

Financial Management

**Excellent earnings growth,
lower gearing, diversified
sources of debt funding
and longer duration
achieved in FY17**

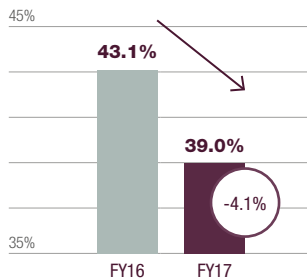
Growthpoint continued to strengthen its capital position over FY17, whilst supporting the Group’s transaction activity and portfolio repositioning. The Group successfully extended the tenor of its fixed debt, achieving in the process a better funding mix, lower interest rate risk and greater certainty around debt structure. We believe this will enable us to generate higher, more sustainable returns over the long-term. Gearing was also reduced over FY17.



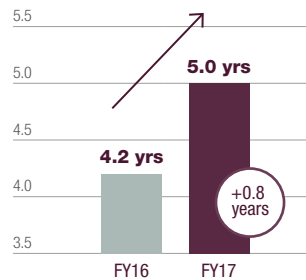
Dion Andrews
Chief Financial Officer

Strategic Execution

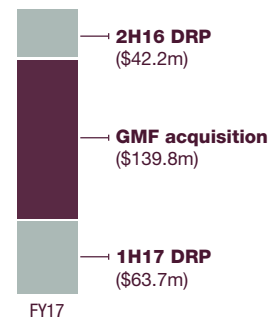
✔ Maintain gearing within 35%-45% range



✔ Extend average debt maturity

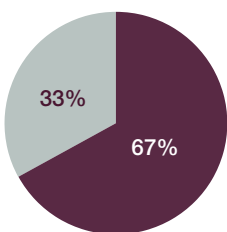


✔ \$245.7 million new equity in FY17

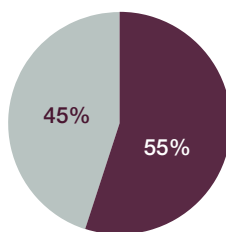


✔ Diversify debt sources

Total debt facilities as at 30 June 2016

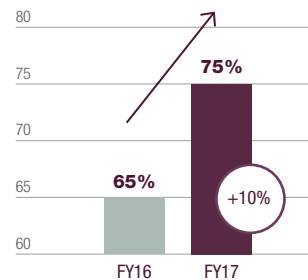


Total debt facilities as at 30 June 2017



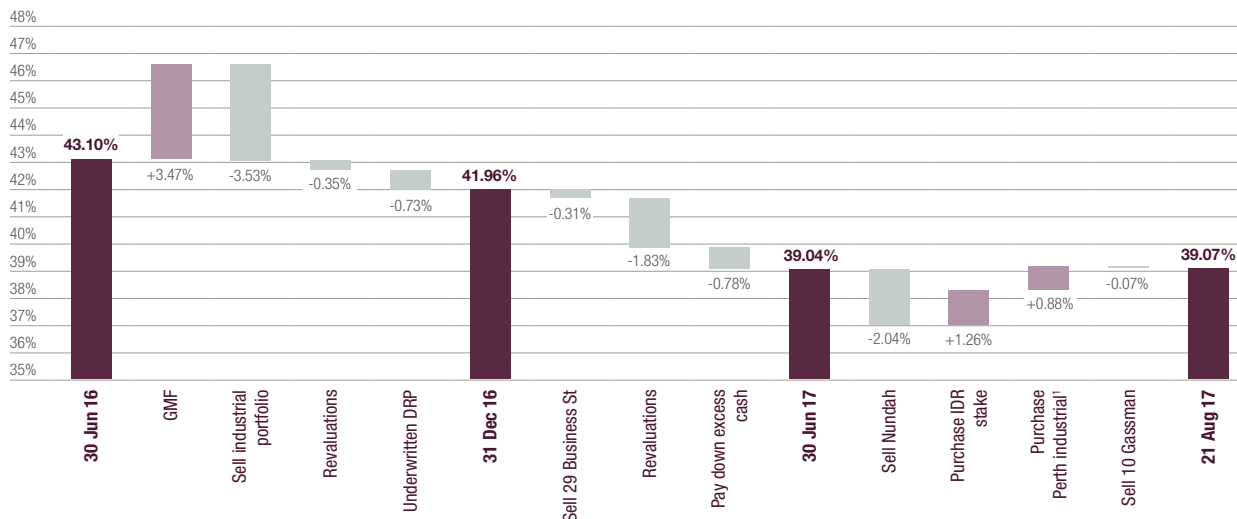
● Other debt capital markets¹ ● Major Australian Banks

✔ Increase fixed debt percentage



1. Consists of two offshore life insurers, three offshore banks and USPP investors.

Items influencing balance sheet gearing over 2017 (%)



Highlights for FY17 include:

- 11.4% increase for the year in FFO per security to 25.5 cents
- Distribution guidance of 21.5 cents per security met, representing a payout ratio to FFO of 84.3%
- NTA per security increased from \$2.61 to \$2.88
- Further fixed debt issuance via the USPP market with AUD208 million issued over 10 and 12 year tranches, further diversifying the Group's sources of funding and lengthening the debt tenor

Strategic execution in FY17

In the 2016 Annual Report, we outlined the Group's financial management goals for FY17 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.
- Ensure fixed debt is within the target range of 75% to 100%

Below we outline our performance during the year on each of these areas.

Balance sheet gearing 39.0% as at 30 June 2017

Balance sheet gearing as at 30 June 2017 was 39.0%, down from 43.1%² as at 30 June 2016 and within the target range. The Group has looked to control the level of gearing via the sale of properties that

do not meet its risk and return profiles and where it believes values have been maximised.

Extend average debt maturity

The weighted average debt maturity increased by 0.8 years to 5.0 years as the Group issued longer tenor debt to the USPP market and used the proceeds to repay shorter tenor bank debt.

Diversify sources and tenor of debt with additional capital market issuance

The issue of the USPP debt after a successful US roadshow brought nine new debt investors into the Group across two new maturities in 2027 and 2029. Growthpoint continues to assess the various debt markets open to it to ensure the debt portfolio remains well diversified by both source and tenor.

Fixed debt at 75% and the weighted average maturity of fixed debt increased

During the year, Growthpoint changed its fixed debt target range from 75-100% to 65-100% to provide more flexibility to the Group. At 30 June 2017, fixed debt was 75%, up from 65% a year earlier. The Group has also extended the weighted average maturity of fixed debt from 5.7 years to 6.4 years. This means more of the debt is protected for longer against any future interest rate rises.

FY18 Outlook

Debt capital management

Post the settlement of the three property

transactions either announced or settled post balance date, pro forma gearing is 39.1% with an all-in cost of debt of 4.3% and a weighted average maturity of 5.0 years. There is a balanced mix between shorter term, more flexible bank debt and longer term fixed debt from other sources. Growthpoint will strive to keep this strong debt capital position in place post any transactions entered into over the coming year.

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

Distributions forecast to increase to 22.0cps

The Group seeks to return as much of Funds From Operations (FFO) to investors as is prudent. The payout ratio of FFO considered to be prudent will take into account forecast capital expenditure and lease incentive costs over the medium-term, recognising that the quantum of leasing incentives granted can vary from year to year.

The payout ratio for FY17 was 84.3% compared with 89.5% in FY16. Growthpoint does not foresee the payout ratio falling below 85% over the medium-term given the requirements of the current portfolio.

Distributions are forecast to increase by 2.3% to 22.0cps for FY18, based on FFO of at least 23.6cps.

1. Full impact included although acquisitions not due to complete until later in FY18.
2. Gearing restated as per Growthpoint's announcements in February 2017.

Summary of movements in value over FY17

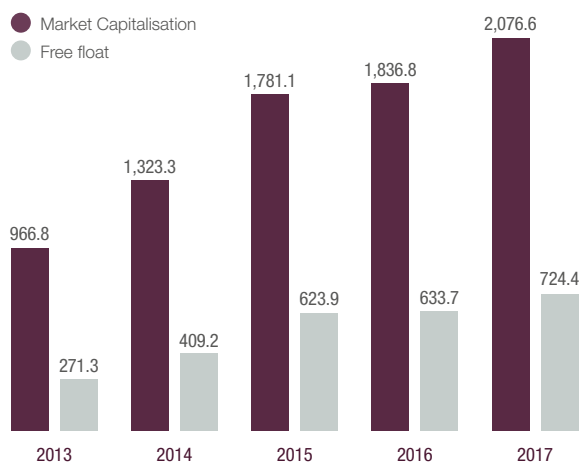
Property type	Properties at 30 June 2016	Value at 30 June 2016	Capex for full year	Property acquisitions & expansions	Property disposals	Lease incentives and leasing costs net movement	Straight lining of revenue adjustment	Revaluation gain	Valuation at 30 June 2017 ¹	Change due to revaluation	Properties at 30 June 2017 ¹
	No.	\$m	\$m	\$m	\$m			\$m	\$m	%	No.
Industrial portfolio	38	1,236	5	–	(166)	(12)	(6)	46	1,103	3.7	31
Office portfolio	20	1,566	5	509	–	19	8	72	2,179	4.6	26
Total portfolio	58	2,803	10	509	(166)	7	2	118	3,283	8.3	57

Key debt metrics and changes during FY17

		30 June 2017	30 June 2016	Change
Gross assets	\$'000	3,328,372	2,879,605	448,767
Interest bearing debt	\$'000	1,299,380	1,242,226	57,154
Total debt facilities	\$'000	1,473,482	1,375,000	98,482
Undrawn debt	\$'000	167,856	126,728	41,128
Balance sheet gearing	%	39.0	43.1	(4.1)
Weighted average interest rate	%	4.3	4.1	0.2
Weighted average debt maturity	years	5.0	4.2	0.8
Annual interest coverage ratio (ICR) / Covenant ICR	times	4.1 / 1.6	4.1 / 1.6	- / -
Actual Loan to Value Ratio (LVR) / Covenant LVR	%	40.2 / 60	45.2 / 60	(5) / -
Weighted average fixed debt maturity	years	6.4	5.7	0.7
% of debt hedged	%	75	65	10
Debt providers	Number	17	8	9

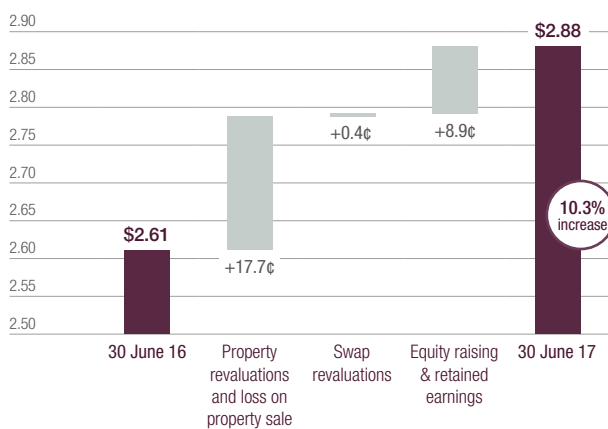
Market capitalisation and free float (\$m)

as at 30 June



Movements in NTA (\$)

per stapled security



1. These figures include assets held for sale. Properties currently held for sale will be classed as disposed when settlement of any sale occurs (therefore excludes 10 Gassman Drive, Yatala, QLD).

Funds From Operations (FFO)

FFO 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, profits or losses on sale of investment properties, deferred tax and amortisation of tenant incentives. FFO is non-IFRS financial information and has not been subject to review by the Group's external auditors.

FFO 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 FFO from statutory profit. Distributable income is also displayed this year to allow comparison to forecast distributable income provided at the beginning of FY17 as well as prior years. As the Group intends to report on an FFO basis going forward, distributable income will no longer be provided for reporting purposes.

Reconciliation from statutory profit to FFO

	FY17	Restated FY16	Change	Change
	\$'000	\$'000	\$'000	%
Profit after tax	278,090	219,377	58,713	26.8
Less non-distributable items:				
– Straight line adjustment to property revenue	(2,522)	(7,426)	4,904	
– Net changes in fair value of investments	(118,157)	(91,691)	(26,466)	
– Loss / (profit) on sale of investment properties	1,123	(163)	1,286	
– Net (gain) / loss on derivatives	(2,382)	5,824	(8,206)	
– Depreciation	162	128	34	
Distributable income	156,314	126,049	30,265	24.0
FFO adjustments				
Amortisation of incentives	9,969	6,224	3,745	
Deferred tax benefit	(185)	(159)	(26)	
FFO	166,098	132,114	33,984	25.7

The payout ratio, calculated as distributions on ordinary stapled securities divided by FFO, was 84.3% (FY16: 89.5%).

Operating and capital expenses

Operating expenses

		FY17	FY16	FY15
Total operating expenses	\$'000	12,385	10,407	9,123
Average gross asset value	\$'000	3,204,716	2,588,089	2,211,504
Operating expenses to average gross assets	%	0.39	0.40	0.41

Capital expenditure

		FY17	FY16	FY15
Total portfolio capital expenditure	\$'000	10,042	6,976	5,920
Average property asset value	\$'000	3,204,716	2,588,089	2,218,736
Capital expenditure to average property portfolio value	%	0.31	0.27	0.27

Financial Management

Five years of outperformance



Pascal Moutou
Finance Manager

Years ended 30 June		FY17	Restated FY16	FY15	FY14	FY13
Financial performance						
Investment income	\$m	383.4	302.1	361.5	198.5	171.5
Profit for the period	\$m	278.1	219.4	283.0	117.3	94.0
Financial position						
Total assets (at 30 June)	\$m	3,328.4	2,879.6	2,407.1	2,128.8	1,680.4
Total equity (at 30 June)	\$m	1,901.5	1,522.4	1,411.5	1,165.1	804.1
Securityholder value						
Basic and diluted earnings per security	¢	42.7	38.1	50.4	25.7	23.7
Distributable income per security	¢	24.0	21.9	21.2	20.0	19.3
Funds From Operations per security	¢	25.5	22.9	21.8	20.2	19.4
Distributions per security	¢	21.5	20.5	19.7	19.0	18.3
Total Securityholder return ¹	%	6.3	7.4	36.4	10.8	23.6
Return on equity	%	18.6	13.5	23.9	17.5	13.1
Balance sheet gearing (at 30 June)	%	39.0	43.1	37.0	40.9	46.8
NTA per security (at 30 June)	\$	2.88	2.61	2.48	2.16	2.00
Market capitalisation (at 30 June)	\$m	2,076.6	1,836.8	1,781.1	1,323.3	966.8
Other information						
Number of securities on issue (at 30 June)	No.	661,340,472	583,125,744	569,027,781	540,115,360	402,830,366

1. Source: UBS Investment Research.

