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Goodman full year operating EPS up 8% on stronger earnings across business

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Release Immediate

Profit and distribution		
Operating income ¹ after tax \$567.1 million	up	11%
Operating earnings per security (EPS) 34.0 cents - in line with August 2007 forecast	up	8%
Distribution per security (DPS) 34.0 cents	up	8%
Gearing ² 39.9%	down	170bps

Business highlights for the year ended 30 June 2008

- + Overall operating EBIT was up 18% with strong performances across all business segments. Investment income was up 11%, management services income was up 16% and development profits grew by 43%.
- + Direct property investments performed well generating 3.3% rent growth, achieving 98% occupancy, and a weighted average lease expiry (WALE) of 4.6 years. Cornerstone investments generated rental growth of 4%, with occupancy up 1% to 95%.
- + Completed developments of \$2.4 billion, with \$2.7 billion committed and \$3.1 billion work in progress as the business gained market share and sustained margins.
- + Third party assets under management (AUM)³ increased 22% to \$14.3 billion.
- + Divested Singapore interests and Goodman Property Investors (GPI) to focus on adding value in core operations.
- + Successfully refinanced all debt maturities during year and raised sufficient new debt and equity to fund working capital requirements and provide available liquidity of \$1.7 billion as at 30 June 2008.
- + Sound financial position with headline gearing at 39.9%, down from 41.6% in the year prior year (49.0% look through) – absorbed \$382.5 million in net valuation losses.
- + The unrealised loss of \$380 million recognised in the statutory net profit has been transferred to, and absorbed by, the cumulative reserves.

¹ Operating income of \$567.1 million is before unrealised gains and losses from investment property revaluations, mark to market of derivatives and other non-cash items and one off profits included in the statutory profit.

² Adjusted for cash balance

³ Adjusted for the sale of Goodman Property Investors and Singapore businesses

Outlook

Despite the current challenging conditions in many markets in which we operate, the Group strategy and our straight-forward product offering remains unchanged:

- + we are an integrated property group specialising in the management, development and ownership of industrial and business space - an attractive sector, and one in which we believe we have comparative advantages.
- + we aim to be leaders in the markets in which we operate, enabling us to leverage the benefits of scale and our in depth market knowledge.
- + we deliver a fully integrated property service offering to our customers, clients and investors – this enables us to effectively manage risk and capture opportunities through cycles.

For 2009, we are targeting 6% EPS growth – subject to no material deterioration in market conditions.

- + Earnings composition to be consistent with 2008 (45-55% investment, 20-30% management services and 15-25% realised development profits) – the recent transactions undertaken (GPI, Singapore and GAIF) marginally changed the short term earnings mix.
- + Continue to manage gearing in a 35-40% range (less than 50% look through) and maintain an appropriate Interest Cover Ratio.
- + In line with our global peers and to provide long term sustainability of capital we will revise the payout ratio to 75% of operating income – strengthening capital management to facilitate growth and enhance EPS.

Details of the result

Goodman Group today announces an 11% increase in operating income to \$567.1 million for the full year to 30 June 2008. Operating earnings and distribution per security were 34 cents up 8% over the prior year and in line with the August 2007 forecast.

Goodman Group CEO, Mr Gregory Goodman said: “This result is largely due to organic growth following a simple strategy of keeping focused on our core business and applying the same consistent approach across all markets. We have 371 investment properties under management and 97 developments globally, giving us the benefit of significant geographic and earnings diversity. This has enabled us to navigate through a difficult period. While no one can forecast when broader market conditions will improve, we believe that our business is in good shape to operate through the current cycle.

“To produce a result like this in the current environment is a testament to our more than 1,200 people around the world.

“We have maintained our balance sheet and liquidity and we have continued to execute on the fundamentals of leasing and development. Our Management business has continued to grow because we do these things well.

“All of the Group’s operations performed well over the period delivering an overall operating EBIT increase of 18% to \$843.7 million. The composition of our earnings consisted of a 77% contribution from investment and management services, and 23% from our development activities. This was broadly in line with management forecasts provided to the market in August

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2007 after taking account of the Singapore and GPI transactions. Geographically, 79% of earnings were sourced from Asia Pacific and 21% from UK/Europe. Australia contributed 50% of EBIT.

“We are strengthening our capital management model to reflect our long term requirements and the best sources of funds. The Group determined that it should reduce its distribution payout policy to 75% of operating income from the 2008/09 financial year. We have also changed the frequency of the distribution payment, which will be paid half yearly from December 2008, bringing us into line with most of our peers and corporate Australia.

“This places Goodman in a position of strength in the industry in relation to our Australian peers and on par with our global competitors who have access to their own retained cash flow.

“The move will enhance our key performance metrics such as EPS and will generate significant free cash flow to fund property maintenance expenditure and to continue to make cornerstone investments in our funds, which we believe will enhance EPS growth and NAV and ultimately have a positive impact on securityholder returns.”

Operational highlights include:

Investments

- + Total investment portfolio increased by \$0.3 billion to \$5.6 billion.
- + Direct property fundamentals remain strong:
 - 98% portfolio occupancy
 - Strong leasing demand with over 210,000 sqm of existing space leased
 - 3.3% ongoing income growth
 - Average vacancy periods remain below 3 months
- + The Group’s cornerstone investments in the funds we manage increased by \$1.1 billion to \$2.6 billion, consistent with the ongoing strategy of investing in our managed funds to improve diversity and scale and ensure Goodman’s interests are aligned with those of our wholesale investors.
- + The underlying asset performance was strong with 4% rent growth achieved and occupancy up 1% to 95%. A thorough review of our portfolio was undertaken and a net valuation loss of \$382.5 million was recorded for the year. This represents 4% of total assets. Movements were predominantly represented by a write-down in UK asset values and a fall in the price of our listed investments due to adverse market movements. These valuation losses were partially offset by gains in other markets, driven by growth in rental income.

Management

- + Third party AUM increased \$2.6 billion or 22% to \$14.3 billion while total AUM has grown \$1.6 billion or 9% to \$18.6 billion.
- + Strong performance across the platform driven by active portfolio management and increased development participation has offset net valuation losses and foreign exchange movements.
- + The majority of funds continue to outperform their benchmarks since inception.
- + Significant transactions completed during the year – Goodman Australian Industrial Fund unitholders investing in 14 business park and office space assets valued at \$970 million, and; Goodman European Logistics Fund merger with Celogix creating what is now a \$2.2 billion fund consisting of 76 properties across 10 countries.
- + Funds across the entire platform are well capitalised, with an average gearing of 41.5% and \$1.4 billion of capital capacity in place (\$0.4 billion in un-drawn equity and \$1 billion in debt) from equity raising and debt refinancing activities completed during the year.
- + At year end, the funds had a weighted average debt maturity of 3.5 years.

Development

- + Developments contributed 23% of operating EBIT and a significant \$2.4 billion of new product was completed for the Group's direct property portfolio and funds.
- + Ongoing strong demand over the period has seen growth in commitments increase to \$2.7 billion, with the Group's total development activity standing at \$3.1 billion. Demand from funds managed by the Group to participate in value enhancing development activity continued to increase during the year, with 71% of projects being developed inside the funds.
- + The amount of speculative development undertaken continued to be conservatively managed, with customer pre-commitments representing 75% of the total value of our active projects.
- + The diversity of our operations is also a feature of risk management – we are active in a number of markets and our current workbook consists of 97 individual developments.
- + The increase in developments sold into funds managed by the group has led to a divisional return on capital of 19%.
- + We have continued to re-invest in our development business by securing a number of significant new sites that will progressively contribute to earnings in future years.

Capital Management

- + The Group is in a strong capital position with available liquidity of \$1.7 billion as at 30 June 2008. During the period it refinanced approximately \$2.4 billion of debt facilities using a combination of bank debt and capital market issuance. In June 2008, a 10 year £250 million Euro Medium Term Note was issued and a further 15 year €27 million Euro Term private placement was also successfully established.
- + This activity has provided the Group a weighted average term to maturity across all debt facilities of 3.9 years.
- + Gearing has reduced to 39.9% from 41.6 % (look through gearing is 49.0%) and interest cover remains high at 3.3 times (2.8 times on a look through basis).
- + The listed hybrid – Goodman PLUS was offered to both institutional and retail investors. It was issued in December 2007, raising \$327 million.

Distribution Policy

We have considered our long term cash flows and the most efficient sources of capital to finance the needs of our business, and undertaken an external review of the Group's distribution policy with McKinsey & Co. The Group has determined that the distribution payout ratio should reduce to 75% of operating income from the 2008/09 financial year to provide a sustainable long term capital management plan.

There are a number of expected benefits associated with the change in distribution policy:

- + Generation of significant free cash flow in the 2008/09 financial year providing additional capacity to self fund co-investment in Goodman funds and property maintenance expenditure.
- + Capital market funding sourced for discrete transactions, rather than for working capital requirements.
- + Enhanced key performance indicators, including EPS, cash flow from operations and Net Asset Value, and in turn total securityholder returns.
- + For EPS, the long term annual growth target will be increased from 6% to 8%.
- + It places the Group in a strong position relative to its Australian peers and on par with global peers who have access to cash flow from retained earnings.

The Group will conduct regular reviews to consider opportunities to provide special distributions and/or capital returns when appropriate.

The distribution policy has also been amended to bring the frequency of distributions into line with the majority of Goodman's property industry peers and corporate Australia by adopting a six-monthly distribution payment from the 2008/09 financial year. The distributions will be declared for the six months ending 31 December and 30 June and will be paid in February and August respectively.

Outlook

The Goodman Group has made solid progress this year, particularly given the challenges of the capital markets. The Group is responding appropriately to these challenges and has taken the necessary steps to ensure we are well capitalised and resourced to continue to deliver consistent results for our customers and investors.

We believe that we can continue to generate EPS growth. For the 2009 financial year we will target 6%, but we note that the current climate makes it more difficult to predict than in the past. Our targets are predicated on no material deterioration in market conditions. We will aim to continue to manage the gearing of the Group within a target range of 35-40% and less than 50% on a look through basis.

With this in mind, we will remain focused on our core business of owning, developing and managing industrial property and business space for our customers and clients around the world.

For further information, please contact Goodman:

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Goodman will hold a webcast of its results presentation at 9.30am on Friday 22 August and an archived recording will be available at www.goodman.com/en/GMG/Pages

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