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PRESENTATION

David Collins *- QR National Limited - SVP Finance and Regulation*

Good morning, ladies and gentlemen. Welcome to those in the room, on the phone and the webcast, to QR National's annual results briefing for 2012. My name is David Collins. I'm the head of investor relations for QR National. I welcome you all to our presentation today.

I'm going to start with a brief run-through of the evacuation procedures for those of you in the room. There are two levels of alarm in the building. The first is a beep-beep, which is a warning of a potential evacuation. The second is a whoop-whoop, which is an actual evacuation alarm. We have two exits to the room, one to my left, under the green exit sign, and one out through the back-door, directly opposite, you'll see another exit sign. The gathering point for evacuations is in Chifley Square, just at the base of the ANZ Building.

The structure for today's presentation; we'll be hearing from the CEO and Managing Director of QR National, Mr. Lance Hockridge, and the EVP and Chief Financial Officer of QR National, Ms. Deborah O'Toole, who will run through a presentation for 30 or 40 minutes. We'll then open for a Q&A session. We'll firstly take questions from the floor and then we'll go through to the webcast and to the phone.

So again, welcome to you all and without any further ado, I'll hand over to the CEO, Mr. Lance Hockridge.

Lance Hockridge *- QR National Limited - Managing Director and CEO*

Thank you, David. Can I add my welcome to all of you, to those of you here in Sydney, as I look around there's a number of familiar faces in the room. Great to engage with you. Also with all of those of you who are on the webcast or otherwise listening to us this morning. I'm delighted to be here. I'm delighted to be here also with a number of my executive colleagues, as well as with Deb, as we talk to you about the financial year that's just closed, as well as some views about the future.

As I was contemplating my remarks this morning, I was reflecting of course particularly, not surprisingly, in the context of 18 months out from IPO and the significance of today for reasons that no doubt some of you will ask us about. As we think about to the IPO, obviously in my view at least the most significant event in the history of the Company, a lot of work; but of course it was, particularly as we reflect on why we're here today, not the end but merely the beginning, the beginning of creating what I believe will be a truly world-class, rail-based transport and logistics provider.

So as I was thinking about some of the events around the IPO and what we were saying at that time, I'm reminded that, with my team, we made a number of assertions and a number of promises. Given the end of the offer document period, I was reflecting on how have we travelled against those promises, against those assertions? We'll talk a lot of detail this morning. But as we think about it, firstly, as we reflect on the core value of our Company, about safety. We've continued on a safety journey which has been, in my view, outstanding, every year. Every year, every year, we have more than achieved all of the safety targets that we've set for ourselves.

It's also though of course representative of the journey that we continue to be on, that as much change as we've made, we know that there's still a good deal of journey that lies in front of us before we can really call ourselves world class.

We've made huge change in the area of customer service, again acknowledging that there's a long way to go. As we'll discuss this morning, there's been tremendous change in the way that we run the company, in the cost-base, in the efficiency base of our Company. We have put in place so many elements of the growth of the foundation for the Company. As we look forward, a lot of that foundation, whether it's in the uplift in the tonnages that we're installing in the Central Queensland coal network, whether it's the commensurate above rail opportunity that we have, we'll really continue to drive the opportunity for growth in our Company.

All of that we've done whilst importantly, from today's perspective of course, delivering on all of the promises that we made to you, the new owners of this business. As I say, we know, we acknowledge that there's a long way to go. But I believe that, with everything encapsulated in these brief remarks, but more particularly Deb and I will take you through this morning, we have the foundation upon which we continue to have the momentum toward achieving the kind of company outcomes that we want and that we know that you want.

So what about the year as it were in review. I know you've had a chance, at least briefly, to look at our documentation from this morning. As I come to deal with FY12 our announcement today of course goes to three important areas. Firstly, the results per se of FY12. Given the level of challenge that we faced during the year, it was a difficult year for us, quite frankly; 47 million tonnes of coal that was anticipated in the offer document that did not eventuate. Nevertheless, in terms of underlying EBIT, we were able to deliver, as you know, AUD584 million, a 52% uplift year-on-year. In terms of net profit, if you discount out of the FY11 number the one-off AUD281 million benefit that was the tax benefit associated with the IPO, in net profit terms our uplift was 156%.

Secondly this morning, of course, we're talking and we'll go into more detail about the next phase of transformation as it relates to voluntary redundancy; the headline being by the end of this year we will have, on a like-for-like basis, have taken a further 900 out of the headcount of our business.

Thirdly, of course, as Deb will talk more about, it relates to the capital management of the Company. With all of the benefit in aggregate that I've spoken about, our balance sheet is in great shape; 13% gearing at the end of the financial year, the strength of the cash-flows in the Company, all of the transformation benefits coming through, continually robust view from us about what growth is and growth looks like that I'll talk more about toward the end of the presentation. We see the opportunity for the buy-back at this point in time in a way that, as I say, Deb will take us through a little later on.

As always, we start in any of our presentations by talking about safety. I made those observations at the start, but again, in terms of lost time injury frequency rate, you can see a 22% improvement. In terms of medically treated frequency rate, at 44% improvement. This is critically important because, as I say, it is representative of the value of the kind of company that we are. It is also important, as I've said to so many of you, because of what it represents, with respect to the operating discipline in the Company that it takes to achieve this kind of performance sustained over such a long period of time.

From a financial point of view, I won't go to the detail. I've mentioned the headlines in my opening remarks. Deb of course will take us through the detail that lies behind what again, in my view, is a great set of numbers in the circumstance. What I would like though is to, given that I'm in reflective mode, think about this chart.

Despite the flat coal volumes, and indeed when you look at this chart to go back and see that it's now roughly been five years with the arrival of the original global financial crisis and then the floods and all of the other things that we know about only too well, the chart -- particularly the EBIT chart and the EBIT margin chart in that context -- in my view really encapsulates what we're doing with your Company. Nothing speaks louder than this kind of outcome -- this kind of sustained outcome, this kind of momentum, in my view, about where we have come from, where we are and more particularly in that regard, where we are going to take your Company.

A little later on, I will in talking about the road-map to the future, reaffirm that it is our view that we will have achieved an operating ratio of 75% or better within 5 years of IPO. Having started at 91%, 92%, as you know, we are at 94% at the end of -- I beg your pardon, 84% at the end of FY12 and we're on this kind of momentum.

The operating metrics in the Company continue to improve. I guess that's not surprising given the nature and the level of the transformation that we'll talk a little bit more about. However, again, given the volumes in the business, the achievement of this kind of sustained improvement in the real metrics, the things that really demonstrate in a clear and unequivocal way the progress or otherwise that we are making in my view is very pleasing.

So much of this is about execution capability. You can read the chart, I don't propose to go through the detail on the chart, but the takeaway again is we made those promises to you. I know that a lot of you were skeptical about our ability to in fact be able to deliver on those promises. My message though is that we believe that we have delivered and over-delivered on all of them.

So much of that lies around this concept of the execution capability of the Company and, particularly, thinking about the capital base, the future growth opportunity of the Company, our ability to be able to deliver a project as big and as important as the GAPE project on-time and on-budget. In fact, a little bit better in both. The other major capital projects in Queensland, the delivery of everything and more that we said we would do in the Hunter Valley in New South Wales.

We will talk a little bit later about the excellent progress that's being made in Western Australia with the development of what is now a significant business within the overall context of your Company. All of these things, as I say, on the back of a very broad-based, momentum of execution capability; capability which is delivering growth in the business.

We are in the process of installing an additional 71 million tonnes of capacity within the Central Queensland Coal Network. GAPE of course was the first part of that and is already delivered. We're already working on HPX3. A number of weeks ago we indicated that we were committed to further increasing the capacity of GAPE by 25 million tonnes. I will talk later in my remarks about our confidence, our continuing confidence with respect to the growth profile, the growth opportunity for your Company.

But equally as I say, it's about the Hunter Valley. We are now at full speed in the Hunter Valley on the back of all of the investment, on the back of all of the operational work that David Down and his team have so well done in that part of the world. I mentioned iron ore a moment ago. In the year under review we've doubled the EBIT out of our iron ore business. Deb will give you a little more flavour and a little more detail around that as I now invite her to come and talk more generally about the financial results.

Deborah O'Toole - *QR National Limited - EVP and CFO*

Good morning everybody. As Lance has reflected, so have I and my colleagues on the management team. We come to the end of the offer document period and much has changed. We're presenting the results here today with a view to expanding the transparency of the information that we provide, moving past those changed assumptions to demonstrate how far the business has come since the IPO, but also how much potential remains. There's a lot more information across the presentation, both in my section and in Lance's section around tonnages, around our CapEx expectations, around where we have set our targets and operating ratio and how we expect to achieve that and around what further cost efficiencies and savings we see in the business.

The graph here shows the volume changes in the dotted lines from 2011 and 2012 from the offer document predictions. There's a significant uplift in earnings. The primary contributors to that uplift are revenue quality and cost improvements. Also contributing was the change in depreciation which we signaled at the half year was coming as we reviewed our locomotive fleet and also a AUD15 million accounting change in relation to ballast treatment. Overall, the disciplines that you see in the business coming through these results now will serve us particularly well when the volumes come back.

Whoops, I've gone the wrong way -- apologies. Okay, here are the components of that year on year step up. Coal volumes contributed AUD15 million. Coal revenue quality is up again this year. In Freight, AUD86 million uplift, two thirds of that is Freight business improvement and the iron ore ramp up of tonnes that Lance mentioned. AUD33 million of that AUD86 million relates to a transport service agreement accrual, which I'll talk to a little bit later on. In the Network business, the step up here relates to the step up of the maximum allowable revenue and, as you know, that lifts up as the UT3 period is coming to an end. It's also showing the GAPE volumes now kicking in and contributing to that business.

Cost efficiencies across the business have continued to improve, some of this is the voluntary redundancy first wave savings but there are other savings and productivity efficiencies in the business, for example, maintenance costs in the Coal business was reduced by AUD18 million in the year. The AUD35 million there that you see is the depreciation change , extension of the useful lives. The other ramp ups include restructuring costs, depreciation for new equipment which is around a little bit more than the AUD35 million step up and reflects the new equipment coming into the business during the year.

The important word on this slide is all - all divisions improved across the business. I'll focus on each of them individually shortly but as I said, in corporate we have restructuring cost. We also had lower external revenues during the year, particularly from Queensland Rail.

Another significant change has been the pace and level of capital expenditure in the business. We have a strong balance sheet. We've got very strong cash flows and very low gearing. Today we announced a buy-back of up to 10% of our issued capital. After that buy-back we will still have sufficient capacity for the growth that we see coming forward and Lance will talk more to that in a few minutes. The strong feature here is credit strength and our ratings will be maintained.

Moving to a little bit more detail around the buy-back, the announcement we've made is we intend to buy-back up to 10%. This demonstrates a real commitment to us managing our balance sheet efficiency, given where we currently are, but, as I said, we are still able to fund our future growth activities and we maintain a lot of flexibility in terms of our capability to fund future growth. The buy-back is expected to be EPS accretive. Our current level of debt is materially below that that was expected at the time of the IPO. I will actually take you through in a moment that detail of why that has occurred.

It will be funded through our existing debt facilities. As I said, we'll maintain our credit rating metrics post the buy-back and growth. We remain -- Lance will talk quite a bit more about the growth that we see in the short and medium term and how we're preparing for that.

We've been very disciplined in our capital spend; AUD534 million reduction from offer document forecasts, AUD264 million of that has been delayed projects, most of it the delay in the startup of the Wiggins Island Stage One Project, but also AUD40 million has been contributed by responding to less demand and cutting back CapEx that otherwise would have been spent.

Significantly, the capital optimisation initiatives that we talked to you about last year and changes to project scopes have pulled back that CapEx by AUD230 million. Of the AUD877 million we spent last year, most of that was focused on the GAPE completion, on the Blackwater electrification and on Western Australian iron ore capacity. Sustaining CapEx reduced by AUD84 million, primarily due to deferrals of wagon replacements and overhauls.

The first graph here shows the breakdown between growth and sustaining back to 2010 and sets the expectation of CapEx forecast for FY13. That forecast includes Wiggins Stage One and the Hay Point expansion. Moving across to the other graph, this shows the breakdown by business segment. It's possible that the sustaining CapEx will be a little higher in FY13 but we will be keeping that under close and constant review and reacting just in the way that we did this year.

Turning to the business segments, this is a very good performance by the Coal business in a challenging volume environment. EBIT and EBITDA growth demonstrates a step change improvement in this business. Two-thirds of that improvement is due to revenue quality and cost reduction initiatives. This shows the business becoming more adaptable and responding to changed circumstances than it has been in the past. Notwithstanding its high fixed cost base, the Coal business removed equipment from service and achieved more workforce flexibility than ever before during the year, in terms of employees taking leave, more workforce flexibility around rosters et cetera to respond to the lower volumes.

The BMA industrial dispute was difficult for this business, with lost volumes hurting the bottom line significantly. We worked with the customer to mitigate the impact on both them and us during the year. As you can see, the business also pulled back capital in response to the changed environment.

In terms of the metrics, revenue per NTK is demonstrating that revenue quality from the new form contracts that we've been talking about for some time. The OpEx per NTK, lack of movement there is clearly related to the volume denominator. Also the operating ratio improved, which is reflecting the transformation benefits that we've been talking about.

The network business, this is a very stable, very reliable business. Strong cash flows, the step up in the maximum allowable revenue, as we near the end of year [T3] kicked in as did the earnings power of the GAPE start to contribute and will contribute more as we go forward in the next couple of years. The CapEx in network year on year was largely unchanged. The accounting change in relation to the capitalisation of ballast contributed just AUD15 million.

Here are the drivers of revenue per NTK and maintenance per NTK. The maintenance metric here is reflecting the accelerated maintenance we undertook during the year and this is an example of adaptability where, as a result of the BMA dispute, we were able to get in and complete works in the Balloon Loop in the Goonyella System which otherwise would have been very disruptive in a high volume environment.

In the Freight business, again a good performance. The Freight business has never seen so much green. One-third of that is the transport service contract accrual which we've highlighted and that relates to performance payments which were earned during the year. We were not able to accrue those payments prior to this time because of the structure of the contract, in that there are fixed payments and fixed payment times under the contract and we need to be able to demonstrate that we have carried out reform and carried out all the conditions under the contract and we have been able to do that. So we've taken up the accrual up to the 30th of June 2012 for that.

So only one-third of that result relates to that. One-third is doing exactly what we said we would do with iron ore with good commercial contracts and the ramp up execution of that increase in volumes going very smoothly. The balance is the same story as in the Coal business. The Freight business is also renewing its contracts on better commercial terms. So its revenue quality is improving and its cost position is improving as well.

In terms of the metrics, when you have a look at this in a bit more detail, the OpEx per NTK metric is up. That's due to the initial ramp up costs for iron ore volumes, but that will settle down this year. The operating ratio improvement is driven by volume and cost management in the business.

In terms of outlook, we expect the current softer demand environment for coal haulage services to continue in the near term. Our latest expectations are for our coal volumes to increase in a range of 195 million tonnes to 205 million tonnes for the financial year 2013. However, the medium to longer term outlook for Australian resources we believe remains robust and we believe the fundamental drivers of Asian demand have changed and Lance will expand on this in the balance of his presentation. We still have a very strong pipeline of new projects and expansion projects which will underpin our growth going forward.

So to summarise, the pace continues. The transformation delivered AUD121 million in benefit in the financial year, as I said, from revenue quality and cost focus, which are the key drivers of margin improvement in the business. This will be leveraged further when volume growth comes in. Capital discipline and capital management focus continues and a focus on return on invested capital and shareholder value from the initiatives we've announced today and I'll hand back to Lance to conclude.

Lance Hockridge - *QR National Limited - Managing Director and CEO*

So as we think a little bit more about our situation today and for the future, what is that road map, where are we? We certainly do believe and we certainly believe that we're demonstrating a strong resilient business model. You can see some of the elements there, but what do I mean when I talk about resilient? Well, nothing I think could more underline that than the events of the last 12 months where compared with the public forecast, as I say 47 million tonnes didn't turn up. So in terms of sensitivity well north of AUD200 million and yet we were able to make up all of that and more by virtue of the things that we're doing in driving the efficiency and the productivity of this business.

It is about the strong and stable cash flows in the business on the balance sheet, the sort of things that underline our ability to be able to announce a buy-back today.

Fundamentally we believe that we have the right strategy. The focus continues to be on the transformation and the growth of the Company. We're realistic; we're cautious about the current circumstances in which we're operating and we'll say a little more about that; however, at a headline level, with what we're announcing today with respect to that next major headcount and the dimensions that I'll talk about in a moment around the financial impact of that, when you think that of all of that 70 million tonnes that we keep referring to about installed capacity coming in the Queensland coal system, all of which is take or pay and only a small amount of which has found its way into our earnings so far.

Beyond that is all the opportunity to capture the above rail benefit of all of that. All of the work that's gone on and going on in the Hunter Valley and the surrounds; the work that Ken and the team are doing in Western Australia with the quality of the earnings uplift in our iron ore business, the opportunity in the future around all of that.

Contextually, as I'll come back to later, as I say, we would not deny this is a period of caution. However, we remain fundamentally of the view that the quality of growth in the medium term is going to continue to afford the kind of growth opportunity that we have always referred to in our business.

So where does all of that take us? I've spoken constantly about our headline target if you will being to achieve an operating ratio of 75 or better within five years of the IVO. I mention before we started at 91, we're at 84; we have the momentum that I'll talk about. We have been and I will talk about we remain confident that that is the kind of outcome, the quality of outcome that we can deliver for your Company in that kind of timeframe.

What is the road map? What is the process that's going to get us there? At a broad level it is of course about these elements of revenue quality, volume growth and cost efficiency, each of which I'll talk if I might just a little about just now.

More generally, it's about the overarching transformation strategy in the Company. I've spoken to so many of you about first and foremost this is a cultural journey, from a Company which 18 months ago had a long and a rich heritage but nonetheless a heritage that was 140 years of government ownership. We are driving a cultural change to a high performance business. We're driving around these kinds of dimensions. What I would like to say to you is that we believe that we can now point to the evidence of real sustained momentum with respect to each of those elements.

We are equally able to demonstrate the progress with respect to the customer focus in the business. The appointment of Paul Scurrah who's with us today demonstrates the extent to which we've shifted the prism in this business, through which we see the world and hopefully through which the world sees us, to one which is about the customer first and foremost.

In the comments that Deb's made, you can see the change in the commercial reality, more particularly the commercial capability of our Company. As a government-owned corporation, a lot of these things were simply not of the same level of importance or urgency as is the case now in running a publicly-listed Company and so as much as transformation is about doing the nuts and bolts things that Lindsay and all of his team are doing every day at the shop floor of this business, equally it's about what Deb and her team and the others are doing around driving that commercial capability in our business. Equally of course it's about that industry leadership and at the end I'll come back to describe what my aspiration is for your Company.

So a little more about some of these elements just quickly; firstly, with respect to the operating structure in the Company, I've mentioned and we spoke at the half year about the change to the functional model. Again I understand and I appreciate that there are questions around why we would have made that change, but I can tell you we can point to and we'll enjoy the opportunity to discuss with so many of you on a one-on-one basis over the coming days, very real changes manifest in the way that we run this business as a result of the change in that focus. Whether it's now looking for example at the totality of the way that we organise our labour force, the way that we allocate the resources, the way in particular that we allocate the physical resources -- the locomotives, the wagons -- in our business. It's underwritten our ability to be able to dispose, for example, of a lot of locomotives during the course of the year.

Today though we are talking about the next stage of reform. It's the stage of reform that continues to relate to the headcount in the business. We all recall that in the early part of last year we were able to take a little over 600 people out of the business through a voluntary redundancy program. Doing what we did with the functional model has allowed us to go back, and if you will, rebuild this Company from the ground up in what we consider to be an optimal fashion; to be able to organise to run the Company in an optimal fashion.

That's what's underpinned the consultation that we've been through over the last couple of months with our employees and our unions. That's what leads us to be in a position to say to you today that we will be accepting of the order of 750 applications for VR over the coming weeks. Given that we were able to let a number of people go in the last financial year, in FY12, that will take the impact -- headcount impact -- on a like for like basis to some 900 people by the end of the year.

With respect to the 750, by the by we expect that that will be a one-off cost of about AUD75 million and that it will have a 12 month payback for the Company.

Again, just speaks volumes to what we're doing in changing this Company to what the opportunity continues to be to change the Company and especially when we realise that this, as important as it is, is only part of the transformation that we're talking about.

We've been transforming the revenue quality in the business. The numbers that Deb has given you demonstrates the extent to which that's impacting on the revenue and on the bottom line of our Company. In the spirit of greater transparency that Deb spoke about, rather than simply talking about the 10% per annum roll-off of those legacy contracts, this chart is designed to give you that extra level of granularity with respect to the contract roll-off profile in the Company over the next few years. Equally though, it speaks to the continuing opportunity. You can see, as I say, the impact the change to these new style contracts is having. When you realise that we're 38% of the way through that renegotiation, it really underlines the opportunity that lies in front of us.

We've been focused on the returns, as Deb says, in the Company. A lot of that has been around capital optimisation within our business again, as it relates to the upfront capital cost of what is a capital intensive business. Whether it relates to the way that we used the installed capacity in the business. Again we look forward to being able to share with you concrete examples of the kinds of things that we've been doing which has been driving this change in the business.

We have -- to return to my theme about momentum -- we have momentum around growth. In Northern Queensland we've now delivered GAPE1, for want of a better term. We are working, as you know, on, for what of a better term, GAPE2. With the support of the Queensland Government with respect to our proposal for a greenfield rail line to connect the Galilee into our existing brownfield network, together with the opportunity to be able to upgrade the existing network, we see this as a tremendous opportunity. We believe that the way that we've been able to work with our customers, in particular of course Adani and Vale, underpins the reality of what I've described as the hybrid model in this part of the world, to be able to facilitate even in today's environment the opening up of the Galilee Basin on the one hand and the continued expansion of the Northern Bowen Basin on the other hand.

In the southern part of our business, we continue to work on WIRP stage 1 and you can see the reality in the photograph here of the work which is already underway. Equally though, work continues apace with respect to WIRP2 and the related SBR development.

To return then to the theme though of future growth and what's our view about the future opportunity for your company and we read in the headlines of course every day around the different views about all of this. I've stated a few times that our view remains robust. Our review however remains cautious and it remains, I think, conservative in this regard. Importantly though, I remind you that that's no different to anything that we have been saying since the IPO. Indeed Deb reminds me at the half year we included in our presentation a summary of all of the proposals of the development of port capacity on the east coast of Australia. When you added up all of those aspirational targets, it amounted to more than a billion tonnes of capacity. We said then, this is never going to happen. Our focus is on working hand in hand with our customers about that which is real, that which is genuine, that which is sustainable. That, ladies and gentlemen, is what we continue to do.

Clearly, with what's going on in the world at the moment, there's not going to be some miraculous return to mid-200 million tonne volumes in the next five minutes. Taken through the timeframe, though, that we're talking about, we continue to believe in these kinds of numbers, the 5%, 6%, 7% compound growth rates in the demand for the materials that our customers will need to lift and that we will therefore need to provide the infrastructure and the above rail services for.

It is appropriate that we're cautious about all of this. It's not appropriate though that we see the sky falling. Even in the last six months, through what's been going on in China, Chinese steelmakers increased by more than seven million tonnes, certainly a modest level, but it remains the fact that there is real and sustained growth in the core markets that we serve, whether in particular that is the Chinese steel market or the power industry in China as well as in India.

We therefore continue to believe that we're well positioned. We believe that we're a resilient company with the right capability, the right business model, the flexibility to be able to respond as indeed was the case in the last year when those tonnes didn't turn up, to be able to put in and deliver the kind of outcome that we're describing to you today, is the hallmark of what this company is and more particularly, what's on offer for the future in this company.

We thank you again for joining with us today. We hope that we've been able to demonstrate something of that credibility, that momentum, that capability. My goal, my aspiration for our company is that rather than me talking about it as an aspirational notion, that we get to that point where others readily talk about this company in that band of elite first class, world class rail roads.

Thank you for that opportunity and Deb and I would now be more than happy to take your questions.

QUESTIONS AND ANSWERS

David Collins - *QR National Limited - SVP Finance and Regulation*

Thank you Lance, thank you Deb. The way we're going to run the Q&A session is we'll firstly take questions from the floor and then we'll switch to the phone and the webcast. I will give a bit of a time warning when we have five minutes left for the last few questions, but on that basis, we have microphones in the room, so we'll take the first question from the floor. Could I also ask that you introduce yourself before you ask your question?

Matthew Spence - *Merrill Lynch - Analyst*

Hi Lance and Deb, Matt Spence from Merrills. Just on the buy-back Lance, can you just tell us to what extent you've already engaged with the Government in any conversations?

Lance Hockridge - *QR National Limited - Managing Director and CEO*

Matt, as you'd expect, we have a range of conversations with government. We have a very good relationship with the new government in Queensland, but with respect to the specifics that you're talking about, their continuing shareholding in the company, that's very much a matter for them. They've indicated that they will advise us as well as everybody else of the appropriate time, what they're going to do and when they're going to do it. For our part, therefore, we continue to run the company the best way we know how for all the shareholders of the company and we believe what we've announced today is the right thing at the right time.

Matthew Spence - *Merrill Lynch - Analyst*

Okay then, you would have seen Asciano did a really stunning margin in their coal haulage business yesterday and I think it was 35% for the full year. Is that a realistic long term target for you guys FY17? Is that the sort of extent of the cost outs and repricing that we can expect?

Deborah O'Toole - *QR National Limited - EVP and CFO*

Absolutely and as I said, we expect that to continue on that sort of trajectory. But as we're reducing our cost base and getting more flexibility in our fixed costs, when those volumes come in, we would expect those margins to run. I mean margins are a function of revenue quality uplift which the chart that Lance showed you shows where the contracts are being renegotiated and we've all seen the levels of those starting to kick in, costs out which we've been doing year on year and Lance has given you some indication of what he expects to come forward, then finally volumes. So the combination of those three factors will lift that margin. So I expect there to be substantial leverage in the business when those volumes do come in and absolutely we will be in that space or better.

Matthew Spence - *Merrill Lynch - Analyst*

Okay and just one last one. Deb, can you give us an idea of the depreciation changes that you've made and the ballast changes that you've made? What sort of benefit can we expect in FY13 from those changes?

Deborah O'Toole - *QR National Limited - EVP and CFO*

Well pretty much that program of review of useful lives has come to an end, so there may be some at the margins Matt, but don't expect another contribution of that level. Equally we've had new equipment coming into the business, so while we've had that useful live impact of AUD35 million, we've also had AUD42 million in depreciation coming through from the new gear. So the work is pretty much done in that space.

In terms of the capitalisation of the ballast, that question was raised with us last year and we took a good look at it and realise that all of the peer companies that we're measuring ourselves against actually do capitalise ballast. So that AUD15 million that's coming this year will be an ongoing and sustainable contribution, as will the depreciation change, is an ongoing amount.

Ian Myles - *Macquarie Equities - Analyst*

G'day, Ian Myles from Macquarie; couple of questions. What's the appropriate gearing level for QRN? I think you've got a RAB base probably somewhere between AUD4.5 billion and AUD5 billion. The regulator says we're going to reward you on a 55%/45%. My simple maths says you should be carrying AUD2.6 billion of debt just to be appropriately regulated or leveraged to that regulatory base; AUD800 million still leaves you pretty short and your net worth spend should be on a 55%/45% base on a go-forward basis. What's the thought process of how long before you're going to get the business to that appropriate level, at least from a regulatory point of view?

Deborah O'Toole - *QR National Limited - EVP and CFO*

We agree that we need to move more towards -- particularly on the regulated side -- towards reality. However we have to look at the whole corporation and the corporation on a whole we would think gearing at 55% would be way, way too high for the whole corporation. So we've targeted to maintain a ratings profile, Ian, that's the BBB+ rating that we have at the moment, which gives us considerable room for further increase in gearing. But something in the mid to late 30%s, if we look at peer companies that are integrated rail roads, that is more the region.

In terms of how we get there, well we've taken a major step today to get the right leverage in the business in terms of the buy-back announcement. We have growth coming through in the next couple of years that will lift us into that arena as well and we will continue to look at the way we structure the business to reflect and take account of that regulatory reality.

Ian Myles - *Macquarie Equities - Analyst*

Can you also provide us some colour in terms of the growth? WIRP 2 I think you guys call it, the suggestion was the decision has to be made by December. In the current environment is the risk of those decisions been pushed out? I guess also in GAPE2, your approach there, how much of this needs to be contracted up before you make a physical asset commitment to build this versus doing it on a speculative basis?

Lance Hockridge - *QR National Limited - Managing Director and CEO*

I think the reality with respect to WICT, WIRP and SBR, is the reality is more likely to be a calendar '13 decision with respect to those. So certainly while the work continues and the important observation from our part I guess Ian is that we will be ready go to. We remain confident that they will go, but that there is more likely than not to be a delay with respect to those. The GAPE is a function of our confidence about the future, particularly of the Northern Bowen Basin, let alone of the opportunity of Galilee, but we all understand what needs to be done with respect to underpinning Galilee. But therefore it is the formulation that you use; that we've made a commitment that we're going to move ahead with that additional 25 million tonnes.

That's not to say that it's in the nature of, shall we say, wild speculation. I made the observation, as you'll recall, on the way through about the extent to which we are working with our customers, working hand in glove with our customers, working hand in glove with our customers around their views around what realistically is going to be the demand for the level -- the requirement for additional infrastructure capability.

Ian Myles - *Macquarie Equities - Analyst*

Okay. One final question, can you just explain those TSC payments in a little bit more detail?

Deborah O'Toole - *QR National Limited - EVP and CFO*

Sure.

Ian Myles - *Macquarie Equities - Analyst*

I know that the annual accounts talk about, about AUD100 million you've paid into the future. Is that an accrual of that AUD100 million or is this above and beyond, and are there other ones going to come through in the next year or two?

Deborah O'Toole - *QR National Limited - EVP and CFO*

No this is the first accrual of that total AUD103 million that's part of that contract and so there are set dates during the course of the contract where proportional payments are over the next few years, as we deliver services and as we deliver reform in that business. So this is AUD33 million of AUD103 million.

Ian Myles - *Macquarie Equities - Analyst*

Okay, thank you.

Scott Ryall - *CLSA - Analyst*

Hi, Scott Ryall from CLSA. I was wondering, Lance, just following on, on one of Mylesie's questions then, are you saying the GAPE stage 2 project, you will go ahead without commitments from industry on take or pay volumes?

Lance Hockridge - *QR National Limited - Managing Director and CEO*

Yeah the reason that I'm a little hesitant Scott is that it depends what the particular timeframe is that you're talking about and how ultimately we will underpin those tonnages. What we're saying is that we're committed to moving ahead with the development of that 25 million tonnes, including importantly from a regional perspective the diversion around Collinsville. We will -- we are and we will work with our customers around what the commercial arrangements are for doing all of that.

Scott Ryall - *CLSA - Analyst*

Okay and just following on from that, what do you believe is the influence you guys can have on industry growth? What's in your control to ensure some of this growth goes ahead?

Lance Hockridge - *QR National Limited - Managing Director and CEO*

It's a good question Scott. I guess if you go back to the O'Donnell report, the key message out of all of that was to have the installed capacity and to have it ahead of the growth curve. So my response to your question -- which deserves a much broader response -- but my immediate response to your question is that we need to have the capacity, the installed capacity for the growth in order to facilitate the growth. To your point of course, that's exactly what GAPE does, having from a network point of view completed in every sense of the word the GAPE 1 development, as we indicated indeed in the offer document, the ramp up is over the next 18 months or so. So the capacity is there, the facilitation is there for the development of the projects in that part of the world.

Deborah O'Toole - *QR National Limited - EVP and CFO*

Scott I might just add something to that. A lot of the advantage for our customers is in the timeframes. So if we wait in relation to GAPE 2 to even start feasibility and pre-feasibility work -- which we have a lot of already because of GAPE 1 -- until every duck is lined in a row and every customer have all got their act together and told us that they're ready to go, then it really doesn't facilitate decision making for our customers.

So we can scale our increase of that system to the customers who are ready, so it does create a lot of time advantage for customers. As you know, the rail is not the longest lead time, the port is the longest lead time, so we get a lot of signal as to who's ready in terms of mine expansion plans and who's ready in terms of having port capacity. So it gives us a lot better ability to plan with our customers to deliver their capacity faster than the old system does.

Scott Ryall - *CLSA - Analyst*

Sure, so the constraint in this process is around when the port approval is effective or the port expansions happen?

Deborah O'Toole - *QR National Limited - EVP and CFO*

Yes.

Scott Ryall - *CLSA - Analyst*

Okay that's clear.

David Collins - *QR National Limited - SVP Finance and Regulation*

Yes Scott could I ask you just to wrap this one up quickly. We have a number of questions from the web as well.

Scott Ryall - *CLSA - Analyst*

David, but I've got a list of 10.

Deborah O'Toole - *QR National Limited - EVP and CFO*

We'll see you after Scott.

Scott Ryall - *CLSA - Analyst*

Okay let me prioritise then. Lance, one of the -- when you did the restructure last year, one of the appointments that you were looking for was a head of operations.

Lance Hockridge - *QR National Limited - Managing Director and CEO*

Yes.

Scott Ryall - *CLSA - Analyst*

Nine months down the track, no appointment. I mean is this still an important role for you in terms of getting sort of 25% EBIT margin? If so, can we get a bit of clarity as to timing and, you know, how important they will be to drive that?

Lance Hockridge - *QR National Limited - Managing Director and CEO*

Yes it is Scott and that's why we have an executive of the calibre and capability of Lindsay Cooper looking after that role at the moment. I clarified at the half year that my expectation was that I would make an announcement in this regard before the end of the calendar year. We have made progress. For various reasons, I'm not in a position to be able to make an announcement today, but as I say we have made progress. I will be making an announcement before the end of the year.

The observation with respect to Lindsay is not lightly made I might say and particularly in the context, Scott, of what is going on in the company at the moment with this restructure. That the successful ability to be able to move some 900 people out of the business is no mean feat. The successful ability in fact on the other side of that to be able to effectively continue to run the company, having taken that proportion of people out of the business, requires in my view the kind of knowledge of -- intimate knowledge -- of the business that only somebody like Lindsay has.

So, I see this if you will, when you look at that broader picture Scott, as a sensible transition that Lindsay is helping in guiding us through doing those things and the new head of operations will come in, to your point, very much focused around taking the company to the next level of productivity.

David Collins - *QR National Limited - SVP Finance and Regulation*

Thank you for those questions from the floor. We've got a little under 10 minutes left, so we'll take three or maybe four questions from the phone and from the webcast.

Operator

Thank you the first question from the line is from Matt Crowe from Commonwealth Bank. Go ahead thank you.

Matt Crowe - *Commonwealth Bank of Australia - Analyst*

Good morning. Lindsay if I can just get you to go back to the AUD33 million TSC payment? You mentioned there's potentially another AUD70 million to come. What sort of performance do you have to achieve to get that AUD70 million? Once that's earned, is that the end of it?

Deborah O'Toole - *QR National Limited - EVP and CFO*

Yes pretty much that's related to the services that we provide that the government requires in the regional areas. So the balance of payments are more akin to the content of the service provision, year on year, going forward now over the next, I think it's three or four years Ken, is that right? Five years, over the next five years. A lot of the reform that was part of the setup of the new way of operating in that space has now taken place and has been largely completed. So now it's about delivering the services that the government have asked us to deliver and getting these additional payments as an incentive to continue to deliver them in the way they'd like us to.

Matt Crowe - *Commonwealth Bank of Australia - Analyst*

And do those -- I guess, the performance criteria change from year to year, or do they go up now that you've made the first one, or are they set in a contract?

Deborah O'Toole - *QR National Limited - EVP and CFO*

No, this is probably the big one and they flatten out now over the next few years.

Matt Crowe - *Commonwealth Bank of Australia - Analyst*

Okay. Just on the buyback, am I right in assuming that the buyback is being designed in a way to maximise -- or that's flexible enough so that all investors, including the Queensland Government can participate through an on-market buyback?

Deborah O'Toole - *QR National Limited - EVP and CFO*

It's just an on -- it's a plain vanilla on-market buyback, so anybody can participate.

Matt Crowe - *Commonwealth Bank of Australia - Analyst*

Okay thanks.

David Collins - *QR National Limited - SVP Finance and Regulation*

Thank you for that question. We'll move to questions from the webcast.

Operator

The next question is from Simon Mitchell from UBS. Go ahead thank you.

Simon Mitchell - *UBS - Analyst*

Good morning. A few questions, probably accounting related, to Deb. The cash tax -- when are you expecting that to start being payable, Deb?

Deborah O'Toole - *QR National Limited - EVP and CFO*

This financial year.

Simon Mitchell - *UBS - Analyst*

Is that a full rate or it ramps up through the year?

Deborah O'Toole - *QR National Limited - EVP and CFO*

It'll ramp up.

Simon Mitchell - *UBS - Analyst*

Okay and so, what half this year or--

Deborah O'Toole - *QR National Limited - EVP and CFO*

No a bit more than that.

Simon Mitchell - *UBS - Analyst*

Right, okay. Alright and then the other thing which I think was absent from the slides was how much this year's numbers give rise to revenue cap adjustments and deficit tonnage charges over the next couple of years?

Deborah O'Toole - *QR National Limited - EVP and CFO*

There's very little in this year. The next year, there's a -- the big number is next year in terms of -- and it's about AUD50 million which really comes from the flood-affected volumes last year. So that's a big adjustment into the FY13 year.

Simon Mitchell - *UBS - Analyst*

Any under-recovery on the network? I recognise in the first half you were talking about an offset from the AT5 charge. Is that completely netted out, the under-recovery in the diesel part of the network, for this year?

David Collins - *QR National Limited - SVP Finance and Regulation*

Yes Simon it's David. The revenue cap recovery for full year '12 which will be receivable in full year '14 is about AUD16 million.

Simon Mitchell - *UBS - Analyst*

Okay, thanks. Just a final accounting one. Just I notice there's AUD16 million of profits on asset sales. Am I right in assuming that's to do with disposal of locos and wagons and perhaps whether you think that's a continuing number?

Deborah O'Toole - *QR National Limited - EVP and CFO*

It's largely locos and wagons. A little bit of surplus property in that as well. Probably, I mean this will vary, but with the size of this company in terms of the amount of fleet that we have and the focus on fleet management that we now have and as well, the size and footprint of the company really across the country, you'd expect something similar to that pretty frequently.

Simon Mitchell - *UBS - Analyst*

Okay. Just lastly, operations question on NSW Coal. I think your original expectation for volumes in FY12 was 44 million tonnes and you've come in at 34 million tonnes, which I recognise is probably reflective of congestion in the system. What are your expectations for FY13 within your guidance range of 195 million tonnes to 205 million tonnes?

Lance Hockridge - *QR National Limited - Managing Director and CEO*

I'm not sure that we ever anticipated a number as high as that. Two responses though, one -- we have not suffered from congestion in the Hunter Valley. We continue to run our services at a day of operations losses of consistently less than 1% and therefore the entirety of the volume is associated with the demand that our customers present to us. That demand as you rightly indicate, was relatively soft during the earlier part of the year.

The 195 million tonnes to 205 million tonnes is an assessment of the totality and we've not broken it out. But what I can say to you is that our Hunter Valley operations are running very strongly at the moment, at an annualised run rate over the last couple of months, we've been running at about 39 million tonnes to 40 million tonnes.

Simon Mitchell - *UBS - Analyst*

Okay, alright. I'm just looking at slide nine of last year's presentation, but we can take that off line if you want?

Lance Hockridge - *QR National Limited - Managing Director and CEO*

Sure.

Simon Mitchell - *UBS - Analyst*

Thanks very much.

David Collins - *QR National Limited - SVP Finance and Regulation*

Thanks Simon. We'll move on, our two last questions over the web.

Operator

Thank you. The next question is from Cameron McDonald from Deutsche Bank. Go ahead thank you.

Cameron McDonald - *Deutsche Bank - Analyst*

Good morning. Just one question if I can please Lance is, just in terms of the redundancies and the extra 750. The first stage was around 500 positions -- sorry, yes, 500 positions. The second stage you're saying 750. That implies 1250 being taken out in total with 900 for the end of this calendar year. So that implies there's an extra 350 positions to go in the second half of FY13 or into 2013 full calendar year which we should see the incremental benefits coming through fully in FY14?

Lance Hockridge - *QR National Limited - Managing Director and CEO*

No you've mis-constructed the numbers, Cameron. The announcement that we made in June when we started the consultation process was that we expected that the order of magnitude numbers of redundancies that we would be seeking, or we would achieve, was about 500. What we're announcing today is that in fact we've done 750 order of magnitude, together with the numbers left prior to the end of the financial year. So in other words the 500 is not additive. The 900 is the total number, which is not to say though that is -- isn't an iterative process and we will continue to look for opportunities and continue to work with our employees around how best we run the company. I do expect that there will be further numbers but in that context not in the way that you add it up.

David Collins - *QR National Limited - SVP Finance and Regulation*

Thank you, Cameron. We have time for one last question over the web before we close up.

Operator

Thank you. The next question's from Jonathan Collett from Goldman Sachs. Please go ahead thank you.

Jonathan Collett - *Goldman Sachs - Analyst*

Hi guys. Just a quick question on UT4, just wondering when you expect to submit your draft undertaking and if you've got any thoughts on how you'll offset the impact of lower spot bond yields on the regulatory WACC?

Deborah O'Toole - *QR National Limited - EVP and CFO*

I think we'll let Mr. Collins who's the expert answer that one.

David Collins - *QR National Limited - SVP Finance and Regulation*

Yes, yes indeed--

Deborah O'Toole - *QR National Limited - EVP and CFO*

--for that one.

David Collins - *QR National Limited - SVP Finance and Regulation*

Thank you for the question. We anticipate lodging UT4 late in the current calendar year. As you'd be well aware the existing undertaking runs out on the 30th of June 2013.

In terms of your question on the risk-free rate, yes indeed we do face an environment where bond yields are currently lower, however, there are a number of areas of discussion which we'll be undertaking as part of the submission process to look at ways of dealing with that issue. Some of the examples I can point to relate to extending the period over which we would measure the risk-free rate, rather than taking a narrow short term view; looking at longer term bond yields, for example 10 year yields rather than five. There are issues around how tax is treated within the model which we'll be reviewing and more generally around the cost of equity within the calculation.

Without going into too much detail the bottom line is that the rate of return needs to be sufficient for us as QR National and for our customers to invest in our network. That's the overriding framework with which we're looking at this issue.

Jonathan Collett - *Goldman Sachs - Analyst*

Okay thank you.

David Collins - *QR National Limited - SVP Finance and Regulation*

On that note, thank you to all attendees in the room, over the phone, and on the web. We've enjoyed having you with us today and we wish you a safe rest of the day. Thank you very much.