HD **Preliminary 2014 Asciano Group Earnings Presentation - Final**

WC 11,730 words

PD 20 August 2014

SN CQ FD Disclosure

SC FNDW

LA English

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Presentation

JOHN MULLEN , CEO AND MD, ASCIANO LIMITED : Good morning, everybody. This is John Mullen here, in Sydney, accompanied by all my colleagues, the management team of Asciano, as well as Kelly Hibbins .

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So, let me start off with a quick summary of the FY14 year. Firstly, we're really pleased that for another year our underlying result has finished in line with our expectations and with our guidance to the market, despite some pretty ordinary trading conditions. We are very pleased to have delivered 5% underlying earnings growth in FY14 and, on a good trend in the business at the moment, we're very confident that we will do better than that in FY15. Early days yet, but we're certainly targeting a level consistent with the 10% to 15% five year CAGR earnings growth that we've previously communicated to the market.

So turning back to FY14, EBITDA, EBIT, NPAT and CapEx all pretty well in line with expectations, so a fairly vanilla result there, and fairly clean result at the operating level as well. So there's a few property sales this year, as there were last year, almost exactly the same contribution from that year-on-year. So it doesn't affect the on-year trends. Otherwise a fairly clean performance material items.

The growth was driven by a very strong performance from coal, a stronger second half from our container terminals business, offset by a weaker performance in rail and some softer areas in bulk and automotive port services division as well.

We do think that this performance, again, highlights the defensive nature of our portfolio businesses in tough times, to be able, for the third year running, come in where we expect to be overall, just by some soft parts of the overall composition of the business.

Operating expenses were tightly contained across the Group, in particular in rail and terminals divisions. But, nonetheless, we managed to maintain the key competitive advantages offered by both of those businesses, and service performance, far from slipping, has actually improved.

The operating expense increases that we did incur were largely related to acquisitions and new contracts. Our EBITDA margin was maintained at 28% for the year, which was, I think, a pretty strong result in light of the high fixed cost nature of the business.

The operations at customer level, our ability to work with customers during tough times, I think, was evidenced during this year. Service quality, as I said, has remained high; in fact, improved right across the board quite consistently, and we've had some new business wins and some positive customer renegotiations during the period as well.

However, the tougher times out there led us to accelerate our business improvement targets, as we have previously advised. So we doubled our target to AUD300 million by FY16. That process -- and particularly the integration of the two rail divisions and Pacific National -- is going extremely well.

We've also continued with the CapEx refresh program. The spend there has been exactly within forecast. CapEx, as previously advised, will normalise by FY16, where we'll have that big hump of catch up expenditure well and truly behind us. That will have transformed our business platform leverage just for the future.

Looking to the future, our free cash flow is starting to strongly improve, as we predicted it would. The second half of this year saw a free cash flow positive result, about AUD60 million. That will continue to accelerate in the next couple of years. We remain very focussed on using this expanded free cash flow to keep our commitment to the market to lower our leverage and to increase returns to shareholders, including offering a higher dividend.

As we're very confident about our progress we've again increased our dividend this year. The dividend per share has increased by 24% year-on-year. We're now at the top end of our payout ratio range of 20% to 40%. As advised, we continue to expect that range to continue to expand towards a 60% to 70% payout ratio target.

Lastly, we believe that our five year strategic plan is still broadly on track. We may, obviously, have some ups and downs in all the targets we set out but, across the board, we're still pretty confident that we're on track.

If I turn to the next slide, being -- go through the individual divisions. So for coal, firstly, a very strong 12 month period. The second half in particular was above our expectations. As the industry settles down and, I think, adjusts to the current coal pricing environment as a new norm. So in net tonne kilometres we're up 21.6% from new contracts and good organic growth, especially in the Hunter Valley.

The tonnes hauled versus contracted continued to improve, up to 89%, which I think is pretty well an all-time high now. Our operating EBIT up nearly 25%. ROCE particularly pleasing, is up to 13.1% and, excluding work in progress, that's now over 14%, which means at both levels we are now above our WACC and the Company is starting to really earn the returns on the significant growth in the coal business that's been expended over the last few years, very pleasing to see.

A number of new contracts and extension of existing contracts despite the environment does show there is still activity out there. The BHP Mitsubishi maintenance contract started in July, the Rio Tinto Hail Creek 8.5 million tonnes in November. We've also worked through with a number of customers to agree mutually beneficial contract arrangements going forward, an example of that would be Whitehaven where we've secured additional tonnes plus a contract extension to 2026.

That means that the weighted average duration of the coal contract platform extended to 7.96 years, up from 7.1 years as at June last year. There's still new business out there so we still have got a couple of new contracts such as the Q-Coal [long] term contract in FY16 to come on.

The focus in the coal division going forward is a significant drive for operating efficiency like the other divisions now that Exxon and (inaudible) are slowing a bit. It's a real positive that there is significant financial and operational upside from integration with PN Rail, which we'll touch on later.

There are a variety of creative opportunities continuing in that vein, the Hunter Valley planning and operational improvements have been a great success for all coal chain stakeholders and the next phases of that work are continuing. The established (inaudible) a similar coal chain coordination activity going [today] in Queensland.

The Chinese 88 class locomotives, five of those are coming in this year with the potential to significantly reduce future CapEx. There are still opportunities for growth out there despite what has been a difficult market environment.

Moving to rail. Obviously rail has been a disappointing year for us. We had a very difficult 12 months, both in terms of market but also competitive activity. We've seen weak intermodal volumes, and 14.9% decline in bulk volumes including 36% drop in export grain. That led to a 17% reduction in EBIT year-on-year and a reduction in ROCE, although ROCE still remains at or above cost of capital in that division.

On the bright side there certainly were a few bright spots. Express volumes continue to perform better than the market as a whole, steel volumes were slightly up for the year 3% and a bit, construction and mineral volumes also up a bit due to contract wins. And the automotive industry domestic carriage rail there had a good year as well being up some 23%.

The under-utilisation of capacity did impact margins despite the cutting of services in intermodal. But on the customer side we had no material business or contracts lost during the year, we won some new contracts on the bulk side and despite the significant productivity improvements being delivered the service improvement of the division remains at an all-time high.

The year was also significant for the renewal of the national intermodal contract and the restructure of the relationship with Toll in Queensland, which has created a truly national platform for our intermodal business for the first time.

On the cost side, the division remains extremely focussed on cost management. Operating expenses remained flat which was a good result given the high fixed costs of the business and the inevitable costs increases that flow through from inflation and wages and fuel and other areas. Business improvement program remains strong, tracking well, they've already exceed their five year target to AUD40 million, at some AUD44.5 million achieved to the end of this financial year.

Going forward, the progress really is on the integration of the cost base with PN Coal and how to continue to restructure the service platform to materially reduce the cost base while maintaining, or improving service to customers at the same time.

I'll move to slide 8, terminals and logistics. Terminals and logistics has had a good year. A strong performance, again in a relatively weak external environment, although overall EBIT was flat, the terminals -- the (inaudible) terminals EBIT itself was up 5% on the 3.5% increase in lifts. The other good thing I think about the performance there is if you look at it on a trend basis we had a much weaker first half in peak season, but a stronger second half, volumes actually being up some 8.5% which is well above market growth in the second half.

Our market share for the 12 months is 48.7% versus 47.5% last year, but that's a rolling market share calculation and our actual share at the current moment is higher than that. I think in June we were over 50%, around 51%. So clearly now with DP at about 47.5%, and Hutch just over 3.5%, we're clearly the largest player now and we are increasing market share across the board.

That said, the market is still very volatile, with the ships co-loading and cancelling services literally every month which does cause market share to fluctuate up and down. But we've had no contract losses, to the contrary we've actually secured K-Line and Fremantle additional contracts and some limited additional services in Melbourne as well. And that means that we now have 68% of our contracted volumes extended through to 2018 or longer, which gives us a very solid platform for the coming years.

The logistics business had a tougher year, within the total terminals and logistics portfolio. Revenue was down a couple percent largely driven by economic environment. That business remains strategically a very important part of our business as the feeder network for the container terminals business, and we need to maintain pricing discipline in what has become an extremely competitive market there with competitor behaviour that we certainly struggle with. But we have to remain competitive and disciplined in that environment.

The division continues to focus on cost, service performance and productivity improvements, all of which are performing extremely well. The margins were flat, operating costs having been only slightly up, despite increased wage and lease costs and new contract volume, et cetera. Service performance continues to improve and remains at an all-time high, most importantly I think is now very consistent. The coastal window performance is now over 95% across the entire network.

Terminals business really is a better business in every way, although ROCE declined slightly due to the Port Botany investment in a flatter earnings year. Excluding goodwill, it remains at over 21%, it's a very strong performer.

Port Botany, we've obviously had some quite well publicised setbacks during the year, but the project continues to progress well. Their replacement order strad testing and commissioning is now well underway and nearly completed. We're still on track to launch in the third quarter of this financial year, i.e. after Christmas, which is obviously a better timing from a market and customer disruption perspective, the Christmas and Chinese New Year period needs to be behind us before we make those changes.

Employee relationships continue to improve, the industrial relations environment, while still tough, is one of the best it's been for quite a long time. Safety performance has been particularly pleasing in Terminals business of LTIFR declining by 65% year-on-year driven in particular by very strong performance in Port Botany which was over 78% improvement. Those are both real gains as well as industrial relations driven gains.

We'll move now to slide 9, the Bulk & Automotive Port Services, a more difficult year there, although we need to be granular about that to see the driver of it. Overall there's some quite good activity levels and the business has performed quite well, but there's been a material slowdown in resource development projects and some agricultural volumes, particularly the Gorgon project from Agility starting to wind down. But during the 12 months we saw increased volumes from some ports such as Geelong, but offset by lower ones in Port Kembla, Fremantle. We also saw a record imported car volumes in the first half of the year, storage volumes peaked in January although they are now dropping.

The overall ROCE for the business remains strong at 15.5% although it was impacted this year by redundancy costs taken above the line and lower volumes, but still remains well above our cost of capital. Some of the subcomponents, the C3 business continues to do extremely well, expansion in Australia is ramping up well and that business continuing to track above expectations. Mountain Industries, which you might recall is a Newcastle-based integrated logistics solutions provider, that acquisition was 100%

completed in October; some very good synergy opportunities being worked on with Pacific National and the Ports business across a number of transaction and growth options. Also in 2014 the business and contribution was impacted by first year acquisition costs as well as weakness in export grain volumes and some other bits and pieces, but overall it's been a very positive addition to the Group.

Lastly, for our Autocare business, again, good growth again, record results in that business. We've managed to renew some important contracts, despite some very vigorous competition and they also have and are managing the interim arrangements Webb Dock which has impacted margins a bit and will lose earnings FY15 as well, but they're continuing to manage that very well.

Couple of quick slides on -- or one quick slide on financial returns. Roger will cover this in more detail, but we are very focused on financial returns which are especially important in more challenging economic times, so I just wanted to touch on this before handing over to Roger. Across the Group, ROCE was flat, marginally down, reflective of the soft top line growth and the significant investment that's been put into a number of the divisions, including Port Botany. But we've highlighted that three of the four divisions are at or above cost of capital and the only one that isn't, the headline number terminals still well above cost of capital on an excluding legacy goodwill basis.

Terminals and Rail were both impacted by the weak top line growth plus, as I say, the significant new investment put into those business units. But Coal, particularly pleasing, has now moved above WACC for the first time and continues to accelerate and this reflects the returns coming from the significant growth investment and trajectory that has taken place over the last few years.

You will recall from our investor day that over half of the AUD3 billion of capital investment in the last few years has been focused on renewing the capital stock of the Company, which has obviously been a significant drag on our ROCE, but we absolutely believe that it was the right thing to do to correct the past and build platform for the future growth. However that is coming to an end as we go through this year and the quantum changes in our cost base that will take place this year should help to materially improve our returns across all divisions this year and into next.

We retain a very high level of rigour around capital allocation; nothing gets approved that does not give a short term cash payback and nothing gets approved if it does not meet our hurdle rates. So all of that said, we're still confident of hitting our medium and long term ROCE targets for Asciano.

My last slide then, before handing over to Roger, I'd just like to tough briefly on safety which is a critical metric for the Company and one that we're all measured against as an executive team. So the safety performance does continue to improve dramatically across all divisions. We're seeing strong operational improvements as well as the distortion from industrial relations activities starting to materially abate.

Our long term injury frequency rate has fallen from over 15 in the last three years down to 4.6. We've had some individual months now where it's below 1, which is really starting to get into the space where we'd like to be and the nearly 50% improvement in FY14 was driven especially by some very big improvements in Coal and Terminals divisions. As we mentioned at the strategy day in June, we're still putting a lot of effort and horsepower into this. We have a whole new senior leaders' program launched in July to ramp up further awareness and acceptance and development of authority across the Group in this critical space.

Okay, I will now hand over to Roger who will take you through the key aspects of our financial performance and then I'll come back at the end and touch on the outlook for the Company going forward. Roger.

ROGER BURROWS , CFO, ASCIANO LIMITED : Thank you John and good morning to everyone. So as usual, I'll start with a quick review of our headline financials. We noted the tough environment we're encountering back at our half year results which of course has continued and continues to have an impact on our performance against our key targets. On the positive side, that's driven us to accelerate other programs across the Group, most notably the significant cost to our program that we highlighted at our strategy day back in June. That of course will underpin our EBIT growth in 2015 and put us in a strong position to benefit from an improvement in the operating environment.

Revenue growth at 7.2% was driven by the 14% growth in coal, offset mainly by those weaker revenues in the rail division. The negative operating leverage from the 2.3% decline in rail revenue was a key factor in the EBITDA growth being less than revenue at 6%. EBIT was up slightly less at 5%, impacted by an 8% increase in depreciation and amortisation which was reflective of the capital investment for the new coal contracts and business platform over the last few years. As John noted, it was a fairly clean EBIT result with a contribution from property sales in FY14 being of the same value, effectively, as the previous year.

So the main contributor to EBIT growth of course was the Coal division, which was up 25% when you exclude the Kooragang Island land sale in the previous year. The Coal EBIT growth was significantly offset by the 17% decline in EBIT in the Rail division, while the Patrick businesses were generally flat year-on-year. The Bulk & Auto result included the AUD25 million settlement with the Port of Melbourne to cover the costs associated with the transition arrangements and the early termination of lease agreements to allow the redevelopment of Webb Dock. This settlement, which was disclosed at the interim result, has been largely offset by cash costs that will continue over the next 12 to 18 months.

So whilst growth was below our revised five-year EBIT compound annual growth target of 10% to 15%. We believe in the current environment the result was still a very good outcome. Underlying net profit after tax and underlying EPS were up 2.1% and 2.3% respectively, which was a combination of the 5% EBIT growth offset by some higher financing costs which I'll touch on shortly.

As we foreshadowed at our June strategy day, material items totalling AUD136 million which equated to about AUD95.4 million after tax were booked during the year compared to a net cost of AUD8.1 million after tax in the prior year. Those material items were slightly higher than anticipated, which was mainly due to a timing of costs rather than any increase. They included AUD27 million after tax of costs relating to the Port Botany development, AUD57.2 million after tax relating to the integration of the two rail divisions and AUD11.2 million after tax relating to other restructuring programs across the Group.

Of the total amount booked, AUD75.7 million before tax related to the non-cash write down of assets associated with the integration of the two rail divisions and the Port Botany redevelopment. The remaining AUD60.6 million before tax in cash costs were primarily related to redundancies in both Pacific National and the Terminals business and other cash costs associated with the Port Botany Development. Almost 50% of those cash costs will actually occur in 2015 financial year. At this stage, we are expecting to book a further AUD20 million of material items in relation to Port Botany in FY15 which we were unable to bring to account in 2014 under accounting standards.

Turning now to the key elements across the Group that contributed to the 5% EBIT growth, the coal division, as I said, generated good margin from their volume growth which reflects the 21% increase in NTKs hauled over the year. However, as the chart indicates, much of coal's EBIT growth was offset by the culmination of the embedded 4% to 5% wage increases within our EAs and as I noted earlier, the negative operating leverage from the decline in rail's revenue. However, overall, the business did a good job on containing costs this year, which of course was very necessary given the operating environment. For example, PN Rail cancelled a number of services in order to reduce costs, however to ensure that the division maintained its customer service offering, certain fixed costs had to be retained which had a material impact on its margins.

There was a positive movement in relation to the net impact of a number of other issues including rail incidents, although the Bulk Ports business did take business restructuring costs associated with the Agility and Webb Dock contracts above the line. While the terminals division did incur costs associated with industrial disputes at Fremantle in the first half of the year, the impact was not as significant as it was in the prior year. The significant investment in the business over the last few years has resulted in 8% increase in depreciation and amortisation this year. And we're projecting a further increase in the order of 15% next year in 2015 to a range of AUD380 million to AUD390 million.

Both terminals and rail focused heavily on business improvement initiatives which drove an increase in savings to AUD33.6 million which was above our 2014 financial year four-year target of AUD32 million. Most of the BIP effort in the second half of that year was in planning and driving the significant Group restructure programs which will positively impact the Group over 2015 and 2016 financial years.

Finally, we did have an offsetting win with actuarial valuations generating a positive year-on-year movement of AUD6.3 million. This reflected the movement in bond yields which caused a positive adjustment to the calculation of the Group's liabilities associated with workers compensation, leave entitlements and current and former employee rail pass entitlements.

Statutory net financing costs were up 12.8% in the P&L , mainly due to mark to market movements of derivatives and the credit value adjustment introduced this year under changes to the AASB 13 accounting standard. If you adjust out the non-cash mark to market movements, you will note that net financing costs actually fell 3.6% this year, which is a pretty good outcome in the context of our net debt increasing by AUD300 million over the year. In addition, cash net findings in cost declined by 10% year-on-year which reflected both lower variable interest rates and timing of interest payments.

In FY15 we expect net financing costs to be in the range of AUD210 million to AUD215 million. This of course excludes any mark-to-market movements which we are obviously not able to predict.

The business improvement program, we -- the Company remains focused on a range of programs across the Group. As we noted earlier, the BIP initiatives over the period yielded AUD33.6 million of EBIT benefits, exceeding the year's original target of AUD32 million. PN Rail has already exceeded its five year target of AUD40 million, given the very tough operating environment and the resulting focus that business had on BIP.

As we have noted, the primary focus within Pacific National in the second half of FY14 was the integration project and a review and restructure of how we provide our customer service offering. That integration project of course will accelerate the business improvement savings in FY15. Terminals has also made significant inroads, in particular on the labour front with some of the identified cost savings around Port Botany already flowing through to earnings.

Programs commenced and continue in the period targeting operating costs such as fuel usage and procurement, fleet costs and a centralisation of Group wide procurement of core products and services including insurance, asset utilisation and crew scheduling. As we discussed back at our June strategy day we have expanded the BIP to AUD300 million which is double the size of the original five year program and to be deliver in the same timeframe.

In FY15 we are targeting a minimum of AUD100 million of run-rate cost savings which will primarily driven by the integration of the two rail businesses, but will also include Port Botany automation efficiencies and a trimming of corporate overheads.

So moving on to capital expenditure which increased 25% to AUD754 million compared to last year, but was well within our guidance between AUD700 million to AUD800 million which we consistently predicted through the year. That spending of course has included the Port Botany redevelopment project and the strategic rail assets in Queensland we acquired from Toll in January, that was not planned at the time we gave the original guidance. So I think an excellent outcome for us to land in the middle of that range.

The CapEx of course continues to reflect a degree of catch up spend from prior under-spending which we have noted in the past, particular around Pacific National Rail and the Terminals business, both of which are going through significant capital upgrade programs. So let's now more importantly move to the outlook for CapEx.

So consistent with our previous disclosure we continue to expect capital expenditure for FY15 to be in the range of AUD600 million to AUD700 million with spend targeted for us to be at the bottom of that range in the absence of any new growth contracts. FY15 CapEx will include the completion of the Port Botany redevelopment project, construction of the new PDI facilitate at Webb Dock, the ongoing program to repower the NR class locomotives and rolling stock for committed new contracts.

We expect sustaining CapEx in FY16 to be in the range of AUD300 million to AUD400 million with the cost of any true growth projects with identifiable new profit streams secured on top of that range. We expect that range of AUD300 million to AUD400 million to be maintained for sustaining CapEx in FY17 onwards as well.

As I noted earlier, depreciation and amortisation is expected to increase by around 15% in FY15 to a range of AUD380 million to AUD390 million. I think importantly Asciano is in a position to fund all forecast capital expenditure projects from operating cash flow in FY15.

It goes without saying and John mentioned it, the capital discipline remains a core tenant of the business, with new investment not being made without rigorous evaluations to support all investment cases. I'm quite comfortable that we are managing CapEx very efficiently within our broader financial objectives.

Operating cash flow was up 1.5%, AUD607 million in FY14, which in part was muted a bit by the cash outflows from the material items. FY14 of course was also a tale of two halves in respect of free cash flow. At the half year we noted a negative working capital impact on operating cash flow that we expected to largely reverse in the second half of the year. In fact that reversal ended up being slightly better than we expected, so there may be some reversal back into FY15, particularly with the usual half year cash flow seasonality.

The combination of stronger operating cash flows and tight CapEx management has seen free cash flow of AUD61 million in the second half of the year and only negative AUD13 million for the full year. other investing cash flows of course included the acquisition of Mountain Industries in October last year for approximately AUD84 million.

And as we highlighted at the June investor day, we currently expect to be free cash flow positive in FY15, continuing on the momentum of the second half. Our objective is to fully fund dividend payments in FY15 from that positive free cash flow. Free cash flow is also expected to be stronger again in FY16 as capital expenditure continues to be managed down.

So net debt levels before the impact of fair value movements on derivatives increased by AUD212 million to just over AUD3.2 billion at the end of the year. Drawings under our bank facilities declined. Of course that was offset by the issue of the Sterling denominated medium term notes since September 2013 to raise just over AUD0.5 billion. While US and UK borrowing are fully hedged back to Australian dollars, there were some changes in loans and borrowings from the year due to the impact of mark-to-market movements in both exchange rates and interest rates which reduced net debt by AUD50 million year-on-year.

Turning now to the Group's debt maturity profile. So last September of course we did settle an offering of 10 year medium term notes to the value of GBP300 million which was AUD514 million equivalent. And as I said back at the half year we were very pleased with the tenure of that raising.

Back in February, of course, we also announced the extension of one of our syndicated banking facilities through a further 5.7 years and the repricing of both banking facilities. So following this, we now have a weighted average debt maturity of 4.9 years at 30 June and an all in average cost of debt running just below 7%, or 6.5% before costs. And of course our first US 144A bond, which is AUD429 million, matures in September 2015, so just over a year away.

I'm quite comfortable of course with our debt profile and our plans to deal with the upcoming maturity are already well advanced. We do expect any new issues to price inside the outstanding bonds and we do intend to maintain longer dated securities. However, while we are focused on minimising our interest costs, we will not be seduced by cheaper short term debt to replace our longer term facilities. We think that is entirely appropriate given the nature of our business.

From a leverage perspective, net debt to EBITDA stands at 2.9 times. That of course is on the high side of where we'd like to see it the next few years. Interest cover however remains very strong at 5.3 times and growing. The underlying strength of our businesses and earning supports our level of gearing today. But as I say, we do expect that to trend down over time and to that then we continue to target longer term gearing towards the bottom end of the 2.5 to 3.0 times range for net debt to EBITDA.

From a financial perspective the Board and the management team are comfortable with our position and we would expect our credit matrix to continue to improve given our strengthening cash flow profile. And we are continuing to target and upgrade from Standard & Poor's to BBB flat and we believe we have demonstrated our ability to meet all of their criteria for this to occur.

So given our confidence and our ability to manage the cash flows of the business, the Board has increased the full year dividend to the top end of the payout range for the full year. The final dividend of AUD0.085 per share fully franked represents a 36% increase on last year's final dividend and combined with the interim dividend represents an annual payout ratio of 39.7%.

And as we discussed back at our June investor day, free cash flow is expected to grow over the next few years and we anticipate further expansion of the payout ratio as that occurs. To that end we will review the current 20% to 40% payout range during the year ahead.

And finally with our improving free cash flow outlook, we expect dividend growth in FY15 to be greater than our underlying earnings growth. And on that note, I'll hand back to John to run through the outlook for the Group.

JOHN MULLEN : Thank you very much Roger. So, just a few words then on the outlook for 2015 and beyond. We think we've had a good year this year and we expect a much better year next year. To be more specific earnings growth this year at 5% and we're certainly targeting earnings growth going forward consistent with the 10% to 15% CAGR earning growth that we have highlighted as part of our strategic plan.

If I go through each division quickly. So firstly Pacific National, we will now be reporting Pacific National as one entity going forward. So we expect the Pacific National division o report materially higher earnings in FY15. We've gained across the whole business, including intermodal and bulk. Overall this performance will be driven by the significant cost benefits emanating from the PN integration program which we expect to exceed AUD100 million run rate by the end of 2016 -- sorry AUD100 million in 2016, run rate by the end of 2015. Our target remains to sustainably reduce the cost base of both divisions by 10%.

On the revenue side, we anticipate no further material decline in intermodal and grain, even perhaps some limited upside after an extended period of decline that we've seen previously.

That said, intermodal volumes will reflect activity levels in the general economy and normalisation of demand in Western Australia in particular. But we certainly do not foresee the continuing of the decline that we've seen previously in that division.

Still, volumes are expected to remain reasonably strong. The Queensland intermodal business is expected to grow in FY15 following the signing of the new agreements and the property acquisitions from Toll and the establishment of our full intermodal business there. and we remain very focused on how we restructure our service platform to ensure that we can take cost out and more productive, but at the same time ensure that service levels go up not down.

A few words on the bulk segment of the PN business then, i.e. the coal haulage, grain, minerals and construction materials side of the Company. The export grain volumes obviously a little bit in the lap of the gods will be dependent on grain harvest levels, although at this stage we are expecting those to be a little better than we saw in a previous year. Some additional construction volumes are expected from a couple of contracts that we have signed, Boral and also Holcim which start in the fourth quarter -- one started in the fourth quarter of 2014 and the other one's starting in 2015.

The proportion of coal that's hauled versus our contracted volume we expect to remain high. That of course as always is subject to the demand for export coal, to weather, to production levels at contracted mines. But we certainly see this continuing positively.

We should see a full year contribution from the 10 year performance based contract with Rio Tinto that commenced in November 2013 for Hail Creek and Kestral mines. And as I noted at the outset we still have two contracts signed but yet to commence being Q-Coal Group I 2016 and Bandanna in Central Queensland in 2017.

Terminals and logistics, we expect to see a good improved performance as well in FY15. That business continues to go very well, subject of course to many external factors that will impact the results. The growth in the market for container volumes we see being impacted primarily or driven primarily by domestic economic activity and we would expect FY15 market growth to be more or less aligned with projected Australia GDP, so probably only sort of 3% area. Our full year contribution though from new contracts secured in FY14, including K-Line and additional Melbourne volume we will see flow through the full 12 months.

The volumes will remain volatile and sensitive to Patrick retaining its share of consortia volumes following changes in shipping line capacity that does seem to take place pretty well month-to-month these days.

The renewal of Fremantle lease is obviously important and that will be a highlight that takes place this year. Although it doesn't actually take effect until 2017, we do expect negotiations to commence this year.

Our outlook I think is further boosted and stronger than before, given that we now have nearly 70% of volumes contracted through to 2018 and we continue to work hard on expanding that profile as well. Then there are some competitor volumes up for tender in 2015 that we will obviously be contesting.

Bulk and automotive port services, that division is also still travelling well. We do expect it to report a flat underlying result in FY15, which is driven a number of one-off activities and particularly the Gorgon Agility contract. That activity level continues to wind down and should pretty well be finished by December 2014. Generally I would say that resources and project sector of the business will remain subdued in line with the resources industry across Australia.

Car volumes are expected to be probably flattish in FY15 after some very strong growth in the last couple of years. We don't see any great negativity there but we're probably not going to see the growth that we've seen over the last couple of years.

There are still residual costs to be incurred from the whole redevelopment of Webb Dock, and the closure of Webb Dock East that will run through into 2015.

Against that we should have a full 12 month contribution from Mountain Industries, and C3's earnings continue to improve. The launch of their Australian activities will start to take -- make more material contribution this year.

Autocare's earnings is only very small, but they continue to expand their footprint with an acquisition of a small customs broker, Smith Channon. Those earnings should be visible in this year as well.

So let me then conclude by summarising the Group overall. As I've now said, assuming no material change in the business environment we expect our earnings growth to be higher than the underlying 5% earnings growth that we have achieved in FY14. We continue to target more precisely the 10% to 15% earnings (inaudible) growth that we announced previously to the market as part of our strategic plan.

We are planning for subdued volume and revenue growth, although we do see a small improvement now in key areas such as terminal. Terminals, container volumes and intermodal. Despite the difficult environment organic contract and growth opportunities do remain out there in most divisions and we will actively pursue them.

Despite this -- despite a slightly better economic backdrop, we are focusing very heavily this year on cost reduction, productivity, margin expansion and returns improvement. That's driven by a whole variety of projects, but the two big ones obviously to single out are the integration of the two rail divisions and the redevelopment and automation of Port Botany.

As well as a stronger earnings contribution, we remain very committed and are on track with our other key objectives as well. The catch up CapEx program will be completed over the next year. As Roger highlighted, we will then move into a sustained period of CapEx at depreciation type levels, and sustaining CapEx levels going forward of AUD350 million to AUD300 million, AUD400 million, that sort of area. That will drive an increasingly strong free cash flow and hopefully that was evident in the second half of this year, as already starting to be delivered.

Of course as that free cash flow expands, so will our ability to increase the full year dividend and reduce leverage in the Company, as Roger highlighted.

We feel good that the restructuring necessary to maintain this earnings growth and expand this earnings growth profile and set us up for the future has all been done in FY14. So the organisational change has been executed, the redundancies have been taken, and so on. This together with the slightly better economic backdrop we think sets us up well for 2015 and beyond.

We continue to look for new opportunities, but no acquisition will be permitted to jeopardise our improvingly rich free cash flow and dividend objectives. They will remain sacrosanct, but we clearly are also searching for growth opportunities in parallel with that.

In closing in that regard, the discussion with third parties that were commented on recently in relation to a potential sale of a non-controlling interest in the terminals and logistics division -- business division, those continue to progress.

So I will stop there I think, and I'll hand back to Kelly who can handle the questions going forward.

Questions and Answers

OPERATOR: Ladies and gentlemen, we will now begin the question and answer session. (Operator instructions).

Your first question comes from the line of Simon Mitchell from UBS . Please go ahead.

SIMON MITCHELL, ANALYST, UBS : Good morning. First question for John on the guidance. You've stuck by your 10% to 15% five year growth target for EBIT. Just to be clear that that -- meeting the bottom end of that range effectively implies 21% growth in EBIT over FY15 and FY16.

JOHN MULLEN : Well look we've got -- I think our CAGR to date is 10.1%, Roger? I think somewhere in that sort of area, and we are certainly keen in maintaining at least that as a minimum going forward, and 10% to 15% is the area that we're targeting for the remaining two years.

SIMON MITCHELL: Okay. So imply that that's a minimum of 10% over the next two years, on a per annum basis I guess.

Then secondly, just a question on the port discussions. Can you perhaps give some colour on the major issues of discussion? I guess price is always one of the major points, but I guess there's always discussion around whether you're prepared to sell a controlling interest or just a non-controlling interest. So perhaps if you can give us some more colour on that?

JOHN MULLEN : Well look I can't give any more colour on the specific negotiations, I think that would be commercially unwise. What I can say as a general backdrop is that we have remained very consistent for three years, that we will do whatever is in the best interest of shareholders and adds value. If that includes a total sale of the business for the right price, we would sell all of the business. We've said that over and over.

At this stage the negotiations we're having with various parties are around selling a minority, but we do not preclude any other solution if that turned out to be better.

SIMON MITCHELL: Okay, thank you. Just a last question on coal, if David's there. It looks like contracted tonnage for the year was about 179 million tonnes, based on the utilisation rate you gave. Can you perhaps help us envisage what that contractor profile looks like over the next few years? Also what you think utilisation rate is likely to do and I guess where that can get to on a sustainable basis?

DAVID IRWIN , DIRECTOR PACIFIC NATIONAL COAL, ASCIANO: Sure Simon. I think the profile apart from the growth contracts that we've already highlighted does continue to grow. Not materially, but does continue to grow over the next number of years, partly as a result of some of the renegotiations that we've put in place.

We do see that for FY15 an expectation of delivery against contracted levels staying in the range that it is now, both from a demand and a supply perspective. In both Queensland and New South Wales there's nothing to suggest that that will change. I also think that the work in all of the **coal** chains in terms of building efficiency and productivity across all of the service providers, is actually making that performance much more consistent.

So we're quite confident that the sort of levels that have been seen in FY14 will continue. In some cases I suggest we'll probably see an improvement on those during FY15.

SIMON MITCHELL: Okay, thank you.

OPERATOR: your next question comes from the line of Anthony Moulder from Citigroup . Please go ahead.

ANTHONY MOULDER, ANALYST, CITIGROUP : Good morning all. If I can start in container terminals, and look at fourth quarter growth rates in lifts are up over 10%. I think John you mentioned you're still seeing some volatility, but can you comment as to at what point that you think that volatility will end? Is it -- do we need greater growth?

The second component to that is, what kind of benefit are you getting from these new contracts, because I think the industry was growing at a far smaller rate than 10% in that fourth quarter?

JOHN MULLEN : Yes, I'll maybe ask Alistair to comment in a bit more detail as well, but I'**m** not sure that the volatility will ever really end. I think it's the nature of the business that as the shipping lines themselves restructure their industry on a very regular basis, co-load with each other, cancel ships, and the like, I think it's really normal -- the new normal, and we'll see that for -- going forward. That will always mean that in one quarter we will expand market share, and in another quarter we'll lose market share without actually winning or losing a customer.

Do you want to add a bit of colour to that Alistair?

ALISTAIR FIELD, DIRECTOR PATRICK TERMINALS AND LOGISTICS, ASCIANO: Certainly. I think the organic growth across Australia also varies across the various ports. So obviously from an organic point of view, our volume forecasting still sits in the 3%, aligned with GDP. Again, that differs from port to port.

Obviously new business that we've picked up in the past year, then obviously full benefits start to flow through and obviously that's the higher growth that you're seeing in particular ports.

I think the advantage for us with our asset base now is that we have the ability to grow across all four ports as well. So whilst there are fluctuations between the competitors within this terminal growth market, that also depends on those shipping line customers and their growth with their customers. So that volatility that John talks about as well is quite bearable and that will continue to do so as well.

ANTHONY MOULDER: All right. If I switch to PN Rail obviously fourth quarter weakness in volumes for that division (inaudible) even more negative than the third quarter growth rates. Am I correct in saying that at the investor briefing you thought that things were plateauing? Is that more a comment as to how you saw the month of June, going into July?

JOHN MULLEN : Do you want to--

DAVID IRWIN : It's David here Anthony. I think it's fair to say that we are seeing a floor being created, particularly in the intermodal space. We think that that is there more clearly now even than it was in the investor day. Some of what you're seeing there is also a reflection of the ongoing weakness in grain, offset to some degree by some strength in the other bulk commodities.

I think the key going forward, is there's enough to suggest that we're not going to see a continuing decline. There are a couple of glimmers of light that suggest we might see some peak later in the year in terms of intermodal volumes. I'**m** not sure it'll be a peak as we may have seen in previous years, but at least some volume that is greater than what we have seen over the course of FY14.

ANTHONY MOULDER: What gives you that confidence?

DAVID IRWIN : I think the activity that's happening in the market, the fact that we're seeing a bit of competitive dynamic there and opportunity across modes, and also the fact that we're actually making our business more competitive as a result of the transforming changes that we're making in that space.

ANTHONY MOULDER: Fair enough, thank you.

JOHN MULLEN : Nothing to write home about it, but I think just after two years of being beaten around the head with negative volume growth, it's just nice to see it's not as bad as it was, probably as optimistic as we would dare be.

OPERATOR: Your next question comes from the line of Scott Kelly from Morgan Stanley . Please go ahead.

SCOTT KELLY, ANALYST, MORGAN STANLEY : Good morning. I was wondering whether you could -- press speculation suggested you're in talks with China Merchants. I don't know whether you can specifically talk to them, but I'm just wondering what sort of strategic benefit such a player would bring to Patrick?

JOHN MULLEN : Look, for obvious reasons I don't think I can comment on the specifics of the discussions that we're having. We have confirmed that we're having a number of discussions with parties out there. Also we have consistently said that we're not just looking for a financial transaction. We don't need to just raise money necessarily obviously unless somebody else's is an extremely wholesome price. We are also looking for a strategic partner that helps us compete in a global industry by bringing other benefits such as customer relationships and operational relationships with shipping lines around the world so all of the negotiations that we have fit into that category.

SCOTT KELLY: Okay fair enough and just a couple of questions on firstly perhaps there's revenue growth at margin decline. I'm just wondering if that is the impact of the newer acquisition specifically Mountain Industries or is there something else that we should be aware of.

JOHN MULLEN : No you're absolutely right there -- it's the replacement of high yielding revenues from Gorgon project type activities with the acquisition of Mountain Industries a more traditional integrated logistics provider which added -- had a lot of revenue but obviously not the same commensurate levels of earnings.

SCOTT KELLY: Okay and just lastly on corporate costs that's reduced materially is that a permanent reduction and has there been a reallocation from any of the other divisions there?

ROGER BURROWS : It's Roger here. No it's actually principally to do with the profit on the sale of one of the properties we made during the year. So it's net of revenue -- it's like a net corporate line and so that's obviously not sustainable.

JOHN MULLEN : Underlying --

ROGER BURROWS : Which was AUD15 million that number

JOHN MULLEN : Yes and corporate costs remain flat.

SCOTT KELLY: Thank you.

OPERATOR: Your next question comes from the line of Matt Spence from Merrill Lynch . Please go ahead.

MATT SPENCE, ANALYST, BOFA MERRILL LYNCH : Hi guys. Roger can I just take you to slide 17 and this relates to the corporate costs as well. So you've said normalised corporate costs would be about the AUD45 million mark for FY15. Then on slide 17 you've got the difference in corporate costs which is expected to be AUD25 million out to the end of 2016 so is that the right way to look at it? So you're saying effectively corporate costs will be AUD20 million in FY -- or from the end of FY16? Delta is AUD25 million out between 2014 and 2016 -- seems high.

ROGER BURROWS : I think look a couple of things -- we actually expect corporate costs to be net around AUD50 million to AUD55 million not AUD45 million as you said. One of the -- I guess the subtleties of having sold the Ingleburn property at book to profit is that we no longer get the internal rent we used to pay ourselves so that now becomes externalised. We are still using it for a period so that's in the order of AUD5 million. You're also forgetting about we do have inflationary impacts on our costs too going over time as well so we do take costs out but what's left behind is obviously subject to the normal CPI type movements. So --

JOHN MULLEN : Also remember corporate costs end up a little bit the repository of actuarial movements and all sorts of ups and downs but what I can tell you unequivocally is that overall corporate costs are being held flat or slightly reduced. Just to the AUD55 million --

ROGER BURROWS : Just to give a bit of colour as well I mean one of the issues in the next couple of years we are -- we have referred to the significant upgrade of our IT systems -- that is actually not a free kit that's actually adding a bit of cost but it adds a lot more certainty in performance reliability in our systems itself so that is a negative trend against cost reduction. So whilst we're taking significant costs out of corporate we've also had to add a bit back in too for the IT side.

MATT SPENCE: Okay and John just one that's perhaps a bit semantics but on the Port sale you say the discussions continue to progress -- would you characterise that as continue to progress post the leak a month ago? Has there been progress since that news came out a month ago?

JOHN MULLEN : Yes the discussions are ongoing -- they were at the time and they remain so now. We've obviously for commercial reasons been fairly careful not to comment in too much detail on who or what or when or why but they are continuing to progress as they were at the time.

MATT SPENCE: Okay thank you.

OPERATOR: Your next question comes from the line of Sam Dobson from Macquarie. Please go ahead.

SAM DOBSON, ANALYST, MACQUARIE GROUP: Good morning. Just a couple of questions if I might. Just moving back to the container business you've mentioned the volatility in volumes. I was just wondering if you could possibly comment on what you think the impact of the Maersk and MSC vessel sharing agreement might be noting that they're two of your largest contracts?

ALISTAIR FIELD: Sam it's Alistair here. Obviously that relationship you're talking to with Maersk and MSC that's mainly on the east-west corridor between Europe and Asia and it doesn't really materially impact us here at all and as far as we understand there's no fixed relationship between the north-south routes that really impact Australia.

SAM DOBSON: Okay good that's clear. Just then on the 144 maturity in September of next year what's the current thinking there in terms of whether that will be replaced by bonds or bank debt in the [portion] you've talked to that previously.

ROGER BURROWS : We're well advanced. I don't think it's probably right to give you specifics but suffice to say given we've moved now into positive free cash flow territory going forward that bond is actually less than our undrawn bank lines anyway so we are sitting in a pretty comfortable position. So our intention is to look at some longer term issues perhaps at a slightly lower level and to be frank we look at all the markets. We've obviously got access to the Sterling market now in the European market if we need to, obviously the US is familiar with us and the Australian bond market is actually at least now emerged as something viable. So we've got many options we're considering. So it may be perhaps a combination of some of those.

SAM DOBSON: Okay and just finally on the -- I know John you mentioned that the Smith Channon acquisition was small. What sort of earnings impact is that having?

JOHN MULLEN : It's really very small indeed but it's a value adding enhanced service so if you're handling car imports for our major customers one part of the process that was always subcontracted out was the customs clearance handling all of that side of it and we're just by making a very small acquisition have brought that in-house but it's not material.

SAM DOBSON: Okay. Great thanks for that.

OPERATOR: Your next question comes from the line of Scott Ryall from CLSA. Please go ahead.

SCOTT RYALL, ANALYST, CLSA: Thank you. Could I ask John on slide 10 where you give the ROCE performance, can you just remind me which ROCE the Board looks at with respect to management remuneration and the long term incentives? Is it the ROCE ex WIP or is it just the reported ROCE please?

JOHN MULLEN : Reported ROCE.

ROGER BURROWS : Reported.

JOHN MULLEN : Yes -- everything.

SCOTT RYALL: Alright okay and then on BAPS I was wondering if you could just give us a bit of colour -- I may have just missed it at the start I apologise but the first half/second half split was pretty volatile obviously. And I think -- yes I'm just wondering if you can give us an idea. You've obviously said it's going to be a flat result over the course of the next 12 months but can you give us a bit of detail as to whether you think it was on an underlying basis a flat result for this year which you reported for the full year or whether indeed the second half was as poor as what the pure accounting splits refer to? I know that you've got the compensation from Port of Melbourne in the first half maybe the costs were more in the second half but can you just give us a bit of colour as to how we should think about normalising the half yearly splits if there is such an adjustment to do?

JOHN MULLEN : Yes I'll ask Philip to give you a little bit more colour there but it's probably the most difficult division to draw continuing trends from because it's so project related when a project comes on gives you a high level of earning and winds down again and depending whether you've got a new one coming on or not it can make some quite big swings. That's certainly been the case that although overall the result looks a bit disappointing if you look at everything pretty well except for the resources side it's been quite positive with some pretty good earnings growth in many of those areas. Philip do you want to just --

PHILIP TONKS , DIRECTOR, STRATEGIC PROJECTS, ASCIANO: Yes.

JOHN MULLEN : -- comment specifically on that.

PHILIP TONKS : Well basically in the second half of the year there was substantial costs in the exit from Webb Dock and we incurred substantial redundancy liability as a result of the Gorgon project with quite a number of people being made redundant in the west.

SCOTT RYALL: Okay and the cost in Port of Melbourne you got the -- you booked the compensation into that in the first half right so it's kind of a wash over the year but it's just an accounting split in terms of when you incurred the costs -- is that fair?

ROGER BURROWS : That's correct.

JOHN MULLEN : Yes.

PHILIP TONKS : Yes we've done maintenance to come in FY15 but the bulk of it has been expended.

ROGER BURROWS : At the half year we had to book all the revenue. We were able to book some of the costs but the accounting standards don't allow you to go all the way so some of them flowed actually into the second half as well in terms of when we could actually book the adjustment.

SCOTT RYALL: So you can you -- sorry I'm sure it's available if I go to the first half and second half but are you able Roger just to give me an approximate answer as to what the impact of that was?

ROGER BURROWS : Well I think we said that the net impact that will change over the year is minimal. I think it's less than AUD1 million. Page 40. Yes so when you look at -- well I don't know if you've got the very extensive MD&A in front of you but there's -- Kelly has just alluded me to page 40 of that document which I'm now struggling to find, Kelly. There's an --

SCOTT RYALL: Easy to find.

ROGER BURROWS : There's an EBIT bridge on that page which should give you some information. Look rather than tie the call up perhaps I can give you a call later.

SCOTT RYALL: Thank you. That's all I had thanks.

OPERATOR: Your next question --

ROGER BURROWS : That is the net of it is only about AUD1 million so it's washed itself through now.

UNIDENTIFIED PARTICIPANT: Hi guys can you hear me?

OPERATOR: Yes sir your line is open.

UNIDENTIFIED PARTICIPANT: Hi guys just a couple of quick questions and sorry to labour the point on the corporate overhead but just so I'm clear the profit on asset sale of AUD26 million you booked in 2014 -- about AUD16 million of that was in the corporate overhead line is that correct?

ROGER BURROWS : Correct -- I think it was closer to AUD15 million but yes correct.

UNIDENTIFIED PARTICIPANT: Yes okay and just again a point of clarification -- the AUD100 million benefit you expect in 2015 you expect to be at that run rate by the end of 2015 is that right?

JOHN MULLEN : That's right.

ROGER BURROWS : That's what we expect to be realised during the year yes.

JOHN MULLEN : Yes.

UNIDENTIFIED PARTICIPANT: When you say realise -- so you're getting 100% of AUD100 million or is it at that run rate by the end of the year?

JOHN MULLEN : The run rate by the end of the year to be AUD100 million giving a full year of AUD100 million in 2016.

UNIDENTIFIED PARTICIPANT: Yes okay great and final question just utilisation levels in intermodal what are they currently sitting at please?

ROGER BURROWS : Utilisation in which regard?

UNIDENTIFIED PARTICIPANT: You noted that utilisation levels were lower in intermodal at the moment just give a sense as to where they currently sit.

PHILIP TONKS : I think the key observation we're making there is that the utilisation of available capacity is lower which is a reflection of activity. What we're highlighting is that we see that flattening and hopefully starting to grow during the course of 2015.

ROGER BURROWS : Thanks for taking that question.

PHILIP TONKS : Yes.

JOHN MULLEN : Roger, our taking out capacity as well so it's both sides of the equation are moving.

UNIDENTIFIED PARTICIPANT: Okay great thank you.

OPERATOR: Your next question comes from the line of Cameron McDonald from Deutsche Bank . Please go ahead.

CAMERON MCDONALD , ANALYST, DEUTSCHE BANK : Good morning guys. A couple of questions just on the business improvement program obviously understand that there's been a slowdown during this year and you've got a couple of bigger line items to come through over the next couple of years from the integration of PN and then the automation of Port Botany. Should we expect that of that remaining circa sort of AUD80 **million** is that going to be reasonable evenly split across the two years or is it more going to back ended into FY16?

ROGER BURROWS : I think, when we get to this time next year I think virtually everything will be just about in place would be my expectation. The timing of when it flows then ensures, but no, the heavy lifting is being done, or has been done already and it continues into this year.

CAMERON MCDONALD : Ok. And so none of that is going to be dependent on growth returning particularly into intermodal and, what is now the new combined PN **group**?

JOHN MULLEN : Different day, different equation. So growth obviously is going to go up or down, as growth will go, but the cost takeout is a purely internal productivity target.

CAMERON MCDONALD : Ok, great. And then also, just on the distribution guidance that you've given, that it's going to grow at a greater rate than underlying earnings, you've also previously indicated that distributions could grow materially post the full business improvement program and post 2016 delivery. Should we think about this as a transition to that year? Or should we think about it more in -- just an incremental growth from this year?

JOHN MULLEN : I think we've been pretty consistent saying our target range is to get to the 60%/70% payout ratio as cash flow allows. Currently cash flow is tracking well on that target. Obviously we can't speak for the **Board**, who ultimately will make that decision, but 2016 is not that far away now, so we think we're progressing well on track to getting towards that target in the near to medium term future.

CAMERON MCDONALD : Ok, and the next question is, lastly, going back to --

ROGER BURROWS : Cameron, I think your question's, are we leaping to the endgame or are we in an orderly manner getting to it, and I'd like to think we're getting there in an orderly manner.

CAMERON MCDONALD : No, no, actually I mean if you take the 40% you go to 60% -- is it 50% or is it just an incremental change to the 40% this year?

ROGER BURROWS : A mystery which we'll unveil throughout the year.

CAMERON MCDONALD : Just on the port **sale**, is the discussion around just the terminals, or is it terminals and logistics?

JOHN MULLEN : I really wouldn't want to get into too much more detail. We've got confidentiality agreements out there with the parties that we're talking to.

CAMERON MCDONALD : Ok. Thanks guys.

OPERATOR: There are no further questions coming through at this time, so I'd now like to hand the conference back to today's presenters. Please continue.

JOHN MULLEN : All right, well thank you very much to everybody for dialling in. We appreciate your time on a very busy results day. That's Asciano, over and out. Thank you very much.

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