DEXUS Property Group (ASX: DXS)

ASX release

18 February 2015

Half year results for the six months to 31 December 2014

DEXUS Property Group (DEXUS) today announced its achievements for the six months ended 31 December 2014.

DEXUS Chief Executive Officer, Darren Steinberg said: "We have achieved consistent performance across the Group and are on track to deliver a strong result from the CPA transaction. Our latest house view forecasts that vacancy in the Sydney CBD office market will fall to 6.5% by FY18, with our portfolio set to benefit from its high Sydney exposure. Pleasingly, we have upgraded our FY15 guidance for FFO per security to 59.48 cents and distribution per security to 41.04 cents, both reflecting 9.3% growth from FY14."

RESULTS HIGHLIGHTS

Financial

- Increased Funds from Operations (FFO)[1] to $258.4 million representing 28.54 cents per security, up 7.4% on the previous corresponding period[2]
- Grew distribution per security to 19.68 cents, up 6.8% on the previous corresponding period[2]
- Achieved a statutory net profit of $257.8 million
- Reduced the Group's Management Expense Ratio[3] from 50bps at 31 December 2013 to 43bps
- Increased net tangible assets (NTA) per security by 1.7% from $6.36 at 30 June 2014 to $6.47
- Maintained the strength of DEXUS's balance sheet with conservative gearing[4] of 32.0%
- Reduced weighted average cost of debt to 5.2%, driven primarily by recently upgraded credit ratings

Total DEXUS portfolio

- Leased or renewed 200,561 square metres[5] of space
- Achieved a $109.3 million or 1.2% valuation uplift on prior book values, with solid revaluation gains from the DEXUS Office Partnership (formerly CPA) properties

DEXUS office portfolio

- Leased or renewed 102,593 square metres[5] of space across 131 transactions
- Increased occupancy by income from 94.6% at 30 June 2014 to 95.0%
- On track to deliver a 12% total return[6] for the DEXUS Office Partnership portfolio

DEXUS industrial portfolio

- Leased or renewed 97,968 square metres[5] of space across 43 transactions
- Occupancy by income reduced marginally from 93.0% at 30 June 2014 to 92.8%

Development and trading

- Achieved significant milestones at projects underway in the Group's $3.5 billion development pipeline
- Realised $18.1 million[7] of trading profits net of tax in the period and contracted on all properties identified for the FY15 trading profit forecast of approximately $40 million

Third Party Funds Management

- Delivered on the investment plans of all third party clients
- Increased third party funds under management by 6.3%[8], through the acquisition of three sub-regional shopping centres in DEXUS Wholesale Property Fund (DWPF) as well as two development sites and the first stabilised property in the DEXUS Industrial Partnership

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1 FFO is in line with Property Council of Australia definition and 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, rental guarantees, coupon income and distribution income net of funding costs.

2 Previous corresponding period per security figures are adjusted for the one-for-six security consolidation completed in November 2014.

3 Gross Management Expense Ratio is calculated as annualised costs arising from managing DEXUS assets and corporate activity divided by balance sheet funds under management.

4 Adjusted for cash and for debt in equity accounted investments. Pro-forma gearing is 33.0% post the acquisition of Lakes Business Park, Botany which settled on 16 January 2015.

5 Including Heads of Agreement.

6 Forecast unlevered total return for the 12 months ending 31 March 2015, based on acquisition price.

7 Trading profits generated less FFO tax expense recognised for Rosebery in the period.

8 Third party funds under management increased by 6.3% compared to 30 June 2014.

DEXUS PROPERTY GROUP

Darren Steinberg said: "Revaluation gains achieved in our office portfolio primarily drove an 11 cent increase in NTA per security to $6.47, reflecting the contribution of leasing success on capital values and capitalisation rate compression at properties with strong tenant covenants.

"Efficiencies were realised through the bedding down of the CPA transaction, benefiting our gross Management Expense Ratio which reduced from 50 basis points at 31 December 2013 to 43 basis points.

"The sale of 50 Carrington Street, Sydney and exchange of contracts to sell 40 Market Street, Melbourne leveraged our capabilities to identify, reposition and enhance value. We have contracted to exchange on all of the properties identified for divestment to deliver our FY15 trading profit forecast of approximately $40 million."

FINANCIAL RESULTS

Statutory net profit	$257.8 million (HY14: $277.2 million)
FFO	$258.4 million (HY14: $206.0 million[9])
FFO per security	28.54 cents (HY14: 26.57 cents[10])
Distribution per security	19.68 cents (HY14: 18.42 cents[10])

DEXUS delivered a 25.4% increase in FFO to $258.4 million. On a per security basis, FFO increased 7.4% to 28.54 cents. This increase was primarily a result of property and management income from the DEXUS Office Partnership properties, growth in other third party funds under management, and the realisation of $18.1 million[11] in trading profits net of tax.

Statutory net profit after tax was $257.8 million, a decrease of $19.4 million from the previous corresponding period. This movement was driven primarily by net unrealised fair losses on derivatives and interest bearing liabilities of $51.8 million due to market interest rates shifting down, compared to a $5.8 million net gain for the previous corresponding period. Net revaluation gains of investment properties of $109.3 million were slightly higher (up $2.7 million) than the previous corresponding period gains.

Distribution per security was 19.68 cents for the six months ended 31 December 2014, up 6.8% on the previous corresponding period, with the payout ratio remaining consistent with free cash flow. The distribution will be paid to security holders on Friday, 27 February 2015.

Net Tangible Assets per security increased 11 cents to $6.47, primarily as a result of $109.3 million in investment property revaluation gains.

CAPITAL MANAGEMENT

Executive Director Finance & COO, Craig Mitchell said: "We maintained the strength of our balance sheet with gearing[12] at 32%, securing new debt at competitive margins and extending the duration of our debt to 5.9 years. We have minimal short term refinancing requirements and will continue to take advantage of our improved credit ratings to secure new debt funding."

"We implemented a one-for-six consolidation of our securities which reduced the total number of securities on issue."

On 14 October 2014, as a result of share market volatility, DEXUS announced a new on-market securities buy-back of up to 5% of DEXUS securities on issue, which is yet to be utilised. The buy-back provides the flexibility for DEXUS to acquire securities on market should conditions permit, with a focus on enhancing returns for investors.

DEXUS remains within all of its debt covenant limits and target ranges.

9 HY14 FFO has been restated to reflect PCA defined FFO.
10 On a one-for-six consolidated basis.
11 Trading profits generated less FFO tax expense recognised for Rosebery in the period.
12 Adjusted for cash and for debt in equity accounted investments. Pro-forma gearing is 33.0% post the acquisition of Lakes Business Park, Botany which settled on 16 January 2015.

THIRD PARTY FUNDS MANAGEMENT

Craig Mitchell said: "Our third party funds management business continued to deliver on the investment objectives of its clients and is set up for strong organic growth with a $2.2 billion development pipeline over the next few years.

"Third party funds under management increased by 6.3% compared to 30 June 2014 through a number of transactions including the acquisition of three sub-regional shopping centres for DWPF, and a further three properties for the DEXUS Industrial Partnership."

The potential end value (on completion of development projects) of the DEXUS Industrial Partnership, established in June 2014, increased to $360 million following the acquisition of three industrial properties. The partnership exchanged contracts to acquire 112 Cullen Avenue, Eagle Farm in Queensland in late December 2014. This strategically located property introduces the first income producing asset to the partnership's portfolio and follows the acquisition of two development sites in Queensland over the period.

In DWPF, four development projects were approved in the period increasing the number of committed projects underway to eight. These developments provide an opportunity to improve the quality of DWPF's property portfolio and enhance returns for DWPF unitholders.

PORTFOLIO UPDATE

Total DEXUS portfolio metrics as at 31 December 2014

Portfolio value:	$9.1 billion
Total area:	1.9 million square metres
Area leased during the period:	200,561 square metres[13]

Key metrics	31 December 2014	30 June 2014
Occupancy by income	94.7%	94.7%[14]
Occupancy by area	93.5%	94.1%[14]
WALE by income	4.3 years	4.7 years[14]

Valuations

Recent leasing success, the weight of capital seeking quality Australian office property and strong tenant covenants all contributed to a $105.8 million or 1.4% increase in valuations on prior book values across the office portfolio. The weighted average capitalisation rate for the DEXUS office portfolio tightened eight basis points from 6.87%[14] at 30 June 2014 to 6.79% at 31 December 2014. A 3.8% increase in valuations on prior book values was achieved across the DEXUS Office Partnership properties.

The limited supply of prime quality facilities aligned to key transport corridors combined with less speculative development in core precincts contributed to a 25 basis point tightening of capitalisation rates in the DEXUS industrial portfolio from 8.32% at 30 June 2014 to 8.07% at 31 December 2014, resulting in a marginal uplift in valuations of $3.5 million or 0.2% increase on prior book values.

Darren Steinberg said: "We expect the weight of capital chasing yield from quality property to continue as a result of the low interest rate environment. We have seen recent transactions confirm a trend of further capitalisation rate compression and we are expecting a further 25 basis point tightening over 2015 for quality properties with strong investment fundamentals, secure income streams and solid tenant covenants."

13 Including Heads of Agreement.
14 Excluding the DEXUS Office Partnership properties.

DEXUS office portfolio

Portfolio value:	$7.6 billion
Total area:	874,463 square metres
Area leased during the period:	102,593 square metres[15]

Key metrics	31 December 2014	30 June 2014
Occupancy by income	95.0%	94.6%
Occupancy by area	95.2%	94.3%
WALE by income	4.4 years	4.7 years
Average incentive	16.1%	18.6%[16]
Average rental increase/(decrease)	0.7%	3.1%[16]
Retention rate	61%	61%[16]
Total return – 1 year	8.2%	9.2%[16]

Kevin George, Executive General Manager, Office and Industrial, said: "Positive momentum in office leasing enquiry in Sydney and Melbourne resulted in increased activity in our portfolio. We are seeing a broader improvement in tenant demand for well-located, quality office space in these markets supporting more leasing and resulting in occupancy increasing to 95%.

"We have reduced average incentives from June 2014, supporting our strategy to hold or pull back on incentives in those properties that have good momentum and high occupancy.

"The leasing enquiry and activity from corporates in the financial services sector continues, with many having briefs in the market, and we expect this to translate into additional leasing and a further improvement in net absorption in the Sydney market.

"A key highlight for the period was securing Challenger as a tenant at our development project underway at 5 Martin Place, Sydney, which has increased the office space committed to 72%."

The DEXUS office portfolio delivered a total return for the 12 months to 31 December 2014 of 8.2% driven by a strong revaluation uplift in the DEXUS Office Partnership portfolio, partially offset by a reduction in the valuation of Woodside Plaza in Perth. Office property FFO increased by $61.1 million to $262.8 million underpinned by the additional income from the DEXUS Office Partnership properties. Office like-for-like income growth was flat.

During the period, DEXUS leased 102,593 square metres[15] of office space across 131 transactions on average lease terms of 5.2 years. Office portfolio occupancy by income improved from 94.6% at 30 June 2014 to 95.0%, and DEXUS's FY15 office lease expiry risk reduced from 8.2% to 2.7%. Portfolio WALE was 4.4 years and tenant retention was maintained at 61%. New rents increased by 0.7% on average compared with prior rents, with average incentives across all office leasing reducing from 18.6% at 30 June 2014 to 16.1%.

The DEXUS Office Partnership properties acquired in April 2014 have also performed well and are on track to deliver a 12% total return[17] for the 12 months ending 31 March 2015. Key achievements since acquisition include: 73,710 square metres of space leased; occupancy increasing from 92.2%[18] to 94.6%; property values increasing by $125.3 million[19]; and the DEXUS Office Partnership portfolio weighted average capitalisation rate tightening from 7.24%[20] to 7.06%.

During the period, DEXUS settled on a number of property divestments including Lumley Centre, Auckland, sold for NZ$146 million, 201 Kent Street, Sydney[21], sold for $173 million, and 50 Carrington Street, Sydney, sold for $88 million. Sale proceeds were used to repay debt.

15 Including Heads of Agreement.
16 Excluding the DEXUS Office Partnership properties.
17 Forecast unlevered total return based on acquisition price.
18 Occupancy of 92.2% excludes the five properties sold. Occupancy was 93.5% including these five properties at acquisition.
19 100% share of which DEXUS owns 50%.
20 Represents the implied capitalisation rate of the remaining DEXUS Office Partnership portfolio, based on acquisition price.
21 Pre-emptive right exercised by co-owner resulted in divestment. DEXUS's share of the $173 million sale price was $86.5 million.

DEXUS industrial portfolio

Portfolio value:	$1.5 billion
Total area:	1,050,562 square metres
Area leased during the period:	97,968 square metres[22]

Key metrics	31 December 2014	30 June 2014
Occupancy by income	92.8%	93.0%
Occupancy by area	92.1%	93.1%
WALE by income	4.0 years	4.0 years
Average incentive	9.6%	11.0%
Average rental increase/(decrease)	(4.2)%	(8.6)%
Retention rate	52%	41%
Total return – 1 year	8.5%	9.0%

Kevin George said: "Increased demand from third party logistics service providers supporting general merchandise retail has driven leasing activity across DEXUS's industrial portfolio. The limited supply of prime quality facilities in outer western Sydney as a result of less speculative development is expected to continue to underpin rental growth in the short term."

The DEXUS industrial portfolio delivered a total return of 8.5% for the 12 months to 31 December 2014 underpinned by the performance of properties at Quarry at Greystanes and DEXUS Industrial Estate, Laverton North. Industrial property FFO decreased by $9.5 million to $52.0 million primarily as a result of divestments and lower occupancy at properties such as Rosebery. Industrial like-for-like income growth was flat.

During the period, DEXUS leased 97,968 square metres[22] of industrial space across 43 transactions. Industrial portfolio occupancy by income reduced marginally from 93.0% at 30 June 2014 to 92.8% primarily due to the departure of QLS at Pound Road West, Dandenong and Salmat at 2-4 Military Road, Matraville.

Portfolio WALE remained steady at 4.0 years and tenant retention increased to 52%. New rents reduced 4.2% on average compared with prior rents, driven by reversions on renewals and new leases, as the industrial portfolio remains over-rented. Average incentives across all industrial leasing reduced from 11.0% at 30 June 2014 to 9.6%.

The acquisition of Lakes Business Park, Botany, for $153.5 million[23] comprising a northern site of 48,946 square metres and southern site of 29,769 square metres was announced in December 2014 and settled on 16 January 2015. DEXUS's intention is to utilise its industrial capabilities to actively manage the northern site, which comprises 41 tenants, a WALE of 3.7 years and is located adjacent to DWPF's Sir Joseph Banks Corporate Park, as well as progress works on the potential for residential rezoning for the southern site in the medium term.

Developments

DEXUS progressed the Group's $3.5 billion development pipeline in the period which includes $1.3 billion in the DEXUS portfolio allocated to high quality industrial and office developments, trading and repositioning opportunities, and development fund-through investments.

Construction works were progressed with key milestones being reached at 5 Martin Place, Sydney[24] and at both of DEXUS and DWPF's fund-through developments at 480 Queen Street, Brisbane and Kings Square, Perth.

At Quarrywest in Greystanes, Boral is ahead of schedule on the landform works to deliver serviced and benched land to enable the development to commence in mid-2015. Planning approval and concept design processes, as well as pre-lease marketing, have now commenced.

22 Including Heads of Agreement.
23 Excluding acquisition costs.
24 5 Martin Place, Sydney is co-owned by DEXUS Office Partnership (50%) and Cbus Property (50%).

Trading

During the period trading profits of $18.1 million[25] were realised through efficiently executing the sale of 30 Distribution Drive, Laverton North and 50 Carrington Street, Sydney. DEXUS also contracted on the sale of 40 Market Street, Melbourne and Rothschild Avenue and Rosebery Avenue, Rosebery which will contribute to the FY15 trading profit forecast of approximately $40 million. The initial payment for Rosebery, net of tax, contributes to trading profits in both the first and second half of FY15.

Capital works, as part of the new 15 year lease renewal secured with Powercor at 40 Market Street, Melbourne are progressing on plan to achieve a practical completion later in FY15. The property is expected to settle ten days post practical completion of the works.

SUMMARY AND OUTLOOK

Darren Steinberg said: "It's been another period of consistent performance across the Group with positive signs in Sydney and Melbourne office leasing markets, acquisitions in our third party funds business and milestones reached across our key developments. The strong investment markets have also enabled us to secure trading profits and recycle capital.

"Despite the challenging economic environment, we expect the remainder of 2015 to be favourable for investment demand and total returns from commercial real estate."

DEXUS has upgraded its guidance[26] for the 12 months ending 30 June 2015 for FFO to 59.48 cents per security, reflecting 9.3% growth from FY14. The upgrade is supported primarily by lower debt costs and recent acquisitions. DEXUS is targeting to payout in line with free cash flow for FY15 which is expected to deliver a distribution of 41.04 cents per security, also reflecting 9.3% growth from FY14.

2015 Half Year Review

The 2015 Half Year Review is attached containing further detail in relation to the result.

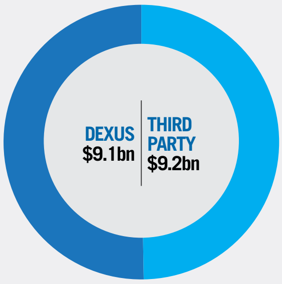
For further information please contact:

Investor relations		Media relations	
David Yates	T: +61 2 9017 1424 M: +61 418 861 047 E: david.yates@dexus.com	Louise Murray	T: +61 2 9017 1446 M:+61 403 260 754 E: louise.murray@dexus.com

25 Trading profits generated less FFO tax expense recognised for Rosebery in the period.
26 Assumptions barring unforeseen circumstances: Targeting positive like-for-like income growth across the office and industrial portfolios, weighted average cost of debt of 5.2%, trading profits of approximately $40m, Management Operations revenue of approximately $35-40m, excluding any buy-back of DEXUS securities, and excluding any further transactions.

2015 HALF YEAR REVIEW
DEXUS

FUNDS UNDER MANAGEMENT
$18.3bn



DISTRIBUTION
19.68 cents per security
↑ 6.8%

FUNDS FROM OPERATIONS[1]
28.54 cents per security
↑ 7.4%

STATUTORY PROFIT
$257.8m

NTA PER SECURITY
$6.47
↑ 11 cents

MANAGEMENT EXPENSE RATIO[2]
43bps
↓ 7bps

"It's been another period of consistent performance across the Group, with the achievements in the first half of the year positioning us well to achieve our objectives set in August 2014."

**DARREN STEINBERG,
CHIEF EXECUTIVE OFFICER**

The first half of FY15 was characterised by our focus on driving portfolio performance and satisfying the investment objectives of our third party clients.

We are pleased to report that we achieved good leasing outcomes which supported our solid operational result and improved office portfolio occupancy to 95%. A key highlight for the period was securing Challenger as a tenant at our development project underway at 5 Martin Place, Sydney.

The DEXUS Office Partnership (formerly CPA) properties are performing strongly and were one of the key drivers of the improvement in Funds From Operations[1] (FFO) per security, along with trading profits and growth in management operations income.

As a result of the bedding down of the CPA transaction, we were able to achieve efficiencies across our business, with our Gross Management Expense Ratio[2] reducing from 50 basis points (bps) at 31 December 2013 to 43bps.

Delivering on the investment objectives of our third party clients, we successfully acquired a number of retail and industrial properties in a competitive market while continuing to drive portfolio performance and progressing key development projects.

In our trading business, we contracted to exchange all of the properties identified for divestment to deliver our FY15 trading profit forecast. The sale of 50 Carrington Street, Sydney and exchange of contracts to sell 40 Market Street, Melbourne leveraged our capabilities to identify, reposition and enhance value. When completed, the sale of these two properties are expected to contribute approximately 70% of our FY15 trading profits.

These results were achieved while securing new debt facilities at competitive margins, enhancing the duration and diversity of our debt book and maintaining the strength of our balance sheet.

DEXUS has upgraded its guidance[3] for the 12 months ending 30 June 2015 for FFO to 59.48 cents per security, reflecting 9.3% growth from FY14. The upgrade is supported primarily by lower debt costs and recent acquisitions. DEXUS is targeting to payout in line with free cash flow for FY15 which is expected to deliver a distribution of 41.04 cents per security, also reflecting 9.3% growth from FY14.

Financial Results and Capital Management

DEXUS delivered a 25.4% increase in FFO to $258.4 million. On a per security[4] basis, FFO increased 7.4%to 28.54 cents. This increase was primarily a result of:

- Property and management income from the DEXUS Office Partnership properties
- Growth in other third party funds under management
- The realisation of $18.1 million[5] in trading profits

Statutory net profit after tax was $257.8 million, a decrease of $19.4 million from the previous corresponding period. This movement was driven primarily by net unrealised fair value losses on derivatives and interest bearing liabilities of $51.8 million due to market interest rates shifting down, compared to a $5.8 million net gain for the previous corresponding period. Net revaluation gains of investment properties of $109.3 million were slightly higher (up $2.7 million) than the previous corresponding period gains.

Distribution per security was 19.68 cents for the six months ended 31 December 2014, up 6.8% on the previous corresponding period[4], with the payout policy remaining consistent with free cash flow. The distribution will be paid to security holders on Friday, 27 February 2015.

Net Tangible Assets per security increased 11 cents to $6.47, primarily as a result of $109.3 million in investment property revaluation gains.

DEXUS accessed global debt markets, replacing short term funding put in place for the CPA transaction with long dated US Private Placement (USPP) debt at competitive margins. As a result, DEXUS's duration of debt increased from 5.2 years at 30 June 2014 to 5.9 years and cost of debt decreased from 5.4% at 30 June 2014 to 5.2% benefiting from the credit upgrades achieved in late FY14. Gearing[6] was 32.0%, at the lower end of the target range of 30-40%.

DEXUS implemented a one-for-six consolidation of its securities, which completed on 14 November 2014. The effect of this consolidation was the conversion of six stapled securities in DEXUS to one stapled security in DEXUS with each of the securities worth six times as much as those securities were worth before the consolidation.

On 14 October 2014, as a result of share market volatility, DEXUS announced a new on-market securities buy-back of up to 5% of DEXUS securities on issue, which is yet to be utilised. The buy-back is an initiative that provides flexibility for DEXUS to acquire securities on-market should conditions permit, with a focus on enhancing returns for investors.

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, rental guarantees, coupon income and distribution income net of funding costs.
2. Gross Management Expense Ratio is calculated as annualised costs arising from managing DEXUS assets and corporate activity divided by balance sheet funds under management.
3. Assumptions: Targeting positive like-for-like income growth across the office and industrial portfolios, weighted average cost of debt of 5.2%, trading profits of approximately $40 million, Management Operations revenue of approximately $35-40 million, excluding any buy-back of DEXUS securities and any further transactions.
4. The prior corresponding period has been restated to reflect the one-for-six security consolidation.
5. Trading profits generated less FFO tax expense that is being recognised for Rosebery in the period.
6. Adjusted for cash and for debt in equity accounted investments. Pro-forma gearing is 33.0% post the acquisition of Lakes Business Park, Botany which settled on 16 January 2015.

Note: All data is for the six month period ending 31 December 2014 unless otherwise stated.

DEXUS
PROPERTY GROUP

OFFICE

Improving tenant demand for quality space resulted in leasing outcomes and increased occupancy.

"Positive momentum in office leasing enquiry in Sydney and Melbourne resulted in increased activity in our portfolio."

KEVIN GEORGE, EXECUTIVE GENERAL MANAGER, OFFICE & INDUSTRIAL

102,593sqm OFFICE SPACE LEASED	4.4 years WALE BY INCOME
95.0% OCCUPANCY BY INCOME	8.2% ONE YEAR TOTAL RETURN

Increased leasing activity in Sydney and Melbourne

DEXUS successfully converted increased tenant enquiry into leasing outcomes during the period, with occupancy improving 0.4% to 95.0%, in line with the target set at the start of FY15.

During the period DEXUS leased 102,593 square metres[7] of office space across 131 transactions. Portfolio weighted average lease expiry was 4.4 years and tenant retention was maintained at 61%.

Reinforcing the positive signs of improving tenant demand for quality office space, DEXUS witnessed a number of instances during the period where multiple tenants were competing for the same space, resulting in better leasing outcomes. A combination of firmer tenant demand and increased acceptance of effective deal structures has alleviated upward pressure on incentives across the portfolio during the period.

Industries experiencing growth in the DEXUS portfolio, including business and financial services, and public administration, continued to drive demand in Sydney and Melbourne. The Brisbane and Perth office markets, however, remain challenging as a result of the reduction in mining investment.

DELIVERING ON THE CPA TRANSACTION

The DEXUS Office Partnership[8] properties have exceeded the performance assumptions determined at the time of acquisition.

- DEXUS completed the acquisition of CPA in partnership with Canada Pension Plan Investment Board in April 2014
- All properties were successfully transitioned to the DEXUS management platform by July 2014
- Leased over 73,000 square metres[7] of space since April 2014
- Occupancy improved from 92.2%[9] at April 2014 to 94.6% at 31 December 2014
- The DEXUS Office Partnership portfolio weighted average capitalisation rate tightened from 7.24%[10] at April 2014 to 7.06% at 31 December 2014
- Achieved a $125.3 million[11] portfolio revaluation uplift at 31 December 2014
- Identified prospective recurrent operational savings in the order of $700,000 per annum, with further review of key contracts underway

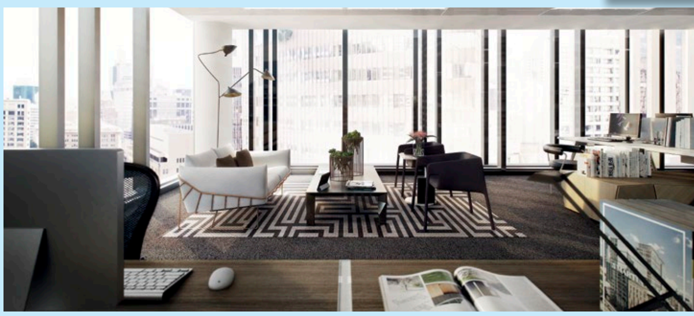
SUSTAINABILITY SNAPSHOT

↓ 39.3% ENERGY CONSUMPTION	↓ 25.7% WATER CONSUMPTION	↓ 42.7% GHG EMISSIONS

Since base year FY08.

7. Including Heads of Agreement.
8. DEXUS Office Partnership: DEXUS (50%), DEXUS Office Partner (50%).
9. Occupancy of 92.2% excludes the five properties sold. Occupancy was 93.5% including these five properties.
10. Represents the implied capitalisation rate of the remaining DEXUS Office Partnership portfolio based on acquisition price.
11. Valuation increase represents a 100% interest, of which DEXUS has a 50% interest.

QUALITY OFFICE SPACE ATTRACTS HIGH CALIBRE TENANT



Consistent with the broader improvement seen in tenant demand for quality office space in Sydney and Melbourne, DEXUS secured Challenger as a tenant at 5 Martin Place, Sydney.

- Acquired a 50% interest[12] in April 2014 as part of the CPA transaction
- DEXUS and Cbus Property refreshed the leasing marketing campaign
- Secured Challenger as a new tenant – attracted to the central location, unique heritage features and business collaboration options facilitated by the expansive floor plates on the lower levels
- Increased space committed to 67%, including earlier lease agreements with Ashurst and Evans & Partners
- Redesigned the retail offering to drive higher value
- Endorsed the quality of the building through leasing success, six months ahead of the planned completion of the development

Valuation uplift

The continued trend of leasing success, the weight of capital seeking quality Australian office property and strong tenant covenants all contributed to a $105.8 million or 1.4% increase in valuations on prior book values across the DEXUS office portfolio. The weighted average capitalisation rate for the office portfolio tightened by eight basis points from 6.87%[13] at 30 June 2014 to 6.79% at 31 December 2014. A 3.8% increase in valuations on prior book values was achieved from the DEXUS Office Partnership properties.

FY15 FOCUS

- **Proactively manage and drive the performance of the office portfolio while enhancing the value of newly acquired properties**
- **Focus on reducing lease expiries and maintaining >95% occupancy**
- **Focus on reducing incentives and undertaking effective leasing deals**

12. 5 Martin Place, Sydney is co-owned by DEXUS Office Partnership (50%) and Cbus Property (50%).
13. Excluding DEXUS Office Partnership properties.

INDUSTRIAL

Sydney's outer west prime market is achieving rental growth and lower incentives as a result of reduced vacancy and less speculative development in core precincts.

97,968sqm
INDUSTRIAL SPACE LEASED

4.0 years
WALE BY INCOME

92.8%
OCCUPANCY BY INCOME

8.5%
ONE YEAR TOTAL RETURN

Concentrated tenant activity

Increased demand from third party logistics service providers supporting general merchandise retail has driven leasing activity across DEXUS's industrial portfolio. The limited supply of prime quality facilities in outer western Sydney is expected to continue to underpin rental growth in the short term, primarily as a result of less speculative development.

During the period DEXUS leased 97,968 square metres[14] of industrial space across 43 transactions.

Industrial portfolio occupancy by income reduced marginally from 93.0% at 30 June 2014 to 92.8%, primarily as a result of the departure of QLS at Pound Road West, Dandenong and Salmat at 2-4 Military Road, Matraville.

Portfolio weighted average lease expiry (WALE) remained steady at 4.0 years and tenant retention increased to 52%. A focus on actively driving income returns has resulted in reduced average incentives for the portfolio of 9.6%, with Sydney's outer west averaging 6.9% across all transactions.

Valuation uplift

Revaluations across the DEXUS industrial portfolio at 31 December 2014 resulted in a marginal uplift of $3.5 million or 0.2% increase on prior book values, driven by a combination of income growth and capitalisation rate compression.

SUSTAINABILITY SNAPSHOT

↓ 26.4% ENERGY CONSUMPTION	↑ 9.1% WATER CONSUMPTION	↓ 30.3% GHG EMISSIONS

Since base year FY08.

14. Including Heads of Agreement.

ACQUISITION IN CORE MARKET TO LEVERAGE INDUSTRIAL CAPABILITIES

The acquisition of Lakes Business Park, 2-13 Lord Street, Botany provides DEXUS with the opportunity to apply its industrial asset management and trading capabilities with a focus on enhancing investor returns.

Lakes Business Park is a 43,000 square metre business park located eight kilometres from the Sydney CBD in a core industrial market for DEXUS. The property comprises two adjoining sites, the Northern and the Southern site, and is adjacent to Sir Joseph Banks Corporate Park which is owned by DEXUS Wholesale Property Fund.

Given the property's WALE of 3.2 years, there is potential for superior rental growth in the medium term as a result of the lack of greenfield land supply, combined with an opportunity to accommodate displaced tenants from competing land use interests in the area.

DEXUS's strategy to ensure the best use of the site will be implemented through:

- Adopting an active leasing strategy to drive rental growth and increase the WALE of the Northern site
- Progressing works on the potential for residential rezoning of Southern site in the medium term

FY15 FOCUS

- **Active asset management of the industrial portfolio to deliver attractive income returns**
- **Pursuing change of use repositioning opportunities within the existing portfolio**
- **Creating core new industrial product for DEXUS and its capital partners**
- **Securing strategic investment opportunities and development land for future value-add activities**

DEVELOPMENTS AND TRADING

Significant milestones were achieved at key developments within the Group's $3.5 billion development pipeline, which includes $1.3 billion in the DEXUS portfolio.

$1.3bn
DEXUS DEVELOPMENT PIPELINE

$2.2bn
THIRD PARTY DEVELOPMENT PIPELINE

Key developments update

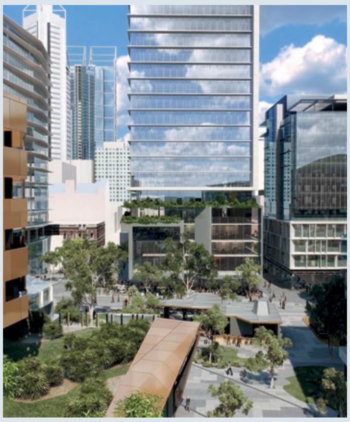
DEXUS made headway on its $1.3 billion development pipeline, reaching significant milestones at the key developments at 5 Martin Place, Sydney, 480 Queen Street, Brisbane and Kings Square in Perth.

5 Martin Place, Sydney

The $107m (DEXUS 25% share) office development at 5 Martin Place is 72% committed and the building was topped out at the end of 2014. Practical completion is expected in mid-2015.

480 Queen Street, Brisbane

The $283m (DEXUS 50% share) fund-through development is expected to top out in mid-2015, with the façade installation well progressed. The development is 80.7% committed[15] and is on track for an early 2016 completion.



Kings Square, Perth

The $219m (DEXUS 50% share) fund-through development at Kings Square is 55% committed and on track for completion by mid-2015. The project benefits from a five-year income guarantee from practical completion for the remaining vacant space. The construction of the three buildings reached its highest point, officially topping out the development during the period.

INDUSTRIAL DEVELOPMENT MOMENTUM AT GREYSTANES

The acquisition of Quarrywest at Greystanes continues development momentum, positioning the Greystanes precinct to become one of the largest premium industrial precincts in Australia.

Approach:

- Acquired Quarry at Greystanes in 2007, progressively secured high calibre tenants and developed a premium industrial estate, which was used to form the Australian Industrial Partnership in 2012
- Patience and discipline enabled DEXUS to act quickly to access an adjoining parcel of land at Quarrywest
- Acquired Quarrywest off-market in June 2014 to seed the new DEXUS Industrial Partnership[16] and provide an opportunity for up to 130,000 square metres of prime industrial development

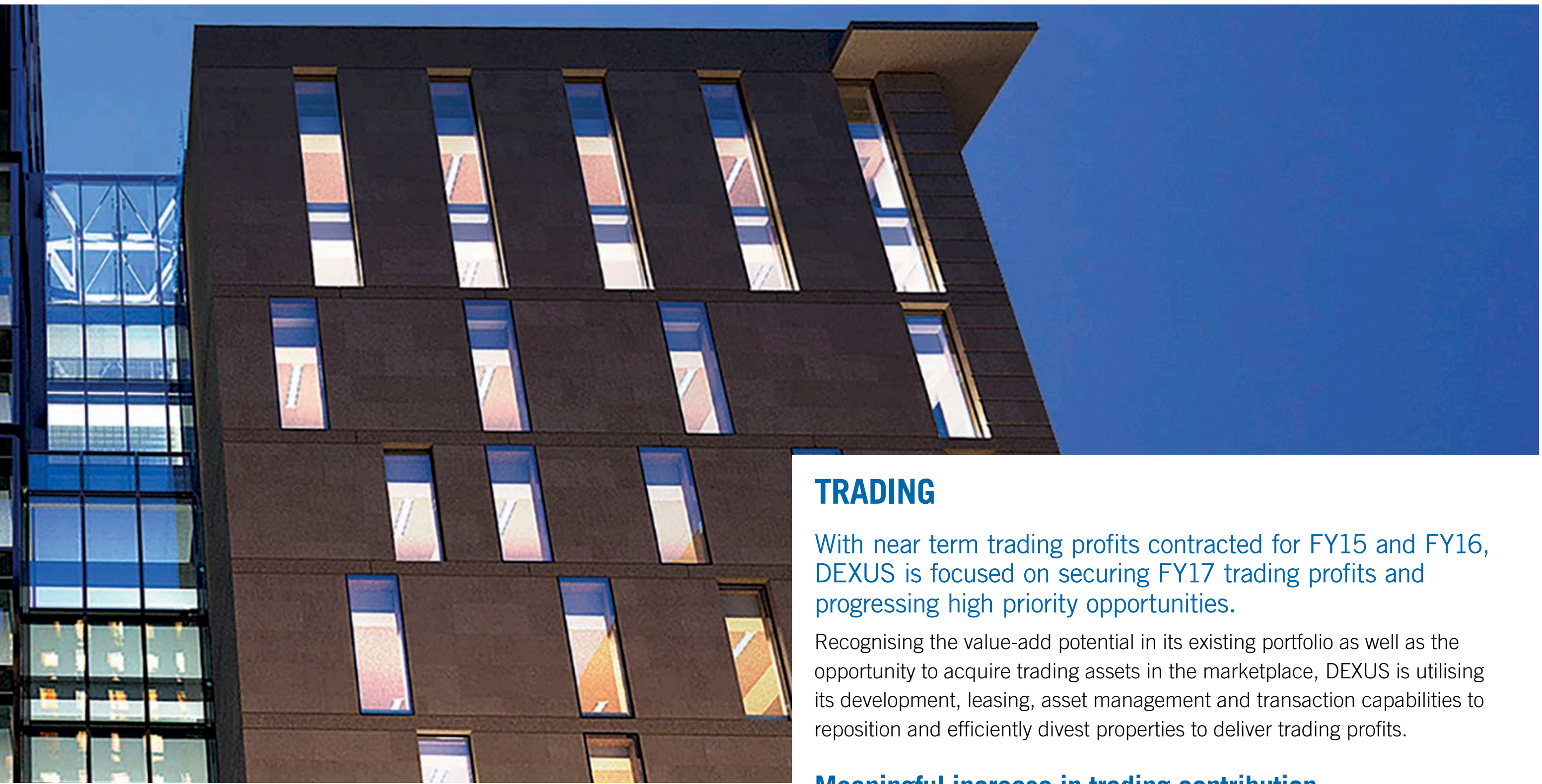
Outcomes:

- Secured high calibre tenants at Quarry at Greystanes including Brady Australia, Fujitsu, Cameron Transport, Blackwoods, Roche Diagnostics
- Site preparations have progressed at Quarrywest with construction anticipated to commence mid 2015
- The creation of a premium industrial precinct providing 319,000 square metres of industrial facilities

FY15 FOCUS

- **Deliver office development at Kings Square, Perth and progress 5 Martin Place, Sydney and 480 Queen Street, Brisbane**
- **Commence three year development program at Quarrywest**
- **Utilise development expertise to reposition trading opportunities**

15. Including Heads of Agreement.
16. DEXUS Industrial Partnership: DEXUS (50%), DEXUS Industrial Partner (50%).



TRADING

With near term trading profits contracted for FY15 and FY16, DEXUS is focused on securing FY17 trading profits and progressing high priority opportunities.

Recognising the value-add potential in its existing portfolio as well as the opportunity to acquire trading assets in the marketplace, DEXUS is utilising its development, leasing, asset management and transaction capabilities to reposition and efficiently divest properties to deliver trading profits.

DEXUS Industrial Estate, Laverton North

Land and infrastructure works for the third stage of development at DEXUS Industrial Estate, Laverton North have commenced, providing 50 hectares of serviced development land. DEXUS has secured heads of agreement for a long term pre-lease for a 25,650 square metre facility, which is designed to achieve a 5 star Green Star rating and is expected to be completed in March 2016.

Partnership developments on track

At Quarry at Greystanes, owned in partnership with the Australian Industrial Partner, construction on two buildings pre-leased to Supply Network has commenced. There are further plans for a café and small warehouse with construction expected to start in March 2015.

At Quarrywest in Greystanes, Boral is ahead of schedule on the landform works to deliver serviced and benched land to enable the development to commence in mid-2015. Planning approval and concept design processes, as well as pre-lease marketing, have now commenced.

Meaningful increase in trading contribution

In the first half of FY15, DEXUS delivered trading profits of $18.1 million[17]. These profits were driven by:

- The settlement of 50 Carrington Street, Sydney
- The settlement of 30 Distribution Drive, Laverton North
- Part of the initial payment for 5-13 Rosebery Avenue and 25-55 Rothschild Avenue in Rosebery net of tax

Trading profit outlook and replenishing the pipeline

DEXUS remains confident of meeting its forecast of approximately $40 million in trading profits for FY15.

Capital improvement works at 40 Market Street, Melbourne are on track for practical completion in April 2015, with settlement expected to contribute to trading profits in the second half of FY15.

A number of properties within the existing DEXUS portfolio have been identified as potential opportunities for development in future years, including 32 Flinders Street in Melbourne. The southern industrial site of the recently acquired Lakes Business Park in Botany has been acquired for potential trading purposes.

DEXUS will continue to utilise its leasing, development and trading capabilities to deliver trading profits of approximately $90 million across FY16 –17.

REPOSITIONING TO DELIVER TRADING PROFIT

The settlement of the sale of 40 Market Street, Melbourne is expected to contribute to the delivery of DEXUS's FY15 trading profit forecast of approximately $40 million.

- Acquired in November 2012 as an identified trading property for $46.7 million, well below replacement value, at a capitalisation rate of 8.0%
- Secured a 15 year lease renewal from existing tenant Powercor for the whole of the building, 15 months post acquisition and well ahead of the lease expiry, ensuring 100% occupancy of the commercial space until 2030
- Exchanged contracts in September 2014 to sell the property for $105 million
- Commenced capital works as part of the new lease, including an extensive base building upgrade in line with the tenant's requirement and targeting a 3 star NABERS Energy rating, an increase from a zero rating
- Settlement is expected in the second half of FY15, following the completion of the building's upgrade

FY15 FOCUS

- **Securing FY17 trading profits and progressing high priority opportunities**

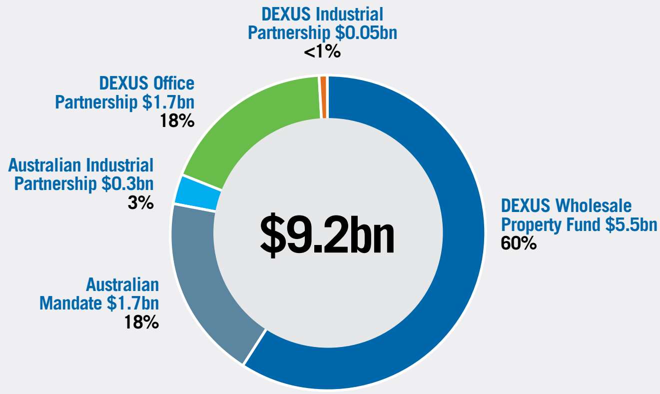
17. Trading profits generated less FFO tax expense that is being recognised for Rosebery in the period.

THIRD PARTY FUNDS MANAGEMENT

DEXUS's third party funds management business is set up for strong organic growth with a development pipeline of $2.2 billion.

"We have acquired properties, delivered solid performance, completed developments and expanded the committed development pipeline, delivering on our third party clients' investment plans."

CRAIG MITCHELL, EXECUTIVE DIRECTOR, FINANCE AND CHIEF OPERATING OFFICER



DWPF – delivering on strategy and driving performance

DEXUS Wholesale Property Fund (DWPF) delivered a total return of 9.04% (post fees) for the 12 months to 31 December 2014. Strong performance across the three asset classes contributed to this result, particularly from Gateway, Regents Park Industrial Estate and Westfield Mt Druitt in Sydney and Westfield North Lakes in Brisbane. The Fund outperformed its benchmark over three and five year periods.

DWPF progressed its development pipeline, expanding the number of committed projects from four to eight. These will be a key driver of performance over the longer term while increasing the quality and diversity of its portfolio. New projects include development works at Westfield North Lakes and Willows, Townsville and repositioning works at 360 Collins Street, Melbourne and Westfield Hurstville.

The developments currently underway, including the two fund-through developments held in 50/50 partnership with DEXUS, all made significant progress. At Westfield Miranda, the first three of four stages opened representing a major milestone for the Fund. Stage 1 of DRIVE Industrial Estate, Richlands reached practical completion and is 86% leased, with Stage 2 now under construction.

ACQUISITIONS PROGRESS PARTNERSHIP'S INVESTMENT PLAN

The potential end value (on completion of development projects) of the DEXUS Industrial Partnership increased to $360 million following the acquisition of three industrial properties in Queensland.

- DEXUS formed an industrial partnership with the Future Fund in June 2014, seeded with the acquisition of a development site at Quarrywest at Greystanes in NSW
- Acquired development sites at Larapinta (July 2014) and Hemmant (December 2014) in Queensland
- Exchanged contracts to acquire 112 Cullen Avenue, Eagle Farm in Queensland in December 2014, the first income producing property for the partnership's portfolio

These acquisitions progress the partnership's investment plan to leverage DEXUS's specialist skills in accessing, developing and actively managing industrial property to deliver attractive risk-adjusted returns.

SHOPPING CENTRES DIVERSIFY DWPF'S RETAIL PORTFOLIO

The acquisition of three sub-regional shopping centres continues DWPF's strategy to diversify its retail portfolio and leverage DEXUS's specialist sub-regional retail management expertise.

During the period, DWPF acquired Deepwater Plaza in Woy Woy, Sturt Mall in Wagga Wagga and Shepparton Marketplace in Shepparton.

These acquisitions reinforce DWPF's strategy of investing in high quality sub-regional shopping centres with a focus on non-discretionary food, convenience and service retailing.

In addition, the newly acquired centres have the opportunity to unlock value through active asset management and the activation of potential retail development opportunities.

The acquisition of these centres over the past six months, increases DWPF's sub-regional retail portfolio to six centres, resulting in a total retail portfolio of 11 centres.

SUSTAINABILITY SNAPSHOT

↓ 31.5%	↓ 23.6%	↓ 34.7%
ENERGY CONSUMPTION	WATER CONSUMPTION	GHG EMISSIONS

Since base year FY08.

THIRD PARTY FUNDS MANAGEMENT – RETAIL

Strong leasing outcomes across the third party retail portfolio, strategic acquisitions and progress on retail developments continued to deliver returns to investors and enable future growth.

RETAIL

Progressing Retail's FY15 focus on specialty store leasing renewals and retention, 287 leases were completed across 41,400 square metres.

The Retail team leveraged leasing efficiencies to secure a lease with Kathmandu for a flagship store at Galleria, 385 Bourke Street in Melbourne, delivering on the centre's targeted tenancy mix of outdoor adventure, lifestyle and health.

Three sub-regional shopping centres were acquired on behalf of DWPF in the period, delivering on the Fund's transactional requirements. The acquisitions provide an opportunity to apply DEXUS's retail management expertise, adding immediate value to the newly acquired centres.

SYDNEY CITY RETAIL GETS A MAKEOVER

The redevelopment of the retail space at Gateway in Sydney embraces a new vision for Circular Quay.

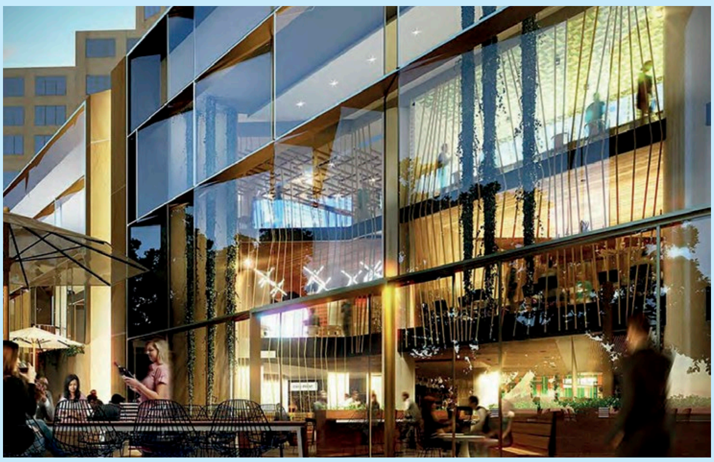
The city retail podium redevelopment at DWPF's Gateway will be the first off the rank of a number of key projects that will change the face of Circular Quay.

DEXUS is looking beyond end of trip or concierge services provided within its portfolio to focus on its office podiums to provide food and beverage and convenience retailing at the base of the office towers.

The Gateway retail redevelopment is anticipated to provide one of Sydney's destinational dining and lifestyle precincts, doubling the space dedicated to indoor and outdoor dining with some convenience retail.

DEXUS's dedicated city retail leasing team is providing advice through the design phases to secure tenants and ensure the right retail mix and service delivery.

The Gateway retail redevelopment will benefit from the completion of the south east Sydney Light Rail significantly impacting the growth and revitalisation of this precinct.



WESTFIELD MIRANDA REDEVELOPMENT ENHANCES DWPF PORTFOLIO QUALITY

The first three of four stages of the Westfield Miranda redevelopment have officially opened, representing a major milestone for DWPF.

The $460 million[18] redevelopment of Westfield Miranda capitalised on the centre's trade area dominance to transform the centre into a world-class, digitally enabled retail, entertainment and dining destination.

The centre's enhanced customer experience offers fully refurbished David Jones and Myer department stores, more than 300 fashion retailers, an artisan fresh food market, larger food court and expanded entertainment area.

The redevelopment supports DWPF's investment strategy of creating a high quality retail portfolio to enhance unitholder returns.

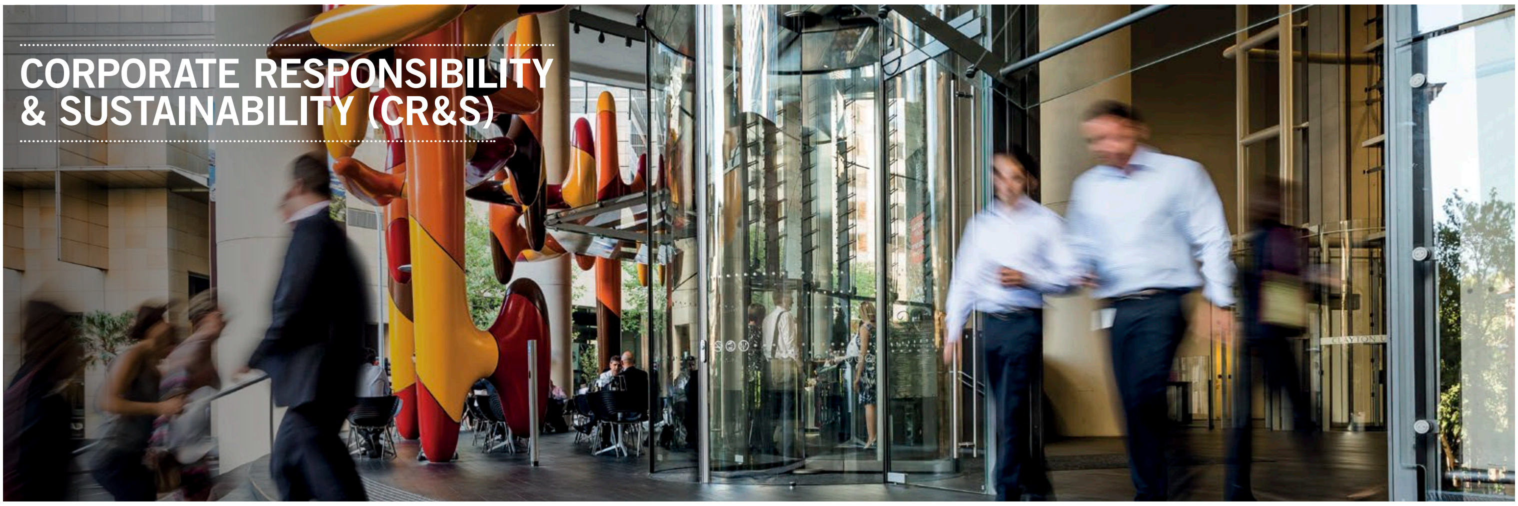
Leasing across the development has been successful, with terms agreed or offers accepted for 93% of the new project sites, including terms agreed with three international mini majors to open between now and mid-2015.

The final stage of the development, which includes the opening of the cinema and associated restaurants, is scheduled to open in July 2015.

FY15 FOCUS

- **Specialty store leasing renewals and retention**
- **Actively manage the retail portfolio to deliver enhanced returns**
- **Progress the $1.2 billion retail development pipeline to improve quality and enhance returns**
- **Deliver on the transactional requirements of third party clients**

18. 50% DWPF, 50% Scentre Group.



CORPORATE RESPONSIBILITY & SUSTAINABILITY (CR&S)

Achieving strong portfolio environmental performance

The DEXUS office portfolio continued its strong environmental performance, maintaining its 4.6 star NABERS Energy and 3.5 star NABERS Water ratings. The portfolio includes 26 properties with a NABERS Energy rating of 5 stars or more, comprising 57% of net lettable area.

The DEXUS Office Partnership portfolio achieved a 4.7 star NABERS Energy rating and a 3.8 star NABERS Water rating. 145 Ann Street Brisbane was a standout performer achieving its inaugural 5.5 star NABERS Energy rating.

The first two buildings at DEXUS and DWPF's fund-through development at Kings Square, Perth achieved 5 Star Green Star – Office Design v3 ratings, reinforcing DEXUS's focus on excellence in sustainable development.

DEXUS continues to focus on energy efficiency across its property operations to deliver on the Group's target to reduce energy consumption by 10% in FY15 against its FY12 like-for-like baseline. DEXUS's continuous improvement approach has resulted in the Group achieving its target six months early following a 10.1% reduction in energy consumption for 2014.

Recognised for CR&S practice

DEXUS continues to be recognised as a sustainability leader and has achieved the following affirmation:

- Awarded 'Green Star' status and achieved top quartile performance globally in the Global Real Estate Sustainability Benchmark (GRESB) for DEXUS and DWPF
- Achieved 'Sustainability Leader' status in the Dow Jones Sustainability Index
- Recognised in the Carbon Disclosure Project's 2014 Climate Disclosure and Climate Performance Leadership indices

Improving through innovation

DEXUS implemented an embedded electricity network at Southgate in Melbourne to offer managed electricity services to tenants at attractive rates. The network provides a seamless connection process for new tenants and an additional property income stream. DEXUS is progressing the potential for embedded networks across a further five properties.

Engaging with stakeholders to enhance disclosure

DEXUS progressed its transition from Global Reporting Initiative (GRI) G3.1 protocol to its materiality-based G4 protocol. The Group actively engaged with key stakeholders to identify issues most important to them in order to guide future communication and reporting.

The most highly ranked material issues identified included environmental performance, tenant attraction and retention, sustainable procurement and market volatility, which will form part of the 2015 Annual Review.

INVESTOR INFORMATION

If you have any questions regarding your security holding or wish to update your personal or distribution payment details, please contact the Registry by calling the DEXUS Infoline on 1800 819 675. This service is available from 8.30am to 5.30pm (Sydney time) on all business days.

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.

Directory

DEXUS Diversified Trust
ARSN 089 324 541

DEXUS Industrial Trust
ARSN 090 879 137

DEXUS Office Trust
ARSN 090 768 531

DEXUS Operations Trust
ARSN 110 521 223

Responsible Entity
DEXUS Funds Management Limited
ABN 24 060 920 783
AFSL 238163

Directors of the Responsible Entity
Christopher T Beare, Chair
Elizabeth A Alexander AM
Penny Bingham-Hall
John C Conde AO
Tonianne Dwyer
Craig D Mitchell
W Richard Sheppard
Darren J Steinberg
Peter B St George

Secretaries of the Responsible Entity
Brett Cameron
Scott Mahony

Responsible Entity
Level 25, Australia Square
264 George Street
Sydney NSW 2000

or

PO Box R1822
Royal Exchange
Sydney NSW 1225

Phone: +61 2 9017 1100
Fax: +61 2 9017 1101
Email: ir@dexus.com
www.dexus.com

Investor enquiries
Registry Infoline: 1800 819 675
Investor Relations: +61 2 9017 1330
Email: ir@dexus.com
www.dexus.com

Security registry
Link Market Services Limited
Level 12, 680 George Street
Sydney NSW 2000

Locked Bag A14
Sydney South NSW 1235

Registry Infoline: 1800 819 675
Fax: +61 2 9287 0303
Email: registrars@linkmarketservices.com.au
www.linkmarketservices.com.au

Australian Securities Exchange
ASX Code: DXS

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