



QUBE HOLDINGS LIMITED
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25 February 2020

ASX Announcement

Results for Announcement to the Market - FY 20 Interim Results

We **attach** the following for the half year ended 31 December 2019:

- Appendix 4D
- FY 20 Interim Financial Report

Authorised for release by:

The Board of Directors, Qube Holdings Limited

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Qube Holdings Limited
(ABN 14 149 723 053)
APPENDIX 4D Half Year Report 31 December 2019
Results for Announcement to the Market

Statutory Information

Set out below are the statutory results for Qube Holdings Limited (Qube) and its controlled entities for the half year ended 31 December 2019. The results include adjustments from the implementation of AASB 16 Leases during the period, which has reduced Qube's net profit after tax (NPAT) by \$10.3 million. Reversing out the impact of this standard results in an increase in NPAT compared to the prior corresponding period.

Statutory Information	Dec 2019 \$m	Dec 2018 \$m	Movement %
Revenue from ordinary activities and other income	957.3	837.0	14.4%
EBITDA ¹	204.0	147.9	37.9%
Profit from ordinary activities after tax attributable to members	51.7	61.5	-15.9%
Net profit for the period attributable to members	51.7	61.5	-15.9%
Net profit for the period attributable to members reversing out impact of AASB 16	62.0	61.5	0.8%
Net profit for the period attributable to members pre-amortisation ²	60.0	69.5	-13.7%
Basic earnings per share (cents per share)	3.2c	3.8c	-15.8%
Diluted earnings per share (cents per share)	3.2c	3.8c	-15.8%
Interim dividend per share (fully franked)	2.9c	2.8c	3.6%
Special dividend per share (fully franked)	-	1.0c	N/A
Diluted weighted average shares on issue (m)	1,615.0	1,605.4	0.6%

¹EBITDA is statutory net profit before tax adjusted to remove share of profit of associates, net finance costs, depreciation and amortisation.

²Net profit/(loss) after tax pre-amortisation, includes an adjustment for Qube's proportionate share of Patrick amortisation net of tax.

Underlying Information*

Qube reported the following underlying results for the half year ended 31 December 2019.

Underlying information*	Dec 2019 \$m	Dec 2018 \$m	Movement %
Underlying Revenue	970.1	859.5	12.9%
Underlying EBITDA	158.2	147.9	7.0%
Underlying EBITA	95.6	93.6	2.1%
Underlying net profit for the period attributable to members	68.0	64.6	5.3%
Underlying net profit for the period attributable to members pre-amortisation	76.3	72.6	5.1%
Underlying diluted earnings per share (cents per share)	4.2c	4.0c	5.0%
Underlying diluted earnings per share pre-amortisation (cents per share)	4.7c	4.5c	4.4%
Diluted weighted average shares on issue (m)	1,615.0	1,605.4	0.6%

* The underlying information excludes certain non-cash and non-recurring items in order to more accurately reflect the underlying financial performance of Qube. References to 'underlying' information is 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.

Underlying Information (continued)*

Further commentary on the performance of Qube is set out in the financial statements and ASX announcement issued with this Appendix 4D.

A reconciliation of the statutory results to the underlying results for the half year is presented below:

	Dec 2019	Dec 2018
	\$m	\$m
Revenue from external customers	957.3	837.0
Intercompany transactions	20.2	22.5
Fair value adjustments	(8.0)	-
Other adjustments	0.6	-
Underlying revenue	970.1	859.5
Net profit before income tax	75.3	85.6
Share of profit of equity accounted investments	(3.5)	(7.0)
Net finance cost	24.9	9.4
Depreciation and amortisation	107.3	59.9
EBITDA	204.0	147.9
Fair value gain on investment property	(8.0)	-
AASB 16 leasing adjustment	(46.8)	-
Impairment of investment in associate	6.9	-
Other adjustments (net)	2.1	-
Underlying EBITDA	158.2	147.9
Depreciation	(62.6)	(54.3)
Underlying EBITA	95.6	93.6
Amortisation	(6.1)	(5.6)
Underlying EBIT	89.5	88.0
Underlying net finance cost	(8.8)	(6.3)
Underlying share of profit of equity accounted investments	10.9	7.0
Underlying net profit before income tax	91.6	88.7
Underlying income tax expense	(24.2)	(24.5)
Underlying net profit for the half year	67.4	64.2
Underlying non-controlling interests	0.6	0.4
Underlying net profit after income tax attributable to members	68.0	64.6
Underlying net profit after income tax attributable to members pre-amortisation^A	76.3	72.6
	Cents	Cents
Underlying diluted earnings per share	4.2	4.0
Underlying diluted earnings per share pre-amortisation	4.7	4.5

^A 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 in order to more accurately reflect the underlying performance of Qube. Income tax expense is based on a prima-facie 30% tax charge on profit before tax and associates

* The underlying information excludes certain non-cash and non-recurring items in order to more accurately reflect the underlying financial performance of Qube. References to 'underlying' information is 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.

Dividend Information

	Amount (cents per share)	Record Date
Interim dividend - fully franked	2.9	10 March 2020
Payment date	7 April 2020	

Qube paid a fully franked interim dividend of 2.8 cents per share and a fully franked special dividend of 1.0 cent per share for the six months ended 31 December 2018 on 4 April 2019. A fully franked final dividend of 2.8 cents per share and a fully for the year ended 30 June 2018 was paid on 19 October 2019.

Dividend Reinvestment Plan

Qube operates a dividend reinvestment plan (DRP) that enables shareholders to elect to reinvest all, or a portion of, their dividends into additional shares in Qube. The DRP is available for the interim dividend payable on 7 April 2020. Shares will be issued at a discount of Nil% to the volume weighted average market price of shares sold on the ASX over the 10 trading days immediately following the record date for payment of the dividend and will rank equally with existing ordinary shares on issue. Lodgement of the election notice for participation in the DRP is due by 5:00pm on 11 March 2020.

Net Tangible Assets per Share

The net tangible assets per share are \$1.20 per share (Dec 2018: \$1.18 per share).

Additional Information

Additional Appendix 4D disclosures can be found in the notes to the Interim Financial Report.

This Appendix 4D report is based on the 31 December 2019 Interim Financial Report which has been subject to a review by PricewaterhouseCoopers.

* The underlying information excludes certain non-cash and non-recurring items in order to more accurately reflect the underlying financial performance of Qube. References to 'underlying' information is 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.

Qube Holdings Limited ABN 14 149 723 053
Interim report - 31 December 2019

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This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2019 and any public announcements made by Qube Holdings Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

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Directors' report

The directors present their report on the consolidated entity consisting of Qube Holdings Limited (Qube), and the entities it controlled at the end of, or during, the half year ended 31 December 2019.

Directors

With the exception of Stephen Mann, the following persons were directors of Qube during the whole of the half year and up to the date of this report:

Allan Davies	(Non-executive Chairman)	
Sam Kaplan	(Non-executive Deputy Chairman)	
Maurice James	(Managing Director)	
Ross Burney	(Non-executive Director)	
Peter Dexter	(Non-executive Director)	
John Stephen Mann	(Non-executive Director)	<i>Appointed 1 September 2019</i>
Alan Miles	(Non-executive Director)	
Sue Palmer	(Non-executive Director)	
Åge Holm	(Alternate to Peter Dexter)	

Dividend

The Directors have declared a fully franked interim dividend of 2.9 cents per share payable on 7 April 2020.

Review of operations

Overview

In the six-month period to 31 December 2019, Qube delivered increased underlying earnings compared to the prior corresponding period and high operating cashflow driven by improved contributions from the Operating Division and Patrick. Pleasingly, this growth was achieved despite the continuation of headwinds that adversely impacted volumes in several of Qube's key markets including container volumes, vehicle imports and rural commodities.

Underlying revenue increased by 12.9% to \$970.1 million, underlying earnings (EBITA) increased by 2.1% to \$95.6 million and underlying profit after tax attributable to shareholders pre-amortisation (NPATA) increased by 5.1% to \$76.3 million. This reflected both organic growth across Qube's operations as well as the contribution from recent acquisitions and capex.

Qube's continued success in the period reflects its ongoing commitment to providing a reliable, safe, cost-effective service for its expanding, highly diversified customer base. This is supported by Qube's record over many years of investment in strategic locations, technology, equipment and people to enhance its logistics solutions.

Statutory revenue increased by 14.4% to \$957.3 million and statutory NPAT decreased by 15.9% to \$51.7 million. The statutory result reflects the first period's inclusion of the new leasing standard (AASB 16) which, as previously advised, will adversely affect Qube's statutory earnings but has no impact on Qube's cashflow or underlying earnings. For the period to 31 December 2019, the new accounting standard increased statutory EBITDA by around \$46.8 million, and reduced statutory NPAT by around \$10.3 million. The accounting standard also increased Qube's gross assets by approximately \$513 million and Qube's liabilities by around \$598 million, resulting in a net decrease to Qube's net assets of around \$85 million as at 31 December 2019.

The ordinary interim dividend has been increased by around 3.6% to 2.9 cents per share, fully franked.

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 note 2 to these financial statements.

Qube continued to progress the development of the Moorebank Logistics Park (MLP) in the period, with key highlights including completion and commencement of operations in the Target warehouse, commencement of IMEX (Import/Export) rail and terminal operations, significant progress on completing precinct works on Moorebank Precinct East (MPE) and the construction of two new warehouses that are expected to be completed by the end of the June 2020 quarter. The high level of activity is continuing into calendar 2020 as warehouse and rail activities begin to ramp up and works progress on Moorebank Precinct West (MPW).

Commercial and legal negotiations are progressing with a potential major tenant for a material part of MPW and binding agreements are being finalised. It is presently expected that the counterparty's Board will consider approval of the finalised agreements in the near future. The counterparty had previously signed the reservation agreement with Qube to secure an area at MLP on MPW.

Based on the current commercial terms, the area to be leased by this party will be considerably larger and in a different location to that originally contemplated by the reservation agreement and the warehouse construction is likely to commence in calendar 2021, which is earlier than previously expected.

Based on the extensive negotiations that have taken place, Qube expects that negotiations of the binding agreements will be concluded successfully but are subject to the counterparty's Board approval. The development and lease would represent a key milestone for the MLP project and confirms the significant logistics benefits that the site can offer tenants.

Over the past six-month period Qube has continued to see a reduction in the number of injuries and serious incidents across the business as reflected in LTIFR and TRIFR results. Qube's focus continues to be on critical risks which apply to everyone within the business, including contractors and visitors. The critical risk program is about ensuring that mitigation plans are in place across Qube's workplaces, to identify the critical controls that must be in place before and during work.

During the period, Qube was deeply saddened by the death of an employee who died in hospital after being injured loading material at a mine site in Western Australia (WA). The WA Department of Mines are investigating the matter and Qube management has been working closely with workplace health and safety investigators to help them determine the cause of the incident which related to mechanical failure of a load covering mechanism on a Qube vehicle.

During the period, Qube announced a \$500,000 package focused on financial contributions as well as critical transport and logistics support aimed at supporting those impacted by disaster and bushfires. Qube will also continue to work with charity partners to provide in-kind delivery and storage for immediate disaster relief products, as well as provide logistics services during the long process of rebuilding impacted communities.

Qube already has strong commitments to safety, health and sustainability, which extend to its interactions with communities and stakeholders. Qube also believes addressing Modern Slavery risks across its operations and supply chains is the continuation of its commitment to minimising impacts on people and communities and creating value for all stakeholders.

Qube has taken steps internally to identify all reporting entities in the group to clearly define the scope of its reporting requirements. This will ensure Qube is able to meet Mandatory Criteria One and Six of the Modern Slavery Act 2018, and ensure the company is correctly defining the scope of entities and activities to be assessed.

Operating Division

The Operating Division reported underlying revenue growth of 14.0% to \$920.6 million and underlying earnings growth (EBITA) of 15.5% to approximately \$94.8 million. The overall revenue growth reflected growth of 19.9% in the logistics activities to \$438.2 million and 9.2% in the ports & bulk activities to \$482.4 million. Overall EBITDA margins were broadly steady compared to the prior corresponding period. This is considered a very pleasing result in light of the substantial headwinds that impacted volumes in several of Qube's key markets in the period.

The revenue and earnings growth were driven by a strong contribution from the bulk activities (through increased volumes of concentrates, lithium and mineral sands and broadly stable volumes of iron ore) as well as a pleasing contribution from the ISO business and an improvement in oil and gas related activities in the ports business. The positive result also reflected a full period contribution from acquisitions undertaken in the previous financial year such as LCR (the majority of which related to logistics activities) as well as a partial period contribution from the Chalmers acquisition. This more than offset the continued adverse impact of the drought on NSW rail operations and empty container park activities, weakness in volumes of vehicles, cement, steel and scrap metal as well as the contribution in the prior corresponding period from Aurizon's Acacia Ridge terminal operating contract (now terminated). The result also includes some start-up losses associated with the commencement of rail and terminal activities at MLP from 1 November 2019.

In September 2019, Qube completed the acquisition of the ASX listed company Chalmers Limited for a total purchase consideration of \$55.4 million and has successfully integrated the Chalmers operations into its existing logistics business. This acquisition came with some freehold land which was surplus to Qube's requirements. In November 2019, Qube entered into a binding contract to sell the freehold land for \$65.0 million. Qube remains on track to achieve the forecast synergies and the acquisition is already contributing positively to the financial performance of the Group.

In October 2019, Qube was awarded a major new contract with Shell Australia (Shell) that involves the provision of warehousing and supply base operations as well as national domestic transport and logistics operations. One of the reasons that Qube secured this contract was its ability to leverage the capabilities across the group including its ports and logistics expertise (including the lifting capability secured through the LCR acquisition), asset base as well as information technology and safety systems. This enables Qube to provide Shell with a reliable, cost-effective integrated logistics solution with supply chain visibility, a total solution that no other single organisation could offer. Initial revenue and earnings contribution from this contract commenced in early December, with the contribution expected to progressively ramp up.

Towards the end of the period, Qube entered into a binding agreement with Bluescope Steel Limited to provide interstate steel train services and the provision of intermodal terminal operations at Qube's North Dynon facility in Melbourne. This is expected to become Qube's largest individual contract and customer (by revenue) once fully operational, with operations

scheduled to commence in January 2022. Qube presently expects to spend around \$73 million on new rolling stock and infrastructure to support this contract, supplemented with additional leased equipment.

These two contracts provide further validation of the increasing recognition amongst large customers of Qube's unique logistics capabilities and the benefit of Qube's past and ongoing investment to support its customers and operations.

The associates in the division (ex-Patrick) delivered an overall contribution to underlying NPAT of around \$1.0 million compared to \$0.9 million in the prior corresponding period.

Infrastructure & Property

The Infrastructure & Property division reported underlying revenue of around \$49.4 million and underlying earnings (EBITA) of approximately \$12.7 million. The financial performance was lower than the prior corresponding period largely due to a lower contribution from AAT from weaker volumes as well as lower ancillary income and higher operating costs at MLP.

Moorebank Logistics Park

The MLP project continued to make positive progress across planning, construction and leasing activities.

Qube received planning approval for MPW Stage 2 on 11 November 2019, which covers the consent to construction of the Interstate rail terminal as well as an additional 215,000 sqm of warehousing.

Separate planning approval processes for MPW Stage 3 and Moorebank Avenue relocation are on track to be submitted during calendar year 2020.

The IMEX rail terminal (manual phase) was completed and rail operations commenced in early November 2019. Work is progressing on the development of the automation of the IMEX rail terminal with the first automated crane components delivered on site in January 2020 for assembly and phased commissioning.

The precinct works on MPE were largely completed in the period and further land preparation works have commenced on MPW. Construction of the Target warehouse was completed and occupied in August 2019 whilst substantial progress was made on the construction of two additional warehouses that are expected to be completed by the end of the June 2020 quarter.

Qube spent around \$145 million on the MLP project in the period, with the largest components being the IMEX terminal, the enabling and precinct infrastructure and the additional warehouses. The total capex to be spent on the project will depend on a range of factors including the nature and timing of the warehouses to be built (as well as any impact on the required precinct infrastructure to support higher specification warehouses).

From a leasing perspective, effort has been focussed on negotiating the commercial terms with a major tenant for the site as outlined above. As noted, the counterparty is a major company that is an ideal tenant for the site due to the import freight they control. Qube believes that the desire for this party to locate its activities at MLP reflects the unique benefits that the MLP offers this customer compared to alternative locations.

In December, the agreement for lease with BRW Logistics for a portion of a new warehouse (Warehouse 3) was terminated due to a failure by this party to meet certain conditions under the agreement. Qube expects to replace this with another tenant or customer of Qube Logistics.

Qube continues to engage with multiple parties regarding potential new lease agreements at MLP with an ongoing disciplined focus on prioritising tenants that will derive maximum benefit from being located at Moorebank. Qube expects that the significant logistics and other savings that these tenants will derive from being located at Moorebank will support longevity of tenure and appropriate commercial terms over the medium to long term once MLP is at scale. The announcement of an agreement with the major tenant when achieved, is expected to support additional leasing interest at MLP. Qube will continue to adopt a patient, targeted approach to securing tenants.

At 31 December 2019, the previously advised dispute between Qube and MIC in relation to the interpretation of provisions of the Development and Operations Deed (DOD) is ongoing with the matter currently expected to be resolved in late calendar 2020 through the dispute resolution process outlined in the DOD. As previously advised, Qube does not expect this matter to have a material adverse impact on the overall deliverability or financial returns from the project.

AAT delivered a credible result with a modest decline in underlying revenue compared to the prior corresponding period although a larger decline in earnings given the relatively high fixed cost base and volume mix. This reflected lower volumes of vehicle imports (with new car sales down around 7.2% for the six months to 31 December 2019 compared to the prior corresponding period) as well as weaker volumes of RoRo, general and project cargo. This was partially offset by higher container volumes reflecting full period contribution from new customers secured in the prior corresponding period.

The Minto Properties generated largely stable rental earnings in the period as a result of the full occupancy of the site in both the current and prior corresponding periods.

The associates in the division reported an overall loss of \$0.3 million which was a slight improvement over the prior corresponding period's loss of \$0.4 million. To mitigate the impact of the drought in NSW, the Quattro facility was successfully repurposed during the period to unload imports of grain from Canada.

Patrick

The earnings from Qube's 50% interest in Patrick was strong, contributing \$17.9 million underlying NPAT and \$22.0 million underlying NPATA, an increase of 19.3% and 15.2% respectively over the prior corresponding period. This contribution is inclusive of Qube's share of interest income (\$7.7 million post-tax) on the shareholder loans provided to Patrick.

Qube received \$5.0 million in cash distributions from Patrick in the period, with an additional \$15.0 million distributed to Qube in February 2020, balancing Patrick's high cashflow generation and ongoing capex requirements.

The statutory contribution to Qube's NPAT (being interest income and share of profit after tax) was a profit after tax of \$10.5 million. The main difference between Patrick's underlying and statutory results is the impact of the new leasing standard, AASB 16 which applied from 1 July 2019.

The strong financial performance was delivered despite continued rate pressures and weakness in overall market volumes, with market growth (lifts) declining by 4.4% in the six months to 31 December 2019 and 2.8% for the twelve months period to 31 December 2019. Patrick was able to partly mitigate this through its increase in market share over the period to 47% (from 45% in the prior corresponding period) resulting in Patrick's volumes (lifts) decreasing by only 0.9% in the six month period to 31 December 2019 which was considerably lower than the overall market decline.

Patrick's margins were impacted by lower volumes given the relatively high fixed cost nature of business, the relative volume mix across terminals, as well as increased sub-contracting of vessels due to adverse weather conditions that impacted berth availability during the period.

This outcome was achieved during a period that saw an unprecedented number of shipping line service changes with considerable consortium restructuring and some service cancellations late in the period. This resulted in Patrick's market share declining slightly towards the end of the period.

The result also reflects the inclusion for a full period of the increased infrastructure surcharges and ancillary charges introduced in March 2019 well as interest savings from the March 2019 debt refinancing.

Patrick progressed several business improvement projects during the period that are expected to deliver incremental operating efficiencies and earnings when complete. These include the Port Botany Rail development which is on time and on budget with Phase 1 expected to be completed by November 2020 and the Terminal Operating System replacement project which is expected to be completed nationally during 2020 and will deliver efficiencies and workforce synergies.

Towards the end of the period, three new cranes were delivered at Patrick's East Swanson Dock and Fremantle terminals. They are expected to be commissioned by the end of March 2020.

A successful trial for larger vessels calling at Patrick's East Swanson Dock was completed during the period, following clearance obtained from the Victorian Ports Corporation (Melbourne).

On 7 February 2020, Patrick announced an increase to the Terminal Landside Charge (previously Infrastructure Surcharge) with a differential charge for import and export containers, as well as increases in other ancillary charges. The landside charge, which is only levied on full containers, recovers a portion of the costs associated with providing landside operations. The increase will take effect from 9 March 2020.

During the period, negotiations continued with the Fremantle Ports Authority to finalise a new medium term lease agreement. The parties are working to finalise this agreement as soon as possible and a new lease agreement is expected to be executed well prior to the end of FY20.

Discussions have also continued with relevant parties in relation to on-dock rail at East Swanson Dock.

Property Asset Monetisation Process

During the period, Qube progressed its assessment of potential monetisation or partnering options for MLP and two other smaller property assets (Minto Properties and Beveridge). As previously disclosed, the objective of this process is to determine if Qube can realise some of the substantial value that has already been created at MLP through the development process progress to date and to reduce Qube's future funding requirements given the sizeable capital expenditure likely to be required to fund new warehousing across the MLP site.

The parties invited to participate in this process are experienced industry participants that Qube believes have the ability to understand and appropriately value the MLP. Importantly, these parties also have the ability to bring additional strategic value to the project. Qube is pleased with the level of interest which it has received in the initial stages of the process from these parties.

Qube and its advisers intend to undertake a detailed process to ensure that if Qube undertakes a transaction with respect to the MLP project, it does not adversely impact the ongoing development and leasing activities on site and will further enhance the significant momentum that has already been achieved at MLP.

Therefore, the process is expected to take several months before Qube is in a position to make a decision as to whether or not to proceed with a transaction. Qube will only undertake a transaction where the Board determines that it is in the best interests of the project and shareholders to do so, having regards to the unique attributes of the MLP and the substantial future value expected to be created as the project progresses. There is no certainty that any transaction will proceed.

Funding

Qube remains well positioned to continue to undertake suitable investments with cash and available undrawn debt facilities of around \$552 million at 31 December 2019 and leverage (net debt / net debt + equity) of 35.2%, being within Qube's long term target range of 30%-40%. During the period, Qube established an additional \$300 million in debt facilities maturing in FY22 to provide additional liquidity while the monetisation / partnering process is progressing and Qube is assessing its optimal longer term funding structure. Qube has also extended the term of \$100 million of debt facilities.

Qube will continue to actively manage its funding arrangements to ensure that it maintains a conservative balance sheet that supports continued growth. This is expected to include maintaining adequate liquidity to support ongoing strategic investment and utilisation of a diversified mix of funding sources with modest near term debt maturities in order to minimise refinancing risk.

Summary and Outlook

Qube's demonstrated capacity to generate sound financial results despite weaker market conditions highlights the defensive qualities and resilience of Qube's business. This is attributable to the breadth of Qube's activities and geographical locations, its diverse customer base and strong market positions in its core markets, as well as a sound balance sheet and high cashflow generation that supports ongoing investment.

These attributes enable Qube to continue to invest in the business and generate reasonable financial results while the challenging external environment continues.

The progress of Qube's Moorebank Logistics Park project across planning, construction and leasing activities was also a highlight in the period. This exceptional project continues to deliver substantial value for shareholders and demonstrates the benefits of Qube's long-term approach to strategic investments.

Outlook and FY20 Guidance

Qube has been assessing the potential impact on its FY20 full year results from recent events including the bushfires, adverse weather events across the country in early calendar 2020, as well as the coronavirus.

These events have the potential to impact Qube directly, through their immediate impact on activity levels of Qube's customers, and indirectly, through their impact on domestic and global economic growth which could impact the overall levels of Australia's imports and exports.

Although these events have not had a material impact on Qube's first half results, Qube currently expects some weakness in its second half underlying earnings as a result of the above factors that is likely to result in the level of underlying earnings growth in FY20 being lower than previously forecast.

The uncertainty of these events, in terms of the quantum of their impact on Qube's earnings and their likely duration, makes forecasting near term earnings inherently uncertain.

Qube's ability to deliver underlying earnings growth in FY20 will depend on the impact of the above factors on Qube's markets and customers' volumes over the remainder of the financial year.

Qube believes it is well placed to continue to deliver sustainable, long-term earnings growth from its strategic assets and strong market positions.

Matters subsequent to the end of the period

Other than as noted above, no other matter or circumstances has arisen since 31 December 2019 that has significantly affected Qube's operations, results or state of affairs, or may do so in future years.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 8.

Rounding of amounts

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Report) Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the directors' report and financial report. Amounts in the directors' report and financial report have been rounded off to the nearest hundred thousand dollars in accordance with that ASIC Corporations Instrument.

This report is made in accordance with a resolution of directors.



Allan Davies
Chairman

Sydney
24 February 2020



Auditor's Independence Declaration

As lead auditor for the review of Qube Holdings Limited for the half-year ended 31 December 2019, I declare that to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- (b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Qube Holdings Limited and the entities it controlled during the period.

A handwritten signature in black ink that reads 'J Reilly'.

Jane Reilly
Partner
PricewaterhouseCoopers

Sydney
24 February 2020

PricewaterhouseCoopers, ABN 52 780 433 757

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Qube Holdings Limited
Consolidated statement of comprehensive income
For the half year ended 31 December 2019

	Notes	31 Dec 2019 \$m	31 Dec 2018 \$m
Revenue from continuing operations			
Revenue from sales and services	3	943.1	827.2
Other income	3	14.2	9.8
Total income		957.3	837.0
Expenses			
Direct transport and logistics costs		231.7	204.5
Repairs and maintenance costs		53.8	42.1
Employee benefits expense	4	358.2	321.5
Fuel, oil and electricity costs		64.1	63.1
Occupancy and property costs		17.3	45.7
Depreciation and amortisation expense	4	107.3	59.9
Professional fees		9.2	4.9
Impairment of non-current assets		6.9	-
Other expenses		12.1	7.3
Total expenses		860.6	749.0
Finance income		12.7	14.5
Finance costs	4	(37.6)	(23.9)
Net finance costs		(24.9)	(9.4)
Share of net profit of associates accounted for using the equity method		3.5	7.0
Profit before income tax		75.3	85.6
Income tax expense		(24.2)	(24.5)
Profit for the half year		51.1	61.1
Other comprehensive income for the half year, net of tax			
Items that may be reclassified to profit or loss			
Exchange differences on translation of foreign operations		0.3	2.7
Change in fair value of cash flow hedges		(1.1)	2.4
Share of other comprehensive income of joint venture		(0.7)	(0.2)
Total comprehensive income for the half year, net of tax		49.6	66.0
Profit for the half year attributable to:			
Owners of Qube Holdings Limited		51.7	61.5
Non-controlling interests		(0.6)	(0.4)
		51.1	61.1
Total comprehensive income for the half year is attributable to:			
Owners of Qube Holdings Limited		50.2	66.4
Non-controlling interests		(0.6)	(0.4)
		49.6	66.0
Earnings per share for profit attributable to the ordinary equity holders of the Company:			
Basic earnings per share		3.2	3.8
Diluted earnings per share		3.2	3.8

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

Qube Holdings Limited
Consolidated balance sheet
As at 31 December 2019

	Notes	31 Dec 2019 \$m	30 June 2019 \$m
ASSETS			
Current assets			
Cash and cash equivalents		114.5	139.9
Trade and other receivables		393.2	361.2
Inventories		6.7	4.5
Derivative Financial Instruments		0.4	1.0
		<u>514.8</u>	506.6
Assets classified as held for sale		65.0	-
Total current assets		<u>579.8</u>	506.6
Non-current assets			
Loans and receivables	10	300.2	300.2
Investment in equity accounted investments	5	651.6	678.9
Property, plant and equipment		1,424.0	1,315.4
Right of use assets	1	695.2	-
Investment properties	9	1,145.4	1,031.6
Intangible assets	6	861.1	863.8
Derivative financial instruments		31.0	31.2
Other assets		22.7	19.9
Total non-current assets		<u>5,131.2</u>	4,241.0
Total assets		<u>5,711.0</u>	4,747.6
LIABILITIES			
Current liabilities			
Trade and other payables		185.5	179.8
Borrowings	8	-	50.0
Lease liabilities	1	83.7	1.8
Current tax payable		0.3	19.2
Provisions		97.4	95.7
Total current liabilities		<u>366.9</u>	346.5
Non-current liabilities			
Trade and other payables		2.3	2.4
Borrowings	8	1,699.6	1,433.0
Lease liabilities	1	693.1	11.5
Deferred tax liabilities		104.2	110.8
Derivative financial instruments		21.0	20.5
Provisions		9.4	9.5
Total non-current liabilities		<u>2,529.6</u>	1,587.7
Total liabilities		<u>2,896.5</u>	1,934.2
Net assets		<u>2,814.5</u>	2,813.4
EQUITY			
Contributed equity	7	2,529.2	2,466.6
Reserves		(0.1)	12.5
Retained earnings		287.2	335.5
Capital and reserves attributable to owners of Qube		<u>2,816.3</u>	2,814.6
Non-controlling interests		(1.8)	(1.2)
Total equity		<u>2,814.5</u>	2,813.4

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

Qube Holdings Limited
Consolidated statement of changes in equity
For the half year ended 31 December 2019

	Attributable to owners				Non-con- trolling interests	Total equity
	Contributed equity	Reserves	Retained earnings	Total		
Balance at 1 July 2018	2,454.9	18.7	276.8	2,750.4	(0.3)	2,750.1
Profit for the half year	-	-	61.5	61.5	(0.4)	61.1
Other comprehensive income	-	4.9	-	4.9	-	4.9
Total comprehensive income for the half year	-	4.9	61.5	66.4	(0.4)	66.0
Transactions with owners in their capacity as owners:						
Contributions of equity, net of transaction costs and tax	7	1.5	-	1.5	-	1.5
Issue of treasury shares to employees	7	14.5	-	14.5	-	14.5
Acquisition of treasury shares	7	(3.9)	-	(3.9)	-	(3.9)
Dividends provided for or paid	12	-	(76.9)	(76.9)	-	(76.9)
Fair value movement on allocation and vesting of securities	7	(2.4)	-	(2.4)	-	(2.4)
Employee share schemes		-	(10.0)	(10.0)	-	(10.0)
		9.7	(76.9)	(77.2)	-	(77.2)
Balance at 31 December 2018		2,464.6	13.6	2,739.6	(0.7)	2,738.9
Balance at 30 June 2019		2,466.6	12.5	335.5	(1.2)	2,813.4
Change in accounting policy	1	-	(52.9)	(52.9)	-	(52.9)
Restated total equity at 31 July 2019		2,466.6	12.5	282.6	(1.2)	2,760.5
Profit for the half year		-	-	51.7	(0.6)	51.1
Other comprehensive income		-	(1.5)	-	-	(1.5)
Total comprehensive income for the half year		-	(1.5)	51.7	(0.6)	49.6
Transactions with owners in their capacity as owners:						
Contributions of equity, net of transaction costs and tax	7	63.3	-	63.3	-	63.3
Issue of treasury shares to employees	7	22.5	-	22.5	-	22.5
Acquisition of treasury shares	7	(17.3)	-	(17.3)	-	(17.3)
Dividends provided for or paid	12	-	(47.1)	(47.1)	-	(47.1)
Fair value movement on allocation and vesting of securities	7	(5.9)	-	(5.9)	-	(5.9)
Employee share schemes		-	(11.1)	(11.1)	-	(11.1)
		62.6	(11.1)	(47.1)	-	4.4
Balance at 31 December 2019		2,529.2	(0.1)	287.2	(1.8)	2,814.5

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Qube Holdings Limited
Consolidated statement of cash flows
For the half year ended 31 December 2019

Notes	31 Dec 2019 \$m	31 Dec 2018 \$m
Cash flows from operating activities		
Receipts from customers (inclusive of goods and services tax)	1,032.2	903.2
Payments to suppliers and employees (inclusive of goods and services tax)	<u>(856.7)</u>	<u>(765.5)</u>
	175.5	137.7
Dividends and distributions received	1.5	8.4
Interest received	6.0	14.2
Interest paid	(41.3)	(27.7)
Income taxes paid	<u>(37.8)</u>	<u>(21.0)</u>
Net cash inflow from operating activities	<u>103.9</u>	<u>111.6</u>
Cash flows from investing activities		
Payments for acquisition of subsidiaries, net of cash acquired	11 (11.7)	(4.5)
Payments for property, plant and equipment	(153.2)	(157.9)
Payments for investment property development expenditure	(93.8)	(77.8)
Payment for non-current other assets	-	(9.0)
Payments for investment in equity accounted investments	-	(0.1)
Loans advanced to related parties	(11.5)	(3.9)
Loan repayments received from associates and related parties	-	0.1
Proceeds from reduction in capital from associates	-	21.6
Proceeds from sale of property, plant and equipment	<u>5.2</u>	<u>2.8</u>
Net cash outflow from investing activities	<u>(265.0)</u>	<u>(228.7)</u>
Cash flows from financing activities		
Payment for treasury shares	7 -	(3.9)
Proceeds from borrowings	544.8	310.0
Repayment of borrowings	(330.0)	(110.0)
Lease payments	(34.4)	(0.9)
Dividends paid to Company's shareholders	<u>(44.7)</u>	<u>(75.4)</u>
Net cash inflow from financing activities	<u>135.7</u>	<u>119.8</u>
Net (decrease)/increase in cash and cash equivalents	(25.4)	2.7
Cash and cash equivalents at the beginning of the half year	139.9	103.9
Effects of exchange rate changes on cash and cash equivalents	-	0.4
Cash and cash equivalents at the end of the half year	<u>114.5</u>	<u>107.0</u>
Non-cash investing and financing activities	45.4	1.5

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

1 Basis of preparation of half year report

Qube Holdings Limited (the Company), is a company incorporated and domiciled in Australia. The consolidated interim financial report of the Company for the half year ended 31 December 2019 comprises the Company and its controlled entities (the Group) and the Group's interests in joint ventures and associates.

The consolidated interim financial report was approved by the Directors on 24 February 2020.

Statement of compliance

The consolidated interim financial report is a general purpose financial report which has been prepared in accordance with AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

The consolidated interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2019 and any public announcements made by the Group during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The Company is a company of a kind referred to in accordance with ASIC Corporations Instrument 2016/191, and amounts in the consolidated interim financial report have been rounded off to the nearest hundred thousand dollars, unless otherwise stated.

Significant accounting policies

The accounting policies and methods of computation applied by the Group in this consolidated interim financial report are consistent with those applied by the Group in the financial report for the year ended 30 June 2019 and the corresponding interim reporting period, except for the adoption of new and amended standards as set out below:

New and amended standards adopted by the Group

A number of new or amended standards became applicable for the current reporting period and the Group had to change its accounting policies and make retrospective adjustments as a result of adopting AASB 16 *Leases*. The impact of the adoption of the leasing standard and the new accounting policies are disclosed below. The other standards did not have any impact on the Group's accounting policies and did not require retrospective adjustments.

Changes in accounting policies

This note explains the impact of the adoption of AASB 16 *Leases* on the Group's financial statements and discloses the new accounting policies that have been applied from 1 July 2019.

The Group has adopted AASB 16 retrospectively from 1 July 2019, but as permitted under the specific transitional provisions in the standard, has not restated comparatives for the 2018 reporting period. The reclassifications and the adjustments arising from the new leasing rules are recognised in the opening balance sheet on 1 July 2019.

AASB 16 Leases

On adoption of AASB 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of AASB117 *Leases*. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 July 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 July 2019 was 4.45%.

For leases previously classified as finance leases the entity recognised the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the right of use asset and the lease liability at the date of initial application. The measurement principles of AASB 16 are only applied after that date. This resulted in measurement adjustments of \$0.3 million for variable lease payments based on an index or rate. The re-measurements to the lease liabilities were recognised as adjustments to the related right-of-use assets immediately after the date of initial application.

	\$m
Operating lease commitment at 30 June 2019 as disclosed in the Group's consolidated financial statements	864.2
Discounted using the incremental borrowing rate at 1 July 2019	598.8
Finance lease liabilities recognised as at 30 June 2019	13.3
Recognition exemption for leases with less than 12 months of lease term at transition	(2.5)
Lease liabilities recognised at 1 July 2019	609.6
Of which are:	
Current lease liabilities	76.0
Non-current lease liabilities	533.6
	609.6

1 Basis of preparation of half year report (continued)

The associated right of use assets were measured at their carrying amount as if AASB 16 had been applied since the commencement date, discounted using the lessee's incremental borrowing rate at the date of initial application. The Group has applied this approach to all of its leases on initial application. Where the Group acquired a company with existing leases through a business combination, similar calculations were undertaken by the Group as at the date of completion of acquisition (rather than from the commencement of the underlying leases). Equity accounted investments measured right of use assets on the above approach or at an amount equal to the lease liability.

Right of use assets were adjusted at the date of initial application by the amount of any provision for onerous leases recognised in the Balance Sheet immediately before the date of initial application.

The recognised right of use assets relate to the following types of assets:

	31 Dec 2019 \$m	1 July 2019 \$m
Land & Buildings	645.7	505.4
Vehicles	32.2	34.0
Equipment	17.3	15.3
Total right of use assets	695.2	554.7

The change in accounting policy affected the following items in the balance sheet on 1 July 2019:

- right of use assets – recognised were \$554.7 million
- lease receivables – increased by \$7.2 million
- deferred tax asset – increased by \$10.0 million
- provisions – decreased by \$1.2 million
- equity accounted investments – decreased by \$29.7 million
- lease liabilities – increased by \$596.3 million

The net impact on retained earnings on 1 July 2019 was a decrease of \$ 52.9 million.

Impact on segment disclosures and earnings per share

The impact of the change in policy on segment disclosures and earnings per share for the period 31 December 2019 was as follows:

	Operating Division \$m	Infrastructure & Property \$m	Corporate & Other \$m	Patrick \$m	Total \$m
Increase in EBITDA	37.5	8.5	0.8	-	46.8
Increase in Depreciation expense	(31.2)	(6.2)	(0.7)	-	(38.1)
Increase in net Finance costs	(9.3)	(3.5)	(0.2)	-	(13.0)
Net profit/(loss) before income tax	(3.0)	(1.2)	(0.1)	(7.3)	(11.6)
Increase in Total assets*	380.2	161.7	7.9	(36.9)	512.9
Increase in Total liabilities*	411.1	177.2	9.7	-	598.0
Decrease in Net assets*	(30.9)	(15.5)	(1.8)	(36.9)	(85.1)

*Excludes tax adjustments

Earnings per share decreased by 0.6c per share for the period as a result of the adoption of AASB 16.

The introduction of AASB 16 has not affected the Group's underlying earnings, cash flow or compliance with borrowing covenants.

Practical expedients applied

In applying AASB 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics
- reliance on previous assessments on whether leases are onerous
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 July 2019 as short-term leases
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

1 Basis of preparation of half year report (continued)

The Group's leasing activities and how these are accounted for

The Group leases various offices, warehouses, land, equipment and vehicles. Qube has a multitude of rental contracts of varying length going out as far as 99 years however the majority are for fixed periods of 3 to 8 years but may have extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes in relation to the Group's current facilities.

Until 30 June 2019, leases of property, plant and equipment were classified as either finance or operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 July 2019, all leases are recognised as a right of use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right of use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate
- amounts expected to be payable by the lessee under residual value guarantees
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right of use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT-equipment and small items of office furniture.

2 Segment information

Qube's Board assesses the performance of the operating segments on a measure of underlying revenue, EBITDA and EBITA, NPAT and NPATA which excludes certain non-cash and non-recurring items from the statutory results to reflect core earnings. This reflects the way the operating businesses are managed and assessed from a profit and loss perspective by the chief operating decision maker.

(a) Description of segments

Operating Division

Logistics provides a broad range of services relating to the import and export of mainly containerised cargo as well as outsourced industrial logistics services across heavy transport, mobile crane and renewable energy industries. The services currently provided include the physical and documentary processes and tasks of the import/export supply chain such as road and rail transport of containers to and from ports, operation of container parks, customs and quarantine services, warehousing, intermodal terminals, international freight forwarding, provision of lifting services or equipment and bulk rail haulage for rural commodities. The business operates nationally with strategic locations near the ports in key capital cities.

Ports and Bulk has two core activities comprising port logistics and bulk logistics. It provides a range of logistics services relating to the import and export of mainly non-containerised freight, with a major focus on automotive, forestry, bulk and break bulk products. The main operations are located in Western Australia and Queensland with significant operations in New Zealand.

Qube's port logistics activities are focused on the provision of an integrated logistics solution for the automotive industry, covering a range of activities including stevedoring, processing and delivery. This division also provides stevedoring and related logistics services for the oil and gas industry, forestry products and project and general cargo.

Qube's bulk logistics activities are aimed at offering customers a comprehensive logistics solution from mine-to-ship covering activities including transport, stockpile management, storage facilities and stevedoring. Qube handles a diverse range of commodities including iron ore, copper, nickel concentrate and mineral sands.

Infrastructure & Property (including Strategic Assets)

This division currently comprises the Moorebank Logistics Park Project, AAT, the Minto properties and the Strategic Assets division which comprises a non-controlling interest in the Quattro Grain joint venture 47.2% and TQ Holdings Pty Limited, a 50% joint venture with Japanese petroleum group JXTG Group.

The Moorebank Logistics Park Project is a 243 hectare parcel of land owned by Qube and the Commonwealth Government which is leased by Qube for up to 99 years to be developed into an intermodal hub. Qube will manage the development and operations of the overall project. This development will include port-shuttle and interstate rail terminals as well as substantial warehousing development targeting tenants that will also benefit from efficient rail and logistics services.

AAT is a multi-user facility provider to the Australian stevedoring industry, operating terminals with facilities for importing and exporting motor vehicles, projects and general cargo.

The Minto properties comprise strategically located property at Minto in Sydney's southwest.

Patrick

Qube owns a 50% interest in Patrick with the other 50% owned by Brookfield and its managed funds. Patrick is an established national operator providing container stevedoring services in the Australian market with operations in the four largest container terminal ports in Australia. Given the material nature of this investment to Qube, this joint venture is being reported as a separate segment.

Corporate and Other

Corporate and Other is the only non-operating segment reported to the Board. The primary focus of the corporate head office is to provide strategic, commercial and treasury support to the divisions as well as to develop and manage new growth opportunities that do not fall within one of the existing divisions. It also includes managing a broad range of reporting, safety, health and environment, corporate governance and other functions of the Group. Costs relating to certain development projects in the planning and analytical phase are also reported within this segment.

2 Segment information (continued)

(b) Segment information provided to the Board

Half year ended 31 December 2019	Operating Division \$m	Infrastructure & Property \$m	Corporate & Other \$m	Patrick* \$m	Total \$m
Revenue and other income	920.6	36.6	0.1	-	957.3
Intercompany trading	-	20.2	-	-	20.2
Fair value gains	-	(8.0)	-	-	(8.0)
AASB 16 leasing adjustments	-	0.6	-	-	0.6
Underlying Revenue	920.6	49.4	0.1	-	970.1
A reconciliation of net profit before income tax to underlying net profit after tax attributable to members is as follows:					
Net profit/(loss) before income tax	100.2	(5.8)	(32.9)	13.8	75.3
Share of (profit)/loss of equity accounted investments	(1.0)	0.3	-	(2.8)	(3.5)
Net finance (income)/cost	8.8	6.0	21.1	(11.0)	24.9
Depreciation and amortisation	94.4	12.1	0.8	-	107.3
EBITDA	202.4	12.6	(11.0)	-	204.0
Fair value gains	-	(8.0)	-	-	(8.0)
AASB 16 leasing adjustment	(37.5)	(8.5)	(0.8)	-	(46.8)
Impairment of investment in associate	6.9	-	-	-	6.9
Intercompany trading	(20.2)	20.2	-	-	-
Other	2.3	(0.2)	-	-	2.1
Underlying EBITDA	153.9	16.1	(11.8)	-	158.2
Depreciation	(59.1)	(3.4)	(0.1)	-	(62.6)
Underlying EBITA	94.8	12.7	(11.9)	-	95.6
Amortisation	(4.2)	(1.9)	-	-	(6.1)
Underlying EBIT	90.6	10.8	(11.9)	-	89.5
Underlying net finance income/(cost)	0.5	0.1	(20.4)	11.0	(8.8)
Underlying share of profit/(loss) of equity accounted investments	1.0	(0.3)	-	10.2	10.9
Underlying net profit/(loss) before income tax	92.1	10.6	(32.3)	21.2	91.6
Underlying income tax benefit/(expense)	(27.3)	(3.3)	9.7	(3.3)	(24.2)
Underlying net profit/(loss) after tax	64.8	7.3	(22.6)	17.9	67.4
Underlying non-controlling interests	0.6	-	-	-	0.6
Underlying net profit/(loss) after tax attributable to members	65.4	7.3	(22.6)	17.9	68.0
Underlying net profit/(loss) after tax before amortisation attributable to members**	68.3	8.6	(22.6)	22.0	76.3
Underlying diluted earnings per share (cents)					4.2
Underlying diluted earnings pre-amortisation per share (cents)					4.7
Total segment assets	2,787.4	1,987.6	61.1	874.9	5,711.0
Total assets includes:					
Investments in associates and joint ventures	37.1	39.8	-	574.7	651.6
Loans to equity accounted investments	13.0	-	-	300.2	313.2
Additions to non-current assets (other than financial assets and deferred tax)	546.6	331.0	7.9	-	885.5
Total segment liabilities	721.3	377.0	1,798.2	-	2,896.5

2 Segment information (continued)

(b) Segment information provided to the Board

Half year ended 31 December 2018	Operating Division \$m	Infrastructure & Property \$m	Corporate & Other \$m	Patrick* \$m	Total \$m
Revenue and other income	807.3	29.6	0.1	-	837.0
Intercompany trading	-	22.5	-	-	22.5
Fair value gains	-	-	-	-	-
Other adjustments	-	-	-	-	-
Underlying Revenue	807.3	52.1	0.1	-	859.5
A reconciliation of net profit before income tax to underlying net profit after tax attributable to members is as follows:					
Net profit/(loss) before income tax	102.1	(4.4)	(30.9)	18.8	85.6
Share of (profit)/loss of equity accounted investments	(0.7)	0.4	-	(6.7)	(7.0)
Net finance (income)/cost	(0.5)	0.1	21.9	(12.1)	9.4
Depreciation and amortisation	55.0	4.8	0.1	-	59.9
EBITDA	155.9	0.9	(8.9)	-	147.9
Fair value gains	-	-	-	-	-
Impairment of investment in associate	-	-	-	-	-
Intercompany trading	(22.5)	22.5	-	-	-
Other	-	-	-	-	-
Underlying EBITDA	133.4	23.4	(8.9)	-	147.9
Depreciation	(51.3)	(2.9)	(0.1)	-	(54.3)
Underlying EBITA	82.1	20.5	(9.0)	-	93.6
Amortisation	(3.7)	(1.9)	-	-	(5.6)
Underlying EBIT	78.4	18.6	(9.0)	-	88.0
Underlying net finance income/(cost)	0.5	0.1	(19.0)	12.1	(6.3)
Underlying share of profit/(loss) of equity accounted investments	0.9	(0.4)	-	6.5	7.0
Underlying net profit/(loss) before income tax	79.8	18.3	(28.0)	18.6	88.7
Underlying income tax expense	(23.7)	(5.6)	8.4	(3.6)	(24.5)
Underlying net profit/(loss) after tax	56.1	12.7	(19.6)	15.0	64.2
Underlying non-controlling interests	0.4	-	-	-	0.4
Underlying net profit/(loss) after tax attributable to members	56.5	12.7	(19.6)	15.0	64.6
Underlying net profit/(loss) after tax before amortisation attributable to members**	59.1	14.0	(19.6)	19.1	72.6
Underlying diluted earnings per share (cents)					4.0
Underlying diluted earnings pre-amortisation per share (cents)					4.5
Total segment assets	2,037.9	1,218.9	64.4	949.2	4,270.4
Total assets includes:					
Investments in associates and joint ventures	28.9	44.6	-	620.3	693.8
Loans to equity accounted investments	12.3	-	-	328.8	341.1
Additions to non-current assets (other than financial assets and deferred tax)	141.9	146.6	1.2	-	289.7
Total segment liabilities	238.1	52.4	1,241.0	-	1,531.5

*A reconciliation of the Patrick underlying contribution to the Qube results can be found in Note 5.

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

2 Segment information (continued)

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 in order to more accurately reflect the underlying performance of Qube. Income tax expense is based on a prima-facie 30% tax charge on profit before tax and associates and applying a 30% tax rate to the NPBT for each of Qube's associates.

(c) Other segment information

Qube operates principally in Australia and no single customer's revenues amount to 10% or more of total revenue.

(i) **Segment assets**

The amounts provided to the Board with respect to total assets are measured in a manner consistent with that of the financial statements. These assets are allocated based on the operations of the segment.

(ii) **Segment liabilities**

The amounts provided to the Board with respect to total liabilities are measured in a manner consistent with that of the financial statements. These liabilities are allocated based on the operations of the segment.

The Group's borrowings (excluding finance leases and debt facilities for ISO) are not considered to be segment liabilities but rather managed centrally by the treasury function.

	Half year ended	
	31 Dec 2019	31 Dec 2018
	\$m	\$m
3 Revenue and other income		
Sales revenue		
Logistics revenue	435.6	362.6
Ports & Bulk revenue	479.0	438.9
Rental and property related income	13.7	12.1
Management fees	3.9	3.8
Other revenue	10.9	9.8
Total revenue	<u>943.1</u>	<u>827.2</u>
Other income		
Fair value gains on investment property	8.0	-
Net gain on disposal of property, plant and equipment	2.3	0.5
Other	3.9	9.3
Total other income	<u>14.2</u>	<u>9.8</u>
4 Expenses		
(a) Profit before income tax includes the following specific expenses		
<i>Depreciation</i>		
Buildings	2.6	1.9
Plant and equipment	54.7	47.4
Leasehold improvements	5.2	5.0
Right of use asset	38.7	-
Total depreciation	<u>101.2</u>	<u>54.3</u>
<i>Amortisation</i>		
Customer contracts	4.2	3.7
Port Concessions	1.9	1.9
Total amortisation	<u>6.1</u>	<u>5.6</u>
Total depreciation and amortisation expense	<u>107.3</u>	<u>59.9</u>
<i>Finance expenses</i>		
Interest and finance charges paid/payable to other persons	21.6	21.1
Lease borrowing costs	15.5	-
Fair value loss/(gain) on derivative instruments	0.5	2.8
Total finance costs expense	<u>37.6</u>	<u>23.9</u>
<i>Rental expense relating to operating leases</i>		
Property	5.4	36.1
Motor vehicles	1.7	1.4
Plant and equipment	1.5	14.6
Total rental expense relating to operating leases	<u>8.6</u>	<u>52.1</u>
<i>Employee benefits expense</i>		
Defined contribution superannuation expenses	21.7	20.2
Share based payment expenses	3.9	3.1
Other employee benefits expense	332.6	298.2
Total employee benefits expense	<u>358.2</u>	<u>321.5</u>

Right of use asset depreciation and lease borrowing costs

Additional depreciation and borrowing cost expenses of \$38.1 million and \$13.0 million, respectively, have been recognised in the current reporting period. These additional costs relate to right of use assets and lease liabilities recognised in accordance with AASB 16 Leases, which the Group adopted with effect from 1 July 2019. The adoption of AASB 16 has resulted in a decrease in rental expense relating to operating lease payments of \$47.4 million and reduction of operating lease income of \$0.6m.

Amounts in the comparative period have not been restated. Refer to note 1.

(b) Income tax

The effective tax rate for the half year to 31 December 2019 was 32%, compared to 29% for the half year ended 31 December 2018.

5 Investments accounted for using the equity method

(a) Movements in carrying amounts

Set out below are the associates and joint ventures of the Group as at 31 December 2019. The entities listed below have share capital/units consisting solely of ordinary shares/units, which are held directly by the Group. The country of incorporation or registration is also their principal place of business, and the proportion of ownership interest is the same as the proportion of voting rights held. All entities are accounted for using the equity method.

Name of entity	Place of business/country of incorporation	% Ownership interest		Carrying amount	
		31 Dec 2019	30 June 2019	31 Dec 2019	30 June 2019
		%	%	\$m	\$m
Patrick ¹	Australia	50	50	574.7	602.2
Other equity accounted investments				76.9	76.7
Total equity accounted investments				651.6	678.9

¹ The Group's 50% investment in Patrick is held through PTH No. 1 Pty Ltd. The carrying amount above excludes shareholder loans provided by Qube to PTH No.1 of \$300.2 million (\$300.2 million in June 2019) which also forms part of Qube's total investment in Patrick.

Other than Patrick, the Group's equity accounted investments are considered individually immaterial and are discussed in part (c) below.

(b) Summarised financial information of joint ventures

The tables below provide summarised statutory financial information for those joint ventures that are material to the Group. The information disclosed reflects the amounts presented in the financial statements of the relevant joint ventures and not Qube Holdings Limited's share of those amounts. They have been amended to reflect the adjustments made by Qube when using the equity method, including fair value adjustments and modifications for differences in accounting policy where material.

	PTH No. 1 Pty Ltd (Patrick)			PTH No. 1 Pty Ltd (Patrick)	
	31 Dec 2019 \$m	30 June 2019 \$m		31 Dec 2019 \$m	30 June 2019 \$m
Summarised balance sheet			Reconciliation to carrying amounts		
<i>Current assets</i>			Opening net assets	1,077.2	1,156.2
Cash and cash equivalents	40.1	20.4	Profit for the period	5.6	23.4
Other current assets	134.6	116.0	Dividends	-	(29.2)
Total current assets	174.7	136.4	Return of capital	-	(66.1)
Total non-current assets	4,060.9	2,782.1	Impact of Lease accounting policy change	(59.3)	-
			Movement in reserves	(1.4)	(7.1)
<i>Current liabilities</i>			Closing net assets	1,022.1	1,077.2
Financial liabilities*	0.7	-	Group's share in %	50%	50%
Other current liabilities	173.9	124.9	Group's share in \$m	511.1	538.6
Total current liabilities	174.6	124.9	Goodwill	63.6	63.6
<i>Non-current liabilities</i>			Carrying amount	574.7	602.2
Financial liabilities*	979.4	1,003.8			
Shareholder loans	614.4	602.3			
Other non-current liabilities	1,445.1	110.3			
Total non-current liabilities	3,038.9	1,716.4			
Net Assets	1,022.1	1,077.2			
*Excluding trade payables					
			Summarised statement of comprehensive income		
			Revenue	348.0	313.7
			Interest Income	0.8	2.1
			Depreciation & amortisation	(61.5)	(45.3)
			Interest expense	(60.4)	(44.4)
			Income tax expense	(2.4)	(6.0)
			Profit for the period	5.6	13.4
			Other comprehensive income	(1.4)	(0.3)
			Total comprehensive income	4.2	13.1

5 Investments accounted for using the equity method (continued)

(b) Summarised financial information of joint ventures (continued)

A reconciliation of the underlying trading performance of Patrick to Qube's share of underlying net profit after tax per Note 2 is included in the table below for the half years ended 31 December 2019 and 31 December 2018. The statutory figures below represent non-statutory numbers compiled based on statutory PBT after add backs for Interest, Tax, Depreciation & Amortisation.

Patrick underlying contribution reconciliation (100%)

For the half year ended 31 December 2019

	Statutory \$m	Underlying Adjustments ² \$m	Underlying \$m
Revenue	348.0	2.8	350.8
EBITDA	128.2	(20.1)	108.1
EBITA	78.3	(2.1)	76.2
EBIT	66.7	(2.1)	64.6
Interest expense (net) - External	(36.6)	23.2	(13.4)
Interest expense - Shareholders	(22.1)	-	(22.1)
Net profit before tax	8.0	21.1	29.1
Tax (@ 30%)	(2.4)	(6.3)	(8.7)
Net profit after tax	5.6	14.8	20.4
Net profit after tax pre-amortisation	13.7	14.8	28.5
Qube share (50%) of net profit after tax	2.8	7.4	10.2
Qube interest income net of tax from Patrick ¹	7.7	-	7.7
Qube net profit after tax from Patrick	10.5	7.4	17.9
Qube share (50%) of net profit after tax pre-amortisation	6.9	7.4	14.3
Qube net profit after tax pre-amortisation from Patrick	14.6	7.4	22.0

Patrick underlying contribution reconciliation (100%)

For the half year ended 31 December 2018

	Statutory \$m	Underlying Adjustments ² \$m	Underlying \$m
Revenue	313.7	-	313.7
EBITDA	106.2	-	106.2
EBITA	72.5	-	72.5
EBIT	60.9	-	60.9
Interest expense (net) - External	(17.3)	(0.8)	(18.1)
Interest expense - Shareholders	(24.2)	-	(24.2)
Net profit before tax	19.4	(0.8)	18.6
Tax (@ 30%)	(6.0)	0.4	(5.6)
Net profit after tax	13.4	(0.4)	13.0
Net profit after tax pre-amortisation	21.5	(0.4)	21.1
Qube share (50%) of net profit after tax	6.7	(0.2)	6.5
Qube interest income net of tax from Patrick ¹	8.5	-	8.5
Qube net profit after tax from Patrick	15.2	(0.2)	15.0
Qube share (50%) of net profit after tax pre-amortisation	10.8	(0.2)	10.6
Qube net profit after tax pre-amortisation from Patrick	19.3	(0.2)	19.1

¹Qube's share of shareholder interest income is subject to a prima facie 30% tax charge, whereas Qube's share of profit from Patrick trading results has already been tax effected.

²For the half year to 31 December 2019 underlying adjustments included net after tax AASB 16 leasing adjustments of \$14.6 million.

5 Investments accounted for using the equity method (continued)

(c) Individually immaterial associate and joint venture

In addition to the interests disclosed above in Patrick, the Group also has interests in a number of individually immaterial associates¹ that are accounted for using the equity method.

	31 Dec 2019 \$m	30 June 2019 \$m
Aggregate carrying amount of individually immaterial associates and joint venture	76.9	76.7
	31 Dec 2019 \$m	31 Dec 2018 \$m
Aggregate amounts of the Group's share of:		
Profit/(Loss) for the period	0.7	0.3
Other comprehensive income	-	-
Total comprehensive income	0.7	0.3

¹ 'K' Line Auto Logistics Pty Ltd, Northern Stevedoring Services Pty Ltd, Quattro Grain Trust, TQ Holdings Pty Ltd, Intermodal Group Pty Ltd, Intermodal Train Services Pty Ltd and Southern Export Terminals Pty Ltd.

(d) Commitments and contingent liabilities of associates and joint ventures

There has been no material change in contingent liabilities of associates and joint ventures as set out in Qube's 2019 Annual Report.

(e) Significant judgement: consolidation of entities with 50% ownership

The directors have concluded that where the Group holds 50% of the voting rights of an entity that this does not in itself confer that the Group has control of that entity. To establish whether control exists, the Group determines whether it is exposed to, or has the rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. In the case of PTH No. 1 Pty Ltd and Qube's other 50% owned associates the Group does not have the ability to affect returns of these entities without the prior consent of the remaining shareholders.

6 Intangible assets

	Goodwill \$m	Port Concessions \$m	Customer contracts \$m	Total \$m
Year ended 30 June 2019				
Opening net book amount	709.5	107.6	16.5	833.6
Acquisition of a business	33.9	-	6.7	40.6
Exchange differences	0.8	-	-	0.8
Amortisation charge	-	(3.7)	(7.5)	(11.2)
Closing net book amount	744.2	103.9	15.7	863.8
At 30 June 2019				
Cost	744.2	113.5	74.0	931.7
Accumulated amortisation	-	(9.6)	(58.3)	(67.9)
Net book amount	744.2	103.9	15.7	863.8
Half year ended 31 December 2019				
Opening net book amount	744.2	103.9	15.7	863.8
Acquisition of a business	3.2	-	-	3.2
Exchange differences	0.1	-	-	0.1
Amortisation charge	-	(1.9)	(4.1)	(6.0)
Closing net book amount	747.5	102.0	11.6	861.1
At 31 December 2019				
Cost	747.5	113.5	74.0	935.0
Accumulated amortisation	-	(11.5)	(62.4)	(73.9)
Net book amount	747.5	102.0	11.6	861.1

7 Equity securities issued

	31 Dec 2019 Shares	31 Dec 2018 Shares	31 Dec 2019 \$m	31 Dec 2018 \$m
(a) Issues of ordinary shares during the half year				
Opening balance as at 1 July	1,606,252,093	1,604,988,151	2,475.4	2,472.0
Acquisition of subsidiary	13,149,895	-	43.0	-
Employee share plan issues	5,682,018	-	17.9	-
Dividend reinvestment plan	751,939	557,133	2.4	1.5
Closing balance 31 December	1,625,835,945	1,605,545,284	2,538.7	2,473.5
(b) Movements in treasury shares during the half year				
Opening balance as at 1 July	(2,128,736)	(6,861,673)	(8.8)	(17.1)
Treasury shares acquired	(5,495,409)	(1,500,000)	(17.3)	(3.9)
Transfer of treasury shares	7,624,145	6,232,937	22.5	14.5
Fair value movement on allocation and vesting of securities			(5.9)	(2.4)
Closing balance 31 December	-	(2,128,736)	(9.5)	(8.9)
Total contributed equity	1,625,835,945	1,603,416,548	2,529.2	2,464.6

Treasury shares

Treasury shares are shares in Qube Holdings Limited held by the Qube Holdings Limited Employee Share Trust for the purpose of allocating shares that vest under the Short-Term Incentive Plan (STI) and the Long-Term Incentive Plan (LTI). Details of the plans were disclosed in the Remuneration Report of the Qube Holdings Limited 2019 Annual Report. No shares are held in the Trust as at 31 December 2019.

8 Borrowings

During the period, the Group put in place a further \$300 million in 2-year debt facilities and repaid a \$50 million facility that matured in July 2019.

Qube's debt facilities have a weighted average maturity in excess of 3.9 years (June 2019: 4.6 years). No debt facilities mature within the next 12 months and therefore all borrowings have been classified as non-current liabilities by the Group.

Market risk

Interest rate risk

Qube's primary interest rate risk relates to its variable rate borrowings and cash held on deposit, which expose the Group to interest rate risk. Qube's operating businesses are leveraged to the economy such that movements in interest rates, which typically reflect changes in economic conditions and outlook, are likely to correlate with movements in Qube's earnings. The primary objectives of Qube's interest rate risk management strategy therefore are to protect against adverse movements in interest rates which Qube cannot fully or largely offset through its earnings. However, for debt used to fund assets with passive income streams (such as warehouse rental) that are not leveraged to the economy and have limited to no ability to increase revenues beyond the set annual increases, Qube aims to hedge between 70-100% subject to an overall cap on hedging of 60% of gross debt.

Qube's exposure to interest rate risk is set out in the following table:

	31 Dec 2019	30 June 2019
	\$m	\$m
Borrowings (excluding finance leases and capitalised establishment costs)	1,710.0	1,494.3
Less: Fixed rate loans	(150.0)	(200.0)
Cash	(114.5)	(139.9)
Net exposure to cash flow interest rate risk	<u>1,445.5</u>	<u>1,154.4</u>
Interest rate hedging in place*	<u>730.0</u>	<u>730.0</u>

* Includes forward start hedges totalling \$345 million (June 2019: \$345 million)

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. Qube's exposure to fair value interest rate risk relates primarily to interest rate hedging instruments referred to above. The Group analyses its interest rate exposure on an ongoing basis.

The sensitivities of Qube's monetary assets and liabilities to interest rate risk is summarised below. The analysis is based on the assumption that interest rates changed +/-100 basis points (June 2019: +/-100 basis points) from the period end rates with all other variables held constant.

	Interest rate risk			
	-100 bps		+100 bps	
	Profit	Equity	Profit	Equity
31 Dec 2019	\$m	\$m	\$m	\$m
Total increase/(decrease)	<u>9.0</u>	<u>9.0</u>	<u>(9.5)</u>	<u>(9.5)</u>
30 June 2019				
Total increase/(decrease)	<u>8.0</u>	<u>8.0</u>	<u>(8.5)</u>	<u>(8.5)</u>

Foreign exchange risk

Foreign exchange risk arises from commercial transactions and recognised liabilities that are denominated in or related to a currency that is not the Group's functional currency. The Group's foreign exchange exposure relates largely to the USD denominated medium term note borrowings issued in October 2017. The Group also has exposure to movements in foreign currency exchange rates through anticipated purchases of parts and equipment in relation to the Moorebank IMEX rail terminal automation.

8 Borrowings (continued)

Foreign exchange risk (continued)

To mitigate the risk of adverse movements in foreign exchange and interest rates in relation to the USD denominated medium term notes, the Group has entered into Cross Currency Interest Rate Swaps (CCIRS) agreements through which it replaces the related foreign currency principal and interest liability payments with Australian Dollar principal and interest payments. The CCIRS have been designated as cash flow and fair value hedges in order to reduce the volatility in the Groups reported earnings.

The Group utilised forward exchange contracts and options to manage its foreign exchange risk arising from purchases of parts and equipment in relation to the Moorebank IMEX rail terminal automation. These contracts are hedging highly probable forecast foreign currency exposures. The forward exchange contracts and options are designated as cash flow hedges and are timed to mature when foreign currency payments are scheduled to be made.

As at the reporting date, the Group's exposure to foreign exchange risk after taking into consideration hedges in relation to the USD medium term notes and the forecast foreign currency transactions is not considered material.

Compliance with loan covenants

The Group has complied with the financial covenants of its borrowing facilities during the half year to 31 December 2019.

Financing arrangements

The Group has access to the following undrawn borrowing facilities at the end of the reporting period:

	31 Dec 2019	30 June 2019
	\$m	\$m
Floating rate		
Expiring within one year	-	-
Expiring beyond one year*	437.5	397.2
	437.5	397.2

*Undrawn facilities as at 31 December 2019 adjusted for \$24.1 million in bank guarantees (June 2019: \$30.9 million) drawn under the working capital facilities.

Subject to the continuance of satisfactory covenant compliance, the bank facilities may be drawn down at any time.

9 Fair value measurement

This note provides an update on the judgements and estimates made by the Group in determining the fair values of the financial instruments and non-financial assets since the 2019 annual financial report.

(a) Fair value hierarchy

To provide an indication about the reliability of the inputs used in determining fair value, the Group classifies its financial instruments into the three levels prescribed under the accounting standards. An explanation of each level follows:

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities,
- Level 2 - inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly, and
- Level 3 - inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following table presents the Group's financial assets, non-financial assets and financial liabilities measured and recognised at fair value at 31 December 2019 and 30 June 2019 on a recurring basis:

	Level 1 \$m	Level 2 \$m	Level 3 \$m	Total \$m
At 31 December 2019				
Recurring fair value measurements				
Assets				
Investment Properties	-	-	1,145.4	1,145.4
Derivatives designated as hedges	-	31.4	-	31.4
Total assets	-	31.4	1,145.4	1,176.8
Liabilities				
Deferred consideration payable	-	1.9	-	1.9
Derivatives not designated as hedges	-	21.0	-	21.0
Total liabilities	-	22.9	-	22.9
At 30 June 2019				
Recurring fair value measurements				
Assets				
Investment Properties	-	-	1,031.6	1,031.6
Derivatives designated as hedges	-	32.2	-	32.2
Total assets	-	32.2	1,031.6	1,063.8
Liabilities				
Derivatives not designated as hedges	-	20.5	-	20.5
Total liabilities	-	20.5	-	20.5

There were no transfers between levels 1 and 2 for recurring fair value measurements during the period.

(b) Valuation techniques used to determine fair values

Financial instruments

Specific valuation techniques used to value financial instruments include:

- CCIRS, interest rate swaps and collars - Present value of the estimated future cash flows using an appropriate market based yield curve, which is independently derived. Yield curves are sourced from readily available market data quoted for all major currencies.
- Forward exchange contracts and options - Quoted forward exchange rates at reporting date for contracts with similar maturity profiles.
- Other techniques, such as discounted cash flow analysis are used to determine fair value for the remaining financial instruments such as contingent consideration.

All of the resulting fair value estimates are included in levels 1 and 2 except for contingent consideration payable explained in (c) (ii) below.

9 Fair value measurement (continued)

Non-financial assets

The Group obtains independent valuations for its investment properties at least annually. At the end of each reporting period, the directors update their assessment of the fair value of each property, taking into account the most recent valuations performed by an independent valuer who holds a recognised and relevant qualification and any other relevant factors. The directors determine a property's value within a range of reasonable fair value estimates.

The best evidence of fair value is current prices in an active market for similar properties. Where such information is not available the directors consider information from a variety of sources including independent valuations prepared by third party valuers. These valuations typically include information such as:

- Current prices in an active market for properties of different nature or recent prices of similar properties in less active markets, adjusted to reflect those differences;
- Term and reversion calculations which reflect the certainty of income to lease expiry, the nature of any current property improvements and any deferred underlying land value and underlying re-development of a property;
- Capitalised income projections based upon a property's estimated net market income, and a capitalisation rate derived from an analysis of market evidence; and
- Discounted cash flow projections based on reliable estimates of future cash flows.

In relation to properties under development for future use as investment property, where reliably measurable, fair value is determined based on the market value of the asset on the assumption it had already been completed at the valuation date (using the methodology as outlined in (c)(vi) below).

The primary valuation methodology for the Group's Minto and Russell Park investment property was the discounted cash flow and capitalisation approaches, which resulted in fair value estimate for these properties being included in level 3. As the Moorebank Logistics Park is considered investment property in development, it is also included in level 3.

(c) Fair value measurements using significant unobservable inputs (level 3)

Financial instruments

- (i) Transfers between levels 2 and 3 and changes in valuation techniques

There were no transfers between the levels of the fair value hierarchy in the half year to 31 December 2019.

There were also no changes made to any of the valuation techniques applied in prior periods.

- (ii) Valuation inputs and relationships to fair value

Contingent consideration

Actual consideration payable is contingent on certain future conditions including financial results, warranty periods and volume related targets. The minimum amount payable is \$nil, and the maximum is \$6.3 million over the relevant period.

- (iii) Valuation processes

The finance department of the Group performs the valuations of non-property assets required for financial reporting purposes, including level 3 fair values. This team reports directly to the Chief Financial Officer (CFO). Discussions of valuation processes and results are held between the CFO and the Audit and Risk Management Committee at least once every six months, in line with the Group's reporting dates.

The main level 3 inputs used by the Group in measuring the fair value of financial instruments are derived and evaluated as follows:

- Discount rates: these are determined using the weighted average cost of capital model to calculate a post-tax rate that reflects current market assessments of the time value of money and the risks specific to the underlying business.
- Contingent consideration payable – expected cash outflows: these are estimated based on the terms of the sale contract, the entity's knowledge of the business, assessment of the likelihood of reaching any financial hurdles and how the current economic environment is likely to impact it.

Material changes in level 2 and 3 fair values are analysed at each reporting date during the half yearly valuation discussion between the CFO, and the Audit and Risk Management Committee. As part of this discussion the CFO presents a report that explains the reason for the fair value movements.

Non-financial assets

- (iv) Transfers between levels 2 and 3 and changes in valuation techniques

There were no transfers between the levels of the fair value hierarchy in the half year to 31 December 2019.

9 Fair value measurement (continued)

(c) Fair value measurements using significant unobservable inputs (level 3) (continued)

Non-financial assets (continued)

(v) Valuation inputs and relationships to fair value

The following table summarises the quantitative information about the significant unobservable inputs used in recurring level 3 fair value measurements. See below for the valuation techniques adopted:

Description	Fair value at 31 Dec 2019 \$m	Unobservable inputs	Range of inputs (probability – weighted average)	Relationship of unobservable inputs to fair value
Investment property	1,145.4	Discount rate	6.5% – 9.5%	The higher the discount rate and terminal yield, the lower the fair value
		Terminal yield	5.1% - 9.5%	
		Capitalisation rate	4.6% - 9.0%	The higher the capitalisation rate and expected vacancy rate, the lower the fair value
		Current vacancy rate	-	
		Rental growth rate	3.2%	The higher the rental growth rate, the higher the fair value
		Land rate (per sqm)	\$685	The land rate is the market land value per sqm of fully serviced and benched developable site area for the property (i.e. freehold land value).

(vi) Valuation processes

For level 3 assets being independently valued the Group engages external, independent and qualified valuers to determine the fair value at least annually.

The main level 3 inputs used by the Group are derived and evaluated as follows: Property assets – discount rates, terminal yields, expected vacancy rates and rental growth rates are estimated by an independent valuer or management based on comparable transactions and industry data.

For level 3 assets currently under development such as the Moorebank Logistics Park, an internal valuation is performed by management using a static valuation approach based on an independent valuation leveraging relevant market comparable data including capitalisation and land rate per square metre information. This value is then adjusted for factors including the NPV of ground rental payments, cost to complete and contingencies. Qube's interest in the Land Trust is based on an independent valuation.

10 Non-current loans and receivables

	31 Dec 2019	30 June 2019
	\$m	\$m
Loans and receivables	300.2	300.2

The Group provided a related party loan to Patrick as part of the acquisition of its 50% interest. The loan is for a fixed term of 10 years, subordinated to all creditors, with an effective interest rate of 7.3% and no conversion rights.

Loans and receivables are held for collection of contractual cash flows. The cash flows solely represent payments of principal and interest and therefore the loans and receivables are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses). Impairment losses are presented as separate line item in the statement of profit or loss.

The Group assesses on a forward looking basis the expected credit losses associated with its loans and receivables carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

The credit quality of all loans and receivables, including those neither past due nor impaired, is assessed and monitored on an ongoing basis. To determine the necessity of whether an impairment provision is required for any given financial year, the Group considers how economic and market conditions will affect the creditworthiness of certain entities.

11 Business Combinations

On 11 September 2019 Qube acquired 100% of the issued capital of Chalmers Limited for a total purchase consideration of \$55.4 million.

Details of the purchase consideration, the provisionally determined net assets acquired and goodwill are as follows:

	\$m
Purchase consideration:	
Cash paid	12.4
Ordinary shares issued	43.0
Completion adjustments	-
Total purchase consideration	55.4

The fair value of the shares issued as part of the consideration paid for Chalmers Limited (Chalmers) was based on the following published prices:

	\$m
12,987,019 shares issued on 23 August 2019 at \$3.27 per share	42.5
162,876 shares issued on 11 September 2019 at \$3.25 per share	0.5
Total ordinary shares issued	43.0

The provisionally determined fair values of the assets and liabilities recognised as a result of the acquisition are as follows:

	Fair value
	\$m
Cash	0.3
Trade receivables	8.7
Inventories	0.2
Other receivables and prepayments	0.6
Deferred tax asset	1.6
Property, plant and equipment	12.3
Assets classified as held for sale	65.0
Right of use assets	14.2
Trade payables	(9.6)
Provision for employee benefits	(9.2)
Lease liabilities	(24.3)
Borrowings from Qube	(7.5)
Net identified assets acquired	52.3
Add: Provisional goodwill	3.1
Net assets acquired	55.4

The goodwill is attributable to the strategic advantages and market positioning this acquisition will provide Qube. None of the goodwill is expected to be deductible for tax purposes.

- (i) Acquisition related costs
Acquisition related costs of \$1.2 million are included in the consolidated statement of comprehensive income.
- (ii) Acquired receivables
The trade receivables of \$8.7 million is expected to be recoverable in full.
- (iii) Revenue and profit contribution

The acquired business has been immediately integrated into Qube's existing Logistics based business from acquisition so it is impracticable and unreliable to report separate revenue and profit contributions for this acquisition.

Purchase consideration – cash outflow

	\$m
Outflow of cash to acquire Chalmers, net of cash acquired	
Cash consideration	12.4
Less: Cash balances acquired	(0.3)
Net cash consideration	12.1
Minor acquisitions	(0.4)
Outflow of cash – investing activities	11.7

The Group finalised its provisional accounts in relation to Lasso Logistics Pty Ltd (Acquired in the previous financial year). Net cash consideration acquired was adjusted by \$0.4 million with \$0.4 million in cash balances acquired.

Half year ended	
31 Dec 2019	31 Dec 2018
\$m	\$m

12 Dividends

(a) Ordinary shares

Dividends provided for or paid during the half year	47.1	76.9
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(b) Dividends not recognised at the end of the half year

In addition to the above dividends, since the end of the half year the directors have recommended the payment of an interim dividend of 2.9 cents per fully paid ordinary share (December 2018 – 2.8 cents), fully franked based on tax paid at 30%. The aggregate amount of the proposed dividend expected to be paid on 7 April 2020 out of retained earnings at 31 December 2019, but not recognised as a liability at the end of the half year, is

	47.1	44.9
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In the prior half year the directors recommended the payment of a special dividend of 1.0 cent per fully paid ordinary share fully franked based on tax paid at 30%. The aggregate amount of the proposed dividend in the prior year paid on 4 April 2019 out of retained earnings at 31 December 2018, but not recognised as a liability at the end of the half year, was

	-	16.1
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13 Contingencies

Contingent liabilities

There has been no material change in contingent liabilities as set out in Qube's 2019 Annual Report.

14 Events occurring after the reporting period

Other than as noted in this report, there have been no events that have occurred subsequent to 31 December 2019 and up to the date of this report that have had a material impact on Qube's financial performance or position.

In the directors' opinion:

- (a) the financial statements and notes set out on pages 9 to 32 are in accordance with the *Corporations Act 2001*, including:
- (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and
 - (ii) giving a true and fair view of the consolidated entity's financial position as at 31 December 2019 and of its performance for the half year ended on that date, and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the directors.



Allan Davies
Chairman

Sydney
24 February 2020



Independent auditor's review report to the members of Qube Holdings Limited

Report on the financial report

We have reviewed the accompanying financial report of Qube Holdings Limited (the Company) and the entities it controlled during the year (together the Group), which comprises the consolidated balance sheet as at 31 December 2019, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, selected other explanatory notes and the directors' declaration.

Directors' responsibility for the financial report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2019 and its performance for the year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Qube Holdings Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

PricewaterhouseCoopers, ABN 52 780 433 757

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Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the financial report of Qube Holdings Limited is not in accordance with the *Corporations Act 2001* including:

1. giving a true and fair view of the Group's financial position as at 31 December 2019 and of its performance for the year ended on that date;
2. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

A handwritten signature in black ink, appearing to read 'PricewaterhouseCoopers', with a stylized flourish at the end.

PricewaterhouseCoopers

A handwritten signature in black ink, appearing to read 'Jane Reilly', with a stylized flourish at the end.

Jane Reilly
Partner

Sydney
24 February 2020

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