



Galileo Japan Funds Management Limited
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as Responsible Entity for Galileo Japan Trust
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ASX / Media Release

GALILEO JAPAN TRUST - FY15 INTERIM RESULTS

Please find attached a Galileo Japan Trust (ASX code: "GJT") announcement relating to GJT's interim financial results for the half-year ended 31 December 2014. This announcement should be read in conjunction with GJT's Financial Report for the half-year ended 31 December 2014.

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About Galileo Japan Trust

The Trust is listed on the Australian Securities Exchange with an indirect beneficial interest in a portfolio of 19 Japanese real estate investments valued at approximately ¥55.9 billion (approximately \$597¹ million). The portfolio is diversified by both sector and geography while retaining a bias to Greater Tokyo.

Further information on Galileo Japan Trust is available at www.galileofunds.com.au

¹ AUD/JPY exchange rate ¥93.7 as at 26 February 2015.

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GALILEO JAPAN TRUST - FY15 INTERIM RESULTS

Galileo Japan Funds Management Limited ("*GJFML*", "**the Responsible Entity**"), the responsible entity for the Galileo Japan Trust ("*GJT*" or "*Trust*"), today announced the Trust's interim results for the half-year ended 31 December 2014.

Key points relating to the FY15 interim results are summarised below:

- The Japanese TK Business completed an early refinance of the Eurobonds in October 2014 resulting in:
 - i. An annual interest expense saving of ¥273 million (\$2.8 million)²
 - ii. A reduction in the weighted average cost of debt from 2.7% to 1.9%; and
 - iii. An increase in FY15 distribution guidance from 13.5 cents per unit to 15.0 cents per unit ("cpu")
- Net property income ("NOI") for the period was 0.5% higher than the prior corresponding period ("pcp") on a "like for like" basis
- Funds from operations ("FFO")³ of \$5.6 million² versus ("vs") \$5.9 million for pcp
- FFO for the current period adjusted for the "one-off" premium paid to refinance the Eurobonds is \$10.5 million (9.9 cpu)
- Distribution of 6.7 cpu for the half-year ended 31 December 2014. GJFML confirms its distribution guidance for FY15 of 15.0 cents per unit is unchanged assuming the current AUDJPY exchange rate of 93.7 remains at or around that level until 30 June 2015. This equates to a distribution yield of 8.15% on yesterday's closing price of A\$1.84. The distribution will be 100% tax deferred
- Gearing was 55.2% at 31 December 2014 vs 56.4% at 30 June 2014
- Carrying value of the portfolio was ¥55.9 billion (\$570.7 million)⁴ as at 31 December 2014
- Net asset value ("NAV") of \$228.9 million (\$2.15 per unit), 1.8% lower than 30 June 2014 (\$2.19 per unit) primarily due to a weaker Yen
- The Japanese TK Business sold two assets in the period, Lions Square, Tokyo and Doshoumachi, Osaka. The aggregate sales proceeds of ¥3.18 billion represented an average premium to book value of 27%
- GJFML announced an on-market buy-back of GJT units in December 2014. Since 5 January 2015, 306,748 units have been acquired at an average price of \$1.69
- Portfolio occupancy as at 31 December 2014 was 96.6%. (98.8% at 30 June 2014). The reduction in portfolio occupancy as at 31 December 2014 primarily relates to Tesco vacating Funabashi Tesco (2.1% of NRA, 1.5% of NOI)

² Average AUDJPY rate of ¥96.97 for the half-year ended 31 December 2014

³ FFO represents net profit attributable to unitholders adjusted for unrealised gains and losses and amortisation expense

⁴ AUDJPY spot rate of ¥98.04 at 31 December 2014

Financial Performance

FFO of \$5.6 million for the half-year ended 31 December 2014, vs pcp of \$5.9 million, however the current period FFO includes the \$4.9 million premium paid for the early refinance of the Eurobonds. Adjusting for this one-off item the FFO for the half-year ended 31 December 2014 is \$10.5 million.

The two assets sold during the period provided working capital to allow the early refinance of the Eurobonds and the commencement of an on-market unit buy-back. The improvement in FFO from the early refinance also allowed an increase in distribution guidance for the year ending 30 June 2015 to 15.0 cents per unit. An interim distribution of 6.7 cents per unit ("cpu") will be paid on 27 February 2015. Subject to the AUDJPY exchange rate remaining at or around current levels (93.7), the full year distribution guidance of 15.0 cents per unit remains unchanged.

Chief Operating Officer, Mr Peter Murphy said, "The six months to 31 December 2014 was a very positive period for the Trust with several key initiatives successfully implemented. These included two non-core asset sales, the early refinance of the Eurobonds resulting in a material reduction in the overall cost of borrowings and the announcement of an on-market buy-back of GJT units. These factors have contributed to an increase in GJT's unit price of circa 20% since 30 June 2014."

Balance Sheet

The Trust's NAV at 31 December 2014 was \$2.15 per unit vs \$2.19 per unit at 30 June 2014. The decrease in NAV compared to 30 June 2014 is due to the adverse movement in the AUDJPY exchange rate as at 31 December 2014 which is partially offset by the property revaluation uplift.

GJT's gearing (debt/total assets) was 55.2% at 31 December 2014, lower than 30 June 2014 (56.4%) due to the property revaluation uplift and asset sales. The Japanese TK Business has two sources of debt, being a senior loan and mezzanine loan facilities. Neither facility has a loan to value covenant test. The senior loan has a DSCR covenant test of 1.9x assuming a fixed interest cost of 4.5%. The actual DSCR for the December 2014 quarter was 2.3x (June 2014 quarter 2.3x). The cash buffer under the DSCR test for the December 2014 quarter was ¥137 million.

Property Revaluations

Portfolio value was ¥55.9 billion at 31 December 2014, an increase of 1.0% vs 30 June 2014 (¥55.4 billion), excluding assets sold during the period. The 31 December 2014 value includes independent valuations for six properties, representing approximately 34% of the portfolio by value. In aggregate, the independent appraisals completed at 31 December 2014 represent a value of ¥20.48 billion, 1.7% higher than the 30 June 2014 book value.

The weighted average capitalisation rate for the portfolio was 5.86% at 31 December 2014 compared to 5.89% at 30 June 2014. Since mid-2012 capitalisation rates have continued to firm, most noticeably for the central Tokyo office and residential properties.

Portfolio Performance

At 31 December 2014 portfolio occupancy was 96.6% (98.8% at June 2014). The reduction in portfolio occupancy as at 31 December 2014 primarily relates to Tesco vacating Funabashi Tesco (2.1% of NRA, 1.5% of NOI). Portfolio occupancy has averaged 97.7% since GJT listed in December 2006.

Portfolio net property income ("NOI") was 9.3% higher than pcp on a "like for like" basis before adjusting for the receipt of a "one off" cancellation penalty of ¥161 million from the single tenant that vacated Funabashi Tesco. After adjusting for this amount portfolio NOI was up 0.5% on pcp.

The proportion of the portfolio represented by “non-cancellable” leases is currently 37% (by income)⁵ with the weighted average lease term to maturity on these leases being approximately 10.6 years⁶. The balance of the portfolio (63% by income) is subject to standard Japanese leases which can be terminated with six months’ notice.

Asset sales

The Japanese TK Business sold two assets in the period, Lions Square, Tokyo and Doshoumachi, Osaka. The aggregate sales proceeds of ¥3.18 billion represent an average premium to book value of 27%. The net cash proceeds from the sales have been applied to the early refinance of the Eurobonds and funding GJT’s current on-market buy-back of GJT units.

GJT on-market buyback

In December 2014 GJFML announced its intention to undertake an on-market buyback of GJT units. The buyback will be funded through the net proceeds released from the recent sale of Doshoumachi, Osaka.

GJFML commenced buying GJT units on 5 January 2015 and to date 306,748 units have been acquired at an average price of \$1.69.

Outlook

The Trust and Japanese TK Business now benefits from reduced gearing, significantly lower average cost of debt and a stable capital structure.

Japanese real estate market fundamentals are generally trending positively, lending conditions are favourable and transactional activity has been steadily rising since late 2012.

In Japanese yen terms the TK Business continues to generate earnings consistent with forecast. The improvement in FFO from the early refinance of the Eurobonds in October 2014 allowed an increase in distribution guidance for the year ending 30 June 2015 to 15.0 cents per unit. An interim distribution of 6.7 cents per unit (“cpu”) will be paid on 27 February 2015. Subject to the AUDJPY exchange rate remaining at or around current levels (approximately 93.7), the full year distribution guidance of 15.0 cents per unit remains unchanged.

The Trust has no foreign currency hedges in place and GJFML cautions investors that it’s A\$ earnings and distributions will continue to be sensitive to changes in the AUDJPY exchange rate.

ENDS

⁵ 37% at 30 June 2014

⁶ 10.9 years at 30 June 2014