Financial Management

During FY16, Growthpoint used its balance sheet to support further growth in the business by acquiring five quality properties. Robust distribution growth has been supported by lower interest rates on debt and slightly higher gearing (but within the Group's target range) than in FY15.

NTA per security increased 7.7% to $2.67 over FY16

Dion Andrews
Chief Financial Officer

Highlights for FY16 include:

- A 3.3% increase in distributable income to 21.9 cps.
- Distribution guidance of 20.5 cps met, representing a payout ratio of 93.7%.
- FY17 distribution guidance of 21.3 cps provided (excluding the GMF takeover see page 10, and any capital management initiatives, refer below), representing growth of 3.9%.
- *NTA* per security increased 7.7% to $2.67.
- Moody's rating of *Baa2* confirmed with stable outlook.
- Further fixed debt issuance with AUD$250 million 7-year debt at an all-in cost of 4.46% per annum, helping to further diversify sources of debt and lengthen the debt tenor.

Strategic execution in FY16

In the 2015 Annual Report, we outlined the Group's financial management goals for FY16 as:

- Maintain *gearing* within 35% to 45% range.
- Extend average debt maturity.
- Diversify sources and tenor of debt.
- Additional capital markets issuance to be considered.

Our performance in each of these areas follows.

Balance sheet gearing 42.6% as at 30 June 2016

Balance sheet gearing as at 30 June 2016 was 42.6%, up from 37.0% as at 30 June 2015 and within the target range of 35% to 45%. Debt usage increased by $351.4 million over the year to support the acquisition of five new properties for $328.0 million (plus transaction costs). Debt funding these acquisitions during a time when Growthpoint's cost of debt has been falling has helped support growth in the Group's distributions. A large proportion of this debt increase has been fixed for seven years meaning that this driver of distribution growth is sustainable over the medium to long term.

Prudent financial management strategies have been adopted by Growthpoint to match debt levels with asset quality and WALE, fix debt for as long as practicable (having regard to the cost), and raise capital (debt and equity) to fund property acquisitions.

Extend average debt maturity

The weighted average debt maturity decreased by 0.5 years to 4.2 years, despite 12 months passing. The Group still aims to increase the weighted average debt maturity where possible.

Diversify sources and tenor of debt

In December 2015, the Group entered into $250 million of seven-year fixed debt with three new financiers. This had the effect of increasing the number of financiers from five to eight and thus further diversified the sources of debt for Growthpoint. It also helped further diversify the tenor of debt.

All-in debt costs lowered to 4.1% per annum

The all in debt cost for the Group reduced from 4.8% per annum at the beginning of the year to 4.1% per annum at 30 June 2016. The reduction occurred due to the issue of fixed debt in December 2015 as outlined above and a concurrent reorganisation of the interest rate swap book where $265 million of existing swaps were terminated and $150 million of new, longer dated and lower fixed rate interest rate swaps were entered into.

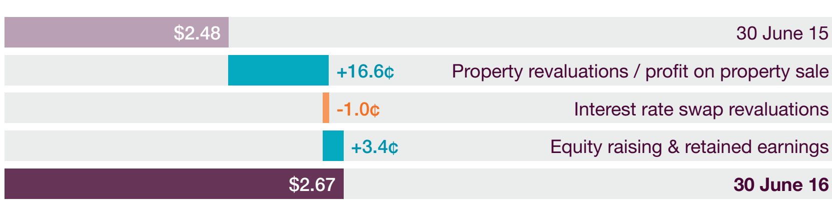
Refer to the graph, on the opposite page, which illustrates debt costs and gearing levels over the last six years.

FY 17 Outlook

Debt capital management

Growthpoint is awaiting the outcome of its takeover proposal for GPT Metro Office

Movements in NTA per stapled security



Other key statistics
(as at 30 June 2016)

- **65%** debt fixed
- **42.6%** balance sheet gearing
- **4.2 years** weighted average debt maturity
- **5.7 years** weighted average fixed rate debt maturity
- **$1.2 billion** drawn debt
- **$1.4 billion** debt facilities

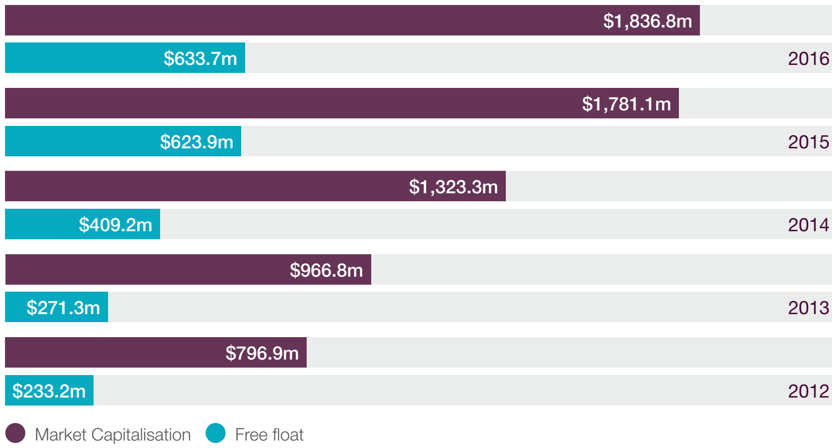
Fund (GMF) and the proposed sale of four industrial properties and their respective impacts on the level of gearing. If gearing exceeds the top of the 35% to 45% target range post these transactions, then the Group can reduce gearing through various capital management initiatives such as:

- **Dividend Reinvestment Plan (DRP)** – Growthpoint maintains a DRP, whereby Securityholders can reinvest their distributions into newly issued Growthpoint Securities, typically at a discount to the market price. The historic average take-up for Growthpoint's seven prior DRP's has been 74%. Assuming this continues, the FY17 annual distribution of approximately $140.4 million, approximately $104.2 million could be raised this year alone. Growthpoint could consider underwriting the DRP.
- **Property disposals** – Growthpoint could sell assets.
- **Equity raising** – Growthpoint has raised $1,113.1 million of equity since August 2009 which has funded the growth of its business and the property portfolio. Should circumstances be opportune, Growthpoint could reduce gearing by raising equity solely for that purpose or in conjunction with future property acquisitions.

Growthpoint will continue to consider the diversity of its debt sources, debt tenor and level of gearing to balance prudent financial management with the current portfolio and its growth in future.

Growthpoint may seek to execute a further debt capital issuance in FY17 to further diversify its sources of debt and lengthen the weighted average maturity profile whilst the current low interest rate environment persists. It will repay short term bank debt

Market capitalisation and free float
as at 30 June

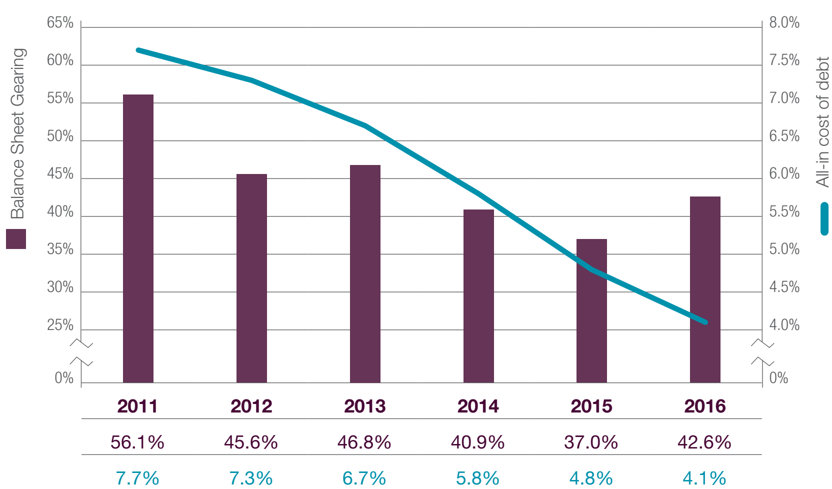


Interest rate hedging

Maturity date	Time to maturity	Fixed Rate	
Jul 18	2.0yrs	3.20%	$50m
Feb 19	2.6yrs	3.57%	$50m
Feb 19	2.6yrs	3.55%	$50m
Nov 19	3.3yrs	3.70%	$60m
Jun 20	4.0yrs	2.36%	$25m
Jun 20	4.0yrs	2.36%	$25m
Dec 20	4.5yrs	2.42%	$50m
Jun 21	5.0yrs	2.48%	$50m
Weighted average	3.4yrs	3.06%	

Including Growthpoint's $450m of fixed interest rate debt, the weighted average maturity of fixed debt increases to 5.7 years and the weighted average fixed rate reduces to 2.88%.

Gearing & cost of debt
as at 30 June



Summary of movements in value over FY16

Property type	Properties at 30 June 2015	Value at 30 June 2015	Capex for full year	Property acquisitions & expansions	Property disposals	Revaluation gain / (loss)	Valuation at 30 June 2016	Change due to revaluation[12]	Properties at 30 June 2016
	No.	*$m*	*$m*	*$m*	*$m*	*$m*	*$m*	*%*	*No.*
Industrial portfolio	36	1,165	3	42	-	26	**1,236**	2.2	38
Office portfolio	17	1,179	4	306	-	78	**1,566**	6.6	20
Total portfolio	**53**	**2,344**	**7**	**348**	**-**	**104**	**2,803**	**4.4**	**58**

Key debt metrics and changes during FY16

		30 June 2016	30 June 2015	Change
Gross assets	*$'000*	**2,914,034**	2,407,147	506,887
Interest bearing liabilities	*$'000*	**1,242,226**	890,445	351,781
Total debt facilities	*$'000*	**1,375,000**	1,125,000	250,000
Undrawn debt	*$'000*	**126,728**	228,174	(101,446)
Balance sheet gearing	*%*	**42.6**	37.0	5.6
Weighted average interest rate	*%*	**4.1**	4.8	(0.7)
Weighted average debt maturity	*years*	**4.2**	4.7	(0.5)
Annual Interest Coverage Ratio (ICR) / Covenant ICR	*times*	**4.1 / 1.6**	3.9 / 1.6	0.2 / -
Actual Loan to Value Ratio (LVR) / Covenant LVR	*%*	**45.2 / 60**	39.4 / 60	5.8 / -
Weighted average fixed debt maturity	*years*	**5.7**	5.0	0.7
% of debt fixed	*%*	**65**	75	(10)
Debt providers		**NAB, CBA, WBC, ANZ, two US life insurers, one Japanese bank and one Chinese bank**	NAB, CBA, WBC, ANZ, and one US life insurer	

FY16 Distributions

	Total distributions	Distributions per security
	$'000	*cps*
1H16	58,072	10.20
2H16	60,062	10.30
Total	**118,134**	**20.50**

The total distribution is 55.5% tax deferred and 0.9% tax free. Refer to note 3.6 on page 77 for more distribution details.

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FY17 distribution guidance of 21.3 cps provided, representing growth of 3.9% from FY16

with any funds raised if there are no other immediate applications such as property acquisitions.

Growthpoint is targeting undrawn and uncommitted debt of circa $100 million to allow for flexibility in transactions without excessive cost drag from holding undrawn debt lines.

Growthpoint's policy is to have between 75% and 100% of drawn debt fixed and to try and match the weighted average maturity of fixed debt with the weighted average of its total debt maturities. At 30 June 2016, 65% of debt was fixed with a weighted average maturity of 5.7 years (versus a weighted average maturity of total debt drawn of 4.2 years). Growthpoint will act to bring the fixed percentage back within the target range and this is expected to occur as a result of the completion of the transactions outlined above. If not, the Group will either enter further interest rate swaps or replace floating rate bank debt with an issuance of fixed interest rate debt.

It will also seek to extend the tenor of debt maturities to more closely align with fixed debt maturities.

Distributions forecast to increase to 21.3 cps

The Group seeks to return as much distributable income to investors as is prudent (after allowing for portfolio requirements of capital expenditure and payment of lease incentives). The payout ratio for FY16 was 93.7% compared with 93.1% in FY15. Growthpoint does not foresee the payout ratio falling below 90% over the medium term given the requirements of the current portfolio.

Distributions are forecast to increase from FY16 by 3.9% to 21.3 cps for FY17, based on distributable income of at least 22.2 cps.

12. This figure includes assets held for sale and are presented before straightline adjustments. Properties currently held for sale will be classed as a disposal when settlement of any sale occurs.

Distributable income

Distributable income is the net profit available for distribution from the Group which excludes accounting adjustments such as fair value movements to the value of investment property and interest rate swaps, depreciation and profits on sale of investment properties. Distributable income is non-*IFRS* financial information and has not been subject to review by the Group's external auditors.

Distributable income has been provided to allow Securityholders to identify that income which is available to distribute to them and will assist in the assessment of relative performance of the Group.

The table below provides a reconciliation of distributable income from statutory profit.

Reconciliation from statutory profit to distributable income

	FY16	FY15	Change	Change
	$'000	*$'000*	*$'000*	*%*
Profit after tax	**224,269**	**283,004**	**(58,735)**	**(20.8)**
Less non-distributable items:				
- Straight line adjustment to property revenue	(7,426)	(6,569)	(857)	
- Net changes in fair value of investments	(96,583)	(168,579)	71,996	
- Profit on sale of investment properties	(163)	(363)	200	
- Net loss on derivatives	5,824	11,280	(5,456)	
- Depreciation	128	137	(9)	
Distributable income	**126,049**	**118,910**	**7,139**	**6.0**

The payout ratio, calculated as distributions on ordinary stapled securities divided by distributable income, was 93.7% (FY15: 93.1%).

The table below summarises those components that make up distributable income earned.

Components of distributable income

	FY16	FY15	Change	Change
	$'000	*$'000*	*$'000*	*%*
Property income	208,626	197,240	11,386	5.8
Property expenses	(27,457)	(25,441)	(2,016)	7.9
Net property income	**181,169**	**171,799**	**9,370**	**5.5**
Interest income	559	761	(202)	(26.5)
Total operating income	**181,728**	**172,560**	**9,168**	**5.3**
Borrowing costs	(44,982)	(44,292)	(690)	1.6
Operational and trust expenses (less depreciation)	(10,279)	(8,986)	(1,293)	14.4
Operating and trust expenses	**(55,261)**	**(53,278)**	**(1,983)**	**3.7**
Tax expense	(418)	(372)	(46)	12.4
Distributable income	**126,049**	**118,910**	**7,139**	**6.0**

The total distribution for FY16 is 55.5% tax deferred and 0.9% tax free.

Operating expenses

		FY16	FY15	FY14
Total operating expenses	*$'000*	10,407	9,123	8,498
Average gross asset value	*$'000*	2,588,089	2,211,504	1,810,053
Operating expenses to average *gross assets*	*%*	0.40	0.41	0.47

75 Dorcas Street,
South Melbourne, VIC

Five year performance summary

The five year performance summary below highlights the Group's steady increases to distributable income, distributions and NTA per security over time.

Security Price

as at 30 June

2016	$3.15
2015	$3.13
2014	$2.45
2013	$2.40
2012	$2.21
2011	$1.93

Distributions

per stapled security

		Growth
FY17*	21.3¢	+3.9%
FY16	20.5¢	+4.1%
FY15	19.7¢	+3.7%
FY14	19.0¢	+3.8%
FY13	18.3¢	+4.0%
FY12	17.6¢	+2.9%

* Distribution guidance only excluding any change which the Directors may determine as a result of a successful GMF takeover.

For the five years ended 30 June 2016		FY16	FY15	FY14	FY13	FY12
Financial performance						
Investment income	*$m*	**307.0**	361.5	198.5	171.5	115.8
Profit for the period	*$m*	**224.3**	283.0	117.3	94.0	49.5
Financial position						
Total assets (at 30 June)	*$m*	**2,914.0**	2,407.1	2,128.8	1,680.4	1,607.1
Total equity (at 30 June)	*$m*	**1,556.8**	1,411.5	1,165.1	804.1	733.2
Securityholder value						
Basic and diluted earnings per security	*¢*	**38.9**	50.4	25.7	23.7	15.2
Distributable income per security	*¢*	**21.9**	21.2	20.0	19.3	17.7
Distributions per security	*¢*	**20.5**	19.7	19.0	18.3	17.6
Total Securityholder return[13]	*%*	**7.4**	36.4	10.8	23.6	21.6
Return on equity	*%*	**15.9**	23.9	17.5	13.1	4.8
Balance sheet gearing	*%*	**42.7**	37.0	40.9	46.8	45.6
NTA per security (at 30 June)	*$*	**2.67**	2.48	2.16	2.00	1.93
Market capitalisation (at 30 June)	*$m*	**1,836.8**	1,781.1	1,323.3	966.8	796.9
Other information						
Number of securities on issue (at 30 June)	*No.*	**583,125,744**	569,027,781	540,115,360	402,830,366	379,476,246

13. Total Securityholder return for year. Source: UBS Investment Research.