Financial Management

Section summary

- Summary of FY15 and outlook for FY16
- Key financial tables including debt metrics
- Reconciliation of distributable income
- Five year financial performance summary

Dion Andrews
Chief Financial Officer

Distributions

$118.9m
FY15 distributable income
up 30.3% from FY14

21.2cps
FY15 distributable income
up 6.0% from FY14

Growthpoint strengthened its financial position over the year whilst providing excellent Securityholder returns. Achievements during this year put the Group on a solid financial footing for the years to come.

Highlights for FY15 include:

- A 6.0% increase for the year in distributable income per security to 21.2 cents.
- Distribution guidance of 19.7 cents per security met, representing a payout ratio of 93.1%.
- FY16 distribution guidance of 20.5 cents per security provided, representing growth of 4.1%.
- NTA per security increased 14.8% to $2.48.
- Moody's rating of *Baa2* received for senior secured debt.
- First capital markets issuance: $200 million of *loan notes* for ten years issued in March 2015, helping to diversify sources of debt and lengthen the debt tenor.
- Raised $73.7 million from the June and December 2014 distributions via the Distribution Reinvestment Plan. The funds raised were used to acquire investment properties during the year.

Strategic execution in FY15

In our 2014 annual report we outlined three key areas we would focus on for financial management during FY15 being:

- capital markets debt issuance to extend debt tenor;
- lower the average cost of debt; and
- maintain *gearing* within the target range of 35%-45%.

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

$200 million loan note issuance

In March 2015 Growthpoint issued its first loan notes of $200m fixed for 10 years. This served to lengthen the overall weighted average debt tenor to 4.7 years at 30 June 2015, up from 3.3 years last 30 June.

A longer debt tenor is beneficial as it reduces refinancing risk in future. Our goal is to align our debt maturity profile as close to our *WALE* as possible. The WALE was 6.7 years at 30 June 2015.

A further benefit of issuing the loan notes was diversifying the sources of debt for the Group. Prior to the issuance 100% of debt was sourced from Australian banks. By diversifying the sources of debt we again decrease refinancing risk in the future.

All-in debt costs lowered to 4.8%

In September 2014 the Group restructured its existing bank debt facility, adding more flexibility for the Group. It also brought CBA into the banking syndicate for the first time, increasing competition amongst the banks and helping to reduce costs.

At the time of the restructure we also extended debt maturities and lowered interest rates being charged.

In October and December 2014, the Group took advantage of historically low interest rates and acted to extend interest rate swaps and lower the fixed rate of interest charged on them.

As a result of the interest rate swap actions, the repricing of the bank debt and the loan note issuance mentioned above, the all-in cost of debt reduced from 5.8% at 30 June 2014 to 4.8% at 30 June 2015. Refer to the table on page 19 which illustrates debt costs and gearing levels over the last five years.

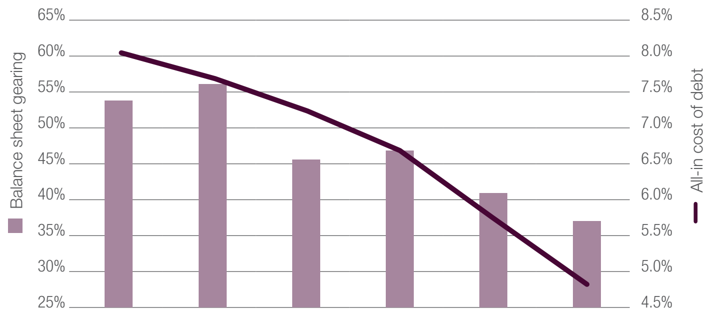
Balance sheet gearing 37.0% as at 30 June 2015

During the year the Group expanded its target gearing range to 35%-45% (from 40%-45% previously). By increasing the range to allow for lower gearing, the Group would not be forced to increase debt to remain within the gearing range due to stronger property valuations.

Balance sheet gearing as at 30 June 2015 was 37.0%, down from 40.9% as at 30 June 2015 and within the target range.

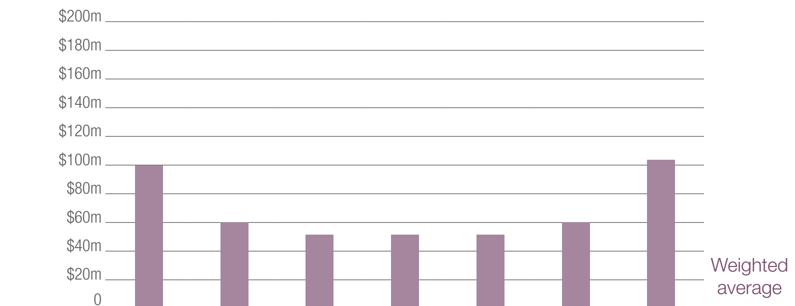
Reduction in gearing and cost of debt

As at month end



	Jun 2010	Jun 2011	Jun 2012	Jun 2013	Jun 2014	Jun 2015
Balance sheet gearing	53.8%	56.1%	45.6%	46.8%	40.9%	37.0%
All-in cost of debt	8.1%	7.7%	7.3%	6.7%	5.8%	4.8%

Interest Rate Hedging



								Weighted average
Time to maturity	1.3yrs	2.0yrs	3.0yrs	3.6yrs	3.6yrs	4.3yrs	4.3yrs	3.1yrs[1]
Fixed Rate	3.80%	3.38%	3.20%	3.57%	3.55%	3.70%	4.14%	3.7%[2]
Maturity date	Sep 16	Jun 17	Jul 18	Feb 19	Feb 19	Nov 19	Nov 19	

1. Weighted average fixed debt maturity increases to 5.0 years after including the $200 million of loan notes fixed for 10 years.
2. The loan note was issued with an underlying 10 year swap reference rate of 2.74%. Including this reduces the weighted average fixed rate to 3.4%.

Summary of debt facilities

Secured bank loans	Limit	Drawn	Maturity
	$m	$m	
Syndicated Facility			
- Facility A	255	255	December 2017
- Facility B	255	255	December 2018
- Facility C	245	87	December 2019
- Facility D	70	–	December 2019
- Facility E	100	100	June 2019
Loan Notes	200	200	March 2025
Total debt	**1,125**	**897**	

In Brief

- Growthpoint's execution of its capital management strategy has set it on a solid financial footing for future years whilst helping to provide excellent Securityholder returns in FY15

Gearing reduced

37.0%

Gearing

from 40.9% as at 30 June 2014

Debt term

4.7yrs

Weighted average debt term

at 30 June 2015

75%

of debt fixed

at 30 June 2015

Financial Management

Summary of movements in value over FY15

Property type	Properties at 30 June 2014	Value at 30 June 2014	Capex for full year	Property acquisitions & expansions	Property disposals	Revaluation gain / (loss)	Valuation at 30 June 2015	Change due to revaluation	Properties at 30 June 2015
	No.	$m	$m	$m	$m	$m	$m	%	No.
Industrial portfolio	35	1,044	4.0	61	(27)	83	**1,165**	8.0	36
Office portfolio	16	1,050	2.0	35[1]	–	92	**1,179**	8.8	17
Total portfolio	**51**	**2,094**	**6.0**	**96**	**(27)**	**175**	**2,344**	**8.3**	**53**

1. Costs spent to 30 June 2015 on 211 Wellington Road, Mulgrave, Victoria.

Key debt metrics and changes during FY15

		30 June 2015	30 June 2014	Change
Gross assets	$'000	**2,407,147**	2,128,779	278,368
Interest bearing liabilities	$'000	**890,445**	871,214	19,231
Total debt facilities	$'000	**1,125,000**	995,000	130,000
Undrawn debt	$'000	**228,174**	118,377	109,797
Balance sheet gearing	%	**37.0**	40.9	(3.9)
Weighted average interest rate	%	**4.8**	5.8	(1.0)
Weighted average debt maturity	years	**4.7**	3.3	1.4
Annual Interest Coverage Ratio (ICR) / Covenant ICR	times	**3.9 / 1.6**	3.2 / 1.6	0.7 / -
Actual Loan to Value Ratio (LVR) / Covenant LVR	%	**39.4 / 60**	42.1 / 60	(2.7) / -
Weighted average fixed debt maturity	years	**5.0**	3.0	2.0
% of debt fixed	%	**75**	82	(7)
Debt providers		**NAB, CBA, WBC, ANZ & a US life insurer**	NAB, WBC & ANZ	

Decreasing debt cost

4.8%

Weighted average debt cost

Down from 5.8% at 30 June 2014

FY16 Outlook

Debt capital management

Growthpoint will look to execute a further debt capital issuance in FY16 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 with any funds raised if there are no other immediate applications for the funds such as property acquisitions.

The Group had undrawn debt of $228 million as at 30 June 2015 and intends to utilise some of this capacity to help acquire properties that meet our strict investment criteria. Growthpoint is targeting undrawn and uncommitted debt of approximately $100 million to allow for flexibility in transactions without an 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 2015, 75.3% of debt was fixed with a weighted average maturity of 5.0 years (versus a weighted average maturity of total debt of 4.7 years). As any debt capital issuance is likely to be of fixed debt, the percentage of fixed debt is likely to increase during FY16.

Due to the restructure of the swap book and issuance of the loan note outlined above, the weighted average cost of fixed debt (before bank margins) decreased from 4.06% per annum at 30 June 2014 to 3.41% at year end. Refer to the table on page 19 for further details.

Distributions forecast to increase to 20.5cps

The Group seeks to return as much of its distributable income to investors as is prudent (after allowing for portfolio requirements of capital expenditure and payment of lease incentives). The payout ratio for FY15 was 93.1% compared with 95.1% in FY14. 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 by 4.1% to 20.5cps for FY16, based on distributable income of at least 21.3cps.

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

	FY15	FY14	Change	Change
	$'000	$'000	$'000	%
Profit after tax	**283,004**	**117,348**	**165,656**	**141.2%**
Less non-distributable items:				
- Straight line adjustment to property revenue	(5,316)	(5,373)	57	
- Net changes in fair value of investments	(169,832)	(23,780)	(146,052)	
- Profit on sale of investment properties	(363)	–	(363)	
- Net loss on derivatives	11,280	2,950	8,330	
- Depreciation	137	145	(8)	
Distributable income	**118,910**	**91,290**	**27,620**	**30.3%**

The payout ratio, calculated as distributions on ordinary stapled securities divided by distributable income, was 93.1% (FY14: 95.1%).

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

Components of distributable income

	FY15	FY14	Change	Change
	$'000	$'000	$'000	%
Property income	197,240	172,283	24,957	14.5%
Property expenses	(25,441)	(23,643)	(1,798)	7.6%
Net property income	**171,799**	**148,640**	**23,159**	**15.6%**
Interest income[1]	761	734	27	3.7%
Total operating income	**172,560**	**149,374**	**23,186**	**15.5%**
Borrowing costs	(44,292)	(49,042)	4,750	(9.7%)
Operational and trust expenses (less depreciation)	(8,986)	(8,745)	(241)	2.8%
Operating and trust expenses	**(53,278)**	(57,787)	4,509	(7.8%)
Tax expense	(372)	(297)	(75)	25.3%
Distributable income	**118,910**	**91,290**	**27,620**	**30.3%**

1. FY14 includes coupon interest received from the development of the property at 27-49 Lenore Drive, Erskine Park, NSW.

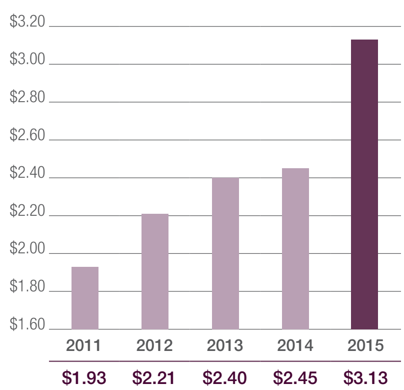
Five year performance summary

For the five years ended 30 June 2015

Year ended 30 June		FY15	FY14	FY13	FY12	FY11
Financial performance						
Investment income	$m	**361.5**	198.5	171.5	115.8	97.6
Profit for the period	$m	**283.0**	117.3	94.0	49.5	43.4
Financial position						
Total assets (at 30 June)	$m	**2,407.1**	2,128.8	1,680.4	1,607.1	1,190.1
Total equity (at 30 June)	$m	**1,411.5**	1,165.1	804.1	733.2	478.6
Securityholder value						
Basic and diluted earnings per security	¢	**50.4**	25.7	23.7	15.2	21.5
Distributable income per security	¢	**21.2**	20.0	19.3	17.7	18.1
Distributions per security	¢	**19.7**	19.0	18.3	17.6	17.1
Total Securityholder return[1]	%	**36.4**	10.8	23.6	21.6	15.5
Return on equity	%	**23.9**	17.5	13.1	4.8	7.4
Balance sheet gearing	%	**37.0**	40.9	46.8	45.6	56.1
NTA per security	$	**2.48**	2.16	2.00	1.93	2.01
Market capitalisation (at 30 June)	$m	**1,781.1**	1,323.3	966.8	796.9	450.2
Other information						
Number of securities on issue (at 30 June)		**569,027,781**	540,115,360	402,830,366	379,476,246	237,577,520

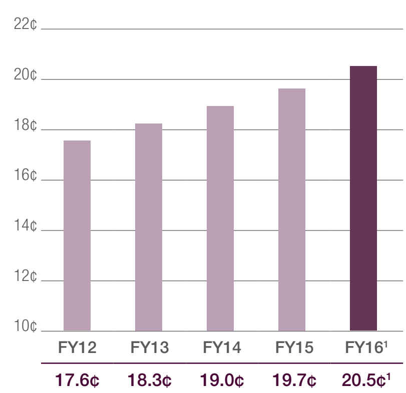
1. Total Securityholder return for year. Source: UBS Investment Research.

Security Price
as at 30 June



62.2% increase in security price since 30 June 2011 approximating 12.4% per annum growth.

Distributions
per stapled security



1. Distribution guidance only.

16.5% total increase in distributions FY12 to FY15 approximating 3.3% per annum.

SW1 Office Complex, South Brisbane, QLD

In Brief

- Growthpoint has targeted property markets and particular assets expected to deliver superior returns for Securityholders
- Examples include 10-12 Mort Street, Canberra where a $29.2 million or 52.3% gross valuation gain has been recorded since acquisition in 2012 (see page 15) and the four South Brisbane assets shown below which have delivered a gross valuation gain of $48.9 million or 22.1% since acquisition in 2010 - 2012

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