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Goodman grows full year operating profit to $544 million, ahead of target

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Release	Immediate

Goodman Group (Goodman or Group) today announced its results for the full year ended 30 June 2013, delivering an operating profit of $544 million, which is forecast to grow to $594 million in FY14. Key financial and operational highlights for the period are:

Financial highlights

- **Operating profit of $544 million[1], a 17% increase on same period last year**
- **Statutory profit of $161 million[1] (including $293 million of unrealised derivative and foreign exchange mark to market adjustments, offset by $269 million of foreign currency translations recognised on the balance sheet but not through the income statement)**
- **Operating earnings per security (EPS)[1] of 32.4 cents[2], up 6% on FY12**
- **Total distribution and dividend of 19.4 cents per stapled security[3], up 8% on FY12, and forecasting 20.7 cents for FY14, up 7%**
- **Strong financial position maintained – balance sheet gearing reduced to 18.5%[4] and interest coverage ratio (ICR) of 5.0x**
- **Group's liquidity at $1.8 billion, with weighted average debt maturity of 5.4 years**
- **Positioned to deliver FY14 operating profit of $594 million, equating to operating EPS of 34.3 cents (up 6% on FY13)**

Operational highlights

- **Total assets under management of $23 billion, up 15% on FY12, reflecting investor demand for quality, high yielding industrial assets**
- **Robust property fundamentals across core investment portfolio, with high occupancy maintained at 96%, and weighted average lease expiry of 4.7 years**
- **Development work in progress at $2.3 billion across 69 projects, 72% pre-committed and 92% matched to third party capital**
- **$2.8 billion of new committed third party equity raised, endorsing Goodman's contemporary fund management and independent governance structures**
- **$3.8 billion of uncalled equity and debt available for Funds to participate in development opportunities from the Group and broader market**
- **Entered Brazilian market, establishing WTGoodman joint venture, and consolidated Japan management platform**

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Goodman's Group Chief Executive Officer, Mr Greg Goodman said, "Goodman has delivered a strong FY13 operating profit of $544 million, slightly ahead of the initial targets set for the year and representing a year on year increase of 17%, equating to 6% growth in operating earnings per security.

"The quality of our operating earnings and the momentum across our business position us well for FY14 and accordingly, we are forecasting a full year operating profit of $594 million, equating to an operating earnings per security of 34.3 cents, up 6% on FY13." Mr Goodman added.

Adjustments made to the Group's statutory profit, primarily relating to $293 million of derivative and foreign exchange mark to market movements, resulted in a full year statutory profit of $161 million. Significantly, this was offset by $269 million of foreign currency translation differences from Goodman's international operations reported through the Group's balance sheet and not recognised as part of its statutory profit.

This situation arises because the Group's policy is to hedge its foreign exchange risks. Where the Group invests in foreign assets, it will borrow in that currency or enter into derivatives to create a similar liability. In so doing, it minimises its net asset and income exposure to those currencies. The unrealised mark to market movement of the derivatives (up or down) flows through the income statement each year, however the net investment that is being hedged flows through the balance sheet, predominantly appearing in the balance sheet translation and the reserves, and showing that the derivative costs have been offset. This indicates that the strategy is effective.

"The strong underlying performance from Goodman's operations can be attributed to the focused delivery of our strategy and day to day operational activities across all parts of our business. The consistency and quality of our product offering and proven capability have also ensured that we are well positioned to benefit from the accelerating business activity in our key markets globally. This is being driven by significant customer and investor demand for prime industrial assets and a number of structural changes that are shaping our sector, including the rapid growth in e-commerce." Mr Goodman said.

Goodman's leading global operating platform, access to third party capital, extensive customer relationships and experienced team, have provided significant scope to pursue a range of high quality opportunities during the year, particularly within its Development and Management businesses. Key transactions undertaken by Goodman during the period include entry into the South American market through the establishment of the WTGoodman joint venture in Brazil, consolidation of the Goodman Japan management platform and the acquisition of an interest in the $1.8 billion ATL Logistics Centre in Hong Kong. Endorsement of Goodman's property expertise is reflected in the fact that the Group obtained 100% of the property management rights for ATL, while only acquiring a 25% interest.

"The global reach provided by Goodman's operating platform is a key advantage for us and provides a high degree of earnings diversity and stability, with our international businesses contributing 48% of earnings in FY13. We are now fully operational in key logistics markets globally, including the Americas where we have development projects underway, and are well positioned to meet the diverse business needs of our customers, while selectively securing quality investment opportunities for our capital partners. This is highlighted by solid fundamentals across our portfolio and the growth in our development workbook to $2.3 billion. Underlying momentum is strong in all of our markets, particularly in Australia, where we have secured a number of large pre-commitments; China and Japan, where demand continues to run

ahead of available supply, and; Europe, which continues to experience high demand led by the e-commerce and automotive sectors." Mr Goodman commented.

Goodman is focused on delivering consistent and sustainable growth, while maintaining a strong balance sheet position. During the year, $2.8 billion of new third party equity was raised to help fund long-term growth. Property assets and co-investments to the value of $1.8 billion were recycled across the Group and managed funds, for redeployment into new initiatives. As a result, the Group's gearing has reduced to 18.5% and liquidity has increased to $1.8 billion.

"Investor demand for our product has been exceptionally high over the last 12 months and with the ongoing support of our capital partners, we have $3.8 billion of uncalled equity and debt currently available in our managed funds to enable them to participate in development opportunities from the Group and broader market. We secured $2.2 billion of new development commitments during the year and with 92% of current developments either pre-sold or pre-funded by our managed funds or third parties, we are very well positioned to fund our existing development book and selectively expand our activities by continuing to access high quality opportunities." Mr Goodman said.

Strategy

Goodman is committed to building on its position as a leading global industrial property group and fund manager through the prudent yet active execution of its stated business strategy. The Group will leverage its proven expertise and capability, global operating platform, and quality customer and capital partner relationships, to pursue opportunities and realise initiatives to drive the long-term growth of its business in a measured and sustainable manner.

Mr Goodman commented, "Goodman's global operating platform, which now spans key logistics markets, provides us with a strong competitive advantage through diversity and stability of earnings, and the ability to deliver consistency and quality in the properties that we own, develop and manage for our customers and investors around the world."

The customer focused approach at the core of Goodman's operating business ensures that its properties are managed and maintained to a high standard, and combined with its active asset management capabilities, reflect the high occupancy and retention rates across the portfolio. Goodman also seeks to generate additional value by identifying higher and better use opportunities for its assets, including the trend to urbanisation and property renewal in its key markets.

"We completed a number of key corporate and capital management initiatives during the year and our team around the world focused on the quality execution of our day to day operational activities. This has ensured that Goodman is very well positioned to secure growth opportunities that capitalise on the customer and investor demand for prime industrial space in our key operating markets and the structural changes taking place within the industrial property sector globally." Mr Goodman said.

Operations

The Group's operations achieved an operating EBIT of $609 million[5], or a 16% increase compared with the same period last year. This reflects the strong growth in Goodman's development and management businesses, contributing a combined 42% of operating EBIT,

and reflecting the earnings composition, which was in line with the Group's expectations. Investments contributed 58% of operating EBIT, with 25% from developments and 17% from management services. Although the Group expanded its global footprint in the first half, earnings were driven by organic growth and increased scale from existing markets.

Investments

Underlying property fundamentals were robust during the year, with overall occupancy maintained at 96%, consistent with the same period last year. The weighted average lease expiry across the investment portfolio was 4.7 years.

Investment earnings have increased by 9% compared with the same period last year. This reflects the rental growth achieved across the portfolio, and the increased investment in the Group's managed funds, which in turn has driven the growth in assets under management.

Mr Goodman commented, "The solid underlying property fundamentals experienced over the 12 months to 30 June reflects the quality of our industrial and business space portfolio, focused service offering and strength of our customer relationships. As a result, we leased 2.9 million sqm of industrial and business space, maintained high occupancy and retention levels and achieved like-for-like net property income growth of 2.6%.

"We have also taken advantage of asset recycling opportunities during the year through the sale of a number of properties held in the Group's direct portfolio and in our managed funds. This has in turn provided an additional source of capital for redeployment into new growth opportunities across our business."

Developments

The Group's work in progress as at 31 December 2012 was $2.3 billion, generating a yield on cost of 8.8%, and equating to 1.9 million sqm of new space.

During the year, the Group secured $2.2 billion of new development commitments across 69 projects in 11 countries, making it one of the largest industrial real estate developers globally. An overall leasing pre-commitment of 72% was achieved on new projects, with an average lease term of 6.8 years. Development demand remains strong, particularly in Continental Europe and Australia, with the Australian business commencing in excess of $850 million of new commitments. Consistent with the Group's low risk approach, 92% of current developments are either pre-sold to, or pre-funded by Goodman's managed funds or third parties.

"We have continued to build on the significant activity in our development business and capitalise on the opportunities being generated by the strong customer and investor demand for Goodman's development product in all of our markets. The undersupply of prime quality industrial space and a number of structural changes taking place globally, including the rapid growth in e-commerce and greater supply chain efficiencies are key growth drivers of our development business. In turn, we expect the contribution from our development led approach in markets such as Japan, North America and Brazil to help grow our development book to $2.5 billion in the short-term." Mr Goodman said.

Importantly, Goodman's ability to finance and attract capital for development activities is a key point of differentiation for customers.

Management

Third party assets under management increased to $19.5 billion over the full year, which is a 21% increase compared with 30 June 2012. The significant transactional activity and growth in assets under management achieved during the year has been a key driver of an increase in Management earnings, contributing 17% of operating EBIT.

Goodman completed a number of major initiatives across its managed fund platform for the year ended 30 June 2013, raising $2.8 billion of new third party equity capital:

+ Goodman North America Partnership secured equity of US$890 million from the Group together with Canada Pension Plan Investment Board (CPPIB) on a 55/45 basis.
+ CPPIB, together with Goodman, also increased their equity commitment to Goodman China Logistics Holding by an additional US$500 million to US$1 billion, on an 80/20 basis.
+ In Japan, a US$1 billion development partnership (Goodman Japan Development Partnership) was established with Abu Dhabi Investment Council, while Goodman Japan Core Fund has raised external equity commitments in excess of $260 million.
+ Goodman Australia Industrial Fund (GAIF) completed its equity raising from new and existing investors, with demand of over $1 billion of new gross equity commitments secured. GAIF also acquired 10 assets during the first half, valued at $200 million in two separate transactions, and announced an extension of its fund term to 2019.
+ In Hong Kong, Goodman Hong Kong Logistics Fund finalised an extension of its fund term for a further seven years to 2020 and completed a fully subscribed US$300 million equity raising to acquire an interest in ATL Logistics Centre
+ The Group's relationship with Malaysia's Employees Provident Fund was also expanded with KWASA-Goodman Industrial Trust acquiring a second Australian industrial portfolio valued at $300 million.

The broad range of fund initiatives that were completed in FY13 reflects the continued focus by global investor groups on core, stable, and high yielding assets. A key driver of Goodman's success is its ability to attract third party capital into its managed fund platform, combined with the alignment of investors' interests through the contemporary fund management structures which underpin its partnering approach.

"The exceptionally strong equity inflows secured from new and existing investors into our managed fund platform during FY13 is testament to the hard work that has gone into further building on our capital partner relationships and the investor demand for Goodman's specialist industrial sector offering. As a result, we have $3.8 billion of undrawn debt and equity available, reflecting the significant momentum and capacity in our funds to participate in development opportunities from the Group and broader market." Mr Goodman said.

Capital Management

Goodman maintained a sound financial position during FY13. This was actively demonstrated with the successful completion of the Group's $449 million equity raising, balance sheet recycling and its selective approach to pre-committed and pre-sold developments. As a result,

gearing reduced to 18.5% compared with 23.9% for the same period last year. Interest cover remains high at 5.0 times.

Available liquidity is currently $1.8 billion and the Group has a weighted average debt maturity profile of 5.4 years, with debt maturities fully covered to calendar year 2018.

Goodman has continued to deliver on its stated strategy of diversifying its debt funding sources and demonstrated its ongoing access to global debt capital markets. During the full year, $4.5 billion of debt facilities with an average term of 3.3 years were procured across the Group and managed funds. In addition to this, debt capital markets included the successful pricing of GAIF's second US$185 million senior, unsecured note issue via a US private placement with 7, 10 and 12 year maturities, and GELF's inaugural €500 million, five year Eurobond issue. Separately, the Group restructured its $327 million of Goodman PLUS hybrid securities.

The total distribution and dividend of 19.4 cents for the year was made up of a 14.2 cents distribution from Goodman Industrial Trust and a 5.2 cents fully franked dividend from Goodman Limited. The fully franked dividend from Goodman Limited was facilitated by the Group's recent capital restructure and utilises Goodman Limited's available franking credits.

Outlook

Goodman has maintained its strong competitive position in the current operating environment, given its quality global brand and reputation, proven development and management capability and significant capital partner and customer relationships.

The growing contribution from the active components of Goodman's business, being its development and management activities, coupled with the strength and diversity of its global operating platform are key advantages for the Group and ensure it is well positioned to achieve solid earnings growth in FY14. The momentum across Goodman's business, particularly in its Asian and European operations and from its entry into new markets, is expected to drive earnings in the year ahead.

Accordingly, Goodman is forecasting a full year operating profit of $594 million, equating to an operating earnings per security of 34.3 cents, up 6% on FY13 and a forecast distribution of 20.7 cents, up 7% on FY13.

- Ends -

For further information, please contact;
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About Goodman

Goodman Group is an integrated property group with operations throughout Australia, New Zealand, Asia, Europe, the United Kingdom, North America and Brazil. Goodman Group, comprised of the stapled entities Goodman Limited, Goodman Industrial Trust and Goodman Logistics (HK) Limited, is the largest industrial property group listed on the Australian Securities Exchange and one of the largest listed specialist fund managers of industrial property and business space globally.

Goodman's global property expertise, integrated own+develop+manage customer service offering and significant fund management platform ensures it creates innovative property solutions that meet the individual requirements of its customers, while seeking to deliver long-term returns for investors.

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[1] Operating profit and operating EPS comprise profit attributable to Securityholders, adjusted for property valuations, derivative and foreign currency mark to market and other non-cash or non-recurring items. Operating profit is used to present a clear view of the underlying profit from operations. It is used consistently and without bias year on year for comparability. A reconciliation to statutory profit is provided in summary on page 10 of the ASX Results Presentation and in detail on page 5 of the Directors' Report as announced on ASX and available from the Investor Centre at www.goodman.com.

[2] Calculated based on weighted average diluted securities of 1,677.4 million, including 5.6 million LTIP securities which have achieved the required performance hurdles and will vest equally in September 2013 and September 2014.

[3] Goodman Limited has declared a dividend of 5.2 cents per security while Goodman Industrial Trust has determined that the final distribution for the second half is 4.5 cents per security or 14.2 cents per security for the full year. Refer to confirmation of distribution announcement dated 15 August 2013.

[4] Calculated as total interest bearing liabilities over total assets, both net of cash and fair values of cross currency swaps used to hedge liabilities denominated in currencies other than those to which the proceeds are applied equating to $94 million – refer to Note 8 of the Financial Statements.

[5] Operating EBIT comprises statutory profit before interest and tax of $502.9 million adjusted for property valuations and other non-cash or non-recurring items. A reconciliation to statutory profit before interest and tax is provided in Note 4 of the Financial Statements.