

DEXUS Property Group (ASX:DXS)

ASX release

17 February 2016

2016 Half year results - DEXUS delivers across key earnings drivers

DEXUS Property Group (DEXUS) today announced its results for the six months ended 31 December 2015. Key financial and operational highlights for the period included:

DEXUS Chief Executive Officer, Darren Steinberg said: "Our results reflect the delivery of our strategy. The core property business has performed well, our funds management business has recorded good results, and we've achieved excellent outcomes in development and trading.

"Revaluation gains across our property portfolio drove the majority of the increase in Statutory net profit and NTA per security, as recent comparable market transactions drove cap rate compression at properties with strong tenant covenants.

"Pleasingly we also achieved an employee engagement score of 84% in DEXUS's latest Towers Watson employee engagement survey results, which is six percentage points higher than the Australian National Norm."

FINANCIAL HIGHLIGHTS

- Funds from Operations¹ (FFO) of \$323.9 million, up 25.3% on the previous corresponding period
- Adjusted Funds from Operations² (AFFO) of \$230.7 million, up 22.3% on the previous corresponding period
- Statutory net profit of \$797.5 million, up 209.3% on the previous corresponding period driven primarily by \$533.7 million of revaluations in the six months ended 31 December 2015
- FFO per security of 33.4 cents and distribution per security of 23.05 cents, both up 17.1% on the previous corresponding period
- Group Management Expense Ratio³ of 40bps, down 3bps from the previous corresponding period
- Net tangible assets (NTA) per security of \$7.25 at 31 December 2015, up 57 cents from 30 June 2015
- Gearing⁴ of 29.5%, maintaining DEXUS's financial strength

OPERATIONAL HIGHLIGHTS

DEXUS property portfolio

- Achieved strong one-year total returns across DEXUS Office (+14.8%) and Industrial (+16.7%) portfolios
- Significant leasing activity with 245 leasing deals undertaken across 242,596 square metres¹¹
- Improved Industrial portfolio occupancy by 1ppt to 93.4% and WALE by 0.6 years to 4.6 years
- Completed developments at 5 Martin Place, Sydney and Kings Square, Perth, with 480 Queen Street, Brisbane nearing completion

Third Party Funds Management

- Achieved a one-year total return of 14.8% in the DEXUS Wholesale Property Fund (DWPF) and an annualised unlevered property return of 16.0% since inception in the DEXUS Office Partnership, exceeding respective benchmarks
- Increased Third Party Funds under management to \$10.6 billion, up 11% from 30 June 2015, achieved through acquisitions, developments and revaluations

Trading

- Settled on the sale of trading properties at Rosebery and Mascot, securing \$63.3 million⁵ of trading profits net of tax, in line with FY16 guidance
- Announced the sale of 57-65 Templar Road in Erskine Park, to contribute to FY17 trading profits
- Achieved leasing outcomes at properties at Parramatta, St Leonards and Auburn enabling developments to proceed, subject to appropriate regulatory approvals

Transactions

- Divested 36 George Street, Burwood⁶ for \$95 million, representing a 44% premium to book value
- Entered into a binding Implementation Agreement with Investa Listed Funds Management Limited (ILFML) the responsible entity of Investa Office Fund (IOF) under which DEXUS will seek to acquire all of the units in IOF, subject to certain conditions

DEXUS Property Group (ASX:DXS)

ASX release

IOF MERGER WITH DEXUS

DEXUS submitted a proposal (Proposal) to acquire all of the units in Investa Office Fund (IOF) as a consequence of an unsolicited approach to DEXUS from the advisers to the Independent Board Committee (IBC) of Investa Listed Funds Management Limited (ILFML).

On 18 December 2015, following the completion of due diligence under the process agreement, DEXUS Funds Management Limited and ILFML entered into a binding Implementation Agreement ("MIA") under which DEXUS will seek to acquire all of the units in IOF. The MIA includes provisions such as exclusivity arrangements and provisions for payment of a break fee of \$23.52 million by IOF to DEXUS in certain circumstances.

The Proposal is strongly aligned with DEXUS's strategy and offers a number of opportunities to unlock value.

Implementation of the Proposal will be via an IOF informal trust scheme and requires, among other things, the approval of IOF Unitholders at a meeting expected to be held on 8 April 2016.

The IBC of ILFML has resolved that they intend to unanimously recommend that IOF Unitholders vote in favour of the Proposal, in the absence of a superior proposal and subject to an Independent Expert concluding that the Proposal is in the best interests of IOF Unitholders.

Following implementation, the Proposal offers the following benefits to new and existing DEXUS Security holders:

- **Portfolio benefits** - the DEXUS and IOF portfolios are highly complementary, retaining a focus on Sydney and Melbourne CBDs. The combination also enhances asset and tenant diversification
- **Synergy benefits** - improved flexibility and capacity to unlock development and repositioning potential, increased scope to action portfolio leasing strategies for customers, and improved margins (Management Expense Ratio to reduce from 40 basis points as at 31 December 2015 to sub-35 basis points)⁷
- **Efficient transaction reduces value leakage** - financially attractive merger that is accretive to Underlying FFO per security
- **Capital markets benefits** - increased global relevance for debt and equity investors seeking exposure to Australian office property

In January 2016, DEXUS received confirmation from the Australian Competition and Consumer Commission (ACCC) that it does not intend to conduct a public review of the Proposal.

No agreement with Morgan Stanley has been reached to facilitate the transition of the management of IOF and provide other services. DEXUS continues to work constructively with IOF management and the IBC to ensure a seamless transition of the IOF portfolio.⁸

FINANCIAL RESULTS

Statutory net profit after tax	\$797.5 million	(HY15: \$257.8 million)
FFO	\$323.9 million	(HY15: \$258.4 million)
AFFO	\$230.7 million	(HY15: \$188.7 million)
FFO per security	33.4 cents	(HY15: 28.5 cents)
Distribution per security	23.05 cents	(HY15: 19.68 cents)

DEXUS delivered a 25.3% increase in FFO to \$323.9 million, or 33.4 cents per security, reflecting a 17.1% increase. This increase was primarily a result of the realisation of \$63.3 million⁵ in trading profits net of tax, up \$45.2 million on the previous corresponding period, and lower finance costs. The underlying business excluding trading profits delivered FFO per security of 26.9 cents, up 1.3% on the previous corresponding period and DEXUS is on track to achieve 3.0%-3.5% underlying FFO per security growth for the full-year.

Statutory net profit after tax was \$797.5 million, an increase of 209.3% on the previous corresponding period. This movement was driven primarily by the \$533.7 million of net revaluation gains on investment properties, which were \$424.4 million higher than the gains in the previous corresponding period.

DEXUS Property Group (ASX:DXS)

ASX release

The statutory net profit in the previous corresponding period was also impacted by net unrealised fair value losses on derivatives due to market interest rates shifting downward. NTA per security increased 57 cents to \$7.25, primarily as a result of investment property revaluation gains.

Distribution per security was 23.05 cents for the six months ended 31 December 2015, up 17.1% on the previous corresponding period, with the payout ratio remaining consistent with free cash flow. The distribution will be paid to DEXUS Security holders on Monday, 29 February 2016.

Capital Management

Key metrics	31 December 2015	30 June 2015
Gearing ⁴ (look-through)	29.5%	28.5%
Duration of debt	5.2 years	5.7 years
Cost of debt	4.9%	5.2%
Hedged debt ⁹	64%	69%

Chief Financial Officer, Alison Harrop said: "We continue to maintain a strong balance sheet. The movement in gearing over the period was a result of the receipt of proceeds from trading property settlements and our 50% interest in 36 George Street, Burwood as well as the acquisition of a 50% interest in Waterfront Place Complex in Brisbane.

"We maintained control on costs, reducing our gross Management Expense Ratio to 40 basis points from 43 basis points in the previous corresponding period."

DEXUS has minimal short term refinancing requirements and remains within all of its debt covenant limits and target ranges.

During the period, DEXUS bought back 2.9 million DEXUS securities as part of its on-market securities buyback at pricing ranging from \$7.05-\$7.20. The buyback was suspended as a result of entry into the process agreement for the IOF Proposal announced on 7 December 2015.

PORTFOLIO UPDATE

Valuations and portfolio total returns

Recent leasing success, combined with recent comparable market transactions for quality Australian office property with strong tenant covenants, contributed to a \$528.0 million or 6.4% increase in valuations on prior book values across the office portfolio. The weighted average capitalisation rate for the DEXUS office portfolio tightened 41 basis points from 6.71% at 30 June 2015 to 6.30% at 31 December 2015.

Continued strong investment demand for well-located prime quality industrial facilities contributed to a 21 basis point tightening of capitalisation rates across the DEXUS Industrial portfolio from 7.77% at 30 June 2015 to 7.56% at 31 December 2015, resulting in a marginal uplift of \$5.7 million or 0.3% on prior book values.

As a result of the strong office valuation uplifts and trading profits realised at industrial properties in Rosebery and Mascot, DEXUS achieved strong one-year total returns across its Office and Industrial portfolios, delivering a 14.8% and 16.7% return respectively.

Darren Steinberg said: "The valuation and cap rate improvements we experienced over the period exceeded our expectations. The finalisation of a number of transactions in the market over the first six months of the 2016 calendar year is expected to flow through to further cap rate compression of 12.5-25 basis points across our total portfolio."

Property transactions

Consistent with DEXUS's strategy of recycling capital from non-core properties and capitalising on strong investor demand, 36 George Street, Burwood⁶ was sold for \$95 million, reflecting a 44% premium to book value and a 32% IRR on investment.

DEXUS Property Group (ASX:DXS)

ASX release

During the period, the NSW State Government advised DEXUS of its intention to compulsorily acquire 39 Martin Place, Sydney¹⁰ for the new Sydney Metro rail project. DEXUS is working through negotiations to ensure the best possible outcome for its Security holders, investors and customers, and will provide an update when further information is available.

Post 31 December 2015, DEXUS and DWPF entered into an agreement to each acquire a 50% interest in 90 and 100 Mount Street, North Sydney. DEXUS and DWPF plan to develop a 41,163 square metre premium office tower on the site and the project will be completed at a time when tight supply fundamentals are expected in Sydney.

DEXUS office portfolio

Portfolio value:	\$8.8 billion
Total area:	1,564,717 square metres
Area leased during the period:	97,935 square metres ¹¹

Key metrics	31 December 2015	30 June 2015
Occupancy by income	94.1%	95.3%
Occupancy by area	94.3%	95.5%
WALE by income	4.4 years	4.3 years
Average incentive	17.2%	15.0%
Average rental increase/(decrease) or re-leasing spread ¹²	1.3%	0.1%
Retention rate	56%	61%
Total return - 1 year	14.8%	9.6%

Kevin George, Executive General Manager, Office and Industrial, said: "Solid tenant demand across east coast CBD office markets, particularly Sydney, flowed through to an increased number of leasing deals across our portfolio. Despite occupancy reducing as a result of expected movements, we continue to target occupancy of 95% at 30 June 2016. An increase in withdrawals due to the new Sydney Metro rail project is expected to further drive demand for office space in our Sydney portfolio over the coming 12 months."

Effective deals represented a lower percentage of total leasing in HY16 compared to FY15, which meant that overall office portfolio incentives rose marginally.

During the period, DEXUS leased 97,935 square metres¹¹ of office space across 198 transactions on average lease terms of 5.4 years. Notable leasing volumes were achieved at 309-321 Kent Street and Grosvenor Place in Sydney, as well as Waterfront Place Complex and 10 Eagle Street in Brisbane. Office portfolio occupancy (by income) reduced to 94.1% from 95.3% at 30 June 2015 and portfolio WALE was 4.4 years. Despite tenant retention of 56%, DEXUS successfully re-leased 61% of the area vacated during the period, with average downtime of only three months.

Office property FFO increased by \$9.5 million, or 3.6% to \$272.3 million underpinned by the acquisition of Waterfront Place Complex, Brisbane, with office like-for-like income reducing marginally (down 0.3%), in line with expectations.

DEXUS industrial portfolio

Portfolio value:	\$1.7 billion
Total area:	1,240,245 square metres
Area leased during the period:	144,661 square metres ¹¹

Key metrics	31 December 2015	30 June 2015
Occupancy by income	93.4%	92.4%
Occupancy by area	92.2%	91.7%
WALE by income	4.6 years	4.0 years
Average incentive	10.1%	10.8%
Average rental increase/(decrease) or re-leasing spread ¹²	(3.0)%	(4.6)%
Retention rate	32%	53%
Total return - 1 year	16.7%	11.3%

DEXUS Property Group (ASX:DXS)

ASX release

Kevin George said: "We achieved significant leasing volumes across our industrial portfolio, increasing occupancy over the period despite retention being impacted by the departure of tenants from some of our large scale facilities. We continue to see an uptick in tenant enquiry and demand for industrial property in South Sydney, benefitting from supply withdrawals for alternative use."

During the period, DEXUS leased 144,661 square metres¹¹ of industrial space across 47 transactions, of which 28 were new leases. This represents a significant increase on the 97,968 square metres¹¹ leased in the previous corresponding period, and includes notable deals at 2-4 Military Road in Matraville, 15-23 Whicker Road in Gillman, 79-99 St Hilliers Road in Auburn and 2 Alspeg Place in Eastern Creek.

Portfolio WALE improved to 4.6 years. New rents reduced 3.0% on average compared with prior rents, as DEXUS continued to work through over-renting in the industrial portfolio, with the portfolio now 5.3% over-rented. Average incentives decreased slightly to 10.1% (FY15: 10.8%).

Industrial property FFO increased by \$0.5 million, or 1.0% to \$52.5 million. Like-for-like income reduced 6.8%, driven by vacancies at Knoxfield and Matraville, partially offset by fixed rental increases across the remainder of the portfolio and the acquisition of Lakes Business Park, Botany.

Development

DEXUS continued to enhance future investor returns through the \$3.2 billion Group development pipeline, of which \$1.1 billion sits within the DEXUS portfolio and \$2.1 billion within third party funds.

The final stage of development at 5 Martin Place, Sydney¹³ was completed, with total space now 94.7% committed (of which office space by income is 96% committed). The development is on track to achieve a forecast unlevered project IRR of 39%.

The remaining tower at Kings Square, Perth was completed, and the rental guarantee secured at time of acquisition ensures full income on the properties for a further five years from practical completion.

The Premium grade 480 Queen Street, Brisbane development is on track for completion in February 2016, with the office space now 100% committed.

The development of two industrial facilities at Quarry at Greystanes completed, including a 120 seat café which will service the entire estate. Construction on a 20,489 square metre warehouse pre-leased to Reece Plumbing is underway and the estate is now 100% leased.

The first developments at the adjoining Quarrywest site have commenced construction, comprising a 12,520 square metre warehouse facility pre-leased to Toshiba and three speculative facilities across 23,855 square metres.

Along with a 25,650 square metre warehouse facility for Kathmandu in Laverton North and a 22,950 square metre facility at Larapinta these facilities are due for completion by 30 June 2016.

THIRD PARTY FUNDS MANAGEMENT

Craig Mitchell said: "Our third party funds under management increased 11% to \$10.6 billion through revaluations, developments and a number of transactions completed in the period. We also continued to drive performance for our clients, with DWPF and DEXUS Office Partnership delivering outperformance against their benchmarks."

DWPF achieved a one-year total return of 14.8%, outperforming its benchmark over one, three and five years. The DEXUS Office Partnership portfolio has achieved an annualised 16.0% unlevered total return since inception in April 2014.

The \$2.1 billion third party development pipeline also provides an opportunity to improve the quality of clients' property portfolios and enhance future returns.

TRADING

Trading profits of \$63.3 million⁵ were realised in the period in line with FY16 guidance, through the settlement of trading properties at Rosebery and Mascot.

With FY16 trading profits delivered, DEXUS is focused on securing FY17 trading profits and progressing other trading opportunities.

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ASX release

During the period DEXUS announced the sale of 57-65 Templar Road in Erskine Park for gross sale proceeds of \$50 million. Settlement is expected to occur in July 2016 and contribute approximately \$12 million pre-tax to FY17 trading profits.

Recent progress on DEXUS's trading pipeline includes:

- Securing Heads of Agreement with Government Property NSW for a development spanning approximately 25,000 square metres at 105 Phillip Street, Parramatta, with an expected lease term of 12 years
- Securing Heads of Agreement for a long term lease with a major tenant for a facility to be constructed at 12 Frederick Street, St Leonards
- Securing Heads of Agreement for a lease with Bunnings for the development of a new 19,300 square metre retail facility at 79-99 St Hilliers Road, Auburn

SUMMARY

Darren Steinberg said: "Taking into account global geopolitical risks, economic uncertainty in China and volatility in equity markets, we retain our view on a lower for longer domestic interest rate cycle. We expect that this will bode well for business activity and flow on to leasing.

"Office market fundamentals, particularly in Sydney, are expected to continue to improve as Australian corporates invest for growth. Investment demand should also retain its strength as investors seek the defensive nature of property."

Barring unforeseen changes to operating conditions, DEXUS's guidance¹⁴ for the 12 months ending 30 June 2016 is for 5.5-6.0% growth in FFO per security.

Distributions will be paid in line with free cash flow which is expected to deliver growth in distribution per security of 5.5-6.0% for the 12 months ending 30 June 2016.

2016 Half Year Review

The 2016 Half Year Review is attached containing further detail in relation to the result.

For further information please contact:

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About DEXUS

DEXUS Property Group is one of Australia's leading real estate groups, investing directly in high quality Australian office and industrial properties. With \$21.1 billion of assets under management, the Group also actively manages office, industrial and retail properties located in key Australian markets on behalf of third party capital partners. The Group manages an office portfolio of 1.8 million square metres located predominantly across Sydney, Melbourne, Brisbane and Perth and is the largest owner of office buildings in the Sydney CBD, Australia's largest office market. DEXUS is a Top 50 entity by market capitalisation listed on the Australian Securities Exchange under the stock market trading code 'DXS' and is supported by more than 32,000 investors from 20 countries. With more than 30 years of expertise in property investment, development and asset management, the Group has a proven track record in capital and risk management, providing service excellence to tenants and delivering superior risk-adjusted returns for its investors. www.dexus.com

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DEXUS Funds Management Ltd ABN 24 060 920 783, AFSL 238163, as Responsible Entity for DEXUS Property Group (ASX: DXS)

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1. FFO in accordance with guidelines provided by the Property Council of Australia (PCA): comprises net profit/loss after tax attributable to stapled security holders calculated in accordance with Australian Accounting Standards and adjusted for: property revaluations, impairments, derivative and FX mark-to-market impacts, fair value movements of interest bearing liabilities, amortisation of tenant incentives, gain/loss on sale of certain assets, straight line rent adjustments, deferred tax expense/benefit, transaction costs, rental guarantees and coupon income.
2. AFFO is calculated in line with the Property Council of Australia definition and comprises PCA FFO adjusted for: maintenance capex, incentives (including rent free incentives) given to tenants during the period and other items which have not been adjusted in determining FFO.
3. Group Management Expense Ratio is calculated as annual costs arising from managing DEXUS assets and corporate activity divided by balance sheet funds under management at the end of the period.
4. Gearing is adjusted for cash and for debt in equity accounted investments and excludes the proposed IOF merger, which would increase gearing by a further 4ppt.
5. Trading profits generated less associated FFO tax expense.
6. Owned by the DEXUS Office Partnership, in which DEXUS has a 50% interest.
7. Assumes the Proposal is implemented and DEXUS acquires 100% of the IOF Units.
8. To achieve an orderly integration of management, DEXUS intends, if the Proposal becomes effective, to exercise the rights it will have as the ultimate owner of IOF which would include - removing the IOF Responsible Entity and appointing DEXUS Funds Management Limited in its place; making changes to the constitutions of IOF to reduce the responsible entity fees to nil and changing, where appropriate, the sub-trustees of IOF subsidiary trusts. The management deed IOF has with Investa Office Management Pty Ltd will terminate if the IOF Responsible Entity is replaced by a person who is not a member of the Investa property group. The property management arrangements are for an initial fixed term and/or in the case of co-owned properties require the consent of the co-owner, accordingly they will continue in accordance with, and subject to, the terms and will not be transitioned to DEXUS as part of the transition process.
9. Average for the period (excluding caps). Average for the period (including caps) was 73%.
10. Owned 50/50 by DEXUS and DWPF.
11. Including Heads of Agreement.
12. Average change in face rents for leasing undertaken during the period.
13. 5 Martin Place, Sydney is co-owned by Cbus Property (50%) and DEXUS Office Partnership (50%), in which DEXUS has a 50% interest.
14. Barring unforeseen circumstances guidance is supported by the following assumptions: circa 1% like-for-like income growth across the DEXUS office portfolio and a circa 7% decline in like-for like income across the DEXUS industrial portfolio, weighted average cost of debt of 4.9%, trading profits of \$63m net of tax, Management Operations FFO of circa \$45m (including third party development management fees), and excluding the impact of the IOF Proposal and any further transactions.

DEXUS

Half Year Review
2016

“Over the past six months our core property business has performed well, our funds management business has recorded good results, and we’ve achieved excellent outcomes in development and trading.”

DARREN STEINBERG
CEO

23.05 cents

DISTRIBUTION PER
SECURITY UP 17.1%¹

33.4 cents

FFO PER SECURITY
UP 17.1%¹

\$797.5m

STATUTORY NET PROFIT
UP 209.3%

\$7.25

NTA PER SECURITY
UP 57 CENTS²

29.5%

GEARING

40bps

MANAGEMENT EXPENSE
RATIO DOWN 3 BPS¹



DEXUS
PROPERTY GROUP

“We have delivered strong financial outcomes across our business in the six months to 31 December 2015 and are on track to achieve our targets for FY16.”

DARREN STEINBERG
CEO



Dear Security holders,

For the first six months of the 2016 financial year we achieved a Statutory net profit of \$797.5 million and Funds from Operations (FFO) of \$323.9 million. The distribution for the six months ending 31 December 2015 of 23.05 cents per security was up 17.1% on the previous corresponding period. This increase was a result of the settlement of the trading properties at Rosebery and Mascot, with the full proceeds to be included in the distribution for the six months ended 31 December 2015.

Revaluation gains across our property portfolio drove the majority of the increase in Statutory net profit, and NTA per security, as recent comparable market transactions drove cap rate compression at properties with strong tenant covenants.

During the period DEXUS was approached by the Independent Board Committee of Investa Office Fund (IOF) to enter into a binding implementation agreement for IOF to merge with DEXUS. This transaction is strongly aligned with our strategy, and offers a number of opportunities to unlock value. The ability to acquire this portfolio in a cost and capital efficient manner enables us to leverage further economies of scale from a management, procurement and leasing perspective. The merger proposal is subject to an IOF Unitholder vote expected to occur on 8 April 2016 and I look forward to updating you further as the transaction progresses.

Our balance sheet remains strong, with gearing of 29.5% and a weighted average debt duration of 5.2 years. As a result of announcing the IOF Proposal in December 2015, we suspended our on-market securities buy-back until further notice.

PROPERTY TRANSACTIONS

Consistent with our strategy of recycling capital from non-core properties and capitalising on strong investor demand, we sold 36 George Street, Burwood³ for \$95 million, reflecting a 44% premium to book value.

During the period, the NSW State Government advised us of its intention to compulsorily acquire 39 Martin Place,⁴ Sydney for the new Sydney Metro rail project. We are working through negotiations to ensure the best possible outcome for our investors and customers, and will provide an update when further information is available.

In February 2016, DEXUS and DEXUS Wholesale Property Fund entered into an agreement to each acquire a 50% interest in 90 and 100 Mount Street, North Sydney. DEXUS will develop a 41,163 square metre premium office tower on the site and the project will be completed at a time when tight supply fundamentals are expected in Sydney.

DELIVERING ON KEY EARNINGS DRIVERS

We maintained our focus on delivering on the FY16 targets we set across our property portfolio, funds management and property services, and trading businesses.

Leasing activity was strong across our office portfolio, and despite occupancy reducing from 95.3% at 30 June 2015 to 94.1%, we continue to target occupancy of 95% at 30 June 2016.

We progressed our development pipeline, completing office developments at 5 Martin Place, Sydney and Kings Square, Perth, with 480 Queen Street, Brisbane nearing completion.

Third party funds under management increased 11% to \$10.6 billion through valuation increases, developments and the settlement of the acquisition of Waterfront Place Complex in Brisbane⁴. The majority of our third party funds and partnerships pleasingly continued to outperform their benchmarks.

The settlement of properties at Rosebery and Mascot delivered trading profits of \$63.3 million net of tax in line with our FY16 guidance, and we have made progress on the future pipeline, achieving leasing outcomes at three trading properties that are expected to contribute to profits in coming years.

OUTLOOK AND GUIDANCE

Taking into account global geopolitical risks, economic uncertainty in China and volatility in equity markets, we retain our view on a lower for longer domestic interest rate cycle. We expect that this will bode well for business activity and flow on to leasing.

We reaffirm our FY16 guidance⁵ for 5.5–6.0% growth in FFO per security. Distributions will be paid in line with free cash flow which is expected to deliver growth in distribution per security of 5.5–6.0% for the 12 months ending 30 June 2016.

Finally, I would like to acknowledge Chris Beare who we farewelled as Chair and Independent Director of the Board in October 2015, and thank him for his dedication and commitment over the past 11 years. Richard Sheppard, existing Independent Director of the Board, was appointed Chair and brings extensive experience through prior board positions on listed property and infrastructure trusts.

I look forward to keeping you updated over the remainder of FY16.

DARREN STEINBERG
CHIEF EXECUTIVE OFFICER

KEY EARNINGS DRIVERS

PROPERTY PORTFOLIO	FUNDS MANAGEMENT & PROPERTY SERVICES	TRADING
Maximising performance from the DEXUS property portfolio	Driving performance and generating revenue from funds management and property services	Delivering trading profits from identified properties
80–90% of FFO	10–20% of FFO	
UNDERLYING BUSINESS		TRADING

Cover: Kings Square, Wellington Street, Perth, WA.

¹ Compared to the previous corresponding period.

² Compared to 30 June 2015.

³ Owned by the DEXUS Office Partnership, in which DEXUS has a 50% interest.

⁴ DEXUS and DEXUS Wholesale Property Fund each own a 50% interest.

⁵ Excluding the IOF Proposal.

OCCUPANCY BY INCOME

94.1%

WEIGHTED AVERAGE LEASE EXPIRY

4.4 years

ONE-YEAR TOTAL RETURN

14.8%

SIGNIFICANT INCREASE IN VALUATIONS

DEXUS's property portfolio achieved strong capital growth, driven by revaluation gains primarily in the office portfolio.

During the period, DEXUS achieved a total of \$533.7 million or 5.4% increase on prior book values, accounting for the majority of the uplift in NTA.

Both the valuation and capitalisation rate improvements experienced over the period exceeded expectations, with recent comparable market transactions driving cap rate compression at properties with strong tenant covenants.

The office portfolio weighted average cap rate tightened 41 basis points from 30 June 2015 to 6.30%, and in the industrial portfolio the weighted average cap rate tightened 21 basis points to 7.56%.

The finalisation of a number of transactions in the market over the first six months of the 2016 calendar year is expected to flow through to further cap rate compression of 12.5–25 basis points across the DEXUS property portfolio.

OCCUPANCY BY INCOME

93.4%

WEIGHTED AVERAGE LEASE EXPIRY

4.6 years

ONE-YEAR TOTAL RETURN

16.7%

Office



10 Eagle Street, Brisbane QLD

The past six months has been a period of continued leasing activity against a backdrop of solid tenant demand across east coast CBD office markets.

During the period there was sustained improvement in service sector employment as a result of positive business conditions. Sydney continued to achieve strong net absorption towards the end of 2015, while Melbourne continued to improve and Brisbane showed further signs of stabilisation.

These market conditions flowed through to strong leasing activity in the office portfolio, with 198 transactions completed across 97,935 square metres⁵ of space.

Despite occupancy⁶ reducing to 94.1% as a result of expected tenant movements, DEXUS continues to target occupancy of 95% at 30 June 2016.

Key leasing highlights included:

- Securing six new leases and one renewal across 15,286 square metres at 309–321 Kent Street, Sydney
- Securing 13 leases across 6,356 square metres at Grosvenor Place, comprising a mix of new leases and renewals

- Securing 100% of retail income at Grosvenor Place's City Retail development currently under construction
- Securing 12 leases across 6,797 square metres at 10 Eagle Street, Brisbane, comprising a mix of new leases and renewals

Like-for-like income reduced marginally by 0.3%, in line with expectations. Effective deals represented a lower percentage of total leasing in HY16 compared to FY15, which meant that overall average office portfolio incentives rose marginally during the period.

The office portfolio delivered a strong one-year total return of 14.8%, driven primarily by property revaluations.

FY16 FOCUS

- Maintain 95% occupancy in the DEXUS office portfolio
- Reduce the FY17 DEXUS office portfolio lease expiries to 10%
- Target circa 1% like-for-like income growth across the DEXUS office portfolio
- Continue to reduce incentives and undertake effective leasing deals

Industrial



2-4 Military Road, Matraville NSW

Supported by above average occupier take-up in DEXUS's key markets, DEXUS achieved significant leasing volumes increasing industrial portfolio occupancy over the period.

The lead indicators for industrial occupier activity continued to firm moderately towards the end of 2015 with industrial portfolio occupancy⁶ improving by one percentage point from 92.4% at 30 June 2015 to 93.4% at 31 December 2015.

DEXUS leased 144,661 square metres⁵ of industrial space across 47 transactions, resolving a major vacancy at Matraville across approximately 18,000 square metres and improving industrial portfolio WALE from 4.0 years at 30 June 2015 to 4.6 years.

Key leasing highlights included:

- Securing a new lease with Fedex across 18,013 square metres at 2-4 Military Road, Matraville
- Securing a new lease with Toll across 16,915 square metres at 2 Alspec Place, Eastern Creek
- Securing new lease with Natures Dairy across 15,662 square metres at 25 Distribution Drive, Laverton North

The industrial portfolio achieved a strong one-year total return of 16.7%, primarily driven by trading profits realised at properties in Rosebery and Mascot.

The development of new industrial properties at Quarry and Quarrywest, Greystanes; Larapinta in Brisbane; and Laverton North in Melbourne, all due for completion in FY16, will further enhance returns.

FY16 FOCUS

- Active asset management of the industrial portfolio to deliver attractive income returns
- Expect 7% decline in like-for-like income across the DEXUS industrial portfolio
- Pursuing non-core divestments and/or change of use repositioning opportunities within the existing portfolio
- Developing core new industrial product and pursuing core plus acquisition opportunities for DEXUS and its third party parties

⁵ Including Heads of Agreement.

⁶ By income.

Development

DEXUS continued to enhance future investor returns through the \$3.2 billion Group development pipeline, of which \$1.1 billion sits within the DEXUS portfolio.



5 MARTIN PLACE, SYDNEY

- Development completed
- Forecast unlevered project IRR of 39%
- 94.7% total occupancy, of which office space by income is 96% committed
- Retail tenants COS, RIMOWA and Hills Bros are trading



QUARRY & QUARRYWEST, GREYSTANES

- Quarry at Greystanes 100% leased
 - Completed a 7,900sqm facility and a 1,831sqm café/warehouse
 - 20,489sqm facility for Reece Plumbing under construction is due for completion in mid 2016
- 12,520sqm facility for Toshiba and three facilities across 23,855sqm under construction at Quarrywest, are due for completion in mid 2016



KINGS SQUARE, PERTH

- Development completed
- Forecast unlevered project IRR of 15%
- 100% income secured for five years from practical completion
- Child care centre in operation



480 QUEEN STREET, BRISBANE

- Due for completion in February 2016
- 100% of office space committed
- Forecast unlevered project IRR of 17%
- Project registered for the WELL Building Standard certification

Funds Management



Gateway, 1 Macquarie Place, Sydney NSW

THIRD PARTY FUNDS UNDER MANAGEMENT

\$10.6bn

THIRD PARTY DEVELOPMENT PIPELINE

\$2.1bn

DEXUS OFFICE PARTNERSHIP ANNUALISED UNLEVERED PROPERTY RETURN SINCE INCEPTION

16.0%

DWPF ONE-YEAR TOTAL RETURN

14.8%

DEXUS continued to execute on its third party clients' investment objectives, progressing developments and delivering outperformance against comparable property benchmark indices for the majority of funds and partners.

Third party funds under management increased 11% to \$10.6 billion as a result of valuation increases, developments completed, and the settlement of the Waterfront Place Complex in Brisbane.

DEXUS Wholesale Property Fund (DWPF) achieved a strong total return for the year to 31 December 2015 of 14.8% post fees, and continued to outperform its benchmark over one, three and five years. The DEXUS Office Partnership outperformed its benchmark, and has achieved an annualised 16.0% unlevered property return since inception in April 2014.

Strong total returns reflected considerable capitalisation rate tightening across a number of the third party properties combined with active leasing across all three sectors.

DWPF executed on its FY16 Investment Plan, acquiring a 50% interest in Waterfront Place Complex in Brisbane, and divesting two industrial assets as well as Cannon Park City & Discount Centres.

The \$2.1 billion third party development pipeline progressed significantly during the period, with key highlights including:

- Completion and official opening of the Westfield Hurstville refurbishment
- Completion and official opening of the Westfield North Lakes fresh food market and restaurant precinct
- Completion of the Drive Industrial Estate, Richlands development
- Completing the construction of facilities at Quarry at Greystanes and commenced development at Quarrywest, Greystanes
- Completion of office developments at 5 Martin Place, Sydney and Kings Square, Perth
- Commenced construction works at the retail plaza of Gateway, Circular Quay in Sydney, where terms have been agreed across approximately 70% of income

The third party development pipeline provides an opportunity for DEXUS to improve the quality of third party property portfolios and enhance future returns.

FY16 FOCUS

- Secure pre-commitments for third party development projects
- Deliver on third party clients' investment objectives
- Drive performance in the third party portfolios through active leasing

Trading



12 Frederick Street, St Leonards, NSW

ACHIEVED LEASING
OUTCOMES AT

3 TRADING PROPERTIES

TRADING PROFITS
REALISED NET OF TAX

\$63.3m

FY17 PRE-TAX TRADING
PROFITS CONTRACTED

\$12m



SALE OF 57-65 TEMPLAR ROAD ERSKINE PARK

- Acquired the 6.25 hectare Erskine Park site in 2011 as a trading property
- Secured development and planning approvals for the development of a 30,115 square metre multi-tenanted estate comprising two freestanding buildings
- Completed construction, fully leased the estate and then marketed for sale
- Sold the property for gross sale proceeds of \$50 million with settlement due in July 2016, delivering an unlevered project IRR of 15%
- To contribute approximately \$12 million pre-tax to FY17 trading profits

DEXUS delivered its trading profits for FY16 in line with guidance, and grew its future pipeline.

In July 2015 DEXUS settled on the sale of 25–55 Rothschild Avenue and 5–13 Rosebery Avenue, Rosebery and 154 O’Riordan Street, Mascot, securing \$63.3 million of trading profits net of tax in FY16.

With FY16 trading profits delivered, DEXUS is focused on securing FY17 trading profits and progressing opportunities in its trading pipeline.

In October 2015, DEXUS announced that it had entered into an agreement to sell 57–65 Templar Road in Erskine Park, NSW, with gross sale proceeds of \$50 million expected to contribute approximately \$12 million pre-tax to trading profits in FY17.

DEXUS progressed its trading pipeline, while at the same time expanding its development pipeline, through:

- Securing Heads of Agreement with Government Property NSW for a circa 25,000 square metre office development at 105 Phillip Street, Parramatta, with an expected lease term of 12 years
- Securing Heads of Agreement for a long term lease with a major tenant for a facility to be constructed at 12 Frederick Street, St Leonards
- Securing Heads of Agreement for a lease with Bunnings for the development of a new 19,300 square metre retail facility at 79–99 St Hilliers Road, Auburn

DEXUS will continue to leverage its capabilities to deliver trading profits in future years.

INVESTOR INFORMATION

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Australian Securities Exchange

ASX Code: DXS

DEXUS is committed to delivering a high level of service to all investors. If you feel that DEXUS could improve its service or you want to make a suggestion or complaint, your feedback is appreciated. DEXUS Funds Management Limited is a member of Financial Ombudsman Service (FOS), an independent dispute resolution scheme.

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