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ASX Announcement

Qube delivers solid revenue and earnings growth as Patrick outperforms

Board declares special fully franked dividend

- Underlying NPAT up 4.5% to $106.8 million ($122.8 million pre-amortisation)
- Underlying revenue growth of 9.1% to $1.65 billion
- Statutory NPAT of $199.3 million and NPATA of $215.3 million
- Full year dividend of 5.5 cents per share fully franked and special fully franked dividend of 2.0 cents per share

Qube Holdings Limited (Qube) today announced a solid financial performance for the year ended 30 June 2018 which included both organic growth and earnings growth from the prior year's acquisitions including a strong contribution from Patrick.

Highlights for the period include:

- The first full year contribution from Patrick with a $61.6 million cash distribution to Qube allowing Qube's Board to declare a special dividend to shareholders.

- Positive pre-tax revaluations of around 35% for Qube's investment properties at Minto and Moorebank.

- Record performance from ports activities supported by solid earnings contribution and cashflow from AAT under 100% Qube ownership.

- Considerable interest in Moorebank Logistics Park (MLP) leasing and development opportunities with construction of rail link, Import-Export (IMEX) terminal and new warehousing underway.

- The completion in December 2017 of the acquisition of MCS container park business in New South Wales with synergies expected to flow in FY19.

- An outstanding safety performance with a further 67% improvement in the lost time injury frequency rate from an already low base.

- Maintained its strong balance sheet with diversified funding sources and a leverage ratio below the bottom end of Qube's long term target leverage ratio of 30%-40%.

Releasing the annual result, Qube Managing Director Maurice James said, “The 2018 financial year was another successful year of completion and implementation at Qube. The company successfully met the challenge of staying focussed on the core businesses in a tough competitive environment.

Once again Qube’s good performance reflects our diversification strategy with strength in mining, forestry, project cargo and imported vehicles offsetting softness in the grain and logistics sectors. The performance by Patrick (50% owned with Brookfield Infrastructure and its partners) was above expectations reflecting high market volumes and improving market share, and Patrick is well on track to achieve the acquisition case synergies.

Patrick is also progressing planning for the development of an automated rail terminal at Port Botany which will significantly increase the efficiency of rail operations.

The transformational Moorebank project remains on track despite some delays and a commercial dispute with the Moorebank Intermodal Company (MIC) over some land preparation works undertaken for MIC. This is not expected to have a material impact on the project.

The Moorebank project will be further enhanced by the Commonwealth Government’s decision to fund duplication of the rail track to and from Port Botany to meet the modal shift from road to rail from the development of new intermodal terminals. Qube’s confidence in Moorebank is reflected in the recent appointment of Kalmar Global to deliver the fully automated Stage 2 of the IMEX terminal which is expected to be completed by CY22.

We continue to diversify our funding sources and remain well below Qube’s long term target leverage ratio giving the company flexibility to respond to market challenges and opportunities”.

Financial Performance

Qube’s underlying revenue in the year to 30 June 2018 was around $1.65 billion (up 9.1%) and underlying earnings (EBITA) were around $164.8 million (up 3.6%).

Qube’s underlying net profit after tax (NPAT) increased by 4.5% to $106.8 million and underlying net profit after tax before amortisation (adjusted for Qube’s share of Patrick’s amortisation) (NPATA) increased by 6.0% to $122.8 million.

Qube’s underlying earnings per share pre-amortisation (adjusted for Qube’s share of Patrick’s amortisation) (EPSA) was 7.7 cents, a decrease of around 3.8% on the prior corresponding period.

The prior year’s earnings included a net $22.2 million EBITA and $15.5 million NPATA contribution from Qube’s Asciano shareholding which was acquired and sold as part of the broader transaction to secure a 50% interest in Patrick. The decline in EPSA is mainly due to the inclusion of these earnings in the prior year’s earnings as well as the dilutionary impact of the capital raising completed at the end of FY17 to fund the Moorebank development and other growth capex.

Qube’s statutory NPAT increased by 157.8% to $199.3 million and NPATA increased by 136.6% to $215.3 million. Statutory diluted earnings per share was 12.4 cents or 13.4 cents pre-amortisation. The statutory results are materially higher than the underlying results mainly due to the positive revaluation of two freehold properties at Culverston Road, Minto (Minto Properties) and Qube’s 99 year leasehold interest in the land at Moorebank to be used to develop an estimated 850,000 m^2 of warehousing.

The valuation gains reflect Qube's substantial progress in the planning, development, leasing and funding of these strategic assets, as well as continued strengthening overall in the demand for, and value of, industrial land in South West Sydney where these properties are located.

Balance sheet strength maintained with substantial funding capacity

Qube finished the period with net assets of around $2.75 billion and net debt of approximately $862 million. Qube's leverage ratio (net debt / net debt plus equity) was 23.9% which remains below the bottom end of Qube's long term target leverage ratio of 30%-40%.

Qube completed several important funding initiatives during the period to increase its available funding, diversify its funding sources and extend the tenor of its debt. At 30 June 2018, Qube had cash and available undrawn debt facilities of around $780 million, and the average tenor of Qube's debt facilities was 4.9 years with no debt facilities maturing during FY19.

Dividend

The Board has determined to declare a final dividend of 2.8 cents per share fully franked, thereby maintaining the full year ordinary dividend at 5.5 cents per share as in the prior year.

In addition, the Board has determined to declare a special dividend of 2.0 cents per share, fully franked. The special dividend reflects the high cashflow being generated by Patrick and distributed to Qube in the period which is above the corresponding earnings contribution to Qube in the period.

Operational Overview

The twelve month period to 30 June 2018 saw Qube continue to benefit from its diversified operations and breadth of logistics capabilities.

Operating Division

Qube's operating division comprises its Ports & Bulk and Logistics divisions. Historically, these were managed and operated on a stand-alone basis with minimal overlap. However, since the appointment of a Chief Operating Officer in FY17, management has focussed on achieving cost savings and operational benefits through a more integrated approach to these divisions.

Accordingly going forward, Qube will be presenting the Logistics and Ports & Bulk divisions as a single segment being the Operating Division to reflect how the business is being managed and reported internally.

Ports & Bulk

The Ports & Bulk division had another successful year with underlying revenue and earnings (EBITA) increasing by around 13.2% and 19.2% to $840.7 million and $87.6 million respectively on the prior corresponding period.

The division is highly diversified by product and customer with no customer accounting for more than 5% of divisional revenue and the top 3 commodities/products, being forestry products (14.4%), mineral sands (11.1%) and iron ore (10.0%) representing around 35.5% of FY18 divisional revenue and the balance coming from a diverse range of products including copper concentrate, lithium, manganese, cement, vehicles, oil and gas, coal and agri foods.

The ports activities delivered record results due to strong motor vehicle import volumes and forestry export activities, emergence of new project cargo work (which is typically higher margin but relatively short term in nature), improving bulk commodities volumes and some improvement in oil and gas related activities.

Qube's bulk activities also contributed significantly to Qube's results in the period with new contracts secured with a range of customers including Whitehaven Coal, Tronox and Sibelco, and earnings benefitting from the initial contribution from prior period capex.

Logistics

The Logistics division delivered a reasonable result given several headwinds that impacted the business in the period. The full year underlying revenue increased by 7.9% although earnings (EBITA) decreased by around 5.0% over the prior corresponding period to $714.3 million and $62.8 million respectively.

These headwinds included very low volumes of grain which affected both the bulk rail and containerised grain haulage activities and also had a flow on effect on the empty container park activities, reduced terminal services revenue at North Dynon, Victoria, following the exit of Aurizon from its interstate operations, and the impact of exiting the Sydney Haulage site in April 2017 at lease term end.

Despite these headwinds and a very competitive operating environment, revenue and earnings growth was delivered in all states other than New South Wales. Qube was successful in securing a number of new customers and delivering further cost savings. Progress was made with the construction of a new warehouse at Altona, Victoria, which is scheduled to be completed and operational by the end of August 2018.

Infrastructure and Property Division (formerly Strategic Assets)

During the period the Strategic Assets division was renamed the Infrastructure and Property division. This was done to better reflect the nature of the core activities and operations within this division, which comprises the Moorebank Logistics Park, Minto Properties and AAT, all of which are wholly owned and controlled by Qube. The earlier stage activities within this division, currently comprising Qube's investments in Quattro and TQ Holdings, are managed within the Strategic Assets division, which are reported within the overall Infrastructure and Property division.

Underlying revenue and earnings (EBITA) were $95.4 million and $33.1 million respectively, an increase of 73.5% and 117.8%, respectively over the prior corresponding period.

The substantial increase in underlying revenue and earnings were largely attributable to the inclusion of a full year's contribution from AAT (as Qube only acquired the remaining 50% of AAT in November 2016). AAT experienced strong growth in passenger and mining related vehicle imports, project and general cargo across its facilities, in both Port Kembla, New South Wales and Fisherman Island, Queensland.

The statutory results include pre-tax fair value gains on Qube's Minto and Moorebank investment properties of around $163.2 million.

Moorebank

The MLP project achieved a number of important milestones in FY18 across planning, construction and leasing functions although there have been some delays in meeting Qube's initial project timeline.

The MLP development is experiencing considerable leasing/tenant interest with prospective tenants attracted to the logistics opportunity that the location and operation of the site presents, particularly given limited alternative competing sites within this area of the Sydney industrial market. However, Qube continues to expect a progressive signing of formal leases with some interested parties expected to wait until the rail terminal and initial warehouses are built and operational, and the expected efficiencies demonstrated.

From a planning perspective, approval for Moorebank Precinct East (MPE) Stage 2 SSD was granted in Q1 CY18. This provides Qube with the ability to construct and lease up to 300,000 m^2 of new warehousing. Qube had submitted a planning application at around the same time for Moorebank Precinct West (MPW) Stage 2 SSD which will enable Qube to construct and lease an additional 215,000 m^2 of warehousing. This process has been delayed through the statutory processes associated with voluntary planning approvals and approval is currently expected to be received by Q1 CY19 following finalisation of road access, construction and funding arrangements with Roads and Maritime Services (RMS) and MIC.

Reflecting Qube's confidence in the medium term tenant demand for Moorebank, Qube decided during the period to proceed with the automation of the IMEX rail terminal and appointed Kalmar Global to deliver the equipment and associated operating systems. This contract is a staged delivery expected to start in late CY19 with the terminal moving from manual to fully autonomous operations by CY22, using similar technology to that adopted by Patrick at its automated container terminals in Brisbane and Sydney.

The minimum expected cost of the Moorebank project over the first 5 years (FY17 to FY21) is now expected to be around $642 million compared to Qube's previous estimate of $400 million. The increase from the previous estimate mainly reflects the decision by Qube to fund the construction of the first two warehouses and to accelerate the timing of the automation of the IMEX rail terminal. At 30 June 2018, approximately $197 million of this total has already been spent.

The minimum expected expenditure includes funding for the enabling infrastructure and precinct works, the manual and automated stages of the IMEX rail terminal, the manual first stage of the interstate terminal and the Target Australia and Qube Logistics warehouses. The additional expected expenditure for these items beyond FY21 is expected to be around $150 million.

Progress on the construction of the IMEX terminal has been good. However, completion of the rail link from the Southern Sydney freight line to the Moorebank site is now forecast to be mid CY19 due to delays in receiving regulatory approvals for access and an environmental protection licence. This will delay commencement of rail operations by between three and six months from the earlier estimate of March 2019 which is not expected to have a material impact on the project's returns. The rail link is expected to be operational before warehousing operations commence.

A commercial dispute exists between Qube and MIC regarding some land preparation works undertaken for MIC on its site on the western side of Moorebank Avenue where Qube has incurred expenditure of around $40 million. In order to continue to progress the overall development of the project, Qube may fund some additional expenditure on Moorebank Avenue works. In addition, post the end of the period Qube has entered into a contract with BMD for Moorebank Avenue works required for the project. Qube will be seeking reimbursement for the amounts that Qube has funded.

<u>Minto</u>

The development of Qube's Minto site was completed on time and on budget towards the end of the financial year. This site has been successfully transformed from an underutilised site into a fully occupied automotive logistics hub with quality tenants including Mazda, Ceva and Prixcar. Revenue from the new leases will result in increased earnings in FY19. Over the longer term, the size (30 hectares) and strategic location adjacent to the dedicated rail freight line, means this high quality site will provide expansion potential once the MLP reaches full occupancy.

AAT

The contribution from AAT benefitted from strength in passenger and mining related vehicle imports, project cargo as well as general cargo to support major infrastructure projects underway in both New South Wales and Queensland. AAT exited from the Webb Dock facility in Melbourne in late December 2017 and quickly established operations at Appleton Dock for handling bulk and general cargo in Melbourne and to maintain its Melbourne operating presence.

During the period, AAT successfully extended its Fisherman Island (Queensland) lease to 2041 (by virtue of two lease extension options).

Patrick

Qube was pleased with Patrick's performance in FY18 which exceeded Qube's expectations from a market share, earnings and cashflow perspective. Qube's underlying post-tax earnings contribution from Patrick in the period was $26.9 million, a 26.9% increase over the prior corresponding period (which only included 10.5 months of ownership). Qube's profit comprised interest income on the shareholder loans of around $24.4 million ($17.1 million post-tax) and share of Patrick's profit after tax of around $9.8 million. Patrick's total underlying after-tax contribution to Qube's earnings, excluding Qube's share of Patrick's amortisation, was $34.8 million, a 28.4% increase on the prior corresponding period. Patrick distributed $61.6 million in cash to Qube in the period, which was well above the corresponding earnings contribution to Qube in the period, as a result of the strong cashflow generated by the business and positive earnings outlook.

Patrick's result benefitted from market growth as well as market share gains in the second half of the year. In the 12-month period to June 2018, market volumes (TEU) increased by around 8.3% while Patrick's volumes (TEU) increased by around 7.8% in this period. However, in the six months to June 2018, Patrick's volumes (TEU) increased by around 15.6% compared to market growth of 8.4%. The prior 12 month period for Patrick included four months of the sizeable A3 contract that was lost in October 2016 and therefore Patrick has been successful in growing its market share in the second half of the period. Patrick has successfully increased its volumes through organic growth from existing customers as well as securing several new contracts during the period and two new services secured post year end. Pleasingly, there were no customer losses in the period, and Patrick has now recontracted around 95% of its customer base for FY19.

The strong financial performance and cashflow enabled Patrick to finish with net debt of around $892 million which was after the distribution of $123.2 million to shareholders in the second half of FY18 (Qube share - $61.6 million).

Other Associates

Qube's associates (excluding Patrick) delivered a disappointing overall result in the period despite a better contribution from NSS, with the weaker overall result largely reflecting low grain volumes (Quattro) and a slower than anticipated turnaround for Prixcar. This resulted in Qube recognising an additional impairment to its investment in Prixcar of $3.3 million at 30 June 2018 bringing the full year impairment to $9.3 million.

Summary and Outlook

The 2018 financial year saw Qube maintain its strong market positions through delivering reliable, cost effective logistics solutions. Qube continued to undertake substantial investment on equipment, facilities and technology to support these solutions and deliver a superior value proposition to its customers. This enabled Qube to deliver a solid overall financial performance in FY18.

Qube will continue to invest in people and resources across the group in a range of areas including operations, safety, IT/technology and risk management to ensure that Qube continues to deliver on its major development projects and provides a superior customer service and sustainable shareholder value.

In FY19, subject to no material change in the domestic or global economic environment, Qube expects broadly similar overall conditions and volumes across most areas of Qube's activities including containerised transport, bulk commodities and forestry products. Qube does not presently expect a significant improvement in grain volumes, and expects a modest decline in imported vehicle volumes given the very strong volumes in FY18 and recent decline in new car sales. Qube does not anticipate any change in the pricing or competitive pressures in its major markets. Qube will seek to mitigate these factors through its scale, diversification, further cost reductions where possible, and ongoing benefits of its investment.

The Operating Division is expected to generate reasonable growth in overall revenue and earnings, reflecting the full year contribution from MCS (including initial synergy benefits) which is expected to offset continued weakness in grain related activities and a competitive operating environment. Qube expects strong growth in its ports activities including an initial contribution from the BOMC offshore operation (mainly in the second half of the year), and modest growth in earnings from the bulk activities as contract wins and the contribution from prior and current year capex offset further expected volume declines at Utah Point. The Ports & Bulk Associates (NSS and Prixcar) are expected to deliver a modest overall improvement in earnings in FY19 compared to FY18.

The Infrastructure and Property division is expected to report an overall similar underlying contribution to Qube's FY19 earnings as delivered in FY18.

Increased earnings from Minto and MLP are expected to be largely offset by reduced earnings from AAT due to the full year impact of exiting Webb Dock West in late December 2017 and an expected reduction in vehicles and other cargo through AAT's facilities following a very strong year in FY18. Quattro is expected to report another loss due to expectations of another poor grain harvest.

Qube expects Patrick to continue to make positive progress in delivering on the acquisition case objectives including improving its productivity and increasing market share by delivering a superior customer value proposition. The relatively high fixed cost nature of this business means that if the market continues to grow at expected long term growth rates of 3-4%, market share gains should result in a strong improvement in profitability. The actual level of earnings will depend on a range of factors including the level of market growth and timing of securing new services or customers. Qube currently expects a strong increase in earnings from Patrick in FY19 compared to FY18, albeit below the high growth rate achieved in FY18. Qube also expects Patrick's cashflow will enable it to make regular cash distributions to its shareholders comprising interest income, franked dividends and other distributions, that will be in excess of Patrick's NPAT contribution to Qube.

Qube currently expects total capital expenditure of around $350 million to $450 million in FY19, comprising around 20% maintenance capex and 80% growth capex. The actual level of capital expenditure could vary materially from this range as it will depend on the timing of the

Moorebank development expenditure and the number and size of other investment opportunities that meet Qube's strategic, financial and risk criteria.

In FY19, Qube expects to report a solid increase in underlying NPATA and return to earnings per share (pre-amortisation) (EPSA) growth.

Further Enquiries:

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