

DEXUS Property Group (ASX: DXS)

ASX release

26 October 2016

2016 Annual General Meeting

Chair's address

Good afternoon ladies and gentlemen. Welcome to everyone here today and those joining on the live webcast.

My name is Richard Sheppard and I'm the Chair of the Board of Directors of DEXUS Funds Management Limited. I'll table my appointment as Chair of today's meeting and open the meeting.

Welcome to DEXUS Place at 1 Farrer Place, which for those of you who joined us last year at 1 Margaret Street, will know is our second Sydney location. This is the fourth and latest DEXUS Place offering in our portfolio and it's an initiative that has enhanced our customers' experience through providing flexibility and convenience. Those of you here today will have the opportunity to tour this unique customer offering at the end of today's meeting.

We will adopt a similar format to recent years. In addition to covering all the formal aspects relating to the resolutions, our CEO Darren Steinberg will speak to how the business is performing and some recent achievements.

I'm also pleased to announce that at our Board Meeting held earlier today, we formalised the appointment of a new independent non-executive director, Mark Ford, who will join the Board on 1 November 2016.

Mark has extensive property industry experience and was previously the Managing Director and Head of DB Real Estate Australia, which is where DEXUS originated from and where he managed more than \$10 billion in property funds. He was also previously a Director in the Property Investment Banking division of Macquarie and was involved in listing the previous Macquarie Office Fund.

Mark holds the roles of Non-Executive Chairman for Cbus Property Pty Limited and Kiwi Property and Non-Executive Director of the Manager for China Commercial Trust and Prime Property Fund Asia. He also sits on the investment committee of Cbus Superannuation Fund. Mark's previous directorships include Comrealty Limited, South East Asia Property Company, the Property Council of Australia, Deutsche Asset Management Australia and Trafalgar Corporate Group Limited.

This year our focus to create long term value for investors was again achieved through strong performance across all key earnings drivers. Darren will provide more detail on that shortly.

Today, I want to start by providing you with an overview of DEXUS and discussing our strategy.

DEXUS is the largest owner of prime grade office properties in Australia with the majority of our portfolio located in Sydney.

We have a Funds Management business which is performing very well. We have been successful in this business by developing strong relationships and attracting capital from domestic superannuation and global pension funds.

We have a pipeline of value-enhancing opportunities across multiple sectors both in the DEXUS portfolio and in our funds' portfolios.

All of this is underpinned by our strong balance sheet. All up we manage more than \$22 billion of property either directly or on behalf of third party clients.

We reset our strategy four years ago with two clear objectives - being the leading owner and manager of Australian office property and being the wholesale partner of choice in Australian property.

In a short period of time we have come a long way towards our aspiration of leadership in office, and our funds management business has grown significantly.

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We believe in the benefits of scale in core CBD office markets. Scale provides us with valuable customer insights and the opportunity to invest in people, systems and technologies that enhance our customers' experience, strengthening our capacity to attract and retain customers.

It also helps us to become the wholesale partner of choice and attract capital partners to grow our funds management platform.

Our strategy is discussed in more detail in our Annual Report.

Turning to a few of the outcomes which demonstrate where we've created value from executing on this strategy. We've been able to grow distributions by an average 7.9% per annum over the past four years, and have been able to do this while recycling non-core properties and reinvesting in Australian office early in the property cycle.

Looking at capital growth and the income we have distributed, we achieved a return on equity of 19.3% in FY16, which was driven by solid capital growth in addition to some income growth. Over the past four years we have achieved an average return on equity of 12.2%, which includes the impact of transaction costs incurred as a result of the CPA transaction in FY14.

Market conditions have been favourable over this period of time with a continued tightening of capitalisation rates. The Board is very conscious and monitors market conditions closely and while simultaneously benefiting from cap rate compression, we have also been focused on maintaining a strong balance sheet.

The focus on running an efficient business combined with the increased scale achieved over recent years has contributed to a reduction in our Management Expense Ratio from 67 basis points in FY12 to 35 basis points today.

Our Funds Management platform has nearly doubled in size to \$11.2 billion with 69 investors and includes the DEXUS Wholesale Property Fund which owns buildings such as Gateway in Sydney which has just opened a new food offering with 25 retailers.

The quality of DEXUS's property portfolio gained external recognition in FY16. Our two new developments at 5 Martin Place here in Sydney and at 480 Queen Street in Brisbane have both secured awards for development and engineering excellence, design and architecture.

In our office portfolio we have been setting measurable environmental targets and benchmarking the sustainability performance of our listed property portfolio since 2008. DEXUS has gained a leading position in this year's Global Real Estate Sustainability Benchmark, or GRESB, which spans 63 countries and covers over \$2.8 trillion in gross property asset value. DEXUS's listed office portfolio ranked first in Australia and fifth globally out of 733 participants. DWPF also ranked first in Australia in the Diversified retail / office non-listed category.

And lastly I wanted to talk briefly about innovation. Innovation and changes in technology present DEXUS with both opportunities and threats of disruption to our business. Some examples of changes that we are continually adapting to include more flexible work practices being adopted by our customers, the impact of residential conversions on the city office environment, the increased focus on the environmental effect of buildings, and the continued demand for better services and amenities in office buildings like end of trip facilities and bike racks,.

The Board regularly discusses current and potential changes in our industry and shifts in customer trends.

In FY16 our approach to innovation was recognised in AFR's Most Innovative Company Awards with DEXUS being the only property company in the Top 50.

Let me now hand over to Darren who will discuss our results and achievements across the Group.

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CEO's address

Thanks Richard and good afternoon everyone.

There are three key drivers in our business:

- Our property portfolio where the income is underpinned by high occupancy and fixed rental increases
- Our funds management business, which generates solid annuity style fee income, and
- Our trading business where we use our real estate capabilities to generate trading profits

Looking closely at the property portfolio in which you have direct ownership, we have an \$11.0 billion direct portfolio, split 84% office, and 16% industrial.

With a quality portfolio of 105 properties, we're focused on maintaining high occupancy across both our office and industrial portfolios. At 30 June 2016, our office portfolio occupancy was above 96% and we have been able to maintain that at 30 September. We have leased a record amount of industrial space in a three month period which has improved occupancy in our Industrial portfolio from 90.4% at 30 June to 92.3% at 30 September.

For the 12 months to June 2016 both our office and industrial portfolios delivered strong 16.0% total returns which contributed to the return on equity of 19.3% for the year.

The portfolio is well positioned for growth with like-for-like income growth expected to be in the 2-3% range across the office portfolio and 3-4% range in the industrial portfolio.

Our property portfolio achieved an \$814 million uplift in value over the year with big movements seen at our Premium assets in Sydney, with 1 Farrer Place up \$118 million or 16% as a result of leasing success and growth in rents.

The completion of developments and further leasing success at 5 Martin Place Sydney and 480 Queen Street in Brisbane resulted in a 25% uplift for 480 Queen Street and 31% uplift at 5 Martin Place.

Our outlook for FY17 is for solid investment and tenant demand to remain in most markets and to support asset values, and we expect a further tightening in capitalisation rates of 15-25 basis points for quality well-leased properties over the next 12 months.

Looking at some recent transactions. After selling suburban assets in Burwood and Chatswood in FY16, we've had a strong start to the year capitalising on the continued strength of investor demand for commercial real estate.

We've sold 108 North Terrace in Adelaide and entered into an agreement to sell Southgate in Melbourne, achieving a \$62 million aggregate premium to book value which will settle over the course of FY17 and FY18. These sales further demonstrate our focus on enhancing value for our investors and capital partners. The proceeds from these sales will initially be used to retire debt and then progressively fund our future development pipeline. As a consequence we expect our gearing to reduce from 30.7% at 30 June 2016 to circa 27% once the first 50% tranche of Southgate settles, which is below our target range of 30-40%.

Turning to our funds management business, and it's been a strong year with funds under management growing by 17% to \$11.2 billion but more importantly, achieving outperformance across all funds. We now have five funds or mandates with 69 investors from seven countries on the platform.

During the year we completed nine development projects and replenished the third party development pipeline which now stands at \$3 billion, and have some exciting projects in the master planning phase.

We leveraged our industrial capabilities for the DEXUS Industrial Partnership to secure over 36,000 square metres of pre-commitments at Quarrywest in Sydney. Our retail development and leasing capabilities have influenced the outcomes at Gateway in Sydney which opened in September with some leading food operators; Grosvenor Place in Sydney which has five restaurants and opens very soon; and in Galleria at 385 Bourke Street in Melbourne which completed in June.

Turning to trading, we have demonstrated a track record of delivering trading profits over the past four years from developing and actively managing properties to sell for a profit.

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We have acquired and developed industrial projects, acquired and actively leased up office buildings, and rezoned industrial sites for residential development.

We are now looking at mixed use opportunities in our pipeline that we can turn into trading profits and have made really good progress on our priority projects over the past 12 months.

Our FY17 trading profit guidance of \$45-50 million post tax is well progressed having already sold two properties that will contribute to this result and we are confident that the sale of one of our four remaining priority projects will achieve this target.

And lastly I wanted to cover briefly what is happening in our core office markets.

In Sydney the supply cycle is now limited which is great for the leasing market over the next few years. For those of you not up to speed on Sydney's infrastructure program, one project, the Sydney metro, will result in the withdrawal of a significant amount of office space through the compulsory acquisition of properties to make way for the new station platforms.

This includes 39 Martin Place, which we own jointly with DWPF and we're currently in discussions with the State Government regarding the property.

As far as the other markets are concerned; in Melbourne, strong population growth is supporting solid demand and positive conditions. Brisbane is seeing an improvement in demand but has some supply to work through and Perth's soft demand conditions and elevated vacancy will continue to negatively impact that market.

So to conclude, we have demonstrated our ability to grow FFO and distributions while de-risking the business through enhancing office portfolio metrics and de-levering our balance sheet with recent divestments. This will effectively fund our future development pipeline, positioning DEXUS for growth.

Our guidance for FY17, barring unforeseen changes to operating conditions, is for growth in distribution per security of 2.5-3.5% from FY16.

That ends my presentation today. I would like to thank my fellow Directors and the DEXUS team for their commitment and hard work over the past 12 months in delivering these strong results, and you, our investors, for your continued and valued support.

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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 \$22.2 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 31,000 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)

DEXUS PROPERTY GROUP

ANNUAL GENERAL MEETING - 26 OCTOBER 2016



DEXUS Funds Management Limited
ABN 24 060 920 783
AFSL 238163 as responsible entity for DEXUS Property Group

DEXUS
PROPERTY GROUP

DEXUS BOARD OF DIRECTORS



APPOINTMENT OF NON-EXECUTIVE DIRECTOR



CHAIR'S ADDRESS



DEXUS OVERVIEW

Australia's largest owner of Prime office properties - majority of portfolio in Sydney

Outperforming and growing Funds Management business

An expanded pipeline of value enhancement opportunities

Underpinned by a strong balance sheet



COMMITMENT TO STRATEGY

VISION

TO BE GLOBALLY RECOGNISED AS AUSTRALIA'S LEADING REAL ESTATE COMPANY

STRATEGY

To deliver superior risk-adjusted returns for investors from high quality Australian real estate primarily comprising CBD office buildings

STRATEGIC OBJECTIVES

LEADERSHIP IN OFFICE

FUNDS MANAGEMENT PARTNER OF CHOICE

Being the leading owner and manager of Australian office property

Being the wholesale partner of choice in Australian property

UNDERPINNED BY

CORE CAPABILITIES

Having the best people, strongest customer relationships, utilising the most efficient systems and technologies

CAPITAL & RISK MANAGEMENT

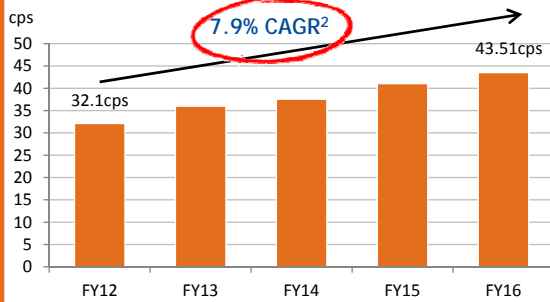
Actively managing capital and risk in a prudent and disciplined manner

TRACK RECORD OF VALUE CREATION

DISTRIBUTION GROWTH

- 43.51 cents per security distributed to investors in FY16
- Grown distributions by an average 7.9% over the past four years

DISTRIBUTION PER SECURITY GROWTH¹ (FY12-FY16)

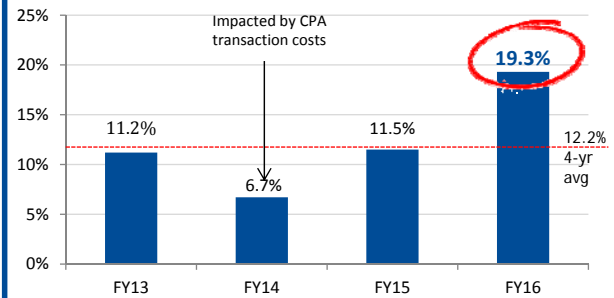


- Adjusted for 1-for-6 securities consolidation in FY15.
- Compound Annual Growth Rate.
- Return on Equity is calculated as the growth in NTA per security plus the distribution paid/payable per security divided by the opening NTA per security. Starting point for ROE is the 12 months ending 30 June 2013.

CAPITAL GROWTH PLUS INCOME DISTRIBUTED

- 19.3% return on equity in FY16
- Achieved a 12.2% average over the past four years

RETURN ON EQUITY³ (FY13-FY16)

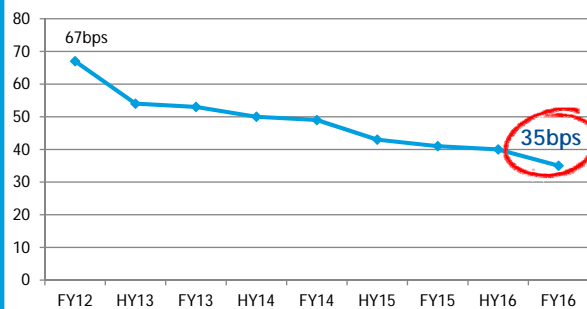


TRACK RECORD OF VALUE CREATION

EFFICIENCY OF OUR BUSINESS

- Focused on running an efficient business reflected through the reduction in our Management Expense Ratio

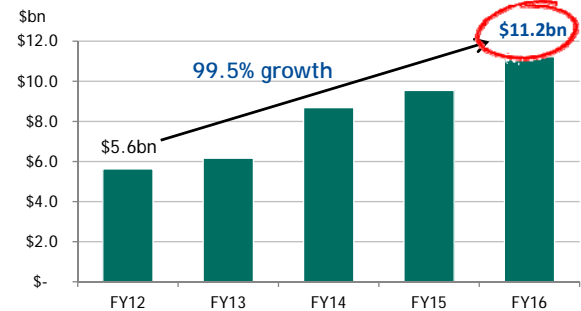
MANAGEMENT EXPENSE RATIO¹ (FY12-FY16)



FUNDS MANAGEMENT GROWTH

- Funds Management platform has nearly doubled in size to \$11.2 billion

FUNDS MANAGEMENT PLATFORM GROWTH (FY12-FY16)



- Management Expense Ratio is calculated as costs arising from managing DEXUS assets and corporate costs for the 12 months divided by closing balance sheet funds under management at the end of the financial year.

QUALITY PROPERTY PORTFOLIO RECOGNITION

Recognition for new developments



5 MARTIN PLACE, SYDNEY won six awards for Development Excellence, Innovation & Quality, Adaptive Reuse, Architecture, Heritage and Urban Design



480 QUEEN STREET, BRISBANE won Australian Engineering Excellence Award for Buildings and Structures

Recognised for sustainability



The Global Real Estate Sustainability Benchmark spans 63 countries and covers over \$2.8 trillion in gross property asset value

- DEXUS's listed office portfolio ranked first in Australia and fifth globally out of 733 participants
- DWPF also ranked first in Australia in the Diversified retail/office non-listed category



DEXUS retained its position in DJSI World, Asia Pacific and Sustainability Award Australian indices



ROBECOSAM awarded DEXUS a Bronze Class and ranked DEXUS in the top 5% of respondents

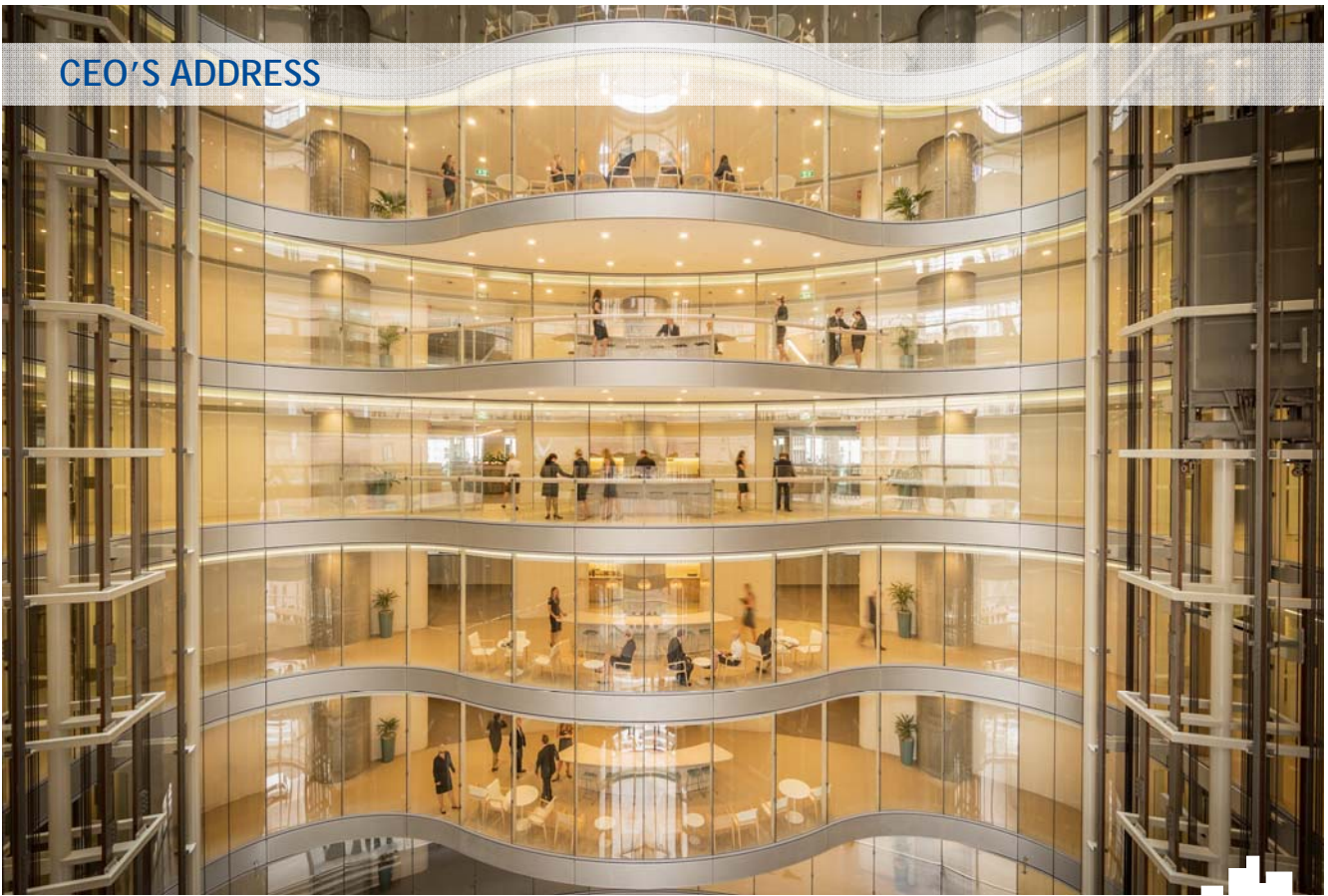
RECOGNITION FOR INNOVATION

Recognition for new innovation

- DEXUS was recognised in the Australian Financial Review's Most Innovative Company Awards, ranking 47th most innovative company in Australia
- Only property company in the Top 50



CEO'S ADDRESS

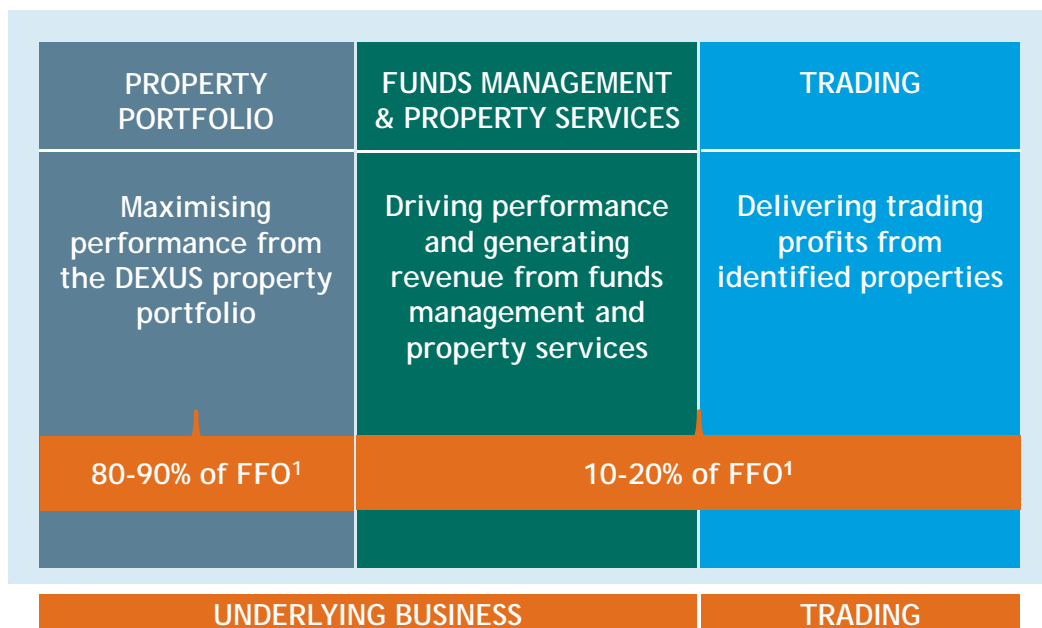


DEXUS Property Group - 2016 Annual General Meeting

Slide 11

DEXUS
PROPERTY GROUP

KEY EARNINGS DRIVERS



1. Represents target contribution to FFO before Finance costs and Group Corporate costs. FFO means Funds from Operations. As previously announced, DEXUS adopted FFO as defined by the PCA White Paper "Voluntary Best Practice Guidelines for disclosing Funds from Operations (FFO) and Adjusted Funds from Operations (AFFO)" for its reporting from 1 July 2014.

DEXUS Property Group - 2016 Annual General Meeting

Slide 12

DEXUS
PROPERTY GROUP

PROPERTY PORTFOLIO – Well positioned for growth

PROPERTY PORTFOLIO	
DEXUS owned and managed portfolio of Australian office and industrial properties	
\$11.0bn	
OFFICE: \$9.2bn across 50 properties	OCCUPANCY: 96.3%
	FY16 TOTAL RETURN: 16%
INDUSTRIAL: \$1.8bn across 55 properties	OCCUPANCY: 90.4%
	FY16 TOTAL RETURN: 16%
DEVELOPMENT: \$1.7bn	




PROPERTY PORTFOLIO – Strong valuation uplift in FY16

Total portfolio valuation uplift of \$814.4m or 8.0%		
Office portfolio values up \$769.1m or 9.1%	Industrial portfolio values up \$45.3m or 2.7%	
1 Farrer Place, Sydney up \$118m or 16%	5 Martin Place, Sydney up \$35.7m or 31%	480 Queen Street, Brisbane up \$68.2m or 25%

PROPERTY PORTFOLIO – Recent divestments to strengthen balance sheet

The Zenith, Chatswood¹


Sale price: \$139.5m



7% premium to book value

Southgate Complex, Melbourne²

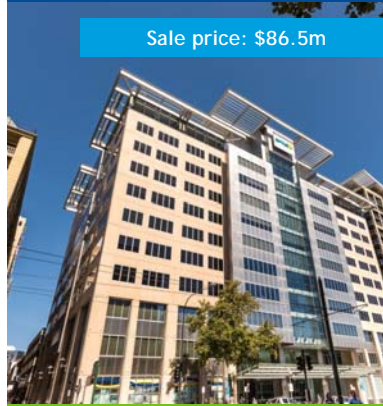
Sale price: \$578.0m



12% premium to book value

108 North Terrace, Adelaide³

Sale price: \$86.5m



In line with book value

CAPITAL MANAGEMENT

4.8%
weighted average cost of debt

5.5 years
Duration of debt

30.7%
Gearing at 30 June 2016

1. DEXUS 50% interest.
2. Owned by the DEXUS Office Partnership, in which DEXUS has a 50% interest.
3. Settlement is subject to the purchaser receiving FIRB approval and will occur in two equal tranches. The first 50% is expected to settle prior to the end of the 2016 calendar year with the remaining 50% expected to settle in late July 2017.



FUNDS MANAGEMENT – Performing for third party clients

\$11.2bn
Third Party Funds under management

69
Investors from seven countries

Achieved
Outperformance across all funds

\$3.0bn
Development pipeline



TRADING – Strong track record

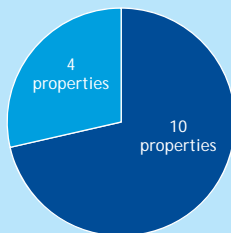
c\$150m of trading profits delivered over four years at an average unlevered IRR of 23.5%

Trading property source



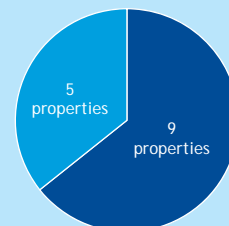
- Acquired for purpose of trading
- Transferred from Investment portfolio

Sector



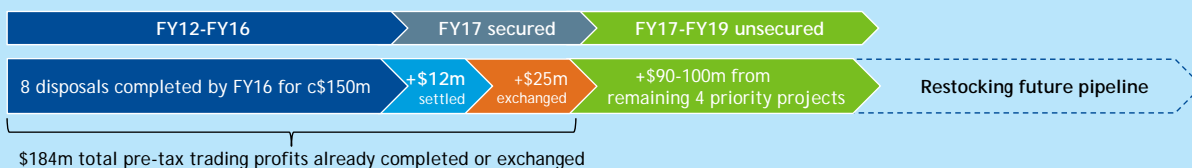
- Industrial
- Office

Trading strategy



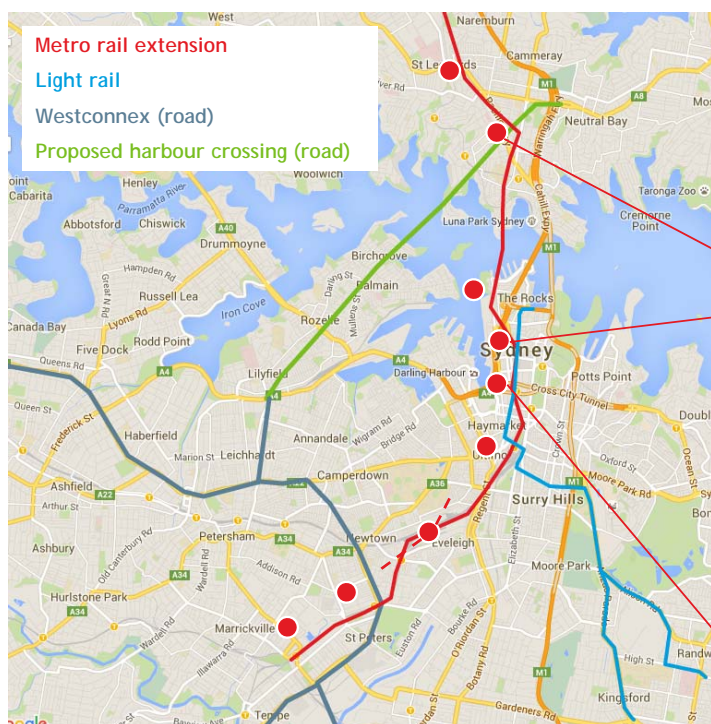
- Repositioned
- Developed

Pre-tax trading profits generated



FY17 trading profit guidance of \$45-50m post-tax

MARKET OUTLOOK – Sydney withdrawals to increase due to future infrastructure



12 MONTH OFFICE MARKET OUTLOOK

SYDNEY	↑
MELBOURNE	↑
BRISBANE	→
PERTH	↓

Victoria Cross Station	-16,617sqm
Martin Place Station	-45,710sqm
39 Martin Place	-16,341sqm



Pitt Street Station	-13,021sqm
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SUMMARY

- Grown FFO and distributions while de-risking the business:
 - Enhancing office portfolio metrics and quality
 - De-levering the balance sheet with recent divestments
- Positioned for future growth
- FY17 guidance¹ for growth in distribution per security of 2.5-3.5% from FY16

1. Barring unforeseen circumstances guidance is supported by the following assumptions: Impact of dilution from the divestment of: 36 George Street, Burwood; 57-65 Templar Road, Erskine Park; The Zenith, Chatswood; 108 North Terrace, Adelaide; the first 50% tranche of Southgate Complex, Melbourne and 79-99 St Hilliers Road, Auburn; 2-3% like-for-like income growth across the DEXUS Office portfolio and 3-4% like-for-like income growth across the DEXUS Industrial portfolio, weighted average cost of debt of circa 4.6%, trading profits of circa \$45-50m net of tax, Management Operations FFO of circa \$45-50m (including third party development management fees), and excluding any further transactions.



DISCUSSION AND QUESTIONS





RESOLUTION 1

Resolution 1: Adoption of the Remuneration Report

To consider and if thought fit pass the following Resolution as an ordinary resolution:

“That the Remuneration Report for the financial year ended 30 June 2016 be adopted.”

Proxy votes

Resolution		For	Open	Against
1. Adoption of remuneration report	%	90.17%	0.20%	9.63%
	Votes	689,810,367	1,521,575	73,670,312

RESOLUTION 2.1

Resolution 2.1: Approval of Independent Director

To consider and if thought fit pass the following Resolution as an ordinary resolution:

“That the continuing appointment of Tonianne Dwyer as a Director of DEXUS Funds Management Limited be approved (by ratification).”

Proxy votes

Resolution		For	Open	Against
2.1 Approval of Independent Director	%	98.63%	0.19%	1.18%
Tonianne Dwyer	Votes	765,692,704	1,475,549	9,183,559



TONIANNE DWYER



RESOLUTION 2.2

Resolution 2.2: Approval of Independent Director

To consider and if thought fit pass the following Resolution as an ordinary resolution:

“That the continuing appointment of Penny Bingham-Hall as a Director of DEXUS Funds Management Limited be approved (by ratification).”

Proxy votes

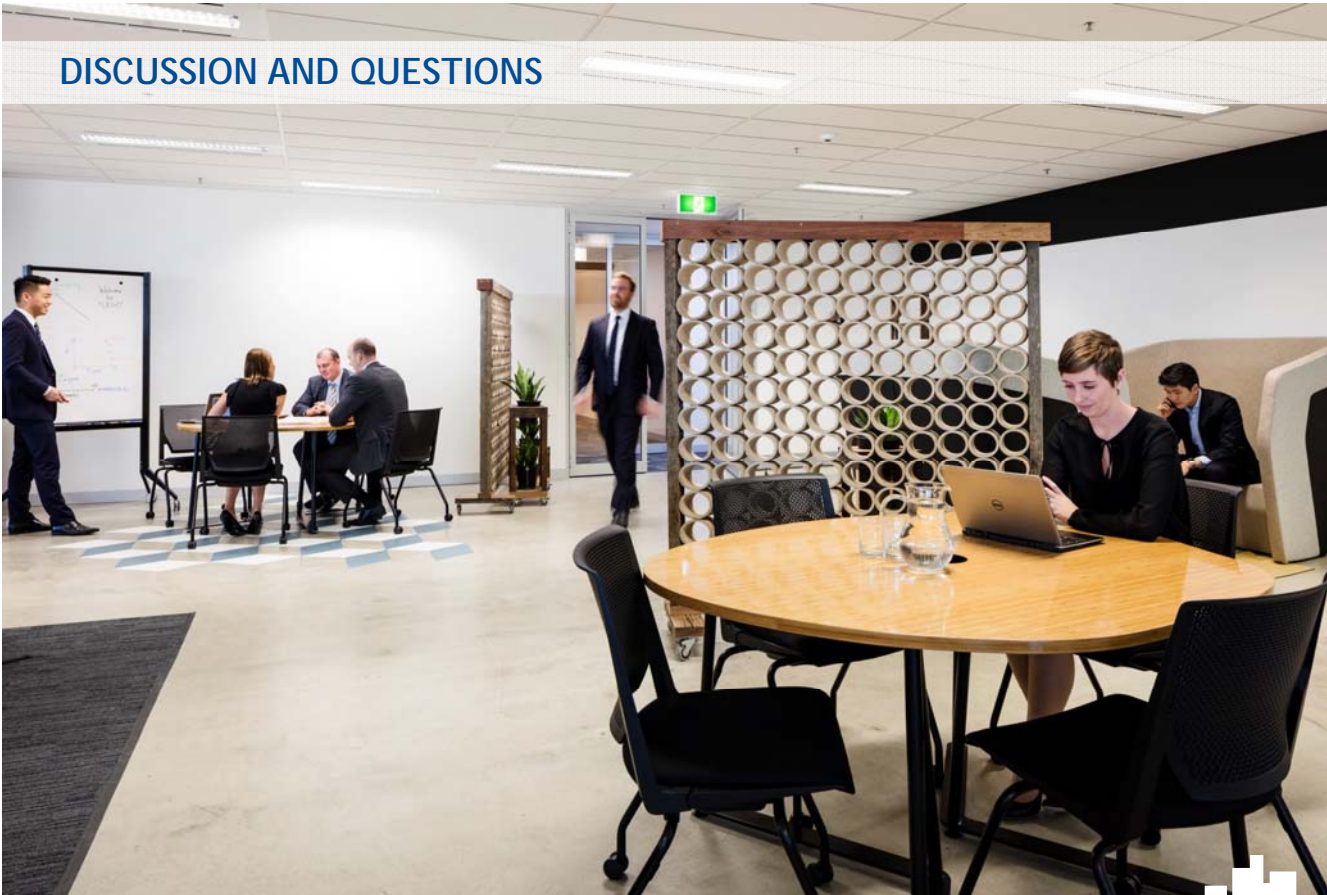
Resolution		For	Open	Against
2.2 Approval of Independent Director	%	98.93%	0.19%	0.88%
Penny Bingham-Hall	Votes	768,041,772	1,473,467	6,865,189



PENNY BINGHAM-HALL



DISCUSSION AND QUESTIONS



SUMMARY



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ANNUAL GENERAL MEETING - 26 OCTOBER 2016

The image shows a modern office interior with large glass windows. In the foreground, a man in a suit is shaking hands with a woman in a black dress. Another woman in a black dress stands next to her. In the background, a man in a suit is walking, and a group of people are sitting on a circular table. The scene is brightly lit, suggesting a professional and positive atmosphere.