share price.

In any event, the share price has been relatively stable in the last few months. It has generally traded in the range \$3.20-3.50 since June 2012 and has been in a very narrow range over the last five weeks:



Source: IRESS. Chart shows daily closing prices.



(iii) QR National Share Price Performance Compared to its Peers

There are no listed Australian companies that are directly comparable to QR National. QR National’s closest listed peer is Asciano Limited (“Asciano”). Asciano has operations in rail freight through Pacific National as well as ports and stevedoring through Patrick. Pacific National is QR National’s direct competitor in coal and freight but in contrast to QR National, does not have any below rail operations. Pacific National generates approximately 65% of Asciano’s EBIT.

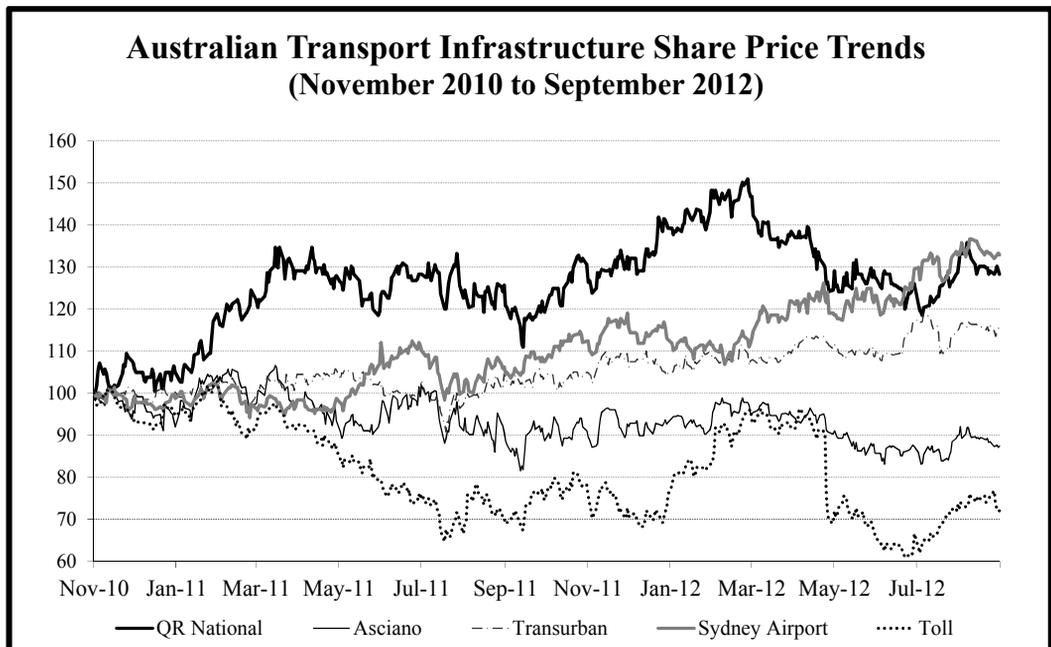
As a result, Grant Samuel has also considered:

- other listed Australian transport infrastructure companies:
 - Transurban Group (“Transurban”), which develops, operates and maintains toll road businesses in Australia and North America;
 - Sydney Airport, which owns an 84.8% interest in Sydney Airport; and
 - Toll Holdings Limited (“Toll”), which provides integrated logistics services throughout Australia, New Zealand and Asia.

While these companies are considerably less comparable to QR National than Asciano (in particular, they are significantly less capital intensive), they do provide some comparison to QR National; and

- listed “Class 1” rail companies in North America (Union Pacific Corporation, Canadian National Railway Company, Norfolk Southern Corp., CSX Corp., Canadian Pacific Railway Limited, Kansas City Southern and Genesee & Wyoming Inc). While there are differences between QR National and the North American Class 1 railways (e.g. more diversified freight exposure, larger scale and route length and unregulated access), there are sufficient similarities between the businesses to make useful comparisons.

The relative share price performance of Australian transport infrastructure companies has been divergent over the period since QR National listed in November 2010, with QR National outperforming its peers except for Sydney Airport:



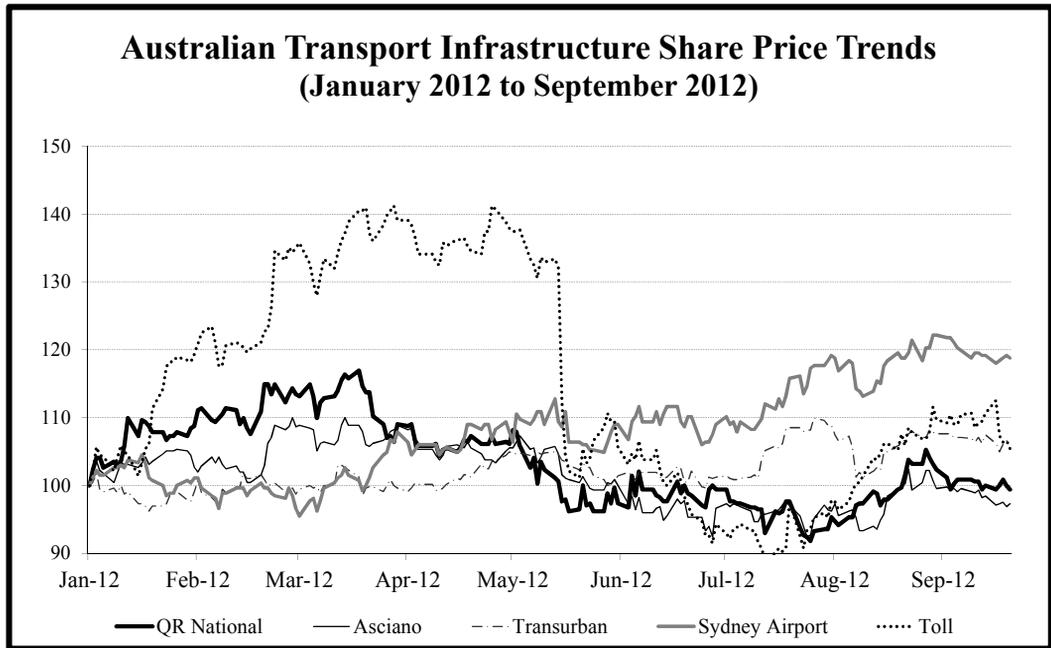
Source: IRESS



This divergent relative performance can primarily be explained by company specific factors such as Toll’s lower than expected performance, the restructure of Sydney Airports and the impact of the Queensland floods and industrial action at Asciano.

QR National’s outperformance is substantially attributable to two periods (February to April 2011 and November 2011 to February 2012), corresponding to the inclusion of QR National in S&P/ASX indices, the announcement of better than expected half year results for the six months ended 31 December 2010 and the announcement of new contracts and confirmation of full year guidance for the year ending 30 June 2012.

The relative share price performance of Australian transport infrastructure companies has been much more consistent over the last nine months:



Source: IRESS

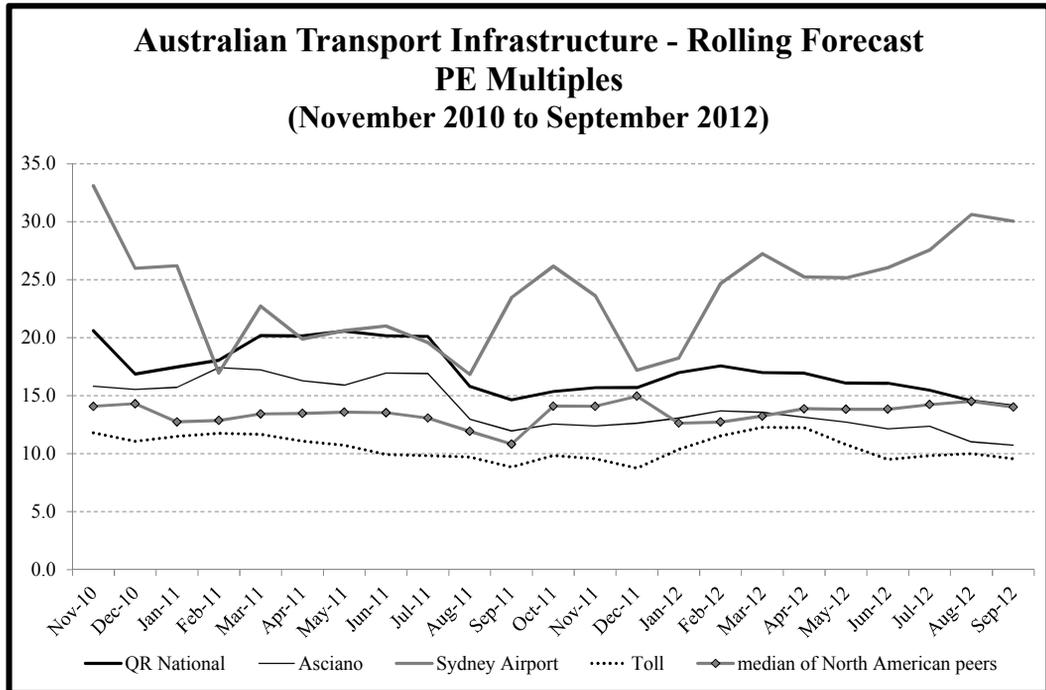
The outperformance of Toll shares up until May 2012 represents recovery from underperformance over the previous nine months following the announcement of the retirement of Toll’s long standing managing director, Paul Little. The sharp decline in the Toll share price in mid-May 2012 coincided with the announcement of the write down in carrying value of Toll’s Footwork Express business and property assets as well as a lower earnings outlook for the year ending 30 June 2012 compared to the year ended 30 June 2011.

Excluding Toll, QR National shares moved from being the best performing of its peers to the worst following the downward revision of full year guidance announced on 23 March 2012. However, the overall relative performance of QR National shares since January 2012 has been broadly in line with that of its peers except Sydney Airport which has substantially outperformed the entire peer group over the last nine months.

(iv) Comparative Market Ratings

The forecast trading price earnings multiples for QR National and its listed peers²² have generally been consistent over the period since November 2010 although the range of price earnings multiples has been reasonably wide:

²² Transurban has been excluded from this analysis as the forecast net profit after tax used to calculate multiples is based on statutory earnings which does not reflect the underlying operating performance of the business.



Source: Capital IQ and Grant Samuel analysis

Sydney Airport has traded at relatively higher forecast price earnings multiples even subsequent to its restructure and focus on ownership of an 84.8% interest in Sydney Airport during the second half of 2011, but this is probably a result of the price earnings multiples being calculated based on statutory earnings rather than proportionate earnings (which gives a better indication of the underlying performance of its business operations). Sydney Airport also has a complex structure, with each ordinary share in Sydney Airport attached to a redeeming preference share, which impacts interest and tax expense.

QR National has consistently traded towards the top end of the range of price earnings multiples. This is further illustrated in the table below, which shows the price earnings multiples of listed transport infrastructure companies based on share prices as at 4 October 2012:

Listed Transport Infrastructure Companies – Price Earnings Multiples ²³				
	2012 historical	2013 forecast	2014 forecast	2015 forecast
QR National ²⁴	20.0	16.2	15.0	12.8
Asciano	17.5	12.5	11.5	9.3
Transurban ²⁵	20.8	20.1	16.8	14.2
Sydney Airport ²⁵	14.9	15.9	14.7	13.8
Toll	14.4	10.9	9.2	8.1
median of North American peers	17.6	15.7	13.9	12.2

Source: IRESS, Bloomberg, company reports, brokers' reports

²³ Each of the Australian listed companies has a 30 June year end other than Sydney Airport, which has a 31 December year end. Each of the North American listed companies has a 31 December year end.

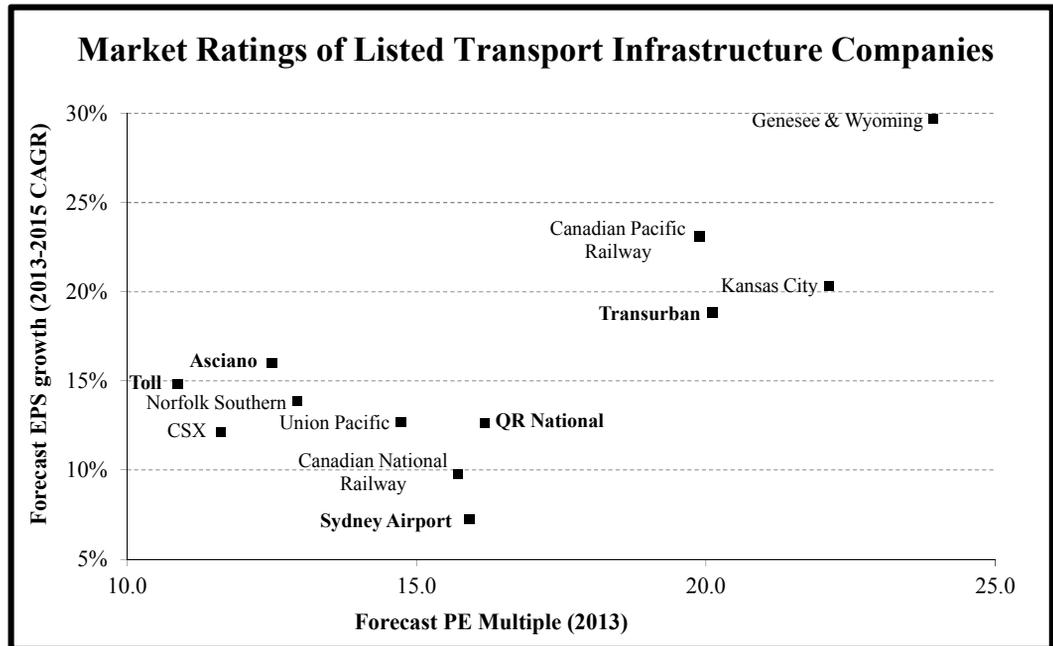
²⁴ QR National multiples have been calculated based on net profit after tax prior to taking into account the current on-market buyback.

²⁵ Transurban and Sydney Airport multiples reflect proportionate earnings, which are based on free cash flow rather than accounting profit. The multiples for Sydney Airport vary significantly from the multiples shown in the chart above (Rolling Forecast PE Multiples) which are sourced from Capital IQ and reflect the statutory reporting basis.



It is difficult to compare QR National’s trading multiples to the multiples of other Australian listed peers given their different businesses and structures, particularly those of Transurban and Sydney Airport. Even Toll is not particularly comparable as it is essentially a service provider that generates very low margins and is heavily exposed to the underperforming retail sector. However, in comparison to Asciano and Toll, QR National benefits from the regulated earnings from ownership of below rail operations. The North American peers trade at median multiples that are above those of Asciano and Toll but below those of QR National. While the North American peers also have below rail operations and generate higher margins (due to their larger size and ability to achieve economies of scale), these positive factors are offset in part by their operations having fewer development and expansion opportunities. On this basis, higher multiples can be justified for QR National.

The following chart illustrates that QR National is not trading at a price earnings multiple that is out of line with its peers after taking into account the growth prospects of each company (with growth prospects being higher in some cases as a result of poor performance in current years):



Source: IRESS, Bloomberg, company reports, brokers’ reports

An analysis of dividend yields (based on share prices as at 4 October 2012 gives a similar result after taking into account differences in dividend payout ratios:

Listed Transport Infrastructure Companies – Dividend Yields				
	2012 historical	2013 forecast	2014 forecast	2015 forecast
QR National ²⁶	2.4%	2.9%	3.4%	4.2%
Asciano	1.7%	2.4%	2.5%	3.3%
Transurban	4.8%	5.1%	5.9%	7.0%
Sydney Airport	6.5%	6.5%	6.8%	7.1%
Toll	5.7%	5.7%	5.9%	6.3%
median of North American peers	1.5%	1.9%	2.2%	2.3%

Source: IRESS, company reports, brokers’ reports

²⁶ QR National dividend yields have been calculated based on net profit after tax prior to taking into account the current on-market buyback.



The differences in dividend payout ratios reflect the different capital requirements of the transport infrastructure companies, with QR National and Asciano having the most capital growth opportunities (and having the most similar dividend yields).

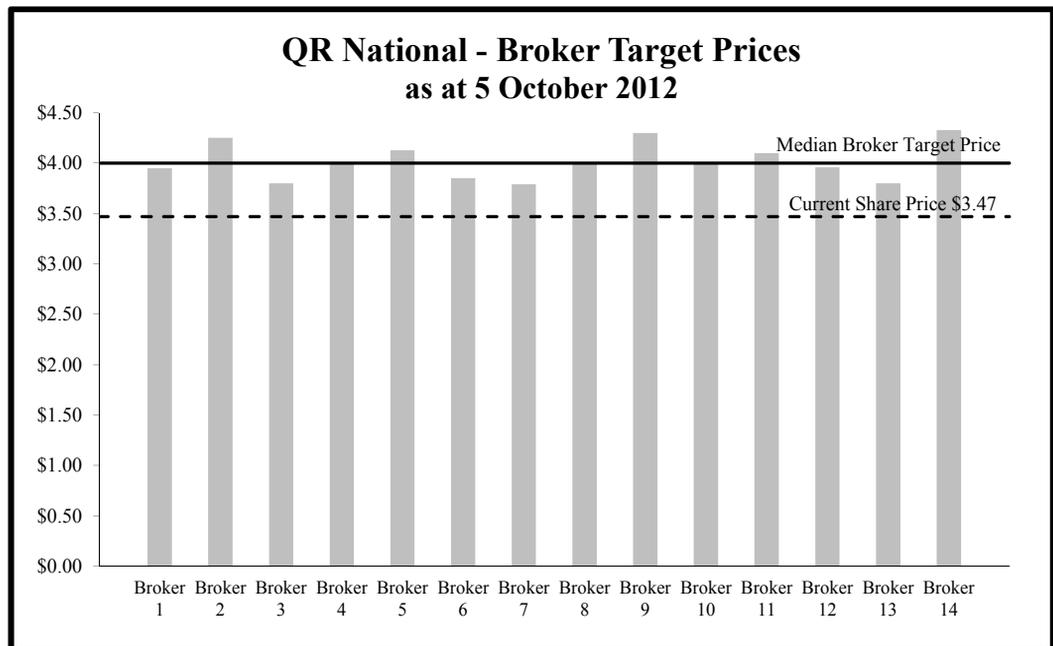
Transurban and Sydney Airport have dividend yields at the high end of the range (Transurban and Sydney Airport pay out in excess of 200% of their statutory earnings or approximately 100% of their free cash flow as dividends). QR National’s forecast dividend yield reflects a dividend payout ratio of 50-55% and is above Asciano’s (with a lower dividend payout ratio of approximately 30%), but below Toll’s (with a slightly higher dividend payout ratio of 50-60%). QR National’s dividend yield is also above the median of its North American peers, which is not inconsistent with their lower dividend payout ratios which are generally in the range 20-30%.

None of these factors suggest that QR National is trading out of line with its peer group after taking into account the growth outlook for, and the capital requirements of, QR National’s business.

(v) Market Participant Perspectives

QR National is closely followed by a wide range of analysts and market commentators. Broker coverage in particular generates interest in a stock which usually results in greater investment activity and liquidity. QR National has a large broker following, with in excess of 10 brokers actively researching and providing views on QR National’s performance, share price, earnings, outlook and short and long term value. Brokers are often seen as disseminators of information regarding a company, independent of the company itself.

At its closing price on 5 October 2012 of \$3.47, QR National shares were trading below broker’s estimates of its 12 month price target, which show a range from \$3.79-4.40 and a median target share price of \$4.00:



Source: Brokers’ reports

The discount of 13% from the median broker target share price is not surprising given current market conditions and that these targets are 12 month targets. In any event, a discount from broker 12 month target prices is typical for most listed entities. The discount does indicate that brokers see upside potential in QR National’s share price from its current level.



(vi) Non Public Information

Under ASX Listing Rules, QR National is required to keep the market informed of events and developments in a timely manner as they occur. In particular, once QR National becomes aware of any information concerning it that a reasonable person would expect to have a material effect on the price or value of its shares, QR National must immediately tell the ASX that information (unless one of the exceptions applies).

QR National management has confirmed to Grant Samuel that:

- it is not aware of any information relating to its existing business that has not been publicly disclosed that it believes would have a material impact on its share price; and
- current adjusted broker consensus forecasts of profit after tax are not materially inconsistent with QR National’s internal management projections for the years ending 30 June 2013 and 2014.

(vii) Share Trading Issues

Grant Samuel has also considered other factors that may have impacted on the recent trading in QR National shares and whether there is any evidence of abnormal trading in QR National shares:

(a) Liquidity

The liquidity of the market for QR National shares is evidenced by a number of factors:

- Trading volumes

Average weekly volume and transactions for QR National shares from 22 November 2010 to September 2012 are summarised below:

QR National – Share Trading		
Quarter ended	Average Weekly Volume (millions)	Average Weekly Transactions
30 September 2012	41	15,344
30 June 2012	34	13,811
31 March 2012	41	14,863
31 December 2011	43	11,755
30 September 2011	44	12,045
30 June 2011	46	11,119
31 March 2011	65	8,505
31 December 2010 (from 22 November 2010)	192	7,025
<i>Average since listing</i>	<i>54</i>	<i>12,154</i>

Source: IRESS and Grant Samuel analysis

QR National has been a reasonably liquid stock although its free float is only approximately 66% (i.e. excluding the State of Queensland’s shareholding). Excluding the first two quarters since listing where trading in QR National shares would have been abnormally high as a consequence of its initial listing and QR National’s subsequent inclusion in the S&P/ASX indices, the average weekly volume of shares traded and the average weekly number of transactions has been relatively stable at around 35-45 million shares traded per week (representing approximately 2.2-2.8% of the free float) from an average of approximately 13,000 transactions per week. This represents annual turnover of around 110-145% of the free float. This level of liquidity is not inconsistent with that of QR National’s peers (after taking into account the increase in average weekly volume and transactions associated with



QR National’s on-market buyback), which over the last 12 months have had average weekly trading volumes in the range 1.6-2.3% of their free floats²⁷.

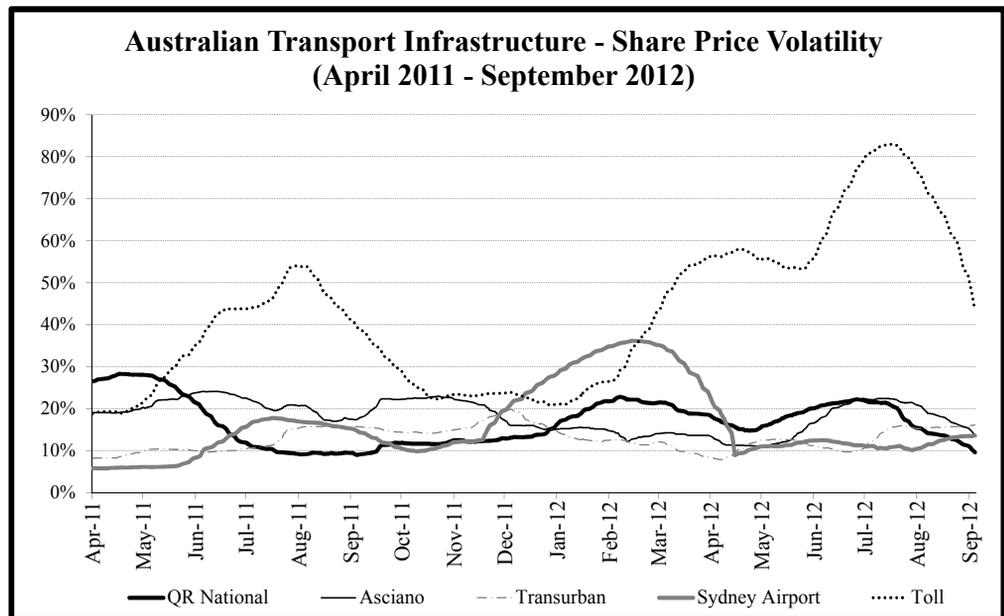
While there has been a small increase in the number of average weekly transactions in recent quarters, average weekly volumes have declined materially, indicating a larger number of smaller transactions. The increase in average weekly volume and average weekly transactions in the September quarter can in part be explained by the commencement of the on-market buyback during that quarter. There is nothing in the recent trading statistics to indicate any unusual trading in QR National shares.

- Bid/ask spread

The bid/ask spread for QR National shares at the close of trade has typically been approximately 2 cents since listing in November 2010, representing slightly less than 1% of the share price. Recent intraday bid/ask spreads for QR National shares have been lower at 1 cent (0.3% of the share price). These close of trade and intraday spreads are broadly consistent with, if not better than, those of its Australian listed peers (approximately 0.6-1.1% of their share prices at the close of trade) as well as most other actively traded shares.

- Volatility

The volatility²⁸ of the QR National share price compared to the volatility of the share prices of its peers is illustrated in the chart below:



Source: IRESS, Grant Samuel analysis

Higher volatility means that the share price can change dramatically over a short time period in either direction. Lower volatility means that a company’s share price does not fluctuate dramatically, but changes in value at a steady pace over a period of time. The volatility of QR National shares (measured as the 100 trading day moving standard deviation from the average share price) has been in the range 10-30%, with more recent volatility fairly

²⁷ The free floats of Sydney Airport and Toll have been adjusted to remove the shareholdings of Macquarie Bank Limited and Paul Little and his associates respectively.

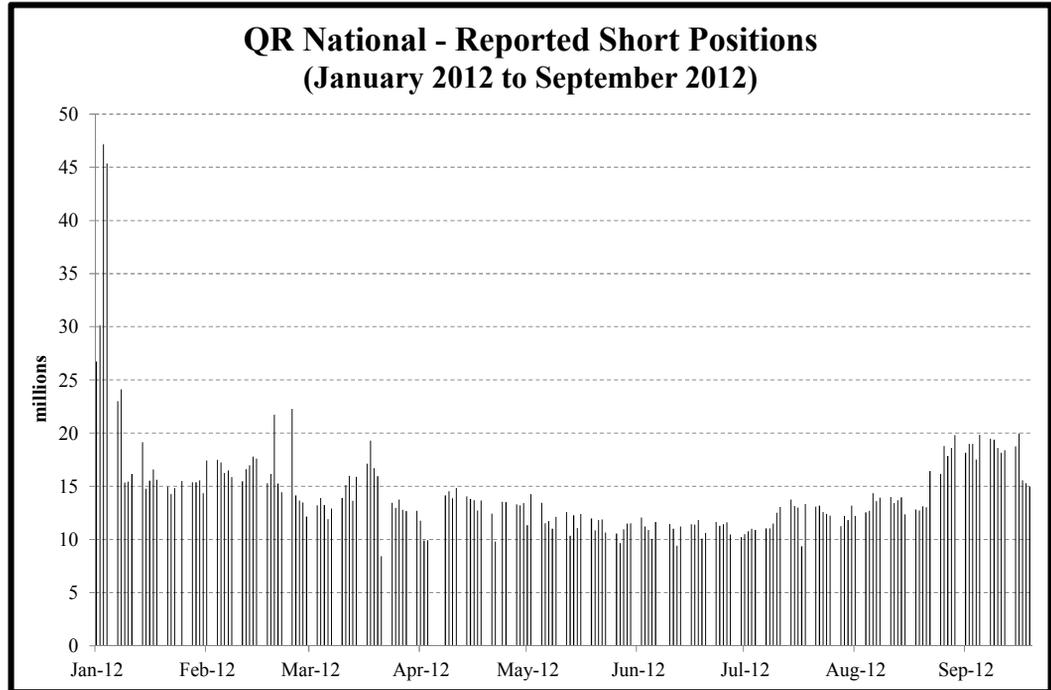
²⁸ Volatility on a particular date has been calculated as the standard deviation of the closing share prices for each company for the 100 trading days prior to that date. The standard deviation is a measure of how widely values are dispersed from the average value (the mean). In this case it reflects how widely a company’s share price is dispersed from the mean of the share prices in that 100 trading day period.



consistently around 20%. This level of volatility is fairly consistent (albeit at the high end) with the recent volatility of QR National's peers, which has generally been in the range 10-20% (excluding Toll and, for a period in early 2012, Sydney Airport).

(b) Short selling

Since the beginning of 2012, QR National reported short positions have averaged 13.5 million shares representing 0.6% of QR National's issued shares (or 0.9% excluding the State of Queensland's shareholding):



Source: ASIC

While reported short positions for QR National are higher than the median of all ASX listed companies (which is approximately 0.3% of issued shares), it is well below the highest reported short positions of in excess of 20% of issued capital and has been relatively consistent at approximately 0.4-0.8% of issued capital in recent months. This indicates that QR National's share price generally and, more specifically in recent months, has not been impacted by any material level of short selling.

(viii) Impact of the Buyback Proposal

The impacts of the Buyback Proposal on QR National are considered in more detail in Section 4.3 addressing the issue of reasonableness. The key conclusions are that there is:

- a small increase in pro forma earnings per share. This also provides scope for a commensurate increase in dividends per share;
- an increase in debt and gearing but this should not impact QR National's interest margins or the ability to finance its development program and meet sustaining capital expenditure requirements;
- a slight reduction in NTA per share;
- no impact on QR National's operations;
- a reduction in the degree of control of QR National because of the reduction in the shareholding of the State of Queensland from 33.9% to 18.2%; and



- an increase in QR National’s weighting in key S&P/ASX indices as a result of the Transaction.

4.2.3 Comparison of Buyback Price to Market Price

The buyback price of \$3.47 is within a range of prices that could be considered as corresponding to the current market price of QR National shares.

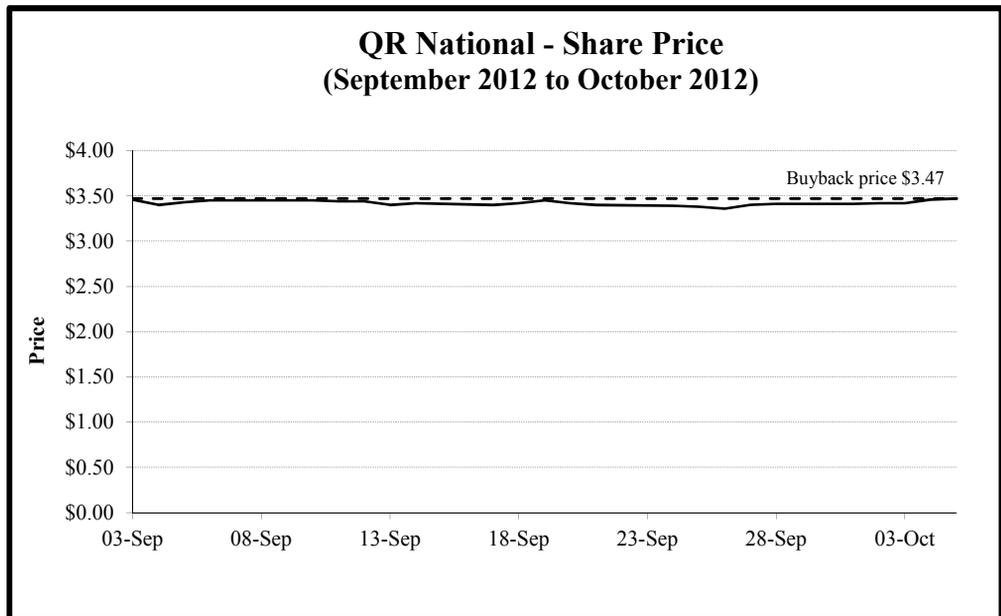
The price is equal to the closing price and the VWAP on 5 October 2012, the last trading day prior to the announcement of the Buyback Proposal. It is a small premium to the VWAPs over recent periods:

Buyback Proposal – Implied Premiums at Announcement		
Date/Period	Price/VWAP	Premium
Closing price on 5 October 2012	\$3.47	-
1 week VWAP to 5 October 2012	\$3.43	1.2%
1 month VWAP to 5 October 2012	\$3.43	1.2%
3 month VWAP to 5 October 2012	\$3.38	2.7%

Source: IRESS and Grant Samuel analysis

However:

- it is the same price at which major investment institutions have agreed to buy \$500 million worth of QR National shares from the State of Queensland as part of the broader Transaction;
- QR National shares have traded in the range \$3.35 to \$3.54 over the five weeks prior to announcement of the Buyback Proposal on 8 October 2012:



Source: IRESS. Chart shows daily closing prices.

The intraday high over this period has been above the buyback price on a number of occasions;

- the premium to the 1 week and 1 month VWAPs of 4 cents (1.2%) is immaterial; and
- if QR National was to acquire a similar sized quantity of shares through the on-market buyback, it is likely that there would be considerable upward pressure on the QR National share price resulting in a cost greater than \$3.47 per share.



4.2.4 Conclusion

In Grant Samuel’s opinion:

- there is no evidence to suggest that the market price does not represent the fair market value of QR National shares at the present time. The market for QR National shares appears to be well informed and there is nothing to suggest that QR National shares are mispriced;
- the effect of the Buyback Proposal on QR National is unlikely to have any adverse impact on its share price; and
- the buyback price of \$3.47 is within a range that could be considered as corresponding to the current market price of QR National shares.

Accordingly, the Buyback Proposal is fair.

4.3 Reasonableness

4.3.1 Advantages and Benefits

(i) Progress to a More Efficient Capital Structure

QR National’s pro forma gearing at 30 June 2012 was 13.7%. The Buyback Proposal increases QR National’s net borrowings by \$1.0 billion and its pro forma gearing from 13.7% to 25.6%:

QR National – Pro Forma Impact on Financial Position at 30 June 2012			
	Pro Forma ²⁹ (after on-market buyback)	Adjustment ³⁰	Pro Forma (after Buyback Proposal)
Net borrowings (\$ millions)	1,152.6	1,000.0	2,152.6
Net assets (\$ millions)	7,244.4	(1,000.0)	6,244.4
<i>Gearing</i> ³¹	<i>13.7%</i>		<i>25.6%</i>

Source: QR National and Grant Samuel analysis

QR National management has advised that, based on its analysis of comparable entities, credit ratings criteria and the underlying characteristics of its own cash flows, it considers the most appropriate level of gearing for QR National to be in the mid to high thirties (say 35-40%) at this time. The on-market buyback was the first step in transitioning QR National to this more efficient capital structure (albeit that the outcome was uncertain). In this respect, the Buyback Proposal cements this first step and facilitates the move to a better capital structure. It achieves this more quickly and with more certainty than the on-market buyback.

(ii) Positive Impact on Earnings and Dividends

The Buyback Proposal is expected to be accretive to earnings per share. The following analysis demonstrates the pro forma impact on underlying earnings per share for the year ended 30 June 2012 and the years ending 30 June 2013 and 2014:

²⁹ This analysis takes into account shares acquired under the on-market buyback up to 5 October 2012.

³⁰ The adjustment excludes the impact of transaction costs associated with the Buyback Proposal. These costs have an immaterial impact on the analysis.

³¹ Gearing is net borrowings divided by net assets plus net borrowings.



QR National – Pro Forma Impact on Underlying Earnings Per Share			
	Year ended 30 June 2012 historical	Year ending 30 June	
		2013 forecast³²	2014 forecast³²
Before Buyback Proposal			
Underlying net profit after tax (\$ millions)	419.9	518.0	558.9
Number of shares on issue (millions)	2,440.0	2,425.5	2,425.5
<i>Underlying Earnings per share (cents)</i>	<i>17.2</i>	<i>21.4</i>	<i>23.0</i>
After Buyback Proposal			
Underlying Net profit after tax (\$ millions)	419.9	518.0	558.9
Incremental interest expense (\$ millions)	(64.0)	(64.0)	(64.0)
Tax effect (30%) (\$ millions)	19.2	19.2	19.2
Pro forma underlying net profit after tax (\$ millions)	375.1	473.2	514.1
Number of shares on issue (millions)	2,151.8	2,137.3	2,137.3
<i>Underlying Earnings per share (cents)</i>	<i>17.4</i>	<i>22.1</i>	<i>24.1</i>
Impact of Buyback Proposal			
<i>Increase in underlying earnings per share – cents</i>	<i>+0.2</i>	<i>+0.8</i>	<i>+1.0</i>
<i>Increase in underlying earnings per share - %</i>	<i>+1.3%</i>	<i>+3.7%</i>	<i>+4.4%</i>

Source: QR National, IRESS, brokers' reports and Grant Samuel analysis

The key assumptions underlying this analysis are:

- the Buyback Proposal is implemented effective from 1 July of the relevant year;
- net profit after tax for the years ending 30 June 2013 and 30 June 2014 is the median adjusted consensus estimates of broker forecasts (see Appendix 1 for details) which have been adjusted to exclude the impact of the on-market buyback (the majority of broker's have incorporated the full impact of the 10% on-market buyback into their forecasts). The median adjusted consensus net profit after tax has then been adjusted to reflect the impact of the on-market buyback from 6 September to 5 October 2012;
- QR National buys back 288.2 million shares at a cost of \$3.47 per share (\$1.0 billion);
- the interest rate on incremental debt is 6.4%; and
- the corporate tax rate is 30%.

Other things being equal, an accretion to earnings per share should be positive for the QR National share price. At the same time, it should be recognised that the increase is simply the result of increasing the leverage in the capital structure rather than any revenue gains or cost savings inherent in the Buyback Proposal (albeit that QR National does have a desire to move towards a more efficient capital structure with greater leverage).

Assuming the same dividend payout ratio, the increase in pro forma earnings per share provides the capacity for QR National to pay higher dividends to shareholders in the future than would otherwise be the case under the status quo. However, there is no guarantee that dividends will increase (relative to the status quo) and future dividend payments will be at the discretion of QR National directors at the time.

³² Forecasts for the years ending 30 June 2013 and 2014 represent median adjusted broker consensus forecasts (refer to Appendix 1 for details).



(iii) Increased Liquidity and Index Weighting

The Buyback Proposal should result in:

- an increase in QR National's index weighting; and
- an increase in the liquidity of QR National shares.

At present, the State of Queensland's shareholding is excluded from QR National's weighting in the various S&P/ASX indices. As a result, the free float is deemed to be approximately 66% (after taking into account the impact of shares bought back under the on-market buyback).

The Transaction will result in QR National's index weighting increasing to approximately 82% (i.e. excluding only the residual holding by the State of Queensland of 18.2%). This increase in index weighting should be positive for the QR National share price, at least in the short term (until portfolios are rebalanced), as it will drive increased demand for shares by both:

- index or "passive" funds (i.e. funds that invest in the stocks included in a particular index in as close as possible to the proportions in that index and seek to mirror its performance); and
- those active managers and institutions that, in terms of their equities performance, are benchmarked against an index and therefore tend not to stray too far from a portfolio composition that is broadly similar to the index.

In addition, the liquidity of the market for QR National shares should improve (although it is already reasonably liquid) in so far as the pool of shares available for trading will increase by the number of shares acquired by the institutions in the Institutional Sell-down component of the Transaction (i.e. the free float increases from 1,604.0 million shares to 1,748.1 shares or from \$5.6 billion to \$6.1 billion (at the buyback price of \$3.47).

(iv) Reduction in Overhang

The State of Queensland's 33.9% shareholding creates an overhang³³ in the market for QR National shares. This perceived overhang has probably existed since QR National was first listed. At the time of the IPO, the State of Queensland stated that it did not intend to remain a shareholder in QR National in the longer term, but entered into an escrow arrangement until the release to the ASX of QR National's results for the year ending 30 June 2012 (subject to some exceptions). There has therefore been an expectation that the State of Queensland will sell its shareholding at some time subsequent to announcement of those results, which were released on 23 August 2012.

This expectation appears to have become more intense in recent months since:

- the change of government in Queensland and statements by the current government in March 2012 that indicated it intended to divest the State of Queensland's entire shareholding in QR National; and
- the release of the Commission of Audit interim report in government finances headed by Peter Costello and confirmation in that report that the government had taken out a \$2.2 billion loan against the State of Queensland's shareholding in QR National.

This increasing expectation may account for some of the weakness in the QR National share price since March 2012 although declining commodity prices and the consequences for the coal industry and new mine development would also be a material factor.

Removal of this overhang would be beneficial for shareholders, increasing the likelihood that the share price was determined primarily by QR National's fundamental performance and outlook.

³³ An overhang is the downward pressure on the market price of shares which arises when the market expects a significant parcel of shares to be sold in the short term.



The Transaction (through the Institutional Selldown and the Buyback Proposal) reduces the State of Queensland's holding from 33.9% to 18.2%. This reduces this overhang but does not eliminate it. In fact, it may exacerbate the problem in the short term as it might be assumed that the State of Queensland will be unlikely to want to hold the residual stake for other than the minimum possible time (as it no longer represents a strategic holding).

On the other hand, the Transaction can be considered a substantial first step in the process of removing the overhang. It facilitates an orderly exit for the balance of the State of Queensland shareholding and may well bring forward the timetable for realisation. The residual 18.2% shareholding is more manageable to sell and there will be a number of options available to the State of Queensland including block sale/institutional placement or secondary market public offering.

(v) Reduced Level of Control

The State of Queensland has not appointed or nominated any directors to the board of QR National. In this respect, the State of Queensland does not exercise any direct influence over the management or board of QR National. Its only influence is through the exercise of voting rights as a 33.9% shareholder although this does give it a veto over any matter requiring 75% shareholder approval and probably did represent effective majority control at shareholder meetings (given the percentage of shareholders that generally votes at such meetings).

The Transaction therefore has no impact on the day to day control and directors of QR National. To the extent that the State of Queensland was able to influence the company as a shareholder, that ability will be substantially reduced. If the Transaction is implemented, there will no longer be a third party with any level of control or significant influence over QR National. The Transaction effectively increases the influence of all non associated shareholders and opens up control of the company.

The State of Queensland will remain QR National's largest shareholder with its shareholding of 18.2%. The shareholdings of other substantial shareholders will increase by 13.5% as a result of the Buyback Proposal and will range from 5.7-8.3%. At a practical level, these increases do not provide existing substantial shareholders with any greater level of influence over QR National than they already have.

4.3.2 Costs, Disadvantages and Risks

(i) Increased Net Borrowings and Higher Gearing

The Buyback Proposal increases QR National's net borrowings by \$1.0 billion and its pro forma gearing from 13.7% to 25.6%. The Buyback Proposal also reduces the funds available to QR National under its existing debt facilities to \$730.2 million (based on pro forma 30 June 2012 borrowings). If QR National's credit ratings were adversely impacted there would be a negative impact on the interest rate it pays and on its ability to raise funds.

While the increase in debt and reduction in undrawn funding is a disadvantage and risk of the Buyback Proposal:

- QR National has already put in place an on-market buyback program under which it can acquire up to 10% of its issued capital. As at 5 October 2012, it had acquired 14.5 million shares (0.6% of issued capital). If approved, the Buyback Proposal will replace the on-market buyback. The on-market buyback was suspended following the announcement of the Buyback Proposal.

The increase in debt is only approximately \$150 million more than the debt that would have been incurred (and gearing is only 1.8 percentage points higher than) if QR National had acquired the maximum 10% of its issued shares through the on-market buyback (depending



on the price paid). In any event, the resultant gearing is consistent with management’s objective of moving towards a more efficient capital structure;

- QR National expects to retain its BBB+ and Baa1 credit ratings as it remains within key S&P and Moody’s credit metrics:

QR National – Credit Metrics at 30 June 2012			
	Criteria	Actual ³⁴	Pro Forma allowing for Buyback Proposal
S&P			
Funds from operations (“FFO”) to debt ³⁵	35-40%	68.5%	38.0%
FFO to interest expense ³⁵	≥ 5x	10.3x	5.8x
Moody’s			
Debt/EBITDA ³⁶	< 2.5x	1.3x	2.2x

Source: QR National, Grant Samuel analysis

Following announcement of the Buyback Proposal, S&P released an update stating that QR National’s credit rating was not immediately affected by the Buyback Proposal, but that it would reduce the buffer in QR National’s financial ratios. S&P expects QR National’s FFO to debt ratio for the year ending 30 June 2013 to be at the lower end of the 35-40% range expected for a BBB+ credit rating and that QR National would be potentially more sensitive to an adverse business environment and the company’s future capital management and investment initiatives. While Moody’s has not made any comment on the Buyback Proposal, on announcement of the on-market buyback (which, if fully executed, would have been a similar size to the Buyback Proposal), Moody’s issued an update that stated that the on-market buyback was credit negative but could be accommodated within QR National’s Baa1 ratings and stable outlook.

S&P and Moody’s do not give any credit in their ratings for the State of Queensland’s significant shareholding so the reduction in the holding should not have any adverse impact. At the same time, the credit ratings are premised on an expected capital expenditure program over the coming years of \$1.0-1.5 billion per annum (in the case of S&P) and \$1.2-1.6 billion (in the case of Moody’s) and it is possible that the Buyback Proposal, which is over and above the capital expenditure program, may cause S&P and Moody’s to revise QR National’s credit rating downwards in the future. Any reduction in QR National’s credit rating would have a negative impact on the interest rate it pays and on its ability to raise funds;

- the financial ratios incorporated as covenants within QR National’s Syndicated Facility Agreement are slightly less stringent than the credit rating criteria. In addition to a gearing covenant, there is also a net leverage covenant (net borrowings to EBITDA) and an interest cover covenant (EBITDA/net interest expense). These covenants primarily apply at the recourse group level only and have not been disclosed to the market. Grant Samuel has reviewed analysis prepared by QR National of the debt covenants under QR National’s Syndicated Facility Agreement for the years ending 30 June 2013 to 2017 under the status quo and assuming a \$1.0 billion buyback. While the Buyback Proposal results in an increase in the leverage and gearing ratios and a reduction in the interest cover ratio, the Buyback Proposal should not result in QR National coming close to breaching any of its existing covenants;

³⁴ S&P has not yet published any analysis on QR National in relation to the year ended 30 June 2012. The S&P ratios shown in the table are based on actual results for the year ended 30 June 2012 including adjustments that QR National management believes S&P will make to those results to calculate the credit ratios. The actual ratios are also prior to taking into account the impact of the on-market buyback.

³⁵ As defined by S&P.

³⁶ As defined by Moody’s.



- the resultant level of gearing remains below that of its peers:

Relative Gearing Levels at 30 June 2012	
	Net Borrowings/Net Borrowings plus Net Assets
QR National (pro forma after Buyback Proposal)	25.6%
Asciano	44.7%
Transurban	57.4%
Sydney Airport	67.3%
Toll	29.5%
median of North American peers	34.5%

Source: IRESS, Bloomberg, company reports, brokers' reports

- QR National believes it will continue to have the ability to fund its growth plans. The capital required for these projects, combined with the necessary sustaining capital expenditure, amounts to more than \$1 billion per annum. However, QR National has access to a number of sources for this funding including:
 - operating cash flow. Annual EBITDA exceeds \$1 billion and is expected to grow in future years;
 - capacity under existing facilities (which is still \$730.2 million even after the Buyback Proposal is implemented) as well as the potential to obtain additional debt facilities. Even if existing facilities are fully drawn, QR National's debt ratios are well within the ratings benchmarks and covenant levels (based on forecast earnings);
 - project financing for new projects and/or partnering with customers and infrastructure providers or investors to share the cost. QR National management does not believe it is necessary to own 100% of all potential projects as long as it can exercise an appropriate degree of operational control; and
 - equity. Entitlement issues may be more straightforward without the substantial holding by the State of Queensland.

Furthermore, in Grant Samuel's view, it is possible the fall in commodity prices over recent months (particularly coal and iron ore prices), if sustained, may result in deferral or even cancellation of some planned coal mine development projects, which may in turn result in lower levels of capital expenditure for QR National in the next few years.

(ii) Reduction in NTA

Pro forma NTA per share as at 30 June 2012 will decrease from \$2.98 to \$2.91 as a result of the Buyback Proposal. However, NTA per share is not an important measure of value for a company such as QR National and the reduction in NTA per share is unlikely to have any material negative impact on the QR National share price.

(iii) Transaction Costs

QR National has estimated that the total costs associated with the Transaction will be less than \$5 million. These costs are one off and are not material in the overall context of QR National. Total costs represent less than 0.1% of the current market capitalisation of QR National.



4.3.3 Other Factors

(i) Impact on Business Operations

QR National has a number of business relationships with the State of Queensland. In addition to a number of contractual relationships (with the State of Queensland and Queensland Rail), the State of Queensland also acts as regulator of QR National's Central Queensland Coal Network and acts as a facilitator to the coal industry generally.

These relationships will continue and QR National has confirmed that all of its arrangements with the State of Queensland are on arm's length terms and that it does not have any favoured position (compared to other industry participants) in relation to proposals or approvals.

Accordingly, the Buyback Proposal is broadly neutral in its impact on QR National's business operations.

Removal of the State of Queensland as a major shareholder may even be positive as, notwithstanding the reality, it will remove any perception by customers, suppliers or other counterparties that the 33.9% interest gives the State of Queensland some influence.

(ii) Regulatory Requirements

Paragraph 62 of ASIC Regulatory Guide 111 lists a number of factors that an expert might consider in assessing the reasonableness of transaction with a person in a position of influence that requires shareholder approval under Listing Rule 10. These issues are addressed below to the extent that they are relevant to QR National and the Buyback Proposal and have not been addressed elsewhere in this report:

- the Buyback Proposal does not have any material opportunity costs in that it does not inhibit QR National from pursuing other transactions. In particular, the increase in debt and gearing is not expected to impact QR National's ability to fund its growth projects and sustaining capital expenditure (see Section 4.3.2(i));
- there is a vast number of alternative transactions that could have been pursued including:
 - buybacks at different price levels;
 - different mixes of institutional sell-down and buyback;
 - different levels of total shares acquired and residual holdings by the State of Queensland; and
 - different mechanisms including wider institutional placements and secondary public offerings.

However, it would be meaningless to analyse the Transaction relative to all the potential alternatives. They are not "on the table" and QR National is not the party driving the transaction in so far as it is up to the State of Queensland to determine whether or not it will sell its stake (and at what price and whether in whole or part).

The relevant test for shareholders is whether or not they are likely to be better off if the Buyback Proposal is implemented compared to the status quo.

That said, it is worth noting that had QR National elected not to participate in the transaction by buying back part of the State of Queensland's holding:

- if the shares being bought back by QR National could not otherwise be sold through the market, no transaction may happen at all (as the State of Queensland may not be prepared to sell only \$500 million worth of QR National shares);
- placing an additional \$1.0 billion of shares with institutions (or using other means such as entitlement issues or secondary public offerings) would be demanding and may well



have adverse impacts on QR National’s share price and the selling price achievable. In turn, this could undermine the ability to initiate the selldown process as it may not produce a price acceptable to the State of Queensland; and

- it could lead to a total selldown by the State of Queensland in more stages over a longer time frame; and
- it is difficult to evaluate the bargaining position of QR National relative to the State of Queensland but it is noted that:
 - QR National is paying the same price as the price to be paid by the investment institutions under the Institutional Selldown. These institutions are clearly acting at arm’s length and are not under any duress to undertake the transaction;
 - QR National is not under any financial stress; and
 - the directors retained financial and legal advisers.

4.3.4 Conclusion

As the Buyback Proposal is fair, it is also reasonable. In any event, the benefits and advantages of the Buyback Proposal and the broader Transaction (including the Institutional Selldown) outweigh the costs, disadvantages and risks.

4.4 Shareholder Decision

The decision whether to vote for or against the Buyback Proposal is a matter for individual shareholders based on each shareholder’s views as to value, their expectations about future market conditions and their particular circumstances including risk profile and liquidity preference. If in any doubt as to the action they should take in relation to the Buyback Proposal, shareholders should consult their own professional adviser.

Similarly, it is a matter for individual shareholders as to whether to buy, hold or sell securities in QR National. This is an investment decision independent of a decision on whether to vote for or against the Buyback Proposal upon which Grant Samuel does not offer an opinion. Shareholders should consult their own professional adviser in this regard.



5 Qualifications, Declarations and Consents

5.1 Qualifications

The Grant Samuel group of companies provide corporate advisory services (in relation to mergers and acquisitions, capital raisings, debt raisings, corporate restructurings and financial matters generally) and provides marketing and distribution services to fund managers. The primary activity of Grant Samuel & Associates Pty Limited is the preparation of corporate and business valuations and the provision of independent advice and expert's reports in connection with mergers and acquisitions, takeovers and capital reconstructions. Since inception in 1988, Grant Samuel and its related companies have prepared more than 475 public independent expert and appraisal reports.

The persons responsible for preparing this report on behalf of Grant Samuel are Jaye Gardner BCom LLB (Hons) CA SF Fin and Stephen Cooper BCom (Hons) CA (SA) ACMA. Each has a significant number of years of experience in relevant corporate advisory matters. Celeste Oakley BEc LLB CFA F Fin and Alison Long BCom MAppFin CA CFA assisted in the preparation of the report. Each of the above persons is a representative of Grant Samuel pursuant to its Australian Financial Services Licence under Part 7.6 of the Corporations Act.

5.2 Disclaimers

It is not intended that this report should be used or relied upon for any purpose other than as an expression of Grant Samuel's opinion as to whether the Buyback Proposal is fair and reasonable to the non associated shareholders. Grant Samuel expressly disclaims any liability to any QR National shareholder who relies or purports to rely on the report for any other purpose and to any other party who relies or purports to rely on the report for any purpose whatsoever.

This report has been prepared by Grant Samuel with care and diligence and the statements and opinions given by Grant Samuel in this report are given in good faith and in the belief on reasonable grounds that such statements and opinions are correct and not misleading. However, no responsibility is accepted by Grant Samuel or any of its officers or employees for errors or omissions however arising in the preparation of this report, provided that this shall not absolve Grant Samuel from liability arising from an opinion expressed recklessly or in bad faith.

Grant Samuel has had no involvement in the preparation of the Explanatory Memorandum issued by QR National and has not verified or approved any of the contents of the Explanatory Memorandum. Grant Samuel does not accept any responsibility for the contents of the Explanatory Memorandum (except for this report).

5.3 Independence

Grant Samuel and its related entities do not have at the date of this report, and have not had within the previous two years, any business or professional relationship with QR National or the State of Queensland or any financial or other interest that could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation to the Buyback Proposal.

Grant Samuel commenced analysis for the purposes of this report in May 2012 prior to the announcement of the Buyback Proposal. This work did not involve Grant Samuel participating in the setting the terms of, or any negotiations leading to, the Buyback Proposal.

Grant Samuel had no part in the formulation of the Buyback Proposal. Its only role has been the preparation of this report.

Grant Samuel will receive a fixed fee of \$295,000 for the preparation of this report. This fee is not contingent on the outcome of the Buyback Proposal. Grant Samuel's out of pocket expenses in relation to the preparation of the report will be reimbursed. Grant Samuel will receive no other benefit for the preparation of this report.



Grant Samuel considers itself to be independent in terms of Regulatory Guide 112 issued by the ASIC on 30 March 2011.

5.4 Declarations

QR National has agreed that it will indemnify Grant Samuel and its employees and officers in respect of any liability suffered or incurred as a result of or in connection with the preparation of the report. This indemnity will not apply in respect of the proportion of any liability finally determined by the courts to be caused by any conduct involving negligence, breach of any obligations or duties under the terms of Grant Samuel's engagement, fraud on the part of Grant Samuel or wilful misconduct by Grant Samuel. QR National has also agreed to indemnify Grant Samuel and its employees and officers for time spent and reasonable legal costs and expenses incurred in relation to any inquiry or proceeding initiated by any person. Any claims by QR National are limited to an amount equal to the fees paid to Grant Samuel. Where Grant Samuel or its employees and officers are found to have been negligent, breached any obligations or duties under the terms of its engagement, fraudulent or engaged in wilful misconduct Grant Samuel shall bear the proportion of such costs caused by its action.

Advance drafts of this report were provided to QR National and its advisers. Certain changes were made to the drafting of the report as a result of the circulation of the draft report. There was no alteration to the methodology, evaluation or conclusions as a result of issuing the drafts.

5.5 Consents

Grant Samuel consents to the issuing of this report in the form and context in which it is to be included in the Explanatory Memorandum to be sent to shareholders of QR National. Neither the whole nor any part of this report nor any reference thereto may be included in any other document without the prior written consent of Grant Samuel as to the form and context in which it appears.

5.6 Other

The Appendix forms part of this report.

Grant Samuel has prepared a Financial Services Guide as required by the Corporations Act. The Financial Services Guide is set out at the beginning of this report.

GRANT SAMUEL & ASSOCIATES PTY LIMITED

10 October 2012

Grant Samuel & Associates



Appendix 1

Broker Consensus Forecasts

QR National has not publicly released earnings forecasts for the year ending 30 June 2013 or beyond. To provide an indication of the expected future financial performance of QR National, Grant Samuel has considered brokers' forecasts for QR National. The medians of these broker's forecasts are sufficiently close to QR National's budget to be useful for analytical purposes.

Set out below is a summary of forecasts prepared by brokers that follow QR National in the Australian stockmarket:

QR National – Broker Forecasts					
Broker	Date	Adjusted Underlying NPAT ¹ (\$ millions)		Adjusted Underlying Earnings per Share (cents)	
		2013	2014	2013	2014
Broker 1	26 September 2012	546.7	601.1	22.4	24.6
Broker 2	23 August 2012	493.8	636.0	20.2	26.1
Broker 3	23 August 2012	525.6	540.3	21.5	22.1
Broker 4	23 August 2012	505.0	562.2	20.7	23.0
Broker 5	24 August 2012	518.7	575.8	21.3	23.6
Broker 6	20 September 2012	552.2	541.8	22.6	22.2
Broker 7	17 September 2012	521.8	517.8	21.4	21.2
Broker 8	5 September 2012	507.2	509.3	20.8	20.9
Broker 9	24 September 2012	518.0	554.0	21.2	22.7
Broker 10	24 August 2012	544.9	595.8	22.3	24.4
Broker 11	13 September 2012	488.0	560.0	20.0	23.0
Broker 12	12 September 2012	525.9	599.6	21.6	24.6
Broker 13	13 September 2012	486.0	560.0	19.9	23.0
Broker 14	24 August 2012	594.1	637.9	24.4	26.1
<i>Minimum</i>		<i>486.0</i>	<i>509.3</i>	<i>19.9</i>	<i>20.9</i>
<i>Maximum</i>		<i>594.1</i>	<i>637.9</i>	<i>24.4</i>	<i>26.1</i>
<i>Median</i>		<i>520.2</i>	<i>561.1</i>	<i>21.3</i>	<i>23.0</i>
<i>Average</i>		<i>523.4</i>	<i>570.8</i>	<i>21.5</i>	<i>23.4</i>

Source: Brokers' reports, Grant Samuel analysis

When reviewing this data the following should be noted:

- the forecasts presented above represent the latest available broker forecasts for QR National;
- the brokers presented are those who have published research on QR National following QR National's announcement of its results for the year ended 30 June 2012 on 23 August 2012;
- Grant Samuel is aware of only four other brokers that follow QR National. These brokers have not released any research on QR National that includes earnings forecasts subsequent to QR National's announcement of its results for the year ended 30 June 2012 on 23 August 2012;
- as far as is possible to identify from a review of the brokers' reports, Grant Samuel believes that the earnings forecasts do not incorporate any one-off adjustments or non-recurring items; and

¹ Adjusted Underlying NPAT is adjusted net profit after tax before one off items.



- the treatment of the on-market buyback announced on 23 August 2012 differs by broker. Four out of the 14 brokers have not incorporated the impact of the on-market buyback in their earnings forecasts. Of those that have incorporated the impact of the on-market buyback:
 - nine assume that the on-market buyback will be completed in full (i.e. 10% or 244.0 million shares are bought back). One broker assumes that \$1.0 billion of shares will be bought back (i.e. in excess of the 10% limit);
 - eight assume that the on-market buyback is completed during the year ending 30 June 2013 and two assume that it is only partially (approximately 85%) completed during the year ending 30 June 2013; and
 - the average on-market buyback price assumed by the brokers ranges from \$3.50 to \$3.68, with a median on-market buyback price of \$3.50.

As a result, the broker's forecasts are not presented on a consistent basis. To enable comparison on a consistent basis, Grant Samuel has adjusted each of the broker's forecasts to remove the estimated impact of the on-market share buyback by:

- adding back to net profit before tax the additional interest expense incurred as a result of the on-market buyback at the average interest rate for the relevant period;
- applying the same tax rate as each broker has used to the adjusted net profit before tax to calculate an adjusted net profit after tax;
- calculating an adjusted earnings per share based on the adjusted net profit after tax and 2,440.0 million issued shares; and
- removing from net borrowings the cost of the on-market buyback.