THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

AIO.AX - Interim 2012 Asciano Ltd Earnings Conference Call

EVENT DATE/TIME: FEBRUARY 21, 2012 / 10:00AM AEDT

CORPORATE PARTICIPANTS

Kelly Hibbins *Asciano Limited - Head of IR*

Angus McKay *Asciano Limited - CFO*

Alistair Field *Asciano Limited - Director, Terminals and Logistics*

John Mullen *Asciano Limited - CEO and Managing Director*

David Irwin *Asciano Limited - Director, Pacific National Coal*

Chris Keast *Asciano Limited - Director, Pacific National Rail*

CONFERENCE CALL PARTICIPANTS

Anthony Moulder *Credit Suisse - Analyst*

Ian Myles *Macquarie Group - Analyst*

Scott Ryall *CLSA - Analyst*

Matt Spence *Merrill Lynch - Analyst*

Simon Mitchell *UBS - Analyst*

Cameron McDonald *Deutsche Bank - Analyst*

Matt Crowe *Commonwealth Bank - Analyst*

Simon Fitzgerald *Moelis & Co - Analyst*

Jonathan Collett *Goldman Sachs - Analyst*

Scott Carroll *JP Morgan - Analyst*

PRESENTATION

Kelly Hibbins ***- Asciano Limited - Head of IR***

Good morning, everyone and welcome to Asciano's FY12 interim results presentation. For those who don't know me, my name is Kelly Hibbins and I run Investor Relations for Asciano.

This morning's session is being webcast and a number of participants are joining us via teleconference. Copies of this morning's presentation are available on the Asciano website and a replay of today's presentation will be available later today on the website. Before starting the presentation, I would like to draw your attention to the outlook disclaimer statement on the first slide.

Presenting today will be Asciano CFO Angus McKay, who will -- and we have a number of other members of the senior management team present today, both on stage and in the audience, who will available to participate in the Q&A session.

Angus will begin by running through the highlights of the six month period and provide a more detailed overview of the financial results followed by comments and strategic direction and outlook for the business and then move to Q&A. With that, I will hand it over to Angus.

Angus McKay ***- Asciano Limited - CFO***

Thanks, Kelly and good morning to everyone. As most of you all know by now, John Mullen is recovering from serious complications following an injury he sustained over the Christmas break. John has undergone surgery and is currently recovering in hospital. I know he wishes he was here, rather than in hospital.

Asciano had a very productive six month period. In light of the external challenges Asciano, along with the rest of the economy continues to face, we are very pleased with the results we are presenting today. Over the past 12 months, we have made good progress against a number of key business objectives, including areas such as safety, the drive for greater productivity, business improvement initiatives and the execution against the defiant long term plan.

However, many of these issues require significant cultural change. This does not occur overnight and we still have a long way to go. Our focus in 2012 will be on continue to build our capabilities, relentlessly focusing on the safety of our employees relentlessly focusing of the safety of our employees, delivering on the promises that we have made to our stakeholders, employee engagement, sharing business services and selective integration of our product offering to existing and a future customer base. We continue to increase our customer focus, to ensure we maintain and enhance existing relationships and expand the business through the creation of new relationships and opportunities. The focus on the integration opportunities will see us link our offerings within Patrick. For instance, providing customer offerings that span both our logistics and terminals business.

We will also continue to pursue integrated offerings across both rail and ports. I am pleased to say that we are already involved in a number of these opportunities. Before we remove to the results, I would be remiss of not commenting on the death of one of our employees. This fatality that occurred at the Port Botany Logistics facility during the six month period. The accident was a tragedy and the Board and Senior Management teams are committed to eliminating risks that can have life changing impact. Both the Board and Senior Management teams, once again, extend our deepest condolences to Richard May's family and his workmates.

Moving to the six month period, I will start with a summary of business highlights. Firstly we delivered double digit EBIT growth in all three operating divisions, which was driven by new contracts secured over the last 12 to 18 months and new commercial terms across a number of renegotiated contracts. This combined with good strong export grain demand. Despite the softer economic conditions in Australia over the period, our businesses more closely tied to domestic consumer demand, as the Intermodal within PN Rail and Container Terminals within Patrick, both recorded growth in underlying volumes over the period.

This operating growth assisted in delivering EPS growth of 22% over the period and a 17% increase in the dividend declared, which is a great performance in light of current conditions. Over the last twelve months we have eliminated the debt concerns that the Company has been plagued with since its listing in 2007. This culminated in October with the restructure of our banking facilities, to reduce the size of the syndicate to a more manageable number of banking partners, establishing a greater level of flexibility in the structure and delivering lower funding costs. This facility, combined with the two 144a bond offerings issued in FY11, provides us with the funding to achieve our current growth plans. We have restructured the management of Patrick and will now operate the business as three business units.

Terminals and Logistics under Alistair Field, who has been with the business for 18 months. Ports and Stevedoring headed by Phillip Tonks, who has also been with us for a total of some 16 years between Toll and Asciano. Autocare, which while small, has delivered a great performance under the leadership of Alex Milan, who has been with us since inception. This will ensure that where integration opportunities exist across the Group, they are recognised and achieved.

We have spent a lot of time building out our core functions within the organisation and we now believe we have the right team in place, although there remains a tremendous amount of work to do, to change the culture of the organisation in critical areas such as safety and talent management. Whilst this work has clearly begun, we recognise the need for the commitment to what is a lengthy journey.

We are disappointed to be losing the experience and leadership of Chris Keast, the Director of PN Rail. Chris has decided to pursue other opportunities and we would like to thank Chris for his continuing role, while we find a replacement. Now, turning to the specific highlights within each division over the six month period.

During the period, the Coal division continued to face a number of external factors, which reduced coal's haulage below contracted volumes. The commercial take or pay agreements that now cover in excess of 95% of our coal contracts have provided some protection against these lower volumes, however there were a number of issues, such as the problems at Port Kembla Coal Terminal and the ongoing coal chain congestion in the Hunter Valley that are creating ongoing impacts.

The PN Coal team continued gearing the business up during the six month period to commence a number of new contracts that start between 2012 and 2014. Over the next two years, the division will continue its very significant rolling stock procurement program, with 95 locomotives and over 2000 wagons delivered or set to be delivered by January of 2014. We are very pleased to say that the first tranches of deliveries, testing and commissioning have been successful and contracts with Anglo American and Middlemount Coal have both commenced with some tonnage hauled during December as part of the ramp up process. To support this growth, work on the maintenance and provisioning facilities at Greta in the Hunter Valley and Nebo in Queensland continues and both projects, despite hitting hurdles, including the weather in the Hunter Valley, are tracking on budget and will be open, on time, later in the 2012 calendar year.

The division also successfully secured a new contract over the six month period with Rio Tinto in Queensland for the haulage of 8.5 million tonnes per annum commencing in November 2014. The division is working on a number of other coal opportunities with producers and growth tonnages at existing mines and we expect will provide further opportunities for growth beyond the 2014 year.

Moving to PN Rail. The business had a very successful six month period, in terms of securing new contracts. A further four export grain train services were signed, two with a new customer, Emerald Group, and two with our existing customer, Cargill. In addition, a new contract with Broken Hill Operations for the movement of 120,000 tonnes per annum of lead and zinc was secured and new shuttle services with Linfox and Toll into Port Botany were also commenced.

Flowing on from the restructure of BlueScope Steel's Port Kembla operations, PN Rail has reached an agreement with BlueScope for the movement of 650,000 tonne per annum of hot rolled coil steel for BlueScope from Port Kembla to Western Port. This additional task will form part of the Steel Link contract with both BlueScope and OneSteel. The service is expected to commence during the fiscal '13 year. The returns from this service should more than offset the Stevedoring services previously provided by Patrick to BlueScope at Port Kembla and we are closely monitoring the restructure of the BlueScope business, which I will come to, a bit later on.

Moving now to Patrick. During the six month period, we were able to sign two new long term agreements with our key Container Terminal customers, Maersk and MSC with increased pro forma volumes attached to both contracts. While the subdued economic activity in Australia has resulted in lower than pro forma volumes to date, these contracts have resulted in Patrick's market share, on a national basis, moving back to around 50%. During the period, Patrick also expanded its existing two year contract with China Australia Express to include services to Brisbane and Sydney, adding an additional 124,000 lifts per annum on a pro forma basis. It should be noted that while services into Melbourne with CAX are, to date, significantly higher than last year, services are still below contracted pro forma.

The Ports and Stevedoring business has also had a busy period, following the restructure of its activities over the past 18 months. It has renewed contracts with a number of long term customers and has also won a number of new opportunities emerging from the regional resource projects in both Queensland and Western Australia.

The Stevedoring business in Port Kembla is in the process of being restructured following the announcement by BlueScope regarding its restructures of their operations. We are trying, where possible, to redeploy workers from that site. We took a restructuring and redundancy charge in this result of AUD1.8 million. Following further discussions with BlueScope, we believe it may be necessary to make further redundancies in the second half of fiscal '12. Until the scope and timing of the BlueScope changes is known, we cannot provide an estimate. I will now move to discussion the Group's

---

Angus McKay *- Asciano Limited - CFO*

I will now move to discuss the Group's financial performance in greater detail.

Moving to the detail of the Group's financial performance now for the six month period to the end of December 2011. Revenue growth of 8.9% was driven by new coal contracts in Queensland, the renewal of our existing coal contracts on revised terms, securing new business in our container terminals business and growth in PN Rail's Bulk business.

EBITDA increased by 6.9% to AUD436.8 million. EBIT increased by 8.9% to AUD295 million. EBIT for the period was boosted by positive mix changes and enhanced pricing.

Operating performance was positively impacted by new business in both PN Coal and PN Rail, business improvement initiative delivery, early signs of productivity improvements within our Terminals business and the positive flow-on of the closure of loss making businesses within our General Stevedoring and Ports division in the last fiscal year.

Group EBITDA margins declined over the period by 50 basis points to 25.6%. The drivers of the decline were increased costs associated with new labour necessarily hired in advance of contract commencement dates in both PN Coal and PN Rail, and the negative impact of industrial action within the Patrick division. The impact of this action in the six month period was AUD15 million. Material items for the period were AUD13.2 million and comprised of, the previously spoken of, financing costs associated with legacy bank debt refinanced during the period. Tax expense on profit before tax and significant items stood at 29%.

A fully franked interim dividend of AUD0.035 per share, a payout ratio of 28%, was declared. This is consistent with our stated payout guidance and reflects the Board's confidence in the medium term outlook for the business. We expect dividends in fiscal '12 to continue to be consistent with our guidance of between 20% and 30% of NPAT before material items.

The consolidated Group commenced paying tax in the last quarter, and we believe there should be adequate franking credits to continue to fully frank dividends for the foreseeable future. On 25 November 2011, the Federal Government released proposals to amend existing tax consolidation regimes. This announcement proposes both retrospective and prospective changes. The proposed changes are yet to be issued in draft legislation nor to pass through the Parliamentary process.

The Group recognised its right to additional tax deductions in its June 2011 financial statements. Should the November 2011 proposals be enacted as legislation these deductions may no longer be available to the Group. Further, the attributed tax base on intangible assets, which has been carried since Asciano's inception, may also be lost.

If legislation is enacted in accordance with the Government announcement, the Group could take an additional current tax liability of AUD18 million, additional deferred tax liabilities of AUD19.5 million, and an increase in total income tax expense of up to AUD37.5 million as at 31 December 2011. It is worth highlighting that whilst this one time potential increase to tax expense, it is in fact an acceleration of what would of happened over the next five years as intangibles amortised for accounting purposes.

The eventual impact on the financial statements is completely dependent upon the exact form of legislation enacted by Parliament. Until that legislation is substantively enacted, no financial consequences of these proposed amendments will be recognised in our financial statements.

This table also reflects a normalised EPS result of AUD0.116 per share. This is on the basis of the corporatisation that was effective in Q4 of 2010, and the share consolidation that was effective in November of 2011. Normalised EPS growth for the period was a good 22%

ROCE improved by 187 basis points to 9.8%, boosted by higher ROCE in both PN Rail and Patrick for the period. ROCE in Coal declined 40 basis points to 8.9% and was impacted by the build-up of work in progress capital spend related to new contracts scheduled to commence during 2012, and the construction of the provision and maintenance facilities in both the Hunter Valley and in Queensland.

Work in progress capital increased from AUD328.8 million at the end of June 2011, to AUD603.6 million at the end of December 2011, of this AUD521 million relates to the Coal division alone.

Finally, cash conversion, as defined by cash flow before interest and tax and divided by EBITDA for the Group increased by 192 basis points to 97%, reflecting a strong focus on working capital management right across our business.

Now turning to slide 9. This slide highlights the headline drivers behind our EBIT growth over the period. During the period the Group settled long standing disputes within Patrick. This positive net impact of the settlements of AUD11.5 million and is highlighted separately. The Group maintains a number of liabilities that are subject to recalculation at balance date under a discounted cash flow methodology. These include workers compensation, annual leave entitlements, and current and former employee rail pass entitlements.

With the recent decreases to the Reserve Bank cash rate the prevailing long term Government Bond yields used in these valuations have also declined. Thus we have seen a discount rate used in the discounted cash flow decline, hence increasing the underlying liability. I'll explain that later for those who really want to know. Given the potential volatile outlook for bond rates over the 12 months the valuation of these liabilities may change materially again at 30 June 2012.

Let me now deal with the other component parts of the EBIT bridge in more detail over the subsequent slides. Moving to Slide 10 which deals with PN Coal. The Coal division's result was boosted by additional contract tonnage, a different mix of contracts, and revised commercial terms under some of our legacy agreements.

NTKs across the division increased [sic - see ASX Announcement] by 7.1%, however performance across the major geographies was markedly different. North East Australia specific NTKs increased by 2.8%, which was offset by a 10.7% decline in NTKs in South Eastern Australia. North East Australia industry volumes remained negative to the prior year, as the region recovers from the weather events and the accompanying coal shortages. Despite these issues our NEA business performed very well, reflecting contracted growth compared to the prior period. Hauled tonnage was, however, below contracted levels.

PN Coal's SEA business was impacted by a number of incidents that reduced actual tonnage hauled; including the availability of coal for a number of our Hunter Valley customers, and ongoing coal chain congestion issues in the Hunter Valley.

Additionally, it is important to highlight, that the prior year comparison includes the performance of both Peabody and the contracted X-Rail rolling stock operation that do not appear in the current period. The like-for-like volume performance in SEA was therefore a 4% decline in NTK.

The benefits of the take or pay style contracts mitigated some of the impacts associated with this lost tonnage. However at an EBIT level we estimate that weather related issues impacted tonnes hauled by approximately 1.5 million tonnes, however given the extreme conditions that we saw this time last year this was actually a positive half over half movement. Without the commercial take or pay structure the loss in dollar terms would clearly have been significantly higher.

We have talked previously about coal chain congestion within the Hunter Valley. On this slide we have quantified the impact in the half year '12 period at AUD4 million or 1.6 million tonnes compared to the previous corresponding period.

This compares to the full year impact in F11 of 3.9 million tonnes. We believe this issue will continue to impact our ability to haul contracted tonnes in the Hunter Valley until ARTC track infrastructure capability match or exceed port peak at capacity, above rail and mine infrastructure capability.

Now let's look at PN Rail. PN Rail's result was driven by its continued focus on customer service, business improvement initiatives, and cost control. The key factors impacting this result included an 8% increase in NTKs across the business driven by a 3% increase in Intermodal NTKs and a 42% increase in Bulk Rail NTKs.

Delivery of business improvement initiatives of AUD7.7 million continued to play a significant role in EBIT performance for the period. Focus areas included fuel consumption, slot and path utilisation, and crewing efficiencies.

The positive Intermodal performance was supported by the commencement of the new Foster's business, primarily through Linfox, and a 10% year over year increase in Express business.

Steel revenue was positive year over year by 9% despite a 2% decline in volumes reflecting a different product and destination mix over this period.

Bulk rail volume growth was driven by increases in export grain haulage and a full six month impact of the new Xstrata magnetite contract in Queensland.

Moving to slide 12. On this slide we have separated out the underlying changes in EBIT from those that are more of a onetime nature.

The Patrick division performed well all things considered, benefiting from the rationalisation of some activities over the prior period, a renewed focus on customer service, new contract wins and the early results of business improvement initiatives. There was an increase in both TEU and lifts of 11.6% and 9.2% respectively.

Contracts lost or foregone in the prior fiscal year were offset by new contract wins and volume growth within Terminals, Ports & Stevedoring, Autocare and Port Logistics.

The volume increases in Terminals were a combination of both market growth and new business. Volumes at Fremantle and Melbourne were boosted by a new five year agreement with Maersk, and Sydney and Brisbane were boosted by new services secured with China Australia Express. These volume gains were more than offset -- sorry, these volume gains were offset by a reduction in subcontractor volume from DPW and the cessation of the AAS service in the prior period.

Business improvement initiatives across the division contributed AUD5.6 million in the half year with benefits coming from productivity, fleet management, and the restructuring of underperforming sites.

The Group remains on track to achieve the five year BIP savings previously forecast, although Patrick's progress in fiscal 2012 has been impacted by not concluding a new, final enterprise agreement with the Maritime Union of Australia covering the Terminals and Logistics business.

As mentioned earlier, the quantified impact of the ongoing industrial activity in the six month period was AUD15 million. This includes both lost volume and penalties payable to our customers. This is an increase of AUD5 million from our announcement in October of 2011, and on top of the AUD8 million of costs disclosed in the prior financial year. The positive net impact of the settlement of disputes was AUD11.5 million.

The rationalisation of Patrick's general stevedoring operations and the exiting of loss making or low profit enterprises in the prior period has impacted the current period by AUD2.4 million.

The estimated impact of the Chinese [sic - see ASX Announcement] earthquake and the Thai floods on operations was AUD1.6 million. These impacts materialise in the form of reduced vehicles to be stevedored or stored in both our general Stevedoring and Autocare businesses.

During the period BlueScope announced some significant changes to their steel making operations in both Port Kembla and Western Port Bay. As a direct consequence we have incurred restructuring charges of AUD1.8 million in this period. It is expected we'll incur further charges in the second half and, potentially, beyond as stevedoring operations are wound back.

The cessation of these stevedoring operations will be positively offset impacted, as I've already mentioned, with the commencement of new rail operations between Port Kembla and Western Port Bay.

Now moving to cash flow. The business generated operating cash flows pre tax and interest of AUD423.4 million, an increase of 33.7% on the prior period. Growth in underlying cash flow reflects revenue growth from our new business and contract renegotiations, improved cash conversion rates across our business, and lower interest costs associated with our debt restructuring activities.

Free cash flow, after capital expenditure and financing costs, was negative AUD143 million. CapEx increased 116% over the prior period, the growth being both across sustaining and growth related spend. Key projects include the previously disclosed items surrounding the procurement of rolling stock for both Anglo American and Middlemount contracts. New civil works at our terminals, new equipment for the Terminals' business and the maintenance and provisioning centres in Queensland and New South Wales.

Net interest paid was 2.5% lower than the prior period as a result of both lower interest rates, and our restructuring efforts over the past 12 months. The Group declared a fully franked final dividend of AUD0.035 per share which was an increase of 16.7% over the dividend from the corresponding period.

Now moving to Capital Expenditure. Both sustaining and growth CapEx have increased their trajectory in the half. Sustaining capital expenditure for the half was at AUD68 million an increase of 40% over the prior period. It is an increase toward depreciation levels and will include mid life rolling stock component change outs, facility enhancements across both PN Rail and Patrick and IT expenditure that spans the entire Group.

Growth CapEx for the period was AUD338 million. Key projects include new rolling stock for both PN Coal and PN Rail expenditure on Greta and Nebo and new equipment and civil works within the Patrick's. Asciano is now in a position to fund all of its forecast capital expenditure projects from both cashflow and existing facilities. Capital discipline remains at the core of our business and all new investment is not made without rigorous evaluation to support those investment cases.

We now move to our Business Improvement Program. The Company remains focused on these initiatives. Business improvement initiatives implemented over the half year yielded approximately AUD17.2 million at an EBITDA level. Programs commenced and continuing for the period target operating costs, productivity, asset utilisation and crew scheduling. These benefits were split as depicted across Patrick, PN Rail and Corporate. Key successes in the period included further fuel optimisation programs that yielded reductions in consumption of circa 2.2% over the same course of the half. Slot utilisation and path optimisation, crewing initiatives within PN Rail, maintenance programmes within Patrick and Telecommunications alignment and rationalisation within Corporate.

The Company will continue to focus on further efficiency opportunities in the second half and beyond. The Group is on track to deliver the savings outlined in our strategy meeting of September 2011. Since Fiscal 08 the Group has generated cost and efficiency benefits of an estimated AUD207 million and now has a well entrenched efficiency capability embedded in all parts of our organisation.

Cashflow over the period was very strong. Net debt levels, inclusive of the fair value movements on derivatives, increased by 7% from AUD2.7 billion to AUD2.8 billion. Drawings under our bank facilities and the hedging outstandings in respect of US bonds were unchanged in the period. Notwithstanding the US borrowings are fully hedged to Australian dollar, changes in loans and borrowings in the half year to 31 December were primarily as a result of the impact of reported balances of movements in both exchange rates and US interest rates. Cash conversion increased by 194 basis points to 97%.

Now turning to our financial profile, this slide has been modified to provide you with more detail on the various components of our loans and borrowings that impact upon our statutory balance sheet. At the close of the reporting period Asciano had committed available liquidity of AUD555 million and cash on hand of AUD256 million.

Turning to our maturity profile, during the half we completed the final stage of our balance sheet restructure. We successfully closed the re-financing of AUD1.4 billion of bank debt and this saw a significant reduction in the number of banks within the syndicate and importantly a reduction in our cost of funding. We have extended the coverage and our tenure of our debt to 5.9 years, with no individual maturity prior to 2013. We now have the resources to fund our planned growth, at an effective cost that is in accordance with both the quality of our assets and also our solid credit standing.

At the end of the period our consolidated net debt stood at AUD2.8 billion and net debt to EBITDA stood at 3.1 times. Interest cover increased to 3.8 times, 0.1 of a turn higher than the close of 30 June 2011. The Board and Senior Management team believe the underlying strength of our businesses and earnings support the current level of gearing. This provides with the flexibility to pursue the growth opportunities that are available to us.

Quickly on financing costs, we've inserted this slide to provide you with further information regarding the calculation of the various components of our net financing costs. The drivers of our funding costs in the second half of the year are expected to be the market based rates and the rate at which surplus cash is balanced and invested.

Touching on tax expense. Tax expense increased from 19% in the prior period to 30%. This reflects the roll off of prior year available losses. As mentioned previously the current review of Rights to Future Income deductions and subsequent legislation has the potential to increase tax expense in the second half. This increase would be as a result of retrospective legislation eliminating both deductions and the associated tax base.

Now finally turning to material items. The only component in the current year balance are the write down of capitalised establishment fees associated with our legacy bank facilities and these total AUD13.2 million. This item has been detailed as a material item as consistent with prior year treatments.

Let me now turn to the outlook for the Group, we start with PN Coal. We believe the outlook for coal export demand remains robust despite some short term weaknesses, particularly in metallurgical coal demand. We have not seen any evidence to-date that the intentions of the coal producers to continue new mines in Queensland in particular has slowed. Growth in the coal business in the second half of fiscal '12 will be impacted by wet weather in the Hunter Valley region, which has closed some mines in affected areas for periods over the last two months. Our Queensland business will continue to be impacted by coal availability at a couple of contracted mines and subdued demand, but to date has escaped the very significant wet weather impacts of the same time last year.

The Division will continue to focus on commissioning and testing new equipment for the further contract with Anglo American that commences in July 2012 for 3.5 million tonnes per annum. Focus will also continue on the completion of the maintenance and provisioning facilities at Greta and Nebo that support the growth in our respective regions. ROCE is expected to improve in fiscal 12 second half as work in progress capital spend of AUD521 million as of December 2011 is made productive and new contracts commence contributing to earnings.

We expect the Port Kembla Coal Terminal and our Port Kembla operations to perform below expectation in the second half of fiscal 12 given the ongoing operational issues and the current protected industrial action that terminal is under -- is seeing. PN Coal is doing everything possible to maximise coal tonnages hauled for our customers and also to minimise costs incurred as these results by third parties impact our business. We will continue to work with the various stakeholder groups in the Hunter Valley coal chain to try and reduce the increasing pressure on the system, however as previously stated, until additional freight capacity comes on line over the next 12 months or so this is likely to continue to have an impact on our ability to haul coal. The Division will continue to work on a number of opportunities for the expansion and provision of integrated solutions across both rail and haulage contracts.

Now turning to PN Rail. PN Rail has secured a number of new contracts that will drive growth in the second half of 12 and into 13. In export grain following recent contract wins PN Rail expects to operate 17 export grain trains in the second half of fiscal 12 compared to 12 services in the prior corresponding period. This is expected to ramp up to 19 services in the first half of fiscal 13. The volume of grain hauled will be dependant on the winter harvest and the impact of current wet weather. The Division will look to invest over the second half in equipment and labour to support these new contracts due to commence in fiscal 13 including new grain services and the agreement for the haulage of 650,000 tonnes of Hot Rolled Coil for BlueScope between Kembla and Western Port.

Intermodal underlying growth is expected to reflect broader economic activity with the benefit of new contracts commenced in the first half flowing through to the second half and the ongoing relative strength of our Express business. Following the resignation of Chris Keast a search for his replacement has commenced with both internal candidates and external candidates now being considered.

Moving to Patrick, starting with our Terminals and Logistics business. Whilst Asciano announced in November of 2011 that we had reached an in-principle agreement with the MUA, finalising the detail of this is a difficult process and a number of issues still remain solved. Asciano remains committed to working with the MUA to resolve all outstanding issues as quickly as possible. Investment in new equipment to support the agreement, when it is resolved, will continue with 9 cranes and 22 straddles plus other cargo handling equipment expected to be delivered across all four terminals over the next 18 months in the main replacing older equipment that will be retired. Of the nine cranes on order, five will arrive before June 2012.

We will continue to work with the Victorian Government and the Melbourne Port Authority to address future container terminal capacity issues. We have planned for a number of different scenarios depending on the decision made by the Government.

In terms of volume growth, the Terminals and Logistics business in the second half of 2012 should benefit from additional pro-forma volumes under the Maersk, MSC and CAX contracts. However there will be some dependency obviously upon the broader economic conditions in Australia. In the first six weeks of 2012 volume growth across the four terminals has been broadly in line with underlying growth in the first half with the benefit of additional contracted volume. The Logistics business should continue to benefit from the rationalisation of its activities and a renewed focus on the integration of its activities with the Terminals business. The impact of discontinued businesses in the second half of the year at a revenue line will be AUD1.1 million.

The Ports & Stevedoring business will continue to focus on bedding down its business in Port Kembla and is expected that to finalise by the end of fiscal 2012. The impact of discontinued businesses in the second half of the fiscal year in terms of revenue for this specific part of our business is AUD5.1 million. The Division is also looking at a number of new contract opportunities in key regional ports servicing new and expanded resource projects. Ports & Stevedoring is also working with our rail businesses on a number of projects requiring the integration of rail and port solutions.

On 29 February we expect to finalise the acquisition of a further 20% stake in the Port of Geelong Unit Trust to create a 50/50 joint venture structure between ourselves and Deutsche Bank RREEF. Asciano will continue to manage the day to day activities as per our existing arrangements.

Autocare should have an improved second half versus the prior corresponding period given the impact of the Japanese natural disasters in the fourth quarter of the prior year. Although that will be to some degree impacted by the pace of recovery within the automobile industry. The business is bidding on a number of core contracts that are coming up at present.

So in closing, let me summarise in the following way. We are delighted that the three operating divisions reported double digit EBIT growth in the first half of the year. This growth is expected to continue for the full year with EBIT expected to be skewed to the second half of the year. New long term contracts commencing in the first half of fiscal 12 will positively impact the second half and beyond.

The restructure of loss-making businesses in the three Patrick divisions is all but complete and the focus is now on pursuing growth opportunities including integration opportunities and ensuring that key customer relationships are defended and business platforms are expanded. Patrick will continue to work with the MUA to resolve all outstanding issues regarding EA negotiations as quickly as possible.

The management of projects represents a significant capital program and is specific to our second half. This will be a key focus for our operational management over the balance of the year and into fiscal '13. The focus of head office will be to roll out Company-wide programs across the areas that are particular to safety and sustainability, human resources and strategic business development. There will also be a Company-wide focus on customer service initiatives to ensure that we enhance our service level in as best way to both maintain and grow our business.

I'll now hand you back to Kelly who'll facilitate a Q&A session.

QUESTION AND ANSWER

Kelly Hibbins - ***Asciano Limited - Head of IR***

Thanks Angus. I apologise to the people on the telephone line. We do know that there are some technical problems. Hopefully they've been resolved, but when we moved to the phone, perhaps if you can let us know if you can hear.

We'll start by taking questions from the floor. If you could please raise your hand and wait for the microphone and state your name and the organisation you are from before asking the questions. Obviously in the interests of time, if you could keep it to one or two questions at a time so that everybody has a chance to ask something. So if there's any questions from the floor?

Anthony Moulder - ***Credit Suisse - Analyst***

I'll start if I can, Anthony Moulder from Credit Suisse. It looks like in the container business revenue per lift effectively was up about 2.4% in the period. Can you talk to what drove that, given I guess we see an increase in competitive pressures on the horizon?

Angus McKay - ***Asciano Limited - CFO***

(Inaudible - microphone inaccessible) talk to some of the customer drivers. That increase is driven by the mix of contracts that we service over the period and also the mix of ports that are serviced. Also, I suppose the style of container we're lifting, whether it be reefers versus straight containers. Are we going to talk about customer mix at all. Alistair?

Alistair Field - ***Asciano Limited - Director, Terminals and Logistics***

Not so much in the customer mix part, but I guess in the competitive nature going forward, that is one of the key focus areas for us.

Anthony Moulder *- Credit Suisse - Analyst*

I guess it does point to the fact that you're signing new contracts or different style contracts, was some of that implicit in this result?

John Mullen *- Asciano Limited - CEO and Managing Director*

Clearly we announced the signing of the [Maersk] agreement, which is a performance based contract and certainly our view, as we've expressed before, around our ports business, is that a competitive differentiator for us is actually being able to provide customers with service levels that they can look to expect.

Anthony Moulder *- Credit Suisse - Analyst*

It may be an unfair one, any idea on timing for the MUA deal?

John Mullen *- Asciano Limited - CEO and Managing Director*

Sorry, say that again?

Anthony Moulder *- Credit Suisse - Analyst*

Any indication of timing as to when you'll get the MUA deal signed?

John Mullen *- Asciano Limited - CEO and Managing Director*

Oh I wish I could give you a date. We clearly continue to work with and to get to an answer, but there are some unresolved issues and we just need to keep pressing on with them to get the right answer for us.

Anthony Moulder *- Credit Suisse - Analyst*

Thank you.

Ian Myles *- Macquarie Group - Analyst*

Hi, Ian Myles. A couple of questions, you made comments that you had spent some money on sell up costs for the new coal haulage contracts and the grain contracts, you've done really good slides detailing all the one-off costs in there, but you actually make no mention of those sort of start up costs and what the quantum might be.

John Mullen *- Asciano Limited - CEO and Managing Director*

Oh look we've probably incurred between AUD2 million and AUD3 million over the period across all the divisions around that. So it's not a significant number, but clearly in the scheme of what we're trying to do which is obviously maintained or expand margins, it does impact particularly until those contracts become unproductive.

Ian Myles *- Macquarie Group - Analyst*

Okay and in terms of the implementation of the Anglo, the middle man in the new contracts, have they actually gone smoothly that you're actually hitting all the volume targets you're meant to be doing in the first six weeks of the year? I guess the other issue is, you keep pointing out to Hunter Valley that you've got congestion in the system. Why doesn't your take or pay contracts give you a level of protection against that congestion?

David Irwin - ***Asciano Limited - Director, Pacific National Coal***

I'll answer that Ian, in two parts. Queensland first -- sorry, I'll go Hunter Valley first, that'll make it easier. The Hunter Valley congestion story is a real issue and is unquestioned now. I guess there's a very clear level of understanding of that across the industry. Bottom line is, really no track infrastructure growth over the course of the last two years, in terms of paths available, nearly 50% more trains and only about 20% more coal being moved. So it's a very congested network and our take or pay in our contracts is typically recovering the capital components, but we do have exposure on the variable costs. Cycle times are increasing, labour efficiency is reducing, all of that having an impact on our margin.

In terms of Queensland, what was the specific question again Ian?

Ian Myles - ***Macquarie Group - Analyst***

(Inaudible - microphone inaccessible)

David Irwin - ***Asciano Limited - Director, Pacific National Coal***

Oh yes, early days with both Middlemount and Anglo. Pleasingly we moved a reasonably material amount of volume before contract starts and since that point in time we've moved all of the coal that's been available. I think as most people are aware, demand is a little soft in terms of net coal out of Queensland, so all the coal that those customers are looking to move, we've been able to move quite effectively.

Kelly Hibbins - ***Asciano Limited - Head of IR***

Is there any more questions from the floor?

Scott Ryall - ***CLSA - Analyst***

Hi, thanks Scott Ryall from CLSA. Angus just to go back on the point on the EBA, last time we spoke about this we were looking at kind of March for approval through Fair Work, so that's clearly not going to happen given it takes about a month to turn things around. Where are we exactly in the written contract process? Weeks? Months?

Angus McKay - ***Asciano Limited - CFO***

So Scott, we're still in the drafting process with the MUA, so in terms of process, we have yet to go to an employee vote or yet to certainly take it to Fair Work. So we're still back negotiating with the MUA. There are a couple of issues that remain outstanding, but they're clearly obviously problematic for both sides and we just need to work through that.

Scott Ryall - ***CLSA - Analyst***

Materiality of those issues?

Angus McKay - ***Asciano Limited - CFO***

Oh look, I mean obviously the things that we feel passionate about and obviously the other side does as well, so we're not prepared to move forward to concluding agreement or drafting until we get to a point where we're comfortable.

Scott Ryall - ***CLSA - Analyst***

Okay and in terms of where we are with the Knuckle, can you just give us an update on that one?

John Mullen - ***Asciano Limited - CEO and Managing Director***

Yes, so we're in active dialogue right now with City Ports Corporation around the Knuckle, so we've come to agreement in round terms. We've yet to get to an executed or agreed drafted document, but we're in the process of doing that now.

Scott Ryall - ***CLSA - Analyst***

Timing expectations?

John Mullen - ***Asciano Limited - CEO and Managing Director***

Again, unfortunately because it is a drafting process, for me to put a date down, I'll be immediately wrong. But it's something -- you know, literally we've had teams in rooms over the last weeks doing that work.

Scott Ryall - ***CLSA - Analyst***

Okay and then this is a follow up question from my full year question and I'll only get one response this time from David. What -- so at the full year I asked Chris, Paul and David what was going to keep you here to deliver your strategic plan over three to five years. So can you just give us an update on where your head is?

David Irwin - ***Asciano Limited - Director, Pacific National Coal***

Hopefully it's on my shoulders. My answer's not too much changed Scott. Probably the only thing I didn't effectively answer at the full year was that I highlighted that coal's pretty much want to do. What I didn't highlight was that we've got a very effective and dynamic team in our coal business that I very much enjoy working with. We're also kicking goals against our main competition and we're building our reputation with our customers. So that's a pretty exciting place to be and as a part of this portfolio, we're unconstrained in terms of how we invest in the coal business. I can't see anything better to be doing in the immediate term.

Kelly Hibbins - ***Asciano Limited - Head of IR***

Okay, we might move to the phones.

Operator

Our first question comes from the line of Matt Spence from Merrill Lynch, your line is open, please go ahead.

Matt Spence - ***Merrill Lynch - Analyst***

Hi guys, hi Angus. First one, I just wanted to, on the -- within the PN Rail business, the new steel contract, to what extent does that offset the impacts that you've seen in the other parts of the steel business?

Chris Keast *- Asciano Limited - Director, Pacific National Rail*

Just do me a favour mate, just say that again to make sure I heard the last part properly?

Matt Spence *- Merrill Lynch - Analyst*

Yeah, so the new contract that you've got, the 650 tonnes, does that offset -- how much does that offset the BlueScope weakness that we've seen over the last 12 months?

Chris Keast *- Asciano Limited - Director, Pacific National Rail*

There have been some restructuring costs which Angus highlighted in the waterfall on the relevant slide in relation to Patrick. There is some potential further restructuring costs that we're working through as a consequence of those changes with BlueScope. There are obviously -- we're confident around those sort of returns. It will deliver us around AUD30 million of revenue per annum with that contract. It forms part of our existing steeling contract that is due for renewal on 31 December 2014.

Matt Spence *- Merrill Lynch - Analyst*

Great, thanks Chris. The new grain contracts presumably are take or pay as well are they?

John Mullen *- Asciano Limited - CEO and Managing Director*

Take or pay arrangements yes.

Matt Spence *- Merrill Lynch - Analyst*

Yep, okay thanks.

Operator

Our next question comes from the line of Simon Mitchell from UBS. Your line is open, please go ahead.

Simon Mitchell *- UBS - Analyst*

Morning, first question just on CapEx and I think I'm a bit like a broken record on this issue, Angus, maintenance CapEx only about 60% of depreciation and also looks to be well below half of what you gave guidance for at the strategy day last year for the full year. How much further can we expect this to run below, well below depreciation?

Angus McKay *- Asciano Limited - CFO*

I stand by my original comments, we see maintenance CapEx catching up to depreciation, but we're now on that path, but we're not going to do it overnight in terms of the six month period jump to that. So with the plans we've outlined, I mean we've clearly shown that we've got circa another AUD500 million of CapEx in the second half. We've given guidance of up to AUD700 million for next year. You're going to see maintenance CapEx gradually move towards depreciation, so --

Simon Mitchell *- UBS - Analyst*

Are you still expecting for the full year 30% of CapEx to be maintenance?

Angus McKay *- Asciano Limited - CFO*

Yes.

Simon Mitchell *- UBS - Analyst*

Which will apply aboutÂ --

Angus McKay *- Asciano Limited - CFO*

It will be in that vicinity, yes.

Simon Mitchell *- UBS - Analyst*

Just secondly, just a question on coal for Dave, 60 million tonnes carried in the half, what was the actual contracted level in the half?

David Irwin *- Asciano Limited - Director, Pacific National Coal*

Good question Simon, it was about 10 million or 12 million tonnes higher than that.

Simon Mitchell *- UBS - Analyst*

Can you give us a breakdown just where the differences were between Queensland and New South Wales perhaps?

David Irwin *- Asciano Limited - Director, Pacific National Coal*

There wasn't a material difference between the two states.

Simon Mitchell *- UBS - Analyst*

So half between each?

David Irwin *- Asciano Limited - Director, Pacific National Coal*

Yes, pretty much similar proportions across states.

Simon Mitchell *- UBS - Analyst*

Thank you.

Operator

Our next question comes from the line of Cameron McDonald from Deutsche Bank. Your line is open, please go ahead.

Cameron McDonald *- Deutsche Bank - Analyst*

Good morning guys. Just a question, Angus, on the guidance. You've mentioned that the second half will be higher than the first half and also on the PCP. Presumably, are you talking about the headline number that you've reported or you've got a range of one-off costs in here including the normalised EBIT on page 12 in Patricks Ports business, nearly AUD10 million higher with some of those one-off costs.

Also, just trying to get some feel of what that AUD12.1 million in accruals at the corporate level is and what that's sort of related to and whether that would be repeated, so whether or not you're actually referring to a more normalised EBIT number being higher in the second half, relative to a normalised number in the first.

Angus McKay *- Asciano Limited - CFO*

Keep it simple and talking to a headline number, so first half was AUD295 million, we expect the second half EBIT to be higher than AUD295 million. In terms of these headquarter accruals, I mean for the (inaudible) accruals for workers compensation, long service leave I think are pretty standard accruals. Probably the one that is not so standard but part of our business is based upon some of the prior legacy organisations. We carry rail pass entitlements as a liability, so this is effectively gold passes for employees who've reached a certain period of tenure. We have to revalue all those liabilities at balance date and the process to do that in the main is via a DCF analysis. The discount factor that's prescribed under the standard is effectively our government bond rate. So that's what's called the year over year change and obviously government bonds have decreased significantly over that time.

Where we go to between December 31 and June 30, I won't put that Nostradamus hat on right now. Whether cash rates go up or down will actually make the determination as to whether there is a movement on that. But it's a revaluation of any existing balances, existing from the take up of a new balance.

Cameron McDonald *- Deutsche Bank - Analyst*

So presumably though, you've got effectively just over AUD20 million tailwind, given that those costs shouldn't be repeated in the -- on a like for like basis, if you like, in the second half?

Angus McKay *- Asciano Limited - CFO*

Well perhaps the best way to describe it is, assuming volumes don't change, i.e. the level of workers comp, the levels of annual leave or the levels of rail pass don't change and there is no rate change from the government perspective, those liabilities should remain at the same level. If there is a rate change that is a decrease, the liability goes up and again I'll take it offline to explain that one, because I don't quite get it, but that's just the way the discounter works. Equally, if obviously volumes go up, they change; the volumetric change is something that is business as usual for us. The part that is less business as usual is the significant change in underlying interest rates.

Cameron McDonald *- Deutsche Bank - Analyst*

Yes, thanks.

Operator

Our next question comes from the line of Matt Crowe from Commonwealth Bank. Your line is open, please go ahead.

Matt Crowe *- Commonwealth Bank - Analyst*

Good morning everyone. Just on the business improvement program, like the AUD17 million this half and the target of AUD150 million five years in cost savings, how much CapEx do you need to spend to meet that target of AUD150 million and or to what extent is that -- those savings reliant on CapEx replacing OpEx or on the other hand, to what extent is it just an indication of changing or improved work practices?

Angus McKay *- Asciano Limited - CFO*

So the time we put out the AUD150 million, we also gave two years' guidance on CapEx. The top end of those ranges were for the current year AUD900 million and for next year it was AUD700 million. We have not gone beyond that.

The CapEx requirements to hit that AUD150 million are built into our existing capital plans. So certainly within the first two years it was disclosed. As part of the overall financial objectives for the Group and the ROCE targets we put out, they're built into there.

So there is a CapEx dependence. An example of that would be where we put new cranes into terminals. We put new straddles into terminals. We get productivity benefits from just simply having more current technology and that flows through. So they are there, but those costs for the OpEx and CapEx required to drive them are built into our long term plans.

Matt Crowe *- Commonwealth Bank - Analyst*

Okay, thanks. Just, sorry just to harp on this actuarial adjustment. Just to clarify, is there a change of methodology that generated that cost, or is it just movement in the variables that go into that explanation?

Angus McKay *- Asciano Limited - CFO*

No, there's no change in methodology. It's just simply the extreme nature of the movement between 30 June and 31 December.

Matt Crowe *- Commonwealth Bank - Analyst*

Okay, thanks for clarifying that.

Operator

Our next question comes from the line of Simon Fitzgerald from Moelis. Your line is open. Please go ahead.

Simon Fitzgerald *- Moelis & Co - Analyst*

Hi there everyone. Just wanted to get a little bit of feeling in terms of your finance facilities like what a win in some of the larger coal opportunities would do that in terms of your capacity?

Also secondly in terms of that pricing, in Patrick's list, I was just wondering is that the sort of runway that we should be thinking about going forward for FY12 or should we see a further improvement?

Angus McKay *- Asciano Limited - CFO*

Could you just repeat the first question again, the finance one?

Simon Fitzgerald *- Moelis & Co - Analyst*

Just in terms of financing facilities in terms of the impact of some of the larger coal opportunities that are out there -- so I'm thinking about some of these Queensland opportunities -- so the BHP contract. If you were to win that or a significant proportion of it, how would that impact your financing facilities? Do you have enough capacity there at the moment?

Angus McKay *- Asciano Limited - CFO*

I suppose the short answer is between our existing facilities and the free cash that we start to throw off particularly next year and beyond, we do. To some degree the devil in that question is the amount of the contract that we win. So a hypothetical, if we were to win all of that contract -- which just to be clear we are not expecting to get all of that contract -- we may need to think about financing. But in terms of the proportions that we think we stand a good chance of getting, that can all be done within existing facilities and existing cash flow or future cash flow.

Simon Fitzgerald *- Moelis & Co - Analyst*

Also when will negotiations start on that contract? When do you envisage you'll start talking to them about it?

David Irwin *- Asciano Limited - Director, Pacific National Coal*

It's Dave Irwin. I think that process has probably been ongoing in an informal sense for an extended period. The entire environment in terms of Queensland coal and particularly those major chunks of existing haulage volume, it's about positioning ourselves in that dynamic changing market, and that that probably is the pre-cursor to a more formal negotiation. From our perspective we've been looking to prove and demonstrate our bona fides and build our relationships with BHP over the course of the last two or three years.

Simon Fitzgerald *- Moelis & Co - Analyst*

Okay, and my last question was just on pricing and per lists on Patrick's in terms of the outlook there.

Alistair Field *- Asciano Limited - Director, Terminals and Logistics*

Just in terms of the past six months that we've seen, we've seen an increase in costs in maintenance in particular. Obviously from a volume perspective, with our new business that's come in, we've seen an offset on that as well.

Simon Fitzgerald *- Moelis & Co - Analyst*

Great, thanks very much. No further questions.

Operator

Our next question comes from the line of Jonathan Collett from Goldman Sachs. Your line is open, please go ahead.

Jonathan Collett *- Goldman Sachs - Analyst*

Hi guys, just a quick question on intersegment revenue. It's jumped up about AUD15 million from last year. In Patrick it's up about AUD10 million. I just want to know what's driving that.

Angus McKay *- Asciano Limited - CFO*

That was again Jonathan, segment revenue?

Jonathan Collett *- Goldman Sachs - Analyst*

Yes, intersegment revenue was up about AUD15 million on PCP and it's up about AUD10 million in Patrick. So I'm just interested to know what that relates to and why it's going up.

Angus McKay - ***Asciano Limited - CFO***

Well specifically in Patrick, it's one year volume associated with new contracts and new proformas, offset obviously by the services from the prior year. So Patrick is by and large driven by volume.

Jonathan Collett - ***Goldman Sachs - Analyst***

Okay, no worries.

Operator

Our next question comes from the line of Scott Carroll from JP Morgan. Your line is open, please go ahead.

Scott Carroll - ***JP Morgan - Analyst***

Hi Angus. Just a quick question on the CapEx. Based on the first half amount and your guidance for the second half, you'll be toward the top end of the AUD700 million to AUD900 million range you gave for FY12 previously. Just wondering if that has -- that could see possibly toward the bottom end, or if that's been brought forward from FY13 and whether that AUD500 million to AUD700 million range you gave for FY13 is still relevant?

Angus McKay - ***Asciano Limited - CFO***

I think fairly clearly we'll be towards the top end of our guidance. Look, the principal drivers are obviously contracts in terms of coal and rail and our rolling stock procurement. I think they're reasonably orderly programs. The two projects that we're pushing very hard to make sure we complete on time and budget are Greta and Nebo. If you'll remember, at our full year announcement they were the predominant reason why we underspent last year, and it was around approvals by and large. So both of those projects have been making good ground in the first half and we expect as I said that they will close on budget and on time in the back end of this calendar year.

Scott Carroll - ***JP Morgan - Analyst***

Okay, but is the '13 guidance of AUD500 million to AUD700 million still stands?

Angus McKay - ***Asciano Limited - CFO***

That's certainly what we're saying today, correct.

Scott Carroll - ***JP Morgan - Analyst***

Cheers.

Operator

There are currently no further questions in the queue. I would like to hand the conference back over to our hosts.

Kelly Hibbins *- Asciano Limited - Head of IR*

Are there any other questions from the floor? No. Okay, well thank you very much for attending today. Obviously the guys will stay around if anybody has any further questions. Thank you.