



“A focus on driving returns from our existing portfolio has delivered strong financial performance and solid investor returns.”

**DARREN STEINBERG, CHIEF EXECUTIVE OFFICER**

### Leveraging core capabilities to drive high performance

In the first half of FY14, DEXUS entered into the next phase of executing its strategy and further leveraged its core capabilities to drive high performance. While it was a very busy period undertaking the Commonwealth Property Office Fund (CPA) transaction, DEXUS continued to actively manage its office and industrial portfolios, improving its lease expiry profile and contributing to an increase in the value of its direct portfolio.

Maintaining an active approach to capital management, DEXUS significantly increased the duration of debt while reducing the cost of debt. The commencement of the on-market securities buy-back in August 2013 assisted in an upgrade to FY14 Funds From Operations<sup>1</sup> (FFO) and distributions per security guidance.

These activities delivered strong financial performance and solid investor returns in the six months to 31 December 2013.

### CPA transaction

Following DEXUS's acquisition of a 14.9% economic interest in CPA, DEXUS launched a proposal in partnership with Canada Pension Plan Investment Board (CPPIB) in October 2013 to acquire CPA. The proposal developed into an off-market takeover to acquire all of the units in CPA and an offer was launched in December 2013. Through this transaction DEXUS expects to increase the scale of its office portfolio on balance sheet (DXS office portfolio) to \$7.5 billion and as a result will own and manage \$17.4 billion of office, industrial and retail properties across the Group. This transaction reinforces DEXUS's objectives of being a leader in Australian office and a wholesale partner of choice, enabling it to be one of the most cost efficient operators in the sector as well as gaining returns for investors.

## FINANCIAL PERFORMANCE

**DEXUS had a strong six months, increasing FY14 market guidance and delivering an increase in FFO and distribution per security.**

Net profit attributable to stapled security holders was \$277.2 million, an increase of 3.8% on the previous corresponding period, providing FFO of \$189.8 million.

DEXUS delivered a 6.2% increase on the previous corresponding period in distribution per security to 3.07 cents based on a payout ratio of 75% of FFO. This was driven by:

- Like-for-like net operating income (NOI) growth of 3.8% from the office portfolio and 2.1% growth from the industrial portfolio

1. DEXUS's FFO 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 certain 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.

Note: All data is for the six month period ending 31 December 2013 unless otherwise stated.

### KEY HIGHLIGHTS

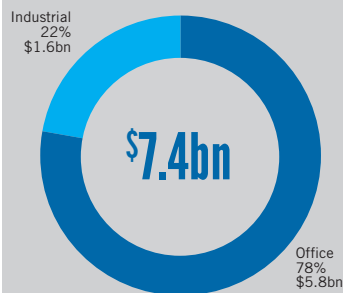
Statutory profit	\$277.2m	▲	3.8% <sup>1</sup>
Distributions	3.07cps	▲	6.2% <sup>1</sup>
Funds From Operations	4.08cps	▲	6.0% <sup>1</sup>
Return on equity			11.0% <sup>2</sup>
Gearing			30.6%
NTA per security	\$1.08	▲	3.0 cents <sup>1</sup>

1. Compared to the previous corresponding period.

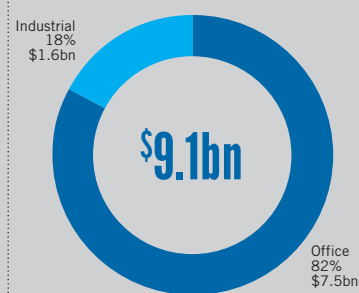
2. For the 12 months ended 31 December 2013.

### DEXUS PORTFOLIO

31 DECEMBER 2013



POST CPA TRANSACTION<sup>1</sup>



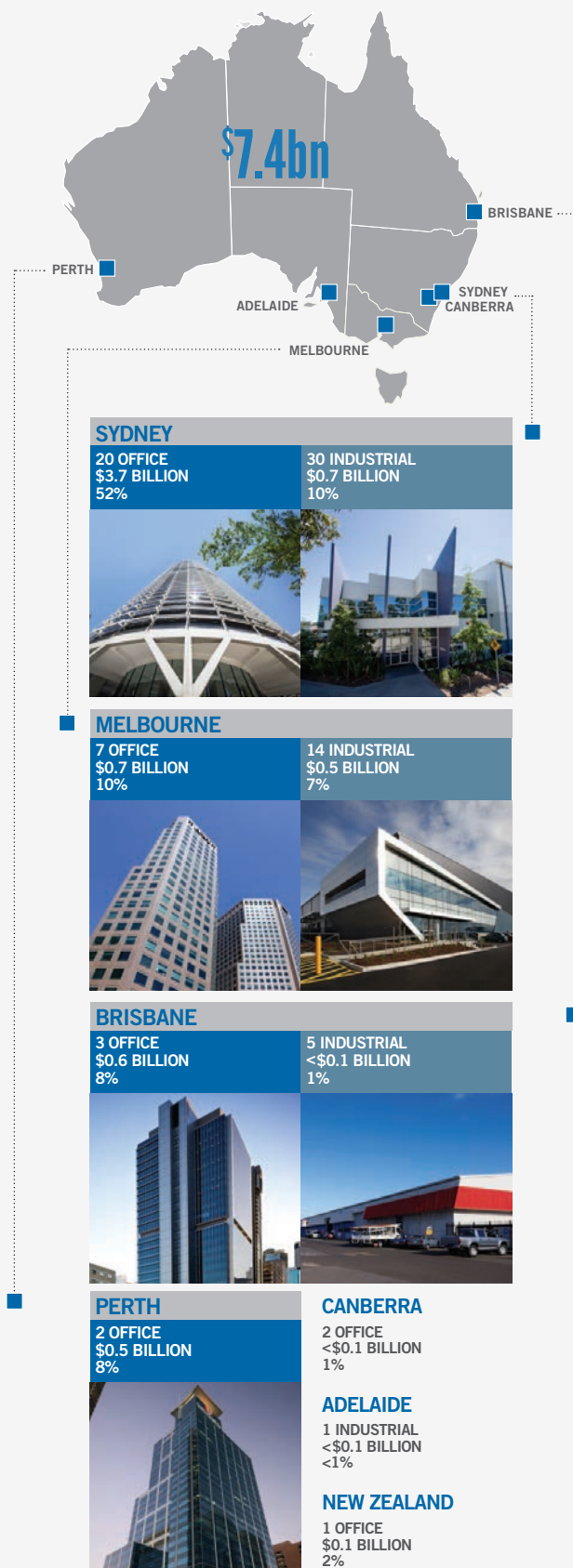
1. Assuming 100% acceptances.

- The net distribution received from DEXUS's 14.9% interest in CPA, which was held in an efficient off-balance sheet structure
- Positive impact of the on-market securities buy-back of \$75 million of DEXUS securities
- Continued active management of capital markets debt, reducing the average cost of debt by 20bps to 5.7%. Interest costs were \$61.4 million, up \$7.0 million following recent property acquisitions and the on-market DXS securities buy-back

Strong property revaluation gains of \$106.6 million were the main contributors to the 3.0 cent increase in Net Tangible Assets (NTA) per security to \$1.08.

## DEXUS PORTFOLIO

The DEXUS portfolio comprises quality Australian office and industrial properties in which DEXUS owns direct investments. DEXUS owns a total of \$7.4 billion of properties concentrated in core markets across Sydney, Melbourne, Brisbane and Perth and is one of the largest institutional owners of office buildings in the Sydney CBD, Australia's largest office market.



Portfolio breakdown excluded inventory of \$0.4 billion.

## OFFICE

DEXUS's proactive leasing approach in securing solid tenant covenants contributed to a total return of 10.3% and progressed its FY14 objective of driving performance in the office portfolio.



### Australian office markets

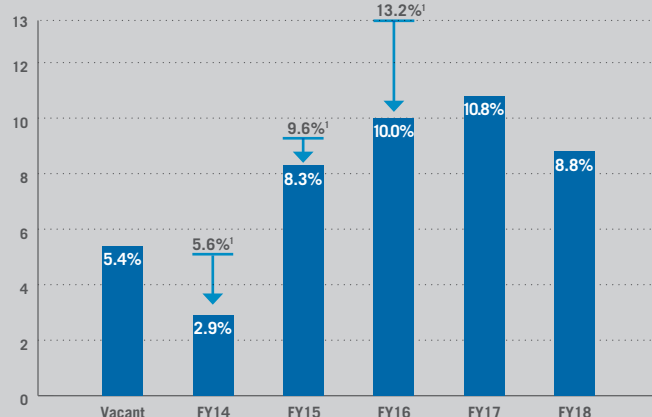
Despite an uplift in leasing enquiry, leasing conditions remained challenging as a result of constrained employment growth in the corporate sector and consolidation within the government and mining sectors. These conditions required a strong focus on tenant retention to maintain occupancy levels and minimise expiry risk. Tenant demand was strongest from small to medium sized businesses, seeking quality space at an opportune time in the cycle.

### Focused leasing approach

Leveraging strong relationships to provide space solutions for tenants, DEXUS was successful in retaining and securing new tenants. Proactive leasing increased the weighted average lease expiry (WALE) to 5.1 years, with occupancy remaining stable at 94.6% and the office portfolio's lease expiry profile improved from FY14 to FY16. Key leasing included:

- Securing a 12 year lease over approximately 9,500 square metres with Minter Ellison as a major tenant at Governor Macquarie Tower, 1 Farrer Place, Sydney and taking up half of the space from the impending NSW State Government vacancy in FY15
- Extending part of IBM's lease over 11,485 square metres at Southgate, Melbourne for a further five years to December 2020
- Extending Lumley General Insurance's lease across 5,283 square metres at Lumley Centre, 88 Shortland Street, Auckland to October 2020

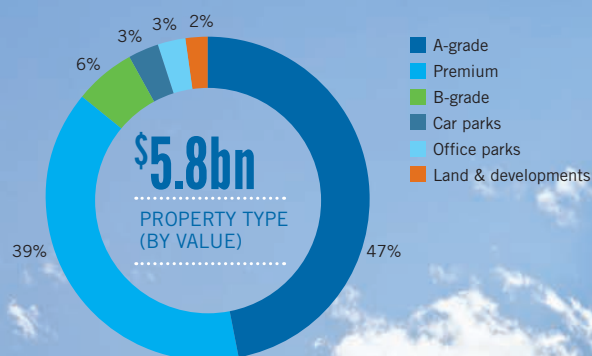
### LEASE EXPIRY PROFILE BY INCOME AT 31 DECEMBER 2013



1. 30 June 2013 position.



Properties	35
Area leased	67,973 sqm
One year total return	10.3%
Occupancy by income	stable at 94.6%
WALE by income	5.1 years ▲ 0.1 years
Tenant retention	69%
Average NABERS Energy rating	4.8 stars



## Leasing driving valuations

A combination of leasing success and securing strong tenant covenants contributed to a \$98.7 million or 1.7% uplift on prior book values and the weighted average capitalisation rate tightening 10 basis points to 7.07% in the office portfolio.

### 50 Carrington Street, Sydney



Targeted leasing and the completion of property refurbishments and upgrades have successfully repositioned 50 Carrington Street and significantly increased occupancy.

- Acquired for \$58.5 million in November 2012, below replacement cost at a capitalisation rate of 8.0%
- Commenced a capital works program including upgrades to lifts, lobby and amenities
- Increased occupancy<sup>1</sup> from 62% to 94% within 12 months
- Improved WALE<sup>1</sup> from 2.2 years to 4.0 years
- Targeting a NABERS Energy rating increase from 3.0 stars to 4.5 stars
- Energy savings of approximately \$61,000 p.a.

1. By income.

“Our proactive approach to leasing delivered solid like-for-like income growth in our office portfolio and a reduction in future lease expiries.”

**KEVIN GEORGE**  
EXECUTIVE GENERAL MANAGER,  
OFFICE & INDUSTRIAL



DEXUS portfolio leadership team

## Sustainability snapshot

DEXUS's focus on improving the sustainability of its office properties contributed to an increase in the average NABERS Energy rating to 4.8 stars<sup>1</sup> combined with a reduction in energy consumption. Improvements in sustainability provides energy cost savings across the portfolio, decreases tenant outgoings and assists in retaining tenants and increasing property valuations.



1. On a like-for-like basis with GreenPower.

## FY14 office focus

DEXUS will continue its proactive approach to asset management to drive performance in its office portfolio for the remainder of FY14. A focus on improving the value of newly acquired properties, together with implementing initiatives that develop tenant loyalty and enhance the tenant experience, are expected to assist in the retention and attraction of tenants.



## Australian industrial markets

Industrial leasing markets were subdued in the first half of FY14 in line with an economy growing at below trend. These conditions resulted in longer let-up times and required an active leasing focus. The majority of leasing that occurred was from transport and third party logistics companies and retailers seeking to consolidate supply chains within more efficient premises. Demand was concentrated in small to medium sized tenancies.

## Leasing focus

DEXUS's focus on solving vacancies translated to leasing success across the industrial portfolio. Key leasing included:

- Securing Consortium Group across 15,500 square metres at 1 Basalt Road, Greystanes and increasing pre-leasing to 80%, ahead of project completion in March 2014
- Securing Cotton On across 12,246 square metres for 10 years at Wacol, South Brisbane
- Renewing Allied Pickfords across 8,672 square metres for a further seven years at 1 Foundation Place, Greystanes

## Occupancy

Consistent with the trend of tenants seeking a flight to quality, completed developments at Quarry at Greystanes achieved 100% occupancy. DEXUS's secondary properties at Silverwater in Sydney's inner west are also 100% occupied. Overall occupancy declined to 94.2% following the inclusion of a recently completed speculative development at Laverton North, which is currently vacant, and a lease expiry at Auburn in December 2013.

## Sustainability snapshot

Two development projects completed at Quarry at Greystanes incorporated environmental initiatives such as rain water harvesting and recycling, natural ventilation, light enhancement and solar hot water. Sustainable design is a feature of developments underway at 1 Basalt Road, Greystanes and Wacol, South Brisbane.



### ENERGY CONSUMPTION

▼ 20.5%

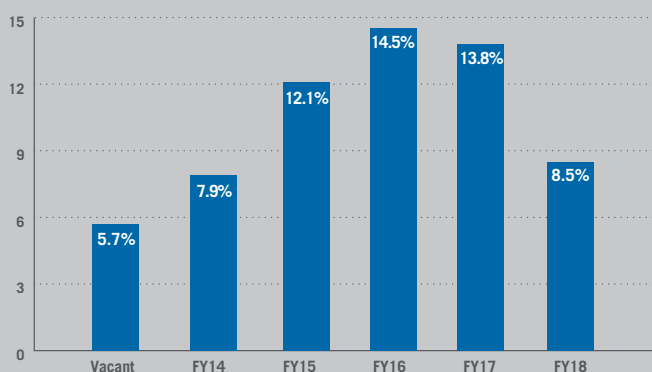
\*Since base year FY08.



### GHG EMISSIONS

▼ 23.1%

## LEASE EXPIRY PROFILE BY INCOME AT 31 DECEMBER 2013



## FY14 industrial focus

DEXUS will continue its proactive approach to leasing both within its stabilised portfolio and at its industrial developments. With leasing secured at properties on Sydney's north shore, DEXUS will seek to divest these properties in the near-term, in line with its objective of selectively divesting non-strategic properties when supported by investment fundamentals.



# DEVELOPMENTS



DEXUS progressed its \$2.8 billion development pipeline with \$86 million of projects already completed in FY14, including \$9.9 million of speculative development.

## Developments underway

DEXUS continued to make progress on its \$2.8 billion development pipeline, including the \$1.7 billion pipeline on behalf of third party capital partners. The fund-through developments in Brisbane and Perth are both over 20% complete and approximately 40% leased:

- \$544 million office fund-through investment at 480 Queen Street, Brisbane, in 50/50 partnership with DEXUS Wholesale Property Fund (DWPF)
- \$435 million office fund-through investment at Kings Square, Perth, in 50/50 partnership with DWPF

Other developments underway include:

- \$77 million industrial development at Richlands Industrial Estate, South Brisbane, on behalf of DWPF
- \$23 million industrial development at 1 Basalt Road, Greystanes, in 50/50 partnership with the Australian Industrial Partnership (AIP), due to be completed in April 2014
- \$217 million redevelopment (DWPF's 50% share) of Westfield Miranda Shopping Centre, Miranda

## Trading properties

DEXUS remains on track to meet its target of delivering approximately \$4–5 million of trading profits in FY14. The completed development at 183 Viking Drive, Wacol, together with 57-101 Balham Road, Archerfield, is earmarked for sale in the second half of FY14.

The active leasing and improvement works at 50 Carrington Street, Sydney have repositioned this trading property for sale in FY15.

## Future opportunities

DEXUS has earmarked a new pipeline of potential repositioning opportunities to maximise the value of its office and industrial portfolios.

Over the near-term, DEXUS will consider best use alternatives for properties within DEXUS's existing portfolio through rezoning to residential, remixing industrial properties and obtaining development approval. DEXUS will investigate the potential to add value at industrial properties in Sydney's south and inner west together with office properties in the Sydney and Melbourne CBDs.

## Completed pre-leased developments

### 4 Turnbull Close, Greystanes

Ownership	DXS 50% AIP 50%
Value	\$15.1 million
Yield on cost	8.5%
Leased (by area)	100%
Completion	December 2013



This high specification, climate controlled 10,000 square metre facility was pre-leased to Roche Diagnostics for a 15-year term.

### 1 Bellevue Circuit, Greystanes

Ownership	DXS 50% AIP 50%
Value	\$30.8 million
Yield on cost	7.9%
Leased (by area)	100%
Completion	December 2013



This large 17,859 square metre facility is the new corporate head office for Blackwoods and was pre-leased for a 15-year term.

### 30 Distribution Drive, Laverton North

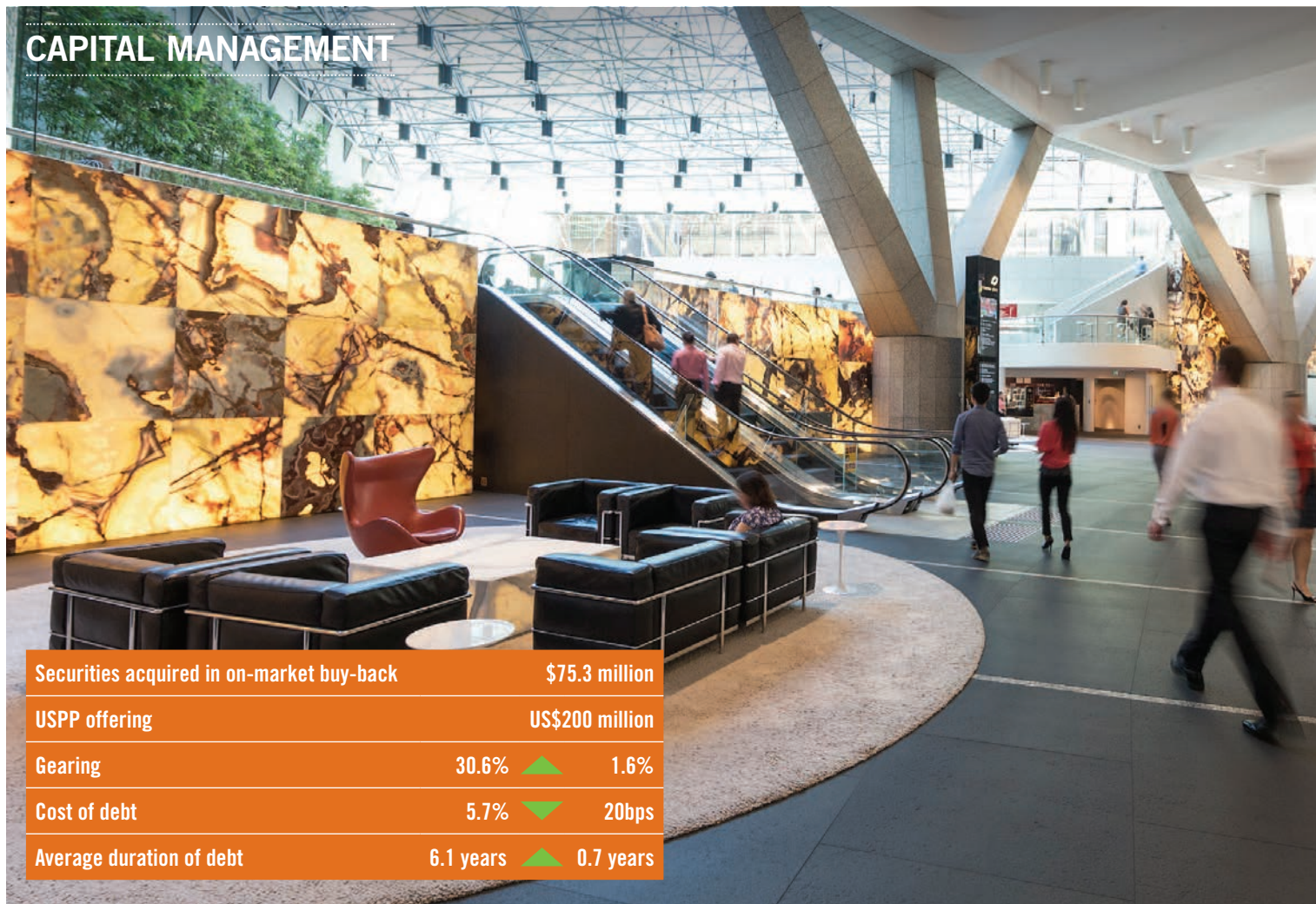
Interest	DXS 100%
Value	\$9.2 million
Yield on cost	8.4%
Leased (by area)	100%
Completion	July 2013



The 18,670 square metre facility was leased to Toll Transport for seven years, in October 2013.



# CAPITAL MANAGEMENT



Securities acquired in on-market buy-back	\$75.3 million
USPP offering	US\$200 million
Gearing	30.6% <span style="color: green;">▲</span> 1.6%
Cost of debt	5.7% <span style="color: green;">▼</span> 20bps
Average duration of debt	6.1 years <span style="color: green;">▲</span> 0.7 years

DEXUS maintained its competitive cost of funding, diversified its sources of capital and engaged in transactions that created value for investors, executing on its FY14 capital and risk management strategic objective.



“Our focus on extending the duration and increasing the diversity of our debt was achieved through the pricing of a new US\$200 million USPP offering.”

CRAIG MITCHELL, CHIEF FINANCIAL OFFICER

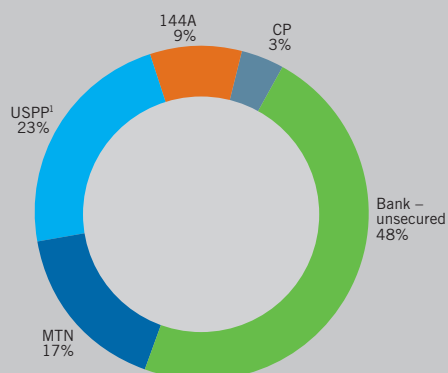
**DEXUS on-market securities buy-back** – DEXUS acquired 73.7 million securities at a weighted average price of \$1.02 per security at a discount to NTA through its on-market securities buy-back, providing accretive investor returns.

**USPP offering** – Improving the diversification of funding sources and extending the average duration of debt, DEXUS successfully priced a long-dated US Private Placement (USPP) offering for US\$200 million (A\$225 million), its second issue in the USPP market in less than a year.

**MTN buy-back** – DEXUS completed a partial buy-back of its legacy Medium Term Notes (MTN) issued during the GFC, buying back \$105 million of MTNs and improving the cost of debt.

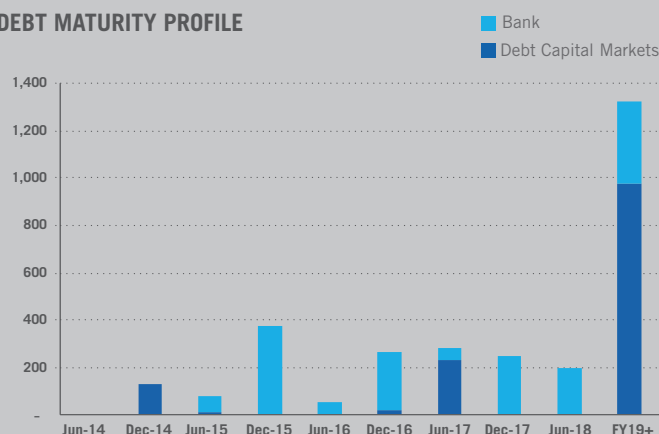
**New funding commitments** – DEXUS sourced \$1.3 billion of new funding commitments to ensure it is well placed to undertake the CPA transaction. The funds were secured at competitive margins, optimising the cost of debt.

## DIVERSIFIED MIX OF DEBT FACILITIES



1. Following completion of the US\$200 million USPP offering.

## DEBT MATURITY PROFILE





## THIRD PARTY FUNDS MANAGEMENT



Funds under management \$6.6 billion

New capital partner CPPIB

DWPF properties acquired >\$300 million



DEXUS continued to support the performance of its capital partners and leverage relationships to advance new investment opportunities for DWPF and attracted a new capital partner for long-term co-investment.

### New capital partner

DEXUS further developed its third party funds management business by establishing a new partnership with Canada Pension Plan Investment Board (CPPIB) to jointly acquire CPA. CPPIB is a global long-term investor with deep investment expertise in the real estate sector and was a previous investor in DWPF.

### Growing DWPF's portfolio

Delivering on its 2014 Investment Plan, DWPF acquired over \$300 million of properties, diversifying the composition and growing its high quality portfolio to \$4.6 billion.

Progressing its FY14 core capability strategic goal, DEXUS secured new opportunities for capital partners through the acquisition of:

- Beenleigh Marketplace, an \$88.4 million, 17,590 square metre sub-regional shopping centre in Brisbane
- AM60, a \$161.3 million, 21,263 square metre office tower in Brisbane's CBD
- Two industrial properties for \$39.6 million and \$27.4 million in Brisbane's highly desirable Trade Coast industrial precinct

Further leveraging DEXUS's development capabilities, DWPF progressed its \$560 million pipeline through completion of the 11,800 square metre expansion at Westfield West Lakes Shopping Centre.

Developments underway include the substantial 22,400 square metre redevelopment at Westfield Miranda, the \$77 million staged industrial development at Drive Industrial Estate, Richlands, and the fund-through office investments jointly owned with DEXUS at Kings Square, Perth and 480 Queen Street, Brisbane.

DWPF launched a further \$350 million pro-rata offer in January 2014, following its successful equity raising of approximately \$350 million through an over-subscribed pro-rata offer in FY13. The settlement of this offer is expected to occur on 26 February 2014 and will reduce debt drawn for recent acquisitions, providing capacity for DWPF to fund its committed developments, fund-through office investments and further strategic opportunities identified within its investment plan.

### Australian Industrial Partnership

Progressing AIP's Business Plan, the partnership acquired a further two properties including the Speculative 4 facility at DEXUS Industrial Estate in Laverton and 1 Basalt Road, Greystanes, increasing the portfolio to 19 properties. The total partnership is now valued at \$506.8 million in line with its growth target.

## SUMMARY AND OUTLOOK

In the first half of 2014 DEXUS achieved solid operational results and further leveraged its core capabilities to drive high performance, making progress on its FY14 strategic objectives in a difficult leasing environment.

After a slow period in Australian office markets, lead indicators point to a cyclical improvement in tenant demand in FY15. However, despite early signs of improvement, effective rents in CBD markets are expected to remain soft due to the availability of vacant space for lease.

Tenant demand conditions in industrial markets are expected to improve in FY15 with the sector positioned to benefit from increasing retail sales activity and a recovery in housing markets. Increasing business and consumer confidence is expected to lead to more active leasing of industrial developments.

A combination of reduced exposure to leasing risks in the near-term and the Group's expertise has positioned DEXUS well to capture anticipated improvements in office and industrial markets in FY15.

DEXUS's focus over the next six months is to ensure that the CPA portfolio is successfully integrated into the DEXUS platform while continuing to drive earnings from its existing business.

"Our team's expertise has positioned the portfolio well to capture the anticipated improvements in office and industrial markets in FY15."

**DARREN STEINBERG, CHIEF EXECUTIVE OFFICER**

DEXUS is on track to achieve its FY14 market guidance and, barring unforeseen changes to operating conditions, our guidance<sup>1</sup> for earnings or FFO for the 12 months ending 30 June 2014 is 8.29 cents per security, a 7.0% increase from FY13. DEXUS is targeting an FY14 distribution payout ratio of 75% of FFO in line with free cash flow, delivering an expected distribution of 6.24 cents per security.

1. Assumptions include: 75% payout ratio, delivering 2.5-3.5% like-for-like income growth across office and industrial portfolios, \$4-5m in trading profits, circa 5.7% cost of debt and excluding impact of CPA transaction.

### Investor information

DEXUS is committed to ensuring all investors have equal access to information about its investment activities. In line with the Group's commitment to long term integration of sustainable business practices, investor communications are provided electronically and a variety of communication tools are available at [www.dexus.com](http://www.dexus.com) including an online enquiry and investor login facilities, subscribe to alerts system, create your property or leasing reports function and the DEXUS IR App.

### Distribution payments

DEXUS's payout policy is to distribute between 70%–80% of Funds From Operations (FFO), in line with free cash flow, with the expectation that the average payout ratio will be 75% of FFO. Distributions are paid for the six-month period to 31 December and 30 June each year. Distribution statements are available in print and electronic formats and distributions are paid via direct credit into nominated bank accounts or by cheque. To change the method of receiving distributions, please use the login facility at [www.dexus.com](http://www.dexus.com)

### Making contact

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 DXS 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. Should there be some way 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. If you are not satisfied with the resolution of your complaint by DEXUS, you may refer your complaint to FOS.

### Directory

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Open Monday to Friday between 8.30am and 5.30pm (Sydney time).

For enquiries regarding your holding you can contact the security registry, or access your holding details at [www.dexus.com](http://www.dexus.com) using the Investor login link.

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