

IOF HALF YEAR REVIEW

LETTER FROM THE FUND MANAGER



Dear Unitholder

I am pleased to provide you with an update of IOF's performance for the six months to 31 December 2015. We have continued to deliver excellent results – maintaining or improving key metrics across the portfolio.

Key highlights for the period include:

- > Funds from operations up 3% to 14.7 cents per unit;
- > \$197 million of investment property valuation increases boosted Net Tangible Assets by 10% to \$3.98;
- > Distributions per unit up 3% to 9.8 cents;
- > 16,177 square metres of leasing completed;
- > Reduced weighted average cost of debt to 3.9% and maintained a long weighted average debt maturity profile of 4.6 years.

Post period end highlights include:

Portfolio remains in strong position

Investment demand for assets remains high with strong evidence of cap rate compression and rising asset values being realised. The entire IOF portfolio was revalued resulting in an average increase in value of 6%. This

was led by Sydney and Melbourne, which make up 80% of the portfolio, increasing by an average of 8%. IOF's assets in Brisbane increased by 3%, however significant declines in rental values in Perth resulted in valuations decreasing by 15%.

Our preference towards floating interest rates continues and this has resulted in the weighted average debt costs reducing to 3.9%. Gearing of 28.5% remains in our target gearing range of 25 – 35%, and interest cover is strong at 4.4x.

Strategic review and DEXUS Proposal

As a result of a potential change in owner of the manager for IOF, in August 2015, the Independent Board Committee (IBC) for IOF commenced a strategic review to explore all options available to maximise value for IOF's unitholders. This included exploring all options in regard to the ongoing ownership and management of IOF. On 18 December 2015, DEXUS and IOF entered into a Merger Implementation Agreement in relation to the proposal from DEXUS to acquire all of the units in IOF (the Proposal) outlined overleaf.

The Independent Directors have unanimously resolved to recommend that IOF's unitholders vote in favour of the Proposal in the absence of a superior proposal

In mid March, an Explanatory Memorandum will be mailed to unitholders which will explain in detail reasons for the Independent Directors decision and the DEXUS Proposal. This document is very important and I encourage you to read it in its entirety before deciding how to vote. The Explanatory Memorandum will include your voting papers.

Your vote is very important and I would encourage to return your voting papers by the requisite time

I look forward to seeing you at the meeting of unitholders anticipated to be held on Friday 8th April.

Yours Sincerely,

Ming Long, Fund Manager, IOF

KEY STATS

	31 Dec 2015	31 Dec 2014
Net Profit (statutory)	\$280.8m	\$99.5m
Funds From Operations	\$90.0m	\$87.3m
Net Property Income (Australia)	\$101.6m	\$95.8m
Tenant retention (by income)	64%	75%
Occupancy (by income)	94%	93%
Weighted average lease expiry	5.0yrs	4.9yrs
Number of investments	22	22

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IOF's results demonstrate a continued focus on leasing and delivering exceptional results across the portfolio.

Distribution per unit

9.8cents

Increase in
Net Tangible Assets

↑10%

FINANCIAL POSITION

	31 Dec 2015	31 Dec 2014
Total Assets	\$3,640.1m	\$3,150.5m
Total Liabilities	\$1,196.6m	\$1,050.3m
Assets Under Management	\$3,499m	\$3,112m
Gearing	28.5%	30.7%
Net Tangible Assets	\$3.98	\$3.42
Market Cap	\$2.4bn	\$2.2bn

STRATEGIC REVIEW UPDATE AND PROPOSAL

After exploring a wide range of alternatives to maximise unitholder value, the IBC has entered into an Implementation Agreement with DEXUS which provides an attractive value proposition for unitholders. The IOF Board unanimously recommends the proposal, summarised as follows:

- > Standard Consideration: \$0.8229 cash and 0.424 DEXUS securities per IOF with an implied value as at 7 December 2015 of \$4.1147 and an annualised FY16 accretion of at least 15%
- > DEXUS securities issued to IOF unitholders will rank equally with all other DEXUS securities and will have full entitlement to the DEXUS distribution for the six month period ending 30 June 2016
- > The combined IOF and DEXUS group will form the pre-eminent internally managed office property group and have a value of \$24.1 billion of assets under management with \$17.5 billion of office assets

Detailed information on the Proposal can be found at:
www.investa.com.au/IOF

CONTACT DETAILS

If you have any questions about IOF's reporting or questions in relation to your unitholding, please call the unitholder information line on **+61 1300 851 394**.

Further information about the Fund can be accessed and downloaded at investa.com.au/IOF

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KEY DATES (DEXUS PROPOSAL)

18 December 2015

Announcement of the
Dexus Proposal

15 March 2016*

Explanatory Memorandum
booklet dispatched to IOF
unitholders

8 April 2016*

IOF unitholder meeting
to approve the schemes.
Final court hearing

28 April 2016*

Implementation date

* Indicative dates

>investa.com.au/IOF

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