

DEXUS Property Group (ASX: DXS)

ASX release

29 February 2016

31 December 2015 distribution

DEXUS Property Group (DEXUS) advises that the distribution for the six months ended 31 December 2015 will be paid to Security holders today. DEXUS provides a copy of the letter to be sent to Security holders and the 2016 Half Year Review.

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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

Download the DEXUS IR app to your preferred mobile device to gain instant access to the latest stock price, ASX Announcements, presentations, reports, webcasts and more.



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



DEXUS

PROPERTY GROUP

29 February 2016

DEXUS Funds Management Limited

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AFSL: 238163

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Dear Security holder

In the six months to 31 December 2015, DEXUS Property Group (DEXUS) delivered strong financial outcomes across key business areas and is on track to achieve its targets for FY16.

Details relating to the achievements during the six months to 31 December 2015 can be found in the 2016 Half Year Review available at www.dexus.com/hy16review. The 2016 Half Year Review is enclosed for Security holders who have elected to receive a printed copy.

Please also find enclosed your distribution statement for the six months ended 31 December 2015.

Distribution payment

DEXUS achieved Funds from Operations¹ (FFO) of \$323.9 million or 33.4 cents per security, up 17.1% from the previous corresponding period, delivering a distribution of 23.05 cents per security for the six months ended 31 December 2015, also up 17.1% on the previous corresponding period.

If you believe you have unrepresented distribution income or cheques, please contact the DEXUS Infoline on +61 1800 819 675.

Determining the value of your DEXUS holding

The value of your security holding at 31 December 2015 is provided on your distribution statement. Current price information is available on DEXUS's website at www.dexus.com/price and is published daily in major Australian metropolitan newspapers.

Changing your details

You can access your security holding information online to update your personal details via DEXUS's investor login facility at www.dexus.com/update. Communication method election, email address notifications, Tax File Number and Australian Business Number notifications can also be updated in this facility. You will require your Holder Identification Number (HIN) or Security Holder Reference Number (SRN) to access your security holding.

Forms are available for details that cannot be updated directly in this facility. Download them by clicking on the Forms menu item when you are logged into your security holding or from the Link Market Services website at linkmarketservices.com.au. Alternatively you can contact the DEXUS Infoline on +61 1800 819 675 or email dexus@linkmarketservices.com.au

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.

Receive your communications electronically

DEXUS is committed to ensuring all investors have equal access to information about its business activities. You can elect to receive communications electronically by registering your email address using the enclosed email collection and online notification form.

In line with DEXUS's commitment to the long term integration of sustainable business practices, investor communications are also distributed via various electronic methods including:

- **DEXUS website**
www.dexus.com provides a wide range of information, including a two minute corporate video, ASX announcements, investor information and reports. DEXUS security holders can also subscribe to alerts to receive DEXUS communications immediately after release
- **DEXUS IR App**
The DEXUS IR App provides current and future investors with instant access to the latest security price, ASX announcements, presentations, reports, webcasts and more. You can download the DEXUS IR App for free from Apple's App Store or Google Play.
- **LinkedIn**
DEXUS now engages with its followers via LinkedIn. To receive DEXUS LinkedIn communications, visit the Investor Centre at www.dexus.com/investors and click on 'DEXUS on LinkedIn' - 'Follow us'.

If you have any questions concerning your security holding, please contact us on the DEXUS Infoline on +61 1800 819 675.

Thank you for your continued support of DEXUS Property Group.

Yours faithfully



David Yates
Executive General Manager
Investor Relations, Marketing & Communications

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, Sydney⁴ 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%

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

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.

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

If you have any questions regarding your security holding, please contact:

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Available 8.30-5.30pm (AEST)

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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