

**13 August 2012**

## **2012 Interim Result**

*Solid business model continues to deliver strong results*

### **KEY HIGHLIGHTS**

#### **FINANCIAL:**

- Statutory A-IFRS net profit of \$275.5 million for the six months ended 30 June 2012, up 13.3% on 30 June 2011. The result reflects strong performance and revaluation uplifts, offset by mark to market movements on derivatives.
- ROI per ordinary security of 12.0 cents, up 6.2% on 30 June 2011.
- Realised operating income (ROI)<sup>1</sup> of \$227.2 million<sup>2</sup>, up 2.6% on 30 June 2011<sup>3</sup>.
- Cash distribution of 9.5 cents per ordinary security up 11.8% on 30 June 2011.
- Net tangible assets (NTA) per security increased to \$3.65.
- Continued active capital management, including:
  - Diversification of debt sources with a \$250 million bond issue;
  - Ongoing security buy-back program with 4.8% of securities acquired;
  - Reduction in forecast average cost of debt by 90 basis points on the previous year; and
  - Low gearing of 20.2%.

#### **OPERATIONAL:**

- Average comparable income growth of 4.3%.
- Continued focus on positive operational leverage with 'jaws' of 3.0%.
- High occupancy and long lease expiry profile maintained.
- Completed development of 111 Eagle Street and 5 Murray Rose Avenue.

#### **STRATEGIC:**

- Significant review of cost base and structure completed which will deliver a \$10 million earnings benefit in 2013.
- Actively managing the portfolio, progressing the strategy to a more balanced sector weighting with reduced exposure to retail and increased exposure to office and logistics & business parks.
- Sold 50% interest in Casuarina Square and Westfield Woden to the GPT Wholesale Shopping Centre Fund.
- Investing in growth platforms to further accelerate performance from the business: funds management, development, new profit sources and asset acquisitions.

#### **GUIDANCE: increased for 2012**

- Revised 2012 forecast EPS<sup>4</sup> growth of at least 7%, ahead of original guidance of CPI + 1%.
- Payout ratio of no less than 80% of ROI.

<sup>1</sup> Before payment of distribution on exchangeable securities.

<sup>2</sup> Statutory profit adjusted for changes in fair value of assets of \$122.4m, financial instruments mark to market and net foreign exchange gains/(losses) of (\$55.1m), and other items of (\$19m).

<sup>3</sup> ROI growth was lower than growth in ROI per security because of the impact of the Group's security buy back.

<sup>4</sup> EPS defined as Realised Operating Income per ordinary security.

## FINANCIAL HIGHLIGHTS

Six months to 30 June (\$m)	2012	2011
Total Realised Operating Income	<b>227.2</b>	221.5
Changes in fair value of assets	122.4	54.1
(Loss)/profit on disposals	(2.5)	1.5
Financial instruments mark to market value and net foreign exchange gains/(losses)	(55.1)	(32.6)
Other items <sup>5</sup>	(16.5)	(1.4)
Statutory net profit after tax	<b>275.5</b>	243.1
ROI per ordinary security (cents)	<b>12.0</b>	11.3
Distribution per ordinary security (cents)	<b>9.5</b>	8.5
As at (\$m)	30 Jun 2012	31 Dec 2011
Total assets	<b>9,001</b>	9,288
Total borrowings	<b>1,912</b>	2,144
Net tangible assets per security (\$)	<b>3.65</b>	3.59
Gearing (%)	<b>20.2</b>	22.9
Look through gearing (%)	<b>23.1</b>	24.4

## OVERVIEW

The GPT Group (GPT) today announced its interim result for the six months to 30 June 2012. Michael Cameron, GPT's Chief Executive Officer and Managing Director, said that GPT has continued to outperform in 2012, achieving strong operating performance and exceeding guidance.

GPT's statutory A-IFRS profit for the six months ended 30 June 2012 was \$275.5 million, 13.3% higher than the previous corresponding period. This included an increase in the value of assets, which was partly offset by mark to market movements on derivatives.

Realised Operating Income was \$227.2 million for the half year, with the cash distribution of 9.5 cents per security up 11.8%.

"GPT delivered a strong result for the first half of 2012 with EPS growth of 6.2%, well ahead of guidance of CPI + 1%. This was driven by 4.3% comparable income growth, ongoing expense discipline and capital management initiatives."

"GPT's business model continues to produce strong performance and we are well positioned to deliver long term investment value. Our active portfolio management is producing results. We continue to add to our capabilities while optimising the business. Our effective management has again enhanced our performance and we are focusing on a range of growth platforms", Mr Cameron said.

<sup>5</sup> Other items include non-cash IFRS adjustments, amortisation expense and the relevant tax impact.

## FINANCIAL POSITION

Michael O'Brien, GPT's Chief Financial Officer, said "Capital management continues to be a priority for GPT with the focus on active management of capital levers to deliver superior returns for investors"

"GPT's forecast average cost of debt for 2012 has reduced to 5.7%, 90 basis points lower than the average debt cost in 2011 and 50 basis points below guidance. This was achieved through active Treasury management, including the reduction in margins of some loans and the termination of interest rate hedges in line with the receipt of asset sale proceeds.

"In January 2012 GPT re-entered the domestic bond market with a \$150 million issue of Medium Term Notes for seven years, which was further extended by an additional \$100 million issue in July. This was a pleasing result in a volatile market, demonstrating the strength of GPT's credit and diversifying sources of capital.

"We have also continued to pursue the on-market buy-back of securities, and to date we have bought back \$275 million of securities, at an average discount to NTA of 15%, equivalent to 4.8% of securities on issue at the time the buy-back commenced. This has resulted in a \$47.1 million increase in NTA, thereby creating additional value for investors<sup>6</sup>."

GPT's balance sheet remains in excellent shape, placing GPT in a strong position to continue actively managing the portfolio and pursuing growth opportunities for the business" Mr O'Brien said.

## OPERATIONAL PERFORMANCE

### Portfolio results

GPT's high quality, diversified portfolio delivered strong performance in the six months ended 30 June 2012, with 4.3% comparable income growth. This was supported by structured rental increases across the portfolio. The weighted average capitalisation rate of the portfolio declined by five basis points, with a \$122.1<sup>7</sup> million uplift in valuations over the period.

Michael Cameron said, "Despite continued subdued retail conditions in 2012, GPT's retail portfolio performed well, delivering comparable income growth of 3.9%, underpinned by a high proportion of structured rental increases. Occupancy remains high at 99.1%, with vacancies representing only 40 stores out of 3,700 tenancies. GPT is actively addressing structural changes in the sector through the continual evolution of its portfolio and introduction of a digital strategy designed to enhance a customer's shopping experience and drive increased traffic to its centres."

Performance in GPT's office portfolio and the logistics & business park portfolio was also solid. In the office portfolio, comparable income growth was strong at 5.6% although this is expected to moderate in the second half of 2012 due to known lease expiries in some assets. Whilst average occupancy in the period was strong, occupancy declined to 93.6% at 30 June 2012 due to several expiries at the end of the period. The logistics & business park portfolio delivered 2.5% comparable income growth and occupancy levels remain high at 99.0%.

<sup>6</sup> Value created calculated as the difference between the cost of securities purchased and NTA.

<sup>7</sup> Excluding the valuation uplift in the non-core portfolio.

## **Portfolio strategy**

GPT recently announced that as part of its active portfolio management approach, it plans to achieve a more balanced weighting in its portfolio over time. GPT's strategy is to move its weighting to retail to 50% of the total portfolio, with redeployment of capital into office, with a target weighting of 35% and logistics & business parks, with a target weighting of 15%<sup>8</sup>.

GPT continues to believe that a diversified portfolio is best positioned to deliver superior risk-adjusted returns for investors. However, the headwinds facing the retail sector suggests that growth rates from this sector will be slower than the strong historical growth the sector has enjoyed. The office and industrial sectors are forecast to deliver stronger returns in the short to medium term.

In line with this strategy, GPT completed the sale of a 50% interest in Casuarina Square and Westfield Woden to the GPT Wholesale Shopping Centre Fund (GWSCF) for \$551.2 million in June 2012. This transaction was beneficial for both parties, providing GWSCF with exposure to two high quality regional shopping centres, while enabling GPT to reduce its weighting to the retail sector and grow its funds management business.

GPT has also added \$178 million to its logistics & business park portfolio this year through acquisitions and developments, taking its weighting to 11% of the portfolio. GPT will continue to move towards its target weightings over time.

## **Development**

GPT has completed \$760 million in developments in the first half of 2012, including the premium office tower, One One One Eagle Street in the Brisbane CBD and the 5 Murray Rose Avenue campus style office building in Sydney Olympic Park.

One One One Eagle Street reached practical completion in June 2012 and is 82% leased. GPT delivered a \$44 million development profit on the project, including the initial land sale, with the project targeting a stabilised development yield of 6.9%. GPT expects the project to be fully let in 2013.

5 Murray Rose Avenue reached practical completion in March 2012 and is 100% leased to the Lion Group for a period of 12 years. The project delivered a \$5 million development profit and is targeting a stabilised development yield of 8.5%.

The \$300 million major expansion of Highpoint Shopping Centre in western Melbourne is progressing well, with 70% of speciality shops already committed, including a number of new international retailers such as Zara and Topshop. Stage One is fully leased and is on track to open in late 2012 with Stage Two due to open in March 2013.

The \$200 million expansion of Wollongong Central on behalf of GWSCF is also progressing well with leasing about to commence. This development is due to be completed in early 2014.

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<sup>8</sup> The current weightings of the portfolio are 57% retail, 32% office and 11% logistics & business parks

## Sustainability

GPT is pleased to announce that the fit out of its head office at MLC Centre has received a 6 Star Green Star rating and is carbon neutral certified. This is the first time the rating has been awarded within a building that has not undergone a complete refurbishment.

## STRATEGY

Michael Cameron said in 2012 GPT's strategic focus remains unchanged with two key objectives: optimise and grow.

"Optimisation is about streamlining key business processes and minimising the cost of funding. As part of this process we have completed a comprehensive review of our cost base which has resulted in 70 people leaving the business and a net reduction of 60 roles, with a number of new roles created to build further capability. As a result of this review we expect a benefit to ROI of approximately \$2 million in 2012 and \$10 million on a full year basis in 2013. The Management Expense Ratio (MER) will be reduced to around 50 basis points, which is one of the lowest in the sector, assisting GPT achieve its performance aspirations.

"The second area of strategic focus for GPT is growth. While the core business can deliver EPS growth of CPI+1% there are opportunities to exceed these expectations. GPT is actively working on four growth platforms – funds management, development, other profit sources and asset acquisitions. GPT has a target for these platforms to generate meaningful levels of additional recurring profit and value without changing the risk profile of the business or using significant capital.

"GPT is growing its funds management business through two pathways. A focus on its existing funds in the short term with a goal to create new funds and other wholesale structures in the medium term.

"In development, GPT has a dual approach. Firstly we will continue to enhance the value of our existing assets. Secondly, we are building further capability for logistics and business park development. This will help GPT achieve its target weighting, with the option of retaining or selling assets for a profit once this weighting is achieved.

"GPT has identified a range of business opportunities which leverage GPT's assets, and seek to generate revenue from services to existing and new customers. Finally, GPT will continue to make selective acquisitions of high quality assets with a focus on the office, logistics and business park portfolios," said Mr Cameron.

## OUTLOOK

"The outlook for the second half of the year is positive, with portfolio growth supported by high levels of structured rental increases and high occupancy. We will continue to see growth in the business from the wholesale funds and selective asset acquisitions. There will be significant cost savings as the MER moves to around 50 basis points next year. Finally we expect asset values to remain stable.

“With a strong, stable and de-risked business model, we are focused on delivering superior risk adjusted returns to our investors. In 2012, GPT is targeting growth in operating earnings per security of at least 7% for the full year and will maintain a distribution payout ratio of no less than 80% of ROI,” said Mr Cameron.

– Ends –

***GPT’s Annual Result Presentation will be webcast via the Group’s website ([www.gpt.com.au](http://www.gpt.com.au)) on Monday, 13 August 2012 at 11.00am (Sydney time).***

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**Notes**

ROI for GPT is reported in the Segment Note disclosures, which are included in the audited financial report of GPT Group for the six months ended 30 June 2012.

To provide information that reflects the Directors’ assessment of the net profit attributable to stapled securityholders, certain significant items that are relevant to an understanding of GPT’s result have been identified. The reconciliation of ROI to Statutory Profit is included in the Directors’ Report in the Group’s Financial Statements.

ROI is a financial measure that is based on the profit under Australian Accounting Standards adjusted for certain unrealised items, non-cash items, gains or losses on investments or other items the Directors determine to be non-recurring or capital in nature. ROI is not prescribed by any Australian Accounting Standards. The adjustments that reconcile the ROI to the Statutory Profit for the year may change from time to time, depending on changes in accounting standards and/or the Directors’ assessment of items that are non-recurring or capital in nature.