QUBE HOLDINGS LIMITED
ABN 141 497 230 53

Level 27, 45 Clarence Street
Sydney NSW 2000

T: +61 2 9080 1900
F: +61 2 9080 1999

qube.com.au

22 February 2017

ASX Announcement

Transformational acquisitions completed
Delivered solid underlying NPAT growth

- Underlying NPAT of $62.1 million
- Statutory NPAT of $47.8 million
- Strong cashflow generation and solid margins through scale, efficiencies and cost focus
- Interim dividend maintained at 2.7 cents per share, fully franked

The first half of FY 17 saw Qube achieve a number of key milestones that establish a platform for continued long term earnings growth. Pleasingly, this period also saw improvement in the underlying trading conditions in the Logistics and Ports & Bulk divisions which, combined with the benefit of cost savings initiatives, enabled Qube to generate strong cashflow and improved earnings.

The quality of Qube's operations and long term earnings outlook was significantly enhanced through the completion of several strategic acquisitions in the period comprising:

- A 50% interest in the Patrick Container Terminals business (Patrick) which Qube undertook jointly with Brookfield Infrastructure Partners and its partners (Brookfield).

- A 50% interest in Australian Amalgamated Terminals (AAT) thereby bringing Qube's total shareholding in AAT to 100%.

- A 33% interest in the Moorebank Industrial Property Trust (MIPT) from Aurizon, thereby giving Qube 100% ownership of the 83 hectare parcel of land at Moorebank owned by MIPT as well as Aurizon's rights in relation to the broader Moorebank project that has been negotiated with the Moorebank Intermodal Company (MIC).

Qube's underlying net profit after tax attributable to shareholders (NPAT) increased by around 19% to $62.1 million and underlying net profit after tax and before amortisation increased by around 22% to $67.7 million.

Statutory revenue increased by around 10% to $755.0 million and statutory profit after tax attributable to shareholders decreased by around 2% to $47.8 million. The statutory results were impacted by several non-recurring items in the period mainly relating to the Patrick acquisition.

Releasing the results, Qube's Managing Director, Maurice James said, "The first half of FY 17 saw the completion of transformational acquisitions that substantially enhance the scope and quality of Qube's operations and provide the platform for continued long term earnings growth."

"Pleasingly, both operating divisions returned to earnings growth as a result of improved market conditions and their strong competitive positions in the markets in which Qube operates", Mr James said.

The interim dividend has been maintained at 2.7 cents per share, consistent with Qube's stated policy of paying out 50-60% of underlying earnings per share. The interim dividend will be fully franked.

Qube completed several funding initiatives during the period to support its acquisitions and ensure Qube maintained a prudent capital structure appropriate to its activities. These initiatives included completing a $306 million placement to the Canada Pension Plan Investment Board (CPPIB) and raising around $305 million through the issue of ASX listed Subordinated Notes (Subordinated Note).

These initiatives resulted in Qube diversifying and extending the tenor of its debt facilities and finishing the period with a leverage ratio (being net debt / net debt plus equity) of around 30% being at the bottom end of Qube's target leverage ratio of 30%-40%. Importantly, Qube retains significant liquidity through its cash and undrawn debt facilities of around $406 million at 31 December 2016 to undertake further investment.

Qube's Lost Time Injury Frequency Rate (LTIFR) increased to 2.9 Lost Time Injuries (LTIs) per million hours worked. Targeted risk reduction programmes are in place to improve Qube's safety performance which includes critical risk reviews and further control implementation to prevent an incident or mitigate its impact.

Financial Performance

Qube's underlying NPAT increased to $62.1 million ($67.7 million pre-amortisation) and underlying earnings per share decreased by 6% to 4.6 cents. Underlying earnings per share pre-amortisation was 5.0 cents.

Qube's underlying NPAT growth is mainly due to the increased contribution from the operating divisions and the initial contribution from the Patrick investment, plus a $22.2 million pre-tax contribution from Qube's Asciano shareholding that was realised in the period as part of the completion of the Patrick acquisition. This was partly offset by higher funding costs associated with the recent investments and costs and interest expense associated with the Subordinated Note issue that was completed in October 2016.

The decline in underlying earnings per share reflects the dilutionary impact of the FY 16 and FY 17 capital raisings (with only partial period earnings contribution).

Underlying revenue grew by around 10% to $757.8 million while underlying EBITDA fell by around 1% to $137.8 million. The decline in EBITDA reflects the inclusion in the prior period of $23 million from the Moorebank lease surrender payment which was necessary for the Moorebank project development to commence.

Statutory revenue increased by around 10% to $755.0 million and profit after tax attributable to shareholders fell by around 2% to $47.8 million. Statutory diluted earnings per share was 3.5 cents.

Qube’s statutory earnings were impacted by stamp duty costs associated with Patrick and AAT acquisitions and non-recurring Patrick transaction and restructure costs, partly offset by the reduction in tax expense resulting from the receipt of franked dividends and related loss from the Asciano pre-bid shareholding.

Qube’s cash conversion was again strong with operating cashflow pre-tax and interest of $138.3 million, representing around 100% of underlying EBITDA.

The underlying financial information is based on the statutory information excluding certain non-recurring and non-cash items in order to more clearly reflect the underlying earnings of the business. A reconciliation between statutory and underlying results is provided in Attachment 1.

Logistics Division

The Logistics division returned to revenue growth as a result of an improvement in rural commodity volumes including grain, sugar and cotton. Metropolitan container volumes also grew reflecting volume growth for Qube’s existing customer base as well as market share gains.

The increased activity in both bulk grain and containerised volumes has enabled Qube to grow margins despite a continuation of a very competitive environment. This reflects the benefit of Qube’s cost focus and past investment in hardstand, warehousing and equipment to build scale and achieve operational efficiencies.

The improvement in profitability also reflects the success of Qube’s strategy to focus on the entire supply chain covering both import and export freight movements in order to increase asset utilisation and enhance service levels.

Underlying revenue increased by 4.9% over the prior corresponding period to $328.8 million while underlying earnings (EBITA) increased by 8.9% to $36.7 million and EBITA margins improved from 10.7% to 11.2%.

Ports & Bulk Division

The period saw a significant improvement in sentiment in the bulk commodities sector as a result of increased prices for many commodities. Although Qube is not generally exposed directly to changes in commodity prices, the improved outlook supports Qube’s customers continuing production from their existing mines (and increasing volumes where possible), investing in extending their mine lives and potentially developing new resources.

Volumes were strong across multiple commodities including iron ore, copper concentrate and mineral sands. There was noticeable improvement in volumes of other commodities in the second half of the period including coal, salt and iron concentrate. A number of contracts secured in the prior financial year have started to ramp up and contribute to earnings and a higher contribution is expected from these contracts in the second half of the financial year. Stevedoring and logistics activities for forestry products and automotive vehicles continued to make a solid contribution to the division’s earnings.

Underlying revenue increased by 7.3% to $363.7 million and underlying EBITA increased by 3.6% to $35.0 million. The small decline in EBITA margin from 10.0% to 9.6% mainly reflects the business mix and the reduced volumes across some of the division’s oil and gas related fixed infrastructure. Qube had made significant investment in this area in prior years including on developing supply bases and the Dampier Transfer Facility, and remains confident in the strategic nature of these assets which remain well placed to generate strong returns when activity in the oil and gas sector improves.

The associates in the division had mixed results with an overall reduced NPAT contribution of $2.3 million compared to $5.8 million in the prior corresponding period.

Strategic Assets

The six months to 31 December 2016 was mainly focussed on progressing the development of the various assets in this division with the overall earnings contribution being relatively modest.

A key focus was the Moorebank project with Qube completing the acquisition of Aurizon's 33% interest in the Moorebank project on 23 December 2016 for $98.9 million. Pleasingly, financial close was reached with the Moorebank Intermodal Company (MIC) on 24 January 2017 which enables Qube to start the construction activities and be in a position to finalise agreements with tenants.

Qube made important progress in the period with respect to the Moorebank project. Qube finalised several construction contracts including the services contract for construction of Stage 1 of the import-export (IMEX) rail terminal as well as construction of the connecting rail line from the Southern Sydney Freight Line (SSFL) to the boundary of the Moorebank property.

Qube has commenced discussions with a number of key target tenants, some of whom are existing customers of Qube. The response from discussions to date has generally been very positive with a recognition of the unique and substantial potential benefits that a Moorebank logistics solution can offer. Qube expects to finalise some initial agreements with tenants within the next 6-9 months.

The MIC project management fee income is expected to progressively increase from February 2017 onwards now that financial close has occurred. Qube has also been successful in securing several tenants for some of the existing warehousing on the site on short term leases. However, the earnings from the Moorebank project and property are not expected to contribute materially to Qube's earnings in FY 17.

The profit from the divisional associates, Quattro Grain and TQ Holdings, was $0.1 million which was an improvement on the loss of $0.6 million in the prior corresponding period.

Patrick

The consortium comprising Qube and Brookfield completed the acquisition of Patrick on 18 August 2016 for total purchase price of around $2.915 billion. The funding comprised $1 billion in non-recourse debt in Patrick and with each of the shareholders contributing around $957 million for the balance of the purchase price. Qube's investment in Patrick was structured as a combination of interest bearing shareholder loans as well as equity. Therefore, Qube's earnings from Patrick comprises both interest income and its share of Patrick's net profit after tax.

Qube's 50% interest in Patrick contributed a total of approximately $12.8 million underlying NPAT ($15.3 million NPATA) to Qube's earnings for the approximately 4.5 months following the acquisition. This comprised $6.8 million in interest income (net of tax) and the balance Qube's share of Patrick's profit. Qube's statutory share of Patrick's profit was a loss of $25.1

million, mainly reflecting the impact of non-recurring transaction related costs such as stamp duty on Patrick's statutory results.

In the period since the acquisition, sound progress has been made by Patrick management in relation to the target synergies which are still expected to be achieved over a 2-3 year timeframe. Management has also finalised a four year enterprise agreement with the Maritime Union of Australia that is expected to be implemented by the end of February, which provides the necessary certainty to continue to reduce costs and improve operational efficiency. Management is continuing to focus on ways to reduce operating costs and improve customer service levels, including by increased use of rail for the landside logistics interface with the terminal.

It was pleasing that Patrick renewed several customer contracts and secured some new volumes in the period. This will help mitigate the impact of the loss of the A3 consortium contract which Patrick was unsuccessful in retaining and which has reduced Patrick's earnings from November 2016 onwards.

In the longer term, the favourable structural dynamics of the container ports, driven by the ongoing decline in domestic manufacturing, population growth and an increase in containerisation of some export commodities, are expected to support increasing volumes for the entire industry. These favourable demand dynamics, combined with Patrick's superior sites, low cost base and focus on both its shipping line customers and the logistics landside interface, are expected to enable it to generate attractive long term returns.

Summary and Outlook

The first half of FY 17 saw Qube complete three important acquisitions that substantially improved the quality of Qube's asset base and support long term earnings. A key priority will be to continue to implement the business plans that underpinned these acquisitions.

The financial result was a significant improvement on the prior corresponding period reflecting both an increased contribution from the operating divisions and the initial contribution from the Patrick investment.

Qube finished the period in a strong financial position and is well placed to fund continued investment in attractive opportunities including those within the Strategic Assets division. The strong cashflow generated from Qube's business provides additional funding support for Qube's growth.

Although the operating environment and sentiment across a number of Qube's markets has been positive, Qube expects the competitive environment across its business to continue, placing pressure on volumes and margins. However, Qube continues to expect underlying earnings to improve in both its operating divisions reflecting the strategic network of assets, diversified activities and innovative, cost-effective logistics solutions. The extent of growth will depend on a number of factors including overall economic conditions and the impact that commodity and oil prices have on activity levels.

Post the end of the period, Qube achieved financial close on the Moorebank project. This enables the commencement of construction activities on the site and is necessary for Qube to finalise agreements with prospective tenants for the site. Qube is pleased with the engagement it has had to date with prospective tenants and expects to finalise some initial agreements within the next 6-9 months.

Qube expects minimal earnings in FY 17 from Moorebank and its investments in Quattro and TQ Holdings given these assets are at the early stages of their development. However, the overall contribution from these assets is expected to increase considerably in the medium to long term as these development assets become operational and achieve scale.

Qube will continue to support the Patrick management team to deliver on the targeted synergies and deliver increased long term revenue and earnings. As previously stated, the majority of the synergies are expected to be delivered over 2-3 years. Patrick's second half earnings are expected to reflect the full period impact of the net volume loss from the first half, however, this will be partly offset by cost reductions and improved operational efficiency.

Qube's second half underlying earnings are expected to benefit from the contribution from Patrick and the other 50% of AAT for the entire six month period. This will be partly offset by the associated funding costs of these investments including the higher interest costs associated with the Subordinated Note issue.

Overall, Qube expects to deliver an increased underlying net profit after tax in FY 17.

Further Enquiries:

Paul White
Director – Corporate Affairs
+61 417 224 920

Paul Lewis
Chief Financial Officer
+61 2 9080 1903

Attachment 1

Reconciliation of Statutory Results to Underlying Results

There were a small number of non-recurring and non-cash items included in the statutory results for the half year ended 31 December 2016 that do not reflect the underlying financial performance of Qube.

A reconciliation of the statutory results to the underlying results for the half year ended 31 December 2016 and the prior comparable period is presented below:

	Dec 2016 $m	Dec 2015 $m
Revenue from external customers	**755.0**	689.5
Other adjustments	2.8	-
Underlying revenue	**757.8**	689.5
Net profit before income tax	**55.4**	**77.2**
Share of loss/(profit) of equity accounted investments	22.7	(5.2)
Net finance cost	4.5	13.9
Depreciation and amortisation	54.5	49.9
EBITDA	**137.1**	**135.8**
Asciano Ports business acquisition related advisor costs	-	2.8
Stamp duty	0.3	-
Restructure costs	0.4	-
Other adjustments (net)	-	0.1
Underlying EBITDA	**137.8**	**138.7**
Depreciation	(50.0)	(45.4)
Underlying EBITA	**87.8**	**93.3**
Amortisation	(4.5)	(4.5)
Underlying EBIT	**83.3**	**88.8**
Net finance cost excluding fair value of derivatives	(6.8)	(14.8)
Asciano Ports business acquisition related finance costs	-	2.8
Underlying net finance cost	(6.8)	(12.0)
Share of (loss)/profit of equity accounted investments	(22.7)	5.2
Underlying adjustments to equity accounted investments:		
Stamp duty	26.0	-
One-off transaction costs	4.4	-
Other non-recurring restructure costs	0.8	-
Underlying share of profit/(loss) of equity accounted investments	8.5	5.2
Underlying net profit before income tax	**85.0**	**82.0**
Underlying income tax expense	(22.9)	(23.1)
Underlying net profit for the half year	**62.1**	**58.9**
Non-controlling interests	-	(6.7)
Underlying net profit after income tax attributable to members	**62.1**	**52.2**
Underlying net profit after income tax attributable to members pre-amortisation**	**67.7**	**55.4**
	Cents	**Cents**
Underlying diluted earnings per share	4.6	4.9*
Underlying diluted earnings per share pre-amortisation	5.0	5.2*

* Adjusted for entitlement offer

** Underlying net profit/(loss) after tax pre-amortisation, includes an adjustment for Qube's proportionate share of Patrick amortisation net of tax.

The table above has been extracted from note 2 of the financial statements but is un-audited.

Underlying information is determined as follows:

Underlying revenues and expenses are statutory revenues and expenses adjusted to exclude certain non-cash and non-recurring items such as fair value adjustments on investment properties, cost of legacy incentive schemes and impairments to reflect core earnings. Income tax expense is based on a prima-facie 30% tax charge on profit before tax and associates.

References to 'underlying' information are to non-IFRS financial information prepared in accordance with ASIC Regulatory Guide 230 (Disclosing non-IFRS financial information) issued in December 2011. Non-IFRS financial information has not been subject to audit or review.