

DEXUS Property Group - ASX release

27 October 2010

[DEXUS Property Group \(ASX:DXS\) 2010 Annual General Meeting address](#)

DEXUS Property Group will host its 2010 Annual General Meeting at 2.00pm today. We provide below the Chair and CEO's speeches.

Chair's speech

Good afternoon and thank you all for being here at our 2010 Annual General Meeting. My name is Chris Beare and I welcome you to DEXUS's sixth Annual General Meeting since stapling in 2004.

The first item of business on today's agenda is to present to you DEXUS Property Group's 2010 annual reporting suite. The suite includes the 2010 Security Holder Review, the Annual Report which includes the Directors' Report, Financial Statements and Independent Auditor's Report, and the Combined Financial Statements.

Reflecting our commitment to transparent reporting and Corporate Responsibility & Sustainability, we have produced interactive online reports again this year. Our objective is to improve shareholder access and readability, as well as reduce the number of printed reports we produce. We are pleased to advise that our 2009 online reporting suite won the Australasian Reporting Award's for excellence in online reporting.

The online reports are available at dexus.com and we have also provided printed reports available for those of you who prefer printed copies.

For many investors the Annual General Meeting is the best opportunity to hear first hand from the Board and management about the Group, so we invite you to participate and ask questions once we come to the resolutions. We are again web casting this Annual General Meeting, an initiative we hope enables more investors to participate. If you wish to hear today's speeches again you will be able to replay them from our website.

Today, your CEO, Victor Hoog Antink, will give an overview of the business, talk about the achievements of the Group in 2010 and re-affirm our strategy and outlook for 2011. I will give you some views on this past year, and then discuss remuneration, corporate responsibility and sustainability and corporate governance.

2010 achievements

In challenging market conditions, DEXUS has again delivered a solid performance through office and industrial property ownership, management and development in Australia and the US. The quality of our properties and the focus of our management delivered operating earnings before interest and tax of \$461.3m for the 2010 financial year. In line with guidance to the market, our Funds From Operations totalled \$350m or 7.3 cents per security and distributions for the year were 5.1 cents per security.

During the year to 30 June 2010, the team has achieved a number of important milestones:

Firstly, we continued to focus on operational excellence through active property, asset and development management. Our professional management, leasing expertise and strong tenant relationships allowed us to achieve like-for-like income growth, above market occupancy and high weighted average lease duration in our quality Australian office and Industrial portfolios.

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Secondly, we opened a new US management office and appointed an experienced industrial property team.

Thirdly, we restructured the Group's executive management team to give more focus on our core operational functions of Property, Capital and Finance and Corporate Services.

In the market more broadly, during the year, property values stabilised and the first signs of a recovery in tenant demand emerged. We expect property market conditions will continue to recover. And this, combined with the quality of our portfolio and strong management focus, means DEXUS is well positioned to provide consistent and secure income.

Security holder returns to 30 September 2010

Despite continued operating challenges, we are pleased that the prudent capital and operational decisions of the past year have secured a strong position for DEXUS, which have helped us to outperform our benchmark, as shown on the slide.

This slide compares DEXUS security holder returns with our sector. We are pleased to note that during the 12 months to 30 September 2010, our one year returns of 7.6% not only outperformed the industry benchmark which returned -4.1%, but were also the highest of the top seven A-REITs. You can see from the slide that during the same period we also exceeded the S&P ASX 200 Property Accumulation Index by 11.7% and, since we stapled in October 2004, we have outperformed this index by 5.5% per annum. However, you may recall that at 30 June 2010, the benchmark was positive 20%, which highlights the volatility of short-term returns and the importance of taking a long-term view.

Board and Executive remuneration

I now turn to remuneration.

Each year the Board Nomination and Remuneration Committee assess the structure and quantum of Director and Executive remuneration against relevant regulatory and market conditions. In doing this we are conscious of the important balance between attracting the best people and ensuring the appropriateness of remuneration levels.

We set comprehensive key performance indicators (or KPIs) with our senior executives annually. The financial KPI's include measures such as occupancy and tenant retention rates, cost reductions, and gearing and liquidity targets. In the year to 30 June 2010 most financial KPI's were achieved by the management team, individually and collectively. Importantly, in establishing DEXUS's remuneration principles, the Directors are cognisant that DEXUS's business is based on long-term property investments. To reflect this, our long-term incentive is based on a three year vesting period. As we saw in the sector benchmark, short-term performance is still very volatile and it is for this reason that we do not remunerate our executives on short-term share price performance

In addition, DEXUS undertakes rigorous external benchmarking of remuneration to ensure we have a fair and appropriate structure in place.

Corporate Responsibility and Sustainability

DEXUS is committed to embedding the principles of corporate responsibility and sustainability throughout our business. We recognise the responsibility we have to our investors, tenants, employees and the wider community to sustain and protect the environment during the ownership, management and development of our portfolio. This enables us to build a business that better responds to the evolving needs of our stakeholders, ensuring we are managing and developing

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properties for the future and investing in our people to drive performance and achieve leadership goals.

We are proud to report that in 2010 we made good progress on the majority of our commitments and targets in this area. We have continued to focus on reducing our overall consumption of energy, greenhouse gas emissions and water usage. This has resulted in a 9% reduction in energy, a 4% reduction in water and an 8% reduction in Greenhouse Gas Emissions during the past two years.

Pleasingly, DEXUS was again named one of the world's most sustainable corporations in the 2010 "Global 100 Most Sustainable Corporations" list at the Davos World Economic Forum in Switzerland, the only A-REIT to achieve such a listing in two consecutive years.

In addition, we achieved a listing on the Dow Jones Sustainability World Index and maintained our listings on the Australian SAM Sustainability Index and the FTSE4Good Index - these are well established external sustainable benchmarks.

Our annual Employee Opinion Survey reflected improved results across the board and continued out-performance against national and global company benchmarks.

In 2011 we will continue to actively manage our portfolio and strive to further minimise the environmental impact of our operations.

Our 2010 CR&S Report is available today if you would like to take a copy. Alternatively you may view it on our website at dexus.com

We have again offset both the carbon emissions of our printed 2010 financial reports and the emissions generated at all our major investor events, including this Annual General Meeting, so that these activities are carbon neutral. We do this by acquiring certified carbon credits to offset the greenhouse gas emissions generated by investors travelling to this meeting, the printed materials and the resources to run this event today. We also have chosen to print all our materials on recycled paper.

When registering for the meeting today, you would have received a carbon offset travel survey form. We ask you to complete this form and deposit them in the bowl in the foyer.

Corporate governance

Your Board is committed to achieving the highest standards of corporate governance and social responsibility and is committed to the early adoption of ASX Corporate Governance Principles and Recommendations. As a result we established new policies during 2010, such as a Diversity Policy to meet new and revised principles and recommendations.

Our Diversity Policy sets out that we believe that diversity is a competitive advantage for our security holders; that we value our people for their expertise and ability to carry out their roles; that we believe decision making is enhanced through diversity and creates a business environment that encourages a range of perspectives and fosters excellence in the creation of security holder value.

Diversity is supported and encouraged at all levels - from the Board of Directors, to the senior management team - where we are proud that 40% of our executive managers are women - and throughout our organisation.

Board membership was unchanged during the financial year to June 2010. The Board comprises eight Directors, seven of whom are independent. The Directors bring specific skills and experience to the Board including strategy, property investment, funds management, capital markets, financial and

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risk management. The Independent Directors have expertise in areas which are related DEXUS's strategy and which allow them to make a meaningful contribution to the Board's deliberations.

In conclusion, DEXUS remains the No.1 owner of office and a market leader of industrial properties in Australia. In 2011, we expect property market conditions to continue to recover and the quality of our portfolio and strong management focus have positioned DEXUS well to provide consistent and secure income.

On behalf of the Board, I thank you for your support during the past year and I look forward to leading the Board again in 2011.

Victor will now provide an overview of the business and discuss how we are tracking.

CEO's speech

Thank you Chris and good afternoon ladies and gentlemen.

A year ago, I stood here to advise you that cautious sentiment was characterising property markets world wide and that forward indicators were suggesting that the worst of times were behind us. 2009 was a year of tough decisions. The past year has shown, however, that we were correct in our assumptions and that the decisions made in 2009, while difficult, represented the appropriate balance between stability and cost, as reflected in the total returns to investors referred to by our Chairman.

2010 was a year of consolidation - by mid year property values had bottomed but while operating conditions began to improve, the environment continued to be challenging. So far this year we have seen property values increasing and, at the operational level, fundamentals are sound and the markets are on the whole in recovery.

Our vision

Following our capital management focus in 2009, 2010 was a year where we were able to focus not only on our core business but also on further fulfilling our vision - to be the market leading owner, manager and developer of superior quality office and industrial properties in Australia and select US industrial west coast markets.

Currently, we are continuing to work on enhancing the security of returns from our existing portfolio and are focused on creating incremental value opportunities.

Office portfolio

The quality of our management team and our \$4 billion office portfolio came to the fore in 2010. In what was a challenging year, I am proud of our team's achievements which resulted in your portfolio being 96% leased, well above the Property Council of Australia benchmark of 92%.

The team has continued to focus on our core business of property management, with some significant progress particularly on the leasing front. An example was at the Zenith in Chatswood, one of our toughest leasing markets where we increased occupancy from 85% to 98%, which in the circumstances is a remarkable achievement.

On the development front, we continue to progress our two major developments at 123 Albert Street in Brisbane and 1 Bligh Street in Sydney. These buildings are perhaps most significant in that they are symbolic of what we, at DEXUS, stand for.

The quality of these premium grade developments showcases our team's multi-disciplinary ability to capitalise on the best of locations and deliver the highest quality properties, excellence in sustainability and full service management.

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Both buildings are being built to world's best practice, a standard that will ensure the longevity and continued attraction of the buildings to their target tenant market. Both buildings have achieved the highest possible ratings of 6 Star Green Star, a demonstration of the leadership position we take in this area. We firmly believe that sustainability is more than an environmental imperative; it will represent an area of significant commercial value as tenant and regulatory demands develop, in a world of constrained natural resources.

The progress on our developments continues with practical completion at 123 Albert Street expected in the first quarter of 2011. 123 Albert is now 80% leased with the aggregate requirements of tenants with whom we are in active dialogue exceeding the amount of space left in the building.

At 1 Bligh, which is already 55 per cent leased, we are in discussions with a number of tenant prospects but, with practical completion due in May 2011, it is unlikely that the building will be fully leased by that time.

Industrial portfolio - Australia

In industrial, our intensive management resulted in like-for-like income growth and occupancy outcomes higher than peer averages. At the same time, our team has been active in redeploying capital and sold approximately \$70m of lower yielding assets to reinvest the proceeds in higher yielding assets.

We commenced four quality pre-lease developments during the year, three in Western Sydney at Greystanes and one at Laverton in Victoria. We are continuing to be active on both the acquisition and development fronts in our industrial business, a sector where there is a combination of low availability of prime properties, lower levels of competitor supply and increased tenant enquiry.

Just as our office developments are targeting new levels of sustainability, so too are our industrial developments. Significant innovations have been introduced, particularly at our Greystanes developments. In addition to the storm water recycling for community use, we have incorporated environmentally sustainable design elements into the office component of these projects including a laminated timber portal frames with a more efficient roofline offering solar and weather protection and a skillion roof facilitating rainwater recapture for onsite irrigation

These features bear testimony not only to the value we ascribe to sustainable development, but also our goal of applying innovation in our business.

Industrial portfolio - United States

Last year continued to present a challenging operating environment for property markets in the US. While occupancy and rents decreased and some level of stabilisation appeared by year end, we still expect to see volatility in our operating metrics as we work through the bottom of the cycle.

Capital values, which fell in the first half of the year stabilised by year end and are expected to increase this year.

As you know, we set ourselves the task of aligning our US business with our Australian operations, by internalising management of the portfolio and geographically concentrating the portfolio in fewer locations.

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To this end, we have opened our US head office in June of this year and we now have 12 US based DEXUS employees who have significant west coast industrial real estate investment, development and management expertise.

Our focus will be on managing our portfolio to benefit from the US recovery, and to continue repositioning our US business. This activity will focus our investment in select west coast markets where we can benefit from a concentration of our properties, tenants and people.

Capital management

In recent times, the cost and availability of capital has changed. As you remember in the beginning of 2010 financial year, debt capital markets were effectively closed. At DEXUS we took the opportunity, as markets reopened, to diversify the sources and extend the duration of our debt.

Our approach to capital management has proven the test of time and we remain confident that it will continue to do so in future, providing a strong platform for operational performance and growth.

Third party property funds management

Our wholesale platform is one of the largest in the Australian property space, led by our flagship DEXUS Wholesale Property Fund. Due to financial discipline, the quality of the Fund's properties and its management, in 2010 DWPF again out-performed benchmark returns. This, combined with wholesale investor demand for additional investment opportunities, has resulted in the recent acquisition of more than \$250m of industrial properties, the commencement of an equity raising and the launch yesterday of the Fund's inaugural MTN issue.

We continue to view the third party property funds activity as being supportive of our group vision. The wholesale platform provides DEXUS with an annuity style income stream and increased scaled in our key markets. We believe this will provide our tenants with greater choice, enhance our market knowledge, give greater opportunities to our people and as a consequence ultimately deliver better returns for both our wholesale and listed investors.

Corporate Responsibility and Sustainability

At DEXUS we are proud of our position in the area of Corporate Responsibility and Sustainability (CR&S). We invest significantly not only at the property level, but also at the corporate and community level.

In our portfolio we continue to reduce our resource consumption, with significant results made in the last number of years. As part of our commitment to be a leader in CR&S all our current development projects incorporate innovative sustainability initiatives

As mentioned earlier, across the board both in Australia and in the US, we believe that our commitment in sustainability will benefit returns through reduced obsolescence, superior tenant demand and regulatory compliance.

As one of the largest property groups in Australia, we accept that we have a social responsibility to invest in community initiatives. We value having an open and honest relationship with the communities and seek engagement in the management and operation of our properties.

We are convinced that a leadership position in this area will deliver not only environmental, but also financial benefits.

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2011 guidance

Now, one quarter of the way through the year, and based on current market conditions, we reaffirm our FFO guidance for 2011 of at least 7.3 cents per security. This would result in a distribution of at least 5.1 cents per security in this year.

Outlook

As operating conditions improve, we look forward to enhancing the quality and stability of our core portfolio income as we capitalise on development and capital partnering opportunities.

You should expect that we will continue to apply our core property leasing and management skills to enhancing existing portfolio returns. We will also continue to apply our capital and development skills to take advantage of current market opportunities.

We are encouraged by the opportunities that lie ahead and I look forward to discussing them with you next year.

Thank you.

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About DEXUS

DEXUS is one of Australia's leading property groups specialising in owning, managing and developing superior quality office, industrial and retail properties, with total assets under management of \$13.3 billion. In Australia, DEXUS is the number 1 owner/manager of office, number 2 in industrial and, on behalf of third party clients, a leading manager and developer of shopping centres.

DEXUS is committed to being a market leader in Corporate Responsibility and Sustainability and has been recognised for the second year running as one of the Global 100 Most Sustainable Corporations at the World Economic Forum in Davos. www.dexus.com

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