29 August 2011

QR National reports inaugural full year result

Highlights

- Underlying[1] EBIT $367 million up 35 per cent, compared in FY10
- Statutory EBIT of $205 million compared to a loss of $72 million in FY10
- Improved revenue quality from new and renegotiated contracts
- Transformation initiatives, net of redundancy payments, partly offset the impact of tonnages lost by floods
- Continued focus on cost management and operating efficiencies
- Significant progress on coal and iron ore growth projects
- 50% improvement in safety performance (LTIFR)

QR National today announced a 17 per cent improvement in underlying earnings before interest, tax, depreciation and amortisation (EBITDA) to $813 million and a 35 per cent increase in underlying earnings before interest and tax (EBIT) to $367 million for the year ended 30 June 2011. Statutory EBIT of $205 million was achieved compared to a loss of $72 million in FY10.

The Directors declared an unfranked dividend of 3.7 cents per share, which will be paid on 30 September 2011 to shareholders on the register at the record date of 8 September 2011.

Full year ended 30 June QR National Group	2011 $'m	2010 $'m	Change %
Revenue	3,294	2,973	11
Underlying EBITDA	813	696	17
Underlying EBIT	367	272	35
Statutory EBIT	205	(72)	>100
Statutory NPAT	350	(222)	>100
Statutory Operating Cash Flow	554	225	>100
Statutory EPS (cents per share)	14.94	(9.97)	>100
Final dividend (cents per share)	3.7c	n/a	n/a

QR National Managing Director & CEO Lance Hockridge said the increase in underlying earnings was a solid outcome for QR National's first full year profit result, given the impact of Queensland's floods on haulage volumes.

"The floods impacted heavily on Queensland coal production and many of our customers have experienced slower than expected recovery of coal supplies. The wet weather contributed to a 37 million tonne reduction in coal haulage volumes compared to Offer Document expectations."

[1] 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.

"Importantly, the company gained momentum in its transformation program with a focus on improved revenue quality, cost management and operational efficiencies, enabling a partial offset of the impact of the reduced coal haulage.

"Conversion of legacy contracts in financial year 2011 into stronger commercially structured contracts advanced ahead of expectations, covering 29% of contracted tonnages. Furthermore, we transported 35% of actual tonnages at higher rates during the year as the mix of railings shifted after the flood event and customers took advantage of incentive arrangements in contracts.

"The company signed long-term coal contracts during the financial year for new business in excess of 26 million tonnes per annum with a total revenue value of more than $1.6 billion.

"We have also advanced the iron ore growth strategy in Western Australia in line with our commitments, with tonnages on track for trebling to around 30 million tonnes by financial year 2014 under new and existing contracts.

"Voluntary redundancy arrangements, which resulted in more than 660 employees leaving the company during the year had an immediate impact and continues to deliver ongoing cost reductions.

"The company's campaign to improve safety performance led to a 50 per cent reduction in the lost time injury frequency rate during the financial year, and also enabled greater operating discipline and enhanced business performance," Mr Hockridge said.

Progress on growth projects

Mr Hockridge said QR National had progressed construction of large-scale growth projects valued at approximately $1.5 billion during the year, including the Goonyella to Abbot Point Expansion ($1.1bn) the Hay Point Expansion ($185m) and the Blackwater Electrification Upgrade ($195m).

"We're executing our strategy and delivering major capital projects crucial to Australia's coal export industry, on time and on budget," he said.

"Collectively, these projects will inject more than 43 million tonnes per annum of new rail infrastructure capacity into the Central Queensland coal network, taking network capacity to more than 275 million tonnes by early 2014.

"The GAP expansion remains on budget and on track for a January 2012 opening and the Blackwater electrification project is scheduled to be delivered six months early in June 2012."

Divisional Performance

Underlying EBIT	FY11 $'m	FY10 $'m	Change $'m	Change %
Network Services	285	277	8	3
Coal	159	224	-65	-29
Freight	31	(96)	127	>100
Other	(108)	(133)	25	-19
Total	367	272	95	35

QR National Network Services

Full year revenue of $1.2 billion and underlying EBIT of $284.7 million were up on the prior year by 11 per cent and 3 per cent respectively.

The improvement in revenue reflects increased activity in Rollingstock Services and the securing of new maintenance contracts. The impact of record rainfall reduced railings across the network to 164 mtpa, down 12 per cent on the prior year.

Reduced revenues for track access will be recovered through the revenue cap mechanism in 2013 subject to regulatory approval.

QR National Coal

While volumes and Net Tonne Kilometres were weaker due to the record wet weather, revenue was broadly in line with the previous year at $1.7 billion. This was due to improved revenue margins from the renegotiation of contracts.

QR National Coal is continuing to deliver on a range of productivity improvements, including payload gains of three per cent per train in the two largest coal systems, Goonyella and Blackwater, creating greater system capacity and delivering an extra 3.5 million tonnes during financial year 2011 using existing resources.

In NSW, strong performance continued with the early introduction of new trains in the Hunter Valley allowing QR National to take advantage of additional spot tonnes in the market as well as delivering on contracted tonnage growth.

QR National Freight

Despite extreme weather conditions across Australia impacting the business, revenue of $1.3 billion was up 11 per cent, on the prior year. This included revenue growth in Intermodal, the iron ore business in Western Australia and the Transport Services Contract (TSC) with the Queensland Government for regional and livestock services in Queensland.

Underlying EBIT grew by $126.5 million, to $30.6 million. Capital expenditure grew from $89 million to $197.8 million to support iron ore growth projects.

Capital Investment

Company-wide capital investment during the year totalled $1.4 billion, including $460 million on the rail infrastructure expansion and $256 million in above-rail coal and iron ore rollingstock assets.

Capital Management

Underlying operating cash flow was of $527 million for the year. Net debt at 30 June 2011 was $686 million with $2.17 billion of undrawn facilities available to fund future growth.

Outlook

Mr Hockridge said QR National expected continued growth from the resources and bulk commodity sectors in the 2012 financial year, but remained cautious in the short-term on the speed of recovery of coal haulage volumes.

“Softer coal haulage volumes in Queensland have persisted into the first quarter, with customers continuing to report a delayed return to full production levels. Year-to-date we have seen coal railings in Queensland 18 per cent below volumes for the same period last year,” he said.

“While the rate of improvement for the full year remains uncertain, as coal supplies increase over the months ahead we would expect there would be opportunities to maximise tonnages, and we have brought forward both maintenance and capital expenditure to underpin and grow throughput capability.

“On the upside, revenue quality is improving as we convert business to new form contracts and the company continues to derive efficiency gains and cost improvements from the ongoing transformation program across the business.

“Importantly, the company is in a robust financial position heading into the new financial year. We have a strong balance sheet, low gearing and solid opportunities for revenue growth and cost reduction.

“QR National expects to spend approximately $1.6 billion on capital projects in financial year 2012 to support the anticipated growth in our key markets.

“In early 2012 we’re also bringing on line significant new business with the GAP rail infrastructure expansion in Queensland and iron ore haulage services for the Karara mine in Western Australia.

“Through the first half of this financial year we’re looking to advance a proposal to restructure the business along functional lines, as we seek to achieve a more customer-focussed, cost efficient business that will deliver greater value for our customers and our shareholders.

“A restructure was foreshadowed in April when we announced that 660 employees would leave the company under voluntary redundancy arrangements.

“The changes involve a move from a business-unit structure towards one structured on functional roles, much like the high-performing class one railroads in North America. Implementation of the high-level functional structure will be followed by further redesign and restructuring within the business subject to consultation with employees and employee representatives. We would expect to be in a position to provide an update of the changes at the time of our Annual General Meeting.

“In combination with other work, this delivers the required commercial and customer-focussed behaviours in the company and support the acceleration of transformation.

“In all the circumstances this has been a year of great change yet great progress for our Company. I recognise the tremendous effort of a wide range of advisers together with our employees in the lead-up to the IPO. I also acknowledge the confidence that new shareholders have placed in the Company.

“The floods and cyclones have had a material impact on our Company, including very many of our employees who were personally affected by those dramatic events. The quality of the response speaks volumes for the capability of our Company, for which I pay tribute to all our people. Together we look forward to continuing to put that experience and capability to work for our shareholders and other stakeholders.”

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