Dominic D Smith
SVP & Company Secretary

QR National Limited
ABN 14 146 335 622

Level 14, 305 Edward Street
Brisbane QLD 4000, Australia
GPO Box 456
Brisbane QLD 4001, Australia

T +61 7 3235 1976
F +61 7 3235 2188
companysecretary@qrnational.com.au

6 September 2011

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

BY ELECTRONIC LODGEMENT

QR National – Annual Report

Please find attached a copy of QR National's 2011 Annual Report.

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

Copies of the Annual Report are expected to be dispatched to all shareholders, whom have elected to receive a copy of the Annual Report, at the end of September 2011.

The Company's Annual General Meeting will be held at 10:00am (Brisbane time) on 10 November 2011. A copy of the Notice of Annual General Meeting is expected to be sent to all shareholders at the end of September 2011.

Yours faithfully
QR National

Dominic D Smith
SVP & Company Secretary

TRANSFORMATION AND GROWTH

QR NATIONAL™

ANNUAL REPORT 2010–11

CONTENTS


Queensland bulk, regional freight and intermodal
Queensland coal systems
Queensland coal operations
New South Wales coal operations
North-south intermodal
East-west intermodal
Western Australia bulk and freight
Darwin
Northern Territory
Cairns
Townsville
Mt Isa
Mackay
Rockhampton
Gladstone
Queensland
Alice Springs
Port Hedland
Dampier
Western Australia
South Australia
New South Wales
Brisbane
Geraldton
Kalgoorlie
Perth
Fremantle
Esperance
Albany
Port Augusta
Adelaide
Newcastle
Sydney
Port Kembla
Canberra
Victoria
Melbourne
Tasmania
Hobart
QR National above rail operations
QR National below rail operations (CQCN)
QR National does not operate

QR NATIONAL

QR National is Australia's largest rail freight operator with more than 145 years of experience. Each day the Company moves thousands of tonnes of coal, iron ore and other minerals as well as agricultural and general freight around the nation.

QR National operates and manages a coal network made up of approximately 2,300km of heavy haul rail infrastructure. The Company also provides a range of specialist services in rail design, engineering, construction, management and maintenance, and offers large-scale supply chain solutions to a diverse range of customers Australia-wide.

QR National has played a critical role in the economic development and growth of the minerals-rich state of Queensland, providing the transport backbone for one of the world's largest coal supply chains. Over recent years QR National has extended its business focus beyond its Queensland heritage and applied its expertise and capabilities to coal and iron ore opportunities in New South Wales and Western Australia.

QR National comprises three separate but integrated operating businesses – Coal, Freight and Network Services. QR National 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. QR National Network Services operates and manages the Central Queensland Coal Network, which is the largest export coal rail network in Australia and comprises the major coal systems in Queensland's Bowen Basin. It is also one of the largest rollingstock maintenance and manufacturing businesses in the Southern Hemisphere.

QR National Freight transports approximately 60 million tonnes per annum of bulk minerals 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 of Western Australia's Pilbara region.

QR National's performance and future growth is linked to the key demand drivers of the Australian resources sector. As a result, the Company is well placed to benefit from the expected growth in demand for coal and iron ore, particularly from emerging Asian economies such as China and India.

(1) Underlying results differ from the Group's statutory results. Refer reconciliation to statutory earnings on page 129.

Image: Callemondah rail yard at dusk

+11%

$3,294m

REVENUE EARNED FOR THE YEAR

+17%

$813m

UNDERLYING EBITDA FOR THE YEAR*

+35%

$367m

UNDERLYING EBIT FOR THE YEAR*

+7%

$9,162m

TOTAL ASSETS AS AT 30 JUNE

** Underlying results differ from the Group's statutory results. Refer reconciliation to statutory earnings on page 129.*

Tracklaying near Bowen, Frank O'Neill, Zac Moss and Nigel Green

CHAIRMAN'S REPORT

I am delighted to present QR National Limited's Annual Report for the defining year that was 2010–11.

The 2011 financial year marked the start of an exciting new chapter in the 145-year history of QR National, Australia's pre-eminent rail freight business. The Queensland Government's decision to privatise QR National paved the way for the nation's largest public float in more than a decade, with the Company successfully listing on the Australian Securities Exchange (ASX) in November 2010.

As a listed entity, QR National has increased flexibility and greater capacity to grow and prosper through serving our customers as a commercially-driven leader in coal, other bulk, general freight rail haulage and rail networks. The Company is positioned in the Australian market, with access to major growth opportunities in partnership with our customers in the supply chains that connect mines to global markets.

STRONG MARKET DEBUT

The ASX listing unlocked significant value in the business. Since the Initial Public Offering (IPO), QR National's market capitalisation has , as at 30 June 2011, grown to in excess of A$8 billion, positioning it among Australia's 50 largest listed organisations. Total Shareholder Returns for 2010–11 were in the top quartile of all S&P/ASX 50 stocks for the year. The retail share price rose by 38 per cent from the date of listing to 30 June 2011.

With the backing of more than 60,000 shareholders from around the world and a clear strategic growth and reform path, QR National is well on its way to demonstrating its great potential. As Chairman of the QR National Board, I extend a warm welcome to all shareholders who have joined us since listing, and reiterate our commitment to extracting maximum value from the Company's exceptional assets on your behalf.

RESULTS

QR National's achievements in the first year of listing were set against the backdrop of some extraordinarily challenging operating conditions. The impact of the devastating Queensland floods and Cyclone Yasi on coal production throughout the state has been widely reported and led to a substantial reduction in actual QR National coal haulage compared to expectations. However, the Company benefited from improved margins with improvements in capital efficiency, an array of transformation initiatives and the introduction of more commercially structured contracts, which partially offset the financial impact of the reduced tonnages.

QR National's financial performance for the 12 months to 30 June 2011 is set out in this report. However, in summary, a profit after tax of $350 million was reported for the 2010–11 year. Underlying* Earnings Before Interest and Tax (EBIT) was $367 million, a 35 per cent increase over the prior year, and earned on revenues of $3.3 billion.

On the basis of these results the Board declared a dividend of 3.7 cents per share, which will be paid to shareholders on 30 September. This dividend is in line with the Offer Document and our policy to distribute up to 50 per cent of net profit after tax, subject to Board discretion regarding alternative investment and growth opportunities, as well as a focus on maintaining a strong credit rating and enhancing long-term shareholder value.

**Underlying results differ from the Group's statutory results. Refer reconciliation to statutory earnings on page 129.*

CHAIRMAN'S REPORT
(CONTINUED)

GROWTH AND TRANSFORMATION

A fundamental driver of global investment interest in QR National is the organisation's clear potential to add value through widespread reform. Sophisticated investors understand the benefits inherent in transforming a century-old government railway into a commercially-focused organisation capable of achieving superior outcomes for all stakeholders. With the IPO now behind us, QR National is focused on realising the benefits of business reform. Foremost in the minds of our management team is the focus on delivering superior value to our customers. A far-reaching transformation program continued strongly in 2010–11, demonstrating our determination to achieve world class performance standards aligned to global benchmarks. We are driving cost efficiencies at a corporate level and across the Company's major operating divisions of Coal, Network Services and Freight. The Company implemented a successful Voluntary Redundancy Scheme during the year with approximately 660 people exiting in 2010–11.

QR National continues to deliver on a substantial investment program in new rail infrastructure to leverage the opportunity presented by Australia's ongoing minerals boom. At the forefront of QR National's growth projects is the $1.1 billion Goonyella to Abbot Point (GAP) Expansion Project in Central Queensland.

This critical new piece of national export infrastructure is on track to open in January 2012 and will provide significant benefits for coal customers, QR National shareholders and the broader Australian economy. It is just one of many examples of QR National working in partnership with industry to deliver supply chain solutions to meet growing global export demand for Australian resources.

CORPORATE SOCIAL RESPONSIBILITY

Safety is QR National's core value and management continues to embed a strong safety culture through a range of initiatives. Not only is safety fundamental to our people, our customers and the communities in which we operate, we believe it is also the very foundation from which to drive continuous improvement across the business. While the progress is encouraging, with key safety metrics improving markedly over the past three years, we believe this is one area where we can always do more to ensure the ***ZERO***Harm philosophy is firmly entrenched in the hearts and minds of our people.

As a newly listed company, QR National recognises that acting responsibly, operating in a sustainable manner and providing a positive contribution to the community is vital to our ongoing business success and stakeholder engagement. The QR National Board recently endorsed a new Corporate Responsibility Statement. New programs spanning community and environmental initiatives will be set, refined and monitored over the coming years.

CORPORATE GOVERNANCE

I believe the composition of the QR National Board of Directors is world-class. Collectively our Directors have significant listed-company experience and expertise spanning operational, technical, legal, financial and industrial disciplines. The guidance of the QR National Directors managing the broad and complex range of issues presented throughout the privatisation and IPO proved to be invaluable to the process. The Board worked together to overcome the challenges and are now playing a crucial role in shaping policy and guidance on QR National's future direction. The QR National Board is committed to adhering to the highest standards of corporate governance. The Company's corporate governance practices, which are discussed in greater detail on pages 80–87 of this Annual Report, are strongly aligned with ASX principles.

OUTLOOK

The process of transforming QR National into a robust commercial enterprise with the discipline to meet strategic and operational objectives has accelerated. The benefits of our sharpened focus on delivery for customers and shareholders position us strongly in 2011–12 and beyond. The medium to long term outlook for the markets in which we operate continues to be positive, with coal and iron ore set for continued growth over the coming decades. The Company's strategy to further leverage its leadership position in the coal haulage markets on the eastern seaboard, while pursuing greater market share in the emerging iron ore market in Western Australia, provides it with a clear avenue to deliver sustained, profitable growth. I am confident Managing Director and CEO Lance Hockridge and his management team have the skills, energy and ambition to capitalise on the many growth opportunities that lie before the Company.

ACKNOWLEDGEMENTS

It has been an eventful first year as a listed company and I would like to commend our executive team and 9,000 employees Australia-wide on the considerable progress achieved in the lead up to and in the period after the IPO. The enormity of the changes that followed the separation of the QR National business and the Queensland Rail business on 30 June 2010, one of the largest corporate demergers in Australian history, required many months of detailed planning and hard work. The Board is most grateful to all employees and management for their industrious preparation that ensured QR National's transition to public company life was seamless for all stakeholders and added substantial value for shareholders.

I pay tribute to my fellow Directors for their wise counsel and strategic input as the Company navigated the complexities of privatisation and the challenges presented in our first months as a listed enterprise.

In addition, I am particularly grateful for the strong support of the Queensland Government throughout the journey to privatisation.

Finally, thank you to our shareholders for your confidence in QR National. I look forward to reporting to you on our successes and progress in 2011–12.

John B Prescott AC
Chairman

Rollingstock Services Redbank, Wagon workshop at dusk

CEO'S REPORT

The successful transition from Government-Owned Corporation to publicly listed company was the defining event for QR National in 2010–11.

As a public company we have the ability to move forward with precision in executing the changes necessary to realise QR National's vast potential. We are doing so with a very clear mandate — to create shareholder value by transforming QR National into an accountable, efficiently-managed organisation with outstanding safety performance, superior customer service and excellent growth prospects.

The ASX listing signalled the start of a new era for the Company and formed the ideal platform for us to extract maximum value from the five key planks of our enterprise strategy:

1. Achieve excellence in customer service
2. Establish an accountable, performance-based culture
3. Improve asset utilisation and return on capital
4. Leverage and expand our leadership position in coal
5. Pursue opportunities for growth and diversification.

I'm pleased to report QR National has made excellent progress across these five priorities, despite the challenging operating conditions that have prevailed since once-in-a-generation floods in Queensland in December and January.

Undoubtedly, we approach the future from a position of strength. Our unique assets and unrivalled haulage and infrastructure expertise are an exceptional base from which to achieve our growth and commercial targets. As a national company more than 80 per cent leveraged to the thriving Australian resources sector, we have significant growth prospects before us. We are determined to succeed, but we recognise there is much to do.

SAFETY

As we reshape QR National, safety remains our top priority. I am focused on achieving change across the Company without sacrificing our commitment to providing a safe environment for employees, our customers and the communities in which we operate. In recent years we have undertaken a major program to implement world class safety performance standards across QR National. We achieved a 50 per cent reduction in our lost time injury frequency rate in 2010–11 and while this is a step in the right direction, our goal of ***ZERO***Harm means no injuries to anyone, ever.

FINANCIAL RESULTS

QR National delivered a solid improvement in financial performance in 2010–11 compared to the prior year, despite the impact of the Queensland floods and Cyclone Yasi. The impact on our customers resulted in reduced coal availability and contributed to a 37 million tonne reduction in haulage volumes for the year. Given these conditions, the robust full-year financial result is a testament to the resilience and strength of QR National's business.

Revenue rose to $3.3 billion for the reporting period to 30 June 2011, an 11 per cent increase over the prior year (FY10: $3.0 billion). The combination of revenue growth with cost reduction and reform initiatives contributed to a 17 per cent improvement in underlying* Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) to $813 million (FY10: $696 million). Underlying* Earnings Before Interest and Tax (EBIT) increased by 35 per cent to $367 million (FY10: $272 million).

Underlying results differ from the Group's statutory results. Refer reconciliation to statutory earnings on page 129.

Total assets were $9.2 billion, and earnings per share was 14.94 cents. The Company's strong cash flow has supported our major investment program, with capital expenditure totalling $1.4 billion for the year. The Company's net debt position as at 30 June was $686 million, reflecting a net gearing ratio of 9 per cent.

OPERATIONS

Flooding and cyclone impacts affected the overall profitability of our operating divisions in 2010–11, substantially interrupting rail operations and causing some minor damage to our rail infrastructure. Mines are progressively returning to improved operational capacity and as coal supplies increase over the months ahead QR National is poised to capitalise on the expected uplift in tonnages.

We took pride in our response to the floods, with the Company undertaking swift action to repair and reopen the Central Queensland Coal Network for customers in a matter of days of the floodwaters receding. As mine production recovered, QR National had infrastructure and haulage capacity to respond to customer requirements.

With such a large presence in Queensland, many of QR National's employees were personally impacted and our people united to assist with the flood recovery efforts in whatever way they could. The fantastic contribution of so many QR National employees made a tangible difference to the recovery of the Company and many Queensland communities.

COAL

Reduced coal production throughout the year translated into weaker than expected haulage volumes of 182 million tonnes for the Coal division. Full year revenue of $1.7 billion was broadly in line with the prior year, although revenue per net tonne kilometre (NTK) grew by 11 per cent. Underlying EBIT declined by 29 per cent, or $65.4 million, to $158.8 million.

During 2010–11, the Company signed long-term contracts for cartage of coal in excess of 26 million tonnes per annum with a revenue value of more than $1.6 billion. These new contracts include commercial incentives for strong operational performance by QR National, leveraged off the size, scale and expertise of our coal haulage business.

NETWORK SERVICES

Network Services contributed full year revenue of $1.2 billion and underlying EBIT of $284.7 million, which were up on the prior comparable period by 11 per cent and 3 per cent respectively. Despite lower volumes, access revenue was largely protected through take or pay mechanisms. The increase in revenue reflects the increased activity in Rollingstock Services and the securing of new maintenance contracts. Work continued on a number of strategic growth projects to position the Company to capture the forecasted surge in coal production over the coming years, with capital expenditure for the year totalling $707 million.

Jilalan Rail Yard, Marion Keir and Allen Perry

FREIGHT

Total revenue in the Freight division grew 11 per cent in 2010–11, or $127 million, to $1.3 billion, over the prior year. Underlying EBIT grew by 132 per cent, or $126.4 million, to $30.6 million and is reflective of the Transport Services Contract with the Queensland Government for regional services. Capital expenditure grew from $89 million to $197.8 million to support iron ore growth projects.

At the start of 2011–12, our Freight subsidiaries ARG, CRT and Interail were rebranded as QR National. For the first time, all QR National operations nationwide fall under the new QR National brand – a brand that is rapidly becoming recognised for safety, outstanding performance and high levels of expertise.

CEO'S REPORT
(CONTINUED)

GROWTH PROJECTS

QR National is well positioned for growth in all of our target markets. We have a pipeline of large-scale capital projects, at various stages of commitment, which will provide the foundation for our growth moving forward. Our signature capital project is the $1.1 billion Goonyella to Abbot Point (GAP) Expansion Project in Central Queensland. The GAP project will increase the capacity of coal that can be railed to Abbot Point for export to 50 million tonnes per annum by connecting the Goonyella and Newlands coal systems. Construction continued unabated through Queensland's extreme wet weather and the project remains on budget and on schedule for opening in January 2012.

The contestable iron ore market in Western Australia provides a major opportunity to diversify the QR National Freight business, and during the year the Company established a distinct iron ore business. In a major development, QR National secured a new contract to haul 10 mtpa of iron ore for the Karara Iron Ore Project, contributing approximately $900 million in revenue over the next 10 years, commencing in 2011–12. The Company is on track to treble iron ore volumes in WA over the next three years.

In the New South Wales Hunter Valley coal region, we expanded our presence with the addition of $360 million in new rollingstock which will support new and existing coal haulage contracts. During the year we continued to build to 30 per cent market share in this highly-competitive and growing market.

Moving forward, future expansions of Queensland's coal ports continue to open significant growth opportunities for the Company. At present the Company is working closely with coal customers to scope a number of new capital projects in Central Queensland including the Wiggins Island Rail Project to support the new Wiggins Island Coal Export Terminal.

TRANSFORMATION

The transition from government-owned business to a high-performing public company requires substantial change to refocus operational and commercial priorities. QR National's primary objective since listing has been to ramp up the transformation that has been underway since 2008–9. There is a range of initiatives in progress to deliver cultural changes, productivity improvements and cost reductions, with work focused in four key areas:

1. Capital productivity
2. Labour productivity
3. End-to-end efficiency improvements
4. Cost savings through improved asset management.

More than 660 voluntary redundancies took effect during the financial year. We have flagged our intent to embark on an organisational restructure in the current year, subject to consultation with staff and union representatives. The restructure aims to make the Company as competitive and efficient as possible, better aligned to the markets in which we operate and above all, absolutely committed to customer service.

OUTLOOK

In the coming year we are focused on building on the momentum achieved since our ASX listing. We will be working particularly closely with our coal customers in Queensland to maximise the recovery from the 2010–11 flood events.

We expect strong volume growth in all of our businesses over the next five years and global demand for Australian coal and iron ore is expected to surge. Australia's domestic freight task over the next decade is also forecast to double. Growth of this magnitude presents massive opportunities for our business and the rail sector generally.

ACKNOWLEDGEMENTS

The success of the past year was achieved through the hard work and commitment of so many associated with QR National. In particular, I sincerely thank our employees for persevering with spirit and determination through some major organisational changes, and for their outstanding efforts with the flood and cyclone recovery. Thank you to the executive management team, who worked above and beyond the call of duty to deliver a successful IPO while maintaining a continued focus on safety and business priorities. I am also most grateful to the Chairman and the Board for their astute counsel during the year. They have provided strong leadership and invaluable guidance through a time of great change and complexity for the Company.

It is also important to acknowledge the outstanding work during the IPO of Queensland Treasury and the Joint Lead Managers, namely Credit Suisse, Goldman Sachs, Merrill Lynch, RBS Morgans and UBS. This team of people delivered their work for the float with great focus and professionalism.

In addition, I express my appreciation for the support of the community over the course of the year. Our Company places high importance on maintaining a good relationship with communities in which we operate, and we give a firm commitment to continuing to proactively fulfil our obligations as a responsible corporate citizen.

Finally, welcome and thank you to our shareholders from around the world, the new owners of the business, for your ongoing support and confidence in the Company. I am confident QR National has emerged from the challenges of 2010–11 as a much stronger organisation, fully equipped to capitalise on the clear growth prospects ahead of us.

Lance Hockridge
Managing Director and Chief Executive Officer

Mt Arthur, Hunter Valley, coal loading

YEAR IN REVIEW

QR National achieved significant progress in its first year as a listed company, despite the impact of the Queensland floods and Cyclone Yasi.

QR NATIONAL PRIVATISATION

PRIVATISATION DELIVERS MAJOR TRANSPORT REFORM

After 145 years in government ownership, the privatisation of QR National in 2010 gave all Australians the opportunity to directly share in the future of the nation's largest rail freight company.

The Queensland Government's major asset sale program, under the direction of Premier Anna Bligh and Treasurer Andrew Fraser, was announced in June 2009.

While the decision to privatise QR National attracted significant public attention, it has been acknowledged as one of Australia's largest national transport reforms in recent history.

After a detailed scoping study, the Government decided in December 2009 on a vertically-integrated structure for QR National, encompassing all commercial coal and freight services, as well as the Central Queensland Coal Network.

On 1 July 2010, the government-owned corporation QR Limited was divided into two separate entities — Queensland Rail and QR National.

QR National has emerged as a commercially-focused rail business responsible for the transportation of Australian resources, agricultural and manufactured products worth more than $50 billion per annum in export earnings. Its operations and 9,000 strong workforce span the country from Perth to Cairns, far beyond the Queensland state border.

Image: Launch of the Initial Public Offer for QR National, October 2010

The remaining government-owned business Queensland Rail has retained responsibility for all passenger services and the regional freight network in Queensland, creating a more focussed, innovative passenger-oriented railway.

The enormity of the changes that followed the structural separation of QR Limited on 1 July 2010 required many months of detailed planning and hard work. It was one of the five largest demergers in Australian corporate history, involving the separation of more than 10,000 assets. It was achieved without significant technical or stakeholder impact.

The demerger paved the way for the nation's largest Initial Public Offer (IPO) in more than a decade, with QR National debuting on the Australian Securities Exchange (ASX) in November 2010 as an ASX top 50 company. QR National has made a smooth transition from government ownership, overcoming floods and cyclones to deliver solid profit results on behalf of over 63,000 new shareholders.

The success of the demerger and the subsequent privatisation and float of QR National, can be attributed to the significant contribution and support of many, in particular the Queensland Government, Queensland Treasury, employees and management from QR National and Queensland Rail, and Joint Lead Managers for the float, Credit Suisse, Goldman Sachs, Merrill Lynch, RBS Morgans and UBS.

QR National has made a smooth transition from government ownership, overcoming floods and cyclones to deliver solid profit results on behalf of over 60,000 new shareholders.

Launch of the Initial Public Offer for QR National, October 2010
Left to right: John Prescott – QR National Chairman, Andrew Fraser – Queensland Treasurer, Anna Bligh – Queensland Premier and Lance Hockridge – QR National MD & CEO

INTEGRATED OPERATIONS

RAPID FLOOD RECOVERY RESPONSE HIGHLIGHTS BENEFITS OF INTEGRATED OPERATING MODEL

The strength of QR National's integrated operating model and company-wide capability was powerfully demonstrated through its response to Queensland's dramatic floods in the 2011 financial year.

The scale of the natural disaster and the impact on the rail network throughout Queensland was a once-in-a-century occurrence. All Queensland coal systems including Moura, Newlands, Blackwater, Goonyella and West Moreton were impacted by the floods and the subsequent cyclones, requiring QR National to launch an intensive recovery operation just months after the IPO.

QR National was able to harness the power of its integrated operating model to coordinate and sequence flood recovery planning to ensure rail corridors and systems were re-opened safely, quickly and to the highest standard possible. Aligning QR National's asset engineering and maintenance capability also helped to ensure that rail networks were reopened in a timely and efficient manner.

QR National's four rail systems were returned to service within days of the flood waters receding and have remained operational since late January 2011. The only exception was the severely damaged Rolleston Branch, which was re-opened in early March 2011, well ahead of initial expectations.

Image: Dawson Mine

A key success factor in QR National's response was the establishment of a Flood Recovery Taskforce to coordinate the recovery effort. The Taskforce's role was to centralise information gathering and to oversee the flood recovery responses of each of the Company's business units. The Taskforce's objectives included:

- Providing oversight of the flood recovery efforts of QR National business units
- Minimising downtime at maintenance facilities
- Ensuring resources were deployed when and where they were needed most
- Ensuring customers were kept fully-informed.

QR National and the Company consulted with customers and other key stakeholders in the coal supply chain to fully assess how it could best contribute to the recovery. Customers' production capabilities were also assessed to determine the likely longer-term impacts of the flooding on system throughput.

QR National's rollingstock and maintenance facilities were largely unaffected by the extreme weather and floods due to the pre-emptive action taken to protect assets, especially rollingstock. The recovery taskforce also ensured each of the QR National businesses provided customers with timely information regarding which lines were affected, when repairs would be completed and when trains would commence running again.

The flood recovery highlighted an even greater potential for QR National to integrate and synchronise above and below rail planning.

The operational response was supported by senior managers and experts from across the Company to coordinate safety, project management, engineering, planning, logistics, operations, cost estimating and customer communication. Restoring services as quickly as possible after the floods was QR National's priority, allowing customers to resume transporting coal and other products, and for vital supplies to reach flood devastated communities.

Throughout the recovery, the Company placed the highest priority on the safety and well being of employees and members of the public. Damage control assessment programs were implemented across

Despite the extensive flooding across a very large geographic area within the Central Queensland Coal System, the network repair cost was only $6.4 million (excluding the Rolleston line), reinforcing the quality and integrity of QR National's network and infrastructure assets.

This rapid recovery of the rail network after the Queensland floods illustrates how QR National, as an integrated railway, can make effective infrastructure and operational decisions and deliver positive outcomes in the most challenging circumstances. It is also a great testament to the hard work, commitment and expertise of QR National's people.

Images above: Rail track washed out from January 2011 floods (left) and repaired (right) at the Comet River on the mainline of the Blackwater System, approximately 40km east of Emerald

QR National Coal is Australia's largest coal rail transport provider, servicing customers from 54 mine sites in six major coal chain systems.

Dawson Mine

QR National Coal is Australia's largest coal rail transport provider, servicing customers from 54 mine sites in six major coal chain systems in Queensland and New South Wales. QR National Coal plays a critical role in the export of coal, primarily serving the energy and steel making industries across the Asia-Pacific.

Operations within the Coal business unit were impacted in the 2011 financial year by the early start to the wet season in Queensland, followed by extensive flooding and Cyclone Yasi. These challenging weather conditions persisted from September 2010 through to April 2011, flooding coal mines and impeding production levels. The ongoing impacts on coal supply from mines affected by flooding, resulted in reduced coal haulage by QR National Coal of 17 million tonnes for the financial year against the prior financial year.

Since the flooding, QR National has had more trains available to ship coal than customers have had available coal supply. In response, QR National Coal has implemented a range of initiatives to prepare for the anticipated turnaround in volumes, such as bringing forward maintenance programs. These initiatives will ensure the Company is well positioned to maximise throughput when coal volumes return to normal levels.

COAL

The Coal business generated revenue of $1,691 million, representing approximately 40 per cent of QR National's total revenue (before eliminations) for the year. The business delivered a 10 per cent improvement in revenue per net tonne kilometre (NTK), despite the challenging conditions.

The NTK improvement was achieved through improved revenue quality due to the introduction of new performance-based contracts, which deliver higher returns and growth in margins.

The continuing renegotiation of legacy contracts to terms better suited to customer needs was progressed during the 2011 financial year. These new contracts provided customers with greater certainty and flexibility to meet unexpected increases in volume, in return for more favourable revenue protection arrangements in the form of capacity charges.

CONTINUED GROWTH DRIVEN BY $1.6 BILLION IN NEW COAL CONTRACTS

Throughout the 2011 financial year, QR National Coal continued to secure new contracts in a highly-contested market. The business signed new long-term contracts for in excess of 26 million tonnes per annum (mtpa) with revenue value of more than $1.6 billion, including:

- Jellinbah Resources (up to 5.1 mtpa from its Jellinbah East mine to the Port of Gladstone)
- Peabody Energy (up to 9 mtpa from its Goonyella mine to Dalrymple Bay Coal Terminal in Mackay)
- Anglo America (up to 2.7 mtpa over three years to the Port of Gladstone)
- Jellinbah Resources (up to 6 mtpa over 10 years from Lake Vermont to Abbott Point Coal Terminal, representing the first commitment for tonnes for the $1.1 billion Goonyella to Abbot Point Expansion Project)
- Stanwell Corporation Limited (up to 3.7 mtpa from Wesfarmers' Curragh mine to Stanwell Power Station).

Coal's achievements over the past year have demonstrated the business' ability to deliver quality services in long-term partnerships with its customers, while leveraging its size, scope and expertise in coal haulage. The QR National Coal offering provides the level of flexibility and surety that is required by customers in the high-demand and increasingly competitive coal market.

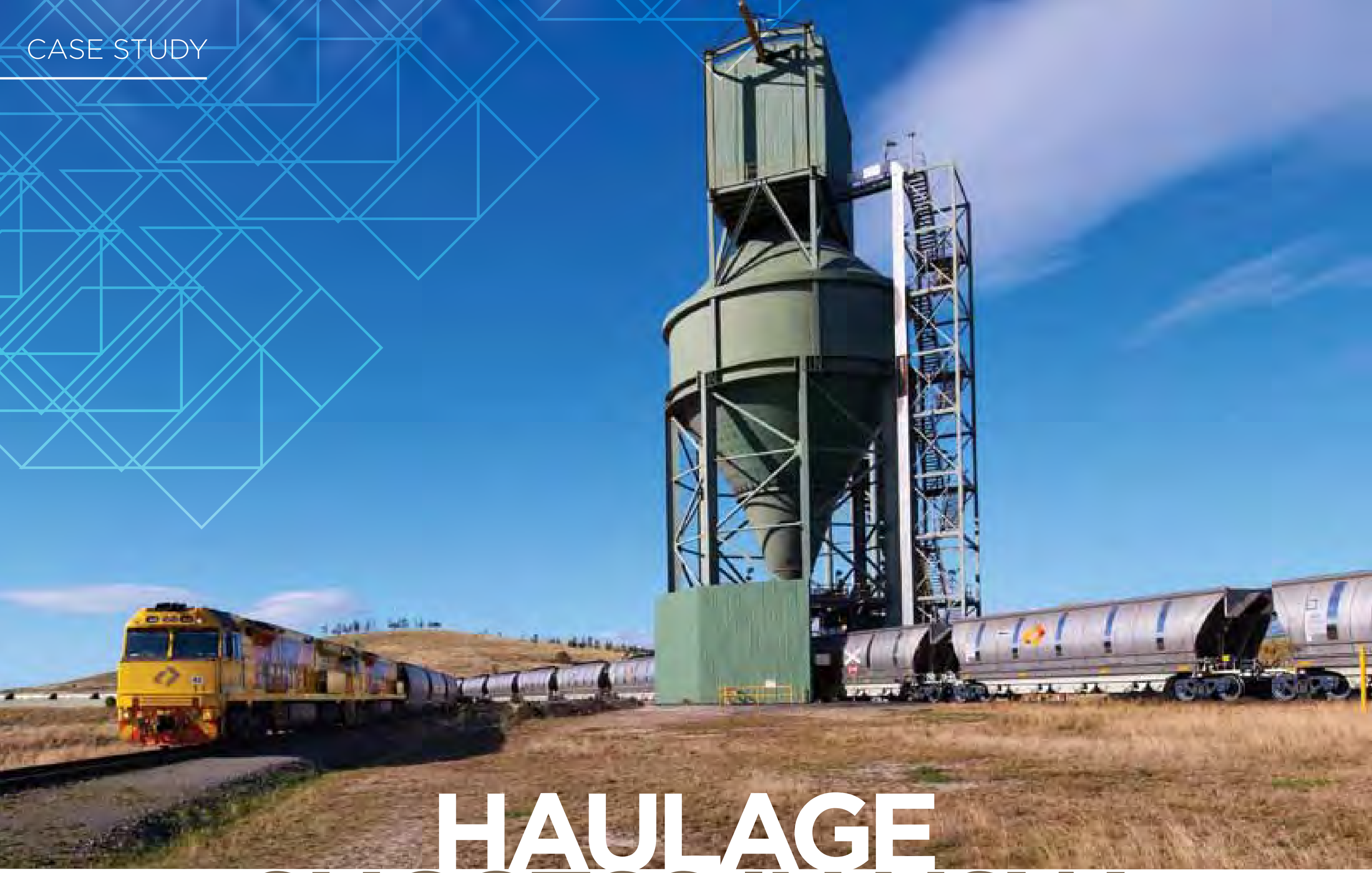

Redbank wagon workshop, Christopher Bowman

With global demand for Australian coal expected to continue along a strong growth trajectory, QR National Coal is gearing its own growth initiatives in the current year and beyond to take advantage of the industry growth.

COAL Underlying results	FY10	FY11	% change
Tonnages (million)	198.4	181.6	-8 %
NTK (billion)	45.3	40.9	-10 %
Revenue ($A million)	1,690.2	1,690.5	0 %
EBITDA ($A million)	408.2	368.9	-10 %
EBIT ($A million)	224.2	158.8	-29 %
Capital Expenditure	598.0	465.4	-22 %
Revenue / NTK (A$/000 NTK)	37.3	41.4	11 %
Opex[1] / NTK (A$/000 NTK)	32.4	37.5	-16 %
EBITDA Margin	24 %	22 %	-2 %
Operating Ratio[2]	87 %	91 %	-4 %

(1) Opex defined as operating expense including depreciation and amortisation

(2) Operating Ratio defined as (1 - EBIT margin)



HAULAGE SUCCESS IN NSW

QR NATIONAL ASSERTS POSITION IN NEW SOUTH WALES COAL HAULAGE MARKET

Rapid growth has seen QR National treble its presence in New South Wales over the past 12 months.

The Company has secured three major coal contracts in the Hunter Valley region, which will increase haulage volumes from 19 mtpa at the start of the 2011 financial year, up to an expected 45 mtpa in the 2012 financial year. This equates to an approximate 27 per cent market share in the highly contested Hunter Valley export market.

To support this growth, QR National has committed almost $360 million for the production of 19, 5020-class locomotives and 800 coal wagons for use in the state. The Company also opened a new depot at Mayfield, Newcastle last year after outgrowing its Kooragang location.

The key competitive advantages underpinning QR National's rapid growth in New South Wales are its outstanding safety performance, exceptional levels of customer service and world-class operational reliability.

The Company's ongoing expansion in the Hunter Valley Coal System will continue to generate new employment opportunities.

A national recruitment drive during the 2011 financial year attracted more than 2,500 applications, demonstrating QR National's leadership and 'employer of choice' positioning. Qualified train drivers as well as trainees, many living locally in the Hunter Valley, have been employed to meet ongoing demand.

No lost-time injuries were incurred during QR National's rapid growth in New South Wales, indicating the success of the Company's continued focus on safety.

Image: Mt Arthur, Hunter Valley, coal loading

Dawson Mine

The QR National Freight business is well positioned to pursue growth opportunities in the emerging iron ore markets of Western Australia.

Acacia Ridge freight depot

FREIGHT

Polymer truck, Victoria

QR National Freight transports approximately 60 million tonnes per annum (mtpa) of bulk minerals and commodities including iron ore, agricultural products, mining and industrial inputs and general and containerised freight. QR National Freight is Australia's largest rail haulier of iron ore for export outside of Western Australia's Pilbara region.

In the 2011 financial year, QR National Freight revenue increased by 11 per cent, or $127 million to $1,277 million, over the previous year. This result included the uplift from the Transport Services Contract with the Queensland Government for the provision of commercial rail freight services to Queensland customers, and growth from the Iron Ore and Intermodal businesses over the prior year. Underlying EBIT increased by $126 million to $31 million.

The extreme weather conditions across Australia impacted the Freight business unit in the 2011 financial year, with record wet weather and flooding in Queensland reducing bulk, general and intermodal freight volumes in the state. Severe drought conditions in Western Australia also affected grain haulage volumes.

Reduced tonnages caused by the flood and cyclone damage in Queensland were partially offset by cost reductions and efficiency gains implemented in the business.

A FOCUS ON IRON ORE WILL UNDERPIN GROWTH

Expected growth in iron ore demand has generated a new wave of iron ore exploration in Western Australia, including in the highly-prospective Mid-West and Yilgarn regions. QR National's focus is on supporting these new and emerging mining developments in which specialised heavy haul rail infrastructure and operational expertise is sought.

With over 145 years of rail experience, QR National is well credentialed to meet the requirements of customers. By locating its head office in Perth, the Freight business is well positioned to pursue growth opportunities in the emerging iron ore markets of Western Australia.

On the back of these developments, QR National Freight has secured several significant iron ore contracts with customers including Cliffs Natural Resources (expansion to 11.5 mtpa), Karara Mining Limited, Mt Gibson Iron Extension Hill and Mineral Resources (Memorandum of Understanding) for an estimated 31.5 mtpa.

FREIGHT Underlying results	FY10	FY11	% change
Tonnages (million)	63.6	61.5	-3 %
NTK (billion)	18.9	19.0	1 %
Revenue ($A million)	1,150.2	1,277.2	11 %
EBITDA ($A million)	(32.5)	89.2	374 %
EBIT ($A million)	(95.8)	30.6	132 %
Capital Expenditure	89.0	197.8	122 %
Revenue / NTK (A$/000 NTK)	60.9	67.3	11 %
Opex(1) / NTK (A$/000 NTK)	66.0	65.7	0 %
EBITDA Margin	-3 %	7 %	10 %
Operating Ratio(2)	108 %	98 %	10 %

(1) Opex defined as operating expense including depreciation and amortisation
(2) Operating Ratio defined as (1 - EBIT margin)

Kooragang coal loader yard, Newcastle
Grant Clacherty and Brett Thickbroom

This multi-million dollar Intermodal investment is aimed at increasing capacity and service reliability and supports QR National Freight's value proposition for customers, helping the business to drive future volume growth.

FREIGHT
(CONTINUED)

STEADY GROWTH UNDERPINNED BY NEW CONTRACTS – BULK FREIGHT BUSINESS

QR National Freight's Bulk business, which includes the transport of minerals, mineral concentrates and agriculture, has also experienced growth nationally with the execution of several important contracts during the 2011 financial year. These include agreements with Sugar Australia for the distribution of bulk sugar in New South Wales and Queensland, as well as Glencore Grain Australia for a grain haulage contract in New South Wales.

Bulk Freight was also awarded a five-year, multi-million dollar contract with Australian Vinyls Corporation for the Company's bulk domestic and international containerised freight and distribution requirements.

The Bulk business recently entered a new market with the signing of a rail haulage contract with coal seam gas explorer and producer Queensland Gas Corporation for the transportation of steel pipes from Brisbane and Gladstone to central and southern Queensland.

The inclusion of these new contracts, combined with the ongoing servicing of existing customer contracts, has resulted in steady growth in the bulk rail freight markets around Australia.

BUILDING A PLATFORM FOR EARNINGS GROWTH AND SUSTAINED PROFITABILITY – INTERMODAL BUSINESS

During the 2011 financial year QR National Freight strengthened its position in the national containerised freight market. It also introduced additional long haul rail services on the East/West and North/South freight corridors, doubling its containerised freight capacity in the lucrative long haul rail markets.

Subsequent to increased customer demand for long haul rail freight services, the Intermodal business increased the size of its fleet, introducing new fuel-efficient locomotives. This multi-million dollar investment is aimed at increasing capacity and service reliability and supports QR National Freight's value proposition for customers, helping the business to drive future volume growth.

RELIABILITY GAINS

QR NATIONAL FREIGHT ACHIEVES IMPRESSIVE RELIABILITY GAINS FOR IRON ORE CUSTOMER

QR National Freight's focus on continuous improvement in the 2011 financial year has resulted in some impressive reliability gains for one of its largest iron ore customers, Cliffs Natural Resources. In 2007 QR National Freight was awarded a new contract to haul 8.5 mtpa (up from 6 mtpa) of iron ore, 575 kilometres from its Cliffs Koolyanobbing mine to Esperance Port in Western Australia.

In 2008 a whole of supply chain review was undertaken, resulting in substantial improvement in service reliability. This achievement was made possible through the implementation of a range of new management initiatives.

The ability to achieve high reliability is particularly challenging due to multiple operators using the WestNet rail network. With high haulage volumes and tight timetables, trains that miss their timeslot are cancelled. Each 126-wagon train hauls approximately 9,000 tonnes, and any missed service poses a significant issue for our customer and represents approximately $1 million in forgone export revenue per train.

In collaboration with Cliffs, QR National Freight developed key performance indicators (KPIs) for the rail haulage contract and monitors these daily. These KPIs underpin discussions at regular stakeholder meetings involving QR National Freight, WestNet and Cliffs. QR National Freight has established a transparent process that defines accountabilities and aims to identify issues before they arise and takes appropriate preventative action, with a focus on continuous improvement. As a result, QR National Freight was able to achieve 8.8 mtpa which is a 3.5 per cent increase in throughput for Cliffs.

Cliffs is now proceeding with the execution phase of its $320 million proposal to increase its iron ore production from its Koolyanobbing mining operations from 8.8 mtpa to 11.5 mtpa from 2012.

QR National Freight will be even better placed to focus on the particular needs and expectations of customers in this growing sector with the introduction of the new dedicated Iron Ore business.

Image: Iron Ore, Esperance

Network Services has undergone a significant transformation with the seamless integration of construction, maintenance, rollingstock and network operations into a unified business.

Rollingstock services Rockhampton, Steven Grice

NETWORK SERVICES

Jilalan provisioning shed, Roberta Brown and Bertha Archer

QR National Network Services operates and manages Australia's largest export coal rail network, the Central Queensland Coal Network. This 2,300 kilometre track network comprises four major coal systems – Newlands, Goonyella, Blackwater and Moura. It is an open-access rail network to multiple train operators and access revenues are regulated by the Queensland Competition Authority. Network Services is also one of the largest rollingstock maintenance and manufacturing businesses in the Southern Hemisphere.

Network Services generated $1,181 million in revenue in the 2011 financial year, representing an 11 per cent increase of $121 million. The division also achieved underlying EBIT of $285 million, representing a 3 per cent increase on the previous year. Although coal volumes on the network were lower than forecast for the 2011 financial year, revenues for track access are protected through the regulatory revenue cap mechanism.

Queensland's severe weather conditions during the year inundated the Central Queensland Coal Network and caused widespread closures, particularly on the Blackwater Coal System. These closures, as well as reduced coal output in the months following the floods, led to approximately 12 per cent fewer tonnes transported on the network compared with the prior year.

A committed effort, coordinated by QR National's Flood Recovery Taskforce and safely delivered by the maintenance and construction teams, resulted in a remarkable remediation effort. Network Services' rapid response and recovery provided a clear demonstration of the capability of its people and the quality of its track assets.

Network Services has undergone a significant transformation since QR National's privatisation, with the seamless integration of the previously separate construction, maintenance, rollingstock and network operations into a unified business. Other important developments during the 2011 financial year included the negotiation of a new Access Undertaking with the Queensland Competition Authority, providing the framework for and introduction of regulated tariffs and investment on the coal rail systems. These regulated tariffs are the primary source of revenue for the division.

NETWORK SERVICES **Underlying results**	**FY2010**	**FY2011**	**% change**
Tonnages (million)	186.5	164.0	-12 %
NTK (billion)	45.4	40.0	-12 %
Revenue ($A million)	1,059.8	1,181.0	11 %
EBITDA ($A million)	431.7	438.6	2 %
EBIT ($A million)	277.3	284.7	3 %
Capital Expenditure	301.0	707.4	135 %
Access Revenue / NTK (A$/000 NTK)	14.8	17.4	18 %
Maintenance Costs(1) / NTK (A$/000 NTK)	2.4	2.7	-13 %
NTK / Track kilometre (000's)	20,119.0	17,558.4	-13 %
EBITDA Margin	41 %	37 %	-4 %
Operating Ratio(2)	74 %	76 %	-2 %

(1) *Maintenance costs exclude flood repairs (incl. Rolleston). Maintenance costs also excludes mechanised ballast undercutting and traction repairs*

(2) *Operating Ratio defined as (1 - EBIT margin)*

Jilalan Locomotive maintenance shed, Caitlyn Burow

NETWORK SERVICES
(CONTINUED)

The Blackwater electric traction system expansion project will allow for significantly more electric locomotives on the system and ensure it is well prepared to handle the increase in forecast coal tonnages in future years.

Network Services also took steps to put its rollingstock maintenance and construction operations onto a stronger commercial footing with a five year contract signed to overhaul passenger trains for Queensland Rail. Other contracts with QR National for the manufacture of coal wagons and locomotive overhauls provide additional security for the business and for customers going forward.

A 10 per cent productivity improvement was achieved in the manufacture of coal wagons during the year. A program has reduced turnaround times on passenger unit overhauls to 28 days, nearly doubling the capacity for this work with the same resources.

NETWORK GROWTH STRATEGY

A key component of QR National's growth strategy is the expansion of its coal network to support customers and growth in the Australian resources sector. During the year, the Network Services business delivered $702 million in new infrastructure designed to increase the capacity of the supply chain, in line with major port and mine expansions.

The most significant of these projects is the $1.1 billion Goonyella to Abbot Point (GAP) Expansion Project, which is the largest single growth project on the Central Queensland Coal Network. The GAP project achieved three major milestones during the year with the completion of all civil works, the commencement of track-laying on the 69 kilometre Northern Missing Link and the commissioning of the second balloon loop at Abbot Point.

Initial operation of this new rail infrastructure is anticipated in January 2012, with the project scheduled for completion in June 2012.

Further expansion of the Goonyella System also took place during the year to support the expected increase in coal exports through the Hay Point Coal Export Terminal near Mackay. The $185 million program of works will increase below rail capacity in the system from 129 mtpa to 140 mtpa. Delivery of the expansion project is aligned with the port expansion, due to come online in early 2014.

A further capital project, the $190 million expansion of the Blackwater electric traction system, progressed well in the 2011 financial year. This expansion project will allow for significantly more electric locomotives on the system and ensure it is well prepared to handle the increase in forecast coal tonnages in future years. Construction commenced in April 2011, with power connection to be completed by July 2012.

DELIVERING RESULTS

IMPROVEMENT PROGRAM USING LEAN MANAGEMENT PRINCIPLES DELIVERS RESULTS

QR National's Network Services business unit is rolling out a five-year contract with Queensland Rail for the refurbishment and overhaul of its passenger fleet. The Rollingstock Services workshop at Redbank is one of three facilities in Queensland that constructs, maintains and overhauls wagons, locomotives, components and passenger vehicles for QR National and other customers.

During the year, the Redbank workshop introduced Lean Management principles and methodologies to improve customer service and delivery on the Queensland Rail contract. This has resulted in dramatic improvements in overhaul times, whereby the throughput of electrical or suburban multiple units requiring overhauls has almost doubled.

Lean Management focuses on the reduction of waste, inventory and customer response time. The methodologies are designed to improve service delivery by placing emphasis on project coordination, communication, collaboration and visual control.

The program has introduced several new procedures and tools to meet and exceed customer expectations, including:

- Work Sequence Boards, helping staff plan, track and manage tasks as well as ensuring the timely escalation of operational issues
- Problem Counter-Measure Boards and meetings for staff to raise, solve and track concerns
- The 5S principles of workplace organisation including sorting, cleaning and standardising work areas.

Redbank management and employees have embraced the Lean Management principles and have worked together to drive improvements in inventory management and workplace processes. Positive results from the refurbishment and overhaul program, such as an increased commitment to customer service and responsiveness, improved quality of output and reduced delivery costs, are solidifying QR National's commercial relationship with Queensland Rail.

These methodologies have now been expanded into other sections of the Redbank facility, including component repair and overhaul areas, building workshop capacity and driving revenue growth for Network Services.

Image: Rollingstock Services Redbank, Lachlan Brown

GROWTH STRATEGY

QR NATIONAL GROWTH STRATEGY ON TRACK WITH LANDMARK GAP EXPANSION PROJECT

QR National Network Services is currently progressing one of the largest rail infrastructure projects in Queensland's 145-year rail history, with the $1.1 billion Goonyella to Abbot Point (GAP) Expansion Project.

The expansion of the coal rail network is a key facet of QR National's growth strategy and the GAP project underpins this strategy, as it will double the capacity of coal that can be railed through the Newlands coal system to the port of Abbot Point for export to 50 mtpa. Extensive consultation with customers was a key success factor of the project and the project's scope has incorporated the preferences of coal customers and aligns with their combined capacity requirements.

The GAP project is the first infrastructure investment in which Network Services negotiated terms with coal customers, enabling it to earn higher returns than those defined under the regulated access framework to recognise the increased risks relating to significant infrastructure investments.

The GAP project comprises a number of key sub-projects including:

- The Northern Missing Link (a 69 kilometre rail track link between the Goonyella and Newlands systems)
- A major upgrade and expansion of the existing Newlands coal system between Newlands and the Abbot Point Coal Terminal
- Capacity enhancements within the Goonyella coal system.

Image: Second Balloon Loop at Abbot Point, GAP Project

Despite the extraordinary wet season experienced at the start of the calendar year, the project remains on track and on budget for commissioning from January 2012.

Total capital expenditure on the project is $1.1 billion of which approximately $460 million was spent during the 2011 financial year, with $485 remaining to be spent. QR National has a strong balance sheet to support this network expansion including a $3 billion syndicated facility and other funding options including customers funding rail infrastructure and potential joint ventures.

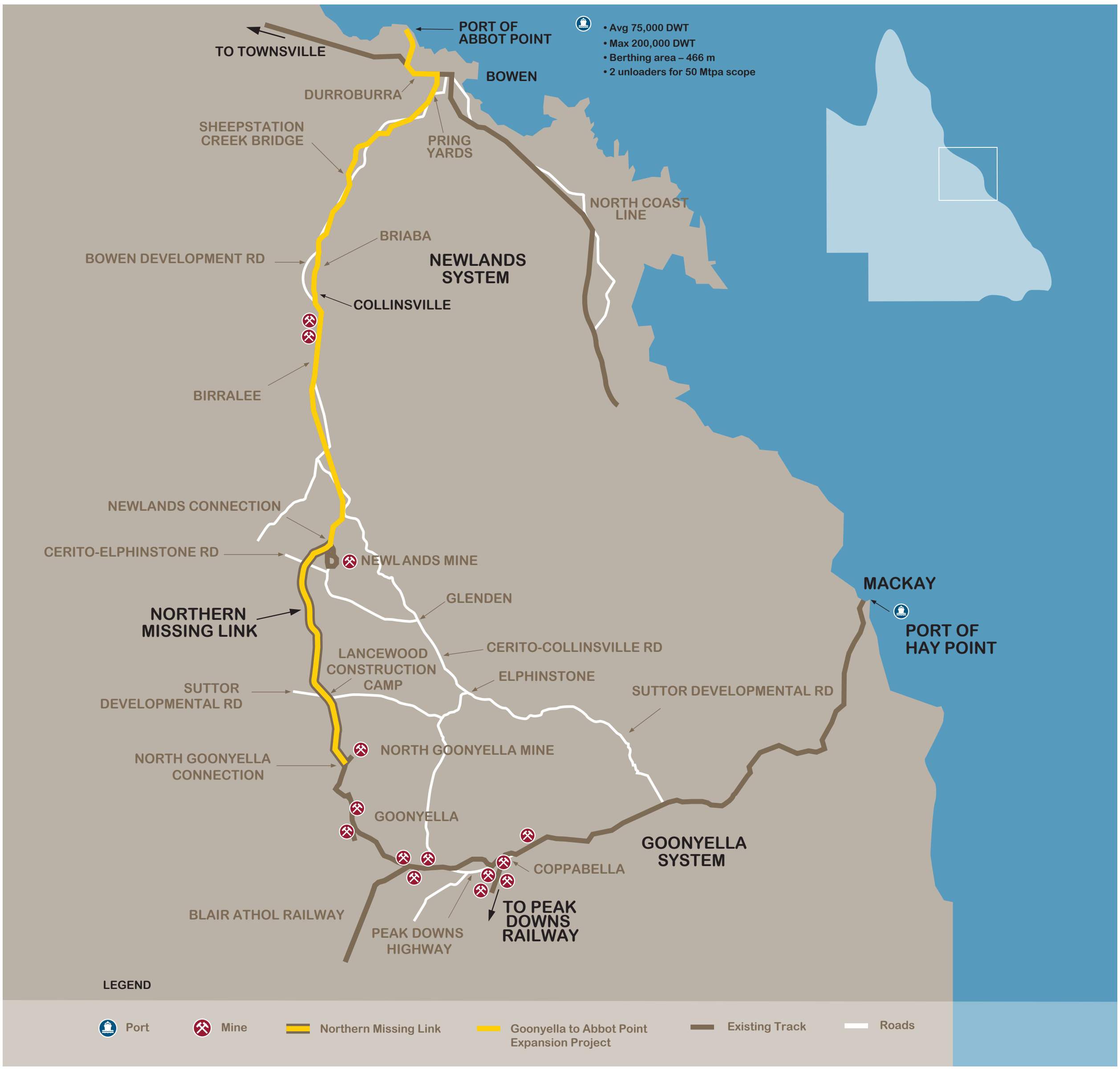
The GAP project represents a transformational project for QR National as it will deliver a step change in company earnings when the track is at full throughput. At its full run rate, the project is expected to deliver between $170 million and $190 million in EBITDA.

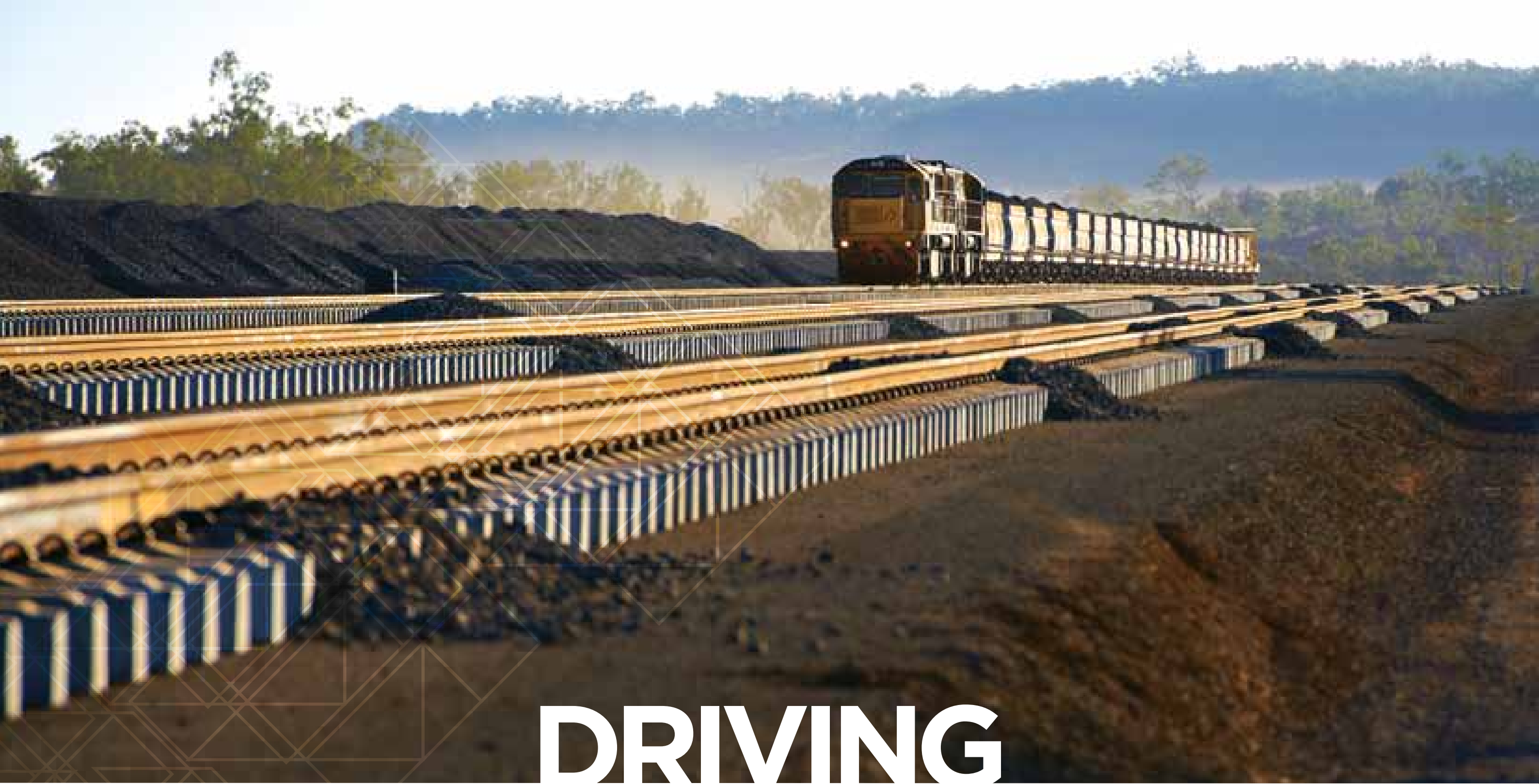
The project is a vital piece of national infrastructure that will help Australia meet growing global demand for coal exports.

The GAP project will greatly increase flexibility and efficiency for QR National's coal customers allowing them to maximise growth options in line with market demand.

The project will also benefit the Australian and Queensland economies through the facilitation of higher export revenues and inject millions of dollars into local economies in Central Queensland with an estimated 800 new jobs created over the life of the project.

GAP EXPANSION PROJECT MAP





DRIVING EFFICIENCY

QR NATIONAL'S TRANSFORMATION DRIVING EFFICIENCY AND CUSTOMER SERVICE GAINS

QR National is undergoing an unprecedented transformation as the Company embeds its integrated operating model across the enterprise to improve business alignment and operating efficiencies.

There is great scope for efficiency and productivity improvements in a 145-year-old company.

QR National's Operational Excellence division is a specialist unit which is providing enterprise-wide solutions to maximise synergies and scale of company operations.

The division is driving improvements and operational performance across the key areas of asset engineering, fleet planning, asset reliability, planning and scheduling, safety and environment to meet industry benchmarks.

During the 2011 financial year, Operational Excellence worked on a broad range of transformation initiatives to deliver cost efficiencies and better customer service outcomes, which will enable the Company to grow its revenue base and profitability.

The work which is underway focuses on key areas including:

- Capital productivity
- Labour productivity
- End-to-end efficiency improvements
- Cost savings through improved asset management.

Operational Excellence has played a key role in the implementation of a new efficiency program across the Capricornia coal systems (Blackwater and Moura) designed to increase train payloads, improve locomotive availability and reliability, increase track availability and reliability, and enhance scheduling.

With the new program operating successfully in Capricornia, it is now being deployed in the Goonyella system.

The implementation of a new management regime across the systems has also delivered a 10 per cent plus improvement in locomotive reliability.

With lower coal production as a result of this year's floods, QR National has also taken the opportunity to begin a major program of track maintenance throughout the Capricornia and Goonyella systems to improve track availability and reliability when coal volumes return.

In addition to these initiatives, a number of projects are underway to increase the utilisation and productivity of locomotives across business units. Work is also being progressed to rationalise locomotive classes by 20 per cent and to retire uneconomic rollingstock (locomotives and wagons).

A ballast train completing track work on the Northern Missing Link

Abbot Point Tracklaying, Dwane Ivey

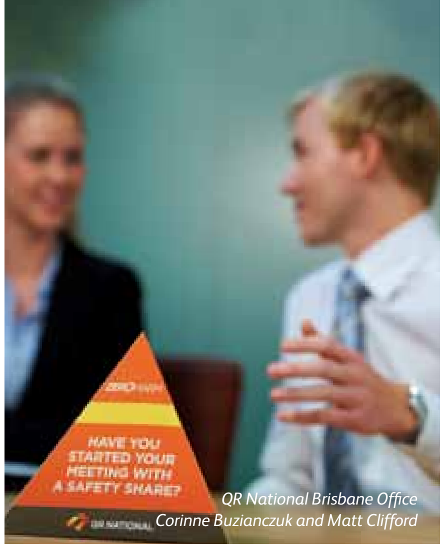
CORPORATE SOCIAL RESPONSIBILITY

QR National recognises that operating responsibly and in a sustainable manner, and making a positive contribution to the community, is vital for ongoing business success.

QR National's safety performance continues to improve through the embedding of a safety culture and mindset that prioritises ZEROHarm as a way of life.

Jilalan provisioning shed, Bertha Archer

SAFETY



QR National Brisbane Office
Corinne Buzianczuk and Matt Clifford

Safety is the highest priority and a core value for QR National. The Company is committed to ensuring the safety of its employees, customers and the public.

QR National is constantly striving to improve. The Company is among Australia's leaders in rail safety and has a safety vision which is to be world-class in safety, with the goal of ***ZERO***HARM — no injuries to anyone, ever.

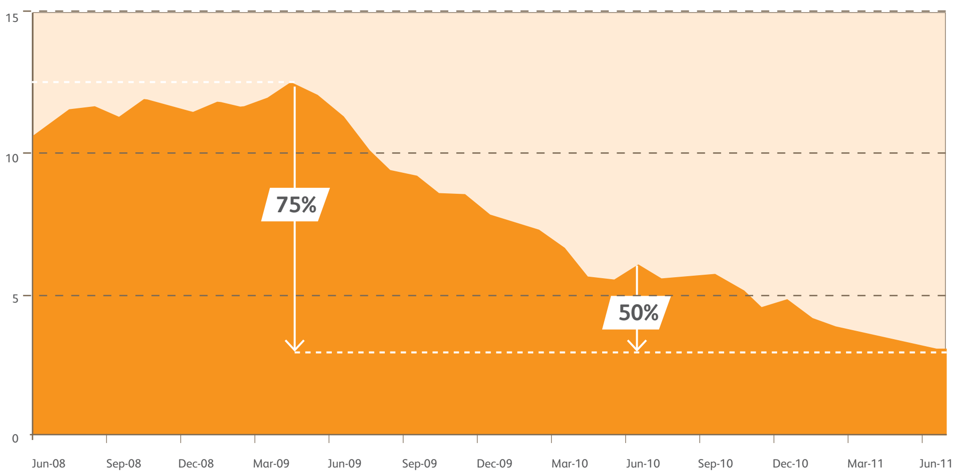
QR National's safety performance continues to improve through embedding a safety culture and mindset that prioritises ***ZERO***HARM as a way of life. During the year, QR National continued its company-wide "Targeting ZERO Injuries" campaign to provide a visible focus on safety. The campaign's ultimate objective is to ensure every employee returns home safely every day.

QR National's safety performance, which underpins the Company's changing culture, gained significant traction over the last year. QR National achieved a key milestone in its safety journey when, for the first time in 20 years, it achieved a Lost Time Injury (LTI) free month in January 2011. This achievement is particularly notable in the face of major natural disasters, including floods and cyclones and with many employees performing tasks outside their normal daily activities due to these events.

There has also been a decline in the Lost Time Injury Frequency Rate (LTIFR) across the Company over recent years. Since April 2009, QR National has achieved a more than 75 per cent reduction in its LTIFR. This financial year alone, there was a 50 per cent reduction in LTIFR.

LOST TIME INJURY FREQUENCY RATE (LTIFR) PER MILLION HOURS WORKED

NB Historical data (30 June 2008 – 30 June 2010) is sourced from QR Limited up to separation on 30 June 2010, adjusted by removing Queensland Rail. It includes historical data for QRN Coal and QRN Freight and the portions of Network Services and Corporate areas alloacted to QR National.



QR National has a comprehensive approach to safety and risk management which includes targeted internal initiatives to improve its safety culture and to establish robust safety systems and behaviours among the workforce.

QR National's Central Safety Committee leads, reviews and directs the implementation of all safety programs. Its fundamental responsibility is to advocate and advance an improved safety culture within QR National.

The Safety Communities of Competence teams are one of QR National's newest initiatives, established to unite all business groups in the pursuit of improving safety. They are focused on providing governance, advocating positive positions and causes, advancing priorities and establishing a consistent and collaborative approach for key safety solutions.

Communities of Competence are an innovative extension on how we currently operate, focusing on a collaborative, coordinated approach to developing and implementing key safety initiatives.

Critical safety areas for our business being targeted by the Communities of Competence include, trackside safety, road safety and isolation and lockout.

QR National strives to be an employer of choice, offering diversity across the workforce including positions within operations, trades and construction, engineering and other corporate and professional areas.

QR National Brisbane, Helen Stark and Liza Etrae-Ellis

PEOPLE

QR National's people are its greatest strength, underpinning the Company's future growth and success, which is why its people come first.

QR National strives to be an employer of choice, offering diversity across the workforce including positions within operations, trades and construction, engineering and other corporate and professional areas.

Attracting and retaining the best people in their fields continues to be a key priority. This is demonstrated through the Company's focus on providing employees with internal promotion opportunities, working with employees to improve performance and build capabilities through apprenticeships, traineeships and graduate programs.

OUR VALUES

- SAFETY
- INTEGRITY
- LEADERSHIP, PASSION AND COURAGE
- WORLD-CLASS PERFORMANCE.

In the 2011 financial year, QR National realigned its Human Resources Strategy. This strategy continues to evolve and next year QR National will launch a National Code of Conduct including training across the business.

DIVERSITY

QR National's vision for a diverse workforce is being brought to life through a number of company-wide initiatives, including taking steps to build a stronger female workforce in a traditionally male-dominated industry. In the 2011 financial year, 11.6 per cent of the workforce were women. This vision is underpinned by the Board's adoption of a National Diversity Policy which recognises the importance of maintaining a workforce that is representative of Australian society.

In the 2011 financial year, QR National joined the Australian Employment Covenant to provide sustainable job opportunities for Indigenous Australians, a key milestone towards increasing Indigenous employee numbers by at least 400. QR National is committed to working closely with Indigenous communities to attract and retain employees and provide support mechanisms for the development of long-term careers with the Company.

TRAINING AND DEVELOPMENT

Within the next three years, QR National's aim is to triple the intake of graduates, apprentices and trainees from 75 to 300 per annum. The intake for August 2010 to June 2011 alone was 167, which was significantly higher than the target of 100.

A key initiative to harness this talent is the introduction of the Major Skills Program, to help grow the business through regional and youth employment, mentoring and links to education providers.


Rollingstock Services Redbank, Glen Taege

Strategic alliances with universities, TAFEs and other education providers support the development of recruits in key regional centres where they are based. Trainee programs are increasing the pool of talent to meet the Company's growth potential and to safeguard against an ageing workforce. An example of this was the recruitment of 43 people from north-west Queensland as trainee locomotive drivers in the 2011 financial year.

Initiatives, forums and programs over the 2011 financial year supported QR National leaders to develop a high performance culture, while engaging people to deliver superior value for stakeholders. A company-wide induction program further encouraged this culture.

QR National's Registered Training Organisation (RTO) certification was renewed for a further five years in 2011, seeing the certification through to 2016.

BRIGADE BOOST: Simon Smart – Group General Manager QR National Coal North (second from left) Tim Rudd –1st Officer Armstrong Beach Rural Fire Fighters, Lance Hodgson – 2nd Officer, Hay Point, Matt McFarlane – Area Director of the Rural fire service, Len Clegg –1st Officer Hay point and Fire Fighters Merv Murray and Larry Gran.

QR National has a proud history of making a positive contribution to the local communities in which it operates. The Company's primary focus in this respect for the 2011 financial year was on the establishment of a community investment and sponsorship framework, which forms part of its broader commitment to corporate social responsibility.

QR NATIONAL SUPPORTS FLOOD RECOVERY

Supporting local communities was never more important than in January 2011, when Queensland experienced one of the worst natural disasters on record, as a result of extensive flooding. The damage to properties and communities created by the floods was unprecedented, both in scale and personal loss.

QR National provided corporate donations totalling $200,000 to government flood appeals, with $100,000 going towards the Premier's Flood Appeal, $50,000 for the Ipswich City Council and $50,000 committed to the Central Highlands Regional Council. In addition, QR National staff personally contributed a further $79,000 to the Premier's Flood Appeal.

As a company closely connected to Central Queensland, QR National sought to help these communities in a number of ways – through fundraising, volunteering and providing emergency housing in some instances.

QR National has a proud history of making a positive contribution to the local communities in which it operates

COMMUNITY

Many QR National staff work and live in the regional and rural communities that were heavily impacted by the floods. To help staff support their local towns, QR National provided two days of volunteering leave for every staff member.

There were many outstanding examples of staff volunteering efforts, including the 60 Callemondah-based QR National train drivers who donated their time over a two-week period to help with clean-up efforts at Theodore. QR National has a large presence in this part of the state and has long been a supporter of the Theodore community. After the flood clean-up, QR National held a community barbeque and subsequently donated four barbeques, white goods and air conditioners to Theodore community groups and the local aged care facility.

QR NATIONAL BACKS CENTRAL QUEENSLAND NRL BID

During the year, QR National supported the Central Queensland National Rugby League (CQ NRL) Bid Team. If successful, the addition of a Central Queensland NRL team stretching as far north as Mackay, south to Bundaberg and west to the border, will bridge a large gap in rugby league in Queensland.

With more than 4,000 QR National employees living and working in Central Queensland, there is a strong alignment of interests between the Company and the CQ NRL Bid.

At the end of June, the Bid Team has secured 6,000 Leagues Club members and more than 28,000 other supporters' signatures on its petition.

To leverage its support of the CQ NRL Bid, QR National also announced its involvement in a Schools and Scholarship Program. The Scholarship Program will provide scholarships for Central Queensland youth from disadvantaged backgrounds, who have shown potential and commitment to pursue excellence in sport and scholastic endeavours. Scholarship holders will receive financial assistance related to their education, sporting and associated costs, as well as receiving specialised mentoring.

The QR National Schools Program will involve the CQ NRL Bid Team visiting local primary schools in Central Queensland, promoting healthy, positive lifestyle choices for young people, rail safety awareness and providing coaching activities to students. It will incorporate rugby league coaching clinics to classes, promotions at assemblies and assistance with school fundraising activities.

QR National also donated a total of $50,000 to the CQ NRL Bid Flood Appeal, providing much needed funds to local junior NRL clubs affected by the floods.

QR NATIONAL SUPPORTS FAMILIES IN NEED

Throughout the year, QR National supported several not-for-profit charities, including the Salvation Army. The Company provided donations to the Salvation Army's Christmas Toy Appeal and the Red Shield Appeal. Employees also participated in the Red Shield Appeal weekend, with volunteers from the Company door-knocking to raise funds.

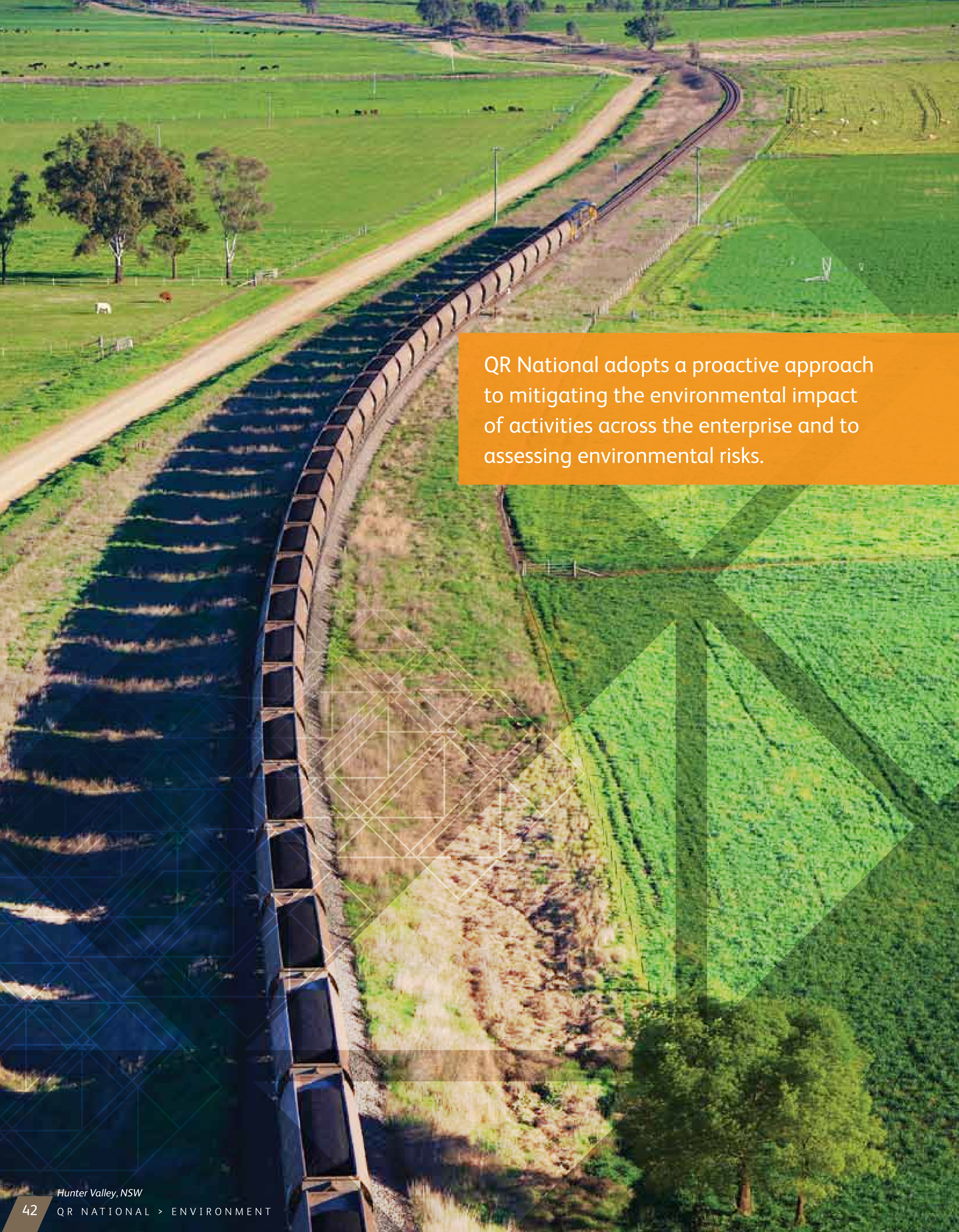
QR NATIONAL IN-KIND FREIGHT PROGRAM

As part of QR National's commitment to the community, the Company has operated an in-kind freight service program to a number of charities in Queensland for several years. This service has been offered in recognition of the valuable role these organisations play in the community.

With growing demand for this in-kind freight service, QR National has reviewed its previous process and developed an annual application process for charities, with the aim of sharing resources across the various communities the Company supports.

During the 2011 financial year, the QR National in-kind freight support provided assistance to:

- The Salvation Army
- Australian Red Cross
- St Vincent de Paul
- Lifeline
- Samaritan's Purse.



QR National adopts a proactive approach to mitigating the environmental impact of activities across the enterprise and to assessing environmental risks.

Hunter Valley, NSW

ENVIRONMENT AND SUSTAINABILITY

Environmental sustainability is a critical area of focus for QR National. As one of Australia's largest rail transport providers, QR National acknowledges the important role it can play in leading environmental sustainability for the industry.

In adopting a proactive approach to mitigating the Company's environmental footprint, a new company-wide Environmental Policy was recently introduced to guide the continual improvement in environmental performance around the operational activities and services QR National provides.

The Policy takes the precautionary approach of assessing environmental risk before undertaking activities. All QR National employees are accountable for ensuring all business activities, facilities and equipment within their area of responsibility are managed in accordance with this Policy.

During the past year, QR National focused on improving processes to ensure the Company's environmental obligations were met and managed and energy efficiency savings were identified. QR National complies with the National Greenhouse and Energy Reporting Act 2007 ("NGER Act") and the Federal Government's Energy Efficiency Opportunities (EEO) scheme.

During the 2011 financial year, QR National:

- Collaborated with the coal industry to implement a Coal Dust Management Plan. This included the implementation of spray stations with dust suppressing chemicals, known as "veneers", to reduce coal dust produced from wagons. It is planned that all Central Queensland mines will have these spray stations installed by 2013
- Monitored coal dust in the Goonyella, Blackwater and Moura coal rail systems and the Dalrymple Bay Coal Terminal third rail loop, with an ongoing focus on coal loading to reduce dust
- Trained employees who handle high-risk chemicals or fuel, to improve spill prevention and response.

QR National's Rollingstock and Components Services facility at Redbank also received accolades for its water recycling and efficiency initiatives, being named a finalist in the 2010 Banksia Awards. These awards are recognised as being among the most prestigious environmental awards in Australia.

The Redbank facility, which is used to assemble wagons and maintain QR National's locomotive fleet and the government-owned Queensland Rail electric passenger trains, introduced a range of water saving initiatives including:

- A waste water treatment system and wetland configuration
- Water efficient appliances
- Solar-powered pumps
- A gravity storage tower and reticulation for delivery of recycled waste, which has resulted in a 90 per cent reduction of potable water used.

CARBON EMISSIONS

Over the coming years, the Australian Government's proposed carbon tax to reduce greenhouse gas emissions is expected to provide both challenges and opportunities for QR National. Rail freight is up to 10 times more fuel efficient and produces up to 10 times less carbon emissions than road transport. Given the inherent environmental advantages of rail over road, QR National is well positioned to play a key role in this arena.

QR National's approach to environmental sustainability, together with a reduced freight task, resulted in a reduction in greenhouse emissions by 60,000 tonnes in the 2011 financial year. This reduction reinforces QR National's commitment to finding and adopting environmentally sound practices to effectively reduce the Company's carbon footprint across its operations.

With forecasts indicating Australia's domestic freight task will double over the next decade and triple by 2050, there are excellent opportunities for rail, given its environmental and safety advantages in a carbon-constrained world.

GOVERNANCE

QR National is committed to adhering to the highest standards of corporate governance.

DIRECTORS' REPORT

QR NATIONAL LIMITED DIRECTORS' REPORT

For the year ended 30 June 2011

The Directors of QR National Limited ("**QR National**" or "**the Company**") present their Directors' Report together with the Financial Report of the Company and its controlled entities (collectively, "**the Consolidated Entity**" or "**the Group**") for the financial year ended 30 June 2011 and the Independent Auditors Report thereon. This Directors' Report has been prepared in accordance with the requirements of Division 1 of Part 2M.3 of the *Corporations Act 2001*.

BOARD OF DIRECTORS

The following persons were appointed as Directors of the Company on 14 September 2010 and remain Directors up to the date of this report:

J B Prescott AC
(Chairman, Independent Non-Executive Director)

L E Hockridge
(Managing Director and CEO)

G T John AO
(Independent Non-Executive Director)

J Atkin
(Independent Non-Executive Director)

P C Kenny
(Independent Non-Executive Director)

R R Caplan
(Independent Non-Executive Director)

A J P Staines
(Independent Non-Executive Director)

A J Davies
(Independent Non-Executive Director)

G T Tilbrook
(Independent Non-Executive Director)

Details of the experience, qualifications and special responsibilities and other directorships of listed companies in respect to each of the directors are set out in the pages following.

J B PRESCOTT AC

Experience:
Mr Prescott has substantial experience in the mining, manufacturing, transport and government sectors. He was a long-term executive of The Broken Hill Proprietary Company Limited (now BHP Billiton Limited), including 10 years as an Executive Director and seven years as Managing Director and Chief Executive Officer (1991-98). He was also Chairman of ASC (formerly Australian Submarine Corporation Pty Ltd) from 2000-2009.

Mr Prescott has been a director of Newmont Mining Corporation, a Global Counsellor of The Conference Board since 2001 and a member of the Commonwealth Remuneration Tribunal since 2010. Other directorships and consulting/advisory positions have included Conference Board USA, World Economic Forum, Booz Allen and Hamilton, J.P. Morgan Chase & Co, Proudfoot Consulting, Asia Pacific Advisory Committee of New York Stock Exchange.

Qualifications:
BCom (Indus Rel), HonDsc, HonLLD, FAICD, FAIM, FTSE

Special Responsibilities:
Member of:
(i) Governance & Nomination Committee
(ii) Remuneration & Succession Committee
(iii) Safety & Environment Committee

Australian Listed Company Directorships held in the last three years
None other than QR National Limited.

L E HOCKRIDGE

Experience:

Mr Hockridge joined QR Limited as Chief Executive Officer in 2007 with extensive experience in the transportation and heavy industrial sectors in Australia and the United States. He is a Director of a number of QR National Limited wholly owned subsidiaries and Chairman of the Australasian Railway Association. During a 30 year career with The Broken Hill Proprietary Company Limited (now BHP Billiton Limited), and BlueScope Steel, Mr Hockridge was a member of the leadership team that led to BlueScope Steel's successful demerger from BHP and the creation of a new publicly listed company.

In 2005, Mr Hockridge was appointed President of BlueScope Steel's North American operations where he led a major turnaround in safety, production and financial performance. Other roles at BHP included human resources and industrial relations, general manager of BHP Transport, head of Long Products Business and president of Industrial Markets.

Qualifications:

FCILT, FAIM, MAICD

Special Responsibilities:

Member of:

(i) Safety & Environment Committee

(ii) Governance & Nomination Committee

Australian Listed Company Directorships held in the last three years

None other than QR National Limited.

J ATKIN

Experience:

Mr Atkin is Chief Executive Officer of The Trust Company Limited and a Director of The Australian Outward Bound Foundation. Mr Atkin has over 20 years experience in the management of professional service firms, and extensive experience in strategy development and execution. Prior to his current executive appointment in January 2009, he was the Managing Partner of Blake Dawson, where he led a successful transformation of the firm. Previously he had been a Senior Partner at Mallesons Stephen Jaques where he specialised in mergers and acquisitions and equity capital markets.

Qualifications:

BA (Hons), LLB (Hons), MAICD

Special Responsibilities:

Director of QR Network Pty Ltd

Chairman of Governance & Nomination Committee

Australian Listed Company Directorships held in the last three years

The Trust Company Limited

CEO – (Executive Director)

Commenced – 19 January 2009 (ongoing)

R R CAPLAN

Experience:

Mr Caplan has extensive international experience in the oil and gas industry. In a 42 year career with Shell he held senior roles in the upstream and downstream operations and corporate functions in Australia and overseas. From 1997 to 2006, he had senior international postings in the UK, Europe and the USA. From 2006 to July 2010 he was Chairman of the Shell Group of Companies in Australia.

Mr Caplan is Chairman of the Melbourne and Olympic Parks Trust, Chairman of the Cooperative Research Centre for Contamination Assessment and Remediation of the Environment, a Non-Executive Director of Orica Limited and member of the Board of the Committee for the Economic Development of Australia. He is a former Non-Executive Director of Woodside Petroleum Limited and of the former Chairman of the Australian Institute of Petroleum.

Qualifications:

LLB, FAICD

Special Responsibilities:

Member of:

(i) Governance & Nomination Committee

(ii) Audit & Risk Management Committee

Australian Listed Company Directorships held in the last three years

Orica Limited – Non-Executive Director

Commenced – 1 October 2007 (ongoing)

DIRECTORS' REPORT
(CONTINUED)

A J DAVIES

Experience:

Mr Davies has 36 years' experience in the Australian and international coal and metalliferous mining industries.

Mr Davies is a Director of XLX Pty Ltd, Executive Director of Whitehaven Coal Ltd, a Non-Executive Director of Qube Logistics Holding Ltd and a member of the Advisory Board of Qube Logistics. Mr Davies was a founding Executive Director of Excel Coal Limited and an inaugural Director of Pacific National Pty Ltd. From 2000 until early 2006, he worked for Patrick Corporation in addition to being a founding Executive at Excel Coal Limited. He also had an extensive career in mining with companies including MIM Holdings Ltd, Union Corporation, BP Coal and Rio Tinto.

Qualifications:

BE Mining (Hons)

Special Responsibilities:

Chairman of Remuneration & Succession Committee

Member of Safety & Environment Committee

Australian Listed Company Directorships held in the last three years

Whitehaven Coal Limited – Executive Director

Commenced – 19 February 2009 (ongoing)

G T JOHN AO

Experience:

Mr John has 30 years of management experience in the transport operations sector including 16 years as Managing Director of Australia Post. He was also a Senior Executive of TNT Australia Ltd.

Mr John is a Director of West Australian Newspaper Holdings, Racing Victoria, and a commissioner of the Australian Football League. His previous roles include Chairman of Australian Air Express, Chairman of Star Track Express, Chairman of the Kahala Posts Group, Director of the International Post Corporation (Netherlands), Vice Chairman of Sai-Cheng Logistics International (China), and a trustee of the Committee for Melbourne and the MCG. He has received the Australian Sports Medal and Centenary Medal.

Qualifications:

FCILT, MAICD

Special Responsibilities:

Chairman of Safety & Environment Committee

Member of Remuneration & Succession Committee

Australian Listed Company Directorships held in the last three years

Seven West Media Ltd – Non-Executive Director

Commenced – 3 December 2008 (ongoing)

P C KENNY

Experience:

Mr Kenny has extensive experience in the rural sector. He is the Chairman of Biosecurity Queensland and a member of the Australian Landcare Council, the National Biosecurity Advisory Council and the Cape York Heritage Committee. He represents Queensland agriculture on the Queensland Premier's Advisory Council on Climate Change.

Mr Kenny has owned and managed rural properties in different industries including cattle, dairy, orchards, lucerne and piggeries. His work over many years with AgForce included membership of the State Council and State Executive. He was President of AgForce Cattle for four years and then AgForce General President for four years. He was a Councillor and Secretary of the Cattlemen's Union of Australia and its representative on the AgForce Unity Working Group and a Director of the National Farmers Federation.

Qualifications:

Special Responsibilities:

Director of QR Network Pty Ltd

Member of Safety & Environment Committee

Australian Listed Company Directorships held in the last three years

None other than QR National Limited.

A J P STAINES

Experience:

Ms Staines has extensive corporate, financial and commercial experience and advisory experience in governance, strategy and risk management. She is a Director of Allconnex Water and the Brisbane Royal Children's Hospital Foundation. Former directorships include the Australian Rail Track Corporation, Gladstone Ports Corporation and Early Learning Services (now G8).

Ms Staines is a former Chief Executive Officer of Australian Airlines, a Qantas subsidiary she co-launched in 2002 as a member of the carrier's 12-person senior team. She previously held various financial, strategy and economic roles at Qantas. Prior to this, she held various financial roles at American Airlines' headquarters in Dallas.

Qualifications:

BEcon, MBA, FAICD

Special Responsibilities:

Chairman of QR Network Pty Ltd
Member of Audit & Risk Management Committee

Australian Listed Company Directorships held in the last three years

G8 Education Limited
Non-Executive Director
Commenced – 12 May 2009
Date of Cessation – 27 May 2010

G T TILBROOK

Experience:

Mr Tilbrook has broad experience in corporate strategy, investment and finance. He joined Wesfarmers in 1985 and was an Executive Director from 2002 to 2009. Between 2000 and 2006, when Wesfarmers was a joint owner of the Australian Railroad Group (ARG), he was a Director of ARG and Chairman of Westnet Rail. Mr Tilbrook is Chairman of Transpacific Industries and a Director of Fletcher Building, GPT Group, the Australian Government-owned broadband group NBN Co, the Perth International Arts Festival, the Bell Shakespeare Company and the Committee for Perth. He is also Councillor of Curtin University and the Australian Institute of Company Directors WA.

Qualifications:

BSc, MBA

Special Responsibilities:

Chairman of Audit & Risk Management Committee
Member of Governance & Nomination Committee

Australian Listed Company Directorships held in the last three years

GPT Group Limited – Non-Executive Director
Commenced – 11 May 2010 (ongoing)

Fletcher Building Limited – Non-Executive Director
Commenced – 1 September 2009 (ongoing)

Transpacific Industries Group Ltd – Non-Executive Chairman
Commenced – 3 September 2009 (ongoing)

COMPANY SECRETARY

Mr D D Smith, BA, LLB, LLM, DipLegS, FCIS, FAICD, was appointed Company Secretary of the QR Limited Group in May 2010 and to QR National Limited upon its incorporation on 14 September 2010.

Mr Smith has over 18 years company secretariat, governance, corporate legal and senior management experience in ASX listed companies. Mr Smith holds a Masters of Laws degree from the University of Sydney and is a Fellow of both the Chartered Secretaries Australia and the Australian Institute of Company Directors.

DIRECTORS' REPORT
(CONTINUED)

PRINCIPAL ACTIVITIES

The principal activities during the year of entities within the Group were:

- Integrated heavy haul freight railway operator
- Rail transporter of coal from mine to port for export markets
- Bulk, general and containerised freight businesses
- Large-scale rail services activities.

Coal

Transport of coal from mines in Queensland and New South Wales to end customers and ports.

Freight

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

Network Services

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

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

REVIEW OF OPERATIONS

A review of the Group's operations for the financial year and the results of those operations are contained in the Chairman's Report, the Managing Director and CEO's Report and the Year in Review as set out on pages 5 to 33 of this Annual Report.

DIVIDENDS

A special dividend of $86.4 million was declared and paid to the State of Queensland prior to listing on the ASX. Further details of dividends provided for or paid are set out in note 32 to the consolidated financial statements.

Since the end of the financial year, the Directors have declared to pay a final dividend of 3.7 cents per fully paid ordinary share. The dividend will not be franked and is payable on 30 September 2011.

STATE OF AFFAIRS

During the year, the Company listed on the ASX.

Group Restructure

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

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

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

Immediately following the restructure, QR Limited and its remaining subsidiaries conducted only the operations comprising QR National. The consolidated financial statements of QR National Limited have been prepared as a continuation of the financial statements of QR Limited.

Accordingly, consolidated comparative information is provided for the balance sheet, income statement, statement of comprehensive income, statement of changes in equity, cash flow statement and related information as at 30 June 2010 of QR Limited and its controlled entities.

EVENTS SINCE THE END OF THE FINANCIAL YEAR

The Directors are not aware of any events or developments which are not set out in this Annual Report that have or would have a significant effect on the Group's state of affairs, its operations or its expected results in future years.

LIKELY DEVELOPMENTS

Information about likely developments in the operations of the Group and the expected results of those operations are covered in the Chairman's Report, the Managing Director and CEO's Report and the Year in Review as set out on pages 5 to 33 of the Annual Report. In the opinion of the Directors, disclosure of any further information would be likely to result in unreasonable prejudice to the Group.

ENVIRONMENTAL REGULATION AND PERFORMANCE

QR National is committed to managing its operational activities and services in an environmentally responsible manner to meet legal, social and moral obligations. In order to deliver on this commitment, QR National seeks to comply with all applicable environmental laws and regulations.

The *Energy Efficiency Opportunities Act 2006* (Cth) requires the Group to assess its energy usage, including the identification, investigation and evaluation of energy saving opportunities, and to report publicly on the assessments undertaken, including what action the Group intends to take as a result. The Group continues to meet its obligations under this Act.

The *National Greenhouse and Energy Reporting Act 2007* (Cth) ("NGER Act") requires the Group to report its annual greenhouse gas emissions and energy use. The Group has implemented systems and processes for the collection and calculation of the data required and is registered under the *NGER Act*.

Environmental prosecutions

There have been no environmental prosecutions during this financial year.

RISK MANAGEMENT

The Company is committed to managing its risks in an integrated, systematic and practical manner. The overall objective of risk management is to assist the Company to achieve its objectives by appropriately considering both threats and opportunities and making informed decisions.

The Audit & Risk Management Committee oversees the process for identification and management of risk in the Company (see page 82 of the Annual Report). The Corporate Risk Division is responsible for providing oversight of the risk management function and assurance on the management of significant risks to the Managing Director and CEO and the Board.

The Company's risk management framework, responsibilities and accountabilities are aligned with the Company's business model where the individual businesses are accountable for demonstrating they are managing their risks effectively and in accordance with the Board approved risk management policy and framework.

The risk management framework has a strong focus on key organisational controls. A focus on the key organisational controls helps to shape the strategies, capabilities and culture of the organisation, identify and address vulnerabilities, strengthen the system of internal controls and build a more resilient organisation.

The Company also has a risk register with risk profiles populated at the various layers of the organisation and a management specification that outlines the processes for the prevention, detection and management of fraud within the Company, and for fair dealing in matters pertaining to fraud.

DIRECTORS' REPORT
(CONTINUED)

DIRECTORS' MEETINGS

The number of Board meetings (including meetings of committees of Directors) and number of meetings attended by each of the Directors of the Company during the financial year are listed below:

DIRECTOR	QR NATIONAL		AUDIT & RISK MANAGEMENT		GOVERNANCE & NOMINATION		REMUNERATION & SUCCESSION		SAFETY & ENVIRONMENT	
	HELD	ATTENDED	HELD	ATTENDED	HELD	ATTENDED	HELD	ATTENDED	HELD	ATTENDED
J B PRESCOTT AC	14	14	-	-	6	6	4	4	2	2
L E HOCKRIDGE	14	13	-	-	6	5	-	-	2	2
J ATKIN	14	14	-	-	6	6	-	-	-	-
R R CAPLAN	14	14	4	4	6	6	-	-	-	-
A J DAVIES	14	14	-	-	-	-	4	4	2	2
G T JOHN AO	14	13	-	-	-	-	4	4	2	2
P C KENNY	14	10[2]	-	-	-	-	-	-	2	-[3]
A J P STAINES	14	12	4	4	-	-	-	-	-	-
G T TILBROOK	14	13	4	4	6	5	-	-	-	-

[2] Mr P C Kenny was granted a leave of absence for 2 meetings.
[3] Mr P C Kenny was granted a leave of absence for 1 meeting.

DIRECTORS' INTERESTS

DIRECTOR	NUMBER OF ORDINARY SHARES
J B PRESCOTT AC	157,173
L E HOCKRIDGE	204,080
J ATKIN	20,408
R R CAPLAN	81,632
A J DAVIES	183,672
G T JOHN AO	46,632
P C KENNY	2,040
A J P STAINES	4,897
G T TILBROOK	30,612

Directors' interests are as at 29 August 2011.

The performance rights of directors are set out in Section 6.1 of the Remuneration Report.

NON-AUDIT SERVICES

During the year, the Company's auditor (PwC) performed other services in addition to its audit responsibilities. The Directors are satisfied that the provision of non-audit services by PwC during the reporting period did not compromise the auditor independence requirements set out in the *Corporations Act 2001*.

All non-audit services were subject to the Company's Non-Audit Services Policy and do not undermine the general principles relating to auditor independence set out in APES 110 *Code of Ethics for Professional Accountants*, as they did not involve reviewing or auditing the auditor's own work, acting in management or decision making capacity for the Company or jointly sharing risks and rewards.

No officer of the Company was a former Partner or Director of PwC and a copy of the auditor's independence declaration as required under the *Corporations Act 2001* is set out in and forms part of this Directors' Report. Details of the amounts paid to the auditor of the Company and its related practices for non-audit services provided throughout the year are as set out below:

	2011 $'000
Other assurance services	
PwC Australian firm:	
Audit of regulatory returns	35
Other assurance services	48
Total remuneration for other assurance services	83
Taxation services	
PwC Australian firm:	
Tax compliance services	1,225
Total remuneration for taxation services	1,225
Other services	
PwC Australian firm:	
Advisory services	3,153
Total remuneration for other services	3,153

DIRECTORS' REPORT
(CONTINUED)

CEO AND CFO DECLARATION

The CEO and CFO have provided a written statement to the Board in accordance with section 295A of the *Corporations Act 2001*.

With regard to the financial records and systems of risk management and internal compliance in this written statement, the Board received assurance from the CEO and CFO that the declaration was founded on a sound system of risk management and internal control and that the system was operating effectively in all material aspects in relation to the reporting of financial risks.

INDEMNIFICATION AND INSURANCE OF OFFICERS

The Company's constitution provides that it may indemnify any person who is, or has been, an officer of the Group, including the Directors, the Secretaries and other Executive Officers, against liabilities incurred whilst acting as such officers to the extent permitted by law. The Company has entered into a Deed of Access, Indemnity and Insurance with each of the Company's Directors. No Director or officer of the Company has received benefits under an indemnity from the Company during or since the end of the year.

The Company has paid a premium for insurance for officers of the Group. This insurance is against a liability for costs and expenses incurred by officers in defending civil or criminal proceedings involving them as such officers, with some exceptions. The contract of insurance prohibits disclosure of the nature of the liability insured against and the amount of the premium paid.

PROCEEDINGS AGAINST THE COMPANY

The Directors are not aware of any current of threatened civil litigation proceedings, arbitration proceedings, administration appeals, or criminal or governmental prosecutions of a material nature in which QR National is directly or indirectly concerned which are likely to have a material adverse effect on the business or financial position of the Company.

REMUNERATION REPORT

The Remuneration Report is set out on pages 56 – 79 and forms part of the Directors' Report for the financial year ended 30 June 2011.

ROUNDING OF AMOUNTS

The Group is within the class specified in ASIC Class Order 98/100 dated 10 July 1998 relating to the "rounding off" of amounts in the Directors' Report and the Financial Report. Amounts in the Directors' Report and Financial Report have been rounded off to the nearest hundred thousand dollars in accordance with ASIC Class Order 98/100, except where stated otherwise.

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 55.

The Directors' Report is made in accordance with a resolution of the directors of the Company.

JB Prescott AC
Chairman
29 August 2011

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of QR National Limited for the full year ended 30 June 2011, I declare that, to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

b) no contraventions of any applicable code of professional conduct in relation to the audit.

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

Robert Hubbard
Partner
PricewaterhouseCoopers

Brisbane
29 August 2011

PricewaterhouseCoopers, ABN 52 780 433 757
Riverside Centre, 123 Eagle Street, BRISBANE QLD 4000, GPO Box 150, BRISBANE QLD 4001
T: +61 7 3257 5000, F: +61 7 3257 5999, www.pwc.com.au

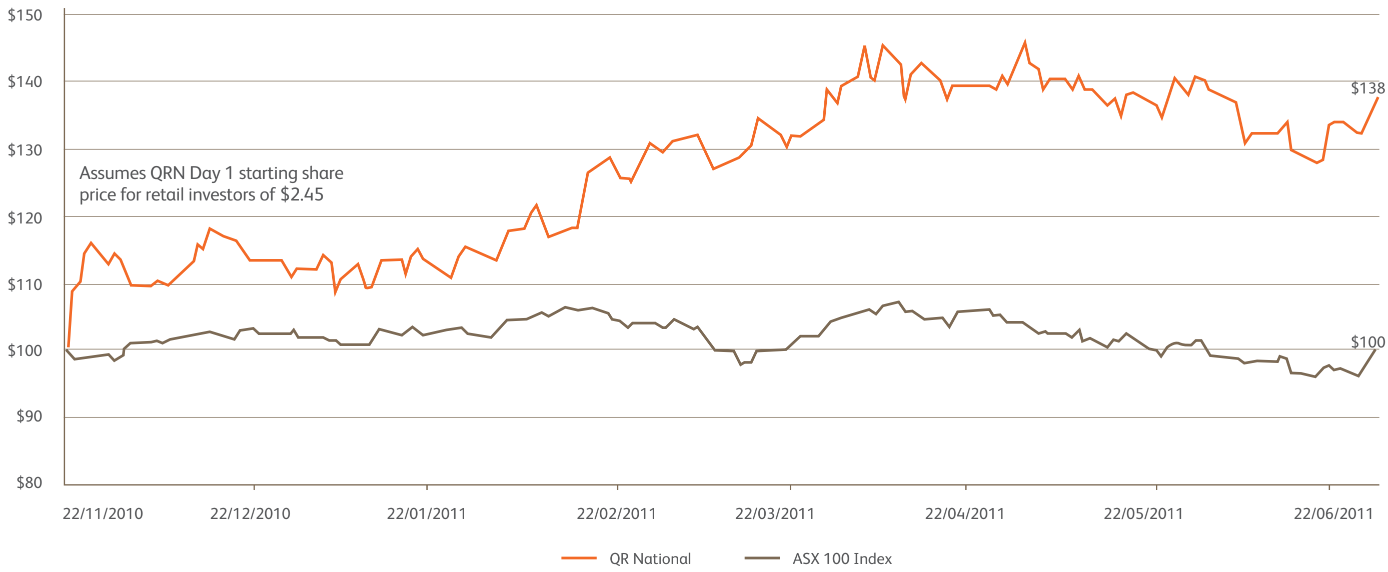
REMUNERATION REPORT (AUDITED)

The Directors of QR National Limited present the Remuneration Report prepared in accordance with section 300A of the *Corporations Act 2001* for the year ended 30 June 2011. The information provided in this Remuneration Report has been audited as required by section 308(3C) of the *Corporations Act 2001*.

Table of Contents

1. REMUNERATION SNAPSHOT

The QR National remuneration strategy seeks to encourage high performance over the short, medium and longer terms by using several distinct reward plans. One of the indicators of the performance of QR National is the share price appreciation since IPO. The graph below shows the QRN share price and the ASX100 index value over the period from 22 November 2010 to 30 June 2011. The graph assumes that a shareholder starts with an initial investment of $100 in QR National and the ASX100 index and shows the change in the value of that investment, based on changes in share price/index value over the period. For QR National, the graph assumes a starting price of $2.45 – the share price offered to retail investors on the date of listing.



The following table 1 summarises how each of the remuneration components works:

Table 1: Remuneration components

Remuneration component	Summary	Sections
Fixed remuneration	Fixed remuneration which comprises base salary, superannuation benefits and other benefits is determined with reference to a range around market median assessed by collecting and collating market data for comparable roles in similarly sized companies operating in similar market sectors. An individual's position within the range and the value of any annual increase in fixed remuneration will be determined with reference to market movements and the individual's experience, competence level, qualifications, etc. Performance outcomes, on the other hand, are rewarded through the various incentive programs (see following page). For the 2011 fixed remuneration review for all non-award employees, QR National has applied an overall increase of less than 4 % across QR National.	6.1.2

1. REMUNERATION SNAPSHOT (CONTINUED)

Remuneration component	Summary	Sections
Short-term Incentive Awards ("STIA")	A STIA plan was introduced at the time of the Initial Public Offer ("IPO") which provides the possibility of cash awards at the absolute discretion of the Board having regard to QR National, Business Unit and individual key performance indicators ("KPIs"). The QR National and Business Unit KPIs specify minimum, target and stretch performance expectations in relation to EBIT, Safety and Transformation. The individual KPIs specify minimum, target and stretch performance expectations which relate to that particular position. For each individual, a target STIA percentage (of fixed remuneration) is specified in the employment agreement. All employees at the same level will have the same target STIA percentage. For the majority of the KMP, the target STIA percentage is 50 % of fixed remuneration. In the event that QR National, Business Unit and individual target performance outcomes are achieved, the individual can expect an incentive payment at the target STIA percentage. In the event that QR National, Business Unit and individual stretch performance outcomes are achieved, the individual can expect an incentive payment close to the maximum which is one-and-a-half times the target STIA percentage for all plan participants. The maximum STIA for the majority of the KMP is, therefore, 75 % of fixed remuneration. In the event that QR National, Business Unit and individual performance outcomes are all below the minimum expectation, no STIA will be awarded.	6.1.3
Deferred Short-term Incentive Awards ("STIAD")	Being a recently listed public company, QR National could not rely on prior year Long-term Incentive Awards to assist with retention of Executives. In order to mitigate this risk to some degree the Remuneration and Succession Committee (the "Committee") recommended the implementation of a deferred STIA arrangement for the first two years after listing. Under this deferred component, two tranches of rights to QR National shares will be granted to Executives in the event that they are awarded an STIA in 2011 and 2012. The number of performance rights an Executive is awarded will be 50 % of the STIA outcome in 2011 and 2012 divided by the share price at that time (Volume Weighted Average Price "VWAP" five days prior to the award).	6.1.3.3
Long-term Incentive Awards ("LTIA")	Participation in the QR National LTIA plan awards Senior Executives with rights to QR National shares which will only vest in the event that performance hurdles are achieved. There are two performance hurdles – Total Shareholder Return ("TSR") relative to a peer group and Earnings Per Share ("EPS") growth. In the initial years after IPO, the EPS growth targets have been substituted with the Offer Document earnings targets. These arrangements were described on page 132 of the Offer Document. For the Award made at the time of the IPO, the level of performance required for 100 % vesting of the performance rights is the top quartile TSR performance amongst the peer group PLUS the aggregate earnings predicted in the Offer Document for 2011 and 2012 PLUS EPS growth of 10 % between 2012 and 2013. The level of performance below which no rights will vest is TSR performance below the median of the peer group AND either failure to achieve the aggregate earnings predicted in the Offer Document or failure to achieve EPS growth of at least 7.5 % between 2012 and 2013.	6.1.4

2. REMUNERATION FRAMEWORK

The primary purpose of the QR National remuneration framework is the delivery of superior shareholder returns. The guiding principles which underpin the remuneration framework are shareholder alignment, performance improvement and market competitiveness:

- **Alignment with shareholder interests –** the determination of incentive outcomes depends on the achievement of performance hurdles which, if achieved, will add shareholder value.
- **Performance improvement –** QR National's remuneration, performance improvement and performance management programs are closely integrated to ensure that QR National, Business Unit and individual performance continually improve. In this way, superior performance is rewarded and differentiated from performance which is only adequate or inferior. The performance indictors are derived from the business strategy and targets. In addition, all participants in the incentive plans are rewarded only in the event that the QR National values and behaviours are consistently demonstrated.
- **Market competitiveness –** the quantum and structure of remuneration is determined with reference to competitive market practices evident at similarly sized companies in similar industry sectors. The employee value proposition is sufficiently strong to allow QR National to set remuneration close to the market median.

QR National's remuneration strategy is to:

- Support and reinforce the entire suite of performance improvement apparatus at the disposal of management
- Support, reinforce and enhance the achievement of QR National's operational, tactical and strategic objectives
- Assist, as part of the wider employee value proposition, with the attraction and retention of key employees, particularly in circumstances where there is a scarcity of talent and/or required skills in the marketplace
- Assist management in their efforts to communicate complex strategies, tactics and performance objectives to employees
- Actively encourage performance improvement at all levels – QR National-wide, within each team and for each individual.

In summary, the objective of QR National's Executive reward framework is to ensure reward for performance is both competitive and appropriate, particularly when considering remuneration outcomes in the light of the results delivered. The framework aligns Executive reward with achievement of strategic objectives and the creation of value for shareholders, and has been designed having considered market practices in terms of both quantum and structure.

3. KEY MANAGEMENT PERSONNEL

The Key Management Personnel ("KMP") of the Group (which is a defined term under the Australian Accounting Standards and includes Directors) comprise all of the Directors of QR National Limited and those Executives who have the authority and responsibility for planning, directing and controlling the activities of QR National. For the current financial year, the Executives that form part of the KMP (KMP Executives) have been determined to be those members of the Executive Leadership Team that report directly to the Managing Director and Chief Executive Officer ("MD & CEO"). The KMP of QR National for the year ended 30 June 2011 were:

Name	Position
Executive	
Lance Hockridge	Managing Director and Chief Executive Officer
Deborah O'Toole	Executive Vice President and Chief Financial Officer
Ken Lewsey	Executive Vice President and CEO Freight
Marcus McAuliffe	Executive Vice President and CEO Coal
Michael Carter	Executive Vice President and CEO Network Services
Greg Pringle	Executive Vice President and Chief Corporate Services Officer
John Stephens	Executive Vice President and Chief Human Resources Officer
Lindsay Cooper	Executive Vice President and Executive General Manager Operational Excellence
Curtis Davies	Executive Vice President and CEO Coal Customers (appointed 16 August 2010)

Name	Position
Non-Executive Directors	
John B Prescott AC	Independent Non-Executive Chairman
John Atkin	Independent Non-Executive Director
Russell Caplan	Independent Non-Executive Director
Allan Davies	Independent Non-Executive Director
Graeme John AO	Independent Non-Executive Director
Peter Kenny	Independent Non-Executive Director
Andrea Staines	Independent Non-Executive Director
Gene Tilbrook	Independent Non-Executive Director

4. ACTUAL REMUNERATION OUTCOMES

The cash remuneration actually received by the Managing Director and CEO and the other Senior Executives in respect of the year ended 30 June 2011 is shown in table 2 below. The remuneration details prepared in accordance with the accounting standards are included in table 11. The fixed pay shown in the table below is a composite of the salaries paid to Executives prior to IPO (which in most cases reflected the market for Executives in non-listed entities) and the salaries paid after IPO which were determined by the Board with reference to listed companies operating in similar sectors. The "retention bonus" was put in place when the Government first proposed a float and was made payable only after and in the event of a successful IPO. The MD & CEO was excluded from the group of executives whom were entitled to a "retention bonus". Instead, the MD & CEO was awarded performance rights under the STIAD, as described in section 6.1.3.3 subject to the achievement of specified performance hurdles.

Table 2: Actual Remuneration Outcome

Name	Fixed pay (including superannuation) $'000	IPO retention $'000	Short-term Incentive $'000	Deferred Short-term Incentive $'000	Long-term Incentive $'000	Total $'000
L E Hockridge	1,412	-	1,664	-	-	3,076
D M O'Toole	644	434	463	-	-	1,541
K R Lewsey	701	388	408	-	-	1,497
M P McAuliffe	554	319	363	-	-	1,236
M G Carter	551	319	353	-	-	1,223
G P Pringle	518	299	350	-	-	1,167
R J Stephens	533	330	350	-	-	1,213
L J Cooper	459	271	310	-	-	1,040
C M Davies [1]	532	-	348	-	-	880
Total Executive remuneration	**5,904**	**2,360**	**4,609**	**-**	**-**	**12,873**

1 Mr Davies was appointed on 16 August 2010

5. REMUNERATION GOVERNANCE

The Board takes an active role in the governance and oversight of QR National's remuneration policies and practices. The Remuneration and Succession Committee (details of which are set out on pages 52 and 83 of the Annual Report) (the Committee) assists the Board in relation to QR National's remuneration framework. Specifically, the Committee seeks to ensure that QR National strikes a balance between the ability to compete for scarce talent in an increasingly competitive market and the need to ensure that remuneration arrangements are reasonable, appropriate, clear and understandable. In addition, the Committee undertakes functions delegated to it by the Board including consideration and approval of the annual remuneration program and all aspects of the long and short-term incentive plans. The Committee's Terms of Reference is available on the website (www.qrnational.com.au).

The Committee is independent of management and obtains advice from independent experts as necessary. The use of external specialists in relation to the remuneration of the KMP is initiated directly by the Committee and/or the Board and these specialists are directly engaged by the Committee Chairman where advice and recommendations about the KMP is provided. During the year ended 30 June 2011, the Committee received advice from the following independent organisations:

Table 3: External Remuneration Advice

Organisation	Purpose	Role
Egan Associates	Remuneration benchmarking and remuneration plan structure and operation to assist with the determination of fixed pay for the KMP, the remuneration components, the quantum of each and the mix between these components.	KMP advice and recommendations
Deloitte	LTIA and STIAD valuation and relative TSR calculations.	Calculations and plan operations
PwC	Advice on taxation and benchmarking information and review of flood impact calculations.	Tax advice and implications and general review

Further discussion of the Committee's involvement in determining the amount and nature of remuneration is included in the respective remuneration sections.

6. REMUNERATION COMPONENTS

The remuneration framework provides a mix of fixed and variable pay, and a blend of short and long-term incentives.

6.1 Executives

The Executive remuneration and reward framework has four components:

- Fixed remuneration;
- STIA
- STIAD
- LTIA.

The combination of these components comprises an Executive's total remuneration.

6.1.1 Mix of Remuneration Components

The mix of remuneration components for the MD & CEO, the KMP Executives and the other Executives (assuming achievement of the 'at target' outcomes for STIA and STIAD and assuming the LTIA vested at a value equal to the original award) are set out in the following diagram.

Mix of Remuneration Components (at Target STIA)

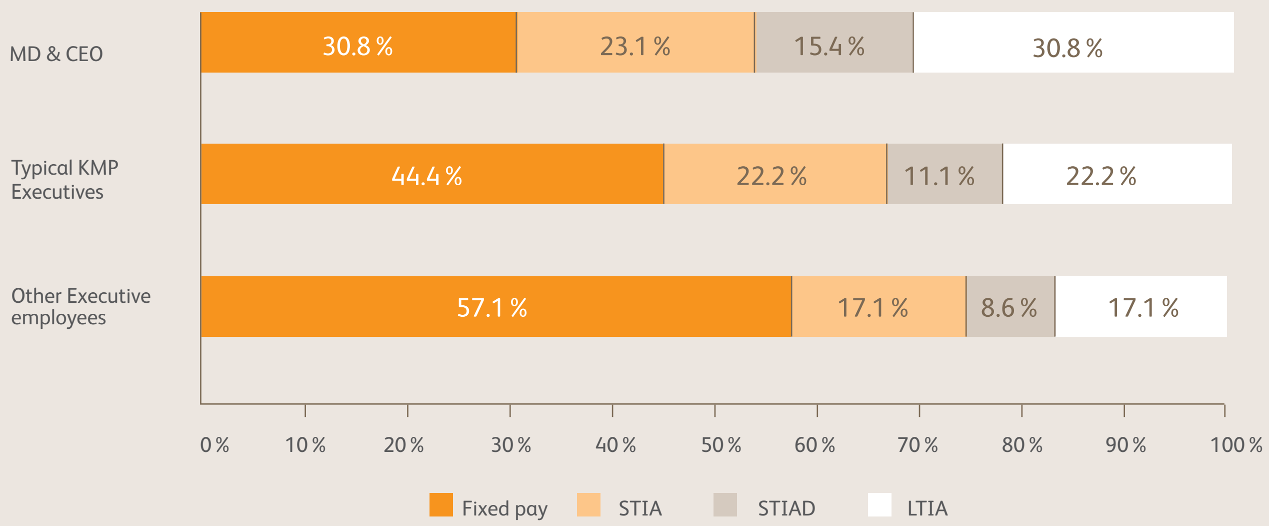


Table 4 summarises the nature of each remuneration component, the manner in which each piece is determined and the link that each piece has to performance.

Table 4: Remuneration Components

Remuneration Component	Description	Determination	Link to Performance
Fixed remuneration	Comprises base salary, superannuation benefits and other benefits.	Fixed remuneration is determined with reference to a range around market median for the particular role based on comparable roles in similarly sized companies operating in similar market sectors. An individual's position within the range and the value of any annual increase in fixed remuneration will be determined with reference to market movements and to a number of other factors including the individual's experience, competence level and qualifications.	Performance will be considered at the time of the annual remuneration review when annual increases in fixed pay are determined.
STIA	Annual 'bonus' component. Paid in cash subject to meeting and/or exceeding performance targets set in relation to KPIs.	Performance is assessed with reference to pre-determined targets set in relation to specified KPIs for QR National, the respective Business Unit and for the individual.	Directly linked to performance, STIA awards are completely 'at risk'.

6. REMUNERATION COMPONENTS (CONTINUED)

Table 4: Remuneration Components (continued)

Remuneration Component	Description	Determination	Link to Performance
STIAD	Medium-term share-based component intended to mitigate the attraction and retention risk associated with the unavailability of prior year LTI.	50 % of the actual annual STIA bonus for 2011 and 2012.	The number of rights is directly related to performance by virtue of the value being 50 % of the STIA awarded.
LTIA	Long-term share-based component, with vesting of shares assessed 3 years after an award of performance rights.	Only those senior employees whose daily activities and decisions impact the long-term outcomes of QR National are eligible to participate. Generally, this group includes the MD & CEO, the KMP Executives and their direct reports (less than 1% of the full-time workforce). The number of performance rights awarded and, hence, the maximum number of shares that might eventually vest, is determined by a percentage of fixed remuneration divided by the share price (VWAP) at the time of the award. The percentage of fixed pay is, in turn, assessed with reference to market practices and is the same for all participants at the same level (either 30 %, 40 % or 50 % of fixed pay for all executives other than the MD & CEO who was awarded rights to the value of 100 % of fixed pay).	Vesting depends on QR National's TSR performance relative to a peer group and EPS growth. In the initial years after IPO, the EPS growth targets have been substituted with the Offer Document earnings targets. These arrangements are described on page 132 of the Offer Document.

6.1.2 Fixed Remuneration / Base Salary and Benefits

Executives are offered a competitive base salary that comprises the fixed component of pay and rewards. The Committee reviews the remuneration and other terms of employment of Executives having regard to performance against goals set at the start of the year, relevant comparative information and independent expert advice. In setting remuneration, regard is given to performance, market conditions and QR National's desired market positioning (median). Advice is taken from independent external professional advisors to determine the range around market median evident in the marketplace and the individual is paid within that range. A fully competent individual can expect to be paid close to the market median while an individual growing into a role can expect to be paid below the median until they are able to demonstrate full competency. An individual who consistently exceeds the requirements of the role by virtue of their experience, qualifications, performance and marketability may well be paid above the median but still within the assessed market range for the role.

Fixed remuneration for Executives is reviewed annually through a process which considers market based increases generally, market movements in specific industry sectors and professional disciplines and perhaps market movements in relation to specific roles. There are no guaranteed fixed remuneration increases included in any Executive's contracts although there is a contractual commitment to review fixed remuneration on an annual basis. The fixed remuneration amount is used to fund all other benefits (i.e. private motor vehicle, etc), if there are any, and any consequent fringe benefits tax.

6.1.3 Short-term Incentive

QR National operates an annual STIA plan which applies equally (other than the target award amount) to all non-enterprise agreement employees and is the same plan used to reward the KMP Executives. The STIA awards a cash bonus subject to the achievement of pre-defined QR National-wide, Business Unit, and individual targets set by the Committee in relation to certain KPIs.

6.1.3.1 STIA Operation

Notwithstanding anything that follows, the Board has absolute discretion as to whether a STIA is awarded and, if so, to what extent. This absolute discretion is cited in the contract of employment of each KMP Executive. For each individual, a target STIA percentage (of fixed remuneration) is specified in the employment agreement. All employees at the same level will have the same target STIA percentage. For majority of KMP Executives, the target STIA percentage is 50% of fixed remuneration and the maximum is 75%. For the MD & CEO the target percentage is 75% of fixed remuneration and the maximum is 100%.

In the event that QR National, Business Unit and individual target performance outcomes are achieved, the individual can expect an incentive payment close to the target STIA percentage.

In the event that QR National, Business Unit and individual stretch performance outcomes are achieved, the individual can expect an incentive payment close to the maximum STIA percentage.

In the event that QR National, Business Unit and individual performance outcomes are all below the minimum expectation, no STIA will be awarded.

6.1.3.2 STIA Performance Targets and Measurement

The Board can vary the KPIs, the targets set in relation to them and their relative importance from year to year depending on the strategic imperative and the desired performance message. For 2011, the primary KPIs common to all participants are EBIT, Safety and Transformation and their relative importance was assessed by the Board for each KMP Executive. These three primary indicators of performance were chosen because they captured the need to continuously improve safety across all aspects of the business, the need to quickly change from a statutory government-owned organisation to a world-class, profitable listed company and, at the same time, deliver benefits to shareholders.

The performance expectations for these KPIs for 2011 are set out below.

The Board announced to the ASX in May 2011 that, as the business had been severely impacted by the floods and Cyclone Yasi, steps were taken to ensure that the focus of the Executive was given to the flood recovery without disturbing the normal running of the business. This required that adjustments be made to the target EBIT and the setting of additional flood recovery targets so that incentive could be maintained in circumstances where the EBIT targets were demonstrably no longer achievable. All other targets remained intact. To the extent that these adjustments require shareholder approval, the Notice of Meeting will include resolutions which specify the original target and the amended target.

EBIT

Minimum, target and stretch achievement levels are set for both QR National as a whole and for each of the Business Units. The minimum performance level below which no EBIT component STIA would be payable was the Offer Document statutory forecast (see page 95 of the Offer Document). The target performance level is higher than the Offer Document forecast and is approximately equivalent to the EBIT level that QR National considered to have a 75% chance of achievement under favourable market and environmental conditions. The stretch EBIT level is much higher than the target level and the likelihood of attainment, although assessed by the Board as being achievable, would be considered remote even under favourable conditions. These targets were subsequently reduced to take account of the net impact of the floods and cyclone and the possibility of being awarded a stretch outcome was removed. The net reduction resulting from the impact of the floods and cyclones was independently reviewed by the Company's auditor PricewaterhouseCoopers.

6. REMUNERATION COMPONENTS (CONTINUED)

Safety

The minimum safety performance level below which no safety component STIA would be payable is a consistent reduction in LTIFRs (Lost Time Injury Frequency Rate – the number of hours lost to injury per million hours worked) and a consistent frequency of safety interactions. That is, it is not sufficient to maintain the number of LTIFRs – it is a minimum requirement that the number of hours lost to injury be reduced. The target level of achievement is a more significant reduction in LTIFRs and an even higher frequency of safety interactions. The stretch performance level is the achievement of what would be considered a world-class reduction in LTIFRs and an optimal frequency of safety interactions.

Transformation

The Board recognised the strategic imperative that QR National be transformed very quickly after the IPO from the characteristics typical of a long-standing public sector organisation to an efficient, profitable, listed market leader. To do this a number of specific change programs were identified and allocated to specific KMP Executives. Minimum, target and stretch levels of achievement were identified in relation to each transformation project and in relation to transformation overall. Performance was defined in terms of project and program completion (or milestone achievement), benefits delivery (or progression towards delivery for lengthy transformational projects) and sustainable capability improvement. The Board then assessed the level of achievement in relation to each transformation project having regard to pre-determined levels of expected achievement.

6.1.3.3 STIAD – Deferred Short-term Incentive Award

Being a recently listed public company, QR National could not rely on prior year LTIA awards to assist with retention of Executives. In order to mitigate this risk to some degree the Board implemented a deferred STIA arrangement for the first two years after listing. Under this deferred component of STIA, two tranches of rights will be granted to Executives in the event that they are awarded an STIA in 2011 and 2012. The number of performance rights an Executive is awarded will be dependent on the STIA outcome in 2011 and 2012. By that time the LTIA plan (see below) will have begun to vest (or not, as the case may be) and no further awards will be made under the STIAD.

Executives will be granted an award of performance rights equivalent to 50 % of the STIA they receive in the relevant year of award, as follows:

- Tranche 1 will be awarded in September 2011, with one half of these performance rights vesting and becoming fully-paid shares in September 2012 and the other half vesting in September 2013
- Tranche 2 will be awarded in September 2012, with one half of these vesting in September 2013 and the other half vesting in September 2014.

Both tranches will only vest and become exercisable provided that the Executive remains employed by QR National as at the vesting date. If the Executive ceases employment with QR National prior to the vesting of the rights, the rights will lapse unless otherwise determined by the Board.

Performance rights are granted by the Company for nil consideration. Each performance right is a right to receive one fully-paid ordinary share in QR National Limited at no cost if the vesting conditions are satisfied. Performance rights do not carry voting or dividend rights, however shares allocated upon vesting of rights will carry the same rights as other ordinary shares. For further information regarding the terms and conditions of rights refer to note 40 of the Financial Report.

The deferred component of STIA to which the MD & CEO is entitled differs from that of the other Executives. The rights he has been granted will vest subject to the Company meeting its EBIT forecasts disclosed in the Offer Document. The Board announced to the ASX in May 2011 that, as the business had been severely impacted by the floods and Cyclone Yasi, steps were implemented to adjust EBIT targets for the effects of these events so that the incentive would be retained in circumstances where the EBIT targets were demonstrably no longer achievable. To the extent that these adjustments require shareholder approval, the Notice of Meeting will include resolutions which specify the original target and the amended target.

If these adjusted performance hurdles are not met, his rights are forfeited. The MD & CEO is entitled to a deferred component of STIA to the value of 100% of the total fixed annual remuneration in aggregate over the two years. The fair value of rights granted to the MD & CEO was $2.07 for each right as assessed by Deloitte. The MD & CEO was not an IPO “retention bonus” recipient.

6.1.4 Long-term Incentive

Performance rights have been granted to certain employees, including the KMP Executives and the MD & CEO, under the LTIA. Each performance right is a right to receive one fully-paid ordinary share in QR National Limited at no cost if the vesting conditions are satisfied. The LTIA is designed to provide long-term incentives for Executives to deliver long-term shareholder returns. Under the plan, performance rights will only vest on the satisfaction of the relevant performance hurdle that is measured by reference to the three years following the award (performance period) or a re-testing which will occur one year thereafter. Participation in the plan is at the Board’s discretion and no individual has a contractual right to be awarded performance rights or to receive any guaranteed.

6.1.4.1 LTIA Eligibility

Eligibility to participate in the LTIA is at the absolute discretion of the Board. In exercising that discretion the Board will seek to identify those Executive and Management employees who occupy roles the daily activities, decisions and responsibilities of which are likely to impact the long-term prosperity of QR National. During the first round of awards at the time of the IPO, this group included the MD & CEO, the KMP Executives, the direct reports to the KMP Executives and a small number of other Management employees nominated by the MD & CEO and approved by the Board. It is intended that performance rights will be awarded each year although this, too, is at the absolute discretion of the Board. The awarding of performance rights to an individual in one year does not necessarily create an entitlement to an award in any subsequent year.

6.1.4.2 Number of Performance Rights

The number of performance rights awarded at the time of the IPO and, hence, the maximum number of shares that might eventually vest, was determined by a percentage of fixed remuneration divided by the institutional share price on the day of listing ($2.55). The percentage of fixed pay was, in turn, assessed with reference to market practices and was the same for all participants at the same level (30%, 40% or 50% of fixed pay for all Executives other than the MD & CEO). The resulting number of performance rights is the maximum number of shares that can vest in the event that all of the performance hurdles are met or exceeded. For the MD & CEO, the number of performance rights awarded was calculated on the same basis except that the percentage of fixed remuneration was 100%.

6.1.4.3 Performance Period

The performance hurdles (below) will be measured over a three year period. In the event that the performance hurdle is not achieved, the Board has the discretion to extend the performance period for a further year.

6.1.4.4 Performance Hurdles

The rights granted in the 2011 financial year are subject to two performance hurdles – the earnings hurdle which determines whether and to what extent half of the award will vest, and the relative TSR hurdle which will determine whether and to what extent the other half will vest.

6. REMUNERATION COMPONENTS (CONTINUED)

The Earnings Hurdle

Prior to the floods and Cyclone Yasi, half of the performance rights would have vested in full if the aggregate EBIT forecasts in the IPO Offer Document for the periods 2011 and 2012 were achieved and EPS growth between 2012 and 2013 is at least 10 %. No vesting of this half of the award would have occurred if this initial target was not achieved. Having achieved the aggregate earnings in 2011 and 2012, an EPS growth of at least 7.5 % on the actual 2012 results for 2013 is required, otherwise no vesting of this half will occur. If the aggregate EBIT forecasts for 2011 and 2012 have been achieved and, in 2013, the EPS growth is:

- 10 % or above, 100 % of this component will vest
- from 7.5 % to 10 %, 50 % to 100 % of this half will vest, calculated on a pro rata basis
- below 7.5 %, no vesting of this component will occur in 2013.

Following the floods, it has been proposed that the aggregate earnings test described above be adjusted to reflect the net impact of the floods and cyclone and these adjustments are subject to shareholder approval.

These adjusted arrangements are outlined in the following table:

Table 5: Earnings Hurdle

Earnings Hurdle Outcome	Percentage of Earnings Hurdle Rights to Vest
No achievement of the adjusted aggregate 2011 and 2012 EBIT forecasts	0 %
Achievement of the adjusted aggregate 2011 and 2012 EBIT forecasts **PLUS** less than 7.5 % EPS growth in 2013	0 %
Achievement of the adjusted aggregate 2011 and 2012 EBIT forecasts **PLUS** between 7.5 % and 10 % EPS growth in 2013	50 - 100 %
Achievement of the adjusted aggregate 2011 and 2012 EBIT forecasts **PLUS** more than 10 % EPS growth in 2013	100 %

Relative TSR Hurdle

The vesting of the remaining half of the performance rights is conditional on QR National's TSR performance relative to a peer group of companies. After taking independent advice the Board sought to construct a peer group comprising those companies with whom QR National was likely to compete for both capital and talent as well as those few companies with whom QR National competes for business and customers. As a result, the peer group comprises the companies in the ASX Top 100 index (as at 30 September 2010) other than financial, medical, telecommunications, pharmaceutical and gaming companies and property trusts. This is a total of 65 companies as at 30 June 2011.

TSR measures the growth in the price of shares plus cash distributions notionally reinvested in shares. To determine whether and to what extent the TSR tested performance rights will vest, the TSR of QR National over the performance period will be compared to the TSR of all of the companies in the peer group which are still listed at the end of the performance period. Each of these comparator companies will be ranked from highest to lowest based on their TSR over the performance period and the number of rights that vest will depend on where QR National is ranked amongst these comparator companies. For the purpose of calculating the TSR measurement, the relevant share prices will be determined by reference to the volume weighted average share price over the 20 business days after the Grant Date and 20 business days before the end of the performance period.

If QR National's TSR is:

- between the 75th and 100th percentile of the peer group, 100 % of the Tranche 1 Rights will vest
- between the 51st and 74th percentile, 52 % to 98 % of the Tranche 1 Rights will vest (that is, for every 1 percentile additional ranking, the proportion of Tranche 1 Rights vesting will increase by 2 %)
- at the 50th percentile, 50 % of the Tranche 1 Rights will vest
- below the 50th percentile, no vesting of the Tranche 1 Rights will occur.

This is outlined in the following table:

Table 6: TSR Hurdle

Group's TSR Performance Compared to the Relevant Peer Group	Percentage of TSR Half of Awarded Rights that will Vest
0 to 49th percentile	Nil
50th percentile	50 % of the Tranche 1 Rights will vest
51st to 74th percentile	52 % - 98 % of the Tranche 1 Rights will vest (on a straight line basis)
75th to 100th percentile	100 % of the Tranche 1 Rights will vest

TSR performance is monitored by an independent expert at the end of each financial year.

Performance rights do not carry voting or dividend rights, however shares allocated upon vesting of rights will carry the same rights as other ordinary shares. For further information regarding the terms and conditions of rights in the LTIA, refer to note 40 of the financial report. The table in this note provides details of the rights awarded during the year.

6.1.5 Total Remuneration

When all components of remuneration are taken together and the share-based awards are independently valued, the sum total is considered to be well within market parameters. The Committee has received independent external advice that the market relativity of total remuneration for the KMP Executives including the MD & CEO is close to market median.

6. REMUNERATION COMPONENTS (CONTINUED)

6.2 Non-Executive Directors

On appointment to the Board, all Non-Executive Directors enter into a Service Agreement with the Company incorporated in a letter of appointment. The letter summarises the Board policies and terms, including compensation, relevant to the office of Director.

Under QR National's Constitution, Non-Executive Directors are to be paid by way of fees for their services with an initial maximum aggregate cap of $2.5 million. The Directors Fee is a composite fee and covers all responsibilities of the respective member including Board and Committee duties. The Fee is also a total fee in that it covers both cash and any contributions to a fund for the purposes of superannuation benefits. Apart from superannuation, there are no other retirement benefits in place for Non-Executive Directors. The cap does not include remuneration for performing additional or special duties for the Company at the request of the Board. The Constitution also states that the Company will pay all reasonable travelling, accommodation and other expenses of Directors in attending meetings and carrying out their duties.

Within the overall pool amount, remuneration for Non-Executive Directors is reviewed by the Committee taking into account recommendations from an external expert, and set by the Board. Fees for Non-Executive Directors are set at a level to attract and retain directors with the necessary skills and experience to allow the Board to have a proper understanding of, and competence to deal with, current and emerging issues for QR National. Fees and payments to Non-Executive Directors reflect the demands which are made on, and the responsibilities of, the Directors. Non-Executive Directors' fees and payments are reviewed annually by the Board. The Chairman's fees are determined independently to the fees of Non-Executive Directors based on comparative roles in the external market. The Chairman is not present at any discussions relating to determination of his own remuneration. Non-Executive Directors do not receive performance-based pay.

6.2.1 Directors' Fees

The current annual base fees were last reviewed with effect from 1 December 2010 following the transition from a government-owned corporation to an ASX listed entity and have increased from $107,978 (not including additional fees for membership or chairmanship of Committees or superannuation) to $400,000 per annum (inclusive of all responsibilities and superannuation) for the Chairman and from $31,044 to $180,000 per annum (inclusive of all responsibilities and superannuation) for other Non-Executive Directors.

Prior to 1 December 2010, Directors who chaired, or were a member of, a Committee received additional yearly fees. This is no longer the case, as described above.

In addition to the above payments, an ex-gratia payment of $100,000 to the Chairman and $50,000 to all other Non-Executive Directors was made in December 2010 in recognition of the additional work that was undertaken during the IPO.

6.3 MD & CEO Remuneration and Service Agreement

The terms of Mr Hockridge's appointment were disclosed in the IPO Offer Document. The Board sought expert external advice from Egan Associates to ensure that the remuneration arrangements offered to Mr Hockridge were both reasonable and sufficiently competitive to secure the services of a MD & CEO of a Top 50 Australian publicly listed company. A significant proportion of the total remuneration is subject to the achievement of QR National performance outcomes, in particular those relating to earnings, safety, transforming the business and total shareholder returns.

The MD & CEO's total remuneration (assuming the achievement of performance hurdles over the next several years) is split between fixed and variable components as follows:

Table 7: MD & CEO Remuneration Components (2011)

MD & CEO – Percentage of Total Remuneration									
	Fixed Remuneration		STIA		STIAD		LTIA		Total Received in 2011 (at Target)
	$	% of Total	$	% of Total	$	% of Total	$	% of Total	$
Received in 2011 (at Target STIA)	$1,700,000	36.4 %	$1,275,000	27.3 %					$2,975,000
Payable in later years subject to performance hurdles (at Target LTIA)*					$850,000	18.2 %	$850,000	18.2 %	
Received in 2011 (at Target STIA)	$1,700,000	30.8 %	$1,275,000	23.1 %					$2,975,000
Payable in later years subject to performance hurdles (at Maximum LTIA)					$850,000	15.4 %	$1,700,000	30.8 %	

* Target LTIA vesting refers to the satisfaction of threshold performance hurdles which generates vesting of 50 % of the performance rights awarded. Performance below this level would result in no rights vesting.

Remuneration and other terms of employment for the MD & CEO, as with the other KMP Executives, is formalised in a service agreement.

Table 8: Summary of MD & CEO's Service Agreement

Term	Service Agreement Summary
Duration	Ongoing until notice given by either party.
Termination by the MD & CEO	6 months notice.
Termination by the Company	12 months notice. Termination payment of 12 months fixed pay. Treatment of unvested prior year STIA, STIAD and LTIA awards will be in accordance with the plan rules and Board approved policies.
Post employment restraints	12 months in any competitor business in Australia.

The MD & CEO is employed pursuant to an employment contract until terminated by either the MD & CEO or by QR National. He may terminate his employment contract by giving six months notice and QR National may terminate his employment by giving 12 months notice. If his employment is terminated (other than for cause), he will be entitled to payment of his total fixed annual remuneration calculated to the termination date plus any leave entitlements, as well as any entitlements already owing or vested under the STIA, STIAD and LTIA. Whether payments are made in recognition of unvested awards under these plans will be assessed by the Board having regard to the Board approved plan rules and plan policies. All payments and awards are subject to applicable laws.

6. REMUNERATION COMPONENTS (CONTINUED)

6.3 MD & CEO Remuneration and Service Agreement (continued)

The MD & CEO has agreed and the contract provides that, in the event of termination, he will not accept employment or otherwise be engaged in a competitor business in Australia for 12 months.

6.4 Executive KMP Service Agreements

The standard terms of the employment contracts for the executive KMP are as shown in the following table 9:

Table 9: Summary of KMP Executives Service Agreement

KMP Executives	Term	Service Agreement Summary
CFO	Duration	Ongoing until notice given by either party.
	Termination by the CFO	3 months notice.
	Termination by the Company	Before 31 December 2011 by giving 12 months notice and at any time after 1 January 2012 by giving nine months notice.
	Post employment restraints	Restricted from competitor business in Australia for a period aligned to the notice period.
	Base salary including superannuation	$700,000
All other KMP Executives	Duration	Ongoing until notice given by either party.
	Termination by the Executive	3 months notice.
	Termination by the Company	Before 31 December 2011 by giving 12 months notice; from 1 January 2012 to 31 December 2012 by giving nine months notice and at any time after 1 January 2013 by giving six months notice.
	Post employment restraints	Restricted from competitor business in Australia for a period aligned to the notice period.
K R Lewsey	Base salary including superannuation	$650,000
M P McAuliffe	Base salary including superannuation	$600,000
M G Carter	Base salary including superannuation	$600,000
G P Pringle	Base salary including superannuation	$550,000
R J Stephens	Base salary including superannuation	$550,000
L J Cooper	Base salary including superannuation	$500,000
C M Davies	Base salary including superannuation	$600,000

6.5 Hedging and Margin Lending Policies

Upon listing on the ASX, QR National introduced a policy that prohibits Executives granted share-based payments as part of their remuneration from hedging economic exposure to unvested rights that have been issued pursuant to a Group employee share plan. The policy also prohibits margin loan arrangements for the purpose of purchasing QR National shares.

Adherence to this policy is monitored regularly and involves each KMP signing an annual declaration of compliance with the policy.

6.6 KMP Share Ownership Policy

During the year the Board approved a policy whereby within six years of the date of listing of the Company or appointment (whichever is the later), Non-Executive Directors are required to accumulate and maintain one year's Directors' Fees worth of shares in the Company, the MD & CEO one year's worth of fixed remuneration in shares and the MD & CEO's direct reports equivalent to 50 % of their fixed remuneration in shares.

6.7 Company Performance and its Link to Remuneration

In considering QR National's performance, the Committee has regard to the following performance measures in respect of the current financial period. As the Company was only listed on 22 November 2010, these performance measures are not available for prior financial periods. However, the performance measures for the 2011 financial year are based on results for full financial year where available as QR National's results have been prepared as a continuation of the QR Limited consolidated group (refer to note 1 of the financial report).

Table 10: Company Performance

	12 months to 30 June 2011
Closing share price/change in share price	3.38 (93¢ above 'retail' price)
Dividends per share	n/a
TSR	20.2 % (against 20 day VWAP after IPO)
Underlying EBIT	$367m
LTIFR	3.08 (down from 6.14)
Safety interactions	1.3 per employee per month (11,222 completed in June)
Transformation project completion, benefit delivery and capability	Majority completed on-time, in full

The performance measure which drives half of the LTIA vesting is the Company's TSR performance relative to the companies in an identified peer group.

Note, the share price appreciation graph on page 57 excludes the value that would have been received from dividend payments during the year and is not equivalent to TSR. The TSR percentage shown in table 10 compares the 20-day VWAP immediately after IPO with the 20-day VWAP up to 30 June 2011. For this reason, the TSR, so calculated, is lower than that suggested by the graph on page 57 of this Annual Report.

7. KEY MANAGEMENT PERSONNEL REMUNERATION

Details of the nature and amount of each major element of compensation of each of the KMP, and each of the five named Company Executives and relevant Group Executives who received the highest compensation for the financial year ended 30 June 2011 and 30 June 2010 are set out below.

Table 11: 2011 Key Management Personnel Remuneration

2011	Short-term Employee Benefits				Post-Employment Benefits	Long-term Benefits		Equity-Settled Share-based Payments		Proportion of Compensation Performance Related [6]	Remuneration Consisting of Rights for the Year
Name	Cash salary and fees $'000	Cash bonus $'000	Non monetary benefits [2] $'000	Other [4] $	Super-annuation $'000	Long service leave $'000	Termination benefits $'000	Rights [3] $'000	Total $'000	%	%
Non-Executive Directors											
J B Prescott AC	361	-	-	-	31	-	-	-	392	-	-
J Atkin	163	-	-	-	12	-	-	-	175	-	-
R R Caplan	162	-	-	-	12	-	-	-	174	-	-
A J Davies	163	-	-	-	12	-	-	-	175	-	-
G T John AO	163	-	-	-	12	-	-	-	175	-	-
P C Kenny	162	-	-	-	12	-	-	-	174	-	-
A J P Staines	163	-	-	-	12	-	-	-	175	-	-
G T Tilbrook	163	-	-	-	11	-	-	-	174	-	-
Sub-total Non-Executive Directors	**1,500**	-	-	-	**114**	-	-	-	**1,614**	-	-

Table 11: 2011 Key Management Personnel Remuneration (continued)

2011	Short-term Employee Benefits				Post-Employment Benefits	Long-term Benefits		Equity-Settled Share-based Payments		Proportion of Compensation Performance Related [6]	Remuneration Consisting of Rights for the Year
Name	Cash salary and fees $'000	Cash bonus $'000	Non monetary benefits [2] $'000	Other [4] $	Super-annuation $'000	Long service leave $'000	Termination benefits $'000	Rights [3] $'000	Total $'000	%	%
Executive											
L E Hockridge [1]	1,341	1,664	417	-	71	34	-	555	4,082	54	14
D M O'Toole [1]	581	462	177	434	63	10	-	99	1,826	31	5
K R Lewsey [1]	669	407	96	388	32	8	-	89	1,689	29	5
M P McAuliffe [1]	510	362	155	319	44	8	-	80	1,478	30	5
M G Carter [1]	470	353	133	319	81	96	-	78	1,530	28	5
G P Pringle	444	350	13	299	74	6	-	76	1,262	34	6
R J Stephens	477	350	122	330	56	6	-	76	1,417	30	5
L J Cooper	392	310	24	271	66	90	-	68	1,221	31	6
C M Davies [5]	501	348	35	-	31	5	-	78	998	43	8
Total Key Management Personnel Compensation (Group)	**6,885**	**4,606**	**1,172**	**2,360**	**632**	**263**	**-**	**1,199**	**17,117**	**34**	**7**

1 Denotes one of the five highest paid Executives of QR National, as required to be disclosed under the *Corporations Act 2001*.

2 Non-monetary benefits represent the value of Reportable Fringe Benefits for the respective Fringe Benefits Tax year ending 31 March, the estimated value of car parking provided and annual leave accrued or utilised during the financial year. The majority of the amounts shown are increases in accruals of annual leave due to the increase in salaries and other benefits which arose due to the IPO and are non-recurring.

3 The fair value of the rights is calculated at the date of the grant using a Monte Carlo simulation on a Black-Scholes model and allocated to each reporting period evenly over the period from grant date to vesting date. The value disclosed is the portion of the fair value of the rights allocated to this reporting period. Refer to note 40 for further details regarding the fair value of rights. These values may not represent the future value that the Executive will receive, as the vesting of the rights is subject to the achievement of performance conditions.

4 Retention bonuses paid in relation to the IPO are shown as 'Other'.

5 Mr Davies was appointed on 16 August 2010.

6 The Short-term Incentives (cash bonus) and Deferred Short-term Incentives and Long-term Incentives (equity-settled share-based payments) represent the at risk performance related remuneration.

7. KEY MANAGEMENT PERSONNEL REMUNERATION

Table 12: 2010 Key Management Personnel Remuneration

2010	Short-term Employee Benefits			Post-Employment Benefits	Long-term Benefits		Equity-Settled Share-based Payments		Proportion of Compensation Performance Related [6]	Remuneration Consisting of Rights for the Year
Name	Cash salary and fees $'000	Cash bonus $'000	Non monetary benefits [2] $'000	Super-annuation $'000	Long service leave $'000	Termination benefits $'000	Rights $'000	Total $'000	%	%
Non-Executive Directors										
J B Prescott AC	122	-	-	13	-	-	-	135	-	-
J Atkin	7	-	-	1	-	-	-	8	-	-
R R Caplan	8	-	-	1	-	-	-	9	-	-
A J Davies	40	-	-	4	-	-	-	44	-	-
G T John AO	8	-	-	1	-	-	-	9	-	-
P C Kenny	31	-	-	3	-	-	-	34	-	-
A J P Staines	7	-	-	1	-	-	-	8	-	-
G T Tilbrook	8	-	-	1	-	-	-	9	-	-
Sub-total Non-Executive Directors	**231**	**-**	**-**	**25**	**-**	**-**	**-**	**256**	**-**	**-**
Executive										
L E Hockridge	781	140	56	106	18	-	-	1,101	13	-
D M O'Toole	473	81	50	61	11	-	-	676	12	-
K R Lewsey	438	79	32	35	8	-	-	592	13	-
M P McAuliffe	443	64	16	60	10	-	-	593	11	-
M G Carter	373	60	27	50	29	-	-	539	11	-
G P Pringle	309	62	34	47	4	-	-	456	14	-
R J Stephens	467	64	23	56	7	-	-	617	10	-
L J Cooper	312	49	20	42	24	-	-	447	11	-
Total Key Management Personnel Compensation (Group)	**3,827**	**599**	**258**	**482**	**111**	**-**	**-**	**5,277**	**11**	**-**

7.1 Rights Granted as Compensation

Details of rights granted as compensation, exercised and forfeited during the year in the Omnibus Equity Plan (Rights and Options), including vesting profiles, are as follows:

Table 13: Rights Granted as Compensation

Name	Date Granted	Incentive Plan	Balance at Beginning of Year No.	Rights Awarded During the Year No.	Forfeited in Year No.	Balance at End of Year No.	Fair Value per Right at Grant Date $	Exercise Price $	Vested in Year %	Forfeited in Year %	Value of Rights Granted in Year [1] $'000	Value of Rights Forfeited in Year $'000	Date on Which Grant Vests	Expiry Date
L E Hockridge	22-Nov-10	STIAD	-	333,333	-	333,333	2.07	-	-	-	691	-	22-Nov-11	30-Sep-12
	22-Nov-10	STIAD	-	333,333	-	333,333	2.07	-	-	-	691	-	22-Nov-12	30-Sep-13
	1-Dec-10	LTIAD - EPS	-	333,333	-	333,333	1.14	-	-	-	381	-	22-Nov-13	31-Dec-14
	1-Dec-10	LTIAD - TSR	-	333,333	-	333,333	0.94	-	-	-	313	-	22-Nov-13	31-Dec-14
D M O'Toole	1-Oct-10	STIAD	-	-	-	-	-	-	-	-	116	-	30-Sep-12	1-Oct-14
	1-Oct-10	STIAD	-	-	-	-	-	-	-	-	116	-	30-Sep-13	1-Oct-14
	22-Nov-10	LTIAD - EPS	-	68,627	-	68,627	1.14	-	-	-	78	-	1-Dec-13	31-Dec-14
	22-Nov-10	LTIAD - TSR	-	68,627	-	68,627	0.94	-	-	-	64	-	1-Dec-13	31-Dec-14
K R Lewsey	1-Oct-10	STIAD	-	-	-	-	-	-	-	-	102	-	30-Sep-12	1-Oct-14
	1-Oct-10	STIAD	-	-	-	-	-	-	-	-	102	-	30-Sep-13	1-Oct-14
	22-Nov-10	LTIAD - EPS	-	63,725	-	63,725	1.14	-	-	-	73	-	1-Dec-13	31-Dec-14
	22-Nov-10	LTIAD - TSR	-	63,725	-	63,725	0.94	-	-	-	60	-	1-Dec-13	31-Dec-14
M P McAuliffe	1-Oct-10	STIAD	-	-	-	-	-	-	-	-	91	-	30-Sep-12	1-Oct-14
	1-Oct-10	STIAD	-	-	-	-	-	-	-	-	91	-	30-Sep-13	1-Oct-14
	22-Nov-10	LTIAD - EPS	-	58,824	-	58,824	1.14	-	-	-	67	-	1-Dec-13	31-Dec-14
	22-Nov-10	LTIAD - TSR	-	58,824	-	58,824	0.94	-	-	-	55	-	1-Dec-13	31-Dec-14
M G Carter	1-Oct-10	STIAD	-	-	-	-	-	-	-	-	88	-	30-Sep-12	1-Oct-14
	1-Oct-10	STIAD	-	-	-	-	-	-	-	-	88	-	30-Sep-13	1-Oct-14
	22-Nov-10	LTIAD - EPS	-	58,824	-	58,824	1.14	-	-	-	67	-	1-Dec-13	31-Dec-14
	22-Nov-10	LTIAD - TSR	-	58,824	-	58,824	0.94	-	-	-	55	-	1-Dec-13	31-Dec-14
G P Pringle	1-Oct-10	STIAD	-	-	-	-	-	-	-	-	88	-	30-Sep-12	1-Oct-14
	1-Oct-10	STIAD	-	-	-	-	-	-	-	-	88	-	30-Sep-13	1-Oct-14
	22-Nov-10	LTIAD - EPS	-	53,922	-	53,922	1.14	-	-	-	62	-	1-Dec-13	31-Dec-14
	22-Nov-10	LTIAD - TSR	-	53,922	-	53,922	0.94	-	-	-	51	-	1-Dec-13	31-Dec-14

7. KEY MANAGEMENT PERSONNEL REMUNERATION (CONTINUED)

Table 13: Rights Granted as Compensation (continued)

Name	Date Granted	Incentive Plan	Balance at Beginning of Year No.	Rights Awarded During the Year No.	Forfeited in Year No.	Balance at End of Year No.	Fair Value per Right at Grant Date $	Exercise Price $	Vested in Year %	Forfeited in Year %	Value of Rights Granted in Year [1] $'000	Value of Rights Forfeited in Year $'000	Date on Which Grant Vests	Expiry Date
R J Stephens	1-Oct-10	STIAD	-	-	-	-	-	-	-	-	88	-	30-Sep-12	1-Oct-14
	1-Oct-10	STIAD	-	-	-	-	-	-	-	-	88	-	30-Sep-13	1-Oct-14
	22-Nov-10	LTIAD - EPS	-	53,922	-	53,922	1.14	-	-	-	62	-	1-Dec-13	31-Dec-14
	22-Nov-10	LTIAD - TSR	-	53,922	-	53,922	0.94	-	-	-	51	-	1-Dec-13	31-Dec-14
L J Cooper	1-Oct-10	STIAD	-	-	-	-	-	-	-	-	78	-	30-Sep-12	1-Oct-14
	1-Oct-10	STIAD	-	-	-	-	-	-	-	-	78	-	30-Sep-13	1-Oct-14
	22-Nov-10	LTIAD - EPS	-	49,020	-	49,020	1.14	-	-	-	56	-	1-Dec-13	31-Dec-14
	22-Nov-10	LTIAD - TSR	-	49,020	-	49,020	0.94	-	-	-	46	-	1-Dec-13	31-Dec-14
C M Davies	1-Oct-10	STIAD	-	-	-	-	-	-	-	-	87	-	30-Sep-12	1-Oct-14
	1-Oct-10	STIAD	-	-	-	-	-	-	-	-	87	-	30-Sep-13	1-Oct-14
	22-Nov-10	LTIAD - EPS	-	58,824	-	58,824	1.14	-	-	-	67	-	1-Dec-13	31-Dec-14
	22-Nov-10	LTIAD - TSR	-	58,824	-	58,824	0.94	-	-	-	55	-	1-Dec-13	31-Dec-14
				2,264,708		2,264,708					4,517			

1 The value of rights granted in the year is the fair value of the rights calculated at grant date using a Monte Carlo simulation on a Black-Scholes model. This amount is progressively expensed over the vesting period.

The number of rights to be granted under the STIAD for performance throughout the year ended 30 June 2011 was determined by the Remuneration and Succession Committee in August 2011 based on the five day VWAP of the Company's share price leading up to that date. The total value of rights to be granted represents 50 % of the STIA bonuses paid to Executives in respect of the year ended 30 June 2011.

7.2 Bonuses and Share-based Compensation Benefits

For each cash bonus and grant of rights during the financial year, the percentage of the available bonus or grant that was payable, or that vested, in the financial year, and the percentage that was forfeited because the person did not meet the service and performance criteria is set out below. The rights vest after three years, provided the vesting conditions are met. No rights will vest if the conditions are not satisfied, hence the minimum value of the right yet to vest is nil. The maximum value of the right yet to vest has been determined as the amount of the grant date fair value of the rights, which will be expensed over the vesting period of the award.

Table 14: Bonuses and Share-Based Compensation Benefits

	Cash Bonus		Share-based Compensation Benefits (Rights)					
Name	Payable %	Forfeited %	Year Granted	Vested %	Forfeited %	Financial Years in Which Rights May Vest	Minimum Total Value of Grant Yet to Vest $'000	Maximum Total Value of Grant Yet to Vest $'000
L E Hockridge	98	2	2011	-	-	2012	-	691
			2011	-	-	2013	-	691
			2011	-	-	2014	-	694
D M O'Toole	88	12	2011	-	-	2013	-	116
			2011	-	-	2014	-	259
K R Lewsey	83	17	2011	-	-	2013	-	102
			2011	-	-	2014	-	235
M P McAuliffe	80	20	2011	-	-	2013	-	91
			2011	-	-	2014	-	213
M G Carter	78	22	2011	-	-	2013	-	88
			2011	-	-	2014	-	211
G P Pringle	85	15	2011	-	-	2013	-	88
			2011	-	-	2014	-	200
R J Stephens	85	15	2011	-	-	2013	-	88
			2011	-	-	2014	-	200
L J Cooper	83	17	2011	-	-	2013	-	78
			2011	-	-	2014	-	180
C M Davies	77	23	2011	-	-	2013	-	87
			2011	-	-	2014	-	209

CORPORATE GOVERNANCE

In operating its portfolio of above and below rail and road transport assets, QR National Limited and the entities it controls ("**QR National**" or the "**Company**") business objective is to create sustainable value growth for its shareholders by:

- Raising performance of the Company's operations to best in class levels
- Maximising our share of the strong underlying growth within our core markets through innovative customer focus solutions
- Seeking out profitable new growth opportunities in existing and adjacent markets.

Fundamental to the long-term success of the QR National's business objective is a commitment to achieving and demonstrating the highest standards of corporate governance.

The Board is committed to pursuing its business objectives in a manner which is consistent with the highest standards of corporate governance and, in so doing, to embed, promote and foster high standards of corporate integrity, transparency and ethical standards in all its activities.

This Statement sets out QR National's corporate governance practices as at 30 June 2011.

Since listing on the Australian Securities Exchange ("ASX") on 22 November 2010, the Company has complied with all of the ASX Corporate Governance Principles and Recommendations released by the ASX Corporate Governance Council.

Further information regarding the Company's corporate governance and Board practices, including copies of Charters, Policies and key corporate governance documents referred to in this Statement is available in the Corporate Governance section of the Company's website www.qrnational.com.au ("**QR National website**"). These documents are reviewed regularly to address any changes in governance practices and changes to the law.

The Board of Directors

The Board is responsible for the overall stewardship, strategic direction, governance and performance of QR National.

The Company's Constitution empowers the Board to conduct the business of the Company and also enables the Board to delegate authority to Board Committees and/or the MD & CEO.

The Board operates under a Charter which sets out the responsibilities of the Board and also the roles of the Chairman, individual Directors, the MD & CEO and the Company Secretary.

The key functions and responsibilities reserved to the Board include:

- The appointment of the MD & CEO and their direct reports;
- Approval of the overall Company strategy;
- Approving annual budgets;
- Approving and monitoring the framework on governance, safety and risk management
- The succession and remuneration of the Board and senior executives.

The roles and responsibilities of Directors are also formalised in the letter of appointment which each Director receives and commits to on their appointment.

The letters of appointment also specify the time commitment envisaged, expectations in relation to committee work, remuneration arrangements, induction processes and details of the Company's key governance policies such as the securities dealing policy.

Board Membership and Size

The Board currently comprises nine Directors including a Non-Executive Chairman, seven Non-Executive Directors and the MD & CEO.

All Directors were appointed on the date of incorporation of QR National (14 September 2010).

The Board comprises Directors who bring with them a range of skills, expertise and experience. The Board is skills based and all of the Non-Executive Directors are independent.

Details of Directors' skills, experience, expertise and committee memberships are disclosed at pages 46–49 of the Annual Report.

The Board's composition is determined by the Company's Constitution and the principles set out in the Board Charter, Diversity Policy and Selection, Appointment and Re-election of Non-Executive Director Policy.

In summary, the Board composition principles are as follows:

- A majority of Directors are to be Independent Non-Executive Directors
- There are to be a minimum of three Directors
- There must be at least one female Director
- The role of Chairman and that of MD & CEO must be held by separate persons

- The Chairman must be an Independent Non-Executive Director
- The Board as a whole should comprise a range and mix of skills and experience
- The principles of diversity are to be embraced
- In the absence of special circumstances or a contrary decision by the Board, a Non-Executive Director must retire (or stand for election annually) at the next Annual General Meeting ("AGM") held after that Director has served nine years or more on the Board calculated from the date of the Director's first election.

During the year, the Board reviewed its composition and size. The review determined that that the appropriate size of the Board for QR National should be a maximum of ten Directors. Subject to shareholder approval, the QR National Constitution will be amended to reduce the maximum size of the Board from 12 to 10 Directors.

Director Independence

In accordance with the Board Charter, the majority of Directors are independent. Only the MD & CEO is not considered independent by virtue of being an Executive of the Company.

The Board Charter provides that an Independent Director is a Non-Executive Director who is not a member of management and whom the Board considers independent having regard to the following criteria (as applicable):

- The Director is not a substantial shareholder of the Company or an officer of a substantial shareholder of the Company
- The Director has not within the last three years been employed by the Company in an Executive capacity or in the last three years been a principal or employee of a material professional adviser or consultant of the Company
- The Director has not been a material supplier or customer of the Company or otherwise been associated directly or indirectly with a material supplier or customer of the Company
- The Director is free from any interest or relationship which could or could reasonably be perceived to materially interfere with the Director's ability to act in the best interests of the Company.

The Board considers materiality thresholds on a case by case basis if required. Each Director confirms their independence at each Board meeting, and the Board as a whole assesses Director independence regularly. The Board has confirmed the independence of all Non-Executive Directors. Only the MD & CEO is not considered independent by virtue of being an Executive of the Company.

All Directors must declare actual or potential conflicts of interest and excuse themselves from discussions on issues where they may have an actual or potential conflict of interest. In circumstances where a conflict is believed to exist, the Director concerned will not take part in any decision or consideration of the issue. In addition, the Director will not receive copies of the relevant Board papers.

Tenure and Retirement

To promote demonstrable independence the Company has in place a tenure policy for Directors which provides that, in the absence of special circumstances or a decision made otherwise by the Board, a Non-Executive Director must retire (or stand for re-election annually) at the next AGM which is held after a Director has served nine years or more on the Board from the date of their first election.

In accordance with the Company's Constitution and the ASX Listing Rules, a Non-Executive Director whom wishes to continue in their role as Non-Executive Director must seek re-election by shareholders at a general meeting.

Chairman

John Prescott AC, an Independent, Non-Executive Director, has been Chairman of the Company since September 2010. The role of the Chairman is clearly set out in the Board Charter and includes chairing meetings, providing Board leadership and promoting a respectful, consultative relationship between Board and management as well as maintaining relationships with key stakeholders.

Company Secretary

The Company Secretary is accountable to the Board for facilitating the Company's corporate governance processes and each Director is entitled to access the advice and services of the Company Secretary.

In accordance with the Company's Constitution, the appointment or removal of the Company Secretary is a matter for the Board as a whole.

Details of the Company Secretary and his experience and qualifications are set out on page 49 of the Annual Report.

Board Process

Formal Board meetings are held at least nine times during the year. In addition to these formal meetings the Board schedules offsite meetings dedicated to strategy and coupled with site visits of the Company's operations.

CORPORATE GOVERNANCE
(CONTINUED)

The Board also holds supplementary meetings to address financial updates and any significant matters that may arise.

Details of Board and Committee meetings held during the year and attendances at those meetings are set out in the Annual Report on page 52.

Each formal Board meeting considers various matters including, but not limited to the MD & CEO's Report and the QR National Group Monthly Performance Report. Periodic reports are also provided on diversity, governance and compliance as well as submissions on the items specified in the Board Charter. At the end of each Board meeting the Non-Executive Directors meet without management.

The Chief Financial Officer ("**CFO**") and Company Secretary are present at all QR National Board meetings and other senior executives attend from time to time at the invitation of the Board or when a matter under their responsibility is being considered. In accordance with the Board Charter, Directors may also access senior management at any time through the Chairman, MD & CEO or Company Secretary.

To provide due consideration of items for discussion and/or decision Board and Committee papers are distributed five business days prior to each meeting.

As part of the Company's commitment to governance excellence and innovation, tablets and electronic delivery of Board and Committee Papers were introduced during the year for the review of papers and to ensure the prompt and secure delivery of information to Directors and Board Committee members as well as furthering the Company's commitment to the efficient use of resources and waste minimisation.

Director Induction and Ongoing Education

An induction process, including appointment letters and ongoing education, exists to promote early, active and relevant involvement of new members of the Board.

All QR National Directors are members of the Australian Institute of Company Directors and are encouraged to further their knowledge through participation in industry, governance and government forums and attend seminars hosted by the Australian Institute of Company Directors and other peak professional bodies.

In addition to peer review, interaction and networking with other Directors and industry leaders, QR National Directors participate from time to time in QR National leadership forums and actively engage with QR National employees and visit QR National operations to gain an understanding of operational employee requirements, challenges and issues.

Directors are encouraged and given the opportunity to broaden their knowledge of the business by visiting offices in different locations.

Independent Advice and Access to Information

A process is in place whereby Directors, either collectively or individually, may seek independent professional advice where it is considered necessary to fulfil their duties and responsibilities. This is done at QR National's expense. A Director wishing to seek such advice must obtain the approval of the Chairman.

Board Committees

To assist the Board in performing its responsibilities, it has established four standing committees. Those committees are:

- Audit & Risk Management Committee
- Remuneration & Succession Committee
- Governance & Nomination Committee
- Safety & Environment Committee.

Each committee is chaired by a Non-Executive Director and comprises a majority of Non-Executive Independent Directors.

Each committee is governed by its own Terms of Reference which are reviewed annually and are available on the QR National website.

Details of the membership of each of the Committees, including the names and qualifications of the Committee members and their attendance (along with details of the number of meetings held in the 2010/2011 financial year) are set out in pages 46–52 of the Annual Report.

Audit & Risk Management Committee

The Audit & Risk Management Committee assists the Board by reviewing and monitoring the integrity of QR National's financial reporting systems as well as risk management, internal control structures and compliance systems.

Under the Audit & Risk Management Committee's Terms of Reference there must be at least three members of the Committee, all of whom must be Independent, Non-Executive Directors and the Chair of the Committee must not be the Chairman of the Board.

In addition to the Audit & Risk Management Committee members, the MD & CEO, CFO, Chief Internal Auditor, external auditors and Company Secretary regularly attend Audit & Risk Management Committee meetings.

Remuneration & Succession Committee

The Remuneration & Succession Committee assists the Board by reviewing and providing recommendations to the Board on the recruitment, retention and remuneration of the MD & CEO and Senior Executives as well as the performance measurement arrangements for Directors, the MD & CEO and Senior Executives.

Under the Remuneration & Succession Committee's Terms of Reference, there must be at least three members of the Committee, a majority of whom must be Independent Non-Executive Directors and the Chair of the Committe must be an Independent Non-Executive Director.

Governance & Nomination Committee

The Governance & Nomination Committee assists the Board by reviewing and making recommendations on the governance framework, policies and compliance as well as Board appointments, succession, diversity, composition and performance.

During the year the Committee also had responsibility for monitoring and assisting the Company on its Initial Public Offering.

Under its Terms of Reference, the Governance & Nomination Committee is to consist of at least three Board members. The Committee currently consists of five members, including four Independent, Non-Executive Directors. The Chairman of the Governance & Nomination Committee is an Independent, Non-Executive Director.

Safety & Environment Committee

The Safety & Environment Committee assists the Board by reviewing and making recommendations to the Board on safety and environmental performance, strategies, policies and compliance.

Under its Terms of Reference, the Safety & Environment Committee is to consist of at least three Board members. The Committee currently consists of five members, including four Independent, Non-Executive Directors. The Chairman of the Safety & Environment Committee is an Independent, Non-Executive Director.

QR Network Board

QR Network Pty Ltd ("**QR Network**") is a wholly-owned subsidiary of QR National and operates the below rail business of QR National. QR Network is subject to ring-fencing obligations under the *Queensland Competition Authority Act 1997* (Qld) and the access undertakings it provides to the Queensland Competition Authority from time to time.

Additional governance requirements operate to ensure that QR Network's ring-fencing obligations are met.

A majority of QR Network Directors are required to be independent and the QR Network Board is currently comprised of five Directors including three Independent Non-Executive Directors.

The Chairman of the QR Network Board is an Independent, Non-Executive Director.

Board and Committee Performance Evaluation

A performance review is undertaken annually in relation to the Board and the Board Committees. In addition to individual evaluation sessions between the Chairman and individual Directors, a formal self-evaluation questionnaire is used to facilitate the annual performance review process.

The annual review of the Chairman of the Board is facilitated by the Chairman of the Governance & Nominations Committee.

During the year, a review and evaluation of the performance of the Board, the Chairman, each Director and each Board Committee was conducted in accordance with the process described above.

As part its ongoing responsibilities the Board actively focuses on strategy development, the development of talent and executive succession, and engagement in the Company's operations by undertaking site visits.

CORPORATE GOVERNANCE
(CONTINUED)

Management Performance Evaluation

A key function of the Board is to monitor the performance of management according to the strategies and objectives decided by the Board. The Board sets the financial, operational, management and individual targets of the MD & CEO annually. The MD & CEO (in consultation with the Board) sets targets for his direct reports.

Performance against these targets is assessed periodically throughout the year. Performance evaluations for senior management have been completed for the year end and details of the process followed are set out in the Remuneration Report within the Annual Report.

The Board together with the Remuneration & Succession Committee, reviews the performance of the MD & CEO and Executive Leadership Team members inclusive of the CFO and Company Secretary.

Further details are set out in the Remuneration Report within the Annual Report.

MD & CEO, Senior Management and Delegations

The day-to-day management of the Company and the execution of the Company's policies and strategies are delegated to the MD & CEO and through the MD & CEO to other Senior Executives.

The MD & CEO and those senior executives comprising the Executive Leadership Team have their roles and responsibilities set out in their employment contracts.

Delegations made by the Board and the delegation framework supporting delegations by the MD & CEO are reviewed annually by the Board.

Executive Management Structure

The Senior Executive management structure of the Company comprises the MD & CEO and the Executive Leadership Team.

The Executive Leadership Team comprises the MD & CEO, and his direct reports, along with the Company's Senior Vice Presidents and Executive Advisor.

The role of the Executive Leadership Team is to provide the MD & CEO with support and assistance in managing the Group's performance and implementing the key strategic initiatives set by the Board.

The Executive Leadership Team supports the MD & CEO in leading change in the QR National Group, assessing risk and executing mitigation actions, monitoring compliance with policies, developing strategies for Board approval and assessing business and key organisational matters and making recommendations on courses of action.

The Executive Leadership Team also provides organisational leadership to ensure alignment and execution of corporate strategy.

Typically, the Executive Leadership Team meets every week and has full day meetings once a month.

Remuneration Practices

The Company seeks to attract and retain high performance Directors and executives with appropriate skill, qualifications and experience to add value to the company and fulfil the roles and responsibilities required.

Executive remuneration is to reflect performance and accordingly remuneration is structured with a fixed component and performance based remuneration component.

Non-Executive Directors are paid fixed fees for their services in accordance with the Company's Constitution. Fees paid are a composite fee (covering all Board and Committee responsibilities) and any contributions by QR National to a fund for the purposes of superannuation benefits for a Director. No other retirement benefits schemes are in place in respect of Non-Executive Directors.

Senior Executive and Non-Executive Director Share Retention Policy

During the year the Board approved a share holding policy for Non–Executive Directors, the MD & CEO and the direct reports of the MD & CEO.

The share holding policy provides that within six years of the date of listing of the Company or appointment (whichever is the later):

- Non-Executive Directors are expected to accumulate and maintain one year's Directors' fees worth of shares in the Company (to be calculated with reference to the total fees paid during the period divided by the number of years)
- The MD & CEO is expected to accumulate and maintain one year's worth of fixed remuneration in shares in the Company (to be calculated with reference to the total fixed remuneration paid during the period divided by the number of years)
- The MD & CEO's direct reports are expected to accumulate and maintain 50% of one year's worth of fixed remuneration in shares in the Company (to be calculated with reference to the total fixed remuneration paid during the period divided by the number of years).

Further information on remuneration is disclosed on pages 56–79 in the Remuneration Report within the Annual Report.

Code of Conduct

The Company recognises the critical importance of integrity, honesty and fairness in its dealings.

During the year, QR National adopted and launched its Company Values which are as follows:

- **Safety —** Safety of ourselves and others is our number one priority
- **Integrity —** We are honest and fair and conduct business with the highest ethical standards
- **Leadership, Passion and Courage —** We are passionate about leading change. We deliver results with energy and conviction
- **World Class Performance —** We deliver world class performance and superior value for our shareholders, customers and staff.

These Values shape how QR National makes decisions, treats people, runs its business and gets results.

The QR National Code of Conduct supports the Company's Values and provides guidance on Company expectations with respect to compliance with its ethical, legal and statutory obligations.

The key principles of the Code of Conduct provide that QR National Group employees must:

- Be safe and fit for work
- Behave professionally
- Respect others
- Conduct ourselves lawfully, ethically and fairly
- Responsibly manage conflicts of interest
- Protect confidential information
- Use the Company's systems, equipment, property and tools appropriately
- Uphold securities exchange requirements
- Consider the community and the environment
- Report suspected breaches of the Code of Conduct.

The Code of Conduct is available on the QR National website.

Compliance

Adherence to the Company's Code of Conduct and other policies is monitored by QR National's Internal Audit and Risk Management teams. The Company also conducts an annual compliance certificate process through which business units evaluate and report to management on their compliance with the Company's key legislative obligations.

Whistleblower Policy

The Company is committed to ensuring that all of its business activities are carried out in a way that is both ethical and compliant and also recognises that any genuine commitment to detecting and preventing illegal and /or improper conduct must include a mechanism whereby employees and others can report their concerns freely and without fear of reprisal or intimidation. QR National has adopted a Whistleblower Policy that provides such a mechanism.

The Whistleblower Policy provides guidance on how illegal or improper conduct can be reported, how it will be investigated and the protection available to those acting as whistleblowers. Therefore QR National has established a Whistleblower Hotline as a means by which concerns about illegal or improper conduct can be reported.

The Policy is available on the QR National website.

Political Donations

QR National has a policy of impartiality with respect to party politics and does not make donations to political parties or their members.

Diversity

QR National has a Diversity Policy which sets out its objectives and reporting practices with respect to diversity. This policy is available on the QR National website.

During the year QR National's Board agreed the following measurable objectives for gender diversity:

- At least one female Board Director at all times
- The percentage of females in the Management Leadership Team to be a minimum of 15% by the end of FY13
- From FY12, at least 25% of future graduate intakes to be female.

As at 30 June 2011, the QR National Group's female employees comprised:

- 11.64% of total employees
- 11.29% of senior executives
- 11.11% of the Board.

QR National will form a Diversity Council by 31 December 2011 to further address diversity in the workplace.

CORPORATE GOVERNANCE
(CONTINUED)

Corporate Responsibility Statement

QR National recognises that acting responsibly, operating in a sustainable manner and providing a positive contribution to society is vital to our ongoing business success. We adhere to the following principles:

Safety

- Safety of ourselves and others is our number one priority.
- We work with our people, customers and suppliers to create and maintain a safe workplace.
- We have comprehensive safety policies and are committed to our target of ZEROHarm.

Community

- We support the communities in which we work through community investment and engagement programs.
- We are part of the community and we are here for the long term.

People

- We are committed to promoting a non-discriminatory, diverse, inclusive, respectful and collaborative business.
- We promote equal employment opportunity in our recruitment, selection and employment practices.
- We are committed to the ongoing education and training of our people.

Performance

- We strive to deliver world class performance and superior value for our customers.
- We deliver results with energy and conviction.
- We commit to delivering outstanding corporate performance and returns to our shareholders.

Integrity

- We adhere to our Code of Conduct.
- We are honest and fair and conduct business with the highest ethical standards.
- We adhere to high standards of corporate governance and report annually on our corporate governance.

Environment

- We responsibly consider the community and the environment in our actions and decisions.
- We are committed to the efficient use of resources and waste minimisation.
- We are committed to promoting rail as an energy efficient mode of transport.

Disclosure and Communications Policy

QR National is committed to keeping its shareholders fully informed on all matters that are relevant or material to its financial performance.

QR National has detailed policies and procedures in place which are designed to ensure compliance with the ASX Listing Rules and Corporations Act continuous disclosure requirements including a Disclosure and Communications Policy.

In addition to complying with its disclosure obligations under Listing Rule 3.1 by issuing ASX Announcements, QR National communicates with its shareholders through its Half Year Results, Full Year Results and Annual Report. Market announcement made to the ASX are also made available on the QR National website. Shareholders are also given an opportunity to ask questions of the Company at its AGMs.

These policies and practices ensure that all shareholders and investors have equal access to QR National's information.

Disclosure Committee

In accordance with the Company's Disclosure and Communications Policy the Company has established a Disclosure Committee.

The Disclosure Committee's role is to consider potentially material price sensitive information and determine whether that information is required to be disclosed to the ASX.

The members of the Committee may vary from time to time but must consist of at least two members of the Executive Leadership Team and a Non-Executive Director of the Company. In practice, the Committee has comprised the MD & CEO, CFO, Company Secretary and Chairman of the Board.

Securities Dealing

QR National is committed to ensuring that the Company and its employees act lawfully at all times in their dealings with securities and inside information.

The Company's Securities Dealing Policy applies to all Directors and employees of the Group and:

- Provides guidance on the legal restrictions on dealing in securities
- Prescribes share trading black-out periods (commencing 1 January and 1 July and continuing until, and inclusive of, the day of filing each of the Half Year and Full Year Financial Reports respectively)
- Sets out additional limitations on trading by Directors and executives including a prohibition on margin loans and hedging arrangements.

Material Business Risk Management

The Company is committed to managing risks in an integrated, systematic and practical manner. The overall objective of risk management is to assist the Company to achieve its objectives by appropriately considering both threats and opportunities and making informed decisions.

The Audit & Risk Management Committee oversees the process for identification and management of risk in QR National in accordance with the Risk Management, Compliance & Assurance Policy ("Risk Policy") which is available on the QR National website.

The Risk Management, Compliance & Assurance Policy, summarised below, sets out the actions that QR National will undertake to manage risk:

- Applying risk tolerance thresholds, both at the enterprise level and at the business level, for each major category of identified risks.
- Developing, implementing and maintaining principles and processes that support the effective management of QR National's compliance obligations.
- Effectively managing risks and compliance obligations, documenting risk management and compliance activities and providing timely assurance to the MD & CEO and the Board.
- Assessing and continuously improving the effectiveness of the risk management and compliance processes and controls through training, ongoing monitoring, periodic reviews, communication and consultation.

During the reporting period, management has reported to the Board on the effectiveness of the Company's management of material business risks. Management has confirmed that the Company's Risk Management, Compliance & Assurance Framework ("Framework") and Risk Policy align with the best practice guidelines and that the Framework is adequate in terms of its design and content to give effect to the Risk Policy.

Further supporting the Company's risk management processes, QR National has:

- an Internal Audit function that is independent of the external auditor (described below);
- a risk register with risk profiles populated at the various layers of the organisation; and
- a Management Specification that outlines the processes for the prevention, detection and management of fraud within QR National, and for fair dealing in matters pertaining to fraud.

Internal and External Audit

The Company has an internal audit function which operates under an internal audit charter.

The internal audit function is independent of management and the external auditor, and is overseen by the Audit & Risk Management Committee.

The Chief Internal Auditor provides ongoing audit reports to the Audit & Risk Management Committee as well as an annual assessment of the adequacy and effectiveness of the Group's control processes and risk management procedures.

The external audit function is performed by PricewaterhouseCoopers.

QR National has adopted a Non-Audit Services Policy which prescribes the manner in which QR National will engage PricewaterhouseCoopers without compromising their independence as the Company's external auditor.

The Non-Audit Services Policy also sets out prohibited services which PricewaterhouseCoopers may not provide to the Company in order to maintain the independence required to execute the role of external auditor. In essence, this policy provides that PricewaterhouseCoopers must not provide services that have the potential to impair or appear to impair the independence of its audit role.

PricewaterhouseCoopers has provided an Auditor's Independence Declaration in relation to its audit of the QR National 2010/2011 Financial Report, a copy of which is set out in page 55 of the Annual Report.

Further details are set out in the Directors' Report on page 53 of the Annual Report.

CEO and CFO Declaration

The Board has obtained a written assurance from the MD & CEO and CFO that the declaration provided under section 295A of the Corporations Act and ASX Principle 7.3 are founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting and material business risks.

The MD & CEO and CFO Declaration relating to the Company's Financial Report for the year ended 30 June 2011 was provided prior to approving and signing the Financial Report.

QR NATIONAL

FINANCIAL REPORT 2010-11

TABLE OF CONTENTS

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 30 JUNE 2011

	Notes	2011 $m	2010 $m
Revenue from continuing operations	5	**3,196.7**	2,865.9
Other income	6	**97.6**	109.4
Consumables	7	**(1,358.0)**	(1,258.7)
Employee benefits expense	7	**(1,220.5)**	(993.1)
Depreciation and amortisation expense	7	**(446.4)**	(423.9)
Other expenses	7	**(60.7)**	(369.0)
Finance costs	7	**(141.2)**	(227.8)
Share of net profit of associates and joint venture partnership accounted for using the equity method		**-**	0.1
Profit/(loss) before income tax		**67.5**	(297.1)
Income tax benefit	8	**282.0**	75.0
Profit/(loss) from continuing operations		**349.5**	(222.1)
Profit from discontinued operations	9	**-**	185.3
Profit/(loss) for the year		**349.5**	(36.8)

	Notes	Cents	Cents
Earnings per share for profit/(loss) from continuing operations attributable to the ordinary equity holders of the Company:			
Basic and diluted earnings per share	39	**14.9**	(10.0)
Earnings per share for profit/(loss) attributable to the ordinary equity holders of the Company:			
Basic and diluted earnings per share	39	**14.9**	(1.7)

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2011

	Notes	2011 $m	2010 $m
Profit/(loss) for the year		**349.5**	(36.8)
Other comprehensive income			
Changes in the fair value of cash flow hedges recognised in equity	27(a)	**(2.3)**	(4.5)
Changes in the fair value of cash flow hedges transferred to the income statement	27(a)	**1.9**	3.8
Income tax relating to components of other comprehensive income	8(c)	**0.1**	0.1
Other comprehensive income for the year, net of tax		**(0.3)**	(0.6)
Total comprehensive income for the year		**349.2**	(37.4)

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

CONSOLIDATED BALANCE SHEET
AS AT 30 JUNE 2011

	Notes	2011 $m	2010 $m
ASSETS			
Current assets			
Cash and cash equivalents	10	**117.1**	7.8
Trade and other receivables	11	**473.5**	531.5
Inventories	12	**177.6**	167.0
Derivative financial instruments	13	**21.3**	16.4
Other assets	14	**10.6**	9.6
Assets held for distribution	9(d)	**-**	346.9
Total current assets		**800.1**	1,079.2
Non-current assets			
Derivative financial instruments	13	**3.5**	6.2
Trade and other receivables	11	**-**	0.8
Inventories	12	**20.7**	24.2
Property, plant and equipment	15	**8,275.7**	7,383.8
Intangible assets	16	**24.9**	39.4
Investments accounted for using the equity method	18	**0.5**	0.5
Other financial assets	19	**36.3**	35.8
Other assets	14	**-**	4.0
Total non-current assets		**8,361.6**	7,494.7
Total assets		**9,161.7**	8,573.9
LIABILITIES			
Current liabilities			
Derivative financial instruments	13	**27.3**	15.1
Trade and other payables	21	**341.5**	335.0
Borrowings	22	**-**	4,266.1
Provisions	23	**289.0**	287.3
Other liabilities	24	**36.2**	34.7
Liabilities held for distribution	9(d)	**-**	16.1
Total current liabilities		**694.0**	4,954.3
Non-current liabilities			
Derivative financial instruments	13	**3.8**	8.1
Provisions	23	**81.3**	74.3
Borrowings	22	**803.2**	-
Deferred tax liabilities	25	**243.0**	529.1
Other liabilities	24	**344.7**	324.1
Total non-current liabilities		**1,476.0**	935.6
Total liabilities		**2,170.0**	5,889.9
Net assets		**6,991.7**	2,684.0
EQUITY			
Contributed equity	26	**6,111.9**	2,067.0
Reserves	27(a)	**(2.3)**	(2.0)
Retained profits		**882.1**	619.0
Total equity		**6,991.7**	2,684.0

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2011

		Attributable to owners of QR National Limited			
	Notes	Contributed equity $m	Reserves $m	Retained profits $m	Total equity $m
Balance at 1 July 2009		**3,412.9**	**(1.4)**	**708.1**	**4,119.6**
Profit/(loss) for the year		-	-	(36.8)	(36.8)
Other comprehensive income		-	(0.6)	-	(0.6)
Total comprehensive income for the year		**-**	**(0.6)**	**(36.8)**	**(37.4)**
Transactions with owners in their capacity as owners:					
Contributions of equity, net of transaction costs	26(c)	379.9	-	-	379.9
Capital distribution to discontinued operations	9(c)	(1,725.8)	-	-	(1,725.8)
Distribution of net assets to discontinued operations	9(c)	-	-	(52.3)	(52.3)
		(1,345.9)	-	(52.3)	(1,398.2)
Balance at 30 June 2010		**2,067.0**	**(2.0)**	**619.0**	**2,684.0**
Balance at 1 July 2010		**2,067.0**	**(2.0)**	**619.0**	**2,684.0**
Profit for the year		-	-	349.5	349.5
Other comprehensive income		-	(0.3)	-	(0.3)
Total comprehensive income for the year		**-**	**(0.3)**	**349.5**	**349.2**
Transactions with owners in their capacity as owners:					
Capital distribution to Queensland Rail Limited	26(c)	(332.3)	-	-	(332.3)
Capital distribution to State of Queensland	26(c)	(23.0)	-	-	(23.0)
Capital contribution from State of Queensland	26(b)	4,397.3	-	-	4,397.3
Dividends provided for or paid	28	-	-	(86.4)	(86.4)
Employee share scheme	26(b)	2.9	-	-	2.9
		4,044.9	-	(86.4)	3,958.5
Balance at 30 June 2011		**6,111.9**	**(2.3)**	**882.1**	**6,991.7**

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

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 30 JUNE 2011

	Notes	2011 $m	2010 $m
Cash flows from operating activities			
Receipts from customers		**3,665.8**	4,925.4
Interest received		**3.2**	3.1
Payments to suppliers and employees		**(2,877.9)**	(3,823.9)
Interest and other cost of finance paid		**(234.5)**	(463.3)
Income taxes paid		**(2.3)**	(2.6)
Net cash inflow/(outflow) from operating activities	38	**554.3**	638.7
Cash flows from investing activities			
Payments for acquisition of businesses	34	**(12.3)**	-
Proceeds from the disposal of property, plant and equipment		**37.7**	116.4
Payments made to acquire property, plant and equipment		**(1,337.6)**	(1,837.2)
Payments for available-for-sale financial assets		**(0.5)**	(0.2)
Proceeds from sale of business		**2.1**	-
Net cash (outflow)/inflow from investing activities		**(1,310.6)**	(1,721.0)
Cash flows from financing activities			
Proceeds from issues of shares and other equity securities		**-**	379.9
Proceeds from borrowings		**1,423.3**	1,617.9
Repayment of borrowings		**(471.2)**	(798.2)
Dividends paid to Company's shareholders	28	**(86.4)**	(215.1)
Net cash inflow/(outflow) from financing activities		**865.7**	984.5
Net increase/(decrease) in cash and cash equivalents		**109.4**	(97.8)
Cash and cash equivalents at the beginning of the financial year		**7.3**	105.1
Cash and cash equivalents at end of year	10	**116.7**	7.3

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

The consolidated cash flow statement for the year ended 30 June 2010 represents the operations of the combined continuing and discontinued business. Note 9 provides an overview of the discontinued cash flows.

For non-cash financing activities, refer note 22.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
30 JUNE 2011

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the *Corporations Act 2001*.

QR National Limited ("the Company") and its subsidiaries together are referred to as the "Group" or "QR National".

The financial statements were approved for issue by the Directors on 29 August 2011.

Compliance with IFRS

The consolidated financial statements of the Group also comply with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

New and amended standards adopted by the Group

The Group adopted a number of Australian Accounting Standards and interpretations which were mandatory for annual reporting periods beginning on or after 1 July 2010. There has been no effect on the financial performance or position of the Group from the adoption of these standards and interpretations.

Early adoption of standards

The Group has elected to apply the following pronouncements to the annual reporting period beginning 1 July 2010:

- Revised AASB 124 *Related Party Disclosures* and AASB 2009-12 *Amendments to Australian Accounting Standards*. The amendment clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities, which has reduced the disclosures in note 33.

Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets and assets and liabilities (including derivative instruments) at fair value.

Critical accounting estimates

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 2.

Group restructure

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

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

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

Immediately following the restructure, QR Limited and its remaining subsidiaries conducted only the operations comprising QR National. The consolidated financial statements of QR National Limited have been prepared as a continuation of the financial statements of QR Limited. Accordingly, consolidated comparative information is provided for the balance sheet, income statement, statement of comprehensive income, statement of changes in equity, cash flow statement and related information as at 30 June 2010 of QR Limited and its controlled entities.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Principles of consolidation

(i) Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of the Company as at reporting date and the results of all subsidiaries for the year then ended.

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group and de-consolidated from the date that control ceases. Transactions between continuing and discontinued operations are treated as external from the date that the operation was discontinued.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated on consolidation.

(ii) Joint ventures

Jointly controlled assets or operations

Where the Group has jointly controlled assets or operations, the proportionate interests in the assets, liabilities, revenues and expenses of a joint venture activity are incorporated in the financial statements under the appropriate headings. Details of joint venture operations and jointly controlled assets are set out in note 32(a) and (b).

Joint venture entities

Where the Group has an interest in a joint venture entity, the interest is accounted for using the equity method after initially being recognised at cost. Under the equity method, the share of the profits or losses of the joint venture entity is recognised in the income statement and the share of post-acquisition movements in reserves is recognised in other comprehensive income. Details of joint venture entities are set out in note 32(c).

Profits or losses on transactions establishing the joint venture entity and transactions with the joint venture are eliminated to the extent of the Group's ownership interest until such time as they are realised by the joint venture entity on consumption or sale. However, a loss on the transaction is recognised immediately if the loss provides evidence of a reduction in the net realisable value of current assets, or an impairment loss.

(c) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Executive Leadership Team ("ELT").

(d) Foreign currency and commodity transactions

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Australian dollars, which is QR National's functional and presentation currency.

(ii) Transactions and balances

Where the Group is exposed to the risk of fluctuations in foreign exchange rates and commodity prices, it enters into financial arrangements to reduce this exposure. While the value of these financial instruments is subject to risk that market rates/prices may change subsequent to acquisition, such changes will generally be offset by opposite effects on the items being hedged.

Foreign currency transactions are initially translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss, except when they are deferred in equity as qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Foreign currency and commodity transactions (continued)

(ii) Transactions and balances (continued)

Foreign exchange gains and losses that relate to borrowings are presented in the income statement, within finance costs. All other foreign exchange gains and losses are presented in the income statement on a net basis within other income or other expenses.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss and translation differences on non-monetary assets such as equities classified as available-for-sale financial assets are recognised in other comprehensive income.

(e) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances, rebates and amounts collected on behalf of third parties.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue is recognised for the major business activities as follows:

(i) Services revenue

Services revenue comprises revenue earned from the provision of the following services:

- Track access
- Freight transport
- Other services revenue

The Group also has operations which provide construction and engineering services which are substantially internal to the Group and eliminate on consolidation.

Track access

Access revenue generated from the regulated rail network Central Queensland Coal Network (CQCN), is recognised as services are provided and is calculated based on a number of operating parameters, such as the tonnage hauled, and applied to regulator approved tariffs. The tariff is determined by the total maximum allowable revenue, applied to the regulatory approved annual tonnage forecast.

Where annual actual tonnages railed are less than the annual tonnage forecast, an annual take or pay mechanism may become operative. A variable component of take or pay may also be applied where tonnage forecasts do not meet certain consecutive monthly thresholds. The take or pay portion of access revenue is recognised in the year that the contractual railings were not achieved.

In addition, access revenue is subject to a revenue cap mechanism that serves to ensure the network recovers its maximum allowable revenue over the regulatory period such that where actual tonnages railed are less than the regulatory approved tonnage forecast, the revenue shortfall (net of take or pay) is recovered in subsequent years and conversely, where actual tonnages railed are greater, the excess revenue received is refunded through the access tariffs in subsequent years. The majority of under or over recovery in access tariffs (net of take or pay charges) are recognised as revenue in the second year following the period in which the contractual railings were not achieved in accordance with the regulatory framework.

Freight transport

Revenue from freight transport services is calculated based on the rates agreed with customer on a tonnes per delivery basis either by way of long-term contract or on an ad-hoc basis. Revenue is recognised once the service has been provided.

In some circumstances, the Group is able to recover extra charges where the revenue receivable based on tonnage hauled and agreed price falls below minimum levels under contractual arrangements with customers. These additional revenues include Deficit Tonnage Charges. Recognition of revenue is considered on a contract by contract basis and generally recognised in the period following that in which the service was due to be provided where the customer elects to pay the charges rather than to reduce future tonnage entitlements.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Revenue recognition (continued)

Other services revenue

Revenue includes Transport Service Contract ("TSC") payments received from Department of Transport and Main Roads for some specific rail and road-based regional freight services and livestock transportation services. Base amounts receivable under the TSC (regional freight and livestock) are recognised on a straight-line basis over the term of the contract. Additional payments are recognised when due.

Engineering services revenue is recognised when the service is performed having regard to the stage of completion of the engineering works.

(ii) Other revenue

Revenue from other service works is recognised by reference to the contractual entitlement.

Access facilitation deeds for mine-specific infrastructure

The Group builds mine-specific infrastructure for customers and provides access to those clients under access facilitation deeds. In substance, charges under the deeds comprise capital charges and interest charges where the Group finances the assets. The capital charges are recognised on a straight-line basis over the term of the access facilitation deed while the interest charges are accrued in accordance with the contractual terms of the Access Facilitation Deed arrangements. Where the customer prepays the future charges, the amounts received are recognised as deferred income and recognised within income on a straight-line basis over the term of the access facilitation deed.

Liquidated damages

Liquidated damages occur when contractors fail to meet the key performance indicators set out in their contract with the Group. Income resulting from claims for liquidated damages is recognised as other income when all performance obligations are met (including when a contractual entitlement exists), it can be reliably measured (including the impact of the receipt, if any, on the underlying asset's carrying value) and it is probable that the economic benefits will flow to the Group.

(f) Other income

(i) Disposal of assets

The gain or loss on disposal of assets is recognised at the date the significant risks and rewards of ownership of the asset passes to the buyer, usually when the purchaser takes delivery of the assets. The gain or loss on disposal is calculated as the difference between the carrying amount of the asset at the time of disposal and the net proceeds on disposal and is recognised as other income or expenses in the income statement.

(ii) Interest income

Interest income is recognised using the effective interest method.

(iii) Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate.

(iv) Dividends

Dividends are recognised as revenue when the right to receive payment is established.

(g) Income tax

The income tax expense or benefit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Income tax (continued)

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the Company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

To the extent that an item is recognised directly in equity, the deferred tax is also recognised directly in equity.

Tax consolidation legislation

QR National and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation with effect from 22 November 2010. All Australian wholly-owned companies in the QR National Limited Group are part of the tax consolidated group and are therefore taxed as a single entity. The head entity of the tax consolidated group is QR National Limited. The Group will notify the Australian Taxation Office that it has formed a tax consolidated group, applying from 22 November 2010, through lodgement of the Group's 2011 income tax return.

The head entity, QR National Limited, and the controlled entities in the tax consolidated group account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand alone taxpayer in its own right.

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

The entities have also entered into a tax funding agreement which sets out the funding obligations of members of the tax consolidated group in respect of income tax amounts. The tax funding arrangements require payments to the head entity equal to the current tax liability assumed by the head entity. In addition, the head entity is required to make payments equal to the current tax asset or deferred tax asset arising from unused tax losses and tax credits assumed by the head entity from a subsidiary member.

These tax funding arrangements result in the head entity recognising a current inter-entity receivable/payable equal in amount to the tax liability/asset assumed.

(h) Leases

Leases on property, plant and equipment, rollingstock and infrastructure

Leases of property, plant and equipment, rollingstock and infrastructure where the Group, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other current and non-current payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the Group will obtain ownership at the end of the lease term.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Leases (continued)

Leases on property, plant and equipment, rollingstock and infrastructure (continued)

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

Rental revenue from operating leases where the Group is a lessor is recognised as income on a straight-line basis over the lease term. Where a sale and lease back transaction has occurred, the lease is classified as either a finance lease or operating lease based on the factors described above.

Cross border leases

The cross border lease arrangement does not, in substance, involve a lease. The arrangement involves transferring the legal title of the rollingstock to the lessor but the Group retains the risk and rewards incidental to ownership of the rollingstock and enjoys substantially the same rights to its use as before the arrangement. Under the cross border lease arrangement, the rollingstock cannot be sold without the consent of the lessor. The rollingstock is depreciated based on its estimated useful life as the Group intends to re-acquire the legal title of these assets. Benefits received from the cross border leases arrangement were recognised as income at the inception of the arrangement.

Where it is necessary under the cross border lease provisions to terminate part or all of a lease due to damaged or disposed leased assets and there is a difference between the value of the owned asset and the termination cost of the leased asset, the net book value of the damaged asset is recognised in the income statement as loss (or gain) on disposal and termination costs incurred are recognised in the income statement as other expenses.

(i) Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred also includes the fair value of any asset or liability resulting from a contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. Acquisition related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest’s proportionate share of the acquiree’s net identifiable assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree over the fair value of the Group’s share of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity’s incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

(j) Impairment of assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation; and are tested annually for impairment or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Impairment of assets (continued)

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows which are largely independent of the cash flows from other assets or groups of assets (cash-generating units).

The recoverable amount is the greater of an asset's fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment losses are recognised in the income statement. After the recognition of an impairment loss, the depreciation (amortisation) charge for the asset is adjusted in future periods to allocate the asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life. Impairment losses, if any, recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units and then, to reduce the carrying amount of other assets in the unit on a pro-rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other non-financial assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(k) Cash and cash equivalents

For the purpose of presentation in the statement of cash flow, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, and other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(l) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Trade receivables generally have credit terms ranging from 7 to 31 days. They are presented as current assets unless collection is not expected for more than 12 months after the reporting date.

Collectability of trade and other receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables.

Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 90 days overdue) are considered indicators that the trade receivable is impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

The amount of the impairment loss is recognised in the income statement within other expenses. When a trade or other receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in the income statement.

(m) Inventories

Inventories include items held in centralised stores, workshops and infrastructure and rollingstock depots and are stated at the lower of cost and net realisable value. Cost comprises the cost of purchase, cost of conversion and other costs incurred in bringing the inventories to its present location and condition. Cost is determined predominantly on an average cost basis.

Items expected to be consumed after more than one year are classified as non-current.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Inventories (continued)

The provision for inventory obsolescence is based on assessments by management of particular inventory classes and relates specifically to infrastructure and rollingstock maintenance items. The amount of the provision is based on a proportion of the value of damaged stock, slow moving stock and stock that has become obsolete during the reporting period.

(n) Investments and other financial assets

Classification

The Group classifies its non-derivative financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition.

(i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are expected to be settled within 12 months, otherwise they are classified as non-current.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the reporting date which are classified as non-current assets.

(iii) Available-for-sale financial assets

Available-for-sale financial assets, comprising principally unlisted securities for which there is no active market, are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the reporting date. Investments are designated as available-for-sale if they do not have fixed maturities and fixed or determinable payments and management intends to hold them for the medium to long term.

Recognition and derecognition

Regular purchases and sales of financial assets are recognised on trade date – the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership. When securities classified as available-for-sale are sold, the accumulated fair value adjustments recognised in equity are reclassified to the income statement as gains or losses from investment securities.

Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through the income statement, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through the income statement are expensed in the income statement.

Loans and receivables are subsequently carried at amortised cost using the effective interest method. Available-for-sale financial assets are subsequently carried at fair value. Changes in the fair value of other monetary and non-monetary securities classified as available-for-sale are recognised in equity, unless they are impaired.

The Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. In the case of securities classified as available-for-sale, a significant or prolonged decline in the fair value of a security below its cost is considered as an indicator that the securities are impaired.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Investments and other financial assets (continued)

Assets carried at amortised cost

For loans and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flow (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the income statement. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the income statement.

Assets classified as available-for-sale

If there is objective evidence of impairment for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. Impairment losses on equity instruments that are recognised in the income statement are not reversed through the income statement in a subsequent period.

If the fair value of a debt instrument classified as available-for-sale increases in a subsequent period and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss.

(o) Derivatives and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged.

The Group designates certain derivatives as hedges of the cash flows of recognised assets and liabilities and highly probable forecast transactions ("cash flow hedges").

At inception, the Group documents the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been, and will continue to be, highly effective in offsetting future cash flows of hedged items.

The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months; it is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

(i) Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated in reserves in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement in other income or expense.

Amounts accumulated in equity are reclassified to the income statement to consumables in the periods when the hedged item affects profit or loss. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset, the gains and losses previously deferred in equity are reclassified from equity and included in the initial measurement of the cost or carrying amount of the asset.

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement in consumables. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately reclassified to the income statement.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Derivatives and hedging activities (continued)

(ii) Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the income statement in other income or expense.

(iii) Embedded derivatives

Through the Group's purchase and sale contracts, it is possible that embedded derivatives have been entered into. An embedded derivative will cause some or all of the cash flows of the purchase or sale contract (ie. the host contract) to be modified by reference to a variable such as a foreign exchange rate or a commodity price.

Embedded derivatives are separated from the host contract and accounted for as a stand alone derivative if the economic characteristics and risks of the embedded derivatives are not closely related to those of the host contract.

(p) Property, plant and equipment

Methodology for valuation of fixed assets

Buildings, plant and equipment and rollingstock

Buildings, plant and equipment and rollingstock are carried at cost less accumulated depreciation. Cost includes expenditure that is directly attributable to the acquisition of the asset or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction. Cost may also include interest and transfers from equity of any gains or losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment and may include capitalised interest.

Land

Land is carried at cost. As the *Transport Infrastructure Act 1994* stipulates that corridor land is owned by the State, only non corridor land owned by the Group is recorded in the financial statements. Ownership of corridor land is with the Department of Environment and Resource Management on behalf of the State. This land is leased to the Department of Transport and Main Roads and subsequently sub leased to QR Network Pty Ltd under two separate subleases each with a rental of $1.00 per year if demanded. The subleases each expire on 30 June 2109. The land subleases will automatically be renewed for a period of 99 years if the infrastructure leases are renewed for that period (refer leased coal infrastructure below).

Leased property, plant and equipment and rollingstock

Leases of property, plant and equipment and rollingstock where the Group, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Assets held under finance leases are recorded at the lower of the net present value of the minimum lease payments or the fair value of the leased asset at the inception of the lease. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss on an effective interest rate basis.

Owned infrastructure

Infrastructure assets are transferred from Assets under construction once fully constructed and available for use. They are carried at cost and represent capitalised expenditures that are directly related to capital projects and may include materials, labour and equipment, in addition to an allocable portion of indirect costs that clearly relate to a particular project that will provide future economic benefit and remain within the control of the Group.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) Property, plant and equipment (continued)

Leased coal infrastructure

Coal infrastructure assets are owned by (a) the State with respect to the Central Queensland Coal Network and (b) Queensland Rail with respect to the North Coast Line (each referred to as the Infrastructure Lessors). Under each infrastructure lease the infrastructure is leased to QR Network Pty Ltd, a controlled entity. The term of each of the leases is 99 years (at a peppercorn rate of $1 per year), unless the Infrastructure Lessor exercises an option to extend its lease for a further 99 years. The notice period for the Infrastructure Lessor to renew or allow expiry of the lease is not less than 20 years prior to the end of the 99 year term. To the extent that the lease expires at the end of 99 years, the Infrastructure Lessor will pay QR Network Pty Ltd the fair market value of the infrastructure assets including the infrastructure existing on commencement of the lease as well as any railway assets added during the lease term as are reasonably required to enable the infrastructure to be operated as a fully functioning railway network. As the assets are not considered to be providing a public service, the Group's economic interest in the assets is accounted for as property, plant and equipment.

Assets under construction

Assets under construction represents the cost of fixed assets currently under construction and includes the cost of all materials used in construction, direct labour, site preparation, interest and foreign currency gains and losses incurred where applicable, and an appropriate proportion of variable and fixed overheads.

Costs of assets under construction are only capitalised when it is probable that future economic benefits associated with the asset will flow to the Group and the costs can be measured reliably.

Subsequent costs

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to the income statement during the reporting period in which they are incurred.

Depreciation and amortisation

Assets are depreciated or amortised from the date of acquisition, or, in respect of internally constructed or manufactured assets, from the time an asset is completed and held ready for use.

Buildings, plant and equipment, rollingstock and infrastructure are depreciated using the straight-line method to allocate their costs, net of their residual values, over their estimated useful lives. Motor vehicles are depreciated using the diminishing value basis (percentages range from 13.6 % to 35.0 %). Land and assets under construction are not depreciated.

Assets controlled by the Group under finance leases are amortised over the useful lives of the assets. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

Where assets have separately identifiable components that are subject to regular replacement, these components are assigned useful lives distinct from the asset to which they relate. Any expenditure that increases the originally assessed capacity or service potential of an asset is capitalised and the new depreciable amount is depreciated over the remaining life of the asset.

The Group builds mine-specific infrastructure for customers and provides access to those clients under access facilitation deeds. Infrastructure controlled by the Group under these deeds is depreciated over the term of the deed except where economic benefits are expected to flow to the Group after the end of the term of the deed.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) Property, plant and equipment (continued)

***Depreciation and amortisation** (continued)*

The depreciation and amortisation rates used during the year were based on the following range of useful lives:

- Owned and leased infrastructure, including:	5–100 years
Track	30–45 years
Track turnouts	20–25 years
Civil works	20–100 years
Bridges	50–100 years
Electrification	20–50 years
Field signals	15–40 years
- Buildings	10–40 years
- Rollingstock, including:	8–40 years
Locomotives	20–30 years
Wagons	20–35 years
- Plant and equipment	3–20 years
- Leased rollingstock	10–40 years
- Leased property	10–40 years

The depreciation and amortisation rates are reviewed annually and adjusted if appropriate. An asset's carrying amount is written down to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount and are recognised in the income statement.

(q) Intangible assets

(i) Goodwill

Goodwill represents the excess of the purchase consideration for an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortised but is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose, identified according to operating segments.

(ii) IT development and software

Software (mainly comprising the SAP development costs) has a finite useful life and is carried at cost less accumulated amortisation and impairment. Amortisation is calculated using the straight-line method over the estimated useful life which varies from 3 to 7 years.

(iii) Key customer contracts

Key customer contracts have a finite useful life and are carried at cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight-line method over the useful life which varies from 3 to 10 years.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(q) Intangible assets (continued)

(iv) Research and development

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when it is probable that the project will, after considering its commercial and technical feasibility, be completed and generate future economic benefits and its costs can be measured reliably. The expenditure capitalised comprises all directly attributable costs, including costs of materials, services, direct labour and an appropriate proportion of overheads. Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over its useful life.

(r) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days or within the terms set by the supplier. Trade and other payables are presented as current liabilities. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

(s) Borrowings and borrowing costs

(i) Borrowings

Debt is drawn from a syndicated debt arrangement and is initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost, using the effective interest rate method.

Interest costs are calculated using the effective interest rate method. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument. Interest is accrued monthly and paid on maturity. Commitment and agency fees are accrued monthly and paid quarterly.

Syndicated facility establishment costs have been capitalised and are amortised over the life of the facility.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

(ii) Borrowing costs

Borrowing costs which are directly attributable to the acquisition, construction or production of a material qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. A qualifying asset is an internally funded asset that necessarily takes a substantial period of time to be prepared for its intended use or sale. The rate used to determine the amount of borrowing costs to be capitalised is the interest rate applicable to the Group's outstanding borrowings during the year. Other borrowing costs are expensed.

(t) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision resulting from the passage of time is recognised in finance costs.

In accordance with Group's environmental sustainability policy and applicable legal and constructive obligations, a provision for land rehabilitation in respect of contaminated land, is recognised when an obligation for rehabilitation is identified.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(u) Employee benefits

(i) Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits, annual leave and leave loading are recognised as current liabilities. These liabilities are in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled plus related on-costs.

(ii) Other long-term employee benefit obligations

Liabilities for long service leave where employees have completed the required period of service, or are entitled to pro-rata payments are recognised as current liabilities. The remaining unvested liabilities are included as non-current liabilities.

The liability for long service leave is measured using the present value of the expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future non-current payments are discounted using market yields at the reporting date on Commonwealth government bonds with terms to maturity that match, as closely as possible, the estimated future cash outflows.

(iii) Retirement allowance

Retirement allowance is payable to employees who fulfil the following requirements:

- Employees who retire or who are paid according to Voluntary Redundancy Scheme or Medical Separation; and
- are not members of an accumulation super fund; and
- were employed prior to 1 February 1995.

Liabilities for retirement allowance for employees who have fulfilled these requirements are recognised as current liabilities. The remaining liabilities are included within employee benefits and recognised as non-current liabilities. The non-current liability for retirement allowance is measured at the present value of expected future payments to be made in respect of services provided by qualifying employees. Consideration is given to expected future wage and salary levels, experience of the departure of qualifying employees and periods of service. Expected future payments are discounted using market yields at the reporting date on Commonwealth government bonds with maturities that match, as closely as possible, to the estimated future cash outflows.

(iv) Share-based payments

Share-based compensation benefits are provided to employees via the Omnibus Equity Plan. Information relating to this scheme is set out in note 40.

The fair value of rights granted under the Omnibus Equity Plan is recognised as an employee benefits expense with a corresponding increase in equity. The total amount to be expensed is determined by reference to the fair value of the rights granted, which includes any market performance conditions and the impact of any non-vesting conditions but excludes the impact of any service and non-market performance vesting conditions.

Non-market vesting conditions are included in assumptions about the number of rights that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each period, the entity revises its estimates of the number of rights that are expected to vest based on the non-marketing vesting conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

(v) Bonus plans

The Group recognises a liability and an expense for bonuses based on a formula that takes into consideration the Group, Business Unit and individual key performance indicators including profit attributable to the Company's shareholders after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

(vi) Sick leave

Sick leave is not provided for on the grounds that it is non-vesting and on average, no more than the annual entitlement is taken each year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30 JUNE 2011

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(u) Employee benefits (continued)

(vii) Superannuation

Contributions are expensed as they are made.

The Group pays an employer subsidy to the Government Superannuation Office in respect of employees who are contributors to the Public Sector Superannuation (QSuper) scheme.

Employer contributions to the QSuper Defined Benefit Fund are determined by the State of Queensland Treasurer having regard to advice from the State Actuary. The primary obligation to fund the defined benefits obligations is that of the State. However, the Treasurer has the discretion to request contributions from employers that contribute to the defined benefit category of QSuper. No liability is recognised for accruing superannuation benefits as this liability is held on a Whole of Government basis and reported in the Whole of Government financial statements. The State Actuary performs a full actuarial valuation of the assets and liabilities of the fund on a triennial basis. The latest valuation was completed as at 30 June 2010 and the State Actuary found the fund was in surplus from a Whole of Government perspective. In addition, from late 2007, the Defined Benefit Fund was closed to new members so any potential future deficit would be diluted as membership decreases. Accordingly, no liability/asset is recognised for the Group's share of any potential deficit/surplus of the Super Defined Benefit Fund of QSuper.

The Group also makes superannuation guarantee payments into the QSuper Accumulation Fund (Non-Contributory) and QSuper Accumulation Fund (Contributory) administered by the Government Superannuation Office and to other complying Superannuation Funds designated by employees nominating Choice of Fund.

(v) Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Where any Group company purchases the Company's equity instruments, for example as the result of a share-based payment plan, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the owners of QR National Limited as treasury shares until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the owners of QR National Limited.

(w) Dividends

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the financial year but not distributed at reporting date.

(x) Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares
- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(y) Goods and Services Tax ("GST")

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the amount of GST incurred is not recoverable from the ATO. In this case, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the ATO is included with other receivables or payables in the balance sheet.

Cash flows are presented in the cash flow statement on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the ATO, are presented as operating cash flows.

QR National Limited and its subsidiaries are grouped for GST purposes. Therefore, any inter-company transactions within the Group do not attract GST.

(z) Rounding of amounts

The Company is of a kind referred to in Class Order 98/0100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest hundred thousand dollars, unless otherwise indicated.

(aa) New accounting standards and interpretations

The following standards, amendments to standards and interpretations that are relevant to current operations are available for early adoption but have not been applied by the Group in this financial report:

(i) AASB 9 *Financial Instruments*, AASB 2009–11 *Amendments to Australian Accounting Standards arising from AASB 9 and AASB 2010–7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)* (effective from 1 January 2013).

AASB 9 *Financial Instruments* addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until 1 January 2013 but is available for early adoption. When adopted, the standard will affect in particular the Group's accounting for its available-for-sale financial assets, since fair value gains and losses will be recognised through the income statement unless they relate to equity investments that are not held for trading, and an election has been made to recognise the gains and losses through other comprehensive income.

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities. The derecognition rules have been transferred from AASB 139 *Financial Instruments: Recognition and Measurement* and have not been changed. The Group has not yet decided whether to early adopt AASB 9.

(ii) AASB 1053 *Application of Tiers of Australian Accounting Standards and* AASB 2010–2 *Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements* (effective from 1 July 2013).

On 30 June 2010 the AASB officially introduced a revised differential reporting framework in Australia. Under this framework, a two-tier differential reporting regime applies to all entities that prepare general purpose financial statements. The Company is listed on the ASX and is not eligible to adopt the new Australian Accounting Standards – Reduced Disclosure Requirements. The two standards will therefore have no impact on the financial statements of the Group.

(iii) AASB 2010–6 *Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets* (effective for annual reporting periods beginning on or after 1 July 2011).

Amendments made to AASB 7 *Financial Instruments: Disclosures* introduce additional disclosures in respect of risk exposures arising from transferred financial assets. The amendments will affect particularly entities that sell, factor, securitise, lend or otherwise transfer financial assets to other parties. They are not expected to have any significant impact on the Group's disclosures. The Group intends to apply the amendment from 1 July 2011.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(aa) New accounting standards and interpretation (continued)

(iv) AASB 2010–8 *Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets* (effective from 1 January 2012).

In December 2010, the AASB amended AASB 112 *Income Taxes* to provide a practical approach for measuring deferred tax liabilities and deferred tax assets when investment property is measured using the fair value model. AASB 112 requires the measurement of deferred tax assets or liabilities to reflect the tax consequences that would follow from the way management expects to recover or settle the carrying amount of the relevant assets or liabilities, that is through use or through sale. The amendment introduces a rebuttable presumption that investment property which is measured at fair value is recovered entirely by sale. The Group will apply the amendment from 1 July 2012. It is not expected to have any impact on the Group's financial statements.

(v) IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, IFRS 12 *Disclosure of Interests in Other Entities* and revised IAS 27 *Separate Financial Statements* and IAS 28 *Investments in Associates* (effective 1 January 2013).

In May 2011, the IASB issued a suite of five new and amended standards which address the accounting for joint arrangements, consolidated financial statements and associated disclosures. The AASB is expected to issue equivalent Australian standards shortly.

IFRS 10 replaces all of the guidance on control and consolidation in IAS 27 *Consolidated and Separate Financial Statements*, and SIC–12 *Consolidation – Special Purpose Entities*. The core principle that a consolidated entity presents a parent and its subsidiaries as if they are a single economic entity remains unchanged, as do the mechanics of consolidation. However the standard introduces a single definition of control that applies to all entities. It focuses on the need to have both power and rights or exposure to variable returns before control is present. Power is the current ability to direct the activities that significantly influence returns. Returns must vary and can be positive, negative or both. There is also new guidance on participating and protective rights and on agent/principal relationships. The Group does not expect the new standard to have any impact on its composition.

IFRS 11 introduces a principles based approach to accounting for joint arrangements. The focus is no longer on the legal structure of joint arrangements, but rather on how rights and obligations are shared by the parties to the joint arrangement. Based on the assessment of rights and obligations, a joint arrangement will be classified as either a joint operation or joint venture. Joint ventures are accounted for using the equity method, and the choice to proportionately consolidate will no longer be permitted. Parties to a joint operation will account their share of revenues, expenses, assets and liabilities in much the same way as under the previous standard. IFRS 11 also provides guidance for parties that participate in joint arrangements but do not share joint control. The Group does not expect the new standard to have any significant impact on its financial statements.

IFRS 12 sets out the required disclosures for entities reporting under the two new standards, IFRS 10 and IFRS 11, and replaces the disclosure requirements currently found in IAS 28. Application of this standard by the Group will not affect any of the amounts recognised in the financial statements, but will impact the type of information disclosed in relation to the Group's investments.

IAS 27 is renamed *Separate Financial Statements* and is now a standard dealing solely with separate financial statements. Application of this standard by the Group will not affect any of the amounts recognised in the financial statements.

Amendments to IAS 28 provide clarification that an entity continues to apply the equity method and does not remeasure its retained interest as part of ownership changes where a joint venture becomes an associate, and vice versa. The amendments also introduce a "partial disposal" concept. There will be no impact on the Group's financial statements from these amendments.

The Group does not expect to adopt the new standards before their operative date. They would therefore be first applied in the financial statements for the annual reporting period ending 30 June 2014.

(vi) IFRS 13 *Fair Value Measurement* (effective 1 January 2013)

IFRS 13 was released in May 2011. The AASB is expected to issue an equivalent Australian standard shortly. IFRS 13 explains how to measure fair value and aims to enhance fair value disclosures. The Group does not use fair value measurements extensively. It is therefore unlikely that the new rules will have a significant impact on any of the amounts recognised in the financial statements. However, application of the new standard will impact the type of information disclosed in the notes to the consolidated financial statements. The Group does not intend to adopt the new standard before its operative date, which means that it would be first applied in the annual reporting period ending 30 June 2014.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(aa) New accounting standards and interpretation (continued)

(vii) AASB 1054 *Australian Additional Disclosures*, AASB 2011–1 *Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project* and AASB 2011–2 *Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project – Reduced Disclosure Requirements* (effective 1 July 2011)

The AASB and NZ FRSB have issued accounting standards that eliminate most of the existing differences between their local standards and IFRS. Where additional disclosures were considered necessary, they were moved to new standard AASB 1054. Adoption of the new rules will not affect any of the amounts recognised in the financial statements, but may simplify some of the Group's current disclosures. The Group intends to adopt the standards from 1 July 2011.

(viii) Revised IAS 19 *Employee Benefits* (effective 1 January 2013)

In June 2011, the IASB released a revised standard on accounting for employee benefits. The AASB is expected to issue an equivalent revised AASB 119 *Employee Benefits* shortly. The revised standard contains changes to the recognition of defined benefit liabilities/assets which will have no impact on the Group. It also changes the distinction between short and long-term benefits for measurement purposes to be based on when payment is expected, not when payment can be demanded. This impacts the calculation of the Group's annual leave liability which would be measured as a long-term liability, but presented as a current liability. The Group has not yet decided when to adopt the new standard.

(ix) Revised IAS 1 *Presentation of Financial Statements* (effective 1 July 2012)

In June 2011, the IASB made an amendment to IAS 1 *Presentation of Financial Statements*. The AASB is expected to make equivalent changes to AASB 101 shortly. The amendment requires entities to separate items presented in other comprehensive income into two groups, based on whether they may be recycled to profit or loss in the future. It will not affect the measurement of any of the items recognised in the consolidated balance sheet or the profit or loss in the current period. The Group intends to adopt the new standard from 1 July 2012.

(x) AASB 2011-4 *Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements* (effective 1 July 2013)

In July 2011, the AASB decided to remove the individual key management personnel ("KMP") disclosure requirements from AASB 124 *Related Party Disclosures*, to achieve consistency with the international equivalent standard and remove a duplication of the requirements with the *Corporations Act 2001*. While this will reduce the disclosures that are currently required in the notes to the financial statements, it will not affect any of the amounts recognised in the financial statements. The amendments apply from 1 July 2013 and cannot be adopted early. The *Corporations Act 2001* requirements in relation to remuneration reports will remain unchanged for now, but these requirements are currently subject to review and may also be revised in the near future.

(ab) Discontinued operations and assets/liabilities held for distribution

A discontinued operation is a component of the entity that:

- has been disposed of and that represents a separate major line of business or geographical area of operations;
- is part of a single co-ordinated plan to dispose of such a line of business or area of operations; or
- is a subsidiary acquired exclusively with a view to resale.

The results of discontinued operations are presented separately in the income statement.

The assets of a disposal group classified as held for distribution are presented separately from the other assets in the balance sheet. The liabilities of a disposal group classified as held for distribution are presented separately from other liabilities in the balance sheet.

Non-current assets (or disposal groups) are classified as held for distribution if their carrying amount will be recovered principally through a distribution transaction rather than through continuing use and a distribution is considered highly probable.

(ac) Parent entity information

The financial information for the parent entity, QR National Limited, disclosed in note 41 has been prepared on the same basis as the consolidated financial statements, except as set out on the following page:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
30 JUNE 2011

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(ac) Parent entity information (continued)

Investments in subsidiaries, associates and joint ventures

Investments in subsidiaries, associates and joint ventures are accounted for at cost in the financial statements of QR National Limited. Dividends received from associates are recognised in the parent entity's income statement, rather than being deducted from the carrying amount of these investments.

Employee benefits – share-based payments

The grant by the Company of rights over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution to that subsidiary undertaking. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity.

2 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Carrying value of non-current assets subject to impairment testing

The Group considers annually whether there has been any indicators of impairment and then tests whether non-current assets, including goodwill, have suffered any impairment, in accordance with the accounting policy stated in note 1(j). The recoverable amounts of cash-generating units have been determined based on value in use calculations or fair value less costs to sell. These calculations require the use of assumptions. Refer to note 15 and 16 for more details on the carrying amounts of non-current assets subject to impairment testing.

(ii) Provision for insurance claims including workers' compensation

Until the Company was transferred to Queensland Rail Limited on 6 October 2010, the Group managed its insurance risks through its wholly-owned subsidiary, On Track Insurance Pty Ltd. Thereafter, the Group has been externally insured.

Accrued insurance liabilities (includes workers' compensation) is based on a combination of management estimates and independent actuarial assessments performed as at year end. The determination of the provisions required is dependent on a number of assumptions including the total future cost to finalise existing open claims, wage increases that will impact existing claims, inflation, and the amount of claims that have been incurred but not yet reported. Refer to note 23 for more information.

(iii) Provision for land rehabilitation

The provision for land rehabilitation is the present value of management's best estimate of the expenditure required to settle the land rehabilitation present obligation at reporting date, with due consideration to an independent expert's valuation assessment. There is uncertainty as to the amount that will ultimately be required to be expensed and the timing to remediate contaminated land. Refer to note 23 for more information.

(iv) Employee benefits

The determination of the provisions required is dependent on a number of assumptions including expected wage increases, length of employee service and bond rates. Refer to note 23 for more information.

(v) Taxation

The Group's accounting policy for taxation requires management's judgement as to the types of arrangements considered to be subject to a tax. Judgement is also required in assessing whether deferred tax assets and certain deferred tax liabilities are recognised on the balance sheet. Deferred tax assets, including those arising from unrecouped tax losses, capital losses and temporary differences, are recognised only when it is considered probable that they will be recovered. Recoverability is dependent on the generation of sufficient future taxable profits.

2 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(v) Taxation (continued)

Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. These in turn depend on estimates of future sales volumes, operating costs, capital expenditure and other capital management transactions. Judgements are also required about the application of income tax legislation. These judgements and assumptions are subject to risk and uncertainty; hence, there is a possibility that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets and deferred tax liabilities recognised on the balance sheet and the amount of other tax losses and temporary differences not yet recognised. In such circumstances, some or all of the carrying amounts of recognised deferred tax assets and liabilities may then require adjustment, resulting in a corresponding credit or charge to the income statement.

Refer to notes 20 and 25 for carrying amounts of deferred tax assets and deferred tax liabilities.

(vi) Depreciation

Management estimates the useful lives and residual values of property, plant and equipment based on the expected period of time over which economic benefits from use of the asset will be derived. Management reviews useful life assumptions on an annual basis having given consideration to variables including historical and forecast usage rates, technological advancements and changes in legal and economic conditions. Refer to note 1(p) for details of current depreciation rates used.

(vii) Hedge accounting

Management's judgement is necessary when determining whether a derivative financial instrument qualifies for hedge accounting, such as whether forecast transactions are highly probable as required by AASB 139 *Financial Instruments: Recognition and Measurement*. The assessment of whether forecast transactions are highly probable is judgmental and is subject to changes to the timing and magnitude of underlying purchases.

(viii) Discontinued operations

The financial separation of the operations, assets and liabilities between continuing and discontinuing operations on 30 June 2010 was performed in accordance with AASB 5 *Assets Held for Sale and Discontinued Operations*.

The separation of the financial performance of the continuing and discontinuing businesses includes management's best estimate and judgement in the allocation of certain revenue and expenses between continuing and discontinuing businesses.

(ix) Take or Pay

The calculation of Take or Pay is based on an assessment of access charges from contracted railings that have not been achieved subject to an adjustment for QR Network Pty Ltd ("below rail") cause. Below rail cause is based on information on below rail versus operator/mine caused cancellations in the relevant year. The estimate of Take or Pay is based on management's judgement of below rail cause, and is recognised in the year in which the contractual railings have not been achieved.

3 FINANCIAL RISK MANAGEMENT

The Group has exposure to a variety of financial risks including market risk (currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses derivative financial instruments such as foreign exchange contracts and commodity swap contracts to hedge significant risk exposures. Trading for profit is strictly prohibited.

Risk management is carried out by a central treasury department within the Group ("Group Treasury") under policies approved by the Board of Directors ("the Board"). Group Treasury identifies, evaluates and hedges financial risks in close co-operation with the Group's business units. The Board approved Treasury Policy addresses the management of fuel price risk, foreign exchange risk, interest rate risk, liquidity risk, counterparty credit risk and operational risk arising from treasury activities. Compliance to the Board Policy is monitored on a regular basis. Any breaches of policy are reported to the Board.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Market risk

Market risk is the risk that adverse movements in the fuel price, foreign exchange, interest rates and equity prices will increase costs and negatively impact the Group's income or the value of its holdings of financial instruments. Market risk is measured using cash flow at risk. The objective of market risk management is to manage the risks inherent in the business to protect profitability and return on assets.

The Board approved Treasury Policy provides the guidelines for managing market risk. The Group enters into derivatives in order to manage market risks, within Board approved risk limits and controls. Generally the Group seeks to apply hedge accounting in order to manage volatility in profit or loss and maximise return on assets.

(i) Foreign exchange risk

Exposure to foreign exchange risk

Foreign exchange risk arises from the purchase of capital equipment and operating expenditure (primarily fuel expenses) that are denominated in or related to a currency that is not the entity's functional currency. The Group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US Dollar ("USD") and the Euro ("EUR").

Risk management

In order to protect against foreign exchange movements, the Group enters into forward foreign exchange contracts. These contracts are hedging highly probable forecast foreign currency exposures relating to operating expenses (primarily fuel expenditure) and purchase of capital equipment in foreign currency.

- Realised gains or losses on the contracts used to hedge operating expenditure (primarily fuel expenses) arise due to differences between the actual spot rates on settlement, and the forward rates of the derivative contracts; and
- Changes in the fair value of the contracts used to hedge the purchase of capital equipment that are due to spot foreign exchange movements are capitalised to the asset, with the forward points recorded in profit or loss.

During the year, the net realised loss arising from foreign exchange hedging activities for the Group was $15.4 million (2010: loss of $17.1 million) as a result of the Australian dollar ("AUD") appreciating above the average hedged price. Of this net amount, a realised loss of $17.2 million (2010: loss of $3.8 million) represents the effective portion of the hedges which has been recognised in the relevant expenditure category which the contract was hedging or capitalised to a project, and a realised gain of $1.8 million (2010: loss of $13.3 million) represents the ineffective portion of hedges and non-designated derivatives, which has been recognised in ineffective and non-designated derivatives expense.

The Group's exposure to foreign currency risk at the end of the reporting period, expressed in AUD, was as follows:

	2011		2010	
	USD $m	EUR $m	USD $m	EUR $m
Cash and cash equivalents	1.2	0.2	1.2	0.4
Trade receivables	0.8	-	-	-
Net forward exchange contracts	(75.2)	(2.3)	(155.6)	(28.0)
Net exposures	(73.2)	(2.1)	(154.4)	(27.6)

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Market risk (continued)

Sensitivity

The following table summarises the sensitivity of the Group's significant financial assets and liabilities to a reasonably possible change in the USD. A 15 % appreciation/depreciation of the AUD against the USD would have increased/(decreased) equity and profit or loss before tax by the amounts shown below. Foreign exchange hedges, in excess of the requirements, were closed out with offsetting forward exchange contracts, resulting in a sensitivities skew. These contracts cannot be hedge accounted and therefore are classified as fair value through the profit or loss. This analysis assumes that all other variables remain constant. The analysis is performed on the same basis for 2010.

		USD 15% increase		USD 15% decrease	
	Carrying amount $m	Profit $m	Equity $m	Profit $m	Equity $m
2011					
Derivative asset/(liability)	**(16.4)**	**(0.7)**	**(7.0)**	**1.0**	**9.5**
2010					
Derivative asset/(liability)	(0.1)	(32.7)	(8.9)	44.3	12.0

(ii) Fuel price risk

Exposure to fuel price risk

Fuel price risk arises on the Group's exposure to fuel prices, predominately Gasoil.

Risk management

In order to protect against adverse fuel price movements, the Group enters into commodity swap contracts. These contracts are hedging highly probable forecast fuel consumption. Realised gains and losses on these contracts arise due to differences between the actual fuel prices on settlements and the forward price of the derivative contract.

During the year, the net realised gain arising from fuel hedging activities for the Group was $3.0 million (2010: gain of $2.4 million) as a result of actual fuel prices moving higher than the average hedged price. Of this net amount, a realised gain of $3.5 million (2010: nil) represents the effective portion of the hedges which has been recognised in diesel expense, and a realised loss of $0.5 million (2010: gain of $2.4 million) represents the ineffective portion of the hedges which has been recognised in ineffective and non-designated derivatives expense.

Sensitivity

The following table summarises the sensitivity of the Group's financial assets and liabilities to a possible change in fuel prices. A 40 % increase/decrease in the price of fuel would have increased/(decreased) equity and profit or loss before tax by the amounts shown below. This analysis assumes that all other variables remain constant.

		40% increase		40% decrease	
	Carrying value $m	Profit $m	Equity $m	Profit $m	Equity $m
2011					
Derivative asset/(liability)	**10.2**	**0.6**	13.6	**(0.6)**	(13.6)
2010					
Derivative asset/(liability)	(0.6)	38.0	-	(31.3)	-

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Market risk (continued)

(iii) Equity securities price risk

The Group is exposed to equity securities price risk through its investment in an unlisted equity trust which is classified as an available-for-sale investment. An increase/decrease of 10% to the valuation of property owned by the unlisted entity in which securities are held would increase equity/decrease profit before tax by $3.6 million (2010: $3.6 million).

(iv) Cash flow and fair value interest rate risk

Exposure to interest rate risk

The Group holds both interest bearing assets and interest bearing liabilities, and therefore the Group's income and operating cash flows are subject to changes in market interest rates.

The Group's main interest rate risk arises from long-term borrowings. The Group entered into a $3,000 million Syndicated Facility Agreement on 7 October 2010. After capital contributions of $4,388.3 million, the Queensland Treasury Corporation ("QTC") borrowings were repaid in full through a draw down on the syndicated facility on 1 December 2010. Refer to note 22 for more information on borrowings.

Risk management

In order to protect against adverse interest rate movements, the Group may enter into derivative contracts. As at 30 June 2011, no derivative contracts had been entered into. In the prior financial year and until the date of listing, QTC was authorised to manage the interest rate risk of the Group within limits in accordance with the risk profile approved by the Board. For further information on borrowings, refer to note 22.

The Group accounts for financial assets at fair value through profit or loss, and financial liabilities at amortised cost using the effective interest method.

Borrowings issued expose the Group to cash flow interest rate risk. As at the end of each reporting period, the Group had the following borrowings outstanding:

	2011		2010	
	Weighted average interest rate %	Balance $m	Weighted average interest rate %	Balance $m
Bank overdrafts and bank loans	**6.7%**	**830.0**	5.2%	4,266.1
Net exposure to cash flow interest rate risk		**830.0**		4,266.1

Sensitivity

The balance date measurement of the cash and cash equivalents and receivables are not sensitive to movements in interest rates and so a change in interest rates as at balance date would have had no impact on either profit or equity from the measurement of cash and cash equivalents or receivables for the current or prior financial year.

The following table summarises the sensitivity of the Group's borrowings. A 100 basis point increase/(decrease) in interest rates would have increased/(decreased) equity and profit or loss before tax by the amounts shown below. This analysis assumes that all other variables remain constant.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Market risk (continued)

		100 bps increase		100 bps decrease	
	Carrying amount	Profit	Equity	Profit	Equity
	$m	$m	$m	$m	$m
2011					
Borrowings	830.0	(8.3)	-	8.3	-
2010					
Borrowings	2,202.2	(10.0)	-	10.0	-

(b) Credit risk

Exposure to credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from trade debtor counterparties, deposits and unrealised gains on derivative financial instruments.

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets, is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the balance sheet and notes to the financial statements. Credit risk further arises in relation to financial guarantees given to certain parties. Refer to note 3(d).

The Group does not have any material credit risk exposure to any single receivable or group of receivables under financial instruments entered into by the Group. For some trade receivables the Group may also obtain security in the form of guarantees, deeds of undertaking or letters of credit which can be called upon if the counterparty is in default under the terms of the agreement. Refer to note 3(d) for further details.

The Group has policies in place to ensure that sales of services are only made to customers with an appropriate credit history. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, the credit quality of the customer is assessed, taking into account its financial position, past experience and other factors.

Credit risk on cash transactions and derivative contracts is minimised as authorised counterparties are restricted to financial institutions whose long-term credit ratings, determined by a recognised ratings agency, are at or above the minimum rating of A^{-} as specified in the Board approved Treasury Policy. This Policy also limits the amount of credit exposure to any one financial institution. The Group's net exposures and the credit ratings of its counterparties are continuously monitored.

The Group's available-for-sale equity securities are units in an unlisted property trust with an unrated counterparty where the underlying investment is commercial property. The Group has policies in place to ensure that investments are made with counterparties with an appropriate credit history/low credit risk.

An analysis of the Group's trade and other receivables that have been impaired and the ageing of those that are past due but not impaired at the balance date is presented in note 11.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions.

Liquidity risk management within the Group ensures sufficient cash to meet short-term and long-term financial commitments.

The Group manages liquidity risk by monitoring forecast cash flows and ensuring that adequate cash flow is maintained.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk (continued)

Financing arrangements

The Group has access to undrawn borrowing facilities through its Syndicated Facility Agreement. In the prior financial year and up to the date of listing, borrowings were sourced from QTC.

The total amount of credit unused as at 30 June 2011 was $2,170.0 million (2010: $625.1 million).

The Group also has a credit standby arrangement with the Commonwealth Bank of Australia in the form of a bank overdraft totalling $2.0 million (2010: $2.0 million).

The tables following analyse the Group's financial liabilities and net and gross settled derivative financial instruments into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the tables are the contractual undiscounted cash flows. For forward exchange contracts and commodity swaps the cash flows have been estimated using forward curves applicable at the end of the reporting period. For cash flows relating to cash and cash equivalents, refer to note 10.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk (continued)

	Less than 1 year $m	Between 1 and 5 years $m	Over 5 years $m	Total contractual cash flows $m
2011				
Non-derivative financial instruments				
Non-interest bearing	341.5	-	-	341.5
Variable rate borrowings	55.9	931.5	-	987.4
Financial guarantees	40.5	-	-	40.5
Total non-derivative financial instruments	437.9	931.5	-	1,369.4
Derivative financial instruments				
Net settled (forward commodity derivatives)				
Assets	(16.5)	(3.8)	-	(20.3)
Liabilities	9.2	1.1	-	10.3
Gross settled (foreign exchange derivatives)				
Assets				
– (inflow)	(18.3)	(1.0)	-	(19.3)
– outflow	13.7	0.7	-	14.4
Liabilities				
– (inflow)	(62.0)	(11.4)	-	(73.4)
– outflow	82.5	15.3	-	97.8
Total derivative financial instruments	8.6	0.9	-	9.5
2010				
Non-derivative financial instruments				
Non-interest bearing	302.1	-	-	302.1
Borrowings	4,907.6	-	-	4,907.6
Financial guarantees	46.1	-	-	46.1
Total non-derivative financial instruments	5,255.8	-	-	5,255.8
Derivative financial instruments				
Net settled (forward commodity derivatives)				
Assets	(3.3)	(4.3)	-	(7.6)
Liabilities	5.7	2.5	-	8.2
Gross settled (foreign exchange derivatives)				
Assets				
– (inflow)	(243.7)	(24.0)	-	(267.7)
– outflow	230.3	21.9	-	252.2
Liabilities				
– (inflow)	(123.3)	(55.0)	-	(178.3)
– outflow	133.0	61.1	-	194.1
Total derivative financial instruments	(1.3)	2.2	-	0.9

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Fair value measurements

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes. AASB 7 requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

(a) quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);

(b) inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (level 2); and

(c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

The following table presents the Group's assets and liabilities measured and recognised at fair value:

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Fair value measurements (continued)

	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
2011				
Assets				
Financial assets at fair value through profit or loss				
Forward exchange contracts	-	4.5	-	4.5
Commodity swaps	-	11.6	-	11.6
Derivatives used for hedging				
Forward exchange contracts	-	-	-	-
Commodity swaps	-	8.7	-	8.7
Available-for-sale financial assets				
Equity securities	-	-	36.3	36.3
Total assets	-	24.8	36.3	61.1
Liabilities				
Financial liabilities at fair value through profit or loss				
Forward exchange contracts	-	8.8	-	8.8
Commodity swaps	-	10.3	-	10.3
Derivatives used for hedging				
Forward exchange contracts	-	12.0	-	12.0
Total liabilities	-	31.1	-	31.1
2010				
Assets				
Financial assets at fair value through profit or loss				
Forward exchange contracts	-	14.4	-	14.4
Commodity swaps	-	7.6	-	7.6
Derivatives used for hedging				
Forward exchange contracts	-	0.6	-	0.6
Available-for-sale financial assets				
Equity securities	-	-	35.8	35.8
Total assets	-	22.6	35.8	58.4
Liabilities				
Financial liabilities at fair value through profit or loss				
Forward exchange contracts	-	11.7	-	11.7
Commodity swaps	-	8.0	0.2	8.2
Derivatives used for hedging				
Forward exchange contracts	-	3.4	-	3.4
Total liabilities	-	23.1	0.2	23.3

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Fair value measurements (continued)

The fair value of financial instruments traded in active markets (such as foreign exchange and commodity derivatives) is based on observable market prices at the balance sheet date. The observable market price used for financial assets and liabilities held by the Group for effective hedges is the average forward rate at close of business on reporting date.

The fair value of financial instruments that are not traded in an active market (eg over the counter derivatives) is determined using generally accepted valuation techniques. The Group uses a variety of approved methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Observable market prices for similar instruments are used to estimate fair value for long-term debt for disclosure purposes. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of forward exchange contracts and commodity derivatives is determined using forward market rates at the end of the reporting period. These instruments are included in level 2 and comprise derivative financial instruments. In the circumstances where a valuation technique for these instruments is based on significant unobservable inputs, such instruments are included in level 3.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted equity securities.

The fair value of unlisted available-for-sale financial instruments is calculated with reference to an independent valuation of the investment property trust.

The following tables present the changes in level 3 instruments during the year:

	Available-for-sale financial assets $m	Derivatives at fair value through profit or loss $m	Total $m
Opening balance 1 July 2010	35.8	(0.2)	35.6
Transfer into (out of) level 3	-	0.2	0.2
Purchases/fair value changes	0.5	-	0.5
Closing balance 30 June 2011	36.3	-	36.3
Total gains or losses for the period included in other income (other expenses) that relate to level 3 financial instruments held at the end of the reporting period	-	-	-
Opening balance 1 July 2009	37.7	0.4	38.1
Transfer out of level 3	-	(0.4)	(0.4)
Purchases/fair value changes	0.1	(0.2)	(0.1)
Impairment (included in "other expenses")	(2.0)	-	(2.0)
Closing balance 30 June 2010	35.8	(0.2)	35.6
Total losses for the period included in other expenses that relate to level 3 financial instruments held at the end of the reporting period	**(2.0)**	**(0.2)**	**(2.2)**

The net fair value of cash, cash equivalents and non-interest bearing financial assets and liabilities approximates their carrying value due to their short maturity. The net fair value of other financial assets and liabilities is determined by valuing them at the present value of future contracted cash flows. Cash flows are discounted using standard valuation techniques at the applicable market yield, having regard to the timing of the cash flows. In the prior financial year, interest bearing borrowings were determined by valuation techniques as advised by QTC.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Fair value measurements (continued)

The net fair value of forward foreign exchange and fuel contracts is determined as the unrealised gain/loss at reporting date by reference to market exchange rates and fuel prices.

The carrying amounts and fair values of current and non-current borrowings and off-balance sheet guarantees at reporting date are:

	2011		2010	
	Carrying amount $m	Fair value $m	Carrying amount $m	Fair value $m
Borrowings	**803.2**	**856.2**	4,266.1	4,383.4
Off-balance sheet				
Unrecognised financial assets				
Third party guarantees	**-**	**50.5**	-	95.4
Bank guarantees	**-**	**203.8**	-	254.7
Insurance company guarantees	**-**	**25.2**	-	9.7
Unrecognised financial liabilities				
Third party guarantees	**-**	**-**	-	(0.3)
Bank guarantees	**-**	**(40.5)**	-	(45.7)
Letters of credit	**-**	**-**	-	(0.1)
	-	**239.0**	-	313.7

4 SEGMENT INFORMATION

(a) Description of segments

Business segments

The Group has determined operating segments based on the operating structure of the Group and the different reports reviewed by the Executive Leadership Team. The segments are based on the operating structure of the Group and the different products and services provided by each segment. The chief operating decision maker assesses the performance of the operating segments based on underlying earnings before interest and tax ("EBIT"). Amounts included in the report reviewed by the chief operating decision maker are in accordance with the Group's accounting policies.

Interest expense for the entire Group is not allocated to specific segments but rather recorded as a corporate expense. With the exception of property, plant and equipment, asset and liability positions of the Group are only reviewed at the consolidated level. All assets and revenues are located in or attributable to the provision of services within Australia.

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

Coal
Transport of coal from mines in Queensland and New South Wales to end customers and ports.

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

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

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

Unallocated
Items of revenue and expense of a corporate nature, as well as those relating to minor operations within the Group, and ineffective hedging gains and losses.

Discontinued operations
Passenger services, the metropolitan rail networks and operations of the non-coal rail network in Queensland represents the discontinued operations segment from the prior financial year. Refer to note 9 for information on these businesses.

4 SEGMENT INFORMATION (CONTINUED)

(b) Segment information

	Coal $m	Freight $m	Network Services $m	Unallocated $m	Total $m
2011					
Segment revenue					
Revenue from external customers					
Services revenue					
Track access	708.8	8.4	112.6	-	829.8
Freight transport	926.0	959.7	-	-	1,885.7
Other services	-	148.6	106.4	-	255.0
Other revenue	6.2	32.6	138.3	49.1	226.2
Total revenue from external customers	1,641.0	1,149.3	357.3	49.1	3,196.7
Intersegment revenue					
Services revenue					
Track access	-	-	590.4	-	590.4
Freight transport	14.4	71.7	-	-	86.1
Other services	-	-	211.3	-	211.3
Other revenue	-	-	20.8	106.3	127.1
Total intersegment revenue	**14.4**	**71.7**	**822.5**	**106.3**	**1,014.9**
Total revenue	**1,655.4**	**1,221.0**	**1,179.8**	**155.4**	**4,211.6**
Other income (note 6)	35.1	56.2	1.2	5.1	97.6
Total segment revenue and other income	**1,690.5**	**1,277.2**	**1,181.0**	**160.5**	**4,309.2**
Intersegment elimination					(1,014.9)
Consolidated revenue and other income					**3,294.3**
Segment result					
Underlying earnings before interest, tax, depreciation and amortisation (EBITDA)	**368.9**	**89.2**	**438.6**	**(79.4)**	**817.3**
Depreciation and amortisation	(210.1)	(58.6)	(153.9)	(23.7)	(446.3)
	158.8	**30.6**	**284.7**	**(103.1)**	**371.0**
Intersegment elimination					(4.0)
Underlying EBIT					367.0
One-off adjustments (note 4(c))					(161.7)
EBIT					205.3
Net finance costs					(137.8)
Profit before income tax					67.5
Income tax benefit					282.0
Profit for the year					**349.5**
Other segment information					
Property, plant and equipment	3,194.4	864.5	3,957.7	259.1	8,275.7

4 SEGMENT INFORMATION (CONTINUED)

(b) Segment information (continued)

	Coal $m	Freight $m	Network Services $m	Unallocated $m	Total $m
2010					
Segment revenue					
Revenue from external customers					
Services revenue					
Track access	740.1	5.7	48.0	-	793.8
Freight transport	868.3	926.1	-	-	1,794.4
Other services	-	27.4	132.5	-	159.9
Other revenue	7.9	49.6	33.6	26.7	117.8
Total revenue from external customers	1,616.3	1,008.8	214.1	26.7	2,865.9
Intersegment revenue					
Services revenue					
Track access	-	-	641.0	-	641.0
Freight transport	30.4	88.3	-	-	118.7
Other services	-	-	203.7	-	203.7
Other revenue	-	-	-	105.5	105.5
Total intersegment revenue	30.4	88.3	844.7	105.5	1,068.9
Total revenue	1,646.7	1,097.1	1,058.8	132.2	3,934.8
Other income (note 6)	43.5	53.1	1.0	11.8	109.4
Total segment revenue and other income	**1,690.2**	**1,150.2**	**1,059.8**	**144.0**	**4,044.2**
Intersegment elimination					(1,068.9)
Consolidated revenue and other income					**2,975.3**
Segment result					
Underlying EBITDA	**408.2**	**(32.5)**	**431.7**	**(116.6)**	**690.8**
Depreciation and amortisation	(184.0)	(63.3)	(154.4)	(22.2)	(423.9)
	224.2	**(95.8)**	**277.3**	**(138.8)**	**266.9**
Intersegment elimination					5.2
Underlying EBIT					272.1
One-off adjustments (note 4(c))					(343.7)
EBIT					(71.6)
Net finance costs					(225.5)
Loss before income tax					(297.1)
Income tax benefit					75.0
Loss from continuing operations for the year					**(222.1)**
Other segment information					
Property, plant and equipment	3,038.5	753.5	3,496.8	95.0	7,383.8
Net impairment charge – non-current assets (note 7)	0.9	199.1	-	-	200.0

Segment revenues, expenses and results include transfers between segments. Such transfers are priced on an "arm's-length" basis and are eliminated on consolidation.

4 SEGMENT INFORMATION (CONTINUED)

(c) One-off adjustments

The Group's underlying result differs from the statutory result. The exclusion of certain items permits a more appropriate and meaningful analysis of the Group's underlying performance on a comparative basis. The significant one-off items for the current and prior year are:

	2011 $m	2010 $m
Employee benefits	**54.7**	-
Stamp duty relating to business acquisition	-	24.9
Restructure costs	**44.3**	34.0
Voluntary redundancy schemes	**62.7**	-
Net impairment expense and reversals	-	197.8
Derivative transactions not accounted for as hedges	-	32.0
Loss on disposal of assets	-	20.0
Provision for rehabilitation of contaminated land	-	35.0
Total one-off adjustments	**161.7**	343.7

2011

- The Group incurred $44.3 million of non-operating costs in respect of the restructuring and separation of the discontinued businesses which were transferred to Queensland Rail, and in respect of the Offer. These costs comprise advisory and system separation costs incurred in respect of the restructure and the Offer, and stamp duty estimated as payable in New South Wales.
- Employee benefits expense of $54.7 million comprises the payment of $41.9 million to employees under enterprise agreements negotiated with union representatives which provide for a one-off payment of $4,000 per eligible employee as at Settlement; $9.0 million expense related to the Employee Gift Offer; and $3.8 million expense related to incentive schemes for management and employees in relation to the Offer.
- A major voluntary redundancy scheme was completed in April 2011 with costs of $54.7 million. Additional redundancies during the year totalled $8.0 million.

2010

- The Group incurred restructuring costs of $34.0 million comprising work on the sale scoping exercise undertaken by the State and restructuring and separation of the discontinued businesses which were transferred to Queensland Rail, collectively $16.0 million; and the termination of a number of cross-border lease arrangements of $18.0 million.
- Impairment expenses and reversals – net impairment charges and reversals of $197.8 million were recognised against the assets of QRN Freight. The most significant of these related to an impairment charge of $180.0 million recognised against the goodwill and rollingstock assets of ARG in the year ended 30 June 2010.
- Derivative transactions not accounted for as hedges –QR National entered into fuel and foreign exchange derivative transactions that did not meet the criteria set out in Australian Accounting Standards to qualify for hedge accounting and, accordingly, unrealised gains and losses were recognised in the historical income statement. Further, realised gains and losses on foreign exchange derivative transactions related to capital expenditure, that would have been recognised as part of the cost of an asset had the foreign exchange derivative transactions qualified for hedge accounting, were also recognised in the historical income statement.

  These transactions will meet the criteria set out in Australian Accounting Standards to qualify for hedge accounting (as cash flow hedge transactions) during the year ended 30 June 2011. As a result, any unrealised gains and losses are recognised in the hedge reserve during the current period and realised gains and losses on foreign exchange derivatives related to capital expenditure are recognised as part of the cost of an asset. In order to provide comparability between the periods, hedging gains and losses of $32.0 million have been adjusted.
- Gains and losses on the sale of certain properties – QR Limited recognised a $20.0 million loss on the disposal of a number of assets during the period.

4 SEGMENT INFORMATION (CONTINUED)

(c) One-off adjustments (continued)

- Stamp duty relating to business acquisition – in the year ended 30 June 2010, QR Limited recognised a stamp duty cost of $24.9 million which relates to the 2006 acquisition of ARG. This amount was paid under the Group's Joint Acquisition Agreement with Brookfield Infrastructure Group (Australia) Pty Ltd (previously Prime Infrastructure). Refer to note 30.
- Provision for rehabilitation of contaminated land – QR Limited made a revision to an accounting estimate in relation to the provision for environmental remediation exposures, which resulted in the recognition of a provision of $35.0 million in relation to rehabilitation of contaminated land, representing the cumulative effect of recognition of obligations attributable to prior periods that were not recognised as liabilities as no constructive obligation existed whilst QR National was part of a State-owned entity.

(d) Customer disclosure

The nature of the Group's business is that it enters into long-term contracts with key customers. It also earns material revenues from the Queensland Government under various contractual and non-contractual arrangements. Customers who contributed more than 10% of revenues in any of the years ended 30 June 2010 or 2011 were:

- A customer from the Coal segment represents approximately $398.6 million (2010: $425.4 million) of the Group's total revenue.
- The Queensland Government contributed revenue of $36.5 million in the Freight and Network Services segments in the year ended 30 June 2010, and a further $1,358.0 million of revenue from the discontinued operations.

5 REVENUE

	2011 $m	2010 $m
From continuing operations		
Services revenue		
Track access	**829.8**	793.8
Freight transport	**1,885.7**	1,794.4
Other services revenue	**255.0**	159.9
Other revenue	**226.2**	117.8
	3,196.7	2,865.9

Included within Freight transport is $14.9 million (2010: $24.3 million) of Deficit Tonnage Charges.

Included in Track access is $26.1 million (2010: $44.0 million) of Revenue Cap recovered in the year in relation to contractual railings that were not achieved in 2009 and 2008.

Included in Other services is revenue from Transport Service Contracts (for Regional Freight and Livestock Transport Services) from the State of $148.3 million (2010: $27.5 million).

6 OTHER INCOME

	2011 $m	2010 $m
Net gain on disposal of property, plant and equipment	**1.6**	-
Gains on derivatives at fair value through profit or loss	-	6.4
Fuel rebates	**90.2**	92.0
Interest revenue	**3.3**	2.2
Other income	**2.5**	8.8
	97.6	109.4

7 EXPENSES

	2011 $m	2010 $m
Profit/(loss) before income tax includes the following specific expenses:		
Consumables		
Repairs and maintenance	**306.3**	256.9
Track access	**307.7**	353.3
Energy and fuel	**359.7**	344.7
Other	**384.3**	303.8
Total consumables	**1,358.0**	1,258.7
Employee benefits expense		
Defined benefit superannuation expense	**23.2**	22.8
Defined contribution superannuation expense	**60.1**	54.6
Voluntary redundancies and ex-gratia payments	**64.9**	11.6
IPO related incentives	**54.7**	-
Salaries, wages and allowances	**723.8**	638.2
Other employment expenses including on-costs	**293.8**	265.9
Total employee benefits expense	**1,220.5**	993.1
Depreciation and amortisation expense		
Depreciation		
Buildings	**12.5**	9.3
Plant and equipment	**48.0**	46.6
Rollingstock	**202.6**	155.7
Infrastructure	**50.3**	134.2
Total depreciation	**313.4**	345.8
Amortisation		
Leased property	**0.7**	0.6
Leased rollingstock	**31.1**	58.6
Leased infrastructure	**83.3**	-
Leased plant and equipment	**0.1**	-
Total amortisation	**115.2**	59.2
Total depreciation and amortisation of property, plant and equipment	**428.6**	405.0
Other amortisation		
Software	**16.5**	18.4
Customer contracts	**1.3**	0.5
Total amortisation (note 16)	**17.8**	18.9
Total depreciation and amortisation expense	**446.4**	423.9

7 EXPENSES (CONTINUED)

	2011 $m	2010 $m
Other expenses		
Rental expenses relating to leases	**19.3**	17.3
Net loss on disposal of property, plant and equipment	**-**	14.6
Land rehabilitation	**0.3**	34.7
Termination of cross border leases	**-**	20.4
Losses on derivatives at fair value through profit or loss	**6.4**	21.5
Impairment losses – financial assets		
Trade receivables	**0.5**	3.0
Impairment of other financial assets	**-**	2.0
Impairment/devaluation of non-current assets		
Property, plant and equipment	**2.2**	123.8
Intangible assets	**-**	76.2
Stamp duty	**11.0**	24.9
Other expenses	**21.0**	30.6
Total other expenses	**60.7**	369.0
Finance costs		
Interest and finance charges paid/payable	**183.2**	255.2
Provisions: unwinding of discount/change in discount rate	**(0.6)**	-
Total finance costs	**182.6**	255.2
Amount capitalised (note (a))	**(41.4)**	(27.4)
Total finance costs	**141.2**	227.8

(a) Capitalised borrowing costs

The capitalisation rate used to determine the amount of borrowing costs to be capitalised is the weighted average interest rate applicable to the entity's outstanding borrowings during the year of 7.37 % (2010: 7.04 %).

8 INCOME TAX EXPENSE

	2011 $m	2010 $m
(a) Income tax expense		
Current tax	-	2.9
Deferred tax	**4.3**	0.5
Deferred tax base reset on consolidation and privatisation	**(290.3)**	-
Prior period adjustments	**4.0**	1.0
	(282.0)	4.4
Income tax (benefit)/expense is attributable to:		
Profit/(loss) from continuing operations	**(282.0)**	(75.0)
Profit from discontinued operations	-	79.4
Aggregate income tax expense	**(282.0)**	4.4
Deferred income tax expense included in income tax expense/(benefit) comprises:		
(Increase) in deferred tax assets (note 20)	**(56.2)**	(33.3)
(Decrease)/increase in deferred tax liabilities (note 25)	**(229.8)**	33.8
	(286.0)	0.5
(b) Numerical reconciliation of income tax expense/(benefit) to prima facie tax payable		
Profit/(loss) from continuing operations before income tax expense/(benefit)	**67.5**	(297.1)
Profit from discontinued operations before income tax expense (note 9)	-	264.7
	67.5	(32.4)
Tax at the Australian tax rate of 30% (2010: 30%)	**20.3**	(9.7)
Tax effect of amounts which are non-deductible (taxable) in calculating taxable income:		
Entertainment	**0.1**	0.1
Research and development	**(2.5)**	(1.9)
Investment allowances	-	(15.7)
Impairment of goodwill	-	22.9
Tax base reset on consolidation and privatisation (note 8(f))	**(290.3)**	-
Non-assessable income	**(16.6)**	(0.5)
Stamp duty on business restructure/acquisition of subsidiary[1]	**3.3**	7.5
Share-based payments	**2.8**	-
Other	**(3.1)**	0.7
Prior period adjustments	**4.0**	1.0
Total income tax expense	**(282.0)**	4.4

[1] NSW stamp duty was triggered on 21 September 2010 with the interposition of QR National Limited as part of the pre IPO restructuring. The tax effect of stamp duty in the prior financial year relates to the acquisition in 2006 of Australian Railroad Group Pty Ltd (now Australian Western Railroad Pty Ltd) not previously levied.

	2011 $m	2010 $m
(c) Tax expense/(benefit) relating to items of other comprehensive income		
Cash flow hedges (note 20)	**(0.1)**	(0.1)
	(0.1)	(0.1)

8 INCOME TAX EXPENSE (CONTINUED)

(d) Tax privatisation legislation

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

(e) Tax consolidation

QR National Limited and its wholly-owned Australian subsidiaries have implemented the tax consolidation legislation as of 22 November 2010. All Australian wholly-owned companies in the QR National Limited Group are part of the tax consolidated group and are therefore taxed as a single entity. The Group will notify the ATO that it has formed a tax consolidated group, applying from 22 November 2010, through lodgement of the Group's 2011 income tax return.

(f) Tax base reset

During the year ended 30 June 2011, as a consequence of the privatisation of QR National Limited and the proposed election to consolidate its wholly-owned Australian subsidiaries under the Australian tax consolidation regime, the Group has reset the tax base of its assets and liabilities. This has resulted in a net tax benefit of $290.3 million, of which $135.7 million relates to customer contracts.

Government review of rights to future income legislation

Tax law was enacted on 3 June 2010 which enabled value to be attributed to the rights to future income for tax purposes. This new law applied with effect from 1 July 2002.

QR National has recognised an earnings benefit of $135.7 million for the year ended 30 June 2011 relating to valuable customer contracts that can be deducted for tax over the shorter of 10 years and the contract's life. On 30 March 2011 the Assistant Federal Treasurer requested the Board of Taxation review the application of these laws. As yet the Government has not made any announcements in relation to the review. Consequently, QR National has applied the legislation as enacted at this time.

(g) Tax sharing agreement

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

9 DISCONTINUED OPERATIONS AND ASSETS AND LIABILITIES HELD FOR DISTRIBUTION

Disposal of passenger and non-coal network businesses

(a) Description

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

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

In accordance with directions issued by the State of Queensland Treasurer and Minister for Employment and Economic Development, pursuant to the *Infrastructure Investment (Asset Restructuring and Disposal) Act 2009*:

- assets and liabilities relating to the discontinued Queensland Rail business were transferred within the QR Limited group to Queensland Rail Limited (formerly QR Passenger Pty Ltd); and
- QR Limited's shares in Queensland Rail Limited were transferred to the State.

These transactions occurred on 30 June 2010 via Transfer Notice and were recorded at net book value.

9 DISCONTINUED OPERATIONS AND ASSETS AND LIABILITIES HELD FOR DISTRIBUTION (CONTINUED)

Pursuant to the Transfer Notice, Queensland Rail Limited assumed responsibility for indebtedness of $3 billion effective from 30 June 2010, and from that date QR Limited and Queensland Rail Limited conducted their dealings in relation to the debt on this basis. Subsequent to 30 June 2010, loan documentation in relation to the transfer of the debt was executed.

Subsequent to 30 June 2010, additional assets and liabilities attributable to the discontinued Queensland Rail business which were omitted from the Transfer Notice above were identified. These assets and liabilities were transferred to the State in accordance with directions issued by the State of Queensland Treasurer and Minister for Employment and Economic Development and were classified as held for distribution in the balance sheet as at 30 June 2010. Refer to note 9(d) for more details.

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

(b) Financial performance and cash flow information

The financial performance and cash flow information presented is for the financial year ended 30 June 2010 (transaction date). The separation of the financial performance of the continuing and discontinued businesses includes management's best estimate and judgement in the allocation of certain revenue and expenses between continuing and discontinued businesses.

	2010 $m
Revenue	1,638.0
Other income	21.0
Expenses	(1,394.3)
Profit before income tax	264.7
Income tax expense (note 8)	(79.4)
Profit from discontinued operation	185.3
(Loss) attributable to ordinary equity holders relates to:	
(Loss) from continuing operations	(222.1)
Profit from discontinued operations	185.3
Loss for the year	(36.8)

Refer to note 39(a) for earnings per share information relating to discontinued operations.

Net cash inflow from operating activities	413.4
Net cash (outflow) from investing activities[1]	(696.0)
Net cash inflow from financing activities	282.5
Net increase in cash generated by the discontinued operation	(0.1)

[1] Cash outflows from investing activities includes expenditure on assets held for distribution at 30 June 2010.

Included in the above results are the following items:

	2010 $m
Depreciation and amortisation expense	219.6
Interest expense	152.0

9 DISCONTINUED OPERATIONS AND ASSETS AND LIABILITIES HELD FOR DISTRIBUTION (CONTINUED)

(c) Carrying amounts of assets and liabilities

The carrying amounts of assets and liabilities distributed to Queensland Rail Limited as at 30 June 2010 were:

	2010 $m
Cash and cash equivalents	0.2
Trade and other receivables	170.4
Inventories	56.0
Derivative financial instruments	1.3
Other current assets	0.4
Total current assets	228.3
Trade and other receivables	12.1
Inventories	8.6
Property, plant and equipment	5,174.1
Derivative financial instruments	0.7
Other non-current assets	43.5
Total non-current assets	5,239.0
Total assets	5,467.3
Trade and other payables	83.8
Derivative financial instruments	5.2
Provisions	9.8
Other current liabilities	261.9
Total current liabilities	360.7
Borrowings	3,000.0
Derivative financial instruments	1.7
Deferred tax liabilities	277.4
Provisions	32.6
Other non-current liabilities	16.8
Total non-current liabilities	3,328.5
Total liabilities	3,689.2
Net assets	1,778.1
Represented by a reduction in:	
Contributed equity (note 26(c))	1,725.8
Retained earnings	52.3
	1,778.1

9 DISCONTINUED OPERATIONS AND ASSETS AND LIABILITIES HELD FOR DISTRIBUTION (CONTINUED)

(d) Assets and liabilities classified as held for distribution

At 30 June 2010, QR Limited held the following assets and liabilities for distribution to Queensland Rail Limited:

- Property, plant and equipment – items subject to the Transfer Notice post year end.
- Provision for insurance claims held within a QR Limited subsidiary, On Track Insurance Pty Ltd ("OTI") – the Queensland Government intended to transfer the liabilities of OTI to Queensland Rail Limited after year end.

These items were transferred at net book value on 31 August 2010 and 6 October 2010 respectively. An additional $24.5 million of assets and liabilities were identified post 30 June 2010 that were also transferred on these dates.

	2010 $m
Land	11.1
Buildings	8.2
Plant and equipment	3.5
Rollingstock	230.2
Leased rollingstock	0.4
Infrastructure	93.5
Total assets classified as held for distribution	346.9
Provision for insurance claims	(8.6)
Net deferred tax liabilities	(7.5)
Total liabilities classified as held for distribution	(16.1)
Net assets classified as held for distribution	330.8

10 CASH AND CASH EQUIVALENTS

	2011 $m	2010 $m
Cash on hand	**0.1**	0.1
Cash at bank	**116.6**	3.2
Short-term investments	-	4.0
Trust monies[1]	**0.4**	0.5
Total cash and cash equivalents	**117.1**	7.8
Less: Trust monies	**(0.4)**	(0.5)
Balance as per cash flow statement	**116.7**	7.3

[1]The Group holds a warranty bond in the form of cash for a supplier and hence this cash is not available for use by the Group.

11 TRADE AND OTHER RECEIVABLES

	2011 $m	2010 $m
Current		
Trade receivables	**368.4**	299.7
Provision for impairment of receivables (note (a))	**(2.2)**	(4.5)
Net trade receivables	**366.2**	295.2
Other receivables[1]	**105.2**	47.2
Coal network access undertaking receivables[2]	**2.1**	189.1
	473.5	531.5
Non-current		
Other receivables	**-**	0.8
	-	0.8

[1]Other receivables includes revenue for uninvoiced services performed under contracts including TSC, Take or Pay, and insurance receivables.

[2] The pricing determination published by the QCA on 28 June 2010 applied from 1 July 2009. As the Group had been invoicing clients during the year ended 30 June 2010 on the basis of the previous access charges which were lower, an accrued receivable was recognised as at 30 June 2010 to reflect the additional revenue receivable pursuant to the QCA decision. These further amounts were invoiced and collected during the first half of the year ended 30 June 2011.

(a) Impaired trade receivables

As at 30 June 2011, current trade receivables of the Group with a value of $1.9 million (2010: $2.4 million) were impaired. It was assessed that a portion of the receivables is expected to be recovered. The ageing of these receivables is as follows:

	2011 $m	2010 $m
1 to 3 months	**0.2**	0.2
3 to 6 months	**0.1**	1.0
Over 6 months	**1.6**	1.2
	1.9	2.4

As at 30 June 2011, the amount of the provision for impaired trade receivables was $2.2 million (2010: $4.5 million).

Movements in the provision for impairment of receivables are as follows:

	2011 $m	2010 $m
At 1 July	**4.5**	2.3
Provision for impairment recognised during the year	**1.0**	2.9
Receivables written off during the year as uncollectible	**(1.4)**	(0.3)
Unused amount reversed	**(1.9)**	(0.4)
	2.2	4.5

The creation or release of the provision for impaired receivables has been included in the income statement. Amounts charged to the provision account are generally written off when there is no expectation of recovering additional cash.

The other classes within trade and other receivables do not contain impaired assets and are not past due. Based on the credit history of these other classes, it is expected that these amounts will be received when due.

11 TRADE AND OTHER RECEIVABLES (CONTINUED)

(b) Past due but not impaired

As at 30 June 2011, trade receivables of $37.6 million (2010: $4.1 million) were past due but not impaired. The ageing analysis of these trade receivables is as follows:

	2011 $m	2010 $m
Up to 3 months	**33.9**	-
3 to 6 months	**2.5**	1.9
Over 6 months	**1.2**	2.2
	37.6	4.1

12 INVENTORIES

	2011 $m	2010 $m
Current		
Raw materials and stores – at cost	**162.1**	154.4
Work in progress – at cost	**15.5**	12.6
	177.6	167.0
Non-current		
Raw materials and stores – at cost	**24.2**	26.6
Provision for inventory obsolescence	**(3.5)**	(2.4)
Inventory at lower of cost or net realisable value	**20.7**	24.2

(a) Inventory expense

Inventory recognised as expense during the year ended 30 June 2011 amounted to $709.9 million (2010: $601.4 million). The expense has been included in consumables in the income statement. Write-downs of inventories to net realisable value recognised as an expense during the year ended 30 June 2011 amounted to $2.0 million (2010: $1.6 million).

13 DERIVATIVE FINANCIAL INSTRUMENTS

	2011 $m	2010 $m
Current assets		
Forward exchange contracts – cash flow hedges	-	0.4
Forward exchange contracts – at fair value through profit or loss	4.3	12.7
Commodity contracts – at fair value through profit or loss	10.8	3.3
Commodity contracts – cash flow hedges	6.2	-
Total current derivative financial instrument assets	21.3	16.4
Non-current assets		
Forward exchange contracts – cash flow hedge	-	0.2
Forward exchange contracts – at fair value through profit or loss	0.2	1.7
Commodity contracts – at fair value through profit or loss	0.8	4.3
Commodity contracts – cash flow hedges	2.5	-
Total non-current derivative financial instrument assets	3.5	6.2
Total derivative financial instrument assets	24.8	22.6
Current liabilities		
Forward exchange contracts – cash flow hedge	10.2	0.5
Forward exchange contracts – at fair value through profit or loss	7.7	8.9
Commodity contracts – at fair value through profit or loss	9.4	5.7
Total current derivative financial instrument liabilities	27.3	15.1
Non-current liabilities		
Forward exchange contracts – cash flow hedges	1.9	2.9
Forward exchange contracts – at fair value through profit or loss	1.0	2.7
Commodity contracts – at fair value through profit or loss	0.9	2.5
Total non-current derivative financial instrument liabilities	3.8	8.1
Total derivative financial instrument liabilities	31.1	23.2

(a) Instruments used by the Group

The Group holds derivative financial instruments to hedge (including economically hedge) its foreign currency and fuel price risk exposures in accordance with the Group's financial risk management policy (refer to note 3).

14 OTHER ASSETS

	2011 $m	2010 $m
Current		
Prepayments	10.6	9.6
	10.6	9.6
Non-current		
Prepayments	-	4.0
	-	4.0

15 PROPERTY, PLANT AND EQUIPMENT

	Asset under construction $m	Land $m	Leased property $m	Buildings $m	Plant and equipment $m	Rollingstock $m	Leased infrastructure[2] $m	Leased rollingstock $m	Leased plant and equipment $m	Infrastructure $m	Total $m
2011											
Opening net book amount	811.8	182.4	3.4	225.5	275.1	2,529.0	1,554.3	304.0	-	1,498.3	7,383.8
Additions	1,301.1	1.6	1.4	1.4	28.1	19.0	-	-	-	5.5	1,358.1
Transfers between asset classes[1]	(729.4)	1.6	2.2	87.7	31.2	636.5	305.9	(74.5)	0.7	(263.6)	(1.7)
Disposals	(17.8)	(2.7)	(0.7)	(0.3)	(11.1)	(3.3)	-	(0.7)	-	(0.4)	(37.0)
Impairment reversal	-	-	-	1.1	-	-	-	-	-	-	1.1
Depreciation/amortisation expense	-	-	(0.7)	(12.5)	(48.0)	(202.6)	(83.3)	(31.1)	(0.1)	(50.3)	(428.6)
Closing net book amount	1,365.7	182.9	5.6	302.9	275.3	2,978.6	1,776.9	197.7	0.6	1,189.5	8,275.7
Cost	1,365.7	182.9	8.2	405.3	516.7	4,039.5	2,046.7	372.6	0.8	1,373.4	10,311.8
Accumulated depreciation and impairment losses	-	-	(2.6)	(102.4)	(241.4)	(1,060.9)	(269.8)	(174.9)	(0.2)	(183.9)	(2,036.1)
Net book amount	1,365.7	182.9	5.6	302.9	275.3	2,978.6	1,776.9	197.7	0.6	1,189.5	8,275.7

[1] Net balance of transfers principally relates to intangible assets disclosed in note 16.

[2] $1,554.3 million relating to the Central Queensland Coal Network infrastructure was transferred to Queensland Treasury Holdings at 30 June 2010, with a further $222.6 million transferred at 31 August 2010 in accordance with Transfer Notice. Effective from 30 June 2010, this infrastructure was leased back to the Group under a 99 year lease arrangement. The net effect is infrastructure assets have been replaced by leased infrastructure assets to the value of $1,776.9 million (2010: $1,554.3 million). Refer to note 1(p) for further information regarding the accounting policy for this transaction.

15 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Asset under construction $m	Land $m	Leased property $m	Buildings $m	Plant and equipment $m	Rollingstock $m	Leased infrastructure[2] $m	Leased rollingstock $m	Infrastructure $m	Total $m
2010										
Opening net book amount	2,574.7	305.2	3.4	472.1	288.0	2,521.0	-	890.9	4,972.2	12,027.5
Additions	1,681.4	0.3	0.6	3.8	26.2	79.8	-	-	1.1	1,793.2
Transfers between asset classes[1]	(2,503.1)	31.6	0.1	93.6	122.3	1,290.8	1,554.3	(434.5)	(186.3)	(31.2)
Disposals	(86.7)	(13.0)	(0.1)	(7.7)	(7.3)	(11.1)	-	(0.7)	(9.8)	(136.4)
Impairment expense	-	-	-	(3.1)	(7.6)	(123.2)	-	(0.3)	(17.8)	(152.0)
Impairment reversal	-	-	-	-	-	8.0	-	20.0	0.2	28.2
Depreciation/amortisation expense	-	-	(0.6)	(24.0)	(63.1)	(219.8)	-	(77.3)	(239.7)	(624.5)
Transfer to held for distribution (note 9)	-	(11.1)	-	(8.2)	(3.5)	(230.2)	-	(0.4)	(93.5)	(346.9)
Transfer to discontinued operations (note 9)	(854.5)	(130.6)	-	(301.0)	(79.9)	(786.3)	-	(93.7)	(2,928.1)	(5,174.1)
Closing net book amount	811.8	182.4	3.4	225.5	275.1	2,529.0	1,554.3	304.0	1,498.3	7,383.8
Cost	811.8	182.5	6.3	311.6	485.8	3,404.7	1,719.4	570.3	1,669.9	9,162.3
Accumulated depreciation and impairment losses	-	(0.1)	(2.9)	(86.1)	(210.7)	(875.7)	(165.1)	(266.3)	(171.6)	(1,778.5)
Net book amount	811.8	182.4	3.4	225.5	275.1	2,529.0	1,554.3	304.0	1,498.3	7,383.8

(a) Non-current assets pledged as security

Leased rollingstock assets of $197.7 million have been pledged as security under the terms of the cross border lease arrangements. Further, fixed charges exist over rollingstock assets of $33.3 million until December 2011.

16 INTANGIBLE ASSETS

	Goodwill $m	Key customer contracts and brand name $m	Software $m	Total $m
2011				
Opening net book amount	-	2.9	36.5	39.4
Acquisition of businesses	0.3	-	-	0.3
Additions	-	1.5	0.1	1.6
Disposals	-	-	(0.3)	(0.3)
Transfers	-	-	1.7	1.7
Amortisation expense	-	(1.3)	(16.5)	(17.8)
Closing net book amount	0.3	3.1	21.5	24.9
Cost	73.3	8.8	98.4	180.5
Accumulated amortisation and impairment	(73.0)	(5.7)	(76.9)	(155.6)
Net book amount	0.3	3.1	21.5	24.9

	Goodwill $m	Key customer contracts and brand name $m	Software $m	Total $m
2010				
Opening net book amount	73.0	4.7	20.9	98.6
Additions	-	2.0	2.8	4.8
Disposals	-	(0.1)	-	(0.1)
Transfers	-	-	31.2	31.2
Impairment expense	(73.0)	(3.2)	-	(76.2)
Amortisation charge	-	(0.5)	(18.4)	(18.9)
Closing net book amount	-	2.9	36.5	39.4
Cost	73.0	10.5	97.7	181.2
Accumulated amortisation and impairment	(73.0)	(7.6)	(61.2)	(141.8)
Net book amount	-	2.9	36.5	39.4

17 IMPAIRMENTS

(a) Impairment tests for goodwill

Goodwill is allocated to the Group’s cash-generating units (“CGU’s”) at the Business Unit level within each segment. Goodwill is not amortised but is subject to annual impairment testing.

A summary of the goodwill allocation (post impairment) by CGU is presented below:

	2011 $m	2010 $m
Logistics Australasia Pty Ltd - Retail ("CRT")	**0.3**	-
	0.3	-

17 IMPAIRMENTS (CONTINUED)

(b) Impairment charges and reversals

2011

No impairment loss or reversal was recognised against goodwill, other intangible assets or property, plant and equipment for the current financial year.

2010

The following impairment charges and reversal were recognised for the year ended 30 June 2010:

- impairment charges of $31.9 million against goodwill, $3.2 million against brand names and $7.0 million against property, plant and equipment for Logistics Australasia Pty Ltd (trading as CRT Group), a road freight and logistics business based in Melbourne. Recoverable amount for this business was determined based on fair value less costs to sell. These values were determined principally by an independent valuation of real estate completed in 2008 and scaled to allow for decreases in property values since that time; and appraisals of other assets including vehicles and shipping containers.
- impairment charges of $41.2 million against goodwill and $138.8 million against the property, plant and equipment for Australia Western Railroad Pty Ltd ("AWR"), a bulk freight rail business based in Western Australia. Recoverable amount for this business was determined based on value in use. The impairment charge reflects lower forecast earnings compared with those used in the 2006 acquisition model.
- impairment reversal of $28.2 million against property, plant and equipment for Australia Eastern Railroad Pty Ltd ("AER"), a bulk freight rail business based in Queensland. Recoverable amount for this business was determined based on value in use. The impairment reversal reflects improved forecast earnings as a result of improved performance since the initial write down in 2006.

A number of asset specific impairments totalling $6.2 million were also recognised in the year ended 30 June 2010.

(c) Key assumptions used for value in use calculations

The recoverable amount of the CGU for the Logistics Australasia Pty Ltd ("LA") group of companies, AWR and AER has been determined based on a value in use calculation which uses cash flow projections based on financial budgets. The following describes each key assumption on which management has based its cash flow projections when determining the value in use of the LA, AWR and AER CGUs:

- five year projected cash flows as per management forecast
- material customer contracts will be retained
- the cost of capital will remain stable over the next five-year period.

CGU	Growth rate* 2010	Discount rate** 2010
Logistics Australasia Pty Ltd	2.5 %	11.4 %
Australia Western Railroad Pty Ltd - Bulk Freight	2.5 %	11.7 %
Australia Eastern Railroad Pty Ltd - Bulk Freight	2.5 %	12.3 %

* The growth rate used for LA, AWR and AER is based on the expected future terminal growth rate specific to those companies.

** In performing the value in use calculations for each CGU, the Group has applied post-tax discount rates to discount the forecast future attributable post-tax cash flows. The equivalent pre-tax discount rates are disclosed above.

18 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	2011 $m	2010 $m
Interest in joint ventures (note 32)	**0.5**	0.5
	0.5	0.5

19 OTHER FINANCIAL ASSETS

	2011 $m	2010 $m
Unlisted equity securities	**36.3**	35.8

In the prior financial year, reductions in the fair value of the unlisted securities had been prolonged as a result of a fall in the value of property held by the unlisted entity and $2.0 million was recognised as an impairment expense in the financial statements of the Group. Refer note 7.

20 DEFERRED TAX ASSETS

	2011 $m	2010 $m
The balance comprises temporary differences attributable to:		
Accrued expenses	**0.5**	8.1
Provisions	**44.4**	102.8
Superannuation contributions	**0.8**	1.0
Tax losses	**37.5**	41.0
Unearned revenue	**3.1**	3.3
Cash flow hedges	**9.3**	0.9
Customer contracts	**116.1**	-
Various adjustments – temporary differences	**8.8**	7.1
	220.5	164.2
Set-off of deferred tax liabilities pursuant to set-off provisions (note 25)	**(220.5)**	(164.2)
Net deferred tax assets	**-**	-

	2011 $m	2010 $m
Movements:		
Opening balance at 1 July	**164.2**	220.4
Credited/(charged) to the consolidated income statement (note 8)	**54.7**	33.3
Credited/(charged) to the consolidated income statement as a result of consolidation and privatisation (note 8)	**1.5**	-
Transfer to discontinued operations	**-**	(85.7)
Credited/(charged) to equity (note 8)	**0.1**	0.1
Tax losses utilised against taxable income	**-**	(3.9)
Closing balance at 30 June	**220.5**	164.2

20 DEFERRED TAX ASSETS (CONTINUED)

	Provisions/ accruals $m	Tax losses $m	Customer contracts $m	Unearned revenue $m	Cash flow hedges $m	Other $m	Total $m
Movements:							
At 1 July 2009	155.0	44.9	-	11.8	0.8	7.9	220.4
(Charged)/credited							
– to profit or loss	27.5	-	-	6.2	-	(0.4)	33.3
– to other comprehensive income	-	-	-	-	0.1	-	0.1
Transfer to discontinued operations	(70.6)	-	-	(14.7)	-	(0.4)	(85.7)
Tax losses utilised against taxable income	-	(3.9)	-	-	-	-	(3.9)
At 30 June 2010	111.9	41.0	-	3.3	0.9	7.1	164.2

	Provisions/ accruals $m	Tax losses $m	Customer contracts $m	Unearned revenue $m	Cash flow hedges $m	Other $m	Total $m
Movements:							
At 30 June 2010	111.9	41.0	-	3.3	0.9	7.1	164.2
(Charged)/credited							
– to profit or loss	27.0	31.3	(19.6)	2.7	9.1	4.2	54.7
– to profit or loss as a result of consolidation and privatisation	(93.2)	(34.8)	135.7	(2.9)	(0.8)	(2.5)	1.5
– to other comprehensive income	-	-	-	-	0.1	-	0.1
At 30 June 2011	45.7	37.5	116.1	3.1	9.3	8.8	220.5

Deferred tax balances relating to assets and liabilities that had their tax values reset upon IPO under tax consolidation and tax privatisation legislation have been remeasured based on the carrying amount of those assets in the tax consolidated group and their reset tax values. The adjustment to these deferred tax balances is recognised in the financial statements against income tax expense. Refer note 8.

21 TRADE AND OTHER PAYABLES

	2011 $m	2010 $m
Trade payables	**311.4**	311.9
Other payables	**30.1**	23.1
	341.5	335.0

22 BORROWINGS

	2011 $m	2010 $m
Current – Unsecured		
Queensland Treasury Corporation borrowings	**-**	4,266.1
Total unsecured current borrowings	**-**	4,266.1
Non-current – Unsecured		
Syndicated Debt Facility	**830.0**	-
Capitalised borrowing costs	**(26.8)**	-
Total unsecured non-current borrowings	**803.2**	-

22 BORROWINGS (CONTINUED)

(a) Queensland Treasury Corporation borrowings

Queensland Treasury Corporation borrowings of $4,388.3 million were replaced by a capital contribution from the State via Transfer Notice just prior to the listing on the ASX. Refer note 26(b).

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

The Syndicated Debt Facility imposes certain covenants on the Group to ensure that certain financial ratios are met, and restricts the amount of security that the Group and its subsidiaries can provide over their assets in certain circumstances.

23 PROVISIONS

	2011 $m	2010 $m
Current provisions		
Employee benefits (a)	**264.0**	275.8
Provision for insurance claims (b)	**12.0**	-
Litigation and workers' compensation provision (c)	**11.0**	10.4
Decommissioning/make good and other provisions (d)	**2.0**	1.1
Total current provisions	**289.0**	287.3
Non-current provisions		
Employee benefits (a)	**23.4**	18.4
Litigation and workers' compensation provision (c)	**20.0**	18.1
Decommissioning/make good and other provisions (d)	**3.5**	3.1
Land rehabilitation (e)	**34.4**	34.7
Total non-current provisions	**81.3**	74.3
Total provisions	**370.3**	361.6

(a) Employee benefits

	2011 $m	2010 $m
Annual leave	**85.1**	84.7
Long service leave	**174.0**	182.6
Other	**28.3**	26.9
	287.4	294.2

The current provision for employee benefits includes accrued annual leave, leave loading, retirement allowances and long service leave. For long service leave it covers all unconditional entitlements where employees have completed the required period of service and also a provision for the chance that employees will reach the required period of service. The entire amount of the annual leave provision is presented as current, since the Group does not have an unconditional right to defer settlement for any of these obligations. However, based on past experience, the Group does not expect all employees to take the full amount of accrued leave or require payment within the next 12 months. The current provision for employee benefits includes an amount of $155.2 million that is not expected to be taken or paid within the next 12 months.

Other employee benefit liabilities includes payroll tax and retirement allowances.

23 PROVISIONS (CONTINUED)

(b) Provision for insurance claims

The provision for insurance claims is raised for insurance claims external to the Group and represents the aggregate deductible component in relation to loss or damage to property, plant and equipment and rollingstock.

(c) Litigation and workers' compensation

Provision is made for the estimated liability for workers' compensation and litigation claims. Claims are assessed separately for common law, statutory and asbestos claims. The outstanding liability is determined after factoring future claims inflation and discounting future claim payments. Estimates are made based on the average number of claims and average claim payments over a specified period of time. Claims Incurred But Not Reported ("IBNR") are also included in the estimate. Claims are expected to be paid over a period exceeding more than one year.

The provision for workers' compensation is $26.2 million (2010: $26.0 million).

(d) Decommissioning / make good and other provisions

A provision of $3.6 million at 30 June 2011 (2010: $4.2 million) has been made for the anticipated costs of the future restoration of leased office premises. Make good requirements vary for different properties. The provision includes future cost estimates associated with the restoration of office fixtures and fittings to original condition; removal of all property and equipment to return the premises to a vacant shell, and making good any damage caused by their removal; and repairing and making good any damage which may be caused to land adjoining the premises as a result of carrying out structural work or other improvements. The provision has been calculated based on recent comparable make good costs or independent assessments.

A provision of $1.9 million (2010: nil) has been made for onerous lease contracts which represents the net unavoidable costs in meeting the obligations under property leases over the remaining lease terms.

(e) Land rehabilitation

A provision of $34.4 million (2010: $34.7 million) has been recognised for the estimated costs to remediate contaminated land in accordance with the Group's constructive obligations following the Board's review of its revised sustainability policy at 30 June 2010. The provision is based on an estimated long term inflation rate of 4.5 % (2010: 4.5 %). The projected remediation dates for the various sites ranges from 10 to 40 years. To measure the present value of the estimated costs, a discount rate of 5.75 % (2010: 5.5 %) was used, based on the 15 year Commonwealth bond rate.

(f) Movements in provisions

Movements in each class of provision, other than employee benefits, during the financial year are set out below:

	Provision for insurance claims $m	Litigation and workers' compensation provision $m	Provision for decommissioning /make good /other $m	Provision for land rehabilitation $m	Total $m
2011					
Current and non-current					
Carrying amount at start of year	-	28.5	4.2	34.7	67.4
Charged/(credited) to profit or loss					
– additional provisions recognised	13.9	12.7	2.6	0.3	29.5
– unused amounts released or reversed	(1.9)	(1.2)	-	-	(3.1)
– increase/(decrease) in discounted amount arising from passage of time and effect of any change in the discount rate	-	-	-	(0.6)	(0.6)
Amounts used during the year	-	(9.0)	(1.3)	-	(10.3)
Carrying amount at end of year	12.0	31.0	5.5	34.4	82.9

24 OTHER LIABILITIES

	2011 $m	2010 $m
Current		
Income in advance	**36.0**	33.2
Other current liabilities	**0.2**	1.5
	36.2	34.7
Non-current		
Income in advance	**314.6**	320.7
Other non-current liabilities	**30.1**	3.4
	344.7	324.1

Income in advance represents amounts received from customers as prepayment of future rentals under agreements of customer specific infrastructure. These amounts are deferred and earned over the term of the agreement.

Other non-current liabilities includes a $26.4 million non-interest bearing loan with a former subsidiary, On Track Insurance Pty Ltd.

25 DEFERRED TAX LIABILITIES

	2011 $m	2010 $m
The balance comprises temporary differences attributable to:		
Accrued income	**1.5**	50.8
Consumables and spare parts	**14.3**	20.9
Cash flow hedges	**7.5**	(1.1)
Prepayments	**0.3**	0.5
Property, plant and equipment	**416.7**	629.7
Capitalised deductible expenditure	**17.5**	-
Deferred expenditure	**5.1**	-
Transfer to held for distribution (note 9(d))	**-**	(7.5)
Various adjustments – temporary difference	**0.6**	-
Total deferred tax liabilities	**463.5**	693.3
Set-off of deferred tax liabilities pursuant to set-off provisions (note 20)	**(220.5)**	(164.2)
Net deferred tax liabilities	**243.0**	529.1

25 DEFERRED TAX LIABILITIES (CONTINUED)

	2011 $m	2010 $m
Movements:		
Opening balance at 1 July	**693.3**	1,030.1
Transfer to discontinued operations	**-**	(363.1)
Charged/(credited) to the consolidated income statement (note 8)	**59.1**	33.8
Charged/(credited) to the consolidated income statement as a result of consolidation and privatisation note 8	**(288.9)**	-
Transfer to held for distribution note 9(d)	**-**	(7.5)
Closing balance at 30 June	**463.5**	693.3

	Property, plant and equipment $m	Capitalised deductible expenditure $m	Consumables and spares $m	Accrued income $m	Cash flow hedges $m	Other $m	Total $m
Movements:							
At 1 July 2009	998.4	-	31.4	2.8	(3.0)	0.5	1,030.1
Charged/(credited)							
– to profit or loss	(13.0)	-	(0.7)	48.0	1.9	(2.4)	33.8
Transfer to discontinued operations	(355.7)	-	(9.8)	-	-	2.4	(363.1)
Transfer to held for distribution	-	-	-	-	-	(7.5)	(7.5)
At 30 June 2010	629.7	-	20.9	50.8	(1.1)	(7.0)	693.3
Movements:							
At 30 June 2010	629.7	-	20.9	50.8	(1.1)	(7.0)	693.3
Charged/(credited)							
– to profit or loss	19.3	53.7	27.3	(46.9)	8.6	(2.9)	59.1
– to profit or loss as a result of consolidation and privatisation	(232.3)	(36.2)	(33.9)	(2.4)	-	15.9	(288.9)
At 30 June 2011	416.7	17.5	14.3	1.5	7.5	6.0	463.5

Deferred tax balances relating to assets and liabilities that had their tax values reset upon IPO under tax consolidation and tax privatisation legislation have been remeasured based on the carrying amount of those assets in the tax consolidated group and their reset tax values. The adjustment to these deferred tax balances is recognised in the financial statements against income tax expense. Refer note 8.

26 CONTRIBUTED EQUITY

	2011 Shares '000	2010 Shares '000	2011 $m	2010 $m
(a) Issued capital				
Ordinary shares				
Fully paid	**2,440,000**	3,792,757	**1,711.7**	2,067.0
(b) Other contributed equity				
Share-based payments			**2.9**	-
Capital contribution from the State on retirement of borrowings (note 22)			**4,388.3**	-
Capital contribution from the State for employee gift shares			**9.0**	-
			4,400.2	-
Total contributed equity			**6,111.9**	2,067.0

(c) Movements in ordinary share capital

Date	Details	Number of shares	Issue price	$m
1 July 2009	Opening balance	3,412,922,786		3,412.9
	Share issue	379,834,000	$1.00	379.9
	Capital distribution to discontinued operations	-		(1,725.8)
30 June 2010	Closing balance	3,792,756,786		2,067.0
1 July 2010	Opening balance	3,792,756,786		2,067.0
31 August 2010	Capital distribution to Queensland Rail Limited	-		(332.3)
21 September 2010	Change in legal capital structure from QR Limited to QR National Limited			
	Elimination of existing shares in QR Limited	(3,792,756,786)		-
	Share issuance to the State of Queensland in exchange for QR Limited shares	100		-
6 October 2010	Capital distribution on disposal of OTI pursuant to Transfer Notice	-		(23.0)
6 October 2010	Share split	2,439,999,900		-
30 June 2011	Closing balance	2,440,000,000		1,711.7

(d) Ordinary shares

Ordinary shares have no par value and the Company does not have a limited amount of authorised capital. Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held.

(e) Share-based payments

Share-based payments represent the fair value of share-based remuneration provided to employees.

(f) Capital risk management

The Group's objective is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

26 CONTRIBUTED EQUITY (CONTINUED)

Prior to listing on the ASX, the Shareholding Ministers advised the Company on the appropriate capital structure.

The Group and the parent entity monitor its capital structure by reference to its gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the balance sheet plus net debt. There were no changes in the Group's approach to capital management during the year.

	2011 $m	2010 $m
Total borrowings	**803.2**	4,266.1
Less: cash and cash equivalents	**(117.1)**	(7.8)
Net debt	**686.1**	4,258.3
Total equity	**6,991.7**	2,684.0
Total capital	**7,677.8**	6,942.3
Gearing ratio	**9%**	61 %

The Group has complied with externally imposed capital debt covenants.

27 RESERVES

	2011 $m	2010 $m
(a) Reserves		
Hedging reserve – cash flow hedges	**(2.3)**	(2.0)
	(2.3)	(2.0)
Movements:		
Hedging reserve – cash flow hedges		
Balance 1 July	**(2.0)**	(1.4)
Fair value (losses)/gains taken to equity	**(2.3)**	(4.5)
Deferred tax	**0.7**	1.3
Fair value losses transferred to the income statement	**1.9**	3.8
Deferred tax	**(0.6)**	(1.2)
Balance 30 June	**(2.3)**	(2.0)

(b) Nature and purpose of reserves

Hedging reserve – cash flow hedges

The hedging reserve is used to record gains or losses on a hedging instrument in a cash flow hedge that are recognised in other comprehensive income, as described in note 1(o). Amounts are recognised in the income statement when the associated hedged transaction affects the income statement.

28 DIVIDENDS

	2011 $m	2010 $m
(a) Ordinary shares		
Final dividend for the year ended 30 June 2009 of 6.3 cents per fully paid share paid December 2009	-	215.1
Special dividend for the period to 21 September 2010 of 3.54 cents per fully paid share paid November 2010	86.4	-
	86.4	215.1

	2011 $m	2010 $m
(b) Dividends not recognised at the end of the reporting period		
In addition to the above dividends, since year end the Directors have recommended the payment of a final dividend of 3.7 cents per fully paid ordinary share, (2010: nil) unfranked. The aggregate amount of the proposed dividend expected to be paid on 30 September 2011 out of retained profits, but not recognised as a liability at year end, is:	90.3	-

29 KEY MANAGEMENT PERSONNEL DISCLOSURES

(a) Key Management Personnel compensation

	2011 $'000	2010 $'000
Short-term employee benefits	15,023	4,684
Post-employment benefits	632	482
Long-term benefits	263	111
Share-based payments	1,199	-
	17,117	5,277

Short-term employee benefits includes cash salary, at risk performance incentives and fees and non-monetary benefits. Non-monetary benefits represent the value of Reportable Fringe Benefits for the respective Fringe Benefits Tax year ending 31 March, the estimated value of car parking provided and annual leave accrued or utilised during the financial year.

(b) Equity instrument disclosures relating to Key Management Personnel

(i) Rights provided as remuneration and shares issued on exercise of such rights

Details of rights provided as remuneration and shares issued on the exercise of such rights, together with terms and conditions of the rights, can be found in sections 6.1.3, 6.1.4 and 7.1 of the remuneration report.

(ii) Rights holdings

The numbers of rights over ordinary shares in the Company held during the financial year by each Director of QR National Limited and other Key Management Personnel of the Group, including their personally related parties, are set out on the following page.

29 KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

Name	Balance at start of the year '000	Granted as compensation '000	Exercised '000	Other changes '000	Balance at end of the year '000	Vested and exercisable '000	Unvested '000
2011							
L E Hockridge	-	1,333	-	-	1,333	-	1,333
D M O'Toole	-	137	-	-	137	-	137
K R Lewsey	-	127	-	-	127	-	127
M P McAuliffe	-	118	-	-	118	-	118
M G Carter	-	118	-	-	118	-	118
G P Pringle	-	108	-	-	108	-	108
R J Stephens	-	108	-	-	108	-	108
L J Cooper	-	98	-	-	98	-	98
C M Davies	-	118	-	-	118	-	118

(iii) Share holdings

The numbers of ordinary shares in the Company held during the financial year by each Director of QR National Limited and other Key Management Personnel of the Group, including their personally related parties, are set out below. There were no shares granted during the reporting period as compensation.

	Balance at the start of the year '000	Granted during reporting year as compensation '000	Received during the year on the exercise of rights '000	Other changes during the year '000	Balance at the end of the year '000
2011					
Directors of QR National Limited					
J B Prescott AC	-	-	-	157	157
L E Hockridge	-	-	-	204	204
J Atkin	-	-	-	20	20
R R Caplan	-	-	-	82	82
A J Davies	-	-	-	184	184
G T John AO	-	-	-	47	47
P C Kenny	-	-	-	2	2
A J P Staines	-	-	-	5	5
G T Tilbrook	-	-	-	31	31
Other Key Management Personnel of the Group					
D M O'Toole	-	-	-	105	105
K R Lewsey	-	-	-	61	61
M P McAuliffe	-	-	-	20	20
M G Carter	-	-	-	41	41
G P Pringle	-	-	-	29	29
R J Stephens	-	-	-	91	91
L J Cooper	-	-	-	12	12
C M Davies	-	-	-	112	112

(c) Transactions with Directors and Key Management Personnel

An amount of $120,000 (2010: $144,000) has been paid to the Chairman as reimbursement for office lease expenses incurred whilst working on Group matters throughout the year.

There were no other material Key Management Personnel related party transactions during the year.

30 CONTINGENCIES

The Group had contingencies at 30 June 2011 in respect of:

(a) Contingent liabilities

Issues relating to common law claims and product warranties are dealt with as they arise. There were no material contingent liabilities requiring disclosures in the financial statements, other than as set out below.

Litigation

A number of common law claims are pending against the Group. Provisions are taken up for some of these exposures based on the management's determination, and are included as such in note 23.

Guarantees and letters of credit

For information about guarantees and letters of credit given by the Group, refer to note 3(d).

Deed of cross guarantee

Cross guarantees are given by the Company and some of its wholly-owned subsidiaries as described in note 36.

Defined benefit fund liabilities

The State of Queensland has permitted existing employees of QR National Limited and its subsidiaries including QR Limited (the QR National Group), as at the date of the IPO, to retain their existing superannuation arrangements with the State Superannuation Public Sector Scheme (QSuper), and has provided the Group an indemnity if the State of Queensland Treasurer requires the Group to pay any amounts required to meet the defined benefit obligations. An actuarial assessment of the fund as at 30 June 2010 has been completed which showed the fund to be in surplus. Existing contribution arrangements are to continue into the foreseeable future.

Joint venture arrangements

Refer to note 32 for details of the Group's share of the net asset deficiencies in joint venture investments. The Group is required to contribute additional capital, if requested, to make good any deficiency under the terms of the joint venture agreements.

(b) Contingent assets

Revenue cap adjustments

The Group has a contingent asset in respect of revenue cap adjustments in Network Services. Access revenue is subject to a revenue cap mechanism that serves to ensure the network recovers its full regulated revenue over the regulatory period, with the majority of under or over recovery in access tariffs (net of take or pay charges) during a financial year being charged or refunded, and recognised as revenue, in the second year following the period in which the contractual railings were not achieved. Subject to regulatory approval and any adjustments resulting from below rail cause, recovery of current year shortfalls via the revenue cap of $46.5 million will be received during the year ending 30 June 2013. There is no contingent asset for under recovery of contractual railings for the year ended 30 June 2010.

Deficit tonnage charges

The Group has a contingent asset in the range of $18.0 million to $22.0 million in respect of deficit tonnage charges relating to contracts with a period ending 30 June 2011. Deficit tonnage charges are recognised in the period following that in which the service was due to be provided where the customer elects to pay the charges rather than reduce future tonnage entitlements.

Stamp duty

In 2010, the Group recognised an expense of $24.9 million for stamp duty paid in relation to the acquisition of ARG. This amount was paid under the Group's Joint Acquisition Agreement ("JAA") with Brookfield Infrastructure Group (Australia) Pty Ltd ("Brookfield") (previously Prime Infrastructure). Brookfield as the primary legal party to the dispute are preparing a submission to the WA State Advisory Tribunal to seek a refund of the payment. Under the JAA the above amount would be refunded to the Group by Brookfield upon a favourable outcome. The Group considers that there are strong legal arguments supporting the submission to the Tribunal.

Guarantees and letters of credit

For information about guarantees given to the Group, refer to note 3(d).

31 COMMITMENTS

(a) Capital commitments

	2011 $m	2010 $m
Capital expenditure contracted for at the reporting date but not recognised as liabilities is payable as follows:		
Property, plant and equipment		
Within one year	**353.4**	767.0
Later than one year but not later than five years	**-**	125.8
Later than five years	**-**	-
	353.4	892.8

(b) Lease commitments

	2011 $m	2010 $m
Operating leases		
Commitments for minimum lease payments in relation to non-cancellable operating leases (excluding GST) are payable as follows:		
Within one year	**46.2**	38.0
Later than one year but not later than five years	**81.0**	82.2
Later than five years	**6.9**	19.0
	134.1	139.2

The above commitments flow primarily from operating leases of property and machinery. These leases, with terms mostly ranging from one to ten years, generally provide the Group with a right of renewal at which times the lease terms are renegotiated. The lease payments comprise a base amount, while the property leases also contain a contingent rental, which is based on either the movements in the Consumer Price Index or another fixed percentage as agreed between the parties.

(c) Lease commitments receivable: where the Group is the lessor

	2011 $m	2010 $m
Some fixed assets are leased to tenants with rents payable monthly. Minimum lease payments (excluding GST) not recognised in the financial statements are receivable as follows:		
Within one year	**5.9**	2.8
Later than one year and not later than five years	**9.3**	4.6
Later than five years	**8.0**	7.4
	23.2	14.8

32 INTERESTS IN JOINT VENTURES

(a) Joint venture operation

The Group has an interest in the Nickel West Land Logistics Joint Venture Agreement. The Group severally provides rail freight services under this agreement and the Joint Venture partner severally provides road freight services. There are no assets jointly controlled by the operation.

During the year ended 30 June 2010, the Group had a 50% interest in the CityTrans jointly controlled operation with Brisbane City Council. Following separation on 30 June 2010, the interest in this operation now resides with Queensland Rail Limited.

The Group's share of the revenue generated from the operation in the prior year was dependent on and agreed upon on an 'event by event' basis taking into consideration the resources consumed by the event.

There are no assets jointly controlled by the operation.

(b) Jointly controlled assets

The Group has a 33.33% (2010: 33.33%) participating interest in a joint venture through its wholly-owned subsidiary, QR Surat Basin Pty Ltd, together with two other parties.

The Group's share of the joint assets, any liabilities that it has incurred directly, and its share of any liabilities incurred jointly with the other venturers, income from the sale or use of its share of the output of the joint venture, its share of expenses incurred by the joint venture and expenses incurred directly in respect of its interest in the joint venture are detailed below.

The amounts are included in the consolidated financial statements under their respective asset, liability, income and expense categories:

	2011 $m	2010 $m
Group's share of:		
Current assets	**0.3**	0.1
Non-current assets	**2.5**	2.3
Current liabilities	**(0.1)**	(0.2)
Non-current liabilities	**(3.9)**	(7.7)
Total net assets	**(1.2)**	(5.5)
Revenue	**-**	-
Expenses	**-**	(2.7)
(Loss) before tax	**-**	(2.7)
Tax benefit	**-**	1.0
Net (loss) after tax	**-**	(1.7)

The balance sheet and income statement is based on the unaudited financial statements of the Surat Basin Rail joint venture as at 30 June 2011 (2010: 30 June 2010).

Under Clause 7.3 of the QR Surat Basin Pty Ltd Joint Venture Agreement dated 4 December 2006, the Project Director may call for additional contributions of funding from the participants in order to fund any expenditure incurred or to be incurred. No request from the Project Director for additional contributions had been made at the date of this report.

32 INTERESTS IN JOINT VENTURES (CONTINUED)

(c) Joint venture entities

The joint venture entities in which the Group has an interest and which are equity accounted in the financial statements are as follows:

Name	Country of operation	Ownership Interest 2011 %	Ownership Interest 2010 %	Principal activity
CHCQ	China–Hong Kong	**15**	15	Construction
Chun Wo/CRGL	China–Hong Kong	**20**	20	Construction
KMQR Sdn Bhd	Malaysia	**30**	30	Consulting
ARG Risk Management Limited	Malaysia	**50**	50	Insurance
QLM Pty Ltd	Australia	**50**	50	Dormant

(i) Movement in carrying amounts

	2011 $m	2010 $m
Carrying amount at 1 July	**0.5**	0.5
Increase/(decrease) in joint venture interest resulting from final net value calculation	-	0.1
Loan repayment	-	-
Dividend received	-	(0.1)
	0.5	0.5

(ii) Share of joint ventures' assets, liabilities, revenue, expenses and results

	2011 $m	2010 $m
Group's share of:		
Current assets	**2.2**	2.2
Current liabilities	**(1.7)**	(1.7)
Total net assets	**0.5**	0.5
Revenues	-	0.3
Expenses	-	-
Net profit/(loss) before tax	-	0.3
Tax	-	(0.1)
Profit after income tax	-	0.2

33 RELATED PARTY TRANSACTIONS

(a) Subsidiaries

Interests in subsidiaries are set out in note 35.

(b) Key Management Personnel

Disclosures relating to Key Management Personnel are set out in note 29.

(c) Transactions with other related parties

The following transactions occurred with related parties other than Key Management Personnel or entities related to them:

	2011 $'000	2010 $'000
Dividend revenue from other related parties	**39**	62

(d) Terms and conditions of transactions with related parties other than Key Management Personnel or entities related to them

All other transactions, other than those with the State as described below, were made on normal commercial terms and conditions and at market rates, except that there are no fixed terms for the repayment of loans between the parent and its subsidiaries. All loans are non-interest bearing. Outstanding balances are unsecured.

(e) Transactions with State of Queensland controlled entities

Until its 22 November 2010 listing on the ASX, the Group was a Queensland Government Owned Corporation, with all shares held by the Shareholding Ministers on behalf of the State. Following listing, the State has retained a 33.67 % interest in the Company and remains a related party to the Group.

Queensland Treasury Corporation borrowings of $4,388.3 million were replaced by a capital contribution from the State via Transfer Notice just prior to the listing on the ASX. Interest expense of $140.7 million (2010: $379.2 million from continuing and discontinued businesses) in respect of the year ended 30 June 2011 was paid to QTC during the year.

A dividend of $86.4 million (2010: $215.1 million) was paid to the State prior to listing.

Refer to note 9 for details of the disposal of the passenger and non-coal network businesses to Queensland Rail Limited on 30 June 2010.

Transport Services Contracts

The Group has entered into Transport Services Contracts ("TSCs") with the State (acting through the Department of Transport and Main Roads) to provide general freight and livestock transportation services. The contracts commenced on 1 July 2010 and expire on 30 June 2015 and 31 December 2015 respectively.

Under the contracts, for the initial two and a half years, the Group will receive monthly base payments and quarterly payments in aggregate totalling $150.0 million for the year ended 30 June 2011, $148.1 million for the year ended 30 June 2012 and $75.1 million for the six months ended 31 December 2012.

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

In addition, the contracts provide for additional payments of $90.0 million (general freight) and $13.0 million (livestock) between 31 December 2012 and the expiry of the contracts.

Service contracts with Queensland Rail

There exist a number of related party transactions between the Group and Queensland Rail Limited ("Queensland Rail") arising from the separation of Queensland Rail from the Group on 30 June 2010. These transactions relate to service contracts entered into between the parties that are broadly priced on the basis of cost recovery plus a profit margin. At the conclusion of each contract (tenors range between 1 and 5 years) they will ordinarily be re-let by business as usual tender processes.

The largest (by financial value) service contracts are for the provision of maintenance services; repairs, manufacture and overhaul of rollingstock; hook and pull services for passenger rollingstock; IT services; and stowing services.

34 BUSINESS COMBINATION

(a) Summary of acquisition

During the year, CRT Group Pty Ltd acquired assets and liabilities, which were considered to constitute a business, of Isa Freight Express. The acquisition occurred in two tranches, in July 2010 and October 2010. The business was acquired for $6.1 million and $0.3 million was recognised as goodwill.

In June 2011 CRT Group Pty Ltd acquired assets and liabilities, which were considered to constitute a business of Pittman Transport Pty Ltd for $6.2 million.

There were no acquisitions undertaken in the prior financial year.

(b) Cash flow information

	2011 $m
Outflow of cash to acquire business, net of cash acquired	
Cash consideration	12.3
Less: Balances acquired	
Cash	-
Outflow of cash - investing activities	12.3

(c) Assets and liabilities acquired

	Acquiree's carrying amount $m	Fair value $m
Plant and equipment	12.2	12.2
Provisions	(0.2)	(0.2)
Net identifiable assets acquired	12.0	12.0
Add: Goodwill		0.3
Net assets acquired		12.3

35 SUBSIDIARIES

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 1(b):

Name of entity	Country of incorporation	Class of shares	Equity holding 2011 %	Equity holding 2010 %
QR Limited	Australia	Ordinary	**100.0**	100.0
On Track Insurance Pty Ltd[1]	Australia	Ordinary	-	100.0
QR Intermodal Pty Ltd	Australia	Ordinary	**100.0**	100.0
Interail Australia Pty Ltd	Australia	Ordinary	**100.0**	100.0
Logistics Australasia Pty Ltd	Australia	Ordinary	**100.0**	100.0
Golden Bros. Group Pty Ltd	Australia	Ordinary	**100.0**	100.0
CRT Group Pty Ltd	Australia	Ordinary	**100.0**	100.0
NHK Pty Ltd[1,2]	Australia	Ordinary	**100.0**	100.0
Australian Rail Pty Ltd	Australia	Ordinary	**100.0**	100.0
Australia Eastern Railroad Pty Ltd	Australia	Ordinary	**100.0**	100.0
Australian Railroad Group Employment Pty Ltd	Australia	Ordinary	**100.0**	100.0
Australia Western Railroad Pty Ltd	Australia	Ordinary	**100.0**	100.0
AWR Lease Co Pty Ltd[1,2]	Australia	Ordinary	**100.0**	100.0
QR Network Pty Ltd	Australia	Ordinary	**100.0**	100.0
QR Surat Basin Pty Ltd[1,2]	Australia	Ordinary	**100.0**	100.0
QRN Property Holding Pty Ltd[3]	Australia	Ordinary	**100.0**	-
QRN Property Pty Ltd[3]	Australia	Ordinary	**100.0**	-
QRN Terminal Pty Ltd[3]	Australia	Ordinary	**100.0**	-
QRN Finance Pty Ltd[3]	Australia	Ordinary	**100.0**	-

[1] Except for On Track Insurance Pty Ltd, NHK Pty Ltd, AWR Lease Co Pty Ltd and QR Surat Basin Pty Ltd, these subsidiaries have been granted relief from the necessity to prepare financial reports in accordance with Class Order 98/1418 issued by the Australian Securities and Investments Commission. For further information refer to note 36.

[2] NHK Pty Ltd, AWR Lease Co Pty Ltd and QR Surat Basin Pty Ltd satisfy the criteria for a small proprietary company under the *Corporations Act 2001*. Accordingly, no financial statements have been prepared.

[3] QRN Finance Pty Ltd, QRN Property Holding Pty Ltd, QRN Property Pty Ltd and QRN Terminal Pty Ltd were incorporated on 23 September 2010.

36 DEED OF CROSS GUARANTEE

QR National Limited, QRN Finance Pty Ltd, QRN Property Holding Pty Ltd, QRN Property Pty Ltd, QRN Terminal Pty Ltd, QR Limited, QR Intermodal Pty Ltd, Logistics Australasia Pty Ltd, Golden Bros. Group Pty Ltd, CRT Group Pty Ltd, Interail Australia Pty Ltd, Australian Rail Pty Ltd, Australia Eastern Railroad Pty Ltd, Australia Western Railroad Pty Ltd, Australian Railroad Group Employment Pty Ltd and QR Network Pty Ltd (the "QRN Deed Parties", and each a "QRN Deed Party") entered into a Deed of Cross Guarantee dated 11 March 2011 (the "New Deed") with QR National Limited as the 'Holding Entity', under which each QRN Deed Party guarantees the debts of each other QRN Deed Party. By entering into the New Deed, lodging it with the Australian Securities and Investments Commission ("ASIC") on 29 March 2011, the wholly owned QRN Deed Parties have been relieved from the requirement to prepare separate financial and Directors' reports by the operation of ASIC Class Order 98/1418 (as amended) (the "Class Order"). The New Deed became effective on lodgement with ASIC on 29 March 2011.

Prior to the New Deed, QR Limited, QR Intermodal Pty Ltd, Logistics Australasia Pty Ltd, Golden Bros. Group Pty Ltd, CRT Group Pty Ltd, Interail Australia Pty Ltd, Australian Rail Pty Ltd, Australia Eastern Railroad Pty Ltd, Australia Western Railroad Pty Ltd, Australian Railroad Group Employment Pty Ltd and QR Network Pty Ltd (the "QRL Deed Parties", and each a "QRL Deed Party") were parties to a Deed of Cross Guarantee dated 11 June 2008 (the "Old Deed") with QR Limited as the 'Holding Entity', under which each QRL Deed Party guaranteed the debts of each other QRL Deed Party. The QRL Deed Parties entered into two Deeds of Revocation (the "Revocation Deeds") each dated 11 March 2011 for the purposes of revoking the Old Deed, which is expected to become effective on 22 September 2011 (being the date that is six months after lodgement of the Revocation Deeds with ASIC, which occurred on 22 March 2011). The Revocation Deeds were advertised to creditors by public notice in *The Australian* newspaper on 8 April 2011.

Prior to the distribution of the passenger and certain non-coal freight businesses (the "Passenger Assets") on 30 June 2010, Queensland Rail was also a party to the Old Deed and a subsidiary of QR Limited. The Passenger Assets were transferred from QR Limited to Queensland Rail effective 30 June 2010, on which date Queensland Rail became a separate Government Owned Corporation and was no longer a subsidiary of QR Limited. The QRL Deed Parties and Queensland Rail entered into a Deed of Revocation dated 28 June 2010 (the "Passenger Revocation Deed") for the purposes of releasing Queensland Rail from the Old Deed. The Passenger Revocation Deed became effective on 6 January 2011 (being the date that was six months after lodgement of the Passenger Revocation Deed with ASIC, which occurred on 5 July 2010). The Passenger Revocation Deed was advertised to creditors by public notice in *The Australian* newspaper on 8 July 2010.

(a) Consolidated income statement, statement of comprehensive income and summary of movements in consolidated retained earnings

The QRN Deed Parties (the "Deed Parties") represent the 'closed group' for the purposes of the Class Order, and as there are no other parties to the New Deed or the Old Deed that are controlled by QR National Limited, they also represent the 'extended closed group'.

The results of all the Deed Parties are presented on the following page in the consolidated income statement, a consolidated statement of comprehensive income and a summary of movements in consolidated retained earnings. This represents the results of the Group excluding On Track Insurance Pty Ltd, NHK Pty Ltd, AWR Lease Co Pty Ltd and QR Surat Basin Pty Ltd.

36 DEED OF CROSS GUARANTEE (CONTINUED)

(a) Consolidated income statement, statement of comprehensive income and summary of movements in consolidated retained earnings (continued)

	2011 $m	2010 $m
Income statement		
Revenue from continuing operations	**3,195.0**	2,839.0
Other income	**148.4**	107.2
Consumables	**(1,361.2)**	(1,243.9)
Employee benefits expense	**(1,220.5)**	(993.0)
Depreciation and amortisation expense	**(446.0)**	(423.5)
Other expenses	**(59.6)**	(366.4)
Finance costs	**(141.2)**	(227.7)
Share of net profits of associates and joint venture partnership accounted for using the equity method	**-**	0.1
Profit/(loss) before income tax	**114.9**	(308.2)
Income tax expense	**267.7**	76.3
Profit/(loss) for the year	**382.6**	(231.9)
Profit from discontinued operations	**-**	185.3
Profit/(loss) for the year	**382.6**	(46.6)
Statement of comprehensive income		
Profit/(loss) for the year	**382.6**	(46.6)
Other comprehensive income		
Cash flow hedges	**(0.4)**	(0.7)
Income tax relating to components of other comprehensive income	**0.1**	0.2
Other comprehensive income for the year, net of tax	**(0.3)**	(0.5)
Total comprehensive income for the year	**382.3**	(47.1)
Summary of movements in consolidated retained profits		
Retained profits at the beginning of the financial year	**541.0**	670.7
Profit/(loss) for the year	**382.6**	(46.6)
Dividends provided for or paid	**(86.4)**	-
Adjustments to retained earnings	**-**	(30.8)
Disposal of (transfer to) subsidiary	**37.5**	(52.3)
Retained earnings at the end of the financial year	**874.7**	541.0

(b) Consolidated balance sheet

The balance sheet of the parties to the Deed of Cross Guarantee at each reporting date is presented on the following page. For a summary of assets and liabilities of Queensland Rail Limited as at 30 June 2010, which are not included following, refer to note 9(c).

36 DEED OF CROSS GUARANTEE (CONTINUED)

(b) Consolidated balance sheet (continued)

	2011 $m	2010 $m
Current assets		
Cash and cash equivalents	**117.1**	7.6
Trade and other receivables	**480.8**	649.9
Inventories	**177.6**	167.0
Derivative financial instruments	**21.3**	16.4
Other current assets	**10.3**	31.6
Non-current assets classified as held for sale	**-**	346.9
Total current assets	**807.1**	1,219.4
Non-current assets		
Receivables	**37.0**	6.5
Inventories	**20.7**	24.2
Property, plant and equipment	**8,256.0**	7,365.7
Intangible assets	**24.9**	39.4
Investments accounted for using the equity method	**0.5**	0.5
Derivative financial instruments	**3.5**	6.2
Other financial assets	**18.8**	18.1
Other non-current assets	**-**	4.0
Total non-current assets	**8,361.4**	7,464.6
Total assets	**9,168.5**	8,684.0
Current liabilities		
Trade and other payables	**341.2**	386.5
Derivative financial instruments	**27.3**	15.1
Provisions	**289.0**	93.6
Borrowings	**-**	4,266.1
Other current liabilities	**36.2**	332.8
Total current liabilities	**693.7**	5,094.1
Non-current liabilities		
Derivative financial instruments	**3.8**	8.1
Borrowings	**803.2**	-
Deferred tax liabilities	**260.0**	537.2
Provisions	**81.3**	51.8
Liabilities held for distribution	**-**	16.1
Other non-current liabilities	**343.0**	371.5
Total non-current liabilities	**1,491.3**	984.7
Total liabilities	**2,185.0**	6,078.8
Net assets	**6,983.5**	2,605.2
Equity		
Contributed equity	**6,111.9**	2,067.0
Reserves	**(3.1)**	(2.8)
Retained profits	**874.7**	541.0
Total equity	**6,983.5**	2,605.2

37 REMUNERATION OF AUDITORS

During the year the following fees were paid or payable for services provided by the auditor of the Company, its related practices and non-related audit firms:

	2011 $'000	2010 $'000
(a) PwC Australia		
(i) Audit and other assurance services		
Audit and review of financial statements	1,956	-
Other assurance services		
Audit of regulatory returns	35	-
Other assurance services	48	-
Total remuneration for audit and other assurance services	2,039	-
(ii) Taxation services		
Tax advisory services	1,225	-
Total remuneration for taxation services	1,225	-
(iii) Other services		
Advisory services	3,153	-
Total remuneration for other services	3,153	-
Total remuneration of PwC Australia	6,417	-
(b) Non-PwC audit firms		
(i) Audit and other assurance services		
Audit and review of financial statements	-	1,914
Total remuneration for audit and other assurance services	-	1,914
Total auditors' remuneration	6,417	1,914

Auditor remuneration includes $3,439,000 of non-audit services performed prior to listing on 22 November 2010 and prior to the appointment of PwC as auditor of the Company.

38 RECONCILIATION OF PROFIT/(LOSS) AFTER INCOME TAX TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2011 $m	2010 $m
Profit/(loss) for the year	349.5	(36.8)
Depreciation and amortisation	446.4	643.5
Net impairment of non-currrent assets	2.2	200.0
Impairment of financial assets	0.5	5.0
Non-cash employee benefits expense – share-based payments	12.0	-
Interest capitalised to qualifying assets	(41.4)	(27.4)
Net loss/(gain) on sale of non-current assets	(1.6)	20.1
Inventory obsolescence	2.4	7.8
Amortisation of prepaid access facilitation charges	(26.4)	(26.0)
Derivative financial instruments – unrealised (gains)/losses	5.3	(6.5)
Change in operating assets and liabilities		
(Increase)/decrease in trade debtors	67.6	(225.5)
(Increase)/decrease in inventories	(9.5)	(7.7)
(Increase)/decrease in other operating assets	0.8	(87.9)
Increase/(decrease) in payables	1.6	(53.5)
Increase/(decrease) in other liabilities	(263.9)	177.6
Increase/(decrease) in other provisions	8.8	56.0
Net cash inflow/(outflow) from operating activities	554.3	638.7

39 EARNINGS PER SHARE

	2011 Cents	2010 Cents
(a) Basic earnings per share		
Profit/(loss) from continuing operations attributable to the ordinary equity holders of the Company	**14.9**	(10.0)
Profit from discontinued operation	-	8.3
Total basic and diluted earnings per share attributable to the ordinary equity holders of the Company	**14.9**	(1.7)

	2011 $m	2010 $m
(b) Reconciliations of earnings used in calculating earnings per share		
Basic and diluted earnings per share		
Profit/(loss) from continuing operations	**349.5**	(222.1)
Profit from discontinued operations	-	185.3
	349.5	(36.8)

	2011 Number '000	2010 Number '000
(c) Weighted average number of shares used as the denominator		
Weighted average number of ordinary shares used as the denominator in calculating basic and diluted earnings per share	**2,339,726**	2,228,456

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

(d) Information concerning the classification of securities

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

40 SHARE-BASED PAYMENTS

(a) Omnibus Equity Plan – Rights and Options

The Omnibus Equity Plan - Rights and Options is designed to create alignment between the reward of QR National's Senior Executives and the Company's financial and operational performance and shareholder value. Under the Plan, eligible Executives may be granted rights and/or options on terms and conditions determined by the Board from time to time. A right and an option are both rights to acquire a share, subject to the satisfaction of applicable vesting and/or exercise conditions. The main difference between an option and a right is that an exercise price as determined by the Board is required to be paid to exercise a vested option, whereas a right has a nil exercise price and vests automatically once all terms and conditions are satisfied.

The amount of rights or options that will vest depends on QR National Limited's TSR, including share price growth, dividends and capital returns, and ranking relative to companies in the S&P/ASX100 index over a three year period.

40 SHARE BASED PAYMENTS (CONTINUED)

(a) Omnibus Equity Plan – Rights and Options (continued)

The Board will determine the exercise price payable on exercise of a vested right or option and the exercise period of a right or option. A right vests, and an option vests and becomes exercisable, on or after the satisfaction of the applicable performance hurdles, provided that the Executive remains employed by the Company at that date.

The Board may, in its discretion, determine that early vesting of a right or option will occur if there is a takeover bid, scheme of arrangement or some other change of control transaction of the Company. The Board may also accelerate the vesting of some or all of the rights or options held by an Executive in specified circumstances including the death, total and permanent disablement, or cessation of employment for other reasons of that Executive.

Rights to ordinary shares granted under the plan carry no dividend or voting rights.

The following table illustrates the movement in the number of share rights issued:

	Balance at start of the year Number '000	Granted during the year Number '000	Exercised during the year Number '000	Forfeited during the year Number '000	Balance at end of the year Number '000
2011					
	-	5,249	-	-	5,249

The weighted average exercise price of rights granted during the year was nil, as the rights have no exercise price.

The weighted average remaining contractual life of share rights outstanding at 30 June 2011 was 2.2 years.

Fair value of rights granted

The valuation of rights granted under the Deferred Short-Term Incentive Awards for the CEO was based on the likelihood of achieving the EBIT performance hurdle. This was estimated with reference to historical EBIT performance from previous years for the QR Limited Group for which the Company became the parent on 21 September 2010. Given the limited data, this was considered the best proxy available. For other Executives, the fair value is based on 50 % of their cash Short-Term Incentive Awards.

The fair value of performance rights granted under the Long-Term Incentive Awards is determined independently by Deloitte using the Monte Carlo valuation method. The model takes into account a range of assumptions and the fair values have been calculated including the assumptions below:

	TSR	EPS
Exercise price	n/a	n/a
Volatility	30 %	n/a
Risk free interest rate	5.25 %	n/a
Dividend yield – 2011 financial year	2.1 %–2.5 %	n/a
Dividend yield – 2012 financial year	2.8 %–3.3 %	n/a
Expected life (years)	3.52	3.52
Share price at grant date	$2.54	$2.54
Fair value per right	$0.94	$1.14

As the Company did not have historical share price data, the volatility of peer companies, Qantas, Asciano and Toll were used as a proxy. The expected volatility of each company in the peer group is determined based on the historical volatility of the companies' share prices. Two years of historic volatility for each peer company were used. It was deemed appropriate to exclude the abnormal volatility score through the height of the Global Financial Crisis.

(b) Expenses arising from share-based payment transactions

Total expenses arising from share-based payment transactions recognised during the period as part of employee benefit expense was $11.9 million (2010: nil). This includes shares to the value of $9.0 million gifted to eligible employees from the State in relation to the IPO.

41 PARENT ENTITY FINANCIAL INFORMATION

(a) Summary financial information

The individual financial statements for the parent entity show the aggregate amounts below. As discussed in note 1, the Company was incorporated on 14 September 2010 and therefore there are no comparatives for the year ended 30 June 2010 for the parent entity. Comparatives for the Group are for the QR Limited Group for the year ended 30 June 2010, as this financial report has been prepared as a continuation of the financial statements of QR Limited following the Group restructure on 21 September 2010.

	2011 $m
Current assets	-
Non-current assets	**6,149.6**
Current liabilities	-
Non-current liabilities	**(37.6)**
Net assets	**6,112.0**
Shareholders' equity	
Contributed equity	**6,111.9**
Reserves	-
Retained earnings	**0.1**
Total equity	**6,112.0**
Profit/(loss) for the year	**0.1**
Total comprehensive income	**0.1**

The parent entity has several employees. All costs associated with these employees are borne by a subsidiary of the parent entity and are not included in the above disclosures.

(b) Guarantees entered into by the parent entity

There are cross guarantees given by QR National Limited, QR Limited, QRN Finance Pty Ltd, QRN Property Holding Pty Ltd, QRN Terminal Pty Ltd, QRN Property Pty Ltd, QR Intermodal Pty Ltd, Logistics Australasia Pty Ltd, Golden Bros. Group Pty Ltd, CRT Group Pty Ltd, Interail Australia Pty Ltd, Australian Rail Pty Ltd, Australia Eastern Railroad Pty Ltd, Australia Western Railroad Pty Ltd, Australian Railroad Group Employment Pty Ltd and QR Network Pty Ltd as described in note 36.

The parent entity has not provided any other financial guarantees in respect of bank overdrafts and loans of subsidiaries.

(c) Contingent liabilities of the parent entity

Issues relating to common law claims are dealt with as they arise. There were no material contingent liabilities as at 30 June 2011 or 30 June 2010. For information about guarantees given by the parent entity, please see above.

(d) Contractual commitments for the acquisition of property, plant or equipment

As at 30 June 2011, the parent entity did not have any contractual commitments for the acquisition of property, plant or equipment (2010: nil).

42 EVENTS OCCURRING AFTER THE REPORTING PERIOD

No matters or circumstances have arisen since the end of the financial year which have significantly affected, or may significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group.

DIRECTORS' DECLARATION
30 JUNE 2011

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

In the opinion of the Directors of the Company:

(a) the financial statements and notes set out on pages 91 to 169 are in accordance with the *Corporations Act 2001*, including:

  (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and

  (ii) giving a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of their performance for the financial year ended on that date; and

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable, and

(c) at the date of this declaration, there are reasonable grounds to believe that the members of the extended closed group identified in note 36 will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in note 36.

Note 1(a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The Directors have been given the declarations by the Chief Executive Officer and chief financial officer required by section 295A of the *Corporations Act 2001*.

JB Prescott AC
Chairman

Brisbane QLD
29 August 2011

pwc

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF QR NATIONAL LIMITED
30 JUNE 2011

Report on the financial report

We have audited the accompanying financial report of QR National Limited ("the Company"), which comprises the balance sheet as at 30 June 2011, and the income statement, the statement of comprehensive income, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the Directors' declaration for the QR National Limited Group ("the consolidated entity"). The consolidated entity comprises the Company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The Directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the Directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In note 1, the Directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial report.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

PricewaterhouseCoopers, ABN 52 780 433 757
Riverside Centre, 123 Eagle Street, BRISBANE QLD 4000, GPO Box 150, BRISBANE QLD 4001
T: +61 7 3257 5000, F: +61 7 3257 5999, www.pwc.com.au

pwc

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF QR NATIONAL LIMITED
30 JUNE 2011

Independence

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

Auditor's opinion

In our opinion:

(a) the financial report of QR National Limited is in accordance with the *Corporations Act 2001*, including:

  (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of its performance for the year ended on that date; and

  (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and

(b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in note 1.

Report on the Remuneration Report

We have audited the remuneration report included in pages 56 to 79 of the Directors' Report for the year ended 30 June 2011. The Directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion

In our opinion, the remuneration report of QR National Limited for the year ended 30 June 2011, complies with section 300A of the *Corporations Act 2001*.

PricewaterhouseCoopers

Robert Hubbard
Partner

Brisbane
29 August 2011

SHAREHOLDER INFORMATION

TOP 20 HOLDERS OF FULLY PAID ORDINARY SHARES AS AT 22 AUGUST 2011

Name	Shares	% of Issued Capital	Rank
QUEENSLAND TREASURY HOLDINGS PTY LTD	829,562,849	34.00	**1**
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	512,134,174	20.99	**2**
NATIONAL NOMINEES LIMITED	372,181,235	15.25	**3**
J P MORGAN NOMINEES AUSTRALIA LIMITED	138,032,874	5.66	**4**
JP MORGAN NOMINEES AUSTRALIA LIMITED <CASH INCOME A/C>	95,427,550	3.91	**5**
CITICORP NOMINEES PTY LIMITED	85,299,012	3.50	**6**
COGENT NOMINEES PTY LIMITED <SL NON CASH COLLATERAL A/C>	33,882,500	1.39	**7**
COGENT NOMINEES PTY LIMITED	32,314,505	1.32	**8**
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED-GSCO ECA	25,266,359	1.04	**9**
AMP LIFE LIMITED	15,151,593	0.62	**10**
RBC DEXIA INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED <PIPOOLED A/C>	9,504,857	0.39	**11**
UBS NOMINEES PTY LTD	8,750,810	0.36	**12**
RBC DEXIA INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED <GSAM A/C>	8,551,283	0.35	**13**
COGENT NOMINEES PTY LIMITED <SMP ACCOUNTS>	7,370,757	0.30	**14**
QUEENSLAND INVESTMENT CORPORATION	6,024,402	0.25	**15**
SHARE DIRECT NOMINEES PTY LTD <10026 A/C>	4,627,633	0.19	**16**
AUSTRALIAN REWARD INVESTMENT ALLIANCE	4,390,974	0.18	**17**
RBC DEXIA INVESTOR SERVICES AUSTRALIA NOMINEES PTY LTD <PISELECT A/C>	3,234,454	0.13	**18**
CITICORP NOMINEES PTY LIMITED <COLONIAL FIRST STATE INV A/C>	3,205,205	0.13	**19**
SHARE DIRECT NOMINEES PTY LTD <26885 ACCOUNT>	3,000,000	0.12	**20**
Totals: Top 20 holders	**2,197,913,026**	**90.08**	
Totals: Remaining Holders Balance	**242,086,974**	**9.92**	

Total number of current holders for all named classes is 62,453

SHAREHOLDER INFORMATION
(CONTINUED)

SUBSTANTIAL HOLDERS OF 5% OR MORE OF FULLY PAID ORDINARY SHARES AS AT 22 AUGUST 2011*

Name	Notice date	Shares
Scout Capital Management	24 November 2010	124,000,000
The Children's Investment Fund Management	22 November 2010	150,000,000
State of QLD, Andrew Fraser	3 December 2010	851,436,735
Commonwealth Bank of Australia and its subsidiaries	6 December 2010	148,765,090
UBS AG and its related bodies corporate	9 August 2011	172,896,743

** As disclosed in substantial shareholder notices received by the Company*

RANGE OF FULLY PAID ORDINARY SHARES AS AT 22 AUGUST 2011

	1 to 1,000	1001 to 5,000	5,001 to 10,000	10,001 to 100,000	100,001 to (MAX)	TOTAL
Holders						
Issuer	18,452	18,241	1,221	913	17	38,844
CHESS	4,255	13,440	2,789	2,958	167	23,609
TOTAL	**22,707**	**31,681**	**4,010**	**3,871**	**184**	**62,453**
Shares						
Issuer	11,658,272	36,756,354	8,667,027	13,892,065	8,35,192,959	906,166,677
CHESS	3,094,058	32,262,761	20,450,392	59,802,059	1,418,224,053	1,533,833,323
TOTAL	**14,752,330**	**69,019,115**	**29,117,419**	**73,694,124**	**2,253,417,012**	**2,440,000,000**

Total holders for classes selected: 62,453

Total Shares: 2,440,000,000

The number of shareholders holding less than the marketable parcel of shares is 263 (shares: 154).

All ordinary shares carry one vote per share without restriction.

SHAREHOLDER INFORMATION
(CONTINUED)

INVESTOR CALENDAR

2012 Dates	Details
16 Feb, 2012	Half Year results and interim dividend announcement
30 Apr, 2012	Interim dividend payment date
23 Aug, 2012	Full year results and final dividend announcement
30 Sep, 2012	Final dividend payment date
07 Nov, 2012	Annual general meeting

Note:

The payment of a dividend is subject to the Corporations Act and Board discretion.

The timing of any event listed above may change. Please refer regularly to the QR National website www.qrnational.com.au for an up-to-date list of upcoming events.

INVESTOR RELATIONS

For all information about your shareholding, including employee shareholdings, dividend statements and change of address, contact the share registry Computershare on 1800 776 476 or visit www.investorcentre.com/au

To request information or for any enquiries relating to an investment in QR National, please contact:

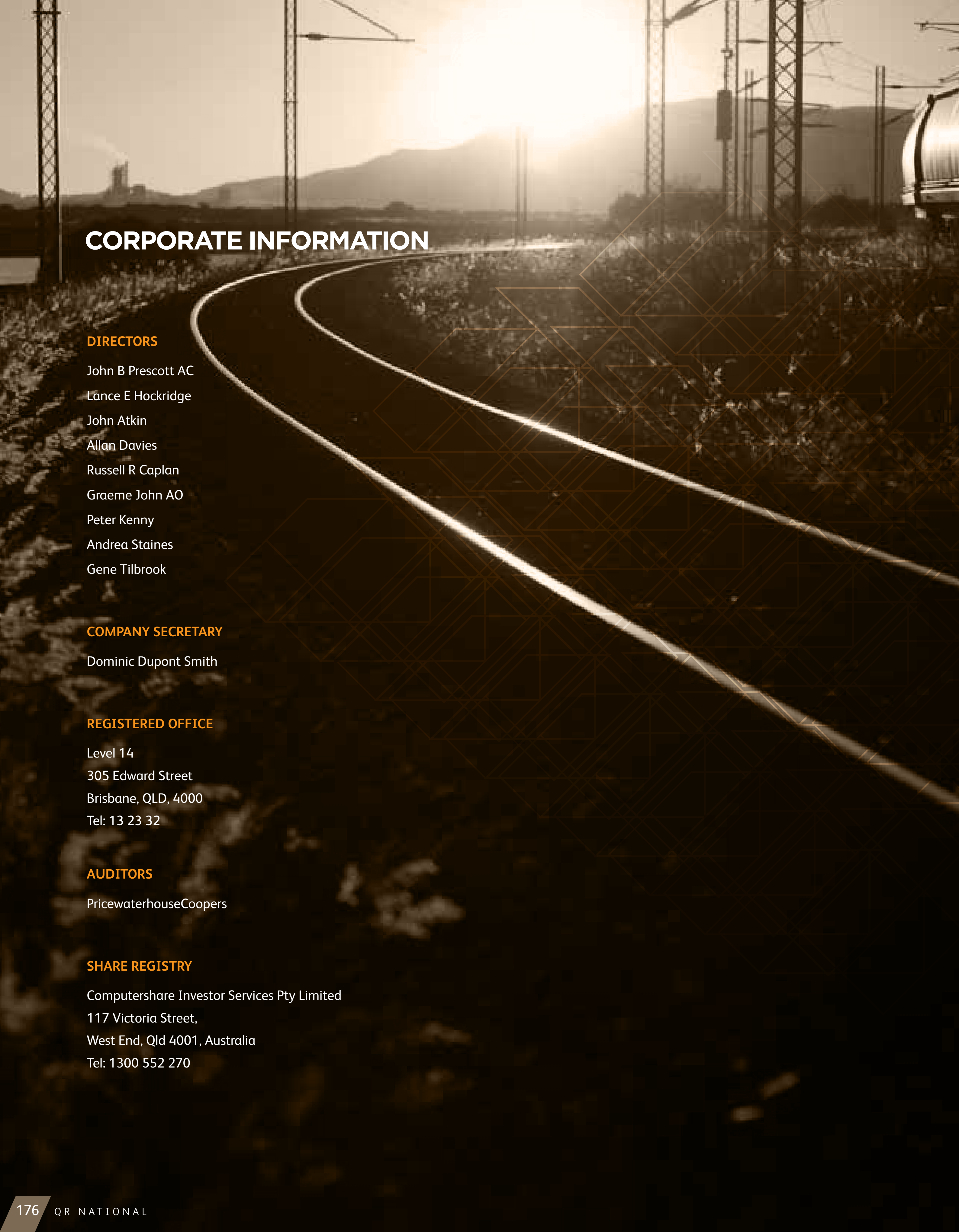
Lindsay Woodland
SVP and Head of Investor Relations
Telephone: +61 7 3235 5451
investor.relations@qrnational.com.au

ASX code: QRN

CONTACT DETAILS

QR National
GPO Box 456
Brisbane, Qld, 4001

For general enquiries please call 13 23 32 within Australia
If you are calling from outside Australia, please dial +61 7 3235 5555
www.qrnational.com.au



CORPORATE INFORMATION

DIRECTORS

John B Prescott AC

Lance E Hockridge

John Atkin

Allan Davies

Russell R Caplan

Graeme John AO

Peter Kenny

Andrea Staines

Gene Tilbrook

COMPANY SECRETARY

Dominic Dupont Smith

REGISTERED OFFICE

Level 14
305 Edward Street
Brisbane, QLD, 4000
Tel: 13 23 32

AUDITORS

PricewaterhouseCoopers

SHARE REGISTRY

Computershare Investor Services Pty Limited
117 Victoria Street,
West End, Qld 4001, Australia
Tel: 1300 552 270

QR NATIONAL™
ANNUAL REPORT 2010–11

QR NATIONAL LIMITED
ACN 146 335 622