HD **Preliminary 2014 Goodman Group Earnings Presentation - Final**

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Presentation

OPERATOR: Welcome to the full year results of the Goodman Group for 2014. I will now hand over to the CEO, Mr Greg Goodman .

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GREG GOODMAN , CEO, GOODMAN GROUP : Good morning and welcome to Goodman's full year results for 2014, together with the outlook importantly for 2015. As CFO, Nick Vrondas is also alongside me here on the call today. Firstly I'll ask you to turn to slide 5.

I'm pleased to report a full year operating profit of AUD601 million, with the operating EPS of AUD0.348 cents, which is up 7% compared to 2013. A distribution of AUD0.207 per security will be paid for the full year, up 7% on last year and representing a payout ratio of 60%.

Goodman has performed well delivering a full year result in line with our expectations and the revised market guidance in June. Underpinning the performance of the capacity to leverage our expertise and capability as an entrepreneurial, industrial property group and importantly not leveraging our balance sheet. This provides significant capacity to drive sustainable long term growth.

We have continued to build our position as one of the largest industrial property operators and funds managers globally, growing total assets under management to AUD26.8 billion in 2014. We also raised AUD2.2 billion of new third party equity during the year and have AUD4.5 billion of uncalled capital in our partnerships. We have investment capacity and available opportunities to grow assets under management to over AUD30 billion over the medium term.

The size and scale of our international platform was highlighted at our investor day in June. We are leveraging the significant infrastructure and the quality of our people around the world to drive the growth of our business. This resulted in 56% of 2014 earnings coming from our international operations. 46% of earnings are now being generated by our active developments and funds management business. It is the growth and contribution from these activities which is consistently driving additional growth above investment property returns. Now I'll ask you to turn to slide 6.

Our property portfolio achieved 96% occupancy and 2.2% like-for-like rental growth for the year. We leased 3 million square meters of space across the Group and funds, equating to AUD374 million of property income. The growth in our development [activities] has benefited from our extensive global customer relationships and the strong reputation for delivery and quality.

Our development work book is currently AUD2.6 billion. This is represented by 76 active projects underway in 11 countries. With the increased activity levels in North America and Brazil, we expect our development work in progress to increase further in 2015.

Goodman's ability to create its own product is a key point of differentiation of our managed fund platform. Our approach to partnering, with a like-minded global investors gives us the ability to access targeted, high quality opportunities at attractive pricing. These opportunities are typically not available on the open market.

The development of Goodman Sakai Japan, Goodman Citylink in China, Bungarribee Indusial Estate in Australia have a combined value of AUD780 million and these are representative of the significant long term investments we are creating for our long term partners.

We achieved significant capital inflows across our managed platforms in 2014. As I said before, AUD2.2 billion of new equity and importantly our managed funds have also performed strongly, delivering a current year average total return in an excess of 12%.

At Goodman we continue to focus on the disciplined and measured approach (technical difficulty) risk. We have active developments underway in all our markets. These are proven, quality, logistics locations with good fundamentals where we're achieving a 96% pre-commitment on projects when completed.

The strengthening of the industrial asset pricing globally during the year was highlighted by an overall 40 basis point tightening in Cap rates across Goodman's property portfolio. Most significant movements were in Australia and also in Hong Kong.

This also provided Goodman with the opportunity to selectively dispose of AUD1.5 billion in assets in 2014. These were mainly in Australia and the United Kingdom. We recycled capital importantly into new opportunities to maximise returns for our investors. We expect to undertake a similar asset disposal program during the course of 2015, which is in line with our current recycling strategy.

We also realised higher and better use opportunities, making good progress on the Group's urban renewal strategy in Australia. We have an excess of 35,000 residential lots identified at different stages of planning. The incremental long term value that may be created from urban renewal has the potential to be very significant. This is in addition to the growth we expect to achieve from our normal operating activities.

In New Zealand we're seeing the highest level of development activity in the last five years. Opportunities include Fonterra at the Viaduct and further progress at Highbrook for the customers including Steel & Tube and Ford.

Capital management and asset recycling initiatives are being executed providing funding for our development workbook in New Zealand. In Japan, our development led strategy is also progressing well, with leasing activity completed at Sakai ahead of its opening. We also have signed (inaudible) agreement and signed pre-leasing activity at Mizue and Ichikawa developments in Tokyo and Obu in Nagoya.

Increased development volumes in China are being driven by domestic market consumption. They're also importantly growing pre-committed opportunities, being secured as customers increasingly seek more tailored warehousing solutions. Our speculative activity in China is very selective, focussing on quality and sustainable investment returns. This year we expect to maintain volumes at probably just a bit better than 800,000 square metres.

We're also seeing steady volumes in continental Europe with activity primarily in Germany, France and Poland. Significantly, we are one of the preeminent logistic property operators and fund managers in continental Europe. This is evident with Goodman being named the top European developer for the last three years and GELF's successful EUR550 million capital raising in 2014 which was substantially oversubscribed by at least two times.

In the US we have commenced the rollout of a formidable $1.7 billion development pipeline. We are leveraging our ability to create high quality industrial product and targeting the southern Californian, New Jersey and PA markets. With the lack of A grade assets available for lease or sale in these locations, it is providing us with significant opportunities for the future of our business and future growth.

Our joint venture in Brazil has benefitting from high development volumes also. We are forecasting 400,000 square metre workbook this year across a number of projects, primarily in Sao Paulo and Rio. We're also increasing the number of customer pre-commitments including 62,000 square metres facility for a major international retailer we announced recently.

Goodman is leveraging the entrepreneurial and operational expertise of a highly capable team around the world and not financial leverage. In this regard we have maintained gearing at 19.5% with liquidity of AUD1.5 billion.

Our 2014 result is reflective of the strong and sustainable business we are building for the future. We are confident to deliver target long term EPS growth of 6%. This is represented by forecast operating EPS of AUD0.369 cents for financial year 2015. Significantly this is in addition to the 7% growth Goodman has delivered in 2014.

Now turning to slide 7. I've covered key highlights in this slide. But I'll get further details on our 2014 operating result from Nick Vrondas. So I'll now hand over to Nick.

NICK VRONDAS, CFO, GOODMAN GROUP : Okay thanks Greg and good morning. Since we've presented our results the same way for many years now, we'll just focus on some of the key drivers that Greg spoke about.

First thing to note on slide 9 is that our statutory profit was higher than our operating profit. This primarily the result of property evaluation gains of AUD186 million derived from the 40 base point average Cap rate compression Greg spoke about. Partially offsetting this with the impairments of AUD14 million which related to our small investment in European business parks which we alluded to at the half year result.

The decline in the Australian dollar was neutral to our operating income due to the foreign denominator borrowing cost as a result of our hedges. We did however see an overall decline in the fair value, our derivative book of AUD78 million, which flows through our statutory profit. Within this was AUD100 million decline in the fair value of our FX derivate used to hedge our foreign assets.

This is however only one side of that picture, with the other side being translation of our foreign assets which does not flow through the income statement but directly to the foreign currency translation reserves. As a result of this, our NTA was up.

On slide 10, you can see how our investment income is fractionally lower this year, but our ROA is still above 7%. This is mainly the result of our asset rotation over the past couple of years, a strategy that we've employed for a number of reasons. Firstly, we view some of our assets to see opportunities for important new investors or to expand the relationships with existing partners.

Secondly we've allowed ourselves to be diluted in the funds. This was either through not participating in the new equity raisings or in some cases the outright sale of units such as GHKLF and GELF. We've sold around AUD300 million over the past couple of years. We did this to allow us to satisfy some of the excess demand, but it also allowed us to facilitate the entry of important new relationships and to expand existing ones. We strongly believe that this will be to the benefit of those funds in the long term.

And thirdly, we've escalated our asset rotation program from within the funds, as Greg alluded to. The sales strategy links well with our belief that development will tend to be the best way to access quality property investments at this time. So using more of the sale proceeds, the retained income and the DRPs of the funds to sustainably finance the growth and development activity and enhance returns. This means that we require less new equity to be injected.

The new capital that is being deployed into development has temporarily lowered the rate of growth in the yield of those funds, but we do expect that this will lead to better long term growth when those assets are built as you can see from the strong yields we're generating from our development pipeline. We should note too, that a major portion of our cornerstone investments are going to the lower interest and therefore lower yield jurisdictions.

From a timing point of view, much of the outward investment has occurred at the back end of the period, so we've not held them long enough to generate a positive EBIT impact relative to last year. Of course the other side to that is the lowered debt balances throughout the year which derive less interest costs.

In the management segment, the strong fund returns result in a continuation of performance fees. We've also seen significant transactional activity once again with things like fund extensions, equity and debt initiatives and capital transactions. This leads to higher cost recoveries. Also driving higher cost recoveries is the recent trend to bring in-house more of the fund activity such as legal and marketing which has resulted in a gross up of our costs and revenues. We value our growth at 15%, despite the asset sales, the outlook for this segment remains sound.

Turning now to developments. Given the demand from occupies for new premises and given our development led investment approach, we have seen very strong EBIT growth in this segment. A significant portion of this work is being done in our funds and partnerships. This has the effect of grossing up our expenses as opposed to netting off in the cost of goods sold. Our development strategy has been very successful and we finished the year with 96% leasing on our completed projects. With our strong work book and position in the markets, we expect this segment to continue to grow over the next year.

In total operating expenses have increased only marginally on a like-for-like basis. However, FX has had an inflating affect as has the full year of consolidation of our Japan business, collectively representing over AUD20 million of cost increases. We've also expanded our operations in growing regions of Asia and the Americas. We should also note the grossing up of costs for the reasons mentioned earlier. But as I said like-for-like costs inflation is very controlled.

Borrowing costs are down for a number of reasons, but the main drivers were the lower average debt balances throughout the year, lower interest rates and margins due to the re-negotiation of our facilities and the shift in debt into lower interest rate currencies in line with our capital allocation. These were offset by a low Australian dollar which inflates our cost, but hedges our EBIT.

Turning now to slide 11. Overall we've maintained a very strong position despite the declining Australian dollar. Growth in property evaluations has helped. But equally helpful was the impact of slower than trend rate of growth in our cash investment into our core funds for the reasons I discussed earlier. This has meant that we've been able to comfortably fund the growth in our development balance sheet to facilitate the high activity levels in the **Group** and in particular in the partnerships across Asia and the Americas. You can see this through the balance sheet movements and the cash flow and we've highlighted this in the appendices of this presentation.

As a result, our net debt position was down on average over the year and finished flat once the effect of FX is removed. We would like to continue to maintain our long term funding sources of DRP and 60% payout ratio, supplemented by asset rotation. This will help us to keep our position of strength to withstand shocks in the market and to capitalise on opportunities as they arise. We believe that this will enable us to continue to deliver our long term EPS growth in a sustainable way. This leads us to slide 12.

We're pleased with the shape of our credit matrix and liquidity. Rating agencies have recognised this too with our debt place on positive outlook this year. We've also continued to advance our capital markets position throughout our funds. GMT rating was stable, GHKLF was stable and continued to issue **bonds**, GELF was upgraded and our **Hong Kong** fund was rated for the first time and issued its first **bonds** this year.

In summary Greg, our profitability has continued to improve and our KPIs continue to trend favourable. ROE has trended up without the use of financial leverage, margins are sound and the ability for us to deliver another period of sustained growth is ahead of us. Thank you.

GREG GOODMAN : Thanks, Nick. Now at this point, I'd like to move on to slide 20 where we'll finish with the strategy and outlook.

Goodman is well positioned to deliver another strong result in year ahead. We'll work hard to continue building on the consistent earnings growth delivered over the past 5 years.

We will leverage the ongoing demand for high quality assets and strengthen asset pricing globally. This will enable us to enhance long-term returns by selectively rotating assets and recycling capital into new opportunities.

The quality of our development business and high quality product is presenting opportunities for investors that are not available on the market. With AUD4.5 **billion** of available capital for investment, we expect our funds to grow and perform well again in 2015, in addition to the average 12% price returns achieved in the current year.

Goodman is in a strong operational and competitive position. This is achieved through the well considered and disciplined execution of our strategy, the ability to leverage the expertise and capability across our business. The high level of demand for our product reflects the quality of our brand and investment offering.

We have consistently proven our ability to excess and successfully deliver a range of high quality opportunities. This in turn ensures we are well positioned to drive sustainable long-term earnings and growth.

I thank you for your support. We look forward to delivering our target long-term EPS growth of 6% representing forecast operating EPS of AUD0.369 in 2015. I now hand over for questions.

Questions and Answers

OPERATOR: (Operator Instructions) Your first question comes from the line of Paul Checchin from Macquarie. Please go ahead.

PAUL CHECCHIN, ANALYST, MACQUARIE: Thanks. Hey, guys, just first question on your development business. On slide 36, you've got there the Americas. You don't have any of your developments committed at the moment. I'**m** just wondering has there been any progress since balance dates? These are obviously at 30 June. Have you had any success post 30 June?

GREG GOODMAN : Yes, look, I think as far as [Oakland] is concerned, where a lease has been done. There's a good enquiry for the balance. So there'll be two customers that go into that building, but that's right on track.

I think there's one to be announced shortly, Michael, if it hasn't been to date. That's gone well and a top customer in the States.

Then over in Rancho, we've got it coming out of the ground. We've got some very significant enquiry. I'**m** pretty sure we'll have some success on the way of that over the next 4 to 5 months as it's coming out of the ground.

So I think you will find in the US in the locations we're building, we're building into pretty strong demand as the US starts to get back to business. We've bought land at the right price and we're building at the right cost, so we've got a very good embedded margin which gives us a lot of flexibility. So we're very confident in what we're doing there.

PAUL CHECCHIN: Yes, so when you look at that yield on your work in progress which is now 8.3%, I mean, if you think about the next year, Greg, given falling cap rates, rising asset values pretty much everywhere, would your expectation be that your revaluation yield -- post completion of development -- is better than your feasibilities?

GREG GOODMAN : I think in the main yes, but we're not letting -- when the feasibilities and developments come to Invesco in Sydney, we're very vigilant of being at the tall end on exit cap rate, because it's the easiest game in town to (inaudible) cap rate to make the feasibilities look great. So we're pretty conservatives on our exits -- whether it's Japan, US, Australia, what have you -- which I think is then giving us some good embedded margin and additional margin for risk as we move forward.

PAUL CHECCHIN: Okay. Look, just a final one for Nick, given you've added a new slide there on cash flow, we might as well spend 20 seconds talking about it. Can we just understand the components that you've got there on slide 28 that are reconciling your operating cash flow to your operating profit? Are the **equity** accounted investments the non-cash profits?

Then I'**m** also just wondering how you're coming up with that development activities number as well, please.

NICK VRONDAS: Okay. Thanks, Paul. I'**m** glad you noticed the slide made especially there for you.

Okay, so the **equity** investments, yes, so that's two components to that. It's the DRPs and retained earnings through the payout ratios of the funds, which we've talked about obviously for a number of years now.

PAUL CHECCHIN: Yes.

NICK VRONDAS: So that's pretty consistent.

In relation to the development activities, specifically that relates to our investments into the development balance sheet through the inventories, which flow through the operating cash flow. So when you're reconciling our balance sheet -- and we've been saying this for a number of years now, but we're trying to get there -- when you reconcile the balance sheet movements on our developments, you'll see that obviously it's increased. A big part of that has been through the investment in inventory which flows through the operating cash flow. That's what that AUD143 **million** represents.

PAUL CHECCHIN: How do I reconcile that though? On page 94 of your accounts -- which is your note to the cash flow statement -- it's got that the increase in receivables was AUD176.8 **million**. Is there some FX moves or something going on?

NICK VRONDAS: Yes, the receivables will include some of those derivatives as well. There's probably a few items to reconcile and then you've got to go back to the individual funds. That's probably going to take longer than 20 seconds. Happy to talk you through it later.

PAUL CHECCHIN: Yes.

NICK VRONDAS: But yes, we can tie that for you.

PAUL CHECCHIN: Okay, great. Thanks for the extra disclosure.

NICK VRONDAS: Okay.

OPERATOR: Your next question comes from the line of John Kim from CLSA. Please go ahead.

JOHN KIM , ANALYST, CLSA: Thank you and good morning. Your asset values in Australia had a 20 basis point in cap rates during the period. It's in line with other asset types and largely driven by lower interest rates.

I'**m** just wondering if valuers are incorporating any conversions in your valuations today. Should we be looking at your assets on a per square metre basis rather than on yield?

GREG GOODMAN : We actually look at our book around the world on a per square metre basis whether in the US and what part of the world we're in, because that gives you the true guide to value. Obviously cash flows on assets can be a bit misleading sometimes, so we look at it the way you're suggesting anyway as far as investors are concerned.

I think we can see further cap rate compression certainly in Australia but also in the UK which is, I think, starting to have a bit of a blinder in regard to where asset values are going. I think we're still at the wide end.

Their Europe -- economy in Europe, we haven't seen a lot of compression at this point, but it looks like they're in for another 2, 3 years of very low interest rates, low growth. But there's a lot of demand for assets, so we see cap rates probably trending and tending in there. Even in Japan, I think we're at the wide end there.

So if you look at the book, I don't think we're adventurous in regard to our cap rates. I suspect this year we'll have some sharpening of cap rates during the year, I would have thought.

JOHN KIM : But as far as higher and better use of the assets, is that being incorporated in the valuations or are you not (multiple speakers).

GREG GOODMAN : They will be when they come through and all the planning and the risk of the planning and what have you is taken out of them, but over time that'll be the case. But we'll also be selling assets into the market as well, so it's just a timing issue really in regards to whether they're at the valuation line or they're at the cash on the [P&L] line.

JOHN KIM : Okay, it seems like the resi conversions you've done to date and some of the competitors in the market have been structured more as land sales to developers rather than joint venture agreements. If this were the case going forward, are you comfortable with the potential earnings volatility that this creates?

GREG GOODMAN : I think from our point of view, we're looking at the opportunity of urban renewal to really recycle capital back into the business and as a great source of **equity** for us moving forward, so we're looking at it in that way. I think the returns can be very good and I think you've seen another example of that this morning down in South Sydney or late last night, so we'll take advantage of them. I think they'll be incremental to the business long-term and a great opportunity for Goodman **Group** to make sure we've got plenty of capital rotating out of assets that are clearly not going to be industrial for the long-term but back into our core business, so we look at it more as a capital rotation and a way of funding Goodman **Group** moving forward exercise.

JOHN KIM : It seems like if you go that route, you'll get the best return on your capital, but it sort of is misaligned with your preference to have pretty steady earnings growth? I'**m** just wondering how you make that decision.

GREG GOODMAN : I think we'll be calling out major lumps of profit. If we get to that point on **residential** sites, we'll be calling them out and being very visible about them.

There's a lot of work going on currently -- 35,000 plus around the country is a big job. There'll be sub-divisional work, there'll be planning work, there'll be contributions and all sorts of things.

So it's a very active large book that we want to obviously extract value from. That'll come in a number of ways. So the good news is that, in the current market conditions anyway, it's good news for Goodman **Group** stakeholders.

JOHN KIM : Okay, on your price per square metre discussion, in **China**, your developments right now are about a AUD600 **million** work in progress. That's off of 489,000 square metres of developments, so about AUD1200 per square metre. That seems to be about twice as much as it was in the past. Is it something (multiple speakers)?

GREG GOODMAN : Yes. I think we might come back to you with a per metre rate, but that's about double the per metre rate that we're doing things in **China** unless you're getting to three stories. So why don't we come back and give you a bit of a hand on that? But it wouldn't be at that rate.

JOHN KIM : Okay. You had a AUD10 **million** impairment in the period. What was that in relation to?

NICK VRONDAS: John, primarily European business **park** fund. We've got an EUR8 **million** investment there. I mean, that's primarily Spanish business parks that are being impaired there.

JOHN KIM : Okay. The final one is, with your asset recycling program, what kind of capital raising do you expect in your funds this year versus the AUD2.2 **billion** that you had last year?

GREG GOODMAN : We're in pretty good nick. All investors in the partnerships would like to do more.

So I think that next 12 months, I don't see us doing what we did last year with AUD2.2 billion. I think our challenge is going to be placing our capital wisely and sensibly.

At Goodman, we're very focused on having better quality assets over the next 5 years, having a better business over the next 5 years and being pretty restrained as we see investment markets getting a little frothy, so there's a lot of pressure obviously on capital to be placed around the world. We will resist that and do what is in the best interests for our stakeholders long-term.

So I don't see a lot of capital raising this year, but there is a queue lining up of people that want to get into our business because of the things I talked about in my presentation. That's about being restrained, looking to the longer term. Also our development pipeline -- which I also mentioned in the presentation -- is very, very difficult to get those quality assets on the market.

So we've got a really good competitive advantage. We just need to exhibit restraint in regard to spending our money and other people's money.

JOHN KIM : Okay, thank you.

OPERATOR: Your next question comes from the line of Richard Jones from JPMorgan . Please go ahead.

RICHARD JONES , ANALYST, JPMORGAN : Hello, good morning, Greg. Just in relation to the level of pre-commitments on the work in progress, I mean, that's been coming down pretty much every half for about 4 years. I'm just wondering at what point does 53% become an issue? I guess where do your risk metrics allow you to go to?

GREG GOODMAN : Yes, look, I think as I said here today, it's through 60%. In regard to Heads and things that we're finalising, probably mid 60%s.

We watch it. We micromanage our development book around world. So we've got 70-odd projects.

We're following them on a week by week basis and certainly through fortnightly operational meetings, so we're managing it very, very closely. If we feel things are not filling up, we would pull back, but that's not the case at the moment.

The Spec Book is primarily being run harder obviously in China where that is well over half the market there and also the US is also the same market where you've got to build and go and you let along the way. But you've just got to be really careful, Richard, where you build and when you build, right. That's the key trick whether it's residential apartments or industrial sheds, so you've got to watch the markets and understand the customer demand.

Because we've got a strong presence in China, we've got a strong presence in Europe, we've got a strong presence in Australia and we're building a stronger presence in the US, we understand what our customers are doing. We're building ahead of them. We're not building without them, right.

So it's something we need to monitor. It's something we're very aware of. But it's something we're entirely comfortable with at this point of the cycle.

NICK VRONDAS: Can I just add something, Greg? It's a good question, Richard. I think we are cognizant of that.

I think the other thing you need to note that over the last 4 years as well our leverage has come down quite materially as well. That's been in acknowledgement. We've been flagging that we will increase our spec development because of the new markets that we're entering and the growth in those markets.

So it's not a surprise. It's not a sudden reaction. It's something that we've been building towards and planning for.

So at the same time, what we've been trying to say is that we're offsetting operational leverage and financial leverage. So in a total package, we believe it's an appropriate risk that we're taking in the context of the markets and the specific opportunities that Greg talks about. We're combating those risks with lower financial leverage.

GREG GOODMAN : Yes, I think the other thing coupled with that, too, over the last 12, 18 months, we've also got financial partners that are taking on a lot more of that as well, in their own capacity with us as well. So on a look through basis, we're very, very, very comfortable.

RICHARD JONES : Okay, and can you just give me or give us more colour just on those Heads of Agreement in Japan just to update us on where leasing is across those three projects?

GREG GOODMAN : Look, they're pretty commercially sensitive, mate, bearing in mind we've got a lot of competitors over there as well and what have you.

But we've got a very, very good enquiry on Mizue and I would expect something to be certainly secured there in the short term. That's in Tokyo Bay.

Ichikawa, we've got 25% already done, but there's another 25% that's in the process of being done. Obu, we're 75% the way through. So we're making very good headway.

On the back of -- you would have seen some sales that went through the other day probably to one of the listed funds. I think prime yield is sitting at 4.5% while our feasibilities are well through 5% on exits, so we're in really good nick in Japan and we've got good enquiry.

RICHARD JONES : The timing's all on track on those three?

GREG GOODMAN : Yes. One of the best parts of the world to be constructing buildings, because they don't miss a date. So we're very happy with the development process.

NICK VRONDAS: Yes, I think, Richard, just to clarify for everyone, those properties won't complete till late this calendar year or middle of next calendar year. Then on top of that, we've got letting up allowances beyond the completion of those in our feasibilities, so I think it's fair to say we're very comfortably ahead of schedule.

GREG GOODMAN : Yes.

RICHARD JONES : Thank you.

OPERATOR: Your next question comes from the line of Stephen Rich from Credit Suisse . Please go ahead.

STEPHEN RICH, ANALYST, CREDIT SUISSE : Hi, guys, just a couple more bigger picture questions.

A common theme from your comments this morning, Greg, has been a relatively reserved approach to cap rates whether it be on book or in your feasos. How does that position you in terms of restocking your land bank? We note a number of your competitors are considerably more aggressive.

GREG GOODMAN : Yes, I know. Good luck to them. We're only going to do things that make money for our stakeholders, being Goodman **Group** investors and also our partners.

So I think we're, though, in a position in pretty well most markets of the world where we've got -- because we're a big operator, big player, good relationships, we've got land in different forms and some with drawdown basis. We're doing actually some in the UK at the moment on a drawdown basis over time, because we can walk into an office of a utility or someone like that who has land and we can be a good partner for them. The same in Australia where we've got significant joint ventures with partners with land on a drawdown basis which ceases through for a number of years.

I think Michael put in the pack the development pipeline -- AUD10 **billion**, Michael, I think you had in the pack. Well, that's the truth, right, so that's a good 4 years of activity in front of us without restocking at all. So we're in good space.

We're being very careful. We're also looking at brownfield sites where we'll go in and take some income for a while and knock buildings over. We're now even doing that in **China** on brownfield sites.

So yes, we're confident with the pipeline of land we've got around the world. We're confident with the customer relationships we've got, which are very strong, and the ability to be able to consistently produce product over the next 5 years.

STEPHEN RICH: Great. Then just, I guess, a bit more specifically on that question, something like Japan where Nick, he just mentioned those three key projects will be largely completed by mid next calendar year. Obviously that's one of the geographies with the highest margins for growth from a development perspective. How do you see restocking in Japan?

GREG GOODMAN : You've got to be careful -- there's no doubt about that but we have actually got some other land. I don't think we've announced (inaudible). Some other land we've got some pre-commits on which we'll pop out shortly which we bought -- negotiated quite a while ago. It's big. We're also having discussions with various people we've known for a long time over there now because we've been in Japan for a long time about Brownfields and other opportunities.

So I think we'll go okay we're just not getting overtly excited because we think an exit cap rate is 4.5% and customers can pay rents that are moving up markedly. We don't believe that's necessarily sensible business. We are restocking -- we're just very careful and very surgical about how we do it whether it's in Japan, US, UK, China, Hong Kong -- you know there's opportunities in Hong Kong as well around the development that will come to pass over time.

STEPHEN RICH: Great and then just a final question in terms of composition of earnings -- clearly to continue to drive 6%,7% growth a larger contribution of the growth is coming from those active earning streams as you mentioned. What level of earnings composition would you be happy to get to in terms of passive verses active or in the medium term does this provide a cap to that sustainable long term growth?

GREG GOODMAN : No look I think 50/50 sensibly -- I think is sensible. I think it come out of a period too where there's been relatively subdued regional growth apart from say China and Hong Kong. The rest of the world hasn't been that robust. So I think you will get growth in your investment line in regards to rental earnings as well. So I think that will be good for the next two or three years. I think we'll see an improvement there.

Also the rotation of capital on the use of our balance sheet I reckon another three years we'll have it more optimised than we are now. We're a bit heavy still in the UK land banks and what have you which are not hitting our return targets. So I think you'll find that over the next two or three years we've got plenty of capital reallocation that will go on as well that will really help us drive earnings very strongly over the next five years.

STEPHEN RICH: Great thanks Greg.

OPERATOR: Your next question comes from the line of Grant McCasker from UBS . Please go ahead.

GRANT MCCASKER, ANALYST, UBS : Good morning. Just following on from comments in regards to capital recycling and also thinking about urban regeneration. In the past you've always looked at having the AUD2 billion to AUD2.2 billion of unencumbered assets. Going forward should we expect a similar amount?

GREG GOODMAN : Maybe not but I -- you know the corollary of that is you won't have the debt either. So that's the way it would move. That would move down -- debt would move down. If that moves up then you've got more capacity for gearing is the way we look at it. Anything you'd like to say Nick?

NICK VRONDAS: Yes look I think it also relates to the previous question from Steve as well -- so you might get more active earnings but if trajectory continues as it is at the moment leverage is going to be coming down at the same time and what that means is we've got a lot of a capacity to grow back the other way. So if the market conditions change and some of the more active earnings come off a bit we've got the capacity to absorb that but also then to capitalise on the movements in the market. So you can re-gear appropriately. The strategy is not linear -- it's reacting to market conditions.

GREG GOODMAN : Yes.

GRANT MCCASKER: Okay great.

OPERATOR: Your next question comes from the line of Philip Cheetham from Citigroup . Please go ahead.

PHILIP CHEETHAM, ANALYST, CITIGROUP : Good morning guys. Just a quick one from me. Greg at the third quarter update you mentioned that the workbook forecast was to peak in the first quarter of FY15 at AUD3 billion. Does that still stand and how long do you think you can run at that rate for?

GREG GOODMAN : As I said a bit earlier we're looking at the development book on a weekly basis. We don't want to get too far over our skis in regard to obviously doing too much and that comes back to balancing the spec with a pre-committed. It's really a function of what we feel comfortable with. At the moment we feel very comfortable. You've got to add to the numbers more significantly (technical difficulty) and starts in South America and North America. If you just add up the numbers yes it's heading that way relatively quickly.

PHILIP CHEETHAM: Sure. Is that something though that you think is a longer term sustainable rate or is that something that you --

GREG GOODMAN : I think if you look at Goodman and Globe which is big and round and quite a large -- there is opportunities for us to do more. We haven't been doing a lot of development really in the UK effectively that's starting. Continental Europe has gone better than we thought it would quite frankly in regard to development. We thought it would be a bit softer but we're doing very well over there. China I think will be very consistent and we're making good inroads there.

I think there'll be more development coming out of Japan and there'll be a couple of things we'll probably do in Hong Kong as well. Philip Pearce will pull one of out the bag there no doubt. New Zealand is having a good time with it as well and Australia has been strong -- it's probably a little slower at the moment but we think that will strengthen as well. We've got some two storey warehouses we're planning down in south Sydney. We've got a big site down in Sydney -- we're knocking off 40,000 or 50,000 metres shortly. So we're going to have a fair bit going on round the place.

PHILIP CHEETHAM: Great thanks.

OPERATOR: Your next question comes from the line of Lou Pirenc from Morgan Stanley . Please go ahead.

LOU PIRENC, ANALYST, MORGAN STANLEY : Yes good morning. First of all on your funds management. EBIT growth seems a lot lower than your fund growth. Is that pressure on fees or is that the gross up of the expenses you were talking about Nick?

NICK VRONDAS: Yes it's -- there's no pressure on fees. It is a gross up of the expenses so that's kind of having an impact.

LOU PIRENC: Can you explain it -- what's going on there?

NICK VRONDAS: Yes so it's basically cost recovery. So we employ the services directly and then recover it directly through the funds so on a flow through basis where previously the funds would have contracted directly. They're coming through our book now and that's really more for quality control is the main reason we're doing that and you get better execution and look it does cost the funds less to do it that way because we do it on a cost recovery basis.

LOU PIRENC: Is that a one off -- kind of a shift in the way you account for it? So therefore from next year onwards you'll basically have growth more in line with your fund growth again?

NICK VRONDAS: Yes. Well I think the fund growth is also driven -- sorry the revenue growth is also driven by activity levels. So you just need to be mindful of that and things like debt and equity raisings. If the volume of equity raising diminishes then that top line will come off as well but that's being consistent over the last few years that growth but that's not as predictable as the base fees.

LOU PIRENC: Okay and on your ownership can I just reconcile the different comments kind of frothy markets, you don't want to take too much risk on developments yet you're kind of retained more and more earnings, your DRP open, you're going to sell assets. What are you going to use all of that capital for, if the opportunities are getting more difficult?

GREG GOODMAN : Lou we're in the game for the long term. I think you'll find that there are always opportunities for people that are in the market -- good infrastructure, good people. So we've got opportunities and we'll take them and we'll be in a position to take them. So we don't have to be adventurous in any way shape or form. We can be very patient and we will be patient and when the opportunity comes we'll take it with both hands and run with it. So I reckon right at the moment it's deliver a good result this year -- deliver a good result during the course of this year we're in. Keep the ship in very, very good shape and there are opportunities for Goodman Group globally without a doubt.

NICK VRONDAS: I suppose it is worth pointing that per the last question there is AUD3 billion -- we're heading towards AUD3 billion of development work and that is a good source of capital -- use of capital at the moment given the returns we're generating. It is being partially funded through asset rotation as you say but there is still a degree of funding required and we believe that using internal sources rather than relying on external sources and keeping our leverage low is the best thing to do at this point in the cycle.

LOU PIRENC: What's the magnitude of asset disposals this year?

GREG GOODMAN : Look I think we did AUD1.5 billion last year. I think it would be anywhere between AUD800 million and AUD1 billion something that like but we'll be putting on AUD2.5 billion or AUD2.8 billion something like that. So net this will be another -- close to a couple of billion up.

LOU PIRENC: Okay thank you.

OPERATOR: Your next question comes from the line of Tony Sherlock from Morningstar. Please go ahead.

TONY SHERLOCK, ANALYST, MORNINGSTAR: Good morning guys. Just a follow-on question from Lou's. That comment about grossing up expenses -- did that tie into your comment during the call about bringing legal and other admin costs in-house?

GREG GOODMAN : Yes exactly.

TONY SHERLOCK: Okay. Alright so there's no savings from that. That's net nil for you guys?

GREG GOODMAN : Correct.

TONY SHERLOCK: Okay fine. Just with respect to the urban renewal or that urban regeneration -- is that going to come through asset sales or through the development line -- the development profits?

GREG GOODMAN : That's a complex question to answer right at the minute because it may come through the revaluation line as well depending on where we are at a particular point in time. As Greg said I think we'll call it out -- we'll call them out when they come through so yes bit hard to describe exactly now how they will come through.

TONY SHERLOCK: So just as a -- I know you've got the 6% longer term target -- how would you -- would have a guess at the amount that that profits from that urban renewal will constitute of that growth over the medium term?

GREG GOODMAN : That's the magic question.

NICK VRONDAS: Yes no we won't have a guess because that's never a good thing but yes it will incremental and additional to.

TONY SHERLOCK: Okay just one final question. Just with respect to some of the markets you're in you're getting great returns. Are you finding new entrants coming in any markets in particular or some of the GLPs or the PLDs that are acting irrationally in some markets that could impact your growth?

GREG GOODMAN : Look no not really. I think we're just picking our marks and our targets very, very well and we're very surgical in the way we're then operating in those markets. There are new entrants though -- there is a wall of capital globally. There's new managers, new players starting. You've just got to stick to your strategy and your quality and you'll drive through all that over time which I think you'll find that most markets we will.

There's a lot more activity in funds being raised in Europe at the moment and the UK -- it's a new fund a day. In continental Europe there's a lot as well. So that is why there's going to still be asset inflation, cap rate timing in most markets we are in during the course of the next year without doubt because the assets are not available for **sale**. So the only way they are going to be available for **sale** is some exuberant pricing. Now we're staying out of all that but we might sell into it as well.

TONY SHERLOCK: Okay so just those great margins that I think you've alluded to with respect to Japan new entrants in that market are really they're not representative of what you're going to expect going forward -- is that right?

GREG GOODMAN : Look I think once again it's a bit of exuberant capital around the world and get involved in the funds management business. It's one of the easiest things around or seems to be at the moment for people. So look you've just got to drive through that and not worry about it too much. Keep the quality offerings coming through, servicing your customers well, your stakeholders, your partners in your funds.

12% plus total returns around the world for our fund book is really, really good on the back of Asia very strong, Australia pretty strong mid teens, Europe obviously the lower with lower growth. You've just got to drive through it and not worry about it too much. Our big partners are involved all around the world and they're just going well just do what you do guys and you're good at it and keep doing it. So that's what we'll do.

TONY SHERLOCK: Thank you very much.

OPERATOR: Your next question comes from the line of Melinda Baxter from Merrill Lynch . Please go ahead.

MELINDA BAXTER, ANALYST, MERRILL LYNCH : Okay good morning guys. I'**m** just wondering if you could help us to quantify our net earnings impact of that AUD1.5 **billion** of asset sales in 2014. Then also in terms of geographic location where can we expect those AUD800 **million** to AUD1 **billion** of divestments to come through in 2015?

NICK VRONDAS: I'll tackle that. The earnings impact is driven by the spread loss and you can see that through the reduction basically in our investment earnings. That's been basically the quantification of that. In terms of the geographic location I think I'd probably best leave that to Greg to talk about where we may or may not sell assets.

GREG GOODMAN : Look I think it would be UK we think great opportunity to lighten up capital at very, very good prices without doubt. There's New Zealand where we've enunciated with the fund investors over there that will be funding our development pipeline out of Highbrook through good asset rotation so that's pretty good. There'll be some things we do in Australia as well in certain locations. So yes primarily New Zealand and Australia. There might be one or two things Mr Pearce lets go in **China** at a point in time if we can prise those away from him and --

NICK VRONDAS: I think it's fair to say it's opportunistic everywhere around the world.

GREG GOODMAN : Yes Europe there could be a few in Europe as well if the cap rates still move into the mid 6s and low 6s. There's been some pretty ordinary product **board** in Europe recently with six handles in front of it so we think that's getting a bit exuberant but you can take advantage of all those periods of exuberance which is what we'll do.

MELINDA BAXTER: Thank you.

OPERATOR: Your next question comes from the line of Daniel Ekins from Deutsche Bank . Please go ahead.

DANIEL EKINS, ANALYST, DEUTSCHE BANK : Thanks guys. Can you hear me? Hello can you hear me?

NICK VRONDAS: Yes Danny we've got you mate.

DANIEL EKINS: Good thanks. You mentioned Nick that you are looking at a balance or a trade off between the financial and operational risks to get to a right position overall. As the offshore **operations** expand and you get increased currency exposure you're taking on increased hedging and there's been some questions just about how those consequences of hedging are working their way through the financials. In the last cycle we saw how cross border investing, cross border financing and indeed currency hedging and in particular currency hedging actually worked to create more financial risk because of the mismatch that you get between physical assets and your hedge book.

So as we get closer or further into the cycle how do you manage that -- do you have total offshore exposure limits to limit the total net **equity** exposure to that dynamic or do you -- is that indeed one of the reasons why we need to retain earnings? You go through that as specifically as you can but more broadly as we get deeper into the cycle and we are in this model where we do have cross border investing which brings into play all these sort of things that did wreak so much havoc last time. How do you think you're positioned and how do you manage for those risks?

NICK VRONDAS: Yes that's a fantastic question Danny and I think I might take that. Obviously post the GFC we and others were adversely impacted by that and that caused us to rethink and restructure the way that we hedged, the way that we finance ourselves not to make the same mistakes. In summary here are the highlights -- I think in terms of asset liability matching first thing you've got to do is have long dated liabilities against long dated assets. Secondly in terms of your derivative hedging you've got to keep managing the maturity of those and if you look at the maturity profile of our debt and our derivatives you see that we continually continue evolving forward and not waiting for the market to market to hit us. That's where you can get caught.

Thirdly the structure of your capital facilities and the availability of your debt funding lines need to be matched to the underlying currency that you're investing. That was a big mistake that everyone made which was we all had Aussie dollar financed multicurrency facilities. When the Aussie dollar tanked the facility limit was fixed but the denomination of the foreign liabilities increased materially. What we've done is we've restructured all of our funding lines so that the limits are linked to the underlying currency so you can't have that same situation arise.

The other key factor has been the quantity of hedging. Previously it was common to have 100% hedge against your assets and in addition to that many had income hedges on top of that effectively creating a position of over-hedging and speculation on the currency and we've seen that have adverse consequences not only in our sector but in other sectors as well. What we've done is we've lowered our hedging targets so that we are in the range of 80% to 90% of our **equity** only so we don't have hedges upon hedges.

The bulk of our hedging is done through the underlying liabilities long term the capital market liabilities which means that liquidity risks are deferred and frayed for a long period of time and we're not in a position where we're over-hedged because we've got those buffers in place. It's not an impairment to investing in our view. We have got buffers and that's why our leverage is low. We do have buffers to facilitate major moves in currency and we've got liquidity and funding sources that can absorb material shock. So we're working (technical difficulty) the piece of work that we've done a lot of work on over the last few years I think (technical difficulty).

DANIEL EKINS: Thanks.

GREG GOODMAN : Right well I think that's the end of the session. Thank you very much for your questions and thank you very much for dialling in. Look forward to talking to you shortly.

OPERATOR: That does conclude our conference for today. Thank you for your participation ladies and gentlemen. You may all disconnect.

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