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# INDUSTRIAL

GOODMAN GROUP ANNUAL REPORT 2016

# EVOLUTION

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# CHAIRMAN'S LETTER

## Leading transformation

The 2016 financial year (FY2016) was another successful year for Goodman. Not only did we grow our operating profit to \$715 million, a 9% increase on the 2015 financial year (FY2015), but we did it while executing a long-term plan which will underpin the Group's future. Low borrowings, a robust balance sheet and strong customer relationships, supported by our gateway city strategy, were all features of the last year.

### Financial highlights for FY2016 include:

- + Operating profit of \$715 million, a 9% increase on FY2015;
- + Statutory profit of \$1,275 million, contributing to 19% growth in net tangible assets per security;
- + Operating earnings per security (EPS) of 40.1 cents, up 7.8% on FY2015;
- + Distribution per security of 24.0 cents, up 8% on FY2015;
- + A strong financial position maintained, with balance sheet gearing of 11.8%; and
- + Group liquidity at \$2.6 billion to meet all near term obligations and opportunities.

## The right mix

With an expanding business operating in a high growth sector, successful execution of our strategy has required an optimal mix of prudent, uncompromising financial management coupled with entrepreneurial drive.

Last year at Goodman, I believe we came up with the right mix. The numbers support our approach.

These results were the product of the execution of a long-term strategy that a short-term plan would not be able to achieve. Over the past five years at Goodman, the discipline and commitment of the executive team and staff have seen the Group conceive, develop and execute a plan which will fortify Goodman's future.

As part of this plan, we continued acting on our earlier decision to invest and develop in quality locations in major urban centres, in order to capitalise on the urbanisation of major cities, the boom in global consumption and the continued evolution of e-commerce and logistics.

To get there, we've combined the financial strength which we see as part of 'business as usual' at Goodman, with an appetite for expansion and change that has helped us stay ahead of the market.

To stay at the forefront of our sector, we envisaged a plan that would go the distance. We're now well positioned to capitalise on the side effect of a boom in e-commerce and a redefinition of the role of the warehouse. Today, our customers want more value from their property solutions than ever before. They are willing to consolidate, rationalise or automate to achieve greater cost efficiencies. We also know they are turning their attention to the locations where Goodman's gateway city strategy remains focused: proven logistics locations in major cities around the world, close to major urban centres.

The results of this strategy of developing quality properties in sought-after locations can not only be seen in the strong bottom line we presented for FY2016, but it's also shown through the high quality of our properties. These are being built to lead, not just meet, market demands in the warehousing sector.

Across the globe last year, the foresight Goodman has shown in its urban renewal and gateway city strategies provided our customers with a competitive edge and the Group with a sustainable business.

Nowhere was this better demonstrated than in Sydney, Australia. When one of our commercial properties at Waterloo Road in Macquarie Park was rezoned as residential and subsequently contracted for sale, we worked closely with the building's customer, Fuji Xerox to find them suitable alternative commercial space.

Soon, Fuji Xerox will relocate to a brand new Goodman development in nearby Khartoum Road, Macquarie Park. This new property gives Fuji Xerox a chance to consolidate its operations, with its Fuji Film business also moving into the new commercial space. As a result, we have been able to provide Fuji Xerox with higher quality premises, through a cost-effective, minimally disruptive move.

For Goodman's part, there were significant benefits to this approach. We've not only conditionally exchanged on the sale of the Waterloo Road site, but importantly, we've also provided Fuji Xerox with a better property solution and retained them in our Australian portfolio.

### The right plan

I'm pleased to say that in FY2016, the discipline and commitment of our executives and staff have ensured the desired outcome we've been working towards in our five year plan is all but here.

While our results are impressive on their own, there are two factors which make them even more so. First, they've been achieved without resorting to the use of financial leverage, and second, they take into account the costs of expansion into new markets such as the United States and Brazil.

Overall, we are confident with our forecast 6% p.a. operating earnings per security growth for FY2017.

### A bright future

What we've seen in FY2016 is the outcome of the past five years of dedication and discipline by the team in executing a well-designed strategy. The results ensure Goodman has built a sustainable business which is now well positioned for the future—one which may entail further expansion of our core business or expansion from opportunistic circumstances.

Whichever we choose, our cautious financial management over the last year ensures that we are in a solid position in terms of under reliance on cash. Additionally, as our investment partners have \$8 billion of undrawn equity capital committed, we will not have to resort to undue leverage to fulfil our expansion plans.

Of course, no matter how solid the plan, there will be bumps in the road. We also can anticipate continuing challenges in new and developing economies such as China, where we have long-term partners and caps on our exposure. In more mature economies, we will continue with our rational expansion plans, taking advantage of our unique industry segment and its current growth phase, in particular our growth in the United States.

When we do hit challenges, I rest assured, knowing that our people are our core strength, and the success we have seen is testament to that. The executive team are highly experienced and have been together to execute this strategy over the past five years. We enjoy high staff retention across the whole Group. All are positive factors, which are reflected in a performance-based remuneration plan designed to ensure retention of key and high performing staff, another strategy with which we are very satisfied.

I am very proud of the excellent results that the Group has achieved in FY2016, through its conviction on delivering to a robust and sustainable strategy and of the focus, commitment and drive shown by everyone at Goodman. I look forward to the coming year and would like to thank our staff for their dedication and our Securityholders, customers and investment partners for your continued support.



**Ian Ferrier, AM**  
Independent Chairman

# GROUP CHIEF EXECUTIVE OFFICER'S REPORT

## Evolving our business

Goodman has completed another successful year in which we continued to grow our business and ensure we are in robust shape financially and operationally to benefit from a number of transformational macro themes that are shaping the future and driving the evolution of the industrial property sector. This is an exciting time for the Group and I'm pleased to report on our activities and achievements in the 2016 financial year and how these are positioning Goodman for a strong future.

Our performance during the year delivered 7.8% growth in operating earnings per security, demonstrating our conviction that the business strategy we are executing is the right one for the prevailing market conditions and will create long-term value for all of Goodman's stakeholders. Our ability to achieve this comes from Goodman's industrial property expertise, size and scale, and the extensive infrastructure we have in place around the world. Our operations span 16 countries and we have built a truly global business, with a virtually unrivalled operating platform and skilled team of people. This has enabled us to be innovative by identifying and adopting new trends early, ensuring that Goodman has always been a leader within our sector. The capability and resources we have amassed over many years provide Goodman with access to a wide range of quality opportunities, the experience to solve the diverse and changing property needs of our customers across a wide range of industries, and an investment offering that attracts significant capital from global investment partners.

A prominent backdrop to the last 12 months has been the ever growing prevalence of a number of macro themes that are driving the demand for modern, well located logistics space. They are underpinning significant change across the industrial property sector globally and the role that logistics and warehousing space has traditionally played.

These themes include:

- + The trend toward greater urbanisation of our cities;
- + The growth in consumerism, which is driving demand from our customers across a broad range of sectors from retail and pharmaceutical to automotive;
- + The evolution of e-commerce and enabling technologies (such as mobile technology), which is changing consumer behaviour and driving greater investment in proven logistics locations, close to major urban centres and end-consumers; and
- + The focus of our customers on getting more value from their property solutions and achieving cost efficiencies, which include consolidating operations, upgrading facilities, rationalising supply chains, greater automation and the use of robotics.

The quality and location of our properties have always been key factors in Goodman's investment decisions and they define the composition of our overall portfolio of 412 properties. In the context of the themes transforming our sector, we continue to see ongoing growth in the quality and strength of our properties in and around major gateway cities and this forms the basis of our overall business strategy.

During the year, this was reflected in our focus on improving the quality of our properties and the income we earn from them. We did this by taking advantage of the high demand for modern, well located logistics space and selectively selling assets, with the proceeds reinvested into our development business. The continued strong demand for industrial assets resulted in \$2.2 billion of properties (excluding urban renewal sites) being sold across the Group and our managed Partnerships in markets including Australia, New Zealand, China, the United Kingdom and Continental Europe. This sales activity has helped to fund our growing development work book, which increased to \$3.4 billion at year end and remains a key driver of growth for Goodman.

The ongoing strength in asset pricing enhances our competitive advantage, given our ability to develop brand new logistics space in sought after locations, where land is difficult to obtain and demand exceeds available supply. We are able to replace existing assets at a forecast yield on cost of 7.8% with our own modern, high quality developments. This is reflected in the \$3.3 billion of new development projects we commenced across our operating regions during FY2016, which is adding significant value and providing the best risk adjusted returns at this point in the property cycle. In turn, this is benefitting Goodman and our stakeholders by enhancing our overall portfolio and income quality and driving higher investment returns.

The Group continued to focus on managing the risk in its growing development business during the year through its disciplined and prudent approach to development. We did this by ensuring that we maintained a strong financial position, reinvesting the proceeds from our property sale initiatives and limiting speculative development to markets where there is an undersupply of new logistics space. Importantly, we are undertaking more development in our managed Partnerships and this is reducing the amount of capital that the Group is directly contributing to fund its overall development projects.

We completed another busy year in our development business, with Australia undertaking more than \$700 million of projects in the key east coast cities of Sydney, Melbourne and Brisbane. The development activity we have underway reflects the shift by our customers toward reducing costs and improving operational efficiencies. Demand has been largely driven by the ongoing growth in e-commerce through the increased space requirements of third party logistics customers. We also secured a number of new commitments from domestic and international retailers, including Jewel Fine Foods, ALDI and Super Amart.

In our New Zealand business, customer demand is contributing to the ongoing strength of our development book in the key Auckland market. We announced 11 new projects during the year, which were mostly pre-committed to customers on long-term leases, including four projects at our flagship Highbrook Business Park.

Goodman maintained development volumes in China of 740,000 sqm, with our selective development approach targeting strategic logistics locations around key economic centres, including Shanghai, Beijing, Chongqing and Chengdu. Demand for quality space in these markets remains high, driven by domestic consumption and in particular, we continued to see strong interest from e-commerce, retail and logistics customers. This has achieved pre-commitment levels over 50%, with good pre-leasing activity on our uncommitted developments, such as Goodman Qingpu Centre in Shanghai, which was 97% leased on completion.

The Japan market continues to experience strong demand for modern, high quality logistics space. The targeted development approach being undertaken by our Japan team is focused on prime, strategic locations around Tokyo and Osaka. Highlighting this, we delivered Stage 1 of Goodman Business Park in Chiba Newtown, Tokyo, a 117,000 sqm four-storey, multi-customer logistics facility, which has been fully leased. Following this success, we also announced the commencement of Stage 2 at Goodman Business Park, with strong pre-leasing interest for this 125,000 sqm logistics facility, which will have the same high specification as Stage 1.

In the United Kingdom, we maintained our development led approach, securing new opportunities during the year in proven, core markets. With the support of our global investment partners, we also launched the Goodman UK Logistics Partnership. The Partnership has already completed its first two projects, both of which have been fully leased.

In Continental Europe, our business continues to perform well, with development volumes remaining strong. Our work book was 623,000 sqm at year end. We have sustained this level of activity over the last four years and have been ranked Europe's top real estate developer for the fifth consecutive year by PropertyEU magazine. Ongoing customer demand in sectors including e-commerce, retail and automotive underpinned activity in our key markets of Germany, France and Poland, achieving overall occupancy across our European portfolio of 98%.

The roll-out of Goodman's development pipeline in the US gathered momentum over the year, with our focus on key undersupplied markets in Southern California, New Jersey and Pennsylvania. We made good progress in the Inland Empire market in Southern California, completing more than 160,000 sqm of logistics space and signing major leases with Amazon and Walmart. We also commenced over 200,000 sqm of new developments at our mixed-use development in Eastvale, securing a pre-commitment from Volkswagen for a new training facility.

In Brazil, we secured 100% of the operating platform, agreeing terms with WTorre to split our respective interests in the assets of the WTGoodman joint venture. We now operate as Goodman Brazil and our operations there are strategically aligned with the Group's global platform. We maintain our positive long-term view on Brazil and are focused on selectively undertaking targeted growth opportunities, such as the pre-committed 62,000 sqm development for Walmart that was secured during the year.

Our stabilised property portfolio around the world experienced robust operating activity over the last year, with strong leasing results and ongoing high occupancy and customer retention levels. We achieved this through the consistent delivery of our customer focused offering and by ensuring that our properties are well maintained and presented. The quality, location and performance of our stabilised portfolio ensure that our properties are sought after by our customers and attractive to investors, which continues to support higher property valuations. Together with the strength of Goodman's development activities, this was a major driver of the growth in our total assets under management during the year, which increased by 13% to \$34.1 billion as at 30 June. This was largely due to the \$3.2 billion of developments we completed and \$810 million of higher property valuations across Goodman's overall portfolio, with our urban renewal sites in Australia contributing approximately 33% of this valuation increase.

The Group's urban renewal strategy continues to represent an important long-term opportunity and major source of capital for our business. It shows how investing in quality gateway city locations, where land is scarce and in high demand has, over time, prompted a change in use from industrial to residential, creating significant value for Goodman. Demonstrating this, we have sold and conditionally contracted \$2.1 billion of sites, of which \$800 million of urban renewal transactions were settled to 30 June, with a further \$1 billion of settlements to occur in FY2017. We continue to maintain the momentum in our urban renewal activities by focusing on achieving positive planning outcomes on a number of sites, while also maintaining our current urban renewal pipeline in Australia, which is equivalent to 35,000 apartments.

Goodman has retained the strong support of global investor groups, who value our contemporary approach to investment management. This comes from our independence, governance and alignment of interests, with the Group investing alongside our partners. The Group's specialist investment offering, development expertise and proven ability of our Partnership platform to deliver strong total returns and create value, are attractive to our investment partners. This saw an additional \$2.3 billion of equity raised in FY2016, mainly for our Partnerships in China, Japan and the United Kingdom. This has bolstered the investment capacity of our managed Partnerships and provides them with access to quality opportunities not readily available in the market.

The strong performance delivered in the 2016 financial year reflects the range of operating activities and strategic initiatives undertaken across Goodman's business globally. This has delivered full year operating earnings per security of 40.1 cents, an increase of 7.8% on FY2015 and operating profit of \$715 million, up 9% on last year. This was above our initial 6% earnings guidance provided at the start of the year.

The total distribution we paid for the year was 24.0 cents per security, representing an 8% increase on last year and was in line with Goodman's 60% distribution payout ratio. Payment of the distribution consisted of 11.9 cents in the first half of the year and 12.1 cents for the second half.

# GROUP CHIEF EXECUTIVE OFFICER'S REPORT

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## Group operations

Goodman's operations delivered an operating EBIT of \$879 million, which is a substantial increase of 23% compared with last year. The robust result is mainly due to our continued focus on driving the organic growth of our business, the geographic diversification of our operating platform and the increased scale of our existing markets around the world, while also benefitting in part from a weaker Australian dollar. Reflecting the strength of the customer and investor demand for quality logistics properties globally, Goodman's development and management businesses performed well, contributing 39% and 18% of operating EBIT respectively. The continued growth in the contribution from our development activities was a key factor in Goodman's earnings outperformance for the full year. The contribution to operating EBIT by Goodman's investment earnings was 43%, with stable investment earnings in line with expectations.

The value of our geographically diversified operating platform was reflected in the 59% of earnings contributed by Goodman's international operations, with solid growth achieved in these markets.

Further information on the Group's operations for FY2016 is available on pages 7 to 9 of this Annual Report.

## Capital management

Maintaining a strong financial position is an important part of Goodman's overall business strategy, balancing our commitment to delivering sustainable long-term growth and competitive risk-adjusted returns with lower financial leverage. We are achieving this through our focus on selectively selling property assets across the Group and our managed Partnerships and reinvesting capital into our development activities to deliver growth in investment returns.

With our development business continuing to grow, having available capital to self-fund our development work book makes us less reliant on new capital, while helping to reduce our financial leverage. In turn, this positions Goodman to better withstand market volatility and to also take advantage of longer-term growth opportunities.

As a result, the Group's gearing was 11.8% at year end, compared with 17.3% as at 30 June 2015. We expect gearing to continue reducing, as further capital is received from ongoing selective property disposals and settlements arising from the sale of urban renewal sites. Goodman also finished the year with total liquidity of \$2.6 billion, providing considerable financial flexibility for the future.

We procured \$3.1 billion of debt facilities during the year across the Group and managed Partnerships, mainly to refinance existing facilities. This achieved an average term to maturity of 4.5 years and pricing at current market rates, confirming our continued focus on extending debt funding sources and Goodman's ongoing access to global debt capital markets.

## Outlook

Goodman is building a higher quality business for the long term. The success we have achieved over the last year shows how we are successfully executing our strategy, and our early recognition and understanding of the major macro themes and structural changes that are transforming our sector globally. With Goodman's specialist industrial offering and geographically diversified operating platform, combined with the strength of our customer relationships and managed Partnerships, we are well placed to take advantage of the strong ongoing demand for modern, efficient and well located logistics space. We will focus on accessing the best quality opportunities in the best locations, to drive sustainable earnings growth for future periods and create long-term value for all stakeholders.

Our focus remains on improving the quality of our properties and income across Goodman's portfolio globally. We will continue to selectively sell assets, although with \$4.1 billion of property sales already undertaken over the last two years, this will be at a slower rate in FY2017. With development providing the best risk adjusted returns, we will reinvest sale proceeds into our development business, providing funding for the projects being undertaken by the Group and our managed Partnerships, and building the quality and strength of our properties in and around key gateway cities globally.

The progress we are making on our urban renewal strategy will generate considerable capital for Goodman, as further settlements occur in FY2017 and in future periods. This is driving our financial leverage lower and together with our property sales initiatives, is providing Goodman with significant financial flexibility and a robust balance sheet position.

In turn, the Group is well positioned for FY2017. We have a strong development business, with a significant pipeline of growth opportunities to deliver tailored property solutions for our global customer base and provide our investment partners with access to high quality, well located industrial properties. In turn, this will continue to grow our assets under management and drive the long-term growth of our earnings. Goodman is forecasting full year operating earnings per security of 42.5 cents, up 6% on FY2016 and a distribution per security of 25.4 cents per security.

I would like to express my thanks on behalf of the Board and executive management team, to all of our customers, investment partners and Securityholders for your ongoing support of our business. I also acknowledge the enormous commitment and effort by our team of people during the year in delivering this exceptional performance in FY2016 and thank all of you for your valued contribution. Through your dedication and hard work, we are able to achieve so much and build a truly great business for the long term.



**Gregory Goodman**  
Group Chief Executive Officer



# GROUP OPERATIONS

## Property investment

2016 was a year of growth, as the Group achieved a 13% increase in the value of our assets under management. Two key factors played a role in this increase, being the number of developments we completed, and the sustained strong asset prices. This resulted in the positive revaluation of the 412 properties across our 16 country-strong portfolio.

### What our portfolio looks like

The value of our direct investment portfolio has continued to rise and now totals \$7.5 billion (up from \$6.7 billion at 30 June 2015).

At financial year end, our \$7.5 billion portfolio was split into two clear segments: \$4.9 billion of cornerstone investments in the Group's managed Partnerships and \$2.6 billion in direct property investments, spread across 29 properties in Australia, the UK and Europe. A large percentage of these are in Sydney, where they play a key role in Goodman's urban renewal activities.

### Satisfying a global customer base

Last year, Goodman continued to meet the demands of a global customer base, with our overall property portfolio boasting occupancy of 96%, like-for-like rental growth of 1.9%, and \$357 million in property income from 3.4 million sqm of space leased. Throughout the year, our proven customer offering, geographically diversified operating platform and extensive infrastructure all continued to play key roles in our strongly performing portfolio.

However, we also continued to add value for our global customers by staying focused on the quality of our properties and actively managing assets across our portfolio. We undertook upgrades to existing properties and pursued higher and better use opportunities to realise greater value for our assets. We also selectively disposed of properties where value had been maximised and better value was evident elsewhere.

Our urban renewal activities and gateway city strategy are two examples of where our focus on investing in quality and location were put into practice.

### A stronger position

Maintaining our strategy of focusing on areas of urban renewal requires active management. Last year, the total value of the sites we sold and conditionally contracted was \$1.6 billion. This activity is now returning capital to Goodman, strengthening our financial position.

We also took advantage of strong asset pricing with \$2.2 billion of asset sales activity (excluding urban renewal sites) across the Group and our various Partnerships. This is consistent with our ongoing focus of improving the quality of our property portfolio and its income stream and providing capital to help develop our own new, higher quality properties.

## Property development

Goodman's development business performed strongly over the last year, benefitting from the demand for prime logistics space around the world. With development commencements of \$3.3 billion spread across 92 projects in 16 countries (67% with customer pre-commitments, and 72% pre-sold to Goodman's Partnerships or third parties), and development work in progress of \$3.4 billion, Goodman has one of the largest and most geographically diversified development businesses globally.

Looking at the global picture, the demand for prime logistics space reflects the robust domestic consumption seen in major gateway cities, which is being facilitated by the rapid growth in e-commerce. This is leading our customers' increased demand for space which is closer to the end-consumer to reduce their costs and improve delivery times. By focusing on developing in and around gateway cities, Goodman is helping our customers realise greater operating efficiencies and returns from their property solutions.

Keeping a firm eye on the future, we continued to maintain our \$10 billion development pipeline, replenishing our land bank in key locations. This is capable of delivering a forecast gross lettable area of 7 million sqm.

### Developments in progress

With 81 projects in 14 countries, equating to 2.5 million sqm of new logistics space, we saw active developments underway in all of Goodman's operating regions.

Some of the projects that make up our \$3.4 billion of development work in progress include:

- + in Sydney, a 36,870 sqm distribution centre for multinational consumer goods company, Reckitt Benckiser;
- + a 30,670 sqm warehouse and office facility in Melbourne for distributor of household brands, Spectrum Brands;
- + in Auckland, New Zealand, a 5,160 sqm warehouse expansion for food products supplier, Scalzo;
- + a 106,900 sqm built-to-suit fulfilment centre, comprising two facilities, in Huiyang, Southern China for leading Chinese e-commerce company, JD.com;
- + at Akamatsudai, Japan, a 50,865 sqm facility for Japanese third party logistics provider, Marubeni Logistics Corporation;
- + a 130,435 sqm fulfilment centre at Lahr, Germany for leading European online fashion retail platform, Zalando;
- + in Brie, France, a 21,685 sqm warehouse for multinational retailer, Carrefour;
- + a 24,000 sqm facility at Burton-on-Trent, United Kingdom for palletised freight distribution service provider, Palletforce;
- + at Eastvale in Southern California, United States, a mixed-use business park, with phase 1 comprising two 93,000 sqm logistics facilities subsequently pre-leased to Amazon; and
- + a 62,600 sqm cross-dock and sort facility at Minas Gerais, Brazil for multinational US retailer, Walmart.

## A strategic approach

Goodman continues to focus on development at this point in the property cycle, as it provides us with the best risk-adjusted returns. We are also capitalising on the Group's development capability and expertise, both of which enable us to develop our own brand new, high quality product at a yield on cost of 7.8%. This strategy provides us with a strong competitive advantage compared to having to buy similar assets in the market.

This ability to reinvest significant capital into Goodman's development business is a point of differentiation, with the Group increasingly able to self-fund its development activities.

While our strategy is important to growing future earnings, the big picture is also prudent. Risk has been mitigated via more development being undertaken in Goodman's managed Partnerships, reducing the Group's direct capital commitments. We've also limited speculative development to supply constrained markets, such as the US, Japan and China.

## Developments delivered

Over the last year, Goodman delivered \$3.2 billion of new space, totalling 2.4 million sqm across 86 projects. Developments delivered during the year include:

- + in Sydney, two facilities for a combined 58,185 sqm for global logistics services provider, DHL Supply Chain;
- + an 11,445 sqm warehouse and office development in Melbourne for leading producer of herbs and spices, McCormick Foods;
- + in Auckland, New Zealand, a 16,000 sqm head office building for dairy company, Fonterra;
- + an 85,635 sqm distribution centre, comprising two facilities for global sport apparel and equipment retailer, Decathlon, in Wuhan, China;
- + in Tokyo, Japan, Stage 1 of Goodman Business Park, comprising a 116,525 sqm ramp-up, multi-customer logistics facility;
- + a 69,130 sqm distribution centre near Augsburg, Germany for automobile manufacturer, BMW Group;
- + a 39,625 sqm fulfilment centre at St Mard, France for Cdiscount, France's leading e-commerce company;
- + at Fontana in Southern California, United States, a 59,430 sqm logistics centre, subsequently leased to Walmart; and
- + in Rio de Janeiro, Brazil, a 145,390 sqm built-to-suit facility for Brazilian retail group, Via Varejo.

## Property services

Meeting the needs of 1,750 customers across the globe is no small task, yet Goodman's Property Services teams manage to not only achieve this, but also deliver exceptional customer service.

These teams are at the frontline of our operating platform, helping us achieve this year's 96% overall occupancy across the 17.6 million sqm of logistics and business space under our management.

Our Property Services teams attend to the day-to-day property needs of customers, working proactively and consistently to ensure properties are well maintained and operate efficiently, but that's just the baseline. Our people are constantly looking for opportunities that add value for our customers, helping them meet their own changing business and operational needs.

In this respect, both the size and scale of our portfolio and our active asset management approach help us go well beyond what's expected. Throughout the last year, we assisted customers who were upgrading or expanding existing space, through refurbishment, new development or relocation within the portfolio, while helping others consolidate their space to achieve greater efficiencies.

If we look purely at the numbers, it was also a busy year. We now manage 412 industrial and business space properties, and of the 3.4 million sqm of space we leased last year, 287 new leases were signed, and 335 leases were renewed.

But while the numbers count, customer relationships are key to maintaining them. Over the last year, we were proud to have increased our customer retention rate to 79%, up from 74% at 30 June 2015.

Customers that were either welcomed during the year, or with whom we built on our existing relationships include: DB Schenker, Deutsche Post (DHL), TNT, Walmart, Amazon, Decathlon, GAP, Nestlé, Hyundai and Airbus.

## Investment management

At Goodman, we've long known our investment partners are particularly attracted to three things about us: our specialist industrial offering, our ability to create long-term value, and focus on delivering strong ongoing total returns.

During the year, we worked hard on all three, and our average total return was more than 20% across a managed Partnership platform that has \$29.3 billion of assets under management (up 16% on 30 June 2015). This figure was achieved thanks to significant development completions, as well as continued market strength in asset pricing, which has also led to our Partnership properties achieving higher market valuations.

We remained strategic in our approach to the sale of assets. Selective sales of \$1.9 billion worth of properties improved our overall portfolio quality and safeguarded our income stream. At the same time, we were able to continue offering our investment partners access to growth opportunities in prime locations that the open market can't readily access.

## New capital raised

Our investment partners showed their confidence in our business, with \$2.3 billion of new equity raised for the UK, China and Japan. \$2.4 billion of debt was raised and refinanced over the last year, lengthening our debt maturity profile, with an average debt expiry of 4.5 years.

The total investment capacity across our Partnerships at 30 June 2016 was \$10.3 billion in cash and undrawn debt and equity. This is a strong figure and ensures our investment partners can participate in the range of growth opportunities offered by both the Group and wider market.

## A year of major initiatives

There were numerous major initiatives completed over the last year. E-commerce and domestic consumption in China meant continued demand for quality logistics space, particularly in our gateway cities of Greater Shanghai and the Beijing region. As a result, Canada Pension Plan Investment Board (CPPIB) built on its existing relationship with Goodman by committing a further US\$1 billion of equity to Goodman China Logistics Partnership (GCLP). This was done in line with the Partnership's equity structure on an 80/20 basis, with US\$250 million coming from Goodman, for a total commitment of US\$1.25 billion.

Additionally, GCLP acquired a portfolio of logistics estates from Goodman Group, with an end build-out value in excess of US\$570 million. For 2017, GCLP will continue its focus on key locations, where land constraints and demand are strongest.

In 2016, we also launched the £1 billion Goodman UK Logistics Partnership between Goodman, CPPIB and APG Asset Management. Each partner committed £200 million for a one third interest respectively. The resulting combined initial equity commitment of £600 million provides investment capacity in excess of £1 billion. This will be used to secure high quality UK logistics and industrial development opportunities. The Partnership's initial portfolio comprises two developments in proven logistics locations close to London and Birmingham, totalling 55,000 sqm of new space.

There were numerous other success stories across our Partnerships. Goodman Japan Core Partnership finalised new equity commitments for US\$200 million, while the terms of the Goodman Australia Development Partnership and Goodman European Partnership (GEP) were extended by five and ten years respectively.

In Europe, GEP successfully priced an inaugural €500 million Eurobond issue on a five year term, with proceeds used to repay existing debt facilities. Separately, in New Zealand, Goodman Property Trust (GMT) successfully completed a US Private Placement debt issue, securing US\$120 million of long-term funding with a weighted average term of 12.3 years, to increase the diversity and tenor of its debt facilities. GMT also extended its retail bond programme, issuing a new NZ\$100 million senior, secured seven year bond.

# CORPORATE RESPONSIBILITY AND SUSTAINABILITY

## SUSTAINABILITY

It's been a strong year for Goodman, with our commitment to Corporate Responsibility and Sustainability (CR&S) playing a positive role in this success.

Throughout the year, we've worked hard to achieve consistency across the business to deliver our sustainability initiatives. To get there, we've built our internal knowledge and capacity, an investment which is enabling our teams to collaborate and respond to global trends such as the growth in consumerism, urbanisation and e-commerce.

Sustainability is partly about embracing innovation. The concept fits well with Goodman's drive to improve the quality of our properties, and represents just one way we are capitalising on the shifting dynamics across the logistics sector.

Our focus on sustainability also ensures we continue finding efficiencies across the business. While this is a natural fit for Goodman, it's also a key driver of our customer-focused business strategy.

Our sustainability strategy is reviewed regularly to ensure it supports, and is aligned with, Goodman's business strategy. Over the last year, we further revised our sustainability approach to deliver our activities and targets across four main areas.

1. Sustainable development – striving to improve the sustainability of our developments, through innovation and working with customers to evaluate and incorporate design initiatives.
2. Asset management – managing and investing in our assets to improve efficiency, long-term competitiveness and resilience.
3. Corporate performance – measuring our impact, improving our overall performance and engaging regularly with our key stakeholders.
4. People and community – inspiring and challenging our people, and supporting various community based groups through the Goodman Foundation.

### FY2016 Highlights:

- + Certified green developments completed in Australia, New Zealand, Japan, China, Continental Europe, the United Kingdom and the United States;
- + Over 16 MW of solar capacity now installed across Goodman's Japanese portfolio;
- + 5.5 NABERS Energy rating for Goodman's head office in Sydney;
- + Further transition to LED lighting as our standard warehouse lighting;
- + LEED-certified fitout for Goodman's Hong Kong office; and
- + Submissions to the Global Real Estate Sustainability Benchmark for seven Goodman Partnerships.

## Sustainable development

It was a busy year for our development teams, with \$3.2 billion of new developments completed across Goodman's operating regions.

Incorporating sustainable design initiatives into our industrial developments remains a challenge, as factors including functionality, location and cost remain primary decision drivers. Our approach is to get the basics right relating to site orientation, natural light, smart lighting, efficient air conditioning, rainwater capture and efficient landscaping, and then target local opportunities and priority issues.

As a long-term owner of our properties, we look for feasible design options that provide tangible benefits to our customers, enhance leasing appeal and add value to the property.

Last year, developments completed in Australia and New Zealand represented 26% of all projects completed globally. Typical sustainability features we incorporated into our Australian and New Zealand developments include:

- + Translucent roof sheeting to maximise natural lighting into the warehouse;
- + Fully automated T5 fluorescent or LED lighting;
- + Electrical sub-metering;
- + Glare control;
- + Low VOC materials;
- + Rainwater harvesting;
- + End-of-trip facilities; and
- + Drought-tolerant native landscaping.

## Case studies

### Connect Corporate Centre, Sydney, Australia

Among the developments we completed in Australia last year was Connect Corporate Centre, a new office development located in the business precinct of Mascot and only a few minutes from Sydney Airport.

This four-storey 5,600 sqm office building was designed with sustainability in mind, and is located adjacent to the new 5 Star Pullman Hotel, another Goodman development. Sustainability features include:

- + 4 Star Green Star design certification and 4.5 star NABERS Energy rating;
- + large glass façade to maximise natural light across the office floors;
- + Automated efficient lighting with sensor controls;
- + Innovative design providing flexible workspaces;
- + Substantial rainwater harvesting; and
- + End-of-trip facilities for cyclists, including bike racks, lockers and showers, and an on-site gym.

### **Oakdale Industrial Estate, Sydney, Australia**

At Goodman's Oakdale Industrial Estate in Western Sydney, a campus-style feel is attracting customers like DHL Supply Chain, who now occupy six separate facilities at the Estate, and benefit from easy access to the M4 and M7 motorways. The two new developments completed during the year for DHL Supply Chain have a combined area of 58,185 sqm and incorporate a range of sustainability features, including LED lighting throughout both of the warehouses. Other sustainability features include:

- + Over 50,000 L of rainwater harvesting capacity for irrigation and amenities;
- + Insulated warehouse walls;
- + Solar hot water heating;
- + Light zoning and motion sensors to reduce energy consumption; and
- + LED high bay lighting throughout the warehouse.

### **Goodman Business Park Chiba Newtown, Tokyo, Japan**

Sustainable developments aren't just about how buildings function, they must also consider how people use them. In Japan, Goodman's Business Park in Chiba Newtown, Tokyo was designed with comfort and customer amenity as priorities. Last year we completed Stage 1 of this master-planned, multi-stage development, where a free share bicycle service and a dedicated bus service to the nearest train station will form an important part of a dynamic mix of amenities, including retail, restaurants, café and a child care service.

The building features high quality internal areas to enhance comfort, cutting-edge LED lighting throughout the warehouse to reduce power consumption and a large 2.7 MW solar PV system on the roof to generate green energy. Sustainability features include:

- + 2.7 MW solar PV roof-top solar system;
- + LED lighting throughout warehouse and common areas;
- + High quality internal spaces and customer amenity;
- + High level of green and open space; and
- + Shared bicycle system for commuting from home/train station to the facility.

### **Fonterra Centre, Auckland, New Zealand**

It was a busy year in New Zealand. A number of new developments were completed, with a highlight being a new 16,000 sqm head office for Fonterra in Auckland. Working in collaboration with Fonterra, Goodman delivered a 5-Star, Green Star purpose-built office complex that is modern, comfortable, innovative and highly sustainable.

Sustainability is woven throughout the design. A large double-glazed atrium fills the building with natural light, while a variety of workspaces and an internal staircase encourage collaboration across the activity-based work environment. Sustainability features include:

- + 5 Star Green Star Design certification;
- + Large atrium and skylight contributing to good natural light levels;
- + Outdoor air supplied from exposed stainless ducts on the north and south external elevations;
- + Internal green wall irrigated from harvested rainwater; and
- + Property Council NZ 'Excellence' award in commercial category and 'Merit' in the green building category.

Sustainability remained a strong focus in our UK developments last year, with our development team staying committed to achieving a minimum BREEAM rating of 'Very Good' for each of its new developments.

One project which met this goal in the last twelve months was our 25,000 sqm Angle 265° at Medway Commercial Park in Kent. This high quality logistics facility incorporates a carbon neutral cladding solution and electric car charging points, which helped it achieve a BREEAM rating of 'Very Good' and an Energy Performance Certificate 'A' rating.

Last year, our UK development team also progressed its first development assessment under the "Planet Mark" scheme. This independent third party scheme provides an assessment of the carbon footprint for a new development throughout its life cycle.

In the United States, over 167,000 sqm of new developments were completed throughout the year, while over 200,000 sqm were in progress at 30 June 2016. One of these completed developments is the LEED-certified Goodman Commerce Center Eastvale, Southern California, where electric vehicle charge points, drought-tolerant landscaping, prismatic skylights to maximise natural lighting and LED lighting are all featured.

In Continental Europe, consistency and our commitment to quality were key themes. This continued focus has ensured our development product is highly regarded in the European market, most notably within the e-commerce sector, where Goodman has now delivered in excess of 1.5 million sqm of space.

To ensure our properties remain highly competitive, our development teams take a customer-focused approach, collaborating with them to deliver innovative and sustainable property solutions. The recently completed 28,000 sqm logistics property developed for eBay Enterprise at Goodman Halle Logistics Centre in Germany is one such example.

The facility achieved a Gold rating under the DGNB rating scheme and incorporates a range of sustainable design features including an innovative timber roof structure, energy efficient fluorescent lighting, efficient internal heating and native plants and landscaping to reduce water consumption.

In China's booming logistics market, Goodman has remained focused on quality and consistency. We've incorporated fundamental sustainability initiatives into each of our developments, including the landmark Goodman Qingpu Centre in Shanghai.

Completed in December 2015, the Qingpu Centre is Goodman's first three-storey distribution facility in China. The 110,000 sqm logistics property is currently targeting LEED certification, and incorporates multiple sustainability features, including skylights across approximately 4% of the roof area, providing natural light throughout the warehouse. The skylights are just one way the building is reducing its energy consumption, and will be especially effective when partnered with the energy efficient T5 lighting installed in the warehouse.

## Leading by example

In Hong Kong, our team moved into its new green office space, where Goodman's 'Space To Work' principles were put into practice. The activity-based fitout features a variety of work spaces, with collaborative sections, private areas, formal spaces and relaxed work spaces all designed in to the build.

The result is flexible, but it's also sustainable. The new office has been designed to achieve the LEED Gold Standard (Commercial Interiors) and incorporates LED lighting with motion sensors, drinking water filtration and an air purification system. We've also used locally sourced and sustainable materials internally.

## Improving performance

Goodman has always seen the performance, presentation and efficiency of our properties as a core priority. Over the last year, we have maintained that focus across the globe.

In Australia, we've seen the results of several lighting upgrades completed over the past few years, particularly in car park and estate common areas. The business case for lighting upgrades continued to strengthen, driven by the reduction in energy costs for our customers, the lower cost of LED technologies, lease renewals and long-term asset valuations.

Once again, the Buildings Alive energy monitoring system has produced positive results across our Australian office portfolio over the last year. This system tracks live energy consumption data across the portfolio and contributed to a 5% reduction in energy consumption across our office portfolio during the last twelve months.

In New Zealand, we transformed Show Place Office Park in Christchurch into a highly sustainable and energy efficient office asset. The upgrade aimed to both reduce operational costs and the building's carbon footprint, to create a healthier environment for staff. It worked. This successfully achieved an approximate 40% reduction in energy consumption and New Zealand's first 5 star NABERS Energy whole building rating. Key sustainable features include a Variable Refrigerant Flow HVAC system with heat recovery, CO<sub>2</sub> sensors, LED lighting, daylight harvesting and occupancy sensors.

In Asia, our Property Services team in Hong Kong participated in the Power Smart Programme, which aimed to increase awareness and identify improvement opportunities across the Hong Kong portfolio. When we implemented the results, seven Goodman properties recorded energy reductions of 5% or more.

The improvements continued on projects outside of the scope of the Power Smart Programme. LED lighting upgrades with sensor controls at Goodman's Tuen Mun Distribution Centre and the Western Plaza were just one example, a move estimated to save approximately HK\$750,000 p.a. in energy costs across the two properties.

In Continental Europe, we also focused on lighting, by continuing upgrades to LEDs across our portfolio. Several upgrade projects were completed during the year, and once complete, our European portfolio will consist of approximately 1 million sqm of space equipped with LED lighting.

Shorter term, these upgrades will reduce our customers' energy consumption and associated energy costs, while long term they will increase leasing competitiveness and property values.

### Renewable energy in Japan

The market conditions in Japan support investment in renewable energy on the roof tops of our buildings. Last year we installed a further 2.7 MW of solar PV capacity on the roof of the recently completed Goodman Business Park at Chiba Newtown, Tokyo.

This latest installation increases Goodman's solar PV capacity in Japan to over 16 MW of renewable energy.

### Australian greenhouse gas emissions

The year saw a decrease in greenhouse gas emissions for Goodman's Australian operations. The reduction in emissions to an estimated 39,548 tCO<sub>2</sub>-e was mainly due to further sub-metering of customer power consumption, increased efficiencies across the portfolio, and asset sales completed during the year.

Our calculation includes scope 1 and 2 emissions generated from Goodman's Australian property and building management services, as well as assets owned directly by Goodman and those within our Australian managed Partnerships. Where sub-metering allows, this does not include the GHG emissions of our customers.

### THE GOODMAN FOUNDATION

The Goodman Foundation has continued to grow over the last year, delivering significant strategic projects to support disadvantaged groups and vulnerable communities in the locations where we operate. The Goodman Foundation is represented across Australia, New Zealand, Greater China, the United Kingdom, France, Belgium, Germany, Poland, Japan and the United States.

Many of our community partners not only benefit from receiving Foundation cash grants, but also through fundraising and volunteer support from Goodman staff. During 2016, the Goodman Foundation supported over 70 charity partners within five distinct pillars of contribution:

- + Cash grants: Which are provided on a project-by-project basis to ensure tangible outcomes that will deliver a meaningful impact within the community. We work closely with our charitable partners to identify, scope and deliver capital projects that will build the capacity of the organisation or enhance the lives of people less privileged around the world;
- + In-kind contributions: Include the provision of skilled expertise, office fitouts and the provision of short-term and long-term warehouse and office facilities for our charitable partners;
- + good+heart: Which is a staff engagement programme where the Goodman team are provided with the opportunity to volunteer with a partnered charity or undertake other activity to support the fundraising efforts of a community partner. Over the 2016 year, more than 50 good+heart opportunities were taken up by close to half of the Goodman Group team around the world. The Goodman Foundation provides support to participants of good+heart by funding the activity costs, making a cash donation to the cause and providing participants with time off work, in addition to sourcing and organising opportunities for their participation throughout the year;
- + good+deeds: Is our workplace giving programme. The Goodman Foundation will match dollar for dollar the payroll donations made by team members to charities they have nominated. In addition, special purpose good+deeds fundraising is undertaken to support communities in times of crisis such as the devastation caused by natural disasters. In 2016, good+deeds fundraising supported the refugee crisis impacting Syria and the communities in Fiji following the destruction caused by Cyclone Winston; and
- + Employee fundraising: Is undertaken by the Goodman team for particular causes they feel passionate about, supporting the efforts of the Goodman Foundation and participating in other worthwhile opportunities to make a difference in a meaningful way. Fundraising activities during the year ranged from 'Fruity Fridays' to the Goodman 'Bake Off'.

## OzHarvest: A royal visit

The Goodman Foundation was proud to see one of our founding charitable partners OzHarvest, receive a royal visit by Her Royal Highness The Duchess of Cornwall in November 2015.

The Duchess arrived at the purpose-built Goodman warehouse in Alexandria, South Sydney and was greeted by a contingent from Goodman and OzHarvest, along with many OzHarvest volunteers dressed in their distinct bright yellow.

During the visit, The Duchess, along with Mrs Kerryn Baird, wife of NSW Premier The Hon Mike Baird, was shown the unique Goodman space. This was designed and funded by the Goodman Foundation in 2014, where OzHarvest's purpose to 'Nourish Our Country' comes to life through their food rescue, nutrition education and community engagement programmes.

Her Royal Highness chose to visit OzHarvest to see their innovative work in food rescue and food security, having saved more than 14 million kilograms of food from ending up in landfill and delivering more than 50 million meals to people in need across Australia.

During the visit, The Duchess met with young students from troubled backgrounds, who are changing their lives through OzHarvest's Nourish programme. Her Royal Highness also thanked the more than 100 OzHarvest supporters who were present at the distinguished occasion, for their passion, dedication and commitment to improving the environment and helping those less fortunate in the community.

"We are honoured that The Duchess could experience and witness first-hand how we 'Nourish Our Country' through our food rescue, education and engagement programmes. To take the time on her trip to visit our fantastic warehouse HQ, provided with love by Goodman in Alexandria, and to learn more about what OzHarvest does, what we have achieved to date, and to share it with the world will make an enormous difference to our organisation and to the people who we touch every single day through the act of generosity.", Ronni Kahn, CEO and Founder, OzHarvest, said.

## Cerebral Palsy Alliance: September

The Goodman Foundation is the exclusive global partner in 2016 for Cerebral Palsy Alliance's major fundraising initiative, September. The new partnership builds on our ongoing global support of the September event since 2014 and we're proudly promoting this through our 'Count Us In' campaign. This is an inclusive and engaging campaign created to encourage our staff and business partners, such as customers, agents and suppliers, to make a meaningful difference and positively impact the lives of people with cerebral palsy and their families.

September is an online health and wellness campaign where teams of four attempt to walk 10,000 steps each day throughout September. The initiative will engage around 90,000 participants across the world and has raised over \$9.3 million in Australia and close to \$12 million globally since it was launched in 2010. Fundraising targets for 2016 have been set at A\$5 million and Goodman has mobilised more than half of its global workforce and influenced many of our associated business partners to join us in the pursuit of this leading health and wellness charity event.

In addition, the Goodman Foundation provided funding to Cerebral Palsy Alliance in 2016 to renovate their Ryde facility including the installation of a gymnasium to support the health and well-being services offered to their clients.

Rob White, CEO, Cerebral Palsy Alliance said, "I would like to personally recognise and thank Goodman for their long standing support and contribution to Cerebral Palsy Alliance and September. Our partnership with Goodman began some 13 years ago, and I am delighted that Goodman has extended their support this year as exclusive global partner for September 2016. Over the years, Goodman has been instrumental in helping us raise vital funds to support our mission to build better futures for individuals living with disability".



## DIVERSITY

Goodman's Diversity Strategy aims to create an inclusive and transparent work environment that is free of harassment and discrimination, where all employees can contribute equally to our commercial goals. We operate in geographically and culturally diverse markets and we recognise and celebrate the differences that exist in them. We also take the Goodman Corporate Values seriously and strive to blend these behaviours into the way we interact every day with each other, our customers and investors.

### Gender representation

Our Diversity Strategy not only recognises the differences in people but also considers the career development of all employees. However, an important long-term objective is to increase the representation of female employees at senior management levels in all regions.

As an important step towards this, in 2013 we set aspirational targets for women in senior executive roles. In contrast with previous years, the number of women in senior executive roles at Goodman slightly decreased in the 2016 financial year.

We consider employees one level below the executive category to be the future leaders of the business and the female representation of this group remained constant in 2016.

We see the path to increased female representation at executive levels within Goodman as being a combination of targeted recruitment, developing the skills of managers to coach and mentor, and creating a work culture that encourages people to fully develop their skills.

### Recent highlights

#### Relaunched the Goodman Values

Over the past twelve months we have relaunched our Corporate Values through an internal communications programme, entitled "Success is in our GNA". The purpose of the programme is to generate greater awareness and understanding of our Values with the view to driving continuous improvement by ensuring greater alignment between our Values and behaviours, both internally and externally. The programme has been rolled out globally to all employees via an integrated communications programme which will continue to evolve through various phases. We recently conducted Global Brand Research among our key internal and external stakeholders, the results of which were very good and demonstrated a good understanding of the Values among staff. We are now using the findings of this report to help shape the future direction of the programme.

Goodman's Values centre around respect, appreciating each other's contribution, recognising differences between people, working as a team, demonstrating drive and determination, being customer focused and innovative, but all against a context of being honest, fair and clear with one another. How an employee demonstrates these behaviours is now part of the performance review process and we have made sure that our expectations are clearly displayed and referred to in actions and words.

#### Improved performance management

The effectiveness of our performance management system to assess employees' performance against their objectives was also upgraded and improved during the year. Employees were strongly encouraged to outline their career aspirations and create plans to achieve them. The usage of the performance management platform has been greater than before, as a better process means better outcomes for employees. In 2017, we plan to link a wider talent management platform to the performance management platform. The Values represent a portion of the overall review to reinforce their importance.

## INTERNAL COMMUNICATIONS

### Reviewed our career progression programme

We consulted with participants to review our Future+Women programme in Australia to help it better address barriers to women's career progression. We made changes to allow women to more effectively drive their own career development and to access one-on-one coaching. We stress the importance of employees managing their own career development and proactively seeking assistance.

### Boosted management skills

Following its successful introduction in Australia in 2015, Maximise, a structured management development programme, was launched in China during the year. Among other skills, Maximise encourages senior managers to consider geographical and cultural diversities in relation to how they manage teams, while also focusing on mentoring and conducting effective performance reviews. Our Continental Europe business is well advanced in delivering structured management development, through both internal and external training.

### Implemented online learning

We implemented more online learning through Lynda.com, where employees can access a diverse range of work related training, including presentation skills, technical skills and other critical elements of the way we work here at Goodman. We now define learning by it being technical, skills based or compliance related so that we are clear about what is required. This will continue to evolve over the coming years.

Our employment policies were reviewed to ensure barriers to participation are minimised through policies such as parental leave and flexible work. Flexible work arrangements are growing more common at Goodman and are reinforced by our 'Space To Work' office model. This includes providing employees with the appropriate technology and tools to allow them to work efficiently and seamlessly outside the office.

### Strengthened alignment between performance and reward

We also continued to align performance and reward, and have a long-term scheme that all employees around the world participate in. We strive to ensure that no fixed remuneration disparity exists for male and female employees doing the same job, and use incentive compensation to drive people to succeed.

## CORPORATE GOVERNANCE

Goodman's Corporate Governance Statement can be viewed on our website at <http://www.goodman.com/about-us/corporate-governance/statement>

# GOODMAN LIMITED AND ITS CONTROLLED ENTITIES

CONSOLIDATED FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2016

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# DIRECTORS' REPORT

The directors (Directors) of Goodman Limited (Company) present their Directors' report together with the consolidated financial report of the Company and the entities it controlled (Goodman or Consolidated Entity) at the end of, or during, the financial year ended 30 June 2016 and the audit report thereon.

Shares in the Company, units in Goodman Industrial Trust (GIT) and CHESS Depository Interests (CDIs) over shares in Goodman Logistics (HK) Limited (GLHK) are stapled to one another and are quoted as a single security on the Australian Securities Exchange (ASX).

## Principal activities

Goodman is a global integrated property group and one of the world's leading listed industrial property groups. Goodman is focused on its proven business model of owning, developing and managing industrial property and business space in key markets around the world.

The principal activities of Goodman during the course of the current financial year were investment in directly and indirectly held industrial property, property services, property development (including development management) and investment management. The principal markets in which the Consolidated Entity operated during the financial year were Australia and New Zealand, Asia, Continental Europe, United Kingdom and the Americas.

## Directors

The Directors at any time during, or since the end of, the financial year were:

Directors	Appointment date
Mr Ian Ferrier, AM (Independent Chairman)	1 September 2003
Mr Gregory Goodman (Group Chief Executive Officer)	7 August 1998
Mr Philip Fan (Independent Director)	1 December 2011
Mr John Harkness (Independent Director)	23 February 2005
Ms Anne Keating (Independent Director)	23 February 2005
Ms Rebecca McGrath (Independent Director)	3 April 2012
Mr Philip Pearce (Managing Director, Greater China)	1 January 2013 (resigned 12 July 2016)
Mr Danny Peeters (Executive Director, Corporate)	1 January 2013
Mr Phillip Pryke (Independent Director)	13 October 2010
Mr Anthony Rozic (Deputy Group Chief Executive Officer)	1 January 2013
Mr Jim Sloman, OAM (Independent Director)	1 February 2006

Details of the Directors' qualifications and experience are set out on pages 40 to 43 in this Directors' report.

## Company Secretary

The Company Secretary at any time during, or since the end of, the financial year was:

Company Secretary	Appointment date
Mr Carl Bicego	24 October 2006

Details of the Company Secretary's qualifications and experience are set out on page 43 in this Directors' report.

## Directors' meetings

The number of Directors' meetings held (including meetings of committees of Directors) and the number of meetings attended by each of the Directors during the financial year were:

Directors	Board meetings		Audit Committee meetings		Remuneration and Nomination Committee meetings		Risk and Compliance Committee meetings	
	Held <sup>1</sup>	Attended <sup>2</sup>	Held <sup>1</sup>	Attended	Held <sup>1</sup>	Attended	Held <sup>1</sup>	Attended
Mr Ian Ferrier	11	11	4	4	3	3	–	–
Mr Gregory Goodman	11	11	–	–	–	–	–	–
Mr Philip Fan	11	11	4	4	–	–	4	4
Mr John Harkness	11	11	4	4	–	–	4	4
Ms Anne Keating	11	10	–	–	3	3	4	4
Ms Rebecca McGrath	11	11	–	–	3	3	4	4
Mr Philip Pearce <sup>3</sup>	11	10	–	–	–	–	–	–
Mr Danny Peeters	11	10	–	–	–	–	–	–
Mr Phillip Pryke	11	11	4	4	3	3	–	–
Mr Anthony Rozic	11	9	–	–	–	–	–	–
Mr Jim Sloman	11	11	–	–	3	3	4	4

1. Reflects the number of meetings individuals were entitled to attend.

2. Each Director attended every scheduled meeting. Several additional meetings were held on short notice for which some Directors were unable to attend. However, they were able to review papers and provide their input into the meeting. At all times, there was a majority of independent Directors at all meetings.

3. Mr Philip Pearce resigned as a Director on 12 July 2016.

## Operating and financial review

### Goodman strategy

Goodman's vision is to be a global leader in industrial property. This vision is executed through the integrated own+develop+manage business model, which are supported by five strategic pillars. These pillars are:

- + **Quality partnerships** – develop and maintain strong relationships with key stakeholders including customers, investment partners, suppliers and employees;
- + **Quality product and service** – deliver high quality product and customer service in key logistics markets globally by actively leveraging Goodman's industrial sector expertise, development and management experience and global operating platform;
- + **Culture and brand** – promote Goodman's unique and recognisable brand and embed Goodman's core values across each operating division to foster a strong and consistent culture;
- + **Operational efficiency** – optimise business resources to ensure effectiveness and drive efficiencies; and
- + **Capital efficiency** – maintain active capital management to facilitate appropriate returns and sustainability of the business.

### Integrated business model



## Financial highlights

	Consolidated		
	2016	2015	% Change
Revenue and other income before fair value adjustments on investment properties (\$M)	2,069.6	1,618.7	27.9
Fair value adjustments on investment properties including share of adjustments for associates and joint ventures (\$M)	874.4	737.9	18.5
Revenue and other income (\$M)	2,944.0	2,356.6	24.9
Profit attributable to Securityholders (\$M)	1,274.6	1,208.0	5.5
Total comprehensive income attributable to Securityholders (\$M)	1,278.4	1,408.0	(9.2)
Operating profit (\$M)	714.5	653.5	9.3
Basic profit per security (¢)	72.0	69.2	4.0
Operating profit per security (operating EPS) (¢) <sup>1</sup>	40.1	37.2	7.8
Dividends/distributions in relation to the financial year (\$M) <sup>2</sup>	425.8	388.3	9.7
Dividend/distribution per security in relation to the financial year (¢) <sup>2</sup>	24.0	22.2	8.1
Weighted average number of securities on issue (M)	1,770.3	1,745.3	1.4
Total equity attributable to Securityholders (\$M)	8,067.5	7,050.3	14.4
Number of securities on issue (M)	1,778.3	1,753.0	1.4
Net tangible assets per security (\$)³	4.10	3.46	18.5
Net assets per security (\$)³	4.54	4.02	12.9
Gearing (%)⁴	11.8	17.3	(31.8)
Liquidity (\$M)	2,552.2	1,793.3	42.3
Weighted average debt maturity (years)	4.4	4.7	(6.4)

1. Operating profit per security (operating EPS) is the operating profit divided by the weighted average number of securities on issue during the year ended 30 June 2016 (FY16), including securities relating to performance rights that have not yet vested but where the performance hurdles have been achieved.
2. Dividend/distribution per security includes a dividend of 1.0 cent per security amounting to \$17.8 million declared by GLHK on 11 August 2016. While this dividend is in relation to the Consolidated Entity's FY16 performance, it will only be accounted for in the year ending 30 June 2017 (FY17).
3. Net tangible assets and net assets per security are stated after deducting amounts due to other non-controlling interests.
4. Gearing is calculated as total interest bearing liabilities over total assets, both net of cash and the asset component of the fair values of cross currency interest rate swaps used to hedge foreign liabilities denominated in currencies other than those to which the proceeds are applied equating to \$258.2 million – refer to note 13 to the consolidated financial statements.

## Operating profit

Operating profit comprises profit attributable to Securityholders adjusted for net property valuations gains, non-property impairment losses, net gains/losses from the fair value movements on derivative financial instruments and unrealised foreign exchange movements on interest bearing liabilities and other non-cash adjustments or non-recurring items. While operating profit is not an income measure under International Financial Reporting Standards, the Directors consider it is a useful means through which to examine the underlying performance of the Consolidated Entity.

The Consolidated Entity reports an operating profit of \$714.5 million for FY16, a 9.3% increase on the prior year, which equates to an operating EPS of 40.1 cents, up 7.8% on the prior year. Goodman continues to benefit from its globally diversified platform, with international operations contributing 59% of operating earnings before interest and tax and unallocated operating expenses.

In relation to investment activities, asset rotation continued during FY16, with \$3.0 billion being realised from disposals, including urban renewal settlements. These proceeds have been used to pay down debt and also to provide funding for developments, which have improved the overall quality of the portfolios. During FY16, development completions

and valuations in the managed partnerships have more than offset the impact of asset rotation, such that the book value of Goodman's portfolios increased to over \$34 billion at 30 June 2016. Property fundamentals remain sound, with occupancy levels maintained at 96% and ongoing rental growth in most of Goodman's markets. As a consequence, investment earnings before interest and tax (EBIT) for the year increased by \$12.0 million to \$406.6 million.

Development activities were again a strong driver of earnings growth and development EBIT for the year increased by \$109.5 million to \$366.1 million. This was facilitated by the funding from asset rotation in Goodman's managed partnerships as well as further investment in those partnerships by Goodman's global investment partners. Growth has been particularly strong in Continental Europe and North America, which represented 52% of Goodman's development commencements in FY16. At 30 June 2016, Goodman's development work in progress had increased to \$3.4 billion.

Management activity levels also remained strong in FY16, with external assets under management (AUM) increasing by 16% to \$29.3 billion, as development completions and growth in asset pricing more than offset the impact of asset rotation. Management EBIT for the year increased by \$41.1 million to \$166.3 million.

## Statutory profit

Goodman's statutory profit attributable to Securityholders for FY16 is \$1,274.6 million, an increase of \$66.6 million compared with the prior year. The items that reconcile Goodman's operating profit to the statutory profit include net property valuation gains and intangible asset impairments, net gains/ losses from the fair value movements on derivative financial instruments and unrealised foreign exchange movements on interest bearing liabilities and other non-cash adjustments or non-recurring items, which mainly relate to Goodman's Long Term Incentive Plan (LTIP), profit on disposal of investment properties and the transfer of currency losses from the foreign currency translation reserve to the income statement on the restructure of the Brazil operations (refer to note 21).

The reconciliation of operating profit to profit attributable to Securityholders for FY16 is set out in the table below:

		<b>Consolidated</b>	
	<b>Note</b>	<b>2016 \$M</b>	<b>2015 \$M</b>
<b>Operating profit</b>		<b>714.5</b>	<b>653.5</b>
<b>Adjustments for:</b>			
<b>Property valuation gains and impairments of intangible assets</b>			
– Net gain from fair value adjustments on investment properties	6(e)	327.8	515.9
– Share of net gains from fair value adjustments attributable to investment properties in associates and joint ventures after tax	2	546.6	222.0
– Impairment losses	2	(249.1)	(28.2)
– Deferred tax on fair value adjustments on investment properties		(20.4)	–
<b>Total property valuation gains and impairments of intangible assets</b>		<b>604.9</b>	<b>709.7</b>
<b>Derivative mark to market and unrealised foreign exchange movements</b>			
– Fair value adjustments on derivative financial instruments	11	106.1	53.6
– Share of fair value adjustments on derivative financial instruments in associates and joint ventures	2	5.6	6.6
– Unrealised foreign exchange losses	11	(30.2)	(160.0)
<b>Total derivative mark to market and unrealised foreign exchange movements</b>		<b>81.5</b>	<b>(99.8)</b>
<b>Other non-cash adjustments or non-recurring items</b>			
– Share based payments expense	2	(66.9)	(51.0)
– Net capital losses not distributed and tax deferred adjustments		(68.1)	(5.2)
– Profit on disposal of investment properties		9.5	–
– Straight lining of rental income		(0.8)	0.8
<b>Total other non-cash adjustments or non-recurring items</b>		<b>(126.3)</b>	<b>(55.4)</b>
<b>Profit attributable to Securityholders</b>		<b>1,274.6</b>	<b>1,208.0</b>

The most significant property valuation gains relate to Goodman's urban renewal activities in the Australia division, where assets have been externally valued to reflect their highest and best use following changes in zoning. Valuation gains have been recorded in most of Goodman's divisions as strong investment markets have favourably impacted asset pricing. An impairment of intangible assets of \$204.6 million relates to the management rights in the United Kingdom – Business Parks division, which have been fully impaired as a result of the decision to sell the assets in the Arlington Business Parks Partnership (ABPP).

The statutory profit includes unrealised fair value gains of \$106.1 million on derivative financial instruments (of which \$66.3 million relates to foreign currency translation impacts) and \$30.2 million of unrealised foreign exchange losses on interest bearing liabilities. Therefore the net foreign currency impact reported in the income statement is a \$36.1 million gain. However, offsetting this in the consolidated statement of comprehensive income is a net loss of \$33.4 million relating to the foreign currency translation of the net assets of foreign operations, which is booked in reserves and not recognised in statutory profit attributable to Securityholders.

This situation arises because Goodman's policy is to hedge between 65% and 90% of the net assets of these foreign operations. Where the Consolidated Entity invests in foreign assets, it will borrow in that currency or enter into derivative financial instruments to create a similar liability. In so doing, the Consolidated Entity minimises its net asset and income exposures to those currencies. The unrealised fair value movement of the derivative financial instruments (up or down) is recorded in the income statement; however, the foreign currency translation of the net investment that is being hedged is recorded directly in reserves.

### Analysis of business unit performance

Goodman's operational performance may be analysed into investment earnings, development earnings and management earnings.

Investment earnings comprise gross property income, net of property expenses, the Consolidated Entity's share of the operating results of managed partnerships for those investments in entities whose principal activity is property investment and distributions the Consolidated Entity receives from its investments in other financial assets. The key drivers for maintaining or growing Goodman's investment earnings are increasing the level of AUM (subject also to Goodman's direct and indirect interest), maintaining or increasing occupancy and rental levels within the portfolio, and changes in financing arrangements. An increase in the level of AUM is also linked to development activity and management activity described hereafter.

Development earnings comprise development income (including development management fees), income from sales of properties (primarily inventories but also including investment properties under development and disposals of special purpose entities) and the Consolidated Entity's share of the operating results of managed partnerships for those partnerships whose principal activity is property development, net of development expenses, inventory cost of sales and employee and administrative expenses. The key drivers for Goodman's development earnings are the level of development activity and development margins, the continued availability of third party capital to fund development activity and, to some extent, property valuations.

Management earnings comprise investment management and property services fees, net of employee and administrative expenses. The key drivers for maintaining or growing management earnings are activity levels, asset performance, and increasing the level of AUM, which can be impacted by property valuations and is also dependent on the continued availability of third party capital to fund both development activity and acquisitions across Goodman's managed partnerships.

	Consolidated	
	2016 \$M	2015 \$M
<b>Analysis of operating profit</b>		
Investment	406.6	394.6
Management	166.3	125.2
Development	366.1	256.6
Unallocated operating expenses	(60.3)	(59.3)
Operating profit before net finance expense and income tax expense	<b>878.7</b>	<b>717.1</b>
Net finance expense (operating) <sup>1</sup>	(88.9)	(21.4)
Income tax expense <sup>2</sup>	(55.2)	(21.0)
	<b>734.6</b>	<b>674.7</b>
Less: Attributable to non-controlling interests	(20.1)	(21.2)
<b>Operating profit</b>	<b>714.5</b>	<b>653.5</b>
Interest cover <sup>3</sup> (times)	5.5	6.0

1. Net finance expense (operating) excludes derivative mark to market and unrealised foreign exchange movements.
2. Income tax expense excludes the deferred tax movements relating to investment property valuations.
3. Interest cover is operating profit before net finance expense and income tax (EBIT) divided by net finance expense (before capitalised borrowing costs).



## Investment

The investment business performed in line with expectations resulting in investment operating EBIT of \$406.6 million, an increase of 3.0% compared to the prior year. The investment business comprises 43% of total operating EBIT before unallocated operating expenses (2015: 51%).

During FY16, Goodman experienced sound underlying property fundamentals across its operating divisions. Like for like rental growth was 1.9% and robust leasing activity resulted in 3.4 million square metres of space being leased across the portfolio globally, equating to \$356.5 million of annual net property income. A feature of the leasing success was the level of pre-leasing activity on uncommitted developments in a number of Goodman's markets, including China, Japan and the United Kingdom, which resulted in 84% of developments pre-committed on completion. Additionally, retention rates for existing customers remained high at 79%. This has ensured that overall occupancy was maintained at 96%, with the weighted average lease expiry at 4.7 years.

Total AUM increased to over \$34 billion as at 30 June 2016, predominantly driven by \$3.2 billion of development completions and increased valuations. The current low interest rate environment is driving the ongoing demand and stronger pricing of property assets and this has been reflected in Goodman's total investment return for FY16 of 18.7%. For the managed partnerships, the total investment return in FY16 was greater than 20%.

Goodman has continued to take advantage of the market demand for industrial property assets with further selective asset rotation across most of its operating divisions. Goodman and its managed partnerships disposed of \$2.2 billion of property assets (excluding urban renewal sites) in FY16, the most significant disposals being in Australia and Continental Europe. This is providing capital for reinvestment into new assets arising from the development opportunities sourced from Goodman's own development business, improving overall portfolio and income quality.

In regard to Goodman's urban renewal strategy, \$0.8 billion of sites in Sydney have now settled, with a further \$1.0 billion of settlements expected in FY17.

### Property valuations

The strength of investment markets in most of Goodman's regions resulted in Goodman's share of property valuation gains being in excess of \$0.8 billion, with the weighted average capitalisation rate tightening from 7.0% to 6.4% during FY16. Approximately 33% of the property valuation gains arose from the valuations of urban renewal properties in Australia.

## Development

Goodman's development business continued to be a key driver of outperformance, with significant activity across all the operating divisions benefiting from the demand for prime, well-located logistics space. Development EBIT was \$366.1 million, an increase of 42.7% compared to the prior year, and comprises 39% of total operating EBIT before unallocated expenses (2015: 33%). Goodman's development work in progress (including managed partnerships) increased to \$3.4 billion (based on end value) across 81 projects in 14 countries with a forecast yield on cost of 7.8%. This reflects the robust underlying domestic consumption in major global gateway cities; growth in e-commerce and other ongoing structural changes; and customer focus on increasing operational and supply chain efficiencies.

Key highlights for FY16 include North America, which now contributes 12% of the Consolidated Entity's development work in progress, with 367,000 square metres of new project commencements in FY16. This contribution will continue to increase with development activity growing in response to customer demand, which is driving the division's development and investment pipeline towards US\$3 billion.

Continental Europe was also a key contributor to Goodman's development revenue growth and continues to perform strongly, with occupancy at 98%. Significant customer demand for new developments resulted in commencements of 920,000 square metres with 90% pre-committed. Europe and the Americas represented 52% of development commencements in FY16.

In China, Goodman completed the transfer of the majority of its land bank and developments to Goodman China Logistics Partnership (GCLP) in the first half of FY16 and the approach remains focused on selective, quality developments in targeted economic centres, with strong ongoing demand for quality logistics space from e-commerce and third party logistics customers. In Japan, following the pre-leasing success of Stage 1 of Goodman Business Park, Chiba, the focus is on the further build out of the site, with the development of Stage 2 comprising 125,000 square metres. Stage 1 has been acquired by Goodman Japan Core Partnership (GJCP) subsequent to the end of the financial year.

In the United Kingdom, Goodman UK Partnership's develop-to-hold strategy is progressing well, with the first two developments totalling 55,000 square metres reaching completion in FY16.

Finally, with 100% ownership of the Brazil operating platform secured during the second half of FY16, Goodman will pursue its strategy of creating and growing a platform with investment partners, in line with its global model. This will focus on undertaking selective logistics developments in the key São Paulo and Rio de Janeiro markets, and targeted investment or value add opportunities.

## Management

During FY16, the management division contributed revenue of \$259.7 million, which included base management fees, performance fees and fees from transactional activity, and operating EBIT of \$166.3 million. Management EBIT increased 32.8% compared to the prior year and in FY16 comprised 18% of total operating EBIT before unallocated expenses (2015: 16%).

The size and scale of Goodman's management operations are important for revenue growth and during the year external AUM increased by 16% from \$25.2 billion to \$29.3 billion. This growth reflected both valuation uplifts and development completions and was notwithstanding the asset rotation initiatives undertaken across the platform. In FY16, the managed partnerships completed \$1.9 billion of asset disposals, which has provided a significant source of capital for the develop-to-hold strategy that has been widely implemented across the managed partnership platform.

Investment partners are attracted by Goodman's proven ability to drive strong ongoing total returns and deliver long-term value creation. The develop-to-hold strategy continues to improve the overall portfolio quality and therefore the maintainability of rental income, with Goodman's investment partners gaining access to growth opportunities in prime locations that are not typically available on the open market. In FY16, the continued support of global investment partners has been demonstrated by the following achievements:

- + Goodman UK Partnership (GUKP) was established with APG Asset Management and Canada Pension Plan Investment Board (CPPIB). The partnership will provide over £1 billion of investment capacity for high quality logistics and industrial opportunities in the United Kingdom;
- + Goodman and CPPIB committed a further equity allocation of US\$1.25 billion into GCLP;
- + Goodman Australia Development Partnership (GADP) with CPPIB was extended for a further 5 years;
- + The first close of GJCP's equity raising was well supported by existing and new investors, with US\$200 million raised to help fund the acquisition of new development opportunities from Goodman Japan Development Partnership (GJDP); and
- + Goodman European Partnership (GEP) was extended for a further 10 years.

## Operating costs

The Consolidated Entity has continued to review its operations for efficiencies, with headcount maintained in most regions and new hires targeted at growth markets in Greater China and North America.

## Net finance expense (operating)

Net finance expense (operating), which excludes derivative mark to market and unrealised foreign exchange movements, increased compared to the prior year, principally for two reasons. The first is the impact of currency translation on the interest costs from Goodman's US dollar and Japanese yen denominated debt and the second is the lower level of capitalised interest, due to the increase in development activity undertaken directly by the managed partnerships' rather than by Goodman.

## Capital management

Goodman has maintained its prudent approach to capital management.

Gearing at 30 June 2016 decreased to 11.8% (30 June 2015: 17.3%), facilitated by the receipt of \$0.8 billion proceeds from urban renewal disposals, and interest cover for FY16 was 5.5 times (2015: 6.0 times), providing significant headroom relative to the Consolidated Entity's financing covenants. Lower gearing targets are deemed appropriate by Goodman given the growth in development activity.

In FY16, \$3.1 billion of facilities with an average term of 4.5 years were procured or renewed across Goodman and its managed partnerships. At 30 June 2016, Goodman had available liquidity of \$2.6 billion and had a weighted average debt maturity profile of 4.4 years, with debt maturities fully covered up to June 2021.

As a consequence of Goodman's strong cash position, the distribution reinvestment plan is no longer in operation and the final dividend/distribution is 12.1 cents per security. The total dividends/distributions in relation to FY16 are 24.0 cents per security, with an interim distribution of 11.9 cents per security having been paid in February 2016.

## Statement of financial position

	Consolidated	
	2016 \$M	2015 \$M
Stabilised investment properties	2,552.5	2,709.6
Cornerstone investments in managed partnerships	4,950.2	3,964.2
Development holdings	2,238.5	2,455.8
Intangible assets	780.6	976.4
Cash	1,337.0	746.5
Other assets	528.3	409.8
<b>Total assets</b>	<b>12,387.1</b>	<b>11,262.3</b>
Interest bearing liabilities	2,865.2	2,707.9
Other liabilities	1,128.6	1,178.3
<b>Total liabilities</b>	<b>3,993.8</b>	<b>3,886.2</b>
Non-controlling interests	325.8	325.8
<b>Net assets attributable to Securityholders</b>	<b>8,067.5</b>	<b>7,050.3</b>

The majority of the stabilised investment properties are in Australia and the carrying value has decreased by \$157.1 million to \$2,552.5 million, primarily due to the disposals of urban renewal assets in Sydney. The balance at 30 June 2016 still includes sites in Sydney with potential for urban renewal and the positive planning outcomes on these sites have resulted in valuation gains during FY16, which have partially offset the impact of the disposals.

The value of Goodman's cornerstone investments in managed partnerships increased by \$986.0 million to \$4,950.2 million, primarily due to development completions and valuation uplifts, which have offset the selective capital rotation that has continued in a number of markets.

Goodman's development holdings decreased during the year by \$217.3 million to \$2,238.5 million. This is principally due to the disposal of \$340.0 million of inventories to GCLP, partially offset by increased development activity in Continental Europe and North America.

The most significant intangible asset balances are in Continental Europe and the United Kingdom. During FY16, Goodman fully impaired the management rights in United Kingdom – Business Parks (\$204.6 million) as a result of the decision to dispose of the remaining assets in ABPP.

Interest bearing liabilities, net of cash, are \$1,528.2 million compared to \$1,961.4 million at 30 June 2015. The decrease is due to the net cash inflows from operating and investing activities of \$990.1 million during the year offset by the debt acquired with the Brazil operating platform and foreign currency translation impacts. Movements in other assets and liabilities mainly reflect the changes in Goodman's derivative financial instruments.

## Cash flow

	Consolidated	
	2016 \$M	2015 \$M
Operating cash flows	830.1	654.7
Investing cash flows	160.0	(147.8)
Financing cash flows	(399.6)	(120.3)
<b>Net increase in cash held</b>	<b>590.5</b>	<b>386.6</b>
<b>Cash at the end of the year</b>	<b>1,337.0</b>	<b>746.5</b>

Operating cash flows were improved relative to the prior year, partly as a result of the increase in operating profit but primarily due to the development receipts in Greater China and New Zealand. The receipts and payments for Goodman's development activities are dependent on the timing of development completions relative to the reporting date.

Investing cash flows primarily relate to the net investments in the Consolidated Entity's managed partnerships. During the year, the payments for equity investments of \$479.9 million included GCLP, GJDP, GUKP and Goodman North America Partnership to fund development and investing activities in those managed partnerships. This amount reflects the asset rotation that has occurred in most of Goodman's managed partnerships, with proceeds being utilised to fund developments, as well as reduce gearing in the partnerships.

Financing cash flows include the drawdowns and repayments associated with Goodman's interest bearing liabilities. The principal financing cash outflows were Goodman's distributions to Securityholders and holders of hybrid securities issued by Goodman PLUS Trust (Goodman PLUS).

## Outlook

The focused and consistent execution of Goodman's business strategy, has created a strong, globally diversified platform that will sustain earnings growth for future periods and create long-term value for Securityholders, customers and investment partners.

In FY17, Goodman will continue to target asset rotation opportunities, including urban renewal, to further improve asset and income quality across the portfolios. These proceeds will be used to reduce gearing, giving future financial flexibility to Goodman and its partnerships, and also to provide capital for reinvestment into Goodman's development business, which continues to benefit from customer demand for new modern facilities. A strong development business coupled with the demand from investment partners seeking high quality, well located industrial assets will continue to support the organic growth in assets under management.

Overall the strong contributions from development and management activities are expected to be maintained and Goodman is forecasting an operating EPS of 42.5 cents for FY17, up 6% on FY16 and will continue to target an overall pay-out ratio of 60%.

Further information as to other likely developments in the operations of the Consolidated Entity and the expected results of those operations in future financial years has not been included in this Directors' report because disclosure of the information would be likely to result in unreasonable prejudice to the Consolidated Entity.

## Risks

Goodman identifies operational risks for each of its divisions as part of its strategy process. The key risks, an assessment of their likelihood of occurrence and consequences and controls that are in place to mitigate the risks are reported to the Board annually.

Goodman has established formal systems and processes in order that the risks are managed at each stage of its decision making process. This is facilitated by a Group Investment Committee comprising senior executives, chaired by the Group Chief Executive Officer, which considers all major operational decisions and transactions. The Group Investment Committee meets on a weekly basis.

The Board has in place a Risk and Compliance Committee to review and monitor all material risks in Goodman's risk management systems, including sustainability risks, work, health and safety, market risks and operational risks.

The key risks faced by Goodman and the controls that have been established to manage those risks are set out below:

	<b>Risk area</b>	<b>Mitigation</b>
<b>Capital management</b>	Availability of capital from investors and financial institutions supports the sustainability of the business	<ul style="list-style-type: none"> <li>+ Prudent capital management with cash flow requirements, gearing and available liquidity reviewed monthly and reported to the Board</li> <li>+ Diversification of debt funding sources and maturities</li> <li>+ Diversification of capital partners</li> </ul>
<b>Economic environment</b>	Uncertainty regarding global growth and volatility of global financial markets creates a challenging operating environment	<ul style="list-style-type: none"> <li>+ Global diversification of Goodman's property portfolios</li> <li>+ Focus on core property portfolios in key gateway locations</li> <li>+ Focus on cost management</li> <li>+ Prudent capital management with low gearing and significant available liquidity to allow for potential market shocks</li> </ul>
<b>Governance, regulation and compliance</b>	Changes to the regulatory environments (including tax) impact Goodman's business	<ul style="list-style-type: none"> <li>+ Embedded compliance culture within Goodman focused on best practice</li> <li>+ Dedicated compliance officers</li> <li>+ Review of transactions by the Group Investment Committee</li> <li>+ Independent Risk and Compliance Committee</li> </ul>
<b>Development</b>	Development volumes and returns need to be maintained to support short-term growth	<ul style="list-style-type: none"> <li>+ Review of development projects by the Group Investment Committee</li> <li>+ Ongoing monitoring and reporting of work in progress and levels of speculative development, with Board oversight</li> </ul>
<b>Asset management and leasing</b>	Leasing risk exposures can reduce returns from Goodman's portfolios	<ul style="list-style-type: none"> <li>+ Review of significant leasing transactions and development projects by the Group Investment Committee</li> </ul>
<b>Investment management</b>	Relationships with capital partners underpin Goodman's management activities	<ul style="list-style-type: none"> <li>+ Standardised governance structures for managed partnerships</li> <li>+ Independent governance structures for managed partnerships</li> </ul>
<b>People</b>	The executive management team supports the sustainability of the business	<ul style="list-style-type: none"> <li>+ Succession planning for senior executives</li> <li>+ Competitive remuneration structures</li> <li>+ Performance management and review</li> </ul>
<b>Information and data security</b>	Technology is a major component in operations and supports sustainability and growth	<ul style="list-style-type: none"> <li>+ Ongoing monitoring and reporting of security risks to the Information Technology Security Council, with Risk and Compliance Committee oversight</li> <li>+ Disaster recovery and business continuity planning and testing</li> </ul>

### Dividends and distributions

Goodman Limited did not declare any dividends during the financial year. The FY16 dividends and distributions to the Consolidated Entity's Securityholders of 24.0 cents per security have been made by GIT and GLHK.

GIT has declared and accrued distributions of 23.0 cents per security (2015: 22.2 cents per security), amounting to \$408.0 million (2015: \$388.3 million).

GLHK did not declare any dividends during the financial year but subsequent to the end of the financial year the directors of GLHK have proposed a dividend of 1.0 cent per security amounting to \$17.8 million, which will be paid on 26 August 2016.

Distributions declared during the current financial year by Goodman PLUS Trust, a controlled entity of GIT, to holders of hybrid securities (non-controlling interests) were \$20.1 million (2015: \$21.2 million).

### Securities issued on exercise of performance rights

During the financial year, the Consolidated Entity issued 9,824,337 securities as a result of the vesting of performance rights. The amount paid by the employees on exercise of these securities was \$nil.

No performance rights have vested since the end of the financial year.

### Unissued securities under performance rights

At the date of this Directors' report, unissued securities of Goodman under performance rights and the applicable relative total securityholder return (relative TSR) or operating EPS performance hurdles were:

Expiry date	Exercise price \$	Number of performance rights <sup>1</sup>	Performance hurdles <sup>2</sup>
Sep 2020	–	18,533,748	Relative TSR (25%) and operating EPS (75%)
Sep 2019	–	13,992,326	Relative TSR (25%) and operating EPS (75%)
Sep 2018	–	12,168,111	Relative TSR (25%) and operating EPS (75%)
Sep 2017	–	7,537,154	Relative TSR (25%) and operating EPS (75%)
Sep 2016	–	3,369,683	Relative TSR (25%) and operating EPS (75%)

1. The number of performance rights at the date of this Directors' report is net of any rights forfeited. Excludes 6,907,818 of performance rights where the intention is to cash settle.

2. Further details of the relative TSR and operating EPS performance hurdles are disclosed in the remuneration report in this Directors' report. In addition to satisfying these performance hurdles, the vesting of performance rights is subject to an employee's continued employment over the vesting period.

All performance rights expire on the earliest of their expiry date; the day that vesting conditions become incapable of satisfaction or are determined by the Board to not be satisfied; or following the termination of the employee's employment (other than in the event of special circumstances).

# DIRECTORS' REPORT

## REMUNERATION REPORT — AUDITED

This remuneration report outlines the Board's remuneration policies and discloses the remuneration details for key management personnel.

The remuneration report forms part of the Directors' report and has been audited in accordance with section 308(3C) of the Corporations Act 2001.

In this remuneration report, the Executive Directors and other senior executives are collectively referred to as executives.

The report is set out as follows:

- |   |   |
|---|---|
| 1. The role of the Remuneration and Nomination Committee          | 5. Link between remuneration outcomes and performance |
| 2. Aims of the remuneration policy                                | 6. Executives' remuneration (statutory analysis)      |
| 3. Overview of remuneration enhancements and outcomes during FY16 | 7. Non-Executive Directors' remuneration              |
| 4. Remuneration policy for executives                             | 8. Other prescribed information.                      |

### 1. The role of the Remuneration and Nomination Committee

#### Governance

**Who are the members of the Remuneration Committee?**

- + Mr Phillip Pryke (Independent Chairman of the Committee)
- + Mr Ian Ferrier (Independent Member)
- + Ms Anne Keating (Independent Member)
- + Ms Rebecca McGrath (Independent Member)
- + Mr Jim Sloman (Independent Member)

The Committee members' meeting attendance record is disclosed on page 18 in the Directors' report.

#### Scope of work

Advise and recommend to the Board on:

- + remuneration policy;
- + remuneration arrangements for Executive Directors and other senior executives;
- + remuneration arrangements for Non-Executive Directors;
- + incentive plans, both short-term incentives (STI) and long-term incentives (LTI);
- + superannuation/pension entitlements;
- + termination payments;
- + oversight of performance management;
- + succession planning; and
- + other human resource related matters.

#### Key management personnel (KMP)

KMP are defined as those employees who have authority and responsibility for planning, directing and controlling the activities of Goodman. KMPs comprise the Executive and Non-Executive Directors of the Company and other senior executives of Goodman.

Further information relating to the scope and activities of the Committee is available on Goodman's website and in the Corporate Governance Statement to be released with the Annual Report.

### 2. Aims of the remuneration policy

#### Overall aims of the remuneration policy

Maximise the alignment of executives with Securityholders.

+ Attract appropriately skilled and qualified executives.	→	+ The remuneration package is set at competitive levels for the market where the role is performed.
+ Encourage and reward superior performance that creates sustainable long-term returns for Securityholders.	→	+ There is significant weighting towards at risk remuneration components that are assessed against financial and non-financial measures consistent with Goodman's strategy.
+ Provide incentive for high performing executives to remain employed with Goodman.	→	+ LTI is a key component of the remuneration package and is delivered in Goodman securities over a five year period, provided that performance hurdles are met over a three year period.

### 3. Overview of remuneration enhancements and outcomes during FY16

#### FY16 financial performance

Goodman has delivered an operating profit of \$714.5 million for FY16, which equates to an operating EPS of 40.1 cents, up 7.8% on the prior year. Distributions to Securityholders have also increased to 24.0 cents per security (2015: 22.2 cents per security). This represents another year of consistent growth with net tangible assets per security increasing to \$4.10 from \$3.46 and headline gearing falling to 11.8%, as Goodman continues to execute on its stated strategy of rotating assets to invest in its development business, thereby improving the overall quality of its property portfolios. The Consolidated Entity's sound financial position is also reflected in Goodman's security price, which has increased to \$7.11 at 30 June 2016. The total Securityholder return for FY16 is 17.0%.

The Board considers that this represents a strong performance for FY16 and this is reflected in its award of incentives, both STI and LTI, to the executives.

#### Key enhancements made in FY16

As with previous years, Goodman's remuneration philosophy is to:

- + maintain fixed remuneration levels that, in general, are below or at the median level within specific local markets;
- + apply restraint to STI awards, however recognising that STI rewards employees for achievement within the performance year;
- + to use LTI (in the form of performance rights) that are exposed to the financial performance of Goodman to incentivise employees to remain employed, and to encourage commercial decisions that reflect the long-term best interests of Goodman; and
- + increase the overall proportion of at risk remuneration (i.e. in particular LTI) so that for executives LTI is approximately 50% of total remuneration.

To better align with current market practice, the Board has limited STI awards for executives to a maximum of 200% of fixed remuneration and has split payment into two equal instalments. In respect of the FY16 award, the first payment will be made in August 2016 and the second payment in August 2017.

In relation to overall incentive based remuneration awards for FY16, the Group Chief Executive Officer will receive no STI and instead receive all his incentive based remuneration in the form of performance rights. As a result, the Group Chief Executive Officer's remuneration has an increased at risk component, in that it remains subject to the achievement of performance hurdles over the longer term. As outlined above, the Board considers that this encourages commercial decisions that reflect the long-term best interests of Goodman and its Securityholders.

#### Principal outcomes for FY16

Remuneration element	Principal Outcomes
<b>Fixed remuneration<sup>1</sup></b>	<ul style="list-style-type: none"> <li>+ Group Chief Executive Officer base pay retained at \$1.4 million, with no increase since 2008</li> <li>+ No increase in base pay for other senior executives for FY16</li> </ul>
<b>STI</b>	<ul style="list-style-type: none"> <li>+ No STI was awarded to the Group Chief Executive Officer, as all his incentive based remuneration is in the form of LTI</li> <li>+ Based on achievement of financial and non-financial objectives, STI awards to executives are at the higher end of the cash bonus range (maximum of 200% of fixed remuneration), of which 50% will be paid after finalisation of Goodman's Annual Report in August 2016 and the remaining 50% 12 months later</li> </ul>
<b>LTI</b>	<ul style="list-style-type: none"> <li>+ The Board's view is that the contribution of the Group Chief Executive Officer to the success of Goodman in FY16 has been significant and the LTI award, which will be made in FY17, has been increased from 2,000,000 to 2,400,000 performance rights</li> <li>+ Consistent with policy, the proportion of LTI as a component of executives' total remuneration has increased</li> <li>+ Excluding the Group Chief Executive Officer, the LTI awarded to the executives is 3,450,000 performance rights</li> <li>+ The 55.6 million performance rights on issue equal 3.1% of the 1,778.3 million Goodman securities currently on issue and is within the 5% limit adopted by the Board</li> </ul>

1. For the purposes of the remuneration report, cash, salary sacrificed amounts and employer contributions to superannuation or pension funds are collectively referred to as base pay.

# DIRECTORS' REPORT REMUNERATION REPORT — AUDITED

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## 4. Remuneration policy for executives

A summary of the key remuneration policies for the executives, reflecting the FY16 changes, is set out below:

Remuneration components		
<b>Fixed remuneration</b>	<b>STI</b>	<b>LTI</b>
<ul style="list-style-type: none"> <li>+ Fixed remuneration package includes cash, non-cash benefits and employer contributions to superannuation or pension funds.</li> <li>+ Fixed remuneration continues to be at or below median against selected comparator group.</li> </ul>	<ul style="list-style-type: none"> <li>+ Discretionary, at risk, cash bonus awarded to executives when Goodman achieves a target operating EPS.</li> <li>+ Rewards specific achievement against financial and non-financial performance objectives within a defined period.</li> <li>+ STI awards to executives will not exceed 200% of base pay.</li> <li>+ Executives' STI is subject to deferral so that 50% is paid on finalisation of Goodman's Annual Report and 50% is paid 12 months later.</li> </ul>	<ul style="list-style-type: none"> <li>+ Discretionary award, at risk and delivered in Goodman securities to align with interests of Securityholders.</li> <li>+ Vesting determined by cumulative performance against operating EPS and relative total securityholder returns.</li> <li>+ Assessed over a three year performance period.</li> <li>+ No value derived unless cumulative performance hurdles are met or exceeded.</li> <li>+ Vesting occurs in equal tranches at the end of years three, four and five.</li> </ul>

### Other key aspects of executives' remuneration

#### Service contracts

Executives are engaged under written employment contracts until notice is given by either Goodman or the executive, as set out below:

	Notice period	
	Company	Executive
<b>Executive Directors</b>		
Mr Gregory Goodman	12 months	12 months
Mr Philip Pearce	6 months	6 months
Mr Danny Peeters	12 months	12 months
Mr Anthony Rozic	6 months	6 months
<b>Other senior executives</b>		
Mr Nick Kurtis	6 months	6 months
Mr Nick Vrondas	6 months	6 months
Mr Jason Little	6 months	6 months

Consistent with local practice in Belgium, Mr Danny Peeters provides his services through a management company, DPCON Bvba.

#### Short-term incentive

##### Financial targets

Financial targets include operating EPS, return on assets, net tangible assets per security and gearing across the Consolidated Entity.

However, STI awards to executives are dependent on Goodman achieving an operating EPS target. The Board considers that operating EPS measures the direct contribution of executives to the financial performance of Goodman. Strong performance in operating EPS generally correlates with stronger returns to Securityholders and, subject to market factors and conditions, security price increases.

The operating profit target is set at the start of the financial year with reference to appropriate returns for Goodman's business segments, having regard to the stage of the property cycle, general economic conditions and growing the business in a prudent manner.

##### Non-financial targets

Non-financial targets include execution of strategic initiatives which position Goodman for future sustainable growth, implementation of business process improvement initiatives and appropriate compliance and risk management controls.

In addition to the above, the performance of executives against behavioural expectations outlined within Goodman's Corporate Values has been considered in the determination of remuneration outcomes. The Board considers that executives should demonstrate high standards of personal behaviour that are consistent with these values and therefore places emphasis upon these characteristics.

##### Discretionary nature of award

The Board recognises that expertise within Goodman can lead to exceptional individual and divisional performance within a specific financial year and accordingly retains discretion on the determination and payment of STI awards for executives, even where Goodman's financial metrics may not have been met or other adverse circumstances occur. Conversely, awards of STI may be withheld notwithstanding that targets may have been met.



## 4. Remuneration policy for executives continued

### Other key aspects of executive's remuneration continued

#### Long-term incentive

The LTIP was last approved by Securityholders in 2015. There have been no alterations or modifications to prior year awards under the LTIP.

#### Performance hurdles

The LTIP incorporates both an operating EPS and a relative TSR hurdle.

The operating EPS hurdle, which applies to 75% of each award, requires that the actual operating EPS over a three year period meets the cumulative target set by the Board. The target for each financial year is the same as that used for the purpose of the STI and is set at the start of each financial year.

In determining operating EPS, the share based payments expense is excluded from operating profit as the performance rights are generally settled through the issue of new securities, and those performance rights which as at the start of the financial year have achieved the required performance hurdles but have not yet vested are included in the weighted average number of securities, reflecting the future dilution impact on Securityholders. For FY16, the 1,781.2 million weighted average securities used in calculating operating EPS, includes securities that have vested during the year plus 10.9 million securities which have achieved the required performance hurdles and will vest in September 2016 and September 2017.

The method for calculating the operating EPS has been applied consistently throughout the period in which the LTIP has been in place and the methodology is used for setting the target and financial performance forecast at the commencement of each financial year.

The relative TSR hurdle, which applies to 25% of each award, is based on the relative TSR of Goodman against that of other S&P/ASX 100 entities over a three year period.

#### Vesting

The operating EPS performance hurdle will be satisfied in full when the cumulative operating EPS over three consecutive financial years meets or exceeds the target set by the Board. If the cumulative target is not met, then there is nil vesting against this hurdle. The Board believes that it would currently be inconsistent with Securityholders' expectations for there to be partial satisfaction of the hurdle where the target operating EPS had not been met.

The relative TSR performance hurdle operates over a range of outcomes such that where Goodman's performance is:

- + from the 1st to 50th percentile, there is no vesting;
- + from the 51st percentile (i.e. above-average performance), there is 50% vesting, with an additional 2% vesting for each additional percentile rank to the 76th percentile; and
- + from the 76th percentile and above, there is 100% vesting.

Partial vesting against this hurdle only commences once above-average returns are achieved. The Board considers the S&P/ASX 100 index is the most appropriate comparator group given that:

- + Goodman is ranked by market capitalisation within the top 100 ASX listed entities;
- + Goodman competes for investment capital against the top 100 ASX listed entities; and
- + the comparator group is sufficiently broad to include a sample of businesses with geographic diversity and business complexity.

Vesting of all performance rights is contingent on executives remaining employed by Goodman at the relevant vesting dates at the end of years three, four and five. As a result, in order to derive the full benefits of an award, an executive must remain employed over a five year vesting period.

#### Hedging of unvested performance rights

The Board's policy set out in the Securities Trading Policy is that executives may not enter into any arrangement to limit their exposure to risk in relation to unvested performance rights, options or securities issued under an employee incentive plan. In accordance with their terms of employment, executives are required to comply with Goodman's policies.

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# DIRECTORS' REPORT REMUNERATION REPORT — AUDITED

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## 5. Link between remuneration outcomes and performance

### Key financial performance measures

The operating profit, operating EPS, total Securityholder return and other key financial performance measures over the last five years are set out below:

	2012	2013	2014	2015	2016
Operating profit (\$M)	463.4	544.1	601.1	653.5	714.5
Operating EPS (¢)	30.5	32.4	34.8	37.2	40.1
Security price (\$)	3.67	4.88	5.05	6.27	7.11
Dividends/distributions per security (¢)	18.0	19.4	20.7	22.2	24.0
TSR1 (%)	7.3	34.0	10.7	30.0	17.0
Net tangible assets per security (\$)	2.54	2.69	2.88	3.46	4.10
Gearing (%)	23.9	18.5	19.5	17.3	11.8

1. The TSR (sourced from Bloomberg) is based on the distributions paid to Securityholders and the security price movement during each financial year and assumes Securityholders reinvested distributions. The calculated TSR is compared to the TSR of other entities in the S&P/ASX 100 index (S&P/ASX 200 index for grants made in 2013 and prior financial years) for the purpose of determining the relative TSR performance hurdle under the LTIP.

The use of at risk remuneration that incorporates a strong focus on continued improvement in operating EPS over the long term has driven decision making that aims at sustainable 6% operating earnings growth. This has benefited Securityholders through the increasing distributions and security price which together have resulted in an average 19.8% per annum total Securityholder return over the last five years.

### Group Chief Executive Officer remuneration

The non-statutory analysis below sets out the Group Chief Executive Officer's cash remuneration in each of the past five financial years. This includes the base pay and cash bonus (STI) that relate to each financial year plus the value of the performance rights (LTI) that vested during the financial year. This value of performance rights is determined by multiplying the number of securities that vested by the market price of the securities at the date of vesting. This is different from the statutory presentation of remuneration included on page 35, where the values of the performance rights are determined using option pricing models at the date the award is made and then amortised over the vesting periods.

### Group Chief Executive Officer remuneration

– non-statutory	2012	2013	2014	2015	2016
Base pay (\$M)	1.4	1.4	1.4	1.4	1.4
STI (\$M)	2.8	2.5	2.4	2.2	–
LTI – vested during the year (\$M)	–	1.0	2.3	4.6	5.2
<b>Total remuneration (\$M)</b>	<b>4.2</b>	<b>4.9</b>	<b>6.1</b>	<b>8.2</b>	<b>6.6</b>
Proportion of STI and LTI (%)	66.7	71.4	77.0	82.9	78.8
Proportion of LTI (%)	–	20.4	37.7	56.1	78.8

Over the five year period, the level of STI has generally been at the upper end of the bonus range in line with the operational achievements. However, in FY16 the Group Chief Executive Officer has not received any STI but instead will receive all his incentive based remuneration in the form of at risk LTI, with the relevant award of performance rights to be made in FY17.

In respect of the vested LTI, \$5.2 million (2015: \$4.6 million) of performance rights vested during FY16, based on the mid-market price of a Goodman security of \$5.96 at the vesting date on 1 September 2015. The increase in the cash value of the LTI is due to both an increase in the number of performance rights awarded and the increase in the Goodman security price, reflecting the consistently strong performance over the past five years.

### Short-term incentive awards to executives

STI awards are made to executives based on their performance and contribution to the business during the financial year, including the achievement of agreed performance targets and strategic initiatives that relate to both financial and non-financial criteria for their business units, other parts of the business and Goodman as a whole. Specialisation exists within the management structure; however, overall success is heavily dependent upon the input from other regions and the group function. Goodman's integrated business model means that achievements are often a product of collective effort.

For FY16, the Committee considered that the performance of the executives in relation to various strategic initiatives represented an overall performance that achieved the agreed performance targets and STI awards for the executives are towards the upper end of the cash bonus range.

## 5. Link between remuneration outcomes and performance continued

A summary of the key operational achievements under the integrated business model for FY16 is set out below:

Integrated business model achievements for FY16			
Delivered a 7.8% increase in Goodman's operating EPS from 37.2 cents to 40.1 cents			
Investment	Development	Management	Capital management
<ul style="list-style-type: none"> <li>+ Maintained an overall leasing occupancy rate of 96% with retention levels at 79%.</li> <li>+ Achieved like-for-like rental growth of 1.9%.</li> <li>+ Disposals of \$2.2 billion of properties, excluding urban renewal, from both Goodman's and the managed partnerships' portfolios.</li> <li>+ Settled \$0.8 billion of urban renewal sites.</li> </ul>	<ul style="list-style-type: none"> <li>+ Increased development work in progress to \$3.4 billion across 81 projects in 14 countries with a forecast yield on cost of 7.8%.</li> <li>+ Increased return on capital for developments.</li> <li>+ Managed speculative developments within Board approved limits through developments within partnerships, pre-commitments and pre-sales.</li> </ul>	<ul style="list-style-type: none"> <li>+ Maintained the disciplined approach to ensuring investments meet required investment hurdles and delivered average total returns in excess of 20% across the managed partnerships.</li> <li>+ Capitalised on market demand for industrial properties with \$1.8 billion of asset rotation by the managed partnerships to third parties.</li> <li>+ Notwithstanding the asset rotation, increased external AUM to \$29.3 billion across 16 managed partnerships.</li> <li>+ Raised a total of \$2.3 billion of new third party equity capital across the managed partnerships.</li> <li>+ Maintained strong relationships with investment partners. At 30 June 2016, Goodman had 52 investment partners with an average investment size of \$274 million.</li> </ul>	<ul style="list-style-type: none"> <li>+ Improved operating EPS by 7.8% while decreasing Goodman's headline gearing to 11.8%.</li> <li>+ Maintained available liquidity of \$2.6 billion covering maturities up to June 2021.</li> <li>+ Renewed and extended the maturities of bank facilities.</li> <li>+ Procured and renewed debt facilities of \$3.1 billion, with average term of 4.5 years, across Goodman and its managed partnerships.</li> </ul>
<ul style="list-style-type: none"> <li>+ Behavioural expectations consistent with Goodman's Corporate Values, which are ensuring a customer focused, results driven organisation with consideration of transparency, innovation, respect and partnership.</li> <li>+ Deployment of business process improvement activities e.g. information technology optimisation programmes.</li> </ul>			

### Long-term incentive awards to executives

While executives are awarded performance rights (under the LTIP) in recognition of current performance, vesting is dependent on the achievement of cumulative operating EPS and/or relative TSR performance hurdles accrued over a three year period as well as continued employment at the time of vesting of each tranche at the end of years three, four and five.

### Proposed awards of performance rights in FY17

The awards of performance rights that the Board intends to make in FY17 with regard to the executives' performance in FY16 are set out below. These proposed awards are not reflected in the current year statutory or non-statutory remuneration tables as they did not occur prior to 30 June 2016.

	Number of performance rights
<b>Executive Directors</b>	
Mr Gregory Goodman	2,400,000
Mr Anthony Rozic	700,000
Mr Danny Peeters	600,000
<b>Other senior executives</b>	
Mr Nick Kurtis	700,000
Mr Nick Vrondas	750,000
Mr Jason Little	700,000

On 8 July 2016, Mr Philip Pearce stepped down from his role as Managing Director Greater China, to focus on health related issues. Effective 12 July 2016, he also resigned as a director of Goodman Limited and ceased to be a KMP on that date. As a consequence, Mr Philip Pearce will not receive an award of performance rights in FY17.

# DIRECTORS' REPORT REMUNERATION REPORT — AUDITED

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## 5. Link between remuneration outcomes and performance continued

### Long-term incentive awards to executives continued

#### Summary of performance relative to the hurdles for the LTIP grants

2014 LTIP grant (with a performance testing period that ended on 30 June 2016)

Performance rights awarded in FY14 have a performance period ended 30 June 2016. Details of the performance relative to the hurdles are set out below:

Hurdle	Target	Actual	Out-performance	Vested (%)	Weighting (%)	Vesting outcome (%)
<b>Operating EPS</b>						
FY14	34.3 cps	34.8 cps	0.5 cps			
FY15	36.9 cps	37.2 cps	0.3 cps			
FY16	39.4 cps	40.1 cps	0.7 cps			
Aggregate	110.6 cps	112.1 cps	1.5 cps	100.0	75.0	75.0
<b>Relative TSR</b>						
1 July 2013 to 30 June 2016	50 <sup>th</sup> percentile	65 <sup>th</sup> percentile	n/a	78.0	25.0	19.5
<b>Total vesting</b>						<b>94.5</b>

Based on the achievement of the performance hurdles, 94.5% of the FY14 performance rights will vest into Goodman securities, subject to meeting the employment conditions, and will be delivered to executives in three tranches on an annual basis commencing from September 2016. Executives must remain employed on each of the three vesting dates in September 2016, 2017 and 2018 respectively for the performance rights to vest.

#### 2015 and 2016 LTIP grants

For the grants made in FY15 and FY16, the performance periods run to 30 June 2017 and 30 June 2018 respectively. For both grants, the operating EPS hurdles have been met or exceeded to date and relative TSR hurdles are on track to be partially achieved. However, the performance hurdles for both grants will need to be assessed over the full three year performance periods to determine whether they are satisfied.

The movements in the number of performance rights during FY16 are summarised as follows:

	Year	Held at the start of the year	Granted as compensation	Vested	Forfeited	Held at the end of the year
<b>Executive Directors</b>						
Mr Gregory Goodman	2016	3,763,653	2,000,000	(877,674)	–	4,885,979
	2015	3,601,700	995,476	(828,624)	(4,899)	3,763,653
Mr Anthony Rozic	2016	1,932,551	600,000	(486,992)	–	2,045,559
	2015	1,898,241	542,987	(506,079)	(2,598)	1,932,551
Mr Philip Pearce	2016	1,374,438	450,000	(216,954)	–	1,607,484
	2015	1,071,704	497,738	(194,005)	(999)	1,374,438
Mr Danny Peeters	2016	1,887,302	450,000	(486,992)	–	1,850,310
	2015	1,909,441	497,738	(517,279)	(2,598)	1,887,302
<b>Other senior executives</b>						
Mr Nick Kurtis	2016	1,932,551	750,000	(486,992)	–	2,195,559
	2015	1,898,241	542,987	(506,079)	(2,598)	1,932,551
Mr Nick Vrondas	2016	1,600,210	750,000	(349,750)	–	2,000,460
	2015	1,460,461	497,738	(356,189)	(1,800)	1,600,210
Mr Jason Little	2016	1,142,838	450,000	(210,263)	–	1,382,575
	2015	945,494	395,928	(197,585)	(999)	1,142,838

## 6. Executives' remuneration (statutory analysis)

Details of the nature and amount of each major element of the remuneration of each executive, as calculated under Australian Accounting Standards, are set out below:

Executives		Short-term				Superannuation benefits	Long-term		Share based payments		STI + LTI as percentage of total	LTI as percentage of total
		Salary and fees <sup>1</sup>	Bonus (STI) <sup>2</sup>	Other <sup>3</sup>	Total		Bonus (STI) <sup>2</sup>	Other <sup>3</sup>	Performance rights (LTI) <sup>4</sup>	Total		
		\$	\$	\$	\$	\$	\$	\$	\$	\$	%	%
Mr Gregory Goodman, Group Chief Executive Officer	2016	1,392,262	–	15,594	1,407,856	19,308	–	24,841	4,791,688	6,243,693	76.7	76.7
	2015	1,371,635	2,200,000	14,409	3,586,044	17,079	–	57,549	3,157,950	6,818,622	78.6	46.3
Mr Anthony Rozic, Deputy Group Chief Executive Officer	2016	651,895	–	18,010	669,905	19,308	1,400,000	12,421	1,934,123	4,035,757	82.6	47.9
	2015	672,564	1,550,000	18,010	2,240,574	18,783	–	14,624	1,579,175	3,853,156	81.2	41.0
Mr Nick Kurtis, Group Head of Equities, Investment Management	2016	692,228	–	18,010	710,238	19,308	1,400,000	12,418	2,033,093	4,175,057	82.2	48.7
	2015	666,800	1,650,000	18,010	2,334,810	18,783	–	13,881	1,583,500	3,950,974	81.8	40.1
Mr Nick Vrondas, Group Chief Financial Officer	2016	595,537	–	16,500	612,037	19,308	1,200,000	10,644	1,875,248	3,717,237	82.7	50.4
	2015	583,656	1,550,000	16,500	2,150,156	18,783	–	20,753	1,343,171	3,532,863	81.9	38.0
Mr Jason Little, General Manager, Australia	2016	486,866	–	–	486,866	19,308	1,000,000	8,872	1,306,337	2,821,383	81.7	46.3
	2015	484,303	1,500,000	–	1,984,303	18,783	–	(6,188)	986,911	2,983,809	83.3	33.1
Mr Philip Pearce <sup>5</sup> , Managing Director, Greater China	2016	715,207	1,050,000	–	1,765,207	3,184	–	–	1,564,849	3,333,240	78.4	46.9
	2015	686,526	1,300,000	–	1,986,526	2,775	–	–	1,218,081	3,207,382	78.5	38.0
		€	€	€	€	€	€	€	€	€		
Mr Danny Peeters <sup>6</sup> , Executive Director, Corporate	2016	564,950	–	–	564,950	–	1,000,000	–	1,129,573	2,694,523	79.0	41.9
	2015	559,655	915,000	–	1,474,655	–	–	–	1,038,190	2,512,845	77.7	41.3

1. Salary and fees represent the amounts due under the terms of executives' service contracts and include movements in annual leave provisions during the financial year.

2. In FY16, a change in remuneration policy has resulted in part of the executives' bonus award being subject to deferral, with awards paid in two instalments, 50% on finalisation of the FY16 Annual Report and 50% 12 months later. Under Australian Accounting Standards, the entire bonus award is now considered as a long-term benefit with regard to the disclosure of individual executive's remuneration. No bonuses were forfeited during the financial year.

3. Other includes reportable fringe benefits, car parking and changes in long service leave balances.

4. Performance rights are a long-term incentive and in accordance with Australian Accounting Standards, the values of the awards, determined using option pricing models, are amortised in the income statement over the vesting periods.

5. Mr Philip Pearce has stood down from his duties for health reasons and resigned as a director of Goodman Limited on 12 July 2016. He remains an employee of Goodman on sick leave and, having regard to the seriousness of the health issues, this period is expected to last at least 12 months and may be extended up to two years. His entire FY16 bonus award will be paid without partial deferment in common with other employees.

6. The remuneration of Mr Danny Peeters is disclosed in Euros, the currency in which his base pay and bonus are determined. The value attributed to his performance rights is translated from Australian dollars at the weighted average rate for the financial year.

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## 7. Non-Executive Directors' remuneration

### Remuneration policy

	Non-executive directors
<b>Key elements of Non-Executive Director Remuneration policy</b>	<ul style="list-style-type: none"> <li>+ The policy is structured to ensure independence of judgement in the performance of their duties.</li> <li>+ Non-Executive Directors receive fixed fees for being on the Board and additional fees for membership of committees.</li> <li>+ The fees take into account the size and scope of Goodman's activities and the responsibilities and experience of the directors. Periodically, these fees are benchmarked against data for comparable entities provided by external advisers.</li> <li>+ As approved by Securityholders at the 2006 Annual General Meeting, total remuneration (including superannuation) payable by Goodman to all Non-Executive Directors in aggregate must not exceed \$2.5 million per annum. For the current financial year, total Non-Executive Directors' remuneration was \$2.1 million.</li> <li>+ The increase in Non-Executive Director fees compared to the prior financial year is due to the 5% increase in both base fees and Board committee fees from 1 July 2015.</li> <li>+ Non-Executive Directors are not entitled to participate in any STI or LTI schemes which may otherwise be perceived to create a bias when overseeing executive decision making.</li> <li>+ The Board has a policy, set out in the Directors' Securities Acquisition Plan, for Non-Executive Directors to accumulate a significant long-term holding of Goodman securities so that they have an alignment of interests with those of Securityholders. Under the policy, each Non-Executive Director is required to acquire securities such that their holding is equal in value to twice their annual base fees. The value of securities for this purpose equals the higher of purchase cost or market value at the end of each financial year. This holding may be acquired at any time but where not held at the beginning of a financial year, the policy is for 25% of base fees (net of tax) during the financial year to be applied to the on-market purchase of securities.</li> </ul>

### Board and committee annual fees

		Board \$	Audit Committee \$	Risk and Compliance Committee \$	Remuneration and Nomination Committee \$
<b>Chairman</b>	2016	550,000	37,500	37,500	37,500
	2015	530,450	36,050	36,050	36,050
<b>Member</b>	2016	200,000	22,500	22,500	22,500
	2015	193,614	20,600	20,600	20,600

### Non-Executive Directors' remuneration (statutory analysis)

Details of the nature and amount of each major element of the remuneration of Non-Executive Directors, as calculated under Australian Accounting Standards, are set out below:

		Salary and Fees \$	Superannuation benefits \$	Total <sup>2</sup> \$
<b>Non-Executive Directors</b>				
Mr Ian Ferrier	2016	530,692	19,308	550,000
	2015	511,667	18,783	530,450
Mr Philip Fan	2016	245,000	-	245,000
	2015	234,814	-	234,814
Mr John Harkness	2016	240,692	19,308	260,000
	2015	240,686	18,783	259,469
Ms Anne Keating	2016	225,692	19,308	245,000
	2015	216,031	18,783	234,814
Ms Rebecca McGrath	2016	240,692	19,308	260,000
	2015	222,275	18,783	241,058
Mr Phillip Pryke <sup>1</sup>	2016	318,655	19,308	337,963
	2015	314,904	18,783	333,687
Mr Jim Sloman	2016	225,692	19,308	245,000
	2015	216,031	18,783	234,814

1. Salary and fees for Mr Phillip Pryke include an amount of A\$77,963 (NZ\$85,000) (2015: A\$83,426 (NZ\$89,725)) due in respect of his role on the board and audit committee of Goodman (NZ) Limited, the manager of Goodman Property Trust.

2. The Non-Executive Directors do not receive any incentive based remuneration.

## 8. Other prescribed information

### Analysis of performance rights over Goodman securities

Details of the awards of performance rights under the LTIP granted by the Company as compensation to the executives are set out in the following tables:

	Number of performance rights granted	Date of performance rights granted	Financial year	Fair value per performance right <sup>1</sup> \$	Total value of performance rights granted <sup>1</sup> \$	Vested in prior years (%)	Vested in the year (%) <sup>2</sup>	Forfeited (%)	Value of performance rights vested in the year <sup>3</sup> \$	Financial years in which grant vests	Expiry date <sup>4</sup>
<b>Executive Directors</b>											
Mr Gregory Goodman	2,000,000	25 Nov 2015	2016	4.44	8,880,000	-	-	-	-	2019-2021	1 Sep 2020
	995,476	20 Nov 2014	2015	4.01	3,991,859	-	-	-	-	2018-2020	2 Sep 2019
	947,368	22 Nov 2013	2014	3.67	3,476,841	-	-	-	-	2017-2019	3 Sep 2018
	927,152	16 Nov 2012	2013	3.37	3,124,502	-	33.3	-	1,841,938	2016-2018	1 Sep 2017
	980,000	25 Nov 2011	2012	2.12	2,077,600	33.2	33.2	0.5	1,937,203	2015-2017	1 Sep 2016
	730,770	1 Feb 2011	2011	2.80	2,046,156	66.7	33.3	-	1,451,796	2014-2016	1 Sep 2015
Mr Anthony Rozic	600,000	25 Nov 2015	2016	4.44	2,664,000	-	-	-	-	2019-2021	1 Sep 2020
	542,987	20 Nov 2014	2015	4.01	2,177,378	-	-	-	-	2018-2020	2 Sep 2019
	421,053	22 Nov 2013	2014	3.67	1,545,265	-	-	-	-	2017-2019	3 Sep 2018
	463,576	12 Oct 2012	2013	3.15	1,460,264	-	33.3	-	920,969	2016-2018	1 Sep 2017
	520,000	30 Sep 2011	2012	2.04	1,060,800	33.2	33.2	0.5	1,027,903	2015-2017	1 Sep 2016
	480,000	1 Feb 2011	2011	2.80	1,344,000	66.7	33.3	-	953,600	2014-2016	1 Sep 2015
Mr Philip Pearce	450,000	25 Nov 2015	2016	4.44	1,998,000	-	-	-	-	2019-2021	1 Sep 2020
	497,738	20 Nov 2014	2015	4.01	1,995,929	-	-	-	-	2018-2020	2 Sep 2019
	394,737	22 Nov 2013	2014	3.67	1,448,685	-	-	-	-	2017-2019	3 Sep 2018
	298,013	16 Nov 2012	2013	3.37	1,004,304	-	33.3	-	592,049	2016-2018	1 Sep 2017
	200,000	30 Sep 2011	2012	2.04	408,000	33.2	33.2	0.5	395,351	2015-2017	1 Sep 2016
	153,847	1 Feb 2011	2011	2.80	430,772	66.7	33.3	-	305,647	2014-2016	1 Sep 2015
Mr Danny Peeters	450,000	25 Nov 2015	2016	4.44	1,998,000	-	-	-	-	2019-2021	1 Sep 2020
	497,738	20 Nov 2014	2015	4.01	1,995,929	-	-	-	-	2018-2020	2 Sep 2019
	421,053	22 Nov 2013	2014	3.67	1,545,265	-	-	-	-	2017-2019	3 Sep 2018
	463,576	12 Oct 2012	2013	3.15	1,460,264	-	33.3	-	920,969	2016-2018	1 Sep 2017
	520,000	30 Sep 2011	2012	2.04	1,060,800	33.2	33.2	0.5	1,027,903	2015-2017	1 Sep 2016
	480,000	1 Feb 2011	2011	2.80	1,344,000	66.7	33.3	-	953,600	2014-2016	1 Sep 2015

Refer to page 38 for explanatory footnotes.

# DIRECTORS' REPORT REMUNERATION REPORT — AUDITED

CONTINUED

## 8. Other prescribed information continued

### Analysis of performance rights over Goodman securities continued

	Number of performance rights granted	Date of performance rights granted	Financial year	Fair value per performance right <sup>1</sup> \$	Total value of performance rights granted <sup>1</sup> \$	Vested in prior years (%)	Vested in the year (%) <sup>2</sup>	Forfeited (%)	Value of performance rights vested in the year <sup>3</sup> \$	Financial years in which grant vests	Expiry date <sup>4</sup>
<b>Other senior executives</b>											
Mr Nick Kurtis	750,000	23 Sep 2015	2016	4.06	3,045,000	-	-	-	-	2019–2021	1 Sep 2020
	542,987	9 Oct 2014	2015	4.05	2,199,097	-	-	-	-	2018–2020	2 Sep 2019
	421,053	27 Sep 2013	2014	3.66	1,541,054	-	-	-	-	2017–2019	3 Sep 2018
	463,576	12 Oct 2012	2013	3.15	1,460,264	-	33.3	-	920,969	2016–2018	1 Sep 2017
	520,000	30 Sep 2011	2012	2.04	1,060,800	33.2	33.2	0.5	1,027,903	2015–2017	1 Sep 2016
	480,000	1 Feb 2011	2011	2.80	1,344,000	66.7	33.3	-	953,600	2014–2016	1 Sep 2015
Mr Nick Vrondas	750,000	23 Sep 2015	2016	4.06	3,045,000	-	-	-	-	2019–2021	1 Sep 2020
	497,738	9 Oct 2014	2015	4.05	2,015,839	-	-	-	-	2018–2020	2 Sep 2019
	368,421	27 Sep 2013	2014	3.66	1,348,421	-	-	-	-	2017–2019	3 Sep 2018
	397,351	12 Oct 2012	2013	3.15	1,251,656	-	33.3	-	789,402	2016–2018	1 Sep 2017
	360,000	30 Sep 2011	2012	2.04	734,400	33.2	33.2	0.5	711,624	2015–2017	1 Sep 2016
	293,700	1 Feb 2011	2011	2.80	822,360	66.7	33.3	-	583,484	2014–2016	1 Sep 2015
Mr Jason Little	450,000	23 Sep 2015	2016	4.06	1,827,000	-	-	-	-	2019–2021	1 Sep 2020
	395,928	9 Oct 2014	2015	4.05	1,603,508	-	-	-	-	2018–2020	2 Sep 2019
	315,789	27 Sep 2013	2014	3.66	1,155,788	-	-	-	-	2017–2019	3 Sep 2018
	231,788	12 Oct 2012	2013	3.15	730,132	-	33.3	-	460,487	2016–2018	1 Sep 2017
	200,000	30 Sep 2011	2012	2.04	408,000	33.2	33.2	0.5	395,351	2015–2017	1 Sep 2016
	200,000	1 Feb 2011	2011	2.80	560,000	66.7	33.3	-	397,329	2014–2016	1 Sep 2015

#### Notes in relation to the table analysis of performance rights over Goodman securities

1. The fair value is determined at grant date and calculated using a combination of the standard Black Scholes model with a continuous dividend/distribution yield and a Monte Carlo model which simulated total returns for each of the S&P/ASX 100 entities, and discounted the future value of any potential future vesting performance rights to arrive at a present value.
2. As performance rights have an exercise price of \$nil, Goodman securities are automatically issued to employees when the performance rights vest. Accordingly, the percentage of performance rights that vested during the financial year equals the percentage of securities issued during the financial year.
3. The value of performance rights vested is calculated using the closing price on the ASX of \$5.96 on 1 September 2015, the day the performance rights vested.
4. As Goodman securities are automatically issued to employees when the performance rights vest, the expiry date is deemed to be the vesting date.



## 8. Other prescribed information continued

### Movement in Goodman securities

The movement during the financial year in the number of Goodman securities held, directly, indirectly or beneficially, by each KMP, including their related parties, is as follows:

	Year	Held at the start of the year	Securities issued on vesting of performance rights	Acquisitions	Disposals	Held at the end of the year
<b>Non-Executive Directors</b>						
Mr Ian Ferrier	2016	159,309	–	16,603	–	175,912
	2015	141,674	–	17,635	–	159,309
Mr Philip Fan	2016	59,463	–	13,495	–	72,958
	2015	17,103	–	42,360	–	59,463
Mr John Harkness	2016	92,666	–	3,231	–	95,897
	2015	89,369	–	3,297	–	92,666
Ms Anne Keating	2016	64,033	–	–	–	64,033
	2015	64,033	–	–	–	64,033
Ms Rebecca McGrath	2016	20,395	–	6,011	–	26,406
	2015	14,336	–	6,059	–	20,395
Mr Phillip Pryke	2016	108,232	–	6,000	–	114,232
	2015	108,232	–	–	–	108,232
Mr Jim Sloman	2016	83,244	–	4,884	–	88,128
	2015	77,745	–	5,499	–	83,244
<b>Executive Directors</b>						
Mr Gregory Goodman	2016	41,476,923	877,674	–	(4,370,000)	37,984,597
	2015	45,583,572	828,624	–	(4,935,273)	41,476,923
Mr Anthony Rozic	2016	539,690	486,992	–	(172,500)	854,182
	2015	333,611	506,079	–	(300,000)	539,690
Mr Philip Pearce	2016	178,803	216,954	–	(170,757)	225,000
	2015	164,798	194,005	–	(180,000)	178,803
Mr Danny Peeters	2016	896,903	486,992	–	–	1,383,895
	2015	679,624	517,279	–	(300,000)	896,903
<b>Other senior executives</b>						
Mr Nick Kurtis	2016	517,333	486,992	–	(474,226)	530,099
	2015	247,202	506,079	3,902	(239,850)	517,333
Mr Nick Vrondas	2016	300,000	349,750	–	(449,750)	200,000
	2015	279,848	356,189	–	(336,037)	300,000
Mr Jason Little	2016	197,585	210,263	–	–	407,848
	2015	–	197,585	–	–	197,585

### Movement in hybrid securities issued by Goodman PLUS Trust

Three of the executives hold, directly or beneficially, hybrid securities issued by Goodman PLUS Trust. The movements during the financial year in the number of securities held by those executives, including their related parties, are as follows:

	Year	Held at the start of the year	Acquisitions	Held at the end of the year
Mr Anthony Rozic	2016	1,000	–	1,000
	2015	1,000	–	1,000
Mr Philip Pearce	2016	–	1,646	1,646
	2015	–	–	–
Mr Nick Vrondas	2016	120	–	120
	2015	120	–	120

None of the Non-Executive Directors or other executives had any interests in hybrid securities issued by Goodman PLUS Trust.

### Transactions with Directors, executives and their related entities

There are no other transactions with Directors, executives and their related entities.

## Environmental regulations

The Consolidated Entity has policies and procedures in place that are designed to ensure that, where operations are subject to any particular and significant environmental regulation under a law of Australia, those obligations are identified and appropriately addressed. The Directors have determined that the Consolidated Entity has complied with those obligations during the financial year and that there has not been any material breach.

## Disclosure in respect of any indemnification and insurance of officers and auditors

Pursuant to the Constitution of the Consolidated Entity, current and former directors and officers of the Consolidated Entity are entitled to be indemnified. Deeds of Indemnity have been executed by the Consolidated Entity, consistent with the Constitution, in favour of each Director. The Deed indemnifies each Director to the extent permitted by law for liabilities (other than legal costs) incurred in their capacity as a director of the Consolidated Entity or a controlled entity and, in respect of legal costs, for liabilities incurred in defending or resisting civil or criminal proceedings.

Goodman has insured to the extent permitted by law, current and former directors and officers of the Consolidated Entity in respect of liability and legal expenses incurred in their capacity as a director or officer. As it is prohibited under the terms of the contract of insurance, the Directors have not included details of the nature of the liabilities covered or the amount of the premiums paid.

The auditors of the Consolidated Entity are not indemnified by the Consolidated Entity or covered in any way by this insurance in respect of the audit.

## Non-audit services

During the financial year, KPMG, the Company's auditor, performed certain other services in addition to its statutory duties. The Board has considered the non-audit services provided during the financial year to the Company and its controlled entities by the auditor and, in accordance with written advice authorised by a resolution of the Audit Committee, resolved that it is satisfied that the provision of those non-audit services during the financial year by the auditor is compatible with, and did not compromise, the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- + all non-audit services were subject to the corporate governance procedures adopted by the Company and have been reviewed by the Audit Committee to ensure they do not impact the integrity and objectivity of the auditor; and
- + the non-audit services provided do not undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

Details of the amounts paid to KPMG and its related practices for the audit and non-audit services provided during the financial year to the Company and its controlled entities and amounts paid to other auditors for the statutory audit are set out in note 24 to the consolidated financial statements.

## Qualifications, experience and special responsibilities of Directors and Company Secretary

### Board of Directors

**Mr Ian Ferrier, AM – Independent Chairman  
Member of the Audit Committee and Remuneration and  
Nomination Committee  
Appointed 1 September 2003; Tenure 12 years, 10 months**

Ian was appointed Chairman on 28 July 2009 (having been Acting Chairman from 28 November 2008). Ian is a Fellow of Chartered Accountants Australia and New Zealand and has in excess of 40 years of experience in company corporate recovery and turnaround practice. Ian is also a director of a number of private and public companies. He is currently Chairman of Reckon Limited (director since August 2004) and a director of EnergyOne Limited (since January 2007). He was formerly the Chairman of InvoCare Limited (from March 2001 to October 2013) and Australian Vintage Ltd (from March 1991 to May 2015).

His experience is essentially concerned with understanding the financial and other issues confronting company management, analysing those issues and implementing policies and strategies which lead to success. Ian has significant experience in property and development, tourism, manufacturing, retail, hospitality and hotels, infrastructure and aviation and service industries.

**Mr Gregory Goodman – Group Chief Executive Officer  
Appointed 7 August 1998; Tenure 17 years, 11 months**

Gregory is responsible for Goodman's overall operations and the implementation of its strategic plan. He has over 30 years of experience in the property industry with significant expertise in the industrial property arena. Gregory was a co-founder of Goodman, playing an integral role in establishing its specialist global position in the property market through various corporate transactions, including takeovers, mergers and acquisitions.

He is a director of Goodman (NZ) Limited (the manager of the New Zealand Exchange listed Goodman Property Trust), and director and/or representative on other subsidiaries, management companies and partnerships of the Consolidated Entity.

**Qualifications, experience and special responsibilities of Directors and Company Secretary continued**

**Board of Directors continued**

**Mr Philip Fan – Independent Director  
Member of the Audit Committee and Risk and Compliance Committee  
Appointed 1 December 2011; Tenure 4 years, 7 months**

Philip was formerly an executive director and is now an independent non-executive director of Hong Kong Stock Exchange listed China Everbright International Ltd, a company which focuses on the business of environmental protection through the development and operation of numerous waste-to-energy and waste water treatment plants in China. Earlier in his career, he was an executive director of CITIC Pacific Ltd in charge of industrial projects in China. He is currently a director of the Hong Kong Stock Exchange listed Hysan Development Co Ltd, China Aircraft Leasing Group Holdings Limited, First Pacific Company Limited and Goulian Securities Co. Ltd. He is also a member of the Asia Advisory Committee of AustralianSuper.

Philip holds a Bachelor's Degree in Industrial Engineering and a Master's Degree in Operations Research from Stanford University, as well as a Master's Degree in Management Science from Massachusetts Institute of Technology.

**Mr John Harkness – Independent Director  
Chairman of the Audit Committee and Member of the Risk and Compliance Committee  
Appointed 23 February 2005; Tenure 11 years, 4 months**

John is a Fellow of Chartered Accountants Australia and New Zealand and the Australian Institute of Company Directors. He was a partner of KPMG for 24 years and National Executive Chairman for five years. Since leaving KPMG in June 2000, John has held a number of non-executive director roles. He is currently Chairman of Charter Hall Retail Management Limited (director since August 2003), the management company of Charter Hall Retail REIT. He is also Chairman of the Reliance Rail group (since 2011). He was formerly a director of Sinclair Knight Merz Management Pty Limited (from 2010 to December 2013). John is a member of the Territorial Headquarters and Sydney Advisory Board of the Salvation Army and the Chairman of the National Foundation for Medical Research and Innovation.

**Ms Anne Keating – Independent Director  
Member of the Remuneration and Nomination Committee and Risk and Compliance Committee  
Appointed 23 February 2005; Tenure 11 years, 4 months**

Anne has 20 years of experience as a director of public companies. She is currently a director of REVA Medical, Inc. (since October 2010), GI Dynamics, Inc. (since June 2011) and The Garvan Institute of Medical Research. Anne is also the Chairman of Houlihan Lokey Australia Pty Ltd, the Australian arm of the global investment bank, Houlihan Lokey, based in Los Angeles. Anne was formerly a director of Ardent Leisure Group (March 1998 to September 2014) and ClearView Wealth Limited (November 2010 to October 2012) and, prior to that, of Spencer Street Station Redevelopment Holdings Limited, Insurance Australia Group Limited and STW Limited.

Anne is also a Governor of the Cerebral Palsy Alliance Research Foundation and was, until May 2012, a trustee for the Centennial Park and Moore Park Trust. Her last executive position was as General Manager, Australia for United Airlines for nine years until 2001.

**Ms Rebecca McGrath – Independent Director  
Chairman of the Risk and Compliance Committee and Member of the Remuneration and Nomination Committee  
Appointed 3 April 2012; Tenure 4 years, 3 months**

Rebecca is currently a director of Incitec Pivot Limited (since September 2011) and OZ Minerals Limited (since November 2010). Rebecca is also currently a director of CSR Limited (since February 2012) and has announced her retirement from that Board. In addition, Rebecca is a director of Barristers' Chambers Limited and of Scania Australia Pty Limited. Rebecca is also Chairman of Project New Dawn Ltd, a social welfare not for profit. In addition, Rebecca is a director of Barristers' Chambers Limited and of Scania Australia Pty Limited. Rebecca is also Chairman of Project New Dawn Ltd, a social welfare not for profit. During her executive career at BP plc she held numerous senior roles in finance, operations, corporate planning, project management and marketing in Australasia, the UK, and Europe. Her most recent executive experience was as Chief Financial Officer of BP Australasia.

Rebecca holds a Bachelors Degree of Town Planning, a Masters of Applied Science (Project Management) and is a graduate of the Cambridge University Business and Environment Program. She is a Fellow of the Australian Institute of Company Directors.

**Mr Philip Pearce – Managing Director, Greater China  
Appointed 1 January 2013; Tenure 3 years, 6 months  
Resigned 12 July 2016**

Philip was responsible for the strategic development and continued expansion of the Goodman's business in the Greater China region. He joined Goodman in 2002 and has over 16 years of experience in real estate investment in the Asia Pacific region, including four years in Singapore with Ascendas-MGM Funds Management Limited, the manager of Ascendas Real Estate Investment Trust. Prior to joining Goodman, he was at AMP Henderson Global Investors in Sydney where he worked in various roles within the AMP Henderson Property Group including valuation, asset management and fund management.

Philip holds a Bachelor of Commerce and Graduate Diploma in Finance and Investment.

**Mr Danny Peeters – Executive Director, Corporate  
Appointed 1 January 2013; Tenure 3 years, 6 months**

Danny has oversight of Goodman's European and Brazilian operations and strategy. Danny has been with Goodman since 2006 and has 17 years of experience in the property and logistics sectors. Danny is a director and/or representative of Goodman's fund management entities, subsidiaries and partnerships in Europe and Brazil.

During his career, Danny has built up extensive experience in the design, implementation and outsourcing of pan-European supply chain and real estate strategies for various multinationals. Danny was Chief Executive Officer of Eurinpro, a developer of tailor-made logistic property solutions in Europe acquired by Goodman in May 2006.

## Qualifications, experience and special responsibilities of Directors and Company Secretary continued

### Board of Directors continued

#### **Mr Phillip Pryke – Independent Director Chairman of the Remuneration and Nomination Committee and Member of the Audit Committee Appointed 13 October 2010; Tenure 5 years, 9 months**

Phillip is a director of North Ridge Partners Pty Limited and Tru-Test Corporation Limited. He is also a director of Goodman (NZ) Limited, the manager of the New Zealand Exchange listed Goodman Property Trust. He was formerly the Deputy Chairman and Lead Independent Director of New Zealand Exchange listed Contact Energy Limited.

Phillip has wide experience in the fishing, energy, financial services, and health and technology industries and holds a Bachelor of Economics Degree.

#### **Mr Anthony Rozic – Deputy Group Chief Executive Officer Appointed 1 January 2013; Tenure 3 years, 6 months**

Anthony's responsibilities for Goodman include assisting in setting and managing strategy, business performance, corporate transactions and related operational projects with direct line management of marketing, information technology (IT), human resources, legal, compliance, insurance, sustainability and health & safety. Anthony joined Goodman in 2004 and until February 2009, was Group Chief Financial Officer where his responsibilities also included financial reporting, management reporting, forecasting and budgeting, tax, and capital and financial risk management. Anthony is a qualified Chartered Accountant and has over 20 years' experience in the property industry having previously held a number of senior roles in the property funds management industry and chartered accountancy profession.

Anthony is also a director of the Goodman's subsidiaries and was recently responsible for establishing the Goodman's investment into the United States where he continues to be actively involved operationally.

#### **Mr Jim Sloman, OAM – Independent Director Member of the Remuneration and Nomination Committee and Risk and Compliance Committee Appointed 1 February 2006; Tenure 10 years, 5 months**

Jim has over 40 years of experience in the building and construction industries in Australia and overseas, including experience with Sir Robert McAlpine & Sons in London, Lend Lease Corporation in Australia and as Deputy Chief Executive and Chief Operating Officer of the Sydney Organising Committee for the Olympic Games (SOCOG) from 1997 to 2001. He was the CEO and a director of MI Associates Pty Limited, a company established by him and comprising some of the leading members of the former SOCOG senior management team. He advised on major events including the London 2012 Olympic Games and Rio de Janeiro 2016 Olympic Games. Jim is currently working as an advisor to the Qatar 2022 World Cup.

In addition, Jim is Chairman of Laing O'Rourke Australia Pty Limited and of several of its associated companies and a director of SHAPE Holdings Pty Limited and of several of its associated companies. With his range of experience, Jim brings significant property, construction and major projects expertise to Goodman.

**Qualifications, experience and special responsibilities of Directors and Company Secretary continued**

**Company Secretary**

**Mr Carl Bicego – Company Secretary**  
**Appointed 24 October 2006**

Carl is the Company Secretary of the Company and its Australian controlled entities, as well as Legal Counsel – Head of Corporate. He has over 18 years of legal experience in corporate law and joined Goodman from law firm Allens in 2006. Carl holds a Master of Laws and Bachelor of Economics/ Bachelor of Laws (Hons).

**Events subsequent to balance date**

On 11 August 2016, GLHK proposed a dividend of 1.0 cent per security to be paid on 26 August 2016.

In the opinion of the Directors, other than the declaration of the dividend, there were no other events subsequent to balance date, and up to the date of signature of this Directors' report, that would require adjustment or disclosure in the consolidated financial report.

**Declaration by the Group Chief Executive Officer and Chief Financial Officer**

The Group Chief Executive Officer and Group Chief Financial Officer declared in writing to the Board that, in their opinion, the financial records of the Consolidated Entity for the year ended 30 June 2016 have been properly maintained and the financial report for the year ended 30 June 2016 complies with accounting standards and presents a true and fair view of the Consolidated Entity's financial condition and operational results. This statement is required annually.

**Lead auditor's independence declaration under section 307C of the Corporations Act 2001**

The lead auditor's independence declaration is set out on page 44 and forms part of this Directors' report for the financial year.

**Rounding**

The Consolidated Entity is an entity of a kind referred to in Australian Securities & Investments Commission (ASIC) Corporations (Rounding in Financial/ Directors' Reports) Instrument 2016/191, dated 24 March 2016. In accordance with that Instrument, amounts in this Directors' report and the consolidated financial report have been rounded to the nearest hundred thousand dollars, unless otherwise stated.

The Directors' report is made in accordance with a resolution of the Directors.



**Ian Ferrier, AM**  
Independent Chairman

Sydney, 11 August 2016



**Gregory Goodman**  
Group Chief Executive Officer

# LEAD AUDITOR'S INDEPENDENCE DECLARATION



## Lead auditor's independence declaration under section 307C of the *Corporations Act 2001*

To: The directors of Goodman Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2016, there have been:

- (i) no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the audit.

A handwritten signature in black ink, appearing to read 'John Teer', with a flourish at the end.

**KPMG**

A larger handwritten signature in black ink, appearing to read 'John Teer', with a flourish at the end.

**John Teer**  
Partner

Sydney, 11 August 2016

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2016

		Consolidated	
	Note	2016 \$M	2015 \$M
<b>Current assets</b>			
Cash	17(a)	1,337.0	746.5
Receivables	7	403.2	344.8
Inventories	6(b)	687.0	364.3
Current tax receivables	5(c)	0.9	13.6
Other financial assets	13	–	4.4
Other assets		15.7	13.8
<b>Total current assets</b>		<b>2,443.8</b>	<b>1,487.4</b>
<b>Non-current assets</b>			
Receivables	7	34.3	45.7
Inventories	6(b)	688.8	1,067.4
Investment properties	6(b)	2,720.7	2,906.0
Investments accounted for using the equity method	6(b)	5,348.1	4,508.8
Deferred tax assets	5(d)	12.3	16.7
Other financial assets	13	330.1	234.8
Plant and equipment		19.7	17.5
Intangible assets	10	780.6	976.4
Other assets		8.7	1.6
<b>Total non-current assets</b>		<b>9,943.3</b>	<b>9,774.9</b>
<b>Total assets</b>		<b>12,387.1</b>	<b>11,262.3</b>
<b>Current liabilities</b>			
Payables	8	407.4	371.4
Current tax payables	5(c)	62.1	42.9
Interest bearing liabilities	12	20.3	–
Provisions	9	211.5	207.1
Other financial liabilities	13	0.1	50.5
<b>Total current liabilities</b>		<b>701.4</b>	<b>671.9</b>
<b>Non-current liabilities</b>			
Payables	8	85.1	100.8
Interest bearing liabilities	12	2,844.9	2,707.9
Deferred tax liabilities	5(d)	44.7	5.6
Provisions	9	43.4	52.7
Other financial liabilities	13	274.3	347.3
<b>Total non-current liabilities</b>		<b>3,292.4</b>	<b>3,214.3</b>
<b>Total liabilities</b>		<b>3,993.8</b>	<b>3,886.2</b>
<b>Net assets</b>		<b>8,393.3</b>	<b>7,376.1</b>
<b>Equity attributable to Goodman Limited (GL)</b>			
Issued capital	16(a)	483.2	471.1
Reserves	18	(24.1)	(508.8)
Retained earnings	19	(11.7)	398.7
<b>Total equity attributable to GL</b>		<b>447.4</b>	<b>361.0</b>
<b>Equity attributable to Goodman Industrial Trust (GIT) (non-controlling interests)</b>			
Issued capital	16(a)	6,914.1	6,842.3
Reserves	18	(47.3)	272.9
Accumulated losses	19	(344.0)	(1,338.5)
<b>Total equity attributable to GIT</b>		<b>6,522.8</b>	<b>5,776.7</b>
<b>Equity attributable to Goodman Logistics (HK) Limited (GLHK) (non-controlling interests)</b>			
Issued capital	16(a)	634.4	622.8
Reserves	18	104.2	103.5
Retained earnings	19	358.7	186.3
<b>Total equity attributable to GLHK</b>		<b>1,097.3</b>	<b>912.6</b>
<b>Total equity attributable to Securityholders</b>		<b>8,067.5</b>	<b>7,050.3</b>
Other non-controlling interests	20	325.8	325.8
<b>Total equity</b>		<b>8,393.3</b>	<b>7,376.1</b>

The consolidated statement of financial position is to be read in conjunction with the accompanying notes.

# CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 30 JUNE 2016

		Consolidated	
	Note	2016 \$M	2015 \$M
<b>Revenue</b>			
Gross property income		204.6	206.1
Management income		259.3	215.3
Development income	2	1,250.4	763.7
		<b>1,714.3</b>	<b>1,185.1</b>
<b>Property and development expenses</b>			
Property expenses		(63.9)	(59.4)
Development expenses	2	(929.1)	(619.0)
		<b>(993.0)</b>	<b>(678.4)</b>
<b>Other income</b>			
Net gain from fair value adjustments on investment properties	6(e)	327.8	515.9
Net gain on disposal of investment properties		18.1	7.8
Net (loss)/gain on disposal of controlled entities	2	(2.3)	33.3
Share of net results of equity accounted investments	2	928.6	614.1
Net (loss)/gain on disposal of equity investments	2	(42.5)	0.4
		<b>1,229.7</b>	<b>1,171.5</b>
<b>Other expenses</b>			
Employee expenses	2	(172.6)	(144.8)
Share based payments expense	2	(66.9)	(51.0)
Administrative and other expenses		(79.1)	(76.2)
Impairment losses	2	(249.1)	(28.2)
		<b>(567.7)</b>	<b>(300.2)</b>
<b>Profit before interest and tax</b>		<b>1,383.3</b>	<b>1,378.0</b>
<b>Net finance income/(expense)</b>			
Finance income	11	114.6	59.8
Finance expense	11	(127.6)	(187.6)
<b>Net finance expense</b>		<b>(13.0)</b>	<b>(127.8)</b>
<b>Profit before income tax</b>		<b>1,370.3</b>	<b>1,250.2</b>
Income tax expense	5	(75.6)	(21.0)
<b>Profit for the year</b>		<b>1,294.7</b>	<b>1,229.2</b>
(Loss)/profit attributable to GL	19	(131.9)	219.9
Profit attributable to GIT (non-controlling interests)	19	1,232.4	903.3
Profit attributable to GLHK (non-controlling interests)	19	174.1	84.8
<b>Profit attributable to Securityholders</b>		<b>1,274.6</b>	<b>1,208.0</b>
Profit attributable to other non-controlling interests		20.1	21.2
<b>Profit for the year</b>		<b>1,294.7</b>	<b>1,229.2</b>
Basic profit per security (¢)	3	72.0	69.2
Diluted profit per security (¢)	3	69.8	67.1

The consolidated income statement is to be read in conjunction with the accompanying notes.



# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2016

		Consolidated	
	Note	2016 \$M	2015 \$M
<b>Profit for the year</b>		<b>1,294.7</b>	<b>1,229.2</b>
<b>Other comprehensive income for the year</b>			
<b>Items that will not be reclassified to profit or loss</b>			
Actuarial losses on defined benefit superannuation funds	18(e)	(0.4)	(9.1)
Effect of foreign currency translation	18(e)	4.3	(2.8)
		<b>3.9</b>	<b>(11.9)</b>
<b>Items that are or may be reclassified subsequently to profit or loss</b>			
Decrease due to revaluation of other financial assets	18(a)	(0.1)	(0.1)
Cash flow hedges:			
– Change in value of financial instruments	18(b)	(0.9)	0.8
– Transfers from cash flow hedge reserve	18(b)	–	4.1
Effect of foreign currency translation	18	(33.4)	207.1
Transfers to the income statement from foreign currency translation reserve	18(c)	34.3	–
		<b>(0.1)</b>	<b>211.9</b>
<b>Other comprehensive income for the year, net of income tax</b>		<b>3.8</b>	<b>200.0</b>
<b>Total comprehensive income for the year</b>		<b>1,298.5</b>	<b>1,429.2</b>
Total comprehensive income attributable to GL		43.6	129.3
Total comprehensive income attributable to GIT (non-controlling interests)		1,066.1	1,169.4
Total comprehensive income attributable to GLHK (non-controlling interests)		168.7	109.3
<b>Total comprehensive income attributable to Securityholders</b>		<b>1,278.4</b>	<b>1,408.0</b>
Total comprehensive income attributable to other non-controlling interests		20.1	21.2
<b>Total comprehensive income for the year</b>		<b>1,298.5</b>	<b>1,429.2</b>

The consolidated statement of comprehensive income is to be read in conjunction with the accompanying notes.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2016

Year ended 30 June 2015  
Consolidated

	Note	Attributable to Securityholders			Total \$M	Other non- controlling interests \$M	Total equity \$M
		Issued capital \$M	Reserves \$M	Accumu- lated losses \$M			
<b>Balance at 1 July 2014</b>		<b>7,846.9</b>	<b>(1,330.5)</b>	<b>(611.8)</b>	<b>5,904.6</b>	<b>325.8</b>	<b>6,230.4</b>
<b>Total comprehensive income for the year</b>							
Profit for the year	19, 20	–	–	1,208.0	<b>1,208.0</b>	21.2	<b>1,229.2</b>
Other comprehensive income for the year, net of income tax		–	200.0	–	<b>200.0</b>	–	<b>200.0</b>
<b>Total comprehensive income for the year, net of income tax</b>		<b>–</b>	<b>200.0</b>	<b>1,208.0</b>	<b>1,408.0</b>	<b>21.2</b>	<b>1,429.2</b>
Transfers		–	961.4	(961.4)	–	–	–
<b>Contributions by and distributions to owners</b>							
– Distribution reinvestment plan	16(a)	89.4	–	–	<b>89.4</b>	–	<b>89.4</b>
– Issue costs due to stapled securities	16(a)	(0.1)	–	–	<b>(0.1)</b>	–	<b>(0.1)</b>
– Distributions declared on stapled securities	15	–	–	(388.3)	<b>(388.3)</b>	–	<b>(388.3)</b>
– Distributions paid on Goodman PLUS	20	–	–	–	–	(21.2)	<b>(21.2)</b>
– Equity settled share based payments expense recognised in the income statement	2	–	36.7	–	<b>36.7</b>	–	<b>36.7</b>
<b>Balance at 30 June 2015</b>		<b>7,936.2</b>	<b>(132.4)</b>	<b>(753.5)</b>	<b>7,050.3</b>	<b>325.8</b>	<b>7,376.1</b>

Year ended 30 June 2016  
Consolidated

	Attributable to Securityholders						Total equity \$M
	Note	Issued capital \$M	Reserves \$M	(Accumulated losses)/ retained earnings \$M	Total \$M	Other non-controlling interests \$M	
<b>Balance at 1 July 2015</b>		<b>7,936.2</b>	<b>(132.4)</b>	<b>(753.5)</b>	<b>7,050.3</b>	<b>325.8</b>	<b>7,376.1</b>
<b>Total comprehensive income for the year</b>							
Profit for the year	19, 20	–	–	1,274.6	<b>1,274.6</b>	20.1	<b>1,294.7</b>
Other comprehensive income for the year, net of income tax		–	3.8	–	<b>3.8</b>	–	<b>3.8</b>
<b>Total comprehensive income for the year, net of income tax</b>		<b>–</b>	<b>3.8</b>	<b>1,274.6</b>	<b>1,278.4</b>	<b>20.1</b>	<b>1,298.5</b>
Transfers		–	110.1	(110.1)	–	–	–
<b>Contributions by and distributions to owners</b>							
– Distribution reinvestment plan	16(a)	95.5	–	–	<b>95.5</b>	–	<b>95.5</b>
– Distributions declared on stapled securities	15	–	–	(408.0)	<b>(408.0)</b>	–	<b>(408.0)</b>
– Distributions paid on Goodman PLUS	20	–	–	–	–	(20.1)	<b>(20.1)</b>
– Equity settled share based payments expense recognised in the income statement	2	–	51.3	–	<b>51.3</b>	–	<b>51.3</b>
<b>Balance at 30 June 2016</b>		<b>8,031.7</b>	<b>32.8</b>	<b>3.0</b>	<b>8,067.5</b>	<b>325.8</b>	<b>8,393.3</b>

The consolidated statement of changes in equity is to be read in conjunction with the accompanying notes. For an analysis of equity attributable to shareholders of Goodman Limited, equity attributable to unitholders in Goodman Industrial Trust (non-controlling interests) and equity attributable to shareholders of Goodman Logistics (HK) Limited (non-controlling interests), refer to notes 16, 18 and 19.

# CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 30 JUNE 2015

	Note	Consolidated	
		2016 \$M	2015 \$M
<b>Cash flows from operating activities</b>			
Property income received		216.8	213.9
Cash receipts from development activities		1,520.4	983.3
Other cash receipts from services provided		254.9	245.7
Property expenses paid		(73.7)	(65.1)
Payments for development activities		(1,036.5)	(951.5)
Other cash payments in the course of operations		(270.6)	(230.9)
Distributions/dividends received from equity accounted investments		421.5	511.6
Interest received		8.6	13.9
Finance costs paid		(191.8)	(34.9)
Net income taxes paid		(19.5)	(31.3)
<b>Net cash provided by operating activities</b>	17(b)	<b>830.1</b>	<b>654.7</b>
<b>Cash flows from investing activities</b>			
Proceeds from disposal of investment properties		636.1	62.5
Proceeds from disposal of controlled entities, net of cash disposed		1.1	234.2
Proceeds from disposal of equity investments		105.8	–
Cash recognised on restructure of Brazil operations		8.7	–
Payments for equity investments		(479.9)	(382.3)
Payments for investment properties		(103.4)	(58.4)
Payments for plant and equipment		(8.4)	(3.8)
<b>Net cash provided by/(used in) investing activities</b>		<b>160.0</b>	<b>(147.8)</b>
<b>Cash flows from financing activities</b>			
Issue costs due to stapled securities		–	(0.1)
Net cash flows from loans to related parties		1.0	2.6
Proceeds from borrowings		184.8	460.5
Repayments of borrowings		(255.6)	(279.0)
Distributions paid		(329.8)	(304.3)
<b>Net cash used in financing activities</b>		<b>(399.6)</b>	<b>(120.3)</b>
Net increase in cash held		590.5	386.6
Cash at the beginning of the year		746.5	359.9
<b>Cash at the end of the year</b>	17(a)	<b>1,337.0</b>	<b>746.5</b>

The consolidated cash flow statement is to be read in conjunction with the accompanying notes.

Non-cash transactions are included in note 17(c).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## Basis of preparation

### 1. Basis of preparation

Goodman Limited (Company or Parent Entity) is a company domiciled in Australia. The consolidated financial report of the Company as at and for the year ended 30 June 2016 comprises the Company and its controlled entities (together Goodman or Consolidated Entity) and Goodman's interests in associates and joint ventures (JVs).

#### (a) Statement of compliance

This consolidated financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. International Financial Reporting Standards (IFRS) form the basis of Australian Accounting Standards adopted by the AASB. The consolidated financial report also complies with IFRS.

The consolidated financial report is presented in Australian dollars and was authorised for issue by the Directors on 11 August 2016.

#### (b) Basis of preparation of the consolidated financial report

The stapling of the Company, GIT and GLHK was implemented on 22 August 2012. Shares in the Company, units in GIT and CDIs over shares in GLHK are stapled to one another and are quoted as a single security on the ASX.

Australian Accounting Standards require an acquirer to be identified and an in-substance acquisition to be recognised. In relation to the stapling of the Company, GIT and GLHK, the Company is identified as having acquired control over the assets of GIT and GLHK. The issued units of GIT and shares of GLHK are not owned by the Company and are presented as non-controlling interests in the Consolidated Entity. Accordingly, the equity in the net assets of both GIT and GLHK has been separately identified in the statement of financial position and the profit or loss arising from those net assets has been separately identified in the income statement.

The consolidated financial report is prepared on the historical cost basis, subject to any impairment of assets, except that the following assets and liabilities are stated at fair value:

- + investment properties;
- + derivative financial instruments;
- + financial instruments classified as available for sale; and
- + liabilities for cash settled share based payment arrangements.

## (c) Foreign currency translation

### Functional and presentation currency

Items included in the consolidated financial statements of each of the Company's controlled entities are measured using the currency of the primary economic environment in which the entity operates (functional currency). The consolidated financial statements are presented in Australian dollars, which is the Company's functional and presentation currency.

### Transactions

Foreign currency transactions are translated to each entity's functional currency at rates approximating to the foreign exchange rates ruling at the dates of the transactions. Amounts receivable and payable in foreign currencies at the balance date are translated at the rates of exchange ruling on that date. Resulting exchange differences are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost are translated at rates of exchange applicable at the date of the initial transaction. Non-monetary items which are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

### Translation of controlled foreign operations

The assets and liabilities of foreign operations are translated into Australian dollars at foreign exchange rates ruling at the balance date.

Revenue and expenses are translated at weighted average rates for the financial year. Exchange differences arising on translation are taken directly to the foreign currency translation reserve. On cessation of operations in a foreign region, the cumulative exchange differences relating to the operations in that region, that have been included in the foreign currency translation reserve, are reclassified to profit or loss.

Exchange differences arising on monetary items that form part of the net investment in a foreign operation are recognised in the foreign currency translation reserve on consolidation.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

## Basis of preparation continued

### 1. Basis of preparation continued

#### Exchange rates used

The following exchange rates are the main exchange rates used in translating foreign currency transactions, balances and financial statements to Australian dollars:

Australian dollar (AUD) to	Weighted average		As at 30 June	
	2016	2015	2016	2015
New Zealand dollars (NZD)	1.0903	1.0755	1.0456	1.1381
Hong Kong dollars (HKD)	5.6530	6.4869	5.7786	5.9739
Chinese yuan (CNY)	4.6927	5.1748	4.9564	4.7784
Japanese yen (JPY)	84.9874	95.5310	76.8420	94.1320
Euros (EUR)	0.6565	0.6959	0.6725	0.6910
British pounds sterling (GBP)	0.4919	0.5304	0.5613	0.4903
United States dollars (USD)	0.7285	0.8366	0.7447	0.7708
Brazil real (BRL)	2.6922	2.2299	2.3718	2.3930

#### (d) Changes in accounting policy

The AASB has issued new standards and amendments to standards that are first effective for the current accounting period of the Consolidated Entity. There are no significant changes in accounting policies for the current financial year.

#### (e) Australian Accounting Standards issued but not yet effective

As at the date of this consolidated financial report, the following Australian Accounting Standards were available for early adoption but have not been applied in preparing these financial statements:

- + revisions to AASB 9 Financial Instruments include requirements for the classification and measurement of financial assets and replace AASB 139 Financial Instruments: Recognition and Measurement. The revised AASB 9 Financial Instruments will become mandatory for the Consolidated Entity's 30 June 2019 financial statements. The new standard is not expected to have a material impact on the Consolidated Entity's financial statements;
- + AASB 15 Revenue from Contracts with Customers provides a single revenue recognition model based on the transfer of goods and services and the consideration expected to be received in return for that transfer. The new standard will become mandatory for the Consolidated Entity's 30 June 2019 financial statements. Based on Goodman's existing contractual arrangements, the new standard is not expected to have a material impact on the Consolidated Entity's financial statements; and
- + AASB 16 Leases introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right of use asset representing its right to use the underlying leased asset and a lease liability representing its obligations to make lease payments. The new standard will become mandatory for the Consolidated Entity's 30 June 2020 financial statements and will result in the gross up of assets and liabilities associated with office buildings that Goodman leases; however, the impact is not expected to be material in the context of the Consolidated Entity's financial statements.

#### (f) Rounding

The Consolidated Entity is an entity of a kind referred to in Australian Securities & Investments Commission (ASIC) Corporations (Rounding in Financial/ Directors' Reports) Instrument 2016/191, dated 24 March 2016. In accordance with that Instrument, amounts in this Directors' report and the consolidated financial report have been rounded to the nearest hundred thousand dollars, unless otherwise stated.

#### (g) Critical accounting estimates used in the preparation of the consolidated financial statements

The preparation of consolidated financial statements requires estimates and assumptions concerning the application of accounting policies and the future to be made by the Consolidated Entity. Estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year can be found in the following notes:

- + Note 6 – Property assets;
- + Note 10 – Goodwill and intangible assets; and
- + Note 14 – Financial risk management.

The accounting impacts of revisions to estimates are recognised in the period in which the estimate is revised and in any future periods affected.

#### Measurement of fair values

A number of the Consolidated Entity's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

When measuring the fair value of an asset or a liability, the Consolidated Entity uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy and have been defined as follows:

- + Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- + Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- + Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Further information about the assumptions made in measuring fair values is included in the following notes:

- + Note 6 – Property assets; and
- + Note 14 – Financial risk management.

## Results for the year

### 2. Profit before income tax

#### Gross property income

Gross property income comprises rental income entitlements under operating leases, net of incentives provided, plus recoverable outgoings.

Rental income entitlements under operating leases are recognised on a straight-line basis over the term of the lease contract. Where operating lease rental income is recognised relating to fixed increases in rentals in future years, an asset is recognised. This asset is a component of the relevant investment property carrying amount. The cost of lease incentives provided to customers is recognised on a straight-line basis over the life of the lease as a reduction of gross property income.

Recoverable outgoings are recognised as income when the relevant outgoings are recorded as an expense.

#### Management income

Fee income derived from investment management and property services is recognised progressively as the services are provided. Any performance related investment management income is recognised on attainment of the performance related conditions.

#### Development income

Development income comprises income from disposal of inventories, fee income from development management contracts and income from fixed price construction contracts.

The disposal of inventories is recognised when the significant risks and rewards of ownership have been transferred. The gain or loss on disposal of inventories is calculated as the difference between the carrying amount of the asset at the time of disposal and the proceeds on disposal (less transaction costs and any provision for future rental guarantees) and is included in the income statement in the period of disposal.

Fee income from development management services is recognised progressively as the services are provided in proportion to the stage of completion by reference to costs incurred. Any performance related development management income is recognised on attainment of the performance related consideration.

Certain development activities are assessed as being fixed price construction contracts. Revenue and expenses relating to these construction contracts are recognised in the income statement in proportion to the stage of completion of the relevant contracts. The stage of completion is assessed by reference to costs incurred to date as a percentage of estimated total costs for each contract. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable. An expected loss on a contract is recognised immediately in the income statement.

#### Net gain on disposal of investment properties

The disposal of an investment property is recognised when the significant risks and rewards of ownership have been transferred. The gain or loss on disposal of investment properties is calculated as the difference between the carrying amount of the property at the time of the disposal and the proceeds on disposal (less transaction costs and any provision for future rental guarantees) and is included in the income statement in the period of disposal.

#### Employee expenses

##### Wages, salaries, and annual leave

Wages and salaries, including non-monetary benefits, and annual leave that are expected to be settled within 12 months of the balance date represent present obligations resulting from employees' services provided to the balance date. These are calculated at undiscounted amounts based on rates that the Consolidated Entity expects to pay as at balance date including related on-costs, such as workers' compensation insurance and payroll tax.

##### Bonus

A liability is recognised in other payables and accruals for bonuses where there is a contractual obligation or where there is a past practice that has created a constructive obligation. Liabilities for bonuses that are expected to be settled within 12 months are measured at the amounts expected to be paid, including related on-costs, when they are settled. Liabilities for bonuses, including related on-costs, which are expected to be settled after more than 12 months are discounted to reflect the estimated timing of payments.

##### Long-term service benefits

The Consolidated Entity's net obligation in respect of long-term service benefits, other than defined benefit superannuation funds, is the amount of future benefit that employees have earned in return for their service in the current and prior financial year. The obligation is calculated using expected future increases in wage and salary rates including related on-costs and expected settlement dates, and is discounted to reflect the estimated timing of benefit payments.

##### Superannuation

###### Defined contribution funds

Obligations for contributions to defined contribution funds are recognised as an expense as incurred.

###### Defined benefit funds

A liability or asset in respect of a defined benefit fund is recognised in the statement of financial position, and is measured as the present value of the defined benefit obligation at the balance date less the fair value of the fund's assets at that date. The present value of the defined benefit obligation is based on expected future payments which arise from membership of the fund to the balance date, calculated annually by independent actuaries using the projected unit credit method. Consideration is given to the expected future wage and salary levels, experience of employee departures and periods of service.

Expected future payments are discounted using market yields at the balance date on high quality corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited directly to equity.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

## Results for the year continued

### 2. Profit before income tax continued

Profit before income tax has been arrived at after crediting/(charging) the following items:

	Note	Consolidated	
		2016 \$M	2015 \$M
<b>Development activities</b>			
Income from disposal of inventories		469.3	358.1
Net gain on disposal of special purpose development entities		25.0	23.3
Other development income		756.1	382.3
<b>Development income</b>		<b>1,250.4</b>	<b>763.7</b>
Inventory cost of sales		(381.3)	(339.8)
Other development expenses		(547.8)	(279.2)
<b>Development expenses</b>		<b>(929.1)</b>	<b>(619.0)</b>
<b>Equity accounted investments</b>			
Share of net results of investments in associates			
– Operating results after tax (before revaluations)	6(f)(i)	288.3	299.6
– Fair value adjustments attributable to investment properties	6(f)(i)	439.1	182.9
– Fair value adjustments on derivative financial instruments	6(f)(i)	6.9	7.1
Share of net results of investments in JVs			
– Operating results after tax (before revaluations)	6(f)(ii)	88.1	85.9
– Fair value adjustments attributable to investment properties	6(f)(ii)	107.5	39.1
– Fair value adjustments on derivative financial instruments	6(f)(ii)	(1.3)	(0.5)
<b>Share of net results of equity accounted investments</b>		<b>928.6</b>	<b>614.1</b>
<b>Disposal of equity investments</b>			
Net consideration from disposal of associates and JVs		114.3	0.7
Carrying value of associates and JVs disposed	6(f)(i), 6(f)(ii)	(92.6)	(0.3)
Loss on restructure of Brazil operations	21	(64.2)	–
<b>Net (loss)/gain on disposal of equity investments</b>		<b>(42.5)</b>	<b>0.4</b>
<b>Disposal of controlled entities</b>			
Net consideration received and receivable from the disposal of controlled entities	21	1.9	228.8
Carrying value of net assets disposed	21	(4.2)	(195.5)
<b>Net (loss)/gain on disposal of controlled entities</b>		<b>(2.3)</b>	<b>33.3</b>
<b>Employee expenses</b>			
Wages, salaries and on-costs		(159.1)	(134.6)
Annual and long service leave		(5.2)	(2.5)
Superannuation costs		(8.3)	(7.7)
<b>Employee expenses</b>		<b>(172.6)</b>	<b>(144.8)</b>
<b>Share based payments</b>			
Equity settled share based payments expense		(51.3)	(36.7)
Cash settled share based payments expense		(7.8)	(7.5)
Other share based payments related costs		(7.8)	(6.8)
<b>Share based payments expense</b>		<b>(66.9)</b>	<b>(51.0)</b>
<b>Amortisation and depreciation</b>			
Amortisation of leasehold improvements		(0.5)	(1.2)
Depreciation of plant and equipment		(7.2)	(5.4)
<b>Amortisation and depreciation</b>		<b>(7.7)</b>	<b>(6.6)</b>
<b>Impairment losses</b>			
Impairment of receivables		(2.1)	(1.1)
Impairment of inventories	6(d)	(42.4)	(15.1)
Impairment of other financial assets		–	(12.0)
Impairment of intangible assets	10	(204.6)	–
<b>Impairment losses</b>		<b>(249.1)</b>	<b>(28.2)</b>



## Results for the year continued

### 3. Profit per security

Basic profit per security is calculated by dividing the profit or loss attributable to the Securityholders by the weighted average number of securities outstanding during the year. Diluted profit per security is determined by adjusting the profit or loss attributable to the Securityholders and weighted average number of securities outstanding for all dilutive potential securities, which comprise performance rights issued under the LTIP and securities contingently issuable on conversion of hybrid securities.

Under Australian Accounting Standards, the issued units of GIT and the CDIs over the shares of GLHK are presented as non-controlling interests and as a consequence the Directors are also required to present a profit per share and a diluted profit per share based on Goodman Limited's profit attributable to the Shareholders, which excludes the profit attributable to GIT and GLHK.

Details of these calculations are set out below:

	2016 ¢	2015 ¢
<b>Profit per security</b>		
Basic profit per security	72.0	69.2
Diluted profit per security	69.8	67.1
<b>Loss/(profit) per Company share</b>		
Basic (loss)/profit per Company share	(7.5)	12.6
Diluted (loss)/profit per Company share	(7.0)	12.1

#### (a) Basic and diluted profit or loss per security/per Company share

	Note	2016 \$M	2015 \$M
<b>Profit per security</b>			
Profit after tax used in calculating basic profit per security	19	1,274.6	1,208.0
Distribution on Goodman PLUS		20.1	21.2
<b>Profit after tax used in calculating diluted profit per security</b>		<b>1,294.7</b>	<b>1,229.2</b>
<b>Loss/(profit) per Company share</b>			
(Loss)/profit after tax used in calculating basic (loss)/profit per Company share	19	(131.9)	219.9
Impact on conversion of Goodman PLUS		2.3	1.9
<b>(Loss)/profit after tax used in calculating diluted (loss)/profit per Company share</b>		<b>(129.6)</b>	<b>221.8</b>

#### (b) Weighted average number of securities

	2016 Number of securities	2015 Number of securities
<b>Weighted average number of securities/shares used in calculating basic profit or loss per security/per Company share</b>	<b>1,770,270,056</b>	<b>1,745,301,730</b>
Effect of performance rights on issue	39,558,004	34,946,851
Effect of issue of securities to Goodman PLUS holders	45,944,104	52,270,189
<b>Weighted average number of securities/shares used in calculating diluted profit or loss per security/Company share</b>	<b>1,855,772,164</b>	<b>1,832,518,770</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

## Results for the year continued

### 4. Segment reporting

An operating segment is a component of the Consolidated Entity that engages in business activities from which it may earn revenues and incur expenses. The Consolidated Entity reports the results and financial position of its operating segments based on the internal reports regularly reviewed by the Group Chief Executive Officer in order to assess each segment's performance and to allocate resources to them.

The Consolidated Entity is based in Australia and has separately managed divisions in Asia Pacific (primarily Australia, New Zealand, Hong Kong, China and Japan), Europe (Continental Europe and the United Kingdom) and the Americas (North America and Brazil).

The activities and services undertaken by the divisions include:

- + direct and indirect ownership of investment properties;
- + development; and
- + investment management and property services.

Segment results that are reported to the Group Chief Executive Officer include items that are directly attributable to a segment and the portion that can be allocated to the segment on a reasonable basis. Unallocated items include fair value adjustments and impairments, interest and tax expense, interest bearing receivables and payables, derivative financial instruments, provisions for distributions to Securityholders, provisions for distributions on hybrid securities, corporate assets, head office expenses and income tax assets and liabilities.

Information regarding the operations of each reportable segment is included below.

### Information about reportable segments

	Australia and New Zealand		Asia		Continental Europe		United Kingdom		Americas		Total	
	2016 \$M	2015 \$M	2016 \$M	2015 \$M	2016 \$M	2015 \$M	2016 \$M	2015 \$M	2016 \$M	2015 \$M	2016 \$M	2015 \$M
<b>Income statement</b>												
<b>External revenues</b>												
Gross property income	176.1	183.3	2.5	5.1	11.6	9.5	8.2	8.2	6.2	–	204.6	206.1
Management income	107.2	86.5	78.2	67.3	45.7	38.6	27.2	19.7	1.0	3.2	259.3	215.3
Development income	179.2	233.5	42.5	42.6	889.4	370.1	107.6	111.5	31.7	6.0	1,250.4	763.7
<b>Total external revenues</b>	<b>462.5</b>	<b>503.3</b>	<b>123.2</b>	<b>115.0</b>	<b>946.7</b>	<b>418.2</b>	<b>143.0</b>	<b>139.4</b>	<b>38.9</b>	<b>9.2</b>	<b>1,714.3</b>	<b>1,185.1</b>
<b>Reportable segment profit before tax</b>	<b>468.0</b>	<b>415.3</b>	<b>187.5</b>	<b>157.0</b>	<b>227.8</b>	<b>127.5</b>	<b>82.2</b>	<b>99.7</b>	<b>15.4</b>	<b>8.4</b>	<b>980.9</b>	<b>807.9</b>
<b>Share of net results of equity accounted investments</b>												
Operating results (excluding fair value adjustments)	164.5	178.3	119.4	77.7	41.6	42.2	54.1	77.4	(3.2)	9.9	376.4	385.5
Fair value adjustments – not included in reportable segment profit before tax	272.7	113.5	165.6	76.1	34.6	23.6	21.1	15.4	58.2	–	552.2	228.6
<b>Other material non-cash items not included in reportable segment profit before tax</b>												
Net gain/(loss) from fair value adjustments on investment properties	340.2	546.1	–	–	(9.0)	(18.8)	(3.4)	(11.4)	–	–	327.8	515.9
Impairment losses	(7.3)	(5.5)	–	–	(16.8)	(13.2)	(225.0)	(9.5)	–	–	(249.1)	(28.2)
<b>Statement of financial position</b>												
<b>Reportable segment assets</b>	<b>5,365.1</b>	<b>5,303.6</b>	<b>1,848.3</b>	<b>1,727.7</b>	<b>1,695.6</b>	<b>1,577.0</b>	<b>1,102.0</b>	<b>1,391.5</b>	<b>908.6</b>	<b>414.3</b>	<b>10,919.6</b>	<b>10,414.1</b>
Non-current assets	5,155.6	5,085.8	1,687.8	1,564.8	1,375.1	1,500.5	782.5	968.5	596.6	402.5	9,597.6	9,522.1
<b>Included in reportable segment assets are:</b>												
Investment properties	2,645.0	2,816.5	–	–	45.2	52.7	30.5	36.8	–	–	2,720.7	2,906.0
Investments accounted for using the equity method	2,425.6	2,092.3	1,483.6	1,146.7	542.9	536.9	308.5	338.3	587.5	394.6	5,348.1	4,508.8
<b>Reportable segment liabilities</b>	<b>129.9</b>	<b>185.9</b>	<b>70.8</b>	<b>36.3</b>	<b>97.2</b>	<b>47.9</b>	<b>45.1</b>	<b>65.0</b>	<b>56.0</b>	<b>20.4</b>	<b>399.0</b>	<b>355.5</b>

## Results for the year continued

### 4. Segment reporting continued

#### Reconciliation of reportable segment revenues, profit or loss, assets and liabilities

	Note	2016 \$M	2015 \$M
<b>Revenues</b>			
Total revenue for reportable segments		1,714.3	1,185.1
<b>Consolidated revenues</b>		<b>1,714.3</b>	<b>1,185.1</b>
<b>Profit or loss</b>			
<b>Total profit before tax for reportable segments</b>		<b>980.9</b>	<b>807.9</b>
Corporate expenses not allocated to reportable segments		(102.2)	(90.8)
<b>Operating profit before net interest and income tax</b>		<b>878.7</b>	<b>717.1</b>
Valuation and other adjustments not included in reportable segment profit before tax:			
– Net gain from fair value adjustments on investment properties	6(e)	327.8	515.9
– Impairment losses	2	(249.1)	(28.2)
– Fair value adjustments relating to associates and JVs	2	552.2	228.6
– Share based payments expense	2	(66.9)	(51.0)
– Net capital losses not distributed and tax deferred adjustments		(68.1)	(5.2)
– Profit on disposal of investment properties		9.5	–
– Straight lining of rental income		(0.8)	0.8
<b>Profit before interest and tax</b>		<b>1,383.3</b>	<b>1,378.0</b>
Net finance expense	11	(13.0)	(127.8)
<b>Consolidated profit before income tax</b>		<b>1,370.3</b>	<b>1,250.2</b>
<b>Assets</b>			
Assets for reportable segments		10,919.6	10,414.1
Other unallocated amounts		1,467.5	848.2
<b>Consolidated total assets</b>		<b>12,387.1</b>	<b>11,262.3</b>
<b>Liabilities</b>			
Liabilities for reportable segments		399.0	355.5
Interest bearing liabilities		2,865.2	2,707.9
Provisions for distributions to Securityholders	9	197.4	194.6
Other unallocated amounts		532.2	628.2
<b>Consolidated total liabilities</b>		<b>3,993.8</b>	<b>3,886.2</b>

### 5. Income tax

Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the financial year and any adjustment to tax payable in respect of previous financial years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not accounted for:

- + goodwill;
- + the initial recognition of assets or liabilities that affect neither accounting nor taxable profit; and
- + differences relating to investments in controlled entities to the extent that they will probably not reverse in the foreseeable future.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities. Deferred tax assets or liabilities in respect of investment properties held at fair value are calculated on the presumption that the carrying amount of the investment property will be recovered through sale. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from dividends/distributions are recognised at the same time as the liability to pay the related dividends/distributions.

### GIT

Under current Australian income tax legislation, GIT is not liable for income tax, including capital gains tax, provided that Securityholders are presently entitled to the distributable income of GIT as calculated for trust law purposes. Tax allowances for building and plant and equipment depreciation are distributed to Securityholders in the form of tax deferred components of distributions. Any taxable capital gains are distributed.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

## Results for the year continued

### 5. Income tax continued

	Consolidated	
	2016 \$M	2015 \$M
<b>Current tax expense recognised in the income statement</b>		
Current year	(54.2)	(23.6)
Adjustment for current tax in prior periods	0.4	1.8
	<b>(53.8)</b>	<b>(21.8)</b>
<b>Deferred tax (expense)/benefit recognised in the income statement</b>		
Origination and reversal of temporary differences	(21.8)	0.8
	<b>(21.8)</b>	<b>0.8</b>
<b>Total income tax expense</b>	<b>(75.6)</b>	<b>(21.0)</b>
<b>(a) Income tax expense</b>		
Profit before income tax	1,370.3	1,250.2
Prima facie income tax expense calculated at 30% (2015: 30%) on the profit before income tax	(411.1)	(375.1)
Decrease/(increase) in income tax due to:		
– Profit attributable to Unitholders	353.1	267.0
– Current year losses for which no deferred tax asset was recognised	(50.6)	(39.5)
– Non-deductible impairment losses and fair value movements	(66.5)	(13.7)
– Non-assessable amounts from share of results of equity accounted investments	39.3	31.2
– Non-deductible share based payments expense	(21.3)	(16.4)
– Other non-assessable items	19.1	2.6
– Utilisation of previously unrecognised tax losses	61.0	112.5
– Difference in overseas tax rates	2.1	8.4
– Adjustment for current tax in prior periods	0.4	1.8
– Other items	(1.1)	0.2
<b>Income tax expense</b>	<b>(75.6)</b>	<b>(21.0)</b>
<b>(b) Deferred tax benefit recognised directly in equity</b>		
Due to actuarial losses on defined benefit funds	0.5	2.0
	<b>0.5</b>	<b>2.0</b>
<b>(c) Net income tax payable</b>		
Net balance at the beginning of the year	(29.3)	(39.3)
Decrease/(increase) in current net tax payable due to:		
– Net income taxes paid	19.5	28.8
– Current tax expense	(53.8)	(21.8)
– Other	2.4	3.0
<b>Net balance at the end of the year</b>	<b>(61.2)</b>	<b>(29.3)</b>
Current tax receivables	0.9	13.6
Current tax payables	(62.1)	(42.9)
	<b>(61.2)</b>	<b>(29.3)</b>

### (d) Deferred tax assets and liabilities

Deferred tax assets/(liabilities) are attributable to the following:

	Net		Deferred tax assets		Deferred tax liabilities	
	2016 \$M	2015 \$M	2016 \$M	2015 \$M	2016 \$M	2015 \$M
<b>Consolidated</b>						
Investment properties	(81.2)	(78.0)	4.0	–	(85.2)	(78.0)
Receivables	(6.5)	(4.7)	–	–	(6.5)	(4.7)
Tax losses	42.4	84.0	42.4	84.0	–	–
Payables	3.6	0.8	3.6	0.8	–	–
Provisions	9.3	9.0	9.3	9.0	–	–
Other items	–	–	–	0.9	–	(0.9)
<b>Tax (liabilities)/assets</b>	<b>(32.4)</b>	<b>11.1</b>	<b>59.3</b>	<b>94.7</b>	<b>(91.7)</b>	<b>(83.6)</b>
Set off of tax	–	–	(47.0)	(78.0)	47.0	78.0
<b>Net tax (liabilities)/assets</b>	<b>(32.4)</b>	<b>11.1</b>	<b>12.3</b>	<b>16.7</b>	<b>(44.7)</b>	<b>(5.6)</b>

Deferred tax assets of \$295.5 million in relation to tax losses have not been recognised by the Consolidated Entity at 30 June 2016 (2015: \$284.0 million).

## Operating assets and liabilities

### 6. Property assets

#### (a) Types of property assets

Goodman's investment in property assets includes both inventories and investment properties, which may be held either directly or through its investments in managed partnerships (both associates and JVs).

#### Inventories

Inventories relate to land and property developments that are held for sale or development and sale in the normal course of the Consolidated Entity's business. Where property developments are forecast to be completed and sold more than 12 months after the balance date, then the inventories are classified as non-current.

Work in progress in relation to land subdivision and development projects includes the costs of acquisition, planning, management and development and holding costs such as interest and taxes. Work in progress is carried at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the normal course of business, less the estimated costs of completion and selling expenses.

Inventories are carried at the lower of cost or net realisable value. The calculation of net realisable value requires estimates and assumptions which are continually evaluated and are based on historical experience and expectations of future events that are believed to be reasonable under the circumstances.

#### Investment properties

Investment properties comprise investment interests in land and buildings held for the purpose of leasing to produce rental income and/or for capital appreciation. Investment properties are carried at fair value. The calculation of fair value requires estimates and assumptions which are continually evaluated and are based on historical experience and expectations of future events that are believed to be reasonable under the circumstances. Investment properties are not depreciated as they are subject to continual maintenance and regularly revalued on the basis described below.

#### Components of investment properties

Land and buildings (including integral plant and equipment) comprising investment properties are regarded as composite assets and are disclosed as such in the consolidated financial report.

Investment property carrying values include the costs of acquiring the properties and subsequent costs of development, including costs of all materials used in construction, costs of managing the project, holding costs and borrowing costs incurred during the development period.

Amounts provided to customers as lease incentives and assets relating to fixed rental income increases in operating lease contracts are included within investment property values. Lease incentives are amortised over the term of the lease on a straight-line basis.

Direct expenditure associated with leasing a property is also capitalised within investment property values and amortised over the term of the lease.

#### Stabilised investment properties

Stabilised investment properties are completed investment properties that are capable of earning rental income. An independent valuation of stabilised investment properties is obtained at least every three years to use as a basis for measuring the fair value of the properties.

At each balance date occurring between obtaining independent valuations, the Directors review the carrying value of the Consolidated Entity's investment properties to be satisfied that, in their opinion, the carrying value of the investment properties reflects the fair value of the investment properties at that date. Changes in fair value are recognised directly in the income statement.

#### Investment properties under development

Investment properties under development include land, new investment properties in the course of construction and investment properties that are being redeveloped. Property under development for future use as an investment property is measured at fair value.

#### Deposits for investment properties

Deposits and other costs associated with acquiring investment properties that are incurred prior to the Consolidated Entity obtaining legal title are recorded at cost and disclosed as other assets in the statement of financial position.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

## Operating assets and liabilities continued

### 6. Property assets continued

#### (b) Summary of Goodman's investment in property assets

	Note	Consolidated	
		2016 \$M	2015 \$M
<b>Inventories</b>			
Current	6(d)	687.0	364.3
Non-current	6(d)	688.8	1,067.4
		<b>1,375.8</b>	<b>1,431.7</b>
<b>Investment properties</b>			
Stabilised investment properties		2,552.5	2,709.6
Investment properties under development		168.2	196.4
	6(e)	<b>2,720.7</b>	<b>2,906.0</b>
<b>Investments accounted for using the equity method</b>			
Associates	6(f)(i)	3,733.0	3,195.3
JVs	6(f)(ii)	1,615.1	1,313.5
		<b>5,348.1</b>	<b>4,508.8</b>
<b>Total property assets</b>		<b>9,444.6</b>	<b>8,846.5</b>

#### (c) Estimates and assumptions in determining property carrying values

##### Inventories

For both inventories held directly and inventories held in managed partnerships, external valuations are not performed but instead valuations are determined using the feasibility studies supporting the land and property developments. The end values of the developments in the feasibility studies are based on assumptions such as capitalisation rates, letting up periods and incentives that are consistent with those observed in the relevant market. Where the feasibility study calculations indicate that the forecast cost of a completed development will exceed the net realisable value, then the inventories are impaired.

##### Investment properties

##### Stabilised investment properties

Stabilised investment properties refer to investment properties which are not under development. The fair value of stabilised investment properties is based on current prices in an active market for similar properties in the same location and condition and subject to similar lease and other contracts. The current price is the estimated amount for which a property could be exchanged between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

##### Approach to determination of fair value

The approach to determination of fair value of investment properties is applied to both investment properties held directly and investment properties held in managed partnerships.

Valuations are determined based on assessments and estimates of uncertain future events, including upturns and downturns in property markets and availability of similar properties, vacancy rates, market rents and capitalisation and discount rates. Recent and relevant sales evidence and other market data are taken into account. Valuations are either based on an external, independent valuation or on an internal valuation.

External valuations are undertaken only where market segments were observed to be active. In making the determination of whether a market segment is active, the following characteristics are considered:

- + function of the asset (distribution/warehouse or suburban office);
- + location of asset (city, suburb or regional area);
- + carrying value of the asset (categorised by likely appeal to private (including syndicates), national and institutional investors); and
- + categorisation as primary or secondary based on a combination of location, weighted average lease expiry, quality of tenant covenant (internal assessment based on available market evidence) and age of construction.

Each property asset is assessed and grouped with assets in the same or similar market segments. Information on all relevant recent sales is also analysed using the same criteria to provide a comparative set. Unless three or more sales are observed in an individual market segment (taken together with any comparable market segments as necessary), that market segment is considered inactive.

Where a market segment is observed to be active, then external, independent valuations are performed for stabilised investment properties where there has been more than a 25 basis point movement in capitalisation rates and/or there has been a material change in tenancy profile and/or there has been significant capital expenditure, and/or there has been a change in use (or zoning) of the asset and/or it has been three years since the previous external, independent valuation. For all other stabilised investment properties in an active market segment, an internal valuation is performed based on observable capitalisation rates and referenced to independent market data.

Where a market segment is observed to be inactive, then no external, independent valuations are performed and internal valuations are undertaken based on discounted cash flow (DCF) calculations. The DCF calculations are prepared over a 10 year period. The key inputs considered for each individual calculation are rental growth rates, discount rates, market rental rates and letting up incentives. Discount rates are computed using the 10 year bond rate or equivalent in each jurisdiction plus increments to reflect country risk, tenant credit risk and industry risk. Where possible, the components of the discount rate are benchmarked to available market data.

## Operating assets and liabilities continued

### 6. Property assets continued

#### (c) Estimates and assumptions in determining property carrying values continued

##### Market assessment

At 30 June 2016, all markets in which Goodman operated were observed to be active and no adjustments were made to the carrying value of stabilised investment properties arising from internal valuations using DCF calculations. The overall weighted average capitalisation rates for the divisional portfolios (including managed partnerships) are as set out in the table below:

Division	Total portfolio weighted average capitalisation rate	
	2016 %	2015 %
Australia <sup>1</sup>	6.7	7.3
New Zealand	7.0	7.5
Hong Kong	5.4	6.0
China	8.1	8.5
Japan	4.9	5.1
Logistics – Continental Europe	6.3	6.8
Logistics – United Kingdom	6.9	7.6
Business Parks – United Kingdom	6.5	6.8
North America	4.5	–

1. Excludes urban renewal sites which are valued on a rate per residential unit site basis.

During the current financial year, the fair values of 99% (2015: 94%) of these stabilised investment properties held directly by Goodman (by reference to carrying value) were determined based on a valuation by an independent valuer who held a recognised and relevant professional qualification and had recent experience in the location and category of the investment property being valued.

For Goodman's investments in managed partnerships, typically 100% of the stabilised investment property portfolios are valued by an independent valuer in each financial year.

#### Investment properties under development

External valuations are generally not performed for investment properties under development held directly by the Consolidated Entity, but instead valuations are determined using the feasibility studies supporting the developments. The end values of the developments in the feasibility studies are based on assumptions to determine capitalisation rates, letting up periods and incentives that are consistent with those observed in the relevant market adjusted for a profit and risk factor. This profit and risk factor will vary depending on the nature, location and size of the development but is generally in a market range of 10% to 15%.

This practice of determining fair value by reference to the development feasibility is generally also applied for Goodman's investments in managed partnerships. However, certain partnerships do obtain independent valuations for investment properties under development each financial year.

#### (d) Inventories

	Consolidated	
	2016 \$M	2015 \$M
<b>Current</b>		
Land and development properties	687.0	364.3
	<b>687.0</b>	<b>364.3</b>
<b>Non-current</b>		
Land and development properties	688.8	1,067.4
	<b>688.8</b>	<b>1,067.4</b>

During the financial year, impairments of \$42.4 million (2015: \$15.1 million) were recognised to write down development land to net realisable value.

During the financial year, borrowing costs of \$32.4 million (2015: \$63.3 million) previously capitalised into the carrying value of inventories were expensed to the income statement on disposal of the inventories.

#### (e) Investment properties

##### Reconciliation of carrying amount of directly held investment properties

	Consolidated	
	2016 \$M	2015 \$M
Carrying amount at the beginning of the year	2,906.0	2,532.9
Cost of acquisition:		
– Other acquisitions	37.0	–
Capital expenditure	67.5	105.2
Disposals:		
– Carrying value of properties sold	(617.1)	(61.9)
– On disposal of interests in controlled entities	–	(200.6)
Transfers from inventories	1.4	3.9
Net gain from fair value adjustments	327.8	515.9
Effect of foreign currency translation	(1.9)	10.6
<b>Carrying amount at the end of the year</b>	<b>2,720.7</b>	<b>2,906.0</b>
<b>Analysed by segment:</b>		
Australia and New Zealand	2,645.0	2,816.5
Continental Europe	45.2	52.7
United Kingdom	30.5	36.8
	<b>2,720.7</b>	<b>2,906.0</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

## Operating assets and liabilities continued

### 6. Property assets continued

#### (e) Investment properties continued

##### Other information regarding directly held investment properties

The fair value measurement approach for directly held investment properties has been categorised as a Level 3 fair value based on the inputs to the valuation method used (see notes 1(g) and 6(c)). The majority of Goodman's directly held investment properties are in Australia and the valuation technique used in measuring the fair value, as well as the values assumed for the significant unobservable inputs, are summarised in the table below:

Valuation technique	Significant unobservable input	2016	2015
Income capitalisation	Range of net market rents (per square metre per annum) Capitalisation rate (weighted average)	\$40 to \$300 6.70%	\$42 to \$300 7.30%

The estimated fair value would increase if net market rents were higher and/or if capitalisation rates were lower. The estimated fair value would decrease if the net market rents were lower and/or if the capitalisation rates were higher.

In addition there are assets in Sydney, NSW that have been rezoned for residential mixed use. Certain of these sites have seen significant value uplifts as a result of the change in zoning, with the valuations of these sites determined by reference to comparable sales data, as summarised in the table below:

Valuation technique	Significant unobservable input	2016	2015
Direct comparison	Sales price for comparable residential sites (rate per unit)	\$100,000 to \$300,000	\$100,000 to \$300,000

The Consolidated Entity leases out investment properties under operating leases. The weighted average lease expiry of Goodman's directly held investment properties in Australia is 3.3 years.

##### Non-cancellable operating lease commitments receivable from investment property customers

The analysis in the table below reflects the gross property income, excluding recoverable outgoings, based on the Consolidated Entity's existing lease agreements. It assumes that leases will not extend beyond the next review date, where the customer has an option to end the lease.

	Consolidated	
	2016	2015
	\$M	\$M
<b>Non-cancellable operating lease commitments receivable:</b>		
– Within one year	128.7	141.0
– One year or later and no later than five years	315.3	387.3
– Later than five years	338.9	242.5
	<b>782.9</b>	<b>770.8</b>

#### (f) Investments accounted for using the equity method

Investments accounted for using the equity method comprise associates and JVs, which are collectively referred to as managed partnerships.

##### Associates

An associate is an entity in which the Consolidated Entity exercises significant influence but not control over its financial and operating policies. In the consolidated financial statements, investments in associates are accounted for using the equity method. Investments in associates are carried at the lower of the equity accounted amount and recoverable amount. Under this method, the Consolidated Entity's share of post-acquisition gains or losses of associates is recognised in the consolidated income statement and its share of post-acquisition movements in reserves is recognised in consolidated reserves. Cumulative post-acquisition movements in both profit or loss and reserves are adjusted against the cost of the investment.

##### JVs

A JV is an arrangement in which the Consolidated Entity has joint control, whereby the Consolidated Entity has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities. In the consolidated financial statements, investments in JVs are accounted for using the equity method. Investments in JVs are carried at the lower of the equity accounted amount and recoverable amount. The Consolidated Entity's share of the JVs' net profit or loss is recognised in the consolidated income statement from the date joint control commences to the date joint control ceases. Movements in reserves are recognised directly in the consolidated reserves.

##### Transactions eliminated on consolidation

Unrealised gains resulting from transactions with associates and JVs, including those relating to contributions of non-monetary assets on establishment, are eliminated to the extent of the Consolidated Entity's interest. Unrealised gains relating to associates and JVs are eliminated against the carrying amount of the investment. Unrealised losses are eliminated in the same way as unrealised gains, unless they evidence an impairment of an asset.



## Operating assets and liabilities continued

### 6. Property assets continued

#### (f) Investments accounted for using the equity method continued

#### (i) Investments in associates

The Consolidated Entity's associates are set out below:

Name of associate	Country of establishment/ incorporation	Consolidated share of associate's result recognised		Consolidated ownership interest		Consolidated investment carrying amount	
		2016 \$M	2015 \$M	2016 %	2015 %	2016 \$M	2015 \$M
<b>Property investment</b>							
Goodman Australia Industrial Partnership (GAIP)	Australia	229.5	148.3	27.5	27.5	1,186.6	1,025.3
Goodman Australia Partnership (GAP)	Australia	131.1	68.8	19.9	19.9	549.8	479.4
Goodman Property Trust (GMT) <sup>1</sup>	New Zealand	43.5	32.0	20.7	18.0	313.7	223.0
Goodman Hong Kong Logistics Partnership (GHKLP)	Cayman Islands	182.4	83.6	20.0	20.0	754.9	575.0
Goodman Japan Core Partnership (GJCP) <sup>2</sup>	Japan	27.7	19.5	20.0	22.4	215.3	163.2
Goodman European Partnership (GEP)	Luxembourg	52.8	45.8	20.4	20.4	456.1	415.3
Arlington Business Parks Partnership (ABPP)	United Kingdom	67.3	91.6	43.1	43.1	256.6	314.1
		<b>734.3</b>	<b>489.6</b>			<b>3,733.0</b>	<b>3,195.3</b>

1. GMT is listed on the New Zealand Stock Exchange (NZX). The market value of the Consolidated Entity's investment in GMT at 30 June 2016 using the quoted price on the last day of trading was \$327.3 million (2015: \$226.9 million).

2. The consolidated ownership interest in GJCP reflects the weighted average ownership interest in the various property investment vehicles.

The reconciliation of the carrying value at the beginning to the carrying value at the end of the year is set out as follows:

Movement in carrying amounts of associates	Consolidated	
	2016 \$M	2015 \$M
Carrying amount at the beginning of the year	3,195.3	2,851.1
Share of net results after tax (before revaluations)	288.3	299.6
Share of fair value adjustments attributable to investment properties	439.1	182.9
Share of fair value adjustments on derivative financial instruments	6.9	7.1
Share of net results	734.3	489.6
Share of movements in reserves	(1.0)	0.4
Acquisitions	76.6	94.5
Disposals	(18.8)	–
Distributions received and receivable	(303.4)	(364.5)
Effect of foreign currency translation	50.0	124.2
<b>Carrying amount at the end of the year</b>	<b>3,733.0</b>	<b>3,195.3</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

## Operating assets and liabilities continued

### 6. Property assets continued

#### (f) Investments accounted for using the equity method continued

#### (i) Investments in associates continued

The table below includes further information regarding the Consolidated Entity's associates held at the end of the financial year:

	GAIP		GAP		GMT		GHKLP		GJCP <sup>2</sup>		GEP		ABPP	
	2016 \$M	2015 \$M	2016 \$M	2015 \$M	2016 \$M	2015 \$M	2016 \$M	2015 \$M	2016 \$M	2015 \$M	2016 \$M	2015 \$M	2016 \$M	2015 \$M
<b>Summarised statement of financial position</b>														
Total current assets	595.9	436.3	464.3	380.3	59.1	11.6	325.8	46.0	86.2	117.5	185.0	348.5	46.1	51.6
Total non-current assets	5,864.0	5,534.1	3,397.2	3,231.7	2,433.1	1,995.4	4,367.6	3,813.9	1,925.6	1,262.9	3,642.8	3,202.1	886.7	1,139.1
Total current liabilities	171.9	528.1	134.1	238.0	26.6	72.9	84.7	85.1	92.6	18.6	132.1	117.1	39.6	50.4
Total non-current liabilities	2,040.3	1,788.7	988.3	1,129.0	981.1	703.1	840.5	905.8	844.2	632.9	1,456.0	1,399.2	298.2	411.8
<b>Net assets (100%)</b>	<b>4,247.7</b>	<b>3,653.6</b>	<b>2,739.1</b>	<b>2,245.0</b>	<b>1,484.5</b>	<b>1,231.0</b>	<b>3,768.2</b>	<b>2,869.0</b>	<b>1,075.0</b>	<b>728.9</b>	<b>2,239.7</b>	<b>2,034.3</b>	<b>595.0</b>	<b>728.5</b>
Consolidated ownership interest	27.5%	27.5%	19.9%	19.9%	20.7%	18.0%	20.0%	20.0%	20.0%	22.4%	20.4%	20.4%	43.1%	43.1%
Consolidated share of net assets	1,169.3	1,005.8	545.5	447.2	307.2	221.5	753.6	573.8	215.3	163.2	456.1	414.3	256.4	313.8
Capitalised costs	-	2.8	-	-	6.5	1.5	1.3	1.2	-	-	-	1.0	0.2	0.3
Distributions receivable <sup>1</sup>	17.3	16.7	4.3	32.2	-	-	-	-	-	-	-	-	-	-
<b>Carrying amount of investment</b>	<b>1,186.6</b>	<b>1,025.3</b>	<b>549.8</b>	<b>479.4</b>	<b>313.7</b>	<b>223.0</b>	<b>754.9</b>	<b>575.0</b>	<b>215.3</b>	<b>163.2</b>	<b>456.1</b>	<b>415.3</b>	<b>256.6</b>	<b>314.1</b>
<b>Summarised statement of comprehensive income</b>														
Revenue	464.1	473.6	308.1	321.8	129.9	143.2	237.8	200.0	177.4	175.4	242.0	226.0	94.3	166.1
Profit after tax and revaluations	842.7	538.7	658.6	345.3	219.6	171.7	911.9	417.8	139.5	92.6	262.9	221.1	156.1	212.7
Other comprehensive income	0.5	0.5	4.5	(0.4)	-	-	-	-	-	-	-	-	-	-
<b>Total comprehensive income (100%)</b>	<b>843.2</b>	<b>539.2</b>	<b>663.1</b>	<b>344.9</b>	<b>219.6</b>	<b>171.7</b>	<b>911.9</b>	<b>417.8</b>	<b>139.5</b>	<b>92.6</b>	<b>262.9</b>	<b>221.1</b>	<b>156.1</b>	<b>212.7</b>
<b>Distributions received and receivable by the Consolidated Entity</b>	<b>68.2</b>	<b>67.0</b>	<b>60.8</b>	<b>30.1</b>	<b>14.8</b>	<b>13.1</b>	<b>17.4</b>	<b>15.6</b>	<b>21.2</b>	<b>7.9</b>	<b>33.4</b>	<b>28.6</b>	<b>87.6</b>	<b>202.2</b>

1. Distributions receivable relate to distributions provided for but not paid by the associates at 30 June 2016. This is applicable to trusts in Australia where unitholders are presently entitled to income at the end of the financial year.

2. The consolidated ownership interest in GJCP reflects the weighted average ownership interest in the various property investment vehicles.

## Operating assets and liabilities continued

### 6. Property assets continued

#### (f) Investments accounted for using the equity method continued

##### (ii) Investments in JVs

A summary of the results and ownership interest of the Consolidated Entity's principal JVs is set out below:

Name of JV	Country of establishment/ incorporation	Consolidated share of net results		Consolidated ownership interest		Consolidated investment carrying amount	
		2016 \$M	2015 \$M	2016 %	2015 %	2016 \$M	2015 \$M
<b>Property investment</b>							
KWASA Goodman Industrial Partnership (KGIP)	Australia	28.1	24.5	40.0	40.0	213.5	199.6
<b>Property development</b>							
Goodman Japan Development Partnership (GJDP)	Japan	33.8	34.9	50.0	50.0	95.9	79.3
<b>Property investment and development</b>							
Goodman China Logistics Partnership (GCLP)	Cayman Islands	41.2	15.8	20.0	20.0	414.3	329.1
Goodman North America Partnership (GNAP)	USA	64.5	8.8	55.0	55.0	587.5	252.0
Other JVs		26.7	40.5			303.9	453.5
		<b>194.3</b>	<b>124.5</b>			<b>1,615.1</b>	<b>1,313.5</b>

The reconciliation of the carrying value at the beginning to the carrying value at the end of the year is set out as follows:

Movement in carrying amounts of JVs	Consolidated	
	2016 \$M	2015 \$M
Carrying amount at the beginning of the year	1,313.5	1,004.5
Share of net results after tax (before revaluations)	88.1	85.9
Share of fair value adjustments attributable to investment properties	107.5	39.1
Share of fair value adjustments on derivative financial instruments	(1.3)	(0.5)
Share of net results	194.3	124.5
Share of movements in reserves	(14.1)	0.2
Acquisitions	421.2	258.3
Disposals	(73.8)	(0.3)
Transfer on reclassification as a controlled entity <sup>1</sup>	(117.6)	–
Distributions/dividends received and receivable	(118.5)	(147.1)
Effect of foreign currency translation	10.1	73.4
<b>Carrying amount at the end of the year</b>	<b>1,615.1</b>	<b>1,313.5</b>

1. Relates to Goodman's interest in the WT Goodman JV as a result of the JV partners agreeing to split their respective interests (refer to note 21).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

## Operating assets and liabilities continued

### 6. Property assets continued

#### (f) Investments accounted for using the equity method continued

#### (ii) Investments in JVs continued

The table below includes further information regarding the Consolidated Entity's principal JVs held at the end of the financial year:

	KGIP		GJDP		GCLP		GNAP	
	2016 \$M	2015 \$M	2016 \$M	2015 \$M	2016 \$M	2015 \$M	2016 \$M	2015 \$M
<b>Summarised statement of financial position</b>								
<b>Current assets</b>								
Cash and cash equivalents	3.5	1.1	48.8	37.3	161.8	276.6	27.1	38.0
Other current assets	299.8	1.8	2.2	1.0	46.3	15.0	19.6	27.2
<b>Total current assets</b>	<b>303.3</b>	<b>2.9</b>	<b>51.0</b>	<b>38.3</b>	<b>208.1</b>	<b>291.6</b>	<b>46.7</b>	<b>65.2</b>
<b>Total non-current assets</b>	<b>548.6</b>	<b>793.2</b>	<b>412.0</b>	<b>302.5</b>	<b>2,399.9</b>	<b>1,815.9</b>	<b>1,038.5</b>	<b>406.8</b>
<b>Current liabilities</b>								
Financial liabilities	–	–	0.2	–	–	–	–	–
Other current liabilities	11.9	6.1	27.5	19.6	146.0	102.1	24.8	21.6
<b>Current liabilities</b>	<b>11.9</b>	<b>6.1</b>	<b>27.7</b>	<b>19.6</b>	<b>146.0</b>	<b>102.1</b>	<b>24.8</b>	<b>21.6</b>
<b>Non-current liabilities</b>								
Financial liabilities	300.0	298.4	244.7	164.4	306.8	294.2	0.7	0.5
Other non-current liabilities	6.2	4.1	4.0	2.4	94.7	75.0	–	–
<b>Total non-current liabilities</b>	<b>306.2</b>	<b>302.5</b>	<b>248.7</b>	<b>166.8</b>	<b>401.5</b>	<b>369.2</b>	<b>0.7</b>	<b>0.5</b>
<b>Net assets (100%)</b>	<b>533.8</b>	<b>487.5</b>	<b>186.6</b>	<b>154.4</b>	<b>2,060.5</b>	<b>1,636.2</b>	<b>1,059.7</b>	<b>449.9</b>
Consolidated ownership interest	40.0%	40.0%	50.0%	50.0%	20.0%	20.0%	55.0%	55.0%
Consolidated share of net assets	213.5	195.0	93.3	77.2	412.1	327.2	582.8	247.4
Capitalised costs	–	4.5	2.6	2.1	2.2	1.9	4.7	4.6
Distributions receivable	–	0.1	–	–	–	–	–	–
<b>Carrying amount of investment</b>	<b>213.5</b>	<b>199.6</b>	<b>95.9</b>	<b>79.3</b>	<b>414.3</b>	<b>329.1</b>	<b>587.5</b>	<b>252.0</b>
<b>Summarised statement of comprehensive income</b>								
Revenue	96.6	71.6	251.5	305.7	96.3	67.6	13.9	0.7
Interest income	0.1	0.1	–	–	1.0	0.8	–	–
Interest expense	(12.3)	(12.5)	(0.2)	–	(14.2)	(0.1)	(0.1)	(0.1)
Income tax (expense)/benefit	–	–	(0.1)	0.1	(15.5)	(20.7)	(0.1)	–
Profit after tax and revaluations	84.8	61.2	67.7	69.8	205.9	79.1	117.4	16.0
Other comprehensive income	(3.1)	–	–	–	–	–	–	–
<b>Total comprehensive income (100%)</b>	<b>81.7</b>	<b>61.2</b>	<b>67.7</b>	<b>69.8</b>	<b>205.9</b>	<b>79.1</b>	<b>117.4</b>	<b>16.0</b>
<b>Distributions/dividends received and receivable by the Consolidated Entity</b>	<b>14.1</b>	<b>14.4</b>	<b>76.7</b>	<b>73.1</b>	<b>4.3</b>	<b>0.2</b>	<b>2.0</b>	<b>30.9</b>

For other JVs, the total profit after tax and revaluations is \$126.8 million (2015: \$186.6 million) and other comprehensive income is \$nil (2015: \$nil).

## Operating assets and liabilities continued

### 7. Receivables

Receivables comprise trade and other receivables and loans to related parties and are recognised on the date that they are originated, initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, receivables are measured at amortised cost using the effective interest rate method, less any impairment losses.

The Consolidated Entity derecognises a receivable when the contractual rights to the cash flows from the receivable expire or it transfers the rights to receive the contractual cash flows on the receivable in a transaction in which substantially all the risks and rewards of the receivable are transferred.

#### Impairment

The carrying amounts of receivables are assessed at each balance date to determine whether there is any indication of impairment. If such indication exists, the receivable is written down to the present value of the estimated future cash flows discounted at the original effective interest rate. The impairment is recognised in profit or loss in the reporting period in which it occurs.

#### Calculation of recoverable amount

The recoverable amount of the Consolidated Entity's receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted.

Impairment of receivables is not recognised until objective evidence is available that a loss event has occurred. Significant receivables are individually assessed for impairment.

#### Reversals of impairment

Impairment losses are reversed when there is an indication that the impairment loss may no longer exist and there has been a change in the estimate used to determine the recoverable amount.

		Consolidated	
	Note	2016 \$M	2015 \$M
<b>Current</b>			
Trade receivables		36.5	55.7
Other receivables		299.0	247.3
Amounts due from related parties	22	64.7	36.0
Loans to related parties	22	3.0	5.8
		<b>403.2</b>	<b>344.8</b>
<b>Non-current</b>			
Loans to related parties	22	31.9	43.0
Other receivables		2.4	2.7
		<b>34.3</b>	<b>45.7</b>

### 8. Payables

Trade and other payables are recognised initially at trade date fair value plus any directly attributable transaction costs. Subsequent to initial recognition, trade and other payables are measured at amortised cost.

The Consolidated Entity derecognises trade and other payables when the contractual obligations are discharged or cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Consolidated Entity has legal right to offset the amounts and intends to either settle on a net basis or to realise the asset and settle the liability simultaneously.

	Consolidated	
	2016 \$M	2015 \$M
<b>Current</b>		
Trade payables	71.2	49.5
Other payables and accruals	336.2	321.9
	<b>407.4</b>	<b>371.4</b>
<b>Non-current</b>		
Other payables and accruals	85.1	100.8
	<b>85.1</b>	<b>100.8</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

## Operating assets and liabilities continued

### 9. Provisions

A provision is recognised when there is a legal, equitable or constructive obligation as a result of a past event and it is probable that a future sacrifice of economic benefits will be required to settle the obligation, the timing or amount of which is uncertain.

If the effect is material, a provision is determined by discounting the expected future cash flows (adjusted for expected future risks) required to settle the obligation at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability most closely matching the expected future payments. The unwinding of the discount is treated as part of the expense related to the particular provision.

	Note	Consolidated	
		2016 \$M	2015 \$M
<b>Current</b>			
Distributions to Securityholders	15(b)	197.4	194.6
Onerous contracts		3.5	3.5
Employee benefits		10.6	9.0
		<b>211.5</b>	<b>207.1</b>
<b>Non-current</b>			
Onerous contracts		4.6	7.6
Rental guarantee		2.5	2.6
Employee benefits		2.2	2.6
Net defined benefit superannuation fund		34.1	39.9
		<b>43.4</b>	<b>52.7</b>

### 10. Goodwill and intangible assets

The Consolidated Entity recognises both goodwill and indefinite life management rights in its statement of financial position.

#### Goodwill

Goodwill arising on the acquisition of controlled entities is stated at cost less any accumulated impairment losses (refer below). No amortisation is provided.

#### Management rights

When the Consolidated Entity acquires fund and/or asset management activities as part of a business combination, management rights are recorded where they arise from contractual or other legal rights, and the fair value can be measured reliably.

Management rights are stated at cost less impairment. The Consolidated Entity's management rights are not amortised as they are assumed to have an indefinite life given they are routinely renewed at minimal cost.

### Impairment

The carrying amounts of the Consolidated Entity's goodwill and management rights are tested annually for impairment. For the purpose of impairment testing, goodwill and management rights are allocated to the related cash-generating units monitored by management. An impairment loss is recognised whenever the carrying amount of the cash-generating unit exceeds its recoverable amount. Recoverable amount is the greater of the fair value (net of disposal costs) and the value in use but given that goodwill and management rights are not frequently traded (i.e. fair value is difficult to ascertain), the recoverable amount will be equal to the value in use of the cash-generating unit. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the cash-generating unit.

Impairment losses are recognised in the income statement. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the goodwill allocated to the cash-generating unit, then to the carrying amount of the management rights allocated to the cash-generating unit and then to reduce the carrying amount of the other assets in the cash-generating unit on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. An impairment loss for management rights is reversed only to the extent that its carrying amount does not exceed its original cost.

A summary of the Consolidated Entity's goodwill and intangible assets are set out by below:

	Consolidated	
	2016 \$M	2015 \$M
Goodwill	678.1	672.1
Management rights	102.5	304.3
	<b>780.6</b>	<b>976.4</b>

The carrying value of goodwill and intangible assets is analysed by division in the table below:

Carrying amounts	Consolidated	
	2016 \$M	2015 \$M
<b>Goodwill</b>		
Continental Europe – Logistics	565.4	550.3
United Kingdom – Logistics	87.7	100.4
Other	25.0	21.4
<b>Subtotal – goodwill</b>	<b>678.1</b>	<b>672.1</b>
<b>Management rights</b>		
Continental Europe – Logistics	32.2	31.3
United Kingdom – Business Parks	–	205.4
Other	70.3	67.6
<b>Subtotal – management rights</b>	<b>102.5</b>	<b>304.3</b>
<b>Total</b>	<b>780.6</b>	<b>976.4</b>

## Operating assets and liabilities continued

### 10. Goodwill and intangible assets continued

A reconciliation of the movement in the cost of intangible assets during the financial year is set out below:

Cost	Balance at 1 July 2014 \$M	Effect of foreign currency translation \$M	Balance at 30 June 2015 \$M	Effect of foreign currency translation \$M	Balance at 30 June 2016 \$M
<b>Goodwill</b>					
Continental Europe – Logistics	559.4	(2.2)	557.2	15.3	572.5
United Kingdom – Logistics	129.2	16.0	145.2	(18.4)	126.8
Other	26.9	1.4	28.3	3.8	32.1
<b>Subtotal – goodwill</b>	<b>715.5</b>	<b>15.2</b>	<b>730.7</b>	<b>0.7</b>	<b>731.4</b>
<b>Management rights</b>					
Continental Europe – Logistics	31.5	(0.2)	31.3	0.9	32.2
United Kingdom – Business Parks	189.5	23.5	213.0	(27.0)	186.0
Other	67.0	10.9	77.9	3.0	80.9
<b>Subtotal – management rights</b>	<b>288.0</b>	<b>34.2</b>	<b>322.2</b>	<b>(23.1)</b>	<b>299.1</b>
<b>Total</b>	<b>1,003.5</b>	<b>49.4</b>	<b>1,052.9</b>	<b>(22.4)</b>	<b>1,030.5</b>

A reconciliation of the movement in the impairment losses during the financial year is set out below:

Impairment losses	Balance at 1 July 2014 \$M	Effect of foreign currency translation \$M	Balance at 30 June 2015 \$M	Impairment charge \$M	Effect of foreign currency translation \$M	Balance at 30 June 2016 \$M
<b>Goodwill</b>						
Continental Europe – Logistics	6.9	–	6.9	–	0.2	7.1
United Kingdom – Logistics	39.9	4.9	44.8	–	(5.7)	39.1
Other	6.9	–	6.9	–	0.2	7.1
<b>Subtotal – goodwill</b>	<b>53.7</b>	<b>4.9</b>	<b>58.6</b>	<b>–</b>	<b>(5.3)</b>	<b>53.3</b>
<b>Management rights</b>						
United Kingdom – Business Parks	6.8	0.8	7.6	204.6	(26.2)	186.0
Other	10.3	–	10.3	–	0.3	10.6
<b>Subtotal – management rights</b>	<b>17.1</b>	<b>0.8</b>	<b>17.9</b>	<b>204.6</b>	<b>(25.9)</b>	<b>196.6</b>
<b>Total</b>	<b>70.8</b>	<b>5.7</b>	<b>76.5</b>	<b>204.6</b>	<b>(31.2)</b>	<b>249.9</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

## Operating assets and liabilities continued

### 10. Goodwill and intangible assets continued

#### Impairments and reversals of impairments

##### United Kingdom – Business Parks

During the financial year, Goodman has impaired its United Kingdom – Business Parks management rights by \$204.6 million to \$nil. While Goodman will continue its development and management of business parks in the United Kingdom, the investors in ABPP have agreed to sell all the remaining assets and wind up the partnership. As a result, the Consolidated Entity will cease to earn fees from assets within ABPP, and it is considered appropriate to impair the management rights to \$nil. In the prior year, management had made the determination that Goodman and one of its principal investment partners would create a new partnership investing in the key assets from ABPP; however, given the current strategy, such a transaction is not likely to eventuate. Instead, Goodman will continue to pursue other opportunities in the market using its current projects and other prospective projects that sit outside of ABPP.

There were no impairment losses in the prior financial year and there have been no reversals of impairment losses during either the current or prior financial year.

#### Impairment testing for intangible assets

The carrying values of both goodwill and indefinite life management rights are assessed for impairment annually. For the purpose of impairment testing, goodwill and indefinite life management rights are allocated to the Goodman divisions that represent the lowest level within Goodman at which the goodwill and indefinite life management rights are monitored for internal management purposes. Where goodwill and management rights arise in the same division, impairment testing has been performed on the combined intangible asset.

The impairment tests for all intangible assets are based on each division's value in use. Value in use is determined by discounting the future cash flows generated from continuing operations. These cash flows are based on both investment and development forecasts and then estimating a year five terminal value using a terminal growth rate and the division's discount rate.

The estimation of future cash flows requires assumptions to be made regarding uncertain future events. The cash flows associated with management rights require management to make assumptions regarding the period over which the future fee income streams continue to be received, the likelihood of renewal at minimal cost of contractual agreements to manage partnerships, and the future financial performance of the managed partnerships which generate those future fee income streams. The cash flows associated with goodwill are often similar to management rights but may also include cash flows from other development activities undertaken by the businesses acquired.

One of the key assumptions in relation to the impairment testing for each intangible asset balance is that the Consolidated Entity's management contracts are assessed to have an indefinite life given that these contracts are typically renewed at minimal cost and on broadly similar financial terms. In light of the likely cessation of ABPP, management has reassessed this assumption for all its material management contracts, where there is an intangible asset recorded on Goodman's statement of financial position.

All of these partnerships are primarily logistics partnerships and with the exception of GMT in New Zealand, which is a listed entity, are either joint venture arrangements with one or more of Goodman's principal investment partners or are partnerships with a limited number of investors that include Goodman's principal investment partners. Accordingly, management considers that the indefinite life assumption remains appropriate for the purpose of the intangible asset testing.

A summary of the other key assumptions for those divisions where the carrying amount of goodwill or indefinite life management rights is significant in comparison with the Consolidated Entity's total carrying amount of intangible assets is set out below.

All amounts are calculated in local currency and translated to Australian dollars at the closing exchange rate at the end of the financial period. Averages relate to average amounts over the five year forecast period.



## Operating assets and liabilities continued

### 10. Goodwill and intangible assets continued

#### Impairment testing for intangible assets continued

		Continental Europe – Logistics	United Kingdom – Logistics	United Kingdom – Business Parks
Value in use (A\$M) <sup>1</sup>	2016	803.9	286.1	–
	2015	802.2	266.0	221.1
Pre-tax discount rate (%pa) <sup>2</sup>	2016	11.2	10.0	n/a
	2015	10.6	12.8	8.9
Average annual development (million square metres)	2016	0.70	0.25	n/a
	2015	0.74	0.22	0.02
Average annual growth in assets under management (%) <sup>3</sup>	2016	8.0	52.1	n/a
	2015	8.1	84.8	9.5
Total performance fees (A\$M)	2016	–	–	n/a
	2015	–	–	21.1
Average annual increase in operating expenses (%)	2016	3.0	0.8	n/a
	2015	3.2	2.0	(10.1)

1. When assessing a potential impairment, the value in use is compared against the sum of the intangible asset balance and the plant and equipment balance for each division. The value in use balance is translated at the foreign currency exchange rate as at the end of the financial period.

2. The decrease in the pre-tax discount rate for United Kingdom – Logistics is due to the reduction in risk premium following the creation of GUKP.

3. AUM growth rate in United Kingdom – Logistics reflects the fact that the initial portfolio contains a low number of completed properties and the AUM is augmented by completed developments over the forecast period.

The key driver of value in respect of these intangible assets is the level of and profitability of ongoing development activity, supplemented by fund and asset management income from managed partnerships, which is primarily related to the level of AUM.

#### Discount rates

The post-tax discount rates are determined using the capital asset pricing model, with individual assumptions referenced to market data, where available, and adjusting for specific factors associated with each division. A risk premium is included in each division's discount rate, reflecting the level of forecasting, size, country and financing risks for that division. The value in use is determined using the after-tax cash flows and the post-tax discount rates, with the discount rates then converted to the equivalent pre-tax rates.

#### Development activity and margins

Demand for modern, well-located industrial product in both Continental Europe and the United Kingdom continues to be driven by customers' desire to adopt more efficient distribution methods. Earnings forecasts for each division include projects which have not yet been contracted. The majority of developed product is expected to be sold to Goodman's managed partnerships although sales to third parties are also assumed. Margins from development activity are assumed to be consistent with those achieved historically.

#### Continental Europe – Logistics

The forecasts assume the development starts (by area) over the five year period are 0.7 million square metres each year, broadly consistent with historical performance. The estimated total cash outflow (from Goodman and its managed partnerships) required to finance the assumed development pipeline across the forecast period is A\$0.6 billion per annum.

#### United Kingdom – Logistics

Investor demand is expected to remain strong for well-let assets with supply especially limited in core locations. The division's development activity over the next five years is forecast to be maintained at the existing levels of 0.25 million square metres per annum (on average). The estimated cash outflow (from Goodman and its managed partnerships) required to finance the assumed development pipeline across the forecast period is on average A\$0.4 billion per annum.

#### Sources of funding for development activity

The forecast models assume that capital continues to be available to the principal managed partnerships in order that they can fund acquisitions of property (complete or under development), development management services and other property services provided by Goodman.

Capital inflows required to fund development activity in each division are assumed to arise from the following sources: equity investment directly into managed partnerships (including distribution reinvestment plans) from private and public markets; the creation of new partnerships or other investment structures involving Goodman; lending facilities (general term facilities or construction financing facilities) advanced to managed partnerships; debt capital markets; turnkey developments; and proceeds from rotation of assets. It is not practicable to determine the percentage of the total which will flow from each source.

Funds available to Goodman and potential equity investors are assumed to be sourced from available global markets and are not limited to lending markets in the regions to which the relevant intangible asset relates.

The downturn in earnings resulting from a combination of the Consolidated Entity's capital preservation strategies and severe adverse conditions in certain markets experienced between 2008 and 2009 is assumed not to recur in the foreseeable property cycle.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

## Operating assets and liabilities continued

### 10. Goodwill and intangible assets continued

#### Impairment testing for intangible assets continued

##### AUM

For Continental Europe – Logistics, the average annual increase in AUM of 8.0% (2015: 8.1%) over the forecast period is broadly consistent with the prior year forecasts and is a result of the ongoing development activity, albeit this is partly offset by the selective rotation of assets. For the purpose of the forecasts, capitalisation rates are expected to be stable over the period.

For United Kingdom – Logistics, the forecasts assume that over the next five years, the division will increase its AUM from £100 million to approximately £815 million, as GUKP draws down committed equity from its investors to fund the expected development activity. For the purpose of the forecasts, capitalisation rates are expected to be stable over the period.

##### Performance fees

Investment management performance fee revenue has been excluded from the cash flow forecasts used to assess the value in use.

##### Operating expenses

Operating expenses in Continental Europe – Logistics and United Kingdom – Logistics are forecast to increase over the forecast period by an average of 3.0% per annum and 0.8% per annum respectively as the divisions increase AUM.

##### Assumptions impacting the terminal year

		Continental Europe – Logistics	United Kingdom – Logistics	United Kingdom – Business Parks
Growth rate (%pa) <sup>1</sup>	2016	–	1.5	n/a
	2015	0.2	1.9	1.9
Development in terminal year (million square metres)	2016	0.70	0.22	n/a
	2015	0.80	0.22	0.03
Development in terminal year (cost in A\$B) <sup>2</sup>	2016	0.65	0.29	n/a
	2015	0.67	0.32	0.10

1. Long-term growth rates have been used to extrapolate cash flow projections beyond the period covered by the five year forecast.

2. The forecast cost of developments in year five represents the estimated total funding requirements for both directly held developments and developments within managed partnerships.

Long-term growth rates have been used to extrapolate cash flow projections beyond the period covered by the five year forecast. For Continental Europe, the growth rate has been estimated using the weighted average (based on value of AUM) of the current consumer price index for each of the countries in which the division operates. The decrease compared to the prior year reflects the low growth environment across the Eurozone. For the United Kingdom, the growth rate is based on an average of the consumer price index over the past five years, and similarly has declined over the past year.

The forecast cost of developments in year five represents the estimated total funding requirements for both directly held developments and developments within managed partnerships. The cost of developments in Australian dollars has remained relatively stable.

## Capital management

### 11. Net finance expense

#### Finance income

Interest is recognised on an accruals basis using the effective interest rate method, and, if not received at balance date, is reflected in the statement of financial position as a receivable.

#### Finance expense

Expenditure incurred in obtaining debt finance is offset against the principal amount of the interest bearing liability to which it relates, and is recognised as a finance cost on an effective interest rate basis over the life of the facility or until the facility is significantly modified. Where a facility is significantly modified, any unamortised expenditure in relation to that facility and incremental expenditure incurred in modifying the facility are recognised as a finance cost in the financial year in which the significant modification occurs.

Finance costs relating to a qualifying asset are capitalised as part of the cost of that asset using a weighted average cost of debt. Qualifying assets are assets which take a substantial time to get ready for their intended use or sale. All other finance costs are expensed using the effective interest rate method.

	Consolidated	
	2016	2015
	\$M	\$M
<b>Finance income</b>		
Interest income from:		
– Related parties	0.2	2.7
– Other parties	8.3	3.5
Fair value adjustments on derivative financial instruments	106.1	53.6
	<b>114.6</b>	<b>59.8</b>
<b>Finance expense</b>		
Interest expense from third party loans, overdrafts and derivatives	(161.9)	(117.3)
Other borrowing costs	(14.6)	(13.9)
Foreign exchange loss <sup>1</sup>	(30.4)	(159.2)
Capitalised borrowing costs <sup>2</sup>	79.3	102.8
	<b>(127.6)</b>	<b>(187.6)</b>
<b>Net finance expense</b>	<b>(13.0)</b>	<b>(127.8)</b>

1. Includes foreign exchange loss of \$30.2 million (2015: loss of \$160.0 million) relating to unrealised gains/(losses) on translation of interest bearing liabilities which do not qualify for net investment hedging under current accounting standards.

2. Borrowing costs were capitalised to inventories and investment properties under development during the financial year at rates between 2.5% and 7.0% per annum (2015: 2.2% and 7.8% per annum).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

## Capital management continued

### 12. Interest bearing liabilities

Interest bearing liabilities comprise bank loans, bonds and private placements. Interest bearing liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, interest bearing liabilities are measured at amortised cost using the effective interest rate method.

		Consolidated	
	Note	2016 \$M	2015 \$M
<b>Current</b>			
<b>Secured:</b>			
– Bank loans	12(a)	12.0	–
– Foreign securitised notes	12(b)	8.7	–
Borrowing costs		(0.4)	–
		<b>20.3</b>	<b>–</b>
<b>Non-current</b>			
<b>Secured:</b>			
– Bank loans	12(a)	52.9	–
– Foreign securitised notes	12(b)	85.9	–
<b>Unsecured:</b>			
– Bank loans	12(c)	306.5	333.2
– Euro medium-term notes	12(d)	445.4	509.9
– US senior notes	12(e)	1,779.2	1,719.0
– Foreign private placements	12(f)	202.8	171.9
Borrowing costs		(27.8)	(26.1)
		<b>2,844.9</b>	<b>2,707.9</b>

#### (a) Bank loans, secured

During the current financial year, Goodman acquired certain entities in Brazil (refer to note 21). The entities had the following bank facilities secured by property assets:

Facility	Facility maturity date	Facility limit – A\$M equivalent	Amounts drawn down in A\$M equivalents	
			BRL	Total
Bank loan 1	26 Sep 2023	38.1	38.1	38.1
Bank loan 2	10 Jan 2022	26.8	26.8	26.8
Total bank loans, secured	at 30 Jun 2016 at 30 Jun 2015	64.9 –	64.9 –	64.9 –

Repayments are made monthly and include capital and interest, with interest referenced to the benchmark rate (Taxa Referencial) determined by the Central Bank of Brazil.

#### (b) Foreign securitised notes

During the current financial year, Goodman acquired certain entities in Brazil. One of these entities has issued notes, which is secured by a property asset and are non-recourse to the Consolidated Entity. As at 30 June 2016, the balance drawn is A\$94.6 million (BRL 224.1 million) denominated in Brazilian real. The notes expire on 9 August 2030 with ongoing monthly repayments of both capital and interest. Interest on the notes is accruing at a rate (plus margin) equivalent to that on the Brazilian Government's treasury bonds (also known as NTN-B) that were of similar duration at the time of issuing the notes. The interest on the notes and the rental income earned by the secured property asset are both inflation linked.

Capital management continued

12. Interest bearing liabilities continued

(c) Bank loans, unsecured

Amounts drawn down in A\$M equivalents

Facility	Facility maturity date	Facility limit – A\$M equivalent	NZD	JPY	Total
Bank loan 1	31 Jul 2019	50.0	–	–	–
Bank loan 2	31 Jul 2018	162.6	80.8	–	80.8
Bank loan 3	31 Jul 2018	148.7	–	–	–
Bank loan 4	30 Sep 2019	50.4	–	–	–
Bank loan 5	30 Sep 2019	37.5	–	–	–
Bank loan 6	31 Jul 2018	167.5	–	–	–
Bank loan 7	14 Apr 2021	152.2	47.8	–	47.8
Bank loan 8	31 Mar 2021	122.2	47.8	–	47.8
Bank loan 9	31 Mar 2019	30.0	–	–	–
Bank loan 10	31 Mar 2021	148.7	–	–	–
Bank loan 11	29 Sep 2019	104.1	–	45.5	45.5
Bank loan 12	29 Sep 2019	195.2	–	84.6	84.6
Bank loan 13	31 Mar 2021	195.2	–	–	–
<b>Total bank loans, unsecured</b>	<b>at 30 Jun 2016</b>	<b>1,564.3</b>	<b>176.4</b>	<b>130.1</b>	<b>306.5</b>
	at 30 Jun 2015	1,422.2	227.0	106.2	333.2

(d) Euro medium-term notes

As at 30 June 2016, Goodman Australia Finance Pty Limited, a controlled entity of GIT, has on issue A\$445.4 million (2015: A\$509.9 million) Euro medium-term notes. All notes were issued at a fixed coupon of 9.75% payable annually. The notes mature on 16 July 2018. The notes are listed on the Singapore Stock Exchange and the market value of the notes using the quoted price at 30 June 2016 was A\$512.0 million (2015: A\$620.3 million).

(e) United States senior notes

As at 30 June 2016, the Consolidated Entity has notes on issue in the United States 144A/Reg S bond market as follows:

- + A\$436.4 million (US\$325.0 million) maturing on 12 November 2020. The senior unsecured notes were issued at a fixed coupon of 6.375% payable semi-annually;
- + A\$671.4 million (US\$500.0 million) maturing on 15 April 2021. The senior unsecured notes were issued at a fixed coupon of 6.375% payable semi-annually; and
- + A\$671.4 million (US\$500.0 million) maturing on 22 March 2022. The senior unsecured notes were issued at a fixed coupon of 6.0% payable semi-annually.

(f) Foreign private placements

As at 30 June 2016, the Consolidated Entity has the following unsecured foreign private placements:

- + A\$40.1 million (€27.0 million) denominated in Euros. On 29 July 2016, this facility was fully repaid and cancelled; and
- + A\$162.7 million (¥12.5 billion) denominated in Japanese yen. The facility has a fixed coupon of 3.32% payable semi-annually and expires on 3 April 2023.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

## Capital management continued

### 12. Interest bearing liabilities continued

#### (g) Finance facilities

	Consolidated	
	Facilities available \$M	Facilities utilised \$M
<b>At 30 June 2016</b>		
<b>Secured:</b>		
– Bank loans	64.9	64.9
– Foreign securitised notes	94.6	94.6
<b>Unsecured:</b>		
– Bank loans	1,564.3	306.5
– Euro medium-term notes	445.4	445.4
– United States senior notes	1,779.2	1,779.2
– Foreign private placements <sup>1</sup>	202.8	202.8
– Bank guarantees <sup>2</sup>	–	38.0
	<b>4,151.2</b>	<b>2,931.4</b>
<b>At 30 June 2015</b>		
<b>Unsecured:</b>		
– Bank loans	1,422.2	333.2
– Euro medium-term notes	509.9	509.9
– United States senior notes	1,719.0	1,719.0
– Foreign private placements	171.9	171.9
– Bank guarantees <sup>2</sup>	–	30.1
	<b>3,823.0</b>	<b>2,764.1</b>

1. On 29 July 2016, a facility of \$40.1 million was fully repaid and cancelled (refer to note 12(f)).

2. Bank guarantees are drawn from facilities available under unsecured bank loans.

### 13. Other financial assets and liabilities

Other financial assets and liabilities are recognised initially on the trade date at which the Consolidated Entity becomes a party to the contractual provisions of the instrument.

#### Derivative financial instruments and hedging

The Consolidated Entity uses derivative financial instruments to hedge its economic exposure to foreign exchange and interest rate risks arising from operating, investing and financing activities. In accordance with its treasury policy, the Consolidated Entity does not hold or issue derivative financial instruments for speculative trading purposes.

The Consolidated Entity's derivative financial instruments are not designated as a hedge for accounting purposes, and accordingly movements in the fair value of derivative financial instruments are recognised in the income statement.

#### Cash flow hedges

Certain of the Consolidated Entity's associates and JVs continue to designate interest rate swaps as a cash flow hedge for accounting purposes. The Consolidated Entity's share of the effective portion of changes in the fair value of derivatives in associates and JVs that are designated and qualify as cash flow hedges is recognised in the cash flow hedge reserve. The gain or loss relating to any ineffective portion is recognised in the income statement.

#### Other financial assets

	Consolidated	
	2016 \$M	2015 \$M
<b>Current</b>		
Derivative financial instruments	–	4.4
	<b>–</b>	<b>4.4</b>
<b>Non-current</b>		
Derivative financial instruments <sup>1</sup>	329.8	234.0
Investment in unlisted securities, at fair value	0.3	0.8
	<b>330.1</b>	<b>234.8</b>

1. Includes fair values of cross currency interest rate swaps amounting to \$258.2 million (2015: \$176.9 million) entered into to hedge the United States senior notes (refer to note 12(e)).

#### Other financial liabilities

	Consolidated	
	2016 \$M	2015 \$M
<b>Current</b>		
Derivative financial instruments	0.1	50.5
	<b>0.1</b>	<b>50.5</b>
<b>Non-current</b>		
Derivative financial instruments <sup>1</sup>	274.3	347.3
	<b>274.3</b>	<b>347.3</b>

1. Includes fair values of cross currency interest rate swaps amounting to \$nil (2015: \$64.4 million) entered into to hedge the United States senior notes (refer to note 12(e)) and the Japanese yen denominated private placement (refer to note 12(f)).

## Capital management continued

### 14. Financial risk management

The Directors have ultimate responsibility for the Consolidated Entity's capital management and financial risk management (FRM) processes and have established policies, documented in the Consolidated Entity's FRM policy document, to ensure both the efficient use of capital and the appropriate management of the exposure to financial risk.

The Group Investment Committee is Goodman's primary forum where recommendations regarding capital allocation and financial risk management (in accordance in the FRM policy) are discussed and approved. The Group Investment Committee meets every week during the financial year.

Goodman's treasury function is responsible for preparing the following reports for consideration at each of the Consolidated Entity's Board meetings:

- + analysis of capital allocation and funding requirements against the Consolidated Entity's gearing constraint;
- + analysis of the Consolidated Entity's liquidity and funding position;
- + analysis of the Consolidated Entity's debt maturity profile;
- + a review of all the hedge exposures and the completed hedges;
- + compliance with the Consolidated Entity's hedging policy and recommendations for future hedging strategies; and
- + full mark to market of all derivative positions.

Under the FRM policy, the Consolidated Entity's derivative financial instruments are not designated as a hedge for accounting purposes, and accordingly such derivative financial instruments are marked to market, with the movement in value recognised in profit or loss.

#### Capital management

The Consolidated Entity's principal capital management objectives are to maintain a strong capital base and provide funds for operating activities (including development expenditure), capital expenditure and investment opportunities as they arise. This is achieved through an appropriate mix of debt, equity and hybrid instruments.

The Consolidated Entity is able to alter the capital mix by issuing new Goodman securities or hybrid securities, through the operation of a distribution reinvestment plan, adjusting the timing of development and capital expenditure and selling assets to reduce borrowings. Goodman also manages capital through its distribution policy in which distributions made to Securityholders are based on the greater of 60% of the Consolidated Entity's operating profit or taxable income of GIT.

Goodman monitors capital on the basis of both the gearing ratio and the weighted average cost of debt. Gearing is reviewed on a Consolidated Entity basis and the gearing ratio for the Consolidated Entity is calculated as the total interest bearing liabilities less cash as a percentage of the total assets excluding cash.

Goodman's key financial risks are market risk (including foreign exchange and interest rate risk), liquidity risk and credit risk.

#### (a) Market risk

##### Foreign exchange risk

Goodman is exposed to foreign exchange risk through its investments in New Zealand, Hong Kong, China, Japan, Continental Europe, the United Kingdom, North America and Brazil. Foreign exchange risk represents the loss that would be recognised from adverse fluctuations in currency prices against the Australian dollar as a result of the Consolidated Entity's net investment in foreign operations, future commercial transactions, and other foreign currency denominated assets and liabilities.

In managing foreign currency risks, the Consolidated Entity aims to reduce the impact of short-term fluctuations on the Consolidated Entity's earnings and net assets. However, over the long term, permanent changes in foreign exchange will have an impact on both earnings and net assets.

The Consolidated Entity's capital hedge policy for each overseas region is to hedge between 65% and 90% of foreign currency denominated assets with foreign currency denominated liabilities. This is achieved by borrowing in the same currency as the overseas investments to form a natural economic hedge against any foreign currency fluctuations and/or using derivatives such as cross currency interest rate swaps (CCIRS) and foreign exchange contracts (FECs).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

## Capital management continued

### 14. Financial risk management continued

#### (a) Market risk continued

##### Foreign exchange risk continued

As at 30 June 2016, the principal that is hedged, the weighted average exchange rates and the periods to expiry, by currency, are set out below:

	2016			2015		
	Amounts payable	Amounts receivable	Weighted average exchange rate	Amounts payable	Amounts receivable	Weighted average exchange rate
<b>CCIRS: AUD receivable</b>						
<b>Expiry by currency</b>						
<b>NZD payable</b>	<b>NZD'M</b>	<b>A\$M</b>	<b>NZD/AUD</b>	<b>NZD'M</b>	<b>A\$M</b>	<b>NZD/AUD</b>
2–5 years	(100.0)	65.4	1.1674	(100.0)	65.4	1.2252
	<b>(100.0)</b>	<b>65.4</b>		<b>(100.0)</b>	<b>65.4</b>	
<b>HKD payable</b>	<b>HKD'M</b>	<b>A\$M</b>	<b>HKD/AUD</b>	<b>HKD'M</b>	<b>A\$M</b>	<b>HKD/AUD</b>
Less than 1 year	–	–	–	(1,050.0)	128.4	8.1868
2–5 years	(3,390.0)	529.4	6.5396	(1,540.0)	204.1	7.5622
	<b>(3,390.0)</b>	<b>529.4</b>		<b>(2,590.0)</b>	<b>332.5</b>	
<b>JPY payable</b>	<b>JPY'M</b>	<b>A\$M</b>	<b>JPY/AUD</b>	<b>JPY'M</b>	<b>A\$M</b>	<b>JPY/AUD</b>
2–5 years	–	–	–	(11,000.0)	128.0	86.0500
	<b>–</b>	<b>–</b>		<b>(11,000.0)</b>	<b>128.0</b>	
<b>EUR payable</b>	<b>EUR'M</b>	<b>A\$M</b>	<b>EUR/AUD</b>	<b>EUR'M</b>	<b>A\$M</b>	<b>EUR/AUD</b>
Less than 1 year	–	–	–	(50.0)	69.2	0.7226
2–5 years	(470.0)	616.7	0.7644	(420.0)	541.3	0.7765
	<b>(470.0)</b>	<b>616.7</b>		<b>(470.0)</b>	<b>610.5</b>	
<b>GBP payable</b>	<b>GBP'M</b>	<b>A\$M</b>	<b>GBP/AUD</b>	<b>GBP'M</b>	<b>A\$M</b>	<b>GBP/AUD</b>
2–5 years	(170.0)	282.2	0.6035	(170.0)	282.2	0.6035
	<b>(170.0)</b>	<b>282.2</b>		<b>(170.0)</b>	<b>282.2</b>	
<b>FECs: GBP receivable</b>						
<b>Expiry</b>	<b>Amounts payable</b>	<b>Amounts receivable</b>	<b>Weighted average exchange rate</b>	<b>Amounts payable</b>	<b>Amounts receivable</b>	<b>Weighted average exchange rate</b>
	<b>A\$M</b>	<b>GBP/M</b>	<b>AUD/GBP</b>	<b>A\$M</b>	<b>GBP'M</b>	<b>GBP/AUD</b>
Less than 1 year	–	–	–	(171.1)	85.0	2.0129
1–2 years	(103.2)	50.0	2.0648	–	–	–
2–5 years	–	–	–	(103.2)	50.0	2.0640
	<b>(103.2)</b>	<b>50.0</b>		<b>(274.3)</b>	<b>135.0</b>	
<b>FECs: USD receivable</b>						
<b>Expiry</b>	<b>Amounts payable</b>	<b>Amounts receivable</b>	<b>Weighted average exchange rate</b>	<b>Amounts payable</b>	<b>Amounts receivable</b>	<b>Weighted average exchange rate</b>
	<b>CNY'M</b>	<b>USD'M</b>	<b>USD/CNY</b>	<b>CNY'M</b>	<b>USD'M</b>	<b>USD/CNY</b>
2–5 years	(1,614.6)	225.0	7.1759	–	–	–
	<b>(1,614.6)</b>	<b>225.0</b>		<b>–</b>	<b>–</b>	



## Capital management continued

### 14. Financial risk management continued

#### (a) Market risk continued

##### Foreign exchange risk continued

At 30 June 2016, Goodman's notes issued in the United States 144A/Reg S bond market and also foreign private placements denominated in Japanese yen create both an interest rate and a foreign currency risk exposure. Goodman's policy is to minimise its exposure to both interest rate and exchange rate movements. Accordingly, Goodman has entered into both USD/EUR and USD/GBP CCIRS, to provide a capital hedge against assets denominated in Euros and British pounds sterling. Details of these CCIRS are set out below:

	2016			2015		
CCIRS: USD receivable Expiry by currency	Amounts payable	Amounts receivable	Weighted average exchange rate	Amounts payable	Amounts receivable	Weighted average exchange rate
<b>EUR payable</b>	<b>EUR'M</b>	<b>USD'M</b>	<b>USD/EUR</b>	<b>EUR'M</b>	<b>USD'M</b>	<b>USD/EUR</b>
2–5 years	(250.8)	355.0	0.7065	–	–	–
Over 5 years	(76.6)	100.0	0.7657	(327.4)	455.0	0.7195
	<b>(327.4)</b>	<b>455.0</b>		<b>(327.4)</b>	<b>455.0</b>	
<b>GBP payable</b>	<b>GBP'M</b>	<b>USD'M</b>	<b>USD/GBP</b>	<b>GBP'M</b>	<b>USD'M</b>	<b>USD/GBP</b>
2–5 years	(55.6)	90.0	0.6176	–	–	–
Over 5 years	(76.4)	120.0	0.6369	(132.0)	210.0	0.6286
	<b>(132.0)</b>	<b>210.0</b>		<b>(132.0)</b>	<b>210.0</b>	
CCIRS: JPY receivable Expiry	Amounts payable	Amounts receivable	Weighted average exchange rate	Amounts payable	Amounts receivable	Weighted average exchange rate
<b>GBP payable</b>	<b>GBP'M</b>	<b>JPY'M</b>	<b>JPY/GBP</b>	<b>GBP'M</b>	<b>JPY'M</b>	<b>JPY/GBP</b>
Over 5 years	–	–	–	(85.9)	11,300.0	0.0076
	<b>–</b>	<b>–</b>		<b>(85.9)</b>	<b>11,300.0</b>	

##### Sensitivity analysis

Throughout the financial year, if the Australian dollar had been 5% (2015: 5%) stronger against all other currencies, with all other variables held constant, the profit attributable to Securityholders, excluding derivative mark to market and unrealised foreign exchange movements, would have decreased by A\$21.9 million (2015: A\$12.6 million decrease). If the Australian dollar had been 5% (2015: 5%) weaker against all other market currencies, with all other variables held constant, the profit attributable to Securityholders, excluding derivative mark to market and unrealised foreign exchange movements, would have increased by A\$21.9 million (2015: A\$12.6 million increase).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

## Capital management continued

### 14. Financial risk management continued

#### (a) Market risk continued

##### Interest rate risk

Goodman's interest rate risk arises from variable rate borrowings and also fixed rate to floating rate CCIRS that hedge the currency risk associated with the USD denominated notes. The Consolidated Entity adopts a policy of ensuring that between 60% and 100% of its current year exposure to changes in interest rates on borrowings is on a fixed rate basis. The Consolidated Entity enters into interest rate swaps (IRS) to manage cash flow risks associated with the interest rates on borrowings that are floating. The IRS contracts are for 90 day intervals and involve quarterly payments or receipts of the net amount of interest.

As at 30 June 2016, the Consolidated Entity's interest rate risk exposure based on existing interest bearing liabilities and derivative financial instruments is set out below:

	Interest bearing liabilities A\$M	Impact of derivatives CCIRS <sup>1</sup> A\$M	IRS A\$M	Net interest rate exposure A\$M
<b>30 June 2016</b>				
Fixed rate liabilities	2,387.3	(893.0)	854.8	2,349.1
Floating rate liabilities	506.1	912.3	(854.8)	563.6
	<b>2,893.4</b>	<b>19.3</b>	<b>-</b>	<b>2,912.7</b>
<b>30 June 2015</b>				
Fixed rate liabilities	2,361.7	(982.8)	762.8	2,141.7
Floating rate liabilities	372.3	1,164.8	(762.8)	774.3
	<b>2,734.0</b>	<b>182.0</b>	<b>-</b>	<b>2,916.0</b>

1. The impact of the CCIRS amends the total borrowings exposure as a result of the difference in the foreign currency exchange rate between the contracted rate and the year end spot rate.

As a result of the fixed rate interest bearing liabilities and derivative financial instruments that exist at the end of the financial year, the Consolidated Entity would have the following fixed interest rate exposure at the end of each of the next five financial years:

Number of years post balance date	2016		2015	
	Fixed interest rate exposure A\$M	Weighted average interest rate % per annum	Fixed interest rate exposure A\$M	Weighted average interest rate % per annum
1 year	2,397.0	4.51	2,397.9	4.95
2 years	2,583.3	4.39	2,388.5	5.00
3 years	2,172.1	3.44	2,297.6	4.94
4 years	1,793.7	3.50	1,538.2	3.78
5 years	1,318.0	3.21	1,183.2	3.84

##### Sensitivity analysis

Based on the Consolidated Entity's interest bearing liabilities and derivative financial instruments at 30 June 2016, if interest rates on borrowings had been 100 basis points per annum (2015: 100 basis points per annum) higher/lower, with all other variables held constant, the Consolidated Entity's profit attributable to Securityholders for the financial year would have been A\$5.6 million lower/higher (2015: A\$7.7 million).

##### Price risk

The Consolidated Entity is not materially exposed to price risk.

## Capital management continued

### 14. Financial risk management continued

#### (b) Liquidity risk

Liquidity risk is the risk that the Consolidated Entity will not be able to meet its financial obligations as they fall due. The Consolidated Entity's objective is to maintain sufficient liquidity to fund working capital, capital expenditure, investment opportunities, debt expiries and distributions. This is achieved through the monthly preparation of a three year cash flow forecast to understand the uses of funds and to identify potential shortfalls in funding. This allows the Consolidated Entity to plan for renewal of debt facilities, negotiation of new debt facilities, new issues of securities, including the distribution reinvestment plan, and other potential sources of funding.

Goodman's treasury function is responsible for reporting details of all debt maturities to the Board at its regular meetings. Goodman's treasury function is also responsible for reporting to the Board all the information and term sheets relating to any financing arrangements being contemplated or negotiated by the Consolidated Entity, for its review and approval.

The Consolidated Entity seeks to spread its debt maturities such that the total debt maturing in a single financial year does not exceed Board approved policy levels.

The contractual maturities of financial liabilities are set out below:

	Carrying amount \$M	Contractual cash flows \$M	Less than 1 year \$M	1–2 years \$M	2–3 years \$M	3–4 years \$M	4–5 years \$M	More than 5 years \$M
<b>As at 30 June 2016</b>								
<b>Non-derivative financial liabilities</b>								
Payables	492.5	492.5	407.4	65.7	1.9	7.5	10.0	–
Bank loans, secured	64.9	64.9	12.0	–	–	–	–	52.9
Foreign securitised notes	94.6	94.6	8.7	–	–	–	–	85.9
Bank loans, unsecured <sup>1</sup>	306.5	306.5	–	–	80.7	130.1	95.7	–
Euro medium-term notes, unsecured	445.4	575.8	85.1	43.4	447.3	–	–	–
United States senior notes, unsecured	1,779.2	2,367.7	135.5	112.4	112.4	112.8	1,193.5	701.1
Foreign private placements, unsecured	202.8	246.6	7.7	6.2	6.2	6.3	6.2	214.0
<b>Total non-derivative financial liabilities</b>	<b>3,385.9</b>	<b>4,148.6</b>	<b>656.4</b>	<b>227.7</b>	<b>648.5</b>	<b>256.7</b>	<b>1,305.4</b>	<b>1,053.9</b>
<b>Derivative financial (assets)/liabilities – net</b>								
Net settled <sup>2</sup>	(20.7)	(5.1)	(10.0)	2.6	1.0	1.8	1.1	(1.6)
Gross settled: <sup>3</sup>								
(Inflow)	(34.7)	(539.7)	(94.7)	(97.2)	(77.0)	(81.6)	(144.9)	(44.3)
Outflow	–	489.4	39.9	203.9	103.1	36.9	38.7	66.9
<b>Total derivative financial (assets)/liabilities – net</b>	<b>(55.4)</b>	<b>(55.4)</b>	<b>(64.8)</b>	<b>109.3</b>	<b>27.1</b>	<b>(42.9)</b>	<b>(105.1)</b>	<b>21.0</b>
<b>As at 30 June 2015</b>								
<b>Non-derivative financial liabilities</b>								
Payables	472.2	473.2	371.4	66.2	16.2	1.9	7.5	10.0
Bank loans, unsecured <sup>1</sup>	333.2	339.7	–	–	–	230.0	109.7	–
Euro medium-term notes, unsecured	509.9	710.8	97.7	49.9	49.9	513.3	–	–
United States senior notes, unsecured	1,719.0	2,422.8	140.6	108.6	108.6	108.6	108.9	1,847.5
Foreign private placements, unsecured	171.9	215.9	6.5	5.3	5.3	5.3	5.3	188.2
<b>Total non-derivative financial liabilities</b>	<b>3,206.2</b>	<b>4,162.4</b>	<b>616.2</b>	<b>230.0</b>	<b>180.0</b>	<b>859.1</b>	<b>231.4</b>	<b>2,045.7</b>
<b>Derivative financial liabilities/(assets) – net</b>								
Net settled <sup>2</sup>	22.4	11.3	4.4	5.7	(1.9)	1.8	0.8	0.5
Gross settled: <sup>3</sup>								
(Inflow)	–	(504.0)	(91.1)	(89.8)	(84.7)	(62.9)	(58.3)	(117.2)
Outflow	137.0	652.6	96.7	50.4	211.2	145.0	50.2	99.1
<b>Total derivative financial liabilities/(assets) – net</b>	<b>159.4</b>	<b>159.9</b>	<b>10.0</b>	<b>(33.7)</b>	<b>124.6</b>	<b>83.9</b>	<b>(7.3)</b>	<b>(17.6)</b>

1. Contractual cash flows relating to bank loans exclude any estimate of interest payments that might arise under the Consolidated Entity's revolving loan facilities.

2. Net settled includes IRS and foreign currency contracts.

3. Gross settled includes CCIRS.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

## Capital management continued

### 14. Financial risk management continued

#### (c) Credit risk

Credit risk represents the loss that would be recognised if counterparties failed to perform as contracted.

The maximum exposure to credit risk on financial assets, excluding investments, of the Consolidated Entity which have been recognised on the statement of financial position, is the carrying amount.

The Consolidated Entity has a policy of assessing the creditworthiness of all potential customers and is not materially exposed to any one customer. The Consolidated Entity evaluates all customers' perceived credit risk and may require the lodgement of rental bonds or bank guarantees, as appropriate, to reduce credit risk. In addition, all rents are payable monthly in advance.

The Consolidated Entity minimises credit risk by dealing with major financial institutions in relation to cash and short-term borrowings. Concentration of credit risk exists from time to time on receivables for the proceeds of disposals of investment properties. The credit risk is minimised as legal title is only transferred upon receipt of proceeds for the sale of those assets and typically Goodman will have either received a cash deposit or be the beneficiary of a bank guarantee for 10% to 20% of the total proceeds.

From time to time, the Consolidated Entity also makes loans to managed partnerships, typically to fund development projects. In making its investment decisions, the Consolidated Entity will undertake a detailed assessment of the development feasibility and credit risks associated with the relevant counterparties.

The credit risks associated with financial instruments are managed by:

- + transacting with multiple derivatives counterparties that have a long-term investment credit rating; and
- + utilising International Swaps and Derivatives Association (ISDA) agreements with derivative counterparties in order to limit exposure to credit risk through netting of amounts receivable and amounts payable to individual counterparties (refer below).

#### Master netting or similar agreements

The Consolidated Entity enters into derivative transactions under ISDA master netting off agreements. Under these agreements, where certain credit events occur (such as a default), all outstanding transactions under the agreement are terminated and a single net termination value is payable in full and final settlement.

As the Consolidated Entity does not have any current legally enforceable right to offset, the fair values associated with derivative financial instruments have been presented gross in the statement of financial position. However, if a credit event occurred, the ISDA master netting off agreement would allow A\$124.1 million (2015: A\$144.5 million) of financial assets and financial liabilities in relation to the Consolidated Entity's derivative financial instruments to be offset.

#### (d) Fair values of financial instruments

The carrying amounts shown in the statement of financial position and fair values of financial assets and liabilities are as follows:

Consolidated	Note	Carrying amount 2016 \$M	Fair value 2016 \$M	Carrying amount 2015 \$M	Fair value 2015 \$M
<b>Financial assets</b>					
Cash	17(a)	1,337.0	1,337.0	746.5	746.5
Receivables	7	437.5	437.5	390.5	390.5
Other financial assets:	13				
– IRS		57.4	57.4	43.0	43.0
– CCIRS		272.4	272.4	189.1	189.1
– FECs		–	–	6.3	6.3
– Investments in unlisted securities		0.3	0.3	0.8	0.8
		<b>2,104.6</b>	<b>2,104.6</b>	<b>1,376.2</b>	<b>1,376.2</b>
<b>Financial liabilities</b>					
Payables	8	492.5	492.5	472.2	472.2
Interest bearing liabilities <sup>1</sup>	12	2,865.2	3,097.6	2,707.9	3,081.0
Other financial liabilities:	13				
– IRS		36.8	36.8	71.7	71.7
– CCIRS		218.1	218.1	326.1	326.1
– FECs		19.5	19.5	–	–
		<b>3,632.1</b>	<b>3,864.5</b>	<b>3,577.9</b>	<b>3,951.0</b>

1. The fair value of certain fixed rate interest bearing liabilities has been determined by reference to the quoted market prices at 30 June 2016 (refer to note 12).

## Capital management continued

### 14. Financial risk management continued

#### (d) Fair values of financial instruments continued

##### Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method (see note 1(g)):

	Level 1 \$M	Level 2 \$M	Level 3 \$M	Total \$M
<b>As at 30 June 2016</b>				
Available for sale financial assets	–	–	0.3	0.3
Derivative financial assets	–	329.8	–	329.8
	–	<b>329.8</b>	<b>0.3</b>	<b>330.1</b>
Derivative financial liabilities	–	274.4	–	274.4
	–	<b>274.4</b>	–	<b>274.4</b>
<b>As at 30 June 2015</b>				
Available for sale financial assets	–	–	0.8	0.8
Derivative financial assets	–	238.4	–	238.4
	–	<b>238.4</b>	<b>0.8</b>	<b>239.2</b>
Derivative financial liabilities	–	397.8	–	397.8
	–	<b>397.8</b>	–	<b>397.8</b>

There were no transfers between the levels during the year.

##### Valuation techniques used to derive Level 2 and Level 3 fair values

The Level 2 derivative financial instruments held by the Consolidated Entity consist of interest rate swaps, cross currency interest rate swaps and foreign exchange contracts.

The fair values of derivative financial instruments are determined using generally accepted pricing models which discount estimated future cash flows based on the terms and maturity of each contract and current market interest rates and/or foreign currency rates, adjusted for specific features of the instruments.

### 15. Dividends and distributions

Distributions are recognised when they are declared by the distributing entities and before deduction of any withholding tax. Any non-recoverable withholding tax is included in income tax.

#### (a) Dividends declared by the Company

No dividends were declared or paid by Goodman Limited during the financial year ended 30 June 2016 or up to the date of this report.

#### (b) Distributions declared and paid/payable by GIT

	Distribution cpu	Total amount \$M	Date of payment
<b>Distributions for the current financial year</b>			
– 31 Dec 2015	11.9	210.6	22 Feb 2016
– 30 Jun 2016	11.1	197.4	26 Aug 2016
	<b>23.0</b>	<b>408.0</b>	
<b>Distributions for the prior financial year</b>			
– 31 Dec 2014	11.1	193.7	20 Feb 2015
– 30 Jun 2015	11.1	194.6	26 Aug 2015
	<b>22.2</b>	<b>388.3</b>	

#### Movement in provision for distributions to Securityholders

	Consolidated	
	2016 \$M	2015 \$M
Balance at the beginning of the year	194.6	178.8
Provisions for distributions	408.0	388.3
Distributions paid	(309.7)	(283.1)
Distribution reinvestment plan	(95.5)	(89.4)
<b>Balance at the end of the year</b>	<b>197.4</b>	<b>194.6</b>

#### (c) Dividends declared by GLHK

GLHK did not declare any dividends during the financial year. On 11 August 2016, GLHK proposed a dividend of 1.0 cent per security amounting to \$17.8 million (2015: \$nil), which will be paid on 26 August 2016.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

## Capital management continued

### 16. Issued capital

#### (a) Ordinary securities

##### Ordinary shares

Ordinary shares of the Company are classified as equity. Incremental costs directly attributable to issues of ordinary shares and options are recognised as a deduction from equity, net of any tax effects.

	2016 Number of securities	2015 Number of securities	2016 \$M	2015 \$M
Stapled securities – issued and fully paid	1,778,318,630	1,753,035,922	8,192.2	8,096.7
Less: Accumulated issue costs			(160.5)	(160.5)
<b>Total issued capital</b>			<b>8,031.7</b>	<b>7,936.2</b>

#### Terms and conditions

Stapled security means one share in the Company stapled to one unit in GIT and one CDI over a share in GLHK. Holders of stapled securities are entitled to receive dividends or distributions as declared from time to time and are entitled to one vote per security at Securityholders' meetings. In the event of a winding up, Securityholders rank after creditors and are fully entitled to any proceeds of liquidation.

Effective 1 July 1998, the Company Law Review Act 1998 abolished the concept of par value shares and the concept of authorised capital. Accordingly, the Company does not have authorised capital or par value in respect of its issued shares.

#### Movement in ordinary securities

Date	Details	Number of securities	Issue price \$	GL \$M	GIT \$M	GLHK \$M	Security-holders \$M
30 Jun 2014	Balance before accumulated issue costs	1,727,685,976		472.6	6,922.5	612.2	8,007.3
26 Aug 2014	Distribution reinvestment plan	8,888,516	5.11	4.5	35.3	5.6	45.4
1 Sep 2014	Securities issued to employees under the LTIP	8,843,233	–	–	–	–	–
8 Oct 2014	Securities issued to employees under the GTEP	42,336	–	–	–	–	–
20 Feb 2015	Distribution reinvestment plan	7,575,861	5.80	5.4	33.0	5.6	44.0
30 Jun 2015	Balance before accumulated issue costs	1,753,035,922		482.5	6,990.8	623.4	8,096.7
26 Aug 2015	Distribution reinvestment plan	7,196,343	6.31	4.8	35.1	5.5	45.4
31 Aug 2015	Securities issued to employees under the LTIP	9,824,337	–	–	–	–	–
23 Sep 2015	Securities issued to employees under the GTEP	41,712	–	–	–	–	–
22 Feb 2016	Distribution reinvestment plan	8,220,316	6.09	7.3	36.7	6.1	50.1
	Less: Accumulated issue costs			(11.4)	(148.5)	(0.6)	(160.5)
<b>30 Jun 2016</b>	<b>Closing balance</b>	<b>1,778,318,630</b>		<b>483.2</b>	<b>6,914.1</b>	<b>634.4</b>	<b>8,031.7</b>

## Capital management continued

### 16. Issued capital continued

#### (b) Share based payments

##### Share based payment transactions

The fair value of performance rights over securities at the grant date is expensed with a corresponding increase in the employee compensation reserve. The share based payments expense is calculated over the period to the vesting date and is adjusted to reflect the actual number of performance rights for which the related service and non-market vesting conditions are expected to be met. The accumulated share based payments expense of performance rights which have vested or lapsed is transferred from the employee compensation reserve to (accumulated losses)/retained earnings. The fair values of performance rights are measured at grant date using a combination of Black Scholes pricing models and Monte Carlo simulations.

At 30 June 2016, the Consolidated Entity had two share based payment schemes, the LTIP and the GTEP. In addition, a specific long-term incentive plan exists for Goodman's employees in New Zealand. Details of these schemes are set out below:

##### LTIP

Performance rights issued under the LTIP entitle an employee to either acquire Goodman securities for \$nil consideration or, in certain jurisdictions, to receive an amount in cash equal to the value of the securities, subject to the vesting conditions having been satisfied. Further details regarding the vesting conditions are included in the remuneration report section of the Directors' report.

The movement in the number of equity settled and cash settled performance rights under the LTIP was as follows:

	Number of rights	
	2016	2015
Outstanding at the beginning of the year	52,112,100	45,681,781
Granted	21,886,940	16,751,695
Exercised	(10,252,137)	(9,220,982)
Forfeited	(1,238,063)	(1,100,394)
<b>Outstanding at the end of the year</b>	<b>62,508,840</b>	<b>52,112,100</b>
<b>Exercisable at the end of the year</b>	<b>-</b>	<b>-</b>

The model inputs for performance rights awarded during the current financial year include the following:

	Rights issued on 24 Nov 2015	Rights issued on 23 Sep 2015
Fair value at measurement date (\$)	4.44	4.06
Security price (\$)	6.09	5.62
Exercise price (\$)	-	-
Expected volatility (%)	24.02	25.03
Rights' expected weighted average life (years)	3.8	3.9
Dividend/distribution yield per annum (%)	5.48	5.39
Average risk free rate of interest per annum (%)	2.41	2.31

The fair value of services received in return for performance rights granted under the LTIP is measured by reference to the fair value of the performance rights granted. The estimate of the fair value of the services received is measured as follows:

- + operating EPS tranche: these rights have been valued as a granted call option, using the standard Black Scholes model with a continuous dividend/distribution yield; and
- + relative TSR tranche: these rights have been valued using a Monte Carlo model which simulated total returns for each of the ASX 100 stocks, and discounted the future value of any potential future vesting performance rights to arrive at a present value. The model uses statistical analysis to forecast total returns, based on expected parameters of variance and co-variance.

At 30 June 2016, a liability of \$16.0 million (2015: \$11.6 million) was recognised in relation to cash settled performance rights.

##### GTEP

Under the GTEP, a number of Australian based employees are also offered up to \$1,000 annually of restricted securities. The intention of the GTEP is to broaden employee alignment with Securityholders. Under tax legislation, employees with adjusted taxable income of less than \$180,000 per annum are not subject to income tax when these restricted securities are granted. This tax exemption requires that there be no forfeiture conditions and that participating employees be restricted from dealing with the securities for three years.

##### Goodman's New Zealand Long Term Incentive Plan

Under Goodman's New Zealand Long Term Incentive Plan, employees receive approximately half of their LTI in the form of performance rights over GMT units that vest subject to meeting performance hurdles based on the achievement of distributable earnings targets by GMT and the relative total unitholder return from holding GMT units compared to other NZX property vehicles. On vesting, delivery of units in GMT will be made from units held by the Consolidated Entity or acquired on market.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

## Other items

### 17. Notes to the cash flow statement

#### (a) Reconciliation of cash

For the purpose of the cash flow statement, cash includes cash on hand at the bank and short-term deposits at call. Cash at the balance date as shown in the cash flow statement is reconciled to the related items in the statement of financial position as follows:

	Consolidated	
	2016 \$M	2015 \$M
<b>Cash assets</b>	<b>1,337.0</b>	<b>746.5</b>

#### (b) Reconciliation of profit for the year to net cash provided by operating activities

	Consolidated	
	2016 \$M	2015 \$M
Profit for the year	1,294.7	1,229.2
<b>Items classified as investing activities</b>		
Net gain on disposal of investment properties	(18.1)	(7.8)
Net loss/(gain) on disposal of controlled entities	2.3	(33.3)
Net loss/(gain) on disposal of equity investments	42.5	(0.4)
<b>Non-cash items</b>		
Amortisation and depreciation	7.7	6.6
Share based payments expense	66.9	51.0
Net gain from fair value adjustments on investment properties	(327.8)	(515.9)
Impairment losses	249.1	28.2
Share of net results of equity accounted investments	(928.6)	(614.1)
Net finance expense	13.0	127.8
Income tax expense	75.6	21.0
<b>Operating profit before changes in working capital and provisions</b>	<b>477.3</b>	<b>292.3</b>
Changes in assets and liabilities during the year:		
– (Increase)/decrease in receivables	(95.3)	134.4
– Decrease/(increase) in inventories	171.4	(257.7)
– (Increase)/decrease in other assets	(4.0)	6.0
– Increase in payables	68.7	21.1
– Decrease in provisions	(6.8)	(0.7)
	<b>611.3</b>	<b>195.4</b>
Distributions/dividends received from equity accounted investments	421.5	511.6
Net finance costs paid	(183.2)	(21.0)
Net income taxes paid	(19.5)	(31.3)
<b>Net cash provided by operating activities</b>	<b>830.1</b>	<b>654.7</b>

#### (c) Non-cash transactions

During the current financial year, the Consolidated Entity's distribution reinvestment plan was active for the August 2015 and February 2016 distributions. In relation to these distributions, \$95.5 million was made in the form of Goodman securities.

In the prior financial year, the significant non-cash transactions were as follows:

- + the Consolidated Entity's distribution reinvestment plan was active for the August 2014 and February 2015 distributions. In relation to these distributions, \$89.4 million was made in the form of Goodman securities; and
- + the Consolidated Entity received distributions of \$31.7 million from GAP and GADP in the form of units in the respective managed partnership.



Other items continued

18. Reserves

	Note	Consolidated	
		2016 \$M	2015 \$M
Asset revaluation reserve <sup>1</sup>	18(a)	(5.3)	(142.8)
Cash flow hedge reserve	18(b)	(5.9)	(5.0)
Foreign currency translation reserve	18(c)	(28.2)	(28.7)
Employee compensation reserve	18(d)	102.5	78.3
Defined benefit funds actuarial losses reserve	18(e)	(30.3)	(34.2)
<b>Total reserves</b>		<b>32.8</b>	<b>(132.4)</b>

1. In prior years, unrealised gains or losses on investment properties were transferred from (accumulated losses)/retained earnings to the asset revaluation reserve. From 1 July 2015, the Consolidated Entity has amended its practice such that these unrealised gains or losses are maintained in (accumulated losses)/retained earnings and any relevant amounts included in the asset revaluation reserve at 1 July 2015 have been transferred back to (accumulated losses)/retained earnings.

The reserves of the Consolidated Entity are apportioned below between the amounts Securityholders are entitled to by virtue of their shareholding in the Company, their unitholding in GIT and their CDIs over shares of GLHK:

	GL		GIT		GLHK		Securityholders	
	2016 \$M	2015 \$M	2016 \$M	2015 \$M	2016 \$M	2015 \$M	2016 \$M	2015 \$M
<b>(a) Asset revaluation reserve</b>								
Balance at the beginning of the year	(326.0)	(178.0)	191.3	(929.8)	(8.1)	2.1	(142.8)	(1,105.7)
(Decrease)/increase due to revaluation of other financial assets	(6.7)	(2.2)	6.6	2.1	-	-	(0.1)	(0.1)
Transfers to/from retained earnings/ (accumulated losses)	305.6	(141.2)	(170.1)	1,132.6	1.7	(7.3)	137.2	984.1
Effect of foreign currency translation	5.5	(4.6)	0.4	(13.6)	(5.5)	(2.9)	0.4	(21.1)
<b>Balance at the end of the year</b>	<b>(21.6)</b>	<b>(326.0)</b>	<b>28.2</b>	<b>191.3</b>	<b>(11.9)</b>	<b>(8.1)</b>	<b>(5.3)</b>	<b>(142.8)</b>
<b>(b) Cash flow hedge reserve</b>								
Balance at the beginning of the year	(0.1)	(0.1)	(4.9)	(9.6)	-	-	(5.0)	(9.7)
Change in value of financial instruments	-	-	(0.9)	0.8	-	-	(0.9)	0.8
Transfers to other comprehensive income	-	-	-	4.1	-	-	-	4.1
Effect of foreign currency translation	0.1	-	(0.1)	(0.2)	-	-	-	(0.2)
<b>Balance at the end of the year</b>	<b>-</b>	<b>(0.1)</b>	<b>(5.9)</b>	<b>(4.9)</b>	<b>-</b>	<b>-</b>	<b>(5.9)</b>	<b>(5.0)</b>
Refer to note 13 for the accounting policy relating to this reserve.								
<b>(c) Foreign currency translation reserve</b>								
Balance at the beginning of the year	(155.4)	(83.5)	21.8	(251.1)	104.9	77.5	(28.7)	(257.1)
Transfers to the income statement	34.3	-	-	-	-	-	34.3	-
Net exchange differences on conversion of foreign operations	138.4	(71.9)	(172.3)	272.9	0.1	27.4	(33.8)	228.4
<b>Balance at the end of the year</b>	<b>17.3</b>	<b>(155.4)</b>	<b>(150.5)</b>	<b>21.8</b>	<b>105.0</b>	<b>104.9</b>	<b>(28.2)</b>	<b>(28.7)</b>
Refer to note 1(c) for the accounting policy relating to this reserve.								
<b>(d) Employee compensation reserve</b>								
Balance at the beginning of the year	6.9	4.1	64.7	57.0	6.7	3.2	78.3	64.3
Equity settled share based payments expense	30.7	25.5	16.2	7.7	4.4	3.5	51.3	36.7
Transfers to retained earnings/ (accumulated losses)	(27.1)	(22.7)	-	-	-	-	(27.1)	(22.7)
<b>Balance at the end of the year</b>	<b>10.5</b>	<b>6.9</b>	<b>80.9</b>	<b>64.7</b>	<b>11.1</b>	<b>6.7</b>	<b>102.5</b>	<b>78.3</b>
Refer to note 16(b) for the accounting policy relating to this reserve.								
<b>(e) Defined benefit funds actuarial losses reserve</b>								
Balance at the beginning of the year	(34.2)	(22.3)	-	-	-	-	(34.2)	(22.3)
Actuarial losses on defined benefit superannuation funds	(0.4)	(9.1)	-	-	-	-	(0.4)	(9.1)
Effect of foreign currency translation	4.3	(2.8)	-	-	-	-	4.3	(2.8)
<b>Balance at the end of the year</b>	<b>(30.3)</b>	<b>(34.2)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(30.3)</b>	<b>(34.2)</b>
Refer to note 2 for the accounting policy relating to this reserve.								
<b>Total reserves</b>	<b>(24.1)</b>	<b>(508.8)</b>	<b>(47.3)</b>	<b>272.9</b>	<b>104.2</b>	<b>103.5</b>	<b>32.8</b>	<b>(132.4)</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

## Other items continued

### 19. Retained earnings/(accumulated losses)

The retained earnings/(accumulated losses) of the Consolidated Entity are apportioned below between the amounts Securityholders are entitled to by virtue of their shareholding in the Company, their unitholding in GIT and their CDIs over shares of GLHK:

	GL		GIT		GLHK		Securityholders	
	2016 \$M	2015 \$M	2016 \$M	2015 \$M	2016 \$M	2015 \$M	2016 \$M	2015 \$M
Balance at the beginning of the year	398.7	14.9	(1,338.5)	(720.9)	186.3	94.2	(753.5)	(611.8)
(Loss)/profit for the year	(131.9)	219.9	1,232.4	903.3	174.1	84.8	1,274.6	1,208.0
Transfers to/from asset revaluation reserve <sup>1</sup>	(305.6)	141.2	170.1	(1,132.6)	(1.7)	7.3	(137.2)	(984.1)
Transfers from employee compensation reserve	27.1	22.7	-	-	-	-	27.1	22.7
Dividends/distributions declared	-	-	(408.0)	(388.3)	-	-	(408.0)	(388.3)
<b>Balance at the end of the year</b>	<b>(11.7)</b>	<b>398.7</b>	<b>(344.0)</b>	<b>(1,338.5)</b>	<b>358.7</b>	<b>186.3</b>	<b>3.0</b>	<b>(753.5)</b>

1. Refer to note 18.

### 20. Other non-controlling interests

Goodman issued hybrid securities in Goodman PLUS Trust, a controlled entity of GIT, that meet the definition of equity for the purpose of the Consolidated Entity. The hybrid securities are preferred, perpetual non-call securities which are listed on the ASX. Goodman PLUS Trust pays, at its discretion, distributions at a market rate plus a margin. The hybrid securities may be exchanged or repurchased in certain circumstances. Accordingly, these hybrid securities have been classified as equity and presented as other non-controlling interests. Incremental costs directly attributable to the issue of hybrid securities are recognised as a deduction from equity, net of any tax effects.

For the year ended 30 June 2016, the movement in Goodman PLUS was as follows:

	Consolidated	
	2016 \$M	2015 \$M
Balance at the beginning of the year	325.8	325.8
Profit attributable to other non-controlling interests	20.1	21.2
Distributions paid to holders of Goodman PLUS	(20.1)	(21.2)
<b>Balance at the end of the year<sup>1</sup></b>	<b>325.8</b>	<b>325.8</b>

1. The non-controlling interest balance is net of issue costs.

The key terms of the Goodman PLUS are as follows:

- + distributions under Goodman PLUS are discretionary and payable quarterly on 31 March, 30 June, 30 September and 31 December at a margin of 3.90% per annum over the three month Bank Bill Swap Rate;
- + the first remarketing date is 30 September 2017 and thereafter every five years. After 30 September 2017, the Goodman PLUS may be repurchased or exchanged;
- + a step-up margin of 0.25% per annum will apply if Goodman PLUS are not repurchased, exchanged or successfully remarketed on or before 30 September 2022;
- + a final step-up margin of 0.75% per annum will apply if Goodman PLUS are not repurchased or exchanged on or before 31 December 2038; and
- + Goodman PLUS holders will have the right to require the Trust to elect to repurchase or exchange the Goodman PLUS on 31 December 2073.

Distributions declared during the current financial year by Goodman PLUS Trust to holders of hybrid securities were \$20.1 million (2015: \$21.2 million), or 614.8 cents per unit (2015: 647.9 cents per unit).

## Other items continued

### 21. Controlled entities

Controlled entities are entities controlled by the Company. The consolidated financial statements incorporate the assets and liabilities of all entities controlled by the Consolidated Entity as at 30 June 2016 and the results of all such entities for the year ended 30 June 2016.

Where an entity either began or ceased to be controlled by the Company during the financial year, the results of that entity are included only from or to the date control commenced or ceased.

Unrealised gains and losses and inter-entity balances resulting from transactions with or between controlled entities are eliminated in full on consolidation.

The significant controlled entities of Goodman Limited are set out below:

Significant controlled entities	Country of establishment/incorporation
Carter Street Trust	Australia
GA Industrial Portfolio Trust	Australia
GIT Investments Holding Trust No.3	Australia
Goodman Australia Finance Pty Limited	Australia
Goodman Capital Trust	Australia
Goodman Europe Development Trust	Australia
Goodman Finance Australia Trust	Australia
Goodman Funding Pty Limited	Australia
Goodman Funds Management Australia Limited	Australia
Goodman Funds Management Limited	Australia
Goodman Industrial Funds Management Limited	Australia
Goodman Industrial Trust	Australia
Goodman PLUS Trust	Australia
Goodman Property Services (Aust) Pty Limited	Australia
Goodman Treasury Trust	Australia
Goodman Ultimo Trust	Australia
MAC Unit Trust	Australia
MIP Trust	Australia
The Moorabbin Airport Unit Trust	Australia
Goodman Management Services (Belgium) NV	Belgium
Goodman Brasil Logistica S.A.	Brazil
Goodman Investimentos e Participações S.A.	Brazil
GJDP Limited	Cayman Islands
Goodman China Asset Management Limited	Cayman Islands
Goodman China Developments	Cayman Islands
Goodman Developments Asia	Cayman Islands
MGI HK Finance	Cayman Islands
Goodman Management Consulting (Beijing) Co. Ltd	China
Goodman Management Consulting (Shanghai) Co. Ltd	China
Goodman France Sàrl	France
Goodman Germany GmbH	Germany
GFM Hong Kong Limited	Hong Kong
Goodman Asia Limited	Hong Kong
Goodman China Limited	Hong Kong
Goodman Hong Kong Investment Trust	Hong Kong
Goodman Logistics (HK) Limited	Hong Kong
GPS Hong Kong Limited	Hong Kong
Goodman Japan Funds Limited	Japan
Goodman Japan Limited	Japan
ABPP Investment Jersey Limited	Jersey
Goodman Finance (Jersey) Limited	Jersey
Goodman Management (Jersey) Limited	Jersey
Goodman Property Holdings (Jersey) Limited	Jersey
GELF Management (Lux) Sàrl	Luxembourg
GJL Management Lux Sàrl	Luxembourg
Goodman Europe (Lux) Sàrl	Luxembourg
Goodman Finance Two (Lux) Sàrl	Luxembourg
Goodman Finance (Lux) Sàrl	Luxembourg
Goodman Management Holdings (Lux) Sàrl	Luxembourg
Goodman Meadow Logistics Sàrl	Luxembourg
Goodman Midnight Logistics (Lux) Sàrl	Luxembourg
Goodman Property Opportunities (Lux) Sàrl, SICAR	Luxembourg
GPO Advisory (Lux) Sàrl	Luxembourg

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

## Other items continued

### 21. Controlled entities continued

#### Significant controlled entities

	Country of establishment/incorporation
Goodman Finance NZ Limited	New Zealand
Goodman Holdings (NZ) Limited	New Zealand
Goodman Investment Holdings (NZ) Limited	New Zealand
Goodman Property Services (NZ) Limited	New Zealand
Goodman (NZ) Limited	New Zealand
Goodman (Paihia) Limited	New Zealand
Goodman (Wynyard Precinct) Limited	New Zealand
Goodman Poland Sp zoo	Poland
Goodman Galaxy Holding BV	The Netherlands
Goodman Business Services (UK) Limited	United Kingdom
Goodman Development Management (UK) Limited	United Kingdom
Goodman Eastside Locks UK Ltd	United Kingdom
Goodman Logistics Developments (UK) Limited	United Kingdom
Goodman Operator (UK) Limited	United Kingdom
Goodman Real Estate Adviser (UK) Limited	United Kingdom
Goodman Real Estate (UK) Limited	United Kingdom
Goodman UK Limited	United Kingdom
Goodman Birtcher Development Management LLC	United States
Goodman Birtcher Investment GP LLC	United States
Goodman Birtcher North America LLC	United States
Goodman Birtcher North America Management LLC	United States
Goodman Birtcher Property Management LP	United States
Goodman Birtcher Property Management USA GP Inc	United States
Goodman Management USA Inc	United States
Tarpon Properties REIT Inc	United States

#### Acquisition of operating management platform in Brazil

On 17 March 2016, Goodman and WTorre agreed to split their respective interests in the assets and liabilities of the Brazilian property development joint venture, WT Goodman. Under the agreement, Goodman acquired the entities holding the management platform, four property assets and associated external debt and as consideration cancelled the 50% equity interest that it owned in WT Goodman.

The identifiable assets acquired and liabilities assumed are as follows:

	2016 \$M
Cash	8.7
Inventories	229.4
Other assets	11.2
Interest bearing liabilities	(132.9)
Deferred tax liabilities	(20.5)
Other payables	(1.9)
<b>Total net identifiable assets</b>	<b>94.0</b>

No goodwill was recognised on the acquisition of the Brazil entities.

In the three months ended 30 June 2016, the Brazil operations contributed revenue of \$6.2 million and loss before tax of \$2.4 million to the results of the Consolidated Entity.

The derecognition of the Consolidated Entity's existing investment in the WT Goodman joint venture resulted in a loss of \$64.2 million which is included as part of the net loss on disposal of equity investments. This loss includes the amount transferred through the income statement from the foreign currency translation reserve and transaction costs.

#### Disposal of controlled entities

During the year, the Consolidated Entity disposed of four controlled entities with total assets of \$42.0 million (primarily investment properties) and total liabilities of \$37.8 million for a consideration of \$1.9 million.

## Other items continued

### 22. Related parties

The names of key management personnel of the Consolidated Entity at any time during the financial year are as follows:

Non-Executive Directors	Executive Directors
Mr Ian Ferrier, AM	Mr Gregory Goodman
Mr Philip Fan	Mr Anthony Rozic
Mr John Harkness	Mr Philip Pearce <sup>1</sup>
Ms Anne Keating	Mr Danny Peeters
Ms Rebecca McGrath	<b>Other senior executives</b>
Mr Phillip Pryke	Mr Nick Kurtis
Mr Jim Sloman, OAM	Mr Nick Vrondas
	Mr Jason Little.

1. Mr Philip Pearce ceased to be a KMP effective 12 July 2016.

### Remuneration of key management personnel

The key management personnel remuneration totals are as follows:

	Consolidated		Goodman Limited <sup>1</sup>	
	2016 \$M	2015 \$M	2016 \$M	2015 \$M
Short-term employee benefits	8.5	18.3	–	–
Post-employment benefits	0.2	0.2	–	–
Equity compensation benefits	15.2	11.4	–	–
Long-term employee benefits	6.7	0.1	–	–
	<b>30.6</b>	<b>30.0</b>	<b>–</b>	<b>–</b>

1. The remuneration is paid by wholly-owned controlled entities of the Company.

### Individual Directors' and executives' compensation disclosures

Information regarding individual Directors' and executives' compensation and some equity instruments disclosures as required by Corporations Regulations 2M.3.03 is provided in the remuneration report section of the Directors' report.

### Transactions with associates and JVs

The transactions with managed partnerships during the financial year were as follows:

	Revenue from disposals of investment properties		Revenue from management services and development activities		Interest charged on loans to related parties	
	2016 \$M	2015 \$M	2016 \$M	2015 \$M	2016 \$M	2015 \$M
Associates	2.7	11.2	750.1	576.9	0.3	1.7
JVs	–	–	356.8	171.6	(0.1)	1.0

Amounts due from managed partnerships at 30 June 2016 were as follows:

	Amounts due from related parties <sup>1</sup>		Loans provided by Goodman <sup>2</sup>	
	2016 \$M	2015 \$M	2016 \$M	2015 \$M
<b>Associates</b>				
GAIP	6.9	4.7	–	–
GAP	2.6	2.3	–	–
GMT	10.8	0.1	–	–
GHKLP	9.4	7.9	–	–
GJCP	1.1	–	–	–
GEP	17.8	15.6	16.9	20.0
ABPP	1.7	1.9	–	–
	<b>50.3</b>	<b>32.5</b>	<b>16.9</b>	<b>20.0</b>
<b>JVs</b>				
GCLP	8.6	–	–	–
Other JVs	5.8	3.5	18.0	28.8
	<b>14.4</b>	<b>3.5</b>	<b>18.0</b>	<b>28.8</b>

1. Amounts due from related parties are either receivable within 30 days or on completion of the related development project.

2. Loans provided by Goodman to associates and JVs have generally been provided on an arm's length basis. At 30 June 2016, a shareholder loan of \$16.9 million (2015: \$20.0 million) has been provided to GEP and its controlled entities, and incurs interest at 8.4% per annum.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

## Other items continued

### 23. Commitments

	Consolidated	
	2016	2015
	\$M	\$M
<b>Non-cancellable operating lease commitments</b>		
Future operating lease commitments not provided for in the financial statements and payable:		
– Within one year	18.9	16.3
– One year or later and no later than five years	47.1	34.0
– Later than five years	6.8	9.6
	<b>72.8</b>	<b>59.9</b>

### Development activities

At 30 June 2016, the Consolidated Entity was also committed to expenditure in respect of \$393.2 million (2015: \$431.4 million) on inventories and other development activities.

### Investment properties

At 30 June 2016, capital expenditure commitments on Goodman's existing investment property portfolio was \$69.7 million (2015: \$18.9 million).

### Managed partnerships

At 30 June 2016, the Consolidated Entity has made an equity commitment of \$89.7 million (2015: \$97.6 million) into GEP.

In relation to GAIP and GEP, the Consolidated Entity offers limited liquidity facilities to investors, which allow the investors to sell to the Consolidated Entity some or all of their investment in the managed partnerships. Limits apply to these liquidity facilities and Goodman is only required to offer to purchase up to \$7.5 million of the issued capital of GAIP each quarter and EUR 25 million of the issued capital of GEP each half year. Furthermore, the Consolidated Entity is only required to purchase units where its co-investment in GAIP or GEP is either below a prescribed limit or a maximum amount of liquidity has been provided. Currently, Goodman's interest (together with its custodian's interest) in GAIP and GEP is below the prescribed limit and both liquidity facilities are open for investors.

Furthermore, in respect of certain partnerships, Goodman and its investment partners have committed to invest further capital, subject to the unanimous approval by the partners of the relevant property acquisition and/or development for which the funding is required. Goodman's commitment in respect of these partnerships is set out below:

- + \$467.2 million (2015: \$223.3 million) into GCLP;
- + \$411.2 million (2015: \$336.0 million) into GJDP;
- + \$327.2 million (2015: \$nil) into GUKP;
- + \$1,200.3 million (2015: \$1,212.0 million) into GNAF; and
- + \$10.6 million (2015: \$10.7 million) into other development partnerships.

### 24. Auditors' remuneration

	Consolidated	
	2016	2015
	\$000	\$000
<b>Audit services</b>		
Auditor of the Company:		
– Audit and review of financial reports (KPMG Australia)	925.1	977.7
– Audit and review of financial reports (overseas KPMG firms)	934.9	944.5
	<b>1,860.0</b>	<b>1,922.2</b>
<b>Other assurance services</b>		
– Other regulatory services (KPMG Australia)	30.8	72.4
– Investigative accounting services (overseas KPMG firms)	–	74.1
– Property advisory services (KPMG Australia)	–	14.7
– Property advisory services (overseas KPMG firms)	10.1	–
– Other advisory services (KPMG Australia)	35.0	–
<b>Taxation services</b>		
– Taxation compliance services (KPMG Australia)	–	2.6
– Taxation compliance services (overseas KPMG firms)	164.0	242.4
– Other taxation advice (KPMG Australia)	34.1	31.0
– Other taxation advice (overseas KPMG firms)	164.0	138.4
	<b>438.0</b>	<b>575.6</b>
<b>Total paid/payable to KPMG</b>	<b>2,298.0</b>	<b>2,497.8</b>
<b>Other auditors</b>		
– Audit and review of financial reports (non-KPMG firms)	<b>188.2</b>	<b>188.8</b>

## Other items continued

### 25. Parent Entity disclosures

The financial information for the Parent Entity, Goodman Limited, disclosed below, has been prepared on the same basis as the consolidated financial statements, except as set out below:

#### Investments in controlled entities and managed partnerships

Investments in controlled entities and managed partnerships are accounted for at cost in the financial statements of Goodman Limited. Distributions/dividends received from managed partnerships are recognised in profit or loss, rather than being deducted from the carrying amount of these investments.

#### Tax consolidation

The Company is the head entity in a tax consolidated group comprising all Australian wholly-owned subsidiaries (this excludes GIT and its controlled entities). The head entity recognises all of the current tax assets and liabilities of the tax consolidated group (after elimination of intra-group transactions).

The tax consolidated group has entered into a tax funding arrangement that requires wholly-owned subsidiaries to make contributions to the head entity for current tax assets and liabilities arising from external transactions during the financial year. Under the tax funding arrangements, the contributions are calculated on a stand-alone basis so that the contributions are equivalent to the tax balances generated by external transactions entered into by wholly-owned subsidiaries within the tax consolidated group. The timing of contributions reflects the timing of the head entity's obligations to make payments for tax liabilities to the relevant tax authorities. The assets and liabilities arising under the tax funding arrangement are recognised as inter-company assets and liabilities with a consequential adjustment to income tax expense/revenue.

#### Financial guarantees

Where the Parent Entity has provided financial guarantees in relation to loans and payables of controlled entities for no compensation, the fair values of these guarantees are accounted for as contributions and recognised as part of the cost of the investment.

As at, and throughout the financial year ended, 30 June 2016, the parent company of the Consolidated Entity was Goodman Limited.

	2016 \$M	2015 \$M
<b>Result of the Parent Entity</b>		
Profit/(loss) for the year	70.2	(577.0)
Other comprehensive income for the year	–	–
<b>Total comprehensive income for the year</b>	<b>70.2</b>	<b>(577.0)</b>
<b>Financial position of the Parent Entity at year end</b>		
Current assets	480.6	283.6
Total assets	1,703.4	1,382.3
Current liabilities	1,682.5	1,532.8
Total liabilities	1,682.5	1,532.8
<b>Total equity of the Parent Entity comprising:</b>		
Issued capital	728.8	668.4
Profits reserve	90.7	90.7
Employee compensation reserve	9.1	5.5
Accumulated losses	(807.7)	(915.1)
<b>Total equity</b>	<b>20.9</b>	<b>(150.5)</b>

#### Parent Entity capital commitments

The Parent Entity has no capital commitments (2015: \$nil).

#### Parent Entity contingencies

##### Capitalisation Deed Poll

The Company and certain of its wholly-owned controlled entities are investors under a Capitalisation Deed Poll (CDP) dated 23 May 2007. Under the CDP, each investor undertakes to pay to the relevant controlled entity borrower (borrower) any amounts owing under the CDP when the borrower fails to make a payment. Any payments by an investor to a borrower will be by way of loan to, or proceeds for the subscription of equity in, the borrower by the investor. As at 30 June 2016, the Consolidated Entity had A\$306.5 million (2015: A\$333.2 million) of debt which had the benefit of the CDP.

##### Euro medium-term note programme

Under the Euro medium-term note programme (refer to note 12(d)), Goodman Australia Finance Pty Limited, a controlled entity of GIT, issued £250 million notes, maturing on 16 July 2018, at a fixed coupon of 9.75% per annum. Goodman Limited, Goodman Funds Management Limited, as responsible entity of GIT, and GLHK have unconditionally and irrevocably guaranteed on a joint and several basis the payment of principal and interest in respect of these Euro medium-term notes.

##### United States senior notes

Under the issue of notes in the United States 144A/Reg S bond market (refer to note 12(e)), Goodman Funding Pty Limited, a controlled entity of GIT, issued US\$325.0 million, US\$500.0 million and US\$500.0 million notes maturing on 12 November 2020, 15 April 2021 and 22 March 2022 respectively. Goodman Limited, Goodman Funds Management Limited, as responsible entity of GIT, and GLHK have unconditionally and irrevocably guaranteed on a joint and several basis the payment of principal and interest in respect of the notes.

##### Goodman PLUS guarantee

Goodman Limited, Goodman Funds Management Limited, as responsible entity of GIT, and GLHK have unconditionally and irrevocably guaranteed on a joint and several basis the payment of the moneys owing to the holders of Goodman PLUS (refer to note 20) under the terms of issue and subscription terms for those securities.

### 26. Events subsequent to balance date

On 11 August 2016, Goodman Logistics (HK) Limited proposed a dividend of 1.0 cent per security to be paid on 26 August 2016.

In the opinion of the Directors, other than the declaration of the dividend, there were no events subsequent to balance date, and up to the date of signature of this Directors' report, that would require adjustment or disclosure in the consolidated financial report.

## DIRECTORS' DECLARATION

GOODMAN LIMITED AND ITS CONTROLLED ENTITIES

In the opinion of the directors of Goodman Limited:

- (a) the consolidated financial statements and the notes set out on pages 45 to 93 and the remuneration report that is contained on pages 28 to 39 in the Directors' report, are in accordance with the Corporations Act 2001, including:
  - (i) giving a true and fair view of the Consolidated Entity's financial position as at 30 June 2016 and of its performance for the financial year ended on that date; and
  - (ii) complying with Australian Accounting Standards (including Australian Accounting Interpretations) and the Corporations Regulations 2001; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

The Directors have been given the declarations required by section 295A of the *Corporations Act 2001* from the Group Chief Executive Officer and Chief Financial Officer for the financial year ended 30 June 2016.

The Directors draw attention to note 1 to the consolidated financial statements, which includes a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of the Directors.



**Ian Ferrier, AM**  
Independent Chairman  
Sydney, 11 August 2016



**Gregory Goodman**  
Group Chief Executive Officer



# INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF GOODMAN LIMITED



## Report on the consolidated financial report

We have audited the accompanying consolidated financial report of Goodman Limited (the Company), which comprises the consolidated statement of financial position as at 30 June 2016, and consolidated income statement and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year ended on that date, notes 1 to 26 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Consolidated Entity comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

### Directors' responsibility for the consolidated financial report

The directors of the Company are responsible for the preparation of the consolidated financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the directors determine is necessary to enable the preparation of the consolidated financial report that is free from material misstatement whether due to fraud or error. In note 1, the directors also state, in accordance with Australian Accounting Standard AASB 101 Presentation of Financial Statements, that the financial statements of the Consolidated Entity comply with International Financial Reporting Standards.

### Auditor's responsibility

Our responsibility is to express an opinion on the consolidated financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial report.

We performed the procedures to assess whether in all material respects the consolidated financial report presents fairly, in accordance with the Corporations Act 2001 and Australian Accounting Standards, a true and fair view which is consistent with our understanding of the Consolidated Entity's financial position and of its performance.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Independence

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001.

### Auditor's opinion

In our opinion:

- (a) the consolidated financial report of Goodman Limited is in accordance with the Corporations Act 2001, including:
  - (i) giving a true and fair view of the Consolidated Entity's financial position as at 30 June 2016 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.
- (b) the consolidated financial report also complies with International Financial Reporting Standards as disclosed in note 1.

## Report on the remuneration report

We have audited the Remuneration Report included in pages 28 to 39 of the Directors' report for the year ended 30 June 2016. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with Section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with auditing standards.

### Auditor's opinion

In our opinion, the remuneration report of Goodman Limited for the year ended 30 June 2016, complies with Section 300A of the Corporations Act 2001.

KPMG

**John Teer**  
Partner  
Sydney, 11 August 2016

**Eileen Hoggett**  
Partner  
Sydney, 11 August 2016

# GOODMAN INDUSTRIAL TRUST AND ITS CONTROLLED ENTITIES

CONSOLIDATED FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2016

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# DIRECTORS' REPORT

The directors (Directors) of Goodman Funds Management Limited (Responsible Entity), the responsible entity for Goodman Industrial Trust (GIT, Trust or Parent Entity), present their Directors' report together with the consolidated financial report of GIT and the entities it controlled (Consolidated Entity) at the end of, or during, the year ended 30 June 2016 and the audit report thereon.

GIT is deemed to be a controlled entity of Goodman Limited (GL). In this consolidated financial report, GL and its controlled entities are referred to as Goodman Group.

GIT's units are stapled to both shares in GL and CHESSE Depository Interests (CDIs) over shares in Goodman Logistics (HK) Limited (GLHK). The units in GIT, shares in GL and CDIs over ordinary shares in GLHK are quoted as a single security on the Australian Securities Exchange (ASX) as Goodman Group stapled securities.

## Principal activities

The principal activity of the Consolidated Entity during the year was property investment. There were no significant changes to the nature of the Consolidated Entity's activities during the year.

## Directors

The Directors at any time during, or since the end of, the year were:

Directors	Appointment date
Mr Ian Ferrier, AM (Independent Chairman)	23 February 2005
Mr Gregory Goodman (Group Chief Executive Officer)	17 January 1995
Mr Philip Fan (Independent Director)	1 December 2011
Mr John Harkness (Independent Director)	1 September 2004
Ms Anne Keating (Independent Director)	6 February 2004
Ms Rebecca McGrath (Independent Director)	3 April 2012
Mr Philip Pearce (Managing Director, Greater China)	1 January 2013 (resigned 12 July 2016)
Mr Danny Peeters (Executive Director, Corporate)	1 January 2013
Mr Phillip Pryke (Independent Director)	13 October 2010
Mr Anthony Rozic (Deputy Group Chief Executive Officer)	1 January 2013
Mr Jim Sloman, OAM (Independent Director)	1 February 2006

Details of the Directors' qualifications, experience and special responsibilities are set out on pages 101 to 102 in this Directors' report.

## Company Secretary

The Company Secretary at any time during, or since the end of, the year was:

Company Secretary	Appointment date
Mr Carl Bicego	24 October 2006

Details of the Company Secretary's qualifications and experience are set out on page 102 in this Directors' report.

## Directors' meetings

The number of Directors' meetings held (including meetings of committees of Directors) and the number of meetings attended by each of the Directors during the financial year were:

Directors	Board meetings		Audit Committee meetings		Remuneration and Nomination Committee meetings		Risk and Compliance Committee meetings	
	Held <sup>1</sup>	Attended <sup>2</sup>	Held <sup>1</sup>	Attended	Held <sup>1</sup>	Attended	Held <sup>1</sup>	Attended
Mr Ian Ferrier	11	11	4	4	3	3	–	–
Mr Gregory Goodman	11	11	–	–	–	–	–	–
Mr Philip Fan	11	11	4	4	–	–	4	4
Mr John Harkness	11	11	4	4	–	–	4	4
Ms Anne Keating	11	10	–	–	3	3	4	4
Ms Rebecca McGrath	11	11	–	–	3	3	4	4
Mr Philip Pearce <sup>3</sup>	11	10	–	–	–	–	–	–
Mr Danny Peeters	11	10	–	–	–	–	–	–
Mr Phillip Pryke	11	11	4	4	3	3	–	–
Mr Anthony Rozic	11	9	–	–	–	–	–	–
Mr Jim Sloman	11	11	–	–	3	3	4	4

1. Reflects the number of meetings individuals were entitled to attend.

2. Each Director attended every scheduled meeting. Several additional meetings were held on short notice for which some Directors were unable to attend. However, they were able to review papers and provide their input into the meeting. At all times, there was a majority of independent Directors at all meetings.

3. Mr Philip Pearce resigned as a Director on 12 July 2016.

## Operating and financial review

### Goodman Group's strategy

Goodman Group's vision is to be a global leader in industrial property. This vision is executed through the integrated own+develop+manage business model, which is supported by five strategic pillars. These pillars are:

- + **Quality partnerships** – develop and maintain strong relationships with key stakeholders including customers, capital partners, suppliers and employees;
- + **Quality product and service** – deliver high quality product and customer service in key logistics markets globally by actively leveraging Goodman Group's industrial sector expertise, development and management experience and global operating platform;
- + **Culture and brand** – promote Goodman Group's unique and recognisable brand and embed Goodman Group's core values across each operating division to foster a strong and consistent culture;
- + **Operational efficiency** – optimise business resources to ensure effectiveness and drive efficiencies; and
- + **Capital efficiency** – maintain active capital management to facilitate appropriate returns and sustainability of the business.

The performance of the Consolidated Entity, as represented by the results of its operations for the year, was as follows:

	Consolidated	
	2016 \$M	2015 \$M
Net property income	97.7	113.0
Share of net results of equity accounted investments (before asset revaluations and derivative mark to market movements)	244.4	239.0
<b>Investment earnings</b>	<b>342.1</b>	<b>352.0</b>
Property valuations	767.4	556.7
Profit attributable to unitholders of GIT (Unitholders)	1,434.8	903.3
Total comprehensive income attributable to Unitholders	1,268.6	1,169.4

### Property investment

Investment earnings comprise gross property income, net of property expenses, and the Consolidated Entity's share of the results of equity accounted investments. The key drivers for maintaining or growing the Consolidated Entity's investment earnings are increasing the level of assets in partnerships (subject also to the Consolidated Entity's direct and indirect interest), maintaining or increasing occupancy and rental levels within the portfolio, changes to rent levels and changes in financing arrangements.

During FY16, Goodman Group experienced sound underlying property fundamentals across its operating divisions. Like for like rental growth was 1.9% and robust leasing activity resulted in 3.3 million square metres of space being leased across the portfolio globally, equating to \$346.5 million of annual net property income. Additionally, retention rates for existing customers remained high at 79%. This has ensured that overall occupancy was maintained at 96%, with the weighted average lease expiry at 4.7 years.

Goodman Group has continued to take advantage of the market demand for industrial property assets with further selective asset rotation across most of its operating divisions. Goodman Group and its managed partnerships disposed of \$2.2 billion of property assets (excluding urban renewal sites) in FY16, the most significant disposals being in Australia and Continental Europe.

In regard to Goodman Group's urban renewal strategy, \$0.8 billion of sites in Sydney have now settled, with a further \$1.0 billion of settlements expected in FY17.

The Consolidated Entity's investment earnings are in line with expectations, with the share of net results from equity accounted investments continuing to grow, notwithstanding the asset rotation. However, net property income has decreased compared to the prior year due to the asset disposals in Australia.

### Property valuations

The strength of investment markets in most of the Consolidated Entity's regions has resulted in the Consolidated Entity's valuation gains from urban renewal properties and share of property valuation gains exceeding \$0.75 billion, with the weighted average capitalisation rate tightening from 7.0% to 6.4% across the year.

### Statement of financial position

	Consolidated	
	2016 \$M	2015 \$M
Stabilised investment properties	2,061.0	2,052.2
Cornerstone investments in partnerships	3,893.3	3,166.5
Development holdings	135.3	209.0
Loans to related parties	3,013.9	3,233.1
Cash	1,183.6	602.4
Other assets	365.9	359.9
<b>Total assets</b>	<b>10,653.0</b>	<b>9,623.1</b>
Interest bearing liabilities	2,584.3	2,604.8
Other liabilities	879.3	824.0
<b>Total liabilities</b>	<b>3,463.6</b>	<b>3,428.8</b>
Non-controlling interests	325.8	325.8
<b>Net assets attributable to Unitholders</b>	<b>6,863.6</b>	<b>5,868.5</b>

### Stabilised investment properties

The value of stabilised investment properties has increased by \$8.8 million to \$2,061.0 million, which is primarily due to revaluation gains during the year of \$317.4 million offset by asset disposals. The majority of the stabilised investment properties are in Australia and the positive planning outcomes from urban renewal sites have been a key contributor to valuation gains.

### Cornerstone investments in partnerships

The value of cornerstone investments in partnerships has increased by \$726.8 million to \$3,893.3 million. The increase is driven primarily by valuations gains of \$450.0 million arising from tightening of capitalisation rates and additional capital contributions of \$313.2 million to fund asset acquisitions.

### Loans to related parties

Loans to related parties are primarily loans to GL, GLHK and their controlled entities. The majority of interest bearing liabilities in Goodman Group is held by the Consolidated Entity which on-lends the proceeds to other members of Goodman Group to fund acquisitions and developments. Loans to related parties have decreased by \$219.2 million to \$3,013.9 million. The decrease is primarily due to the repayment of loans by GLHK and its controlled entities using proceeds from operating cash flows and the repayment of loans by GL and its controlled entities using the proceeds from the sale of urban renewal assets, partially offset by the reversal of impairment losses of \$202.3 million on loans to GL.

## Operating and financial review continued

### Cash and interest bearing liabilities

Interest bearing liabilities net of cash are \$1,400.7 million compared to \$2,002.4 million at 30 June 2015. The decrease is primarily due to the repayment of loans by related parties and the proceeds received from the disposal of urban renewal assets.

### Issued capital

The movement in units on issue in GIT during the year is set out below:

	Consolidated	
	2016	2015
	M	M
Units on issue at the beginning of the year	1,753.0	1,727.7
Units issued	25.3	25.3
<b>Units on issue at the end of the year</b>	<b>1,778.3</b>	<b>1,753.0</b>

### Capital management

Goodman Group has maintained its prudent approach to capital management, facilitated by the receipt of \$0.8 billion proceeds from urban renewal disposals. At 30 June 2016, Goodman Group had available liquidity of \$2.6 billion and had a weighted average debt maturity profile of 4.4 years, with debt maturities fully covered up to June 2021. Gearing decreased to 11.8% (30 June 2015: 17.3%) and interest cover of 5.5 times (30 June 2015: 6.0 times) provides significant headroom relative to the Goodman Group's financing covenants.

As a consequence of Goodman Group's strong cash position, the distribution reinvestment plan (DRP) is no longer in operation and the final distribution from GIT will be 11.1 cents per unit. GIT's total distributions for the year are 23.0 cents per unit, with an interim distribution of 11.9 cents per unit paid in February 2016.

In relation to the wider Goodman Group, a dividend of 1.0 cent per security has been proposed by GLHK.

### Outlook

The focused and consistent execution of Goodman Group's business strategy, has created a strong, globally diversified platform that will sustain earnings growth for future periods and create long-term value for Securityholders, customers and capital partners.

In FY17, Goodman Group will continue to target asset rotation opportunities, including urban renewal, to further improve asset and income quality across the portfolios. These proceeds will be used to reduce gearing, giving future financial flexibility to Goodman Group and its partnerships, and also to provide capital for reinvestment into Goodman Group's development business, which continues to benefit from customer demand for new modern facilities.

Further information as to other likely developments in the operations of the Consolidated Entity and the expected results of those operations in future financial years has not been included in this Directors' report because disclosure of the information would be likely to result in unreasonable prejudice to the Consolidated Entity.

### Distributions

The total distribution declared to ordinary Unitholders during the year was 23.0 cents per unit (2015: 22.2 cents per unit). Further details of distributions paid or declared during the year are set out in note 12 to the consolidated financial statements.

### Environmental regulations

The Consolidated Entity has policies and procedures in place that are designed to ensure that, where operations are subject to any particular and significant environmental regulation under a law of Australia, those obligations are identified and appropriately addressed. The Directors have determined that there has not been any material breach of those obligations during the year.

### Interests of the Responsible Entity

The Responsible Entity did not hold any units either directly or indirectly in the Consolidated Entity at any time during the year and up to the date of signature of the consolidated financial report.

### Indemnification and insurance of officers and auditors

The Responsible Entity is entitled to be indemnified out of the assets of the Trust. Current and former directors of the Responsible Entity are entitled to be indemnified under the constitution of the Responsible Entity. The directors of the Responsible Entity are also directors of GL. Deeds of Indemnity have been executed by GL, consistent with the Constitution of GL, in favour of each Director. The Deed indemnifies each Director to the extent permitted by law for liabilities (other than legal costs) incurred in their capacity as a director of GL, the Responsible Entity or other controlled entities of GL and, in respect of legal costs, for liabilities incurred in defending or resisting civil or criminal proceedings.

Goodman Group has insured to the extent permitted by law, current and former directors and officers of the Responsible Entity in respect of liability and legal expenses incurred in their capacity as a director or officer. As it is prohibited under the terms of the contract of insurance, the Directors have not included details of the nature of the liabilities covered or the amount of the premiums paid.

The auditors of the Consolidated Entity are not indemnified by the Consolidated Entity or covered in any way by this insurance in respect of the audit.

## Fees paid to and interests held by related entities and Directors

Fees were paid or are payable to GL and its associated entities for services provided during the year. Details of these fees and the interests of the Responsible Entity and other related party information are set out in note 19 to the consolidated financial statements.

The relevant interest of each Director in Goodman Group stapled securities as notified by the Directors to the ASX in accordance with section 205G(1) of the Corporations Act 2001 at the date of signature of this Directors' report is as follows:

Directors	Number of securities	Number of performance rights
<b>Non-Executive</b>		
Mr Ian Ferrier	175,912	–
Mr Philip Fan	72,958	–
Mr John Harkness	95,897	–
Ms Anne Keating	64,033	–
Ms Rebecca McGrath	26,406	–
Mr Phillip Pryke	114,232	–
Mr Jim Sloman	88,128	–
<b>Executive</b>		
Mr Gregory Goodman	37,984,597	4,885,979
Mr Philip Pearce	225,000	1,607,484
Mr Danny Peeters	1,383,895	1,850,310
Mr Anthony Rozic	854,182	2,045,559

At 30 June 2016, Mr Anthony Rozic and Mr Philip Pearce held 1,000 and 1,646 respectively of the perpetual preferred units (Goodman PLUS) issued by Goodman PLUS Trust. None of the other Directors holds any relevant interests in Goodman PLUS.

**Qualifications, experience and special responsibilities of Directors and Company Secretary**

**Board of Directors**

**Mr Ian Ferrier, AM – Independent Chairman  
Member of the Audit Committee and Remuneration and  
Nomination Committee  
Appointed 23 February 2005; Tenure 11 years, 4 months**

Ian was appointed Chairman on 28 July 2009 (having been Acting Chairman from 28 November 2008). Ian is a Fellow of Chartered Accountants Australia and New Zealand and has in excess of 40 years of experience in company corporate recovery and turnaround practice. Ian is also a director of a number of private and public companies. He is currently Chairman of Reckon Limited (director since August 2004) and a director of EnergyOne Limited (since January 2007). He was formerly the Chairman of InvoCare Limited (from March 2001 to October 2013) and Australian Vintage Ltd (from March 1991 to May 2015).

His experience is essentially concerned with understanding the financial and other issues confronting company management, analysing those issues and implementing policies and strategies which lead to success. Ian has significant experience in property and development, tourism, manufacturing, retail, hospitality and hotels, infrastructure and aviation and service industries.

**Mr Gregory Goodman – Group Chief Executive Officer  
Appointed 17 January 1995; Tenure 21 years, 5 months**

Gregory is responsible for Goodman Group's overall operations and the implementation of its strategic plan. He has over 30 years of experience in the property industry with significant expertise in the industrial property arena. Gregory was a co-founder of Goodman Group, playing an integral role in establishing its specialist global position in the property market through various corporate transactions, including takeovers, mergers and acquisitions.

He is a director of Goodman (NZ) Limited (the manager of the New Zealand Exchange listed Goodman Property Trust), and director and/or representative on other subsidiaries, management companies and partnerships of Goodman Group.

**Mr Philip Fan – Independent Director  
Member of the Audit Committee and Risk and  
Compliance Committee  
Appointed 1 December 2011; Tenure 4 years, 7 months**

Philip was formerly an executive director and is now an independent non-executive director of Hong Kong Stock Exchange listed China Everbright International Ltd, a company which focuses on the business of environmental protection through the development and operation of numerous waste-to-energy and waste water treatment plants in China. Earlier in his career, he was an executive director of CITIC Pacific Ltd in charge of industrial projects in China. He is currently a director of the Hong Kong Stock Exchange listed Hysan Development Co Ltd, China Aircraft Leasing Group Holdings Limited, First Pacific Company Limited and Goulian Securities Co. Ltd. He is also a member of the Asia Advisory Committee of AustralianSuper.

Philip holds a Bachelor's Degree in Industrial Engineering and a Master's Degree in Operations Research from Stanford University, as well as a Master's Degree in Management Science from Massachusetts Institute of Technology.

**Mr John Harkness – Independent Director  
Chairman of the Audit Committee and Risk and  
Compliance Committee  
Appointed 1 September 2004; Tenure 11 years, 10 months**

John is a Fellow of Chartered Accountants Australia and New Zealand and the Australian Institute of Company Directors. He was a partner of KPMG for 24 years and National Executive Chairman for five years. Since leaving KPMG in June 2000, John has held a number of non-executive director roles. He is currently Chairman of Charter Hall Retail Management Limited (director since August 2003), the management company of Charter Hall Retail REIT. He is also Chairman of the Reliance Rail group (since 2011). He was formerly a director of Sinclair Knight Merz Management Pty Limited (from 2010 to December 2013). John is a member of the Territorial Headquarters and Sydney Advisory Board of the Salvation Army and the Chairman of the National Foundation for Medical Research and Innovation.

**Ms Anne Keating – Independent Director  
Member of the Remuneration and Nomination Committee  
and Risk and Compliance Committee  
Appointed 6 February 2004; Tenure 12 years, 5 months**

Anne has 20 years of experience as a director of public companies. She is currently a director of REVA Medical, Inc. (since October 2010), Gl Dynamics, Inc. (since June 2011) and The Garvan Institute of Medical Research. Anne is also the Chairman of Houlihan Lokey Australia Pty Ltd, the Australian arm of the global investment bank, Houlihan Lokey, based in Los Angeles. Anne was formerly a director of Ardent Leisure Group (March 1998 to September 2014) and ClearView Wealth Limited (November 2010 to October 2012) and, prior to that, of Spencer Street Station Redevelopment Holdings Limited, Insurance Australia Group Limited and STW Limited.

Anne is also a Governor of the Cerebral Palsy Alliance Research Foundation and was, until May 2012, a trustee for the Centennial Park and Moore Park Trust. Her last executive position was as General Manager, Australia for United Airlines for nine years until 2001.

**Ms Rebecca McGrath – Independent Director  
Chairman of the Risk and Compliance Committee and  
Member of the Remuneration and Nomination Committee  
Appointed 3 April 2012; Tenure 4 years, 3 months**

Rebecca is currently a director of Incitec Pivot Limited (since September 2011) and OZ Minerals Limited (since November 2010). Rebecca is also currently a director of CSR Limited (since February 2012) and has announced her retirement from that Board. In addition, Rebecca is a director of Barristers' Chambers Limited and of Scania Australia Pty Limited. Rebecca is also Chairman of Project New Dawn Ltd, a social welfare not for profit. In addition, Rebecca is a director of Barristers' Chambers Limited and of Scania Australia Pty Limited. Rebecca is also Chairman of Project New Dawn Ltd, a social welfare not for profit. During her executive career at BP plc she held numerous senior roles in finance, operations, corporate planning, project management and marketing in Australasia, the UK, and Europe. Her most recent executive experience was as Chief Financial Officer of BP Australasia.

Rebecca holds a Bachelors Degree of Town Planning, a Masters of Applied Science (Project Management) and is a graduate of the Cambridge University Business and Environment Program. She is a Fellow of the Australian Institute of Company Directors.

**Qualifications, experience and special responsibilities of Directors and Company Secretary continued****Mr Philip Pearce – Managing Director, Greater China  
Appointed 1 January 2013; Tenure 3 year, 6 months  
Resigned 12 July 2016**

Philip was responsible for the strategic development and continued expansion of the Goodman Group's business in the Greater China region. He joined Goodman Group in 2002 and has over 16 years of experience in real estate investment in the Asia Pacific region, including four years in Singapore with Ascendas-MGM Funds Management Limited, the manager of Ascendas Real Estate Investment Trust. Prior to joining Goodman Group, he was at AMP Henderson Global Investors in Sydney where he worked in various roles within the AMP Henderson Property Group including valuation, asset management and fund management.

Philip holds a Bachelor of Commerce and Graduate Diploma in Finance and Investment.

**Mr Danny Peeters – Executive Director, Corporate  
Appointed 1 January 2013; Tenure 3 year, 6 months**

Danny has oversight of Goodman Group's European and Brazilian operations and strategy. Danny has been with Goodman Group since 2006 and has 17 years of experience in the property and logistics sectors. Danny is a director and/or representative of Goodman Group's fund management entities, subsidiaries and partnerships in Europe and Brazil.

During his career, Danny has built up extensive experience in the design, implementation and outsourcing of pan-European supply chain and real estate strategies for various multinationals. Danny was Chief Executive Officer of Eurinpro, a developer of tailor-made logistic property solutions in Europe acquired by Goodman Group in May 2006.

**Mr Phillip Pryke – Independent Director  
Chairman of the Remuneration and Nomination Committee  
and Member of the Audit Committee  
Appointed 13 October 2010; Tenure 5 years, 9 months**

Phillip is a director of North Ridge Partners Pty Limited and Tru-Test Corporation Limited. He is also a director of Goodman (NZ) Limited, the manager of the New Zealand Exchange listed Goodman Property Trust. He was formerly the Deputy Chairman and Lead Independent Director of New Zealand Exchange listed Contact Energy Limited.

Phillip has wide experience in the fishing, energy, financial services, and health and technology industries and holds a Bachelor of Economics Degree.

**Mr Anthony Rozic – Deputy Chief Executive Officer  
Appointed 1 January 2013; Tenure 3 year, 6 months**

Anthony's responsibilities for Goodman Group include assisting in setting and managing strategy, business performance, corporate transactions and related operational projects with direct line management of marketing, information technology (IT), human resources, legal, compliance, insurance, sustainability and health & safety. Anthony joined Goodman Group in 2004 and until February 2009, was Group Chief Financial Officer where his responsibilities also included financial reporting, management reporting, forecasting and budgeting, tax, and capital and financial risk management. Anthony is a qualified Chartered Accountant and has over 20 years' experience in the property industry having previously held a number of senior roles in the property funds management industry and chartered accountancy profession.

Anthony is also a director of the Goodman Group's subsidiaries and was recently responsible for establishing the Goodman Group's investment into the United States where he continues to be actively involved operationally.

**Mr Jim Sloman, OAM – Independent Director  
Member of the Remuneration and Nomination Committee  
and Risk and Compliance Committee  
Appointed 1 February 2006; Tenure 10 years, 5 months**

Jim has over 40 years of experience in the building and construction industries in Australia and overseas, including experience with Sir Robert McAlpine & Sons in London, Lend Lease Corporation in Australia and as Deputy Chief Executive and Chief Operating Officer of the Sydney Organising Committee for the Olympic Games (SOCOG) from 1997 to 2001. He was the CEO and a director of MI Associates Pty Limited, a company established by him and comprising some of the leading members of the former SOCOG senior management team. He advised on major events including the London 2012 Olympic Games and Rio de Janeiro 2016 Olympic Games. Jim is currently working as an advisor to the Qatar 2022 World Cup.

In addition, Jim is Chairman of Laing O'Rourke Australia Pty Limited and of several of its associated companies and a director of SHAPE Holdings Pty Limited and of several of its associated companies. With his range of experience, Jim brings significant property, construction and major projects expertise to Goodman Group.

**Company Secretary****Mr Carl Bicego – Company Secretary  
Appointed 24 October 2006**

Carl is the Company Secretary of the Company and its Australian controlled entities, as well as Legal Counsel – Head of Corporate. He has over 18 years of legal experience in corporate law and joined Goodman Group from law firm Allens in 2006. Carl holds a Master of Laws and Bachelor of Economics/Bachelor of Laws (Hons).



## Rights over Goodman Group stapled securities

Details of the performance rights over Goodman Group stapled securities held by the Directors are set out below. None of the Non-Executive Directors held any rights over Goodman Group stapled securities. No rights have been granted since the end of the financial year.

### Performance rights

	Number of performance rights granted	Date performance rights granted	% vested in prior years	% vested in the year	% forfeited	Financial years in which grant vests
<b>Executive Directors</b>						
Mr Gregory Goodman	2,000,000	25 Nov 2015	–	–	–	2019 – 2021
	995,476	20 Nov 2014	–	–	–	2018 – 2020
	947,368	22 Nov 2013	–	–	–	2017 – 2019
	927,152	16 Nov 2012	–	33.3	–	2016 – 2018
	980,000	25 Nov 2011	33.2	33.2	0.5	2015 – 2017
Mr Philip Pearce	730,770	1 Feb 2011	66.7	33.3	–	2014 – 2016
	450,000	25 Nov 2015	–	–	–	2019 – 2021
	497,738	20 Nov 2014	–	–	–	2018 – 2020
	394,737	22 Nov 2013	–	–	–	2017 – 2019
	298,013	16 Nov 2012	–	33.3	–	2016 – 2018
Mr Danny Peeters	200,000	30 Sep 2011	33.2	33.2	0.5	2015 – 2017
	153,847	1 Feb 2011	66.7	33.3	–	2014 – 2016
	450,000	25 Nov 2015	–	–	–	2019 – 2021
	497,738	20 Nov 2014	–	–	–	2018 – 2020
	421,053	22 Nov 2013	–	–	–	2017 – 2019
Mr Anthony Rozic	463,576	12 Oct 2012	–	33.3	–	2016 – 2018
	520,000	30 Sep 2011	33.2	33.2	0.5	2015 – 2017
	480,000	1 Feb 2011	66.7	33.3	–	2014 – 2016
	600,000	25 Nov 2015	–	–	–	2019 – 2021
	542,987	20 Nov 2014	–	–	–	2018 – 2020
	421,053	22 Nov 2013	–	–	–	2017 – 2019
	463,576	12 Oct 2012	–	33.3	–	2016 – 2018
	520,000	30 Sep 2011	33.2	33.2	0.5	2015 – 2017
	480,000	1 Feb 2011	66.7	33.3	–	2014 – 2016

### Unissued securities under option

Unissued securities under option include the performance rights awarded to employees of Goodman Group under the Long Term Incentive Plan (LTIP).

At the date of signature of this Directors' report, performance rights issued to employees under the LTIP and the applicable relative total securityholder return (TSR) or earnings per security (EPS) performance hurdles were:

Expiry date	Exercise price \$	Number of performance rights <sup>1</sup>	Performance hurdles <sup>2</sup>
Sep 2020	–	18,533,748	Relative TSR (25%) and operating EPS (75%)
Sep 2019	–	13,992,326	Relative TSR (25%) and operating EPS (75%)
Sep 2018	–	12,168,111	Relative TSR (25%) and operating EPS (75%)
Sep 2017	–	7,537,154	Relative TSR (25%) and operating EPS (75%)
Sep 2016	–	3,369,683	Relative TSR (25%) and operating EPS (75%)

1. The number of performance rights at the date of this Directors' report is net of any rights forfeited.

2. Performance hurdles are based on the results of Goodman Group.

## Events subsequent to balance date

In the opinion of the Directors, there were no events subsequent to balance date, and up to the date of signature of this Directors' report, that would require adjustment or disclosure in the consolidated financial report.

## Declaration by Group Chief Executive Officer and Chief Financial Officer

The Group Chief Executive Officer and Chief Financial Officer declared in writing to the Board of the Responsible Entity that, in their opinion, the financial records of the Consolidated Entity for the year ended 30 June 2016 have been properly maintained and the financial report of the Consolidated Entity for the year ended 30 June 2016 complies with accounting standards and presents a true and fair view of the Consolidated Entity's financial condition and operational results. This statement is required annually.

## Lead auditor's independence declaration under section 307C of the Corporations Act 2001

The lead auditor's independence declaration is set out on page 105 and forms part of this Directors' report for the year.

## Rounding

The Consolidated Entity is an entity of a kind referred to in Australian Securities & Investments Commission (ASIC) Corporations (Rounding in Financial/ Directors' Reports) Instrument 2016/191, dated 24 March 2016. In accordance with that Instrument, amounts in this Directors' report and the consolidated financial report have been rounded to the nearest hundred thousand dollars, unless otherwise stated.

The Directors' report is made in accordance with a resolution of the Directors.



**Ian Ferrier, AM**  
Independent Chairman

Sydney, 11 August 2016



**Gregory Goodman**  
Group Chief Executive Officer

## LEAD AUDITOR'S INDEPENDENCE DECLARATION



### Lead auditor's independence declaration under section 307C of the Corporations Act 2001

To: the directors of Goodman Funds Management Limited, as responsible entity for Goodman Industrial Trust

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2016, there have been:

- (i) no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the audit.

A handwritten signature in black ink that reads 'KPMG'.

**KPMG**

A handwritten signature in black ink that reads 'John Teer'.

**John Teer**  
Partner

Sydney, 11 August 2016

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2016

		Consolidated	
	Note	2016 \$M	2015 \$M
<b>Current assets</b>			
Cash	14(a)	1,183.6	602.4
Receivables	6	3,016.0	3,326.7
Inventories	5(b)	22.2	9.0
Other financial assets	10	–	4.4
Other assets		5.8	5.4
<b>Total current assets</b>		<b>4,227.6</b>	<b>3,947.9</b>
<b>Non-current assets</b>			
Receivables	6	10.0	12.0
Inventories	5(b)	94.6	125.5
Investment properties	5(b)	2,079.5	2,126.7
Investments accounted for using the equity method	5(b)	3,893.3	3,166.5
Other financial assets	10	348.0	244.5
<b>Total non-current assets</b>		<b>6,425.4</b>	<b>5,675.2</b>
<b>Total assets</b>		<b>10,653.0</b>	<b>9,623.1</b>
<b>Current liabilities</b>			
Deferred income		0.4	0.5
Payables	7	327.9	148.4
Provision for distributions	12	197.4	194.6
Other financial liabilities	10	0.1	50.5
<b>Total current liabilities</b>		<b>525.8</b>	<b>394.0</b>
<b>Non-current liabilities</b>			
Payables	7	60.0	82.7
Interest bearing liabilities	9	2,584.3	2,604.8
Deferred tax liabilities	4	19.2	–
Other financial liabilities	10	274.3	347.3
<b>Total non-current liabilities</b>		<b>2,937.8</b>	<b>3,034.8</b>
<b>Total liabilities</b>		<b>3,463.6</b>	<b>3,428.8</b>
<b>Net assets</b>		<b>7,189.4</b>	<b>6,194.3</b>
<b>Equity</b>			
Issued capital	13	7,249.7	7,131.4
Reserves	15	(68.1)	252.0
Accumulated losses	16	(318.0)	(1,514.9)
<b>Total equity attributable to Unitholders</b>		<b>6,863.6</b>	<b>5,868.5</b>
Non-controlling interests	17	325.8	325.8
<b>Total equity</b>		<b>7,189.4</b>	<b>6,194.3</b>

The consolidated statement of financial position is to be read in conjunction with the accompanying notes.

# CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 30 JUNE 2016

	Note	Consolidated	
		2016 \$M	2015 \$M
<b>Revenue and other income</b>			
Gross property income		146.4	160.6
Income from disposal of inventories		1.2	–
Net gain from fair value adjustments on investment properties	5(e)	317.4	381.8
Net gain on disposal of investment properties	2	36.4	6.7
Net gain on disposal of controlled entities	2	2.1	32.1
Share of net results of equity accounted investments	2	699.6	422.8
Net gain on disposal of equity investments	2	27.2	–
Other income		0.9	2.5
		<b>1,231.2</b>	<b>1,006.5</b>
<b>Property and other expenses</b>			
Property expenses		(48.7)	(47.6)
Inventory cost of sales		(1.2)	–
Trust expenses		(38.9)	(20.9)
Impairment reversals/(losses)	2	186.6	(7.6)
Other expenses		(2.3)	(2.4)
		<b>95.5</b>	<b>(78.5)</b>
<b>Profit before interest and tax</b>		<b>1,326.7</b>	<b>928.0</b>
<b>Net finance income/(expense)</b>			
Finance income	8	335.6	266.2
Finance expense	8	(185.8)	(267.8)
<b>Net finance income/(expense)</b>		<b>149.8</b>	<b>(1.6)</b>
<b>Profit before income tax</b>		<b>1,476.5</b>	<b>926.4</b>
Income tax expense	4	(21.6)	(1.9)
<b>Profit for the year</b>		<b>1,454.9</b>	<b>924.5</b>
<b>Profit attributable to Unitholders</b>			
Profit attributable to non-controlling interests		20.1	21.2
<b>Profit for the year</b>		<b>1,454.9</b>	<b>924.5</b>

The consolidated income statement is to be read in conjunction with the accompanying notes.

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2016

		Consolidated	
	Note	2016 \$M	2015 \$M
<b>Profit for the year</b>		<b>1,454.9</b>	<b>924.5</b>
<b>Other comprehensive income for the year</b>			
<b>Items that are or may be reclassified to profit or loss</b>			
Increase due to revaluation of other financial assets	15(a)	6.6	2.1
Cash flow hedges:			
– Change in value of financial instruments	15(b)	(0.9)	0.8
– Transfers from cash flow hedge reserve	15(b)	–	4.1
Effect of foreign currency translation	15	(171.9)	259.1
<b>Other comprehensive income for the year, net of tax</b>		<b>(166.2)</b>	<b>266.1</b>
<b>Total comprehensive income for the year</b>		<b>1,288.7</b>	<b>1,190.6</b>
<b>Total comprehensive income attributable to:</b>			
Unitholders		1,268.6	1,169.4
Non-controlling interests		20.1	21.2
<b>Total comprehensive income for the year</b>		<b>1,288.7</b>	<b>1,190.6</b>

The consolidated statement of comprehensive income is to be read in conjunction with the accompanying notes.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2016

Year ended 30 June 2015  
Consolidated

	Note	Attributable to Unitholders			Total \$M	Non- controlling interests \$M	Total equity \$M
		Issued capital \$M	Reserves \$M	Accum- lated losses \$M			
<b>Balance at 1 July 2014</b>		<b>7,025.2</b>	<b>(1,154.4)</b>	<b>(897.3)</b>	<b>4,973.5</b>	<b>325.8</b>	<b>5,299.3</b>
Total comprehensive income for the year							
Profit for the year	16	–	–	903.3	903.3	21.2	924.5
Other comprehensive income for the year, net of tax		–	266.1	–	266.1	–	266.1
<b>Total comprehensive income for the year</b>		<b>–</b>	<b>266.1</b>	<b>903.3</b>	<b>1,169.4</b>	<b>21.2</b>	<b>1,190.6</b>
Transfers		–	1,132.6	(1,132.6)	–	–	–
<b>Contributions by and distributions to owners</b>							
Issue costs due to ordinary units		(0.1)	–	–	(0.1)	–	(0.1)
Distributions declared on ordinary units	12	–	–	(388.3)	(388.3)	–	(388.3)
Distributions paid on Goodman PLUS	17	–	–	–	–	(21.2)	(21.2)
Issue of ordinary units under the Goodman Group DRP		68.3	–	–	68.3	–	68.3
Issue of ordinary units under the Goodman Group LTIP		38.0	–	–	38.0	–	38.0
Equity settled share based payments transaction relating to Goodman Group		–	7.7	–	7.7	–	7.7
<b>Balance at 30 June 2015</b>		<b>7,131.4</b>	<b>252.0</b>	<b>(1,514.9)</b>	<b>5,868.5</b>	<b>325.8</b>	<b>6,194.3</b>

Year ended 30 June 2016  
Consolidated

	Note	Attributable to Unitholders			Total \$M	Non- controlling interests \$M	Total equity \$M
		Issued capital \$M	Reserves \$M	Accum- lated losses \$M			
<b>Balance at 1 July 2015</b>		<b>7,131.4</b>	<b>252.0</b>	<b>(1,514.9)</b>	<b>5,868.5</b>	<b>325.8</b>	<b>6,194.3</b>
Total comprehensive income for the year							
Profit for the year	16	–	–	1,434.8	1,434.8	20.1	1,454.9
Other comprehensive income for the year, net of tax		–	(166.2)	–	(166.2)	–	(166.2)
<b>Total comprehensive income for the year</b>		<b>–</b>	<b>(166.2)</b>	<b>1,434.8</b>	<b>1,268.6</b>	<b>20.1</b>	<b>1,288.7</b>
Transfers		–	(170.1)	170.1	–	–	–
<b>Contributions by and distributions to owners</b>							
Distributions declared on ordinary units	12	–	–	(408.0)	(408.0)	–	(408.0)
Distributions paid on Goodman PLUS	17	–	–	–	–	(20.1)	(20.1)
Issue of ordinary units under the Goodman Group DRP		71.7	–	–	71.7	–	71.7
Issue of ordinary units under the Goodman Group LTIP		46.6	–	–	46.6	–	46.6
Equity settled share based payments transaction relating to Goodman Group		–	16.2	–	16.2	–	16.2
<b>Balance at 30 June 2016</b>		<b>7,249.7</b>	<b>(68.1)</b>	<b>(318.0)</b>	<b>6,863.6</b>	<b>325.8</b>	<b>7,189.4</b>

The consolidated statement of changes in equity is to be read in conjunction with the accompanying notes.

# CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 30 JUNE 2016

	Note	Consolidated	
		2016 \$M	2015 \$M
<b>Cash flows from operating activities</b>			
Property income received		158.9	163.5
Proceeds from disposal of inventories		81.8	–
Other cash receipts from services provided		0.1	0.4
Property expenses paid		(47.2)	(47.8)
Payments for inventories		(59.0)	(74.3)
Other cash payments in the course of operations		(42.9)	(23.9)
Dividends/distributions received from equity accounted investments		205.1	228.0
Interest received		7.2	13.4
Finance costs paid		(258.0)	(116.0)
Net income taxes paid		(1.5)	(3.6)
<b>Net cash provided by operating activities</b>	14(b)	<b>44.5</b>	<b>139.7</b>
<b>Cash flows from investing activities</b>			
Proceeds from disposal of investment properties		408.2	50.8
Proceeds from disposal of equity investments		92.5	–
Net cash movement on disposal of controlled entities		1.7	230.6
Payments for investment properties		(69.1)	(33.4)
Payments for equity investments		(278.6)	(145.5)
<b>Net cash provided by investing activities</b>		<b>154.7</b>	<b>102.5</b>
<b>Cash flows from financing activities</b>			
Transaction costs from issue of units		–	(0.1)
Proceeds from borrowings		184.8	358.9
Repayments of borrowings		(255.6)	(279.0)
Loans to related parties		782.6	356.8
Distributions paid		(329.8)	(304.3)
<b>Net cash provided by financing activities</b>		<b>382.0</b>	<b>132.3</b>
Net increase in cash held		581.2	374.5
Cash at the beginning of the year		602.4	227.9
<b>Cash at the end of the year</b>	14(a)	<b>1,183.6</b>	<b>602.4</b>

The consolidated cash flow statement is to be read in conjunction with the accompanying notes.

Non-cash transactions are included in note 14(c).



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## Basis of preparation

### 1. Basis of preparation

Goodman Industrial Trust was established in Australia. The consolidated financial report of GIT for the year ended 30 June 2016 comprises GIT and its controlled entities (Consolidated Entity) and the Consolidated Entity's interest in associates and joint ventures (JVs).

The stapling of GIT, GL and GLHK was implemented on 22 August 2012. Following approval of the stapling, units in GIT, shares in GL and CHESS Depositary Interests (CDIs) over shares in GLHK were stapled to one another and are quoted as a single security on the ASX. Goodman Funds Management Limited (the responsible entity of GIT), GL and GLHK must at all times act in the best interests of the stapled entity.

#### (a) Statement of compliance

This consolidated financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards (including Australian Accounting Interpretations) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. International Financial Reporting Standards (IFRS) form the basis of Australian Accounting Standards adopted by the AASB. The consolidated financial report also complies with IFRS.

The consolidated financial report is presented in Australian dollars and was authorised for issue by the directors (Directors) of Goodman Funds Management Limited on 11 August 2016.

#### (b) Basis of preparation of the consolidated financial report

The consolidated financial report is prepared on the historical cost basis except that the following assets and liabilities are stated at fair value:

- + investment properties;
- + derivative financial instruments; and
- + financial instruments classified as available for sale.

## (c) Foreign currency translation

### Functional and presentation currency

Items included in the financial statements of each of the Trust's controlled entities are measured using the currency of the primary economic environment in which the entity operates (functional currency). The consolidated financial report of GIT is presented in Australian dollars, which is the Trust's functional and presentation currency.

### Transactions

Foreign currency transactions are translated to each entity's functional currency at rates approximating the foreign exchange rates ruling at the dates of the transactions. Amounts receivable and payable in foreign currencies at the reporting date are translated at the rates of exchange ruling on that date. Resulting exchange differences are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost are translated at rates of exchange ruling at the date of the initial transaction. Non-monetary items which are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

### Translation of controlled foreign operations

The assets and liabilities of foreign operations are translated into Australian dollars at foreign exchange rates ruling at the balance date.

Revenue and expenses are translated at weighted average rates for the financial year. Exchange differences arising on translation are taken directly to the foreign currency translation reserve. On cessation of operations in a foreign region, the cumulative exchange differences relating to the operations in that region, that have been included in the foreign currency translation reserve, are reclassified to profit or loss.

Exchange differences arising on monetary items that form part of the net investment in a foreign operation are recognised in the foreign currency translation reserve on consolidation.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

## Basis of preparation continued

### 1. Basis of preparation continued

#### (c) Foreign currency translation continued

##### Exchange rates used

The following exchange rates are the main exchange rates used in translating foreign currency transactions, balances and financial statements to Australian dollars:

Australian dollar (AUD) to	Weighted average		As at 30 June	
	2016	2015	2016	2015
New Zealand dollars (NZD)	1.0903	1.0755	1.0456	1.1381
Hong Kong dollars (HKD)	5.6530	6.4869	5.7786	5.9739
Japanese yen (JPY)	84.9874	95.5310	76.8420	94.1320
Euros (EUR)	0.6565	0.6959	0.6725	0.6910
British pounds sterling (GBP)	0.4919	0.5304	0.5613	0.4903
United States dollars (USD)	0.7285	0.8366	0.7447	0.7708

#### (d) Income tax

Under current Australian income tax legislation, GIT is not liable for income tax provided that each year the taxable income and any taxable capital gain derived from the sale of an asset are fully distributed to Unitholders. The wholly-owned entities of GIT that operate in certain foreign jurisdictions are liable to pay tax in those jurisdictions.

Tax allowances for building and plant and equipment depreciation are distributed to Unitholders in the form of tax deferred components of distributions. Any taxable capital gains are distributed.

#### (e) Changes in accounting policy

The AASB has issued new standards and amendments to standards that are first effective for the current accounting period of the Consolidated Entity. There are no significant changes in accounting policies for the current financial year.

#### (f) Australian Accounting Standards issued but not yet effective

As at the date of this consolidated financial report, the following Australian Accounting Standards were available for early adoption but have not been applied in preparing these financial statements:

- + revisions to AASB 9 Financial Instruments include requirements for the classification and measurement of financial assets and replace AASB 139 Financial Instruments: Recognition and Measurement. The revised AASB 9 Financial Instruments will become mandatory for the Consolidated Entity's 30 June 2019 financial statements. The new standard is not expected to have a material impact on the Consolidated Entity's financial statements;
- + AASB 15 Revenue from Contracts with Customers provides a single revenue recognition model based on the transfer of goods and services and the consideration expected to be received in return for that transfer. The new standard will become mandatory for the Consolidated Entity's 30 June 2019 financial statements. Based on the Consolidated Entity's existing contractual arrangements, the new standard is not expected to have a material impact on the Consolidated Entity's financial statements; and
- + AASB 16 Leases introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right of use asset representing its right to use the underlying leased asset and a lease liability representing its obligations to make lease payments. The new standard will become mandatory for the Consolidated Entity's 30 June 2020 financial statements. The new standard is not expected to have a material impact on the Consolidated Entity's financial statements.

#### (g) Rounding

In accordance with ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, dated 24 March 2016, the amounts shown in the consolidated financial report have been rounded to the nearest hundred thousand dollars, unless otherwise stated.

#### (h) Critical accounting estimates used in the preparation of the consolidated financial statements

The preparation of consolidated financial statements requires estimates and assumptions concerning the application of accounting policies and the future to be made by the Consolidated Entity. Estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year can be found in the following notes:

- + Note 5 – Property assets; and
- + Note 11 – Financial risk management.

The accounting impacts of revisions to estimates are recognised in the period in which the estimate is revised and in any future periods affected.

#### Measurement of fair values

A number of the Consolidated Entity's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

When measuring the fair value of an asset or a liability, the Consolidated Entity uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy and have been defined as follows:

- + Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- + Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- + Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Further information about the assumptions made in measuring fair values is included in the following notes:

- + Note 5 – Property assets; and
- + Note 11 – Financial risk management.

## Results for the year

### 2. Profit before income tax

#### Gross property income

Gross property income comprises rental income entitlements under operating leases, net of incentives provided, plus recoverable outgoings.

Rental income entitlements under operating leases are recognised on a straight-line basis over the term of the lease contract. Where operating lease rental income is recognised relating to fixed increases in rentals in future years, an asset is recognised. This asset is a component of the relevant investment property carrying amount. The cost of lease incentives provided to customers is recognised on a straight-line basis over the life of the lease as a reduction of gross property income.

Recoverable outgoings are recognised as income when the relevant outgoings are recorded as an expense.

#### Disposal of inventories

The disposal of inventories is recognised when the significant risks and rewards of ownership have been transferred. The gain or loss on disposal of inventories is calculated as the difference between the carrying amount of the asset at the time of disposal and the proceeds on disposal (less transaction costs and any provision for future rental guarantees) and is included in the income statement in the period of disposal.

#### Disposal of investment properties

The disposal of an investment property is recognised when the significant risks and rewards of ownership have been transferred. The gain or loss on disposal of investment properties is calculated as the difference between the carrying amount of the property at the time of the disposal and the proceeds on disposal (less transaction costs and any provision for future rental guarantees) and is included in the income statement in the period of disposal. Any previously unrealised valuation gains or losses are transferred from the asset revaluation reserve to accumulated losses/retained earnings.

#### Profit before income tax has been arrived at after crediting/(charging) the following items:

		Consolidated	
	Note	2016 \$M	2015 \$M
<b>Disposal of investment properties</b>			
Net consideration from disposal of investment properties		411.3	53.5
Carrying value of investment properties disposed – refer to note 5(e)	5(e)	(374.9)	(46.8)
<b>Net gain on disposal of investment properties</b>		<b>36.4</b>	<b>6.7</b>
<b>Disposal of controlled entities</b>			
Net consideration received and receivable from the disposal of controlled entities	18	6.3	225.1
Carrying value of net assets disposed	18	(4.2)	(193.0)
<b>Net gain on disposal of controlled entities</b>		<b>2.1</b>	<b>32.1</b>
<b>Equity accounted investments</b>			
Share of net results of investments in associates			
– Operating results after tax (before revaluations)	5(f)(i)	205.4	204.6
– Fair value adjustments on investment properties	5(f)(i)	383.9	145.9
– Fair value adjustments on derivative financial instruments	5(f)(i)	6.5	9.4
Share of net results of investments in JVs			
– Operating results after tax (before revaluations)	5(f)(ii)	39.0	34.4
– Fair value adjustments on investment properties	5(f)(ii)	66.1	29.0
– Fair value adjustments on derivative financial instruments	5(f)(ii)	(1.3)	(0.5)
<b>Share of net results of equity accounted investments</b>		<b>699.6</b>	<b>422.8</b>
<b>Disposal of equity investments</b>			
Net consideration from disposal of associates and JVs		135.8	–
Carrying value of associates and JVs disposed		(108.6)	–
<b>Net gain on disposal of equity investments</b>		<b>27.2</b>	<b>–</b>
<b>Impairment reversals/(losses)</b>			
Net reversal of impairment of receivables <sup>1</sup>		191.6	–
Impairment of inventories		(5.0)	(7.6)
<b>Impairment reversals/(losses)</b>		<b>186.6</b>	<b>(7.6)</b>

1. During the current financial year, the Consolidated Entity recognised an impairment loss of \$10.7 million on loans to controlled entities of GLHK and reversed previous impairment losses of \$202.3 million recognised on loans to GL.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

## Results for the year continued

### 3. Segment reporting

The Consolidated Entity reports the results and financial position of its operating segments based on the internal reports regularly reviewed by the Group Chief Executive Officer in order to assess each segment's performance and to allocate resources to them.

An operating segment is a component of the Consolidated Entity that engages in business activities from which it may earn revenues and incur expenses. All operating segments' operating results are regularly reviewed by the Group Chief Executive Officer to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the Group Chief Executive Officer include items that are directly attributable to a segment and the portion that can be allocated to the segment on a reasonable basis. Unallocated items include fair value adjustments and impairments, interest and tax expense, interest bearing receivables and payables, derivative financial instruments, provisions for distributions to Unitholders, provisions for distributions on hybrid securities, corporate assets, head office expenses and income tax assets and liabilities.

The Consolidated Entity is based in Australia and has divisions in Australia, New Zealand, Asia, Continental Europe, the United Kingdom and North America.

The activities and services undertaken by the divisions are direct and indirect ownership of investment properties. Information regarding the operations of each reportable segment is included on the following page.

### Information about reportable segments

	Australia and New Zealand		Asia		Continental Europe		United Kingdom		North America		Total	
	2016 \$M	2015 \$M	2016 \$M	2015 \$M	2016 \$M	2015 \$M	2016 \$M	2015 \$M	2016 \$M	2015 \$M	2016 \$M	2015 \$M
<b>Income statement</b>												
<b>External revenues</b>												
Gross property income	141.2	151.9	–	–	–	–	5.2	8.7	–	–	146.4	160.6
Income from disposal of inventories	1.2	–	–	–	–	–	–	–	–	–	1.2	–
Other income	0.8	2.3	–	–	0.1	0.2	–	–	–	–	0.9	2.5
<b>Total external revenues</b>	<b>143.2</b>	<b>154.2</b>	<b>–</b>	<b>–</b>	<b>0.1</b>	<b>0.2</b>	<b>5.2</b>	<b>8.7</b>	<b>–</b>	<b>–</b>	<b>148.5</b>	<b>163.1</b>
<b>Reportable segment profit/(loss) before tax</b>	<b>296.4</b>	<b>268.6</b>	<b>55.7</b>	<b>22.9</b>	<b>44.9</b>	<b>37.5</b>	<b>5.2</b>	<b>52.1</b>	<b>25.6</b>	<b>8.5</b>	<b>427.8</b>	<b>389.6</b>
<b>Share of net results of equity accounted investments</b>												
Operating results (excluding fair value adjustments)	145.4	156.8	55.6	22.9	36.3	37.4	1.1	13.4	6.0	8.5	244.4	239.0
Fair value adjustments – not included in reportable segment profit/(loss)	251.6	102.5	126.7	60.7	20.7	19.1	–	1.5	56.2	–	455.2	183.8
<b>Other material non-cash items not included in reportable segment profit/(loss) before tax</b>												
Net gain/(loss) from fair value adjustments on investment properties	321.1	390.4	–	–	–	–	(3.7)	(8.6)	–	–	317.4	381.8
<b>Statement of financial position</b>												
<b>Reportable segment assets</b>	<b>4,259.7</b>	<b>4,149.5</b>	<b>756.8</b>	<b>576.8</b>	<b>474.4</b>	<b>480.2</b>	<b>121.1</b>	<b>115.1</b>	<b>566.4</b>	<b>243.1</b>	<b>6,178.4</b>	<b>5,564.7</b>
<b>Included in reportable segments assets are:</b>												
Investment properties	2,053.1	2,094.6	–	–	–	–	26.4	32.1	–	–	2,079.5	2,126.7
Investments accounted for using the equity method	2,102.3	1,864.4	755.0	575.0	456.1	469.6	13.5	14.5	566.4	243.0	3,893.3	3,166.5
<b>Reportable segment liabilities</b>	<b>91.4</b>	<b>124.2</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>(0.7)</b>	<b>200.5</b>	<b>9.7</b>	<b>20.6</b>	<b>0.1</b>	<b>312.5</b>	<b>133.3</b>

## Results for the year continued

### 3. Segment reporting continued

#### Reconciliation of reportable segment revenues, profit or loss, assets and liabilities

	2016 \$M	2015 \$M
<b>Revenues</b>		
Total revenue for reportable segments	148.5	163.1
<b>Consolidated revenues</b>	<b>148.5</b>	<b>163.1</b>
<b>Profit or loss</b>		
<b>Total profit before tax for reportable segments</b>	<b>427.8</b>	<b>389.6</b>
Corporate expenses not allocated to reportable segments	(38.9)	(20.0)
<b>Operating profit before net interest and income tax expense</b>	<b>388.9</b>	<b>369.6</b>
Valuation adjustments not included in reportable segment profit before tax		
– Net gain from fair value adjustments on investment properties	317.4	381.8
– Impairment reversals/(losses)	186.6	(7.6)
– Fair value adjustments relating to associates and JVs	455.2	183.8
Other non-cash items not included in reportable segment profit before tax	(21.4)	0.4
Net finance income/(expense) – refer to note 8	149.8	(1.6)
<b>Consolidated profit before income tax</b>	<b>1,476.5</b>	<b>926.4</b>
<b>Assets</b>		
Assets for reportable segments	6,178.4	5,564.7
Unallocated amounts: loans to GL, GLHK and their controlled entities	3,013.9	3,222.2
Other unallocated amounts	1,460.7	836.2
<b>Consolidated total assets</b>	<b>10,653.0</b>	<b>9,623.1</b>
<b>Liabilities</b>		
Liabilities for reportable segments	312.5	133.3
Unallocated amounts: interest bearing liabilities	2,584.3	2,604.8
Other unallocated amounts	566.8	690.7
<b>Consolidated total liabilities</b>	<b>3,463.6</b>	<b>3,428.8</b>

#### 4. Income tax

Under current Australian income tax legislation, GIT is not liable for income tax provided that each year the taxable income and any taxable capital gain derived from the sale of an asset are fully distributed to Unitholders. The controlled entities of GIT that operate in certain foreign jurisdictions are liable to pay tax in those jurisdictions.

During the current year, a controlled entity of GIT recognised a deferred tax liability of \$19.2 million (2015: \$nil) through the income statement arising from its share of fair value gains on investment properties owned by Goodman North America Partnership.

#### Operating assets and liabilities

##### 5. Property assets

###### (a) Types of property assets

The Consolidated Entity's investment in property assets includes both inventories and investment properties, which may be held either directly or through its investments in partnerships (both associates and JVs).

###### Inventories

Inventories relate to land and property developments that are held for sale or development and sale in the normal course of the Consolidated Entity's business. Where property developments are forecast to be completed and sold more than 12 months after the balance date, then the inventories are classified as non-current.

Work in progress in relation to land subdivision and development projects includes the costs of acquisition, planning, management and development and holding costs such as interest and taxes. Work in progress is carried at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the normal course of business, less the estimated costs of completion and selling expenses.

Inventories are carried at the lower of cost or net realisable value. The calculation of net realisable value requires estimates and assumptions which are continually evaluated and are based on historical experience and expectations of future events that are believed to be reasonable under the circumstances.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

## Operating assets and liabilities continued

### 5. Property assets continued

#### (a) Types of property assets continued

##### Investment properties

Investment properties comprise investment interests in land and buildings held for the purpose of leasing to produce rental income and/or for capital appreciation. Investment properties are carried at fair value. The calculation of fair value requires estimates and assumptions which are continually evaluated and are based on historical experience and expectations of future events that are believed to be reasonable under the circumstances. Investment properties are not depreciated as they are subject to continual maintenance and regularly revalued on the basis described below.

##### Components of investment properties

Land and buildings (including integral plant and equipment) comprising investment properties are regarded as composite assets and are disclosed as such in the consolidated financial report.

Investment property carrying values include the costs of acquiring the properties and subsequent costs of development, including costs of all materials used in construction, costs of managing the project, holding costs and borrowing costs incurred during the development period.

Amounts provided to customers as lease incentives and assets relating to fixed rental income increases in operating lease contracts are included within investment property values. Lease incentives are amortised over the term of the lease on a straight-line basis.

Direct expenditure associated with leasing a property is also capitalised within investment property values and amortised over the term of the lease.

##### Stabilised investment properties

Stabilised investment properties are completed investment properties that are capable of earning rental income. An independent valuation of stabilised investment properties is obtained at least every three years to use as a basis for measuring the fair value of the properties.

At each balance date occurring between obtaining independent valuations, the Directors review the carrying value of the Consolidated Entity's investment properties to be satisfied that, in their opinion, the carrying value of the investment properties reflects the fair value of the investment properties at that date. Changes in fair value are recognised directly in the income statement.

##### Investment properties under development

Investment properties under development include land, new investment properties in the course of construction and investment properties that are being redeveloped. Property under development for future use as an investment property is measured at fair value.

##### Deposits for investment properties

Deposits and other costs associated with acquiring investment properties that are incurred prior to the Consolidated Entity obtaining legal title are recorded at cost and disclosed as other assets in the statement of financial position.

#### (b) Summary of the Consolidated Entity's investment in property assets

		Consolidated	
	Note	2016 \$M	2015 \$M
<b>Inventories</b>			
Current	5(d)	22.2	9.0
Non-current	5(d)	94.6	125.5
		<b>116.8</b>	<b>134.5</b>
<b>Investment properties</b>			
Stabilised investment properties		2,061.0	2,052.2
Investment properties under development		18.5	74.5
	5(e)	<b>2,079.5</b>	<b>2,126.7</b>
<b>Investments accounted for using the equity method</b>			
<b>Associates</b>			
JVs	5(f)(i)	2,947.4	2,495.0
	5(f)(ii)	945.9	671.5
		<b>3,893.3</b>	<b>3,166.5</b>
<b>Total property assets</b>		<b>6,089.6</b>	<b>5,427.7</b>

#### (c) Estimates and assumptions in determining property carrying values

##### Inventories

For both inventories held directly and inventories held in partnerships, external valuations are not performed but instead valuations are determined using the feasibility studies supporting the land and property developments. The end values of the developments in the feasibility studies are based on assumptions such as capitalisation rates, letting up periods and incentives that are consistent with those observed in the relevant market. Where the feasibility study calculations indicate that the forecast cost of a completed development will exceed the net realisable value, then the inventories are impaired.

##### Investment properties

##### Stabilised investment properties

Stabilised investment properties refer to investment properties which are not under development. The fair value of stabilised investment properties is based on current prices in an active market for similar properties in the same location and condition and subject to similar lease and other contracts. The current price is the estimated amount for which a property could be exchanged between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

##### Approach to determination of fair value

The approach to determination of fair value of investment properties is applied to both investment properties held directly and investment properties held in associates and JVs.

Valuations are determined based on assessments and estimates of uncertain future events, including upturns and downturns in property markets and availability of similar properties, vacancy rates, market rents and capitalisation and discount rates. Recent and relevant sales evidence and other market data are taken into account. Valuations are either based on an external, independent valuation or on an internal valuation.

## Operating assets and liabilities continued

### 5. Property assets continued

#### (c) Estimates and assumptions in determining property carrying values continued

External valuations are undertaken only where market segments were observed to be active. In making the determination of whether a market segment is active, the following characteristics are considered:

- + function of the asset (distribution/warehouse or suburban office);
- + location of asset (city, suburb or regional area);
- + carrying value of the asset (categorised by likely appeal to private (including syndicates), national and institutional investors); and
- + categorisation as primary or secondary based on a combination of location, weighted average lease expiry, quality of tenant covenant (internal assessment based on available market evidence) and age of construction.

Each property asset is assessed and grouped with assets in the same or similar market segments. Information on all relevant recent sales is also analysed using the same criteria to provide a comparative set. Unless three or more sales are observed in an individual market segment (taken together with any comparable market segments as necessary), that market segment is considered inactive.

Where a market segment is observed to be active, then external, independent valuations are performed for stabilised investment properties where there has been more than a 25 basis point movement in capitalisation rates and/or there has been a material change in tenancy profile and/or there has been significant capital expenditure and/or there has been a material change in use (or zoning) of the asset and/or it has been three years since the previous external, independent valuation. For all other stabilised investment properties in an active market segment, an internal valuation is performed based on observable capitalisation rates and referenced to independent market data.

Where a market segment is observed to be inactive, then no external, independent valuations are performed and internal valuations are undertaken based on discounted cash flow (DCF) calculations. The DCF calculations are prepared over a 10 year period. The key inputs considered for each individual calculation are rental growth rates, discount rates, market rental rates and letting up incentives. Discount rates are computed using the 10 year bond rate or equivalent in each jurisdiction plus increments to reflect country risk, tenant credit risk and industry risk. Where possible, the components of the discount rate are benchmarked to available market data.

#### Market assessment

At 30 June 2016, all markets in which the Consolidated Entity operated were observed to be active and no adjustments were made to the carrying value of stabilised investment properties arising from internal valuations using DCF calculations. The overall weighted average capitalisation rates for the divisional portfolios (including partnerships) are set out in the table below:

Division	Total portfolio weighted average capitalisation rate	
	2016 %	2015 %
Australia <sup>1</sup>	6.7	7.3
Hong Kong	5.4	6.0
Logistics – Continental Europe	6.4	6.9
Logistics – United Kingdom	8.0	7.6
North America	4.5	–

1. Excludes urban renewal sites which are valued on a rate per residential unit site basis.

During the current financial year, the fair values of 98% (2015: 94%) of these stabilised investment properties held directly by the Consolidated Entity (by reference to carrying value) were determined based on a valuation by an independent valuer who held a recognised and relevant professional qualification and had recent experience in the location and category of the investment property being valued.

For partnerships, typically 100% of the stabilised investment property portfolios are valued by an independent valuer in each financial year.

#### Investment properties under development

External valuations are generally not performed for investment properties under development held directly by the Consolidated Entity, but instead valuations are determined using the feasibility studies supporting the developments. The end values of the developments in the feasibility studies are based on assumptions to determine capitalisation rates, letting up periods and incentives that are consistent with those observed in the relevant market adjusted for a profit and risk factor. This profit and risk factor is dependent on the function, location and size of the development and is generally in a market range of 10% to 15%.

This practice of determining fair value by reference to the development feasibility is generally also applied for the Consolidated Entity's investments in partnerships. However, certain partnerships do obtain independent valuations for investment properties under development each financial year.

#### (d) Inventories

	Consolidated	
	2016 \$M	2015 \$M
<b>Current</b>		
Development land	22.2	9.0
	<b>22.2</b>	<b>9.0</b>
<b>Non-current</b>		
Development land	94.6	125.5
	<b>94.6</b>	<b>125.5</b>

During the year, impairments of \$5.0 million (2015: \$7.6 million) were recognised to write down development land to net realisable value.

#### (e) Investment properties

##### Reconciliation carrying amount of directly held investment properties

	Consolidated	
	2016 \$M	2015 \$M
Carrying amount at the beginning of the year	2,126.7	1,950.4
Acquisitions	37.0	–
Capital expenditure	24.9	37.2
Transfers in from inventory	1.9	–
Disposals:		
– Carrying value of properties sold	(374.9)	(46.8)
– On disposal of interests in controlled entities	(50.7)	(204.9)
Transfers to inventories	–	(1.6)
Net gain from fair value adjustments	317.4	381.8
Effect of foreign currency translation	(2.8)	10.6
<b>Carrying amount at the end of the year</b>	<b>2,079.5</b>	<b>2,126.7</b>
<b>Analysed by segment:</b>		
Australia and New Zealand	2,053.1	2,094.6
United Kingdom	26.4	32.1
	<b>2,079.5</b>	<b>2,126.7</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

## Operating assets and liabilities continued

### 5. Property assets continued

#### (e) Investment properties continued

##### Other information regarding directly held investment properties

The fair value measurement approach for directly held investment properties has been categorised as a Level 3 fair value based on the inputs to the valuation technique used (see notes 1(h) and 5(c)). The majority of the Consolidated Entity's directly held investment properties are in Australia and the valuation technique used in measuring the fair value, as well as the values assumed for the significant unobservable inputs, are summarised in the table below:

Valuation technique	Significant unobservable input	2016	2015
Income capitalisation	Range of net market rents (per square metre per annum) Capitalisation rate (weighted average)	\$40 to \$300 6.70%	\$42 to \$300 7.30%

The estimated fair value would increase if net market rents were higher and/or if capitalisation rates were lower. The estimated fair value would decrease if the net market rents were lower and/or if the capitalisation rates were higher.

In addition there are assets in Sydney, NSW that have been rezoned for residential mixed use. Certain of these sites have seen significant value uplifts as a result of the change in zoning, with the valuations of these sites determined by reference to comparable sales data, as summarised in the table below:

Valuation technique	Significant unobservable input	2016	2015
Direct comparison	Sales price for comparable residential sites (rate per unit)	\$100,000 to \$300,000	\$100,000 to \$300,000

The Consolidated Entity leases out investment properties under operating leases. The weighted average lease expiry of Goodman Group's directly held investment properties in Australia is 3.3 years.

##### Non-cancellable operating lease commitments receivable from investment property customers

The analysis in the table below reflects the gross property income, excluding recoverable outgoings, based on the Consolidated Entity's existing lease agreements. It assumes that leases will not extend beyond the next review date where the customer has an option to end the lease.

	Consolidated	
	2016 \$M	2015 \$M
Non-cancellable operating lease commitments receivable:		
– Within one year	88.3	107.8
– One year or later and no later than five years	177.9	275.8
– Later than five years	101.4	113.3
	<b>367.6</b>	<b>496.9</b>

#### (f) Investments accounted for using the equity method

Investments accounted for using the equity method comprise of associates and JVs, which are collectively referred to by the Consolidated Entity as partnerships.

##### Associates

An associate is an entity over which the Consolidated Entity exercises significant influence but not control over their financial and operating policies. In the consolidated financial statements, investments in associates are accounted for using the equity method. Investments in associates are carried at the lower of the equity accounted amount and recoverable amount. Under this method, the Consolidated Entity's share of post-acquisition gains or losses of associates is recognised in the consolidated income statement and its share of post-acquisition movements in reserves is recognised in consolidated reserves. Cumulative post-acquisition movements in both profit or loss and reserves are adjusted against the cost of the investment.

##### JVs

A JV is an arrangement in which the Consolidated Entity has joint control, whereby the Consolidated Entity has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities. In the consolidated financial statements, investments in JVs are accounted for using the equity method. Investments in JVs are carried at the lower of the equity accounted amount and recoverable amount. The Consolidated Entity's share of the JVs' net profit or loss is recognised in the consolidated income statement from the date joint control commences to the date joint control ceases. Movements in reserves are recognised directly in the consolidated reserves.

##### Transactions eliminated on consolidation

Unrealised gains resulting from transactions with associates and JVs, including those relating to contributions of non-monetary assets on establishment, are eliminated to the extent of the Consolidated Entity's interest. Unrealised gains relating to associates and JVs are eliminated against the carrying amount of the investment. Unrealised losses are eliminated in the same way as unrealised gains, unless they evidence an impairment of an asset.



## Operating assets and liabilities continued

### 5. Property assets continued

#### (f) Investments accounted for using the equity method continued

##### (i) Investments in associates

The Consolidated Entity's associates are set out below:

Name of associate	Country of establishment	Consolidated share of net results recognised		Consolidated ownership interest		Consolidated investment carrying amount	
		2016 \$M	2015 \$M	2016 %	2015 %	2016 \$M	2015 \$M
<b>Property investment</b>							
Goodman Australia Industrial Partnership (GAIP)	Australia	229.5	148.3	27.5	27.5	1,186.6	1,025.3
Goodman Australia Partnership (GAP)	Australia	131.1	68.8	19.9	19.9	549.8	479.4
Goodman Hong Kong Logistics Partnership (GHKLP)	Cayman Islands	182.4	83.6	20.0	20.0	754.9	575.0
Goodman European Logistics Partnership (GEP)	Luxembourg	52.8	45.8	20.4	20.4	456.1	415.3
Arlington Business Parks Partnership (ABPP) <sup>1</sup>	United Kingdom	–	13.4	–	–	–	–
		<b>595.8</b>	<b>359.9</b>			<b>2,947.4</b>	<b>2,495.0</b>

1. During the prior financial year, the Consolidated Entity disposed of a controlled entity that held its entire investment in ABPP to a controlled entity of GL (refer to note 18).

The reconciliation of the carrying value at the beginning to the carrying value at the end of the year is set out as follow:

	Consolidated	
	2016 \$M	2015 \$M
<b>Movement in carrying amount of investments in associates</b>		
Carrying amount at the beginning of the year	2,495.0	2,459.3
Share of net results after tax (before revaluations)	205.4	204.6
Share of fair value adjustments on investment properties	383.9	145.9
Share of fair value adjustments on derivative financial instruments	6.5	9.4
Share of net results	595.8	359.9
Share of movement in reserves	(1.0)	0.4
Acquisitions		
Disposals:	45.6	53.2
– Carrying value of investments sold	(34.8)	–
– On disposal of interests in controlled entities	–	(321.7)
Distributions received	(179.8)	(164.6)
Effect of foreign currency translation	26.6	108.5
<b>Carrying amount at the end of the year</b>	<b>2,947.4</b>	<b>2,495.0</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

## Operating assets and liabilities continued

### 5. Property assets continued

#### (f) Investments accounted for using the equity method continued

##### (i) Investments in associates continued

The table below includes further information regarding the Consolidated Entity's investments in associates held at the end of the financial year:

	GAIP		GAP		GHKLP		GEP	
	2016 \$M	2015 \$M	2016 \$M	2015 \$M	2016 \$M	2015 \$M	2016 \$M	2015 \$M
<b>Summarised statement of financial position</b>								
Total current assets	595.9	436.3	464.3	380.3	325.8	46.0	185.0	348.5
Total non-current assets	5,864.0	5,534.1	3,397.2	3,231.7	4,367.6	3,813.9	3,642.8	3,202.1
Total current liabilities	171.9	528.1	134.1	238.0	84.7	85.1	132.1	117.1
Total non-current liabilities	2,040.3	1,788.7	988.3	1,129.0	840.5	905.8	1,456.0	1,399.2
<b>Net assets (100%)</b>	<b>4,247.7</b>	<b>3,653.6</b>	<b>2,739.1</b>	<b>2,245.0</b>	<b>3,768.2</b>	<b>2,869.0</b>	<b>2,239.7</b>	<b>2,034.3</b>
Consolidated ownership interest	27.5%	27.5%	19.9%	19.9%	20.0%	20.0%	20.4%	20.4%
Consolidated share of net assets	1,169.3	1,005.8	545.5	447.2	753.6	573.8	456.1	414.3
Capitalised costs	–	2.8	–	–	1.3	1.2	–	1.0
Distributions receivable <sup>1</sup>	17.3	16.7	4.3	32.2	–	–	–	–
<b>Carrying amount of investment</b>	<b>1,186.6</b>	<b>1,025.3</b>	<b>549.8</b>	<b>479.4</b>	<b>754.9</b>	<b>575.0</b>	<b>456.1</b>	<b>415.3</b>
<b>Summarised statement of comprehensive income</b>								
Revenue	464.1	473.6	308.1	321.8	237.8	200.0	242.0	226.0
Profit after tax and revaluations	842.7	538.7	658.6	345.3	911.9	417.8	262.9	221.1
Other comprehensive income	0.5	0.5	4.5	(0.4)	–	–	–	–
<b>Total comprehensive income (100%)</b>	<b>843.2</b>	<b>539.2</b>	<b>663.1</b>	<b>344.9</b>	<b>911.9</b>	<b>417.8</b>	<b>262.9</b>	<b>221.1</b>
<b>Distributions received and receivable by the Consolidated Entity</b>	<b>68.2</b>	<b>67.0</b>	<b>60.8</b>	<b>30.1</b>	<b>17.4</b>	<b>15.6</b>	<b>33.4</b>	<b>28.6</b>

1. Distributions receivable relate to distributions provided for but not paid by the associate at 30 June 2016. This is applicable to trusts in Australia where unitholders are presently entitled to income at the end of the financial year.

##### (ii) Investments in JVs

A summary of the results and ownership interest of the Consolidated Entity's principal JVs is set out below:

Name of JV	Country of establishment	Consolidated share of net results recognised		Consolidated ownership interest		Consolidated investment carrying amount	
		2016 \$M	2015 \$M	2016 %	2015 %	2016 \$M	2015 \$M
<b>Property investment</b>							
KWASA Goodman Industrial Partnership (KGIP)	Australia	32.6	24.5	40.0	40.0	213.5	195.1
<b>Property investment and development</b>							
Goodman North America Partnership (GNAP)	USA	62.2	8.5	53.0	53.0	566.3	243.0
Other JVs		9.0	29.9			166.1	233.4
		<b>103.8</b>	<b>62.9</b>			<b>945.9</b>	<b>671.5</b>

## Operating assets and liabilities continued

### 5. Property assets continued

#### (f) Investments accounted for using the equity method continued

##### (ii) Investments in JVs continued

The reconciliation of the carrying value at the beginning to the carrying value at the end of the year is set out as follows:

	Consolidated	
	2016 \$M	2015 \$M
<b>Movement in carrying amounts of JVs</b>		
Carrying amount at the beginning of the year	671.5	541.0
Share of net results after tax (before revaluations)	39.0	34.4
Share of fair value adjustments on investment properties	66.1	29.0
Share of fair value adjustments on derivative financial instruments	(1.3)	(0.5)
Share of net results	103.8	62.9
Acquisitions	267.6	92.2
Disposals	(73.8)	–
Capital return	(0.3)	(0.4)
Distributions/dividends received	(25.4)	(63.4)
Effect of foreign currency translation	2.5	39.2
<b>Carrying amount at the end of the year</b>	<b>945.9</b>	<b>671.5</b>

The table below includes further information regarding the Consolidated Entity's principal investments in JVs held at the end of the financial year:

	KGIP		GNAP	
	2016 \$M	2015 \$M	2016 \$M	2015 \$M
<b>Summarised statement of financial position</b>				
<b>Current assets</b>				
Cash and cash equivalents	3.5	1.1	27.1	38.0
Other current assets	299.8	1.8	19.6	27.2
<b>Total current assets</b>	<b>303.3</b>	<b>2.9</b>	<b>46.7</b>	<b>65.2</b>
<b>Total non-current assets</b>	<b>548.6</b>	<b>793.2</b>	<b>1,038.5</b>	<b>406.8</b>
<b>Current liabilities</b>	<b>11.9</b>	<b>6.1</b>	<b>24.8</b>	<b>21.6</b>
<b>Non-current liabilities</b>				
Financial liabilities	300.0	298.4	0.7	0.5
Other non-current liabilities	6.2	4.1	–	–
<b>Total non-current liabilities</b>	<b>306.2</b>	<b>302.5</b>	<b>0.7</b>	<b>0.5</b>
<b>Net assets (100%)</b>	<b>533.8</b>	<b>487.5</b>	<b>1,059.7</b>	<b>449.9</b>
Consolidated ownership interest	40.0%	40.0%	53.0%	53.0%
Consolidated share of net assets	213.5	195.0	561.6	238.4
Capitalised costs	–	0.1	4.7	4.6
<b>Carrying amount of investment in JV</b>	<b>213.5</b>	<b>195.1</b>	<b>566.3</b>	<b>243.0</b>
<b>Summarised statement of comprehensive income</b>				
Revenue	96.6	71.6	13.9	0.7
Interest income	0.1	0.1	–	–
Interest expense	(12.3)	(12.5)	(0.1)	(0.1)
Income tax expense	–	–	(0.1)	–
Profit/(loss) after tax	84.8	61.2	117.4	16.0
<b>Total comprehensive income (100%)</b>	<b>81.7</b>	<b>61.2</b>	<b>117.4</b>	<b>16.0</b>
<b>Distributions received</b>	<b>14.1</b>	<b>14.4</b>	<b>2.0</b>	<b>29.8</b>

For the Consolidated Entity's other JVs not included in the table above, the total profit after tax and revaluations is \$46.7 million (2015: \$57.8 million) and other comprehensive income was \$nil (2015: \$nil).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

## Operating assets and liabilities continued

### 6. Receivables

Receivables comprise loans to related parties and trade and other receivables and are recognised on the date that they are originated, initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, receivables are measured at amortised cost using the effective interest rate method, less any impairment losses.

The Consolidated Entity derecognises a receivable when the contractual rights to the cash flows from the receivable expire or it transfers the rights to receive the contractual cash flows on the receivable in a transaction in which substantially all the risks and rewards of the receivable are transferred.

#### Impairment

The carrying amounts of receivables is assessed at each balance date to determine whether there is any indication of impairment. If such indication exists, the receivable is written down to the present value of the estimated future cash flows discounted at the original effective interest rate. The impairment is recognised in profit or loss in the reporting period in which it occurs.

#### Calculation of recoverable amount

The recoverable amount of the Consolidated Entity's receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted.

Impairment of receivables is not recognised until objective evidence is available that a loss event has occurred. Significant receivables are individually assessed for impairment.

#### Reversals of impairment

Impairment losses are reversed when there is an indication that the impairment loss may no longer exist and there has been a change in the estimate used to determine the recoverable amount.

	Consolidated	
	2016 \$M	2015 \$M
<b>Current</b>		
Loans to related parties	3,003.9	3,222.2
Trade receivables	3.3	3.8
Other receivables	6.2	98.6
Amounts due from related parties	2.6	2.1
	<b>3,016.0</b>	<b>3,326.7</b>
<b>Non-current</b>		
Loans to related parties	10.0	10.9
Other receivables	–	1.1
	<b>10.0</b>	<b>12.0</b>

The maximum exposure to credit risk at the balance date is the fair value of each class of receivable mentioned above. There is no material difference between the carrying values and the fair values of all current and non-current receivables.

Receivables (current and non-current) denominated in currencies other than Australian dollars are as follows:

Amounts in A\$M	NZD	JPY	EUR	GBP	USD
2016	257.7	25.7	122.2	2,378.8	312.3
2015	333.9	92.5	185.1	2,219.1	545.5

#### Loans to related parties

The Consolidated Entity's loans to related parties principally relate to loans to GL, GLHK and their controlled entities and loans to associates and JVs. The interest rates on loans to related parties were 1.3% to 9.1% per annum (2015: 1.1% to 10.1% per annum). During the current financial year, the Consolidated Entity reversed impairment losses of \$202.3 million previously recognised on loans to GL as there is no longer any indication that the debt will not be recoverable.

## Operating assets and liabilities continued

### 7. Payables

Trade and other payables are recognised initially on the trade date at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, trade and other payables are measured at amortised cost.

The Consolidated Entity derecognises trade and other payables when the contractual obligations are discharged or cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Consolidated Entity has legal right to offset the amounts and intends to either settle on a net basis or to realise the asset and settle the liability simultaneously.

	Consolidated	
	2016	2015
	\$M	\$M
<b>Current</b>		
Trade payables	7.2	1.0
Other payables and accruals	294.6	126.3
Rental income received in advance	2.6	2.3
Loans from related parties <sup>1</sup>	23.5	18.8
	<b>327.9</b>	<b>148.4</b>
<b>Non-current</b>		
Other payables and accruals	60.0	82.7
	<b>60.0</b>	<b>82.7</b>

1. Details of loans from related parties are set out in note 19.

## Capital management

### 8. Net finance income/(expense)

#### Finance income

Income from the provision of loan facilities including establishment fees, line fees and interest income is recognised over the relevant service period on an effective interest rate method, and, if not received at balance date, is reflected in the statement of financial position as a receivable.

#### Finance costs

Expenditure incurred in obtaining debt finance is offset against the principal amount of the interest bearing liability to which it relates, and is recognised as a finance cost on an effective interest rate basis over the life of the facility or until the facility is significantly modified. Where a facility is significantly modified, any unamortised expenditure in relation to that facility and incremental expenditure incurred in modifying the facility are recognised as a finance cost in the year in which the significant modification occurs.

Finance costs relating to a qualifying asset are capitalised as part of the cost of that asset using a weighted average cost of debt. Qualifying assets are assets which take a substantial time to get ready for their intended use or sale. All other finance costs are expensed using the effective interest rate method.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

## Capital management continued

### 8. Net finance income/(expense) continued

	Consolidated	
	2016 \$M	2015 \$M
<b>Finance income</b>		
Interest income from:		
– Related parties	222.4	209.9
– Other parties	7.1	2.7
Fair value adjustments on derivative financial instruments	106.1	53.6
	<b>335.6</b>	<b>266.2</b>
<b>Finance expense</b>		
Interest expense from third party loans, overdrafts and derivatives	(153.5)	(115.0)
Other borrowing costs	(13.7)	(14.3)
Foreign exchange loss	(30.2)	(160.0)
Capitalised borrowing costs <sup>1</sup>	11.6	21.5
	<b>(185.8)</b>	<b>(267.8)</b>
<b>Net finance income/(expense)</b>	<b>149.8</b>	<b>(1.6)</b>

1. Borrowing costs were capitalised to inventories and investment properties under development during the financial year at rates between 4.8% and 7.0% per annum (2015: 5.1% and 7.8% per annum).

### 9. Interest bearing liabilities

Interest bearing liabilities comprise of bank loans, bonds and private placements. Interest bearing liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, interest bearing liabilities are measured at amortised cost using the effective interest rate method.

	Note	Consolidated	
		2016 \$M	2015 \$M
Non-current			
Unsecured			
– Bank loans	9(a)	176.4	227.0
– Euro medium-term notes	9(b)	445.4	509.9
– US senior notes	9(c)	1,779.2	1,719.0
– Foreign private placements	9(d)	202.8	171.9
Borrowing costs		(19.5)	(23.0)
		<b>2,584.3</b>	<b>2,604.8</b>

#### (a) Bank loans, unsecured

Facility	Facility maturity date	Facility limit – A\$M equivalent	Amounts drawn down in A\$M equivalents		
			NZD	JPY	Total
Bank loan 1	31 Jul 19	50.0	–	–	–
Bank loan 2	31 Jul 18	162.6	80.8	–	80.8
Bank loan 3	31 Jul 18	148.7	–	–	–
Bank loan 4	30 Sep 19	50.4	–	–	–
Bank loan 5	30 Sep 19	37.5	–	–	–
Bank loan 6	31 Jul 18	167.5	–	–	–
Bank loan 7	14 Apr 21	152.2	47.8	–	47.8
Bank loan 8	31 Mar 21	122.2	47.8	–	47.8
Bank loan 9	31 Mar 19	30.0	–	–	–
Bank loan 10	31 Mar 21	148.7	–	–	–
<b>Total bank loans, unsecured</b>	<b>at 30 Jun 2016</b>	<b>1,069.8</b>	<b>176.4</b>	<b>–</b>	<b>176.4</b>
	at 30 Jun 2015	1,177.8	227.0	–	227.0

## Capital management continued

### 9. Interest bearing liabilities continued

#### (b) Euro medium-term notes, unsecured

As at 30 June 2016, Goodman Australia Finance Pty Limited, a controlled entity of GIT, had on issue A\$445.4 million (2015: A\$509.9 million) Euro medium-term notes. All notes were issued at a fixed coupon of 9.75% payable annually. The notes mature on 16 July 2018. The notes are listed on the Singapore Stock Exchange and the market value of the notes using the quoted price at 30 June 2016 was A\$512.0 million (2015: A\$620.3 million).

#### (c) United States senior notes, unsecured

As at 30 June 2016, the Consolidated Entity had notes on issue in the United States 144A/Reg S bond market as follows:

- + A\$436.4 million (US\$325.0 million) maturing on 12 November 2020. The senior unsecured notes were issued at a fixed coupon of 6.375% payable semi-annually;
- + A\$671.4 million (US\$500.0 million) maturing on 15 April 2021. The senior unsecured notes were issued at a fixed coupon of 6.375% payable semi-annually; and
- + A\$671.4 million (US\$500.0 million) maturing on 22 March 2022. The senior unsecured notes were issued at a fixed coupon of 6.0% payable semi-annually.

#### (d) Foreign private placements, unsecured

As at 30 June 2016, the Consolidated Entity had the following unsecured foreign private placements:

- + A\$40.1 million (€27.0 million) denominated in Euros. On 29 July 2016, this facility was fully repaid and cancelled; and
- + A\$162.7 million (¥12.5 billion) denominated in Japanese yen. The facility has a fixed coupon of 3.32% payable semi-annually and expires on 3 April 2023.

#### (e) Finance facilities

	Consolidated	
	Facilities available \$M	Facilities utilised \$M
<b>At 30 June 2016</b>		
Unsecured		
– Bank loans	1,069.8	176.4
– Euro medium-term notes	445.4	445.4
– United States senior notes	1,779.2	1,779.2
– Foreign private placements <sup>1</sup>	202.8	202.8
– Bank guarantees <sup>2</sup>	–	38.0
	<b>3,497.2</b>	<b>2,641.8</b>
<b>At 30 June 2015</b>		
Unsecured		
– Bank loans	1,177.8	227.0
– Euro medium-term notes	509.9	509.9
– United States senior notes	1,719.0	1,719.0
– Foreign private placements	171.9	171.9
– Bank guarantees <sup>2</sup>	–	30.1
	<b>3,578.6</b>	<b>2,657.9</b>

1. On 29 July 2016, a facility of A\$40.1 million was fully repaid and cancelled (refer to note 9(d)).

2. Bank guarantees relate to the Consolidated Entity's unsecured bank facilities.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

## Capital management continued

### 10. Other financial assets and liabilities

#### Derivative financial instruments and hedging

The Consolidated Entity uses derivative financial instruments to hedge its economic exposure to foreign exchange and interest rate risks arising from operating, investing and financing activities. In accordance with its treasury policy, the Consolidated Entity does not hold or issue derivative financial instruments for speculative trading purposes.

The Consolidated Entity's derivative financial instruments are not designated as a hedge for accounting purposes, and accordingly the movements in the fair value of derivative financial instruments are recognised in the income statement.

#### Cash flow hedges

Certain of the Consolidated Entity's associates and JVs continue to designate interest rate swaps as a cash flow hedge for accounting purposes. The Consolidated Entity's share of the effective portion of changes in the fair value of derivatives in associates and JVs that are designated and qualify as cash flow hedges is recognised in the cash flow hedge reserve. The gain or loss relating to any ineffective portion is recognised in the income statement.

#### Other financial assets

	Consolidated	
	2016	2015
	\$M	\$M
<b>Current</b>		
Derivative financial instruments	–	4.4
	<b>–</b>	<b>4.4</b>
<b>Non-current</b>		
Derivative financial instruments <sup>1</sup>	329.8	234.0
Investment in unlisted securities, at fair value	18.2	10.5
	<b>348.0</b>	<b>244.5</b>

1. Includes fair values of cross currency interest rate swaps amounting to \$258.2 million (2015: \$176.9 million) entered into to hedge the United States senior notes (refer to note 9(c)).

#### Other financial liabilities

	Consolidated	
	2016	2015
	\$M	\$M
<b>Current</b>		
Derivative financial instruments	0.1	50.5
	<b>0.1</b>	<b>50.5</b>
<b>Non-current</b>		
Derivative financial instruments <sup>1</sup>	274.3	347.3
	<b>274.3</b>	<b>347.3</b>

1. Included in the prior financial year is an amount of \$64.4 million entered into to hedge the United States senior notes (refer to note 9(c)) and the Japanese yen denominated private placement (refer to note 9(d)).



## Capital management continued

### 11. Financial risk management

The Directors have ultimate responsibility for the Consolidated Entity's capital management and financial risk management processes and have established policies, documented in the Consolidated Entity's financial risk management (FRM) policy document, to ensure both the efficient use of capital and the appropriate management of the exposure to financial risk.

The Group Investment Committee is Goodman Group's primary forum where recommendations regarding capital allocation and FRM (in accordance in the FRM policy) are discussed and approved. The Group Investment Committee meets every week during the financial year.

Goodman Group's treasury function is responsible for preparing the following reports for consideration at each of the Consolidated Entity's Board meetings:

- + analysis of capital allocation and funding requirements against the Consolidated Entity's gearing constraint;
- + analysis of the Consolidated Entity's liquidity and funding position;
- + analysis of the Consolidated Entity's debt maturity profile;
- + a review of all the hedge exposures and the completed hedges;
- + compliance with the Consolidated Entity's hedging policy and recommendations for future hedging strategies; and
- + full mark to market of all derivative positions.

Under the FRM policy, the Consolidated Entity's derivative financial instruments are not designated as a hedge for accounting purposes, and accordingly such derivative financial instruments are marked to market, with the movement in value recognised in profit or loss.

#### Capital management

The Consolidated Entity's principal capital management objectives are to maintain a strong capital base and provide funds for operating activities, capital expenditure and investment opportunities as they arise. This is achieved through an appropriate mix of debt, equity and hybrid instruments.

The Consolidated Entity is able to alter the capital mix by issuing new stapled securities or hybrid securities, through the operation of a DRP, adjusting the timing of capital expenditure and selling assets to reduce borrowings. Goodman Group also manages capital through its distribution policy in which distributions made to Securityholders are based on the greater of 60% of operating profit or taxable income of GIT.

Goodman Group monitors capital on the basis of both the gearing ratio and the weighted average cost of debt. Gearing is reviewed on a Goodman Group basis and the gearing ratio for Goodman Group is calculated as the total interest bearing liabilities less cash as a percentage of the total assets excluding cash.

Goodman Group's key financial risks are market risk (including foreign exchange and interest rate risk), liquidity risk and credit risk.

#### (a) Market risk

##### Foreign exchange risk

The Consolidated Entity is exposed to foreign exchange risk through its investments in New Zealand, Hong Kong, Continental Europe, the United Kingdom and North America. Foreign exchange risk represents the loss that would be recognised from fluctuations in currency prices against the Australian dollar as a result of the Consolidated Entity's net investment in foreign operations, future commercial transactions, and other foreign currency denominated assets and liabilities.

In managing foreign currency risks, the Consolidated Entity aims to reduce the impact of short-term fluctuations on the Consolidated Entity's earnings and net assets. However, over the long term, permanent changes in foreign exchange will have an impact on both earnings and net assets.

Goodman Group's capital hedge policy for each overseas region is to hedge between 65% and 90% of foreign currency denominated assets with foreign currency denominated liabilities. This is achieved by borrowing in the same functional currency as the overseas investments to form a natural economic hedge against any foreign currency fluctuations and/or using derivatives such as cross currency interest rate swaps (CCIRS) and foreign exchange contracts (FECs).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

## Capital management continued

### 11. Financial risk management continued

#### (a) Market risk continued

As at 30 June 2016, the principal that is hedged, the weighted average exchange rates and the periods to expiry, by currency, are set out below:

CCIRS: AUD receivable Expiry by currency	2016			2015		
	Amounts payable	Amounts receivable	Weighted average exchange rate	Amounts payable	Amounts receivable	Weighted average exchange rate
<b>NZD payable</b>	<b>NZD'M</b>	<b>A\$M</b>	<b>NZD/AUD</b>	<b>NZD'M</b>	<b>A\$M</b>	<b>NZD/AUD</b>
2-5 years	(100.0)	65.4	1.1674	(100.0)	65.4	1.2252
	<b>(100.0)</b>	<b>65.4</b>		<b>(100.0)</b>	<b>65.4</b>	
<b>HKD payable</b>	<b>HKD'M</b>	<b>A\$M</b>	<b>HKD/AUD</b>	<b>HKD'M</b>	<b>A\$M</b>	<b>HKD/AUD</b>
Less than 1 year	-	-	-	(1,050.0)	128.4	8.1868
2-5 years	(3,390.0)	529.4	6.5396	(1,540.0)	204.1	7.5622
	<b>(3,390.0)</b>	<b>529.4</b>		<b>(2,590.0)</b>	<b>332.5</b>	
<b>JPY payable</b>	<b>JPY'M</b>	<b>A\$M</b>	<b>JPY/AUD</b>	<b>JPY'M</b>	<b>A\$M</b>	<b>JPY/AUD</b>
2-5 years	-	-	-	(11,000.0)	128.0	86.0500
	-	-	-	<b>(11,000.0)</b>	<b>128.0</b>	
<b>EUR payable</b>	<b>EUR'M</b>	<b>A\$M</b>	<b>EUR/AUD</b>	<b>EUR'M</b>	<b>A\$M</b>	<b>EUR/AUD</b>
Less than 1 year	-	-	-	(50.0)	69.2	0.7226
2-5 years	(470.0)	616.7	0.7644	(420.0)	541.3	0.7765
	<b>(470.0)</b>	<b>616.7</b>		<b>(470.0)</b>	<b>610.5</b>	
<b>GBP payable</b>	<b>GBP'M</b>	<b>A\$M</b>	<b>GBP/AUD</b>	<b>GBP'M</b>	<b>A\$M</b>	<b>GBP/AUD</b>
2-5 years	(170.0)	282.2	0.6035	(170.0)	282.2	0.6035
	<b>(170.0)</b>	<b>282.2</b>		<b>(170.0)</b>	<b>282.2</b>	

  

FECs: GBP receivable Expiry by currency	Amounts payable	Amounts receivable	Weighted average exchange rate	2016		Weighted average exchange rate
				Amounts payable	Amounts receivable	
<b>AUD payable</b>	<b>A\$M</b>	<b>GBP/M</b>	<b>AUD/GBP</b>	<b>A\$M</b>	<b>GBP'M</b>	<b>GBP/AUD</b>
Less than 1 year	-	-	-	(171.1)	85.0	2.0129
1-2 years	(103.2)	50.0	2.0648	-	-	-
2-5 years	-	-	-	(103.2)	50.0	2.0640
	<b>(103.2)</b>	<b>50.0</b>		<b>(274.3)</b>	<b>135.0</b>	

  

FECs: USD receivable Expiry	Amounts payable	Amounts receivable	Weighted average exchange rate	2016		Weighted average exchange rate
				Amounts payable	Amounts receivable	
2-5 years	CNY'M (1,614.6)	USD'M 225.0	USD/CNY 7.1759	CNY'M -	USD'M -	USD/CNY -
	<b>(1,614.6)</b>	<b>225.0</b>		-	-	

## Capital management continued

### 11. Financial risk management continued

#### (a) Market risk continued continued

At 30 June 2016, the Consolidated Entity's notes issued in the United States 144A/Reg S bond market and also foreign private placements denominated in Japanese yen created both an interest rate and a foreign currency risk exposure. The Consolidated Entity's policy is to minimise its exposure to both interest rate and exchange rate movements. Accordingly, the Consolidated Entity has entered into both USD/EUR and USD/GBP CCIRS, to provide a capital hedge against assets denominated in Euros and British pounds sterling. Details of these CCIRS are set out below:

	2016			2015		
CCIRS: USD receivable Expiry by currency	Amounts payable	Amounts receivable	Weighted average exchange rate	Amounts payable	Amounts receivable	Weighted average exchange rate
<b>EUR payable</b>	<b>EUR'M</b>	<b>USD'M</b>	<b>USD/EUR</b>	<b>EUR'M</b>	<b>USD'M</b>	<b>USD/EUR</b>
2-5 years	(250.8)	355.0	0.7065	-	-	-
Over 5 years	(76.6)	100.0	0.7657	(327.4)	455.0	0.7195
	<b>(327.4)</b>	<b>455.0</b>		<b>(327.4)</b>	<b>455.0</b>	
<b>GBP payable</b>	<b>GBP'M</b>	<b>USD'M</b>	<b>USD/GBP</b>	<b>GBP'M</b>	<b>USD'M</b>	<b>USD/GBP</b>
2-5 years	(55.6)	90.0	0.6176	-	-	-
Over 5 years	(76.4)	120.0	0.6369	(132.0)	210.0	0.6286
	<b>(132.0)</b>	<b>210.0</b>		<b>(132.0)</b>	<b>210.0</b>	
CCIRS: JPY receivable Expiry	Amounts payable	Amounts receivable	Weighted average exchange rate	Amounts payable	Amounts receivable	Weighted average exchange rate
<b>GBP payable</b>	<b>GBP'M</b>	<b>JPY'M</b>	<b>JPY/GBP</b>	<b>GBP'M</b>	<b>JPY'M</b>	<b>JPY/GBP</b>
Over 5 years	-	-	-	(85.9)	11,300.0	0.0076
	<b>-</b>	<b>-</b>		<b>(85.9)</b>	<b>11,300.0</b>	

#### Sensitivity analysis

Throughout the financial year, if the Australian dollar had been 5% (2015: 5%) stronger against all other currencies, with all other variables held constant, the profit attributable to Unitholders, excluding derivative mark to market and unrealised foreign exchange movements, would have decreased by A\$18.6 million (2015: A\$4.5 million decrease). If the Australian dollar had been 5% (2015: 5%) weaker against all other currencies, with all other variables held constant, the profit attributable to Unitholders, excluding derivative mark to market and unrealised foreign exchange movements, would have increased by A\$18.6 million (2015: A\$4.5 million increase).

#### Interest rate risk

The Consolidated Entity's interest rate risk arises from variable rate borrowings and also fixed rate to floating rate CCIRS that hedge the currency risk associated with the USD denominated notes and JPY denominated private placement. The Consolidated Entity adopts a policy of ensuring that between 60% and 100% of its current year exposure to changes in interest rates on borrowings is on a fixed rate basis. The Consolidated Entity enters into interest rate swaps (IRS) to manage cash flow risks associated with the interest rates on borrowings that are floating. The IRS contracts are for 90 day intervals and involve quarterly payments or receipts of the net amount of interest.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

## Capital management continued

### 11. Financial risk management continued

#### (a) Market risk continued continued

##### Interest rate risk continued

As at 30 June 2016, the Consolidated Entity's interest rate risk exposure based on existing interest bearing liabilities and derivative financial instruments is set out below:

	Interest bearing liabilities A\$M	Impact of derivatives CCIRS <sup>1</sup> A\$M	IRS A\$M	Net interest rate exposure A\$M
<b>30 June 2016</b>				
Fixed rate liabilities	2,387.3	(893.0)	854.8	2,349.1
Floating rate liabilities	216.5	912.3	(854.8)	274.0
	<b>2,603.8</b>	<b>19.3</b>	<b>-</b>	<b>2,623.1</b>
<b>30 June 2015</b>				
Fixed rate liabilities	2,361.7	(982.8)	762.8	2,141.7
Floating rate liabilities	266.1	1,164.8	(762.8)	668.1
	<b>2,627.8</b>	<b>182.0</b>	<b>-</b>	<b>2,809.8</b>

1. The impact of the CCIRS amends the total borrowings exposure as a result of the difference in the foreign currency exchange rate at the end of the financial year between the contracted rate and the year end spot rate.

As a result of the fixed rate interest bearing liabilities and derivative financial instruments that existed at the end of the financial year, the Consolidated Entity would have the following fixed interest rate exposure at the end of each of the next five financial years:

Number of years post balance date	2016		2015	
	Fixed interest rate exposure A\$M	Weighted average interest rate % per annum	Fixed interest rate exposure A\$M	Weighted average interest rate % per annum
1 year	2,397.0	4.51	2,397.9	4.95
2 years	2,583.3	4.39	2,388.5	5.00
3 years	2,172.1	3.44	2,297.6	4.94
4 years	1,793.7	3.50	1,538.2	3.78
5 years	1,318.0	3.21	1,183.2	3.84

##### Sensitivity analysis

Based on the Consolidated Entity's net interest rate exposure at 30 June 2016, if interest rates on borrowings had been 100 basis points per annum (2015: 100 basis points per annum) higher/lower, with all other variables held constant, the Consolidated Entity's profit attributable to Unitholders for the financial year would have been A\$2.7 million lower/higher (2015: A\$6.7 million).

##### Price risk

The Consolidated Entity is not materially exposed to price risk.

#### (b) Liquidity risk

Liquidity risk is the risk that the Consolidated Entity will not be able to meet its financial obligations as they fall due. The Consolidated Entity's objective is to maintain sufficient liquidity to fund working capital, capital expenditure, investment opportunities, debt expiries and distributions. This is achieved through the monthly preparation of a three year cash flow forecast to understand the uses of funds and to identify potential shortfalls in funding. This allows the Consolidated Entity to plan for renewal of debt facilities, negotiation of new debt facilities, new issues of securities, including the DRP, and other potential sources of funding.

Goodman Group's treasury function is responsible for reporting details of all debt maturities to the Board at its regular meetings. Goodman Group's treasury function is also responsible for reporting to the Board all the information and term sheets relating to any financing arrangements being contemplated or negotiated by the Consolidated Entity, for its review and approval.

The Consolidated Entity seeks to spread its debt maturities such that the total debt maturing in a single financial year does not exceed Board approved policy levels.

## Capital management continued

### 11. Financial risk management continued

#### (b) Liquidity risk continued

The contractual maturities of financial liabilities of the Consolidated Entity are set out below:

	Carrying amount \$M	Contractual cash flows \$M	Less than 1 year \$M	1–2 years \$M	2–3 years \$M	3–4 years \$M	4–5 years \$M	More than 5 years \$M
<b>As at 30 June 2016</b>								
<b>Non-derivative financial liabilities</b>								
Payables	387.9	387.9	327.9	40.6	1.9	7.5	10.0	–
Bank loans, unsecured <sup>1</sup>	176.4	176.4	–	–	80.7	–	95.7	–
Euro medium-term notes, unsecured	445.4	575.8	85.1	43.4	447.3	–	–	–
United States senior notes, unsecured	1,779.2	2,367.7	135.5	112.4	112.4	112.8	1,193.5	701.1
Foreign private placements, unsecured	202.8	246.6	7.7	6.2	6.2	6.3	6.2	214.0
<b>Total non-derivative financial liabilities</b>	<b>2,991.7</b>	<b>3,754.4</b>	<b>556.2</b>	<b>202.6</b>	<b>648.5</b>	<b>126.6</b>	<b>1,305.4</b>	<b>915.1</b>
<b>Derivative financial liabilities/(assets) – net</b>								
Net settled <sup>2</sup>	(20.7)	(5.1)	(10.0)	2.6	1.0	1.8	1.1	(1.6)
Gross settled: <sup>3</sup>								
(Inflow)	(34.7)	(539.7)	(94.7)	(97.2)	(77.0)	(81.6)	(144.9)	(44.3)
Outflow	–	489.4	39.9	203.9	103.1	36.9	38.7	66.9
<b>Total derivative financial liabilities/(assets) – net</b>	<b>(55.4)</b>	<b>(55.4)</b>	<b>(64.8)</b>	<b>109.3</b>	<b>27.1</b>	<b>(42.9)</b>	<b>(105.1)</b>	<b>21.0</b>
<b>As at 30 June 2015</b>								
<b>Non-derivative financial liabilities</b>								
Payables	231.1	232.0	148.4	48.0	16.2	1.9	7.5	10.0
Bank loans, unsecured <sup>1</sup>	227.0	230.3	–	–	–	230.0	0.3	–
Euro medium-term notes, unsecured	509.9	710.8	97.7	49.9	49.9	513.3	–	–
United States senior notes, unsecured	1,719.0	2,422.8	140.6	108.6	108.6	108.6	108.9	1,847.5
Foreign private placements, unsecured	171.9	215.9	6.5	5.3	5.3	5.3	5.3	188.2
<b>Total non-derivative financial liabilities</b>	<b>2,858.9</b>	<b>3,811.8</b>	<b>393.2</b>	<b>211.8</b>	<b>180.0</b>	<b>859.1</b>	<b>122.0</b>	<b>2,045.7</b>
<b>Derivative financial liabilities/(assets) – net</b>								
Net settled <sup>2</sup>	22.4	11.3	4.4	5.7	(1.9)	1.8	0.8	0.5
Gross settled: <sup>3</sup>								
(Inflow)	–	(504.0)	(91.1)	(89.8)	(84.7)	(62.9)	(58.3)	(117.2)
Outflow	137.0	652.6	96.7	50.4	211.2	145.0	50.2	99.1
<b>Total derivative financial liabilities/(assets) – net</b>	<b>159.4</b>	<b>159.9</b>	<b>10.0</b>	<b>(33.7)</b>	<b>124.6</b>	<b>83.9</b>	<b>(7.3)</b>	<b>(17.6)</b>

1. Contractual cash flows relating to bank loans exclude any estimate of interest payments that might arise under the Consolidated Entity's revolving loan facilities.

2. Net settled relates to IRS and FECs.

3. Gross settled relates to CCIRS.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

## Capital management continued

### 11. Financial risk management continued

#### (c) Credit risk

Credit risk represents the loss that would be recognised if counterparties failed to perform as contracted.

The maximum exposure to credit risk on financial assets, excluding investments, of the Consolidated Entity which have been recognised on the statement of financial position, is the carrying amount (refer to note 6).

The Consolidated Entity has a policy of assessing the creditworthiness of all potential customers and is not materially exposed to any one customer. The Consolidated Entity evaluates all customers' perceived credit risk and may require the lodgement of rental bonds or bank guarantees, as appropriate, to reduce credit risk. In addition, all rents are payable monthly in advance.

The Consolidated Entity minimises credit risk by dealing with major financial institutions in relation to cash and short-term borrowings. Concentration of credit risk exists from time to time on receivables for the proceeds of disposals of investment properties. The credit risk is minimised as legal title is only transferred upon receipt of proceeds for the sale of those assets and typically Goodman will have either received a cash deposit or be the beneficiary of a bank guarantee for 10% to 20% of the total proceeds.

From time to time, the Consolidated Entity also makes loans to partnerships. In making its investment decisions, the Consolidated Entity will undertake a detailed assessment of the credit risks associated with the relevant counterparties.

#### (d) Fair value of financial instruments

The carrying amounts shown in the statement of financial position and fair values of financial assets and liabilities are as follows:

Consolidated	Note	Carrying amount 2016 \$M	Fair value 2016 \$M	Carrying amount 2015 \$M	Fair value 2015 \$M
<b>Financial assets</b>					
Cash	14(a)	1,183.6	1,183.6	602.4	602.4
Receivables:	6				
– Loans to related parties		3,013.9	3,013.9	3,233.1	3,233.1
– Trade and other receivables		12.1	12.1	105.6	105.6
Other financial assets:	10				
– Interest rate swaps		57.4	57.4	43.0	43.0
– CCIRS		272.4	272.4	189.1	189.1
– FECs		–	–	6.3	6.3
– Investments in unlisted securities		18.2	18.2	10.5	10.5
		<b>4,557.6</b>	<b>4,557.6</b>	<b>4,190.0</b>	<b>4,190.0</b>
<b>Financial liabilities</b>					
Payables	7	387.9	387.9	231.1	231.1
Interest bearing liabilities <sup>1</sup>	9	2,584.3	2,958.8	2,604.8	2,974.8
Other financial liabilities:	10				
– Interest rate swaps		36.8	36.8	71.7	71.7
– CCIRS		218.1	218.1	326.1	326.1
– FECs		19.5	19.5	–	–
		<b>3,246.6</b>	<b>3,621.1</b>	<b>3,233.7</b>	<b>3,603.7</b>

1. The fair value of certain fixed rate interest bearing liabilities has been determined by reference to the quoted market prices at 30 June 2016 (refer to note 9).

The credit risks associated with financial instruments are managed by:

- + transacting with multiple derivatives counterparties that have a long-term investment credit rating; and
- + utilising International Swaps and Derivatives Association (ISDA) agreements with derivative counterparties in order to limit exposure to credit risk through netting of amounts receivable and amounts payable to individual counterparties (refer below).

#### Master netting or similar agreements

The Consolidated Entity enters into derivative transactions under ISDA master netting off agreements. Under these agreements, where certain credit events occur (such as a default), all outstanding transactions under the agreement are terminated and a single net termination value is payable in full and final settlement.

As the Consolidated Entity does not have any current legally enforceable right to offset, the fair values associated with derivative financial instruments have been presented gross in the statement of financial position. However, if a credit event occurred, the ISDA master netting off agreement would allow A\$124.1 million (2015: A\$144.5 million) of financial assets and financial liabilities in relation to the Consolidated Entity's derivative financial instruments to be offset.

## Capital management continued

### 11. Financial risk management continued

#### (d) Fair value of financial instruments continued

##### Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method (see note 1(h)):

	Level 1 \$M	Level 2 \$M	Level 3 \$M	Total \$M
<b>As at 30 June 2016</b>				
Available for sale financial assets	–	–	18.2	18.2
Derivative financial assets	–	329.8	–	329.8
	–	<b>329.8</b>	<b>18.2</b>	<b>348.0</b>
Derivative financial liabilities	–	274.4	–	274.4
	–	<b>274.4</b>	–	<b>274.4</b>
<b>As at 30 June 2015</b>				
Available for sale financial assets	–	–	10.5	10.5
Derivative financial assets	–	238.4	–	238.4
	–	<b>238.4</b>	<b>10.5</b>	<b>248.9</b>
Derivative financial liabilities	–	397.8	–	397.8
	–	<b>397.8</b>	–	<b>397.8</b>

There were no transfers between the levels during the year.

##### Valuation techniques used to derive Level 2 and Level 3 fair values

The Level 2 derivative financial instruments held by the Consolidated Entity consist of interest rate swaps, cross currency interest rate swaps and foreign exchange contracts.

The fair values of derivative financial instruments are determined using generally accepted pricing models which discount estimated future cash flows based on the terms and maturity of each contract and current market interest rates and or foreign currency rates, adjusted for specific features of the instruments.

## 12. Provision for distributions

### Distribution payable

Provisions for distributions payable are recognised in the reporting period in which the distributions are declared for the entire undistributed amount regardless of the extent to which they will be paid in cash.

#### Distributions declared and paid/payable by GIT

	Distribution cpu	Total amount \$M	Date of payment
<b>Distributions for the current financial year</b>			
– 31 Dec 2015	11.9	210.6	22 Feb 2016
– 30 Jun 2016	11.1	197.4	26 Aug 2016
	<b>23.0</b>	<b>408.0</b>	
<b>Distributions for the prior financial year</b>			
– 31 Dec 2014	11.1	193.7	20 Feb 2015
– 30 Jun 2015	11.1	194.6	26 Aug 2015
	<b>22.2</b>	<b>388.3</b>	

#### Movement in provision for distributions to Unitholders

	Consolidated	
	2016 \$M	2015 \$M
Balance at the beginning of the year	194.6	178.8
Provisions for distributions	408.0	388.3
Distribution paid	(309.7)	(283.1)
Distribution reinvestment plan	(95.5)	(89.4)
<b>Balance at the end of the year</b>	<b>197.4</b>	<b>194.6</b>

The Goodman Group DRP was active for the 30 June 2015 and 31 December 2015 distribution. As a consequence, \$95.5 million of the distribution paid during the year was issued in the form of Goodman Group stapled securities. The Goodman Group DRP is suspended for the 30 June 2016 distribution.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

## Capital management continued

### 13. Issued capital

#### Ordinary units

Ordinary units of the Trust are classified as equity. Incremental costs directly attributable to issues of ordinary units and options are recognised as a deduction from equity, net of any tax effects.

	Consolidated	
	2016	2015
	\$M	\$M
1,778,318,630 (2015: 1,753,035,922) fully paid units on issue	7,398.2	7,279.9
Less: Issue costs <sup>1</sup>	(148.5)	(148.5)
	<b>7,249.7</b>	<b>7,131.4</b>

1. Issue costs associated with the issue of units have been directly paid from the proceeds of the issues. These costs have been deducted from the issued capital in the statement of financial position, rather than charged as an expense of GIT, as they are considered to form part of the net equity raised.

#### Terms and conditions

A stapled security means one unit in GIT stapled to one share in GL and one CDI over an ordinary share in GLHK. Holders of stapled securities are entitled to receive distributions and dividends as declared from time to time and are entitled to one vote per stapled security at Securityholders' meetings. In the event of a winding up of GL, GIT and GLHK, Securityholders rank after creditors and are fully entitled to any proceeds of liquidation.

	Units
<b>Units on issue at 1 July 2014</b>	1,727,685,976
Issued under the Goodman Group DRP	16,464,377
Issued under the Goodman Group LTIP	8,843,233
Issued under the Goodman Group Tax Exempt Plan	42,336
<b>Units on issue at 30 June 2015</b>	<b>1,753,035,922</b>
<b>Units on issue at 1 July 2015</b>	1,753,035,922
Issued under the Goodman Group DRP	15,416,659
Issued under the Goodman Group LTIP	9,824,337
Issued under the Goodman Group Tax Exempt Plan	41,712
<b>Units on issue at 30 June 2016</b>	<b>1,778,318,630</b>

#### Other items

### 14. Notes to the cash flow statement

#### (a) Reconciliation of cash

For the purpose of the cash flow statement, cash includes cash on hand at the bank and short-term deposits at call. Cash at the balance date as shown in the cash flow statement is reconciled to the related items in the statement of financial position as follows:

	Consolidated	
	2016	2015
	\$M	\$M
<b>Cash assets</b>	<b>1,183.6</b>	<b>602.4</b>



Other items continued

14. Notes to the cash flow statement continued

(b) Reconciliation of profit for the year to net cash provided by operating activities

	Consolidated	
	2016 \$M	2015 \$M
Profit for the year	1,454.9	924.5
<b>Items classified as investing activities</b>		
Net gain on disposal of investment properties	(36.4)	(6.7)
Net gain on disposal of controlled entities	(2.1)	(32.1)
Net gain on disposal of equity investments	(27.2)	–
Non-cash items		
Net gain from fair value adjustments on investment properties	(317.4)	(381.8)
Impairment (reversals)/losses	(186.6)	7.6
Share of net results of equity accounted investments	(699.6)	(422.8)
Net finance (income)/expense	(149.8)	1.6
Income tax expense	21.6	1.9
<b>Operating profit before changes in working capital and provisions</b>	<b>57.4</b>	<b>92.2</b>
Changes in assets and liabilities during the year:		
– Decrease/(increase) in receivables	56.2	(43.8)
– Increase in inventories	(19.6)	(37.0)
– Decrease in other assets	6.1	4.9
– (Decrease)/increase in payables	(8.4)	1.7
	<b>91.7</b>	<b>18.0</b>
Dividends/distributions received from equity accounted investments	205.1	227.9
Net finance costs paid	(250.8)	(102.6)
Net income taxes paid	(1.5)	(3.6)
<b>Net cash provided by operating activities</b>	<b>44.5</b>	<b>139.7</b>

(c) Non-cash transactions

Distribution reinvestment plan

The Goodman Group DRP was active for the August 2015 and February 2016 distribution. In relation to these distributions, \$95.5 million (2015: \$89.4 million) was in the form of stapled securities in Goodman Group.

In the prior financial year, the Consolidated Entity received its distributions of \$31.7 million from investments in partnerships in the form of units in the partnerships.

Disposal of equity investment

During the year, the Consolidated Entity received units in Goodman Property Trust (GMT) amounting to \$34.5 million as deferred consideration for the sale of its entire interest in Highbrook Development Limited in prior years. The units in GMT were subsequently sold to a controlled entity of GL and settled via a related party loan.

During the prior year, the Consolidated Entity disposed of its entire interest in ABPP to a controlled entity of GL for net consideration of \$318.4 million in the form of a related party loan to a controlled entity of GL.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

## Other items continued

### 15. Reserves

	Note	Consolidated	
		2016 \$M	2015 \$M
Asset revaluation reserve <sup>1</sup>	15(a)	7.4	170.5
Cash flow hedge reserve	15(b)	(5.9)	(5.0)
Foreign currency translation reserve	15(c)	(150.5)	21.8
Employee compensation reserve	15(d)	80.9	64.7
<b>Total reserves</b>		<b>(68.1)</b>	<b>252.0</b>

1. In prior periods, unrealised gains or losses on investment properties were transferred from accumulated losses to the asset revaluation reserve. From 1 July 2015, the Consolidated Entity has amended its practice such that these unrealised gains or losses are maintained in accumulated losses and any relevant amounts included in the asset revaluation reserve at 1 July 2015 have been transferred back to accumulated losses.

	2016 \$M	2015 \$M
<b>(a) Asset revaluation reserve</b>		
Balance at the beginning of the year	170.5	(950.6)
Increase due to revaluation of other financial assets	6.6	2.1
Transfers (to)/from accumulated losses	(170.1)	1,132.6
Effect of foreign currency translation	0.4	(13.6)
<b>Balance at the end of the year</b>	<b>7.4</b>	<b>170.5</b>
<b>(b) Cash flow hedge reserve</b>		
Balance at the beginning of the year	(5.0)	(9.7)
Change in value of financial instruments	(0.9)	0.8
Transfers to other comprehensive income	–	4.1
Effect of foreign currency translation	–	(0.2)
<b>Balance at the end of the year</b>	<b>(5.9)</b>	<b>(5.0)</b>
<b>(c) Foreign currency translation reserve</b>		
Balance at the beginning of the year	21.8	(251.1)
Net exchange differences on conversion of foreign operations	(172.3)	272.9
<b>Balance at the end of the year</b>	<b>(150.5)</b>	<b>21.8</b>
<b>(d) Employee compensation reserve</b>		
Balance at the beginning of the year	64.7	57.0
Equity settled share based payments transaction relating to Goodman Group	16.2	7.7
<b>Balance at the end of the year</b>	<b>80.9</b>	<b>64.7</b>
<b>Total reserves</b>	<b>(68.1)</b>	<b>252.0</b>

### 16. Accumulated losses

	Consolidated	
	2016 \$M	2015 \$M
Balance at the beginning of the year	(1,514.9)	(897.3)
Profit attributable to Unitholders	1,434.8	903.3
Transfers from/(to) asset revaluation reserve	170.1	(1,132.6)
Distributions declared	(408.0)	(388.3)
<b>Balance at the end of the year</b>	<b>(318.0)</b>	<b>(1,514.9)</b>

## Other items continued

### 17. Non-controlling interests

Goodman PLUS Trust, a controlled entity of GIT, has 3,269,665 hybrid securities on issue at a face value of \$100 each. The hybrid securities are preferred, perpetual non-call securities which are listed on the ASX. Goodman PLUS Trust pays, at its discretion, distributions at a market rate plus a margin. The hybrid securities may be exchanged or repurchased in certain circumstances. Accordingly, these hybrid securities have been classified as equity and presented as non-controlling interests. Incremental costs directly attributable to the issue of hybrid securities are recognised as a deduction from equity, net of any tax effects.

For the year ended 30 June 2016, the movement in Goodman PLUS was as follows:

	Consolidated	
	2016 \$M	2015 \$M
Balance at the beginning of the year	325.8	325.8
Profit attributable to non-controlling interests	20.1	21.2
Distributions paid to holders of Goodman PLUS	(20.1)	(21.2)
<b>Balance at the end of the year<sup>1</sup></b>	<b>325.8</b>	<b>325.8</b>

1. The non-controlling interest balance is net of issue costs.

The key terms of the Goodman PLUS are as follows:

- + distributions under Goodman PLUS are discretionary and payable quarterly on 31 March, 30 June, 30 September and 31 December at a margin of 3.90% per annum over the three month Bank Bill Swap Rate;
- + the first remarketing date is 30 September 2017 and thereafter every five years. After 30 September 2017, the Goodman PLUS may be repurchased or exchanged;
- + a step-up margin of 0.25% per annum will apply if Goodman PLUS are not repurchased, exchanged or successfully remarketed on or before 30 September 2022;
- + a final step-up margin of 0.75% per annum will apply if Goodman PLUS are not repurchased or exchanged on or before 31 December 2038; and
- + Goodman PLUS holders will have the right to require the Trust to elect to repurchase or exchange the Goodman PLUS on 31 December 2073.

Distributions declared during the current financial year by Goodman PLUS Trust to holders of hybrid securities were \$20.1 million (2015: \$21.2 million), or 614.8 cents per unit (2015: 647.9 cents per unit).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

## Other items continued

### 18. Controlled entities

Controlled entities are entities controlled by the Trust. The consolidated financial statements incorporate the assets and liabilities of all entities controlled by the Parent Entity as at 30 June 2016 and the results of all such entities for the year ended 30 June 2016.

Where an entity either began or ceased to be controlled during the year, the results for that entity are included only from/to the date control commenced or ceased.

Unrealised gains and losses and inter-entity balances resulting from transactions with or between controlled entities are eliminated in full on consolidation.

The significant controlled entities of GIT are set out below:

Significant controlled entities	Country of incorporation/establishment
Carter Street Trust	Australia
GA Industrial Portfolio Trust	Australia
GIT Investments Holding Trust No.3	Australia
Goodman Australia Finance Pty Limited	Australia
Goodman Capital Trust	Australia
Goodman Europe Development Trust	Australia
Goodman Finance Australia Trust	Australia
Goodman Funding Pty Limited	Australia
Goodman Hong Kong Investment Trust	Australia
Goodman Jersey Holdings Trust	Australia
Goodman PLUS Trust	Australia
Goodman Treasury Trust	Australia
Goodman Ultimo Trust	Australia
Homebush Subtrust	Australia
IBC Trust	Australia
MGA Industrial Portfolio Trust	Australia
MIP Trust	Australia
MGI HK Finance	Cayman Islands
Goodman Holdings (Jersey) Limited	Jersey
Goodman Finance (Jersey) Limited	Jersey
Goodman Property Holdings (Jersey) Limited	Jersey
Goodman Finance (Lux) Sàrl	Luxembourg
Goodman Finance Two (Lux) Sàrl	Luxembourg
Goodman Finance NZ Limited	New Zealand
Tarpon Properties REIT Inc	United States

### Disposal of interests in controlled entities

During the year, the Consolidated Entity disposed of its entire interest in:

- + Goodman Palmers Trust to GL for a nominal consideration which reflects its fair value; and
- + Goodman (Wynyard Precinct) Limited to a controlled entity of GL for net consideration of NZ\$6.9 million.

During the prior year, the Consolidated Entity disposed of its entire interest in ABPP Investment Jersey Limited, which in turn, held the Consolidated Entity's entire interest in ABPP, to a controlled entity of GL. In addition, the Consolidated Entity disposed of its entire interest in five controlled entities to a third party for a net consideration of \$225.1 million.

The effect of the disposals on the statement of financial position of the Consolidated Entity is as follows:

	Consolidated	
	2016	2015
	\$M	\$M
Total assets	89.4	527.1
Total liabilities	(85.2)	(334.1)
<b>Net assets disposed, at fair value</b>	<b>4.2</b>	<b>193.0</b>
<b>Net consideration</b>	<b>6.3</b>	<b>225.1</b>

## Other items continued

### 19. Related party disclosures

#### Key management personnel disclosures

GIT does not employ personnel in its own right. However, it is required to have an incorporated responsible entity to manage its activities and the Responsible Entity is considered to be the key management personnel of the Consolidated Entity.

#### Transactions with Responsible Entity

In accordance with GIT's Constitution, the Responsible Entity is entitled to be reimbursed where expenses have been incurred on behalf of GIT:

	Consolidated	
	2016	2015
	\$	\$
Reimbursement of expenses	20,734,606	10,422,084

As at 30 June 2016, no amounts were owed to the Responsible Entity (2015: \$nil).

#### Goodman Group

Other Goodman Group entities perform a number of services for the Consolidated Entity. The fees, costs and expenses for the services performed during the year were as follows:

	Consolidated	
	2016	2015
	\$	\$
Property services fees (including property management and leasing)	4,338,200	3,612,329
Development management and project fees	3,619,566	3,061,128
Building supervisor costs reimbursed	1,001,481	1,035,983
Reimbursement of expenses	17,822,753	9,190,858
	<b>26,782,000</b>	<b>16,900,298</b>

In addition to the above, interest bearing loans exist between the Consolidated Entity and other Goodman Group entities. At 30 June 2016, interest bearing loans of \$3,013.9 million (2015: \$3,456.9 million) were receivable by the Consolidated Entity from other Goodman Group entities and \$23.5 million (2015: \$16.6 million) were payable by the Consolidated Entity to other Goodman Group entities. Loans to related Goodman Group entities bear interest at rates referenced to the Consolidated Entity's external funding arrangements.

#### Transactions with associates and JVs

Transactions between the Consolidated Entity and its partnerships during the year were as follows:

	Revenue from disposals of assets		Interest charged on loans	
	2016	2015	2016	2015
	\$M	\$M	\$M	\$M
Associates	19.5	44.0	-	-
JVs	-	-	0.1	0.4

Amounts due from partnerships at 30 June 2016 were as follows:

	Amounts due from related parties <sup>1</sup>		Loans provided by Consolidated Entity <sup>2</sup>	
	2016	2015	2016	2015
	\$M	\$M	\$M	\$M
Associates	1.9	2.1	-	-
JVs	0.7	-	-	10.9

1. Amounts due from related parties were receivable within 30 days.

2. In the prior financial year, the principal loan balance related to a shareholder loan provided to GGGAIF Huntingwood East which incurred interest at 5.1% per annum.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

## Other items continued

### 20. Commitments

#### Investment properties

At 30 June 2016, capital expenditure commitments on the Consolidated Entity's existing investment property portfolio were \$nil million (2015: \$25.6 million).

#### Partnerships

At 30 June 2016, the Consolidated Entity had an equity commitment of \$89.7 million (2015: \$97.6 million) into GEP.

In relation to GAIP and GEP, the Consolidated Entity offers limited liquidity facilities to investors, which allow the investors to sell to the Consolidated Entity some or all of their investment in the managed partnerships. Limits apply to these liquidity facilities and Goodman is only required to offer to purchase up to \$7.5 million of the issued capital of GAIP each quarter and EUR 25 million of the issued capital of GEP each half year. Furthermore, the Consolidated Entity is only required to purchase units where its co-investment in GAIP or GEP is either below a prescribed limit or a maximum amount of liquidity has been provided. Currently, Goodman's interest (together with its custodian's interest) in GAIP and GEP is below the prescribed limit and both liquidity facilities are open for investors.

### 21. Auditors' remuneration

	Consolidated	
	2016	2015
	\$000	\$000
<b>Audit services</b>		
Auditor of GIT:		
– Audit and review of financial reports (KPMG Australia)	445.3	477.4
– Audit and review of financial reports (overseas KPMG firms)	158.3	150.6
	<b>603.6</b>	<b>628.0</b>
<b>Other regulatory services</b>		
– Other regulatory services (KPMG Australia)	30.8	72.4
<b>Other assurance services</b>		
– Property advisory services (KPMG Australia)	–	8.9
<b>Taxation services</b>		
– Taxation compliance services (overseas KPMG firms)	14.7	31.0
– Other taxation advice (overseas KPMG firms)	24.8	16.9
	<b>70.3</b>	<b>129.2</b>
<b>Total paid/payable to KPMG</b>	<b>673.9</b>	<b>757.2</b>
<b>Other auditors</b>		
– Audit and review of financial reports (non-KPMG firms)	–	–

### 22. Parent Entity disclosures

The individual financial statements of the Parent Entity show the following aggregate amounts:

	2016	2015
	\$M	Restated \$M
<b>Result of the Parent Entity</b>		
Profit for the year	732.2	12.7
<b>Total comprehensive income for the year</b>	<b>732.2</b>	<b>12.7</b>
<b>Financial position of the Parent Entity at year end</b>		
Current assets	1,638.4	1,507.3
Total assets	5,231.5	4,572.2
Current liabilities	382.4	181.8
Total liabilities	382.4	181.8
<b>Net assets</b>	<b>4,849.1</b>	<b>4,390.4</b>
<b>Total equity of the Parent Entity comprising of:</b>		
Issued capital	7,249.7	7,131.4
Reserves <sup>1</sup>	80.7	(353.5)
Accumulated losses	(2,481.3)	(2,387.5)
<b>Total equity</b>	<b>4,849.1</b>	<b>4,390.4</b>

1. In prior periods, unrealised losses on impairment of investments in controlled entities were transferred from accumulated losses to the asset revaluation reserve. From 1 July 2015, the Parent Entity has amended its practice such that these unrealised losses are maintained in accumulated losses. As a result of the change in practice, \$402.1 million included in the asset revaluation reserve at 1 July 2015 has been transferred back to accumulated losses.

## Other items continued

### 22. Parent Entity disclosures continued

#### Change in accounting policy

During the current financial year, the Parent Entity changed its accounting policy for investments in controlled entities. Investments in controlled entities are now accounted for at cost in the individual financial statements of the Parent Entity. Previously, investments in controlled entities were accounted for at fair value with gains or losses recognised in other comprehensive income. The accounting policy was changed to achieve consistency with GL, the parent entity of Goodman Group.

The following table summarises the impact of the change in accounting policy on the financial statements of the Parent Entity. The change in accounting policy had no impact on the financial statements of the Consolidated Entity.

	As previously reported 2015 \$M	Impact of change in accounting policy \$M	As restated 2015 \$M
<b>Results of the Parent Entity</b>			
Profit for the year	12.7	–	12.7
Other comprehensive income	91.6	(91.6)	–
<b>Total comprehensive income for the year</b>	<b>104.3</b>	<b>(91.6)</b>	<b>12.7</b>
<b>Financial position of the Parent Entity at year end</b>			
Current assets	1,507.3	–	1,507.3
Total assets	4,729.2	(157.0)	4,572.2
Current liabilities	181.8	–	181.8
Total liabilities	181.8	–	181.8
<b>Net assets</b>	<b>4,547.4</b>	<b>(157.0)</b>	<b>4,390.4</b>
<b>Total equity of the Parent Entity comprising of:</b>			
Issued capital	7,131.4	–	7,131.4
Reserves	(196.5)	(157.0)	(353.5)
Accumulated losses	(2,387.5)	–	(2,387.5)
<b>Total equity</b>	<b>4,547.4</b>	<b>(157.0)</b>	<b>4,390.4</b>

#### Parent Entity capital commitments

The Parent Entity has no capital commitments (2015: \$nil).  
Parent Entity contingencies

#### Capitalisation Deed Poll

GIT, GL, GLHK and certain of their wholly-owned controlled entities are investors under a Capitalisation Deed Poll (CDP) dated 23 May 2007. Under the CDP, each investor undertakes to pay to the relevant controlled entity borrower (borrower) any amounts owing under the CDP when the borrower fails to make a payment. Any payments by an investor to a borrower will be by way of loan to, or proceeds for the subscription of equity in, the borrower by the investor. As at 30 June 2016, the Consolidated Entity had A\$176.4 million (2015: A\$227.0 million) of debt which had the benefit of the CDP.

#### Euro medium-term note programme

Under the Euro medium-term note programme (refer to note 9(b)), Goodman Australia Finance Pty Limited, a controlled entity of GIT, issued £250 million notes, maturing on 16 July 2018, at a fixed coupon of 9.75% per annum. Goodman Funds Management Limited, as responsible entity of GIT, and GL and GLHK have unconditionally and irrevocably guaranteed on a joint and several basis the payment of principal and interest in respect of these Euro medium-term notes.

#### United States senior notes

Under the issue of notes in the United States 144A/Reg S bond market (refer to note 9(c)), Goodman Funding Pty Limited, a controlled entity of GIT, issued US\$325.0 million, US\$500.0 million and US\$500.0 million notes maturing on 12 November 2020, 15 April 2021 and 22 March 2022 respectively. Goodman Funds Management Limited, as responsible entity of GIT, and GL and GLHK have unconditionally and irrevocably guaranteed on a joint and several basis the payment of principal and interest in respect of the notes.

#### Goodman PLUS guarantee

Goodman Funds Management Limited, as responsible entity of GIT, and GL and GLHK have unconditionally and irrevocably guaranteed on a joint and several basis the payment of the moneys owing to the holders of Goodman PLUS (refer to note 17) under the terms of issue and subscription terms for those securities.

#### Stapling agreement with GL and GLHK

In accordance with the stapling agreement between GIT, GL and GLHK, on request each party (and its subsidiaries) must provide financial support to the other party (and its subsidiaries). The financial support to the other party (and its subsidiaries) may include:

- + lending money or providing financial accommodation;
- + guaranteeing any loan or other financing facility including providing any security;
- + entering into any covenant, undertaking, restraint or negative pledge on the obtaining of any financial accommodation or the provision of any guarantee or security in connection with any financial accommodation; and
- + entering into any joint borrowing or joint financial accommodation and providing any guarantee, security, indemnities and undertakings in connection with the relevant joint borrowing or joint financial accommodation.

A party need not do anything under the above arrangements to the extent that the party considers that it is not in the interests of Goodman Group Securityholders as a whole, or would cause a member of the party's group to contravene or breach applicable laws or particular finance arrangements.

#### 23. Events subsequent to balance date

In the opinion of the Directors, there were no events subsequent to balance date, and up to the date of signature of the consolidated financial report, that would require adjustment or disclosure in the consolidated financial report.

## DIRECTORS' DECLARATION

GOODMAN INDUSTRIAL TRUST AND ITS CONTROLLED ENTITIES

In the opinion of the directors of Goodman Funds Management Limited, the responsible entity for Goodman Industrial Trust (Trust):

- (a) the consolidated financial statements and the notes that are set out on pages 106 to 141, are in accordance with the Corporations Act 2001, including:
  - (i) giving a true and fair view of the Consolidated Entity's financial position as at 30 June 2016 and of its performance for the financial year ended on that date; and
  - (ii) complying with Australian Accounting Standards (including Australian Accounting Interpretations) and the Corporations Regulations 2001; and
- (b) there are reasonable grounds to believe that the Trust will be able to pay its debts as and when they become due and payable.

The directors of the Responsible Entity have been given the declarations required by section 295A of the Corporations Act 2001 from the Group Chief Executive Officer and Chief Financial Officer for the financial year ended 30 June 2016.

The directors of the Responsible Entity draw attention to note 1 to the consolidated financial statements, which includes a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of the directors of the Responsible Entity.



**Ian Ferrier, AM**  
Independent Chairman  
Sydney, 11 August 2016



**Gregory Goodman**  
Group Chief Executive Officer



# INDEPENDENT AUDITOR'S REPORT

TO THE UNITHOLDERS OF GOODMAN INDUSTRIAL TRUST



We have audited the accompanying consolidated financial report of Goodman Industrial Trust (the Trust), which comprises the consolidated statement of financial position as at 30 June 2016, and consolidated income statement and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year ended on that date, notes 1 to 23 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Consolidated Entity comprising the Trust and the entities it controlled at the year's end or from time to time during the financial year.

## Directors' responsibility for the consolidated financial report

The directors of Goodman Funds Management Limited (the Responsible Entity) are responsible for the preparation of the consolidated financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the directors determine is necessary to enable the preparation of the consolidated financial report that is free from material misstatement whether due to fraud or error. In note 1, the directors also state, in accordance with Australian Accounting Standard AASB 101 Presentation of Financial Statements, that the financial statements of the Consolidated Entity comply with International Financial Reporting Standards.

## Auditor's responsibility

Our responsibility is to express an opinion on the consolidated financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial report.

We performed the procedures to assess whether in all material respects the consolidated financial report presents fairly, in accordance with the Corporations Act 2001 and Australian Accounting Standards, a true and fair view which is consistent with our understanding of the Consolidated Entity's financial position and of its performance.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Independence

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001.

## Auditor's opinion

In our opinion:

- (a) the consolidated financial report of Goodman Industrial Trust is in accordance with the Corporations Act 2001, including:
  - (i) giving a true and fair view of the Consolidated Entity's financial position as at 30 June 2016 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.
- (b) the consolidated financial report also complies with International Financial Reporting Standards as disclosed in note 1.

KPMG

John Teer  
Partner  
Sydney, 11 August 2016

Eileen Hoggett  
Partner  
Sydney, 11 August 2016

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# REPORT OF THE DIRECTORS

The directors have pleasure in submitting their annual financial report together with the audited financial statements of Goodman Logistics (HK) Limited (the Company) and its subsidiaries (collectively referred to as the Consolidated Entity) for the year ended 30 June 2016.

## Incorporation and principal place of business

Goodman Logistics (HK) Limited was incorporated in Hong Kong on 18 January 2012 and has its principal place of business at Suite 901, Three Pacific Place, 1 Queen's Road East, Hong Kong.

On 22 August 2012, the Company became a party to the stapling deed with Goodman Limited (GL) and Goodman Industrial Trust (GIT), and together the three entities and their subsidiaries are known as Goodman Group. Goodman Group is listed on the Australian Securities Exchange (ASX).

## Principal activities

The principal activities of the Consolidated Entity are investment in directly and indirectly held industrial property, fund management, property management services and development management. The principal activities and other particulars of the subsidiaries are set out in note 17 to the financial statements.

## Financial statements

The financial performance of the Consolidated Entity for the year ended 30 June 2016 and the Consolidated Entity's financial position at that date are set out in the financial report on pages 149 to 176.

No dividends were declared during the year. On 11 August 2016, the Company proposed a dividend of \$0.01 per share amounting to \$17.8 million which will be paid on 26 August 2016.

## Share capital

Details of the movements in share capital of the Company during the year are set out in note 13 to the financial statements.

## Directors

The directors during the year and up to the date of this report were:

Philip Yan Hok Fan  
Ian Douglas Ferrier  
Gregory Leith Goodman  
Philip John Pearce (resigned on 12 July 2016)

## Directors of controlled entities

The names of directors who have served on the boards of the controlled entities of the Company during the year ended 30 June 2016 are set out below:

Godfrey Abel	David Anthony	Dominique Prince
Philippe Arfi	Hinchey	Guillermo Ravell
Shairah Begum	Wei Huang	Anthony Rozic
Binti Kadar Bashah	Henry Kelly	Hong Shen
Richard Thomas Brooks	Nick Kurtis	Stefanie Yuen Thio
Tai Yit Chan	Chee Seong Lee	Titia Geertruida van Beek
Edwin Chong Chee Wai	Wai Ho Stephen Lee	Philippe Van der Beken
Blazej Andrzej Ciesielczak	Shiling Li	Emmanuel Van Der Stichele
Kim Cornille	Bart Manteleers	Simone Marlene Weyermanns
Karl Dockx	John Morton Dakin	Jie Yang
Kristoffer Allan Harvey	Tan Ai Ning	Xiaoyin Zhang
	Jan Palek	
	Danny Peeters	
	Christof Prange	

## State of affairs

On 7 August 2015, the Consolidated Entity and two other partners established Goodman UK Partnership (GUKP), a joint venture (JV) in the United Kingdom. GUKP was launched through the acquisition of two properties from Goodman Group. The Consolidated Entity holds a 33.3% interest in the JV.

There were no other significant changes in the Consolidated Entity's state of affairs during the year.

## Business review

### Goodman Group's strategy

Goodman Group's vision is to be a global leader in industrial property.

This vision is executed through the integrated own+develop+manage business model which is supported by five strategic pillars. These pillars are:

- + **Quality partnerships** – develop and maintain strong relationships with key stakeholders including customers, capital partners, suppliers and employees;
- + **Quality product and service** – deliver high quality product and customer service in key logistics markets globally by actively leveraging Goodman Group's industrial sector expertise, development and management experience and global operating platform;
- + **Culture and brand** – promote Goodman Group's unique and recognisable brand and embed Goodman Group's core values across each operating division to foster a strong and consistent culture;
- + **Operational efficiency** – optimise business resources to ensure effectiveness and drive efficiencies; and
- + **Capital efficiency** – maintain active capital management to facilitate appropriate returns and sustainability of the business.

## Performance review

The key performance indicators relate to the investment, development and management activities associated with Goodman Group's integrated business model. These income streams exist within each of Goodman Group's geographical segments, being Australia and New Zealand, Asia, Continental Europe, the United Kingdom and the Americas. The results of the Consolidated Entity include investment, development and management earnings in Asia, Continental Europe and United Kingdom.

	Consolidated	
	2016 \$M	2015 \$M
<b>Analysis of operating earnings</b>		
Investment	30.5	24.9
Development	179.1	95.1
Management	46.8	37.4
Operating earnings before net finance expense and income tax expense (operating EBIT)	<b>256.4</b>	<b>157.4</b>

Operating earnings comprises profit attributable to Shareholders adjusted for property valuations, impairment losses and other non-cash adjustments or non-recurring items. While operating earnings is not an income measure under Hong Kong Financial Reporting Standards, the Directors consider it a useful means through which to examine the underlying performance of the Consolidated Entity.

# REPORT OF THE DIRECTORS

CONTINUED

## Investment activities

	2016	2015
Investment	\$M	\$M
Direct	8.1	9.9
Managed partnerships	22.4	15.0
<b>Operating EBIT</b>	<b>30.5</b>	<b>24.9</b>
<b>Key metrics</b>	<b>2016</b>	<b>2015</b>
Weighted average capitalisation rate (%)	7.3	8.1
Weighted average lease expiry (years)	4.7	4.5
Occupancy (%)	93.0	97.0

Investment earnings comprise direct property income from investment properties, completed developments held for sale and the Consolidated Entity's share of the results of JVs (referred to by the Consolidated Entity as managed partnerships).

Direct property income decreased from the prior year due to the disposal of income producing development assets held for sale. The Consolidated Entity's higher cornerstone investment in partnerships has resulted in a corresponding increase in the share of net results of managed partnerships, with the main contributor being Goodman China Logistics Partnership.

## Development activities

	2016	2015
Development	\$M	\$M
Net revenue	203.8	113.4
<b>Operating EBIT</b>	<b>179.1</b>	<b>95.1</b>
<b>Key metrics</b>	<b>2016</b>	<b>2015</b>
Work in progress (\$ billion)	1.4	1.1
Work in progress (million square metres)	1.4	1.4
Work in progress (number of developments)	41	33
Developments completed during the year (number of developments)	40	29

Development earnings comprise development income (including development management fees) net of expenses and income from sales of properties (primarily inventories but also including disposals of special purpose entities in certain jurisdictions). The key drivers for maintaining or growing the Consolidated Entity's development earnings are maintaining both the level of development activity and development margins and the continued availability of third party capital to fund development activity.

The Consolidated Entity's development business performed strongly during the year, contributing \$179.1 million of operating EBIT, an increase of \$84.0 million compared with the prior financial year with Continental Europe being the main driver of the increase. Customer demand continues to be high for modern, well-located logistics space designed to achieve greater operating efficiencies and returns. A key feature of this robust customer demand in Greater China and Continental Europe is the realisation of cross-border opportunities with global customers and the ability to provide recurring solutions to meet their needs.

## Management activities

	2016	2015
Management	\$M	\$M
Management income	95.1	75.1
<b>Operating EBIT</b>	<b>46.8</b>	<b>37.4</b>
<b>Key metrics</b>	<b>2016</b>	<b>2015</b>
Number of managed vehicles	8	7
External assets under management (AUM) (end of period) (\$ billion)	12.3	10.3

Management earnings comprise fund management and property services fees. The key drivers for maintaining or growing management earnings are increasing the level of AUM which can be impacted by property valuations and which are also dependent on the continued availability of third party capital to fund both development activity and acquisitions across Goodman Group's managed partnerships.

Management activities contributed \$46.8 million of EBIT, an increase of \$9.4 million compared with the prior financial year. This increase is driven by the growth in AUM and transaction activity in Goodman Group's managed partnerships in Greater China and Continental Europe.

Goodman Group's managed partnerships remain well supported by global investor groups, endorsing Goodman Group's contemporary investment management approach and independent governance structures. The Consolidated Entity is prudently managing capital on behalf of investment partners to access high quality growth opportunities not typically available in the market.

## Statement of financial position

	2016	2015
	\$M	\$M
Stabilised investment properties	25.3	30.8
Cornerstone investments in managed partnerships	629.5	453.4
Development holdings	407.0	653.8
Cash	67.3	92.3
Other assets	365.4	219.4
<b>Total assets</b>	<b>1,494.5</b>	<b>1,449.7</b>
Loans from related parties	842.7	1,044.5
Other liabilities	153.2	91.3
<b>Total liabilities</b>	<b>995.9</b>	<b>1,135.8</b>
Non-controlling interests	18.1	10.5
<b>Net assets attributable to Shareholders</b>	<b>480.5</b>	<b>303.4</b>

The value of cornerstone investments in managed partnerships has increased by \$176.1 million to \$629.5 million, of which \$129.0 million was due to acquisitions and \$21.1 million was a result of movement in foreign currencies. A new partnership, GUKP, was established in the United Kingdom and investment has grown in Greater China and Japan as the Consolidated Entity continues its development led investment strategy.

The Consolidated Entity has decreased its development holdings by \$246.8 million to \$407.0 million. This is primarily due to the transfer of development assets to Goodman China Logistics Partnership during the year, partially offset by the increased development activity in Continental Europe.

Loans from related parties were \$842.7 million compared to \$1,044.5 million at 30 June 2015, a decrease of \$201.8 million. The decrease is primarily due to the repayment of loans using proceeds from operating activities. The increase in other assets is mainly due to receivables from the sale of development projects in the current year.

## Cash flow

	2016	2015
	\$M	\$M
Operating cash flows	358.6	105.5
Investing cash flows	(116.2)	(101.7)
Financing cash flows	(271.6)	(20.8)
<b>Net decrease in cash held</b>	<b>(29.2)</b>	<b>(17.0)</b>
Effect of exchange rate fluctuations on cash held	4.2	16.7
<b>Cash at the end of the year</b>	<b>67.3</b>	<b>92.3</b>

Operating cash flows improved relative to the prior year driven by the higher volume of development activity in Greater China and Continental Europe. The proceeds from operating cash flows were used primarily to fund investment in managed partnerships and repay debt to related parties in Goodman Group.

### Outlook

Asset pricing continues to be driven by investor demand for yield assets and with economies globally experiencing low inflation and low growth, it is likely that rental growth will be modest and development activities will continue to provide the best risk adjusted returns for the Consolidated Entity. The Consolidated Entity will continue to identify opportunities to rotate capital in order to improve the overall quality of the Consolidated Entity's property portfolios.

Goodman Group's capital partners continue to support the global platform and it is expected that the majority of developments will continue to be pre-sold to managed partnerships. The Consolidated Entity's AUM are expected to increase, notwithstanding potential asset disposals, as a result of the continued investment in development across the managed platform and investor demand further increasing asset values.

Further information as to other likely developments in the operations of the Consolidated Entity and the expected results of those operations in future financial years has not been included in this report of the directors because disclosure of the information would be likely to result in unreasonable prejudice to the Consolidated Entity.

### Risks

Goodman Group identifies operational risks for each of its divisions as part of its strategy process. The key risks, an assessment of their likelihood of occurrence and consequences and controls that are in place to mitigate the risks are reported to the Goodman Group Board annually.

Goodman Group has established formal systems and processes in order that the risks are managed at each stage of its decision making process. This is facilitated by a Group Investment Committee comprising senior executives, chaired by the Group Chief Executive Officer, which considers all major operational decisions and transactions. The Group Investment Committee meets on a weekly basis.

The Board of Goodman Group also has in place a Risk and Compliance Committee to review and monitor all material risks in Goodman Group's risk management systems, including sustainability risks, work, health and safety, market risks and operational risks.

The key risks faced by the Consolidated Entity and the controls that have been established to manage those risks are set out below:

	Risk area	Mitigation
<b>Capital management</b>	Availability of capital from investors and financial institutions supports the sustainability of the business	<ul style="list-style-type: none"> <li>+ Prudent capital management with cash flow requirements, gearing and available liquidity reviewed monthly and reported to the Board</li> <li>+ Diversification of debt funding sources and maturities</li> <li>+ Diversification of capital partners</li> </ul>
<b>Economic environment</b>	Uncertainty regarding global growth and volatility of global financial markets creates a challenging operating environment	<ul style="list-style-type: none"> <li>+ Global diversification of Goodman Group's property portfolios</li> <li>+ Focus on core property portfolios in key gateway locations</li> <li>+ Focus on cost management</li> <li>+ Prudent capital management with low gearing and significant available liquidity to allow for potential market shocks</li> </ul>
<b>Governance, regulation and compliance</b>	Changes to the regulatory environments (including tax) impact Goodman Group's business	<ul style="list-style-type: none"> <li>+ Embedded compliance culture within Goodman Group focused on best practice</li> <li>+ Dedicated compliance officers</li> <li>+ Review of transactions by the Group Investment Committee</li> <li>+ Independent risk and compliance committee</li> </ul>
<b>Development</b>	Development volumes and returns need to be maintained to support short-term growth	<ul style="list-style-type: none"> <li>+ Review of development projects by the Group Investment Committee</li> <li>+ Ongoing monitoring and reporting of work in progress and levels of speculative development, with Board oversight</li> </ul>
<b>Asset management and leasing</b>	Leasing risk exposures can reduce returns from Goodman Group's portfolios	<ul style="list-style-type: none"> <li>+ Review of significant leasing transactions and development projects by the Group Investment Committee</li> </ul>
<b>Investment management</b>	Relationships with capital partners underpin Goodman Group's management activities	<ul style="list-style-type: none"> <li>+ Standardised governance structures for managed partnerships</li> <li>+ Independent governance structures for managed partnerships</li> </ul>
<b>People</b>	The executive management team supports the sustainability of the business	<ul style="list-style-type: none"> <li>+ Succession planning for senior executives</li> <li>+ Competitive remuneration structures</li> <li>+ Performance management and review</li> </ul>
<b>Information and data security</b>	Technology is a major component in operations and supports sustainability and growth	<ul style="list-style-type: none"> <li>+ Ongoing monitoring and reporting of security risks to IT Security Council, with Risk and Compliance Committee oversight</li> <li>+ Disaster recovery and business continuity planning and testing</li> </ul>

### Environmental regulations

The Consolidated Entity has policies and procedures in place that are designed to ensure that, where operations are subject to any particular and significant environmental regulation under the laws of the countries the Consolidated Entity operates in, those obligations are identified and appropriately addressed. The directors have determined that the Consolidated Entity has complied with those obligations during the financial year and that there has not been any material breach.

# REPORT OF THE DIRECTORS

CONTINUED

## Disclosure in respect of any indemnification of directors

A permitted indemnity provision (as defined in section 469 of the Hong Kong Companies Ordinance) for the benefit of the directors of the Company is currently in force and was in force throughout this year.

## Directors' interests in contracts

No contract of significance in relation to the Consolidated Entity's business to which the Company, its subsidiaries or any of its fellow subsidiaries was a party and in which the directors of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## Directors' interest in shares

At the end of the year, the directors held the following interests in the stapled securities of Goodman Group, which are listed on the ASX:

Directors	Direct securities	Indirect securities	Total
Mr Philip Yan Hok Fan	72,958	–	72,958
Mr Ian Douglas Ferrier	175,912	–	175,912
Mr Gregory Leith Goodman	7,674	37,976,923	37,984,597
Mr Philip John Pearce	225,000	–	225,000

In addition, Mr Gregory Leith Goodman and Mr Philip John Pearce participate in the Goodman Group Long Term Incentive Plan under which they hold performance rights. Performance rights entitle participants to receive Goodman Group stapled securities without the payment of consideration, subject to Goodman Group satisfying performance criteria and the participants remaining employees of Goodman Group.

As at 30 June 2016, Mr Gregory Leith Goodman and Mr Philip John Pearce held the following performance rights:

Executive Directors	Number of performance rights at the start of the year	Number of performance rights granted during the year	Number of performance rights vested during the year	Number of performance rights forfeited during the year	Number of performance rights at the end of the year	Date performance rights granted	Financial years in which grant vests
Mr Gregory Leith Goodman	–	2,000,000	–	–	2,000,000	25 Nov 15	2019 – 2021
	995,476	–	–	–	995,476	20 Nov 14	2018 – 2020
	947,368	–	–	–	947,368	22 Nov 13	2017 – 2019
	927,152	–	(309,050)	–	618,102	16 Nov 12	2016 – 2018
	650,067	–	(325,034)	–	325,033	25 Nov 11	2015 – 2017
	243,590	–	(243,590)	–	–	1 Feb 11	2014 – 2016
Mr Philip John Pearce	–	450,000	–	–	450,000	25 Nov 15	2019 – 2021
	497,738	–	–	–	497,738	20 Nov 14	2018 – 2020
	394,737	–	–	–	394,737	22 Nov 13	2017 – 2019
	298,013	–	(99,337)	–	198,676	16 Nov 12	2016 – 2018
	132,668	–	(66,335)	–	66,333	30 Sep 11	2015 – 2017
	51,282	–	(51,282)	–	–	1 Feb 11	2014 – 2016

Apart from the above, at no time during the year was the Company, its subsidiaries or any of its fellow subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other related body corporate.

## Auditors

KPMG retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

## Subsequent events

On 11 August 2016, the Company proposed a dividend of \$0.01 per share amounting to \$17.8 million which will be paid on 26 August 2016.

In the opinion of the directors, other than the declaration of the dividends, there were no events subsequent to the reporting date, and up to the date of signature of these financial statements, which would require adjustment to or disclosure in the financial statements.

## Declaration by the Group Chief Executive Officer and Chief Financial Officer

The directors have been given declarations equivalent to those required of listed Australian companies by section 295A of the Corporations Act 2001 from the Group Chief Executive Officer and Chief Financial Officer for the year ended 30 June 2016.

By order of the board



**Ian Douglas Ferrier, AM**  
Independent Chairman  
Sydney, 11 August 2016



**Philip Yan Hok Fan**  
Independent Director

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2016

(EXPRESSED IN AUSTRALIAN DOLLARS)

	Note	2016 \$M	2015 \$M
<b>Current assets</b>			
Cash	14(a)	67.3	92.3
Receivables	7	303.3	163.4
Inventories	6(b)	125.9	18.4
Current tax receivables	4(c)	0.2	1.4
Other assets		2.4	2.5
<b>Total current assets</b>		<b>499.1</b>	<b>278.0</b>
<b>Non-current assets</b>			
Receivables	7	26.6	25.4
Inventories	6(b)	261.2	613.5
Investment properties	6(b)	45.2	52.7
Investments accounted for using the equity method	6(b)	629.5	453.4
Other financial assets	10	16.6	18.3
Plant and equipment		7.6	6.9
Other assets		8.7	1.5
<b>Total non-current assets</b>		<b>995.4</b>	<b>1,171.7</b>
<b>Total assets</b>		<b>1,494.5</b>	<b>1,449.7</b>
<b>Current liabilities</b>			
Payables	8	106.2	57.5
Loans from related parties	18(c)	832.7	1,044.5
Current tax payables	4(c)	15.3	6.9
Employee benefits		21.6	19.2
<b>Total current liabilities</b>		<b>975.8</b>	<b>1,128.1</b>
<b>Non-current liabilities</b>			
Payables	8	6.7	4.9
Loans from related parties	18(c)	10.0	–
Deferred tax liabilities	4(d)	0.1	–
Employee benefits		0.7	–
Provisions		2.6	2.8
<b>Total non-current liabilities</b>		<b>20.1</b>	<b>7.7</b>
<b>Total liabilities</b>		<b>995.9</b>	<b>1,135.8</b>
<b>Net assets</b>		<b>498.6</b>	<b>313.9</b>
<b>Equity attributable to Shareholders</b>			
Share capital	13(a)	650.8	631.9
Reserves	15	(526.1)	(514.8)
Retained earnings	16	355.8	186.3
<b>Total equity attributable to Shareholders</b>		<b>480.5</b>	<b>303.4</b>
Non-controlling interests		18.1	10.5
<b>Total equity</b>		<b>498.6</b>	<b>313.9</b>

The notes on pages 153 to 176 form part of these consolidated financial statements.

Approved and authorised for issue by the board of directors on 11 August 2016



**Ian Douglas Ferrier, AM**  
Independent Chairman



**Philip Yan Hok Fan**  
Director

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2016  
(EXPRESSED IN AUSTRALIAN DOLLARS)

	Note	2016 \$M	2015 \$M
<b>Revenue</b>			
Gross property income		14.0	14.4
Management income		95.1	75.1
Development income	2	913.0	402.3
Dividends/distributions from investments		8.5	8.0
		<b>1,030.6</b>	<b>499.8</b>
<b>Property and development expenses</b>			
Property expenses		(5.9)	(4.5)
Development expenses	2	(717.7)	(296.9)
		<b>(723.6)</b>	<b>(301.4)</b>
<b>Other (losses)/income</b>			
Net loss from fair value adjustments on investment properties	6(e)	(9.0)	(18.8)
Net loss on disposal of investment properties		–	(0.7)
Share of net results of equity accounted investments	6(f)	66.2	25.2
		<b>57.2</b>	<b>5.7</b>
<b>Other expenses</b>			
Employee expenses		(66.1)	(47.5)
Share based payments expense		(22.2)	(16.8)
Administrative and other expenses		(27.1)	(22.8)
Impairment losses	2	(16.8)	(1.2)
		<b>(132.2)</b>	<b>(88.3)</b>
<b>Profit before interest and income tax</b>	2	<b>232.0</b>	<b>115.8</b>
<b>Net finance income/(expense)</b>			
Finance income	9	0.6	3.3
Finance expense	9	(26.2)	(23.8)
<b>Net finance expense</b>		<b>(25.6)</b>	<b>(20.5)</b>
<b>Profit before income tax</b>		<b>206.4</b>	<b>95.3</b>
Income tax expense	4	(25.5)	(8.2)
<b>Profit for the year</b>		<b>180.9</b>	<b>87.1</b>
<b>Profit for the year attributable to:</b>			
Shareholders	16	174.1	84.8
Non-controlling interests		6.8	2.3
<b>Profit for the year</b>		<b>180.9</b>	<b>87.1</b>
<b>Other comprehensive income</b>			
<b>Items that may be reclassified subsequently to profit or loss</b>			
(Decrease)/increase due to revaluation of other financial assets		(5.3)	6.1
Effect of foreign currency translation		(14.8)	23.2
<b>Other comprehensive income for the year</b>		<b>(20.1)</b>	<b>29.3</b>
<b>Total comprehensive income for the year</b>		<b>160.8</b>	<b>116.4</b>
<b>Total comprehensive income for the year attributable to:</b>			
Shareholders		153.8	114.1
Non-controlling interests		7.0	2.3
<b>Total comprehensive income for the year</b>		<b>160.8</b>	<b>116.4</b>

The notes on pages 153 to 176 form part of these consolidated financial statements.



# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2016  
(EXPRESSED IN AUSTRALIAN DOLLARS)

## Year ended 30 June 2015

### Attributable to Shareholders

	Note	Share capital \$M	Reserves \$M	Retained earnings \$M	Total \$M	Non-controlling interests \$M	Total equity \$M
<b>Balance at 1 July 2014</b>		<b>614.6</b>	<b>(540.3)</b>	<b>94.2</b>	<b>168.5</b>	<b>8.2</b>	<b>176.7</b>
<b>Total comprehensive income for the year</b>							
Profit for the year	16	–	–	84.8	<b>84.8</b>	2.3	<b>87.1</b>
Other comprehensive income for the year		–	29.3	–	<b>29.3</b>	–	<b>29.3</b>
<b>Total comprehensive income for the year, net of income tax</b>		<b>–</b>	<b>29.3</b>	<b>84.8</b>	<b>114.1</b>	<b>2.3</b>	<b>116.4</b>
Transfers		–	(7.3)	7.3	–	–	–
<b>Contributions by and distributions to owners</b>							
– Issue of shares under Goodman Group's distribution reinvestment plan (DRP)	13(a)	11.2	–	–	<b>11.2</b>	–	<b>11.2</b>
– Issue of shares to employees of Goodman Group	13(a)	6.1	–	–	<b>6.1</b>	–	<b>6.1</b>
– Equity settled share based payments transactions	15(c)	–	3.5	–	<b>3.5</b>	–	<b>3.5</b>
<b>Balance at 30 June 2015</b>		<b>631.9</b>	<b>(514.8)</b>	<b>186.3</b>	<b>303.4</b>	<b>10.5</b>	<b>313.9</b>

## Year ended 30 June 2016

### Attributable to Shareholders

	Note	Share capital \$M	Reserves \$M	Retained earnings \$M	Total \$M	Non-controlling interests \$M	Total equity \$M
<b>Balance at 1 July 2015</b>		<b>631.9</b>	<b>(514.8)</b>	<b>186.3</b>	<b>303.4</b>	<b>10.5</b>	<b>313.9</b>
<b>Total comprehensive income for the year</b>							
Profit for the year	16	–	–	174.1	174.1	6.8	180.9
Other comprehensive income for the year		–	(20.3)	–	(20.3)	0.2	(20.1)
<b>Total comprehensive income for the year, net of income tax</b>		<b>–</b>	<b>(20.3)</b>	<b>174.1</b>	<b>153.8</b>	<b>7.0</b>	<b>160.8</b>
Transfers		–	4.6	(4.6)	–	–	–
<b>Contributions by and distributions to owners</b>							
– Issue of shares under Goodman Group's DRP	13(a)	11.5	–	–	11.5	–	11.5
– Issue of shares to employees of Goodman Group	13(a)	7.4	–	–	7.4	–	7.4
– Acquisition of additional equity in non-controlling interests		–	–	–	–	0.6	0.6
– Equity settled share based payment transactions	15(c)	–	4.4	–	4.4	–	4.4
<b>Balance at 30 June 2016</b>		<b>650.8</b>	<b>(526.1)</b>	<b>355.8</b>	<b>480.5</b>	<b>18.1</b>	<b>498.6</b>

The notes on pages 153 to 176 form part of these consolidated financial statements.

# CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 30 JUNE 2016  
(EXPRESSED IN AUSTRALIAN DOLLARS)

	Note	2016 \$M	2015 \$M
<b>Cash flows from operating activities</b>			
Property income received		16.3	14.7
Cash receipts from development activities		1,028.9	658.0
Other cash receipts from services provided		97.1	76.9
Property expenses paid		(5.0)	(4.6)
Payments for development activities		(694.3)	(554.4)
Other cash payments in the course of operations		(86.2)	(77.2)
Dividends/distributions received		18.1	12.7
Interest received		–	0.2
Finance costs paid		(0.5)	–
Net income taxes paid		(15.8)	(20.8)
<b>Net cash provided by operating activities</b>	14(b)	<b>358.6</b>	<b>105.5</b>
<b>Cash flows from investing activities</b>			
Proceeds from disposal of investment properties		–	3.6
Payments for investment properties		(0.5)	(6.2)
Capital return from equity investments		16.9	15.9
Payments for equity investments		(129.0)	(113.2)
Payments for plant and equipment		(3.6)	(1.8)
<b>Net cash used in investing activities</b>		<b>(116.2)</b>	<b>(101.7)</b>
<b>Cash flows from financing activities</b>			
Net payment of loans with related parties		(271.6)	(20.8)
<b>Net cash used in financing activities</b>		<b>(271.6)</b>	<b>(20.8)</b>
Net decrease in cash held		(29.2)	(17.0)
Cash at the beginning of the year		92.3	92.6
Effect of exchange rate fluctuations on cash held		4.2	16.7
<b>Cash at the end of the year</b>	14(a)	<b>67.3</b>	<b>92.3</b>

The notes on pages 153 to 176 form part of these consolidated financial statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## Basis of preparation

### 1. Basis of preparation

#### (a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (HKFRSs), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (HKASs) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (HKICPA) and accounting principles generally accepted in Hong Kong. These financial statements also comply with the applicable requirements of the Hong Kong Companies Ordinance.

#### (b) Basis of preparation of the consolidated financial statements

The measurement basis used in the preparation of the consolidated financial statements is the historical cost basis except for investment properties and other financial assets which are stated at fair value.

As at 30 June 2016, the Consolidated Entity had net current liabilities of \$476.7 million. In accordance with the stapling agreement between the Company, Goodman Limited (GL) and Goodman Funds Management Limited as responsible entity for Goodman Industrial Trust (GIT), on request, each party (and its subsidiaries) must provide financial support to the other party (and its subsidiaries). The financial support to the other party (and its subsidiaries) may include:

- + lending money or providing financial accommodation;
- + guaranteeing any loan or other financing facility including providing any security;
- + entering into any covenant, undertaking, restraint, negative pledge on the obtaining of any financial accommodation or the provision of any guarantee or security in connection with any financial accommodation; and
- + entering into any joint borrowing or joint financial accommodation and providing any guarantee, security, indemnities and undertakings in connection with the relevant joint borrowing or joint financial accommodation.

A party need not do anything under the above arrangements to the extent that the party considers that it is not in the interests of Goodman Group Securityholders as a whole, or would cause a member of the party's group to contravene or breach applicable laws or particular finance arrangements.

On the basis of the above, the consolidated financial statements have been prepared on a going concern basis.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

#### (c) Principles of consolidation

##### Subsidiaries

Subsidiaries are entities controlled by the Company. The Company controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Company has power, only substantive rights (held by the Company and other parties) are considered.

An investment in a controlled entity is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. When an entity ceases to be controlled by the Company, it is accounted for as a disposal of the entire interest in the entity, with a resulting gain or loss being recognised in the statement of comprehensive income.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses.

##### Accounting for acquisitions of non-controlling interests

Acquisitions of non-controlling interests are accounted for as transactions with equity holders in their capacity as equity holders and therefore no gain or loss and no goodwill is recognised as a result of such transactions.

##### Joint ventures

A joint venture (JV) is an arrangement (referred to by the Consolidated Entity as a managed partnership) in which the Consolidated Entity has joint control, whereby the Consolidated Entity has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities. In the consolidated financial statements, investments in JVs are accounted for using the equity method. Investments in JVs are carried at the lower of the equity accounted amount and recoverable amount. The Consolidated Entity's share of the JVs' net profit or loss is recognised in the consolidated statement of comprehensive income from the date joint control commences to the date joint control ceases. Movements in reserves are recognised directly in the consolidated reserves.

##### Transactions eliminated on consolidation

Unrealised gains resulting from transactions with JVs, including those relating to contributions of non-monetary assets on establishment, are eliminated to the extent of the Consolidated Entity's interest. Unrealised gains relating to JVs are eliminated against the carrying amount of the investment. Unrealised losses are eliminated in the same way as unrealised gains, unless they evidence an impairment of an asset.

## Basis of preparation continued

### 1. Basis of preparation continued

#### (c) Principles of consolidation continued

##### Combination of entities or businesses under common control

Where the Consolidated Entity acquires entities or businesses from other members of Goodman Group such that all of the combining entities (businesses) are ultimately controlled by Goodman Group Securityholders both before and after the combination, the Consolidated Entity applies the pooling of interests method.

At the date of the combination of entities under common control, the assets and liabilities of the combining entities are reflected at their carrying amounts. No adjustments are made to reflect fair values, or recognise any new assets or liabilities that would otherwise be done under the acquisition method. The only goodwill that is recognised is any existing goodwill relating to either of the combining entities. Any difference between the consideration transferred and the equity acquired by the Consolidated Entity is reflected within equity (common control reserve).

Similar to the acquisition method, the results of the acquired entity are included only from the date control commenced. Comparatives are not restated to present the consolidated financial statements as if the entities had always been combined.

#### (d) Foreign currency translation

##### Functional and presentation currency

Items included in the consolidated financial statements of each of the Company's subsidiaries are measured using the currency of the primary economic environment in which the entity operates (functional currency). The consolidated financial statements are presented in Australian dollars, which is the Company's functional and presentation currency.

##### Transactions

Foreign currency transactions are translated to each entity's functional currency at rates approximating the foreign exchange rates ruling at the dates of the transactions. Amounts receivable and payable in foreign currencies at the reporting date are translated at the rates of exchange ruling on that date. Resulting exchange differences are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost are translated at rates of exchange applicable at the date of the initial transaction. Non-monetary items which are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

##### Translation of controlled foreign operations

The assets and liabilities of foreign operations are translated into Australian dollars at foreign exchange rates applicable at the reporting date.

Revenue and expenses are translated at weighted average rates for the financial year. Exchange differences arising on translation are taken directly to the foreign currency translation reserve until the disposal or partial disposal of the operations.

Exchange differences arising on monetary items that form part of the net investment in a foreign operation are recognised in the foreign currency translation reserve on consolidation.

#### (e) Changes in accounting policies

The HKICPA has issued several amendments to HKFRSs that are first effective for the current accounting period of the Consolidated Entity. Of these, the following developments are relevant to the Consolidated Entity's financial statements:

- + Annual improvements to HKFRSs 2010 – 2012 cycle; and
- + Annual improvements to HKFRSs 2011 – 2013 cycle.

The adoption of the above revisions and amendments to existing standards did not have any material impact on the preparation of the consolidated financial statements.

#### (f) Accounting standards issued but not yet effective

Up to the date of these financial statements, the HKICPA has issued a few amendments and a new standard which are not yet effective for the year ended 30 June 2016 and which have not been adopted in these financial statements. These include the following which may be relevant to the Consolidated Entity:

- + revisions to HKFRS 9 Financial Instruments include requirements for the classification and measurement of financial assets and replaces HKAS 39 Financial Instruments: Recognition and Measurement. The revised HKFRS 9 Financial Instruments will become mandatory for the Consolidated Entity's 30 June 2019 financial statements. The new standard is not expected to have a material impact on the Consolidated Entity's financial statements; and
- + HKFRS 15 Revenue from Contracts with Customers provides a single revenue recognition model based on the transfer of goods and services and the consideration expected to be received in return for that transfer. The new standard will become mandatory for the Consolidated Entity's 30 June 2019 financial statements. Based on the Consolidated Entity's existing contractual arrangements, the new standard is not expected to have a material impact on the Consolidated Entity's financial statements; and
- + HKFRS 16 Leases introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right of use asset representing its right to use the underlying leased asset and a lease liability representing its obligations to make lease payments. The new standard will become mandatory for the Consolidated Entity's 30 June 2020 financial statements and will result in the gross up of assets and liabilities associated with office buildings that the Consolidated Entity leases, however the impact is not expected to be material in the context of the Consolidated Entity's financial statements.

#### (g) Critical accounting estimates used in the preparation of the consolidated financial statements

The preparation of consolidated financial statements requires estimates and assumptions concerning the application of accounting policies and the future to be made by the Consolidated Entity. Estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year can be found in the following notes:

- + Note 6 – Property assets; and
- + Note 11 – Financial risk management.

The accounting impacts of revisions to estimates are recognised in the period in which the estimate is revised and in any future periods affected.

## Basis of preparation continued

### 1. Basis of preparation continued

#### (g) Critical accounting estimates used in the preparation of the consolidated financial statements continued

##### Measurement of fair values

A number of the Consolidated Entity's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

When measuring the fair value of an asset or a liability, the Consolidated Entity uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy and have been defined as follows:

- + Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- + Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- + Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Further information about the assumptions made in measuring fair values is included in the following notes:

- + Note 6 – Property assets; and
- + Note 11 – Financial risk management.

## Results for the year

### 2. Profit before interest and tax

#### Gross property income

Gross property income comprises rental income entitlements under operating leases, net of incentives provided, plus recoverable outgoings.

Rental income entitlements under operating leases are recognised on a straight-line basis over the term of the lease contract. Where operating lease rental income is recognised relating to fixed increases in rentals in future years, an asset is recognised. This asset is a component of the relevant investment property carrying amount. The cost of lease incentives provided to customers is recognised on a straight-line basis over the life of the lease as a reduction of gross property income.

Recoverable outgoings are recognised as income when the relevant outgoings are recorded as an expense.

#### Management income

Fee income derived from fund management and property services is recognised progressively as the services are provided. Any performance related fund management income is recognised on attainment of the performance related conditions.

#### Development income

Development income comprises fee income from development management contracts, income from fixed price construction contracts and income from disposal of inventories.

Fee income from development management services is recognised progressively as the services are provided in proportion to the stage of completion by reference to costs incurred. Any performance related development management income is recognised on attainment of the performance related conditions.

Certain development management arrangements are assessed as being fixed price construction contracts rather than a rendering of services. Revenue and expenses relating to construction contracts are recognised in the statement of comprehensive income in proportion to the stage of completion of the relevant contracts. The stage of completion is assessed by reference to costs incurred to date as a percentage of estimated total costs for each contract. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable. An expected loss on a contract is recognised immediately in the statement of comprehensive income.

The disposal of inventories is recognised when the significant risks and rewards of ownership have been transferred. The gain or loss on disposal of inventories is calculated as the difference between the carrying amount of the asset at the time of disposal and the proceeds on disposal (less transaction costs and any provision for future rental guarantees) and is included in the statement of comprehensive income in the period of disposal.

#### Disposal of investment properties

The disposal of an investment property is recognised when the significant risks and rewards of ownership have been transferred. The gain or loss on disposal of investment properties is calculated as the difference between the carrying amount of the property at the time of the disposal and the proceeds on disposal (less transaction costs and any provision for future rental guarantees) and is included in the statement of comprehensive income in the period of disposal. Any previously unrealised valuation gains or losses are transferred from the asset revaluation reserve to retained earnings.

#### Employee benefits

##### Wages, salaries and annual leave

Liabilities for wages and salaries, including non-monetary benefits, and annual leave that are expected to be settled within 12 months of the reporting date, represent present obligations resulting from employees' services provided to the reporting date. These are calculated at undiscounted amounts based on remuneration wage and salary rates that the Company expects to pay as at the reporting date including related on-costs, such as workers' compensation insurance and payroll tax.

##### Defined contribution retirement plans

Obligations for contributions to defined contribution retirement plans are recognised as an expense as incurred.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

## Results for the year continued

### 2. Profit before interest and tax continued

	2016 \$M	2015 \$M
<b>Profit before interest and income tax has been arrived at after crediting/(charging) the following items:</b>		
Income from disposal of inventories	303.0	167.3
Net gain on disposal of special purpose development entities	15.2	23.3
Other development income	594.8	211.7
<b>Development income</b>	<b>913.0</b>	<b>402.3</b>
Inventory cost of sales	(237.4)	(133.6)
Other development expenses	(480.3)	(163.3)
<b>Development expenses</b>	<b>(717.7)</b>	<b>(296.9)</b>
Impairment losses on receivables	(2.0)	(1.2)
Impairment losses on inventories	(14.8)	–
<b>Impairment losses</b>	<b>(16.8)</b>	<b>(1.2)</b>
Salaries, wages and other benefits	(65.3)	(46.7)
Contributions to defined contribution retirement plans	(0.8)	(0.8)
Operating lease expense	(7.6)	(6.7)
Depreciation of plant and equipment	(4.0)	(2.0)
Auditor's remuneration	(0.6)	(0.6)

### 3. Segment reporting

The Consolidated Entity reports the results and financial position of its operating segments based on the internal reports regularly reviewed by the Goodman Group Chief Executive Officer in order to assess each segment's performance and to allocate resources to them.

An operating segment is a component of the Consolidated Entity that engages in business activities from which it may earn revenues and incur expenses. All operating segments' operating results are regularly reviewed by the Goodman Group Chief Executive Officer to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the Goodman Group Chief Executive Officer include items that are directly attributable to a segment and the portion that can be allocated to the segment on a reasonable basis. Unallocated items include fair value adjustments and impairments, interest and tax expense, interest bearing receivables and payables, receivables from and payables to GL, GIT and their controlled entities, provision for dividends to Shareholders, corporate assets, head office expenses and income tax assets and liabilities.

The Consolidated Entity is based in Hong Kong and has separately managed divisions in Asia, Continental Europe and the United Kingdom. The activities and services undertaken by the divisions include:

- + direct and indirect ownership of investment properties;
- + fund management and property services; and
- + development activities.

## Results for the year continued

### 3. Segment reporting continued

#### Information about reportable segments

	Asia		Continental Europe		United Kingdom		Total	
Consolidated statement of comprehensive income	2016 \$M	2015 \$M	2016 \$M	2015 \$M	2016 \$M	2015 \$M	2016 \$M	2015 \$M
<b>External revenue</b>								
Gross property income	2.4	4.9	11.6	9.5	–	–	14.0	14.4
Management income	49.8	37.3	45.3	37.8	–	–	95.1	75.1
Development income	23.7	32.1	889.3	370.2	–	–	913.0	402.3
Distributions from investments	8.5	8.0	–	–	–	–	8.5	8.0
<b>Total external revenue</b>	<b>84.4</b>	<b>82.3</b>	<b>946.2</b>	<b>417.5</b>	<b>–</b>	<b>–</b>	<b>1,030.6</b>	<b>499.8</b>
<b>Reportable segment profit before income tax</b>	<b>70.6</b>	<b>71.0</b>	<b>186.2</b>	<b>86.4</b>	<b>(0.4)</b>	<b>–</b>	<b>256.4</b>	<b>157.4</b>
<b>Other key components of financial performance included in reportable segment profit before income tax</b>								
Share of net results of equity accounted investments (before fair value adjustments)	16.9	10.1	5.4	4.9	0.1	–	22.4	15.0
<b>Material non-cash items not included in reportable segment profit before income tax</b>								
Net loss from fair value adjustments on investment properties	–	–	(9.0)	(18.8)	–	–	(9.0)	(18.8)
Share of fair value adjustments in equity accounted investments	23.8	5.6	13.9	4.6	6.1	–	43.8	10.2
<b>Consolidated statement of financial position</b>	<b>2016 \$M</b>	<b>2015 \$M</b>	<b>2016 \$M</b>	<b>2015 \$M</b>	<b>2016 \$M</b>	<b>2015 \$M</b>	<b>2016 \$M</b>	<b>2015 \$M</b>
<b>Reportable segment assets</b>	<b>752.6</b>	<b>861.6</b>	<b>641.3</b>	<b>525.4</b>	<b>36.3</b>	<b>–</b>	<b>1,430.2</b>	<b>1,387.0</b>
Investments accounted for using the equity method (included in reportable segment assets)	507.7	386.1	86.8	67.3	35.0	–	629.5	453.4
Total non-current assets	639.5	722.8	320.9	448.9	35.0	–	995.4	1,171.7
<b>Reportable segment liabilities</b>	<b>39.4</b>	<b>28.5</b>	<b>87.4</b>	<b>41.0</b>	<b>–</b>	<b>–</b>	<b>126.8</b>	<b>69.5</b>

#### Reconciliation of reportable segment revenue, profit or loss, assets and liabilities

	2016 \$M	2015 \$M
<b>Revenue</b>		
Total revenue for reportable segments	1,030.6	499.8
<b>Consolidated revenue</b>	<b>1,030.6</b>	<b>499.8</b>
<b>Profit or loss</b>		
Total profit before income tax for reportable segments	256.4	157.4
<b>Corporate expenses not allocated to reportable segments</b>	<b>(20.2)</b>	<b>(15.0)</b>
Operating profit before net finance expense and income tax expense	236.2	142.4
Valuation and other adjustments not included in reportable segment profit before income tax:		
– Net loss from fair value adjustments on investment properties	(9.0)	(18.8)
– Impairment losses	(16.8)	(1.2)
– Share of fair value adjustments in equity accounted investments	43.8	10.2
– Share based payments expense	(22.2)	(16.8)
Net finance expense – refer to note 9	(25.6)	(20.5)
<b>Consolidated profit before income tax</b>	<b>206.4</b>	<b>95.3</b>
<b>Assets</b>		
Total assets for reportable segments	1,430.2	1,387.0
Other unallocated amounts <sup>1</sup>	64.3	62.7
<b>Consolidated total assets</b>	<b>1,494.5</b>	<b>1,449.7</b>
<b>Liabilities</b>		
Total liabilities for reportable segments	126.8	69.5
Other unallocated amounts <sup>1</sup>	869.1	1,066.3
<b>Consolidated total liabilities</b>	<b>995.9</b>	<b>1,135.8</b>

1. Other unallocated amounts comprise principally receivables from and payables to GL, GIT and their controlled entities.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

## Results for the year continued

### 4. Income tax expense

Income tax for the period comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity respectively.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits. Apart from differences which arise on initial recognition of assets and liabilities, all deferred tax liabilities and all deferred tax assets, to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the reporting date. Deferred tax assets and liabilities are not discounted.

#### (a) Taxation in the consolidated statement of comprehensive income:

	2016 \$M	2015 \$M
<b>Current tax expense – Hong Kong profits tax</b>		
Current year	(3.1)	(2.8)
Adjustment for prior periods	–	1.5
	<b>(3.1)</b>	<b>(1.3)</b>
<b>Current tax expense – overseas</b>		
Current year	(22.8)	(7.0)
Adjustment for prior periods	0.5	0.8
	<b>(22.3)</b>	<b>(6.2)</b>
<b>Deferred tax expense</b>		
Origination and reversal of temporary differences	(0.1)	–
Derecognition of previously recognised tax losses	–	(0.7)
	<b>(0.1)</b>	<b>(0.7)</b>
<b>Total income tax expense</b>	<b>(25.5)</b>	<b>(8.2)</b>

The provision for Hong Kong profits tax for the 2016 financial year is calculated at 16.5% (2015: 16.5%) of the estimated assessable profits for the year. Taxation for overseas subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant countries.

#### (b) Reconciliation between income tax expense and accounting profit at applicable tax rates

	2016 \$M	2015 \$M
Profit before income tax	206.4	95.3
Notional tax on profit before income tax, calculated at the rates applicable to profits in the countries concerned	(59.4)	(27.4)
(Increase)/decrease in income tax due to:		
– Current year losses for which no deferred tax asset was recognised	(12.3)	(6.7)
– Non-assessable income	61.2	29.2
– Non-deductible expense	(20.4)	(8.1)
– Utilisation of previously unrecognised tax losses	4.9	2.5
– Adjustment for prior periods	0.5	2.3
<b>Income tax expense</b>	<b>(25.5)</b>	<b>(8.2)</b>

#### (c) Net income tax payable

	2016 \$M	2015 \$M
Net balance at the beginning of the year	(5.5)	(16.7)
(Increase)/decrease in current net tax payable due to:		
– Net income taxes paid	15.8	20.8
– Net income tax expense on current year's profit	(25.9)	(9.8)
– Adjustment for prior periods	0.5	2.3
– Other	–	(2.1)
<b>Net balance at the end of the year</b>	<b>(15.1)</b>	<b>(5.5)</b>
Current tax receivables	0.2	1.4
Current tax payables	(15.3)	(6.9)
	<b>(15.1)</b>	<b>(5.5)</b>

#### (d) Deferred tax assets and liabilities

Deferred tax liabilities of \$0.1 million (2015: \$nil) arising from other payables were recognised in the consolidated statement of financial position.



## Results for the year continued

### 5. Profit attributable to equity shareholders of the Company

The consolidated profit attributable to equity shareholders of the Company includes a profit of \$42.1 million (2015: \$19.7 million) which has been dealt with in the financial statements of the Company.

## Operating assets and liabilities

### 6. Property assets

#### (a) Types of property assets

The Consolidated Entity's investment in property assets include both investment properties (held for capital appreciation and gross property income) and inventories (held for development and sale).

The Consolidated Entity holds both investment properties and inventories either directly or through its investments in managed partnerships.

#### Inventories

Inventories relate to land and property developments that are held for sale or development and sale in the normal course of the Consolidated Entity's business. Where property developments are forecast to be completed and sold more than 12 months after the reporting date, then the inventories are classified as non-current.

Work in progress in relation to land subdivision and development projects includes the costs of acquisition, planning, management and development and holding costs such as interest and taxes. Work in progress is carried at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the normal course of business, less the estimated costs of completion and selling expenses.

Inventories are carried at the lower of cost or net realisable value. The calculation of net realisable value requires estimates and assumptions which are continually evaluated and are based on historical experience and expectations of future events that are believed to be reasonable under the circumstances.

#### Investment properties

Investment properties comprise investment interests in land and buildings held for the purpose of leasing to produce rental income and/or for capital appreciation. Investment properties are carried at their fair value. The calculation of fair value requires estimates and assumptions which are continually evaluated and are based on historical experience and expectations of future events that are believed to be reasonable under the circumstances. Investment properties are not depreciated as they are subject to continual maintenance and regularly revalued on the basis described below.

#### Components of investment properties

Land and buildings (including integral plant and equipment) comprising investment properties are regarded as composite assets and are disclosed as such in the consolidated financial statements.

Investment property carrying values include the costs of acquiring the properties and subsequent costs of development, including costs of all materials used in construction, costs of managing the project, holding costs and borrowing costs incurred during the development period.

Amounts provided to customers as lease incentives and assets relating to fixed rental income increases in operating lease contracts are included within investment property values. Lease incentives are amortised over the term of the lease on a straight-line basis. The amortisation is applied to reduce gross property income.

Direct expenditure associated with leasing a property is also capitalised within investment property values and amortised over the term of the lease.

#### Stabilised investment properties

Stabilised investment properties are completed investment properties that are capable of earning rental income. An independent valuation of stabilised investment properties is obtained at least every three years to use as a basis for measuring the fair value of the properties.

At each reporting date occurring between obtaining independent valuations, the directors review the carrying value of the Consolidated Entity's investment properties to be satisfied that, in their opinion, the carrying value of the investment properties reflects the fair value of the investment properties at that date. Changes in fair value are recognised directly in the statement of comprehensive income.

#### Investment properties under development

Investment properties under development include land, new investment properties in the course of construction and investment properties that are being redeveloped. Property under development for future use as an investment property is measured at fair value.

#### Deposits for investment properties

Deposits and other costs associated with acquiring investment properties that are incurred prior to the Consolidated Entity obtaining legal title are recorded at cost and disclosed as other assets in the statement of financial position.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

## Operating assets and liabilities continued

### 6. Property assets continued

#### (b) Summary of the Consolidated Entity's investment in property assets

		Consolidated	
	Note	2016 \$M	2015 \$M
<b>Directly held property:</b>			
<b>Inventories</b>			
Current		125.9	18.4
Non-current		261.2	613.5
	6(d)	<b>387.1</b>	<b>631.9</b>
<b>Investment properties</b>			
Stabilised investment properties	6(e)	25.3	30.8
Investment properties under development	6(e)	19.9	21.9
		<b>45.2</b>	<b>52.7</b>
<b>Property held by managed funds:</b>			
Investments accounted for using the equity method – JVs	6(f)	629.5	453.4
		<b>629.5</b>	<b>453.4</b>

#### (c) Estimates and assumptions in determining property carrying values

##### Inventories

Inventories relate to land and property developments that are held for sale or development and sale in the normal course of the Consolidated Entity's business.

External valuations are not performed for inventories but instead valuations are determined using the Consolidated Entity's feasibility studies supporting the land and property developments. The end values of the developments in the feasibility studies are based on assumptions such as capitalisation rates, letting up periods and incentives that are consistent with those observed in the relevant market. Where the feasibility study calculations indicate that the forecast cost of a completed development will exceed the net realisable value, then inventories are impaired.

##### Stabilised investment properties

Stabilised investment properties refer to investment properties which are not under development. Stabilised investment properties are carried at their fair value. Fair value is based on current prices in an active market for similar properties in the same location and condition and subject to similar lease and other contracts. The current price is the estimated amount for which a property could be exchanged between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

##### Approach to determination of fair value

The approach to determination of fair value of investment properties is applied to both properties held directly on the Consolidated Entity's statement of financial position and properties within partnerships managed by the Consolidated Entity.

Valuations are determined based on assessments and estimates of uncertain future events, including upturns and downturns in property markets and availability of similar properties, vacancy rates, market rents and capitalisation and discount rates. Recent and relevant sales evidence and other market data are taken into account. Valuations are either based on an external, independent valuation or on an internal valuation.

External valuations are undertaken only where market segments were observed to be active. Such a determination is made based on the criteria set out below:

- + function of the asset (distribution/warehouse or suburban office);
- + location of asset (city, suburb or regional area);
- + carrying value of asset (with the asset categorised by likely appeal to private investors (including syndicates), national and institutional investors); and
- + categorisation as primary or secondary based on a combination of location, weighted average lease expiry, quality of tenant covenant (internal assessment based on available market evidence) and age of construction.

Each property asset is assessed and grouped with assets in the same or similar market segments. Information on all relevant recent sales is also analysed using the same criteria to provide a comparative set. Unless three or more sales are observed in an individual market segment (taken together with any comparable market segments as necessary), that market segment is considered inactive.

Where a market segment is observed to be active, then external, independent valuations are performed for stabilised investment properties where there has been more than a 25 basis point movement in capitalisation rates and/or there has been a material change in tenancy profile and/or there has been significant capital expenditure and/or it has been three years since the previous external, independent valuation. For all other stabilised investment properties in an active market segment, an internal valuation is performed based on observable capitalisation rates and referenced to independent market data.

Where a market segment is observed to be inactive, then no external, independent valuations are performed and internal valuations are undertaken based on discounted cash flow (DCF) calculations. The DCF calculations are prepared over a 10 year period. The key inputs considered for each individual calculation are rental growth rates, discount rates, market rental rates and letting up incentives. Discount rates are computed using the 10 year bond rate or equivalent in each jurisdiction plus increments to reflect country risk, tenant credit risk and industry risk. Where possible, the components of the discount rate are benchmarked to available market data.

## Operating assets and liabilities continued

### 6. Property assets continued

#### (c) Estimates and assumptions in determining property carrying values continued

##### Market assessment

At 30 June 2016, all markets in which the Consolidated Entity operated were observed to be active and no adjustments were made to the carrying value of stabilised investment properties arising from internal valuations using DCF calculations. Overall weighted average capitalisation rates for the divisional portfolios (including managed partnerships) are set out in the table below:

Division	Total portfolio weighted average capitalisation rate	
	2016 %	2015 %
China	8.1	8.5
Logistics – Continental Europe	6.0	6.8
Logistics – United Kingdom	5.2	–

##### Investment properties under development

External valuations are generally not performed for investment properties under development held directly by the Consolidated Entity, but instead valuations are determined using the feasibility studies supporting the developments. The end values of the developments in the feasibility studies are based on assumptions to determine capitalisation rates, letting up periods and incentives that are consistent with those observed in the relevant market adjusted for a profit and risk factor. This profit and risk factor is dependent on the function, location and size of the development and is generally in a market range of 10.0% to 15.0%.

This practice of determining fair value by reference to the development feasibility is generally also applied for the Consolidated Entity's investments in managed partnerships. However, a certain number of entities do obtain independent valuations for investment properties under development each financial year.

#### (d) Inventories

	2016 \$M	2015 \$M
<b>Current</b>		
Development land	125.9	–
	<b>125.9</b>	<b>–</b>
<b>Non-current</b>		
Development land	261.2	631.9
	<b>387.1</b>	<b>631.9</b>

During the current financial year, an impairment loss of \$14.8 million (2015: \$nil) was recognised on development land.

#### (e) Investment properties

##### Reconciliation of carrying amount of directly held investment properties

	2016 \$M	2015 \$M
Carrying amount at the beginning of the year	52.7	87.7
Capital expenditure	–	9.4
Carrying value of properties sold	–	(8.9)
Transfers to inventories	–	(16.2)
Net loss from fair value adjustments	(9.0)	(18.8)
Effect of foreign currency translation	1.5	(0.5)
<b>Carrying amount at the end of the year</b>	<b>45.2</b>	<b>52.7</b>
<b>Analysed as:</b>		
Stabilised investment properties	25.3	30.8
Investment properties under development	19.9	21.9
	<b>45.2</b>	<b>52.7</b>

At 30 June 2016, all the Consolidated Entity's investment properties are located in Continental Europe.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

## Operating assets and liabilities continued

### 6. Property assets continued

#### (e) Investment properties continued

##### Measurement of fair value

##### (i) Fair value hierarchy

Investment properties comprise stabilised investment properties and investment properties under development. The fair value measurement for investment properties has been categorised as a Level 3 fair value based on the inputs to the valuation technique used.

##### (ii) Valuation techniques and inputs used in Level 3 fair value measurements

The following table shows the valuation technique used in measuring the fair value of investment properties, as well as the significant unobservable inputs used:

	Valuation technique	Significant unobservable inputs	Weighted average	
			2016	2015
Investment properties – Continental Europe	Income capitalisation approach	Net market rent per square metre per annum Capitalisation rate	€147/sqm 8.0%	€152/sqm 8.3%

The estimated fair value would increase if net market rents were higher and/or if capitalisation rates were lower. The estimated fair value would decrease if the net market rents were lower and/or if the capitalisation rates were higher.

#### (f) Investments accounted for using the equity method

The Consolidated Entity's principal managed partnerships are set out below:

Name	Country of establishment/ incorporation	Consolidated share of results recognised		Consolidated ownership interest		Consolidated investment carrying amount	
		2016 \$M	2015 \$M	2016 %	2015 %	2016 \$M	2015 \$M
<b>Property investment</b>							
Goodman China Logistics Partnership (GCLP)	Cayman Islands	41.2	15.8	20.0	20.0	414.3	329.1
KWASA Goodman Germany (KGG)	Luxembourg	18.3	9.4	27.4	30.0	83.2	64.8
<b>Property development</b>							
Goodman Japan Development Partnership (GJDP)	Japan	(0.4)	–	42.5	42.5	90.3	56.9
Goodman UK Partnership (GUKP)	United Kingdom	6.2	–	33.3	–	35.0	–
Other JVs		0.9	–			6.7	2.6
		<b>66.2</b>	<b>25.2</b>			<b>629.5</b>	<b>453.4</b>

The reconciliation of the carrying value at the beginning to the carrying value at the end of the year is set out as follows:

	Consolidated	
	2016 \$M	2015 \$M
<b>Movements in carrying amount of investments in JVs</b>		
Carrying amount at the beginning of the year	453.4	281.7
Share of net results after tax (before revaluations)	22.4	15.0
Share of fair value adjustments on investment properties	43.8	10.2
Share of net results after tax	66.2	25.2
Share of movements in reserves	(14.1)	0.2
Acquisitions	129.0	111.1
Capital return	(16.5)	(8.4)
Dividends/distributions received and receivable	(9.6)	(5.5)
Effect of foreign currency translation	21.1	49.1
<b>Carrying amount at the end of the year</b>	<b>629.5</b>	<b>453.4</b>

## Operating assets and liabilities continued

### 6. Property assets continued

#### (f) Investments accounted for using the equity method continued

##### Summary financial information of JVs

The following table summarises the financial information of the material managed partnerships as included in their own financial statements. The table also reconciles the summarised financial information to the carrying amount of the Consolidated Entity's interest in the JVs.

	GCLP		KGG		GJDP		GUKP	
	2016 \$M	2015 \$M	2016 \$M	2015 \$M	2016 \$M	2015 \$M	2016 \$M	2015 \$M
<b>Summarised statement of financial position</b>								
<b>Current assets</b>								
Cash and cash equivalents	161.8	276.6	27.1	15.3	48.1	18.9	6.9	–
Other current assets	46.3	15.0	0.2	1.8	2.2	0.9	41.2	–
<b>Total current assets</b>	<b>208.1</b>	<b>291.6</b>	<b>27.3</b>	<b>17.1</b>	<b>50.3</b>	<b>19.8</b>	<b>48.1</b>	<b>–</b>
<b>Total non-current assets</b>	<b>2,399.9</b>	<b>1,815.9</b>	<b>531.6</b>	<b>391.8</b>	<b>412.0</b>	<b>161.0</b>	<b>58.8</b>	<b>–</b>
<b>Current liabilities</b>								
Other current liabilities	146.0	102.1	9.9	5.5	1.4	0.3	3.0	–
<b>Total current liabilities</b>	<b>146.0</b>	<b>102.1</b>	<b>9.9</b>	<b>5.5</b>	<b>1.4</b>	<b>0.3</b>	<b>3.0</b>	<b>–</b>
<b>Non-current liabilities</b>								
Financial liabilities (excluding trade payables and other provisions)	306.8	294.2	231.5	181.8	244.7	46.7	–	–
Other non-current liabilities	94.7	75.0	13.5	5.7	4.0	–	–	–
<b>Total non-current liabilities</b>	<b>401.5</b>	<b>369.2</b>	<b>245.0</b>	<b>187.5</b>	<b>248.7</b>	<b>46.7</b>	<b>–</b>	<b>–</b>
<b>Net assets (100%)</b>	<b>2,060.5</b>	<b>1,636.2</b>	<b>304.0</b>	<b>215.9</b>	<b>212.2</b>	<b>133.8</b>	<b>103.9</b>	<b>–</b>
Consolidated ownership interest (%)	20.0	20.0	27.4	30.0	42.5	42.5	33.3	–
Consolidated share of net assets	412.1	327.2	83.2	64.8	90.3	56.9	34.6	–
Acquisition costs	2.2	1.9	–	–	–	–	0.4	–
<b>Carrying amount of interest in JV</b>	<b>414.3</b>	<b>329.1</b>	<b>83.2</b>	<b>64.8</b>	<b>90.3</b>	<b>56.9</b>	<b>35.0</b>	<b>–</b>
<b>Summarised statement of comprehensive income</b>								
Revenue	96.3	67.6	28.1	24.6	1.9	–	1.2	–
Interest income	1.0	0.8	–	–	–	–	–	–
Interest expense	(14.2)	(0.1)	(5.8)	(5.2)	(0.2)	–	–	–
Income tax expense	(15.5)	(20.7)	(9.8)	(5.2)	–	–	–	–
Profit and total comprehensive income (100%)	205.7	79.1	61.2	31.2	(1.0)	–	18.8	–
<b>Consolidated share of profit and total comprehensive income</b>	<b>41.2</b>	<b>15.8</b>	<b>18.3</b>	<b>9.4</b>	<b>(0.4)</b>	<b>–</b>	<b>6.2</b>	<b>–</b>
<b>Dividends and distributions received and receivable by the Consolidated Entity</b>	<b>4.3</b>	<b>0.2</b>	<b>5.3</b>	<b>4.3</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>

## Operating assets and liabilities continued

### 7. Receivables

#### Non-derivative financial assets

The Consolidated Entity initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets are recognised initially on the trade date at which the Consolidated Entity becomes a party to the contractual provisions of the instrument.

The Consolidated Entity derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the right to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Consolidated Entity is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Consolidated Entity has a legal right to offset the amounts and intends to either settle on a net basis or to realise the asset and settle the liability simultaneously.

#### Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest rate method, less allowance for impairment of doubtful debts, except where the receivables are interest free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

Loans and receivables comprise trade and other receivables, amounts due from related parties and loans to related parties.

#### Construction contract receivables

Construction contract receivables, which are presented in receivables in the statement of financial position, are stated at cost plus profit recognised to date less an allowance for foreseeable losses and less progress billings. Cost includes all expenditure related directly to specific projects and an allocation of fixed and variable overheads incurred, relating to the Consolidated Entity's construction contract activities based on normal operating activity.

#### Impairment

##### Non-financial assets

The carrying amounts of the Consolidated Entity's assets (except inventories, refer to note 6(d); investment properties, refer to note 6(e); and deferred tax assets, refer to note 4) are reviewed at each reporting date to determine whether there is any indication of impairment. If such indication exists, the asset is written down to the recoverable amount. The impairment is recognised in the statement of comprehensive income in the reporting period in which it occurs.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the statement of comprehensive income, unless an asset has previously been revalued, in which case the impairment loss is recognised as a reversal to the extent of that previous revaluation, with any excess recognised through the statement of comprehensive income.

Impairment losses recognised in respect of cash-generating units are allocated to the carrying amount of any identified intangible asset and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

#### Financial assets

A financial asset is assessed at each reporting date to determine whether there is any indication of impairment. If such indication exists, the financial asset is written down to the present value of the estimated future cash flows discounted at the original effective interest rate. The impairment is recognised in profit or loss in the reporting period in which it occurs.

#### Calculation of recoverable amount

The recoverable amount of the Consolidated Entity's receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted.

Impairment of receivables is not recognised until objective evidence is available that a loss event has occurred. Significant receivables are individually assessed for impairment.

The recoverable amount of other assets is the greater of their fair value less costs to sell, and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

#### Reversals of impairment

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Impairment losses are reversed when there is an indication that the impairment loss may no longer exist and there has been a change in the estimate used to determine the recoverable amount.

Where a group of assets working together supports the generation of cash inflows, the recoverable amount is assessed in relation to that group of assets.

In assessing recoverable amounts of non-current assets, the relevant cash flows are discounted to their present value.

	2016 \$M	2015 \$M
<b>Current</b>		
Trade receivables	15.1	10.5
Other receivables	65.1	47.2
Amounts due from related parties	36.2	23.2
Loans to related parties	64.3	68.5
Construction contract receivables	122.6	14.0
	<b>303.3</b>	<b>163.4</b>
<b>Non-current</b>		
Loans to related parties	26.6	25.4
	<b>26.6</b>	<b>25.4</b>

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable mentioned above. All non-current receivables of the Consolidated Entity are due within five years from the reporting date. There is no material difference between the carrying values and the fair values of receivables.

## Operating assets and liabilities continued

### 7. Receivables continued

#### Trade receivables

As at 30 June 2016, trade receivables of \$0.4 million were impaired (2015: \$nil). There are no significant overdue trade receivables at 30 June 2016.

#### Other receivables

At 30 June 2016, none of the other receivables balance was overdue or impaired (2015: \$nil).

#### Amounts due from related parties

At 30 June 2016, none of the amounts due from related parties was overdue or impaired (2015: \$nil). Amounts due from related parties are typically repayable within 30 days. The amounts due from related parties are unsecured.

#### Loans to related parties

Loans to related parties principally relate to loans to fellow subsidiaries of GL and loans to JVs. Refer to note 18(c) for details of loans to related parties. During the year, an impairment loss of \$2.0 million (2015: \$1.2 million) was recognised on loans to related parties. The loans to related parties are unsecured.

### 8. Payables

#### Non-derivative financial liabilities

The Consolidated Entity initially recognises debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities are recognised initially on the trade date at which the Consolidated Entity becomes a party to the contractual provisions of the instrument.

The Consolidated Entity derecognises a financial liability when the contractual obligations are discharged or cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Consolidated Entity has a legal right to offset the amounts and intends to either settle on a net basis or to realise the asset and settle the liability simultaneously.

The Consolidated Entity has classified non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest rate method.

Other financial liabilities comprise trade and other payables and loans from related parties (refer to note 18(c)).

#### Provisions

A provision is recognised when there is a legal, equitable or constructive obligation as a result of a past event and it is probable that a future sacrifice of economic benefits will be required to settle the obligation, the timing or amount of which is uncertain.

If the effect is material, a provision is determined by discounting the expected future cash flows (adjusted for expected future risks) required to settle the obligation at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability most closely matching the expected future payments. The unwinding of the discount is treated as part of the expense related to the particular provision.

### Rental guarantees

A provision for rental guarantees is recognised when it is expected that the Consolidated Entity will be obliged to make payments in the future to meet rental income targets guaranteed to third parties under the terms of asset disposal contracts. The provision is measured at the present value of the estimated future payments.

	Consolidated	
	2016	2015
	\$M	\$M
<b>Current</b>		
Trade payables	43.2	16.6
Other payables and accruals	63.0	40.9
	<b>106.2</b>	<b>57.5</b>
<b>Non-current</b>		
Other payables and accruals	6.7	4.9
	<b>6.7</b>	<b>4.9</b>

### Capital management

### 9. Finance income and expense

#### Finance income

Interest is recognised on an accruals basis using the effective interest rate method, and, if not received at the reporting date, is reflected in the statement of financial position as a receivable.

#### Finance expense

Expenditure incurred in obtaining debt finance is offset against the principal amount of the interest bearing liability to which it relates, and is recognised as a finance cost on an effective interest rate basis over the life of the facility or until the facility is significantly modified. Where a facility is significantly modified, any unamortised expenditure in relation to that facility and incremental expenditure incurred in modifying the facility are recognised as a finance cost in the financial year in which the significant modification occurs.

Finance costs relating to a qualifying asset are capitalised as part of the cost of that asset using a weighted average cost of debt. Qualifying assets are assets which take a substantial time to get ready for their intended use or sale. All other finance costs are expensed using the effective interest rate method.

	Consolidated	
	2016	2015
	\$M	\$M
<b>Finance income</b>		
Interest income on loans to:		
– Related parties	0.5	2.3
– Other parties	0.1	0.1
Foreign exchange gain	–	0.9
	<b>0.6</b>	<b>3.3</b>
<b>Finance expense</b>		
Interest expense on loans from related parties	(43.4)	(50.6)
Other borrowing costs	(0.5)	(0.4)
Capitalised borrowing costs	17.7	27.2
	<b>(26.2)</b>	<b>(23.8)</b>
<b>Net finance expense</b>	<b>(25.6)</b>	<b>(20.5)</b>

Borrowing costs were capitalised to inventories and investment properties under development during the financial year at rates between 1.7% and 5.5% per annum (2015: 2.3% and 5.4% per annum).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

## Capital management continued

### 10. Other financial assets

#### Available for sale financial assets

Available for sale financial assets are non-derivative financial assets that are designated as available for sale and that are not classified in any of the other categories of financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, are recognised in the statement of comprehensive income and presented in the asset revaluation reserve in equity. When such an asset is derecognised, the cumulative gain or loss in equity is transferred to profit or loss.

Available for sale financial assets comprise investments in equity securities.

#### Impairment

Available for sale financial assets are assessed at each reporting date to determine whether there is any indication of impairment. If such indication exists, the asset is written down to its fair value.

When a decline in the fair value of an available for sale financial asset has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in equity is transferred to profit or loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss.

#### Reversals of impairment

An impairment loss in respect of an investment in an equity instrument classified as available for sale is not reversed through profit or loss.

	2016 \$M	2015 \$M
<b>Available for sale equity securities</b>		
Investment in unlisted securities, at fair value <sup>1</sup>	16.6	18.3
	<b>16.6</b>	<b>18.3</b>

1. Principally relates to the Consolidated Entity's 10.0% (2015: 10.0%) interest in Goodman Japan Limited. During the current financial year, a fair value loss of \$5.3 million on investment in unlisted securities was recognised in other comprehensive income (2015: gain of \$5.9 million). Refer to note 11(d) for assumptions made in measuring fair value of the unlisted securities.

### 11. Financial risk management

The Consolidated Entity's capital management and financial risk management processes are managed as part of the wider Goodman Group. There are established policies, documented in Goodman Group's financial risk management (FRM) policy document, to ensure both the efficient use of capital and the appropriate management of the exposure to financial risk.

The Goodman Group Investment Committee is the primary forum where strategic capital and financial management requirements are discussed and decisions made in accordance with the FRM policy. The Goodman Group Investment Committee meets at least every week during the financial year.

#### Financial risk management

The Consolidated Entity's key financial risks are market risk (including foreign exchange and interest rate risk), liquidity risk and credit risk.

##### (a) Market risk

###### Foreign exchange risk

The Consolidated Entity is exposed to foreign exchange risk through its investments in Hong Kong, China, Japan, Continental Europe and the United Kingdom. Foreign exchange risk represents the loss that would be recognised from fluctuations in currency prices against the Australian dollar as a result of future commercial transactions, recognised assets and liabilities and, principally, net investments in foreign operations.

Goodman Group manages foreign currency exposure on a consolidated basis. In managing foreign currency risks, Goodman Group aims to reduce the impact of short-term fluctuations on earnings and net assets. However, over the long term, permanent changes in foreign exchange will have an impact on both earnings and net assets.

Goodman Group's capital hedge policy for each overseas region is to hedge between 65% and 90% of foreign currency denominated assets with foreign currency denominated liabilities. This is achieved by borrowing in the same functional currency as the investments to form a natural economic hedge against any foreign currency fluctuations and/or using derivatives such as cross currency interest rate swaps.



## Capital management continued

### 11. Financial risk management continued

#### (a) Market risk continued

##### Exposure to currency risk

The following table details the Consolidated Entity's exposure at the end of the year to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in Australian dollars, translated using the spot rate at the year end date.

	Note	2016					2015				
		HKD \$M	USD \$M	EUR \$M	GBP \$M	JPY \$M	HKD \$M	USD \$M	EUR \$M	GBP \$M	JPY \$M
Receivables	7	9.3	39.3	281.3	–	–	7.8	44.0	137.0	–	–
Cash	14(a)	9.9	53.8	2.3	1.3	–	13.2	62.9	6.2	–	10.0
Payables	8	(3.5)	(27.9)	(73.8)	–	–	(1.5)	(20.9)	(34.7)	–	–
Loans from related parties	18(c)	–	(458.2)	(348.3)	(6.7)	(29.5)	–	(614.8)	(455.8)	–	(51.0)
		<b>15.7</b>	<b>(393.0)</b>	<b>(138.5)</b>	<b>(5.4)</b>	<b>(29.5)</b>	<b>19.5</b>	<b>(528.8)</b>	<b>(347.3)</b>	<b>–</b>	<b>(41.0)</b>

##### Sensitivity analysis

Throughout the financial year, if the Australian dollar had been 5% (2015: 5%) stronger against all other currencies, with all other variables held constant, the Consolidated Entity's profit attributable to Shareholders would have decreased by \$11.2 million (2015: \$5.3 million). If the Australian dollar had been 5% (2015: 5%) weaker against all other currencies, with all other variables held constant, the Consolidated Entity's profit attributable to Shareholders would have increased by \$11.2 million (2015: \$5.8 million).

##### Interest rate risk

The Consolidated Entity's interest rate risk primarily arises from variable rate borrowings with related parties.

##### Sensitivity analysis

Based on the Consolidated Entity's interest bearing borrowings at 30 June 2016, if interest rates on borrowings had been 100 basis points per annum (2015: 100 basis points per annum) higher/lower, with all other variables held constant, the Consolidated Entity's profit attributable to Shareholders for the financial year would have been \$7.8 million lower/higher (2015: \$9.9 million lower/higher).

##### Price risk

The Consolidated Entity is not exposed to price risk.

#### (b) Liquidity risk

Liquidity risk is the risk that the Consolidated Entity will not be able to meet its financial obligations as they fall due. The Consolidated Entity's objective is to maintain sufficient liquidity resources for working capital, meet its financial obligations and liabilities, pay distributions and provide funds for capital expenditure and investment opportunities. Management seeks to achieve these objectives through the preparation of regular forecast cash flows to understand the application and use of funds and through the identification of future funding, primarily through loans from related parties in Goodman Group.

The contractual maturities of financial liabilities are set out below:

	Carrying amount \$M	Contractual cash flows \$M	Up to 12 months \$M	1–2 years \$M	2–3 years \$M	3–4 years \$M	4–5 years \$M	More than 5 years \$M
<b>As at 30 June 2016</b>								
Trade and other payables	112.9	112.9	106.2	6.7	–	–	–	–
Loans from related parties	842.7	851.4	833.4	0.7	0.8	0.8	0.9	14.8
<b>Total</b>	<b>955.6</b>	<b>964.3</b>	<b>939.6</b>	<b>7.4</b>	<b>0.8</b>	<b>0.8</b>	<b>0.9</b>	<b>14.8</b>
<b>As at 30 June 2015</b>								
Trade and other payables	62.4	62.4	57.5	4.9	–	–	–	–
Loans from related parties	1,044.5	1,044.5	1,044.5	–	–	–	–	–
<b>Total</b>	<b>1,106.9</b>	<b>1,106.9</b>	<b>1,102.0</b>	<b>4.9</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

## Capital management continued

### 11. Financial risk management continued

#### (c) Credit risk

Credit risk represents the loss that would be recognised if counterparties failed to perform as contracted.

The maximum exposure to credit risk on financial assets, excluding investments, of the Consolidated Entity which have been recognised in the consolidated statement of financial position, is the carrying amount (refer to note 7).

The Consolidated Entity has a policy of assessing the creditworthiness of all potential customers and is not materially exposed to any one customer. The Consolidated Entity evaluates all customers' perceived credit risk and may require the lodgement of rental bonds or bank guarantees, as appropriate, to reduce credit risk. In addition, all rents are payable monthly in advance.

From time to time, the Consolidated Entity also makes loans to JVs, typically to fund development projects. In making its investment decisions, the Consolidated Entity will undertake a detailed assessment of the development feasibility and credit risks associated with the relevant counterparties.

#### (d) Fair values of financial instruments

Except for investments in unlisted securities which are carried at fair value, the Consolidated Entity's financial instruments are carried at cost or amortised cost. The carrying amounts of the Consolidated Entity's financial instruments carried at cost or amortised cost were not materially different from their fair values as at 30 June 2016 and 2015.

#### (i) Valuation techniques and significant unobservable inputs

The fair value measurement for available for sale equity securities has been categorised as a Level 3 fair value. The following table shows the valuation technique used in measuring fair value as well as the significant unobservable inputs used:

Type	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
Equity securities – Goodman Japan Limited	Discounted cash flows: The valuation model was determined by discounting the future cash flows expected to be generated from continuing operations. The future cash flows were based on fund and development forecasts and then estimating a year five terminal value using a terminal growth rate and an appropriate discount rate	<ul style="list-style-type: none"> <li>+ Assets under management of \$2.9 billion in year five</li> <li>+ Average annual development of 113,000 sqm</li> <li>+ Five year terminal value growth rate of 0.73%</li> <li>+ Risk adjusted discount rate of 7.18% per annum</li> </ul>	<p>The estimated fair value would increase/(decrease) if:</p> <ul style="list-style-type: none"> <li>+ the level of development activity, assets under management and terminal value growth rate were higher/(lower)</li> <li>+ the risk adjusted discount rate were lower/(higher)</li> </ul>

#### (ii) Reconciliation of Level 3 fair values

	Consolidated	
	2016 \$M	2015 \$M
Carrying amount at the beginning of the year	18.3	19.6
Capital return	(0.4)	(7.2)
Net change in fair value – included in other comprehensive income	(5.3)	5.9
Effect of foreign currency translation	4.0	–
<b>Carrying amount at the end of the year</b>	<b>16.6</b>	<b>18.3</b>

### 12. Dividends

Provisions for dividends payable are recognised in the reporting period in which the dividends are declared. No dividends were declared or paid to equity shareholders of the Company during the year (2015: \$nil).

## Capital management continued

### 13. Share capital

#### (a) Ordinary shares

Ordinary shares of the Company are classified as equity. Incremental costs directly attributable to issues of ordinary shares and options are recognised as a deduction from equity, net of any tax effects.

	2016	2015	2016	2015
	Number of shares	Number of shares	\$M	\$M
Share capital	1,778,318,630	1,753,035,922	651.4	632.5
Accumulated issue costs			(0.6)	(0.6)
<b>Total issued capital</b>			<b>650.8</b>	<b>631.9</b>

Details	Number of shares	Share capital \$M
<b>Ordinary shares, issued and fully paid</b>		
Balance at 1 July 2014	1,727,685,976	615.2
Shares issued under Goodman Group's DRP <sup>1</sup>	16,464,377	11.2
Shares issued to employees of Goodman Group <sup>2</sup>	8,885,569	6.1
<b>Balance at 30 June 2015</b>	<b>1,753,035,922</b>	<b>632.5</b>
Shares issued under Goodman Group's DRP <sup>1</sup>	15,416,659	11.5
Shares issued to employees of Goodman Group <sup>2</sup>	9,866,049	7.4
<b>Balance at 30 June 2016</b>	<b>1,778,318,630</b>	<b>651.4</b>

1. Goodman Group DRP was active for the August 2015 and February 2016 distribution. In relation to these distributions, \$95.5 million (2015: \$89.4 million) was in the form of stapled securities in Goodman Group. The Consolidated Entity's share of the equity raised amounted to \$11.5 million (2015: \$11.2 million).
2. During the year, the Company issued 9,866,049 (2015: 8,885,569) shares to employees of Goodman Group under the Goodman Group Long Term Incentive Plan (LTIP) and Goodman Group Tax Exempt Plan.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

#### (b) Equity settled share based payment transactions

##### Share based payment transactions

The fair value of rights and options over stapled securities, granted to employees of the Consolidated Entity by Goodman Group at the grant date is recognised as a share based payment expense in the results of the Consolidated Entity with a corresponding increase in equity. The share based payment expense is calculated over the period to the vesting date and is adjusted to reflect the actual number of rights or options for which the related service and non-market vesting conditions are expected to be met. The fair values of rights and options are measured at the grant date using a combination of Monte Carlo simulations and Black Scholes pricing models.

Goodman Group provides equity based remuneration through the issue of stapled securities under the LTIP. Details of the LTIP are set out below.

##### LTIP

The LTIP, which provides for the issue of performance rights, was first approved at the 2009 Annual General Meeting of Goodman Group and subsequently at the 2012 Annual General Meeting. Each performance right issued under the LTIP entitles an employee to acquire a Goodman Group stapled security for nil consideration subject to the vesting conditions having been satisfied. The LTIP also provides for the issue of options, though this has not been utilised to date. If options were to be issued, each option would entitle an employee to acquire a Goodman Group stapled security on payment of the exercise price for the option subject to the vesting conditions having been satisfied.

Under the terms of the LTIP and decisions made by the directors of Goodman Group in accordance with the plan, the issues of performance rights on 23 September 2015 and 25 November 2015 to employees and directors respectively were subject to the following broad terms:

- + the exercise of 25% of the total performance rights will be conditional on Goodman Group achieving a total securityholder return (TSR) in excess of that achieved by 50% of listed entities in the S&P/ASX 100 index and the exercise of 75% of the total performance rights will be conditional on Goodman Group achieving an operating earnings per share (EPS) outcome at least at the target level notified to the market over a three year 'testing period' which ends on 30 June 2018 and continued employment (subject to special circumstances e.g. death, total and permanent disability, redundancy or retirement). To the extent that Goodman Group achieves the aggregate target operating EPS, 100% of the tranche will vest; to the extent Goodman Group exceeds the 51st percentile in TSR, there are proportionate increases in vesting of performance rights up to 100% at the 76th percentile under the grants made pursuant to the rules and disclosed to the market;
- + performance rights lapse on the earlier of approximately five years from the offer or the termination of the employee's employment (unless such termination is due to special circumstances); and
- + performance rights issued during the year vest in three equal tranches on 3 September 2018, 2 September 2019 and 1 September 2020.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

## Capital management continued

### 13. Share capital continued

#### (b) Equity settled share based payments transactions continued

##### LTIP continued

Share based payment expense included in profit or loss was as follows:

	2016 \$M	2015 \$M
Share based payment expense:		
– Equity settled	16.8	13.4
– Cash settled	5.4	3.4
	<b>22.2</b>	<b>16.8</b>

At 30 June 2016, a liability of \$6.7 million (2015: \$4.7 million) was recognised in relation to cash settled performance rights.

The movement in the number of equity settled and cash settled Goodman Group performance rights is as follows:

	Number of rights	
	2016	2015
Outstanding at the beginning of the year	11,833,471	9,991,690
Issued	5,352,396	4,079,127
Vested	(2,008,074)	(1,844,081)
Forfeited	(458,482)	(393,265)
<b>Outstanding at the end of the year</b>	<b>14,719,311</b>	<b>11,833,471</b>
<b>Exercisable at the end of the year</b>	<b>–</b>	<b>–</b>

The model inputs for performance rights granted during the year ended 30 June 2016 include the following:

	Rights issued on 25 Nov 2015	Rights issued on 23 Sep 2015
Fair value at measurement date (\$)	4.44	4.06
Security price (\$)	6.09	5.62
Exercise price (\$)	–	–
Expected volatility (%)	24.0	25.0
Rights expected weighted average life (years)	3.8	3.9
Dividend/distribution yield per annum (%)	5.48	5.39
Average risk free rate of interest per annum (%)	2.4	2.3

The fair value of services received in return for performance rights granted under Goodman Group's LTIP is measured by reference to the fair value of the performance rights granted. The estimate of the fair value of the services received is measured as follows:

- + relative TSR tranche: these rights have been valued using a Monte Carlo model which simulated total returns for each of the S&P/ASX 100 stocks and discounted the future value of any potential future vesting performance rights to arrive at a present value. The model uses statistical analysis to forecast total returns, based on expected parameters of variance and co-variance; and
- + operating EPS tranche: these rights have been valued as a granted call option, using the standard Black Scholes model with a continuous dividend yield.

## Other items

### 14. Notes to the consolidated cash flow statement

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less.

#### (a) Reconciliation of cash

Cash as at the end of the year as shown in the consolidated cash flow statement is reconciled to the related items in the consolidated statement of financial position as follows:

	2016 \$M	2015 \$M
<b>Cash assets</b>	<b>67.3</b>	<b>92.3</b>

#### (b) Reconciliation of profit for the year to net cash provided by operating activities

	2016 \$M	2015 \$M
Profit for the year	180.9	87.1
<b>Items classified as investing activities</b>		
Net loss on disposal of investment properties	–	0.7
<b>Non-cash items</b>		
Depreciation of plant and equipment	4.0	2.0
Share based payment expense	22.2	16.8
Net loss from fair value adjustments on investment properties	9.0	18.8
Impairment losses	16.8	1.2
Share of net results of equity accounted investments	(66.2)	(25.2)
Net finance expense	25.6	20.5
Income tax expense	25.5	8.2
<b>Operating profit before changes in working capital and provisions</b>	<b>217.8</b>	<b>130.1</b>
Changes in assets and liabilities during the year:		
– (Increase)/decrease in receivables	(135.5)	224.4
– Decrease/(increase) in inventories	240.7	(205.2)
– Increase in other assets	(16.3)	(9.4)
– Increase/(decrease) in payables	58.6	(19.3)
– Increase in provisions (including employee benefits)	–	0.8
	<b>365.3</b>	<b>121.4</b>
Dividends/distributions received from investments	9.6	4.7
Net finance costs (paid)/received	(0.5)	0.2
Net income taxes paid	(15.8)	(20.8)
<b>Net cash provided by operating activities</b>	<b>358.6</b>	<b>105.5</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

## Other items continued

### 15. Reserves

	Note	Consolidated		Company	
		2016 \$M	2015 \$M	2016 \$M	2015 \$M
Asset revaluation reserve <sup>1</sup>	15(a)	5.5	6.2	5.5	10.8
Foreign currency translation reserve	15(b)	(4.6)	10.4	–	–
Employee compensation reserve	15(c)	11.1	6.7	11.1	6.7
Common control reserve <sup>2</sup>	15(d)	(538.1)	(538.1)	–	–
<b>Total reserves</b>		<b>(526.1)</b>	<b>(514.8)</b>	<b>16.6</b>	<b>17.5</b>

1. In prior periods, unrealised gains or losses on investment properties were transferred from retained earnings to the asset revaluation reserve. From 1 July 2015, the Consolidated Entity has amended its practice such that these unrealised gains or losses are maintained in retained earnings and any relevant amounts included in the asset revaluation reserve at 1 July 2015 have been transferred back to retained earnings.

2. The common control reserve arises from the acquisition of entities from other members of Goodman Group under the pooling of interest method. The amount in the common control reserve reflects the difference between the consideration paid and the carrying values of the assets and liabilities of the acquired entity at the date of acquisition.

The movements in reserves of the Consolidated Entity and the Company are analysed below:

	Consolidated		Company	
	2016 \$M	2015 \$M	2016 \$M	2015 \$M
<b>(a) Asset revaluation reserve</b>				
Balance at the beginning of the year	6.2	7.4	10.8	4.9
(Decrease)/increase due to revaluation of other financial assets	(5.3)	6.1	(5.3)	5.9
Transfers to/(from) retained earnings	4.6	(7.3)	–	–
<b>Balance at the end of the year</b>	<b>5.5</b>	<b>6.2</b>	<b>5.5</b>	<b>10.8</b>
<b>(b) Foreign currency translation reserve</b>				
Balance at the beginning of the year	10.4	(12.8)	–	–
Net exchange differences on conversion of foreign operations	(15.0)	23.2	–	–
<b>Balance at the end of the year</b>	<b>(4.6)</b>	<b>10.4</b>	<b>–</b>	<b>–</b>
<b>(c) Employee compensation reserve</b>				
Balance at the beginning of the year	6.7	3.2	6.7	3.2
Equity settled share based payment transactions	4.4	3.5	4.4	3.5
<b>Balance at the end of the year</b>	<b>11.1</b>	<b>6.7</b>	<b>11.1</b>	<b>6.7</b>
<b>(d) Common control reserve</b>				
Balance at the beginning of the year	(538.1)	(538.1)	–	–
<b>Balance at the end of the year</b>	<b>(538.1)</b>	<b>(538.1)</b>	<b>–</b>	<b>–</b>

### 16. Retained earnings

	Consolidated		Company	
	2016 \$M	2015 \$M	2016 \$M	2015 \$M
Balance at the beginning of the year	186.3	94.2	44.2	24.5
Profit for the year	174.1	84.8	42.1	19.7
Transfers (from)/to asset revaluation reserve	(4.6)	7.3	–	–
<b>Balance at the end of the year</b>	<b>355.8</b>	<b>186.3</b>	<b>86.3</b>	<b>44.2</b>

## Other items continued

### 17. Investments in subsidiaries

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Consolidated Entity. The class of shares held is ordinary unless otherwise stated.

Significant controlled companies	Principal activities	Country of incorporation	Interest held	
			2016 %	2015 %
Goodman Asia Limited	Fund and property management services	Hong Kong	100.0	100.0
Goodman China Limited	Property management and development management consultancy services	Hong Kong	100.0	100.0
Goodman Developments Asia	Investment and property development	Cayman Islands	100.0	100.0
Goodman China Asset Management Limited	Fund management	Cayman Islands	100.0	100.0
GELF Management (Lux) Sàrl	Fund management	Luxembourg	100.0	100.0
Goodman Management Holdings (Lux) Sàrl	Intermediate holding company	Luxembourg	100.0	100.0
GPO Advisory (Lux) Sàrl	Property management services	Luxembourg	100.0	100.0
Goodman Midnight Logistics (Lux) Sàrl	Investment holding company	Luxembourg	100.0	100.0
Goodman Property Opportunities (Lux) Sàrl SICAR	Property investment and development	Luxembourg	94.0	94.0
Goodman UK Holdings (HK) Limited	Intermediate holding company	United Kingdom	100.0	–

### 18. Related party transactions

Related parties

- (i) A person, or a close member of that person's family, is related to the Company if that person:
- (1) has control or joint control over the Company;
  - (2) has significant influence over the Company; or
  - (3) is a member of the key management personnel of the Company or the Company's parent.
- (ii) An entity is related to the Company if any of the following conditions applies:
- (1) the entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);
  - (2) one entity is an associate or JV of the other entity (or an associate or JV of a member of a group of which the other entity is a member);
  - (3) both entities are JVs of the same third party;
  - (4) one entity is a JV of a third entity and the other entity is an associate of the third entity;
  - (5) the entity is a post-employment benefit plan for the benefit of employees of either the Company or an entity related to the Company;
  - (6) the entity is controlled or jointly controlled by a person identified in (i); or
  - (7) a person identified in (i)(1) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
  - (8) the entity, or any member of a group of which it is a part, provides key management personnel services to the Company or the Company's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

#### (a) Directors' remuneration

Directors' remuneration disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation is as follows:

	2016 \$M	2015 \$M
Directors' fees	0.8	0.8
Salaries, allowances and benefits in kind	2.1	2.1
Discretionary bonuses	1.1	3.5
Retirement scheme contribution	–	–
Share based payments	6.4	4.4
	<b>10.4</b>	<b>10.8</b>

Mr Philip Pearce has stood down from his duties for health reasons and resigned as a director of Goodman Logistics (HK) Limited on 12 July 2016. He remains an employee of Goodman Group on sick leave and, having regard to the seriousness of the health issues, this period is expected to last at least 12 months and may be extended up to two years.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

## Other items continued

### 18. Related party transactions continued

#### (b) Transactions and amounts due from related parties

	Management services and development activities		Amounts due from related parties	
	2016 \$M	2015 \$M	2016 \$M	2015 \$M
<b>JVs</b>				
GCLP	51.0	43.7	–	–
KGG	174.5	6.6	–	–
	<b>225.5</b>	<b>50.3</b>	<b>–</b>	<b>–</b>
<b>Related parties of GL and GIT</b>				
Goodman Hong Kong Logistics Partnership	28.9	25.7	7.4	6.1
Goodman Australia Partnership	3.5	2.3	–	–
Goodman European Partnership	528.7	336.6	20.3	17.1
Goodman Princeton Partnership (Lux) Sàrl	2.3	2.2	–	–
Other related parties	0.3	(0.8)	8.5	–
	<b>563.7</b>	<b>366.0</b>	<b>36.2</b>	<b>23.2</b>

#### (c) Financing arrangements with related parties

	Loans to related parties <sup>1</sup>		Loans from related parties <sup>1</sup>		Interest income/(expense) charged on loans to/from related parties	
	2016 \$M	2015 \$M	2016 \$M	2015 \$M	2016 \$M	2015 \$M
<b>JVs</b>						
Üllö One 2008 Kft	2.2	4.1	–	–	–	0.2
Üllö Two 2008 Kft	1.1	2.1	–	–	–	0.1
Other JVs	6.4	19.2	–	–	–	0.3
	<b>9.7</b>	<b>25.4</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>0.6</b>
GL, GIT and their controlled entities	<b>64.3</b>	<b>62.7</b>	<b>(842.7)</b>	<b>(1,044.5)</b>	<b>(43.4)</b>	<b>(50.6)</b>
<b>Related parties of GL and GIT</b>						
Goodman European Partnership	16.9	5.8	–	–	0.5	1.7
Related parties of GL and GIT	<b>16.9</b>	<b>5.8</b>	<b>–</b>	<b>–</b>	<b>0.5</b>	<b>1.7</b>

1. Loans by the Consolidated Entity to/from JVs and other related parties have generally been provided on an arm's length basis. At 30 June 2016, details in respect of the principal loan balances are set out below:

- + a shareholder loan of \$16.9 million (2015: \$5.8 million) was provided to Goodman Pyrite Logistics (Lux) Sàrl, a controlled entity of Goodman European Partnership, and incurred interest at 6.9% per annum;
- + loans from GL, GIT and their controlled entities amounting to \$842.7 million (2015: \$1,044.5 million). Of this amount, \$842.7 million (2015: \$1,035.2 million) is interest bearing and \$nil (2015: \$9.3 million) is non-interest bearing. \$832.7 million of the loans is repayable on demand and \$10.0 million is repayable greater than five years from the reporting date. The interest bearing loans incur floating interest at rates ranging from 1.6% to 6.8% (2015: 2.1% to 5.4%) per annum; and
- + loans to GIT and its subsidiaries amounting to \$64.3 million (2015: \$62.7 million) are repayable on demand. Of this amount, \$64.3 million (2015: \$43.9 million) is interest bearing and \$nil (2015: \$18.8 million) is non-interest bearing. The interest bearing loan incurs interest at rates ranging from 1.6% to 2.4% (2015: 2.3% to 3.3%) per annum.



## Other items continued

### 19. Commitments

	2016 \$M	2015 \$M
<b>Non-cancellable operating lease commitments</b>		
Future operating lease commitments not provided for in the financial statements and payable:		
– Within one year	8.8	9.1
– One year or later and no later than five years	20.5	9.4
– Later than five years	2.7	0.6
	<b>32.0</b>	<b>19.1</b>

At 30 June 2016, the Consolidated Entity was also committed to \$273.5 million (2015: \$212.9 million) expenditure in respect of inventories and other development activities.

#### Non-cancellable operating lease from investment property customers

	2016 \$M	2015 \$M
<b>Non-cancellable operating lease commitments receivable:</b>		
– Within one year	3.0	4.8
– One year or later and no later than five years	4.0	6.1
– Later than five years	–	2.1
	<b>7.0</b>	<b>13.0</b>

### 20. Contingencies

#### Capitalisation Deed Poll

GLHK, GL, GIT and certain of their wholly-owned controlled entities are investors under a Capitalisation Deed Poll (CDP) dated 23 May 2007. Under the CDP, each investor undertakes to pay to the relevant controlled entity borrower (borrower) any amounts owing under the CDP when the borrower fails to make a payment. Any payments by an investor to a borrower will be by way of loan to, or proceeds for the subscription of equity in, the borrower by the investor.

#### Euro medium-term note programme

Under the Euro medium-term note programme, Goodman Australia Finance Pty Limited, a controlled entity of GIT, issued £250 million notes, maturing on 16 July 2018, at a fixed coupon of 9.75% per annum. Goodman Funds Management Limited, as responsible entity of GIT, and GLHK and GL have unconditionally and irrevocably guaranteed on a joint and several basis the payment of principal and interest in respect of these Euro medium-term notes.

#### United States senior notes

Under the issue of notes in the United States 144A/Reg S bond market, Goodman Funding Pty Limited, a controlled entity of GIT, issued US\$325.0 million, US\$500.0 million and US\$500.0 million notes maturing on 12 November 2020, 15 April 2021 and 22 March 2022 respectively. Goodman Funds Management Limited, as responsible entity of GIT, and GLHK and GIT have unconditionally and irrevocably guaranteed on a joint and several basis the payment of principal and interest in respect of the notes.

#### Goodman PLUS Trust hybrid securities guarantee

Goodman PLUS Trust, a controlled entity of GIT, has 3,269,665 hybrid securities on issue at a face value of \$100 each. The hybrid securities are preferred, perpetual non-call securities which are listed on the ASX. Goodman Funds Management Limited, as responsible entity of GIT, and GLHK and GL have unconditionally and irrevocably guaranteed on a joint and several basis the payment of the moneys owing to the holders of Goodman PLUS under the terms of issue and subscription terms for those securities.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

## Other items continued

### 21. Company level statement of financial position

	Note	2016 \$M	2015 \$M
<b>Current assets</b>			
Cash		1.9	13.6
Receivables		66.1	46.1
<b>Total current assets</b>		<b>68.0</b>	<b>59.7</b>
<b>Non-current assets</b>			
Other financial assets		89.9	73.7
Investments in subsidiaries		635.7	589.0
<b>Total non-current assets</b>		<b>725.6</b>	<b>662.7</b>
<b>Total assets</b>		<b>793.6</b>	<b>722.4</b>
<b>Current liabilities</b>			
Payables		29.9	28.8
<b>Total current liabilities</b>		<b>29.9</b>	<b>28.8</b>
<b>Total non-current liabilities</b>		<b>10.0</b>	<b>-</b>
<b>Total liabilities</b>		<b>39.9</b>	<b>28.8</b>
<b>Net assets</b>		<b>753.7</b>	<b>693.6</b>
<b>Equity attributable to Shareholders</b>			
Issued share capital		650.8	631.9
Reserves	15	16.6	17.5
Retained earnings	16	86.3	44.2
<b>Total equity attributable to Shareholders</b>		<b>753.7</b>	<b>693.6</b>

The company level statement of financial position was approved and authorised for issue by the board of directors on 11 August 2016.



**Ian Douglas Ferrier, AM**  
Independent Chairman



**Philip Yan Hok Fan**  
Director

### 22. Subsequent events

On 11 August 2016, the Company proposed a dividend of \$0.01 per share amounting to \$17.8 million which will be paid on 26 August 2016.

In the opinion of the directors, other than the declaration of the dividends, there were no events subsequent to the reporting date, and up to the date of signature of these financial statements, which would require adjustment to or disclosure in the financial statements.

# INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF GOODMAN LOGISTICS (HK) LIMITED  
(INCORPORATED IN HONG KONG WITH LIMITED LIABILITY)



We have audited the consolidated financial statements of Goodman Logistics (HK) Limited (the Company) and its subsidiaries (together the Group) set out on pages 149 to 176, which comprise the consolidated statement of financial position as at 30 June 2016, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information.

## Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

## Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 30 June 2016 and of the Group's financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

## KPMG

Certified Public Accountants  
8<sup>th</sup> Floor, Prince's Building  
10 Chater Road  
Central, Hong Kong

11 August 2016

# SECURITIES INFORMATION

<b>Top 20 Securityholders As at 31 August 2016</b>	<b>Number of securities</b>	<b>Percentage of total issued securities</b>
1. HSBC Custody Nominees (Australia) Limited	557,653,968	31.17
2. J P Morgan Nominees Australia Limited	527,138,766	29.46
3. National Nominees Limited	219,710,323	12.28
4. Citicorp Nominees Pty Limited	123,735,626	6.92
5. BNP Paribas Noms Pty Ltd <DRP>	68,278,056	3.82
6. Citicorp Nominees Pty Limited <Colonial First State Inv A/C>	46,467,353	2.60
7. AMP Life Limited	30,286,385	1.69
8. BNP Paribas Nominees Pty Ltd <Agency Lending DRP A/C>	20,980,439	1.17
9. Beeside Pty Limited	16,923,077	0.95
10. Trison Investments Pty Ltd	15,259,385	0.85
11. CPU Share Plans Pty Ltd <GMG LTI Unallocated A/C>	10,802,513	0.60
12. Trison Investments Pty Ltd	4,500,000	0.25
13. RBC Investor Services Australia Nominees Pty Limited <PIselect>	4,074,315	0.23
14. Bond Street Custodians Limited <ENH Property Securities A/C>	3,875,091	0.22
15. National Nominees Limited <N A/C>	3,469,276	0.19
16. HSBC Custody Nominees (Australia) Limited – A/C 2	3,418,935	0.19
17. RBC Investor Services Australia Nominees Pty Ltd <BKMINI A/C>	2,362,425	0.13
18. IOOF Investment Management Limited <IPS Super A/C>	2,208,045	0.12
19. HSBC Custody Nominees (Australia) Limited	2,042,917	0.11
20. UBS Nominees Pty Ltd	1,540,830	0.09
Securities held by top 20 Securityholders	1,664,727,725	93.05
Balance of securities held	124,393,418	6.95
<b>Total issued securities</b>	<b>1,789,121,143</b>	<b>100.00</b>

<b>Range of securities</b>	<b>Number of Securityholders</b>	<b>Number of securities</b>	<b>Percentage of total issued securities</b>
1 – 1,000	7,456	3,653,209	0.20
1,001 – 5,000	11,578	28,458,525	1.59
5,001 – 10,000	2,982	21,220,142	1.19
10,001 – 100,000	1,780	37,300,159	2.08
100,001 – over	107	1,698,489,108	94.93
Rounding			0.01
<b>Total</b>	<b>23,903</b>	<b>1,789,121,143</b>	<b>100.00</b>

There were 654 Securityholders with less than a marketable parcel in relation to 6,339 securities as at 31 August 2016.

<b>Substantial Securityholders<sup>1</sup></b>	<b>Number of securities</b>
Leader Investment Corporation; China Investment Corporation	168,462,083
State Street	106,113,676
Blackrock, Inc.	103,955,559
Vanguard Group	102,759,342

1. In accordance with latest Substantial Securityholder Notices as at 31 August 2016.

## Goodman Logistics (HK) Limited CHESS Depository Interests

ASX reserves the right (but without limiting its absolute discretion) to remove Goodman Logistics (HK) Limited, Goodman Limited and Goodman Industrial Trust from the official list of the ASX if a CHESS Depository Interest (CDI) referencing an ordinary share in Goodman Logistics (HK) Limited, a share in Goodman Limited or a unit in Goodman Industrial Trust cease to be stapled, or any new securities are issued by Goodman Logistics (HK) Limited, Goodman Limited or Goodman Industrial Trust and are not (or CDIs in respect of them are not) stapled to equivalent securities in the Goodman Group.

## Voting rights

On a show of hands at a general meeting of Goodman Limited or Goodman Industrial Trust, every person present who is an eligible Securityholder shall have one vote and on a poll, every person present who is an eligible Securityholder shall have one vote for each Goodman Limited share and one vote for each dollar value of Goodman Industrial Trust units that the eligible Securityholder holds or represents (as the case may be). At a general meeting of Goodman Logistics (HK) Limited, all resolutions will be determined by poll, and eligible Securityholders will be able to direct Chess Depository Nominees Pty Limited to cast one vote for each Chess Depository Instrument (referencing a Goodman Logistics (HK) Limited share) that the eligible Securityholder holds or represents (as the case may be).

## On-market buy-back

There is no current on-market buy-back.

## GLOSSARY

**AASB** Australian Accounting Standards Board.

**AASB** Australian Accounting Standards Board.

**ABPP** Arlington Business Parks Partnership, an unlisted property fund specialising in the investment of business parks in the United Kingdom.

**ASX** Australian Securities Exchange, or ASX Limited (ABN 98 008 624 691) or the financial market which it operates as the case requires.

**AUM** Assets under management: total value of properties directly held or under management.

**CPPIB** Canada Pension Plan Investment Board.

**Cps** Cents per security.

**Cpu** Cents per unit.

**DPS** Distribution per security. Total distributions to investors divided by the number of securities outstanding.

**EBIT** Operating profit before net finance expense and income tax.

**EPS** Earnings per security.

**GADP** Goodman Australia Development Partnership, an unlisted property investment vehicle specialising in the investment of industrial property in Australia.

**GAIP** Goodman Australia Industrial Trust No 1 (ARSN 088 750 627); Goodman Australia Industrial Trust No 2 (ARSN 116 208 612); and Goodman Australia Industrial Trust No 3 (ARSN 130 854 938) stapled to form Goodman Australia Industrial Partnership.

**GCLP** Goodman China Logistics Partnership Limited, an unlisted property investment vehicle specialising in the investment of industrial property in China.

**GEP** Goodman European Partnership, an unlisted property investment vehicle specialising in the investment of industrial property in Continental Europe.

**GFM** Goodman Funds Management Limited (ABN 48 067 796 641; AFSL Number 223621).

**GHKLP** Goodman Hong Kong Logistics Partnership, an unlisted property investment vehicle specialising in the investment of industrial property in Hong Kong.

**GIT** Goodman Industrial Trust (ARSN 091 213 839) and its controlled entities or GFM as Responsible Entity for GIT, where the context requires.

**GJCP** Goodman Japan Core Partnership, an unlisted property investment vehicle specialising in the investment of industrial property in Japan.

**GJDP** Goodman Japan Development Partnership, a logistics and industrial partnership between Goodman and Abu Dhabi Investment Council.

**GL** Goodman Limited (ABN 69 000 123 071) and its controlled entities, where the context requires.

**GMT** Goodman Property Trust, a listed property trust on the NZX managed by GMG.

**GNAP** Goodman North America Partnership, a logistics and industrial partnership between Goodman and Canada Pension Plan Investment Board.

**GTA** Goodman Trust Australia

**GLHK** Goodman Logistics (HK) Limited (Company No. 1700359; ARBN 155 911 149) and its controlled entities, where the context requires.

**GMP** Goodman PLUS.

Goodman Group or GMG Goodman Limited, Goodman Industrial Trust and Goodman Logistics (HK) Limited, trading as Goodman Group and where the context requires, their controlled entities.

**GTEP** Goodman Tax Exempt Plan.

**KGIP** KWAUSA-Goodman Industrial Partnership, an unlisted property investment vehicle specialising in the investment of industrial property.

**KGG** KWAUSA-Goodman Germany, an unlisted property trust specialising in the investment of industrial property in Germany.

**LTI** Long term incentive.

**LTIP** Long Term Incentive Plan.

**NAV** Net asset value: the value of total assets less liabilities. For this purpose, liabilities include both current and long-term liabilities. To calculate the net asset value per ordinary security, divide the net asset value by the number of securities on issue.

**NZX** New Zealand Exchange Limited or New Zealand Exchange being the equity security market operated by it, as the case requires.

**Responsible Entity** **Responsible Entity** means a public company that holds an Australian Financial Services Licence ("AFSL") authorising it to operate a managed investment scheme. In respect of GIT, the Responsible Entity is GFM, a wholly-owned subsidiary of GL.

**S&P** Standard & Poor's: an independent rating agency that provides evaluation of securities investments and credit risk.

**Securityholder** A holder of a Stapled Security.

**Shareholder** A shareholder of GL and/or GLHK.

**Sqm** Square metres

**Sq ft** Square feet.

**Stapled** The linking together of a GIT unit, a GL share and a GLHK share so that one may not be transferred or otherwise dealt with without the other and which are quoted on the ASX jointly as a "stapled security".

**Stapled Security** A GIT unit, a GL share and a GLHK share which are stapled so that they can only be traded together.

**STI** Short term incentive.

**Substantial Securityholder** A person or company that holds at least 5% of Goodman Group's voting rights.

**TSR** Total securityholder return.

**Unitholder** A unitholder of GIT.

# CORPORATE DIRECTORY

## Goodman Group

### Goodman Limited

ABN 69 000 123 071

### Goodman Industrial Trust

ARSN 091 213 839

### Responsible Entity

Goodman Funds Management Limited  
ABN 48 067 796 641; AFSL Number 223621

### Goodman Logistics (HK) Limited

Company No. 1700359; ARBN 155 911 149

## Offices

### Registered offices

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+61 2 9230 7400 (outside Australia)

Facsimile +61 2 9230 7444  
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Website [www.goodman.com](http://www.goodman.com)

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### Other offices

Adelaide	Christchurch	Osaka
Allentown	Cracow	Paris
Amsterdam	Düsseldorf	Perth
Auckland	Guangzhou	Poznan
Barcelona	Hamburg	Prague
Beijing	Hong Kong	Reading
Birmingham	London	São Paulo
Brisbane	Los Angeles	Shanghai
Brussels	Luxembourg	Sydney
Budapest	Madrid	Tokyo
Chengdu	Melbourne	Warsaw

## Directors

Mr Ian Ferrier, AM	(Independent Chairman)
Mr Gregory Goodman	(Group Chief Executive Officer)
Mr Philip Fan	(Independent Director)
Mr John Harkness	(Independent Director)
Ms Anne Keating	(Independent Director)
Ms Rebecca McGrath	(Independent Director)
Mr Danny Peeters	(Executive Director)
Mr Phillip Pryke	(Independent Director)
Mr Anthony Rozic	(Executive Director)
Mr James Sloman, OAM	(Independent Director)

## Company Secretary

Mr Carl Bicego

## Security Registrar

### Computershare Investor Services Pty Limited

Level 5  
115 Grenfell Street  
Adelaide SA 5000  
GPO Box 1903  
Adelaide SA 5001

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+61 3 9415 4043 (outside Australia)

Facsimile +61 8 8236 2305  
Email [www.investorcentre.com/contact](http://www.investorcentre.com/contact)  
Website [www.computershare.com](http://www.computershare.com)

## Custodians

### The Trust Company Limited

Level 12  
123 Pitt Street  
Sydney NSW 2000

## Auditor

KPMG  
10 Shelley Street  
Sydney NSW 2000

## ASX code

GMG

## Disclaimer

This Annual Report has been prepared by Goodman Group (Goodman Limited (ABN 69 000 123 071), Goodman Funds Management Limited (ABN 48 067 796 641; AFSL Number 223621) as the Responsible Entity for Goodman Industrial Trust (ARSN 091 213 839) and Goodman Logistics (HK) Limited (Company No. 1700359; ARBN 155 911 149). It is not intended to be relied upon as advice to investors or potential investors and does not take into account the investment objectives, financial situation or needs of any particular investor. These should be considered, with professional advice, when deciding if an investment is appropriate. This Annual Report is not an offer or invitation for subscription or purchase of securities or other financial products. It does not constitute an offer of securities in the United States. Securities may not be offered or sold in the United States unless they are registered under the US Securities Act of 1933 or an exemption from registration is available. This Annual Report contains certain "forward-looking statements". The words "anticipate", "believe", "expect", "project", "forecast", "estimate", "likely", "intend", "should", "could", "may", "target", "plan" and other similar expressions are intended to identify forward-looking statements. Indications of, and guidance on, future earnings and financial position and performance are also forward-looking statements. Due care and attention have been used in the preparation of forecast information. Such forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors, many of which are beyond the control of Goodman Group, that may cause actual results to differ materially from those expressed or implied in such statements. There can be no assurance that actual outcomes will not differ materially from these statements. All values are expressed in Australian currency unless otherwise stated. September 2016.

