DEXUS Property Group (ASX: DXS)

ASX release

31 August 2016

DEXUS Property Group (DEXUS) today released its 2016 Annual Report, which is attached, as part of its 2016 Annual Reporting suite.

The 2016 Annual Reporting suite which includes the 2016 Performance Pack is available online at www.dexus.com.

Printed copies of the 2016 Annual Report will be mailed to Security holders who have elected to receive them today.

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About DEXUS

DEXUS Property Group is one of Australia's leading real estate groups, investing directly in high quality Australian office and industrial properties. With $22.2 billion of assets under management, the Group also actively manages office, industrial and retail properties located in key Australian markets on behalf of third party capital partners. The Group manages an office portfolio of 1.8 million square metres located predominantly across Sydney, Melbourne, Brisbane and Perth and is the largest owner of office buildings in the Sydney CBD, Australia's largest office market. DEXUS is a Top 50 entity by market capitalisation listed on the Australian Securities Exchange under the stock market trading code 'DXS' and is supported by more than 31,000 investors from 20 countries. With more than 30 years of expertise in property investment, development and asset management, the Group has a proven track record in capital and risk management, providing service excellence to tenants and delivering superior risk-adjusted returns for its investors. www.dexus.com

Download the DEXUS IR app to your preferred mobile device to gain instant access to the latest stock price, ASX Announcements, presentations, reports, webcasts and more.

Available on the App Store GET IT ON Google play

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

DEXUS PROPERTY GROUP

DEXUS

ANNUAL REPORT
2016

DELIVERING

DEXUS's strong financial results were reflected through 6.0% growth in FFO and distribution per security **PAGE 4**

PERFORMING

DEXUS achieved outperformance across all third party funds, driven by valuation increases, development completions and solid leasing outcomes **PAGE 10**

POSITIONING

DEXUS increased its pipeline of value-enhancing opportunities across multiple sectors **PAGE 9-11**

DEXUS
PROPERTY GROUP

2016 DEXUS ANNUAL REPORT

DELIVERING

WWW.
DEXUS2016.
REPORTONLINE.
COM.AU

2016 ANNUAL REPORTING SUITE

DEXUS Property Group presents its 2016 Annual Reporting Suite for the year ended 30 June 2016, demonstrating how it manages its financial and non-financial performance in line with its strategy.

1. 2016 DEXUS Annual Report
An integrated report providing DEXUS's Consolidated Financial Report, Operating and Financial Review and information on its operational and Corporate Responsibility and Sustainability performance.

2. 2016 DEXUS Combined Financial Statements
Comprises the Financial Statements of DEXUS Industrial Trust, DEXUS Office Trust and DEXUS Operations Trust. This report should be read in conjunction with the 2016 DEXUS Annual Report.

3. 2016 DEXUS Performance Pack
Provides data and detailed information supporting the results outlined in the 2016 DEXUS Annual Report available in the online 2016 Annual Reporting Suite at www.dexus.com.

4. 2016 DEXUS Annual Results Presentation
Provides an overview of DEXUS's operational, financial and CR&S performance available in the online 2016 Annual Reporting Suite at www.dexus.com.

The 2016 Annual Reporting Suite is available in hard copy by email request to ir@dexus.com or by calling +61 1800 819 675.

Delivered 6.0% growth in FFO and Distribution per security

6.0%

Achieved a Return on Equity of 19.3%, above the 9-10% target through the cycle

19.3%

Increased DEXUS's office portfolio occupancy to 96.3% (FY15: 95.3%)

96.3%

Statutory net profit $1,259.8m (FY15: $618.7m)

$1,259.8m

Achieved 84% employee engagement score

84%

DEXUS Office Partnership delivered a 17.7% one-year total return

17.7%

Registered 3 projects for WELL certification

WELL

Realised trading profits of $63.3m post-tax and positioned priority projects in pipeline

$63.3m

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ABOUT DEXUS PROPERTY GROUP

DEXUS Property Group is one of Australia's leading real estate groups, investing directly in high quality Australian office and industrial properties.

DEXUS Property Group (DEXUS) is an Australian Real Estate Investment Trust, with $22.2 billion of assets under management. Listed on the Australian Securities Exchange, DEXUS manages and directly invests in high quality Australian office and industrial properties, and also actively manages office, industrial and retail properties across Australia on behalf of third party capital partners.

The owned portfolio consists primarily of high quality central business district office properties, held long term and leased to derive stable and secure ongoing income streams. Developments, acquisitions and divestments are undertaken to enhance the quality and value of the portfolio.

DEXUS generates both rental income from its own properties and fees for undertaking leasing, property management and development on behalf of third party clients. In addition, DEXUS has a trading trust that enables the development and repositioning of properties to enhance value and sell for a profit.

The total property portfolio of $22.2 billion as at 30 June 2016 includes $11.0 billion of owned property and $11.2 billion of property managed for third party clients, with a $4.7 billion development pipeline across the Group.

DEXUS is Australia's preferred office partner with 1.8 million square metres of office space spanning 58 office properties around Australia. DEXUS's office buildings are located in the CBDs of Sydney, Melbourne, Brisbane, Perth, Adelaide and Canberra.

DEXUS's 420-strong team of property professionals are located in offices in Sydney, Melbourne, Brisbane and Perth.

TENANTS
4,851

TOTAL PROPERTIES
146

TOTAL NLA
4.3m sqm

OFFICE $14.9bn
INDUSTRIAL $3.1bn
RETAIL $4.2bn

OUR STRATEGY

Our vision is to be globally recognised as Australia's leading real estate company.

Our strategy is to deliver superior risk adjusted returns for investors from high quality Australian real estate, primarily comprising CBD office buildings. We have two key strategic objectives:

- Being the leading owner and manager of Australian office property
- Being the wholesale partner of choice in Australian property

Our strategy is underpinned by our core capabilities. This includes having the best people, strongest customer relationships, and utilising the most efficient systems and technologies, while actively managing our capital and risk in a prudent and disciplined manner.

We believe in the benefits of scale in core CBD office markets. Scale provides us with valuable customer insights and the opportunity to invest in people, systems and technologies that enhance our customers' experience, strengthening our capacity and flexibility to find the ideal workspace solution for customers in more than one location.

We consider corporate responsibility and sustainability an integral part of our daily business operations. Our approach supports our strategy with an overarching goal of delivering sustained value for all stakeholders.

OUR STRATEGY HAS FOUR KEY ELEMENTS:

1. Using our understanding of customer needs as a primary driver for making investments	We understand what drives tenant demand and focus on investing in or developing high quality office and industrial properties in prime locations. This enables access to facilities and amenities sought after by our customers. We foster a culture of innovation and continuous improvement leveraging our multi-sector capabilities to develop new offerings to meet the changing needs of our customers and continually improve the amenity of our assets through property enhancements. This includes leveraging our retail capabilities (used for third party shopping centres) to activate and enhance the retail offerings at the base of our office properties.
2. Intense focus on investment performance	We have an intense focus on investment performance which ensures we are active across the real estate cycle through leasing, acquiring, developing or recycling properties. For DEXUS investors this includes generating trading profits from properties where we have identified a higher and better use and involves developing or repositioning and divesting these properties for a profit.
3. Partnering with third party clients to grow in core markets	We partner with third party clients to increase our access to properties and grow in core markets. The funds management platform leverages our office, industrial and retail capabilities combined with our scale in CBD office markets to drive performance for our third party clients.
4. Maintaining a conservative approach to financial and operational risk	DEXUS has a strong 'A-' Standard & Poor's credit rating and 'A3' investment grade rating from Moody's. These ratings are the result of measuring, pricing and managing risk in a prudent manner. The significant amounts of capital attracted from third party clients are an endorsement of our approach to investing and managing risk.

VISION

TO BE GLOBALLY RECOGNISED AS AUSTRALIA'S LEADING REAL ESTATE COMPANY

STRATEGY

To deliver superior risk-adjusted returns for investors from high quality Australian real estate primarily comprising CBD office buildings

STRATEGIC OBJECTIVES

LEADERSHIP IN OFFICE	FUNDS MANAGEMENT PARTNER OF CHOICE
Being the leading owner and manager of Australian office property	Being the wholesale partner of choice in Australian property

UNDERPINNED BY

CORE CAPABILITIES

Having the best people, strongest customer relationships, utilising the most efficient systems and technologies

CAPITAL & RISK MANAGEMENT

Actively managing capital and risk in a prudent and disciplined manner

CHAIR AND CEO REVIEW

Richard Sheppard
Chair

Darren Steinberg
CEO

Consistent execution of DEXUS's strategy across all parts of the business has delivered a strong 2016 result.

Our focus to create long term value for investors was again achieved in FY16 through strong performance across all key earnings drivers. Four years ago we reset our strategy to focus our business on Australian office property and third party funds management. As a result, today we are Australia's largest office landlord with 1.8 million square metres of office space under management and have grown our funds management business from $5.6 billion in FY12 to $11.2 billion.

We have fostered a culture of innovation and continuous improvement, invested in our people to build their capabilities and enhanced our customers' experience, delivering new products and services. Over the past four years, we have improved our efficiency and reduced our Management Expense Ratio from 67 basis points to 35 basis points.

At the same time, we have continued to maintain a strong balance sheet, and with recent divestments this further strengthens our position.

We have expanded our development pipeline and identified trading opportunities, positioning the portfolio for future growth.

The improving performance of our property portfolio has set us up to deliver a solid result in FY17, despite recent divestments, and expect underlying FFO per security to grow by 3.0-3.5%, and distribution per security by 2.5-3.5%.

DELIVERING STRONG FINANCIAL PERFORMANCE

DEXUS achieved strong results across its key financial metrics. For the 12 months to 30 June 2016, DEXUS's net profit increased 104% to $1,259.8 million, with FFO and distribution per security both up 6.0% on the prior year and at the upper end of the guidance range. On an Underlying basis, excluding trading profits, FFO per security increased 3.1%, demonstrating our property portfolio and funds business are performing.

For the same period, DEXUS delivered a Return On Equity (ROE)[1] of 19.3% which exceeded our target of 9–10% per annum through the cycle. Over the past four years, DEXUS has delivered an average ROE of 12.2%.

ADVANCING OUR STRATEGIC PRIORITIES

Our results across all key earnings drivers in FY16 included:

- Enhancing office portfolio returns through significant leasing and increasing office portfolio occupancy to 96.3%
- Driving the performance of our funds management business with all funds outperforming their respective benchmarks, while enhancing our customer offering
- Delivering trading profits from identified opportunities and positioning priority projects for future years

Maximising income in our **property portfolio**, we secured a record number of leasing volumes, while reducing the amount of downtime to lease vacant space. (Refer to page 7)

Pleasingly, we increased office portfolio occupancy to above 96%, while the industrial portfolio was negatively impacted by vacancies at some large scale facilities which experienced longer downtime than expected.

With improved leasing momentum, both the office and industrial portfolios' like-for-like income growth is expected to recover in FY17.

We understand that the most effective way to meet our customers' needs is to create the best customer experience. This year we enhanced our customers' experience through expanding our office suite strategy and adding a further two DEXUS Place offerings in Melbourne and Brisbane, connecting our customers across all of our east coast CBD markets.

The final completion of three key office development projects in Sydney, Brisbane and Perth have generated superior returns. We identified longer term master planning opportunities to replenish the Group's $4.7 billion development pipeline, positioning the property portfolio for enhanced future returns. (Refer to page 9)

In **our funds management business** we delivered outperformance for our clients and completed developments, improving portfolio quality and growing income. (Refer to page 10)

In **our trading business**, we delivered a profit of $63.3 million post tax as we achieved settlement of divestments at Rosebery and Mascot. During the year, we were also successful in contracting approximately $12 million of trading profits before tax to be recognised in FY17. (Refer to page 11)

MAINTAINING A DISCIPLINED APPROACH

We continued to maintain conservative levels of gearing through our disciplined approach to capital management. At 30 June 2016, DEXUS's gearing[2] (look-through) was 30.7%[3], at the lower end of the 30-40% target range.

DEXUS's Proposal to acquire all of the units in Investa Office Fund (IOF) arose in December 2015 as a consequence of an unsolicited approach from the advisers to the Independent Board Committee (IBC) of Investa Listed Funds Management Limited to DEXUS. Despite our Proposal having support from the IBC, Independent Expert, Proxy Advisers and a large number of IOF Unitholders, the Proposal was not passed by the requisite 75% of IOF Unitholders.

We will continue to be active and seek opportunities to create value while ensuring we make informed decisions to undertake transactions which align with our strategy.

Capitalising on strong investor demand, and in line with our strategy to divest properties from non-core markets, we sold 36 George Street, Burwood and The Zenith, Chatswood at a 44% and 7% premia to book value respectively.

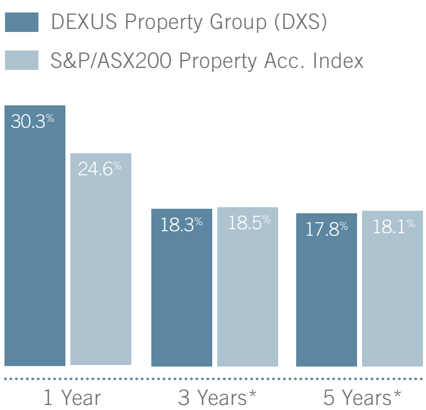
Post 30 June 2016 DEXUS entered into:

- An agreement to sell the Southgate Complex in Melbourne for a net sale price of $578 million, reflecting a 12% premium to book value, with settlement to occur across two equal tranches in FY17 and FY18
- Contracts to sell 108 North Terrace, Adelaide[4] for the gross sale price of $86.5 million, in line with the property's book value.

Progressing trading profits, we also entered into an agreement to sell 79-99 St Hilliers Road, Auburn which is expected to contribute approximately $25 million pre-tax to FY17 trading profits.

DELIVERING STRONG SECURITY HOLDER RETURNS

DEXUS outperformed the S&P/ASX200 Property Accumulation (A-REIT) index by 570 basis points over the past year delivering a 30.3% total return. DEXUS also delivered strong total returns over the past three and five year periods, of 18.3% and 17.8% per annum respectively.



Source: UBS Australia * Annualised compound return

HIGH LEVELS OF EMPLOYEE ENGAGEMENT

As an active employer in the real estate sector, we are committed to developing a diverse and inclusive culture. In our biennial employee engagement survey, we achieved an 84% employee engagement score, above the industry norm, and 97% of our employees who took part in the survey indicated they are proud to be associated with DEXUS.

We further empowered our people to take control of their wellbeing through establishing five wellbeing communities with policies and initiatives led by our people. We believe that by assisting our employees to achieve positive changes to their lifestyle and health and fitness, this will in turn drive a more energised and high performing workforce.

Details on other employee initiatives and achievements are included in the People and Culture section on pages 12-13.

EMBEDDING INNOVATION

Innovation is at the core of what we do; it is a key employee value and is a part of our operational structures. Through innovation, we are seeking to shift the traditional landlord-tenant relationship model to one of partnership, as demonstrated during the year through the creation of shorter, user-friendly lease documentation for our customers and a centralised digital Leasing Management System. We also introduced flexible car parking options for workers within our office towers and created additional customer offerings such as DEXUS Place in new locations.

INTEGRATED APPROACH TO SUSTAINABILITY

Building on our integrated approach to sustainability which we announced in FY15, we progressed all of our sustainability commitments. As a leading adopter of new initiatives we have registered three projects for a WELL rating, the first international building standard to focus exclusively on the health and wellness of the people in buildings. (Refer to 'Delivering FY16 Commitments' in our 2016 Online Reporting suite available at www.dexus.com)

CHANGES TO THE BOARD OF DIRECTORS

At the conclusion of the Annual General Meeting held at DEXUS Place in Sydney on 28 October 2015, Chris Beare retired as Non-Executive Director and Chair of the Board, a position he held for nearly 11 years. Chris was succeeded by Richard Sheppard who has been a Board member since 2012. In April 2016, after more than eight years at DEXUS, Craig Mitchell resigned from his role as Chief Operating Officer and Executive Director to take up a Chief Executive role with another company. We thank both Chris Beare and Craig Mitchell for their significant contributions to the Board and DEXUS over their years of service.

The Board currently comprises six non-executive directors and one executive director.

Further details relating to the Board are included in the latest Corporate Governance Statement available at www.dexus.com

OUTLOOK

The structural downward shift in global interest rates together with strong underlying investor demand for quality Australian real estate is expected to continue to underpin future asset valuations.

We are focused on capturing market rental growth and managing cash flows through reducing incentives and capital expenditure, which will drive future returns.

DELIVERED A 6.0% INCREASE IN DISTRUBUTION PER SECURITY OF

43.51 cents

DEXUS ACHIEVED A STRONG ONE-YEAR TOTAL SECURITY HOLDER RETURN OF

30.3%

MAINTAINED A STRONG AND CONSERVATIVE BALANCE SHEET WITH GEARING[2] OF

30.7%

We are conscious of the potential of technology as a disrupter in the property industry, and as a result have put in place a technology strategy that is aligned with delivering superior customer experiences, improving our agility, reducing costs and empowering our people.

Looking ahead, we will continue to drive portfolio performance and capitalise on the stronger office conditions along the east coast CBD markets, particularly in Sydney. DEXUS is well positioned with its high exposure to these markets and a significant development pipeline with identified opportunities to add value.

Our conservative gearing enables us to act quickly on selective high conviction investment opportunities and we will continue to actively recycle non-core properties.

We are confident our strategy is the right one to continue to create value for our investors. We have a strong management team supported by a high performing workforce. On behalf of the Board, we extend our appreciation to our employees around Australia for their commitment and hard work in delivering these results.

And finally, we thank our investors, third party clients and capital partners as well as our customers for their continued and valued support, and look forward to achieving continued success.

2017 GUIDANCE

- Including recent divestments DEXUS's guidance[5] for FY17 is to deliver:
  - 3.0-3.5% growth in Underlying FFO per security
  - FFO per security in line with FY16
  - 2.5-3.5% growth in distribution per security

1 DEXUS calculates Return on Equity by adding the change in net tangible asset value (NTA) per security over the year to the income distribution paid to security holders during the year.

2 Adjusted for cash and for debt in equity accounted investments.

3 Proforma gearing is expected to reduce to circa 27% post the receipt of proceeds from recent divestments. This includes the sale of 57-65 Templar Road, Erskine Park (trading property); The Zenith, Chatswood; 108 North Terrace, Adelaide; the first 50% tranche of Southgate Complex, Melbourne; and 79-99 St Hilliers Road, Auburn (trading property).

4 Owned by DEXUS Office Partnership, in which DEXUS has a 50% interest.

5 Barring unforeseen circumstances guidance is supported by the following assumptions: Impact of dilution from the divestment of: 36 George Street, Burwood; 57-65 Templar Road, Erskine Park; The Zenith, Chatswood; 108 North Terrace, Adelaide; the first 50% tranche of Southgate Complex, Melbourne; and 79-99 St Hilliers Road, Auburn; 2-3% like-for-like income growth across the DEXUS Office portfolio and 3-4% like-for like income growth across the DEXUS Industrial portfolio, weighted average cost of debt of circa 4.6%, trading profits of circa $45-50m net of tax, Management Operations FFO of circa $45-50m (including third party development management fees), and excluding any further transactions.

PERFORMING

Our suite strategy and the repositioning of Premium properties have enabled DEXUS to capture the ongoing demand from small space users and the flight to quality occurring in the Sydney CBD office market, enhancing leasing success across the portfolio.

AUSTRALIAN OFFICE MARKETS

Positive office demand across the east coast office markets is steadily absorbing available space. In addition, a significant level of withdrawal of older stock is leading to a decline in vacancy in several CBD markets.

A pronounced flight to quality is leading to rapid take-up of prime office space. In Sydney, the migration of tenants from lower grades into Premium and A-grade buildings is absorbing new prime supply.

Most markets are now close to, or have passed, the peak of this supply cycle. Limited new supply, combined with withdrawals, is expected to lead to a tightening in vacancy for the majority of east coast markets in FY17.

LEASING STRATEGY CAPTURING FLIGHT TO QUALITY

Across our $9.2 billion office portfolio, 269,866 square metres of office space was leased in FY16, up 28% on FY15 and representing 17% of the portfolio. Our suite strategy and the repositioning of Premium grade properties including Grosvenor Place and 1 Farrer Place in Sydney have enhanced leasing success across the portfolio, enabling DEXUS to capture the demand from small space users and the acceleration in the flight to quality occurring in the Sydney CBD market.

We maintained tenant retention of 62% and successfully re-leased 72% of the area vacated during the year with average downtime of six months on re-leased space. Suite deals and those with smaller tenants typically have shorter lead times and have assisted in managing downtime.

ONE-YEAR TOTAL RETURN

16.0%

OCCUPANCY BY INCOME

96.3%

Key leasing successes included:

- Securing 25 leases across 15,491 square metres at 385 Bourke Street, Melbourne increasing occupancy from 79.5% at 30 June 2015 to 94.5% at 30 June 2016
- Securing State Government of Victoria across 22,790 square metres at 8 Nicholson Street, Melbourne

Office portfolio occupancy by income increased to 96.3% at 30 June 2016 (FY15: 95.3%), delivering on the 'above 95%' target set at the start of the year. Occupancy by area at Grosvenor Place in Sydney increased from 83.6% at 31 December 2015 to 94.5%, and at 1 Farrer Place in Sydney increased from 78.5% at 31 December 2015 to 92.2%.

Forward lease expiries were also significantly de-risked, with FY17 expiries reducing from 12.7% at 30 June 2015 to 9.3%, below the 10% target set at the start of the year. An opportunity to further enhance value exists with 59% of the FY17 expiries being located in the Sydney CBD office market. The completion of major developments at 5 Martin Place, Sydney, 480 Queen Street, Brisbane, and Kings Square, Perth contributed to the increased the portfolio WALE from 4.3 years at 30 June 2015 to 4.7 years.

Like-for-like income picked up in the second half of the year, growing by 1.0% compared to FY15. While average portfolio incentives of 17.7% increased slightly compared to FY15, the leasing team were able to reduce incentives at well-leased buildings.

The office portfolio delivered a strong one-year total return of 16.0%.

2017 FOCUS

- Target >96% occupancy in the DEXUS office portfolio
- Reduce FY19 office lease expiries to 12% by end of FY17
- Target 2-3% like-for-like income growth across the DEXUS office portfolio

TRANSACTIONS

In April 2016, DEXUS and DWPF acquired 100 Mount Street, North Sydney for an initial price of $41.0 million where construction has now commenced on a 41,419 square metre, 34-level premium office tower. The site occupies one of the best locations in North Sydney, has prime retail exposure and benefits from its proximity to key transport infrastructure.

Capitalising on strong investment demand and in line with our strategy to divest properties from non-core markets, we sold two office investment properties during the year. In November 2015, the DEXUS Office Partnership sold 36 George Street, Burwood for $95.0 million[1], reflecting a 44% premium to book value. In May 2016, we entered into an agreement to sell our 50% interest in The Zenith, Chatswood for $139.5 million[2], reflecting a 7% premium to book value. This transaction settled in July 2016.

SUSTAINABILITY PERFORMANCE

Continuing our commitment to improving the sustainability of our office properties, we achieved an average 4.8 star NABERS Energy rating across the office portfolio (FY15: 4.7 stars). We achieved an average 3.7 star NABERS Water rating across the office portfolio (FY15: 3.8 stars).

Enhancing our customer experience, we tendered for concierge services nationally and launched 37 online tenant communication portals focused on building vertical communities for connectivity, engagement and commerce. Since January we have welcomed 38 front desk staff in the roles of community manager and concierge into our office assets nationally. Our tenants have embraced the warm reception and new services on offer.

We have adopted wellbeing concepts from the WELL Building Standard with a trial underway at 480 Queen Street in Brisbane. WELL certifies 'core and shell' building features that impact the health and wellbeing of building occupants, including healthy air, access to clean drinking water and daylight, and fitness facilities.

Contributing to leading cities we delivered 4,150 square metres of public green space at 480 Queen Street, Brisbane and Kings Square in Perth. 5 Martin Place in Sydney was awarded in the 'Urban Renewal' category in the Urban Taskforce Development Excellence Awards 2016.

CREATING A BETTER CUSTOMER EXPERIENCE

DEXUS APPROACH

In line with our sustainability objective of 'Future enabled customers' and 'Leading cities', in FY16 we focused on creating a better customer experience through:

- Reducing the length of our standard office and industrial lease from 75 to 25 pages, making lease negotiations simpler and easier for our customers
- Launching new partnerships with GoGet car sharing and Divvy parking to provide convenient and flexible alternative transport and parking solutions for our customers
- Expanding the state-of-the-art premium meeting, training and conference offer, DEXUS Place was launched in Melbourne and Brisbane to connect our customers along the east coast of Australia

DELIVERING FOR OUR CUSTOMERS

- Prepared our customers for the future, through enabling flexibility, productivity and growth
- Achieved a satisfaction with service score of 8.1 out of 10 in the FY16 tenant survey across the Group office portfolio, up from 8.0 in FY15
- Achieved a Net Promoter Score of 33 in FY16, up from 28 in FY15, indicating that our office tenants would strongly recommend leasing a DEXUS property to their peers

1 Gross sale proceeds are before transaction costs and are for the Partnership's 100% interest in the property, of which DEXUS has a 50% interest.

2 Gross sale proceeds are before transaction costs and are for DEXUS's 50% interest in the property.

DEXUS PORTFOLIO INDUSTRIAL

ONE-YEAR TOTAL RETURN

16.0%

OCCUPANCY BY INCOME

90.4%

While DEXUS's Industrial portfolio occupancy and like-for-like income were impacted by large tenant movements, we achieved some positive leasing outcomes during the year and expect income growth to recover in FY17.

AUSTRALIAN INDUSTRIAL MARKETS

Moving into FY17, occupier demand varies by state with Sydney and Melbourne recording solid take-up on the back of strong economic growth. Demand is expected to remain positive in the short term due to positive retail and wholesale activity.

Rents remain largely stable in outer metropolitan areas due to buoyant supply levels, however there is some mild upward pressure in land constrained markets including South Sydney, Inner West Sydney and South-East Melbourne.

Investment demand remains strong for quality industrial properties, however with the exception of several portfolio transactions in 2016, the availability of prime investment stock remains limited, resulting in values increasing solidly in FY16.

2017 FOCUS

- Actively manage the industrial portfolio to improve occupancy from current levels
- Target 3-4% like-for-like income growth across the DEXUS industrial portfolio

LIKE-FOR-LIKE INCOME TO RECOVER

Across our $1.8 billion industrial portfolio, 204,238 square metres of industrial space was leased in FY16, 11.6% on FY15 and representing 16% of the portfolio.

Key leasing successes included:

- Securing Fedex across 18,031 square metres at 2 Military Road, Matraville
- Securing Toll across 16,915 square metres at 2 Alspec Place, Eastern Creek
- Securing Natures Dairy across 15,662 square metres at 1 Foundation Road, Laverton North

Industrial portfolio occupancy by income reduced to 90.4% at 30 June 2016 (FY15: 92.4%), as a result of some large tenant movements and reduced leasing activity, particularly in Melbourne's south-east. These vacancies also impacted like-for-like income, which reduced 7.1% compared to FY15 however this is expected to recover in FY17.

The Sydney portfolio is performing strongly, with average occupancy by income of 95.9% at 30 June 2016. Consistent with our expectations at the time of acquisition in January 2015, Lakes Business Park is now benefiting from market rental growth flowing through recent leasing deals.

The industrial portfolio delivered a strong one-year total return of 16.0%.

SUSTAINABILITY PERFORMANCE

Continuing our commitment to improving sustainability, we achieved 5 star Green Star (Industrial Design v1) ratings for development projects for Kathmandu at Laverton North and Toshiba at Quarry, Greystanes.

We are proud to embed sustainability practices when masterplanning industrial estates and adhering to Ecologically Sustainable Design principles to deliver innovative, long term environmental improvements.

QUARRY AT GREYSTANES COMPLETES 100% LEASED

DEXUS APPROACH

- Acquired the first strategically located development site at 'Quarry at Greystanes' in 2007
- Progressively developed 16 pre-lease and speculative industrial facilities, setting new benchmarks in design and sustainability and securing a community of high calibre tenants
  - Introduced the Australian Industrial Partner as a new capital partner
- Acquired off market an adjoining parcel of land at Quarrywest at Greystanes in June 2014 forming the DEXUS Industrial Partnership with a new capital partner, where development is now underway

DELIVERING PERFORMANCE

- Development at Quarry at Greystanes has now completed, with the estate now 100% leased and a WALE of 7.8 years
- Quarry at Greystanes is now valued at over $380 million[1], across approximately 168,000 square metres
- Quarrywest at Greystanes, when complete will add approximately a further 126,145 square metres to the estate

1 Includes DEXUS 50% $211.5 million and Australian Industrial Partner 50% $171.7 million.

DEXUS PORTFOLIO DEVELOPMENT

POSITIONING

In FY16 we completed $720 million of development projects to enhance portfolio quality and positioning DEXUS for future returns.

DEVELOPMENT DRIVING PERFORMANCE

DEXUS develops office and industrial properties to improve portfolio quality and diversification and has a strong track record in developing quality office and industrial properties. In FY16 we completed office projects in Sydney, Brisbane and Perth delivering a combined valuation uplift to DEXUS of $131 million from the start of the project until 30 June 2016. We also completed industrial facilities at Quarry in Greystanes, Larapinta in Queensland, and at Laverton North in Victoria.

DEVELOPMENT PIPELINE POSITIONS DEXUS FOR ENHANCED RETURNS

With the completion of a number of major developments in FY16, we have focused on re-stocking the development pipeline and have added a total of 6 new developments worth $1.2 billion in aggregate to DEXUS's development pipeline since the start of the year. The DEXUS development pipeline now stands at $1.7 billion.

DEXUS's $1.7 billion development pipeline includes 13 projects in total, with 10 projects expected to complete over the next five years. We have identified five office development projects including a premium office tower at 100 Mount Street, North Sydney which is due for a staged completion in late 2018.

There are an additional five industrial development projects which will deliver high quality industrial facilities across New South Wales, Queensland and Victoria. We will continue to enhance customer amenity through repositioning our city retail precincts, with three city retail projects earmarked for redevelopment over the next two to five years.

2017 FOCUS

- Progress construction of 100 Mount Street, North Sydney
- Advance precommitments to enable activation of identified office and industrial projects
- Continue to progress masterplanning for uncommitted projects

DEVELOPMENT PROJECTS	DEXUS DEVELOPMENT PIPELINE $1.7bn
OFFICE	5 projects over 289,609sqm at a cost of c. $1.3bn[1]
INDUSTRIAL	5 projects over 305,181sqm at a cost of c. $344m[1]
CITY RETAIL	3 projects over 11,337sqm at a cost of c. $71m[1]

1 Estimated total development cost (DEXUS's share).
2 100 Mount Street, North Sydney is owned 50/50 by DEXUS and DWPF.
3. Unlevered project internal rate of return at practical completion.
4. Co-owned 50/50 by DEXUS and its capital partners and DWPF.

POSITIONING FOR ENHANCED RETURNS

- DEXUS and DWPF jointly acquired 100 Mount Street, North Sydney[2] for $41 million in April 2016 and commenced development of a 41,419 square metre premium office tower
- Forecast year-one yield on cost >7%
- Forecast unlevered project IRR of circa 12-14%
- Targeting 5 star Green Star and 5 star NABERS Energy ratings
- Project is set to benefit from new Sydney Metro and tenant demand for quality product in a market with limited Prime Grade options
- Staged completion expected in late 2018, at an opportune time in the Sydney supply cycle

DEVELOPMENTS COMPLETED[4]

5 Martin Place, Sydney
- 33,638sqm office space
- 98% occupancy
- 35.8% IRR[3]

Kings Square, Perth
- 53,647sqm office space
- 57% total occupancy with 100% of income secured for five years post completion
- 13.6% IRR[3]

480 Queen Street, Brisbane
- 56,754sqm office space
- 100% total occupancy
- 20.9% IRR[3]

Quarry, Greystanes
- Final stage of development completed and now 100% leased

DEXUS Industrial Estate, Laverton North
- 25,650sqm facility for Kathmandu completed
- 100% leased

Radius Industrial Estate
- 22,136sqm facility
- 100% leased post FY16

FUNDS MANAGEMENT

DWPF ONE-YEAR TOTAL RETURN

14.7%

DEXUS OFFICE PARTNERSHIP ONE-YEAR RETURN

17.7%

THIRD PARTY DEVELOPMENT PIPELINE

$3.0bn

DEXUS delivered strong outperformance for its third party clients in FY16 and with the activation of the $3.0 billion third party development pipeline, is well positioned for future performance.

ENHANCING RETURNS FOR DEXUS INVESTORS

Our funds management business provides improved return on equity for DEXUS investors through:

- Providing access to a range of capital sources to secure return enhancing opportunities through the market cycle
- Providing an incremental annuity-style revenue stream from funds management, property management, development management and leasing fees
- Creating benefits of scale in markets, resources and operating business, enabling the Group to appeal to a more diverse tenant base and attract and retain top talent

DEXUS's interests are also aligned to those of its partners through co-ownership in direct properties.

2017 FOCUS

- Deliver on third party clients' investment objectives and drive investment performance
- Leverage transaction capabilities to enhance third party portfolio composition
- Seek new development and enhanced return opportunities to satisfy third party clients' investment strategies

DELIVERING ON OUR THIRD PARTY CLIENTS' INVESTMENT OBJECTIVES

Our integrated model of investment management provides our third party clients with access to multi-sector expertise in:

- Investment management, underpinned by best practice corporate governance principles
- Asset management, with strong leasing capabilities that are supported by deep market relationships
- Development management, with a proven track record in delivering income enhancing developments to market
- Transactional capabilities, which deliver transactions in line with our clients' investment objectives

DEVELOPMENT DRIVING PERFORMANCE

Over the year, our funds management business grew from $9.6 billion to $11.2 billion, driven by valuation increases, the completion of developments, and the settlement of the acquisition of Waterfront Place Complex in Brisbane[1].

The completion of developments in FY16 enhanced long term returns for our third party clients. Key development completions included three key office developments in Sydney, Brisbane and Perth, industrial developments at Greystanes, Richlands and Larapinta and two retail refurbishments at Westfield Hurstville and Stage 1 Westfield North Lakes.

DELIVERING OUTPERFORMANCE

We have a demonstrated track record in delivering focused investment strategies and outperformance for our third party clients.

APPROACH

- Acquired $3.6 billion of core and value-add property investments since July 2012, in line with our third party clients' objectives
- Enhanced property values through active leasing and asset repositioning
- Completed $1.1 billion of developments since July 2012, enhancing portfolio quality

PERFORMANCE

- DEXUS Office Partnership has delivered a 14.6% annualised unlevered property return since inception
- DWPF has outperformed its benchmark over one, three, five and seven years
- DEXUS Industrial Partnership and Australian Industrial Partnership have delivered outperformance against their respective benchmarks

Major retail redevelopments commenced at Willows Shopping Centre in Townsville and Stage 2 of Westfield North Lakes and city retail redevelopments at Gateway and Grosvenor Place in Sydney are due for completion in late 2016.

In industrial, pre-commitments were secured for new facilities at Quarrywest in Greystanes and post year-end heads of agreement were secured at Larapinta. At Hemmant in Queensland development works will commence in FY17.

1 Waterfront Place Complex, Brisbane is owned 50/50 by DEXUS and DWPF.

TRADING

TRADING PROFITS NET OF TAX DELIVERED IN FY16

$63.3m

SECURED TRADING PROFITS FOR FY17 PRE-TAX

$37m

PRIORITY PROJECTS IN FY17-FY19 PIPELINE

4 projects

DEXUS delivered $63.3 million of trading profits net of tax in FY16 and positioned priority projects in its future trading pipeline.

We have an established trading track record, having delivered $146.8 million of trading profits across eight properties over the past four years. Trading properties are generally income producing assets where we use our development expertise to realise the value from a higher and better use, and the capital deployed in trading is modest and relatively low risk.

DELIVERING TRADING PROFITS IN FY16

In FY16 we delivered $63.3 million of trading profits net of tax through the settlement of 25-55 Rothschild Avenue and 5-13 Rosebery Avenue, Rosebery as well as 154 O'Riordan Street, Mascot in July 2015.

POSITIONING TO DELIVER FUTURE TRADING PROFITS

With FY16 trading profits secured early, our efforts during the year were centred on securing FY17 trading profits and progressing other opportunities in our trading pipeline.

We are well positioned to deliver future trading profits, identifying six priority projects during the year.

Of these projects, in July 2016 we sold 57-65 Templar Road in Erskine Park, NSW for $50 million. Erskine Park is expected to contribute approximately $12 million pre-tax to FY17 trading profits.

After securing of a 12-year lease with Government Property NSW over 100% of the planned development at 105 Phillip Street in Parramatta, we commenced construction at the site. Completion is expected in March 2018.

2017 FOCUS

- Target FY17 trading profits of approximately $45-50 million (post tax)
- Progress the Parramatta development and de-risk the proposed mixed-use development at St Leonards
- Progress the remaining priority projects in the trading pipeline to contribute to trading profits from FY18

In August 2016, we entered into an agreement to sell 77-99 St Hilliers Road in Auburn for $65 million which is expected to contribute approximately $25 million pre-tax to FY17 trading profits.

Of the four priority projects remaining, DEXUS is expected to generate $90-100 million pre-tax of trading profits from FY17 to FY19.

PROGRESSING FY17 TRADING PROFITS

The sale of two trading properties in FY17 is expected to contribute approximately $37 million pre-tax to the FY17 trading profit target of $45-50 million (post tax).

57-65 TEMPLAR ROAD, ERSKINE PARK

- Acquired the 6.25 hectare Erskine Park site in 2011
- After securing development and planning approvals, developed a 30,115 square metre multi-tenanted estate comprising two freestanding buildings and successfully leased 100% of the estate
- Sold Erskine Park in July 2016 for $50 million, which is expected to contribute approximately $12 million pre-tax to FY17 trading profits

77-99 ST HILLIERS ROAD, AUBURN

- Identified a higher and better use to increase the site's relevance to the market and capitalise on its location close to Sydney's CBD
- Lodged a DA including a subdivision proposal to maximise value for the site
- In August 2016, entered into an agreement to sell the property for $65 million, which is expected to contribute approximately $25 million pre-tax to FY17 trading profits

PEOPLE & CULTURE

Our 420 strong workforce is supported by a diverse and inclusive culture. Our investment in developing the skills of our people, supported by a focus on wellbeing, is delivering high levels of engagement and performance.

At DEXUS we are focused on developing a high performing and inclusive culture that attracts and retains the best people with expertise across a broad range of specialties.

A DIVERSE AND INCLUSIVE CULTURE

We have created a workplace that cultivates diverse views and an inclusive mindset. We believe this will ultimately drive superior business decisions, increased innovation and a more engaged workforce. To further support this, we are launching an inclusive leadership training program with the intent to roll the program out across the organisation in FY17.

More than half of our workforce is female and we have set measurable gender diversity objectives to ensure we continue to recruit female decision makers and develop a pipeline of future female talent. At 30 June 2016, 50% of Non-Executive Directors were female, and females represented 31% of Senior management, up from 26% last year.

Our focus on attracting female talent has resulted in an increased ratio of job applicants being female, resulting in 62% of roles being filled by females.

Once on board we provide opportunities, both internally and externally, to develop female talent through mentoring and coaching programs. Our internal graduate program also ensures we have a pipeline of diverse talent, and this year we have doubled the number of female graduates. We also focus on hiring people with diverse backgrounds and experiences.

In 2015, we launched an initiative that ensures the continuity of superannuation contributions while employees are on unpaid parental leave. In addition to the 12 weeks paid parental leave that DEXUS offers, this initiative maintains superannuation payments for the entire parental leave period.

This year, we launched a Female Agent of the Year award to be presented at the annual Excellence in Agency Awards, to promote and support females in leasing and customer related roles within the Property industry.

DELIVERING WELLBEING INITIATIVES FOR OUR PEOPLE

In our Sydney, Melbourne and Brisbane offices, the workspaces and technology have been designed to enhance collaboration, innovation and productivity.

We have registered our Head Office at Australia Square in Sydney for WELL tenancy certification. WELL is the first evidence-based system for measuring, certifying and monitoring building features that impact on health and wellbeing. WELL acts as a foundation of our wellbeing through the implementation of strategies and policies that promote healthy lifestyles for our people.

At DEXUS, our employees are driving the change in workplace wellbeing. Five “Wellbeing Communities” have been established, with a focus on Diversity & Inclusion, Mind, Body and Nutrition, Workplace & Social, Professional Development, and Employee Benefits & Recognition. Through their membership, we have empowered our employees to research, recommend and implement programs that support health and wellbeing.

While our health and wellbeing program will be implemented over a number of years, we are already seeing tangible results with positive feedback from employees regarding changes to lifestyle and health and fitness, along with more energy, productivity and balance in the workplace.

A HIGHLY ENGAGED WORKFORCE

We measure engagement every second year following our Culture Survey. This year’s sustainable employee engagement score was 84%, an improvement of 5% from 2012 and significantly above the Australian National Norm. Strong positive results were achieved for views on wellbeing, innovation and customer experience.

DEVELOPING A TALENT PIPELINE

With much invested in building talent and leadership, we aim to ensure that our people continue to be challenged and fulfilled.

An increased focus on internal mobility has given our people a diverse set of career experiences and stretch assignments. With a focus on employee training and development, we have provided additional mentoring, training, and leadership experiences to accelerate learning for future leaders.

EMPLOYEE ENGAGEMENT SCORE
84%

FEMALE WORKFORCE
53%

FEMALE NON-EXECUTIVE DIRECTORS
50%

97% of employees who took part in the survey, are "proud to be associated with DEXUS".

FY16 EMPLOYEE ENGAGEMENT SURVEY

LEADERSHIP

We have continued to develop leadership capability with our 2016 Leadership Development Program providing coaching for 37 of our senior leaders. Part of our innovation agenda has given our leaders the opportunity to look outside the property industry for new perspectives by participating in external conferences and international study tours.

FLEXIBILITY DRIVES ENGAGEMENT AND PRODUCTIVITY

Our people have identified flexibility as one of the most important factors impacting engagement and productivity. Responding to this desire to increase flexibility in the way we work, we launched "All People Flex", a program which enables our people to decide how, where and when they work.

All People Flex encompasses formal, e.g. part time, and informal flexible working arrangements, and we are encouraging uptake through the use of flexibility measures in personal scorecards. This program is highly valued by working parents and carers, as well as those who want flexibility to support other interests, passions or external commitments.

To enhance the uptake of All People Flex, we will be implementing a training program for managers on how to role model flexibility and manage a flexible workforce.

CONTRIBUTING TO THE COMMUNITY

Each year our people have the opportunity to contribute to the community through the provision of one day's paid volunteering leave. DEXUS Diamond Week is a community partnership that raises funds for Sydney Children's Hospital Foundation and like-minded charities around Australia through awareness activities in the foyers of our offices. We are proud to support the Foundation along with approximately 30 other charities around Australia, donating $803,268 of in-kind support and donations in the year.

2017 FOCUS

- Improve productivity and DEXUS culture by simplifying organisational, team and job design to enable core business activities
- Focused development of our people's capability and skills that are directly related to our FY17 strategic priorities
- Continue to develop a unique employee experience and culture by obtaining WELL certification, enhancing our wellbeing platform and leveraging our diverse and inclusive culture
- Promote leadership sustainability through succession planning and developing our emerging talent

EMPOWERING OUR PEOPLE THROUGH WELLBEING

APPROACH

- Established five Wellbeing Communities run by self-nominated employees to drive wellbeing initiatives
- Launched DEXUS Wellbeing Week to motivate and engage employees regarding their own health and wellbeing, hosted by the Wellbeing Communities
- Fitbit devices were given to all employees, an initiative of the Employee Benefits & Recognition Community

OUTCOMES

- 100% employee participation in DEXUS Wellbeing Week
- 59% of employees opted-in to the DEXFit Challenge which tracked the number of steps taken by teams across DEXUS
- 55 million steps or 39,491 kilometres walked by 191 staff over a four week period in June 2016
- Nominated as a finalist in the 2016 Property Council of Australia Innovation & Excellence Awards – Award for Diversity, and the Australian HR Awards 2016 – Best Health & Wellbeing Award

BOARD OF DIRECTORS

RICHARD SHEPPARD

Chair and Independent Director
BEc Hons, FAICD

Richard Sheppard is both Chair and Independent Director of DEXUS Funds Management Limited, Chair of the Board Nomination Committee and a member of the Board Audit Committee, Board Risk Committee and Board People & Remuneration Committee.

Richard is a Director of Snowy Hydro Limited and Star Entertainment Group, and Treasurer of the Bradman Foundation.

Richard brings to the DEXUS Board extensive experience in banking and finance and as a director and Chairman of listed and unlisted property trusts. He was Managing Director and Chief Executive Officer of Macquarie Bank Limited and Deputy Managing Director of Macquarie Group Limited from 2007 until late 2011. Following seven years at the Reserve Bank of Australia, Richard joined Macquarie Group's predecessor, Hill Samuel Australia in 1975, initially working in Corporate Finance. He became Head of the Corporate Banking Group in 1988 and headed a number of the Bank's major operating Groups, including the Financial Services Group and the Corporate Affairs Group. He was a member of the Group Executive Committee since 1986 and Deputy Managing Director since 1996. Richard was also Chairman of the Australian Government's Financial Sector Advisory Council, Macquarie Group Foundation, Eraring Energy and Green State Power Pty Limited.

ELIZABETH A ALEXANDER AM

Independent Director
BComm, FCA, FAICD, FCPA

Elizabeth Alexander is an Independent Director of DEXUS Funds Management Limited, Chair of DEXUS Wholesale Property Limited and a member of the Board Audit Committee.

Elizabeth is the Chair of Medibank and the Chancellor of the University of Melbourne.

Elizabeth brings to the Board extensive experience in accounting, finance, corporate governance and risk management and was formerly a partner with PricewaterhouseCoopers. Elizabeth's previous appointments include National Chair of the Australian Institute of Company Directors, National President of the Australian Society of Certified Practising Accountants, Deputy Chairman of the Financial Reporting Council and a member of the Takeovers Panel. Elizabeth was previously Chair of CSL and Director of Amcor and Boral.

PENNY BINGHAM-HALL

Independent Director
BA (Industrial Design),
FAICD, SF (Fin)

Penny Bingham-Hall is an Independent Director of DEXUS Funds Management Limited and a member of the Board Risk Committee and Board People & Remuneration Committee.

Penny is a Non-executive Director of BlueScope Steel Limited, Port Authority of NSW, SCEGGS Darlinghurst Limited and Taronga Conservation Society Australia. She is also an independent director of Macquarie Specialised Asset Management Limited.

Penny has broad industry experience having spent more than 20 years in a variety of senior management roles with Leighton Holdings Limited including Executive General Manager Strategy, responsible for the Group's overall business strategy and Executive General Manager Corporate, responsible for business planning, corporate affairs including investor relations and governance systems. Penny is a former director of the Australian Postal Corporation and the Global Foundation (a member-based organisation promoting high-level thinking within Australia and cooperation between Australia and the world). She also served as the inaugural Chair of Advocacy Services Australia Limited (a not-for-profit organisation promoting the interests of the Australian tourism, transport, infrastructure and related industries) from 2008 to 2011.

Our Board comprises seven directors, six of whom are independent directors, with a diverse mix of skills and experience to deliver performance for our investors.

From left to right: Peter B St George, Penny Bingham-Hall, Darren J Steinberg, Richard Sheppard, Elizabeth A Alexander AM, Tonianne Dwyer, John C Conde AO.

JOHN C CONDE AO

Independent Director
BSc, BE (Hons), MBA

John Conde is an Independent Director of DEXUS Funds Management Limited, Chair of the Board People & Remuneration Committee and a member of the Board Nomination Committee.

John is the Chairman of Bupa Australia Holdings Pty Limited, Cooper Energy Limited and the McGrath Foundation. John is President of the Commonwealth Remuneration Tribunal and Deputy Chairman of Whitehaven Coal Limited. John is also Chairman of the Australian Olympic Committee (NSW) Fundraising Committee.

John brings to the Board extensive experience across diverse sectors including commerce, industry and government. John was previously Chairman of Ausgrid (formerly EnergyAustralia), Destination NSW and the Sydney Symphony Orchestra. He was Director of BHP Billiton and Excel Coal Limited, Managing Director of Broadcast Investment Holdings Pty Limited, Director of Lumley Corporation and President of the National Heart Foundation of Australia.

TONIANNE DWYER

Independent Director
BJuris (Hons), LLB (Hons)

Tonianne Dwyer is an Independent Director of DEXUS Funds Management Limited and DEXUS Wholesale Property Limited, Chair of the Board Risk Committee and a member of the Board Audit Committee.

Tonianne is a Director of ALS Limited, Metcash Limited and Queensland Treasury Corporation. She is also a member of the Senate of the University of Queensland.

Tonianne brings to the Board significant experience as a company director and executive working in listed property, funds management and corporate strategy across a variety of international markets. Tonianne was a Director from 2006 until 2010 of Quintain Estates and Development – a listed United Kingdom property company comprising funds management, investment and urban regeneration – and was Head of Funds Management from 2003. Prior to joining Quintain, Tonianne was a Director of Investment Banking at Hambros Bank, SG Cowen and Societe Generale based in London. Tonianne also held directorships on Cardno Limited, the Bristol & Bath Science Park Stakeholder Board, and on a number of boards associated with Quintain's funds management business including the Quercus, Quantum and iQ Property Partnerships.

DARREN J STEINBERG

Chief Executive Officer and Executive Director
BEc, FAICD, FRICS, FAPI

Darren Steinberg is the CEO of DEXUS Property Group and an Executive Director of DEXUS Funds Management Limited.

Darren has over 25 years' experience in the property and funds management industry with an extensive background in office, industrial and retail property investment and development.

Darren has a Bachelor of Economics from the University of Western Australia. Darren is a Director and the former National President of the Property Council of Australia, a Fellow of the Australian Institute of Company Directors, Royal Institution of Chartered Surveyors and the Australian Property Institute.

PETER B ST GEORGE

Independent Director
CA(SA), MBA

Peter is an Independent Director of DEXUS Funds Management Limited, Chair of the Board Audit Committee and a member of the Board Risk Committee.

Peter is a Director of First Quantum Minerals Limited (listed on the Toronto Stock Exchange).

Peter has more than 20 years' experience in senior corporate advisory and finance roles within NatWest Markets and Hill Samuel & Co in London. Peter acted as Chief Executive/Co-Chief Executive Officer of Salomon Smith Barney Australia/NatWest Markets Australia from 1995 to 2001. Peter was previously a Director of Boart Longyear, Spark Infrastructure Group, its related companies and SFE Corporation Limited.

FINANCIAL REPORT
30 JUNE 2016

CONTENTS

DEXUS Property Group (DXS) (ASX Code: DXS) consists of DEXUS Diversified Trust (DDF) (ARSN 089 324 541), DEXUS Industrial Trust (DIT), DEXUS Office Trust (DOT) and DEXUS Operations Trust (DXO), collectively known as DXS or the Group.

The registered office of the Group is Level 25, Australia Square, 264-278 George Street, Sydney NSW 2000.

Under Australian Accounting Standards, DDF has been deemed the parent entity for accounting purposes. Therefore, the DDF consolidated Financial Statements include all entities forming part of DXS.

All ASX and media releases, Financial Statements and other information are available on our website: www.dexus.com

OPERATING AND FINANCIAL REVIEW

The Group's financial performance for the year ended 30 June 2016 is summarised in the following section. In order to fully understand the results, the full Financial Statements included in this Financial Report should be read in conjunction with this section.

DEXUS OVERVIEW

DEXUS Property Group (DEXUS) is an Australian Real Estate Investment Trust, with $22.2 billion of assets under management. Listed on the Australian Securities Exchange, DEXUS manages and directly invests in high quality Australian office and industrial properties, and also actively manages office, industrial and retail properties across Australia on behalf of third party capital partners.

The owned portfolio consists primarily of high quality central business district (CBD) office properties, held long term and leased to derive stable and secure ongoing income streams. Developments, acquisitions and divestments are undertaken to enhance the quality and value of the portfolio.

DEXUS generates both rental income from its owned properties and fees for leasing, property management and development of properties on behalf of third party clients. In addition, DEXUS has a trading trust that enables the development and repositioning of properties to enhance value and sell for a profit.

The total property portfolio of $22.2 billion as at 30 June 2016 includes:

- $11.0 billion of owned property, with an additional $1.7 billion development pipeline; and
- $11.2 billion of property managed on behalf of third party clients, with an additional $3.0 billion development pipeline.

DEXUS PORTFOLIO	FUNDS MANAGEMENT PORTFOLIO	TOTAL GROUP PORTFOLIO
$11.0bn	**$11.2bn**	**$22.2bn**
DEXUS owned and managed portfolio of Australian office and industrial properties.	Management of a diverse portfolio of office, industrial and retail properties on behalf of third party partners and funds.	
Office: **$9.2bn**	Office: **$5.7bn**	Office: **$14.9bn**
Industrial: **$1.8bn**	Industrial: **$1.3bn**	Industrial: **$3.1bn**
	Retail: **$4.2bn**	Retail: **$4.2bn**
	DEVELOPMENT PIPELINE (future growth)	
Development **$1.7bn**	Development **$3.0bn**	Development **$4.7bn**

DEXUS is Australia's preferred office partner with 1.8 million square metres of office space spanning 58 office properties around Australia. DEXUS's office buildings are located in the CBDs of Sydney, Melbourne, Brisbane, Perth, Adelaide and Canberra.

DEXUS's 420-strong team of property professionals are located in offices in Sydney, Melbourne, Brisbane and Perth.

OPERATING AND FINANCIAL REVIEW

STRATEGY

Our vision is to be globally recognised as Australia's leading real estate company.

Our strategy is to deliver superior risk adjusted returns for investors from high quality Australian real estate, primarily comprising CBD office buildings.

We have two key strategic objectives:

- Being the leading owner and manager of Australian office property; and
- Being the wholesale partner of choice in Australian property

Our strategy is underpinned by our core capabilities. This includes having the best people, strongest customer relationships, and utilising the most efficient systems and technologies, while actively managing our capital and risk in a prudent and disciplined manner.

We believe in the benefits of scale in core CBD office markets. Scale provides us with valuable customer insights and the opportunity to invest in people, systems and technologies that enhance our customers' experience, strengthening our capacity and flexibility to find the ideal workspace solution for customers in more than one location.

Our strategy has four key elements:

1. **Using our understanding of customer needs as a primary driver for making investments**

   We understand what drives tenant demand and focus on investing in or developing high quality office and industrial properties in prime locations, which enables access to facilities and amenities which are sought after by our customers. We foster a culture of innovation and continuous improvement leveraging our multi-sector capabilities to develop new offerings to meet the changing needs of our customers and continually improve the amenity of our assets through property enhancements. This includes leveraging our retail capabilities (used for third party shopping centres) to activate and enhance the retail offerings at the base of our office towers.

2. **Intense focus on investment performance**

   We have an intense focus on investment performance which ensures we are active across the real estate cycle through leasing, acquiring, developing or recycling properties. For DEXUS investors this includes generating trading profits from properties where we have identified a higher and better use, and involves developing or repositioning and divesting these properties for a profit.

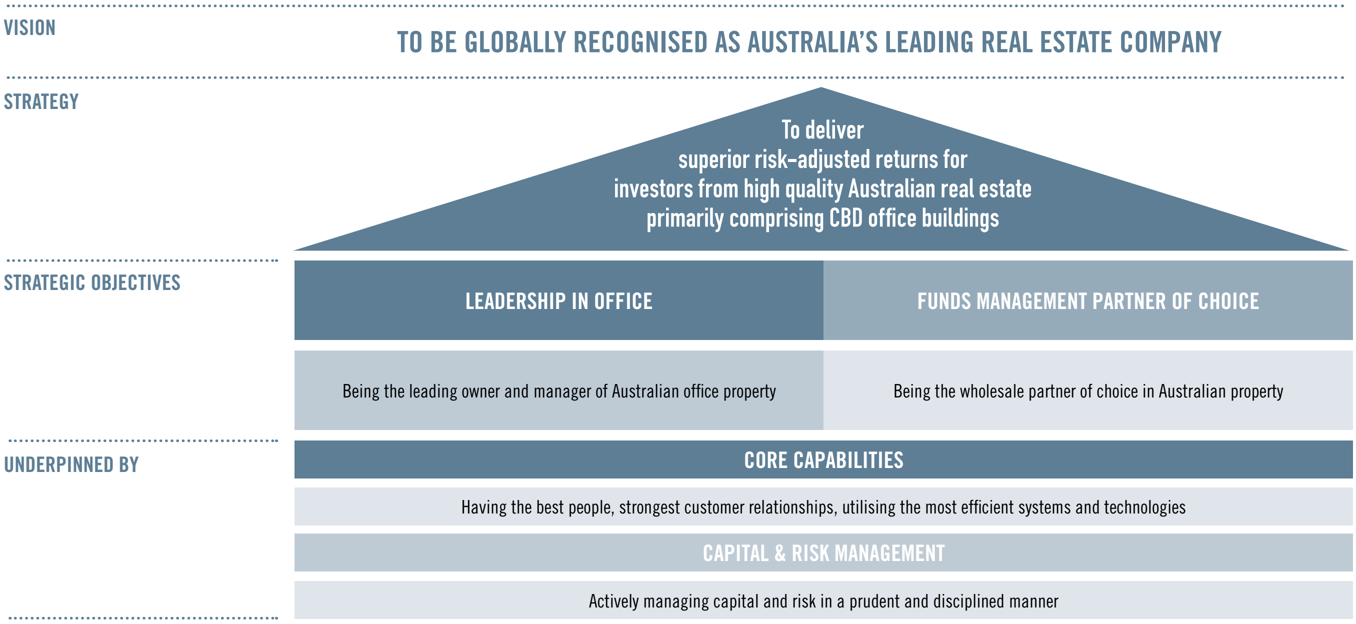
3. **Partnering with third party clients to grow in core markets**

   We partner with third party clients to increase our access to properties and grow in core markets. The funds management platform leverages our office, industrial and retail capabilities combined with our scale in CBD office markets to drive performance for our third party clients.

4. **Maintaining a conservative approach to financial and operational risk**

   DEXUS has a strong 'A-' Standard & Poor's credit rating and 'A3' investment grade rating from Moody's. These ratings are the result of measuring, pricing and managing risk in a prudent manner. The significant amounts of capital attracted from third party clients are an endorsement of our approach to investing and managing risk.

We consider corporate responsibility and sustainability an integral part of our daily business operations. Our approach supports our strategy with an overarching goal of delivering sustained value for all stakeholders.



Key earnings drivers – FY16 result

DEXUS sets short term targets against its earnings drivers across three areas of its business: the property portfolio, funds management and property services, and trading. The following chart summarises the FY16 result against the targets set for each of the earnings drivers.

	PROPERTY PORTFOLIO	FUNDS MANAGEMENT & PROPERTY SERVICES	TRADING
FY16 Target	circa +1% office l-f-l income growth[1] circa -7% industrial l-f-l income growth[1]	Management Operations FFO of circa $45 million	Approximately $60 million trading profits[2]
FY16 Result	**FFO of $673.3 million** +1% office l-f-l income growth[1] -7.1% industrial l-f-l income growth[1]	**FFO of $44.8 million**	**FFO of $63.3 million[2]**
	86% FFO[3]	**6% FFO[3]**	**8% FFO[3]**
	UNDERLYING BUSINESS		**TRADING**

DEXUS achieved its FY16 targets against its earnings drivers. Funds from Operations[4] (FFO) from the owned property portfolio delivered $673.3 million, within the 80-90% target range. Funds management and property services delivered $44.8 million and the trading business achieved $63.3 million in profits (post tax).

1 Like-for-like income growth is on an effective basis.
2 Trading profits net of tax.
3 FFO contribution is calculated before Finance costs and Group corporate costs.
4 FFO is in line with the 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, transaction costs, amortisation of intangible assets, rental guarantees, and coupon income.

OPERATING AND FINANCIAL REVIEW

FY16 Strategic achievements

The successful achievement of the FY16 targets against the key earnings drivers is underpinned by activities relating to DEXUS's strategic objectives. The table below details achievements for FY16.

FY16 Strategic achievements	
Leadership in office	✔ Leveraged asset management capabilities to increase DEXUS's office portfolio occupancy rate to 96.3%. ✔ Managed downtime to lease office space, through continued roll-out of suites strategy across Sydney, Melbourne and Brisbane, contributing to DEXUS attracting 113 new tenants. ✔ Enhanced DEXUS's customer offering through DEXUS Place roll-out in Melbourne and Brisbane, following the launch in Sydney in FY15. ✔ Launched partnership with GoGet and Divvy across DEXUS's office portfolio enhancing the service offering, to assist in increasing customer satisfaction.
Funds management partner of choice	✔ Delivered a 17.7% unlevered total return for the DEXUS Office Partnership portfolio in the 12 months to 30 June 2016, and an annualised 14.6% total return since inception in April 2014. ✔ Acquired two properties in partnership with DEXUS Wholesale Property Fund including Waterfront Place Complex and a premium development project at 100 Mount Street, North Sydney. ✔ Grew FFO from Management Operations which includes fund management, leasing and development fees by 18.2% from $37.9 million to $44.8 million. ✔ Achieved continued outperformance to benchmark for DEXUS Wholesale Property Fund (DWPF) over one, three, five and seven year periods.
Core capabilities	✔ Leveraged the capabilities of the business to deliver trading profits of $63.3 million (after tax). In FY16, and secured $37 million (pre-tax) for FY17 trading profits. ✔ Completed $720 million of development projects. ✔ Saved 61 people hours per week from employee initiated process improvement initiatives. ✔ Implemented in-house Leasing Management System, centralising information and tracking entire leasing process. ✔ Leveraged transactional capabilities to divest properties at a premium to book value. ✔ Leveraged retail expertise to lease City Retail offerings at 5 Martin Place, Grosvenor Place and Gateway, Sydney resulting in the majority of space being committed.
Capital and risk management	✔ Remained disciplined with pricing throughout Investa Office Fund (IOF) transaction, which subsequently did not proceed. ✔ Maintained capacity and strong relationships with debt investors, enabling DEXUS to move quickly and secure funding in preparation for the IOF transaction. ✔ Maintained a prudent balance sheet, with gearing of 30.7% (debt as a percent of total assets) at the lower end of DEXUS's 30-40% target range. ✔ Maintained a competitive cost of capital with a debt cost of 4.8% and maintained an appropriate level of hedging. ✔ Recycled properties through divestment consistent with the return on investment objectives of creating security holder value over individual property life cycles.

REVIEW OF OPERATIONS

DEXUS has adopted FFO as its underlying earnings measure which has been defined in accordance with the guidelines established by the Property Council of Australia for its reporting with effect from 1 July 2014.

In accordance with Australian Accounting Standards, net profit includes a number of non-cash adjustments including fair value movements in asset and liability values. FFO is a financial measure of real estate operating performance and is determined by adjusting net profit after finance costs and taxes, and certain items which are non-cash, unrealised or capital in nature.

The Directors consider FFO to be a measure that reflects the underlying performance of the Group.

The following table reconciles between profit attributable to stapled security holders, FFO and distributions paid to stapled security holders.

	30 June 2016 ($m)	30 June 2015 ($m)
Net profit for the year attributable to stapled security holders	**1,259.8**	618.7
Net fair value gain of investment properties	**(814.4)**	(241.0)
Net fair value loss of derivatives and interest bearing liabilities	**40.3**	47.0
Net (gain)/loss on sale of investment properties	**(15.0)**	3.1
Foreign currency translation reserve transfer on disposal of foreign operations	**–**	2.1
Incentive amortisation and rent straight-line[1]	**92.9**	79.9
Coupon income and rental guarantees received	**23.7**	15.5
Amortisation of intangible assets	**3.3**	–
Transaction costs	**7.1**	–
Deferred tax	**13.1**	19.2
Funds from Operations (FFO)[2]	**610.8**	544.5
Retained earnings[3]	**189.3**	158.9
Distributions	**421.1**	385.6
FFO per security[4] (cents)	**63.1**	59.5
Distribution per security[4] (cents)	**43.51**	41.04
Net tangible asset backing per security[4] ($)	**7.53**	6.68

1 Including cash, rent free and fit out incentives amortisation.
2 Including DEXUS's share of equity accounted investments.
3 Based on DEXUS's distribution policy to payout in line with free cash flow. The payout ratio equated to 69% of FFO in both FY15 and FY16.
4 Prior period per security figures are adjusted for the one-for-six security consolidation completed in November 2014.

Operating result

Group

DEXUS's net profit after tax was $1,259.8 million or $1.30 per security, an increase of $641.1 million from the prior year (FY15: $618.7 million). The key drivers of this movement included:

- Funds from Operations, or FFO, increased by $66.3 million resulting in FFO per security of 63.1 cents, an increase of 6.0%.
- Net revaluation gains of investment properties of $814.4 million, representing an 8% uplift across the portfolio, were $573.4 million higher than the FY15 gains. This was driven primarily by value uplifts across the office portfolio and recently completed office developments.

Revaluation gains achieved across DEXUS's office portfolio primarily drove the 85 cent increase in net tangible assets (NTA) per security to $7.53, reflecting the contribution of recent leasing success, combined with recent comparable market transactions for quality Australian office property with strong tenant covenants.

OPERATING AND FINANCIAL REVIEW

The following table provides a summary of the key components of FFO and AFFO based on the information provided in the Group Performance and Property Portfolio assets sections included in this Financial Report.

	30 June 2016 $m	30 June 2015 $m
Office Property FFO	**567.2**	533.3
Industrial Property FFO	**106.1**	112.3
Total Property FFO	**673.3**	645.6
Management operations[1]	**44.8**	37.9
Group corporate	**(25.4)**	(30.4)
Net finance costs	**(142.0)**	(150.8)
Other	**(3.2)**	(0.4)
Underlying FFO	**547.5**	501.9
Trading profits (net of tax)	**63.3**	42.6
Total FFO	**610.8**	544.5
Maintenance capital expenditure, lease incentives and leasing costs paid	**(196.9)**	(174.7)
Total AFFO[2]	**413.9**	369.8

1 'Management operations' income includes development management fees.

2 AFFO is in line with the Property Council of Australia definition.

Operationally, FFO increased 12.2% to $610.8 million (FY15: $544.5 million).

The key drivers of the $66.3 million increase included:

- The realisation of $63.3 million of trading profits (net of tax) representing an increase of $20.7 million on the prior year.
- Office Property FFO increased by $33.9 million to $567.2 million, driven by the acquisition of Waterfront Place in Brisbane. This was partially offset by a $6.2 million reduction in Industrial Property FFO to $106.1 million as a result of lower occupancy at Matraville, Knoxfield and Dandenong, longer downtime and the sale of Mascot and Rosebery at the start of FY16.
- Management operations income increased by $6.9 million to $44.8 million, driven by the acquisition of Waterfront Place and an increase in revaluations at third party managed properties.
- Finance costs net of interest revenue reduced by $8.8 million, due to the equity raising and subsequent hedge restructure undertaken in late 2015, assisted by the reduction in interest rates.

On a per security basis, FFO increased 6.0% to 63.1 cents. The underlying business excluding trading profits delivered FFO per security of 56.5 cents, and grew by 3.1% on the prior year.

Distributions

Distributions per security for the year ended 30 June 2016 were 43.51 cents per security, up 6.0% on the prior year (FY15: 41.04 cents), with the payout ratio remaining in line with free cash flow, in accordance with DEXUS's distribution policy. The final distribution for the six months ended 30 June 2016, will be paid to DEXUS Security holders on Wednesday, 31 August 2016.

Return on equity

DEXUS delivered a Return on Equity[1] (ROE) of 19.3%in FY16, above the 9–10% per annum target through the cycle, resulting in a four–year average ROE of 12.2%.

Management expense ratio

	30 June 2016 $m	30 June 2015 $m
Group corporate costs	**25.4**	30.4
Asset management costs	**12.6**	9.1
Total corporate and asset management costs	**38.0**	39.5
Closing funds under management (balance sheet only)	**10,987**	9,533
Group management expense ratio (MER)	**35bps**	41bps

1 Return on Equity is calculated as the growth of NTA per security plus the distribution paid/payable per security divided by the opening NTA per security.

Group corporate costs reduced to $25.4 million as a result of the benefit of on-going investments in the platform and operational efficiency while asset management costs increased to $12.6 million as a result of the acquisition of Waterfront Place and development completions at key office developments. As a result, DEXUS has been able to reduce the overall MER[1] to 35 basis points, from 41 basis points in FY15.

IOF transaction

DEXUS's proposal (Proposal) to acquire all of the units in Investa Office Fund (IOF) arose in December 2015 as a consequence of an unsolicited approach from the advisers to the Independent Board Committee (IBC) of Investa Listed Funds Management Limited to DEXUS.

At the IOF Unitholder Meeting held on 15 April 2016, the resolution relating to the Proposal was not passed by the requisite 75% of IOF Unitholders, despite having support from the IBC, Independent Expert, Proxy Advisers and a large number of IOF Unitholders, and the transaction did not proceed.

Property transactions

In April 2016, DEXUS and DWPF acquired 100 Mount Street, North Sydney for an initial price of $41.0 million where construction has now commenced on a 41,419 square metre, 34-level premium office tower. The site occupies one of the best locations in North Sydney, has prime retail exposure and benefits from its proximity to key transport infrastructure.

Consistent with DEXUS's strategy of recycling capital from non-core properties and capitalising on strong investor demand, DEXUS sold 36 George Street, Burwood and The Zenith, Chatswood at 44% and 7% premia to book values respectively.

During the year, the NSW State Government advised DEXUS of its intention to compulsorily acquire 39 Martin Place, Sydney for the new Sydney Metro rail project. DEXUS is working through negotiations to ensure the best possible outcome for its Security holders, investors and customers, and will provide an update when further information is available.

Post 30 June 2016, DEXUS announced a number of divestments. These included the sale of the DEXUS Office Partnership's property at 108 North Terrace, Adelaide (for a gross sale price of $86.5 million, in which DEXUS has a 50% interest) which will settle in September 2016 and the sale of Southgate Complex, Melbourne (for a net sale price of $578.0 million, in which DEXUS has a 100% interest) which will settle across two equal tranches in FY17 and FY18.

DEXUS Property Group Performance

The following sections review the FY16 performance of the Group's key financial drivers: Property Portfolio, Funds Management and Property Services, and Trading.

i) Property portfolio

DEXUS remains focused on maximising the performance of its property portfolio through leasing and asset management activities, with the property portfolio contributing to 86% of FFO in FY16.

DEXUS increased the size of its direct portfolio to $11.0 billion at 30 June 2016 from $9.5 billion at FY15. This movement was driven by the acquisition of Waterfront Place Complex in Brisbane for $635 million (50% DEXUS 50% DWPF) and the positive contribution of investment property revaluations, which were partially offset by $152.8 million of divestments including 36 George Street, Burwood as well as the settlement of trading properties at Rosebery and Mascot.

Office portfolio

Portfolio value:	$9.2 billion
Total area:	1,562,997 square metres
Area leased during the year:	269,866 square metres[2]

Key metrics	30 June 2016	30 June 2015
Occupancy by income	**96.3%**	95.3%
Occupancy by area	**96.3%**	95.5%
WALE by income	**4.7 years**	4.3 years
Average incentive	**17.7%**	15.0%
Retention rate	**62%**	61%
Total return – 1 year	**16.0%**	9.6%

1 DEXUS's MER is calculated as unallocated Group corporate and asset management expenses divided by closing on-balance sheet FUM.

2 Including Heads of Agreement.

OPERATING AND FINANCIAL REVIEW

A-grade space in the Sydney CBD is in high demand and the flight to quality is now filtering through to Premium properties. DEXUS's suite strategy and the repositioning of Premium properties including Grosvenor Place and 1 Farrer Place in Sydney have enhanced leasing success across the portfolio, enabling DEXUS to capture demand from small space users and the acceleration in the flight to quality occurring in the Sydney CBD market.

During the year, DEXUS leased 269,866 square metres[1] of office space across 385 transactions. Office portfolio occupancy by income increased to 96.3% at 30 June 2016 (FY15: 95.3%), delivering on the 'above 95%' target set at the start of the year. Occupancy by area at Grosvenor Place in Sydney increased from 83.6% at 31 December 2015 to 94.5%, and at 1 Farrer Place in Sydney increased from 78.5% at 31 December 2015 to 92.2%.

DEXUS maintained tenant retention of 62% and successfully leased 72% of the area vacated during the year with average downtime of six months across all vacated space. Suite deals and those with smaller tenants typically have shorter lead times and have assisted in managing downtime.

Forward lease expiries were also significantly de-risked, with FY17 expiries reducing from 12.7% at FY15 to 9.3%, below the 10% target set at the start of the year. An opportunity for DEXUS to further enhance value exists with 59% of FY17 expiries being located in the Sydney CBD office market. The completion of major developments at 5 Martin Place, Sydney, 480 Queen Street, Brisbane, and Kings Square, Perth increased the portfolio WALE from 4.3 years at FY15 to 4.7 years.

Office like-for-like income increased by 1.0% compared to FY15. DEXUS's office portfolio delivered a one-year total return of 16.0% (FY15: 9.6%) driven by a strong revaluation uplift across the portfolio, partially offset by a reduction in the value of 240 St Georges Terrace in Perth.

FY17 Focus

In FY17 DEXUS will continue to proactively manage and drive the investment performance of its office portfolio. DEXUS will focus on maintaining occupancy above 96%; reducing FY19 office lease expiries to 12% by end of FY17; reducing incentives and rolling out initiatives to increase the understanding of customers. DEXUS is targeting office like-for-like income growth to return to normalised levels of 2-3% (3.5-4.5% excluding 240 St George Terrace, Perth) in FY17.

Industrial portfolio

Portfolio value:	$1.8 billion
Total area:	1,284,554 square metres
Area leased during the year:	204,238 square metres[1]

Key metrics	30 June 2016	30 June 2015
Occupancy by income	**90.4%**	92.4%
Occupancy by area	**89.3%**	91.7%
WALE by income	**4.1 years**	4.0 years
Average incentive	**9.5%**	10.8%
Retention rate	**32%**	53%
Total return – 1 year	**16.0%**	11.3%

Industrial demand continues to benefit from solid economic growth in NSW, with increased take-up from sectors such as automotive parts, dairy, health and pharmaceuticals.

During the year, DEXUS leased 204,238 square metres[1] of industrial space across 73 transactions including 42 leases with new tenants. Tenant retention reduced to 32% and DEXUS's industrial portfolio occupancy by income reduced to 90.4% at 30 June 2016 (FY15: 92.4%), as a result of some large tenant movements and reduced leasing activity, particularly in Melbourne's south east. These vacancies also impacted like-for-like income, which reduced by 7.1% compared to FY15 however is expected to recover to normalised levels in FY17.

The Sydney portfolio is performing strongly, with average occupancy by income of 95.9% at 30 June 2016.

Portfolio WALE remained steady at 4.1 years. Average incentives decreased slightly to 9.5% (FY15: 10.8%).

DEXUS's industrial portfolio delivered a one-year total return of 16.0% (FY15: 11.3%).

FY17 Focus

In FY17, DEXUS will focus on actively managing the industrial portfolio to improve industrial occupancy from current levels; pursuing non-core divestments and/or change of use repositioning opportunities within the existing portfolio; and developing core new industrial product and pursuing core plus acquisition opportunities for DEXUS and its third party partners. DEXUS is targeting industrial like-for-like income growth to return to normalised levels of 3-4% in FY17.

1 Including Heads of Agreement.

Development

DEXUS continued to enhance future investor returns through its development pipeline. After completing $720 million worth of projects on-balance sheet in FY16, DEXUS has replenished the Group pipeline which now stands at $4.7 billion, of which DEXUS's balance sheet pipeline accounts for $1.7 billion.

DEXUS utilises its development expertise to deliver best-in-class office buildings and prime industrial facilities. Development provides DEXUS with access to stock and leads to improved portfolio quality and diversification, attracts revenues through development management fees and delivers on capital partner strategies.

DEXUS allocates up to 15% of funds under management (FUM) across its listed portfolio to development and trading/value-add activities. Currently representing circa 4.7% of FUM, these activities are focused on providing earnings accretion and enhancing total return.

Key office developments in Sydney, Brisbane and Perth were all completed during the year with the office space substantially committed or secured by rental guarantees on practical completion. This, along with market cap rate compression, has resulted in strong returns achieved on these projects.

FY17 Focus
In FY17 DEXUS will commence construction of its office development at 100 Mount Street, North Sydney; advance pre-commitments to enable activation of identified office and industrial developments for DEXUS and its third party clients; continue to progress master planning for uncommitted developments including the Waterfront Place precinct in Brisbane and an opportunity in the Sydney CBD.

ii) Funds management and property services

DEXUS's Funds Management business represents over half of the Group's $22.2 billion funds under management and its $3.0 billion development pipeline will drive organic growth across the platform. Third party funds under management increased to $11.2 billion, up 17% from 30 June 2015, driven by acquisitions, developments and revaluations. DEXUS continued to deliver performance for its clients with DWPF outperforming its benchmark and the DEXUS Office Partnership delivering strong returns.

The activities undertaken by the Funds Management business include managing office, industrial and retail investments on behalf of third party partners and funds. These activities result in DEXUS earning fees for its funds management, property management, leasing and development management services.

DWPF achieved a one-year total return of 14.7%, and outperformed its benchmark over the past one, three, five and seven years. DWPF was also successful in raising $658 million of equity from both existing and 10 new investors attracted to the Fund.

The DEXUS Office Partnership portfolio delivered an unlevered one-year total property return of 17.7% and has delivered an annualised 14.6% unlevered total property return since inception in April 2014. DEXUS Security holders have received a levered total return of 21.1% per annum, including the initial 14.9% interest in the former Commonwealth Property Office Fund.

FY17 Focus
In FY17, DEXUS will continue to drive performance in the third party portfolios through active leasing; leverage DEXUS's transactional capabilities to enhance third party clients' portfolio composition; and seek new development and enhanced return opportunities to satisfy third party clients' investment strategies.

iii) Trading

Trading is a capability that involves the identification of opportunities, repositioning to enhance value, and realising value through divestment.

Trading properties are either acquired with the direct purpose of repositioning or development, or they are identified in DEXUS's existing portfolio as having value-add potential and subsequently transferred into the trading trust to be repositioned, and then sold.

Since 2010, DEXUS has been undertaking trading activities and recognising trading profits in its FFO. Over the past four years DEXUS has established a robust trading portfolio that DEXUS believes will drive consistent delivery of profits from this area of the business.

Trading profits of $63.3 million post-tax were achieved in FY16, which included the settlement of 5-13 Rothschild Avenue and 22-55 Rosebery Avenue, Rosebery and 154 O'Riordan Street, Mascot in July 2015.

DEXUS is well positioned to deliver future trading profits, having identified six priority projects earlier in the year to generate trading profits over the next three years.

Of the priority projects, DEXUS sold 57-65 Templar Road in Erskine Park for $50 million, which settled in July 2016 which is expected to contribute approximately $12 million pre-tax to trading profits in FY17. Construction commenced at 105 Phillip Street in Parramatta, after securing a 12-year lease with Government Property NSW over 100% of the development, with completion expected in March 2018.

In August 2016, DEXUS entered into an agreement to sell 77-99 St Hilliers Road in Auburn for $65.0 million which is expected to contribute approximately $25 million pre-tax to FY17 trading profits.

FY17 Focus
In FY17, DEXUS is targeting trading profits of approximately $45-50 million, net of tax. The Parramatta development will be progressed; the proposed mixed-use development at St Leonards will be de-risked; the remaining priority projects will be further progressed; and DEXUS will continue to focus on the trading pipeline for future years.

OPERATING AND FINANCIAL REVIEW

Financial position (look-through)

	30 June 2016 $m	30 June 2015 $m
Office investment properties[1]	**9,238**	7,822
Industrial investment properties[1]	**1,749**	1,711
Other assets[2]	**653**	546
Total assets	**11,640**	10,079
Borrowings[3]	**3,772**	2,957
Other liabilities	**579**	637
Net tangible assets	**7,289**	6,485
Total number of securities on issue	**967,947,692**	970,806,349
NTA ($)	**7.53**	6.68

1 Includes DEXUS's share of investment properties in equity accounted investments.
2 Excludes intangibles.
3 Includes DEXUS's share of borrowings in equity accounted investments.

Total look-through assets increased by $1,589 million primarily due to $763 million of acquisitions, development capital expenditures and $814 million of property valuation increases, partially offset by $152.8 million of divestments.

Total look-through borrowings increased by $755 million for the funding required for the acquisitions and development capital expenditures mentioned above.

CAPITAL MANAGEMENT

Cost of debt	4.8%
Duration of debt	5.5 years
Gearing (look through)[1]	30.7%[2]
S&P/Moody's credit rating:	A-/A3

DEXUS continued to maintain a strong and conservative balance sheet. Gearing[1] increased to 30.7%[2], as a result of an increase in development costs, property acquisitions, and capital expenditure offset by an increase in property valuations and the receipt of sale proceeds from the settlement of trading properties and 36 George Street, Burwood. DEXUS also acted on reverse enquiry during the year securing $260 million of new capital markets debt on average terms of 10.2 years, which resulted in duration of debt remaining high at 5.5 years.

DEXUS has minimal short term refinancing requirements and remains within all of its debt covenant limits and target ranges.

On market securities buy-back

During the year, DEXUS bought back 2.9 million DEXUS securities for a total consideration of $20.4 million as part of its on-market securities buyback, at pricing ranging from $7.055 – $7.200. The buyback was suspended as a result of entry into the process agreement for the DEXUS Proposal to acquire 100% of the IOF units announced on 7 December 2015, and has yet to be reinstated.

OUTLOOK

The majority (80-90%) of DEXUS's FFO is derived from rental income from its direct property portfolio, with the remainder derived from the funds management and property services and trading businesses. Key lead indicators and factors affecting the outlook of each of these areas of the business are outlined below.

i) Property portfolio

Office: The performance of office markets is influenced by the strength of the broader economy and business confidence, the supply and demand characteristics of particular CBD markets and the leasing characteristics of individual properties.

Lead indicators for demand are mildly positive, pointing to further absorption of space in the year ahead. The latest NAB Business Survey revealed positive business conditions and confidence, and recent gains in equity markets bode well for multi-national demand. Employment growth in NSW and VIC remains solidly positive, however the ANZ job ads series has levelled out, indicating that jobs growth may slow in the year ahead. On the supply side, most markets are now close to, or have passed, the peak of this supply cycle. Limited new supply, combined with withdrawals, is expected to lead to a tightening in vacancy for the majority of east coast markets in FY17 and FY18.

The prospect of an extended period of 'lower for longer' interest rates accompanied by slow domestic growth and low inflation is likely to continue to have profound implications for asset pricing and real estate returns.

DEXUS is in a strong position to benefit from an improvement in office markets with its high quality office portfolio with 91% exposure to Prime grade properties, and 60% located in Sydney and 13% located in Melbourne. DEXUS's office development underway at 100 Mount Street, North Sydney (owned in partnership with DWPF) is currently 15% leased and will complete at an opportune time in the Sydney office market cycle in 2018, with lease up expected to continue into 2019.

1 Adjusted for cash and for debt in equity accounted investments.
2 Proforma gearing is expected to reduce to circa 27% over the next six months post the receipt of proceeds from the sale of 57-65 Templar Road, Erskine Park (trading property); The Zenith, Chatswood; 108 North Terrace, Adelaide; the first 50% tranche of Southgate Complex, Melbourne; and 79-99 St Hilliers Road, Auburn (trading property).

Industrial: Industrial markets are expected to benefit from low interest rates, which are boosting small to medium business activity in particular. A lower Australian dollar is expected to continue to drive Sydney port volumes and translate to demand from general merchandise retail for industrial space.

Improving levels of take-up are a positive sign for industrial markets with rental growth occurring in some inner city markets. However competitive pre-commitment deals are keeping growth in the outer metropolitan areas flat.

ii) Funds management and property services

DEXUS's funds management platform current exposure is 51% to office, 12% to industrial and 37% to retail properties. Its office and industrial property performance will be influenced by the key lead indicators described above. For retail properties, retail sales growth has been easing nationally, but mainly in locations outside of Sydney and Melbourne. Consumer confidence is important, but remains a relatively neutral factor despite such events as Brexit and a swing away from the sitting government in the latest Federal election. Going forward, issues such as job security and house prices may sway confidence in either direction.

The weight of capital seeking quality Australian real estate is expected to remain strong in FY17, supported by low interest rates globally and the high yields offered by Australian property relative to global peers.

Revenue generated from property services activities including leasing and development fees is expected to reduce in FY17 as a result of a lower number of leasing renewals and active developments.

DEXUS will continue to satisfy the investment objectives of its third party clients and funds through growing existing funds via acquisitions and progressing the $3.0 billion third party development pipeline. DEXUS will maximise the performance of properties managed on their behalf to continue its recognition as a wholesale partner of choice.

iii) Trading

The trading business is an ongoing revenue stream, with the recognition of trading profits included in FFO. DEXUS will continue to identify potential trading opportunities within its existing portfolio and seek new trading opportunities for future trading pipeline. DEXUS has already exchanged on the majority of properties that comprise its FY17 trading profit guidance and is progressing its priority projects in the trading pipeline.

FY17 GUIDANCE

Taking into account recently announced divestments DEXUS's guidance[1] for the 12 months ending 30 June 2017 is

- 3.0-3.5% growth in Underlying FFO per security
- FFO per security in line with FY16
- 2.5-3.5% growth in distribution per security

RISKS

There are various risks that could impact DEXUS's strategy and outlook and the nature and potential impact of these risks can change over time. Further information relating to DEXUS's risk management framework is detailed in the Corporate Governance statement available at www.dexus.com. DEXUS actively reviews and manages risks faced by its business over the short, medium and long term, overseen by the Board Risk Committee. A number of the important strategic risks, their potential impact and how DEXUS manages and monitors them are outlined in the table below.

Risk	Description	Potential impact	How DEXUS is equipped to manage and monitor this risk
Market volatility – general	Volatility in equity or debt markets and GDP growth (domestically or globally) has a material adverse effect on leasing, investment demand or financing costs	▪ Reduction in business confidence and leasing activity ▪ Reduction in ability to attract and retain tenants ▪ Increased cost of borrowing	▪ DEXUS has a high quality, diversified property portfolio which is less sensitive to changes in investment demand ▪ DEXUS has a low level of gearing, with a stated target range of 30-40% ▪ Further information relating to Financial risk management is detailed in Note 12 of the Financial Statements ▪ DEXUS has a diversified source of income with rental income being derived from 105 properties and 2,218 tenants. In addition, DEXUS derives income from funds management and trading activities ▪ A high proportion of DEXUS's near term income is secured via contractual lease obligation, with WALE of 4.7 years and 4.1 years on the office and industrial portfolios respectively ▪ DEXUS adopts a conservative approach to interest rate hedging, with 64% of debt currently hedged (excluding caps) ▪ DEXUS tracks and reports performance through monthly monitoring of budgets and expenditures ▪ DEXUS tracks economic conditions and forecasts real estate market performance

1 Barring unforeseen circumstances guidance is supported by the following assumptions: Impact of dilution from the divestment of: 36 George Street, Burwood; 57-65 Templar Road, Erskine Park; The Zenith, Chatswood; 108 North Terrace, Adelaide; the first 50% tranche of Southgate Complex, Melbourne; and 79-99 St Hilliers Road, Auburn; 2-3% like-for-like income growth across the DEXUS Office portfolio and 3-4% like-for-like income growth across the DEXUS Industrial portfolio, weighted average cost of debt of circa 4.6%, trading profits of circa $45-50m net of tax, Management Operations FFO of circa $45-50m (including third party development management fees), and excluding any further transactions.

OPERATING AND FINANCIAL REVIEW

Risk	Description	Potential impact	How DEXUS is equipped to manage and monitor this risk
Property valuations decline	Depreciation in the value of DEXUS's property investments This can be caused by changes in investment demand for commercial property and/or changes to the property fundamentals (e.g. property income) and/or changes to global bond rates	▪ Reduction in Net Tangible Asset backing per security ▪ Deterioration of key credit metrics ▪ Increased cost of financing and/or need to refinance ▪ Reduction in market price of DEXUS securities	▪ DEXUS has a high quality, diversified portfolio which is less sensitive to changes in investment demand ▪ DEXUS has a low level of gearing, with a stated target range of 30-40% ▪ Further information relating to Financial risk management is detailed in Note 12 of the Financial Statements
Funds from Operations (FFO) decline	FFO is lower than that assumed in management forecasts	▪ Reduction in distributions to investors ▪ Reduction in market price of DEXUS securities	▪ DEXUS has a diversified source of income with rental income being derived from 105 properties with 2,218 tenants. In addition, DEXUS derives income from funds management and trading activities ▪ A high proportion of DEXUS's near term income is secured via contractual lease obligation, with WALE of 4.7 years and 4.1 years on the office and industrial portfolios respectively ▪ DEXUS adopts a conservative approach to interest rate hedging, with 64% of debt currently hedged (excluding caps) ▪ DEXUS tracks and reports performance through monthly monitoring of budgets and expenditures
Workplace health and safety	Maintaining the highest standards of health and safety in order to minimise the risk of accidents and incidents to tenants, contractors and employees	▪ Death or serious injury ▪ Financial loss arising from an event claim ▪ Reputational damage ▪ Legal proceedings	▪ DEXUS maintains comprehensive work health and safety programs ▪ DEXUS ensures compliance by site contractors and employees ▪ DEXUS maintains ongoing independent certification by British Standards International
Security & Emergency Management	An event occurs that places DEXUS's staff, tenants or visitors in physical danger	▪ Death or injury on site ▪ Sabotage of building management systems	▪ DEXUS has a Crisis Management team in place with Business Continuity Plans reviewed and tested ▪ External independent review of DEXUS's asset policies and procedures relating to security risk management
IT Systems, data, cyber and Business Continuity Planning	Maintaining IT infrastructure that meets the needs of the business during an unexpected event or disruption e.g. fire and flooding	▪ Interruption to business and tenants resulting in loss of productivity ▪ Sensitive data is used for advantage by external parties	▪ Annual review of IT strategy including annual testing of disaster recovery plans ▪ External penetration testing of corporate and asset management systems ▪ Use and testing of anti-virus and malware protection software
Talent retention	Inability to attract and retain the talent required to execute the strategy	▪ Loss of property and platform expertise ▪ Increased operating costs via staff churn and wage impacts	▪ DEXUS monitors and acts upon employee opinions received through the Employee Opinion Survey and Culture Surveys ▪ DEXUS annually reviews remuneration framework to benchmark against market rates ▪ DEXUS maintains succession plans for senior management ▪ DEXUS implements awareness programs covering diversity, gender and health in the workplace, ensuring diversity and equality are understood and valued

DIRECTORS' REPORT

The Directors of DEXUS Funds Management Limited (DXFM) as Responsible Entity of DEXUS Diversified Trust (DDF or the Trust) present their Directors' Report together with the consolidated Financial Statements for the year ended 30 June 2016. The consolidated Financial Statements represents DDF and its consolidated entities, DEXUS Property Group (DXS or the Group).

The Trust together with DEXUS Industrial Trust (DIT), DEXUS Office Trust (DOT) and DEXUS Operations Trust (DXO) form the DEXUS Property Group stapled security.

1. DIRECTORS AND SECRETARIES

1.1 Directors

The following persons were Directors of DXFM at all times during the year and to the date of this Directors' Report, unless otherwise stated:

Directors	Appointed	Resigned
Christopher T Beare	4 August 2004	28 October 2015
Elizabeth A Alexander, AM	1 January 2005	
Penny Bingham-Hall	10 June 2014	
John C Conde, AO	29 April 2009	
Tonianne Dwyer	24 August 2011	
Craig D Mitchell	12 February 2013	21 April 2016
W Richard Sheppard	1 January 2012	
Darren J Steinberg	1 March 2012	
Peter B St George	29 April 2009	

1.2 Company Secretaries

The names and details of the Company Secretaries of DXFM as at 30 June 2016 are as follows:

Brett D Cameron LLB/BA (Science and Technology), GAICD

Appointed: 31 October 2014

Brett is the General Counsel and Company Secretary of DEXUS Property Group companies and is responsible for the legal function, company secretarial services and compliance, risk and governance systems and practices across the Group.

Prior to joining DEXUS, Brett was Head of Legal for Macquarie Real Estate (Asia) and has held senior legal positions at Macquarie Capital Funds in Hong Kong and Minter Ellison in Sydney and Hong Kong. Brett has 19 years' experience as in-house counsel and in private practice in Australia and in Asia, where he worked on real estate structuring and operations, funds management, mergers and acquisitions, private equity and corporate finance across a number of industries.

Brett graduated from The University of New South Wales and holds a Bachelor of Laws and a Bachelor of Arts (Science and Technology) and is a member of the Law Societies of New South Wales and Hong Kong. Brett is also a graduate of the Australian Institute of Company Directors.

Rachel Caralis LLB/B Com (Acc), M Com (Property Development), Grad Dip (Applied Corporate Governance) AGIA, AAPI

Appointed: 17 February 2016

Rachel is Senior Legal Counsel and Company Secretary of DEXUS Property Group.

Rachel joined DEXUS in 2008 after five years at King and Wood Mallesons where she worked in the real estate and projects team. Rachel has 13 years' experience as in-house counsel and in private practice working on real estate and corporate transactions, funds management and corporate finance for wholesale and listed clients.

Rachel graduated from the University of Canberra with a Bachelor of Laws and Bachelor of Commerce (Accounting), has completed a Masters of Commerce (Property Development) at the University of Western Sydney and a Graduate Diploma in Applied Corporate Governance at the Governance Institute of Australia. Rachel is a member of the Law Society of New South Wales, an associate of the Australian Property Institute and an associate of the Governance Institute of Australia.

DIRECTORS' REPORT

2. ATTENDANCE OF DIRECTORS AT BOARD MEETINGS AND BOARD COMMITTEE MEETINGS

The number of Directors' meetings held during the year and each Director's attendance at those meetings is set out in the table below. The Directors met 11 times during the year. Ten Board meetings were main meetings and one meeting was held to consider specific business.

	Main meetings held	Main meetings attended	Specific meetings held	Specific meetings attended
Christopher T Beare[1]	4	4	–	–
Elizabeth A Alexander, AM	10	10	1	1
Penny Bingham-Hall[2]	10	9	1	1
John C Conde, AO	10	10	1	1
Tonianne Dwyer	10	10	1	1
Craig D Mitchell[3]	7	7	1	1
W Richard Sheppard	10	10	1	1
Darren J Steinberg	10	10	1	1
Peter B St George[4]	10	9	1	1

1 Mr Beare did not stand for re-election at the 2015 AGM and resigned as Independent Director and Chair of the Board on 28 October 2015.
2 Ms Bingham-Hall was an apology for the 31 May 2016 Board meeting.
3 Mr Mitchell resigned from DEXUS Property Group and the Board on 21 April 2016.
4 Mr St George was an apology for the 27 June 2016 Board meeting.

Special meetings are held at a time to enable the maximum number of Directors to attend and are generally held to consider specific items that cannot be held over to the next scheduled main meeting.

The table below sets out the number of Board Committee meetings held during the year ended 30 June 2016 and each Director's attendance at those meetings.

	Board Audit Committee		Board Risk Committee		Board Nomination Committee		Board People and Remuneration Committee	
	held	attended	held	attended	held	attended	held	attended
Christopher T Beare[1]	–	–	–	–	–	–	1	1
Elizabeth A Alexander, AM	4	4	–	–	–	–	–	–
Penny Bingham-Hall	–	–	4	4	–	–	6	6
John C Conde, AO	–	–	–	–	4	4	6	6
Tonianne Dwyer	4	4	4	4	–	–	–	–
Craig D Mitchell[2]	–	–	–	–	–	–	–	–
W Richard Sheppard[3]	4	4	4	4	4	4	5	5
Darren J Steinberg[4, 5]	–	–	–	–	4	4	–	–
Peter B St George	4	4	4	4	–	–	–	–

1 Mr Beare did not stand for re-election at the 2015 AGM and resigned as Independent Director and Chair of the Board on 28 October 2015.
2 Mr Mitchell resigned from DEXUS Property Group and the Board on 21 April 2016.
3 Mr Sheppard was appointed as a member of the Board People and Remuneration Committee effective 28 October 2015.
4 Mr Steinberg was appointed as a member of the Board Nomination Committee effective 28 October 2015.
5 Mr Steinberg ceased to be a member of the Board Nomination Committee and was replaced by Ms Bingham-Hall, effective 27 July 2016.

Elizabeth A Alexander and Tonianne Dwyer were also Directors of DWPL and attended Board meetings during the year ended 30 June 2016 (refer note 22).

3. REMUNERATION REPORT

Introduction and Contents

The Remuneration Report has been prepared in accordance with section 300A of the *Corporations Act 2001* and AASB 124 *Related Party Disclosures*. Whilst the Group is not statutorily required to prepare such a report, the Board continues to *believe* that the disclosure of the Group's remuneration practices is in the best interests of Security holders.

The information provided in this Report has been audited in accordance with the provisions of section 308 (3C) of the *Corporations Act 2001*.

1. Executive summary

Our remuneration framework and approach has several important objectives. First, consistent with the complexity, performance expectations and risks involved in their positions, we wish to reward team members fairly having regard to individual performance against agreed KPIs and the overall performance of the Group. Secondly, our approach is to attract and retain highly capable talent who will contribute to the short and long term objectives of DEXUS, and who will create sustainable value for Security holders. Thirdly, believing that increasing equity and ownership amongst executives and staff aligns the interests of our employees with our Security holders and strengthens engagement with the organisation, our remuneration policies include opportunities for greater equity participation across the organisation.

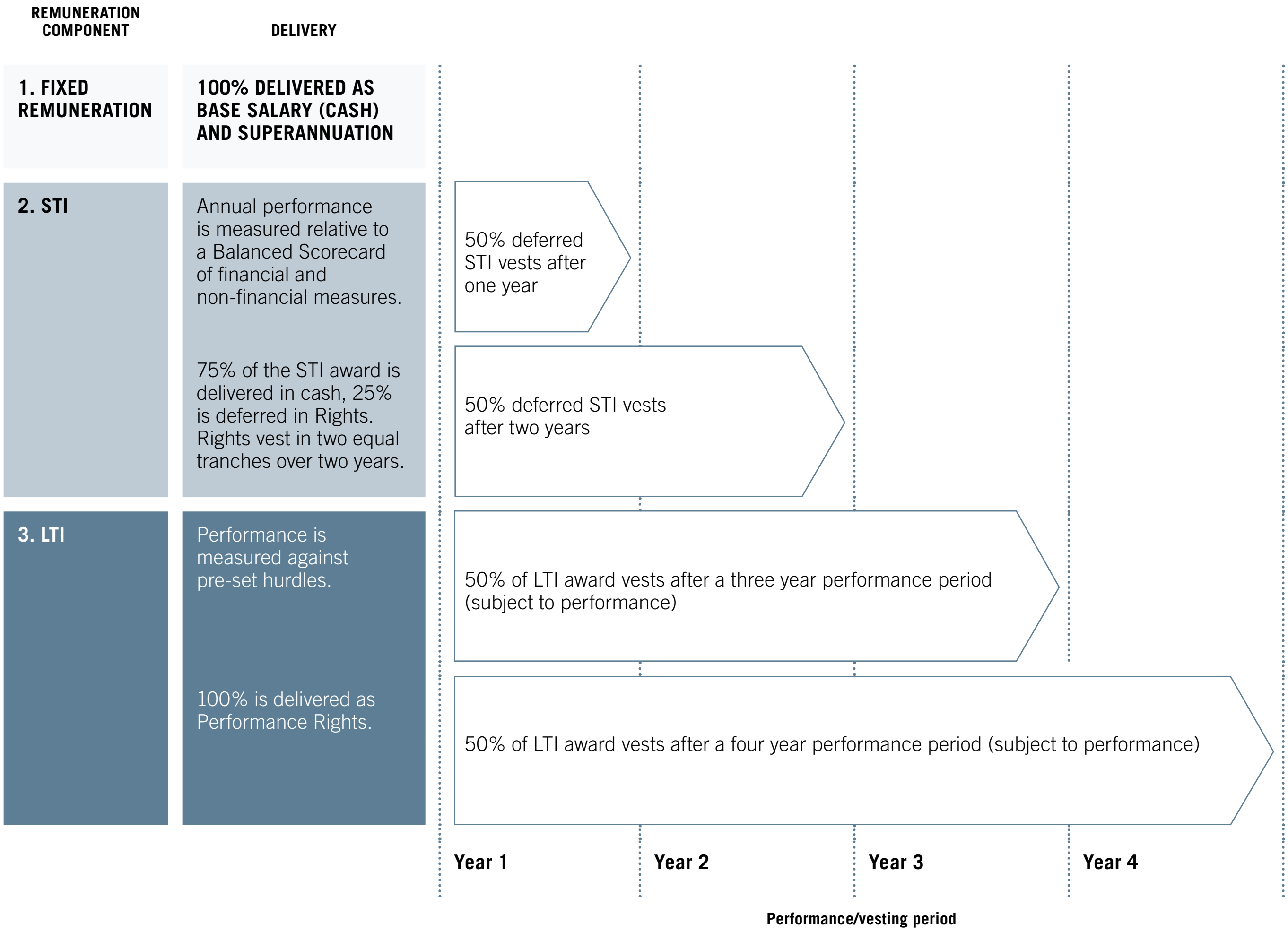
The remuneration structure for Executive KMP comprises *Fixed Remuneration* which includes base salary and statutory superannuation and *Variable 'at-risk' Remuneration*. The variable component includes *Short-Term Incentives (STI)*, an annual performance-based incentive which is delivered as cash and deferred securities, and *Long Term Incentives (LTI)*, an Annual LTI grant delivered in the form of Performance Rights which vest over a three year and four year performance period subject to the achievement of stretch performance hurdles approved by the Board. Incentive awards are scaled according to the performance of the Group, as well as business unit performance and individual effectiveness.

Other features of the Remuneration framework and approach include:

- The amount each Executive KMP can earn through the STI Plan is dependent on how they perform against a balanced scorecard of key performance indicators (KPIs) which are set at the beginning of the financial year. Each executive's performance is measured relative to their personalised balanced scorecard.
- Both financial and non-financial performance measures are used to assess performance. A proportion (namely, 25%) of the STI award is deferred into Rights to DEXUS securities to align the interests of executives and Security holders, and as a retention mechanism.
- KPIs are set with an element of stretch, which ensures that it is difficult for Executive KMP to achieve target in any category. To achieve above target performance would require exceptional performance.
- All Executive KMP participate in the LTI plan which is designed to motivate and reward executives for sustained earnings and Security holder returns and is delivered in the form of Performance Rights. The Board sets the performance conditions for the LTI plan on an annual basis. The Performance Rights vest after three and four years only if performance hurdles are met. There is no re-testing if hurdles are not met.

DIRECTORS' REPORT
REMUNERATION REPORT

The following diagram (which is not to scale) sets out the remuneration structure for Executive KMP.



The table below summarises changes that occurred for the year ending 30 June 2016 (FY16) and changes planned for the year commencing 1 July 2016 (FY17). The FY17 changes simplify our remuneration approach and improve alignment of KMPs and other Executives better to motivate and reward executives for sustained earnings and Security holder returns.

Changes from Previous Year (FY16)	
KMP changes	*Non-Executive Directors* ▪ Mr Christopher Beare retired from his position as Non-Executive Director and Chair of the Board on 28 October 2015 ▪ Mr Richard Sheppard was appointed Chair of the Board on 28 October 2015 *Executives* ▪ Mr Craig Mitchell's Finance responsibilities were transitioned to Ms Alison Harrop, Chief Financial Officer on 6 October 2015 ▪ Mrs Deborah Coakley's role was expanded to include responsibility for both People and Culture and Asset Solutions ▪ Mr Ross Du Vernet took on additional responsibilities, expanding his leadership role to include the Office and Industrial Development teams ▪ Mr Craig Mitchell, Executive Director and Chief Operating Officer, announced his resignation on 20 April 2016, effective 19 July 2016. On cessation of employment Mr Mitchell received a termination payment of $262,640 which included accrued statutory leave entitlements and compensation for deferred STI Rights which vested 1 July 2016. All other unvested Rights and Performance Rights were forfeited with a market value (assuming full vesting) of $2,310,042
Fixed remuneration increases	No increases to fixed remuneration for the Executive Director and Chief Executive Officer and Executive Director and Chief Operating Officer were made during FY16 Other Executive KMP received modest fixed remuneration increases during FY16
Short-term incentive (STI) awards	The CEO received an STI award for the year ending 30 June 2016 equal to 76% of his maximum STI potential The average STI awarded to Executive KMP (as a % of maximum STI opportunity) was 62%, which excludes Mr Mitchell who forfeited his FY16 STI award
Changes to the Coming Year (FY17)	
Changes to executive remuneration for the year commencing 1 July 2016	**Fixed remuneration** ▪ The approach to benchmarking fixed pay for Executive KMP roles was refined so that DEXUS remains competitive relative to industry peers and to companies of a similar size and complexity ▪ Effective 1 July 2016, the Board approved an increase to the CEO's fixed remuneration to become $1,600,000 per annum (+$100,000 p.a.). This represents only the second increase Mr Steinberg has received since joining the Group in March 2012 ▪ The Board has also approved increases to relevant Executive KMP following the reorganisation of the Group's senior leadership team and the expanded roles and responsibilities of a number of executives following Mr Mitchell's resignation **STI** ▪ There are no material changes to the STI plan **LTI** We reviewed our LTI plan to ensure the design was achieving the desired outcomes of aligning, rewarding and retaining KMP and other Executives The following changes will be made to future grants: ▪ **Quantum:** Following external advice and comparison of market practices we concluded the way we grant LTI awards was not competitive. Specifically, by granting at face value as opposed to fair value we were discounting materially the potentially realised awards given to KMP and other Executives by amounts estimated to range up to as much as 50%. - Face value refers to the stated value of the performance right at issuance and is a straightforward calculation. Fair value incorporates discounts for dividends forgone and the probability of vesting and results in more securities being granted to represent a particular award; and it is a more complex calculation. - In order to address the difference between property industry market practice (many peers use fair value) and the DEXUS plan (face value), the Board has approved an increase to the maximum LTI grant opportunity. The maximum LTI grant value (expressed as a percentage of fixed remuneration) will increase by 20% and DEXUS will continue to use face value methodology for calculating the number of securities to be granted. ▪ **Performance measures:** The LTI plan will be simplified to comprise two equally weighted performance hurdles, being Return on Contributed Equity (ROCE) and growth in Adjusted Funds From Operations (AFFO) per security. The four performance conditions used in previous years' LTI plan grants will continue to apply to awards already made but yet to be tested against their respective hurdles. Those measures are Relative Total Security holder Return (Relative TSR), Relative Return on Equity (Relative ROE), Adjusted Funds From Operations (AFFO) growth, and Return on Equity (ROE).

Non-Executive Director fees	
Board Chair and Director base fees	Non-Executive Director fees were reviewed relative to comparable companies, with the following changes made effective from 1 July 2016: ▪ The Board Chair's base fee increased from $375,000 to $400,000 per annum ▪ Board member base fees increased from $160,000 to $170,000 per annum ▪ There were no increases to Committee fees
Non-Executive Director minimum security holding	As at 30 June 2016 all Non-Executive Directors held more than the minimum number of securities required under the Non-Executive Director minimum security holding requirement (16,500 DXS securities).

2. Key Management Personnel

In this report, Key Management Personnel (KMP) are those individuals having the authority and responsibility for planning, directing and controlling the activities of the Group, either directly or indirectly. They comprise:

- Non-Executive Directors
- Executive Directors
- Other Executives considered KMP

Executive Directors and other Executives considered KMP are collectively referred to as "Executive KMP" in this report. The table below shows KMPs of the Group during FY15 and FY16.

Name	Position title	KMP FY15	KMP FY16
Independent Non-Executive Directors			
Christopher T Beare[1]	Non-Executive Chair	✔	Part-year
W Richard Sheppard[2]	Non-Executive Chair	✔	✔
Elizabeth A Alexander AM	Non-Executive Director	✔	✔
Penelope Bingham-Hall	Non-Executive Director	✔	✔
John C Conde AO	Non-Executive Director	✔	✔
Tonianne Dwyer	Non-Executive Director	✔	✔
Peter B St George	Non-Executive Director	✔	✔
Executive Directors			
Darren J Steinberg	Executive Director and Chief Executive Officer	✔	✔
Craig D Mitchell	Executive Director and Chief Operating Officer	✔	✔
Other Executives			
Alison C Harrop[3]	Chief Financial Officer	✘	Part-year
Ross G Du Vernet[4]	Chief Investment Officer	✔	✔
Kevin L George	Executive General Manager, Office & Industrial	✔	✔
Deborah C Coakley[5]	Executive General Manager, Customer and Marketing	✘	✔

1 Mr Beare retired from the Board and as a Non-Executive Director on 28 October 2015.
2 Mr Sheppard was appointed Chair of the Board on 28 October 2015.
3 Ms Harrop was appointed Chief Financial Officer on 6 October 2015.
4. Mr Du Vernet was appointed as Chief Investment Officer effective 1 July 2016
5. Mrs Coakley's role was expanded beyond People and Culture to include Asset Solutions. As a result of the increased scope, size and responsibility of Mrs Coakley's role she is considered to be a KMP of the Group. Mrs Coakley was appointed Executive General Manager, Customer and Marketing effective 1 July 2016

Mr Mitchell announced his resignation on 20 April 2016, effective 19 July 2016. There have been no other changes to KMP since the reporting date and prior to the date of this financial report.

3. Remuneration Governance

The Board People and Remuneration Committee is responsible for overseeing all aspects of Non-Executive Director and Executive KMP remuneration and performance. The diagram below illustrates the roles and responsibilities of the Group Board, People and Remuneration Committee, management and external advisors.

Board
Has oversight of Non-Executive Director and Executive KMP remuneration at DEXUS

People & Remuneration Committee

The objective of the People & Remuneration Committee (Committee) is to assist the Board in fulfilling its responsibilities by overseeing all aspects of Non-Executive Director and Executive KMP remuneration. The Committee also oversees aspects of People & Culture strategy and management.

The primary accountabilities of the Committee are to review and recommend to the Board:

- Executive KMP succession planning
- Executive KMP terms of appointment
- Performance and remuneration outcomes for Executive KMP
- The Group's approach to employee remuneration, including employee incentive plans
- Non-Executive Director fees, including the aggregate fee pool
- Review DEXUS's Diversity and Inclusion Principles and objectives
- Oversee People & Culture policies

The Committee comprises three independent Non-Executive Directors.

External advisors

The Committee may at its discretion appoint external advisors or instruct management to compile information for its consideration.

During the year the Committee appointed Egan Associates to provide remuneration advisory services. Egan Associates was paid $4,300 for remuneration recommendations made to the Committee and $20,000 for other advisory services, including the review of documents, attendance at meeting and general advice.

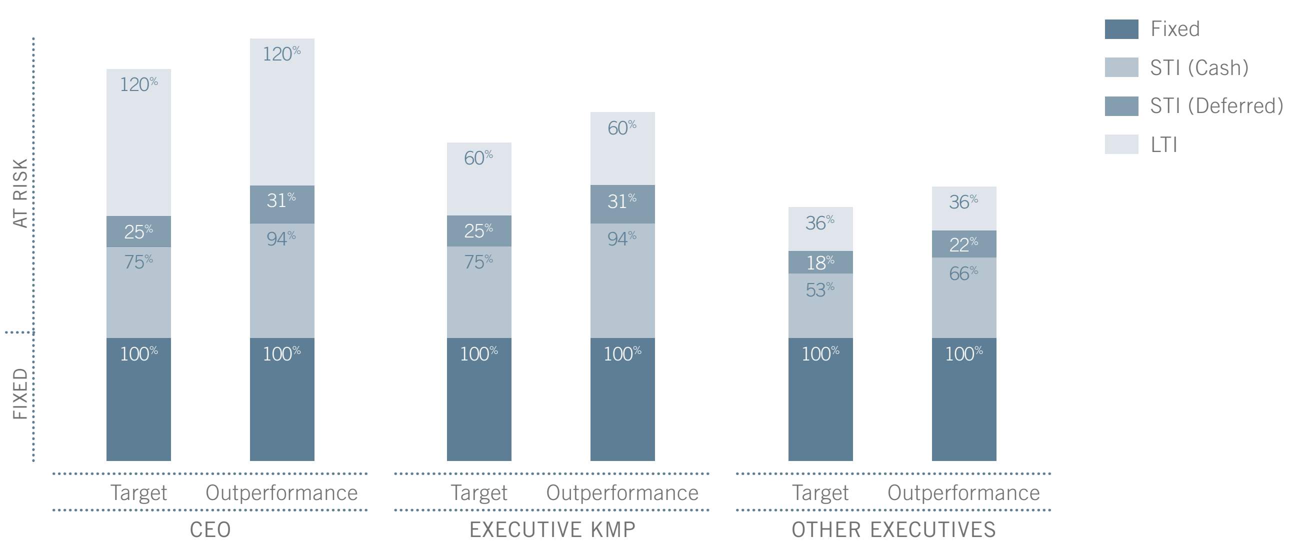
The Committee is satisfied the advice received from Egan Associates is free from undue influence from the KMP to whom the remuneration recommendations relate. Egan Associates also confirmed in writing that the remuneration recommendations were made free from undue influence by KMP.

Management
Make recommendations to the Committee regarding the Group's remuneration and People & Culture policies

Remuneration Design and Approach

The mix of remuneration components varies according to the individual's position and is determined based on the Group's remuneration principles.

The chart below shows the remuneration mix for each Executive KMP at target and outperformance (stretch) levels and is expressed as a percentage of total remuneration.



DIRECTORS' REPORT
REMUNERATION REPORT

Fixed Remuneration

Fixed remuneration includes base salary (paid in cash) and statutory superannuation.

The Board believes that Executive KMP should be rewarded at levels consistent with the responsibilities, accountabilities and complexities of the respective roles.

The Group requires, and needs to retain, an executive team with significant experience including, but not limited to:

- the office, industrial and retail property sectors
- corporate transactions, acquisitions, divestments
- property management, including securing new tenancies under contemporary lease arrangements, asset valuation and related financial structuring and property development in its widest context
- capital markets, funds management, fund raising, joint venture negotiations and the provision of advice and support to independent investment partners
- treasury, tax and compliance
- building and maintaining a high performance culture
- human capital management

The comparator groups for Executive KMP remuneration benchmarking are tailored appropriately to the particular executive's role.

For roles requiring an industry specialisation: The primary comparator group includes companies in a similar industry (Australian Real Estate Investment Trusts). A secondary comparator group which includes companies of a similar company (or business unit) size / complexity is used as an additional point of reference.

For corporate roles: The primary comparator group is based on company (or business unit) size / complexity. The secondary comparator based on industry peers and is used as an additional point of reference.

STI Plan

What is the purpose of the STI plan?	The STI plan is designed to motivate and reward Executives for their contribution to the annual financial and non-financial performance of the Group.
How does the STI plan align with the interests of DEXUS's Security holders?	The STI plan is aligned to Security holder interests in the following ways: ▪ Encourages executives to achieve year-on-year growth in a balanced and sustainable manner (i.e. through the mix of financial and non-financial performance measures). ▪ Mandatory deferral of 25% of each STI award into Rights aligns the interests of executives and Security holders and acts as a retention mechanism.
What is the target and maximum STI opportunity?	The target STI opportunity for the CEO and Executive KMP will be 100% of fixed remuneration. The target STI opportunity for other Executives will be between 70% and 100% of fixed remuneration. The maximum STI each Executive KMP can earn is 125% of target STI opportunity, and will only be awarded when outperformance is achieved. The 25% of the STI award which is deferred into Rights is subject to clawback and potential forfeiture.
What are the performance measures?	The amount each Executive KMP can earn is dependent on how they perform against a balanced scorecard of key performance indicators (KPIs) which are set at the beginning of the financial year. Each executive's performance is measured relative to their personalised balanced scorecard. Both financial and non-financial performance measures are used to assess performance. Performance is assessed relative to seven components being Group financial performance, customer, business excellence, projects, people and culture, corporate responsibility and sustainability and values and behaviour. KPIs are set with an element of stretch, which ensures that it is difficult for Executive KMP to achieve target. To achieve above target performance would require exceptional performance.
When are STI payments made?	STI payments are made in August following the sign-off of statutory accounts and announcement of the Group's annual results for the period to which the performance relates.
How much of the STI award is deferred?	25% of any award under the STI plan is deferred in the form of Rights to DXS securities. The rights vest in two equal tranches, 12 and 24 months after being granted. Rights deferred under the STI plan are subject to clawback and continued employment during the vesting period. The number of Rights awarded is based on 25% of the awarded STI value divided by the volume weighted average price (VWAP) of DXS securities 10 trading days either side of the first trading day of the new financial year.
Are distributions paid on unvested Rights awarded under the STI plan?	For the portion of STI deferred as Rights, executives are entitled to the benefit of distributions paid on the underlying DXS securities prior to vesting, through the issue of additional Rights.

When are STI awards forfeited?	Forfeiture will occur should the executive's employment terminate within 6 months of the grant date for any reason, or if the executive voluntarily resigns or is terminated for cause prior to the vesting date. Notwithstanding the above, if an executive's employment is terminated for reasons such as retirement, redundancy, reorganisation, change in control or other unforeseen circumstances, the People & Remuneration Committee may recommend to the Board that the executive should remain in the plan as a 'good leaver'.
Who has oversight of the STI plan?	The CEO monitors and assesses performance of executives as part of the Group's annual performance management cycle. The CEO makes STI recommendations to the People & Remuneration Committee, which makes a recommendation to the Board for approval. The CEO's own performance is assessed by the Board Chair, and is discussed by the People & Remuneration Committee, which makes an STI recommendation to the Board. The Board retains the right to amend, suspend or cancel the STI plan at any time.
What is changing for the FY17 STI plan?	There are no other proposed changes to the STI plan.

LTI plan

What is the purpose of the LTI plan?	The LTI plan is designed to motivate and reward executives for sustained earnings and security holder returns and is delivered in the form of Performance Rights.
How is the LTI plan aligned to security holder interests?	The LTI plan is aligned to security holders interests in the following ways: ▪ Encourages Executive KMP to make sustainable business decisions within the Board-approved strategy of the Group. ▪ Aligns the financial interests of Executive KMP to security holders through exposure to DXS securities.
Who participates in the LTI plan?	All Executive KMP and other nominated executives participate in the LTI plan.
What is the quantum of LTI grants?	The maximum LTI opportunities for the 2015 plan were 100% of fixed remuneration for the CEO and between 30% and 75% of fixed remuneration for other Executives/KMP.
How is the number of Performance Rights determined?	The number of Performance Rights granted is based on the executive's LTI grant value (expressed as a percentage of fixed remuneration) divided by the VWAP of securities ten trading days either side of the first trading day of the new financial year. The methodology computes grants based on 'face value' rather than 'fair value'.
How long is the LTI performance period?	Each grant is split into two equal tranches, with a vesting period of three and four years respectively after the grant date.
What are the LTI performance conditions?	The Board sets the performance conditions for the LTI plan on an annual basis. The four performance conditions for past grants made under the LTI plan are: **External performance conditions (50%)** ▪ 25% is based on the Group's performance against a relative Total Shareholder Return (Relative TSR) performance hurdle measured against all members of the S&P/ASX200 A-REIT Index. TSR represents an investor's return, calculated as the percentage difference between the initial amount invested and the final value of DXS securities at the end of the relevant period, assuming distributions were reinvested. ▪ 25% is based on the Group's performance against a Return on Equity (Relative ROE) performance hurdle measured against all members of the Mercer IPD Core Wholesale Property Fund Index. ROE represents the annualised composite rate of return to security holders, calculated as a percentage, comprising the change in net tangible asset value per security together with the distributions paid to security holders per security, divided by the net tangible asset value per security at the beginning on the period. **Internal performance conditions (50%)** ▪ 25% is based on the Group's performance against an Adjusted Funds From Operations (AFFO) per security growth hurdle. LTI grants made prior to the 2014 plan use Funds From Operations (FFO) measures for performance conditions. AFFO is a key measure of growth and is calculated in line with the Property Council of Australia (PCA) definition. AFFO is Funds From Operations (FFO) as per the PCA's definition adjusted for maintenance capex, incentives (including rent free incentives) given to tenants during the period and other one-off items. ▪ 25% is based on the Group's performance against a Return on Equity (ROE) performance hurdle. ROE represents the annualised composite rate of return to security holders, calculated as a percentage, comprising the change in net tangible asset value per security together with the distributions paid to security holders per security, divided by the net tangible asset value per security at the beginning on the period.

What level of performance is required for LTI awards to vest for past grants?	**Relative TSR and Relative ROE** Vesting under both the Relative TSR and Relative ROE performance conditions will be on a sliding scale reflecting performance relative to a comparator group of entities. ▪ Nil vesting for performance below the median of the comparator group ▪ 50% vesting for performance at the median of the comparator group ▪ Straight line vesting for performance between the 50th and 75th percentile ▪ 100% vesting for performance at or above the 75th percentile Relative performance is measured by an independent external advisor at 30 June each year. **AFFO growth and ROE** Vesting under both the AFFO growth and ROE measures will be on a sliding scale reflecting performance against performance conditions set by the Board. ▪ Nil vesting for below Target performance ▪ 50% vesting for Target performance ▪ Straight line vesting between Target and Outperformance ▪ 100% vesting for Outperformance AFFO Growth is the implied compound annual growth rate (CAGR) of the aggregate AFFO earnings per security in the three and four year vesting periods. ROE is measured as the per annum average at the conclusion of each vesting period. The ROE performance hurdles set by the Board are in line with DEXUS's target ROE range of 9-10% per annum through the cycle. The AFFO growth performance hurdle was determined by the Board following extensive internal forecasting and is broadly aligned with FFO growth guidance provided to the market. LTI grants made prior to the 2014 plan use FFO measures for performance conditions. Both the ROE and AFFO growth performance targets will be disclosed retrospectively at the end of the performance period.
What are the changes to the LTI Plan design from previous years?	Following a review of external practices in the market and advice on what measures will align performance better with Security holders' interests, it has been decided to simplify the LTI Plan to two hurdles based on absolute performance measures. This decision will focus the LTI plan on commercial performance that is within Executive KMP's ability to control and influence. Prospectively, the LTI Plan will be measured with reference to the existing AFFO/security performance condition and a new Return on Contributed Equity (ROCE) measure which will replace ROE. Each performance condition will be weighted 50%. The testing and vesting schedule will remain unchanged. Specifically, performance rights are divided into tranches with performance conditions and vesting date(s) set by the Board (50% tranche at Year 3 and 50% tranche at Year 4). Performance rights that fail to vest in any tranche are permanently forfeited, with no re-testing in subsequent years. Subject to meeting the performance conditions, all performance rights are automatically exercisable at vesting, or as otherwise determined or approved by the Board. There is no entitlement to dividends, interest or distribution equivalency payments with respect to performance rights during the performance period. The Board believes this simplification to two performance hurdles provides greater focus on the fundamentals of DEXUS's business and on the performance of the executive team in meeting the targets which the Board sets. If these conditions are met, the Board's view is that security holders will be rewarded, over time, by superior market performance. Additionally, with greater clarity on the long-term performance of the Group, the simplification also removes the potential favourable or unfavourable impact of macro-economic variables impacting asset valuations, as well as the composition vagaries of listed and unlisted peer groups. It is noted that the Group is currently performing well against both Relative TSR and Relative ROE performance conditions within prior year LTI plans.
What are the changes to the LTI Plan grant quantum from previous years?	Following external benchmarking and market practices on the prevalence of the use of fair value as distinct from face value for the purpose of allocating equity (and DEXUS continued use of the face value methodology which awards fewer securities than fair value methodology), and the overall quantum granted versus realised, the Board has approved an increase to the maximum LTI grant opportunity. Fair value methodology can potentially result in grants estimated to range up to as much as 50% more "rights" than face value. The maximum LTI opportunity for all participants will increase by 20% for future grants, with the CEO maximum set at 120% of fixed remuneration and 60% for other Executive KMP.
Do executives receive distributions on unvested LTI awards?	Executives are not entitled to distributions paid on underlying DXS securities during the performance period prior to Performance Rights being tested for vesting.

When are LTI awards forfeited?	If the performance conditions are not met Performance Rights relating to that tranche will be forfeited. There is no re-testing of forfeited Rights. Additionally, forfeiture will occur should the executive's employment terminate within 12 months of the grant date for any reason, or if the Executive voluntarily resigns or is terminated for cause prior to the vesting date. Notwithstanding the above, if an Executive's employment is terminated for reasons such as retirement, redundancy, re-organisation, change in control or other unforeseen circumstances, the People & Remuneration Committee may recommend for approval by the Board that the executive remain in the plan as a 'good leaver'.
How is the LTI plan administered?	The administration of the LTI plan is supported by the LTI plan rules. Executives are prevented from hedging their exposure to unvested DXS securities. Trading in DXS securities or related products is only permitted with the permission of the CEO. The Group also has Conflict of Interest and Insider Trading policies in place to support the integrity of the LTI plan, which extends to family members and associates of the executive. The Board has appointed Link Market Services as Trustee and Administrators of the DEXUS Performance Rights Plan Trust, which is the vehicle into which unvested units are purchased and held in trust for the executive pending performance assessment. The Board retains the right to amend, suspend or cancel the LTI plan at any time.

For prospective grants the hurdles will be two; ROCE and AFFO/security growth. For grants already awarded the hurdles will be four; Relative TSR, Relative ROE, Absolute ROE and AFFO/security growth.

4. Actual Executive Remuneration Received

The table below sets out cash paid as remuneration to Executive KMP, and the cash value of equity awards which vested during FY16.

The values in the table below differ from the values in the executive statutory remuneration table which has been prepared in accordance with statutory requirements and accounting standards and includes the accounting value of all unvested Rights and Performance Rights which have been awarded, but which may or may not vest.

			Earned in prior Financial Years		
Executive KMP	Cash salary ($)	Superannuation ($)	STI cash payment ($)	Market Value of vested Rights ($)	Total ($)
Darren J Steinberg	1,480,692	19,308	1,068,750	1,218,157	3,786,907
Craig D Mitchell	866,472	33,528	616,905	1,062,085	2,578,990
Ross G Du Vernet	580,692	19,308	375,000	492,832	1,467,832
Kevin L George	620,692	19,308	431,250	121,991	1,193,241
Alison C Harrop[1]	398,019	14,481	N/A	N/A	412,500
Deborah C Coakley	505,692	19,308	225,000	60,201	810,201

1 Ms Harrop became an Executive KMP on 6 October 2015. Her remuneration is therefore disclosed on a part-year basis. Her total remuneration for the financial year was $550,000

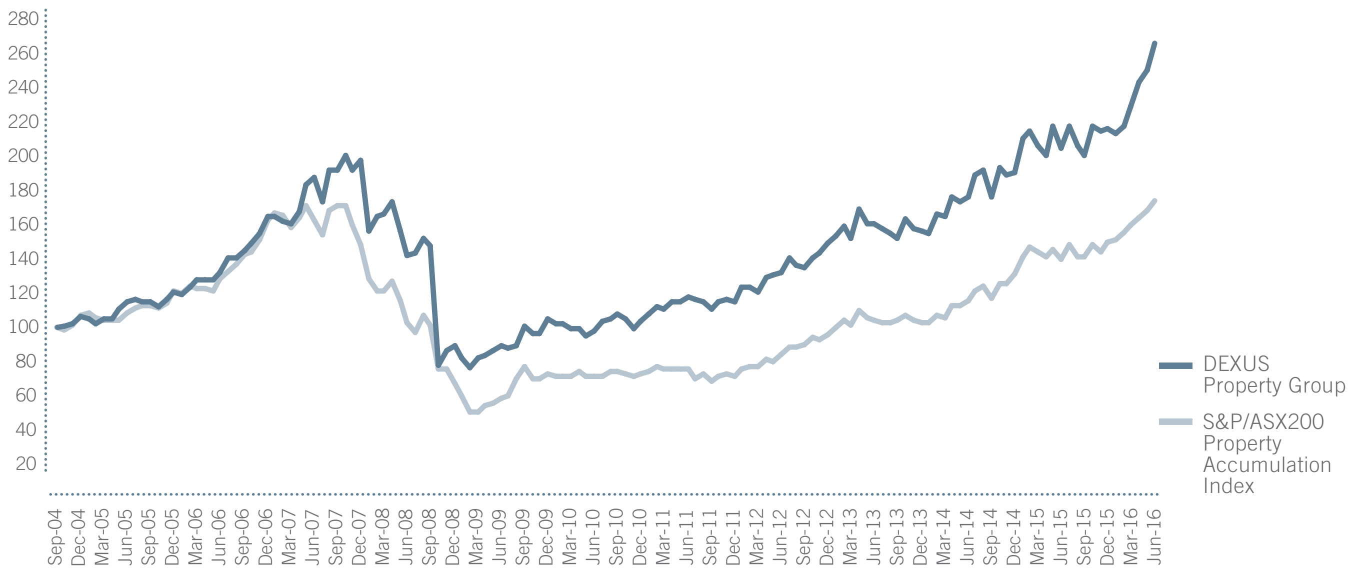
5. Group Performance and Executive Remuneration Outcomes

FY16 Highlights

Group	Property Portfolio	Third Party Funds Management	Trading	Capital Management
Delivered a 6.0% increase in FFO and distribution per security. Increased AFFO by 11.9% to $413.9 million	Leased circa 270,000 square metres of office space and completed 3 key developments in the DEXUS office portfolio	Delivered outperformance against benchmarks for clients. DWPF outperformed over 1, 3, 5 and 7 year periods.	Generated trading profits of $63.3 million post tax	Maintained balance sheet strength with gearing of 30.7%, at the lower end of the target range of 30-40%
Achieved a 30.3% one-year total security holder return and Return on Equity of 19.3%	Achieved 96.3% occupancy by income across the DEXUS office portfolio, in line with target of >95%	Raised $658 million of equity into DWPF, from both exisiting and, 10 new investors attracted to the fund	Identified and progressed six priority projects that are expected to deliver circa $110m of profits from FY17-FY20	Reduced cost of debt from 5.2% to 4.8%. Maintained high debt duration of 5.5 years as a result of securing $260 million of capital markets debt

Total Return of DEXUS Securities

The chart below illustrates DEXUS's performance against the S&P/ASX200 Property Accumulation index since listing in 2004.



Total Return Analysis

The table below sets out DEXUS's total security holder return over a one, three and five year time horizon, relative to the S&P/ASX200 Property Accumulation Index:

Year Ended 30 June 2016	1 Year (% per annum)	3 Years* (% per annum)	5 years* (% per annum)
DEXUS Property Group	30.3%	18.3%	17.8%
S&P/ASX200 Property Accumulation Index	24.6%	18.5%	18.1%

Source: UBS Australia. *Annual compound returns.

DEXUS achieved a 30.3% total return for the year ended 30 June 2016. Over a rolling three year basis, DEXUS marginally underperformed the S&P/ASX200 Property Accumulation index.

Individual Performance Assessment – Balanced Scorecard

Prior to the commencement of each financial year, the Board approves the Group's strategic and operational objectives which are then translated into a series of financial and non-financial KPIs. Each Executive KMP's Balanced Scorecard is agreed based on these indicators.

The CEO's Scorecard was divided into seven components – Group financial performance, customer, business excellence, projects, people and culture, corporate responsibility and sustainability and values and behaviour. For each of the components the CEO has objectives and specific initiatives set for that year. The Scorecards are agreed with the Executive KMP at the beginning of the year, using the same scorecard approach, but with different weightings based on the individual's role and responsibilities within the Group. Progress is reviewed at the half year and assessed for performance awards at the end of the year.

The table below summarises the CEO's performance relative to his Balanced Scorecard for the year ended 30 June 2016:

Category & Principal KPIs	CEO weighting	Group Result	Performance Detail
Group Financial Performance Funds From Operations (FFO), Underlying FFO, Adjusted Funds from Operations (AFFO), Return on Equity (ROE), trading profits, Funds Management performance	50%	At target	The Board has determined that Group Financial Performance is at target, due to AFFO and ROE exceeding targets and FFO, underlying FFO and trading profits at the upper end of market guidance.
Customer Customer strategy in place, tenant retention focus, unlisted investor confidence	10%	At target	Continued implementation of customer strategy with the rollout of initiatives such as DEXUS Place and suites strategy across east coast CBD markets. This assisted in an increase in office portfolio occupancy to 96.3% and office retention of 62%. Unlisted investor confidence demonstrated through $658 million of equity attracted to DWPF, resulting in the addition of 10 new investors into the Fund.
Business Excellence Lead overall business strategy, continuous improvement and process simplification	10%	Above target	Continued rollout of business excellence initiatives resulted in launch of Leasing Management System and market leading short form lease documentation (reducing standard lease from 75 to 25 pages).
Projects Define and implement projects and initiatives to support overall business strategy	10%	At target	Continued implementation of the Finance Program, a technology solution that will improve the reporting process, and developed a new corporate website (www.dexus.com) with a customer (tenant) focus to assist in attracting new customers.
People & Culture Develop a diverse and inclusive culture, enhance performance management processes, implement flexible working practices	10%	Above target	84% employee engagement score in latest survey with 97% of DEXUS people proud to be associated with DEXUS. Performance management process enhanced into a scorecard process with regular manager check-ins. All-people flex policy launched to promote flexible working arrangements.
Corporate Responsibility and Sustainability (CR&S) Annual CR&S commitments delivered, future proof leadership, succession planning, development and risk plans, retain and attract new talent	5%	Above target	Delivered on all FY16 CR&S commitments. Rigour of succession planning reflected through Chair and COO departure. Attracted new Group General Managers to the platform.
Values and Behaviours Role model on values, leadership behaviours, collaboration and inclusiveness	5%	Above target	Active member of Property Male Champions of Change (PMCC), a Property Council of Australia (PCA) initiative to drive diversity in the property industry. CEO is Chair of the Corporate Responsibility, Inclusion & Diversity Committee, which was involved in establishing five wellbeing communities across the Group.

STI Awards

The following table summarises the STI awards made to each Executive KMP with respect to their performance during the year ended 30 June 2016. Application of the KPIs against the Balanced Scorecards resulted in no executive achieving the maximum possible STI.

Executive KMP	STI award ($)	% of maximum STI awarded	% of maximum STI forfeited	% of STI award deferred
Darren J Steinberg	1,425,000	76%	24%	25%
Craig D Mitchell[1]	N/A	N/A	100%	–
Ross G Du Vernet	540,000	72%	28%	25%
Kevin L George	548,000	68%	32%	25%
Alison C Harrop	382,000	60%	40%	25%
Deborah C Coakley	420,000	64%	36%	25%

1 Mr Mitchell's FY16 STI award was forfeited in accordance with the terms of his employment contract.

Deferred STI and LTI Grants

The number of Rights granted to Executive KMP is determined by dividing the Deferred STI value and LTI grant value by the VWAP of DXS securities ten trading days either side of 1 July 2016, which was $9.1402.

The table below shows the number of Rights granted to Executive KMP under the Deferred STI and LTI plans (details of which are provided earlier in this report).

Executive KMP	Plan name	Number of Rights granted	Grant date	1st Vesting Date 50%	2nd Vesting Date 50%
Darren J Steinberg	Deferred STI	38,976	1 July 2016	1 July 2017	1 July 2018
	LTI	196,932	1 July 2016	1 July 2019	1 July 2020
Ross G Du Vernet	Deferred STI	14,770	1 July 2016	1 July 2017	1 July 2018
	LTI	39,386	1 July 2016	1 July 2019	1 July 2020
Kevin L George	Deferred STI	14,879	1 July 2016	1 July 2017	1 July 2018
	LTI	42,012	1 July 2016	1 July 2019	1 July 2020
Alison C Harrop	Deferred STI	10,448	1 July 2016	1 July 2017	1 July 2018
	LTI	36,104	1 July 2016	1 July 2019	1 July 2020
Deborah C Coakley	Deferred STI	11,488	1 July 2016	1 July 2017	1 July 2018
	LTI	34,463	1 July 2016	1 July 2019	1 July 2020

DXS securities relating to Deferred STI and LTI grants are purchased on-market in accordance with *ASX Listing Rule 10.15B* and are held by the DEXUS Performance Rights Plan Trust until required after a scheduled vesting date.

6. Executive Statutory Remuneration

The amounts shown in this table are prepared in accordance with AASB 124 *Related Party Disclosures* and do not represent actual cash payments received by Executives which is outlined in the Actual executive remuneration received table. Amounts shown under Long Term Benefits reflect the accounting expense recorded during the year with respect to prior year deferred remuneration and awards that have or are yet to vest. For performance payments and awards made with respect to the year ended 30 June 2016, refer to the Group performance and executive remuneration outcomes section of this report.

		Short term benefits			Post-employment benefits	Share based & long term benefits			
Executive KMP	Year	Cash salary ($)	STI cash award[2] ($)	Other short term benefits ($)	Pension & super benefits[3] ($)	Deferred STI plan accrual[4] ($)	Transition plan accrual[5] ($)	LTI plan accrual[6] ($)	Total ($)
Darren J Steinberg	**2016**	1,480,692	1,068,750	–	19,308	370,221	–	1,075,601	4,014,572
	2015	1,481,217	1,068,750	–	18,783	430,168	104,853	748,595	3,852,366
Craig D Mitchell	**2016**	866,472	–	–	33,528	100,489	–	–	1,000,489
	2015	866,997	607,500	–	33,003	231,836	124,825	295,273	2,159,434
Ross G Du Vernet	**2016**	580,692	405,000	–	19,308	139,730	–	207,889	1,352,619
	2015	531,217	375,000	–	18,783	155,454	49,930	142,487	1,272,871
Kevin L George	**2016**	620,692	408,000	–	19,308	135,543	–	250,329	1,433,872
	2015	616,417	431,250	–	23,583	131,628	–	180,568	1,383,446
Like for Like Sub-Total	**2016**	3,548,548	1,881,750	–	91,452	745,983	–	1,533,819	7,801.552
	2015	3,495,848	2,482,500	–	94,152	949,086	279,608	1,366,923	8,668,117
Alison C Harrop[1]	**2016**	398,019	214,875	–	14,481	30,158	–	44,963	702,496
Deborah C Coakley	**2016**	505,692	315,000	–	19,308	44,210	–	57,226	941,436
Total	**2016**	4,452,259	2,411.625	–	125,241	820,351	–	1,636,008	9,445,484

1 Ms Harrop became an Executive KMP on 6 October 2015. Her remuneration is therefore disclosed on a part-year basis. Her total remuneration for the full financial year was $799,161.
2 FY16 annual cash STI performance award, payable in August 2016.
3 Includes employer contributions to superannuation under superannuation guarantee legislation and salary sacrifice amounts.
4 Reflects the accounting expense accrued during the financial year in relation to FY14, FY15 and FY16 Deferred STI plans.
5 Reflects the accounting expense accrued during the financial year in relation to the FY12 Transition plan.
6 Reflects the accounting expense accrued during the financial year in relation to the 2013, 2014, 2015 and 2016 LTI plans.

Deferred STI and Transitional Awards Which Vested During FY16

The table below shows the number of Rights which vested under the Deferred STI and Transition Plan during FY16. All Rights vested on 1 July 2015. With regard to the Transition Plan, the Board granted these one-off Rights to Executives, with respect to performance during the year ended 30 June 2012, as a transitional measure towards the adoption of the Group's new remuneration framework which came into effect 1 July 2012. For further information regarding the Transition Plan please refer to the 2015 Annual Report.

Executive KMP	Plan name	Grant date	Tranche	Number of Rights which vested	Market Value at vesting[1] ($)
Darren J Steinberg	Deferred STI	1 July 2014	1	33,884	260,087
		1 July 2013	2	38,070	292,218
	Transition Plan	1 July 2012	–	86,747	665,853
Craig D Mitchell	Deferred STI	1 July 2014	1	18,781	144,167
		1 July 2013	2	16,316	125,238
	Transition Plan	1 July 2012	–	103,270	792,680
Ross G Du Vernet	Deferred STI	1 July 2014	1	14,522	111,775
		1 July 2013	2	8,376	63,985
	Transition Plan	1 July 2012	–	41,308	317,072
Kevin L George	Deferred STI	1 July 2014	1	8,714	68,591
		1 July 2013	2	7,179	53,401
Alison C Harrop	Deferred STI	1 July 2014	1	*	*
		1 July 2013	2	*	*
Deborah C Coakley	Deferred STI	1 July 2014	1	7,842	60,201
		1 July 2013	2	*	*

1 Market Value at vesting is the VWAP of DXS securities for the five day period before the vesting date.
* Ms Harrop and Mrs Coakley were not employed at the time of grant.

Unvested Deferred STI Awards

The table below shows the number of unvested Rights held by Executive KMP as at 30 June 2016 under the deferred STI plan.

Executive KMP	Grant date	Vesting Date	Tranche	Number of Rights
Darren J Steinberg	1/07/2014	1/07/2016	2	32,179
	1/07/2015	1/07/2016	1	24,151
	1/07/2015	1/07/2017	2	24,151
Craig D Mitchell	1/07/2014	1/07/2016	2	17,836
	1/07/2015	1/07/2016	1	13,728
	1/07/2015	1/07/2017	2	Forfeited
Ross G Du Vernet	1/07/2014	1/07/2016	2	13,791
	1/07/2015	1/07/2016	1	8,474
	1/07/2015	1/07/2017	2	8,474
Kevin L George	1/07/2014	1/07/2016	2	8,274
	1/07/2015	1/07/2016	1	9,745
	1/07/2015	1/07/2017	2	9,745
Alison C Harrop	1/07/2014	1/07/2016	2	N/A
	1/07/2015	1/07/2016	1	2,034
	1/07/2015	1/07/2017	2	2,034
Deborah C Coakley	1/07/2014	1/07/2016	2	7,447
	1/07/2015	1/07/2016	1	5,084
	1/07/2015	1/07/2017	2	5,084

Unvested LTI Awards

The table below shows the number of unvested Performance Rights held by Executive KMP as at 30 June 2016 under the LTI plan.

Executive KMP	Grant date	Vesting Date	Tranche	Number of Rights
Darren J Steinberg	1/07/2013	1/07/2016	1	94,015
	1/07/2013	1/07/2017	2	94,015
	1/07/2014	1/07/2017	1	102,971
	1/07/2014	1/07/2018	2	102,971
	1/07/2015	1/07/2018	1	101,689
	1/07/2015	1/07/2019	2	101,689
Craig D Mitchell	1/07/2013	1/07/2016	1	Forfeited
	1/07/2013	1/07/2017	2	Forfeited
	1/07/2014	1/07/2017	1	Forfeited
	1/07/2014	1/07/2018	2	Forfeited
	1/07/2015	1/07/2018	1	Forfeited
	1/07/2015	1/07/2019	2	Forfeited
Ross G Du Vernet	1/07/2013	1/07/2016	1	19,751
	1/07/2013	1/07/2017	2	19,751
	1/07/2014	1/07/2017	1	18,388
	1/07/2014	1/07/2018	2	18,388
	1/07/2015	1/07/2018	1	18,643
	1/07/2015	1/07/2019	2	18,643
Kevin L George	1/07/2013	1/07/2016	1	27,177
	1/07/2013	1/07/2017	2	27,177
	1/07/2014	1/07/2017	1	22,985
	1/07/2014	1/07/2018	2	22,985
	1/07/2015	1/07/2018	1	21,694
	1/07/2015	1/07/2019	2	21,694
Alison C Harrop	1/07/2013	1/07/2016	1	N/A
	1/07/2013	1/07/2017	2	N/A
	1/07/2014	1/07/2017	1	N/A
	1/07/2014	1/07/2018	2	N/A
	1/07/2015	1/07/2018	1	11,186
	1/07/2015	1/07/2019	2	11,186
Deborah C Coakley	1/07/2013	1/07/2016	1	9,480
	1/07/2013	1/07/2017	2	9,480
	1/07/2014	1/07/2017	1	8,826
	1/07/2014	1/07/2018	2	8,826
	1/07/2015	1/07/2018	1	9,660
	1/07/2015	1/07/2019	2	9,660

7. Executive Service Agreements

Executive service agreements detail the individual terms and conditions of employment applying to the Executive KMP of the Group. The quantum and structure of remuneration arrangements are detailed elsewhere in this report, with the termination scenarios and other key employment terms detailed below:

CEO

	Terms
Employment agreement	An ongoing Executive Service Agreement.
Termination by the CEO	Termination by Mr Steinberg requires a 6 month notice period. The Group may choose to place Mr Steinberg on 'leave' or make a payment in lieu of notice at the Board's discretion. All unvested STI and LTI awards are forfeited in this circumstance.
Termination by the Group without cause	If the Group terminates Mr Steinberg without cause, Mr Steinberg is entitled to a payment of 12 months Fixed Remuneration. The Board may (in its absolute discretion) also approve a pro-rata STI or LTI award based on part-year performance. Depending on the circumstances, the Board has the ability to treat Mr Steinberg as a 'good leaver', which may result in Mr Steinberg's retaining some or all of his unvested STI and LTI.
Termination by the Group with cause	No notice or severance is payable in this circumstance.
Other contractual provisions and restrictions	Mr Steinberg's Executive Service Agreement includes standard clauses covering intellectual property, confidentiality, moral rights and disclosure obligations.

All Other Executive KMP

	Terms
Employment agreement	An ongoing Executive Service Agreement or Individual Contract.
Termination by the Executive	Termination by the Executive requires a 3 month notice period. The Group may choose to place the Executive on 'leave' or make a payment in lieu of notice at the Board's discretion. All unvested STI and LTI awards are forfeited in this circumstance.
Termination by the Group without cause	If the Group terminates the Executive without cause, the Executive is entitled to a combined notice and severance payment of 12 months Fixed Remuneration. The Board may (in its absolute discretion) also approve a pro-rata STI or LTI award based on part-year performance. Depending on the circumstances, the Board has the ability to treat the Executive as a 'good leaver', which may result in the Executive retaining some or all of his unvested STI and LTI.
Termination by the Group with cause	No notice or severance is payable in this circumstance.
Other contractual provisions and restrictions	The Executive Service Agreement includes standard clauses covering intellectual property, confidentiality, moral rights and disclosure obligations.

Termination Payments

Mr Mitchell's resignation, announced on 20 April 2016, was effective on 19 July 2016. Mr Mitchell received a termination payment of $262,640 at the time his employment ceased which included accrued statutory leave entitlements and cash compensation for deferred STI Rights which vested on 1 July 2016.

All other unvested Rights and Performance Rights, and 2016 STI award were forfeited in accordance with the STI and LTI plan rules and the terms of his employment contract.

8. Non-Executive Director Fees

Non-Executive Directors' fees are reviewed annually by the Committee using information from a variety of sources, including:

- Publicly available remuneration data from ASX listed companies with similar market capitalisation and complexity
- Publicly available remuneration data from A-REITs
- Information supplied by external remuneration advisors, including Egan Associates

Other than the Chair who receives a single base fee, Non-Executive Directors receive a base fee plus additional fees for membership of Board Committees. Non-Executive Directors do not participate in incentive plans or receive any retirement benefits other than statutory superannuation contributions. Fees were reviewed during the year and increased effective 1 July 2016. The Board Chair's base fee was increased to $400,000 and Board members base fee was increased to $170,000. There was no change to the Committee Chair or Member fees.

The table below outlines the Board fee structure (inclusive of statutory superannuation contributions) for the year ended 30 June 2016.

Committee	Chair ($)	Member ($)
Director's Base Fee (DXFM)	375,000*	160,000
Board Risk Committee	30,000	15,000
Board Audit Committee	30,000	15,500
Board Nomination Committee	15,000	7,500
Board People and Remuneration Committee	30,000	15,000
DWPL Board	45,000	22,500

* The Chair receives a single fee for his service, including service on Board Committees.

Total fees paid to Non-Executive Directors for the year ended 30 June 2016 remained within the aggregate fee pool of $2,200,000 per annum which was approved by security holders at the AGM in October 2014. The Board will not be seeking an increase to the aggregate Non-Executive Director fee pool at the 2016 AGM.

Non-Executive Director Minimum Security Holding

Non-Executive Directors are required to hold a minimum of 16,500 DXS securities. Newly appointed Directors are required to acquire the minimum security holding within three years of their appointment.

Securities held by Non-Executive Directors are subject to the Group's security and insider trading policies. No additional remuneration is provided to Directors to purchase these securities.

As at 30 June 2016, all Directors met the minimum security holding requirement. The relevant interests of each Non-Executive Director in DXS stapled securities are shown below.

Non-Executive Director	Number of securities held at 30 June 2016
W Richard Sheppard	70,090
Elizabeth A Alexander AM	16,667
Penelope Bingham-Hall	16,534
John C Conde AO	16,667
Tonianne Dwyer	16,667
Peter B St George	17,333

Non-Executive Directors Statutory Remuneration Table

The amounts shown in this table are prepared in accordance with AASB 124 Related Party Disclosures. The table is a summary of the actual cash and benefits received by each Non-executive Directors for the years ended 30 June 2016 and 30 June 2015.

Non-executive Director	Year	Short Term Benefits ($)	Post Employment Benefits ($)	Other Long Term Benefits ($)	Total ($)
Christopher T Beare	**2016**	116,283	6,436	–	122,719
	2015	356,217	18,783	–	375,000
W Richard Sheppard	**2016**	303,653	18,945	–	322,598
	2015	191,781	18,219	–	210,000
Elizabeth A Alexander AM	**2016**	200,913	17,496	–	218,409
	2015	201,683	18,317	–	220,000
Penelope Bingham-Hall	**2016**	173,516	16,484	–	190,000
	2015	168,950	18,147	–	187,097
John C Conde AO	**2016**	180,365	17,135	–	197,500
	2015	179,224	17,026	–	196,250
Tonianne Dwyer	**2016**	208,192	19,308	–	227,500
	2015	205,596	18,764	–	224,359
Peter B St George	**2016**	182,804	17,366	–	200,170
	2015	171,233	16,267	–	187,500
Total	**2016**	1,365,726	113,170	–	1,478,896
	2015	1,474,684	125,523	–	1,600,207

4. DIRECTORS' RELEVANT INTERESTS

The relevant interests of each Director in DXS stapled securities as at the date of this Directors' Report are shown below:

Directors	No. of securities
Elizabeth A Alexander, AM	16,667
Penny Bingham-Hall	16,534
John C Conde, AO	16,667
Tonianne Dwyer	16,667
W Richard Sheppard	70,090
Darren J Steinberg	872,996[1]
Peter B St George	17,334

1 Includes interests held directly and through performance rights (refer note 21).

5. OPERATING AND FINANCIAL REVIEW

Information on the operations and financial position of the Group and its business strategies and prospects is set out in the operating and financial review on pages 17-28 of this Annual Report.

6. DIRECTORS' DIRECTORSHIPS IN OTHER LISTED ENTITIES

The following table sets out directorships of other ASX listed entities (unless otherwise stated), not including DXFM, held by the Directors at any time in the three years immediately prior to the end of the year, and the period for which each directorship was held:

Director	Company	Date appointed	Date resigned
Christopher T Beare	Flexigroup Limited	1 July 2014	10 August 2015
Elizabeth A Alexander, AM	Medibank Private Limited[1]	31 October 2008	
Penny Bingham-Hall	Bluescope Steel Limited	29 March 2011	
John C Conde, AO	Whitehaven Coal Limited Cooper Energy Limited	3 May 2007 25 February 2013	
Tonianne Dwyer	Cardno Limited Metcash Limited	25 June 2012 24 June 2014	27 January 2016
W Richard Sheppard	Star Entertainment Group[2]	21 November 2012	
Peter B St George	First Quantum Minerals Limited[3]	20 October 2003	

1 Listed for trading on the Australian Securities Exchange since 24 November 2014.
2 Formerly Echo Entertainment Group.
3 Listed for trading on the Toronto Stock Exchange in Canada and the London Stock Exchange in the United Kingdom.

7. PRINCIPAL ACTIVITIES

During the year the principal activity of the Group was to own, manage and develop high quality real estate assets and manage real estate funds on behalf of third party investors. There were no significant changes in the nature of the Group's activities during the year.

8. TOTAL VALUE OF TRUST ASSETS

The total value of the assets of the Group as at 30 June 2016 was $11,782.8 million (2015: $10,025.6 million). Details of the basis of this valuation are outlined in the Notes to the Financial Statements and form part of this Directors' Report.

9. LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

In the opinion of the Directors, disclosure of any further information regarding business strategies and future developments or results of the Group, other than the information already outlined in this Directors' Report or the Financial Statements accompanying this Directors' Report would be unreasonably prejudicial to the Group.

10. SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

The Directors are not aware of any matter or circumstance not otherwise dealt with in this Directors' Report or the Financial Statements that has significantly or may significantly affect the operations of the Group, the results of those operations, or the state of the Group's affairs in future financial years.

11. MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

Since the end of the financial year the Directors are not aware of any matter or circumstance not otherwise dealt with in this Directors' Report or the Financial Statements that has significantly or may significantly affect the operations of the Group, the results of those operations, or the state of the Group's affairs in future financial years.

12. DISTRIBUTIONS

Distributions paid or payable by the Group for the year ended 30 June 2016 were 43.51 cents per security (2015: 41.04 cents per security) as outlined in note 7 of the Notes to the Financial Statements.

13. DXFM FEES

Details of fees paid or payable by the Group to DXFM and are eliminated on consolidation for the year ended 30 June 2016 are outlined in note 22 of the Notes to the Financial Statements and form part of this Directors' Report.

DIRECTORS' REPORT

14. INTERESTS IN DXS SECURITIES

The movement in securities on issue in the Group during the year and the number of securities on issue as at 30 June 2016 are detailed in note 15 of the Notes to the Financial Statements and form part of this Directors' Report.

Details of the number of interests in the Group held by DXFM or its associates as at the end of the financial year are outlined in note 22 of the Notes to the Financial Statements and form part of this Directors' Report.

The DXFM Board has approved a grant of performance rights to DXS stapled securities to eligible participants. Awards, via the 2012 Transitional Performance Rights Plan, Deferred Short Term Incentive Plans (DSTI) and Long Term Incentive Plans (LTI). Details of the performance rights awarded during the financial year are detailed in note 21. The Group did not have any options on issue as at 30 June 2016 (2015: nil).

15. ENVIRONMENTAL REGULATION

The Group's senior management, through its Board Risk Committee, oversees the policies, procedures and systems that have been implemented to ensure the adequacy of its environmental risk management practices. It is the opinion of this Committee that adequate systems are in place for the management of its environmental responsibilities and compliance with its various licence requirements and regulations. Further, the Committee is not aware of any material breaches of these requirements.

16. INDEMNIFICATION AND INSURANCE

The insurance premium for a policy of insurance indemnifying Directors, officers and others (as defined in the relevant policy of insurance) is paid by DEXUS Holdings Pty Limited (DXH).

PricewaterhouseCoopers (PwC or the Auditor), is indemnified out of the assets of the Group pursuant to the DEXUS Specific Terms of Business agreed for all engagements with PwC, to the extent that the Group inappropriately uses or discloses a report prepared by PwC. The Auditor, PwC, is not indemnified for the provision of services where such an indemnification is prohibited by the *Corporations Act 2001*.

17. AUDIT

17.1 Auditor

PricewaterhouseCoopers continues in office in accordance with section 327 of the *Corporations Act 2001*. In accordance with section 324DAA of the *Corporations Act 2001*, the Group's lead auditor and review auditor must be rotated every five years unless the Board grants approval to extend the term for up to a further two years.

During the year, the Board granted approval to extend the term of the current lead auditor for one year, to include the audit for the year ending 30 June 2017 in light of the business and operational changes undertaken by the Group which are ongoing and are expected to impact the 2017 audit.

17.2 Non-audit services

The Group may decide to employ the Auditor on assignments, in addition to their statutory audit duties, where the Auditor's expertise and experience with the Group are important.

Details of the amounts paid or payable to the Auditor for audit and non-audit services provided during the year are set out in note 19 of the Notes to the Financial Statements.

The Board Audit Committee is satisfied that the provision of non-audit services provided during the year by the Auditor (or by another person or firm on the Auditor's behalf) is compatible with the standard of independence for auditors imposed by the *Corporations Act 2001*.

The reasons for the Directors being satisfied are:

- A Charter of Audit Independence provides guidelines under which the Auditor may be engaged to provide non-audit services without impairing the Auditor's objectivity or independence.
- The Charter states that the Auditor will not provide services where the Auditor may be required to review or audit its own work, including:
  - the preparation of tax provisions, accounting records and financial statements;
  - the design, implementation and operation of information technology systems;
  - the design and implementation of internal accounting and risk management controls;
  - conducting valuation, actuarial or legal services;
  - consultancy services that include direct involvement in management decision making functions;
  - investment banking, borrowing, dealing or advisory services;
  - acting as trustee, executor or administrator of a trust or estate;
  - prospectus independent expert reports and being a member of the due diligence committee; and
  - providing internal audit services.
- The Board Audit Committee regularly reviews the performance and independence of the Auditor and whether the independence of this function has been maintained having regard to the provision of non-audit services. The Auditor has provided a written declaration to the Board regarding its independence at each reporting period, and Board Audit Committee approval is required before the engagement of the Auditor to perform any non-audit service for a fee in excess of $100,000.

The above Directors' statements are in accordance with the advice received from the Board Audit Committee.

17.3 Auditor's Independence Declaration

A copy of the Auditor's Independence Declaration as required under section 307C of the *Corporations Act 2001* is set out on page 51 and forms part of this Directors' Report.

18. CORPORATE GOVERNANCE

DXFM's Corporate Governance Statement is available at www.dexus.com/governance.

19. ROUNDING OF AMOUNTS AND CURRENCY

The Group is a registered scheme of the kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, issued by the Australian Securities & Investments Commission, relating to the rounding off of amounts in this Directors' Report and the Financial Statements. Amounts in this Directors' Report and the Financial Statements have been rounded off in accordance with that Corporations Instrument to the nearest tenth of a million dollars, unless otherwise indicated. All figures in this Directors' Report and the Financial Statements, except where otherwise stated, are expressed in Australian dollars.

20. DIRECTORS' AUTHORISATION

The Directors' Report is made in accordance with a resolution of the Directors. The Financial Statements were authorised for issue by the Directors on 16 August 2016. The Directors have the power to amend and reissue the Financial Statements.

W Richard Sheppard
Chair
16 August 2016

Darren J Steinberg
Chief Executive Officer
16 August 2016

AUDITOR'S INDEPENDENCE DECLARATION

pwc

Auditor's Independence Declaration

As lead auditor for the audit of DEXUS Diversified Trust for the year ended 30 June 2016, I declare that to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of DEXUS Diversified Trust and the entities it controlled during the period.

E A Barron
Partner
PricewaterhouseCoopers

Sydney
16 August 2016

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2016

	Note	2016 $m	2015 $m
Revenue from ordinary activities			
Property revenue	2	**554.9**	548.8
Proceeds from sale of inventory	10	**204.7**	220.1
Interest revenue		**0.6**	0.4
Management fee revenue		**105.3**	89.6
Total revenue from ordinary activities		**865.5**	858.9
Net fair value gain of investment properties		**452.1**	130.4
Share of net profit of investments accounted for using the equity method	9	**525.5**	252.1
Net gain on sale of investment properties		**1.0**	–
Net fair value gain of derivatives		**106.4**	17.4
Total income		**1,950.5**	1,258.8
Expenses			
Property expenses	2	**(152.7)**	(142.8)
Cost of sale of inventory	10	**(114.3)**	(172.2)
Finance costs	4	**(171.3)**	(192.4)
Net loss on sale of investment properties		**–**	(3.0)
Net fair value loss of interest bearing liabilities		**(110.8)**	(15.9)
Transaction costs		**(7.1)**	–
Management operations, corporate and administration expenses	3	**(91.1)**	(86.4)
Total expenses		**(647.3)**	(612.7)
Foreign currency translation reserve transfer on disposal of foreign operations		**–**	(2.1)
Profit/(loss) before tax		**1,303.2**	644.0
Tax expense	5(a)	**(43.4)**	(25.3)
Profit/(loss) for the year		**1,259.8**	618.7
Other comprehensive income/(loss):			
Items that may be reclassified to profit or loss:			
Exchange differences on translating foreign operations		**–**	(0.3)
Foreign currency translation reserve transfer on disposal of foreign operations		**–**	2.1
Changes in the fair value of cash flow hedges	16(a)	**0.5**	17.9
Total comprehensive income/(loss) for the year		**1,260.3**	638.4
Profit/(loss) for the year attributable to:			
Unitholders of the parent entity		**259.5**	174.7
Unitholders of other stapled entities (non-controlling interests)		**1,000.3**	444.0
Profit/(loss) for the year		**1,259.8**	618.7
Total comprehensive income/(loss) for the year attributable to:			
Unitholders of the parent entity		**260.0**	192.6
Unitholders of other stapled entities (non-controlling interests)		**1,000.3**	445.8
Total comprehensive income/(loss) for the year		**1,260.3**	638.4

		Cents	Cents
Earnings per unit on profit/(loss) attributable to unitholders of the parent entity			
Basic earnings per unit	6	**26.79**	19.08
Diluted earnings per unit	6	**26.79**	19.08
Earnings per stapled security on profit/(loss) attributable to stapled security holders			
Basic earnings per security	6	**130.06**	67.58
Diluted earnings per security	6	**130.06**	67.58

The above Consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2016

	Note	2016 $m	2015 $m
Current assets			
Cash and cash equivalents	17(a)	**18.1**	13.0
Receivables	17(b)	**81.9**	55.5
Non-current assets classified as held for sale	11	**651.2**	5.5
Inventories	10	**74.2**	110.3
Derivative financial instruments	12(c)	**38.6**	15.2
Other	17(c)	**11.1**	27.3
Total current assets		**875.1**	226.8
Non-current assets			
Investment properties	8	**6,419.5**	6,207.3
Plant and equipment		**16.5**	11.3
Inventories	10	**201.8**	164.5
Investments accounted for using the equity method	9	**3,520.2**	2,795.9
Derivative financial instruments	12(c)	**438.5**	316.1
Intangible assets	18	**307.1**	301.4
Other		**4.1**	2.3
Total non-current assets		**10,907.7**	9,798.8
Total assets		**11,782.8**	10,025.6
Current liabilities			
Payables	17(d)	**116.8**	110.7
Current tax liabilities		**40.1**	4.2
Interest bearing liabilities	13	**316.0**	150.0
Provisions	17(e)	**220.8**	231.1
Derivative financial instruments	12(c)	**4.4**	8.3
Total current liabilities		**698.1**	504.3
Non-current liabilities			
Interest bearing liabilities	13	**3,370.8**	2,624.0
Derivative financial instruments	12(c)	**106.3**	108.1
Deferred tax liabilities	5(d)	**6.5**	6.4
Provisions		**1.7**	2.1
Other		**3.1**	3.4
Total non-current liabilities		**3,488.4**	2,744.0
Total liabilities		**4,186.5**	3,248.3
Net assets		**7,596.3**	6,777.3
Equity			
Equity attributable to unitholders of the parent entity			
Contributed equity	15(a)	**1,984.0**	1,990.6
Reserves	16(a)	**9.1**	8.6
Retained profits/(accumulated losses)		**321.7**	190.3
Parent entity unitholders' interest		**2,314.8**	2,189.5
Equity attributable to unitholders of other stapled entities			
Contributed equity	15(b)	**3,926.1**	3,939.9
Reserves	16(a)	**43.0**	42.8
Retained profits/(accumulated losses)		**1,312.4**	605.1
Other stapled unitholders' interest		**5,281.5**	4,587.8
Total equity		**7,596.3**	6,777.3

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2016

	Note	Attributable to unitholders of the parent entity			
		Contributed equity $m	Reserves $m	Retained profits $m	Total $m
Opening balance as at 1 July 2014		1,833.4	(9.3)	193.0	2,017.1
Net profit/(loss) for the year		–	–	174.7	174.7
Other comprehensive income/(loss) for the year		–	17.9	–	17.9
Total comprehensive income for the year		–	17.9	174.7	192.6
Transactions with owners in their capacity as owners					
Issue of additional equity	15	157.2	–	–	157.2
Purchase of securities, net of transaction costs	16	–	–	–	–
Security-based payments expense	16	–	–	–	–
Distributions paid or provided for	7	–	–	(177.4)	(177.4)
Total transactions with owners in their capacity as owners		157.2	–	(177.4)	(20.2)
Closing balance as at 30 June 2015		1,990.6	8.6	190.3	2,189.5
Opening balance as at 1 July 2015		**1,990.6**	**8.6**	**190.3**	**2,189.5**
Net profit for the year		**–**	**–**	**259.5**	**259.5**
Other comprehensive income for the year		**–**	**0.5**	**–**	**0.5**
Total comprehensive income for the year		**–**	**0.5**	**259.5**	**260.0**
Transactions with owners in their capacity as owners					
Buy-back of contributed equity, net of transaction costs	15	**(6.6)**	**–**	**–**	**(6.6)**
Purchase of securities, net of transaction costs	16	**–**	**–**	**–**	**–**
Security-based payments expense	16	**–**	**–**	**–**	**–**
Distributions paid or provided for	7	**–**	**–**	**(128.1)**	**(128.1)**
Total transactions with owners in their capacity as owners		**(6.6)**	**–**	**(128.1)**	**(134.7)**
Closing balance as at 30 June 2016		**1,984.0**	**9.1**	**321.7**	**2,314.8**

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Attributable to unitholders of other stapled entities				
Contributed equity $m	Reserves $m	Retained profits $m	Total $m	Total equity $m
3,625.7	41.2	369.3	4,036.2	6,053.3
–	–	444.0	444.0	618.7
–	1.8	–	1.8	19.7
–	1.8	444.0	445.8	638.4
314.2	–	–	314.2	471.4
–	(4.0)	–	(4.0)	(4.0)
–	3.8	–	3.8	3.8
–	–	(208.2)	(208.2)	(385.6)
314.2	(0.2)	(208.2)	105.8	85.6
3,939.9	42.8	605.1	4,587.8	6,777.3
3,939.9	**42.8**	**605.1**	**4,587.8**	**6,777.3**
–	**–**	**1,000.3**	**1,000.3**	**1,259.8**
–	**–**	**–**	**–**	**0.5**
–	**–**	**1,000.3**	**1,000.3**	**1,260.3**
(13.8)	**–**	**–**	**(13.8)**	**(20.4)**
–	**4.6**	**–**	**(4.6)**	**(4.6)**
–	**(4.8)**	**–**	**4.8**	**4.8**
–	**–**	**(293)**	**(293)**	**(421.1)**
(13.8)	**0.2**	**(293)**	**(306.6)**	**(441.3)**
3,926.1	**43.0**	**1,312.4**	**5,281.5**	**7,596.3**

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2016

	Note	2016 $m	2015 $m
Cash flows from operating activities			
Receipts in the course of operations (inclusive of GST)		**747.2**	709.7
Payments in the course of operations (inclusive of GST)		**(315.8)**	(286.7)
Interest received		**0.6**	0.4
Finance costs paid to financial institutions		**(137.3)**	(144.2)
Distributions received from investments accounted for using the equity method		**213.2**	217.6
Income and withholding taxes paid		**(8.4)**	(3.9)
Proceeds from sale of property classified as inventory		**198.0**	221.8
Payments for property classified as inventory		**(33.8)**	(53.3)
Net cash inflow/(outflow) from operating activities	20(a)	**663.7**	661.4
Cash flows from investing activities			
Proceeds from sale of investment properties		**6.5**	144.1
Payments for capital expenditure on investment properties		**(158.0)**	(93.9)
Payments for acquisition of investment properties		**(329.7)**	(14.8)
Payments for acquisition of subsidiaries		**–**	(160.0)
Payments for investments accounted for using the equity method		**(418.1)**	(263.9)
Transaction costs paid		**(5.9)**	(7.5)
Return of capital from investments accounted for using the equity method		**–**	372.6
Payments for software		**(9.1)**	(5.2)
Payments for plant and equipment		**(7.6)**	(6.9)
Net cash inflow/(outflow) from investing activities		**(921.9)**	(35.5)
Cash flows from financing activities			
Proceeds from borrowings		**3,082.8**	3,003.5
Repayment of borrowings		**(2,364.0)**	(3,408.0)
Repayment of loan with related party		**–**	(338.4)
Payments for buy-back of contributed equity		**(20.4)**	–
Proceeds from issue of additional equity		**–**	471.4
Purchase of securities for security-based payments plans		**(4.6)**	(4.0)
Distributions paid to security holders		**(430.5)**	(351.5)
Net cash inflow/(outflow) from financing activities		**263.3**	(627.0)
Net increase/(decrease) in cash and cash equivalents		**5.1**	(1.1)
Cash and cash equivalents at the beginning of the year		**13.0**	14.1
Cash and cash equivalents at the end of the year		**18.1**	13.0

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

ABOUT THIS REPORT

In this section

This section sets out the basis upon which the Group's Financial Statements are prepared.

Specific accounting policies are described in their respective notes to the Financial Statements. This section also shows information on new or amended accounting standards and their impact on the financial position and performance of the Group.

(a) Basis of preparation

DEXUS Property Group stapled securities are quoted on the Australian Securities Exchange under the "DXS" code and comprise one unit in each of DDF, DIT, DOT and DXO. In accordance with Australian Accounting Standards, the entities within the Group must be consolidated for financial reporting purposes. The parent entity and deemed acquirer of DIT, DOT and DXO is DDF. These Financial Statements therefore represent the consolidated results of DDF, and include DDF and its controlled entities, DIT and its controlled entities, DOT and its controlled entities, and DXO and its controlled entities.

Equity attributable to other trusts stapled to DDF is a form of non-controlling interest and represents the equity of DIT, DOT and DXO. The amount of non-controlling interest attributable to stapled security holders is disclosed in the Statement of Financial Position. DDF is a for-profit entity for the purpose of preparing Financial Statements.

Each entity forming part of the Group continues as a separate legal entity in its own right under the *Corporations Act 2001* and is therefore required to comply with the reporting and disclosure requirements under the *Corporations Act 2001* and Australian Accounting Standards. DEXUS Funds Management Limited (DXFM) as Responsible Entity for DDF, DIT, DOT and DXO may only unstaple the Group if approval is obtained by a special resolution of the stapled security holders.

These general purpose Financial Statements have been prepared in accordance with the requirements of the Constitution of the entities within the Group, the *Corporations Act 2001*, Australian Accounting Standards and other authoritative pronouncements and interpretations of the Australian Accounting Standards Board. Compliance with Australian Accounting Standards ensures that the Financial Statements and notes also comply with International Financial Reporting Standards (IFRS).

Amounts in these Financial Statements have been presented in Australian dollars and rounded off in accordance with ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 to the nearest tenth of a million dollars, unless otherwise indicated.

These Financial Statements are prepared on a going concern basis, using historical cost conventions except for investment properties, investment properties within equity accounted investments, derivative financial instruments and other financial liabilities which are stated at their fair value. Refer to the specific accounting policies within the notes to the Financial Statements for the basis of valuation of assets and liabilities measured at fair value.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, unless otherwise stated.

Critical accounting estimates

In the process of applying the Group's accounting policies, management has made a number of judgements and applied estimates of future events. Judgements and estimates which are material to the financial report are discussed in the following notes:

Note 8	Investment properties	Page 69
Note 10	Inventories	Page 76
Note 12(c)	Derivative financial instruments	Page 83
Note 13	Interest bearing liabilities	Page 84
Note 18	Intangible assets	Page 90
Note 21	Security-based payments	Page 93

(b) Principles of consolidation

These consolidated Financial Statements incorporate the assets, liabilities and results of all subsidiaries as at 30 June 2016.

(i) Controlled entities

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

(ii) Joint arrangements

Investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations each investor has, rather than the legal structure of the joint arrangement.

Joint operations

Where assets are held directly as tenants in common, the Group's proportionate share of revenues, expenses, assets and liabilities are included in their respective items of the Statement of Financial Position and Statement of Comprehensive Income.

Joint ventures

Investments in joint ventures are accounted for using the equity method. Under this method, the Group's share of the joint ventures' post-acquisition profits or losses is recognised in the Statement of Comprehensive Income, and distributions received from joint ventures are recognised as a reduction of the carrying amount of the investment.

(iii) Employee share trust

The Group has formed a trust to administer the Group's securities-based employee benefits. The employee share trust is consolidated, as the substance of the relationship is that the trust is controlled by the Group.

(c) Foreign currency

The Financial Statements are presented in Australian dollars.

Foreign currency transactions are translated into the Australian dollars functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period end exchange rates of financial assets and liabilities denominated in foreign currencies are recognised in the Statement of Comprehensive Income.

As at 30 June 2016, the Group had no investments in foreign operations.

ABOUT THIS REPORT

(d) Goods and services tax

Revenues, expenses and capital assets are recognised net of any amount of Australian Goods and Services Tax (GST), except where the amount of GST incurred is not recoverable. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of the expense. Cash flows are included in the Statement of Cash Flows on a gross basis. The GST component of cash flows arising from investing and financing activities that is recoverable from or payable to the Australian Taxation Office is classified as cash flows from operating activities.

(e) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for the 30 June 2016 reporting period. The Group's assessment of the impact of these new standards and interpretations is set out below:

AASB 9 *Financial Instruments* (effective application for the Group is 1 July 2018).

AASB 9 *Financial Instruments* addresses the classification, measurement and de-recognition of financial assets and financial liabilities. It also sets out new rules for hedge accounting and impairment of financial assets. The Group intends to apply the standard from 1 July 2018. It is not expected that the application of this standard will have an impact on any of the amounts recognised in the Financial Statements but will require the disclosure of additional information.

AASB 15 *Revenue from Contracts with Customers* (effective application for the Group is 1 July 2018).

AASB 15 *Revenue from Contracts with Customers* clarifies the principles for recognising revenue from contracts with customers. It applies to all contracts with customers except leases, financial instruments and insurance contracts. The Group intends to apply the standard from 1 July 2018 and does not expect any significant impacts.

AASB 16 Leases (effective application for the Group is 1 July 2019).

AASB 16 Leases introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. It is not expected that the application of this standard will have a significant impact on any of the amounts recognised in the Financial Statements but may impact some of the Group's current classification and disclosures. The Group intends to apply the standard from 1 July 2019.

(f) Notes to the Financial Statements

The notes include information which is required to understand the Financial Statements and is material and relevant to the operations, financial position and performance of the Group. Information is considered material and relevant if, for example:

- the amount in question is significant because of its size or nature;
- it is important in understanding the results of the Group;
- it helps to explain the impact of significant changes in the Group's business;
- it relates to an aspect of the Group's operations that is important to its future performance.

The notes are organised into the following sections:

Group performance	Property portfolio assets	Capital and financial risk management and working capital	Other disclosures
1. Operating segments	8. Investment properties	12. Capital and financial risk management	18. Intangible assets
2. Property revenue and expenses	9. Investments accounted for using the equity method	13. Interest bearing liabilities	19. Audit, taxation and transaction services fees
3. Management operations, corporate and administration expenses	10. Inventories	14. Commitments and contingencies	20. Reconciliation of net profit to net cash flows from operating activities
4. Finance costs	11. Non-current assets classified as held for sale	15. Contributed equity	21. Security-based payment
5. Taxation		16. Reserves and retained profits	22. Related parties
6. Earnings per unit		17. Working capital	23. Parent entity disclosures
7. Distributions paid and payable			24. Subsequent events

NOTES TO THE FINANCIAL STATEMENTS
GROUP PERFORMANCE

In this section
This section explains the results and performance of the Group.

It provides additional information about those individual line items in the Financial Statements that the Directors consider most relevant in the context of the operations of the Group, including: results by operating segment, property revenue and expenses, management operations, corporate and administration expenses, finance costs, taxation, earnings per unit and distributions paid and payable.

The key indicators of the Group performance are detailed in the following table:

	2016	2015	2014	2013	2012
Statutory net profit ($m)	**1,259.8**	618.7	406.6	514.5	182.9
FFO[1] ($m)	**610.8**	544.5	446.6	388.0	395.2
AFFO[1] ($m)	**413.9**	369.8	310.7	290.1	269.3
Distribution ($m)	**421.1**	385.6	315.4	282.1	257.4
NTA[2] ($m)	**7,289**	6,485	5,761	4,948	4,784
FFO[1] per security (cents)	**63.1**	59.5	54.4	49.4	49.0
AFFO[1] per security (cents)	**42.7**	40.4	37.9	36.9	33.4
Distribution per security (cents)	**43.51**	41.04	37.56	36.00	32.10
NTA[2] per security ($)	**7.53**	6.68	6.36	6.31	6.00
Return on equity[3]	**19.3%**	11.5%	6.7%	11.2%	4.5%
Gearing (look-through)[4]	**30.7%**	28.5%	33.7%	29.0%	27.2%

1 Funds From Operations (FFO) is defined in note 1.
FFO and Adjusted FFO (AFFO) have been restated for previous periods to reflect the Property Council of Australia (PCA) definition.
2 Net Tangible Assets (NTA) is calculated as net assets less intangible assets.
3 Change in NTA per security plus distribution per security divided by previous year's NTA per security.
4 Gearing calculation is detailed in note 12(a) and is adjusted for cash and for debt in equity accounted investments.

NOTE 1. OPERATING SEGMENTS

(a) Description of segments
The Chief Operating Decision Maker (CODM) has been identified as the Board of Directors as they are responsible for the strategic decision making within the Group. DXS management has identified the Group's operating segments based on the sectors analysed within the management reports reviewed by the CODM in order to monitor performance across the Group and to appropriately allocate resources. Refer to the table below for a brief description of the Group's operating segments.

Segment	Description
Office	Domestic office space with any associated retail space; as well as car parks and office developments.
Industrial	Domestic industrial properties, industrial estates and industrial developments.
Property management	Property management services for third party clients and owned assets.
Funds management	Funds management of third party client assets.
Development and trading	Revenue earned and costs incurred by the Group on developments and inventory.
All other segments	Corporate expenses associated with maintaining and operating the Group. This segment also includes the centralised treasury function.

NOTES TO THE FINANCIAL STATEMENTS
GROUP PERFORMANCE

NOTE 1. OPERATING SEGMENTS (CONTINUED)

(b) Segment information provided to the CODM

30 June 2016	Office $m	Industrial $m
Segment performance measures		
Property revenue and property management fees	632.2	126.6
Proceeds from sale of inventory	–	–
Management fee revenue	–	–
Total operating segment revenue	**632.2**	**126.6**
Property expenses and property management salaries	(161.1)	(27.3)
Management operations expenses	–	–
Corporate and administration expenses	(10.5)	(2.1)
Cost of sale of inventory	–	–
Interest revenue	–	–
Finance costs	–	–
Incentive amortisation and rent straight-line	84.0	8.9
Tax expense	–	–
Coupon income, rental guarantees and other	22.6	–
Funds from Operations (FFO)	**567.2**	**106.1**
Net fair value gain/(loss) of investment properties	769.1	45.3
Net fair value gain/(loss) of derivatives	–	–
Transaction costs	–	–
Net gain/(loss) on sale of investment properties	15.0	–
Net fair value gain/(loss) of interest bearing liabilities	–	–
Incentive amortisation and rent straight-line	(84.0)	(8.9)
Amortisation of intangible assets	–	–
Deferred tax (expense)/benefit	–	–
Coupon income, rental guarantees and other	(23.7)	–
Net profit/(loss) attributable to stapled security holders	**1,243.6**	**142.5**
Segment asset measures		
Investment properties	4,997.4	1,422.1
Non-current assets held for sale	651.2	–
Inventories	–	–
Equity accounted investment properties	3,539.7	101.0
Direct property portfolio	**9,188.3**	**1,523.1**

	Property management $m	Funds management $m	Development and trading $m	All other segments $m	Eliminations $m	Total $m
	24.1	–	–	–	(1.7)	**781.2**
	–	–	204.7	–	–	**204.7**
	33.5	46.1	6.7	–	–	**86.3**
	57.6	**46.1**	**211.4**	**–**	**(1.7)**	**1,072.2**
	(17.0)	–	–	–	–	**(205.4)**
	(26.3)	(16.8)	(5.5)	–	–	**(48.6)**
	–	–	–	(25.4)	1.7	**(36.3)**
	–	–	(114.3)	–	–	**(114.3)**
	–	–	–	1.1	–	**1.1**
	–	–	–	(143.1)	–	**(143.1)**
	–	–	–	–	–	**92.9**
	–	–	(27.1)	(3.2)	–	**(30.3)**
	–	–	–	–	–	**22.6**
	14.3	**29.3**	**64.5**	**(170.6)**	**–**	**610.8**
	–	–	–	–	–	**814.4**
	–	–	–	70.5	–	**70.5**
	–	–	–	(7.1)	–	**(7.1)**
	–	–	–	–	–	**15.0**
	–	–	–	(110.8)	–	**(110.8)**
	–	–	–	–	–	**(92.9)**
	–	–	–	(13.1)	–	**(13.1)**
	–	–	–	–	–	**(23.7)**
	14.3	**29.3**	**64.5**	**(234.4)**	**–**	**1,259.8**
	–	–	–	–	–	**6,419.5**
	–	–	–	–	–	**651.2**
	–	–	276.0	–	–	**276.0**
	–	–	–	–	–	**3,640.7**
	–	**–**	**276.0**	**–**	**–**	**10,987.4**

NOTE 1. OPERATING SEGMENTS (CONTINUED)

(b) Segment information provided to the CODM (continued)

30 June 2015	Office $m	Industrial $m
Segment performance measures		
Property revenue and property management fees	607.4	133.1
Proceeds from sale of inventory	–	–
Management fee revenue	–	–
Total operating segment revenue	**607.4**	**133.1**
Property expenses and property management salaries	(156.0)	(25.1)
Management operations expenses	–	–
Corporate and administration expenses	(7.4)	(1.7)
Cost of sale of inventory	–	–
Interest revenue	–	–
Finance costs	–	–
Incentive amortisation and rent straight-line	73.9	6.0
Tax expense	–	–
Coupon income and other	15.4	–
Funds from Operations (FFO)	**533.3**	**112.3**
Net fair value gain/(loss) of investment properties	213.5	27.5
Net fair value gain/(loss) of derivatives	–	–
Foreign currency translation reserve transfer	–	–
Net gain/(loss) on sale of investment properties	(2.4)	(0.7)
Net fair value gain/(loss) of interest bearing liabilities	–	–
Incentive amortisation and rent straight-line	(73.9)	(6.0)
Deferred tax (expense)/benefit	–	–
Coupon income	(15.5)	–
Net profit/(loss) attributable to stapled security holders	**655.0**	**133.1**
Segment asset measures		
Investment properties	4,795.5	1,411.8
Non-current assets held for sale	–	5.5
Inventories	–	–
Equity accounted investment properties	2,983.9	61.9
Direct property portfolio	**7,779.4**	**1,479.2**

Property management $m	Funds management $m	Development and trading $m	All other segments $m	Eliminations $m	Total $m
17.2	–	–	–	(0.8)	756.9
–	–	220.1	–	–	220.1
32.5	40.5	6.4	–	–	79.4
49.7	**40.5**	**226.5**	**–**	**(0.8)**	**1,056.4**
(12.2)	–	–	–	–	(193.3)
(24.3)	(15.8)	(6.2)	–	–	(46.3)
–	–	–	(30.4)	0.8	(38.7)
–	–	(172.2)	–	–	(172.2)
–	–	–	1.0	–	1.0
–	–	–	(151.8)	–	(151.8)
–	–	–	–	–	79.9
–	–	(5.3)	(0.8)	–	(6.1)
–	–	–	0.2	–	15.6
13.2	**24.7**	**42.8**	**(181.8)**	**–**	**544.5**
–	–	–	–	–	241.0
–	–	–	(31.1)	–	(31.1)
–	–	–	(2.1)	–	(2.1)
–	–	–	–	–	(3.1)
–	–	–	(15.9)	–	(15.9)
–	–	–	–	–	(79.9)
–	–	–	(19.2)	–	(19.2)
–	–	–	–	–	(15.5)
13.2	**24.7**	**42.8**	**(250.1)**	**–**	**618.7**
–	–	–	–	–	6,207.3
–	–	–	–	–	5.5
–	–	274.8	–	–	274.8
–	–	–	–	–	3,045.8
–	**–**	**274.8**	**–**	**–**	**9,533.4**

NOTES TO THE FINANCIAL STATEMENTS
GROUP PERFORMANCE

NOTE 1. OPERATING SEGMENTS (CONTINUED)

(c) Other segment information

(i) Funds from Operations (FFO)

The Directors consider the PCA's definition of FFO to be a measure that reflects the underlying performance of the Group. 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 tenant incentives, gain/loss on sale of certain assets, straight-line rent adjustments, deferred tax expense/benefit, transaction costs, amortisation of intangible assets, rental guarantees and coupon income.

(ii) Reconciliation of segment revenue to the Statement of Comprehensive Income

	2016 $m	2015 $m
Gross operating segment revenue	**1,072.2**	1,056.4
Share of property revenue from joint ventures	**(226.3)**	(208.1)
Share of management fees charged to joint ventures	**19.0**	10.2
Interest revenue	**0.6**	0.4
Total revenue from ordinary activities	**865.5**	858.9

(iii) Reconciliation of segment assets to the Statement of Financial Position

The amounts provided to the CODM as a measure of segment assets is the direct property portfolio. The direct property portfolio values are allocated based on the operations of the segment and physical location of the asset and are measured in a manner consistent with the Statement of Financial Position. The reconciliation below reconciles the total direct property portfolio balance to total assets in the Statement of Financial Position.

	2016 $m	2015 $m
Direct property portfolio[1]	**10,987.4**	9,533.4
Cash and cash equivalents	**18.1**	13.0
Receivables	**81.9**	55.5
Intangible assets	**307.1**	301.4
Derivative financial instruments	**477.1**	331.3
Plant and equipment	**16.5**	11.3
Prepayments and other assets[2]	**(105.3)**	(220.3)
Total assets	**11,782.8**	10,025.6

1 Includes the Group's portion of investment properties accounted for using the equity method.

2 Other assets include the Group's share of total net assets of its investments accounted for using the equity method less the Group's share of the investment property value which is included in the direct property portfolio.

NOTE 2. PROPERTY REVENUE AND EXPENSES

Rental revenue is recognised on a straight-line basis over the lease term for leases with fixed rent review clauses.

Prospective tenants may be offered incentives as an inducement to enter into operating leases. These incentives may take various forms including cash payments, rent free periods, or a contribution to certain lessee costs such as fit-out costs or relocation costs. The costs of incentives are recognised as a reduction of rental revenue on a straight-line basis from the lease commencement date to the end of the lease term. The carrying amount of the lease incentives is reflected in the fair value of investment properties.

	2016 $m	2015 $m
Rent and recoverable outgoings	**555.8**	549.3
Incentive amortisation	**(70.5)**	(61.9)
Other revenue	**69.6**	61.4
Total property revenue	**554.9**	548.8

Property expenses of $152.7 million (2015: $142.8 million) include rates, taxes and other property outgoings incurred in relation to investment properties.

NOTE 3. MANAGEMENT OPERATIONS, CORPORATE AND ADMINISTRATION EXPENSES

	2016 $m	2015 $m
Audit, taxation, legal and other professional fees	**6.0**	6.6
Depreciation and amortisation	**5.8**	2.8
Employee benefits expense and other staff expenses	**71.8**	69.2
Administration and other expenses	**7.5**	7.8
Management operations, corporate and administration expenses	**91.1**	86.4

NOTE 4. FINANCE COSTS

Borrowing costs include interest, amortisation or ancillary costs incurred in connection with arrangement of borrowings and net fair value movements of interest rate swaps. Borrowing costs are expensed as incurred unless they relate to qualifying assets.

Qualifying assets include investment properties and inventories which take more than 12 months to develop for their intended use or sale. In these circumstances, borrowing costs are capitalised to the cost of the asset during the period of time that is required to complete and develop the asset for its intended use or sale. To the extent that funds are borrowed generally to fund development, the amount of borrowing costs to be capitalised to qualifying assets must be determined by using a weighted average capitalisation rate.

	2016 $m	2015 $m
Interest paid/payable	**127.2**	135.8
Net fair value loss of interest rate swaps	**47.3**	57.7
Amount capitalised	**(9.3)**	(6.0)
Other finance costs	**6.1**	4.9
Total finance costs	**171.3**	192.4

The average capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation is 6.75% (2015: 7.00%).

NOTES TO THE FINANCIAL STATEMENTS
GROUP PERFORMANCE

NOTE 5. TAXATION

Under current Australian income tax legislation, DDF, DIT and DOT are not liable for income tax provided they satisfy certain legislative requirements, which were met in the current and previous financial years. DXO is liable for income tax and has formed a tax consolidated group with its wholly owned and controlled Australian entities. As a consequence, these entities are taxed as a single entity.

Income tax expense is comprised of current and deferred tax expense. Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case it is recognised in other comprehensive income or directly in equity, respectively.

Current tax expense represents the expense relating to the expected taxable income at the applicable rate of the financial year.

Deferred tax expense represents the tax expense in respect of the future tax consequences of recovering or settling the carrying amount of an asset or liability. Deferred income tax liabilities are recognised for all taxable temporary differences. Deferred income tax assets are recognised for all deductible temporary differences and unused tax losses, to the extent it is probable that future taxable profit will be available to utilise them.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date.

The carrying amount of deferred income tax assets is reviewed at balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to utilise them.

(a) Income tax (expense)/benefit

	Note	2016 $m	2015 $m
Current tax (expense)/benefit		**(43.3)**	(0.8)
Deferred tax (expense)/benefit		**(0.1)**	(24.5)
Total tax (expense)/benefit		**(43.4)**	(25.3)
Deferred income tax expense included in income tax (expense)/benefit comprises:			
(Decrease)/increase in deferred tax assets	5(c)	**0.7**	(25.1)
(Increase)/decrease in deferred tax liabilities	5(d)	**(0.8)**	0.6
Total deferred tax expense		**(0.1)**	(24.5)

(b) Reconciliation of income tax (expense)/benefit to net profit

	2016 $m	2015 $m
Profit/(loss) before tax	**1,303.2**	644.0
Less amounts not subject to income tax	**(1,151.0)**	(551.7)
	152.2	92.3
Prima facie tax (expense)/benefit at the Australian tax rate of 30% (2015: 30%)	**(45.7)**	(27.7)
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Non assessable/non deductible items	**2.3**	2.4
Tax (expense)/benefit	**(43.4)**	(25.3)

(c) Deferred tax assets

	2016 $m	2015 $m
The balance comprises temporary differences attributable to:		
Tax losses	–	1.0
Employee provisions	**9.8**	8.3
Other	**1.7**	1.5
Total non-current assets – deferred tax assets	**11.5**	10.8
Movements		
Opening balance at the beginning of the year	**10.8**	35.9
(Utilisation)/recognition of tax losses	**(1.0)**	(24.3)
Movement in deferred tax asset arising from temporary differences	**1.7**	(0.8)
(Charged)/credited to the Statement of Comprehensive Income	**0.7**	(25.1)
Closing balance at the end of the year	**11.5**	10.8

(d) Deferred tax liabilities

	2016 $m	2015 $m
The balance comprises temporary differences attributable to:		
Derivatives financial instruments	**0.3**	2.2
Intangible assets	**1.8**	1.9
Investment properties	**15.5**	12.7
Other	**0.4**	0.4
Total non-current liabilities – deferred tax liabilities	**18.0**	17.2
Movements		
Opening balance at the beginning of the year	**17.2**	21.1
Movement in deferred tax liability arising from temporary differences	**0.8**	(0.6)
Transfer to current tax liability	–	(3.3)
Charged/(credited) to the Statement of Comprehensive Income	**0.8**	(3.9)
Closing balance at the end of the year	**18.0**	17.2

Net deferred tax liabilities	2016 $m	2015 $m
Deferred tax assets	**11.5**	10.8
Deferred tax liabilities	**18.0**	17.2
Net deferred tax liabilities	**6.5**	6.4

NOTES TO THE FINANCIAL STATEMENTS
GROUP PERFORMANCE

NOTE 6. EARNINGS PER UNIT

Earnings per unit are determined by dividing the net profit attributable to unitholders by the weighted average number of ordinary units outstanding during the year. Diluted earnings per unit are adjusted from the basic earnings per unit by taking into account the impact of dilutive potential units.

(a) Net profit used in calculating basic and diluted earnings per unit

	2016 $m	2015 $m
Profit attributable to unitholders of the parent entity	**259.5**	174.7
Profit attributable to staple security holders	**1,259.8**	618.7

(b) Weighted average number of units used as a denominator

	2016 No. of securities	2015 No. of securities
Weighted average number of units outstanding used in calculation of basic and diluted earnings per unit	**968,639,060**	915,462,824

NOTE 7. DISTRIBUTIONS PAID AND PAYABLE

Distributions are recognised when declared.

(a) Distribution to security holders

	2016 $m	2015 $m
31 December (paid 29 February 2016)	**223.1**	178.2
30 June (payable 31 August 2016)	**198.0**	207.4
Total distributions to security holders	**421.1**	385.6

(b) Distribution rate

	2016 Cents per security	2015 Cents per security
31 December (paid 29 February 2016)	**23.05**	19.68
30 June (payable 31 August 2016)	**20.46**	21.36
Total distributions	**43.51**	41.04

(c) Franked dividends

	2016 $m	2015 $m
Opening balance at the beginning of the year	**9.8**	9.8
Income tax paid during the year	**2.9**	–
Franking credits utilised for payment of distribution	**(10.7)**	–
Closing balance at the end of the year	**2.0**	9.8

As at 30 June 2016, the group had a current tax liability of $40.1 million, which will be added to the franking amount balance once payment is made.

NOTES TO THE FINANCIAL STATEMENTS
PROPERTY PORTFOLIO ASSETS

In this section

The following table summarises the property portfolio assets detailed in this section:

30 June 2016	Note	Office $m	Industrial $m	Total $m
Investment properties	8	**4,997.4**	**1,422.1**	**6,419.5**
Equity accounted investments	9	**3,539.7**	**101.0**	**3,640.7**
Inventories	10	**49.8**	**226.2**	**276.0**
Assets held for sale	11	**651.2**	**–**	**651.2**
Total		**9,238.1**	**1,749.3**	**10,987.4**

These assets are used to generate the Group's performance and are considered to be the most relevant to the operations of the Group. The assets are detailed in the following notes:

- *Investment properties:* relates to investment properties, both stabilised and under development.
- *Investments accounted for using the equity method:* provides summarised financial information on the material joint ventures and other joint ventures. The Group's joint ventures comprise interests in property portfolio assets held through investments in trusts.
- *Inventories:* relates to the Group's ownership of industrial and office assets or land held for repositioning, development and sale;
- *Non-current assets classified as held for sale:* relates to investment properties which are expected to be sold within 12 months of the balance sheet date and are currently being marketed for sale.

The list of property portfolio assets is detailed in the Property Synopsis, available at www.dexus.com/results

NOTE 8. INVESTMENT PROPERTIES

The Group's investment properties consist of properties held for long-term rental yields and/or capital appreciation and property that is being constructed or developed for future use as investment property. Investment properties are initially recognised at cost including transaction costs. Investment properties are subsequently recognised at fair value in the Financial Statements.

The basis of valuations of investment properties is fair value, being the price that would be received to sell the asset in an orderly transaction between market participants at the measurement date.

Changes in fair values are recorded in the Statement of Comprehensive Income. The gain or loss on disposal of an investment property is calculated as the difference between the carrying amount of the asset at the date of disposal and the net proceeds from disposal and is included in the Statement of Comprehensive Income in the year of disposal.

Subsequent redevelopment and refurbishment costs (other than repairs and maintenance) are capitalised to the investment property where they result in an enhancement in the future economic benefits of the property.

Leasing fees incurred and incentives provided are capitalised and amortised over the lease periods to which they relate.

NOTES TO THE FINANCIAL STATEMENTS
PROPERTY PORTFOLIO ASSETS

NOTE 8. INVESTMENT PROPERTIES (CONTINUED)

(a) Reconciliation

	Note	Office $m	Industrial $m	Development $m	2016 $m	2015 $m
Opening balance at the beginning of the year		**4,795.5**	**1,370.7**	**41.1**	**6,207.3**	5,926.5
Additions		**51.4**	**22.9**	**47.6**	**121.9**	61.9
Acquisitions		**321.8**	**–**	**22.6**	**344.4**	114.4
Lease incentives		**74.8**	**14.8**	**–**	**89.6**	77.3
Amortisation of lease incentives		**(59.7)**	**(9.7)**	**–**	**(69.4)**	(60.4)
Rent straightlining		**3.0**	**1.5**	**–**	**4.5**	3.5
Disposals		**–**	**–**	**–**	**–**	(8.7)
Transfers to non-current assets classified as held for sale	11	**(651.2)**	**–**	**–**	**(651.2)**	(5.5)
Transfers to inventories	10	**–**	**(79.7)**		**(79.7)**	(32.0)
Transfer from/(to) development properties		**–**	**37.7**	**(37.7)**	**–**	–
Net fair value gain/(loss) of investment properties		**412.2**	**40.0**	**(0.1)**	**452.1**	130.3
Closing balance at the end of the year		**4,947.8**	**1,398.2**	**73.5**	**6,419.5**	6,207.3

Acquisitions

- On 30 September 2015, settlement occurred on the acquisition of Waterfront Place at 1 Eagle Street, Brisbane, QLD, jointly acquired by the Group and DWPF for $592.0 million excluding acquisition costs (Group share of $314.4 million including acquisition costs).
- On 30 October 2015, settlement occurred on the acquisition of Naldham House at 193 Mary Street, Brisbane, QLD, jointly acquired by the Group and DWPF for $14.0 million excluding acquisition costs (Group share of $7.5 million including acquisition costs).
- On 22 April 2016, settlement occurred on the acquisition of 90 and 100 Mount Street in North Sydney (100 Mount Street) jointly acquired by the Group and DWPF for an initial acquisition price of $41.0 million excluding acquisition costs (Group share of $22.6 million including acquisition costs).

(b) Valuation process

Independent valuations are carried out for each individual property at least once every three years by a member of the Australian Property Institute of Valuers. Each valuation firm and its signatory valuer are appointed on the basis that they are engaged for no more than three consecutive valuations. Independent valuations may be undertaken earlier where the Responsible Entity believes there is potential for a material change in the fair value of the property being the greatest of 5% of the asset value, or $5 million.

The Group's investment properties are required to be internally valued at least every six months unless they have been independently valued during the current reporting period. Internal valuations are compared to the carrying value of investment properties at the reporting date. Where the Directors determine the internal valuations present a more reliable estimate of fair value the internal valuation is adopted as book value. Internal valuations are performed by the Group's internal valuers who hold recognised relevant professional qualifications and have previous experience as property valuers from major real estate valuation firms.

An appropriate valuation methodology is utilised according to asset class. In relation to office and industrial assets this includes the capitalisation approach (market approach) and the discounted cash flow approach (income approach). The valuation is also compared to, and supported by, direct comparison to recent market transactions. The adopted capitalisation rates and discount rates are determined based on industry expertise and knowledge and, where possible, a direct comparison to third party rates for similar assets in a comparable location. Rental revenue from current leases and assumptions about future leases, as well as any expected operational cash outflows in relation to the property, are also built into each asset assessment of fair value.

In relation to development properties under construction for future use as investment property, where reliably measurable, fair value is determined based on the market value of the property on the assumption it had already been completed at the valuation date (using the methodology as outlined above) less costs still required to complete the project, including an appropriate adjustment for industry benchmarked profit and development risk.

(c) Fair value measurement, valuation techniques and inputs

The following table represents the level of the fair value hierarchy and the associated unobservable inputs utilised in the fair value measurement for each class of investment property.

Class of property	Fair value hierarchy	Inputs used to measure fair value	Range of unobservable inputs 2016	Range of unobservable inputs 2015
Office[1]	Level 3	Adopted capitalisation rate	**5.25% – 7.50%**	5.83% – 8.25%
		Adopted discount rate	**7.00% – 8.50%**	7.76% – 9.50%
		Adopted terminal yield	**5.50% – 7.75%**	5.87% – 8.50%
		Current net market rental (per sqm)	**$320 – $1,269**	$338 – $1,141
Industrial	Level 3	Adopted capitalisation rate	**6.25% – 11.00%**	6.75% – 11.00%
		Adopted discount rate	**7.75% – 12.00%**	8.25% – 11.50%
		Adopted terminal yield	**6.50% – 11.25%**	7.00% – 11.00%
		Current net market rental (per sqm)	**$36 – $311**	$40 – $305
Development	Level 3	Adopted capitalisation rate	**6.50%**	6.50%
		Land rate (per sqm)	**$35 – $23,335**	$35 – $418

1 Excludes car parks and retail.

Key estimates: inputs used to measure fair value of investment properties

Judgement is required in determining the following key assumptions:

- **Adopted capitalisation rate:** The rate at which net market rental revenue is capitalised to determine the value of a property. The rate is determined with regard to market evidence and the prior external valuation.
- **Adopted discount rate:** The rate of return used to convert cash flows, payable or receivable in the future, into present value. It reflects the opportunity cost of capital, that is, the rate of return the cash can earn if put to other uses having similar risk. The rate is determined with regard to market evidence and the prior external valuation.
- **Adopted terminal yield:** The capitalisation rate used to convert the future net market rental revenue into an indication of the anticipated value of the property at the end of the holding period when carrying out a discounted cash flow calculation. The rate is determined with regard to market evidence and the prior external valuation.
- **Net market rental (per sqm):** The net market rent is the estimated amount for which a property should lease between a lessor and a lessee on appropriate lease terms in an arm's length transaction.
- **Land rate (per sqm):** The land rate is the market land value per sqm.

NOTE 8 INVESTMENT PROPERTIES (CONTINUED)

(d) Sensitivity information

Significant movement in any one of the inputs listed in the table above may result in a change in the fair value of the Group's investment properties as shown below:

Significant inputs	Fair value measurement sensitivity to significant increase in input	Fair value measurement sensitivity to significant decrease in input
Adopted capitalisation rate Adopted discount rate Adopted terminal yield	Decrease	Increase
Net market rental (per sqm) Land rate (per sqm)	Increase	Decrease

Generally, a change in the assumption made for the adopted capitalisation rate is often accompanied by a directionally similar change in the adopted terminal yield. The adopted capitalisation rate forms part of the capitalisation approach whilst the adopted terminal yield forms part of the discounted cash flow approach.

Under the capitalisation approach, the net market rental has a strong interrelationship with the adopted capitalisation rate as the fair value of the investment property is derived by capitalising, in perpetuity, the total net market rent receivable. An increase (softening) in the adopted capitalisation rate may offset the impact to fair value of an increase in the total net market rent. A decrease (tightening) in the adopted capitalisation rate may also offset the impact to fair value of a decrease in the total net market rent. A directionally opposite change in the total net market rent and the adopted capitalisation rate may increase the impact to fair value.

The discounted cash flow is primarily made up of the discounted cash flow of net income over the cash flow period and the discounted terminal value (which is largely based upon market rents grown at forecast market rental growth rates capitalised at an adopted terminal yield). An increase (softening) in the adopted discount rate may offset the impact to fair value of a decrease (tightening) in the adopted terminal yield. A decrease (tightening) in the discount rate may offset the impact to fair value of an increase (softening) in the adopted terminal yield. A directionally similar change in the adopted discount rate and the adopted terminal yield may increase the impact to fair value.

A decrease (softening) in the forecast rental growth rate may result in a negative impact on the discounted cash flow approach value whilst a strengthening may have a positive impact on the value under the same approach.

(e) Investment properties pledged as security

Refer to note 13 for information on investment properties pledged as security.

NOTE 9. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

Investments are accounted for in the Financial Statements using the equity method of accounting (refer to the 'About this Report' section).

Information relating to these entities is set out below:

	Ownership interest			
Name of entity	2016 %	2015 %	2016 $m	2015 $m
Bent Street Trust	**33.3**	33.3	**308.1**	264.2
DEXUS Creek Street Trust	**50.0**	50.0	**137.9**	131.5
DEXUS Martin Place Trust[1]	**50.0**	50.0	**111.2**	89.7
Grosvenor Place Holding Trust[2,3]	**50.0**	50.0	**352.9**	303.3
Site 6 Homebush Bay Trust[2]	**50.0**	50.0	**30.7**	37.2
Site 7 Homebush Bay Trust[2]	**50.0**	50.0	**43.1**	49.8
DEXUS 480 Q Holding Trust	**50.0**	50.0	**344.1**	149.7
DEXUS Kings Square Trust	**50.0**	50.0	**216.1**	165.7
DEXUS Office Trust Australia	**50.0**	50.0	**1,844.8**	1,546.3
DEXUS Industrial Trust Australia	**50.0**	50.0	**101.7**	57.4
DEXUS Eagle Street Pier Trust	**50.0**	50.0	**29.6**	1.1
Total investments accounted for using the equity method			**3,520.2**	2,795.9

1 During the year, the NSW State Government advised DEXUS of its intention to compulsorily acquire 39 Martin Place, Sydney for the new Sydney Metro rail project. DEXUS is working through negotiations to ensure the best possible outcome for its' Security holders, investors and customers, and will provide an update when further information is available.

2 These entities are 50% owned by DEXUS Office Trust Australia. The Group's economic interest is therefore 75% when combined with the interest held by DEXUS Office Trust Australia. These entities are classified as joint ventures and are accounted for using the equity method as a result of contractual arrangements requiring unanimous decisions on all relevant matters.

3 Grosvenor Place Holding Trust owns 50% of Grosvenor Place, 225 George Street, Sydney, NSW. The Group's economic interest in this property is therefore 37.5%.

The above entities were formed in Australia and their principal activity is property investment in Australia.

NOTES TO THE FINANCIAL STATEMENTS
PROPERTY PORTFOLIO ASSETS

NOTE 9. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)

The table below provides summarised financial information for the Group's share of joint ventures.

	DEXUS Office Trust Australia	
Summarised Statement of Financial Position	**2016 $m**	**2015 $m**
Current assets		
Cash and cash equivalents	**21.8**	6.6
Non-current assets classified as held for sale	**41.8**	–
Other current assets	**5.6**	3.9
Total current assets	**69.2**	10.5
Non-current assets		
Investment properties	**1,695.4**	1,567.9
Investments accounted for using the equity method	**213.4**	195.2
Other non-current assets	**0.2**	0.4
Total non-current assets	**1,909.0**	1,763.5
Current liabilities		
Provision for distribution	**22.5**	11.0
Borrowings	**74.0**	172.0
Other current liabilities	**25.8**	33.6
Total current liabilities	**122.3**	216.6
Non-current liabilities		
Borrowings	**11.1**	11.1
Total non-current liabilities	**11.1**	11.1
Net assets	**1,844.8**	1,546.3
Reconciliation of carrying amounts:		
Opening balance at the beginning of the year	**1,546.3**	1,777.8
Additions	**158.0**	56.2
Share of net profit/(loss) after tax	**287.3**	182.6
Distributions received/receivable	**(146.8)**	(97.7)
Return of capital	**–**	(372.6)
Closing balance at the end of the year	**1,844.8**	1,546.3

	DEXUS Office Trust Australia	
Summarised Statement of Comprehensive Income	**2016 $m**	**2015 $m**
Property revenue	**147.0**	143.8
Property revaluations	**181.1**	91.2
Interest income	**0.4**	0.4
Gain on sale of investment properties	**14.0**	–
Finance costs	**(7.7)**	(8.0)
Other expenses	**(47.5)**	(44.8)
Net profit/(loss) for the year	**287.3**	182.6
Total comprehensive income/(loss) for the year	**287.3**	182.6

	Grosvenor Place Holding Trust		DEXUS 480Q Holding Trust		Other joint ventures		Total	
	2016 $m	2015 $m	2016 $m	2015 $m	2016 $m	2015 $m	2016 $m	2015 $m
	0.9	0.8	**1.0**	–	**6.2**	4.7	**29.9**	12.1
	–	–	**–**	–	**–**	–	**41.8**	–
	1.0	0.6	**2.0**	0.9	**5.1**	4.5	**13.7**	9.9
	1.9	1.4	**3.0**	0.9	**11.3**	9.2	**85.4**	22.0
	353.7	304.6	**343.8**	157.1	**992.4**	820.4	**3,385.3**	2,850.0
	–	–	**–**	–	**–**	–	**213.4**	195.2
	–	–	**–**	–	**0.1**	0.1	**0.3**	0.5
	353.7	304.6	**343.8**	157.1	**992.5**	820.5	**3,599.0**	3,045.7
	–	–	**–**	–	**3.0**	2.0	**25.5**	13.0
	–	–	**–**	–	**–**	–	**74.0**	172.0
	2.7	2.7	**2.7**	8.3	**22.4**	31.1	**53.6**	75.7
	2.7	2.7	**2.7**	8.3	**25.4**	33.1	**153.1**	260.7
	–	–	**–**	–	**–**	–	**11.1**	11.1
	–	–	**–**	–	**–**	–	**11.1**	11.1
	352.9	303.3	**344.1**	149.7	**978.4**	796.6	**3,520.2**	2,795.9
	303.3	293.5	**149.7**	82.9	**796.6**	659.7	**2,795.9**	2,813.9
	13.0	8.8	**139.6**	67.3	**111.8**	132.0	**422.4**	264.3
	51.7	14.7	**68.9**	7.0	**117.6**	47.8	**525.5**	252.1
	(15.1)	(13.7)	**(14.1)**	(7.5)	**(47.6)**	(42.9)	**(223.6)**	(161.8)
	–	–	**–**	–	**–**	–	**–**	(372.6)
	352.9	303.3	**344.1**	149.7	**978.4**	796.6	**3,520.2**	2,795.9

	Grosvenor Place Holding Trust		DEXUS 480Q Holding Trust		Other joint ventures		Total	
	2016 $m	2015 $m	2016 $m	2015 $m	2016 $m	2015 $m	2016 $m	2015 $m
	18.9	20.3	**2.8**	–	**57.6**	44.0	**226.3**	208.1
	37.5	(0.7)	**68.2**	7.0	**75.5**	13.1	**362.3**	110.6
	–	–	**–**	–	**0.1**	0.2	**0.5**	0.6
	–	–	**–**	–	**–**	–	**14.0**	–
	–	–	**–**	–	**–**	–	**(7.7)**	(8.0)
	(4.7)	(4.9)	**(2.1)**	–	**(15.6)**	(9.5)	**(69.9)**	(59.2)
	51.7	14.7	**68.9**	7.0	**117.6**	47.8	**525.5**	252.1
	51.7	14.7	**68.9**	7.0	**117.6**	47.8	**525.5**	252.1

NOTES TO THE FINANCIAL STATEMENTS
PROPERTY PORTFOLIO ASSETS

NOTE 10. INVENTORIES

Land and properties held for repositioning, development and sale are recorded at the lower of cost and net realisable value. Cost is assigned by specific identification and includes the cost of acquisition, and development and holding costs such as borrowing costs, rates and taxes. Holding costs incurred after completion of development are expensed.

Transfers from investment properties to inventories occur when there is a change in intention regarding the use of the property from an intention to hold for rental income or capital appreciation purposes to an intention to develop and sell. The transfer price is recorded as the fair value of the property as at the date of transfer.

Key estimate: net realisable value (NRV) of inventories
NRV is determined using the estimated selling price in the ordinary course of business less estimated costs to bring inventories to their finished condition, including marketing and selling expenses. NRV is based on the most reliable evidence available at the time and the amount the inventories are expected to be realised. These key assumptions are reviewed annually or more frequently if indicators of impairment exist. Key estimates have been reviewed and no impairment provisions have been recognised.

(a) Inventories – land and properties held for resale

	2016 $m	2015 $m
Current assets		
Land and properties held for resale	**74.2**	110.3
Total current assets – inventories	**74.2**	110.3
Non-current assets		
Land and properties held for resale	**201.8**	164.5
Total non-current assets – inventories	**201.8**	164.5
Total assets – inventories	**276.0**	274.8

(b) Reconciliation

	Note	2016 $m	2015 $m
Opening balance at the beginning of the year		**274.8**	316.2
Transfer from investment properties	8	**79.7**	32.0
Disposals		**(114.3)**	(172.2)
Acquisitions and additions		**35.8**	98.8
Closing balance at the end of the year		**276.0**	274.8

Disposals

- On 31 July 2015, settlement occurred on the sale of 154 O'Riordan Street, Mascot, NSW for gross proceeds of $32.0 million (carrying value of $16.1 million).
- On 21 July 2015, settlement occurred on the sale of 5-13 Rosebery Avenue and 25-55 Rothschild Avenue, Rosebery, NSW for $190.0 million, represented by a $19.0 million option fee and $171.0 million settlement payment. The Group recognised the option fee over the term of the option and therefore recognised $17.3 million during the year ended 30 June 2015. The balance of $1.7 million and the settlement amount of $171.0 million (carrying value of $98.2 million) has been recognised in the period ended 30 June 2016.

NOTE 11. NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use, and a sale is considered highly probable.

Non-current assets classified as held for sale are presented separately from the other assets in the balance sheet.

Non-current assets classified as held for sale relate to investment properties and are measured at fair value. As at 30 June 2016, the balance relates to the following properties;

- The Group's 50% interest in 'The Zenith', 821 Pacific Highway, Chatswood.
- Southgate Complex at 3 Southgate Avenue, Melbourne.

Refer to note 24 for further details.

Disposals
On 4 August 2015, settlement occurred on the sale of Units 10/11, 108 Silverwater Road, Silverwater for gross proceeds of $5.5 million (carrying value of $5.5 million).

NOTES TO THE FINANCIAL STATEMENTS
CAPITAL AND FINANCIAL RISK MANAGEMENT AND WORKING CAPITAL

In this section

The Group's overall risk management program focuses on reducing volatility from impacts in movements of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. Note 12 *Capital and financial risk management* outlines how the Group manages its exposure to a variety of financial risks (interest rate risk, foreign currency risk, liquidity risk and credit risk) and details the various derivative financial instruments entered into by the Group.

The Board determines the appropriate capital structure of the Group, how much is borrowed from financial institutions and capital markets (debt), and how much is raised from shareholders (equity) in order to finance the Group's activities both now and in the future. This capital structure is detailed in the following notes:

- Debt: *Interest bearing liabilities* in note 13 and *Commitments and contingencies* in note 14;
- Equity: *Contributed equity* in note 15 and *Reserves and retained profits* in note 16.

Note 17 provides a breakdown of the working capital balances held in the Statement of Financial Position.

NOTE 12. CAPITAL AND FINANCIAL RISK MANAGEMENT

Capital and financial risk management is carried out through a centralised treasury function which is governed by a Board approved Treasury Policy. The Group has an established governance structure which consists of the Group Management Committee and Capital Markets Committee.

The Board has appointed a Group Management Committee responsible for achieving DEXUS's goals and objectives, including the prudent financial and risk management of the Group. The Group Management Committee generally meets weekly. A Capital Markets Committee has been established to advise the Group Management Committee.

The Capital Markets Committee is a management committee that is accountable to the Board. It convenes at least quarterly and conducts a review of financial risk management exposures including liquidity, funding strategies and hedging. It is also responsible for the development of financial risk management policies and funding strategies for recommendation to the Board, and the approval of treasury transactions within delegated limits and powers.

(a) Capital risk management

The Group manages its capital to ensure that entities within the Group will be able to continue as a going concern while maximising the return to owners through the optimisation of the debt and equity balance.

The capital structure of the Group consists of debt, cash and cash equivalents and equity attributable to security holders. The Group continuously monitors its capital structure and it is managed in consideration of the following factors:

- the cost of capital and the financial risks associated with each class of capital;
- gearing levels and other debt covenants;
- potential impacts on net tangible assets and security holders' equity;
- potential impacts on the Group's credit rating; and
- other market factors.

The Group has a stated target gearing level of 30% to 40%. The table below details the calculation of the gearing ratio in accordance with our primary financial covenant requirements:

	2016 $m	2015 $m
Total interest bearing liabilities[1]	**3,327.9**	2,556.3
Total tangible assets[2]	**10,998.6**	9,402.1
Gearing ratio	**30.3%**	27.2%
Gearing ratio (look-through)[3]	**30.7%**	28.5%

1 Total interest bearing liabilities excludes deferred borrowing costs and includes the impact of foreign currency fluctuations of cross currency swaps.
2 Total tangible assets comprise total assets less intangible assets, derivatives and deferred tax balances.
3 The look-through gearing ratio is adjusted for cash and debt in equity accounted investments and is not a financial covenant.

The Group is rated A- by Standard & Poor's (S&P) and A3 by Moody's. The Group is required to comply with certain financial covenants in respect of its interest bearing liabilities. During the 2015 and 2016 reporting periods, the Group was in compliance with all of its financial covenants.

DXFM is the Responsible Entity for the managed investment schemes (DDF, DOT, DIT and DXO) that are stapled to form the Group. DXFM has been issued with an Australian Financial Services Licence (AFSL). The licence is subject to certain capital requirements including the requirement to maintain liquidity above specified limits. DXFM must also prepare rolling cash projections over at least the next 12 months and demonstrate it will have access to sufficient financial resources to meet its liabilities that are expected to be payable over that period. Cash projections and assumptions are approved, at least quarterly, by the Board of the Responsible Entity.

DWPL, a wholly owned entity, has been issued with an AFSL as it is the Responsible Entity for DEXUS Wholesale Property Fund (DWPF). DEXUS Wholesale Management Limited (DWML), a wholly owned entity, has been issued with an AFSL as it is the trustee of third party managed funds. These entities are subject to the capital requirements described above.

NOTE 12. CAPITAL AND FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Financial risk management

The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group's principal financial instruments, other than derivatives, comprise cash, bank loans and capital markets issuance. The main purpose of financial instruments is to manage liquidity and hedge the Group's exposure to financial risks namely:

- interest rate risk;
- foreign currency risk;
- liquidity risk; and
- credit risk.

The Group uses derivatives to reduce the Group's exposure to fluctuations in interest rates and foreign exchange rates. These derivatives create an obligation or a right that effectively transfers one or more of the risks associated with an underlying financial instrument, asset or obligation. Derivative financial instruments that the Group may use to hedge its risks include:

- interest rate swaps;
- cross currency interest rate swaps;
- foreign exchange contracts; and
- option contracts (interest rate).

The Group does not trade in derivative instruments for speculative purposes. The Group uses different methods to measure the different types of risks to which it is exposed, including monitoring the current and forecast levels of exposure and conducting sensitivity analysis.

(i) Market risk

Interest rate risk

Interest rate risk arises from interest bearing financial assets and liabilities that the Group utilises. Non-derivative interest bearing financial instruments are predominantly short term liquid assets and long term debt issued at fixed rates which expose the Group to fair value interest rate risk as the Group may pay higher interest costs than if it were at variable rates. The Group's borrowings which have a variable interest rate give rise to cash flow interest rate risk as variable interest rates may increase.

The Group's risk management policy for interest rate risk seeks to minimise the effects of interest rate movements on its asset and liability portfolio through active management of the exposures. The policy prescribes minimum and maximum hedging amounts for the Group, which is managed on a portfolio basis.

The Group maintains a mix of offshore and local currency fixed rate and variable rate debt, as well as a mix of long term and short term debt. The Group primarily enters into interest rate swaps and cross currency interest rate swap agreements to manage the associated interest rate risk. The Group hedges the interest rate and currency risk on the majority of its foreign currency borrowings by entering into cross currency swaps, which have the economic effect of converting foreign currency borrowings to local currency borrowings at contracted rates. The derivative contracts are recorded at fair value in the Statement of Financial Position, being the market value as quoted in an active market.

As at 30 June 2016, 70.9% (2015: 95%) of the interest bearing liabilities of the Group were hedged. The average hedged percentage for the financial year was 71.3% (2015: 76%).

Interest rate swaps require settlement of net interest receivable or payable each 90 or 180 days. The settlement dates coincide with the dates on which the interest is payable on the underlying debt. The receivable and payable legs on interest rate swap contracts are settled on a net basis. The net notional amount of average fixed rate debt and interest rate swaps in place in each year and the weighted average effective hedge rate is set out below:

	June 2017 $m	June 2018 $m	June 2019 $m	June 2020 $m	June 2021 $m	> June 2022 $m
Fixed rate debt[1]						
A$ fixed rate debt	817.8	614.5	443.7	380.3	359.5	185.6
Interest rate swaps						
A$ hedged[1]	1,410.0	1,611.7	1,431.7	749.6	160.8	–
Combined fixed debt and swaps (A$ equivalent)	**2,277.8**	**2,226.2**	**1,875.3**	**1,129.9**	**520.3**	**185.6**
Hedge rate (%)	**3.48%**	**3.51%**	**3.56%**	**3.34%**	**2.94%**	**2.78%**

1 Amounts do not include fixed rate debt that has been swapped to floating rate debt through cross currency swaps.

Sensitivity analysis on interest expense

The following table shows the impact on the Group's net interest expense of a 50 basis point increase or decrease in market interest rates. The sensitivity on cash flow arises due to the impact that a change in interest rates will have on the Group's floating rate debt and derivative cash flows on average during the financial year. Net interest expense is only sensitive to movements in market rates to the extent that floating rate debt is not hedged.

		2016 (+/-) $m	2015 (+/-) $m
+/- 0.50% (50 basis points)	A$	**4.6**	3.6
Total A$ equivalent		**4.6**	3.6

The increase or decrease in interest expense is proportional to the increase or decrease in interest rates.

Sensitivity analysis on fair value of interest rate swaps

The sensitivity analysis on interest rate swaps below shows the effect on net profit or loss for changes in the fair value of interest rate swaps for a 50 basis point increase or decrease in short-term and long-term market interest rates. The sensitivity on fair value arises from the impact that changes in market rates will have on the valuation of the interest rate swaps.

The fair value of interest rate swaps is calculated as the present value of estimated future cash flows on the instruments. Although interest rate swaps are transacted for the purpose of providing the Group with an economic hedge, the Group has elected not to apply hedge accounting to these instruments. Accordingly, gains or losses arising from changes in the fair value are reflected in the profit or loss.

		2016 (+/-) $m	2015 (+/-) $m
+/- 0.50% (50 basis points)	A$	**(24.4)**	33.3
+/- 0.50% (50 basis points)	US$	**0.1**	(0.3)
Total A$ equivalent		**(24.3)**	33.0

Sensitivity analysis on fair value of cross currency swaps

The sensitivity analysis on cross currency interest rates swaps below shows the effect on net profit or loss for changes in the fair value for a 50 basis points increase and decrease in market rates. The sensitivity on fair value arises from the impact that changes in short-term and long-term market rates will have on the valuation of the cross currency swaps.

		2016 (+/-) $m	2015 (+/-) $m
+/- 0.50% (50 basis points)	US$ (A$ equivalent)	**12.4**	9.7
Total A$ equivalent		**12.4**	9.7

Foreign currency risk

Foreign currency risk refers to the risk that the value or the cash flows arising from a financial commitment, or recognised asset or liability will fluctuate due to changes in foreign currency rates. The Group's foreign currency risk arises primarily from:

- highly probable forecast transactions denominated in foreign currency; and
- borrowings denominated in foreign currency.

The objective of the Group's foreign exchange risk management policy is to ensure that movements in exchange rates have minimal adverse impact on the Group's foreign currency assets and liabilities. Refer to note 13 for the USD foreign currency exposures and management thereof via cross currency interest rate swaps.

Foreign currency assets and liabilities

Where foreign currency borrowings are used to fund Australian investments, the Group transacts cross currency swaps to reduce the risk that movements in foreign exchange rates will have an impact on security holders' equity and net tangible assets.

(ii) Liquidity risk

Liquidity risk is associated with ensuring that there are sufficient funds available to meet the Group's financial commitments as and when they fall due and planning for any unforeseen events which may curtail cash flows. The Group identifies and manages liquidity risk across the following categories:

- short-term liquidity management covering the month ahead on a rolling basis with continuous monitoring of forecast and actual cash flows;
- medium-term liquidity management of liquid assets, working capital and standby facilities to cover Group cash requirements over the next 1-24 month period. The Group maintains a level of committed borrowing facilities above the forecast committed debt requirements (liquidity headroom buffer). Committed debt includes future expenditure that has been approved by the Board or Investment Committee (as required within delegated limits); and
- long-term liquidity management through ensuring an adequate spread of maturities of borrowing facilities so that refinancing risk is not concentrated in certain time periods, and ensuring an adequate diversification of funding sources where possible, subject to market conditions.

Refinancing risk

Refinancing risk is the risk that the Group:

- will be unable to refinance its debt facilities as they mature; and/or
- will only be able to refinance its debt facilities at unfavourable interest rates and credit market conditions (margin price risk).

NOTES TO THE FINANCIAL STATEMENTS
CAPITAL AND FINANCIAL RISK MANAGEMENT AND WORKING CAPITAL

NOTE 12. CAPITAL AND FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Financial risk management (continued)

(ii) Liquidity risk (continued)

The Group's key risk management strategy for margin price risk on refinancing is to spread the maturities of debt facilities over different time periods to reduce the volume of facilities to be refinanced and the exposure to market conditions in any one period. An analysis of the contractual maturities of the Group's interest bearing liabilities and derivative financial instruments is shown in the table below. The amounts in the table represent undiscounted cash flows.

	2016					2015				
	Within one year $m	Between one and two years $m	Between two and five years $m	After five years $m	Total $m	Within one year $m	Between one and two years $m	Between two and five years $m	After five years $m	Total $m
Payables	**(116.8)**	**–**	**–**	**–**	**(116.8)**	(110.7)	–	–	–	(110.7)
Interest bearing liabilities & interest										
Fixed interest rate liabilities	**(373.4)**	**(140.3)**	**(818.3)**	**(1,631.3)**	**(2,963.3)**	(95.1)	(355.4)	(500.2)	(1,550.7)	(2,501.4)
Floating interest rate liabilities	**(80.4)**	**(449.3)**	**(865.9)**	**–**	**(1,395.6)**	(163.0)	(203.1)	(579.7)	–	(945.8)
Total interest bearing liabilities & interest[1]	**(453.8)**	**(589.6)**	**(1,684.2)**	**(1,631.3)**	**(4,358.9)**	(258.1)	(558.5)	(1,079.9)	(1,550.7)	(3,447.2)
Derivative financial instruments										
Derivative assets	**51.1**	**41.7**	**758.9**	**1,016.0**	**1,867.7**	82.5	117.3	142.9	1,466.9	1,809.6
Derivative liabilities	**(85.6)**	**(42.7)**	**(338.9)**	**(1,834.4)**	**(2,301.6)**	(66.8)	(88.0)	(103.7)	(1,043.3)	(1,301.8)
Total net derivative financial instruments[2]	**(34.5)**	**(1.0)**	**420.0**	**(818.4)**	**(433.9)**	15.7	29.3	39.2	423.6	507.8

1 Refer to note 13. Excludes deferred borrowing costs but includes estimated fees and interest.

2 The notional maturities on derivatives are shown for cross currency interest rate swaps (refer to interest rate risk) as they are the only instruments where a principal amount is exchanged. For interest rate swaps, only the net interest cash flows (not the notional principal) are included. Refer to note 12(c) for fair value of derivatives. Refer to note 14(b) for financial guarantees.

(iii) Credit risk

Credit risk is the risk that the counterparty will not fulfil its obligations under the terms of a financial instrument and will cause financial loss to the Group. The Group has exposure to credit risk on all financial assets included in the Group's Statement of Financial Position.

The Group manages this risk by:

- adopting a process for determining an approved counterparty, with consideration of qualitative factors as well as the counterparty's credit rating;
- regularly monitoring counterparty exposure within approved credit limits that are based on the lower of a S&P, Moody's and Fitch credit rating. The exposure includes the current market value of in-the-money contracts and the potential exposure, which is measured with reference to credit conversion factors as per APRA guidelines;
- entering into International Swaps and Derivatives Association (ISDA) Master Agreements once a financial institution counterparty is approved;
- monitoring tenants' exposure within approved credit limits;
- for some trade receivables, obtaining collateral where necessary in the form of bank guarantees and tenant bonds; and
- regularly monitoring loans and receivables on an ongoing basis.

A minimum S&P rating of A– (or Moody's or Fitch equivalent) is required to become or remain an approved counterparty unless otherwise approved by the DEXUS Board.

The Group is exposed to credit risk on cash balances and on derivative financial instruments with financial institutions. The Group has a policy that sets limits as to the amount of credit exposure to each financial institution. New derivatives and cash transactions are limited to financial institutions that meet minimum credit rating criteria in accordance with the Group's policy requirements.

Financial instrument transactions are spread among a number of approved financial institutions within specified credit limits to minimise the Group's exposure to any one counterparty. As a result, there is no significant concentration of credit risk for financial instruments. The maximum exposure to credit risk at 30 June 2016 is the carrying amounts of financial assets recognised on the Statement of Financial Position.

(iv) Fair value

The Group has classified its financial assets and liabilities as follows:

Financial asset/liability	Classification	Valuation basis	Reference
Receivables[1]	Loans and receivables	Amortised cost	Refer to note 17(b)
Payables[1]	Financial liability at amortised cost	Amortised cost	Refer to note 17(d)
Interest bearing liabilities	Financial liability at amortised cost	Amortised cost	Refer to note 13
Non-interest bearing loans from related party	Loans and receivables	Amortised cost	Refer to note 22
Derivatives	Fair value through profit or loss	Fair value	Refer to note 12(c)

1 The face value of these is approximately equal to their fair value; these amounts are unsecured and are usually paid within 30 days of recognition.

Financial assets and liabilities are classified in accordance with the purpose for which they were acquired. As noted in section (c) below, derivative financial instruments are initially recognised in the Statement of Financial Position at fair value on the date on which the derivative contract is entered into and subsequently remeasured to fair value.

The valuation techniques applied by the Group are consistent with those applied in prior year financial reports. The valuation technique used to measure the various financial instruments, namely foreign currency contracts and interest rate contracts, is based on market observable spot exchange rates and interest rate yield curves. This method records any change in fair value of a derivative in the Financial Statements.

The carrying amounts and estimated fair value of all the Group's financial assets and liabilities recognised in the Financial Statements are as follows:

	2016 Carrying amount[1] $m	2016 Fair value[2] $m	2015 Carrying amount[1] $m	2015 Fair value[2] $m
Financial assets				
Cash and cash equivalents	**18.1**	**18.1**	13.0	13.0
Loans and receivables (current)	**81.9**	**81.9**	55.5	55.5
Derivative assets	**477.1**	**477.1**	331.3	331.3
Total financial assets	**577.1**	**577.1**	399.8	399.8
Financial liabilities				
Trade payables	**116.8**	**116.8**	110.7	110.7
Derivative liabilities	**110.7**	**110.7**	116.4	116.4
Interest bearing liabilities				
Fixed interest bearing liabilities	**2,393.3**	**2,472.1**	1,877.1	1,984.7
Floating interest bearing liabilities	**1,306.1**	**1,306.1**	911.0	911.0
Total financial liabilities	**3,926.9**	**4,005.7**	3,015.2	3,122.8

1 Carrying value is equal to the value of the financial instruments on the Statement of Financial Position.

2 Fair value is the price that would be received to transfer the asset or liability in an orderly transaction between market participants at the measurement date. Where there is a difference between the carrying amount and fair value, the difference is not recognised in the Statement of Financial Position.

NOTE 12. CAPITAL AND FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Financial risk management (continued)

(iv) Fair value (continued)

Key assumptions: fair value of borrowings
The fair value of interest bearing liabilities has been determined based on a discounted cash flow analysis using observable market inputs (interest rates, exchange rates and currency basis) and applying a credit or debit value adjustment based on the current credit worthiness of counterparties and the Group.

The Group uses the following methods in the determination and disclosure of the fair value of financial instruments:

Level 1: the fair value is calculated using quoted prices in active markets.

Level 2: the fair value is determined using inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: the fair value is estimated using inputs for the asset or liability that are not based on observable data.

All financial instruments were measured at Level 2 for the periods presented in this report. During the year, there were no transfers between Level 1, 2 and 3 fair value measurements.

(v) Offsetting financial assets and financial liabilities

Financial assets and liabilities are offset and the net amount reported in the Statement of Financial Position where there is a legally enforceable right to set-off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously. The Group has entered into arrangements that do not meet the criteria for offsetting except in certain circumstances, such as bankruptcy or the termination of the underlying contract.

The following table presents the gross amounts of recognised financial instruments in the Statement of Financial Position as the Group does not apply the right of set-off that exists in master netting arrangements. The column ‘net amount’ shows the impact on the Group’s Statement of Financial Position if all legal rights of set-off available under the applicable master netting arrangements were exercised at 30 June 2016 and 30 June 2015.

	Gross amounts $m	Gross amounts offset in the Statement of Financial Position $m	Net amounts presented in the Statement of Financial Position $m	Amounts subject to master netting arrangements $m	Financial instrument collateral $m	Net amount $m
2016						
Financial assets						
Derivative financial instruments	477.1	–	477.1	–	–	477.1
Total	**477.1**	**–**	**477.1**	**–**	**–**	**477.1**
Financial liabilities						
Derivative financial instruments	110.7	–	110.7	–	–	110.7
Total	**110.7**	**–**	**110.7**	**–**	**–**	**110.7**
2015						
Financial assets						
Derivative financial instruments	331.3	–	331.3	–	–	331.3
Total	**331.3**	**–**	**331.3**	**–**	**–**	**331.3**
Financial liabilities						
Derivative financial instruments	116.4	–	116.4	–	–	116.4
Total	**116.4**	**–**	**116.4**	**–**	**–**	**116.4**

Master netting arrangements – not currently enforceable

Agreements with derivative counterparties are based on an ISDA Master Agreement. Under the terms of these arrangements, where certain credit events occur (such as default), the net position owing/receivable to a single counterparty in the same currency will be taken as owing and all the relevant arrangements terminated. As the Group does not presently have a legally enforceable right of set-off, these amounts have not been offset in the Statement of Financial Position, but have been presented separately in the table above.

(c) Derivative financial instruments

A derivative is a type of financial instrument typically used to manage risk. A derivative's value changes over time in response to underlying variables including interest rates or exchange rates and is entered into for a fixed period. A hedge is where a derivative is used to manage an underlying exposure and the Group uses derivatives to manage its exposure to interest rates and foreign exchange risk accordingly.

Written policies and limits are approved by the Board of Directors of the Responsible Entity, in relation to the use of financial instruments to manage financial risks. The Responsible Entity continually reviews the Group's exposures and updates its treasury policies and procedures. The Group does not trade in derivative instruments for speculative purposes.

Derivatives including interest rate swaps, the interest rate component of cross currency swaps, and foreign exchange contracts, are measured at fair value with any changes in fair value recognised in the Statement of Comprehensive Income.

At inception the Group can elect to formally designate and document the relationship between certain hedge derivative instruments (cross currency interest rate swaps only) and the associated hedged items (foreign currency bonds only). The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

Fair value hedge

A fair value hedge is a hedge of the exposure to changes in fair value of an asset or liability that is attributable to a particular risk and could affect the Statement of Comprehensive Income. Changes in the fair value of derivatives (hedging instruments) that are designated as fair value hedges are recorded in profit or loss, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk (hedged item).

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to profit or loss over the period to maturity using a recalculated effective interest rate.

Cash flow hedge

A cash flow hedge is a hedge of the exposure to variability in cash flows attributable to a particular risk to a highly probable forecast transaction pertaining to an asset or liability. The effective portion of changes in the fair value of derivatives that are designated as cash flow hedges is recognised in other comprehensive income in equity via the cash flow hedge reserve. Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss. Any gain or loss related to ineffectiveness is recognised in profit or loss immediately.

Hedge accounting is discontinued when the hedging instrument expires, is terminated, is no longer in an effective hedge relationship, is de-designated, or the forecast transaction is no longer expected to occur. The fair value gain or loss of derivatives recorded in equity is recognised in profit or loss over the period that the forecast transaction is recorded in profit or loss. If the forecast transaction is no longer expected to occur, the cumulative gain or loss in equity is recognised in profit or loss immediately.

	2016 $m	2015 $m
Current assets		
Interest rate swap contracts	**9.4**	2.6
Cross currency swap contracts	**29.2**	12.6
Total current assets – derivative financial instruments	**38.6**	15.2
Non-current assets		
Interest rate swap contracts	**2.7**	17.5
Cross currency swap contracts	**435.8**	298.6
Total non-current assets – derivative financial instruments	**438.5**	316.1
Current liabilities		
Interest rate swap contracts	**4.4**	8.3
Total current liabilities – derivative financial instruments	**4.4**	8.3
Non-current liabilities		
Interest rate swap contracts	**106.3**	108.1
Total non-current liabilities – derivative financial instruments	**106.3**	108.1
Net derivative financial instruments	**366.4**	214.9

Key assumptions: fair value of derivatives

The fair value of derivative financial instruments has been determined based on a discounted cash flow analysis using observable market inputs (interest rates, exchange rates and currency basis) and applying a credit or debit valuation adjustment based on the current credit worthiness of counterparties and the Group.

Refer to note 12(b)(iv) *Capital and financial risk management* for further detail.

NOTES TO THE FINANCIAL STATEMENTS
CAPITAL AND FINANCIAL RISK MANAGEMENT AND WORKING CAPITAL

NOTE 13. INTEREST BEARING LIABILITIES

Borrowings are initially recognised at fair value net of transaction costs and subsequently measured at amortised cost using the effective interest rate method. Under the effective interest rate method, any transaction fees, costs, discounts and premiums directly related to the borrowings are capitalised to borrowings and amortised in profit or loss over the expected life of the borrowings.

If there is an effective fair value hedge of borrowings, a fair value adjustment will be applied based on the mark to market movement in the benchmark component of the borrowings. This movement is recognised in the profit or loss. Refer note 12(b)(iv) *Capital and financial risk management* for further detail.

All borrowings with contractual maturities greater than 12 months after reporting date are classified as non-current liabilities.

	Note	2016 $m	2015 $m
Current			
Unsecured			
US senior notes	(b)	**55.2**	–
Bank loans	(c)	**50.0**	150.0
Medium term notes	(e)	**210.8**	–
Total unsecured		**316.0**	150.0
Total current liabilities – interest bearing liabilities		**316.0**	150.0
Non-current			
Unsecured			
US senior notes	(a), (b)	**1,561.5**	1,359.4
Bank loans	(c)	**1,356.0**	761.0
Commercial paper	(d)	**100.0**	100.0
Medium term notes	(e)	**365.9**	417.7
Total unsecured		**3,383.4**	2,638.1
Deferred borrowing costs		**(12.6)**	(14.1)
Total non-current liabilities – interest bearing liabilities		**3,370.8**	2,624.0
Total interest bearing liabilities		**3,686.8**	2,774.0

Financing arrangements

The following table summarises the maturity profile of the Group's financing arrangements:

Type of facility	Notes	Currency	Security	Maturity date	2016 $m Utilised[1]	2016 $m Facility limit
US senior notes (144A)	(a)	US$	Unsecured	Mar-21	**336.0**	336.0
US senior notes (USPP)	(b)	US$	Unsecured	Dec-16 to Jul-28	**1,165.2**	1,165.2
Medium term notes	(e)	A$	Unsecured	Apr-17 to Nov-25	**576.7**	576.7
Commercial paper	(d)	A$	Unsecured	Sep-18	**100.0**	100.0
Multi-option revolving credit facilities	(c)	Multi Currency	Unsecured	Jan-17 to Aug-22	**1,406.0**	1,850.0
Total					**3,583.9**	4,027.9
Bank guarantee in place					**32.1**	
Unused at balance date					**411.9**	

1 Includes drawn amounts and excludes fair value adjustments recorded in interest bearing liabilities in relation to effective fair value hedges.

Each of the Group's unsecured borrowing facilities are supported by guarantee arrangements, and have negative pledge provisions which limit the amount and type of encumbrances that the Group can have over their assets and ensures that all senior unsecured debt ranks pari passu.

(a) US senior notes (144A)

This includes a total of US$250.0 million (A$336.0 million) of US senior notes with a maturity of March 2021. The USD exposure is economically hedged using cross currency interest rate swaps with a notional value of US$250.0 million.

(b) US senior notes (USPP)

This includes a total of US$791.0 million and A$100 million (A$1,280.6 million) of US senior notes with a weighted average maturity of December 2025. US$750 million is designated as an accounting hedge using cross currency interest rate swaps with the same notional value. The remaining US$41 million is economically hedged using cross currency interest rate swaps with the same notional value.

(c) Multi-option revolving credit facilities

This includes 22 facilities maturing between January 2017 and August 2022 with a weighted average maturity of July 2019. A$32.1 million is utilised as bank guarantees for AFSL requirements and other business requirements including developments.

(d) Commercial paper

This includes a total of A$100.0 million of Commercial Paper which is supported by a standby facility of A$100.0 million with a weighted average maturity of September 2018. The standby facility has same day availability.

(e) Medium term notes

This includes a total of A$574.5 million of medium term notes with a weighted average maturity of November 2019. The remaining A$2.1 million is the net premium on the issue of these instruments.

NOTE 14. COMMITMENTS AND CONTINGENCIES

(a) Commitments

(i) Capital commitments

The following amounts represent remaining capital expenditure on investment properties and inventories contracted at the end of each reporting period but not recognised as liabilities payable:

	2016 $m	2015 $m
Investment properties	**179.4**	59.2
Inventories	**2.0**	17.8
Investments accounted for using the equity method	**13.7**	183.9
Total capital commitments	**195.1**	260.9

(ii) Lease payable commitments

The future minimum lease payments payable by the Group are:

	2016 $m	2015 $m
Within one year	**4.4**	4.0
Later than one year but not later than five years	**18.5**	11.6
Later than five years	**3.4**	5.9
Total lease payable commitments	**26.3**	21.5

Payments made under operating leases are expensed on a straight-line basis over the term of the lease, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased property.

No provisions have been recognised in respect of non-cancellable operating leases.

(iii) Lease receivable commitments

The future minimum lease payments receivable by the Group are:

	2016 $m	2015 $m
Within one year	**471.6**	387.5
Later than one year but not later than five years	**1,432.0**	996.0
Later than five years	**751.9**	391.9
Total lease receivable commitments	**2,655.5**	1,775.4

NOTES TO THE FINANCIAL STATEMENTS
CAPITAL AND FINANCIAL RISK MANAGEMENT AND WORKING CAPITAL

NOTE 14. COMMITMENTS AND CONTINGENCIES (CONTINUED)

(b) Contingencies

DDF, together with DIT, DOT and DXO, is a guarantor of A$4,027.9 million of interest bearing liabilities (refer note 13). The guarantees have been given in support of debt outstanding and drawn against these facilities, and may be called upon in the event that a borrowing entity has not complied with certain requirements such as failure to pay interest or repay a borrowing, whichever is earlier. During the period no guarantees were called.

The Group has bank guarantees of $32.1 million, comprising $30.2 million held to comply with the terms of the Australian Financial Services Licences (AFSL) and $1.9 million largely in respect of developments.

The above guarantees are issued in respect of the Group and do not constitute an additional liability to those already existing in interest bearing liabilities on the Statement of Financial Position.

The Directors of the Responsible Entity are not aware of any other contingent liabilities in relation to the Group, other than those disclosed in the Financial Statements, which should be brought to the attention of security holders as at the date of completion of this report.

NOTE 15. CONTRIBUTED EQUITY

(a) Contributed equity of unitholders of the parent entity

	2016 $m	2015 $m
Opening balance at the beginning of the year	**1,990.6**	1,833.4
Issue of additional equity, net of transaction costs	**–**	157.2
Buy-back of contributed equity, net of transaction costs	**(6.6)**	–
Closing balance at the end of the year	**1,984.0**	1,990.6

(b) Contributed equity of unitholders of other stapled entities

	2016 $m	2015 $m
Opening balance at the beginning of the year	**3,939.9**	3,625.7
Issue of additional equity, net of transaction costs	**–**	314.2
Buy-back of contributed equity, net of transaction costs	**(13.8)**	–
Closing balance at the end of the year	**3,926.1**	3,939.9

(c) Number of securities on issue

	2016 No. of securities	2015 No. of securities
Opening balance at the beginning of the year	**970,806,349**	5,433,110,810
Issue of additional equity	**–**	65,274,552
One-for-six security consolidation	**–**	(4,527,579,013)
Buy-back of contributed equity	**(2,858,657)**	–
Closing balance at the end of the year	**967,947,692**	970,806,349

Each stapled security ranks equally with all other stapled securities for the purposes of distributions and on termination of the Group.

Each stapled security entitles the holder to vote in accordance with the provisions of the Constitutions and the *Corporations Act 2001*.

Transaction costs arising on the issue of equity instruments are recognised directly in equity (net of tax) as a reduction of the proceeds of the equity instruments to which the costs relate. Transaction costs are the costs that are incurred directly in connection with the issue of those equity instruments and which would not have been incurred had those instruments not been issued.

On 29 October 2014, the Group announced a one-for-six consolidation of DEXUS Property Group stapled securities. The consolidation was completed on 14 November 2014. Where the number of securities held by a security holder following the consolidation resulted in a fraction of a security, the fraction was rounded up to the nearest whole number.

NOTE 16. RESERVES AND RETAINED PROFITS

(a) Reserves

	2016 $m	2015 $m
Asset revaluation reserve	**42.7**	42.7
Cash flow hedge reserve	**9.1**	8.6
Security-based payments reserve	**7.4**	8.1
Treasury securities reserve	**(7.1)**	(8.0)
Total reserves	**52.1**	51.4
Asset revaluation reserve		
Opening balance at the beginning of the year	**42.7**	42.7
Closing balance at the end of the year	**42.7**	42.7
Cash flow hedge reserve		
Opening balance at the beginning of the year	**8.6**	(9.3)
Changes in the fair value of cash flow hedges	**0.5**	17.9
Closing balance at the end of the year	**9.1**	8.6
Security-based payment reserve		
Opening balance at the beginning of the year	**8.1**	5.6
Issue of securities to employees	**(5.5)**	(1.3)
Security-based payments expense	**4.8**	3.8
Closing balance at the end of the year	**7.4**	8.1
Treasury securities reserve		
Opening balance at the beginning of the year	**(8.0)**	(5.3)
Issue of securities to employees	**5.5**	1.3
Purchase of securities	**(4.6)**	(4.0)
Closing balance at the end of the year	**(7.1)**	(8.0)

(b) Nature and purpose of reserves

Asset revaluation reserve

The asset revaluation reserve is used to record the fair value adjustment arising on a business combination.

Cash flow hedge reserve

The cash flow hedge reserve is used to record the effective portion of changes in the fair value of derivatives that are designated as cash flow hedges.

Security-based payments reserve

The security-based payments reserve is used to recognise the fair value of performance rights to be issued under the 2012 Transitional Performance Rights Plan, the Deferred Short Term Incentive Plans (DSTI) and the Long Term Incentive Plans (LTI). Refer to note 21 for further details.

Treasury securities reserve

The treasury securities reserve is used to record the acquisition of securities purchased to fulfil the obligations of the 2012 Transitional Performance Rights Plan, the Deferred Short Term Incentive Plans (DSTI) and the Long Term Incentive Plans (LTI). As at 30 June 2016, DXS held 1,129,577 stapled securities which includes acquisitions of 596,138 at an average price of $7.79 and unit vesting of 638,753 (2015: 1,170,525 restated to reflect the one-for-six security consolidation).

NOTE 17. WORKING CAPITAL

(a) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with financial institutions and other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(b) Receivables

Rental, management fees and interest revenue are brought to account on an accruals basis. Dividends and distributions are recognised when declared and, if not received at the end of the reporting period, reflected in the Statement of Financial Position as a receivable.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method, less provision for doubtful debts. Trade receivables are required to be settled within 30 days and are assessed on an ongoing basis for impairment. Receivables which are known to be uncollectable are written off by reducing the carrying amount directly. A provision for doubtful debts is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables.

	2016 $m	2015 $m
Rent receivable	**19.2**	13.9
Less: provision for doubtful debts	**(0.5)**	(0.2)
Total rental receivables	**18.7**	13.7
Distributions receivable	**25.5**	12.9
Fee receivable	**22.3**	18.9
Other receivables	**15.4**	10.0
Total other receivables	**62.3**	41.8
Total receivables	**81.9**	55.5

(c) Other current assets

	2016 $m	2015 $m
Prepayments	**11.1**	12.5
Deposit for the acquisition of investment property	**–**	14.8
Total other current assets	**11.1**	27.3

(d) Payables

Expenses are brought to account on an accruals basis and, if not paid at the end of the reporting period, are reflected in the Statement of Financial Position as a payable.

These amounts represent liabilities for amounts owing at the end of the reporting period. The amounts are unsecured and are usually paid within 30 days of recognition.

	2016 $m	2015 $m
Trade creditors	**34.5**	36.7
Accruals	**12.5**	15.7
Accrued capital expenditure	**20.1**	15.6
Prepaid income	**15.6**	10.8
Accrued interest	**33.0**	28.5
Other payables	**1.1**	3.4
Total payables	**116.8**	110.7

(e) Provisions

A provision is recognised when an obligation exists as a result of a past event and it is probable that a future outflow of cash or other benefit will be required to settle the obligation.

In accordance with the Trust's Constitution, the Group distributes its distributable income to unitholders by cash or reinvestment. Distributions are provided for when they are approved by the Board of Directors and declared.

Provision for employee benefits relates to the liabilities for wages, salaries, annual leave and long service leave.

Liabilities for employee benefits for wages, salaries and annual leave expected to be settled within 12 months represent present obligations resulting from employees' services provided to the end of the reporting period. They are measured based on remuneration wage and salary rates that the Group expects to pay at the end of the reporting period including related on-costs, such as workers compensation, insurance and payroll tax.

The provision for employee benefits for long service leave represents the present value of the estimated future cash outflows, to be made resulting from employees' services provided to the end of the reporting period.

The provision is calculated using expected future increases in wage and salary rates including related on-costs and expected settlement dates based on turnover history and is discounted using the Australian Corporate Bond Index rates at the end of the reporting period that most closely match the term of the maturity of the related liabilities. The provision for employee benefits also includes the employee incentives schemes which are shown separately in note 21.

	2016 $m	2015 $m
Provision for distribution	**198.0**	207.4
Provision for employee benefits	**22.8**	23.7
Total current provisions	**220.8**	231.1

Movements in each class of provision during the financial year, other than employee benefits, are set out below:

	2016 $m	2015 $m
Provision for distribution		
Opening balance at the beginning of the year	**207.4**	173.3
Additional provisions	**421.1**	385.6
Payment of distributions	**(430.5)**	(351.5)
Closing balance at the end of the year	**198.0**	207.4

A provision for distribution has been raised for the period ended 30 June 2016. This distribution is to be paid on 31 August 2016.

NOTES TO THE FINANCIAL STATEMENTS
OTHER DISCLOSURES

In this section
This section includes other information that must be disclosed to comply with the Accounting Standards, the *Corporations Act 2001* or the Corporations Regulations, but which are not considered critical in understanding the financial performance or position of the Group.

NOTE 18. INTANGIBLE ASSETS

Management rights represent the asset management rights owned by DEXUS Holdings Pty Limited, a wholly owned subsidiary of DXO, which entitle it to management fee revenue from both finite life trusts and indefinite life trusts. Those rights that are deemed to have a finite useful life (held at a value of $4.6 million (2015: $4.8 million)) are measured at cost and amortised using the straight-line method over their estimated remaining useful lives of 16 years. Management rights that are deemed to have an indefinite life are held at a value of $286.0 million (2015: $286.0 million).

Software is measured at cost and amortised using the straight-line method over its estimated useful life, expected to be 3-5 year useful lives of the assets.

	2016 $m	2015 $m
Management rights		
Opening balance at the beginning of the year	**290.8**	291.1
Amortisation charge	**(0.2)**	(0.3)
Closing balance at the end of the year	**290.6**	290.8
Cost	**294.4**	294.4
Accumulated amortisation	**(3.8)**	(3.6)
Total management rights	**290.6**	290.8
Goodwill		
Opening balance at the beginning of the year	**1.4**	1.5
Impairment	**(0.1)**	(0.1)
Closing balance at the end of the year	**1.3**	1.4
Cost	**3.0**	3.0
Accumulated impairment	**(1.7)**	(1.6)
Total goodwill	**1.3**	1.4
Software		
Opening balance at the beginning of the year	**9.2**	5.0
Additions	**9.1**	5.6
Amortisation charge	**(3.1)**	(1.4)
Closing balance at the end of the year	**15.2**	9.2
Cost	**29.5**	20.4
Accumulated amortisation	**(14.3)**	(11.2)
Total other intangible assets	**15.2**	9.2
Total non-current assets – intangible assets	**307.1**	301.4

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition.

Goodwill and management rights with an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. An impairment loss is recognised in the Statement of Comprehensive Income for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows, which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units).

During the current year, management carried out a review of the recoverable amount of its management rights. There was no change in the carrying value of the management rights in the current year.

The value in use has been determined using Board approved long-term forecasts in a five year discounted cash flow model. Forecasts were based on projected returns of the business in light of current market conditions. The performance in year five has been used as a terminal value.

Key assumptions: value in use of management rights

Judgement is required in determining the following key assumptions used to calculate the value in use:

- terminal capitalisation rate range between 10.0% – 16.7% (2015: 10.0% – 16.7%) was used incorporating an appropriate risk premium for a management business.
- cash flows have been discounted at 9.0% (2015: 9.0%) based on externally published weighted average cost of capital for an appropriate peer group plus an appropriate premium for risk. A 1.0% (2015: 1.0%) decrease in the discount rate would increase the valuation by $15.3 million (2015: $17.1 million).

NOTE 19. AUDIT, TAXATION AND TRANSACTION SERVICES FEES

During the year, the Auditor and its related practices earned the following remuneration:

	2016 $'000	2015 $'000
Audit fees		
PwC Australia – audit and review of Financial Statements	**1,381**	1,465
PwC fees paid in relation to outgoings audits	**91**	111
PwC Australia – regulatory audit and compliance services	**233**	216
PwC Australia – sustainability assurance	**68**	97
Audit fees paid to PwC	**1,773**	1,889
Taxation fees		
Fees paid to PwC Australia and New Zealand	**89**	147
Fees paid to PwC Australia in respect of the IOF acquisition	**209**	–
Taxation fees paid to PwC	**298**	147
Total audit and taxation fees paid to PwC	**2,071**	2,036
Transaction and other services fees		
Fees paid to PwC Australia in respect of the IOF acquisition	**239**	–
Fees paid to PwC Australia – other	**105**	67
Total transaction and other services fees paid to PwC	**344**	67
Total audit, taxation, transaction and other services fees paid to PwC	**2,415**	2,103

NOTES TO THE FINANCIAL STATEMENTS
OTHER DISCLOSURES

NOTE 20. RECONCILIATION OF NET PROFIT TO NET CASH FLOWS FROM OPERATING ACTIVITIES

(a) Reconciliation

	2016 $m	2015 $m
Net profit/(loss) for the year	**1,259.8**	618.7
Capitalised interest	**(9.3)**	(6.0)
Depreciation and amortisation	**5.8**	2.9
Net fair value (gain)/loss of investment properties	**(452.1)**	(130.4)
Share of net (profit)/loss of investments accounted for using the equity method	**(525.5)**	(252.1)
Net fair value (gain)/loss of derivatives	**(106.4)**	(17.4)
Net fair value (gain)/loss of interest rate swaps	**35.3**	48.5
Amortisation of deferred borrowing costs	**4.3**	3.6
Net (gain)/loss on sale of investment properties	**(1.0)**	3.0
Net fair value (gain)/loss of interest bearing liabilities	**110.8**	15.9
Foreign currency translation reserve transfer on disposal of foreign operations	**–**	2.1
Transaction costs	**7.1**	–
Provision for doubtful debts	**0.3**	0.1
Distributions from investments accounted for using the equity method	**213.2**	217.6
Change in operating assets and liabilities		
(Increase)/decrease in prepaid expenses	**1.5**	(4.5)
(Increase)/decrease in inventories	**80.5**	118.9
(Increase)/decrease in other current assets	**(7.4)**	(0.9)
(Increase)/decrease in other non-current assets	**7.3**	15.8
Increase/(decrease) in payables	**1.2**	5.9
Increase/(decrease) in current liabilities	**34.7**	(0.2)
Increase/(decrease) in other non-current liabilities	**3.2**	(1.3)
(Increase)/decrease in deferred tax assets	**(0.1)**	21.2
Net cash inflow/(outflow) from operating activities	**663.7**	661.4

(b) Capital expenditure on investment properties

Payments for capital expenditure on investment properties include $158.0 million (2015: $118.3 million) of maintenance and incentive capital expenditure.

NOTE 21. SECURITY-BASED PAYMENT

The DXFM Board has approved a grant of performance rights to DXS stapled securities to eligible participants. Awards, via the 2012 Transitional Performance Rights Plan, Deferred Short Term Incentive Plans (DSTI) and Long Term Incentive Plans (LTI), will be in the form of performance rights awarded to eligible participants which convert to DXS stapled securities for nil consideration subject to satisfying specific service and performance conditions.

For each Plan, the eligible participants will be granted performance rights, based on performance against agreed key performance indicators, as a percentage of their remuneration mix. Participants must remain in employment for the vesting period in order for the performance rights to vest. Non-market vesting conditions, including Funds from Operations (FFO), Return on Equity (ROE) and employment status at vesting, are included in assumptions about the number of performance rights that are expected to vest. When performance rights vest, the Group will arrange for the allocation and delivery of the appropriate number of securities to the participant.

The fair value of performance rights granted is recognised as an employee benefit expense with a corresponding increase in the security-based payments reserve in equity. The total amount to be expensed is determined by reference to the fair value of the performance rights granted.

Key assumptions: fair value of performance rights granted
Judgement is required in determining the fair value of performance rights granted. In accordance with AASB 2 *Share-based Payment*, fair value is determined independently using Binomial and Monte Carlo pricing models with reference to:

- the expected life of the rights;
- the security price at grant date;
- the expected price volatility of the underlying security;
- the expected distribution yield; and
- the risk free interest rate for the term of the rights and expected total security holder returns (where applicable).

The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each period, the Group revises its estimates of the number of performance rights that are expected to vest based on the non-market vesting conditions. The impact of the revised estimates, if any, is recognised in profit or loss with a corresponding adjustment to equity.

(a) 2012 Transitional Performance Rights Plan

Subject to satisfying employment service conditions, the award has vested over a four year period ending 30 June 2015. No performance rights were granted in respect of the year ended 30 June 2016 (2015: nil). The fair value of the 2012 performance rights is $nil per performance right and the total security-based payment expense recognised during the year ended 30 June 2016 was $nil (2015: $243,033).

(b) Deferred Short Term Incentive Plan

25% of any award under the Short Term Incentive Plan (STI) for certain participants will be deferred and awarded in the form of performance rights to DXS securities.

50% of the performance rights awards will vest one year after grant and 50% of the awards will vest two years after grant, subject to participants satisfying employment service conditions. In accordance with AASB 2 *Share-based Payment*, the year of employment in which participants become eligible for the DSTI, the year preceding the grant, is included in the vesting period over which the fair value of the performance rights is amortised. Consequently, 50% of the fair value of the performance rights is amortised over two years and 50% of the award is amortised over three years.

The number of performance rights granted in respect of the year ended 30 June 2016 was 292,995 (2015: 356,412) and the fair value of these performance rights is $9.14 (2015: $7.30) per performance right. The total security-based payment expense recognised during the year ended 30 June 2016 was $1,976,361 (2015: $1,974,287).

(c) Long Term Incentive Plan

50% of the awards will vest three years after grant and 50% of the awards will vest four years after grant, subject to participants satisfying employment service conditions and performance hurdles. In accordance with AASB 2 *Share-based Payment*, the year of employment in which participants become eligible for the LTI, the year preceding the grant, is included in the vesting period over which the fair value of the performance rights is amortised. Consequently, 50% of the fair value of the performance rights is amortised over four years and 50% of the award is amortised over five years.

The number of performance rights granted in respect of the year ended 30 June 2016 was 380,963(2015: 533,328). The weighted average fair value of these performance rights is $6.69 (2015: $5.43) per performance right. The total security-based payment expense recognised during the year ended 30 June 2016 was $1,116,895 (2015: $1,302,660).

NOTES TO THE FINANCIAL STATEMENTS
OTHER DISCLOSURES

NOTE 22. RELATED PARTIES

Responsible Entity and Investment Manager
DXH is the parent entity of DXFM, the Responsible Entity of DDF, DIT, DOT and DXO and the Trustee of DOTA.

DXH is also the parent entity of DWPL, the Responsible Entity of DWPF.

DXH is the Investment Manager of DOTA.

Management fees
Under the terms of the Constitutions of the entities within the Group, the Responsible Entity and Investment Manager are entitled to receive fees in relation to the management of the Group. DXFM's parent entity, DXH, is entitled to be reimbursed for administration expenses incurred on behalf of the Group. DEXUS Property Services Pty Limited (DXPS), a wholly owned subsidiary of DXH, is entitled to property management fees from the Group.

Related party transactions
Responsible Entity fees in relation to Group assets are on a cost recovery basis. All agreements with third party funds are conducted on normal commercial terms and conditions.

DEXUS Wholesale Property Fund

	2016 $	2015 $
Responsible Entity fee income	**32,861**	28,050
Property management fee income	**16,766**	12,405
Rent paid	**51**	63
Responsible Entity fees receivable at the end of each reporting period (included above)	**3,613**	2,453
Property management fees receivable at the end of each reporting period (included above)	**1,685**	1,742
Administration expenses receivable at the end of each reporting period (included above)	**268**	89

Investments accounted for using the equity method

	2016 $	2015 $
Asset management fee income	**11,498**	10,214
Property management fee income	**14,837**	15,156
Rent paid	**2,046**	1,235
Responsible Entity fees receivable at the end of each reporting period (included above)	**2,924**	2,594
Property management fees receivable at the end of each reporting period (included above)	**25**	2,915
Administration expenses receivable at the end of each reporting period (included above)	**27**	511

Directors

The following persons were Directors of DXFM at all times during the year and to the date of this report, unless otherwise stated:

E A Alexander, AM, BComm, FCA, FAICD, FCPA [1,4]
P Bingham-Hall, BA (Industrial Design), FAICD, SF (Fin) [1,3,5,6]
J C Conde, AO, BSc, BE (Hons), MBA [1,2,3]
T Dwyer, BJuris (Hons), LLB (Hons) [1,4,5]
W R Sheppard, BEc (Hons) [1,2,3,4,5]
D J Steinberg, BEc, FRICS, FAPI [1,2,6]
P B St George, CA(SA), MBA [1,4,5]

1 Independent Director.
2 Board Nomination Committee Member as at 30 June 2016.
3 Board People & Remuneration Committee Member as at 30 June 2016.
4 Board Audit Committee Member as at 30 June 2016.
5 Board Risk Committee Member as at 30 June 2016.
6 Mr Steinberg ceased to be a member of the Board Nomination Committee and was replaced by Ms Bingham-Hall effective 27 July 2016.

Other key management personnel

In addition to the Directors listed above, the following persons were deemed by the Board Nomination Committee to be key management personnel during all or part of the financial year:

Name	Title
Alison Harrop	Chief Financial Officer
Ross Du Vernet	Chief Investment Officer
Craig Mitchell	Chief Operating Officer
Deborah Coakley	Executive General Manager, Customer & Marketing
Kevin George	Executive General Manager, Office & Industrial

Key management personnel compensation

	2016 $'000	2015 $'000
Compensation		
Short-term employee benefits	**8,130**	7,453
Post-employment benefits	**235**	220
Security-based payments	**2,456**	2,595
	10,821	10,268

Equity instrument disclosures relating to key management personnel

The relevant interest in DXS stapled securities held during the financial year by each key management personnel, including their personally related parties, are set out below:

	Opening balance 1 July 2015	Purchases	Performance rights granted	Other change	Closing balance 30 June 2016
Directors	1,068,187	8,200	387,044	(436,477)	**1,026,954**
Other key management personnel	348,396	–	181,362	51,507	**581,265**
Total	**1,416,583**	**8,200**	**568,406**	**(384,970)**	**1,608,219**

The DXFM Board has approved a grant of performance rights to DXS stapled securities to eligible participants (refer to note 21). Details of the number of performance rights issued to each of the key management personnel are set out in section 3 of the Directors' Report.

There were no loans or other transactions with key management personnel or their related parties during the years ended 30 June 2016 and 30 June 2015.

NOTES TO THE FINANCIAL STATEMENTS
OTHER DISCLOSURES

NOTE 23. PARENT ENTITY DISCLOSURES

The financial information for the parent entity of DEXUS Diversified Trust has been prepared on the same basis as the consolidated Financial Statements except as set out below:

Distributions received from associates are recognised in the parent entity's Statement of Comprehensive Income, rather than being deducted from the carrying amount of these investments.

Interests held by the parent entity in controlled entities are measured at fair value through profit and loss to reduce a measurement or recognition inconsistency.

(a) Summary financial information

The individual Financial Statements for the parent entity show the following aggregate amounts:

	2016 $m	2015 $m
Total current assets	**609.1**	105.6
Total assets	**3,989.7**	3,724.6
Total current liabilities	**118.7**	183.4
Total liabilities	**1,674.8**	1,535.0
Equity		
Contributed equity	**1,984.0**	1,990.6
Reserves	**9.1**	8.6
Retained profits	**321.8**	190.4
Total equity	**2,314.8**	2,189.6
Net profit/(loss) for the year	**259.5**	174.7
Total comprehensive income/(loss) for the year	**260.0**	183.4

(b) Guarantees entered into by the parent entity

Refer to note 14(b) for details of guarantees entered into by the parent entity.

(c) Contingent liabilities

The parent entity had no contingent liabilities as at 30 June 2016 (2015: nil).

(d) Capital commitments

The following amounts represent capital expenditure of the parent entity on investment properties contracted at the end of the reporting period but not recognised as liabilities payable:

	2016 $m	2015 $m
Investment properties	**6.2**	3.0
Total capital commitments	**6.2**	3.0

NOTE 24. SUBSEQUENT EVENTS

On 1 July 2016, settlement occurred on the sale of 57-65 Templar Road, Erskine Park, NSW for gross proceeds of $50 million.

On 6 July 2016, contracts were exchanged for the sale of 108 North Terrace, Adelaide, SA for gross proceeds of $86.5 million. The property is owned by the DEXUS Office Partnership, in which the Group has a 50% interest.

On 29 July 2016, settlement occurred on the sale of The Zenith, 821 Pacific Highway, Chatswood, NSW for gross proceeds of $139.5 million.

On 5 August 2016, contracts were exchanged for the sale of 79-99 St Hilliers Road, Auburn, NSW for gross proceeds of $65 million.

On 5 August 2016, the Group exchanged contracts for the sale of the Southgate Complex at 3 Southgate Avenue, Southbank, VIC for gross proceeds of $578.0 million. The sale is conditional on the purchaser receiving Foreign Investment Review Board (FIRB) approval.

Since the end of the year, other than the matters disclosed above, the Directors are not aware of any matter or circumstance not otherwise dealt with in their Directors' Report or the Financial Statements that has significantly or may significantly affect the operations of the Group, the results of those operations, or state of the Group's affairs in future financial periods.

DIRECTORS' DECLARATION

The Directors of DEXUS Funds Management Limited as Responsible Entity of DEXUS Diversified Trust declare that the Financial Statements and notes set out on pages 52 to 96:

(i) comply with Australian Accounting Standards, the *Corporations Act 2001* and other mandatory professional reporting requirements; and

(ii) give a true and fair view of the Group's financial position as at 30 June 2016 and of their performance, as represented by the results of their operations and their cash flows, for the year ended on that date.

In the Directors' opinion:

(a) the Financial Statements and notes are in accordance with the *Corporations Act 2001*;

(b) there are reasonable grounds to believe that the Group and its consolidated entities will be able to pay their debts as and when they become due and payable; and

(c) the Group has operated in accordance with the provisions of the Constitution dated 15 August 1984 (as amended) during the year ended 30 June 2016.

The Financial Statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The Directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer required by section 295A of the *Corporations Act 2001*.

This declaration is made in accordance with a resolution of the Directors.

W Richard Sheppard
Chair

16 August 2016

pwc

Independent auditor's report to the stapled security holders of DEXUS Diversified Trust

Report on the financial report

We have audited the accompanying financial report of DEXUS Diversified Trust (the registered scheme), which comprises the consolidated statement of financial position as at 30 June 2016, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for the DEXUS Property Group (the consolidated entity). The DEXUS Property Group comprises the registered scheme and the entities it controlled at year's end or from time to time during the financial year as disclosed in the Basis of preparation.

Directors' responsibility for the financial report

The directors of DEXUS Funds Management Limited (the responsible entity) are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In the Basis of preparation, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the consolidated entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

pwc

Auditor's opinion

In our opinion:

(a) the financial report of DEXUS Diversified Trust is in accordance with the *Corporations Act 2001,* including:

(i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

(b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in the Basis of preparation.

Report on the Remuneration Report

We have audited the remuneration report included in pages 31 to 48 of the directors' report for the year ended 30 June 2016. The directors of the registered scheme are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion

In our opinion, the remuneration report of DEXUS Diversified Trust for the year ended 30 June 2016 complies with section 300A of the *Corporations Act 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers

E A Barron
Partner

Sydney
16 August 2016

ADDITIONAL INFORMATION

TOP 20 SECURITY HOLDERS AT 29 JULY 2016

Rank	Name	No. of units	% of issued capital
1	HSBC Custody Nominees (Australia) Limited	327,983,526	33.88
2	National Nominees Limited	200,545,735	20.72
3	J P Morgan Nominees Australia Limited	175,600,115	18.14
4	Citicorp Nominees Pty Limited	99,403,190	10.27
5	BNP Paribas Nominees Pty Ltd <DRP>	27,120,225	2.80
6	Citicorp Nominees Pty Limited <Colonial First State Inv A/C>	8,172,286	0.87
7	AMP Life Limited	7,368,627	0.76
8	BNP Paribas Nominees Pty Limited <Agency Lending DRP A/C>	5,008,433	0.52
9	IOOF Investment Management Limited <IPS Super A/C>	4,511,186	0.47
10	National Nominees Limited <N A/C>	2,314,951	0.24
11	Bond Street Custodians Limited <ENH Property Securities A/C>	2,307,293	0.24
12	RBC Investor Services Australia Nominees Pty Limited <BKCust A/C>	1,904,278	0.20
13	HSBC Custody Nominees (Australia) Limited	1,376,442	0.14
14	Share Direct Nominees Pty Ltd <10015 A/C>	1,256,728	0.13
15	BNP Paribas Nom (NZ) Ltd <DRP>	1,240,302	0.13
16	Pacific Custodians Pty Limited <Perf Rights Plans Tst>	1,130,314	0.12
17	RBC Investor Services Australia Nominees Pty Limited <PISELECT>	954,295	0.10
18	HSBC Custody Nominees (Australia) Limited – A/C 2	929,523	0.10
19	HSBC Custody Nominees (Australia) Limited – GSCO ECA	852,060	0.09
20	Bond Street Custodians Limited <Property Securities A/C>	813,928	0.08
	Total top 20 security holders	**870,793,437**	**89.96**
	Balance of register	**97,154,255**	**10.04**
	Total securities on issue	**967,947,692**	**100.00**

SUBSTANTIAL HOLDERS AT 29 JULY 2016

The names of substantial holders, who at 29 July 2016 have notified the Responsible Entity in accordance with section 671B of the *Corporations Act 2001*, are:

Date	Name	Number of stapled securities	% voting
16-Nov-15	Vanguard Group	77,881,040	8.05%
25-Feb-16	State Street Corporation	71,465,941	7.38%
24-Mar-14	Blackrock Group[1]	366,488,530	6.81%
11-Jul-16	The Bank of New York Mellon Corporation	60,381,179	6.24%

1. As disclosed in a substantial holder notice lodged on 24 March 2014 by Blackrock Group, number of securities held unadjusted for 1:6 security consolidation implemented 17 November 2014.

CLASS OF SECURITIES

DEXUS Property Group has one class of stapled security trading on the ASX with security holders holding stapled securities at 29 July 2016.

Spread of securities at 29 July 2016

Range	Securities	%	No. of Holders
100,001 and over	884,367,750	91.37	68
50,001 to 100,000	2,706,562	0.28	41
10,001 to 50,000	19,287,614	1.99	1,157
5,001 to 10,000	19,565,597	2.02	2,850
1,001 to 5,000	36,091,379	3.73	15,256
1 to 1,000	5,928,790	0.61	11,825
Total	**967,947,692**	**100.00**	**31,197**

At 29 July 2016, the number of security holders holding less than a marketable parcel of 52 Securities ($500) was 401 and they hold in total 2,413 securities.

VOTING RIGHTS

At meetings of the security holders of DEXUS Diversified Trust, DEXUS Industrial Trust, DEXUS Office Trust and DEXUS Operations Trust, being the Trusts that comprise DEXUS Property Group, on a show of hands, each security holder of each Trust has one vote. On a poll, each security holder of each Trust has one vote for each dollar of the value of the total interests they have in the Trust.

SECURITIES RESTRICTED OR SUBJECT TO VOLUNTARY ESCROW

There are no stapled securities that are restricted or subject to voluntary escrow.

ON-MARKET BUY-BACK

DEXUS announced an on-market securities buy-back program on 1 September 2015 for up to 5% of securities, which was suspended on 7 December 2015. DEXUS acquired 2,858,657 DEXUS securities from this program.

COST BASE APPORTIONMENT

For capital gains tax purposes, the cost base apportionment details for DEXUS securities for the 12 months ended 30 June 2016 are:

Date	DEXUS Diversified Trust	DEXUS Industrial Trust	DEXUS Office Trust	DEXUS Operating Trust
1 Jul 2015 to 31 Dec 2015	33.33%	13.67%	49.86%	4.14%
1 Jan 2016 to 30 Jun 2016	30.67%	12.83%	51.56%	4.94%

Historical cost base details are available at www.dexus.com

INVESTOR INFORMATION

We recognise the importance of effective communication with existing and potential institutional investors, sell-side analysts and retail investors

Our senior management maintain a strong rapport with the investment community through proactive and regular investor engagement initiatives. We are committed to delivering high levels of transparency and disclosure by:

- Releasing accurate and relevant information to investors to ensure they can make informed investment decisions.
- Providing regular access to senior management through one-on-one meetings, presentations, property tours, conferences, dedicated investor roadshows, conference calls and webcasts.

We adopt strong corporate governance including a policy that ensures a minimum of two DEXUS representatives participate in any investor or sell-side analyst meetings and that a record of the meeting is maintained on an internal customer relationship management database.

During FY16, our senior management together with the Investor Relations (IR) team held 324 meetings (including telephone calls/conferences) to discuss the Group's business strategy, and operational and financial performance. DEXUS also participated in investor conferences and roadshows in Australia, Singapore, Hong Kong, New York and Japan. These conferences and roadshows enabled access to potential new investors and assisted with strengthening existing relationships with long term investors.

Our IR team arranged tours of DEXUS's properties with investors and sell-side analysts to increase awareness of the quality of the portfolio, DEXUS's active asset management approach and importantly where DEXUS creates value. During FY16, we hosted a Sydney CBD property tour and a Brisbane property tour coinciding with the opening of 480 Queen Street in Brisbane, the premium grade office building completed during the year.

We regularly commission independent investor perception studies to gather feedback from the institutional investment community. These studies involve independent surveys and interviews with institutional investors and sell-side analysts to measure investor perceptions on a number of attributes and report on the findings. The results help the Board and Executive team understand the investment community's views and concerns and assists in the enhancement of the Group's Investor Relations and communications efforts.

ANNUAL GENERAL MEETING

On Wednesday, 26 October 2016, commencing at 2.00pm, DEXUS's Annual General Meeting (AGM) will be held in Sydney. Details relating to the meeting, including the venue location will be provided to all investors in the Notice of Meeting. We invite you to attend the AGM in person to meet the Board of Directors and members of the Executive team. The AGM will be webcast at www.dexus.com for investors who are unable to attend in person.

DISTRIBUTION PAYMENTS

DEXUS's payout policy is to distribute in line with free cash flow. 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 investor login facility at www.dexus.com/update

UNCLAIMED DISTRIBUTION INCOME

Unpresented cheques or unclaimed distribution income can be claimed by contacting the DEXUS Infoline on +61 1800 819 675. For monies outstanding greater than seven years, please contact the NSW Office of State Revenue on +61 1300 366 016, use their search facility at osr.nsw.gov.au/ucm or email unclaimedmoney@osr.nsw.gov.au

ANNUAL TAXATION STATEMENTS

An annual taxation statement is sent to investors at the end of August each year. The statement summarises distributions provided during the financial year and includes information required to complete your tax return. Annual taxation statements are also available online at www.dexus.com/update

2017 REPORTING CALENDAR

2016 Annual General Meeting
26 October 2016

2017 Half year results
15 February 2017

2017 Annual results
16 August 2017

2017 Annual General Meeting
24 October 2017

2017 DISTRIBUTION CALENDAR

Period end	ASX announcement	Ex-distribution date	Record date	Payment date
31 Dec 2016	26 Dec 2016	29 Dec 2016	30 Dec 2016	27 Feb 2017
30 Jun 2017	26 Jun 2017	29 Jun 2017	30 Jun 2017	29 Aug 2017

Please note that these dates are indicative and are subject to change without prior notice.
Any changes in our key dates will be published on our website.

GO ELECTRONIC FOR CONVENIENCE AND SPEED

Did you know you can receive all or part of your security holder communications electronically. You can change your communication preferences at any time by logging in at **www.dexus.com/update** or by contacting Link Market Services on **1800 819 675.**

INVESTOR COMMUNICATIONS

DEXUS is committed to ensuring all investors have equal access to information. In line with the Group's commitment to long term integration of sustainable business practices, investor communications are provided via various electronic methods including:

DEXUS's website – www.dexus.com
we launched a new website this year and invite you to view the wide range of information it provides about DEXUS.

Other investor tools available include:

Online enquiry – www.dexus.com/enquire
is an ease online enquiry form

Investor login – www.dexus.com/update
enables investors to update their details and download statements

Subscribe to alerts – www.dexus.com/subscribe
enables investors to receive DEXUS communications immediately after release

Key dates – notifies investors on key events and reporting dates

LinkedIn – We engage with our followers on LinkedIn. To receive our LinkedIn communications – www.dexus.com/LinkedIn and click Follow us

DEXUS IR App – provides users access to our investor communications and security price. Download for free from Apple's App Store or Google Play

Available on the iPhone
App Store

Google play

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 DEXUS Infoline on +61 1800 819 675. This service is available from 8.30am to 5.30pm (Sydney time) on all business days.

All correspondence should be addressed to:

DEXUS Property Group
C/- Link Market Services Limited
Locked Bag A14
Sydney South NSW 1235

Email: dexus@linkmarketservices.com.au

DEXUS is committed to delivering a high level of service to all investors. If you feel DEXUS could improve its service or you would like to make a suggestion or a complaint, your feedback is appreciated. DEXUS's contact details are:

Investor Relations
DEXUS Property Group
PO Box R1822
Royal Exchange NSW 1225

Email: ir@dexus.com

DEXUS Funds Management Limited is also a member of the Financial Ombudsman Service (FOS), an independent dispute resolution scheme. If you are not satisfied with the resolution of your complaint, you may refer your complaint to FOS.

Financial Ombudsman Service
GPO Box 3
Melbourne VIC 3001
Phone: 1300 780 808
Email: info@fos.org.au

KEY ASX ANNOUNCEMENTS

Key ASX Announcements	
17.08.16	2016 Property Synopsis and Debt Summary
17.08.16	2016 Annual Results Presentation
17.08.16	2016 Annual Results Release
17.08.16	2016 Final distribution details
17.08.16	Appendix 4E and Financial Reports as at 30 June 2016
09.08.16	Appendix 3Y
08.08.16	Sale of Auburn property contributes to FY17 trading profits
08.08.16	Asset sales to progressively fund development pipeline
29.07.16	Settlement of the sale of The Zenith, Chatswood
28.06.16	Further increases in property valuations for FY16
21.06.16	Asian Investor Roadshow
20.06.16	Appendix 3A.1 Notification of Distribution
20.06.16	Distribution details for six months ended 30 June 2016
09.06.16	Brisbane property tour
20.05.16	Sale of The Zenith, 821 Pacific Highway, Chatswood
04.05.16	March 2016 quarter portfolio update
04.05.16	Macquarie Australia Conference presentation
28.04.16	Appendix 3Z – Final Director's Interest Notice – Craig Mitchell
22.04.16	DEXUS and DWPF settle on 100 Mount Street, North Sydney
20.04.16	Resignation of COO and Executive Director
13.04.16	DEXUS notes acquisition of interest in IOF by Cromwell Trust
11.04.16	IOF Takeovers Panel declaration, orders and IOMH disclosure
30.03.16	IOF Special Distribution if DEXUS Proposal becomes effective
29.03.16	IOF debt consents
23.03.16	Significant leasing success de-risks DEXUS office portfolio
22.03.16	IOF – Panel receives application
21.03.16	Independent Board Committee of Investa Office Fund releases response to IOM Document
09.03.16	IOF releases NOM and EM for DEXUS Proposal
29.02.16	31 December 2015 distribution
17.02.16	Appendix 4D and Financial Statements as at 31 December 2015
17.02.16	31 December 2015 Final distribution details
17.02.16	HY16 Results Release and Review
17.02.16	HY16 Results Presentation
17.02.16	HY16 Property Synopsis spreadsheet
17.02.16	Appointment of Company Secretary
11.02.16	DEXUS and DWPF acquire North Sydney site for premium office development
19.01.16	IOF Scheme Update – ACCC approval received
18.12.15	DEXUS and IOF enter into Implementation Agreement
18.12.15	DEXUS and IOF enter into Implementation Agreement presentation

Key ASX Announcements	
17.12.15	Appendix 3A.1 Notification of Distribution
17.12.15	Distribution details for the six months to 31 December 2015
11.12.15	Significant increase in valuations across the DEXUS portfolio
07.12.15	DEXUS and IOF agree process and terms for merger
18.11.15	Morgan Stanley 14th Annual Asia Pacific Summit presentation
13.11.15	Settlement of 36 George Street, Burwood
30.10.15	Appendix 3Y – Change of Director's Interest Notice – Darren Steinberg
30.10.15	Appendix 3Z – Final Director's Interest Notice – Chris Beare
28.10.15	Sale of Erskine Park to contribute to FY17 trading profits
28.10.15	2015 Annual General Meeting results
28.10.15	2015 Annual General Meeting
22.10.15	September 2015 quarter portfolio update and office insights tour
21.10.15	ASX Investor Series presentation
06.10.15	Changes to the Executive General Management team
01.10.15	Settlement of Waterfront Place Complex, Brisbane
29.09.15	Sale of 36 George Street, Burwood at premium to book value
16.09.15	2015 Notice of Annual General Meeting
01.09.15	DEXUS on-market securities buy-back
31.08.15	2015 Annual reporting suite
31.08.15	Appendix 4G – Key to Disclosures Corporate Governance Council Principles and Recommendations
25.08.15	Changes to the Board
18.08.15	Appendix 3Y – Change of Director's Interest Notice – Penny Bingham-Hall

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
W Richard Sheppard, Chair
Elizabeth A Alexander AM
Penny Bingham-Hall
John C Conde AO
Tonianne Dwyer
Darren J Steinberg, CEO
Peter B St George

SECRETARIES OF THE RESPONSIBLE ENTITY
Brett Cameron
Rachel Caralis

REGISTERED OFFICE OF THE RESPONSIBLE ENTITY
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Link Market Services Limited
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Open Monday to Friday between 8.30am and 5.30pm (Sydney time).

For enquiries regarding security holdings, contact the security registry, or access security holding details at www.dexus.com/update

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ASX Code: DXS

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ABOUT THIS REPORT

The 2016 Annual Report is a consolidated summary of DEXUS Property Group's performance for the financial year ended 30 June 2016. This report should be read in conjunction with the reports that comprise the 2016 Annual Reporting Suite.

In this report, unless otherwise stated, references to 'DEXUS Property Group', 'the Group', 'we', 'us' and 'our' refer to DEXUS Property Group comprising the ASX listed entity and the Third Party Funds Management business. References to 'DEXUS' relate specifically to the portfolio of properties in the ASX listed entity. Any reference in this report to a 'year' relates to the financial year ended 30 June 2016. All dollar figures are expressed in Australian dollars unless otherwise stated.

DEXUS referred to the Global Reporting Initiative (GRI) Sustainability Reporting Guidelines to determine the report's boundaries for guidance on identifying and reporting its material issues, management approaches and reporting key performance indicators across stakeholder groups including investors, employees, customers, suppliers and the community. The 2016 Annual Reporting Suite has been prepared in accordance with GRI G4 'Core' reporting guidelines and nominated indicators have been externally assured. The GRI index is provided with the 2016 DEXUS Performance Pack at www.dexus.com/gri

DEXUS's Funds From Operations (FFO) is in line with Property Council of Australia's 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 foreign exchange (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.

REPORT SCOPE
The Annual Report covers financial performance at all locations. Environmental data only includes properties under the Group's operational control as defined under the National Greenhouse and Energy Reporting System (NGER Act). All resource performance figures in this report display consumption and GHG emissions on an intensity (per square metre) basis. Absolute consumption and additional information is provided in the 2016 Performance Pack available from the online reporting suite at www.dexus.com

INDEPENDENT ASSURANCE
In addition to auditing DEXUS's Financial Statements, PricewaterhouseCoopers (PwC) has provided limited assurance over select data from Australia and New Zealand within the integrated online reporting suite. This covers the 12 months to 30 June 2016 in accordance with reporting criteria www.dexus.com. The assurance statement, the GRI verification report and associated reporting criteria documents will be available from the online reporting suite in early September 2016.

Property expertise.
Institutional rigour.
Entrepreneurial spirit.

www.dexus.com

DEXUS
PROPERTY GROUP