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23 August 2012

ASX Market Announcements
ASX Limited
20 Bridge Street
Sydney NSW 2000

BY ELECTRONIC LODGEMENT

QR National – Results for Announcement to the Market

Please find attached for immediate release a copy of the Company's Financial Report including Appendix 4E for the full year period ended 30 June 2012.

Yours faithfully
QR National

Dominic D Smith
SVP & Company Secretary

QR National Limited
Appendix 4E
Full-Year Financial Results
For the year ended 30 June 2012

QR National Limited
ABN 14 146 335 622

Reporting period: Year ended 30 June 2012
Previous corresponding period: Year ended 30 June 2011

Results for announcement to the market

	Increase/Decrease	%	To $m
Revenue from ordinary activities	Increase	10	3,504.0
Profit from ordinary activities after tax attributable to members	Increase	22	440.9
Net profit for the period attributable to members	Increase	22	440.9

Review of Operations

QR National delivered a strong result in financial performance in 2011-12 compared to the prior year, despite the impact of flat coal volumes. Coal volumes during the year were impacted by several factors including the slow recovery from Queensland's FY11 floods, ongoing industrial action at BHP Mitsubishi Alliance (BMA)'s Queensland mines, lower than anticipated customer demand for coal rail transport and wet weather, which led to the temporary closure of coal systems. Given these conditions, the strong full year financial result demonstrated QR National's resilience in challenging operating conditions, as well as the significant upside from the transformation and growth strategy.

Total revenue rose to $3.6 billion for the reporting period to 30 June 2012, a 10 per cent increase over the prior year (FY11: $3.3 billion). The combination of revenue growth with cost outs and efficiency gains contributed to a 25 per cent improvement in underlying[1] Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) to $1,048 million (FY11: $840 million) and underlying[1] Earnings Before Interest and Tax (EBIT) increased by 52 per cent to $584 million (FY11: $383 million). Statutory profit after tax was $441 million and statutory EBIT of $593 million was achieved.

Total assets were $10.0 billion, and earnings per share was 18.1 cents (FY11: 15.4 cents). The Company's strong cash flow has supported our major investment program, with capital expenditure totalling $1.2 billion for the year. The Company's net debt position as at 30 June 2012 was $1.1 billion, reflecting a net gearing ration of 13 per cent. Refer to note 24(f) of the financial report for further details of the Company's net debt position.

A review of the results for the financial year by segment is set out below:

Coal
A range of negative factors translated into weaker than expected haulage volumes of 186 million tonnes for the Coal division. Despite weaker volumes, higher revenue rates increased revenue by 8 per cent to $1.8 billion and revenue per net tonne kilometre (NTK) grew by 5 per cent. Underlying[1] EBIT increased by 62 per cent, or $98 million, to $257.0 million due to stronger above rail revenue rates, receipt of contract performance payments, reduced labour costs and reduced maintenance costs.

The continuing renegotiation of legacy contracts was progressed during 2011-12, with coal volumes under new form contracts now at approximately 38 per cent. These new contracts provide 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.

[1] The Group's underlying results differs from the statutory results. The exclusion of certain items allows a more appropriate and meaningful analysis of the Group's underlying performance on a comparative basis.

Network Services
Network Services contributed full year revenue of $1.2 billion and underlying[1] EBIT of $341.4 million, up on the prior comparable period by 3 per cent and 13 per cent respectively.

Work continued on a number of strategic growth projects to position the Company to capture the forecasted increase in coal production over the coming years, with capital expenditure for the year totalling $663 million. During the year the Company delivered the $1.1 billion Goonyella to Abbot Point (GAP) Expansion Project, the largest single growth project on the Central Queensland Coal Network. Construction also began on the Wiggins Island Rail Project.

Freight
Total revenue in the Freight business grew 19 per cent in 2011-12, or $247 million, to $1.5 billion, over the prior year. Underlying[1] EBIT grew by 226 per cent, or $69 million to $99.9 million. This result included sustained growth from iron ore haulage in Western Australia and the intermodal business and the ongoing Transport Services Contract with the Queensland Government for the provision of rail freight services to Queensland customers.

Dividends

Note 26 of the financial report sets out the details of the dividends paid and declared during the year.

The Board of Directors determined on the 23 August 2012 that an unfranked final dividend of 4.6 cents per share will be paid by QR National Limited on the 28 September 2012. The Record Date for entitlement to dividend is 7 September 2012. The dividend of $112.2 million was not recognised as a liability at 30 June 2012.

Net tangible assets

	30 June 2012	**30 June 2011**
Net tangible assets ($'000)	7,277,685	7,001,527
Ordinary Shares (000)	2,440,000	2,440,000
Net tangible asset backing per ordinary share ($)	2.98	2.87

Entities over which control was gained or lost during the period

The following entities were incorporated/established during the year:

	Date of incorporation / establishment
QRN Moorebank Holdings Pty Ltd	18 May 2012
QRN Moorebank Pty Ltd	18 May 2012
QRN Moorebank Unit Trust	24 May 2012

Details of associates and joint ventures

Note 30 of the financial report sets out details of associates and joint ventures.

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

Audit

This report is based on accounts which have been audited. The audit report, which is unmodified, will be made available with the Company's Annual Report.

[1] The Group's underlying results differs from the statutory results. The exclusion of certain items allows a more appropriate and meaningful analysis of the Group's underlying performance on a comparative basis.

Financial Report

for the year ended 30 June 2012

ABN: 14 146 335 622

These financial statements are the consolidated financial statements of the consolidated entity consisting of QR National Limited and its subsidiaries ("Group"). The financial statements are presented in Australian dollars.

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

QR National Limited
Level 17
175 Eagle Street
BRISBANE, QLD 4000

A description of the nature of the consolidated entity's operations and its principal activities are included in the review of operations and activities and in the Directors' Report, which are not part of these financial statements.

The financial statements were authorised for issue by the Directors on 23 August 2012. The Directors have the power to amend and reissue the financial statements.

Through the use of the internet, we have ensured that our corporate reporting is timely and complete. All press releases, financial reports and other information are available at our Investor Centre on our website; **www.qrnational.com.au**.

Consolidated income statement 1
Consolidated statement of comprehensive income 1
Consolidated balance sheet 2
Consolidated statement of changes in equity 3
Consolidated statement of cash flows 4

Notes to the consolidated financial statements 5

1 Summary of significant accounting policies 5
2 Critical accounting estimates and judgements 16
3 Financial risk management 17
4 Segment information 21
5 Revenue 24
6 Other income 24
7 Expenses 25
8 Income tax expense 26
9 Cash and cash equivalents 26
10 Trade and other receivables 27
11 Inventories 27
12 Derivative financial instruments 28
13 Other assets 28
14 Investments accounted for using the equity method 28
15 Property, plant and equipment 29
16 Intangible assets 30
17 Other financial assets 30
18 Deferred tax assets 30
19 Trade and other payables 31
20 Borrowings 31
21 Provisions 31
22 Other liabilities 33
23 Deferred tax liabilities 33
24 Contributed equity 34
25 Reserves 34
26 Dividends 35
27 Key management personnel disclosures 35
28 Contingencies 37
29 Commitments 38
30 Interests in joint ventures and associates 39
31 Related party transactions 40
32 Business combination 41
33 Deed of cross guarantee 41
34 Remuneration of auditors 43
35 Reconciliation of profit after income tax to net cash inflow from operating activities 43
36 Earnings per share 44
37 Share-based payments 44
38 Parent entity financial information 46
39 Events occurring after the reporting period 46

Directors' declaration 46

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 30 JUNE 2012

	Notes	2012 $m	2011[1] $m
Revenue from continuing operations	5	**3,504.0**	3,196.7
Other income	6	**130.1**	96.0
Consumables	7	**(1,400.1)**	(1,327.2)
Employee benefits expense	7	**(1,132.7)**	(1,220.5)
Depreciation and amortisation expense	7	**(463.7)**	(457.2)
Other expenses	7	**(41.9)**	(62.8)
Finance costs	7	**(41.5)**	(141.2)
Share of net profit of associates and joint venture partnership accounted for using the equity method		**0.1**	-
Profit before income tax		**554.3**	83.8
Income tax (expense)/benefit	8	**(113.4)**	277.1
Profit for the year		**440.9**	360.9

		Cents	Cents
Earnings per share for profit attributable to the ordinary equity holders of the Company:			
Basic and diluted earnings per share	36	**18.1**	15.4

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 2012

	Notes	2012 $m	2011[1] $m
Profit for the year		**440.9**	360.9
Other comprehensive income			
Changes in the fair value of cash flow hedges recognised in equity	25(a)	**(1.4)**	(2.3)
Changes in the fair value of cash flow hedges recognised in the income statement	25(a)	**1.8**	1.9
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**	**(0.3)**
Total comprehensive income for the year		**441.2**	**360.6**

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

(1) Refer to note 1(q) for explanations of retrospective adjustments recognised as a result of a change in accounting policy.

CONSOLIDATED BALANCE SHEET
AS AT 30 JUNE 2012

	Notes	2012 $m	2011[1] $m
ASSETS			
Current assets			
Cash and cash equivalents	9	**98.8**	117.1
Trade and other receivables	10	**548.1**	473.5
Inventories	11	**215.8**	177.6
Derivative financial instruments	12	**0.1**	21.3
Other assets	13	**8.0**	10.6
Assets classified as held for sale	15	**8.7**	-
Total current assets		**879.5**	800.1
Non-current assets			
Derivative financial instruments	12	**-**	3.5
Inventories	11	**8.7**	20.7
Property, plant and equipment	15	**9,037.2**	8,325.2
Intangible assets	16	**16.6**	24.9
Investments accounted for using the equity method	14	**78.0**	0.5
Other financial assets	17	**-**	36.3
Other assets		**0.5**	-
Total non-current assets		**9,141.0**	8,411.1
Total assets		**10,020.5**	9,211.2
LIABILITIES			
Current liabilities			
Derivative financial instruments	12	**1.3**	27.3
Trade and other payables	19	**349.6**	310.2
Provisions	21	**371.4**	320.2
Other liabilities	22	**37.5**	36.2
Current tax liabilities		**7.9**	-
Total current liabilities		**767.7**	693.9
Non-current liabilities			
Derivative financial instruments	12	**2.0**	3.8
Provisions	21	**81.3**	81.3
Borrowings	20	**1,201.6**	803.2
Deferred tax liabilities	23	**363.5**	257.9
Other liabilities	22	**310.2**	344.7
Total non-current liabilities		**1,958.6**	1,490.9
Total liabilities		**2,726.3**	2,184.8
Net assets		**7,294.2**	7,026.4
EQUITY			
Contributed equity	24(b)	**6,119.1**	6,111.9
Reserves	25(a)	**(2.0)**	(2.3)
Retained earnings		**1,177.1**	916.8
Total equity		**7,294.2**	7,026.4

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

(1) Refer to note 1(q) for explanations of retrospective adjustments recognised as a result of a change in accounting policy.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2012

		Attributable to owners of QR National Limited			
	Notes	Contributed equity $m	Reserves $m	Retained profits $m	Total equity $m
Balance at 1 July 2010		2,067.0	(2.0)	619.0	2,684.0
Impact of change in accounting policy (net of tax)	1(q)	–	–	23.3	23.3
Restated total equity at the beginning of the financial year		**2,067.0**	**(2.0)**	**642.3**	**2,707.3**
Profit for the year as reported in 2011 financial statements		–	–	349.5	349.5
Impact of change in accounting policy (net of tax)	1(q)	–	–	11.4	11.4
Restated profit for the year		–	–	360.9	360.9
Other comprehensive income		–	(0.3)	–	(0.3)
Total comprehensive income for the year		**–**	**(0.3)**	**360.9**	**360.6**
Transactions with owners in their capacity as owners:					
Capital distribution to Queensland Rail Limited	24(c)	(332.3)	–	–	(332.3)
Capital distribution to State of Queensland	24(c)	(23.0)	–	–	(23.0)
Capital contribution from State of Queensland	24(b)	4,397.3	–	–	4,397.3
Dividends provided for or paid	26(a)	–	–	(86.4)	(86.4)
Share-based payments	24(b)	2.9	–	–	2.9
		4,044.9	–	(86.4)	3,958.5
Balance at 30 June 2011		**6,111.9**	**(2.3)**	**916.8**	**7,026.4**
Balance at 1 July 2011		6,111.9	(2.3)	916.8	7,026.4
Profit for the year		–	–	440.9	440.9
Other comprehensive income		–	0.3	–	0.3
Total comprehensive income for the year		**–**	**0.3**	**440.9**	**441.2**
Transactions with owners in their capacity as owners:					
Dividends provided for or paid	26(a)	–	–	(180.6)	(180.6)
Share-based payments	24(b)	7.2	–	–	7.2
Balance at 30 June 2012		**6,119.1**	**(2.0)**	**1,177.1**	**7,294.2**

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

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2012

	Notes	2012 $m	2011[1] $m
Cash flows from operating activities			
Receipts from customers		**3,884.3**	3,665.8
Interest received		**2.5**	3.2
Payments to suppliers and employees		**(2,881.7)**	(2,847.1)
Interest and other costs of finance paid		**(80.7)**	(234.5)
Income taxes paid		**–**	(2.3)
Net cash inflow from operating activities	35	**924.4**	585.1
Cash flows from investing activities			
Payments for acquisition of business, net of cash acquired	32	**–**	(12.3)
Proceeds from sale of property, plant and equipment		**45.8**	21.3
Payments for property, plant and equipment		**(1,156.3)**	(1,352.0)
Payments for investment in associates		**(41.2)**	–
Payments for available-for-sale financial assets		**–**	(0.5)
Proceeds from sale of business		**–**	2.1
Net cash (outflow) from investing activities		**(1,151.7)**	(1,341.4)
Cash flows from financing activities			
Proceeds from borrowings		**390.0**	1,423.3
Repayment of borrowings		**–**	(471.2)
Dividends paid to Company's shareholders	26(a)	**(180.6)**	(86.4)
Net cash inflow from financing activities		**209.4**	865.7
Net (decrease) increase in cash and cash equivalents		**(17.9)**	109.4
Cash and cash equivalents at the beginning of the financial half-year		**116.7**	7.3
Cash and cash equivalents at end of year	9	**98.8**	116.7

Given the short-term nature of the drawdowns and repayments, cash flows in relation to the Syndicated Debt Facility (effective from November 2010) are presented on a net basis in the cash flows from financing activities.

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

(1) Refer to note 1(q) for explanations of retrospective adjustments recognised as a result of a change in accounting policy.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
30 JUNE 2012

1 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the consolidated entity consisting of QR National Limited ("the company") and its subsidiaries, and together are referred to as the "Group" or "QR National".

(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 and the Corporations Act 2001. QR National Limited is a for-profit entity for the purpose of preparing the financial statements.

The financial statements were approved for issue by the Directors on 23 August 2012. The Directors have the power to amend and reissue the financial statements.

(i) 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").

(ii) 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 2011. There has been no effect on the financial performance or position of the Group from the adoption of these standards and interpretations.

(iii) 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 financial assets and liabilities (including derivative instruments) at fair value.

(iv) 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.

(b) Principles of consolidation

(i) Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of the Group 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 deconsolidated from the date that control ceases. Transactions between continuing and discontinued operations are treated as external from the date the operation was discontinued.

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

(ii) Associates

Associates are all entities over which the Group has significant influence but not control or joint control, generally accompanying a shareholding of between 20 % and 50 % of the voting rights. Investments in associates are accounted for using the equity method of accounting, after initially being recognised at cost. The Group's investment in associates includes goodwill identified on acquisition. Details of investment in associates are set out in note 30(d).

The Group's share of its associates' post-acquisition profits or losses is recognised in profit or loss, and its share of post-acquisition other comprehensive income is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Dividends receivable from associates are recognised as reduction in the carrying amount of the investment.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

(iii) 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 30(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 30(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").

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
30 JUNE 2012

1 Summary of significant accounting policies (continued)

(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 Limited'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 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.

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, is 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 that provide construction and engineering services that 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 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 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 ("DTC"). Recognition of DTC 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).

Other services revenue

Revenue includes Transport Service Contract ("TSC") payments received from Queensland 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 the revenue can be measured reliably on a 'stage of completion' basis over the term of the agreement. Refer to note 5 for details related to TSC revenue recognised in the financial statements.

(ii) Other revenue

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30 JUNE 2012

1 Summary of significant accounting policies (continued)

(e) Revenue recognition (continued)

(ii) Other revenue (continued)

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 those with the costs that they are intended to compensate.

(iv) Dividends

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

(v) Fuel Rebates

Fuel rebates are recognised as revenue during the period in which they relate.

(g) Income tax

The income tax expense or revenue 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 for the 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 in the countries where the Group's subsidiaries and associates operate and generate taxable income. 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.

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 foreign operations 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.

(h) Leases

Leases on property, plant and equipment

Leases of property, plant and equipment, 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 leases 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 short-term and long-term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
30 JUNE 2012

1 Summary of significant accounting policies (continued)

(h) Leases (continued)

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 lease arrangement are 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, and the amount of any non-controlling interest in the acquiree over the fair value 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 they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate the carrying amount may not be recoverable.

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, 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 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 include 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 seven 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
30 JUNE 2012

1 Summary of significant accounting policies (continued)

(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.

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 period, which are classified as non-current assets. Loans and receivables are included in trade and other receivables (note 10) in the balance sheet.

(iii) Available-for-sale financial assets

Available-for-sale financial assets, comprising principally marketable equity securities, 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 the investment matures or management intends to dispose of the investment within 12 months of the end of the reporting period. 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 being 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) are 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
30 JUNE 2012

1 Summary of significant accounting policies (continued)

(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 is 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 hedge

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.

(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 (i.e. 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

(i) 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

Leases of property, plant and equipment 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
30 JUNE 2012

1 Summary of significant accounting policies (continued)

(p) Property, plant and equipment (continued)

(i) Methodology for valuation of fixed assets (continued)

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, 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.

(ii) 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.

(iii) 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, infrastructure, rollingstock, plant and equipment 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.

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

– Owned and leased infrastructure, including:	
Tracks	30–45 years
Track turnouts	20–25 years
Ballast	8–20 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	25–35 years
Wagons	25–35 years
– Plant and equipment	3–20 years
– Leased property	3–40 years

The depreciation and amortisation rates are reviewed annually and adjusted if appropriate, refer note 2(iv). 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) Voluntary change in accounting policy

The financial statements have been prepared on the basis of a retrospective application of a voluntary change in accounting policy relating to mechanised Ballast undercutting.

Ballast is the layer of crushed rock or gravel upon which the railway track is laid and ballast undercutting is the renewal of this ballast that supports the track.

The new ballast undercutting accounting policy is to capitalise all mechanised ballast undercutting costs as separate identifiable assets with a useful life of 8 years (20 years for spur line).

The previous accounting policy was to charge ballast undercutting expenditure against the profit and loss as incurred. The new accounting policy was adopted on 1 July 2011 and has been applied retrospectively from 1 September 2008 onwards, as it was not practicable to apply for periods prior to 1 September 2008.

The revised policy will now align with global industry practice and hence makes benchmark comparisons with industry peers more relevant and meaningful.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30 JUNE 2012

1 Summary of significant accounting policies (continued)

(q) Voluntary change in accounting policy (continued)

The tables below show the impact of the change in accounting policy:

	30 June 2011 $m	Increase/ (Decrease) $m	30 June 2011 (Restated) $m	30 June 2010 $m	Increase/ (Decrease) $m	30 June 2010 (Restated) $m
Consolidated balance sheet (extract)						
Property, plant and equipment	8,275.7	49.6	8,325.2	7,383.8	33.3	7,417.0
Deferred tax liabilities	(463.5)	(14.9)	(478.4)	(693.3)	(10.0)	(703.3)
Net assets	**6,991.7**	**34.7**	**7,026.4**	**2,684.0**	**23.3**	**2,707.3**
Retained earnings	882.1	34.7	916.8	619.0	23.3	642.3
Total equity	**6,991.7**	**34.7**	**7,026.4**	**2,684.0**	**23.3**	**2,707.3**

Balance sheet items, other than those mentioned above, were not affected by the change in accounting policy.

30 June 2011	2011 $m	Profit Increase/ (Decrease) $m	2011 (Restated) $m
Consolidated income statement (extract)			
Depreciation and amortisation expense	(446.4)	(10.8)	(457.2)
Consumables	(1,358.0)	30.8	(1,327.2)
Other expenses	(60.7)	(2.1)	(62.8)
Other income	97.6	(1.6)	96.0
Profit before income tax	67.5	16.3	83.8
Income tax (expense)/benefit	282.0	(4.9)	277.1
Profit for the year	349.5	11.4	360.9

Basic and diluted earnings per share for the prior year have also been restated. The amount of the adjustment for both basic and diluted earnings per share was an increase of 0.5 cents per share.

The impact of the change in accounting policy on the current year is as follows:

30 June 2012	Before voluntary change in policy $m	Increase/ (Decrease) $m	2012 $m
Consolidated balance sheet (extract)			
Property, plant and equipment	9,022.2	15.0	9,037.2
Deferred tax liabilities	(534.1)	(4.5)	(538.6)
Net assets	**7,283.7**	**10.5**	**7,294.2**
Retained earnings	1,166.6	10.5	1,177.1
Total equity	**7,283.7**	**10.5**	**7,294.2**

Balance sheet items, other than those mentioned above, were not affected by the change in accounting policy.

30 June 2012	Before voluntary change in policy $m	Profit Increase/ (Decrease) $m	2012 $m
Consolidated income statement (extract)			
Depreciation and amortisation expense	(447.6)	(16.1)	(463.7)
Consumables	(1,434.8)	34.7	(1,400.1)
Other expenses	(38.3)	(3.6)	(41.9)
Profit before income tax	539.3	15.0	554.3
Income tax (expense)/benefit	(108.9)	(4.5)	(113.4)
Profit for the year	430.4	10.5	440.9

The change in accounting policy has resulted in both the basic and diluted earnings per share increase by 0.4 cents per share.

(r) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
30 JUNE 2012

1 Summary of significant accounting policies (continued)

(r) Intangible assets (continued)

(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 11 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 6 years.

(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.

(s) 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.

(t) 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.

(u) 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.

(v) 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 a Voluntary Redundancy Scheme or Medical Separation;
- 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
30 JUNE 2012

1 Summary of significant accounting policies (continued)

(v) Employee benefits (continued)

(iv) Share-based payments

The fair value of rights granted under the Performance Rights 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.

The Group settles the share-based compensation by making on-market purchases of the company's ordinary shares.

(v) Bonus plans

The Group recognises a liability and an expense for bonuses, based on a formula that takes into consideration the Group 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.

(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 are 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.

(w) 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.

(x) 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.

(y) Earnings per share

(i) Basic earnings per share

Basic earnings per share are 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.

(z) 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 Australian Tax Office ("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.

(aa) Rounding of amounts

The Company is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the 'rounding off' of amounts in the 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
30 JUNE 2012

1 Summary of significant accounting policies (continued)

(ab) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2012 reporting periods, and have not yet been applied in the financial statements. The Group's assessment of the impact of these new standards and interpretations is set out below.

(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 accounting for its available-for-sale financial assets, since *AASB 9* only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading.

There will be no impact on the Group 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. The derecognition rules have been transferred from *AASB 139 Financial Instruments: Recognition and Measurement* and have not been changed. The Group does not intend to adopt the new standard before their operative date. They would therefore be first applied in the financial statements for the annual reporting period ending 30 June 2014.

(ii) *AASB 10 Consolidated Financial Statements, AASB 11 Joint Arrangements, AASB 12 Disclosure of Interests in Other Entities,* revised AASB 127 *Separate Financial Statements and* AASB 128 *Investments in Associates and Joint Ventures and AASB 2011-7 Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards* (effective 1 January 2013)

In August 2011, the Australian Accounting Standards Board (AASB) issued a suite of five new and amended standards, which address the accounting for joint arrangements, consolidated financial statements and associated disclosures.

AASB 10 replaces all of the guidance on control and consolidation in *AASB 127 Consolidated and Separate Financial Statements,* and *Interpretation 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 a substantial impact on its composition.

AASB 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 a 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. *AASB 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.

AASB 12 sets out the required disclosures for entities reporting under the two new standards, *AASB 10* and *AASB 11*, and replaces the disclosure requirements currently found in *AASB 128*. 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.

AASB 127 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 *AASB 128* 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 intend 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.

(iii) *AASB 13 Fair Value Measurement* and *AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB 13* (effective 1 January 2013)

AASB 13 was released in September 2011. It 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.

(iv) Revised *AASB 119 Employee Benefits, AASB 2011-10 Amendments to Australian Accounting Standards* arising from *AASB 119* (September 2011) and *AASB 2011-11 Amendments to AASB 119 (September 2011) arising from Reduced Disclosure Requirements* (effective 1 January 2013)

In September 2011, the AASB released a revised standard on accounting for employee benefits. It requires the recognition of all remeasurements of defined benefit liabilities/assets immediately in other comprehensive income (removal of the so called 'corridor' method) and the calculation of a net interest expense or income by applying the discount rate to the net defined benefit liability or asset. This replaces the expected return on plan assets that is currently included in profit or loss. The standard also introduces a number of additional disclosures for defined benefit liabilities/assets and could affect the timing of the recognition of termination benefits. It also changes the distinction between short and long-term benefits for measurement purposes, to be based on when payment is expected to be made, not when payment can be demanded. Since QR National Limited does not have any defined benefit obligations, the amendments are not expected to have any significant impact on the Group's financial statements. The Group does not intend to adopt the new standard before their operative date, which means that it would be first applied in the annual reporting period ending 30 June 2014.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
30 JUNE 2012

1 Summary of significant accounting policies (continued)

(ab) New accounting standards and interpretations (continued)

(v) *AASB 2011-9 Amendments to Australian Accounting Standards - Presentation of Items of Other Comprehensive Income* (effective 1 July 2012)

In September 2011, the AASB made an amendment to AASB 101 Presentation of Financial Statements which 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. This will not affect the measurement of any of the items recognised in the balance sheet or the profit or loss in the current period. The group intends to adopt the new standard from 1 July 2012.

(vi) *AASB 2012-3 Amendments to Australian Accounting Standard - Offsetting Financial Assets and Financial Liabilities and AASB 2012-2 Disclosures - Offsetting Financial Assets and Financial Liabilities* (effective 1 January 2014 and 1 January 2013 respectively)

In June 2012, the AASB approved amendments to the application guidance in *AASB 132 Financial Instruments:* Presentation, to clarify some of the requirements for offsetting financial assets and financial liabilities in the balance sheet. These amendments are effective from 1 January 2014. They are unlikely to affect the accounting for any of the entity's current offsetting arrangements. However, the AASB has also introduced more extensive disclosure requirements into *AASB 7* which will apply from 1 January 2013. When they become applicable, the Group will have to provide a number of additional disclosures in relation to its offsetting arrangements. The Group intends to apply the new rules for the first time in the financial year commencing 1 July 2013.

(vii) *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 removed the individual Key Management Personnel 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 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.

(ac) Parent entity financial information

The financial information for the parent entity, QR National Limited, disclosed in note 38, has been prepared on the same basis as the consolidated financial statements, except as set out below.

(i) Investments in subsidiaries, associates, and joint-venture entities

Investments in subsidiaries, associates, and joint-venture entities 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.

(ii) 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 has notified the Australian Taxation Office that it has formed a tax consolidated group, applying from 22 November 2010.

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.

(iii) 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 over page.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
30 JUNE 2012

2 Critical accounting estimates and judgements (continued)

(i) Impairment

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 further details on the carrying amounts of non-current assets subject to impairment testing.

(ii) Employee benefits

The determination of the provisions required is dependent on specific assumptions, including expected wage increases, length of employee service, and bond rates. Refer to note 21 for further information.

(iii) Taxation

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

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 18 and 23 for carrying amounts of deferred tax assets and deferred tax liabilities respectively.

(iv) 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.

Revision of useful lives of plant and equipment

During the year, the useful lives of rollingstock were adjusted upwards from 25 to 30 years to more accurately reflect the useful lives of these assets, as part of a management review (refer to note 1p(iii)). There has also been a reduction in the value ascribed to the initial overhaul component of rollingstock used within the Coal and Freight businesses. The overhaul component is depreciated over a useful life of 15 years. The change in accounting estimate has been applied with effect from 1 July 2011. The net effect of these changes for the year ended 30 June 2012 was a decrease in depreciation expense for the Group of $36.5 million. Assuming the assets are held until the end of their estimated useful lives, depreciation expensed will decrease by $36.5 million next financial year, however, the life over which depreciation is recognised will be extended.

The revised useful lives have been adopted following a detailed review and analysis of the current fleet, taking into consideration current and forecast operating statistics, detailed history of maintenance costs and overhaul profile.

(v) 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 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.

(vi) Strategic infrastructure projects

During the period, work continued on various significant infrastructure projects in relation to above and below rail development. For the year ended 30 June 2012, $42.3 million (2011: $nil) of costs were capitalised. Management's judgement has been applied to the extent to which capitalisation of these projects is appropriate. The application of this judgement will be re-assessed throughout the life of the projects.

These projects have significantly advanced since the half-year report, which includes announcements by the State of Queensland in respect of the rail corridor, announcements by the Group of a 25 mtpa expansion of the Goonyella to Abbot Point rail line, as well as customer announcements of joint agreements in respect of progressing the feasibility of those projects.

3 Financial risk management

The Group has exposure to a variety of financial risks, including market risk (foreign exchange risk, interest rate risk and fuel price risk), credit risk and liquidity risk. The Board approved Treasury Policy addresses the management of these risks using various financial instruments. Trading for speculation is strictly prohibited. Compliance with the Policy is monitored on an ongoing basis through regular reporting to the Board.

(a) Market risk

Market risk is the risk that adverse movements in 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. The Group measures market risk using cash flow at risk. The objective of risk management is to manage the market risks inherent in the business to protect profitability and 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. These transactions apply in large part to the US Dollar ("USD") and the Euro ("EUR").

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

	2012		2011	
	USD $m	EUR $m	USD $m	EUR $m
Cash and cash equivalents	**1.1**	**0.1**	1.2	0.2
Trade receivables	**–**	**–**	0.8	–
Net forward exchange contracts	**(8.8)**	**(5.1)**	(75.2)	(2.3)
Net exposures	**(7.7)**	**(5.0)**	(73.2)	(2.1)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
30 JUNE 2012

3 Financial risk management (continued)

(a) Market risk (continued)

(i) Foreign exchange risk (continued)

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. Such contracts are designated as cash flow hedges. Realised gains or losses on these contracts arise due to differences between the spot rates on settlement and the forward rates of the derivative contracts.

During the year, the net realised loss arising from foreign exchange hedging activities for the Group was $16.3 million (2011: loss of $15.4 million) as a result of the AUD appreciating above the average hedged rate. Of this net amount, a realised loss of $9.3 million (2011: loss of $17.2 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 loss of $7.0 million (2011: gain of $1.8 million) represents the ineffective portion of hedges and non designated derivatives, which has been recognised in other expenses.

(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 settlement and the forward price of the derivative contract.

During the year, the net realised gain arising from fuel hedging activities for the Group was $9.9 million (2011: gain of $3.0 million) as a result of actual fuel prices moving higher than the average hedged price. Of this net amount, a realised gain of $6.0 million (2011: $3.5 million) represents the effective portion of the hedges which has been recognised in diesel expense, and a realised gain of $3.9 million (2011: loss of $0.5 million) represents the ineffective portion of the hedges which has been recognised in other expenses.

As at the reporting date, both fuel commodity and fuel foreign exchange hedging derivatives were closed out due to the reduction in fuel at risk as a result of the shift to new form contracts.

(iii) Equity securities price risk

The Group was exposed to equity securities price risk in the prior period through its investment in an unlisted equity trust which is classified as an available-for-sale investment. In the current period, the investment has been classified as an associate following the acquisition of an additional 18 % interest in the unit trust (refer to note 14). 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 $nil (2011: $3.6 million).

(iv) 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. Borrowings issued at variable rates expose the Group to cash flow interest rate risk.

At the reporting date, the interest rate profile of the Group's interest bearing financial instruments was:

	30 June 2012		30 June 2011	
	Weighted average interest rate %	Balance $m	Weighted average interest rate %	Balance $m
Bank overdrafts and bank loans	**5.4%**	**1,220.0**	6.7 %	830.0
Interest rate swaps	**3.6%**	**(500.0)**	–	–
Net exposure to cash flow interest rate risk		**720.0**		830.0

Risk management

In order to protect against adverse interest rate movements, the Group enters into derivative contracts.

During the year, the net realised gain arising from interest rate hedging activities for the Group was $1.5 million (2011: nil) as a result of market interest rates closing higher than the average hedged rate. The total realised gain represents the effective portion of the hedges which has been recognised in interest expense.

The Group accounts for financial assets at fair value through profit or loss, and financial liabilities at amortised cost using the effective interest method.

(v) Sensitivity on foreign exchange, fuel price and interest rate risk

The following table summarises the gain/(loss) impact of reasonably possible changes in market risk, relating to existing financial instruments, on net profit and equity before tax. For the purpose of this disclosure, the following assumptions were used:

- 15 % (2011: 15 %) appreciation/depreciation of the AUD against the USD;
- 40 % (2011: 40 %) increase/decrease in the price of fuel;
- 100 basis points increase/decrease in interest rates;
- Sensitivity analysis assumes hedge designations and effectiveness test results as at 30 June 2012 remain unchanged;
- Sensitivity analysis is isolated for each risk assuming all other variables remain constant; and
- Sensitivity analysis on foreign currency rates and fuel indices represent current market conditions.

	Profit (before tax)		Equity (before tax)	
	2012 $m	2011 $m	2012 $m	2011 $m
15% movement in foreign currency rates				
15 % USD depreciation	**0.2**	1.0	**2.4**	9.5
15 % USD appreciation	**(0.1)**	(0.7)	**(1.8)**	(7.0)
40% movement in fuel indices				
40 % decrease per barrel in fuel indices	**–**	(0.6)	**–**	(13.6)
40 % increase per barrel in fuel indices	**–**	0.6	**–**	13.6
100bps movement in interest rates				
100 bps decrease in interest rates				
borrowings	**10.9**	8.3	**–**	–
derivatives	**–**	–	**(4.2)**	–
100 bps increase in interest rates				
borrowings	**(10.9)**	(8.3)	**–**	–
derivatives	**–**	–	**4.2**	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30 JUNE 2012

3 Financial risk management (continued)

(b) Credit risk

Credit risk is managed on a group basis. 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. Credit risk arises from cash and cash equivalents, derivative financial instruments, deposits with financial institutions and receivables from customers.

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 profile. 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 managed through the Board approved Treasury Policy, which restricts the Group to financial institutions whose long-term credit ratings, determined by a recognised ratings agency, are at or above the minimum rating of A-. 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 regularly monitored.

The Group's available-for-sale equity securities held in the prior period were units in an unlisted property trust with an unrated counterparty, where the underlying investment was 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 10(b).

(c) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulties in meeting the obligations associated with its financial liabilities. The Group's approach to managing liquidity is to ensure, as far as possible, sufficient liquidity is available to meet its liabilities when due, under both normal and stressed conditions without incurring unacceptable losses or risking damage to the Group's reputation.

Financing arrangements

The Group has access to undrawn borrowing facilities through its Syndicated Facility Agreement.

The total amount of credit unused as at 30 June 2012 was $1,775.0 million (2011: $2,170.0 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 (2011: $2.0 million).

The following table summarises the contractual timing of undiscounted cash flows including estimated interest payments, of financial liabilities and derivative instruments. The contractual amount assumes current interest rates and foreign exchange rates estimated using forward curves applicable at the end of the reporting period.

For cash flows relating to cash and cash equivalents, refer to note 9.

(c) Liquidity risk (continued)

2012	Less than 1 year $m	Between 1 and 5 years $m	Over 5 years $m	Total contractual cash flows $m	Carrying amount (assets)/ liabilities $m
Non-derivatives					
Non-interest bearing	349.6	–	–	349.6	349.6
Variable rate borrowings	60.2	1,254.6	–	1,314.8	1,201.6
Financial guarantees	54.1	–	–	54.1	–
Total non-derivatives	463.9	1,254.6	–	1,718.5	1,551.2
Derivatives					
Forward commodity derivatives used for hedging	–	–	–	–	–
Interest rate swaps used for hedging	(0.4)	(0.5)	–	(0.9)	2.4
Foreign exchange contracts used for hedging					0.8
- (inflow)	(11.3)	(2.6)	–	(13.9)	
- outflow	12.1	3.0	–	15.1	
Total derivatives	0.4	(0.1)	–	0.3	3.2

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
30 JUNE 2012

3 Financial risk management (continued)

(c) Liquidity risk (continued)

2011	Less than 1 year $m	Between 1 and 5 years $m	Over 5 years $m	Total contractual cash flows $m	Carrying amount (assets)/ liabilities $m
Non-derivatives					
Non-interest bearing	310.2	–	–	310.2	310.2
Variable rate borrowings	55.9	931.5	–	987.4	803.2
Financial guarantees	40.5	–	–	40.5	–
Total non-derivatives	**406.6**	**931.5**	**–**	**1,338.1**	**1,113.4**
Derivatives					
Forward commodity derivatives used for hedging					
Interest rate swaps used for hedging	(7.3)	(2.7)	–	(10.0)	(10.0)
Foreign exchange contracts used for hedging					16.3
- (inflow)	(80.3)	(12.4)	–	(92.7)	
- outflow	96.2	16.0	–	112.2	
Total derivatives	**8.6**	**0.9**	**–**	**9.5**	**6.3**

(d) Fair value measurements

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.

The net fair value of forward foreign exchange and fuel contracts is determined as the unrealised gain/loss at balance date by reference to market exchange rates and fuel prices. The net fair value of interest rate swaps is determined as 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 flow.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
30 JUNE 2012

3 Financial risk management (continued)

(d) Fair value measurements (continued)

	Carrying amount		Fair value	
	2012 $m	2011 $m	2012 $m	2011 $m
Financial assets carried at fair value				
Forward exchange contracts	**0.1**	4.5	**0.1**	4.5
Interest rate swaps	**–**	–	**–**	–
Commodity swaps	**–**	20.3	**–**	20.3
	0.1	24.8	**0.1**	24.8
Financial assets carried at amortised cost				
Cash and cash equivalents	**98.8**	117.1	**98.8**	117.1
Trade and other receivables	**548.1**	473.5	**548.1**	473.5
	646.9	590.6	**646.9**	590.6
Financial assets available-for-sale				
Equity securities	**–**	36.3	**–**	36.3
	–	36.3	**–**	36.3
Financial liabilities carried at fair value				
Forward exchange contracts	**(0.9)**	(20.8)	**(0.9)**	(20.8)
Interest rate swaps	**(2.4)**	–	**(2.4)**	–
Commodity swaps	**–**	(10.3)	**–**	(10.3)
	(3.3)	(31.1)	**(3.3)**	(31.1)
Financial liabilities carried at amortised cost				
Trade and other payables	**(349.6)**	(310.2)	**(349.6)**	(310.2)
Borrowings	**(1,201.6)**	(803.2)	**(1,210.6)**	(856.2)
	(1,551.2)	(1,113.4)	**(1,560.2)**	(1,166.4)
Off-balance sheet Unrecognised financial assets				
Third party guarantees	**–**	–	**48.5**	50.5
Bank guarantees	**–**	–	**247.4**	203.8
Insurance company guarantees	**–**	–	**27.3**	25.2
Unrecognised financial liabilities	**–**	–	**(54.1)**	(40.5)
Bank guarantees	**–**	–	**269.1**	239.0

Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs)

2012	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Derivative financial assets	–	**0.1**	–	**0.1**
Derivative financial liabilities	–	**(3.3)**	–	**(3.3)**
Net financial instruments measured at fair value	–	**(3.2)**	–	**(3.2)**

2011	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Derivative financial assets	–	24.8	–	24.8
Derivative financial liabilities	–	(31.1)	–	(31.1)
Available-for-sale financial assets	–	–	36.3	36.3
Net financial instruments measured at fair value	–	(6.3)	36.3	**30.0**

During the year, there were no transfers between Level 1 and Level 2 fair value hierarchies. Level 3 instruments comprise of unlisted equity securities which are no longer an available-for-sale instrument in the current period as it is now an investment in an associate following the acquisition of an additional 18 % interest in the unit trust (refer to note 14). The determination of the fair value of these available-for-sale securities in the prior period was calculated with reference to an independent valuation of the investment property trust.

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 operational structure of the Group and the different products and services provided by each segment. The chief operating decision makers assess the performance of the operating segments based on the underlying earnings before interest and tax ("EBIT"). Amounts included in the report 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30 JUNE 2012

4 Segment information (continued)

(a) Description of segments (continued)

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

Coal

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

Freight

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

Network Services

Provision of access to, and operation and management of the Central Queensland Coal Network.

Provision of design, construction, overhaul, maintenance and management service 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.

(b) Segment information

2012	Coal $m	Freight $m	Network Services $m	Unallocated $m	Total $m
Segment revenue					
Revenue from external customers					
Services revenue					
Track access	699.9	2.8	106.5	–	809.2
Freight transport	1,057.9	1,110.1	–	–	2,168.0
Other services	–	178.0	108.6	–	286.6
Other revenue	11.4	61.6	138.1	29.1	240.2
Total revenue from external customers	1,769.2	1,352.5	353.2	29.1	3,504.0
Intersegment revenue					
Services revenue					
Track access	–	–	637.6	–	637.6
Freight transport	21.1	103.1	–	–	124.2
Other services	–	–	221.9	–	221.9
Other revenue	–	–	–	97.6	97.6
Total intersegment revenue	21.1	103.1	859.5	97.6	1,081.3
Total revenue	1,790.3	1,455.6	1,212.7	126.7	4,585.3
Other income (note 6)	37.3	68.0	(2.6)	27.4	130.1
Total segment revenue and other income	**1,827.6**	**1,523.6**	**1,210.1**	**154.1**	**4,715.4**
Intersegment elimination					(1,081.3)
Consolidated revenue and other income					**3,634.1**
Segment result					
Underlying EBITDA	**441.2**	**172.8**	**527.2**	**(93.0)**	**1,048.2**
Depreciation and amortisation	(184.2)	(72.9)	(185.8)	(20.8)	(463.7)
Underlying EBIT	**257.0**	**99.9**	**341.4**	**(113.8)**	**584.5**
Significant adjustments (note 4(c))					8.8
EBIT					**593.3**
Net finance costs					(39.0)
Profit before income tax					**554.3**
Income tax (expense)/benefit					(113.4)
Profit for the year					**440.9**
Other segment information					
Property, plant and equipment	**3,117.0**	**1,145.8**	**4,520.4**	**254.0**	**9,037.2**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
30 JUNE 2012

4 Segment information (continued)

(b) Segment information (continued)

2011[1]	Coal $m	Freight $m	Network Services $m	Unallocated $m	Total $m
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	–	4.7	96.0
Total segment revenue and other income	**1,690.5**	**1,277.2**	**1,179.8**	**160.1**	**4,307.6**
Intersegment elimination					(1,014.9)
Consolidated revenue and other income					**3,292.7**
Segment result					
Underlying EBITDA	**368.9**	**89.2**	**465.8**	**(83.4)**	**840.5**
Depreciation and amortisation	(210.1)	(58.6)	(164.8)	(23.7)	(457.2)
Underlying EBIT	**158.8**	**30.6**	**301.0**	**(107.1)**	**383.3**
Significant adjustments (note 4(c))					(161.7)
EBIT					**221.6**
Net finance costs					(137.8)
Profit before income tax					**83.8**
Income tax (expense)/benefit					277.1
Profit for the year					**360.9**
Other segment information					
Property, plant and equipment	3,194.4	864.5	4,007.2	259.1	8,325.2

(1) Refer to note 1(q) for explanations of retrospective adjustments recognised as a result of a change in accounting policy. The amounts disclosed in this note are after these adjustments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30 JUNE 2012

4 Segment information (continued)

(c) Significant adjustments

The group's underlying results differs from the statutory result. The exclusion of certain items permits a more appropriate and meaningful analysis of Group's underlying performance on a comparative basis. The significant adjustments for the current and prior year are:

	2012 $m	2011 $m
Employee benefits	–	54.7
Restructure costs	–	33.3
Voluntary redundancy schemes	–	62.7
Stamp duty	**(8.8)**	11.0
Total significant adjustments	**(8.8)**	161.7

2012

As noted below, New South Wales (NSW) stamp duty was triggered on 21 September 2010 with the interposing of QR National Limited as part of the pre IPO restructuring. At the time of interposing there were some uncertainties regarding whether NSW stamp duty should be payable in respect of only the land held by the Group in NSW or both the land and other assets (i.e. Rollingstock) held in NSW. QRN lodged an application with the NSW Office of State Revenue ("OSR") that stamp duty was only payable on the land, however at the time of the IPO, QRN raised a provision of $11.0 million on the assumption that OSR may impose stamp duty on both land and rollingstock. After review the OSR confirmed that stamp duty was only payable in respect of the land ($2.2 million). Accordingly, the remaining provision of $8.8 million has been released back to the income statement.

2011

The Group incurred $33.3 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 IPO. These costs comprise advisory and system separation costs incurred in respect of the restructure and the IPO.

Employee benefit 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 related to incentive schemes for management and employees in relation to the IPO.

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.

NSW stamp duty was triggered on 21 September 2010 with the interposing of QR National Limited as part of the IPO restructuring. The Group recognised a provision of $11.0 million in relation to the stamp duty event.

(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. A customer from the Coal segment represents approximately $335.1 million (2011: $398.6 million) of the Group's total revenue.

5 Revenue

	2012 $m	2011 $m
Services revenue		
Track access	**809.2**	829.8
Freight transport	**2,168.0**	1,885.7
Other services revenue	**286.6**	255.0
Other revenue	**240.2**	226.2
	3,504.0	3,196.7

Included within the Freight transport revenue is $28.6 million (2011: $14.9 million) of Deficit Tonnage Charges.

Included in Track access is nil (2011: $26.1 million) of Revenue Cap recovered in year in relation to contractual railings that were not achieved in 2010.

Included in Other services is revenue from Transport Service Contracts (for Regional Freight and Livestock Transport Services) from the State of Queensland of $177.9 million (2011: $148.3 million) including $33.0 million (2011: nil) of accrued additional payments earned through meeting performance criteria under the contract.

6 Other income

	2012 $m	2011[(1)] $m
Net gain on disposal of property, plant and equipment	**16.2**	–
Fair value gains on financial assets at fair value through profit or loss	**0.6**	–
Foreign exchange gains (net)	**0.1**	–
Fuel rebates	**97.8**	90.2
Interest revenue	**2.5**	3.3
Stamp duty release of provision	**8.8**	–
Other income	**4.1**	2.5
	130.1	96.0

(1) Refer to note 1(q) for explanations of retrospective adjustments recognised as a result of a change in accounting policy. The amounts disclosed in this note are after these adjustments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
30 JUNE 2012

7 Expenses

	2012 $m	2011[(1)] $m
Profit/(loss) before income tax includes the following specific expenses:		
Consumables		
Repairs and maintenance	**290.2**	277.4
Track access	**371.4**	383.6
Energy and fuel	**429.9**	359.8
Other	**308.6**	306.4
Total consumables	**1,400.1**	1,327.2
Employee benefits expenses		
Defined benefit superannuation expense	**21.0**	23.2
Defined contribution superannuation expense	**64.0**	60.1
Voluntary redundancies and ex-gratia payments	**14.9**	64.9
IPO related incentives	**–**	54.7
Salaries, wages and allowances	**686.9**	725.8
Other employment expenses including on-costs	**345.9**	291.8
Total employee benefit expense	**1,132.7**	1,220.5
Depreciation and amortisation expense		
Depreciation		
Buildings	**12.3**	12.5
Plant and equipment	**45.1**	48.0
Rollingstock	**198.1**	202.6
Infrastructure	**67.3**	61.1
Total depreciation	**322.8**	324.2
Amortisation		
Leased property	**2.3**	0.7
Leased rollingstock	**19.3**	31.1
Leased infrastructure	**101.1**	83.3
Plant and equipment under finance leases	**0.1**	0.1
Total amortisation	**122.8**	115.2
Total depreciation and amortisation of property, plant and equipment (note 15)	**445.6**	439.4
Other amortisation		
Software	**16.3**	16.5
Customer contracts	**1.8**	1.3
Total amortisation (note 16)	**18.1**	17.8
Total depreciation and amortisation expense	**463.7**	**457.2**

	2012 $m	2011[(1)] $m
Other expenses		
Rental expense relating to leases	**18.9**	19.3
Inventory obsolescence	**2.9**	2.4
Research & development	**0.1**	0.3
Losses on derivatives at fair value through profit or loss	**1.1**	6.4
Loss on sale of asset	**–**	2.1
Impairment losses - financial assets		
Trade receivables	**0.7**	0.6
Impairment/devaluation of non-current assets		
Property, plant and equipment	**–**	2.2
Stamp duty	**0.2**	11.0
Other expenses	**18.0**	18.5
Total other expenses	**41.9**	62.8
Finance costs		
Interest and finance charges paid/payable	**88.6**	183.2
Provisions: unwinding of discount	**(1.7)**	(0.6)
Total finance costs	**86.9**	182.6
Amount capitalised to qualifying assets (a)	**(45.4)**	(41.4)
Total finance costs	**41.5**	**141.2**

(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 6.10 % (2011: 7.37 %).

(1) Refer to note 1(q) for explanations of retrospective adjustments recognised as a result of a change in accounting policy. The amounts disclosed in this note are after these adjustments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
30 JUNE 2012

8 Income tax expense

(a) Income tax expense

	2012 $m	2011(1) $m
Current tax	**7.9**	–
Deferred tax	**138.8**	9.2
Deferred tax base reset on consolidation and privatisation	**(33.3)**	(290.3)
Prior period adjustments	**–**	4.0
	113.4	(277.1)
Income tax (benefit)/expense is attributable to:		
Profit/(loss) from continuing operations	**113.4**	(277.1)
Deferred income tax (revenue) expense included in income tax expense/(benefit) comprises:		
Decrease (increase) in deferred tax assets (note 18)	**45.3**	(56.2)
Increase (decrease) in deferred tax liabilities (note 23)	**60.2**	(224.9)
	105.5	(281.1)

(b) Numerical reconciliation of income tax expense/(benefit) to prima facie tax payable

	2012 $m	2011(1) $m
Profit before income tax expense	**554.3**	83.8
Tax at the Australian tax rate of 30% (2011: 30%)	**166.3**	25.1
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Entertainment	**0.2**	0.1
Research and development	**(6.0)**	(2.5)
Tax base reset on consolidation and privatisation (note 8(f))	**(33.3)**	(290.3)
Non-assessable income	**(7.7)**	(16.6)
Stamp duty on business restructure/ acquisition of subsidiary	**(2.7)**	3.3
Share-based payments	**–**	2.8
Other	**(3.4)**	(3.0)
Prior period adjustments	**–**	4.0
Total income tax expense/(benefit)	**113.4**	(277.1)

(c) Tax expense (income) relating to items of other comprehensive income

	2012 $m	2011 $m
Cash flow hedges	**0.1**	(0.1)

(1) Refer to note 1(q) for explanations of retrospective adjustments recognised as a result of a change in accounting policy. The amounts disclosed in this note are after these adjustments.

(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 has notified the ATO that it has formed a tax consolidated group, applying from 22 November 2010.

(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 reset the tax base of its assets and liabilities as required by the specific privatisation tax rules and the tax consolidation regime. This resulted in an initial assessment of the net tax benefit of $290.3 million at 30 June 2011. At 30 June 2012, this net tax benefit upon privatisation has been reassessed to $323.6 million, and as a result, an additional income tax benefit of $33.3 million has been recognised in the year ended 30 June 2012.

Government review of rights to future income legislation

Included in the $323.6 million net tax benefit upon privatisation is a benefit of $126.8 million relating to valuable customer contracts that can be deducted for tax purposes over an average life of seven years under rights to future income legislation. On 30 March 2011, the Assistant Federal Treasurer requested that the Board of Taxation review the application of the rights to future income rules, including the possibility of retrospective law changes, and make recommendations to the Government. The Board of Taxation has reported on its finding to the Government and the Government has enacted amending legislation to the rights to future income rules with retrospective effect from 1 July 2002. The amended legislation has not significantly impacted QR National's tax claim under these provisions. This is because QR National's claim arose after the original legislation was enacted but prior to the Government's announcement to review the legislation.

(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 Cash and cash equivalents

	2012 $m	2011 $m
Cash on hand	**–**	0.1
Cash at bank	**98.8**	116.6
Trust monies	**–**	0.4
Total cash and cash equivalents	**98.8**	**117.1**
Less: Trust monies	**–**	(0.4)
Balance as per cash flow statement	**98.8**	**116.7**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
30 JUNE 2012

10 Trade and other receivables

	2012 $m	2011 $m
Current		
Trade receivables	**384.5**	368.4
Provision for impairment of receivables (note (a))	**(2.9)**	(2.2)
Net trade receivables	**381.6**	366.2
Other receivables	**166.5**	105.2
Coal network access undertaking receivables	**–**	2.1
	548.1	473.5

Other receivables include revenue for services performed but not yet invoiced under contracts including TSC, Take or Pay, and insurance receivables.

(a) Impaired trade receivables

As at 30 June 2012, the amount of the provision for impaired trade receivables was $2.9 million (2011: $2.2 million).

Movements in the provision for impairment of receivables are as follows:

	2012 $m	2011 $m
At 1 July	**2.2**	4.5
Provision for impairment recognised during the year	**1.3**	1.0
Receivables written off during the year as uncollectable	**0.0**	(1.4)
Unused amounts reversed	**(0.6)**	(1.9)
At 30 June	**2.9**	2.2

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 these amounts will be received when due.

(b) Past due but not impaired

As at 30 June 2012, trade receivables of $59.1 million (2011: $37.6 million) were past due but not impaired. The ageing of these trade receivables is as follows:

	2012 $m	2011 $m
Up to 3 months	**48.4**	33.9
3 to 6 months	**5.1**	2.5
More than 6 months	**5.6**	1.2
	59.1	37.6

11 Inventories

	2012 $m	2011 $m
Current		
Raw materials and stores - at cost	**204.0**	162.1
Work in progress - at cost	**11.8**	15.5
	215.8	177.6

	2012 $m	2011 $m
Non-current		
Raw materials and stores - at cost	**14.1**	24.2
Provision for inventory obsolescence	**(5.4)**	(3.5)
Inventory at lower of cost or net realisable value	**8.7**	20.7

a) Inventory expense

Inventory recognised as expense during the year ended 30 June 2012 amounted to $707.4 million (2011: $709.9 million). Write-downs of inventories to net realisable value recognised as an expense during the year ended 30 June 2012 amounted to $1.9 million (2011: $2.0 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
30 JUNE 2012

12 Derivative financial instruments

	2012 $m	2011 $m
Current assets		
Forward exchange contracts - cash flow hedges	**0.1**	–
Forward exchange contracts - at fair value through profit or loss	**–**	4.3
Commodity contracts - at fair value through profit or loss	**–**	10.8
Commodity contracts - cash flow hedges	**–**	6.2
Total current derivative financial instrument assets	**0.1**	21.3
Non-current assets		
Forward exchange contracts - at fair value through profit or loss	**–**	0.2
Commodity contracts - at fair value through profit or loss	**–**	0.8
Commodity contracts - cash flow hedges	**–**	2.5
Total non-current derivative financial instruments assets	**–**	3.5
Total derivative financial instrument assets	**0.1**	24.8
Current liabilities		
Forward exchange contracts - cash flow hedges	**0.7**	10.2
Forward exchange contracts - at fair value through profit or loss	**–**	7.8
Commodity contracts - at fair value through profit or loss	**–**	9.3
Interest rate swap contracts - cash flow hedges	**0.6**	–
Total current derivative financial instrument liabilities	**1.3**	27.3

	2012 $m	2011 $m
Non-current liabilities		
Forward exchange contracts - cash flow hedges	**0.2**	1.9
Forward exchange contracts - at fair value through profit or loss	**–**	1.0
Commodity contracts - at fair value through profit or loss	**–**	0.9
Interest rate swap contracts - cash flow hedges	**1.8**	–
Total non-current derivative financial instrument liabilities	**2.0**	3.8
Total derivative financial instrument liabilities	**3.3**	31.1

(a) Instruments used by the group

The Group holds derivative financial instruments to hedge (including economically hedge) its foreign currency, interest rate and fuel price risk exposures in accordance with the Group's financial risk management policy (refer to note 3).

13 Other assets

	2012 $m	2011 $m
Current		
Prepayments	**8.0**	10.6
	8.0	10.6

14 Investments accounted for using the equity method

	2012 $m	2011 $m
Shares in associates (refer note 30(d))	**77.5**	–
Interest in joint ventures (refer note 30(c))	**0.5**	0.5
	78.0	0.5

During the year the Group acquired a further 18 % interest in Moorebank Industrial Property Trust (unlisted entity) for $41.1 million taking its stake to 33 %. Following the acquisition of the additional equity, the investments have been classified as an investment in an associate. In the prior year, these were classified as other financial assets in note 17.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
30 JUNE 2012

15 Property, plant and equipment

	Assets under construction $m	Land $m	Leased property $m	Buildings $m	Plant and equipment $m	Rolling-stock $m	Leased infra-structure $m	Leased rolling-stock $m	Leased plant and equipment $m	Infra-structure $m	Total $m
2012											
Opening net book amount	1,365.7	182.9	5.6	302.9	275.3	2,978.6	1,776.9	197.7	0.6	1,239.0	8,325.2
Additions	1,166.0	–	1.2	0.2	15.3	–	–	–	–	18.9	1,201.6
Transfers between asset classes	(2,107.5)	1.6	5.2	56.4	41.9	492.8	109.9	(2.8)	–	1,393.2	(9.3)
Disposals	–	(2.7)	–	(0.9)	(9.0)	(10.4)	–	(2.8)	–	(3.8)	(29.6)
Impairment reversal	2.1	–	–	–	1.6	0.0	–	(0.1)	–	0.0	3.6
Assets classified as held-for-sale	–	(6.5)	–	–	–	(2.2)	–	–	–	–	(8.7)
Depreciation/ amortisation expense	–	0.0	(2.3)	(12.3)	(45.1)	(198.1)	(101.1)	(19.3)	(0.1)	(67.3)	(445.6)
Closing net book amount	426.3	175.3	9.7	346.3	280.0	3,260.7	1,785.7	172.7	0.5	2,580.0	9,037.2
Cost	426.3	175.3	14.6	460.2	528.0	4,496.8	2,182.3	336.3	0.8	2,825.4	11,446.0
Accumulated depreciation and impairment losses	–	0.0	(4.9)	(113.9)	(248.0)	(1,236.1)	(396.6)	(163.6)	(0.3)	(245.4)	(2,408.8)
Net book amount	426.3	175.3	9.7	346.3	280.0	3,260.7	1,785.7	172.7	0.5	2,580.0	9,037.2
2011(1)											
Opening net book amount	811.8	182.4	3.4	225.5	275.1	2,529.0	1,554.3	304.0	–	1,531.5	7,417.0
Additions	1,283.3	1.6	1.4	1.4	28.1	19.0	–	–	–	36.3	1,371.1
Transfers between asset classes	(729.4)	1.6	2.2	87.7	31.2	636.5	305.9	(74.5)	0.7	(263.6)	(1.7)
Disposals	–	(2.7)	(0.7)	(0.3)	(11.1)	(3.3)	–	(0.7)	–	(4.1)	(22.9)
Impairment reversal	–	–	–	1.1	–	–	–	–	–	–	1.1
Depreciation/ amortisation expense	–	–	(0.7)	(12.5)	(48.0)	(202.6)	(83.3)	(31.1)	(0.1)	(61.1)	(439.4)
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	1,239.0	8,325.2
Cost	1,365.7	182.9	8.2	405.3	516.7	4,039.5	2,046.7	372.6	0.8	1,444.7	10,383.1
Accumulated depreciation and impairment losses	–	–	(2.6)	(102.4)	(241.4)	(1,060.9)	(269.8)	(174.9)	(0.2)	(205.7)	(2,057.9)
Net book amount	1,365.7	182.9	5.6	302.9	275.3	2,978.6	1,776.9	197.7	0.6	1,239.0	8,325.2

(1) Refer to note 1(q) for explanations of retrospective adjustments recognised as a result of a change in accounting policy. The amounts disclosed in this note are after these adjustments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
30 JUNE 2012

15 Property, plant and equipment (continued)

(a) Non-current assets pledged as security

Leased rollingstock assets of $172.7 million (2011: $197.7 million) have been pledged as security under the terms of the cross border lease arrangements.

16 Intangible assets

	Goodwill $m	Software $m	Key customer contracts $m	Total $m
2012				
Opening net book amount	0.3	21.5	3.1	24.9
Additions	–	–	0.5	0.5
Disposals	–	–	0.0	0.0
Transfers	–	9.3	–	9.3
Amortisation expense	–	(16.3)	(1.8)	(18.1)
Closing net book amount	0.3	14.5	1.8	16.6
Cost	73.3	107.2	9.3	189.8
Accumulation amortisation and impairment	(73.0)	(92.7)	(7.5)	(173.2)
Net book amount	0.3	14.5	1.8	16.6
2011				
Opening net book amount	–	36.5	2.9	39.4
Acquisition of business	0.3	–	–	0.3
Additions	–	0.1	1.5	1.6
Disposals	–	(0.3)	–	(0.3)
Transfers	–	1.7	–	1.7
Amortisation expense	–	(16.5)	(1.3)	(17.8)
Closing net book amount	0.3	21.5	3.1	24.9
Cost	73.3	98.4	8.8	180.5
Accumulated amortisation and impairment	(73.0)	(76.9)	(5.7)	(155.6)
Net book amount	0.3	21.5	3.1	24.9

17 Other financial assets

	2012 $m	2011 $m
Unlisted equity securities	–	36.3

During the year the Group exercised its pre-emptive rights to acquire additional equity in the Moorebank Industrial Property Trust (MIPT) for $41.1 million, taking its stake to 33 %.

Following the acquisition of additional equity, the investments have been classified as investment in an associate in note 14.

18 Deferred tax assets

	2012 $m	2011 $m
The balance comprises temporary differences attributable to:		
Provisions/accruals	**70.5**	45.7
Tax losses	**–**	37.5
Customer contracts	**91.4**	116.1
Unearned revenue	**2.9**	3.1
Cash flow hedges	**1.0**	9.3
Other temporary differences	**9.3**	8.8
	175.1	220.5
Set-off of deferred tax liabilities pursuant to set-off provisions (note 23)	**(175.1)**	(220.5)
Net deferred tax assets	**–**	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
30 JUNE 2012

18 Deferred tax assets (continued)

Movements	Provisions/ accruals $m	Tax losses $m	Customer contracts $m	Unearned revenue $m	Cash flow hedges $m	Other $m	Total $m
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
At 30 June 2011	45.7	37.5	116.1	3.1	9.3	8.8	220.5
(Charged)/credited							
– to profit or loss	24.3	(37.5)	(15.8)	(0.2)	(8.2)	(0.1)	(37.5)
– to profit or loss as a result of consolidation and privatisation	0.5	–	(8.9)	–	–	0.6	(7.8)
– to other comprehensive income	–	–	–	–	(0.1)	–	(0.1)
At 30 June 2012	70.5	–	91.4	2.9	1.0	9.3	175.1

19 Trade and other payables

	2012 $m	2011 $m
Trade payables	**313.5**	280.1
Other payables	**36.1**	30.1
	349.6	310.2

20 Borrowings

	2012 $m	2011 $m
Non-current - Unsecured		
Syndicated debt facility	**1,220.0**	830.0
Capitalised borrowing costs	**(18.4)**	(26.8)
Total unsecured non-current borrowings	**1,201.6**	803.2

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 have provided $1,425 million in a facility expiring in December 2013 and $1,575 million in facilities expiring in December 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.

21 Provisions

	2012 $m	2011 $m
Current		
Employee benefits (a)	**325.8**	295.2
Provision for insurance claims (b)	**20.0**	12.0
Litigation and workers' compensation provision (c)	**24.0**	11.0
Decommissioning/make good and other provisions (d)	**1.6**	2.0
Total current provisions	**371.4**	320.2
Non-current		
Employee benefits (a)	**25.6**	23.4
Litigation and workers' compensation claim (c)	**15.5**	20.0
Decommissioning/make good and other provisions (d)	**4.0**	3.5
Land rehabilitation (e)	**36.2**	34.4
Total non-current provisions	**81.3**	81.3
Total provisions	**452.7**	401.5

(a) Employee benefits

	2012 $m	2011 $m
Annual leave	**89.3**	85.2
Long service leave	**193.0**	173.9
Other	**69.1**	59.5
	351.4	318.6

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
30 JUNE 2012

21 Provisions (continued)

(a) Employee benefits (continued)
The current provision for employee benefits includes accrued annual leave, leave loading, retirement allowances, long service leave and bonus accrual. Included in long service leave are 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 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 $197.5 million (2011:$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.

(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
A provision of $39.5 million (2011: $31.0 million) 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.

(d) Decommissioning/make good and other provisions
A provision of $4.9 million (2011: $3.6 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 $0.7 million (2011: $1.9 million) has been made for onerous lease contracts which represent the net unavoidable costs in meeting the obligations under property leases over the remaining lease terms.

(e) Land rehabilitation
A provision of $36.2 million (2011: $34.4 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 in the order of 3.2 % (2011: 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 in the order of 4.5 % (2011: 5.7 %) was used, based on the interest rate which reflects the maturity profile of the liability.

(f) Movements in provisions
Movements in each class of provision during the financial year, other than employee benefits, are set out below:

2012	Provision for insurance claims $m	Litigation and workers compensation provision $m	Decommissioning/ make good and other provision $m	Provision for land rehabilitation $m	Total $m
Current and non-current					
Carrying amount at start of the year	12.0	31.0	5.5	34.4	82.9
Charged/(credited) to profit or loss					
– Additional provision recognised	18.1	21.1	1.0	0.1	40.3
– Unused amounts released or reversed	–	–	(0.3)	–	(0.3)
– Charged/(credited) to the profit or loss - unwinding of discount	–	–	–	1.7	1.7
Amounts used during the year	(10.1)	(12.6)	(0.6)	–	(23.3)
Carrying amount at end of year	20.0	39.5	5.6	36.2	101.3
2011					
Carrying amount at start of year	–	28.5	4.2	34.7	67.4
Charged/(credited) to profit or loss					
– Additional provision 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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
30 JUNE 2012

22 Other liabilities

Current	2012 $m	2011 $m
Income received in advance	**36.9**	36.0
Other current liabilities	**0.6**	0.2
	37.5	36.2
Non-current		
Income in advance	**291.5**	314.6
Other non-current liabilities	**18.7**	30.1
	310.2	344.7

Income received 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 include a $17.1 million (2011:$26.4 million) non-interest bearing loan with a former subsidiary, On Track Insurance Pty Ltd.

23 Deferred tax liabilities

	2012 $m	2011[(1)] $m
The balance comprises temporary differences attributable to:		
Property, plant and equipment	**399.9**	416.7
Capitalised deductible expenditure	**100.5**	32.4
Consumables and spares	**16.7**	14.3
Accrued income	**12.4**	1.5
Cash flow hedges	**–**	7.5
Other temporary difference	**9.1**	6.0
Total deferred tax liabilities	**538.6**	478.4
Set-off of deferred tax assets pursuant to set-off provisions (note 18)	**(175.1)**	(220.5)
Net deferred tax liabilities	**363.5**	257.9

Movements	Property, plant and equipment $m	Capitalised deductible expenditure $m	Consumables and spares $m	Accrued income $m	Cash flow hedges $m	Other $m	Total $m
At 1 July 2010	629.7	10.0	20.9	50.8	(1.1)	(7.0)	703.3
Charged/(credited)							
– to profit or loss	19.2	58.5	27.3	(46.9)	8.6	(2.9)	63.8
– to profit or loss as result of consolidation and privatisation	(232.2)	(36.1)	(33.9)	(2.4)	–	15.9	(288.7)
At 30 June 2011	416.7	32.4	14.3	1.5	7.5	6.0	478.4
At 1 July 2011	416.7	32.4	14.3	1.5	7.5	6.0	478.4
Charged/(credited)							
– to profit or loss	22.5	68.1	2.8	10.9	(7.4)	4.5	101.4
– to profit or loss as result of consolidation and privatisation	(39.3)	–	(0.4)	-	(0.1)	(1.4)	(41.2)
At 30 June 2012	399.9	100.5	16.7	12.4	-	9.1	538.6

(1) Refer to note 1(q) for explanations of retrospective adjustments recognised as a result of a change in accounting policy. The amounts disclosed in this note are after these adjustments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
30 JUNE 2012

24 Contributed equity

(a) Issued capital

	2012 Shares '000	2011 Shares '000	2012 $m	2011 $m
Ordinary shares				
Fully paid	**2,440,000**	2,440,000	**1,711.7**	1,711.7

(b) Other contributed equity

	2012 $m	2011 $m
Share-based payments	**10.1**	2.9
Capital contributions from the State on retirement of borrowings	**4,388.3**	4,388.3
Capital contribution from the State for employee gift shares	**9.0**	9.0
	4,407.4	4,400.2
Total contributed equity	**6,119.1**	6,111.9

(c) Movements in ordinary share capital

Date	Details	Number of shares ('000)	$m
1 July 2010	Opening balance	3,792,757	2,067.0
31 August 2010	Capital distribution to Queensland Rail	–	(332.3)
21 September 2010	Change in legal capital structure from QR Limited to QR National Limited	(3,792,757)	–
6 October 2010	Capital distribution on disposal of OTI pursuant to Transfer Notice	–	(23.0)
6 October 2010	Share split	2,440,000	–
30 June 2011	Closing balance	2,440,000	1,711.7
30 June 2012	Closing balance	2,440,000	1,711.7

(d) Ordinary shares

Ordinary shares have no par value and the Group 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.

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.

	2012 $m	2011[(1)] $m
Total borrowings	**1,201.6**	803.2
Less: cash and cash equivalents	**(98.8)**	(117.1)
Net debt	**1,102.8**	686.1
Total equity	**7,294.2**	7,026.4
Total capital	**8,397.0**	7,712.5
Gearing ratio	**13%**	9 %

The Group has complied with externally imposed capital debt covenants.

25 Reserves

(a) Reserves

	2012 $m	2011 $m
Hedging reserve – cash flow hedges	**(2.0)**	(2.3)
	(2.0)	(2.3)
Movements:		
Hedging reserve - cash flow hedges		
Balance 1 July	**(2.3)**	(2.0)
Fair value (losses) taken to equity	**(1.4)**	(2.3)
Deferred tax	**0.4**	0.7
Fair value losses transferred to profit or loss	**1.8**	1.9
Deferred tax	**(0.5)**	(0.6)
Balance 30 June	**(2.0)**	(2.3)

(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.

(1) Refer to note 1(q) for explanations of retrospective adjustments recognised as a result of a change in accounting policy. The amounts disclosed in this note are after these adjustments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
30 JUNE 2012

26 Dividends

(a) Ordinary shares

	2012 $m	2011 $m
Interim dividend for the year ended 30 June 2012 of 3.7 cents per share (2011: nil), paid 30 April 2012 (unfranked)	**90.3**	–
Final dividend for the year ended 30 June 2011 of 3.7 cents per share, paid September 2011 (unfranked)	**90.3**	–
Special dividend for the period to 21 September 2010 of 3.54 cents per fully paid share, paid November 2010 (unfranked)	**–**	86.4
	180.6	86.4

(b) Dividends not recognised at the end of the reporting period

	2012 $m	2011 $m
Since 30 June 2012, the Directors have declared the payment of a final dividend of 4.6 cents per fully paid ordinary share (2011:3.7 cents), unfranked. The aggregate amount of the proposed dividend expected to be paid on 28 September 2012 out of retained earnings, but not recognised as a liability at year end is:	**112.2**	90.3

27 Key Management Personnel disclosures

(a) Key Management Personnel compensation

	2012 $'000	2011 $'000
Short-term employee benefits	**13,555**	15,023
Post-employment benefits	**570**	632
Long-term benefits	**256**	263
Termination benefits	**1,171**	–
Share-based payments	**3,238**	1,199
	18,790	17,117

Short-term employee benefits include 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 the 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 Group 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.

2012 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
L E Hockridge	1,333	494	(333)	–	1,494	–	1,494
D M O'Toole	137	179	–	–	316	–	316
K R Lewsey	127	158	–	–	285	–	285
M P McAuliffe	118	144	(93)	(169)	–	–	–
M G Carter	118	143	–	–	261	–	261
G P Pringle	108	135	–	–	243	–	243
R J Stephens	108	135	–	–	243	–	243
L J Cooper	98	121	–	–	219	–	219
C M Davies	118	51	–	(51)	118	–	118
G Robinson	–	51	(16)	–	35	–	35
P Scurrah	–	70	(40)	–	30	–	30

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30 JUNE 2012

27 Key Management Personnel disclosures (continued)

(b) Equity instrument disclosures relating to Key Management Personnel (continued)

2011 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
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 shares in the Group 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.

2012 Name	Balance at the start of the year '000	Received during the year on the exercise of rights '000	Other changes during the year '000	Balance at end of the year '000
***Directors of QR National Limited*[(1)]**				
J B Prescott AC	157	–	58	215
L E Hockridge	204	333	1	539
J Atkin	20	–	1	21
R R Caplan	82	–	–	82
G T John AO	47	–	10	57
A J P Staines	5	–	–	5
G T Tilbrook	31	–	–	31
K Field	–	–	–	–
J Cooper	–	–	12	12
***Other Key Management Personnel of the Group*[(2)]**				
D M O'Toole	105	–	1	106
K R Lewsey	61	–	2	63
M G Carter	41	–	22	63
G P Pringle	29	–	1	30
R J Stephens	91	–	–	91
L J Cooper	12	–	1	13
G Robinson	9	16	20	45
P Scurrah	–	40	–	40

(1) Mr A J Davies resigned on 13 December 2011 and Mr P C Kenny (deceased) ceased being director on 8 October 2011.

(2) Mr M P McAuliffe and Mr C M Davies ceased employment on 30 June 2012 and 25 May 2012 respectively and are no longer considered as key management personnel.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30 JUNE 2012

27 Key Management Personnel disclosures (continued)

(b) Equity instrument disclosures relating to Key Management Personnel (continued)

(iii) Share holdings (continued)

2011 Name	Balance at the start of the year '000	Received during the year on the exercise of rights '000	Other changes during the year '000	Balance at end of the year '000
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 (deceased)	–	–	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

There were no Key Management Personnel related party transactions during the year.

28 Contingencies

The Group had contingencies at 30 June 2012 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 21.

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 33.

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 30 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30 JUNE 2012

28 Contingencies (continued)

(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 shortfalls via the revenue cap of $65.3 million (2011: $46.5 million) will be received during the year ending 30 June 2013 ($49.2 million) and 30 June 2014 ($16.1 million).

Deficit tonnage charges

The Group has a contingent asset of $33.2 million (2011: $21.1 million) in respect of deficit tonnage charges relating to contracts with a period ending 30 June 2012. 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 2006 acquisition of Australian Railroad Group ("ARG"). The amount was paid based on an assessment issued by the WA Office of State Revenue and as required 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, subsequently appealed the assessment through a submission to the WA State Advisory Tribunal. Under the JAA, the above amount would be refunded to QR National by Brookfield upon a favourable decision.

On 9 March 2012, the Tribunal found in favour of Brookfield. In late March 2012, the WA Office of State Revenue appealed the decision to the WA Court of Appeal. The appeal is expected to be heard before December 2012. The Group is optimistic there will be a favourable outcome and the above amount will be refunded to QR National by Brookfield, as there are strong legal arguments to support the case.

Flood recovery

The Group has incurred $6.9 million (2011: $nil) to repair the damages resulting from the severe flood event across Central Queensland. The Group has lodged a submission with Queensland Competition Authority ("QCA") for the recovery of these costs as adjustments to tariffs. QCA is currently reviewing the submission.

Guarantees and letters of credit

For information about guarantees given to the Group, refer to note 3(d).

29 Commitments

(a) Capital commitments

	2012 $m	2011 $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	**254.2**	353.4
Later than one year but not later than five years	**2.3**	–
	256.4	353.4

(b) Lease commitments

	2012 $m	2011 $m
Commitments for minimum lease payments in relation to non-cancellable operating leases (excluding GST) are payable as follows:		
Within one year	**46.8**	46.2
Later than one year but not later than five years	**56.7**	81.0
Later than five years	**3.9**	6.9
	107.4	134.1

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

	2012 $m	2011 $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	**8.2**	5.9
Later than one year but not later than five years	**6.2**	9.3
Later than five years	**7.2**	8.0
	21.6	23.2

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30 JUNE 2012

30 Interests in joint ventures and associates

(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.

(b) Jointly controlled assets

The Group has a 33.3 % (2011: 33.3 %) 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:

	2012 $m	2011 $m
Group's share of:		
Current assets	**1.0**	0.3
Non-current assets	**8.7**	2.5
Current liabilities	**(1.2)**	(0.1)
Non-current liabilities	**(9.3)**	(3.9)
Total net assets	**(0.8)**	(1.2)
Revenue	**0.0**	0.0
Expenses	**0.0**	0.0
Tax benefit	**0.0**	0.0
Net profit/(loss) after tax	**0.0**	0.0

The balance sheet and income statement is based on the unaudited financial statements of the Surat Basin Rail joint venture as at 30 June 2012 (2011: 30 June 2011).

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.

(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:

		Ownership interest		
Name	Country of operation	2012 %	2011 %	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	Australia	**50**	50	Insurance
QLM Pty Ltd	Australia	**50**	50	Dormant

(i) Movements in carrying amounts

	2012 $m	2011 $m
Carrying amount at the beginning of the financial year	**0.5**	0.5
Share of profits after income tax	**0.0**	0.0
Dividends received/receivable	**0.0**	0.0
Carrying amount at the end of the financial year	**0.5**	0.5

(ii) Share of joint ventures' assets, liabilities, revenue, expenses and results

	2012 $m	2011 $m
Group's share of:		
Current assets	**2.2**	2.2
Non-current assets	**0.0**	0.0
Total assets	**2.2**	2.2
Current liabilities	**(1.7)**	(1.7)
Non-current liabilities	**0.0**	0.0
Total liabilities	**(1.7)**	(1.7)
Total net assets	**0.5**	0.5
Revenue	**0.0**	0.0
Expenses	**0.0**	0.0
Profit before income tax	**0.0**	0.0
Tax	**0.0**	0.0
Profit after income tax	**0.0**	0.0

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30 JUNE 2012

30 Interests in joint ventures and associates (continued)

(d) Investments in associates

(i) Movement in carrying values

	2012 $m	2011 $m
Opening balance	–	–
Additional investments	41.1	–
Transfer from available-for-sale investments	36.3	–
Share of profit in associates	0.1	–
Closing balance (note 14)	77.5	–

(ii) Fair value of unlisted investments in associates

	2012 $m	2011 $m
Moorebank Industrial Property Trust	77.5	–

(iii) Summarised financial information of associates

The Group's share of the results of its principal associates and its aggregated assets (including goodwill) and liabilities are as follows:

		Company's share of:			
	Ownership Interest %	Assets $m	Liabilities $m	Revenues $m	Profit $m
2012					
Moorebank Industrial Property Trust	33.0	78.2	0.7	–	–

(iv) Contingent liabilities of associates

	2012 $m	2011 $m
Share of contingent liabilities incurred jointly with other investors	–	–
Contingent liabilities relating to liabilities of the associate for which the company is severally liable	–	–
	–	–

31 Related party transactions

(a) Parent entities

The parent and ultimate parent entity within the Group is QR National Limited.

(b) Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following principal subsidiaries in accordance with the accounting policy described in note 1(b):

			Equity holding	
Name of entity	Country of incorporation	Class of shares	2012 %	2011 %
QR Limited	Australia	Ordinary	**100.0**	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	Australia	Ordinary	**100.0**	100.0
Australian Rail Pty Ltd	Australia	Ordinary	**100.0**	100.0
Australian Eastern Railroad Pty Ltd	Australia	Ordinary	**100.0**	100.0
Australian Railroad Group Employment Pty Ltd	Australia	Ordinary	**100.0**	100.0
Australian Western Railroad Pty Ltd	Australia	Ordinary	**100.0**	100.0
AWR Lease Co Pty Ltd	Australia	Ordinary	**100.0**	100.0
QR Network Pty Ltd	Australia	Ordinary	**100.0**	100.0
QR Surat Basin Pty Ltd	Australia	Ordinary	**100.0**	100.0
QRN Property Holding Pty Ltd	Australia	Ordinary	**100.0**	100.0
QRN Property Pty Ltd	Australia	Ordinary	**100.0**	100.0
QRN Terminal Pty Ltd	Australia	Ordinary	**100.0**	100.0
QRN Moorebank Holdings Pty Ltd	Australia	Ordinary	**100.0**	–
QRN Moorebank Pty Ltd	Australia	Ordinary	**100.0**	–
QRN Moorebank Unit Trust	Australia	Units	**100.0**	–
QRN Finance Pty Ltd	Australia	Ordinary	**100.0**	100.0

(c) Key Management Personnel

Disclosures relating to Key Management Personnel are set out in note 27.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
30 JUNE 2012

31 Related party transactions (continued)

(d) Transactions with other related parties

The following transactions occurred with related parties:

	2012 $'000	2011 $'000
Dividend revenue - other related parties	**7**	39

(e) 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.

(f) 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 retained a 34.0 % interest in the Company, which reduced to 33.7 % in December 2011. The State remains a related party to the Group.

Queensland Treasury Corporation ("QTC") 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 was paid to QTC during the prior financial year. A dividend of $86.4 million was paid to the State prior to listing.

Transport Services Contracts

The Group has entered into Transport Service 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 relating to services provided over the life of the contracts (refer to note 5).

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 one and five years), they will ordinarily be renegotiated by business as usual tender processes.

The largest service contracts (by financial value) 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.

32 Business combination

(a) Summary of acquisition

There were no acquisitions undertaken in the current year.

During the prior year, CRT Group Pty Ltd acquired assets and liabilities that were considered to constitute a business of Isa Freight Express. The acquisition occurred in two Tranches, in July 2010 and October 2010. In June 2011, CRT Group Pty Ltd acquired assets and liabilities that were considered to constitute a business of Pittman Transport Pty Ltd. These businesses were acquired for $12.3 million.

(b) Cash flow information

	2012 $m	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

	30 June 2011	
	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

33 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 "QR National Deed Parties", and each a "QR National Deed Party") entered into a Deed of Cross Guarantee dated 11 March 2011 (the "Cross Guarantee") with QR National Limited as the 'Holding Entity', under which each QR National Deed Party guarantees the debts of each other QR National Deed Party. By entering into the new Deed and lodging it with the Australian Securities and Investments Commission ("ASIC") on 29 March 2011, the wholly-owned QR National 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 cross guarantee became effective on lodgement with ASIC on 29 March 2011.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
30 JUNE 2012

33 Deed of cross guarantee (continued)

(a) Consolidated income statement, consolidated statement of comprehensive income and summary of movements in consolidated retained earnings

The QR National Deed Parties represent the 'closed group' for the purposes of the Class Order, and as there are no other parties to the cross guarantee that are controlled by QR National Limited, they also represent the 'extended closed group'.

The results of all the QR National Deed Parties are presented below 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, QRN Moorebank Holdings Pty Ltd, QRN Moorebank Pty Ltd, QRN Moorebank Unit Trust and QR Surat Basin Pty Ltd.

	2012 $m	2011[1] $m
Income statement		
Revenue from continuing operations	**3,469.1**	3,195.0
Other income	**130.2**	148.4
Consumables	**(1,400.1)**	(1,330.4)
Employee benefits expense	**(1,132.6)**	(1,220.5)
Depreciation and amortisation expense	**(463.5)**	(456.8)
Other expenses	**(41.6)**	(63.2)
Finance costs	**(41.5)**	(141.2)
Share of net profits of associates and joint venture partnership accounted for using the equity method	**0.2**	0.0
Profit before income tax	**547.2**	131.3
Income tax (expense)/benefit	**(117.7)**	280.5
Profit for the year	**429.5**	411.8
Statement of comprehensive income		
Profit for the year	**429.5**	411.8
Other comprehensive income		
Cash flow hedges	**0.4**	(0.4)
Income tax relating to components of other comprehensive income	**(0.1)**	0.1
Other comprehensive income for the year, net of tax	**0.3**	(0.3)
Total comprehensive income for the year	**429.8**	411.5

	2012 $m	2011[1] $m
Summary of movements in consolidated retained earnings		
Retained earnings at the beginning of the financial year	**927.1**	564.2
Profit for the year	**429.5**	411.8
Dividends provided for or paid	**(180.6)**	(86.4)
Disposal of subsidiary	**–**	37.5
Retained earnings at the end of the financial year	**1,176.0**	927.1

(b) Consolidated balance sheet

The balance sheet of the parties to the Deed of Cross Guarantee at each reporting date is presented below.

	2012 $m	2011[1] $m
Current assets		
Cash and cash equivalents	**98.5**	117.0
Trade and other receivables	**549.8**	480.9
Inventories	**215.8**	177.6
Derivative financial instruments	**0.1**	21.3
Other assets	**8.0**	10.3
Assets classified as held for sale	**8.7**	–
Total current assets	**881.0**	807.1
Non-current assets		
Other assets	**0.5**	37.0
Inventories	**8.7**	20.7
Property, plant and equipment	**9,012.1**	8,305.6
Intangibles	**16.6**	24.9
Investments accounted for using the equity method	**0.5**	0.5
Derivative financial instruments	**-**	3.5
Other financial assets	**18.8**	18.8
Total non-current assets	**9,057.2**	8,411.0
Total assets	**9,938.1**	9,218.1

(1) Refer to note 1(q) for explanations of retrospective adjustments recognised as a result of a change in accounting policy. The amounts disclosed in this note are after these adjustments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30 JUNE 2012

33 Deed of cross guarantee (continued)

(b) Consolidated balance sheet (continued)

	2012 $m	2011[1] $m
Current liabilities		
Trade and other payables	**348.4**	309.9
Derivative financial instruments	**1.3**	27.3
Provisions	**379.2**	320.3
Other liabilities	**37.5**	36.2
Total current liabilities	**766.4**	693.7
Non-current liabilities		
Derivative financial instruments	**2.0**	3.8
Borrowings	**1,201.6**	803.2
Deferred tax liabilities	**366.8**	257.2
Provisions	**81.3**	81.3
Other liabilities	**227.7**	343.0
Total non-current liabilities	**1,879.4**	1,488.5
Total liabilities	**2,645.8**	2,182.2
Net assets	**7,292.3**	7,035.9
Equity		
Contributed equity	**6,119.1**	6,111.9
Reserves	**(2.8)**	(3.1)
Retained earnings	**1,176.0**	927.1
Total equity	**7,292.3**	7,035.9

34 Remuneration of auditors

During the year the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms:

PwC Australia

	2012 $'000	2011 $'000
Audit and other assurance services		
Audit and review of financial statements	**1,670**	1,956
Other assurance services		
Audit of regulatory returns	**230**	35
Other assurance services	**79**	48
Total remuneration for audit and other assurance services	**1,979**	2,039
Taxation services		
Tax advisory services	**539**	1,225
Other services		
Advisory services	**1,619**	3,153

	2012 $'000	2011 $'000
Total remuneration of PwC Australia	**4,137**	6,417

Auditor remuneration in the prior year 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.

35 Reconciliation of profit after income tax to net cash inflow from operating activities

	2012 $m	2011[1] $m
Profit for the year	**440.9**	360.9
Depreciation and amortisation	**463.7**	457.2
Impairment of non-current assets	**–**	2.2
Impairment of financial assets	**0.7**	0.5
Non-cash employee benefits expense - share-based payments	**7.2**	12.0
Interest capitalised to qualifying assets	**(45.4)**	(41.4)
Net (gain) loss on sale of non-current assets	**(16.2)**	2.1
Inventory obsolescence	**2.9**	2.4
Amortisation of prepaid access facilitation deed charges	**(28.5)**	(26.4)
Fair value adjustment to derivatives	**(0.6)**	5.3
Change in operating assets and liabilities:		
(Increase) in trade debtors	**(75.4)**	67.6
(Increase) in inventories	**(29.1)**	(9.5)
(Increase) decrease in other operating assets	**27.2**	0.8
(Decrease) increase in trade and other payables	**36.2**	(29.6)
(Decrease) increase in other operating liabilities	**81.9**	(259.0)
(Decrease) increase in other provisions	**58.9**	40.0
Net cash inflow (outflow) from operating activities	**924.4**	585.1

(1) Refer to note 1(q) for explanations of retrospective adjustments recognised as a result of a change in accounting policy. The amounts disclosed in this note are after these adjustments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
30 JUNE 2012

36 Earnings per share

(a) Basic earnings per share

	2012 Cents	2011[(1)] Cents
Total basic and diluted earnings per share attributable to the ordinary equity holders of the Company	**18.1**	15.4

(b) Reconciliation of earnings used in calculating earnings per share

	2012 $m	2011[(1)] $m
Basic and diluted earnings per share		
Profit from continuing operations	**440.9**	360.9

(c) Weighted average number of shares used as denominator

	2012 Number ’000	2011 Number ’000
Weighted average number of ordinary shares used as the denominator in calculating basic and diluted earnings per share	**2,440,000**	2,339,726

(d) Information on the classification of securities

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

(1) Refer to note 1(q) for explanations of retrospective adjustments recognised as a result of a change in accounting policy. The amounts disclosed in this note are after these adjustments.

37 Share-based payments

(a) Performance rights plan

The Performance Rights Plan was established by the Board of Directors to provide long-term incentives to the Group’s senior executives based on shareholder returns taking into account the Group’s financial and operational performance. Under the Plan, eligible executives may be granted rights on terms and conditions determined by the Board from time to time. Participation in the plan is at the Board’s discretion so that no individual has a contractual right to be awarded rights under the plan or to receive any guaranteed benefits.

The Board will determine the exercise price payable on exercise of a vested right, and the exercise period of a right. The Board may, at its discretion, determine that early vesting of a right will occur if there is a takeover bid, scheme of arrangement or some other change of control transaction of the Group. The Board may also accelerate the vesting of some or all of the rights held by an executive in specified circumstances. These include, but are not limited to, death, total and permanent disablement, or cessation of employment.

Performance rights are granted by the Company for nil consideration. Each right is a right to receive one fully-paid ordinary share in QR National Limited at no cost if the vesting conditions are satisfied. Rights granted under the plan carry no dividend or voting rights.

Deferred Short-term Incentive Award (“STIAD”)

The STIAD was implemented in the 2011 financial year under which rights to the value of 50 % of the cash Short-term Incentive Awards (“STIA”) received by eligible executives would be granted as rights to ordinary shares. The rights will vest equally over a two-year period, and become exercisable, provided that the executive remains employed by the group at the vesting date, unless otherwise determined by the Board.

The CEO was granted rights under STIAD on listing based on the likelihood of achieving EBITDA performance hurdles.

Long-term Incentive Award (“LTIA”)

Performance rights are granted to senior executives as part of the Group’s LTIA. The first grant of LTIA rights was in November 2010. The rights are subject to the executives remaining employed by the Group and satisfying market-based performance hurdles of Total Shareholder Return (“TSR”) and non-market-based EPS and EBIT targets. The proportion of the LTIA rights that become exercisable will depend upon the TSR achieved by the Group, relative to a peer group of companies over a three-year period. The peer group comprises the companies in the ASX Top 100 index, other than financial, medical, telecommunications, pharmaceutical and gaming companies. To determine to what extent the TSR-related performance rights will vest, the TSR of the Group, over the performance period, will be compared to the TSR of all the companies in the peer group. Each of these peer 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 the group is ranked amongst the peer group. For the purposes 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30 JUNE 2012

37 Share-based payments (continued)

(a) Performance rights plan (continued)

Retentions

At the Board's discretion, eligible executives may be granted retention rights that may vest at the end of the specified retention period, provided that the executive remains employed by the Group at the vesting date.

Set out below are summaries of rights granted under the plan:

	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 the end of the year Number '000
2012					
STIAD	667	1,573	(333)	(192)	1,715
LTI	4,582	3,774	(93)	(544)	7,719
Retentions	–	476	(56)	–	420
Total	5,249	5,823	(482)	(736)	9,854
2011					
STIAD	–	667	–	–	667
LTI	–	4,582	–	–	4,582
Total	–	5,249	–	–	5,249

The weighted average exercise price of rights granted during the year was nil (2011: nil), as the rights have no exercise price.

The weighted average share price at the date of exercise for rights exercised during the period was $3.24.

The weighted average remaining contractual life of share rights outstanding at 30 June 2012 was 1.4 years (2011: 2.2 years).

Fair value of rights

2012

In determining the fair value below standard market techniques for valuation were applied in accordance with AASB2. The fair value of the STIAD and the portion of LTIA rights, that are subject to non-market based performance conditions, are determined by the share price at grant date less an adjustment for estimated dividends payable during the vesting period. The fair value of the LTIA rights subject to the TSR market based performance condition has been calculated using an expected vesting under the TSR performance test and applying it to the share price at grant date. In estimating expected vesting it, was assumed an equal chance that each company in the TSR peer group may finish the performance period ranked at any position within the group. Analysis was performed comparing this approach to the Monte-Carlo simulation conducted in the prior year and resulted in similar outcomes.

The key assumptions adopted for the valuation of performance rights granted during 2012 are contained below:

	STIAD		LTIA	
Tranche	**Year 1**	**Year 2**	**TSR**	**EBIT/EPS**
Grant date	28 Sep 2011	28 Sep 2011	22 Aug 2011	22 Aug 2011
Vesting date	28 Sep 2012	28 Sep 2013	30 Jun 2014	30 Jun 2014
Share price at grant date	$3.17	$3.17	$3.25	$3.25
Expected life	1 year	2 years	3.5 years	3.5 years
Dividend yield	3.05 %	3.05 %	3.05 %	3.05 %
Fair value	$3.08	$2.99	$1.28	$2.93

2011

The valuation of rights granted under the STIAD for the CEO 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 STIA.

The fair value of performance rights granted under the LTI was 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
Grant date	22 Nov 2010	22 Nov 2011
Vesting date	22 Nov 2013	30 Sep 2013
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)	3.5	3.5
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 the share price of each company's in the peer group is determined based on the historical volatility of that company's share price. 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 $8.7 million (2011: $11.9 million, including shares to the value of $9.0 million gifted to eligible employees from the State in relation to the IPO).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
30 JUNE 2012

38 Parent entity financial information

(a) Summary financial information

The individual financial statements for the parent entity show the following aggregate amounts below.

	2012 $m	2011 $m
Current assets	**7.8**	0.0
Non-current assets	**6,121.3**	6,149.6
Current liabilities	**(7.9)**	–
Non-current liabilities	**(2.0)**	(37.6)
Net assets	**6,119.2**	6,112.0
Shareholders' equity		
Contributed equity	**6,119.1**	6,111.9
Retained earnings	**0.1**	0.1
Total equity	**6,119.2**	6,112.0
Profit or 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 33.

(c) Contingent liabilities of the parent entity

The parent entity did not have any material contingent liabilities as at 30 June 2012 or 30 June 2011. 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 2012, the parent entity did not have any contractual commitments for the acquisition of property, plant or equipment (2011: nil).

39 Events occurring after the reporting period

On 23 August 2012 QR National Limited , after considering cash forecasts and current balance sheet, announced to the ASX an on market program to buy-back up to 10 % of its issued share capital (244 million shares).

On 5 June 2012, the Group announced the commencement of its consultation process on the voluntary redundancy program as a result of a further strategic review and restructure of the workforce. As at the date of this report, the Group has determined to accept approximately 750 voluntary redundancy applications at a one-off cost estimated at $75 million to be incurred in the 2013 financial year. The expected payback period in respect of this is approximately 12 months.

DIRECTORS' DECLARATION

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 1 to 46 are in accordance with the *Corporations Act 2001*, including:

(i) complying with Accounting Standards and other mandatory professional reporting requirements as detailed above, and the *Corporations Regulations 2001*; and

(ii) giving a true and fair view of the consolidated entity's financial position as at 30 June 2012 and of its performance for the 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 the members of the extended closed group identified in note 33 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 33.

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*.

John B Prescott AC
Chairman

Brisbane QLD
23 August 2012