Dexus (ASX: DXS)

ASX release

16 August 2017

2017 Annual Report

Dexus provides its 2017 Annual Report which will be mailed to Security holders who have elected to receive a copy on 29 August 2017.

For further information please contact:

Investor Relations	Media Relations
Melanie Bourke	Louise Murray
+61 2 9017 1168	+61 2 9017 1446
+61 405 130 824	+61 403 260 754
melanie.bourke@dexus.com	louise.murray@dexus.com

About Dexus

Dexus is one of Australia's leading real estate groups, proudly managing a high quality Australian property portfolio valued at $24.9 billion. We believe that the strength and quality of our relationships will always be central to our success, and are deeply committed to working with our customers to provide spaces that engage and inspire. We invest only in Australia, and directly own $12.2 billion of office and industrial properties. We manage a further $12.7 billion of office, retail, industrial and healthcare properties for third party clients. The group's $4.3 billion development pipeline provides the opportunity to grow both portfolios and enhance future returns. With 1.8 million square metres of office workspace across 54 properties, we are Australia's preferred office partner. Dexus is a Top 50 entity by market capitalisation listed on the Australian Securities Exchange (trading code: DXS) and is supported by 28,000 investors from 20 countries. With more than 30 years of expertise in property investment, development and asset management, we have a proven track record in capital and risk management, providing service excellence to tenants and delivering superior risk-adjusted returns for investors. www.dexus.com

Download the Dexus IR app

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.

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

dexus

Annual Report 2017

Thinking ahead

Thinking ahead

In a constantly evolving investment and business environment, we are keeping a close eye on the future and have identified the key areas of cities, customer, sustainability and workplace culture where Dexus has an opportunity to differentiate itself.

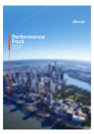
2017 Annual Reporting Suite

Dexus presents its 2017 Annual Reporting Suite for the year ended 30 June 2017.

1. 2017 Annual Report
An integrated report providing Dexus's Consolidated Financial Report, Operating and Financial Review and Corporate Responsibility and Sustainability (CR&S) performance.

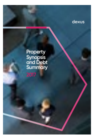
2. 2017 Combined Financial Statements
Comprises the Financial Statements for Dexus Industrial Trust, Dexus Office Trust and Dexus Operations Trust. This report should be read in conjunction with the 2017 Annual Report.

3. 2017 Performance Pack
Provides data and detailed information supporting the results outlined in the 2017 Annual Report available in the online 2017 Annual Reporting Suite at www.dexus.com



4. 2017 Annual Results Presentation
Provides an overview of Dexus's operational and financial performance available in the online 2017 Annual Reporting Suite at www.dexus.com

5. 2017 Property Synopsis and Debt Summary
Provides an overview of the Dexus property portfolio and capital management position available in the online 2017 Annual Reporting Suite at www.dexus.com.



The 2017 Annual Reporting Suite is available in hard copy by email request to ir@dexus.com or by calling +61 1800 819 675.

www.dexus2017.reportonline.com.au

This section outlines our strategy, key achievements and how we created value in line with our strategic objectives.

This section summarises the performance of our three key earnings drivers.

FY17 Highlights

Growth in distribution per security

4.5%

Achieved return on equity

18.2%

Realised trading profits post-tax

$47.2m

Office portfolio like-for-like income growth

2.6%

Record level of industrial leasing

432,105sqm

Achieved female representation at senior levels

33%

Achieved 5 star NABERS Energy ratings or above over 634,594sqm across

63.4%

of the office portfolio progressing the 1,000,000sqm target by 2020

Launched an unlisted healthcare property fund

This section identifies four key areas where there is an opportunity for Dexus to differentiate itself.

About Dexus

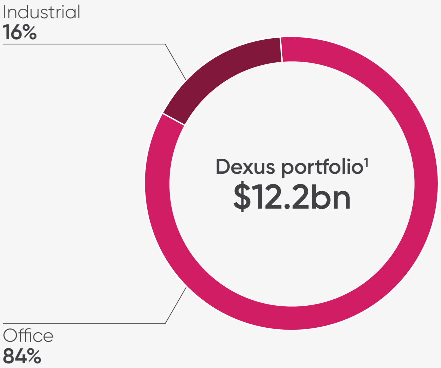
Dexus is one of Australia's leading real estate groups, proudly managing a high quality Australian property portfolio valued at $24.9 billion.

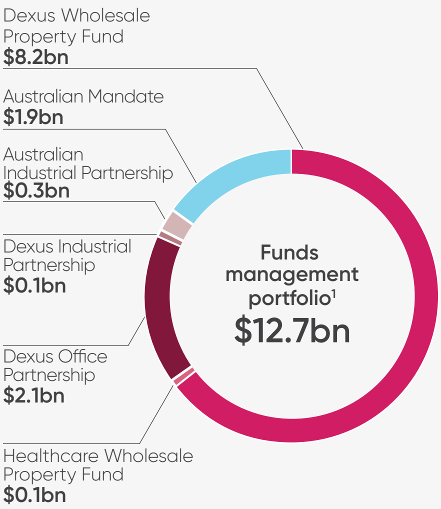
We believe that the strength and quality of our relationships will always be central to our success, and are deeply committed to working with our customers to provide spaces that engage and inspire.

We invest only in Australia, and directly own $12.2 billion of office and industrial properties. We manage a further $12.7 billion of office, retail, industrial and healthcare properties for third party clients. The Group's $4.3 billion development pipeline provides the opportunity to grow both portfolios and enhance future returns.

With 1.8 million square metres of office workspace across 54 properties, we are focused on being Australia's preferred office partner. Our portfolio also includes 73 industrial properties and 16 shopping centres under management across Australia.

Dexus is a Top 50 entity by market capitalisation listed on the Australian Securities Exchange (trading code: DXS) and is supported by 28,000 investors from 20 countries. With more than 30 years of expertise in property, investment, development and asset management, we have a proven track record in providing service excellence to our customers, capital and risk management and delivering superior risk adjusted returns for our investors.





$24.9bn
Total funds under management[1]

143
Properties

4.5m
Square metres across the group

425
Property professionals

$9.6bn
Market capitalisation

Top 50
Entity on ASX

1. Portfolio metrics for 30 June 2017, including portfolio value, area, occupancy and WALE are adjusted for the transactions settled up to 16 August 2017.

Chair and CEO review

Dear Security holder

Property is a long dated asset class and successful property companies focus on the long term. Five years ago we updated our strategy, building on our foundational strengths of office ownership and funds management to enhance our position in the Australian property market. In that time we have provided an average total security holder return of 17.4% per annum and grown our total funds under management from $12.9 billion to $24.9 billion, and we are well positioned to continue the momentum we see in our business today.

We continue to focus our investment strategy on Australia's major cities, with management of 1.8 million square metres of office space across 54 properties. Our portfolio also includes Australian industrial, retail and healthcare properties under management, providing the opportunity for us to offer our customers flexible workspace solutions and great customer experiences. Our model enables us to leverage our multi-sector capabilities and scale to access diverse pools of capital and be a wholesale partner of choice.

In FY17 we delivered on what we set out to achieve, ensuring both a strong financial and operational result, while continuing to create long term value for our investors.

Achieved strong financial result

Dexus's net profit increased 0.3% to $1,264.2 million supported by strong valuation increases. Our full year distribution of 45.47 cents per security was at the upper end of guidance and an increase of 4.5% on the prior year. Underlying Funds From Operations per security, which excludes trading profits, increased 4.2%, highlighting the strong contribution from the property portfolio and funds management business. At 30 June 2017, Dexus's gearing[1] (look-through) was 26.7%[2], below the 30-40% target range.

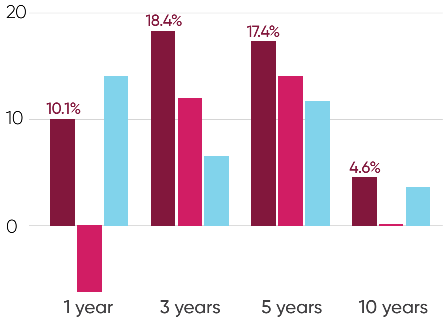
Dexus delivered a Return on Contributed Equity[3] of 7.6% and a Return on Equity[4] of 18.2%.

Chair and CEO review continued

Continued strong outperformance

Dexus outperformed the S&P/ASX 200 Property Accumulation (A-REIT) Index by 164 basis points, delivering a 10.1% total return for the year.

Dexus total return performance as at 30 June 2017



■ DXS ■ S&P/ASX 200 A-REIT Index ■ S&P/ASX 200 Index

Source: UBS Australia.

Committed to strategy and delivering results

Our business model has been designed to deliver results through the cycle and in FY17, all of our earnings drivers contributed positively to the result. **(refer to page 8)**

Across our **property portfolio**, we achieved strong valuation increases of $704.7 million, up 6.5% on prior book values. Our office and industrial portfolios delivered 2.6% and 3.6% like-for-like income growth respectively. Strong returns were driven by active leasing, most notably at our properties in the buoyant Sydney and Melbourne markets. **(refer to page 10)**

In our **funds management** business we continued to deliver performance for our clients through transactions, the completion of developments and valuation growth. Delivering on our strategic objective to be a wholesale partner of choice, we established a joint venture with Commercial & General and launched a new unlisted healthcare property fund in FY18, which will be focused on creating a scalable portfolio of healthcare properties. **(refer to page 11)**

Our **trading** portfolio delivered $47.2 million in trading profits net of tax by leveraging our capabilities across the entire Dexus platform. In addition, further opportunities were added to the pipeline. **(refer to page 11)**

Creating value for the future

Our $4.3 billion development pipeline provides opportunity to enhance future returns and grow our own portfolio and the portfolios of our third party clients. We have been active in development, commencing the construction of 100 Mount Street, North Sydney, and activating seven industrial facilities in New South Wales and Victoria. We progressed our office and industrial development pipeline and are creating city retail opportunities to deliver future growth. **(refer to pages 10-11)**

We actively review our portfolio in line with market conditions to decide the best outcome for our investors, and seek to acquire properties where we can add value to our platform over the long term while ensuring alignment with strategy.

Transaction activity totalled $2.6 billion, including the acquisition of the Mill, Alexandria and divestment of Southgate Complex, Melbourne, 39 Martin Place, Sydney, 30-68 Taras Avenue, Altona North, and $222 million of trading properties.

In late June 2017, Dexus announced the acquisition of a 25% interest in Sydney's MLC Centre (with DWPF also acquiring a 25% interest) and a 100% interest in 100 Harris Street, Pyrmont, along with a core industrial property at 90 Mills Road, Braeside in Melbourne. We undertook an equity raising, which included a $500 million institutional placement (and associated Security Purchase Plan) to partly fund these acquisitions, while ensuring we maintain our balance sheet strength.

The office acquisitions expand our exposure to Sydney, Australia's largest office market, and added more than 65 new customers to our platform. Our positioning across Australia's major cities continues to grow and reinforces our belief that Sydney will benefit from the global trend of urbanisation and enhanced infrastructure links over the coming years.

Sustained value

Our sustainability approach is aligned with Dexus's strategy through the overarching goal of delivering 'Sustained Value' to our stakeholders: our people, customers, communities, cities and the environment. Each year we set ourselves measurable Corporate Responsibility & Sustainability commitments and in FY17 recorded some notable achievements. We encourage you to view these achievements in our 2017 Online Reporting Suite.

This year we gained a leading position in the Global Real Estate Sustainability Benchmark (GRESB). Dexus's listed office portfolio ranked first in Australia and fifth globally, while DWPF ranked first in Australia in the diversified retail/office non-listed category. CDP recognised Dexus as a climate change leader for the fourth consecutive year, acknowledging our focus on energy efficiency and reducing carbon emissions.

Fostering a high performing culture

We see people and culture as a key enabler to the delivery of our strategic objectives, and have invested time in building a diverse and inclusive workforce which we believe drives strong performance. This year we modernised our approach to reward and recognition which included the implementation of a company-wide Employee Securities Ownership Plan, strengthening the alignment of interests of our people with the performance of the company.

> **"As a founding member of the Property Male Champions of Change initiative, I am personally committed alongside other property CEOs to drive gender equality and improve female representation at senior levels."**
>
> *Darren Steinberg, CEO*

Of our total workforce, 53% are female and during the year we improved gender diversity at senior levels, achieving our initial target of 33% female representation for Senior Managers and above (FY16: 31%). We also have strong diversity at the Board level with 43% female non-executive directors. Making further progress, for the first time we reached gender pay equity for like-for-like roles across the business from 1 July 2017. **(refer to page 15)**

Active approach to governance and changes to the Board

We continually seek ways to improve how we report to our investors, and this year have introduced a section in this report that summarises the key activities of the Board and its respective committees over the past 12 months. **(refer to pages 17-19)**

Our Board comprises seven non-executive directors and one executive director, following the appointment of Mark Ford as a new independent non-executive director. Mark has extensive property industry experience and holds non-executive roles on a number of boards in Australasia. He also has a long-standing connection with Dexus, previously having been the Managing Director and Head of DB Real Estate Australia.

Post 30 June 2017, we announced the appointment of The Hon. Nicola Roxon to the Board as an independent director, effective from 1 September 2017. Nicola has significant experience in the health, government and professional services sector, and we welcome her to the Board as part of our ongoing renewal process.

Further details relating to our Corporate Governance practices and the Board are included on pages 16-19. Our Corporate Governance Statement is available at www.dexus.com/governance

FY18 guidance[5]

Deliver

4.0–4.5%

growth in distribution per security

Outlook

Dexus has performed well in FY17, and we look forward to continuing to deliver results in the year ahead.

With the majority of our office portfolio located in the strongly performing Sydney market, we are encouraged by the rental and value growth forecast as supply tightens and incentives reduce. In our other markets, we remain committed to providing spaces that meet customer needs and will continue to actively manage our portfolio to maintain performance.

We expect to see further support for real estate values in FY18 as a result of the strength of property fundamentals in Sydney and Melbourne combined with persistent investment demand from global and local players attracted to the stable returns from quality well leased properties.

We remain committed to our strategy which is delivering long term value. **(refer pages 6–7)**

We are delivering on all of the key earnings drivers while prioritising risk mitigation through a long term, diversified and sustainable approach.

On behalf of the Board and management, we extend our thanks to our high performing team across Australia for their commitment and significant contribution in delivering these results. We thank our third party clients and capital partners as well as our customers for their continued and valued support.

Finally, we express our appreciation to you, our investors, for your ongoing investment in Dexus.

Richard Sheppard
Chair

Darren Steinberg
Chief Executive Officer

1. Adjusted for cash and for debt in equity accounted investments.
2. Pro forma gearing is adjusted for the acquisitions of MLC Centre, Sydney, 100 Harris Street, Pyrmont, 90 Mills Road, Braeside and the sales of 30-68 Taras Avenue, Altona North and 46 Colin Street, Perth, including the impact of transactions costs. Actual gearing (look-through) is 22.1% at 30 June 2017.
3. Return on Contributed Equity is calculated as AFFO plus the net tangible asset impact from completed developments divided by the average contributed equity during the period.
4. Return on Equity is calculated as the growth in net tangible assets (NTA) per security plus the distribution paid/payable per security divided by the opening NTA per security.
5. Barring unforeseen circumstances guidance is supported by the following assumptions: Impacts of announced divestments and acquisitions; underlying FFO per security growth of 2.0-2.5% underpinned by Dexus office portfolio like for like growth of 4-5%, Dexus industrial portfolio like for like income growth of 3-4%, management operations FFO of c.$50 million and cost of debt in line with FY17; trading profits of $35-40 million net of tax; maintenance capex, cash incentives, leasing costs and rent free incentives of $165-170 million; and excluding any further transactions.

Thinking ahead

Property and investment markets are constantly evolving. To see clearly into the future we regularly assess the impacts of change on property markets and have identified four key areas where there is an opportunity for Dexus to differentiate itself.

Cities of the future

Urbanisation is changing our cities. The underlying growth in our population and the value of CBDs as employment and economic drivers will provide considerable opportunities for Dexus in the future, given our portfolio is heavily concentrated in the major CBDs of Australia. **(refer to page 12)**

Responding to the evolving customer

Flexibility is becoming increasingly valuable to our customers. We continue to assess the needs of customers of the future and how this will affect the way we do business. Through our customer centric approach we are constantly rethinking our product offering and finding different ways to engage. **(refer to page 13)**

Transitioning to a low carbon future

Since 2009 we have continually set strong targets on sustainability. Our sustainability approach has achieved significant operational improvements and efficiencies that have reduced costs and environmental impacts. Looking beyond 2020, we are investigating other opportunities to capitalise on and are setting longer term targets that will continue to lower our emissions towards net-zero. **(refer to page 14)**

Fostering a high performing culture

We believe building expertise and fostering a high performing culture delivers results. We are preparing our people and leaders for the future, while focusing on productivity and how we can do things better. At the same time we are working to understand how we manage a multi-generational workforce, so we can attract and retain the best and brightest talent of every generation. **(refer to page 15)**

Our strategy

Our strategy is to deliver superior risk adjusted returns for investors from high quality real estate in Australia's major cities.

We have two strategic objectives that underpin this strategy:

- **Leadership in office**: being the leading owner and manager of Australian office property
- **Funds management partner of choice:** being the wholesale partner of choice in Australian property

Delivering superior risk adjusted returns means outperforming the relevant three and five year benchmarks in each market in which Dexus owns or manages properties, and providing Dexus investors with sustainable and growing distributions.

Our strategy is underpinned by the core capabilities of expertise in:

- asset and property management
- development
- trading and transactions

We have a number of enablers that support the delivery of our strategy including:

- Customer and marketing
- Technology
- People and communities
- Sustainability
- Risk and governance
- Capital management

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, and improves our ability to find the ideal workspace solution for customers in more than one location.

We consider corporate responsibility and sustainability an integral part of our business operations. Our sustainability approach supports our strategy with an overarching goal of delivering sustained value for all stakeholders across the key objectives of future enabled customers, strong communities, leading cities, enriched environment and thriving people.

Refer to the online 2017 Annual Reporting Suite at www.dexus.com

FY17 strategic achievements

We outline our key achievements for FY17 against our strategic objectives

Leadership in office

- Leveraged our asset management and leasing capability to increase office portfolio occupancy to 97.2% and reduce incentives to 14.5%
- Implemented forward leasing strategies to reduce FY19 expiries to 12.0% and improve weighted average lease expiry to 4.8 years
- Achieved IPD outperformance[1] over 1, 3 and 5 years across the group's office portfolio
- Acquired $1 billion of office property across the group in Sydney, Australia's largest office market
- Continued to expand our customer proposition with the launch of Childspace, a fourth Dexus Place located in Sydney and the implementation of 35 Workspace portals across our platform. Dexus now has over 25,000 customers and community members engaged with our services
- Made progress towards our 2020 target of 1 million square metres rated 5 star NABERS energy rating and 4 star NABERS water rating

Funds management partner of choice

- Delivered strong fund performance with DWPF outperforming its benchmark over one, three, five, seven and ten years
- Expanded our funds management platform with the launch of an unlisted healthcare property fund
- Delivered a one year unlevered total property return of 14.7% for the Dexus Office Partnership, and an annualised unlevered property return of 14.6% since inception
- Acquired $532 million of properties for DWPF including MLC Centre, Sydney (25%), Carillon City, Perth and 5 Inglis Road, Ingleburn in line with DWPF's investment strategy
- Raised $550 million[2] of new equity in DWPF

Our new-look brand

Over the past year, we took the opportunity to refresh our brand which further establishes our connection with our customers, ensuring we continually evolve the products and services we offer.

Our new brand represents who we are today and where we're headed and articulates our difference in a meaningful way.

We're an innovative company that is redefining the workplace through our customer offering. We are working alongside our customers to understand their needs, making things simple and easy, and providing products and services that genuinely add value such as car sharing and parking solutions, childcare, and the flexible meeting and training facilities at Dexus Place.

View our new brand video at www.dexus.com/brand

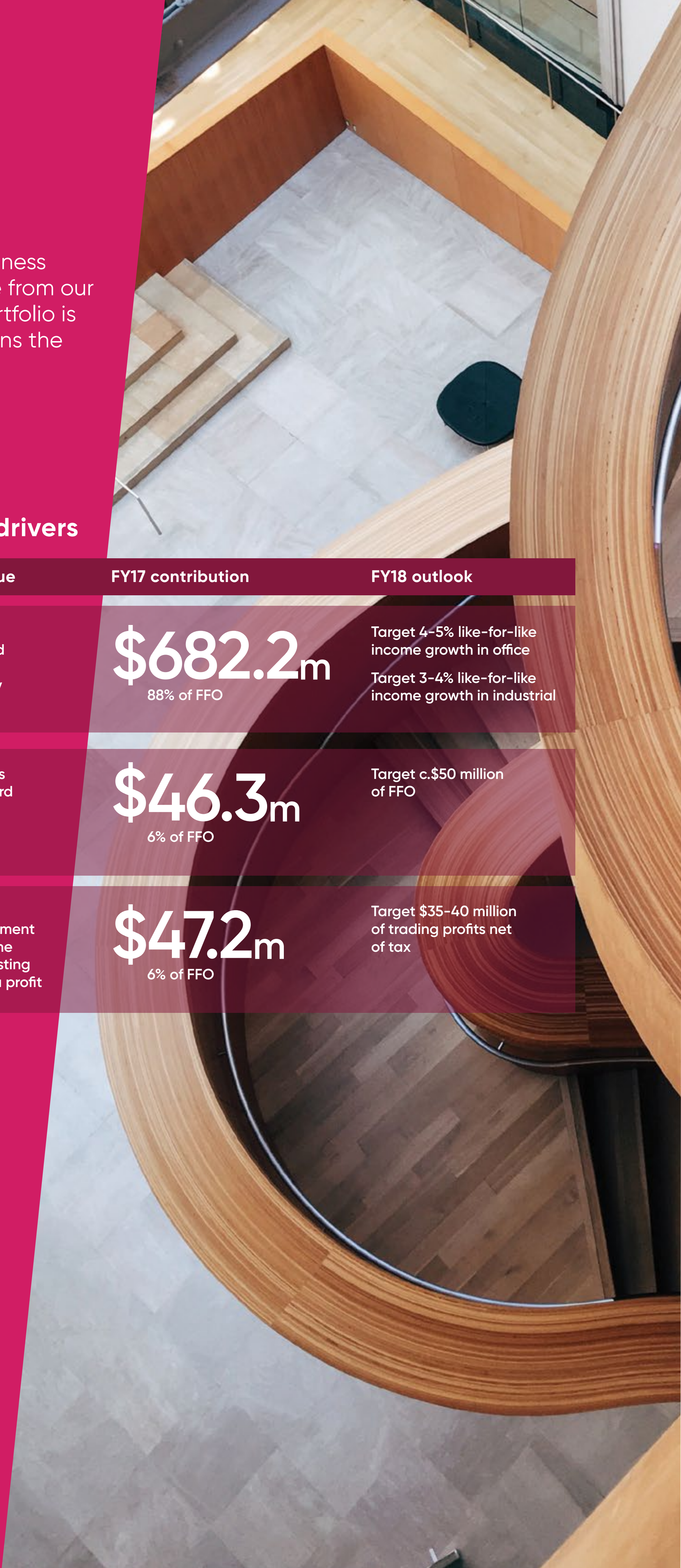
1. As at 31 March 2017.
2. Includes $300m of equity raised subsequent to 30 June 2017.

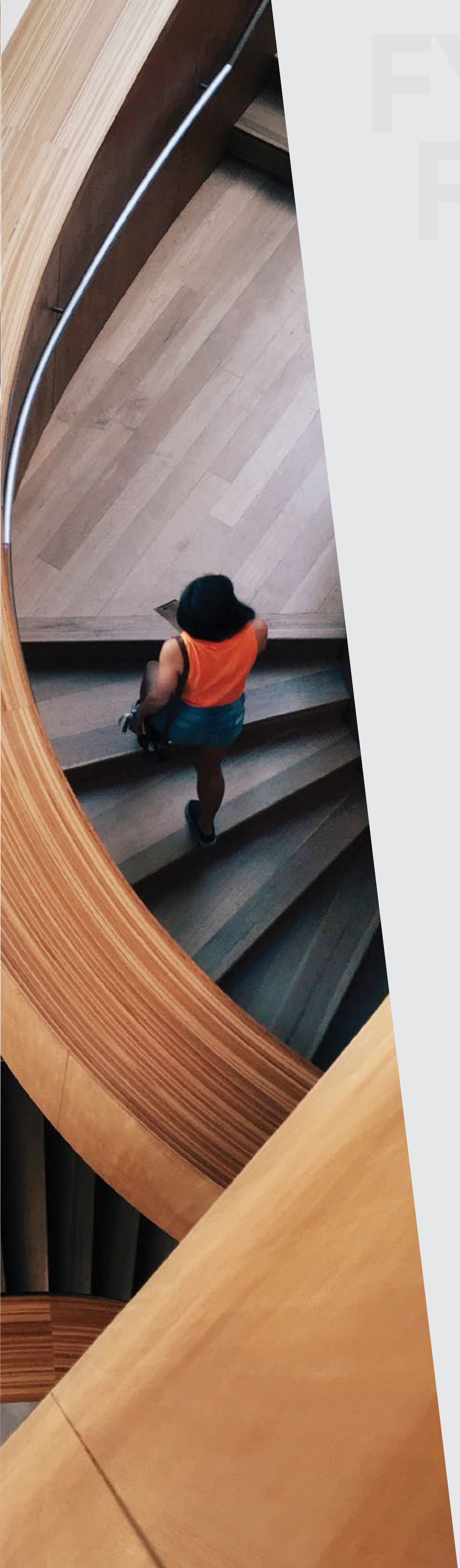
Creating value

Our strategy is supported by our business model which is set up to create value from our key earnings drivers. The Property Portfolio is the largest driver of value and contains the Dexus office and industrial portfolios.

Creating value from earnings drivers

Driver	How Dexus creates value	FY17 contribution	FY18 outlook
Property Portfolio	Maximising cashflow from the Dexus owned office and industrial portfolio through leasing, asset and property management	$682.2m 88% of FFO	Target 4-5% like-for-like income growth in office Target 3-4% like-for-like income growth in industrial
Funds Management	Leveraging core capabilities to drive performance for third party clients	$46.3m 6% of FFO	Target c.$50 million of FFO
Trading	Acquiring properties to reposition through development and leasing, or unlocking the highest and best use of existing properties, and selling for a profit	$47.2m 6% of FFO	Target $35-40 million of trading profits net of tax





Five-year journey of creating value

Over the past five years Dexus has created value while maintaining a conservative capital structure.

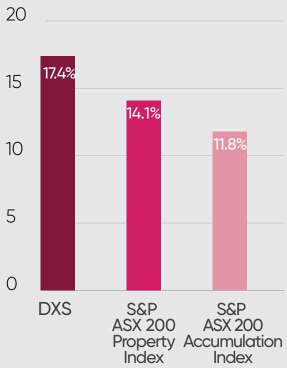
113%
Increase in market capitalisation from $4.5 billion to $9.6 billion

33 basis points
Reduction in Management Expense Ratio from 67 basis points to 34 basis points

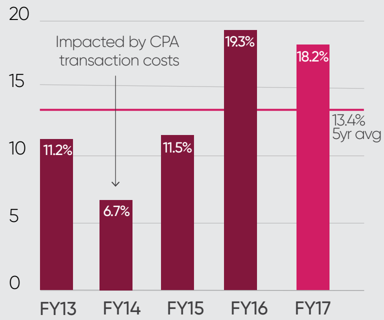
93%
Increase in total funds under management from $12.9 billion to $24.9 billion

127%
Increase in Funds Management platform from $5.6 billion to $12.7 billion

5 year Total Security holder Return[1] (%)

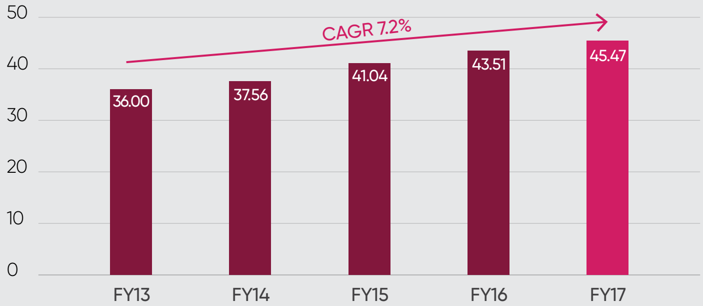


Return on equity[2] (%)

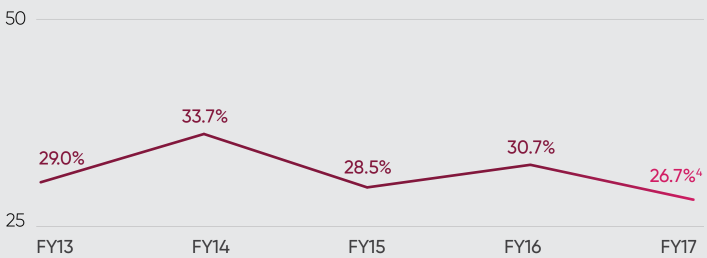


Source: UBS Australia as at 30 June 2017.

Distributions[3] (cents per security)



Gearing Ratio (%)



1. Annualised compound return.
2. Return on Equity is calculated as the growth in net tangible assets (NTA) per security plus the distribution paid/payable per security divided by the opening NTA per security.
3. Adjusted for 1-for-6 securities consolidation completed in FY15. Compound annual growth rate (CAGR) is calculated over 5 years.
4. Pro forma gearing is adjusted for the acquisitions of MLC Centre, Sydney, 100 Harris Street, Pyrmont, 90 Mills Road, Braeside and the sales of 30-68 Taras Avenue, Altona North and 46 Colin Street, Perth, including the impact of transactions costs. Actual gearing (look-through) is 22.1% at 30 June 2017.

Property portfolio

The strength of property fundamentals in Sydney and Melbourne combined with persistent investment demand should see further support for real estate valuations into FY18.

Property values continued to grow in FY17, with our office portfolio recording a $625.8 million or 7.0% increase on prior book values driven by comparable market evidence and reflecting rental growth at properties in Sydney and Melbourne. Our industrial portfolio also achieved an uplift of $78.9 million or 4.2% on prior book values driven by completed developments and leasing success. The strength of property fundamentals in Sydney and Melbourne combined with persistent investment demand should see further support for real estate valuations into FY18.

Leasing success across the office portfolio resulted in occupancy of 97.2%. In Sydney we are experiencing strong effective rental growth as a result of the supply shortage and increased demand which we expect to continue for the next 18 months. With 66% of the office portfolio located in NSW and 64% of office expiries in Sydney in the next three years, we are well positioned to take advantage of favourable market conditions.

Our exposure to the Woodside expiry at 240 St Georges Terrace in Perth in FY19 represents 3.2% of total property portfolio income. We are committed to repositioning and leasing this property, and are pleased with the current level of enquiry.

"Our focus on improving our industrial portfolio metrics resulted in a record year of leasing."

Kevin George, Executive General Manager, Office and Industrial

In the industrial portfolio we leased a record 432,105 square metres of space, improving occupancy to 96.5% from 90.4% at end of FY16 and increasing weighted average lease expiry (WALE) by 1.0 years to 5.1 years.

We targeted industry groups where we could establish direct relationships and those groups seeking specific locational requirements, while at the same time capitalising on the improving demand in West Melbourne.

Progressing our development pipeline

Continuing to build on our established track record in development, we made good progress across the group's $4.3 billion development pipeline, of which $2.1 billion relates to Dexus.

At 100 Mount Street, North Sydney, the core of the building is under construction with completion expected in early 2019. Development works at 105 Phillip Street, Parramatta progressed with construction now at level 11 of the 12 level building.

From an industrial development perspective, we had an active year, completing three industrial facilities at Dexus Industrial Estate, Laverton North and Quarrywest, Greystanes, leasing 125,600 square metres of space and activating seven new developments.

FY18 focus

- Continue selective forward leasing to manage expiry risk
- Target $165-170 million of capital expenditure[2]
- Target like-for-like income growth in office of 4-5%
- Target like-for-like income growth in industrial of 3-4%

Occupancy[1]

97.2%
Office portfolio

96.5%
Industrial portfolio

WALE[1]

4.8 years
Office portfolio

5.1 years
Industrial portfolio

1. Includes transactions settled up to 16 August 2017.
2. Includes maintenance capital expenditure, cash incentives, leasing costs and rent free incentives.

Case Study
Creating value through industrial development

Dexus has been able to satisfy the needs of its customers nationally by building strong relationships and leveraging portfolio scale and platform capability.

- Reece relocated to Pound Road West in Dandenong South, Victoria in June 2014
- Dexus worked closely with Reece on their plans for interstate expansion and pre-empting their requirements early in the process
- Dexus secured a pre-commitment with Reece for the development of a 20,000 square metre facility at Quarry, Greystanes in New South Wales
- In FY17 Dexus's industrial activity included:
  - 125,600sqm of industrial pre-leasing secured across group
  - 177,700sqm of industrial developments completed or under construction
  - 13 Development Applications lodged and approved

Funds management

Our funds management business grew $1.5 billion to $12.7 billion[1] since June 2016 through transactions, developments and positive revaluations.

During the year, DWPF acquired Carillion City retail centre in Perth, an industrial property at 5 Inglis Road, Ingleburn and announced the acquisition of a 25% interest in MLC Centre Sydney alongside Dexus, following the divestment of 324 Queen Street, Brisbane and 39 Martin Place, Sydney which was compulsorily acquired for the new Sydney metro.

We completed city retail developments at Gateway and Grosvenor Place in Sydney, and at 360 Collins Street in Melbourne, improving the customer amenity and experience while enhancing investor returns. Progress has been made on the remaining $2.2 billion third party development pipeline which includes DWPF's interest in 100 Mount Street, North Sydney.

"We delivered strong performance for all of our clients through transactions, the completion of developments and valuation growth."

Graham Pearson, Executive General Manager, Funds Management

In June 2017, we established a joint venture with Commercial & General for the purpose of launching the unlisted Healthcare Wholesale Property Fund which will be seeded with approximately $370 million of properties. The joint venture combines the complementary capabilities of Dexus and Commercial & General to build scale in the growing healthcare property sector which will benefit from population growth and an ageing demographic.

FY18 focus

- Finalise new Healthcare Wholesale Property Fund
- Deliver continued unlisted fund outperformance

Trading

In FY17 we achieved our FY17 target of $45-50 million trading profits, delivering $47.2 million of trading profits from the sale of three properties, including 105 Phillip Street, Parramatta which also secured approximately 60% of FY18 trading profits.

Planning approvals were received for 32 Flinders Street, Melbourne and progressed at 12 Frederick Street, St Leonards. Five projects have been earmarked to deliver trading profits in future years, including potential opportunities at Parramatta and Gladesville.

FY18 focus

- Target trading profits of $35-40 million net of tax

"Our trading portfolio delivered $47.2 million in trading profits by leveraging our capabilities across the entire Dexus platform."

Ross Du Vernet, Chief Investment Officer

Case Study
Delivering trading profits – 105 Phillip St, Parramatta

Dexus identified an opportunity in late 2014 to create value and generate trading profits by developing underutilised land adjoining its property at 130 George Street in Parramatta.

Identifying the potential to capitalise and respond to an emerging Parramatta commercial office market, Dexus worked with Property NSW to design a 25,000 square metre workspace customised to their needs.

As a result, a 12 year lease was secured, fully pre-committing the development at 105 Phillip Street and enabling construction to commence in September 2016.

Dexus sold the property in May 2017 for $229 million, reflecting a 5.3% implied capitalisation rate, with the sale delivering trading profits in both FY17 and FY18.

Dexus remains responsible for developing the property and secured a property management contract for five years post completion, enabling its relationship with Property NSW to continue.

Cities of the future

Australia's major cities are set to benefit from urbanisation and the globalisation of the workforce. As a major owner of CBD real estate, Dexus is well positioned to capitalise on the opportunities this presents over the long term.

Shaping the cities of the future Waterfront Precinct, Brisbane

The Waterfront Precinct has the potential to be the best riverfront precinct in Queensland, Australia and globally.

With ownership in five assets across a 3.4 hectare footprint, together with our capital partners Dexus has a unique opportunity to consolidate and connect the riverfront precinct to the CBD.

Our idea is to create a vibrant commercial and lifestyle hub on the banks of the Brisbane River that would energise and transform Brisbane into a thriving world-class city.

Dexus is invested in the future of Australian cities. We own $10.2 billion of high quality Australian CBD office, which comprises 84% of the Dexus property portfolio. We manage 1.8 million square metres of office space, with the portfolio concentrated in Sydney, Australia's key economic centre and largest office market.

"We continue to focus our investment strategy on Australia's major cities and the acquisition of 100 Harris Street and a 25% interest in the MLC Centre in Sydney reinforces our belief that cities will benefit from the global trend of urbanisation."

Darren Steinberg, Chief Executive Officer

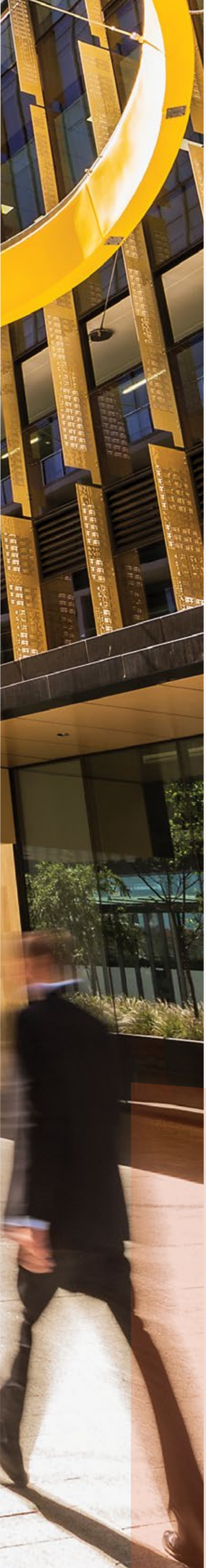
The incremental growth of office demand in recent years has been driven by global companies. With its close proximity to Asia, a highly skilled workforce, and an appealing urban lifestyle brand, Australia is a magnet for multinational firms looking to attract global talent.

Over the past 10 years, the majority of Australia's population growth has occurred in the four major cities. With the population forecast to increase by 25% over the next 15 years, the underlying growth in Australian cities should provide considerable opportunities for Dexus given our portfolio is heavily concentrated in the major CBDs.

Governments are realising the importance of continued investment in infrastructure and spatial planning to accommodate growth, and we expect that an increasing intensification of land use will underpin strong values for CBD real estate for decades to come.

"We are one third of the way through a 100 year cycle of urbanisation."

Professor Greg Clark Global Advisor, Chairman and Board member, The Business of Cities Limited



Responding to the evolving customer

Our customers' operating environments are rapidly evolving, and it has become important to get closer to our customers, understand their business, and be more agile in how we respond to their needs.

The relationship between the physical space and business outcomes is driving our delivery of an experience that goes beyond vacant space. Flexibility is highly valued, and our ability to lease space from one hour to ten years, or provide turn-key solutions, enables our customers to scale up or down in line with their business needs.

The 'product' of workspace is extending beyond the physical space to additional services. Workspace Dexus offers products and services that genuinely add value to our customers' experiences, such as car sharing and parking solutions, childcare services, Dexus Place's flexible meeting and training facilities, our buildings' community portals, in-building health and wellbeing activities, and technologically smart buildings.

"The customer as a tenant is fast becoming an outdated concept. Our customer centric approach has been designed to build strong longer term relationships and broaden the discussion."

Deborah Coakley, Executive General Manager, Customer and Marketing

For Dexus, the relationship starts long before the signing of a lease with direct access to our in-house leasing team.

Strategic insights and analytics is a new capability within Dexus that is providing a better understanding of our customers and their marketplace. By utilising feedback and data more effectively we can improve the products and services we offer and enhance the experience.

Continuing to develop our customer centric approach has the potential to drive a competitive advantage for Dexus. Done well, strong customer relationships will grow loyalty to the Dexus brand, improve retention and attract new customers, and ultimately drive value over the long term.

Customer of the future

In a rapidly changing world, globalisation and technology are having an impact on the way businesses and people use space. Understanding what the customer of the future may look like has helped us identify ways that we can respond.

The customer of the future will put a value on flexibility, whether in lease agreements or on the physical space they occupy. To be most productive, they will expect seamless technological connectivity and other services that go beyond space. They will ultimately judge our spaces on the experiences they provide to their employees.

Dexus has an opportunity to respond to the changing customer needs by future-proofing properties and creating great customer experiences.

Case study
Connecting our customers through technology

100 Mount Street, North Sydney will be a part of the move towards the future of 'plug and play' premium office towers when it is finished in early 2019.

The site was acquired by Dexus and Dexus Wholesale Property Fund in April 2016, and commenced construction on the 34 level premium office development in mid-2016.

Dexus is implementing its smart building blueprint at 100 Mount Street providing customers with the opportunity to 'plug and play' via secure internet connectivity throughout the building.

Connectivity will extend to car parks, the ground floor lobby, cafes and informal meeting areas to facilitate flexible working via a secure device. Ultimately, 100 Mount Street will integrate with an individual tenancy, a home office, the local precinct and the city itself to create one seamlessly connected workplace.

Embedding smart technology into the backbone of 100 Mount Street will future-proof the workplace while providing customers with greater flexibility and choice in their workspaces.

Transitioning to a low carbon future

As Australia continues its search for secure, affordable, and environmentally conscious energy, we are transitioning to a low carbon future.

For our energy supplies, this means taking an open approach to generation and supply technologies. We need to identify opportunities to accelerate our take up of renewable energy sources, and invest in emerging technologies that will deliver energy efficiencies to improve our portfolio performance and lower our emissions toward a future net zero position.

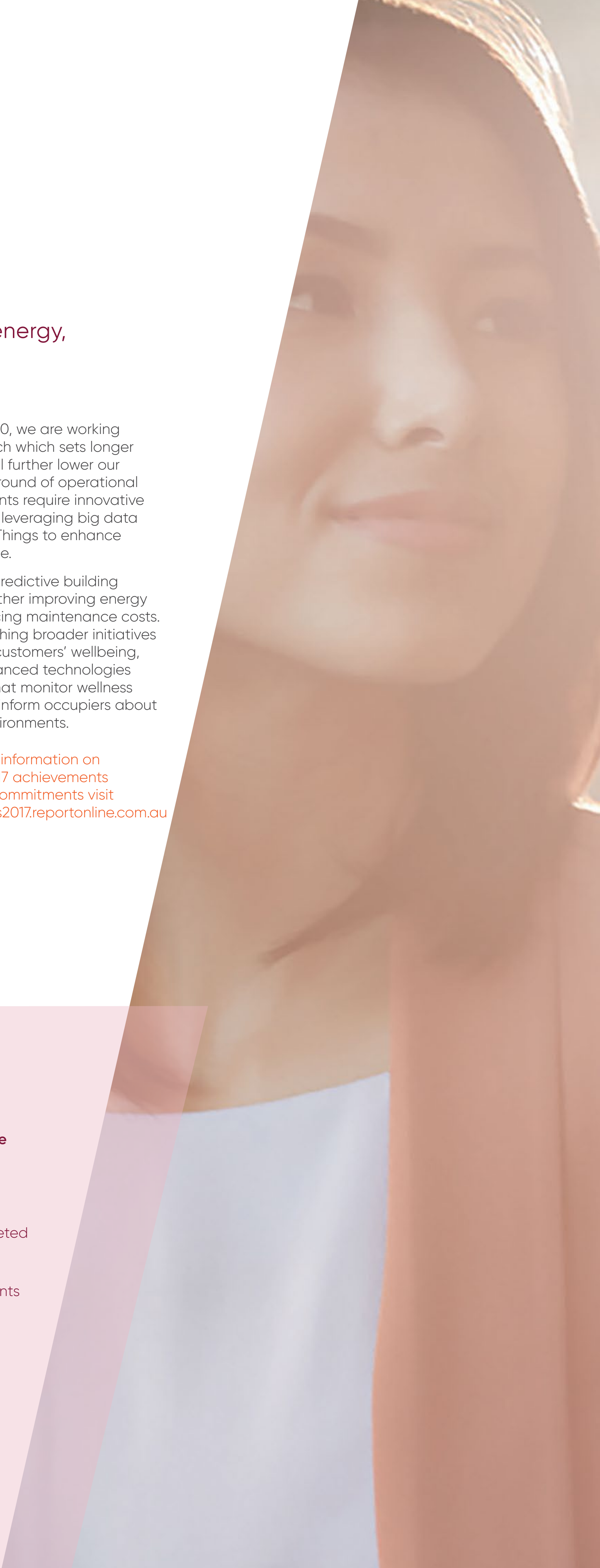
Through the adoption of a portfolio wide approach we have made significant investments in energy efficiency initiatives which have delivered an improved indoor environment for our customers while decreasing energy usage and occupancy costs.

Since we began setting environmental targets in 2009, our average office NABERS energy rating has increased to 4.8 stars, we have reduced office emission intensity by over 40% and are on track to deliver on our current 2020 target of having 1,000,000 square metres of office space with a 5-star NABERS energy rating. Waste management strategies are also being actively rolled out across our portfolio to reduce the harmful effects of waste to landfill on the environment and drive down costs.

Looking beyond 2020, we are working towards an approach which sets longer term targets that will further lower our emissions. Our next round of operational portfolio improvements require innovative thinking and we are leveraging big data and the Internet of Things to enhance building performance.

Our application of predictive building data analytics is further improving energy efficiency and reducing maintenance costs. We are also establishing broader initiatives which focus on our customers' wellbeing, including using advanced technologies to deliver services that monitor wellness aspects and better inform occupiers about their workspace environments.

For further information on Dexus's FY17 achievements and FY18 commitments visit www.dexus2017.reportonline.com.au



Case Study
Virtual engineering smartens up Dexus properties

Seeking to build on energy efficiency improvements across its office portfolio, Dexus has implemented a 'virtual engineering' program, the latest innovation in its building operations.

The virtual engineer program uses smart data to perform around the clock monitoring of each building's performance. Real-time information about building management operations enables targeted maintenance, allowing buildings to be run more efficiently.

Commencing in 2015, Dexus has rolled out the virtual engineering program across 44 office properties, centralising 240,000 data points into a single platform.

Since its introduction, the virtual engineering program has:

- Reduced energy use resulting in cost savings
- Increased NABERS energy ratings
- Improved tenant amenity and comfort
- Reduced time and cost of maintenance
- Optimised performance of heating, ventilation and air conditioning (HVAC) equipment and systems
- Improved equipment life cycle reports and capital expenditure planning

Fostering a high performing culture

At Dexus we believe a high performing culture drives business performance. For us, this involves creating a diverse and inclusive environment, giving people the flexibility to work at their best.

We believe that diversity improves decision-making, drives innovation and delivers business results. Considering the issue of gender equity we continue to make progress. In addition to achieving our initial gender participation targets, for the first time we reached pay gender equity for like-for-like roles across the business, from 1 July 2017.

We will continue to look at other diversity and inclusion strategies that go beyond gender and broaden the diversity of our workforce.

We are embedding an agile decision-making culture in our teams, influenced by a customer mindset. We want our people to be able to shift their focus to the relevant priorities at any given time. We will also ensure our people continue to work in the most productive way through the ongoing development of innovative technology systems and processes.

As we bring a new wave of talent into our organisation, we are working on how we manage a multi-generational workforce that combines emerging younger talent and our experienced professionals. As a result we are modernising our approach to how we engage and recognise our people. A comprehensive package of wellbeing benefits is designed to help our people work in an agile way which we believe will drive a more energised and productive workforce (refer to case study).

"90% of staff believe that Dexus supports flexible working."

Dexus 2016 Culture Survey

Case Study
The future of recognition and benefits at Dexus

Recognising what its people value, Dexus has modernised the approach it takes to engage and recognise its people.

Dexus's Employee Benefits and Recognition Community conducted a series of employee surveys to find out what its people value and what motivates them.

Our employees said they valued time, flexibility and wellbeing. In June 2017, Dexus launched a new benefits package which includes access to time and workplace flexibility, continuous payment of superannuation entitlements throughout parental leave, and access to priority childcare spaces through Dexus's partnership with Guardian Early Learning Group.

With a focus on wellbeing, Dexus's employee benefits are helping its people work in an agile way that will lead to more productive outcomes.

Board of Directors

Top L to R: Richard Sheppard, Elizabeth A Alexander, Penny Bingham-Hall, John C Conde.
Bottom L to R: Tonianne Dwyer, Mark Ford, Darren J Steinberg, Peter B St George

Richard Sheppard

Chair and Independent Director

BEc Hons, FAICD

Richard Sheppard joined Dexus Funds Management Limited's Board in January 2012 as the Chair and an Independent Director of Dexus Funds Management Limited. Richard is also the Chair of the Board Nomination Committee and a member of the Board People & Remuneration Committee. Richard brings to the Dexus Board extensive experience in banking and finance and as a director and Chairman of listed and unlisted property trusts and was formerly the Managing Director and Chief Executive Office of Macquarie Bank Limited.

Elizabeth A Alexander AM

Independent Director

BComm, FCA, FAICD, FCPA

Elizabeth Alexander joined Dexus Funds Management Limited's Board in January 2005 as an Independent Director. Elizabeth is also the Chair of Dexus Wholesale Property Limited and a member of the Board Audit Committee. Elizabeth brings to the Board extensive experience in accounting, finance, corporate governance and risk management and was formerly a partner with PricewaterhouseCoopers.

Penny Bingham-Hall

Independent Director

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

Penny Bingham-Hall joined Dexus Funds Management Limited's Board in June 2014 as an Independent Director. Penny is also a member of the Board Risk Committee, Board People & Remuneration Committee and Board Nomination Committee. Penny has broad industry experience including business strategy and planning, corporate affairs, investor relations and governance across construction, property and infrastructure development. Penny was formerly Executive General Manager Strategy of Leighton Holdings Limited.

John C Conde AO

Independent Director

BSc, BE (Hons), MBA, FAICD

John Conde joined Dexus Funds Management Limited's Board in April 2009 as an Independent Director. John is also the Chair of the Board People & Remuneration Committee and a member of the Board Nomination Committee. John brings to the Board extensive experience across diverse sectors including commerce, industry and government and was previously Chairman of Ausgrid (formerly EnergyAustralia).

Tonianne Dwyer

Independent Director

BJuris (Hons), LLB (Hons)

Tonianne joined Dexus Funds Management Limited's Board in August 2011 as an Independent Director. Tonianne is also an Independent Director of Dexus Wholesale Property Limited, Chair of the Board Risk Committee and a member of the Board Audit Committee. 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 previously a Director of Quintain Estates and Development, a listed United Kingdom property company.

Mark Ford

Independent Director

Dip. Tech (Commerce), CA, FAICD

Mark Ford joined Dexus Funds Management Limited's Board in November 2016 as an Independent Director. Mark is also a member of the Dexus's Board Audit Committee and Board Risk Committee. Mark has extensive property industry experience and has been involved in real estate funds management for over 25 years. Mark was previously the Managing Director, Head of DB Real Estate Australia managing more than $10 billion in property funds.

Darren J Steinberg

Chief Executive Officer and Executive Director

BEc, FAICD, FRICS, FAPI

Darren Steinberg is the CEO of Dexus and joined Dexus Funds Management Limited's Board in March 2012 as an Executive Director. 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 is a Director and former National President of the Property Council of Australia and a founding member of Property Male Champions of Change.

Peter B St George

Independent Director

CA(SA), MBA

Peter St George joined Dexus Funds Management Limited's Board in April 2009 as an Independent Director. Peter is also the Chair of the Dexus Board Audit Committee and a member of the Board Risk Committee. Peter has more than 20 years experience in senior corporate advisory and finance roles within NatWest Markets and Hill Samuel & Co in London.

Active Governance Statement

The Board believes that corporate governance is the foundation for the long term success of the group and the achievement of Dexus's strategy is underpinned by a strong governance platform.

The Board is committed to excellence in corporate governance and aspires to the highest standards having embedded a set of well-defined policies and processes to enhance corporate performance and protect the interests of key stakeholders.

The Board regularly reviews its corporate governance policies and processes to ensure they are appropriate and meet governance standards and regulatory requirements. For the 2017 financial year the group's governance practices complied with the latest ASX Corporate Governance Principles and Recommendations. The full Corporate Governance Statement, which outlines key aspects of Dexus's corporate governance framework and practices, in addition to the Appendix 4G, are available at www.dexus.com

Board of Directors

The Board comprises a majority of Independent Directors with all directors other than the CEO being Independent Non-Executive Directors. The Board currently comprises seven Independent Non-Executive Directors and one Executive Director. The Board renewal process over the past few years has produced a strong Board of Directors with a broad and diverse skill set. The Board has determined that, along with individual director performance, diversity is integral to a well-functioning board.

Each Director brings a mix of relevant business and management experience to the Board as outlined on page 16.

The Board has reviewed the skills of the current directors against the skill categories in the table below and determined that the current composition of the Board meets or exceeds the minimum requirements in each category.

Areas of Skills & Expertise	Experience
Leadership	- Directorship experience (past and present) - Senior management experience (past and present)
Capital & Funds Management	- Experience in the dynamics of raising capital and investment banking - Experience in the management of third party funds
Finance & Accounting	- Experience in analysing accounting material and financial statements and assessing financial viability - Experience in understanding financial drivers/funding and business models
Governance	- Experience with corporate governance and standards of complex organisations - Ability to assess and commitment to ensure the effectiveness of governance structures
People Management & Remuneration	- Ability to manage people and influence organisational culture - Experience in relation to remuneration and the legislation/framework governing remuneration
Property Experience (Including Developments)	- Experience and industry knowledge in the management of properties including property development - Understanding of stakeholder needs and industry trends
Risk management	- Experience in managing areas of major risk to the organisation - Experience in workplace health & safety, environmental & community, social responsibility and technology matters affecting organisations
Strategy	- Experience in mergers and acquisitions activities - Ability to guide and review strategy through constructive questioning and suggestions - Experience in development and successful implementation of strategy

Role of the Board

The Board's responsibilities include (but are not limited to):

- Determining strategy, including reviewing and approving Dexus's business objectives and strategies to achieve them. These objectives inform the setting of performance targets for the Chief Executive Officer and the Group Management Committee members. Performance against these objectives is reviewed by the Board People & Remuneration Committee and is a primary input to the remuneration review of Group Management Committee members
- Approving the annual business plan, periodic market guidance and the financial statements and disclosures
- Approving significant acquisitions and divestments and major developments
- Ensuring that Dexus has in place an appropriate Risk Management Framework (including a Risk Appetite Statement) to support Dexus's risk policies
- Ensuring that Dexus's fiduciary and statutory obligations to stakeholders (including third party clients, and capital partners) are met
- Appointing and monitoring the Chief Executive Officer and Company Secretaries and monitoring the performance of the Group Management Committee

Activities across the year

Our Board plays an active role in key decisions that impact the implementation of Dexus's strategy. The following outlines the key activities the Board and Board Committees undertook during the year ending 30 June 2017:

July 2016

- Approved the revised LTI grant hurdles
- Approved the change in the Board Nomination Committee membership

August 2016

- Approved the sale of 79-99 St Hilliers Road, Auburn for $65 million
- Approved Dexus's market guidance for FY17
- Reviewed the Audit Report for 2016
- Approved the FY16 results materials including the 2016 financial statements, 2016 Annual Report and Corporate Governance Statement
- Considered cybersecurity in real estate

September 2016

- Approved the Risk Management Framework including the implementation of the Risk Appetite Statement

October 2016

- Attended and took part in the Annual General Meeting
- Reviewed the 2016 Investor Day materials

The Mill, Alexandria

November 2016

- Appointed Mark Ford as an Independent Non-Executive Director
- Took part in an external Board evaluation process
- Approved the sale of 39 Martin Place, Sydney for $332 million
- Approved the acquisition of The Mill, Alexandria for $110 million
- Revised Dexus's Top 10 Key Risks to include climate risk
- Participated in the Technology Strategic Review 2016
- Participated in strategy updates with management
- Reviewed succession planning and pay parity

December 2016

- Approved the distribution for the six months ending 31 December 2016
- Approved the release of valuations for HY17

10 Eagle Street, Brisbane

January 2017

- Approved the changes in the Board Risk Committee and Board Audit Committee memberships

February 2017

- Reviewed the Board succession and renewal planning
- Approved the Dexus Investment Plan
- Review of the Audit Review for HY17
- Approved the HY17 results materials including the half year financial statements and market guidance
- Discussed and considered a presentation on the US Economic and Political Outlook

March 2017

- Endorsed the New Dexus brand
- Participated in strategy updates with management
- Reviewed succession planning and key talent leadership
- Discussed and considered a presentation on market remuneration

April 2017

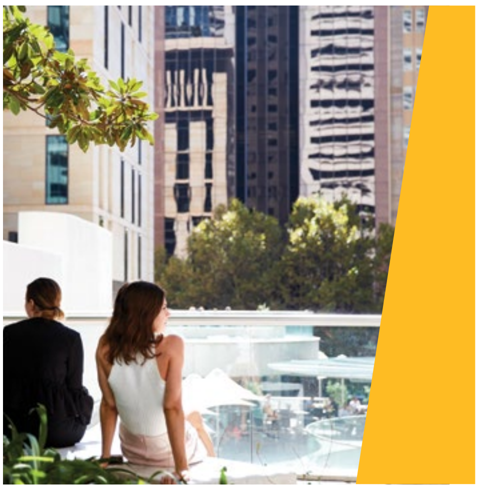
- Met with Sydney and Melbourne proxy advisers and key investors

May 2017

- Reviewed the results of the external Board evaluation process
- Attended and took part in the two-day Board strategy workshop
- Approved the Three Year Financial Business Plan
- Met with Sydney proxy adviser and investors
- Approved the revised FY18 Staff Total Reward framework
- Approved the sale of 105 Phillip Street, Parramatta for $229 million
- Discussed and considered presentations on real estate investment flows and trends, customers of the future and market outlook

June 2017

- Approved the distribution for the six months ending 30 June 2017
- Approved the $500 million Institutional Placement and up to $50 million Security Purchase Plan
- Approved the acquisition of a 25% interest in MLC Centre, Sydney for $361.3 million
- Approved the acquisition of 100 Harris Street Pyrmont for $327.5 million
- Approved the acquisition of 90 Mills Road, Braeside for $50.6 million
- Approved the release of valuations for FY17
- Established new healthcare JV with Commercial & General
- Approved the amendment of the Dexus Constitutions for the Attribution Managed Investment Trust regime
- Discussed the monitoring of disruptors in Dexus's operating environment



MLC Cente,
Sydney

Dexus's Sydney CBD footprint

1 **Gateway**
100% DWPF owned, 100% managed

2 **30 The Bond & 36 Hickson Road**
100% DXS owned, 100% managed

3 **225 George Street**
37.5% DXS owned, externally managed, 12.5% Dexus Office Partner owned

4 **Australia Square**
50% DXS owned, jointly managed

5 **45 Clarence Street**
100% DXS owned, 100% managed

6 **One Margaret Street**
100% DXS owned, 100% managed

7 **100 Harris Street**
100% DXS owned, 100% managed

8 **83 Clarence Street**
Mandate owned, 100% managed

9 **309-321 Kent Street**
50% DXS owned, 100% managed

10 **383-395 Kent Street**
100% DXS owned, 100% managed

11 **44 Market Street**
100% DXS owned, 100% managed

12 **56 Pitt Street**
50% DXS owned, 100% managed, 50% Dexus Office Partner owned

13 **1 Bligh Street**
33% DXS owned, 100% managed, 33% DWPF owned

14 **GMT/GPT, 1 Farrer Place**
50% DXS owned, 100% managed

15 **5 Martin Place**
25% DXS owned, 100% managed, 25% Dexus Office Partner owned

16 **175 Pitt Street**
50% DXS owned, 100% managed, 50% Dexus Office Partner owned

17 **60 Castlereagh Street**
50% DXS owned, 100% managed, 50% Dexus Office Partner owned

18 **201 Elizabeth Street**
50% DXS owned, externally managed

19 **MLC Centre, 19 Martin Place**
25% DXS owned, externally managed, 25% DWPF owned

20 **14 Lee Street**
50% DXS owned, 100% managed, 50% Dexus Office Partner owned

30 June 2017
Financial Report

Contents

Contents

Operating and Financial Review

The Group's financial performance for the year ended 30 June 2017 is summarised in the following section. In order to fully understand the results, the Annual Report and full Financial Statements included in this Financial Report should be read in conjunction with this section.

Review of Operations

Dexus has adopted Funds from Operations (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 for 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 2017 ($m)	30 June 2016 ($m)
Net profit for the year attributable to stapled security holders	**1,264.2**	1,259.8
Net fair value gain of investment properties	**(704.7)**	(814.4)
Net fair value loss of derivatives and interest bearing liabilities	**3.6**	40.3
Net gain on sale of investment properties	**(70.7)**	(15.0)
Incentive amortisation and rent straight-line[1]	**100.1**	92.9
Coupon income, rental guarantees received and other	**12.7**	23.7
Amortisation of intangible assets	**4.5**	3.3
Transaction costs	**–**	7.1
Non-FFO tax	**8.0**	13.1
Funds from Operations (FFO)[2]	**617.7**	610.8
Retained FFO[3]	**166.0**	189.3
Distributions	**451.7**	421.1
FFO per security (cents)	**63.8**	63.1
Distribution per security (cents)	**45.47**	43.51
Net tangible asset backing per security ($)	**8.45**	7.53

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 distribution payout ratio equated to 73.1% of FFO in FY17 and 69.0% of FFO in FY16.

Operating result

Performance of the Group

Dexus's net profit after tax was $1,264.2 million, an increase of $4.4 million from the prior year (FY16: $1,259.8 million). The key drivers of this movement included:

- FFO, which increased by $6.9 million resulting in FFO per security of 63.8 cents, an increase of 1.1%.
- Net revaluation gains of investment properties of $704.7 million, representing a 6.5% uplift across the portfolio, were $109.7 million lower than the prior year (FY16: $814.4 million). This was largely offset by the change in fair value movements in derivatives and interest bearing liabilities and gains from the sale of investment properties compared to FY16.

Valuation gains achieved across Dexus's property portfolio primarily drove the 92 cent increase in net tangible assets (NTA) per security to $8.45 over the year. The valuation reflected tightening capitalisation rates supported by market sales evidence, in addition to leasing success and rental growth achieved at office properties, and completed industrial developments. At 240 St Georges Terrace in Perth, the impending lease expiry of Woodside in FY19 and the current Perth market conditions contributed to a 17.5% devaluation at this property.

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

	30 June 2017 $m	30 June 2016 $m
Office Property FFO	**567.4**	567.2
Industrial Property FFO	**114.8**	106.1
Total Property FFO	**682.2**	673.3
Management operations[1]	**46.3**	44.8
Group corporate	**(23.7)**	(25.4)
Net finance costs	**(121.8)**	(142.0)
Other (including tax)	**(12.5)**	(3.2)
Underlying FFO	**570.5**	547.5
Trading profits (net of tax)	**47.2**	63.3
Total FFO	**617.7**	610.8
Maintenance capex, lease incentives and leasing costs paid	**(178.0)**	(196.9)
Total AFFO[2]	**439.7**	413.9

1. Management operations' income includes development management fees.
2. AFFO is in line with the Property Council of Australia definition.

Operationally, FFO increased 1.1% to $617.7 million (FY16: $610.8 million).

The key drivers of the $6.9 million increase include:

- Office Property FFO of $567.4 million in line with FY16 as a result of like-for-like income growth of 2.6% offset by asset sales including: The Zenith, Chatswood (settled July 2016); 108 North Terrace, Adelaide (settled September 2016); Southgate Complex, Melbourne (initial 50% tranche settled November 2016); and 39 Martin Place Sydney (settled November 2016).
- Industrial Property FFO increased by $8.7 million to $114.8 million due to like-for-like growth of 3.6% following a record year of leasing which significantly improved portfolio occupancy and income from completed developments.
- Finance costs net of interest revenue reduced by $20.2 million, with proceeds from asset sales used to repay debt and a reduction in the average cost of debt.

This was partially offset by:

- Additional tax expense of $9.4 million incurred with remaining tax losses fully utilised in FY16
- The realisation of $47.2 million of trading profits (net of tax) representing a decrease of $16.1 million on the prior year.

The underlying business, excluding trading profits, delivered FFO per security of 58.9 cents, and grew by 4.2% on the prior year.

Distributions

Distributions per security for the 12 months ended 30 June 2017 were 45.47 cents per security, up 4.5% on the prior year (FY16: 43.51 cents), with the distribution payout remaining in line with free cash flow, in accordance with Dexus's distribution policy. The distribution for the six months ended 30 June 2017 of 23.76 cents per security will be paid to Dexus Security holders on Tuesday, 29 August 2017.

Return on contributed equity and return on equity

Dexus achieved a Return on Contributed Equity[1] (ROCE) for FY17 of 7.6%, driven largely by AFFO.

Dexus delivered a Return on Equity[2] (ROE) of 18.2% in FY17, driven by property revaluations and a $500 million Institutional Placement, resulting in a five year average ROE of 13.4%.

1. ROCE is calculated as AFFO plus the net tangible asset impact from completed developments divided by the average contributed equity during the period.
2. ROE is calculated as the growth in net tangible assets per security plus the distribution paid/payable per security divided by the opening net tangible assets per security.

Operating and Financial Review continued

Management Expense Ratio

	30 June 2017 $m	30 June 2016 $m
Group corporate costs	23.7	25.4
Asset management costs	15.6	12.6
Total corporate and asset management costs	39.3	38.0
Closing funds under management (balance sheet only)	11,463[1]	10,987
Group management expense ratio (MER)	34bps	35bps

1. Actual closing funds under management at 30 June 2017.

Group corporate costs reduced to $23.7 million as a result of continued operational efficiencies while asset management costs increased to $15.6 million as a result of investment in platform initiatives and completed developments. Dexus's MER[1] reduced to 34 basis points due to growth in funds under management largely driven by revaluation gains of $704.7 million.

Property transactions

Dexus executed on its strategy to divest non-core assets including The Zenith, Chatswood in July 2016 for a 7% premium to book value, 108 North Terrace, Adelaide in September 2016 and 30-68 Taras Avenue, Altona North which settled in July 2017. The NSW State Government compulsorily acquired 39 Martin Place, Sydney in November 2016 for the new Sydney Metro rail project achieving a strong premium to book value for Dexus and Dexus Wholesale Property Fund (DWPF). In addition, the initial 50% tranche of Southgate Complex Melbourne settled in November with the remaining 50% due to settle in the last quarter of FY18. Dexus also settled on the sale of trading properties at 57-65 Templar Road, Erskine Park, 79-99 St Hilliers Road, Auburn and 105 Phillip Street, Parramatta, which also secured approximately 60% of trading profits for FY18. Post 30 June 2017, Dexus and the Dexus Office Partner sold 46 Colin Street, West Perth for $33.6 million (100%) with settlement occurring 1 August 2017.

In January 2017, Dexus acquired The Mill, Alexandria for $110.2 million, diversifying its customer offering and demonstrating the Group's leasing capability by improving occupancy from 83% of acquisition to 100% in May 2017. On 21 June 2017, Dexus announced the acquisition of a 25% interest in the MLC Centre, Sydney for $361.3 million (with DWPF acquiring a further 25% interest) and 100 Harris Street, Pyrmont for $327.5 million. MLC Centre, Sydney and 100 Harris Street, Pyrmont were funded by debt, a $500 million Institutional Placement and an associated Security Purchase Plan (SPP). MLC Centre, Sydney, which settled on 19 July 2017, provides Dexus with significant growth opportunities through market rent reversion and retail repositioning as well as long term development potential. 100 Harris Street, Pyrmont, which settled on 18 July 2017, is located in Sydney's fastest growing CBD fringe market, increasing Dexus's exposure to customers in the technology sector. In addition, Dexus announced the acquisition of 90 Mills Road, Braeside for $50.6 million in June 2017, a flexible high quality industrial logistics asset which settled on 25 July 2017.

Dexus performance

The following sections review the FY17 performance of the Group's key financial drivers: Property Portfolio, Funds Management 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 88%[2] of FFO in FY17.

Dexus increased the size of its direct portfolio to $12.2 billion[3] from $11.0 billion at FY16. This movement was driven by revaluation gains of $704.7 million and acquisitions of $866.7 million, which was partially offset by $889.7 million of divestments.

Office portfolio[5]

Portfolio value:	$10.2 billion[3]
Total area:	1,5814,646 square metres
Area leased during the year:	197,122 square metres[4]

Key metrics	30 June 2017	30 June 2016
Occupancy by income	97.2%	96.3%
Occupancy by area	97.0%	96.3%
WALE by incomewww	4.8 years	4.7 years
Average incentive	14.5%	17.7%
Retention rate	46%	62%
Total return – 1 year	14.1%	16.0%

1. Management Expense Ratio.
2. FFO contribution is calculated before finance costs, group corporate costs and tax.
3. Funds under management at 30 June 2017 adjusted for transactions settled up to 16 August 2017.
4. Including Heads of Agreement.
5. Office portfolio metrics for 30 June 2017, including portfolio value, area, occupancy, and WALE adjusted for transactions settled up to 16 August 2017.

During the year, Dexus leased 197,122 square metres[1] of office space across 317 transactions. Leasing performance across the office portfolio resulted in occupancy of 97.2%[3] at 30 June 2017 (FY16: 96.3%), delivering on the 'above 96%' target set at the start of the year.

In Sydney, Dexus continues to experience strong effective rental growth and declining incentives as a result of the supply shortage and increased demand. Forward lease expiries were significantly de-risked, with FY19 expiries reducing from 14.2% (at the end of FY16) to 12.0%, in line with the target set at the start of the year. Dexus has an opportunity to capitalise on the strength of the market through negotiating favourable terms on its Sydney lease expiries, which represent 64% of expiries over the next three years.

In FY19, Dexus has exposure to the expiry of Woodside at 240 St Georges Terrace, which represents 3.2% of total property portfolio income. Dexus is committed to repositioning and leasing up 240 St Georges Terrace, and is pleased with the current level of enquiry.

Office portfolio tenant retention of 46% reflected the departures of Lend Lease across 16,200 square metres at 30 The Bond, Sydney and the departure of Carnival across 6,600 square metres at 60 Miller Street, North Sydney. Both properties were leased during the year with minimal downtime and capital expenditure resulting in the spaces being 100% leased at 30 June 2017 and underpinning strong total returns.

Office like-for-like income increased by 2.6% compared to FY16. Dexus's office portfolio delivered a one-year unlevered total return of 14.1% (FY16: 16.0%) driven by a strong revaluation uplift from active leasing, most notably at properties in the buoyant Sydney and Melbourne markets, partially offset by a reduction in the value of 240 St Georges Terrace in Perth.

Industrial portfolio[4]

Portfolio value:	$2.0 billion[2]
Total area:	1,284,712 square metres
Area leased during the year:	432,105 square metres[1]

Key metrics	30 June 2017	30 June 2016
Occupancy by income	**96.5%**	90.4%
Occupancy by area	**96.6%**	89.3%
WALE by income	**5.1 years**	4.1 years
Average incentive	**14.5%**	9.5%
Retention rate	**74%**	32%
Total return – 1 year	**12.6%**	16.0%

During the year, Dexus leased a record 432,105 square metres[1] of industrial space across 117 transactions including 51 leases with new customers. As a result of this activity, all key metrics have improved for the portfolio including occupancy by income of 96.5%[4] (FY16: 90.4%) and like-for-like income growth of 3.6% (FY16: -7.1%).

Portfolio weighted average lease expiry (WALE) improved to 5.1 years[4]. Average incentives increased to 14.5% (FY16: 9.5%) as a result of leasing in the competitive Melbourne market.

Industrial portfolio retention of 74% significantly improved during the year from 32% at 30 June 2016. This was driven by the renewal of Fosters at Dexus Industrial Estate, Laverton, IBM at Norwest Business Park, Baulkham Hills and Visy at Kings Park Industrial Estate.

Dexus's industrial portfolio delivered a one-year unlevered total return of 12.6% (FY16: 16.0%).

FY18 Focus (Office and Industrial)

In FY18 Dexus will continue its forward leasing approach to proactively manage expiry risk, target $165-170 million of capital expenditure (including rent free incentives) and target like-for-like income growth for the office portfolio of 4-5% and for the industrial portfolio of 3-4%.

Development

Dexus utilises its development expertise to deliver best-in-class office buildings, city retail amenity 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 continued to enhance future investor returns through its development pipeline. In office, construction of 100 Mount Street, North Sydney and 105 Phillip Street, Parramatta have progressed during the year and Dexus completed 125,600 square metres of industrial development leasing and activated seven industrial facilities in New South Wales and Victoria. The Group and Funds Management development pipeline now stands at $4.3 billion, of which Dexus's balance sheet pipeline accounts for $2.1 billion.

Dexus allocates up to 15% of funds under management (FUM) across its listed portfolio to development and trading/value-add activities. Currently circa 3.8% of FUM is allocated to these activities providing earnings accretion and enhancing total return.

1. Including Heads of Agreement.
2. Funds under management at 30 June 2017 adjusted for transactions settled up to 16 August 2017.
3. Office portfolio metrics for 30 June 2017, including portfolio value, area, occupancy and WALE adjusted for transactions settled up to 16 August 2017.
4. Industrial portfolio metrics for 30 June 2017, including portfolio value, area, occupancy and WALE adjusted for transactions settled up to 16 August 2017.

Operating and Financial Review continued

FY18 Focus

In FY18 Dexus will continue to progress construction of its office development at 100 Mount Street, North Sydney; complete the development of 105 Phillip Street, Parramatta; advance pre-commitments to enable activation of identified developments for Dexus and its third party clients and continue to progress master planning for uncommitted developments.

ii) Funds management

Dexus's Funds Management business represents over half of the Group's $24.9 billion[1] funds under management and its $2.2 billion development pipeline will drive organic growth across the platform. Third party funds under management increased to $12.7 billion, up 13.4% from 30 June 2016, driven by acquisitions, developments and revaluations. Dexus continued to deliver performance for its clients with DWPF outperforming its benchmark over one, three, five, seven and ten years, 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.

The Dexus Office Partnership delivered a one year unlevered total property return of 14.7% and an annualised unlevered total property return of 14.6% since inception. DWPF was also successful in raising $550 million[2] of new equity from both existing and new DWPF unitholders.

In June 2017, Dexus announced a joint venture with Commercial & General for the purpose of launching an unlisted Healthcare Wholesale Property Fund which will be seeded with approximately $370 million of properties. The joint venture combines the complementary capabilities of Dexus and Commercial & General to build scale in the growing healthcare sector, which will benefit from population growth and an ageing demographic.

The healthcare property fund will diversify and expand Dexus's funds management platform in a scalable sector that is attractive to investors, due to the low volatility of returns. Demand for healthcare is also non-discretionary, which insulates the sector from economic cycles.

FY18 Focus

In FY18, Dexus will continue to drive strong performance across all its third party funds and complete the launch of the new healthcare property fund.

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 five years, Dexus has established a track record of delivering trading profits.

Trading profits of $47.2 million net of tax were achieved in FY17 following the sale of 57-75 Templar Road, Erskine Park, 79-99 St Hilliers Road, Auburn and 105 Phillip Street, Parramatta which also secured approximately 60% of trading profits for FY18.

Planning approvals were received for 32 Flinders Street, Melbourne and progressed at 12 Frederick Street, St Leonards. Five projects have been earmarked to deliver trading profits in future years, including potential opportunities at Parramatta and Gladesville.

FY18 Focus

In FY18, Dexus will target trading profits of $35-40 million, net of tax, and will advance future opportunities.

iv) Financial position (look-through)

	30 June 2017 $m	30 June 2016 $m
Office investment properties	9,511	9,238
Industrial investment properties	1,952	1,749
Other	490	653
Total assets	11,953	11,640
Borrowings	2,783	3,772
Other liabilities	582	579
Net tangible assets	8,588	7,289
Total number of securities on issue	1,016,967,300	967,947,692
NTA ($)	8.45	7.53

1. Proforma funds under management adjusted for the acquisitions of MLC Centre, Sydney, 100 Harris Street, Pyrmont, 90 Mills Road, Braeside and the sales of 30-68 Tarras Avenue, Altona North and 46 Colin street, West Perth.
2. Includes $300 million of equity raised subsequent to 30 June 2017.

Total look-through assets increased by $313 million primarily due to $183.4 million of acquisitions, development capital expenditures and $704.7 million of property valuation increases, partially offset by $698.8 million of divestments.

Total look-through borrowings decreased by $989 million due to proceeds from asset sales and the $500 million Institutional Placement offset by funding required for the acquisitions and development capital expenditure mentioned above. Assets and borrowings increased in July 2017 as a result of the acquisition of MLC Centre, Sydney, 100 Harris Street, Pyrmont and 90 Mills Road Braeside.

Capital Management

Cost of debt:	4.1%
Duration of debt:	5.6 years [1]
Gearing (look through) [2]:	26.7% [3]
S&P/Moody's credit rating:	A-/A3

Dexus continued to maintain a strong and conservative balance sheet. Gearing [2] decreased to 26.7% [3] as a result of the receipt of sale proceeds from sold properties, $500 million Institutional Placement and property valuation gains offset by development costs and property acquisitions. Dexus also raised $315 million of new capital markets debt on average terms of 8.2 years, which resulted in the duration of debt remaining stable at 5.6 years[1].

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

FY18 Focus

In FY18, Dexus will focus on maintaining a strong balance sheet supported by diverse sources of debt.

Outlook

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

Overall, the economic growth outlook for Australia is positive heading into FY18, albeit variable by region. Growth in New South Wales and Victoria is expected to continue, buoyed by population growth and infrastructure spending. The Queensland economy is forecast to continue to improve. While growth in Western Australia remains slow, there are positive signs emerging in the office market.

Occupier demand across the east coast is firming, driven by positive business conditions and resilient employment growth. Service industry activity like education, tourism, IT, health and business services are growing relatively strongly. The housing sector appears to be slowing, which may help keep interest rates flat and stable.

Demand for commercial real estate remains strong as investors seek investments with a secure income yield in the context of a structurally lower-for-longer interest rate environment in Australia.

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.

Positive demand across the nation's major office markets is steadily absorbing the remaining pockets of available space, leading to falling vacancy rates. Below average vacancy rates in the Sydney CBD, North Sydney, Parramatta and Melbourne CBD are leading to significant growth in rents, which is in turn leading to increasing valuations.

In addition, a significant level of withdrawals of older stock is driving a pronounced flight to quality resulting in rapid take-up of Prime space. While larger firms are seeking to consolidate their office space requirements using mobile technology and more collaborative office designs, the overall growth in employment, particularly in smaller firms continues to drive the expansion of total office demand.

The outlook over the next year or two is positive given limited levels of new supply currently under construction in the major markets.

Industrial:

Industrial occupier demand is expected to remain positive in the short term due to continued growth in retail and wholesale activity combined with ongoing investment in more efficient supply chains by the major retailers and logistics firms. Both Sydney and Melbourne are recording strong take-up on the back of strong economic growth.

Rents remain largely stable in the outer metropolitan areas of the capital cities due to buoyant supply level; however, there has been some mild upward pressure in land constrained markets including South Sydney and Inner West Sydney.

Investment demand remains strong for quality industrial assets; however, prime investment stock remains tightly held.

1. Includes $60 million of Medium Term Notes issued in July 2017 and three bank facilities for $325 million that commenced in July 2017.
2. Adjusted for cash and for debt in equity accounted investments.
3. Pro forma gearing is adjusted for the acquisitions of MLC Centre, Sydney, 100 Harris Street, Pyrmont, 90 Mills Road, Braeside and the sales of 30-68 Taras Avenue, Altona North and 46 Colin Street, West Perth, including the impact of transactions costs. Actual gearing (look-through) is 22.1% at 30 June 2017.

Operating and Financial Review continued

ii) Funds management

Dexus's funds management platform's current exposure is 51% to office properties, 11% to industrial properties, 37% to retail properties and 1% to healthcare properties. Its office and industrial property performance will be influenced by the key lead indicators described above.

The outlook for retail is subdued in the short term with weak wages growth constraining spending growth. The sector is constantly evolving with retailers expanding their online sales channels and shopping centres remixing their offerings to include more food, service, leisure and experience based offerings. Longer term performance in Australia will be underpinned by population growth and an extended period of relatively low interest rates.

For healthcare properties, demand for healthcare property will benefit from ageing demographics, longer life expectancy and population growth.

Dexus will continue to satisfy the investment objectives of its third party clients and funds through growing existing funds via acquisitions and progressing the $2.2 billion third party development pipeline. Dexus will maximise the performance of properties managed on their behalf of its third party clients.

iii) Trading

Dexus's 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 the future trading pipeline. Dexus has already secured approximately 60% of its targeted FY18 trading profits of $35-40 million, net of tax, and is progressing its remaining pipeline projects.

FY18 Guidance

Taking into account recently announced transactions Dexus's guidance[1] for the 12 months ending 30 June 2018 is 4.0-4.5% 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 key 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
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 – Reduction in management fee revenue	– 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% – Dexus tracks and reports on the drivers of property valuations, including market evidence and forecast data, on a monthly basis – 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 102 properties with 1,632 customers. 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 4.8 years and 5.1 years on the office and industrial portfolios respectively – Dexus adopts a conservative approach to interest rate hedging, with 59% of debt currently hedged (excluding caps) – Dexus tracks and reports actual and forecast performance through monthly monitoring of the drivers of FFO (including leasing outcomes and capital markets), revenue and expenditures

1. Barring unforeseen circumstances, guidance is supported by the following assumptions: Impacts of announced divestments and acquisitions; underlying FFO per security growth of 2.0-2.5% underpinned by Dexus office portfolio like for like growth of 4-5%, Dexus industrial portfolio like-for-like income growth of 3-4%, management operations FFO of c.$50 million and cost of debt in line with FY17; trading profits of $35-40 million net of tax; maintenance capex, cash incentives, leasing costs and rent free incentives of $165-170 million; and excluding any further transactions.

Risk	Description	Potential impact	How Dexus is equipped to manage and monitor this risk
Workplace health and safety	Failure to maintain the highest standards of health and safety in order to minimise the risk of accidents and incidents to customers, contractors, visitors 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 requires compliance by site contactors and employees - Dexus maintains ongoing independent certification against OHSAS 18001 Occupational Health and Safety Management Systems
Security & emergency management	An event occurs that places customers, contractors, visitors and employees in physical danger	- Death or injury on site - Sabotage of building management systems - Reputational damage - Legal proceedings	- Dexus has a Crisis Management Plan and Business Continuity Plans in place that are reviewed and tested on a regular basis - Emergency Management Plans are in place for all assets and are tested on a regular basis - External independent review of Dexus's policies and procedures relating to security risk management. Recommendations for enhancement are implemented.
IT systems, data, cyber and business continuity planning	Failure to maintain IT infrastructure that meets the needs of the business during an unexpected event or disruption e.g. cyber attack, fire and flooding	- Interruption to business and customers resulting in loss of productivity - Unauthorised access to sensitive data for malicious or fraudulent purposes	- 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
Key person risk	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	- Succession plans are in place for key staff and are reviewed on an annual basis - External mapping is undertaken for key roles - Employees have appropriate resignation periods allowing time for replacement
Climate change risk	Assets are impacted by climate change either through loss of value, through damage caused by increased severe weather events, or sea level change	- Assets are damaged - Difficulty or inability to lease asset(s) at heightened risk of climate change impacts - Building systems are unable to cope with an increase in temperature	- Climate change risk assessments are conducted for all new acquisitions as part of the Initial Status Audit - Portfolio wide climate change risk assessments have been conducted, with properties ranked according to their overall level of risk. Higher risk properties undergo further assessment and adaptation planning - New developments are designed and constructed in line with long-term environmental performance benchmarks and targets incorporating life-cycle analysis

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 2017. The consolidated Financial Statements represents DDF and its consolidated entities, Dexus (DXS or the Group).

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

Directors and Secretaries

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
W Richard Sheppard, BEc (Hons), FAICD	1 January 2012
Elizabeth A Alexander, AM, BComm, FCA, FAICD, FCPA	1 January 2005
Penny Bingham-Hall, BA (Industrial Design), FAICD, SF (Fin)	10 June 2014
John C Conde, AO, BSc, BE (Hons), MBA, FAICD	29 April 2009
Tonianne Dwyer, BJuris (Hons), LLB (Hons)	24 August 2011
Mark Ford, Dip. Tech (Commerce), CA, FAICD	1 November 2016
Darren J Steinberg, BEc, FRICS, FAPI, FAICD	1 March 2012
Peter B St George, CA(SA), MBA	29 April 2009

Company Secretaries

The names and details of the Company Secretaries of DXFM as at 30 June 2017 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 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 20 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.

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 14 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.

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 are 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
W Richard Sheppard	10	10	1	1
Elizabeth A Alexander, AM	10	10	1	1
Penny Bingham-Hall	10	10	1	1
John C Conde, AO	10	10	1	1
Tonianne Dwyer	10	10	1	1
Mark Ford[1]	6	6	1	1
Darren J Steinberg	10	10	1	1
Peter B St George	10	10	1	1

1. Commenced directorship on 1 November 2016 and attended the Annual General Meeting (AGM) as a guest.

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 shows non-executive Directors' attendances at Board Committee meetings, of which they were a member during the year ended 30 June 2017.

	Board Audit Committee		Board Risk Committee		Board Nomination Committee		Board People and Remuneration Committee	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended
W Richard Sheppard[1]	2	2	2	2	2	2	5	5
Elizabeth A Alexander, AM	4	4	–	–	–	–	–	–
Penny Bingham-Hall	–	–	4	4	2	2	5	5
John C Conde, AO	–	–	–	–	2	2	5	5
Tonianne Dwyer	4	4	4	4	–	–	–	–
Mark Ford[1]	2	2	2	2	–	–	–	–
Peter B St George	4	4	4	4	–	–	–	–

1. Mr Sheppard was a member of the Board Audit Committee and Board Risk Committee until 31 December 2016 and Mr Ford became a member of the Board Audit Committee and Board Risk Committee effective 1 January 2017.

Elizabeth A Alexander and Tonianne Dwyer were also Directors of Dexus Wholesale Property Limited (DWPL) and attended DWPL Board meetings during the year ended 30 June 2017.

Directors' Report
Remuneration Report

Introduction and Contents

This Remuneration Report details the approach to remuneration frameworks, outcomes and performance for Dexus. The Remuneration Report forms part of the Directors' Report and provides Security holders with an understanding of the remuneration principles in place for key management personnel (KMP) for the year ended 30 June 2017.

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

For the year ended 30 June 2017, Dexus has delivered strong financial performance across key financial metrics. Dexus has increased net profit by 0.3% to $1,264.2 million, delivered a 4.5% increase in distribution per security, 6.3% increase in AFFO per security and achieved a 10.1% one-year total security holder return. Dexus also achieved Return on Contributed Equity (ROCE) of 7.6% and Return on Equity (ROE) of 18.2% for FY17.

Our remuneration strategy is aligned to our business strategy, where performance and Security holder returns are paramount. Our remuneration approach consists of a framework and policy that governs how Executives are remunerated and supports the overall achievement of Dexus's strategy. We believe that our approach to Executive reward is a key factor in driving our success. To have the right people to lead the business over the long term, Dexus has developed and embedded a competitive remuneration strategy to deliver long term performance.

Our Executives are paid a market based fixed salary which is reasonable, not excessive, and are eligible for a short-term incentive (STI) bonus based on an individual scorecard requiring exceptional performance to be rewarded at scheme target. In order to align to long term shareholder value, Executives are also granted long-term incentive (LTI) rights based on stretch hurdles and conditions tested three and four years in the future. We believe this mix provides the right level of performance focus and retention incentive for our Executives that will deliver sustainable outperformance for our Security holders.

More broadly, the Dexus remuneration structure is focused on increased equity and ownership amongst Executives and staff to align better the interests of our employees with our Security holders and to strengthen engagement with the organisation.

In this year's Remuneration Report, we have included additional information about LTI Plan testing. The various tranches have 1 July vesting dates, and the results of testing for some prior year grants are therefore known at the time this report is published. We have therefore increased the information available to Security holders by forward disclosing in this report the results of LTI tranche tests conducted after the close of the fiscal year.

2. Key Changes

The table below summarises changes that occurred for the year ending 30 June 2017 (FY17) and changes planned for the year commencing 1 July 2017 (FY18). The fixed remuneration changes for the CEO and the LTI quantum and measures were disclosed previously in the FY16 Remuneration Report.

Changes from the Previous Year (FY17)	
KMP changes	– Mr Mark H Ford was appointed as a Non-Executive Director of the DXFM Board on 1 November 2016. – Mr Craig D Mitchell ceased employment on 19 July 2016 following his resignation as Executive Director and Chief Operating Officer.
Fixed remuneration increases	– The Board approved an increase to the CEO's fixed remuneration to $1,600,000 per annum (+$100,000 from FY16). This represented only the second increase Mr Steinberg has received since joining the Group in March 2012. – The Board also approved increases to some Executive KMP members following the reorganisation of the Group's senior leadership team and the expanded roles and responsibilities of a number of executives following the resignation of Mr Mitchell, the Group's Executive Director and Chief Operating Officer.
Short-term incentive (STI) awards	– The CEO received an STI award for the year ending 30 June 2017 equal to 88% of his maximum STI potential. – The average STI awarded to other Executive KMP was 83% of the maximum potential.
Long-term incentive (LTI) awards	As set out in the FY16 Remuneration Report, the Board updated the LTI plan to ensure the design was achieving the program's objectives, i.e. aligning, rewarding and retaining Executive KMP and other Executives. The updates may be summarised as: – In order to address the difference between property industry market practice (many peers use fair value) and the Dexus plan (face value), the Board approved an increase to the maximum LTI grant opportunity. The maximum LTI grant value (expressed as a percentage of fixed remuneration) increased by 20% for all participants. Dexus will continue to use face value methodology for calculating the number of securities to be granted; and – The LTI plan was simplified to comprise two equally weighted performance hurdles, being Return on Contributed Equity (ROCE) and growth in Adjusted Funds From Operations (AFFO) per security.
Board Chair and Non-Executive Director base fees	As set out in the FY16 Remuneration Report, Non-Executive Director fees were reviewed relative to comparable companies, and following independent advice the following changes were 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 changes to Committee fees

Changes to the Coming Year (FY18)	
Changes to executive remuneration for the year commencing 1 July 2017	**Fixed remuneration** – Informed by industry peer analysis and the increased scope of the Chief Financial Officer role, the Board approved an increase to Ms Harrop's fixed remuneration to $675,000 per annum (+$50,000). – There were no other increases approved for Executive KMP. – Total increases across the most senior executives' fixed remuneration including CEO and KMPs was less than 1% (0.86%) compared to FY17 totals. **Incentive plans** – There are no material changes to the STI or LTI plans for the coming year.
Changes to Non-Executive Director (NED) remuneration for the year commencing 1 July 2017	**Board base fees and Committee fees** – No increase to Board base fees or Committee fees **Non-Executive Director minimum security holding** – There are no changes to the Non-Executive Director minimum security holding policy for the coming year.
Change to Fee Pool	**Non-executive Board and Committee fees** – Increase from $2.2 million to $2.5 million for NED Fee Pool, subject to security holder approval at the 2017 AGM.

Directors' Report
Remuneration Report continued

3. 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 referred to collectively as "Executive KMP" in this report. The table below shows KMPs of the Group during FY16 and FY17.

Name	Position title	KMP FY16	KMP FY17
Independent Non-Executive Directors			
W Richard Sheppard	Non-Executive Chair	✔	✔
Elizabeth A Alexander AM	Non-Executive Director	✔	✔
Penny Bingham-Hall	Non-Executive Director	✔	✔
John C Conde AO	Non-Executive Director	✔	✔
Tonianne Dwyer	Non-Executive Director	✔	✔
Peter B St George	Non-Executive Director	✔	✔
Mark H Ford	Non-Executive Director	✕	Part-year
Christopher T Beare	Former Non-Executive Chair	Part-year	✕
Executive Directors			
Darren J Steinberg	Executive Director and Chief Executive Officer	✔	✔
Craig D Mitchell	Executive Director and Chief Operating Officer	✔	Part-year
Other Executives			
Alison C Harrop	Chief Financial Officer	Part-year	✔
Ross G Du Vernet	Chief Investment Officer	✔	✔
Kevin L George	Executive General Manager, Office & Industrial	✔	✔
Deborah C Coakley	Executive General Manager, Customer & Marketing	✔	✔

4. Remuneration Governance

The Board People & 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 & 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
- Diversity and Inclusion Principles and objectives
- 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 $10,511 (GST inclusive) for remuneration advisory services, including the review of documents, attendance at meetings and general advice.

The Committee is satisfied that 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 Mix & Framework

The remuneration mix is structured so that a substantial portion of the remuneration is delivered as Dexus securities through either Deferred STI or LTI.

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

Remuneration Component		Year 1	Year 2	Year 3	Year 4
1. Fixed Remuneration	100%	Base Salary & Superannuation			
2. STI (100% of Fixed Remuneration @ target)	75% of STI	Cash STI			
	12.5% of STI	Half of 25% of STI deferred for 1 year delivered as Rights			
	12.5% of STI	Half of 25% of STI deferred for 2 years delivered as Rights			
3. LTI (120% or 60% of Fixed Remuneration @ target)	50% of LTI	LTI 3 year performance period delivered as Performance Rights (subject to performance)			
	50% of LTI	LTI 4 year performance period delivered as Performance Rights (subject to performance)			

The remuneration framework consists of three different components – fixed remuneration, short term incentives and long term incentives. The relative weighting of each component is referred to as the remuneration 'mix'.

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

Directors' Report
Remuneration Report continued

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

Fixed Remuneration

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

The Board believes that senior Executives 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 senior management 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 is used which includes companies (or business unit) of a similar size/complexity.
- For corporate roles: The primary comparator group is based on company (or business unit) size/complexity. A secondary comparator group based on industry peers 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 is 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 in the STI Plan 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 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 six 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 FY18 STI plan?	In FY18, the manner in which financial and non-financial objectives are categorised within Executive balanced scorecards has been refreshed to continue to support the execution of the Board-approved strategy of the Group. Safety is now a separately highlighted measure to recognise our commitment to the safety of people.

Directors' Report
Remuneration Report continued

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 Executives to make sustainable business decisions within the Board-approved strategy of the Group. – Aligns the financial interests of Executives participating in the LTI Plan to security holders through exposure to DXS securities.
Who participates in the LTI plan?	The CEO, all Executive KMP and other selected Senior Executives participate in the LTI plan.
What is the quantum of LTI grants?	The maximum LTI opportunities for 2016 (granted in FY17) were 120% of fixed remuneration for the CEO and between 36% and 60% of fixed remuneration for other Executives.
How is the number of Performance Rights determined?	The number of Performance Rights granted is the Executive's LTI grant value (based on 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 vesting periods 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 two performance conditions under the LTI plan are Adjusted Funds From Operations (AFFO) growth per security and Return on Contributed Equity (ROCE): – 50% is based on the group's performance against an AFFO Growth per security hurdle. 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. AFFO Growth is measured as the implied compound annual growth rate (CAGR) of the aggregate AFFO earnings per security over both the three and four year vesting periods. – 50% is based on the Group's performance against an Average ROCE performance hurdle. ROCE represents the annualised composite rate of return to Security holders, calculated as a percentage, comprising AFFO together with the net tangible asset impact from completed developments, divided by the average contributed equity during the period. ROCE is measured as the per annum average at the respective conclusion of the three and four year vesting periods.
What level of performance is required for LTI awards to vest for past grants?	Vesting under both the AFFO Growth and Average ROCE 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 Actual AFFO Growth and Average ROCE performance hurdles are set by the Board and are in line with Dexus's target range through the cycle. Both the AFFO Growth and Average ROCE 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?	As disclosed in the FY16 Remuneration Report, the Board conducted a review of external practices in the market and sought independent advice on what measures would better align the LTI plan with Security holders' interests. The Board subsequently resolved to simplify the LTI Plan from four hurdles to two, both of which are based on absolute (as opposed to relative) performance measures. This decision focusses the LTI plan on commercial performance that is within an executive's ability to control and influence. Commencing with the 2016 LTI grant, LTI performance hurdles were the existing AFFO Growth per security hurdle and a new ROCE measure which replaced Return on Equity (ROE). Each performance condition is weighted 50% and there were no changes to the three and four year testing and vesting schedule. 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?	As disclosed in the FY16 Remuneration Report, the Board reviewed 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 (noting Dexus continued use of the face value methodology which awards fewer securities than fair value methodology and the overall quantum granted versus realized). The Board subsequently approved an increase to the maximum LTI grant value for Executives in the LTI Plan. The maximum LTI opportunity for all participants increased by 20% for the 2016 LTI grants, with the CEO maximum set at 120% of fixed remuneration and 60% for other Executive KMP and 36% for other participants. There are no increases or further changes proposed for the upcoming 2017 LTI grant.
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 retesting 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, reorganisation, 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.

Directors' Report
Remuneration Report continued

5. 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 FY17.

The values in the table below differ from the values in the executive statutory remuneration table (see Section 7 of this Remuneration Report) 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.

The total benefits actually paid and received during the period (1 July 2016 to 30 June 2017) comprise several elements, including:

- Cash Salary;
- Pension and Superannuation Benefits;
- STI Cash Payment made in August 2016, being 75% of the STI awarded for performance during the prior period (FY16), with the remaining 25% being deferred; and
- The Market Value of vested rights from deferred plans including FY15 Deferred STI Tranche 1, FY14 Deferred STI Tranche 2 & FY13 LTI Tranche 1.

More information on the Executive remuneration granted in FY17, but paid in future financial years, can be found in *STI Awards for FY17 Performance* and the *Deferred STI and LTI Grants for FY17 Performance* sections of this report.

				Earned in prior Financial Years		
Executive KMP	Cash Salary ($)	Pension & Super Benefits ($)	Termination Benefits ($)	STI Cash Payment ($)	Market Value of Vested Rights ($)	Total ($)
Darren J Steinberg	1,580,384	19,616	–	1,068,750	1,187,668	3,856,419
Craig D Mitchell[1]	37,679	1,608	477,301	–	–	516,588
Ross G Du Vernet	680,384	19,616	–	405,000	351,654	1,456,654
Kevin L George	675,584	24,416	–	408,000	359,393	1,467,393
Alison C Harrop	600,728	19,616	–	286,500	19,332	926,175
Deborah C Coakley	545,900	29,100	–	315,000	186,678	1,076,678

1. Mr Mitchell left employment on 15 July 2016 and received terminations benefits totalling of $477,301.
This amount included the payout of unused statutory annual leave and long service leave entitlements and cash settlement of Deferred STI awards that vested on 1 July 2016 prior to his notice period completion.
It is noted that Mr Mitchell forfeited all his unvested Deferred STI and LTI Rights on 15 July 2016 with a potential market value of $2,310,037.

6. Group Performance and Executive Remuneration Outcomes

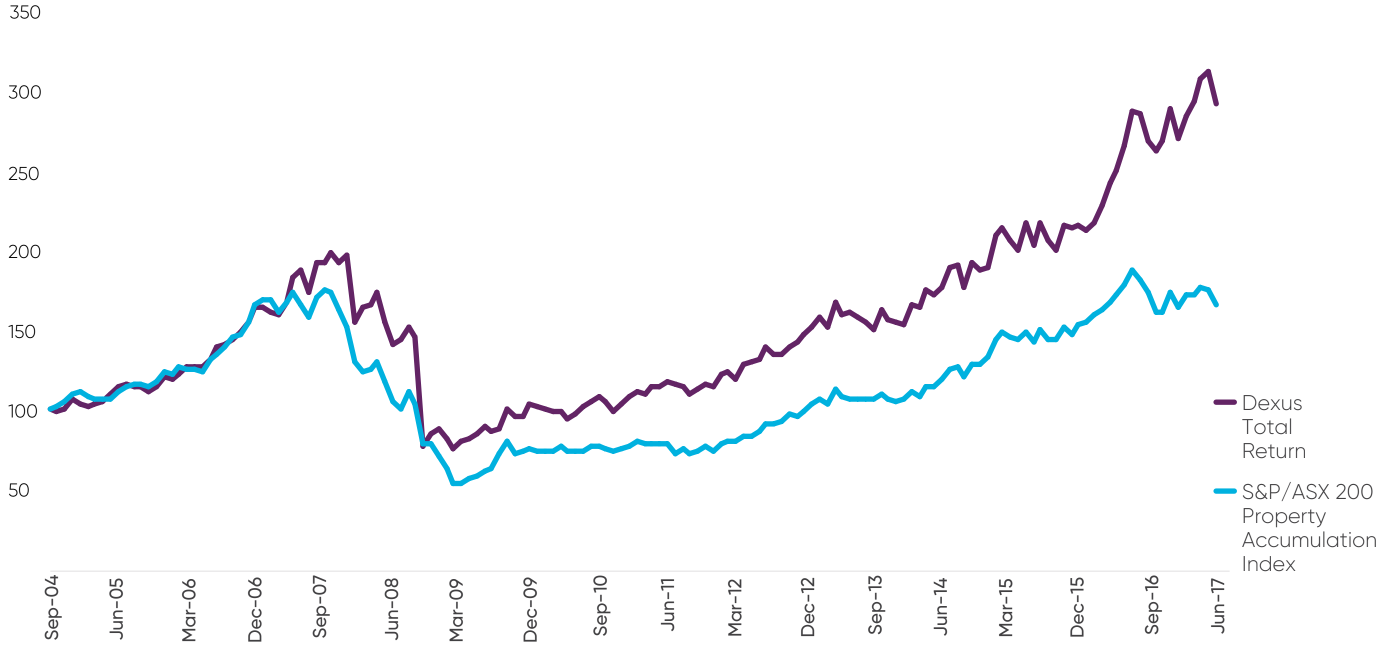
FY17 Highlights

Group	Property Portfolio	Funds Management	Trading	Capital Management
Delivered a 4.5% increase in distribution per security and 6.3% increase in AFFO per security	Delivered a strong one-year office total return of 14.1%. Increased occupancy to 97.2% and reduced FY19 expiries to 12.0%	Delivered strong performance for clients. DWPF outperformed over 1, 3, 5, 7 and 10 year periods	Delivered FY17 trading profits of $47.2 million post tax	Maintained balance sheet strength with gearing of 26.7%[1] and completed a $500 million institutional placement
Achieved a 10.1% one-year total security holder return, 7.6% ROCE and ROE of 18.2%	Completed over 430,000sqm of industrial leasing, driving an increase in all key metrics	Launched a new unlisted healthcare property fund to be finalised in FY18	Secured the sale of 105 Phillip Street, which contributed to trading profits in both FY17 & FY18	Reduced cost of debt to 4.1% (FY16: 4.8%). Secured $315 million of capital markets debt

1. Proforma gearing is adjusted for the acquisitions of MLC Centre, Sydney, 100 Harris Street, Pyrmont, 90 Mills Road, Braeside and the sales of 30-68 Taras Avenue, Altona North and 46 Colin Street, West Perth, including the impact of transaction costs. Actual gearing (look-through) is 22.1% at 30 June 2017.

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/ASX 200 Property Accumulation Index.

Year Ended 30 June 2017	1 Year (% per annum)	3 Years* (% per annum)	5 years* (% per annum)
Dexus	10.1%	18.4%	17.4%
S&P/ASX 200 Property Accumulation Index	-6.3%	12.0%	14.1%

Source: UBS Australia. *Annual compound returns.

Dexus achieved a 10.1% total Security holder return for the year ended 30 June 2017. Dexus has outperformed the S&P/ASX 200 Property Accumulation index over one, three and five years.

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.

Directors' Report
Remuneration Report continued

The table below summarises the CEO's performance relative to his Balanced Scorecard for the year ended 30 June 2017:

Category & Principal KPIs	CEO weighting	Result	Performance Detail
Group Financial Performance Adjusted Funds from Operations (AFFO) and Return on Equity (ROE)	50%	Above Target	The Board has determined the Group financial performance is above target given upgraded guidance was provided in February 2017 and the upper end of that guidance was achieved. Distribution growth of 4.5% and a ROE of 18.2% was achieved.
Customer Launch new Dexus brand, implement customer strategy focused on attraction and retention	10%	At Stretch Target	Successful launch of Dexus's new-look brand in March 2017, reflecting Dexus's progressive, innovative and customer focused approach. Dexus's customer offering was expanded to include a fourth Dexus Place, Prism thought leadership website, and Childspace. Achieved increase in combined office and industrial customer NPS scores and satisfaction scores.
Business Excellence Lead overall business unit performance, continuous improvement and process simplification	15%	Above Target	Key targets for each business unit were achieved. This included: total return outperformance for Dexus's office portfolio and DWPF over 3 and 5 years; delivering growth in third party funds management including establishing new healthcare joint venture; and progressing development and trading pipelines.
Projects Define and implement projects and initiatives to support overall business strategy	5%	At Stretch Target	Completed strategic projects that contributed to improved business efficiencies, simplification and innovation for the future. This included simplified leasing management system and an integrated platform, Workday, for human capital management.
People & Culture Develop a diverse and inclusive culture, enhance performance management processes with a focus on succession planning and retention of key talent	10%	At Stretch Target	Improvement in culture indicators and all constructive styles above 50th percentile. Achieved 33.0% female senior leader population and gender pay equity in like-for-like roles. Succession plans in place for all key roles with 100% retention of key talent participants.
Corporate Responsibility and Sustainability (CR&S) Deliver sustained value to Dexus's stakeholders through the achievements of annual CR&S commitments	5%	At Stretch Target	Achieved or progressed all CR&S commitments for 2017 and progressed Dexus's 2020 sustainability targets. Maintained global leadership ranking in GRESB and UNPRI.
Values and Behaviours Role model on values, leadership behaviours, collaboration and inclusiveness	5%	At Stretch Target	CEO is Chair of the Corporate Responsibility, Inclusion and Diversity Committee leading change in workplace flexibility, gender equity and inclusion awareness throughout the organisation. Member of the Property Male Champions of Change initiative to drive gender equality within the industry. Led internal initiatives on leadership development and high performance culture programs.

STI Awards for FY17 Performance

The following table summarises the STI awards made to each Executive KMP with respect to their performance during the year ended 30 June 2017. The 75% cash component is paid in August 2017, and will form a part of the FY18 cash earnings for Executive KMP.

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	1,760,000	88%	12%	25%
Ross G Du Vernet	735,000	84%	16%	25%
Kevin L George	735,000	84%	16%	25%
Alison C Harrop	656,250	84%	16%	25%
Deborah C Coakley	575,000	80%	20%	25%

Deferred STI and LTI Grants for FY17 Performance

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 2017, which was $9.7535.

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	45,112	1 July 2017	1 July 2018	1 July 2019
	LTI	196,852	1 July 2017	1 July 2020	1 July 2021
Ross G Du Vernet	Deferred STI	18,839	1 July 2017	1 July 2018	1 July 2019
	LTI	43,061	1 July 2017	1 July 2020	1 July 2021
Kevin L George	Deferred STI	18,839	1 July 2017	1 July 2018	1 July 2019
	LTI	43,061	1 July 2017	1 July 2020	1 July 2021
Alison C Harrop	Deferred STI	16,821	1 July 2017	1 July 2018	1 July 2019
	LTI	38,448	1 July 2017	1 July 2020	1 July 2021
Deborah C Coakley	Deferred STI	14,738	1 July 2017	1 July 2018	1 July 2019
	LTI	35,372	1 July 2017	1 July 2020	1 July 2021

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.

7. 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 2017, 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	Year	Cash Salary	STI Cash Award	Other Short-Term Benefits	Pension & Super Benefits	Termination Benefits	Deferred STI Plan Accrual	LTI Plan Accrual	Total
Darren J Steinberg	**FY17**	1,580,384	1,320,000	–	19,616	–	385,964	1,305,851	4,611,815
	FY16	1,480,692	1,068,750	–	19,308	–	370,221	1,075,601	4,014,572
Craig D Mitchell [1]	**FY17**	37,679	–	–	1,608	477,301	–	–	516,588
	FY16	866,472	–	–	33,528	–	(180,807)	(519,617)	199,576
Ross G Du Vernet	**FY17**	680,384	551,250	–	19,616	–	151,423	259,260	1,661,934
	FY16	580,692	405,000	–	19,308	–	139,730	207,889	1,352,619
Kevin L George	**FY17**	675,584	551,250	–	24,416	–	154,968	291,071	1,697,289
	FY16	620,692	408,000	–	19,308	–	135,543	250,329	1,433,872
Alison C Harrop [2]	**FY17**	600,728	492,188	–	19,616	–	106,065	131,401	1,349,997
	FY16	398,019	214,875	–	14,481	–	30,158	44,963	702,496
Deborah C Coakley	**FY17**	545,900	431,250	–	29,100	–	101,912	123,019	1,231,181
	FY16	505,692	315,000	–	19,308	–	44,210	57,226	941,436
Total	**FY17**	4,120,659	3,345,938	–	113,971	477,301	900,333	2,110,602	11,068,804
	FY16	4,452,260	2,411,625	–	125,240	–	539,055	1,116,391	8,644,571

1. Craig Mitchell's remuneration for FY16 includes the reversal of prior year expenses relating to forfeited Deferred STI and LTI awards.
2. Alison Harrop's remuneration for FY16 is reflective of nine months as a KMP in that year.

Directors' Report
Remuneration Report continued

Deferred STI & LTI Awards Which Vested During FY17

The table below shows the number of Rights which vested under the Deferred STI and LTI plans during FY17. The vesting date for all Rights was 1 July 2016.

Executive KMP	Plan name	Grant Date	Tranche	Number of Rights which vested	Market Value at vesting[1] ($)
Darren J Steinberg	Deferred STI	1/07/2014	2	35,288	319,558
		1/07/2015	1	25,352	229,582
	LTI	1/07/2013	1	70,511	638,529
Ross G Du Vernet	Deferred STI	1/07/2014	2	15,124	136,958
		1/07/2015	1	8,895	80,552
	LTI	1/07/2013	1	14,813	134,144
Kevin L George	Deferred STI	1/07/2014	2	9,074	82,171
		1/07/2015	1	10,230	92,642
	LTI	1/07/2013	1	20,383	184,580
Alison C Harrop*	Deferred STI	1/07/2014	2	0	0
		1/07/2015	1	2,135	19,332
	LTI	1/07/2013	1	0	0
Deborah C Coakley	Deferred STI	1/07/2014	2	8,167	73,958
		1/07/2015	1	5,337	48,335
	LTI	1/07/2013	1	7,110	64,386

1. Market Value at vesting is the VWAP of DXS securities for the five day period before the vesting date.
* Alison Harrop was not employed at the time of grant.

Performance of LTI Awards Which Vested During FY17

As detailed in the table above, the first tranche of the 2013 LTI plan vested to participating Executive KMP on 1 July 2016. The vesting outcome of 75% was determined by the Board, referencing the previously approved performance hurdles set and communicated to participants upon the original Grant Date of 1 July 2013.

The table below shows the result of each performance condition within tranche 1 of the 2013 LTI plan:

Performance Condition	Weighting	Hurdle Range	Group Result	Vesting Outcome
Funds From Operations Growth[1]	25%	3.0% to 5.5%	9.2%	25%
Average Return on Equity[2]	25%	9.0% to 11.0%	12.5%	25%
Relative Total Security Holder Return[3]	25%	Median to 75th Percentile	5th out of 6	Nil
Relative Return on Equity[4]	25%	Median to 75th Percentile	2nd out of 8	25%
			Overall result	75%

1. Funds From Operations (FFO) Growth hurdle was measured on a linear scale for testing, with a 3.0% Compound Annual Growth Rate set as the Target (where 50% would vest) and 5.5% set as the Outperformance hurdle (where 100% would vest). The Dexus FFO Growth result over the three year performance period was 9.2% resulting in the full vesting of this performance condition.
2. Average Return on Equity (ROE) hurdle was measured on a linear scale for testing, with a 9.0% simple ROE average set as the Target (where 50% would vest) and 11.0% set as the Outperformance hurdle (where 100% would vest). The Dexus Average ROE result was 12.5% over the three year performance period, resulting in the full vesting of this performance condition.
3. Relative Total Security Holder Return (TSR) was measured with reference to the TSR percentile rank of DXS against a comparator group including listed A-REIT peers Investa Office Fund, SCA Property Group, Vicinity Centres, The GPT Group and Cromwell Property Group. A Median rank was set as the Target (where 50% would vest) and a 75th Percentile or better rank was set as the Outperformance hurdle (where 100% would vest). The Dexus Relative TSR rank of fifth out of six listed A-REIT peers over the three year performance period, resulted in the forfeiture of this performance condition.
4. Relative Return on Equity (ROE) was measured with reference to the Average ROE result achieved by DXS against a comparator group including unlisted property funds GPT Wholesale Office Fund, AMP Capital Wholesale Office Fund, ISPT Core Fund, Australian Prime Property Commercial Fund, QIC Property Fund and Australian Prime Property Retail Fund. A Median rank was set as the Target (where 50% would vest) and a 75th Percentile or better rank was set as the Outperformance hurdle (where 100% would vest). The Dexus Relative ROE rank of second out of eight unlisted property peers over the three year performance period, resulted in the full vesting of this performance condition.

For more information on the 2013 LTI plan, refer to the FY13 Remuneration Report.

Performance of LTI Awards Which Vested Post Year-end

On 1 July 2017, the second tranche of the 2013 LTI plan and the first tranche in the 2014 LTI plan also vested for participating Executive KMP. These details are being provided as a forward disclosure.

The vesting outcome of 100% for both tranches was determined by the Board, referencing the previously approved performance hurdles set and communicated to participants upon the original Grant Dates of 1 July 2013 and 1 July 2014 respectively.

The table below shows the result of each performance condition within tranche 2 of the 2013 LTI plan:

Performance Condition	Weighting	Hurdle Range	Group Result	Vesting Outcome
Funds From Operations Growth	25%	3.0% to 5.5%	8.1%	25%
Average Return on Equity	25%	9.0% to 11.0%	13.2%	25%
Relative Total Security Holder Return	25%	Median to 75th Percentile	2nd out of 6	25%
Relative Return on Equity	25%	Median to 75th Percentile	2nd out of 7	25%
			Overall Result	100%

The table below shows the result of each performance condition within tranche 1 of the 2014 LTI plan:

Performance Condition	Weighting	Hurdle Range	Group Result	Vesting Outcome
Funds From Operations Growth	25%	4.0% to 6.0%	6.8%	25%
Average Return on Equity	25%	9.0% to 10.0%	15.3%	25%
Relative Total Security Holder Return	25%	Median to 75th Percentile	2nd out of 17	25%
Relative Return on Equity	25%	Median to 75th Percentile	2nd out of 14	25%
			Overall Result	100%

The full details and quantification in dollars of these vesting tranches will be provided in the FY18 Remuneration Report.

Unvested Deferred STI Awards

The table below shows the number of unvested Rights held by Executive KMP as at 30 June 2017 under the Deferred STI plan. The STI awards in respect of which the elements below are deferred elements were disclosed in prior year remuneration reports.

Executive KMP	Grant Date	Vesting Date	Tranche	Number of Rights
Darren J Steinberg	1/07/2015	1/07/2017	2	24,151
	1/07/2016	1/07/2017	1	19,488
	1/07/2016	1/07/2018	2	19,488
Ross G Du Vernet	1/07/2015	1/07/2017	2	8,474
	1/07/2016	1/07/2017	1	7,385
	1/07/2016	1/07/2018	2	7,385
Kevin L George	1/07/2015	1/07/2017	2	9,745
	1/07/2016	1/07/2017	1	7,440
	1/07/2016	1/07/2018	2	7,440
Alison C Harrop	1/07/2015	1/07/2017	2	2,034
	1/07/2016	1/07/2017	1	5,224
	1/07/2016	1/07/2018	2	5,224
Deborah C Coakley	1/07/2015	1/07/2017	2	5,084
	1/07/2016	1/07/2017	1	5,744
	1/07/2016	1/07/2018	2	5,744

Directors' Report
Remuneration Report continued

Unvested LTI Awards

The table below shows the number of unvested Performance Rights held by Executive KMP as at 30 June 2017 under the LTI plan. The LTI awards in respect of which the elements below are the variously deferred tranches were disclosed in prior year remuneration reports.

Executive KMP	Grant date	Vesting Date	Tranche	Number of Rights
Darren J Steinberg	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
	1/07/2016	1/07/2019	1	98,466
	1/07/2016	1/07/2020	2	98,466
Ross G Du Vernet	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
	1/07/2016	1/07/2019	1	19,693
	1/07/2016	1/07/2020	2	19,693
Kevin L George	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
	1/07/2016	1/07/2019	1	21,006
	1/07/2016	1/07/2020	2	21,006
Alison C Harrop	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
	1/07/2016	1/07/2019	1	18,052
	1/07/2016	1/07/2020	2	18,052
Deborah C Coakley	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
	1/07/2016	1/07/2019	1	17,232
	1/07/2016	1/07/2020	2	17,232

8. 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 three 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 was effective on 15 July 2016. Mr Mitchell received a termination payment of $477,301 ($262,640 net) 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, Performance Rights and STI awards for Mr Mitchell were forfeited in accordance with the STI and LTI plan rules and the terms of his employment contract. This forfeiture had a potential market value of $2,310,037 upon Mr Mitchell's termination date.

Directors' Report
Remuneration Report continued

9. 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.

As disclosed in the 2016 Remuneration Report, Non-Executive Director fees were reviewed and increased effective 1 July 2016. The Board Chair's base fee was increased to $400,000 (+$25,000) and Board members base fee was increased to $170,000 (+$10,000). There were no changes to Committee Chair or Member fees.

The table below outlines the Board fee structure (inclusive of statutory superannuation contributions) for the year ended 30 June 2017.

Committee	Year	Chair ($)	Member ($)
Director's Base Fee (DXFM)	**FY17**	400,000*	170,000
	FY16	375,000*	160,000
Board Risk Committee	**FY17**	30,000	15,000
	FY16	30,000	15,000
Board Audit Committee	**FY17**	30,000	15,000
	FY16	30,000	15,000
Board Nomination Committee	**FY17**	15,000	7,500
	FY16	15,000	7,500
Board People & Remuneration Committee	**FY17**	30,000	15,000
	FY16	30,000	15,000
DWPL Board	**FY17**	45,000	22,500
	FY16	45,000	22,500

* The Board 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 2017 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 is seeking approval to increase the aggregate Non-Executive Director fee pool to $2,500,000 at the 2017 AGM.

Non-Executive Director Minimum Security Holding

Non-Executive Directors are expected to hold a minimum of 16,500 DXS securities. Newly appointed Directors are expected 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 2017, all Directors met the minimum security holding requirement, except for Mr Ford who has until October 2019 to satisfy this 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 2017
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
Mark H Ford	1,667

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 year ended 30 June 2017.

Non-Executive Director	Year	Short Term Benefits (S)	Post Employment Benefits ($)	Other Long Term Benefits ($)	Total ($)
W Richard Sheppard	**FY17**	380,384	19,616	–	400,000
	FY16	303,653	18,945	–	322,598
Elizabeth A Alexander AM	**FY17**	210,384	21,206	–	231,591
	FY16	200,913	17,496	–	218,409
Penelope Bingham-Hall	**FY17**	189,008	17,956	–	206,964
	FY16	173,516	16,484	–	190,000
John C Conde AO	**FY17**	189,498	18,002	–	207,500
	FY16	180,365	17,135	–	197,500
Tonianne Dwyer	**FY17**	217,884	19,616	–	237,500
	FY16	208,192	19,308	–	227,500
Peter B St George	**FY17**	196,347	18,653	–	215,000
	FY16	182,804	17,366	–	200,170
Mark H Ford	**FY17**	117,199	11,134	–	128,333
	FY16	–	–	–	–
Christopher T Beare	**FY17**	–	–	–	–
	FY16	116,283	6,436	–	122,719
Total	**FY17**	1,500,706	126,183	–	1,626,888
	FY16	1,365,727	113,170	–	1,478,897

Directors' Report

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
W Richard Sheppard	70,090
Elizabeth A Alexander, AM	16,667
Penny Bingham-Hall	16,534
John C Conde, AO	16,667
Tonianne Dwyer	16,667
Mark Ford	1,667
Darren J Steinberg [1]	977,604
Peter B St George	17,333

1. Includes interests held directly and through performance rights (refer note 22).

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 22 – 29 of this financial report.

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
W Richard Sheppard	Star Entertainment Group	21 November 2012
Elizabeth A Alexander, AM	Medibank Private Limited [1]	31 October 2008
Penny Bingham-Hall	BlueScope Steel Limited	29 March 2011
	Fortescue Metals Group Ltd	16 November 2016
John C Conde, AO	Whitehaven Coal Limited	3 May 2007
	Cooper Energy Limited	25 February 2013
Tonianne Dwyer	Metcash Limited	24 June 2014
	ALS Limited	1 July 2016
	Oz Minerals Limited	21 March 2017
Peter B St George	First Quantum Minerals Limited [2]	20 October 2003

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

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.

Total value of Trust assets

The total value of the assets of the Group as at 30 June 2017 was $12,270.1 million (2016: $11,782.8 million). Details of the basis of this valuation are outlined in the Notes to the Financial Statements and form part of this Directors' Report.

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.

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.

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.

Distributions

Distributions paid or payable by the Group for the year ended 30 June 2017 were 45.47 cents per security (2016: 43.51 cents per security) as outlined in note 7 of the Notes to the Financial Statements.

DXFM fees

Details of fees paid or payable by the Group to DXFM are eliminated on consolidation for the year ended 30 June 2017. Details are outlined in note 23 of the Notes to the Financial Statements and form part of this Directors' Report.

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 2017 are detailed in note 16 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 23 of the Notes to the Financial Statements and form part of this Directors' Report.

The DXFM Board has approved a grant of performance rights of DXS stapled securities to eligible participants. Details of the performance rights awarded during the financial year are detailed in note 22. The Group did not have any options on issue as at 30 June 2017 (2016: nil).

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.

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*.

Audit

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 ended June 2016, the Board granted approval to extend the term of the current lead auditor for one year, to include the audit for the year ended 30 June 2017.

Non-audit services

The Group may decide to employ the Auditor on assignments, in addition to its 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 20 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:

- all non-audit services have been reviewed by the Board Audit Committee to ensure that they do not impact the impartiality and objectivity of the auditor
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*.

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

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 52 and forms part of this Directors' Report.

Corporate governance

DXFM's Corporate Governance Statement is available at: www.dexus.com/who-we-are/our-business/corporate-governance

Rounding of amounts and currency

As the Group is an entity of the kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, the Directors have chosen to round amounts in this Directors' Report and the accompanying Financial Report to the nearest tenth of a million dollars, unless otherwise indicated. The Group is an entity to which the Instrument applies. All figures in this Directors' Report and the Financial Statements, except where otherwise stated, are expressed in Australian dollars.

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 15 August 2017.

W Richard Sheppard
Chair
15 August 2017

Darren J Steinberg
Chief Executive Officer
15 August 2017

Auditor's Independence Declaration

Auditor's Independence Declaration

As lead auditor for the audit of Dexus Diversified Trust for the year ended 30 June 2017, 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
15 August 2017

PricewaterhouseCoopers, ABN 52 780 433 757
One International Towers Sydney, Watermans Quay, Barangaroo, GPO BOX 2650, SYDNEY NSW 2001
T: +61 2 8266 0000, F: +61 2 8266 9999, www.pwc.com.au

For the year ended 30 June 2017
Consolidated Statement of Comprehensive Income

	Note	2017 $m	2016 $m
Revenue from ordinary activities			
Property revenue	2	**540.6**	554.9
Development revenue	10	**224.3**	204.7
Interest revenue		**0.6**	0.6
Management fees and other revenue		**116.2**	105.3
Total revenue from ordinary activities		**881.7**	865.5
Net fair value gain of investment properties		**457.6**	452.1
Share of net profit of investments accounted for using the equity method	9	**470.4**	525.5
Net gain on sale of investment properties		**23.4**	1.0
Net fair value gain of interest bearing liabilities		**87.5**	–
Net fair value gain of derivatives		**–**	106.4
Total income		**1,920.6**	1,950.5
Expenses			
Property expenses	2	**(150.7)**	(152.7)
Development costs	10	**(156.9)**	(114.3)
Finance costs	4	**(108.1)**	(171.3)
Net fair value loss of derivatives		**(101.0)**	–
Net fair value loss of interest bearing liabilities		**–**	(110.8)
Transaction costs		**–**	(7.1)
Management operations, corporate and administration expenses	3	**(98.9)**	(91.1)
Total expenses		**(615.6)**	(647.3)
Profit/(loss) before tax		**1,305.0**	1,303.2
Income tax expense	5(a)	**(40.8)**	(43.4)
Profit/(loss) for the year		**1,264.2**	1,259.8
Other comprehensive income/(loss):			
Changes in the fair value of cash flow hedges	17	**(2.2)**	0.5
Total comprehensive income/(loss) for the year		**1,262.0**	1,260.3
Profit/(loss) for the year attributable to:			
Unitholders of the parent entity		**217.4**	259.5
Unitholders of other stapled entities (non-controlling interests)		**1,046.8**	1,000.3
Profit/(loss) for the year		**1,264.2**	1,259.8
Total comprehensive income/(loss) for the year attributable to:			
Unitholders of the parent entity		**215.2**	260.0
Unitholders of other stapled entities (non-controlling interests)		**1,046.8**	1,000.3
Total comprehensive income/(loss) for the year		**1,262.0**	1,260.3

	Note	Cents	Cents
Earnings per unit on profit/(loss) attributable to unitholders of the Trust (parent entity)			
Basic earnings per unit	6	**22.45**	26.79
Diluted earnings per unit	6	**22.45**	26.79
Earnings per stapled security on profit/(loss) attributable to stapled security holders			
Basic earnings per security	6	**130.53**	130.06
Diluted earnings per security	6	**130.53**	130.06

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

As at 30 June 2017
Consolidated Statement of Financial Position

	Note	2017 $m	2016 $m
Current assets			
Cash and cash equivalents	18(a)	**21.2**	18.1
Receivables	18(b)	**81.7**	81.9
Non-current assets classified as held for sale	11	**296.8**	651.2
Inventories	10	**–**	74.2
Derivative financial instruments	12(c)	**15.5**	38.6
Other	18(c)	**13.3**	11.1
Total current assets		**428.5**	875.1
Non-current assets			
Investment properties	8	**7,169.1**	6,419.5
Plant and equipment		**16.4**	16.5
Inventories	10	**211.3**	201.8
Investments accounted for using the equity method	9	**3,823.8**	3,520.2
Derivative financial instruments	12(c)	**306.7**	438.5
Intangible assets	19	**309.5**	307.1
Other		**4.8**	4.1
Total non-current assets		**11,841.6**	10,907.7
Total assets		**12,270.1**	11,782.8
Current liabilities			
Payables	18(d)	**162.1**	116.8
Current tax liabilities		**21.8**	40.1
Interest bearing liabilities	13	**–**	316.0
Loans with related parties	14	**149.0**	–
Provisions	18(e)	**266.1**	220.8
Derivative financial instruments	12(c)	**7.8**	4.4
Total current liabilities		**606.8**	698.1
Non-current liabilities			
Interest bearing liabilities	13	**2,697.8**	3,370.8
Derivative financial instruments	12(c)	**49.1**	106.3
Deferred tax liabilities	5(d)	**85.9**	79.7
Provisions		**1.9**	1.7
Other		**4.1**	3.1
Total non-current liabilities		**2,838.8**	3,561.6
Total liabilities		**3,445.6**	4,259.7
Net assets		**8,824.5**	7,523.1
Equity			
Equity attributable to unitholders of the Trust (parent entity)			
Contributed equity	16	**2,126.7**	1,984.0
Reserves	17	**6.9**	9.1
Retained profits		**427.2**	321.7
Parent entity unitholders' interest		**2,560.8**	2,314.8
Equity attributable to unitholders of other stapled entities			
Contributed equity	16	**4,275.7**	3,926.1
Reserves	17	**41.8**	43.0
Retained profits		**1,946.2**	1,239.2
Other stapled unitholders' interest		**6,263.7**	5,208.3
Total equity		**8,824.5**	7,523.1

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

Consolidated Statement of Changes in Equity

		Attributable to unitholders of the Trust (parent entity)				Attributable to unitholders of other stapled entities				
	Note	Contri-buted equity $m	Reserves $m	Retained profits $m	Total $m	Contri-buted equity $m	Reserves $m	Retained profits $m	Total $m	Total equity $m
Opening balance as at 1 July 2015		1,990.6	8.6	190.3	2,189.5	3,939.9	42.8	531.9	4,514.6	6,704.1
Net profit/(loss) for the year		–	–	259.5	259.5	–	–	1,000.3	1,000.3	1,259.8
Other comprehensive income/(loss) for the year		–	0.5	–	0.5	–	–	–	–	0.5
Total comprehensive income for the year		–	0.5	259.5	260.0	–	–	1,000.3	1,000.3	1,260.3
Transactions with owners in their capacity as owners										
Buy-back of contributed equity, net of transaction costs	16	(6.6)	–	–	(6.6)	(13.8)	–	–	(13.8)	(20.4)
Purchase of securities, net of transaction costs		–	–	–	–	–	(4.6)	–	(4.6)	(4.6)
Security-based payments expense		–	–	–	–	–	4.8	–	4.8	4.8
Distributions paid or provided for	7	–	–	(128.1)	(128.1)	–	–	(293.0)	(293.0)	(421.1)
Total transactions with owners in their capacity as owners		(6.6)	–	(128.1)	(134.7)	(13.8)	0.2	(293.0)	(306.6)	(441.3)
Closing balance as at 30 June 2016		1,984.0	9.1	321.7	2,314.8	3,926.1	43.0	1,239.2	5,208.3	7,523.1
Opening balance as at 1 July 2016		**1,984.0**	**9.1**	**321.7**	**2,314.8**	**3,926.1**	**43.0**	**1,239.2**	**5,208.3**	**7,523.1**
Net profit for the year		**–**	**–**	**217.4**	**217.4**	**–**	**–**	**1,046.8**	**1,046.8**	**1,264.2**
Other comprehensive income for the year		**–**	**(2.2)**	**–**	**(2.2)**	**–**	**–**	**–**	**–**	**(2.2)**
Total comprehensive income for the year		**–**	**(2.2)**	**217.4**	**215.2**	**–**	**–**	**1,046.8**	**1,046.8**	**1,262.0**
Transactions with owners in their capacity as owners										
Issue of additional equity, net of transaction costs		**142.7**	**–**	**–**	**142.7**	**349.6**	**–**	**–**	**349.6**	**492.3**
Purchase of securities, net of transaction costs	16	**–**	**–**	**–**	**–**	**–**	**(7.4)**	**–**	**(7.4)**	**(7.4)**
Security-based payments expense		**–**	**–**	**–**	**–**	**–**	**6.2**	**–**	**6.2**	**6.2**
Distributions paid or provided for	7	**–**	**–**	**(111.9)**	**(111.9)**	**–**	**–**	**(339.8)**	**(339.8)**	**(451.7)**
Total transactions with owners in their capacity as owners		**142.7**	**–**	**(111.9)**	**30.8**	**349.6**	**(1.2)**	**(339.8)**	**8.6**	**39.4**
Closing balance as at 30 June 2017		**2,126.7**	**6.9**	**427.2**	**2,560.8**	**4,275.7**	**41.8**	**1,946.2**	**6,263.7**	**8,824.5**

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

For the year ended 30 June 2017
Consolidated Statement of Cash Flows

	Note	2017 $m	2016 $m
Cash flows from operating activities			
Receipts in the course of operations (inclusive of GST)		**751.9**	747.2
Payments in the course of operations (inclusive of GST)		**(298.9)**	(315.8)
Interest received		**0.6**	0.6
Finance costs paid to financial institutions		**(129.9)**	(137.3)
Distributions received from investments accounted for using the equity method		**237.6**	213.2
Income and withholding taxes paid		**(53.1)**	(8.4)
Proceeds from sale of inventories		**222.0**	198.0
Payments for inventory		**(73.1)**	(33.8)
Net cash inflow/(outflow) from operating activities	21	**657.1**	663.7
Cash flows from investing activities			
Proceeds from sale of investment properties		**423.9**	6.5
Payments for capital expenditure on investment properties		**(139.1)**	(158.0)
Payments for investments accounted for using the equity method		**(69.8)**	(418.1)
Transaction costs paid		**–**	(5.9)
Payments for acquisition of investment properties		**(187.0)**	(329.7)
Payments for plant and equipment		**(3.0)**	(7.6)
Payments for intangibles		**(7.1)**	(9.1)
Net cash inflow/(outflow) from investing activities		**17.9**	(921.9)
Cash flows from financing activities			
Proceeds from borrowings		**3,155.1**	3,082.8
Repayment of borrowings		**(4,052.7)**	(2,364.0)
Proceeds from loan with related party		**167.1**	–
Repayment of loan with related party		**(18.1)**	–
Payments for buy-back of contributed equity		**–**	(20.4)
Proceeds from issue of additional equity		**492.3**	–
Purchase of securities for security-based payments plans		**(7.4)**	(4.6)
Distributions paid to security holders		**(408.2)**	(430.5)
Net cash inflow/(outflow) from financing activities		**(671.9)**	263.3
Net increase/(decrease) in cash and cash equivalents		**3.1**	5.1
Cash and cash equivalents at the beginning of the year		**18.1**	13.0
Cash and cash equivalents at the end of the year		**21.2**	18.1

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.

Basis of preparation

These General Purpose Financial Statements have been prepared:

- for a for-profit entity;
- in accordance with the requirements of the Constitutions of the entities within the Group, the *Corporations Act 2001*, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board and International Financial Reporting Standards (IFRS);
- in Australian dollars with all values rounded in the nearest tenth of a million dollars in accordance with ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, unless otherwise stated.
- 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; and
- using consistent accounting policies in line with those of the previous financial year and corresponding interim reporting period, unless otherwise stated.

Dexus 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. DDF is the parent entity and deemed acquirer of DIT, DOT and DXO. 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.

The Group has unutilised facilities of $1,060.5 million (2016: $411.9 million) (refer to note 13) and sufficient working capital and cash flows in order to fund all requirements arising from the net current asset deficiency as at 30 June 2017 of $181.2 million (2016 surplus: $177.0 million). The deficiency is primarily driven by the provision for distribution and the related parties loan (refer to note 14).

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 (b)	Interest bearing liabilities	Page 79
Note 12 (c)	Derivative financial instruments	Page 83
Note 19	Intangible assets	Page 89
Note 22	Security-based payment	Page 92

Principles of consolidation

These consolidated Financial Statements incorporate the assets, liabilities and results of all subsidiaries as at 30 June 2017.

(a) 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.

(b) 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.

(c) Employee share trust

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

About This Report

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 2017, the Group had no investments in foreign operations.

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.

New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for the 30 June 2017 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 addresses the classification, measurement and de-recognition of financial assets and financial liabilities and introduces 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 is based on the principle that revenue is recognised when control of a good or service is transferred to a customer. It contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The model features a contract–based five-step analysis of transactions to determine whether, how much and when revenue is recognised. The Group's revenue is largely comprised of income under leases (see below), sales of property inventory, management fees and construction services.

- In situations where the Group sells property on completion of construction, it is expected that revenue will continue to be recognised on settlement.
- In situations where the Group constructs property on customer owned land, it is expected that revenue recognition using percentage of completion will continue to be applied.
- Where the Group earns responsible entity and asset management fees, the fees are typically based and calculated on percentage of total tangible assets of the Fund and will continue to be recognised monthly over the duration of the management agreements. No performance fees are typically earned by the Group.

The Group intends to apply the standard from 1 July 2018 and is in the process of assessing any implication of this new standard to its operations and financial results.

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

AASB 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases. This standard will predominantly affect lessees, bringing all major leases on balance sheet. AASB 16 will not significantly affect the accounting by lessor. In 2017, revenue recognised from leases was approximately $533.2 million. The accounting for this lease income is not expected to change with the adoption of the new standard. The Group intends to apply the standard from 1 July 2019.

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.

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 2. Property revenue and expenses 3. Management operations, corporate and administration expenses 4. Finance costs 5. Taxation 6. Earnings per unit 7. Distributions paid and payable	8. Investment properties 9. Investments accounted for using the equity method 10. Inventories 11. Non-current assets classified as held for sale	12. Capital and financial risk management 13. Interest bearing liabilities 14. Loans with related parties 15. Commitments and contingencies 16. Contributed equity 17. Reserves 18. Working capital	19. Intangible assets 20. Audit, taxation and transaction service fees 21. Reconciliation of cash flows from operating activities 22. Security-based payment 23. Related parties 24. Parent entity disclosures 25. Change in accounting policy 26. Subsequent events

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.

Note 1 Operating segments

Description of segments

The Group's operating segments have been identified based on the sectors analysed within the management reports reviewed 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.

Group Performance

Note 1 Operating segments continued

30 June 2017	Office $m	Industrial $m
Segment performance measures		
Property revenue	639.4	137.6
Property management fees	–	–
Development revenue	–	–
Management fee revenue	–	–
Total operating segment revenue	**639.4**	**137.6**
Property expenses & property management salaries	(161.5)	(28.5)
Management operations expenses	–	–
Corporate and administration expenses	(12.5)	(3.1)
Development costs	–	–
Interest revenue	–	–
Finance costs	–	–
Incentive amortisation and rent straight-line	91.3	8.8
FFO tax expense	–	–
Rental guarantee and other	10.7	–
Funds From Operations (FFO)	**567.4**	**114.8**
Net fair value gain/(loss) of investment properties	625.8	78.9
Net fair value gain/(loss) of derivatives	–	–
Net gain/(loss) on sale of investment properties	70.7	–
Net fair value gain/(loss) of interest bearing liabilities	–	–
Incentive amortisation and rent straight-line	(91.3)	(8.8)
Amortisation of intangible assets	–	–
Non FFO deferred tax expense	–	–
Rental guarantee and other	(12.7)	–
Net profit/(loss) attributable to stapled security holders	**1,159.9**	**184.9**
Investment properties	5,539.8	1,629.3
Non-current assets held for sale	283.7	13.1
Inventories	–	–
Equity accounted investment properties	3,653.7	131.7
Direct property portfolio	**9,477.2**	**1,774.1**

Property management $m	Funds management $m	Development and trading $m	All other segments $m	Eliminations $m	Total $m
–	–	–	–	(2.6)	**774.4**
24.9	–	–	–	–	**24.9**
–	–	224.3	–	–	**224.3**
36.2	52.7	6.7	–	–	**95.6**
61.1	**52.7**	**231.0**	**–**	**(2.6)**	**1,119.2**
(17.8)	–	–	–	–	**(207.8)**
(30.4)	(20.1)	(5.9)	–	–	**(56.4)**
–	–	–	(23.7)	2.6	**(36.7)**
–	–	(156.9)	–	–	**(156.9)**
–	–	–	1.1	–	**1.1**
–	–	–	(123.0)	–	**(123.0)**
–	–	–	–	–	**100.1**
–	–	(20.2)	(12.6)	–	**(32.8)**
–	–	–	0.2	–	**10.9**
12.9	**32.6**	**48.0**	**(158.0)**	**–**	**617.7**
–	–	–	–	–	**704.7**
–	–	–	(91.1)	–	**(91.1)**
–	–	–	–	–	**70.7**
–	–	–	87.5	–	**87.5**
–	–	–	–	–	**(100.1)**
–	–	–	(4.5)	–	**(4.5)**
–	–	–	(8.0)	–	**(8.0)**
–	–	–	–	–	**(12.7)**
12.9	**32.6**	**48.0**	**(174.1)**	**–**	**1,264.2**
–	–	–	–	–	**7,169.1**
–	–	–	–	–	**296.8**
–	–	211.3	–	–	**211.3**
–	–	–	–	–	**3,785.4**
–	**–**	**211.3**	**–**	**–**	**11,462.6**

Group Performance continued

Note 1 Operating segments continued

30 June 2016	Office $m	Industrial $m
Segment performance measures		
Property revenue	632.2	126.6
Property management fees	–	–
Development revenue	–	–
Management fee revenue	–	–
Total operating segment revenue	**632.2**	**126.6**
Property expenses & property management salaries	(161.1)	(27.3)
Management operations expenses	–	–
Corporate and administration expenses	(10.5)	(2.1)
Development costs	–	–
Interest revenue	–	–
Finance costs	–	–
Incentive amortisation and rent straight-line	84.0	8.9
FFO 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	–	–
Transcation 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	–	–
Non FFO deferred tax expense	–	–
Coupon income, rental guarantees and other	(23.7)	–
Net profit/(loss) attributable to stapled security holders	**1,243.6**	**142.5**
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
–	–	–	–	(1.7)	**757.1**
24.1	–	–	–	–	**24.1**
–	–	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)**
–	–	–	(3.3)	–	**(3.3)**
–	–	–	(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**

Group Performance continued

Note 1 Operating segments continued

Other segment information

Funds from Operations (FFO)

The Directors consider the Property Council of Australia's (PCA) 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 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, transaction costs, amortisation of intangible assets, rental guarantees and coupon income.

Reconciliation of segment revenue to the Statement of Comprehensive Income

	2017 $m	2016 $m
Gross operating segment revenue	**1,119.2**	1,072.2
Share of property revenue from joint ventures	**(258.6)**	(226.3)
Share of management fees charged to joint ventures	**20.5**	19.0
Interest revenue	**0.6**	0.6
Total revenue from ordinary activities	**881.7**	865.5

Reconciliation of segment assets to the Statement of Financial Position

	2017 $m	2016 $m
Direct property portfolio [1]	**11,462.6**	10,987.4
Cash and cash equivalents	**21.2**	18.1
Receivables	**81.7**	81.9
Intangible assets	**309.5**	307.1
Derivative financial instruments	**322.2**	477.1
Plant and equipment	**16.4**	16.5
Prepayments and other assets [2]	**56.5**	(105.3)
Total assets	**12,270.1**	11,782.8

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

The Group's main revenue stream is property rental revenue and is derived from holding properties as investment properties and earning rental yields over time. 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. 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.

Property, development and fund management fee revenue is recognised as the service is delivered, in accordance with the terms of the relevant contracts.

	2017 $m	2016 $m
Rent and recoverable outgoings	**533.2**	555.8
Incentive amortisation	**(73.9)**	(70.5)
Other revenue	**81.3**	69.6
Total property revenue	**540.6**	554.9

Property expenses of $150.7 million (2016: $152.7 million) includes rates, taxes and other property outgoings incurred in relation to investment properties.

Note 3 Management operations, corporate and administration expenses

	2017 $m	2016 $m
Audit, taxation, legal and other professional fees	**5.8**	6.0
Depreciation and amortisation	**7.8**	5.8
Employee benefits expense and other staff expenses	**72.9**	71.8
Administration and other expenses	**12.4**	7.5
Total management operations, corporate and administration expenses	**98.9**	91.1

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.

A qualifying asset is an asset under development which takes a substantial period of time, where the works being carried out to bring it to its intended use or sale is expected to exceed 12 months in duration. Finance costs incurred for the acquisition and construction of a qualifying asset are capitalised to the cost of the asset for the period of time that is required to complete the asset. 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 an appropriate capitalisation rate.

	2017 $m	2016 $m
Interest paid/payable	**114.0**	127.2
Net fair value (gain)/loss of interest rate swaps	**(0.8)**	47.3
Amount capitalised	**(9.8)**	(9.3)
Other finance costs	**4.7**	6.1
Total finance costs	**108.1**	171.3

The average capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation is 6.25% (2016: 6.75%).

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 that 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.

Attribution managed investment trust regime

Dexus has made an election for DDF, DOT and DIT to be attribution managed investment trusts (AMITs) for the year ended 30 June 2017 and future years. The AMIT regime is intended to reduce complexity, increase certainty and minimise compliance costs for AMITs and their investors.

Group Performance continued

Note 5 Taxation continued

a) Income tax (expense)/benefit

	2017 $m	2016 $m
Current income tax (expense)/benefit	(34.6)	(43.3)
Deferred income tax (expense)/benefit	(6.2)	(0.1)
Total income tax expense	**(40.8)**	(43.4)
Deferred income tax expense included in income tax (expense)/benefit comprises:		
(Decrease)/increase in deferred tax assets	1.8	0.7
(Increase)/decrease in deferred tax liabilities	(8.0)	(0.8)
Total deferred tax expense	**(6.2)**	(0.1)

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

	2017 $m	2016 $m
Profit before income tax	1,305.0	1,303.2
Less: profit attributed to entities not subject to tax	(1,171.9)	(1,151.0)
Profit subject to income tax	133.1	152.2
Prima facie tax expense at the Australian tax rate of 30% (2016: 30%)	(39.9)	(45.7)
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
(Non-assessable)/non-deductible items	(0.9)	2.3
Income tax expense	**(40.8)**	(43.4)

(c) Deferred tax assets

	2017 $m	2016 $m
The balance comprises temporary differences attributable to:		
Employee provisions	11.4	9.8
Other	1.9	1.7
Total non-current assets – deferred tax assets	**13.3**	11.5
Movements:		
Opening balance at the beginning of the year	11.5	10.8
(Utilisation)/recognition of tax losses	–	(1.0)
Movement in deferred tax asset arising from temporary differences	1.8	1.7
(Charged)/credited to the Statement of Comprehensive Income	1.8	0.7
Closing balance at the end of the year	**13.3**	11.5

(d) Deferred tax liabilities

	2017 $m	2016 $m
The balance comprises temporary differences attributable to:		
Derivatives financial instruments	–	0.3
Intangible assets	74.9	75.0
Investment properties	20.9	15.5
Other	3.4	0.4
Total non-current liabilities – deferred tax liabilities	99.2	91.2
Movements		
Opening balance at the beginning of the year	91.2	90.4
Movement in deferred tax liability arising from temporary differences	8.0	0.8
Charged/(credited) to the Statement of Comprehensive Income	8.0	0.8
Closing balance at the end of the year	99.2	91.2

Net deferred tax liabilities

	2017 $m	2016 $m
Deferred tax assets	13.3	11.5
Deferred tax liabilities	99.2	91.2
Net deferred tax liabilities	85.9	79.7

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

	2017 $m	2016 $m
Profit attributable to unitholders of the Trust (parent entity)	217.4	259.5
Profit attributable to stapled security holders	1,264.2	1,259.8

b) Weighted average number of units used as a denominator

	2017 No. of securities	2016 No. of securities
Weighted average number of units outstanding used in calculation of basic and diluted earnings per unit	968,484,893	968,639,060

Group Performance continued

Note 7 Distributions paid and payable

Distributions are recognised when declared.

a) Distribution to security holders

	2017 $m	2016 $m
31 December (paid 28 February 2017)	210.1	223.1
30 June (payable 29 August 2017)	241.6	198.0
Total distribution to security holders	**451.7**	421.1

b) Distribution rate

	2017 Cents per security	2016 Cents per security
31 December (paid 28 February 2017)	21.71	23.05
30 June (payable 29 August 2017)	23.76	20.46
Total distributions	**45.47**	43.51

c) Franked dividends

	2017 $m	2016 $m
Opening balance at the beginning of the year	2.0	9.8
Income tax paid during the year	52.8	2.9
Franking credits utilised for payment of distribution	(21.4)	(10.7)
Closing balance at the end of the year	**33.4**	2.0

As at 30 June 2017, the Group had a current tax liability of $21.8 million, which will be added to the franking account balance once payment is made.

Property Portfolio Assets

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

30 June 2017	Note	Office $m	Industrial $m	Total $m
Investment properties	8	5,539.8	1,629.3	**7,169.1**
Equity accounted investments	9	3,653.7	131.7	**3,785.4**
Inventories	10	33.3	178.0	**211.3**
Assets held for sale	11	283.7	13.1	**296.8**
Total		**9,510.5**	**1,952.1**	**11,462.6**

Property portfolio 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 http://www.dexus.com/investors/investor-information

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.

Property Portfolio Assets continued

Note 8 Investment properties continued

a) Reconciliation

	Note	Office $m	Industrial $m	Development $m	2017 $m	2016 $m
Opening balance at the beginning of the year		4,947.8	1,398.2	73.5	6,419.5	6,207.3
Additions		63.9	18.6	34.6	117.1	121.9
Acquisitions		62.1	116.5	–	178.6	344.4
Lease incentives		63.0	17.2	–	80.2	89.6
Amortisation of lease incentives		(59.0)	(10.4)	–	(69.4)	(69.4)
Rent straightlining		4.9	2.7	–	7.6	4.5
Disposals		–	–	(0.8)	(0.8)	–
Transfer to non-current assets classified as held for sale		–	(13.0)	–	(13.0)	(651.2)
Transfer to inventories	10	–	–	–	–	(79.7)
Net fair value gain/(loss) of investment properties		377.1	70.7	1.5	449.3	452.1
Closing balance at the end of the year		**5,459.8**	**1,600.5**	**108.8**	**7,169.1**	**6,419.5**

Acquisitions

On 19 January 2017, settlement occurred on the acquisition of The Mill, located at 41-43 Bourke Road, Alexandria, NSW, for $110.2 million excluding acquisition costs.

On 5 September 2016, settlement occurred on the acquisition of 36 Hickson Road, Sydney for $17.1 million excluding acquisition costs.

b) Valuations 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 change in the fair value of the property being the greater of 5% of the asset value, or $5.0 million.

The Group's investment properties are required to be internally valued at least every six months at each reporting period (interim and full-year) unless they have been independently externally valued. Internal valuations are compared to the carrying value of investment properties at the reporting date. Where the Directors determine that 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 2017	2016
Office[1]	Level 3	Adopted capitalisation rate	**4.75% – 9.50%**	5.25% – 7.50%
		Adopted discount rate	**6.63% – 10.50%**	7.00% – 8.25%
		Adopted terminal yield	**5.25% – 9.50%**	5.50% – 7.75%
		Current net market rental (per sqm)	**$307 – $1,319**	$320 – $1,269
Industrial	Level 3	Adopted capitalisation rate	**5.75% – 11.00%**	6.25% – 11.00%
		Adopted discount rate	**7.00% – 11.25%**	7.75% – 12.00%
		Adopted terminal yield	**6.00% – 11.25%**	6.50% – 11.25%
		Current net market rental (per sqm)	**$38 – $431**	$36 – $311
Development – Office	Level 3	Land rate (per sqm)	**$23,335**	$23,335
Development – Industrial	Level 3	Land rate (per sqm)	**$35 – $445**	$35 – $300

1. Excludes car parks, retail and other.

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.

Property Portfolio Assets continued

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	2017 %	2016 %	2017 $m	2016 $m
Bent Street Trust	**33.3**	33.3	**319.1**	308.1
Dexus Creek Street Trust	**50.0**	50.0	**143.9**	137.9
Dexus Martin Place Trust [1]	**50.0**	50.0	**166.3**	111.2
Grosvenor Place Holding Trust [2,3]	**50.0**	50.0	**385.5**	352.9
Site 6 Homebush Bay Trust [2]	**50.0**	50.0	**33.3**	30.7
Site 7 Homebush Bay Trust [2]	**50.0**	50.0	**44.9**	43.1
Dexus 480 Q Holding Trust	**50.0**	50.0	**366.7**	344.1
Dexus Kings Square Trust	**50.0**	50.0	**214.0**	216.1
Dexus Office Trust Australia [5] (DOTA)	**50.0**	50.0	**1,985.0**	1,844.8
Dexus Industrial Trust Australia (DITA)	**50.0**	50.0	**133.2**	101.7
Dexus Eagle Street Pier Trust	**50.0**	50.0	**31.9**	29.6
Total assets – investments accounted for using the equity method [4]			**3,823.8**	3,520.2

1. The Group has exchanged and settled on the sale of its 50% interest in the office tower at 39 Martin Place, Sydney, NSW on 11 November 2016 for gross proceeds of $160 million. These proceeds were provided to the co-owners as a non-interest bearing loan payable on demand. This loan was subsequently repaid on 19 July 2017 upon Dexus Martin Place Trust's settlement of MLC Centre (refer to note 14).
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, at 225 George Street, Sydney, NSW. The Group's economic interest in this property is therefore 37.5%.
4. The Group's share of investment properties in the investments accounted for using the equity method were $3,785.4 million (2016: $3,640.7 million).
5. On 7 September 2016 DOTA disposed of 108 North Terrace, Adelaide for gross proceeds of $43.3 million, reflecting the Group's 50% interest.

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

Property Portfolio Assets continued

Note 9 Investments accounted for using the equity method (continued)

	Dexus Office Trust Australia	
Summarised Statement of Financial Position	2017 $m	2016 $m
Current assets		
Cash and cash equivalents	**15.9**	21.8
Non-current assets classified as held for sale	**–**	41.8
Loans with related parties	**–**	–
Other current assets	**4.4**	5.6
Total current assets	**20.3**	69.2
Non-current assets		
Investment properties	**1,865.8**	1,695.4
Investments accounted for using the equity method	**231.9**	213.4
Other non-current assets	**0.3**	0.2
Total non-current assets	**2,098.0**	1,909.0
Current liabilities		
Provision for distribution	**21.3**	22.5
Borrowings	**74.5**	74.0
Other current liabilities	**26.5**	25.8
Total current liabilities	**122.3**	122.3
Non-current liabilities		
Borrowings	**11.0**	11.1
Total non-current liabilities	**11.0**	11.1
Net assets	**1,985.0**	1,844.8
Reconciliation of carrying amounts:		
Opening balance at the beginning of the year	**1,844.8**	1,546.3
Additions	**24.3**	158.0
Share of net profit/(loss) after tax	**264.7**	287.3
Distributions received/receivable	**(148.8)**	(146.8)
Closing balance at the end of the year	**1,985.0**	1,844.8
Summarised Statement of Comprehensive Income		
Property revenue	**151.9**	147.0
Property revaluations	**166.6**	181.1
Interest income	**0.4**	0.4
Gain on sale of investment properties	**–**	14.0
Finance costs	**(5.0)**	(7.7)
Other expenses	**(49.2)**	(47.5)
Net profit/(loss) for the year	**264.7**	287.3

	Grosvenor Place Holding Trust		Dexus 480Q Holding Trust		Other joint ventures		Total	
	2017 $m	2016 $m	2017 $m	2016 $m	2017 $m	2016 $m	2017 $m	2016 $m
	2.1	0.9	0.2	1.0	10.0	6.2	28.2	29.9
	–	–	–	–	6.0	–	6.0	41.8
	–	–	–	–	149.0	–	149.0	–
	0.7	1.0	1.1	2.0	20.5	5.1	26.7	13.7
	2.8	1.9	1.3	3.0	185.5	11.3	209.9	85.4
	385.0	353.7	366.5	343.8	930.5	992.4	3,547.8	3,385.3
	–	–	–	–	–	–	231.9	213.4
	–	–	0.1	–	0.1	0.1	0.5	0.3
	385.0	353.7	366.6	343.8	930.6	992.5	3,780.2	3,599.0
	–	–	–	–	4.8	3.0	26.1	25.5
	–	–	–	–	–	–	74.5	74.0
	2.3	2.7	1.2	2.7	24.7	22.4	54.7	53.6
	2.3	2.7	1.2	2.7	29.5	25.4	155.3	153.1
	–	–	–	–	–	–	11.0	11.1
	–	–	–	–	–	–	11.0	11.1
	385.5	352.9	366.7	344.1	1,086.6	978.4	3,823.8	3,520.2
	352.9	303.3	344.1	149.7	978.4	796.6	3,520.2	2,795.9
	9.9	13.0	5.2	139.6	33.9	111.8	73.3	422.4
	40.5	51.7	34.6	68.9	130.6	117.6	470.4	525.5
	(17.8)	(15.1)	(17.2)	(14.1)	(56.3)	(47.6)	(240.1)	(223.6)
	385.5	352.9	366.7	344.1	1,086.6	978.4	3,823.8	3,520.2
	21.0	18.9	24.1	2.8	61.6	57.6	258.6	226.3
	24.6	37.5	17.8	68.2	38.1	75.5	247.1	362.3
	0.1	–	–	–	0.1	0.1	0.6	0.5
	–	–	–	–	48.4	–	48.4	14.0
	–	–	–	–	–	–	(5.0)	(7.7)
	(5.2)	(4.7)	(7.3)	(2.1)	(17.6)	(15.6)	(79.3)	(69.9)
	40.5	51.7	34.6	68.9	130.6	117.6	470.4	525.5

Property Portfolio Assets continued

Note 10 Inventories

Development properties held for repositioning, construction and sale are recorded at the lower of cost or 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.

Development revenue includes proceeds on the sale of inventory and revenue earned through the provision of development services on assets sold as inventory. Revenue earned on the provision of development services is recognised using the percentage complete method. The stage of completion is measured by reference to costs incurred to date as a percentage of estimated total costs for each contract. Where the project result can be reliably estimated, development services revenue and associated expenses are recognised in profit or loss. Where the project result cannot be reliably estimated, profits are deferred and the difference between consideration received and expenses incurred is carried forward as either a receivable or payable. Development services revenue and expenses are recognised immediately when the project result can be reliably estimated.

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. Development activities will commence immediately after they 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) Development properties held for sale

	2017 $m	2016 $m
Current assets		
Development properties held for sale	–	74.2
Total current assets – inventories	–	74.2
Non-current assets		
Development properties held for sale	211.3	201.8
Total non-current assets – inventories	211.3	201.8
Total assets – inventories	211.3	276.0

b) Reconciliation

	Note	2017 $m	2016 $m
Opening balance at the beginning of the year		276.0	274.8
Transfer from investment properties	8	–	79.7
Disposals		(148.3)	(114.3)
Acquisitions and additions		83.6	35.8
Closing balance at the end of the year		211.3	276.0

Disposals

On 1 July 2016, settlement occurred on the sale of 57-65 Templar Road, Erskine Park, NSW for gross proceeds of $50.0 million.

On 31 January 2017, settlement occurred on the sale of 79-99 St Hilliers Road, Auburn, NSW for gross proceeds of $65.0 million.

On 31 May 2017, settlement occurred on the sale of 105 Phillip Street, Parramatta, NSW for gross proceeds of $229.0 million. The proceeds are to be received between two tranches, with $107.0 million having been received in FY17 and the balance expected to be received in FY18. The FY17 proceeds includes $100.0 million of proceeds on sale of inventory and $7.0 million of development services revenue.

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 2017, the balance relates to:

- 30-68, Tarras Road, Altona North with a carrying value of $13.1 million; and
- the Group's remaining 50% share of Southgate Complex at 3 Southgate Avenue, Melbourne. The carrying value of $283.7 million represents the cash price equivalent at 30 June 2017 of the deferred gross proceeds of $289.0 million.

Disposals

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 4 November 2016, the Group sold 50% of its interest in Southgate Complex at 3 Southgate Avenue, Melbourne for gross proceeds of $289.0 million.

Capital and financial risk management and working capital

In this section

The Group's overall risk management program focuses on reducing volatility from impacts of movements in 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 security holders (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, *loans with related parties* in note 14 and *Commitments and contingencies* in note 15;
- **Equity**: *Contributed equity* in note 16 and *Reserves and retained profits* in note 17.

Note 18 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. 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.

	2017 $m	2016 $m
Total interest bearing liabilities [1]	2,486.8	3,327.9
Total tangible assets [2]	11,638.5	10,998.6
Gearing ratio	21.4%	30.3%
Gearing ratio (look-through) [3]	22.1%	30.7%

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 2017 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 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. Dexus Wholesale Funds Limited (DWFL), a wholly owned entity, has been issued with an AFSL as it is the Responsible Entity for Dexus Wholesale Investment Fund (DWIF). These entities are subject to the capital requirements described above.

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 and interest rate options (together interest rate derivatives);
- cross currency interest rate swaps; and
- foreign exchange contracts.

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 due to movements in variable interest rates.

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 derivatives and cross currency interest rate swap agreements to manage the associated interest rate risk. The Group hedges the interest rate and currency risk on 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 2017, 81% (2016: 71%) of the interest bearing liabilities of the Group were hedged. The average hedged percentage for the financial year was 65% (2016: 71%).

Interest rate derivatives require settlement of net interest receivable or payable generally 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 derivatives contracts are settled on a net basis. The net notional amount of average fixed rate debt and interest rate derivatives in place in each year and the weighted average effective hedge rate is set out below:

	June 2018 $m	June 2019 $m	June 2020 $m	June 2021 $m	June 2022 $m
Fixed rate debt[1]					
A$ fixed rate debt	1,066.3	895.5	788.5	736.5	674.0
Interest rate swaps					
A$ hedged[1]	1,368.3	1,521.6	1,287.5	730.0	273.3
Combined fixed rate debt and swaps (A$ equivalent)	2,434.6	2,417.1	2,076.0	1,466.5	947.3
Hedge rate (%)	2.97%	2.96%	2.81%	2.67%	2.56%

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

Capital and financial risk management and working capital continued

Note 12 Capital and financial risk management continued

b) Financial risk management continued

i) Market risk continued

Interest rate risk continued

Sensitivity analysis on interest expense

The table below shows the impact on the Group's net interest expense of a 50 basis point movement 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.

	2017 (+/-) $m	2016 (+/-) $m
+/- 0.50% (50 basis points)	**6.5**	4.6
Total A$ equivalent	**6.5**	4.6

The movement in interest expense is proportional to the movement in interest rates.

Sensitivity analysis on fair value of interest rate derivatives

The sensitivity analysis on interest rate derivatives below shows the effect on net profit or loss of changes in the fair value of interest rate derivatives for a 50 basis point movement 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 derivatives.

The fair value of interest rate derivatives is calculated as the present value of estimated future cash flows on the instruments. Although interest rate derivatives 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.

	2017 (+/-) $m	2016 (+/-) $m
+/- 0.50% (50 basis points)	**16.2**	(24.3)
Total A$ equivalent	**16.2**	(24.3)

Sensitivity analysis on fair value of cross currency swaps

The sensitivity analysis on cross currency interest rate swaps below shows the effect on net profit or loss of changes in the fair value of a 50 basis point 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. The sensitivity analysis excludes the impact of hedge accounted cross currency swaps.

		2017 (+/-) $m	2016 (+/-) $m
+/- 0.50% (50 basis points)	US$ (A$ equivalent)	**6.4**	12.4
Total A$ equivalent		**6.4**	12.4

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).

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.

	2017				2016			
	Within one year $m	**Between one and two years $m**	**Between two and five years $m**	**After five years $m**	Within one year $m	Between one and two years $m	Between two and five years $m	After five years $m
Payables	**(162.1)**	**–**	**–**	**–**	(116.8)	–	–	–
Interest bearing liabilities & interest								
Fixed interest rate liabilities	**(111.1)**	**(304.1)**	**(725.6)**	**(1,732.8)**	(373.4)	(140.3)	(818.3)	(1,631.3)
Floating interest rate liabilities	**(195.6)**	**(526.5)**	**(1,095.3)**	**(259.0)**	(80.4)	(449.3)	(865.9)	–
Total interest bearing liabilities & interest [1]	**(306.7)**	**(830.6)**	**(1,820.9)**	**(1,991.8)**	(453.8)	(589.6)	(1,684.2)	(1,631.3)
Derivative financial instruments								
Derivative assets	**58.1**	**58.1**	**486.3**	**1,130.5**	51.1	41.7	758.9	1,016.0
Derivative liabilities	**(44.5)**	**(45.6)**	**(444.5)**	**(1,082.0)**	(85.6)	(42.7)	(338.9)	(1,834.4)
Total net derivative financial instruments [2]	**13.6**	**12.5**	**41.8**	**48.5**	(34.5)	(1.0)	420.0	(818.4)

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 15(b) for financial guarantees.

Capital and financial risk management and working capital continued

Note 12 Capital and financial risk management continued

b) Financial risk management continued

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 an 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 2017 is the carrying amounts of financial assets recognised on the Statement of Financial Position.

The Group is exposed to credit risk on trade receivable balances. The Group has a policy to continuously assess and monitor the credit quality of trade debtors on an ongoing basis. Given the historical profile and exposure of the trade receivables, it has been is determined that no significant concentrations of credit risk exists for trade receivables balances. The maximum exposure to credit risk at 30 June 2017 is the carrying amounts of the trade receivables recognised on the Statement of Financial Position.

iv) Fair value

As at 30 June 2017 and 30 June 2016, the carrying amounts of financial assets and liabilities are held at fair value excluding interest bearing liabilities which have a carrying amount of $2,708.2 million and a fair value of $2,799.4 million. 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, excluding cash, 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.

Key assumptions: fair value of derivatives and interest bearing liabilities
The fair value of derivatives and interest bearing liabilities has been determined based on 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.

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. No financial assets and liabilities are currently held under netting arrangements.

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.

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 regularly 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 derivatives, 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.

	2017 $m	2016 $m
Current assets		
Interest rate derivative contracts	**2.2**	9.4
Cross currency swap contracts	**13.3**	29.2
Total current assets – derivative financial instruments	**15.5**	38.6
Non-current assets		
Interest rate derivative contracts	**9.7**	2.7
Cross currency swap contracts	**297.0**	435.8
Total non-current assets – derivative financial instruments	**306.7**	438.5
Current liabilities		
Interest rate derivative contracts	**7.8**	4.4
Total current liabilities – derivative financial instruments	**7.8**	4.4
Non-current liabilities		
Interest rate derivative contracts	**37.8**	106.3
Cross currency swap contracts	**11.3**	–
Total non-current liabilities – derivative financial instruments	**49.1**	106.3
Net derivative financial instruments	**265.3**	366.4

Capital and financial risk management and working capital continued

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(c) 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	2017 $m	2016 $m
Current			
Unsecured			
US senior notes		–	55.2
Bank loans		–	50.0
Medium term notes		–	210.8
Total unsecured		–	316.0
Total current liabilities – interest bearing liabilities		–	316.0
Non-current			
Unsecured			
US senior notes	(a), (b)	1,427.5	1,561.5
Bank loans	(c)	556.0	1,356.0
Commercial paper	(d)	100.0	100.0
Medium term notes	(e)	624.7	365.9
Total unsecured		2,708.2	3,383.4
Deferred borrowing costs		(10.4)	(12.6)
Total non-current liabilities – interest bearing liabilities		2,697.8	3,370.8
Total interest bearing liabilities		2,697.8	3,686.8

Financing arrangements

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

Type of facility	Notes	Currency	Security	Maturity Date	Utilised[1] $m	Facility Limit $m
US senior notes (144A)	(a)	US$	Unsecured	Mar-21	324.5	324.5
US Senior notes (USPP)[1]	(b)	US$	Unsecured	Jul-23 to Jul-28	975.0	975.0
US Senior notes (USPP)	(b)	A$	Unsecured	Jun-28	100.0	100.0
Medium term notes	(e)	A$	Unsecured	Sep-18 to May-27	624.7	624.7
Commercial paper	(d)	A$	Unsecured	Sep-18	100.0	100.0
Multi-option revolving credit facilities	(c)	Multi Currency	Unsecured	Jan-18 to Jun-24	556.0	1,650.0
Total					2,680.2	3,774.2
Bank guarantee in place					33.5	
Unused at balance date					1,060.5	

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 its 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$325.0 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$750.0 million and A$100.0 million (A$1,075.0 million) of US senior notes with a weighted average maturity of August 2026. US$750.0 million is designated as an accounting hedge using cross currency interest rate swaps with the same notional value.

c) Multi-option revolving credit facilities
This includes 20 facilities maturing between January 2018 and June 2024 with a weighted average maturity of August 2020. A$33.5 million is utilised as bank guarantees for AFSL requirements and other business requirements including developments. A further A$325.0 million of revolving credit facilities were executed in July 2017, resulting in no change to the weighted average maturity.

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$620.0 million of Medium Term Notes with a weighted average maturity of April 2023. The remaining A$4.7 million is the net premium on the issue of these instruments. A further $60.0 million of Medium Term Notes were issued in July 2017 with a maturity of November 2022, resulting in no change to the weighted average maturity.

Note 14 Loans with related parties
This is a non-interest bearing loan provided by Dexus Martin Place Trust, which is co-owned by the Group and DWPF. The balance of this loan represents the Group's share of the proceeds from the disposal of 39 Martin Place, Sydney less the deposit paid for MLC Centre, 19 Martin Place, Sydney. This loan was subsequently repaid on 19 July 2017 upon Dexus Martin Place Trust's settlement of MLC Centre.

Note 15 Commitments and contingencies

a) Commitments

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:

	2017 $m	2016 $m
Investment properties	**122.8**	179.4
Inventories	**24.6**	2.0
Investments accounted for using the equity method	**55.4**	13.7
Total capital commitments	**202.8**	195.1

Lease payable commitments
The future minimum lease payments payable by the Group are:

	2017 $m	2016 $m
Within one year	**5.8**	4.4
Later than one year but not later than five years	**20.0**	18.5
Later than five years	**1.6**	3.4
Total lease payable commitments	**27.4**	26.3

Lease receivable commitments
The future minimum lease payments receivable by the Group are:

	2017 $m	2016 $m
Within one year	**487.8**	471.6
Later than one year but not later than five years	**1,400.4**	1,432.0
Later than five years	**716.6**	751.9
Total lease receivable commitments	**2,604.8**	2,655.5

Capital and financial risk management and working capital continued

Note 15 Commitments and contingencies continued

b) Contingencies

DDF, together with DIT, DOT and DXO, is a guarantor of A$3,774.2 million of interest bearing liabilities (refer to 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 $33.5 million, comprising $32.1 million held to comply with the terms of the Australian Financial Services Licences (AFSL) and $1.4 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 16 Contributed equity

Number of securities on issue

	2017 No. of securities	2016 No. of securities
Opening balance at the beginning of the year	**967,947,692**	970,806,349
Issue of additional equity	**49,019,608**	–
Buy-back of contributed equity	**–**	(2,858,657)
Closing balance at the end of the year	**1,016,967,300**	967,947,692

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.

Note 17 Reserves

	2017 $m	2016 $m
Asset revaluation reserve	**42.7**	42.7
Cash flow hedge reserve	**6.9**	9.1
Security-based payments reserve	**10.8**	7.4
Treasury securities reserve	**(11.7)**	(7.1)
Total reserves	**48.7**	52.1
Movements:		
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	**9.1**	8.6
Changes in the fair value of cash flow hedges	**(2.2)**	0.5
Closing balance at the end of the year	**6.9**	9.1

	2017 $m	2016 $m
Security-based payments reserve		
Opening balance at the beginning of the year	**7.4**	8.1
Issue of securities to employees	**(2.8)**	(5.5)
Security-based payments expense	**6.2**	4.8
Closing balance at the end of the year	**10.8**	7.4
Treasury securities reserve		
Opening balance at the beginning of the year	**(7.1)**	(8.0)
Issue of securities to employees	**2.8**	5.5
Purchase of securities	**(7.4)**	(4.6)
Closing balance at the end of the year	**(11.7)**	(7.1)

Nature and purpose of reserves

Asset revaluation reserve

The asset revaluation reserve is used to record the fair value adjustment arisiwng 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 payment reserve

The security-based payment reserve is used to recognise the fair value of performance rights to be issued under the Deferred Short Term Incentive Plans (DSTI) and the Long Term Incentive Plans (LTI). Refer to note 22 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 Deferred Short Term Incentive Plans (DSTI) and the Long Term Incentive Plans (LTI). As at 30 June 2017, DXS held 1,509,142 stapled securities which includes acquisitions of 802,052 and unit vesting of 423,961 (2016: 1,129,557).

Note 18 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.

	2017 $m	2016 $m
Rent receivable	**19.4**	19.2
Less: provision for doubtful debts	**–**	(0.5)
Total rental receivables	**19.4**	18.7
Distributions receivable	**26.3**	25.5
Fee receivable	**22.0**	22.3
Other receivables	**14.0**	15.4
Total other receivables	**62.3**	63.2
Total receivables	**81.7**	81.9

Capital and financial risk management and working capital continued

Note 18 Working capital continued

c) Other current assets

	2017 $m	2016 $m
Prepayments	12.6	11.1
Other	0.7	–
Total other current assets	**13.3**	11.1

d) Payables

	2017 $m	2016 $m
Trade creditors	32.3	34.5
Accruals	12.6	12.5
Accrued capital expenditure	70.0	20.1
Prepaid income	15.7	15.6
Accrued interest	26.9	33.0
Other payables	4.6	1.1
Total payables	**162.1**	116.8

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 matches 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 22.

	2017 $m	2016 $m
Provision for distribution	241.6	198.0
Provision for employee benefits	24.5	22.8
Total current provisions	**266.1**	220.8

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

	2017 $m	2016 $m
Provision for distribution		
Opening balance at the beginning of the year	198.0	207.4
Additional provisions	451.7	421.1
Payment of distributions	(408.1)	(430.5)
Closing balance at the end of the year	**241.6**	198.0

A provision for distribution has been raised for the period ended 30 June 2017. This distribution is to be paid on 29 August 2017.

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 19 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 $4.1 million (2016: $4.6 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 (2016: $286.0 million).

Software is measured at cost and amortised using the straight-line method over its estimated useful life, expected to be three to five years.

	2017 $m	2016 $m
Management rights		
Opening balance at the beginning of the year	**290.6**	290.8
Amortisation charge	**(0.5)**	(0.2)
Closing balance at the end of the year	**290.1**	290.6
Cost	**294.4**	294.4
Accumulated amortisation	**(4.3)**	(3.8)
Total management rights	**290.1**	290.6
Goodwill		
Opening balance at the beginning of the year	**1.3**	1.4
Impairment	**(0.1)**	(0.1)
Closing balance at the end of the year	**1.2**	1.3
Cost	**3.0**	3.0
Accumulated impairment	**(1.8)**	(1.7)
Total goodwill	**1.2**	1.3
Software		
Opening balance at the beginning of the year	**15.2**	9.2
Additions	**7.3**	9.1
Amortisation charge	**(4.3)**	(3.1)
Closing balance at the end of the year	**18.2**	15.2
Cost	**36.8**	29.5
Accumulated amortisation	**(18.6)**	(14.3)
Cost – Fully amortised assets written off	**(10.2)**	–
Accumulated amortisation – Fully amortised assets written off	**10.2**	–
Total software	**18.2**	15.2
Total non-current intangible assets	**309.5**	307.1

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).

Other disclosures continued

Note 19 Intangible assets continued

During the 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%–20.0% (2016: 10.0%–16.7%) was used incorporating an appropriate risk premium for a management business.
- Cash flows have been discounted at 9.0% (2016: 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% (2016: 1.0%) decrease in the discount rate would increase the valuation by $18.6 million (2016: $15.3 million).

Note 20 Audit, taxation and transaction service fees

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

	2017 $'000	2016 $'000
Audit fees		
PwC Australia – audit and review of Financial Statements	1,357	1,381
PwC fees paid in relation to outgoings audits	105	91
PwC Australia – regulatory audit and compliance services	209	233
PwC Australia – sustainability assurance	85	68
Audit fees paid to PwC	1,756	1,773
Taxation fees		
Fees paid to PwC Australia and New Zealand	20	298
Taxation fees paid to PwC	20	298
Total audit and taxation fees paid to PwC	1,776	2,071
Transaction services fees		
Fees paid to PwC Australia in respect of the IOF transaction	–	239
Fees paid to PwC Australia – other	25	105
Total transaction services fees paid to PwC	25	344
Total audit, taxation and transaction services fees paid to PwC	1,801	2,415

Note 21 Reconciliation of cash flows from operating activities

Reconciliation of net profit after income tax to net cash inflows from operating activities:

	2017 $m	2016 $m
Net profit/(loss) for the year	**1,264.2**	1,259.8
Capitalised interest	**(9.8)**	(9.3)
Depreciation and amortisation	**7.8**	5.8
Net fair value (gain)/loss of investment properties	**(457.6)**	(452.1)
Share of net (profit)/loss of investments accounted for using the equity method	**(470.4)**	(525.5)
Net fair value (gain)/loss of derivatives	**101.0**	(106.4)
Net fair value (gain)/loss of interest rate swaps	**(9.8)**	35.8
Amortisation of deferred borrowing costs	**3.9**	4.3
Net (gain)/loss on sale of investment properties	**(23.4)**	(1.0)
Net fair value gain/(loss) of interest bearing liabilities	**(87.5)**	110.8
Transaction costs	**–**	7.1
Provision for doubtful debts	**(0.5)**	0.3
Distributions from investments accounted for using the equity method	**237.6**	213.2
Change in operating assets and liabilities		
(Increase)/decrease in receivables	**11.4**	–
(Increase)/decrease in prepaid expenses	**(1.6)**	1.5
(Increase)/decrease in inventories	**67.3**	80.5
(Increase)/decrease in other current assets	**(0.4)**	(7.4)
(Increase)/decrease in other non-current assets	**20.4**	7.3
Increase/(decrease) in payables	**9.2**	1.2
Increase/(decrease) in current liabilities	**(15.5)**	34.7
Increase/(decrease) in other non-current liabilities	**7.5**	3.2
(Increase)/decrease in deferred tax assets	**3.3**	(0.1)
Net cash inflow/(outflow) from operating activities	**657.1**	663.7

Other disclosures continued

Note 22 Security-based payment

The DXFM Board has approved a grant of performance rights to DXS stapled securities to eligible participants. Awards, via the 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. The fair value of the performance rights is adjusted to reflect market vesting conditions. 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 payment 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) 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 2017 was 274,801 (2016: 292,995) and the fair value of these performance rights is $10.00 (2016: $9.14) per performance right. The total security-based payment expense recognised during the year ended 30 June 2017 was $2,655,472 (2016: $1,976,361).

b) 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 2017 was 480,660 (2016: 380,963). The weighted average fair value of these performance rights is $8.04 (2016: $6.69) per performance right. The total security-based payment expense recognised during the year ended 30 June 2017 was $3,390,504 (2016: $1,116,895).

Note 23 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 and the investment manager for DITA.

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.

The Group received Responsible Entity and other Management Fees from the unlisted property funds managed by DXS during the financial year.

Related party transactions

Transactions between the consolidated entity and related parties were made on commercial terms and conditions. All agreements with third party funds and joint ventures are conducted on normal commercial terms and conditions.

Transactions with related parties

	2017 $'000	2016 $'000
Responsible Entity & Asset management fee income	**62,772**	44,359
Property management fee income	**22,446**	31,603
Rent paid	**2,627**	2,097
Responsible Entity fees receivable at the end of each reporting year (included above)	**5,631**	6,537
Property management fees receivable at the end of each reporting year (included above)	**98**	1,710
Administration expenses receivable at the end of each reporting year (included above)	**5,641**	295

Key management personnel compensation

	2017 $'000	2016 $'000
Compensation		
Short-term employee benefits	**8,967**	8,130
Post employment benefits	**717**	235
Security-based payments	**3,011**	2,456
Total key management personnel compensation	**12,695**	10,821

Information regarding individual Directors' and Senior Executives' remuneration is provided in the Remuneration Report on pages 32 to 48 of the Directors' Report.

There have been no other transactions with key management personnel during the year.

Other disclosures continued

Note 24 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:

	2017 $m	2016 $m
Total current assets	47.7	609.1
Total assets	4,079.0	3,989.7
Total current liabilities – payables	84.1	118.7
Total liabilities	1,518.4	1,674.8
Equity		
Contributed equity	2,126.6	1,984.0
Reserves	6.9	9.1
Retained profits	427.2	321.8
Total equity	2,560.7	2,314.9
Net profit/(loss) for the year	217.4	259.5
Total comprehensive income/(loss) for the year	215.2	260.0

b) Guarantees entered into by the parent entity

Refer to note 15(b) for details of guarantees entered into by the parent entity.

c) Contingent liabilities

Refer to note 15(b) for details of the parent entity's contingent liabilities.

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:

	2017 $m	2016 $m
Investment properties	1.8	6.2
Total capital commitments	1.8	6.2

e) Going concern

The parent entity is a going concern and its net current asset deficiency has been addressed in 'About this Report'.

Note 25 Change in accounting policy

IFRS Interpretations Committee (IFRIC) and change in accounting policy for Income Taxes

In November 2016, the IFRS Interpretations Committee (IFRIC) published a summary of its discussions following a request to clarify how an entity determines the expected manner of recovery of an intangible asset with an indefinite useful life for measuring deferred taxes in accordance with IAS 12 – Income Taxes. The IFRIC noted that the fact that an entity does not amortise an intangible asset with an indefinite useful life does not mean that it has an infinite life and that the entity will recover the carrying amount of that asset only through sale and not through use.

The benefits of the management rights with an indefinite useful life will flow to the Group on an annual basis; therefore, the carrying amount will be recovered through use.

In response to this clarification, the Group has retrospectively changed its accounting policy for the full deferred tax liabilities recorded in relation to its management rights.

The following table summarises the impact of this change in accounting policy on the Statement of Financial Position. This change did not have an impact on the 2016 comparative figures reported in the Statement of Comprehensive Income and Statement of Cash Flows. As the management rights were acquired as part of business combinations in prior years and there were prior year impairments, corresponding adjustments have been made in retained earnings.

Impact of change in accounting policy

	$m
Increase/(decrease) of previously reported balances	
Goodwill	–
Deferred income tax liabilities	73.2
Retained earnings[1]	(73.2)

1. Included in Security holders' equity.

Note 26 Subsequent events

Acquisitions

On 18 July 2017, settlement occurred for the acquisition of 100 Harris Street, Pyrmont for $327.5 million excluding acquisition costs.

On 19 July 2017, settlement occurred for the acquisition of MLC Centre, 19 Martin Place, Sydney for $361.3 million excluding acquisition costs. This represents the Group's 25% interest held through Dexus Martin Place Trust which is jointly owned by the Group and Dexus Wholesale Property Fund (DWPF).

On 25 July 2017, the Group settled on the acquisition of 90 Mills Road, Braeside for $50.6 million excluding acquisition costs.

Disposals

On 1 August 2017, settlement occurred on the disposal of 46 Colin Street, West Perth for $16.8 million excluding disposal costs, representing the Group's 50% interest held through Dexus Office Trust Australia.

On 7 July 2017, the Group disposed of 30-68, Tarras Road, Altona North for $13.1 million excluding disposal costs.

On 8 August 2017, Dexus completed the Security Purchase Plan (SPP) announced on 21 June 2017 in connection with Dexus's $500 million institutional placement (Institutional Placement). A total of approximately $4.4 million was raised under the SPP and accordingly 439,405 new securities (New Securities) will be issued to eligible applicants on Thursday, 17 August 2017. Given that the amount raised did not exceed the $50 million maximum, all applications will be satisfied in full. The New Securities will not be entitled to the distribution for the six months ended 30 June 2017, but will rank equally and have full entitlement to the distribution for the six months ended 31 December 2017.

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 53 to 95:

(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 2017 and of its performance, as represented by the results of its operations and its 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 2017.

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 the 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
15 August 2017

pwc

Independent auditor's report

To the stapled security holders of Dexus Diversified Trust

Report on the audit of the financial report

Our opinion

In our opinion:

The accompanying financial report of Dexus Diversified Trust (the registered scheme) and its controlled entities (together, the Group) is in accordance with the *Corporations Act 2001*, including:

a) giving a true and fair view of the Group's financial position as at 30 June 2017 and of its financial performance for the year then ended

b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

What we have audited

The Group financial report comprises:

- the consolidated statement of financial position as at 30 June 2017
- the consolidated statement of comprehensive income for the year then ended
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- the notes to the consolidated financial statements, which include a summary of significant accounting policies
- the directors' declaration

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

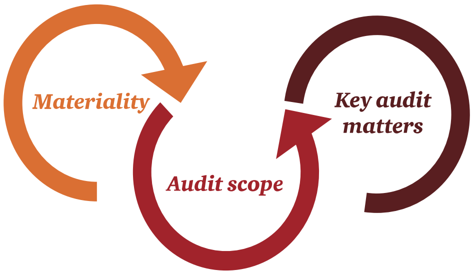
We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Our audit approach

An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial report as a whole, taking into account the geographic and management structure of the Group, its accounting processes and controls and the industry in which it operates.

Independent Auditor's Report continued



Materiality	*Audit scope*	*Key audit matters*
• For the purpose of our audit we used overall Group materiality of $30.85 million, which represents approximately 5% of the Group's adjusted profit before tax (Funds From Operations or "FFO"). • We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole. • We chose FFO because, in our view, it is the key performance measure used by security holders to measure the performance of the Group. An explanation of what is included in FFO is located in Note 1, Operating Segments. • We selected 5% based on our professional judgement noting it is also within the range of commonly accepted profit related thresholds in the industry.	• The Group is a stapled entity with operations in Australia. In a stapled group the securities of two or more entities are 'stapled' together and cannot be traded separately. In the case of the Group, the stapled entity includes the Dexus Diversified Trust (DDF), Dexus Industrial Trust (DIT), Dexus Office Trust (DOT) and Dexus Operations Trust (DXO). • For the purposes of consolidation accounting, DDF is the 'deemed' parent and the consolidated financial report reflects the consolidation of DDF and its controlled entities. • Our audit focused on where the Group made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events. • We audited each of the stapled trusts that form the Group as well as the consolidation of the Group.	• Amongst other relevant topics, we communicated the following key audit matters to the Audit Committee: – Valuation of investment properties, including those investment properties accounted for under the equity method. – Valuation of indefinite life intangible assets. • They are further described in the *Key audit matters* section of our report.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. The key audit matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters	How our audit addressed the key audit matter
Valuation of investment properties, including those investment properties in investments accounted for under the equity method *(Refer to notes 8 and 9)* The Group's investment property portfolio comprises: • directly held properties included in the Consolidated Statement of Financial Position as "Investment properties" valued at $7,169.1m as at 30 June 2017 (2016: $6,419.5m). • the Group's share of investment properties held through joint ventures included in the Consolidated Statement of Financial Position as "Investments accounted for using the equity method" valued at $3,547.8m as at 30 June 2017 (2016: $3,385.3m). Investment properties are valued at fair value at reporting date using the Group's policy as described in Note 8. The valuation of investment properties is dependent on a number of assumptions and inputs including, tenant information, property age and location, expected future rental profiles, and prevailing market conditions. Certain non-tenant assumptions made by the Group in the valuation exercise are key in establishing fair value; in particular: • The capitalisation rate. • The adopted discount rate. • Terminal yield. We considered the valuation of investment properties to be a key audit matter due to the: • Financial significance of the investment property balances in the Consolidated Statement of Financial Position. • Quantum of revaluation gains that directly impact the Consolidated Statement of Comprehensive Income (either through the net fair value gain of investment properties, or Share of net profits of investments accounted for using the equity method). • Inherently subjective nature of investment property valuations. • Sensitivity of valuations to key input assumptions, specifically capitalisation rates, discount rates and terminal yields.	As tenant information (such as market rent) is a key input in determining the valuation of investment properties, we tested a sample of inputs back to executed lease agreements. For the samples tested, we found that the inputs used in the valuation process were consistent with the underlying leases. For all properties that had significant changes in both tenant and non-tenant inputs, we performed the following audit procedures, amongst others: • Met with the Group and discussed the specifics of the selected individual properties including, amongst other things, any new leases entered into during the year, lease expiries, capital expenditure and vacancy rates. • Agreed significant changes in inputs to supporting documentation such as new lease agreements. • Compared key non-tenant inputs, specifically market capitalisation rates, discount rate and terminal yield by location and asset grade to external market data such as market reports prepared by external valuation firms. Where capitalisation rates and discount rates were not consistent with external market data, we discussed with the Group the rationale supporting the rate applied in the valuation. Typically the variances related to the relative age or condition of the property or specific conditions such as lease expiry. In the context of the specific properties identified, we were satisfied that the reasons for variances were reasonable. We compared historical valuations against current year valuations for all properties. Where current year valuation movements were inconsistent with market movements, the reasons for the movements were appropriate and supportable. We also considered the valuation approach adopted and found it to be consistent with commonly accepted valuation approaches used for investment properties. **External valuations** Where the Group relied on external experts to determine the fair value of investment properties, in addition to the above procedures, we assessed the competency, methodology, skills and familiarity of each of the valuers engaged. When inspecting a sample of reports, we also considered other factors such as caveats

Independent Auditor's Report continued

Key audit matters	How our audit addressed the key audit matter
	or limitations identified in the reports that may have influenced the outcomes. **Internal valuations** For internal valuations, the Group utilises an off-the-shelf software package. In addition to the above procedures, we performed the following audit procedures on the software package, amongst others: • Assessed the design of the key controls over the continued integrity of the valuation system. This involved considering how the Group implements program changes, who can access IT systems and other controls which influence the integrity of the system. • Tested the calculation of the valuation algorithm applied. We also considered the experience and qualifications of the Group's internal valuers, all of whom hold recognised relevant professional qualifications and have previous experience as property valuers from major real estate valuation firms.
Valuation of indefinite life intangible assets *(Refer to note 19)* At 30 June 2017 management rights amounting to $290.1m (2016: $290.6m) were recognised by the Group (included in the intangibles assets balance). Indefinite life management rights are not amortised and are required by Australian Accounting Standards to be tested at least annually for impairment. The Group performed impairment testing of the indefinite life management rights and concluded that no impairment charge needed to be recognised during the year. We considered indefinite life management rights to be a key audit matter given the: • Financial significance of the balance in the Consolidated Statement of Financial Position. • Significant judgement involved in testing whether the indefinite life management rights should be impaired, in particular the sensitivity of the Group's assessment to changes in key assumptions such as growth rates and discount rates.	To assess the impairment assessment prepared by the Group to support the carrying value of indefinite life management rights we performed the following audit procedures, amongst others: • Carried out testing over the underlying calculations supporting the carrying value of management rights. • Compared the key budget assumptions (such as revenue and expense growth) used in the impairment assessment to the assumptions used in the Board approved budget. • Compared budgets with reported actual results for the past accounting period • Evaluated the future cash flow forecasts used in the impairment assessment by applying a range of reasonably possible scenarios (or sensitivities) assuming different levels of funds under management and growth rates. • Together with our valuation experts we considered whether the key assumptions applied were consistent with observable market expectations.

Other information

The directors of Dexus Funds Management Limited (the responsible entity) are responsible for the other information included in the Group's annual report for the year ended 30 June 2017. Our opinion on the financial report does not cover the other information and we do not and will not express an opinion or any form of assurance conclusion on this.

Our responsibility is to read the other information and, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

The other information obtained prior to the date of our auditor's report comprises the Directors Report and the Operating and Financial Review (but does not include the financial report and our auditor's report thereon). If we conclude that there is a material misstatement of the other information obtained prior to our auditor's report, we are required to report that fact. We have nothing to report in this regard.

The other information which is expected to be made available to us after the date of this auditor's report includes the Chair and CEO Review. If we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors of Dexus Funds Management Limited and use our professional judgement to determine the appropriate course of action.

Responsibilities of the directors for the financial report

The directors of Dexus Funds Management Limited 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 gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors of Dexus Funds Management Limited are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our auditor's report.

Report on the remuneration report

Our opinion on the remuneration report

We have audited the remuneration report included in pages 14 to 39 of the directors' report for the year ended 30 June 2017.

In our opinion, the remuneration report of Dexus Diversified Trust, for the year ended 30 June 2017 complies with section 300A of the *Corporations Act 2001*.

Independent Auditor's Report continued

Responsibilities

The directors of Dexus Funds Management Limited 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.

PricewaterhouseCoopers

E A Barron
Partner

Sydney
15 August 2017

Additional Information

Top 20 security holders at 31 July 2017

Rank	Name	No. of units	% of issued capital
1	HSBC Custody Nominees (Australia) Limited	526,302,913	51.75
2	J P Morgan Nominees Australia Limited	165,317,470	16.26
3	Citicorp Nominees Pty Limited	117,347,149	11.54
4	National Nominees Limited	46,057,938	4.53
5	BNP Paribas Nominees Pty Ltd <Agency Lending DRP A/C>	25,156,253	2.47
6	BNP Paribas Noms Pty Ltd <DRP>	14,162,021	1.39
7	Citicorp Nominees Pty Limited <Colonial First State Inv A/C>	8,949,598	0.88
8	AMP Life Limited	5,383,252	0.53
9	IOOF Investment Management Limited <IPS Super A/C>	3,804,274	0.37
10	RBC Investor Services Australia Nominees Pty Ltd <Harvester ETF>	3,674,159	0.36
11	National Nominees Limited <N A/C>	3,052,739	0.30
12	HSBC Custody Nominees (Australia) Limited <NT-Comnwlth Super Corp A/C>	2,115,761	0.21
13	Bond Street Custodians Limited <ENH Property Securities A/C>	1,982,625	0.19
14	Pacific Custodians Pty Limited Perf Rights Plan TST	1,508,372	0.15
15	BNP Paribas Noms (NZ) Ltd <DRP>	1,206,204	0.12
16	HSBC Custody Nominees (Australia) Limited-GSCO ECA	925,810	0.09
17	HSBC Custody Nominees (Australia) Limited	850,984	0.08
18	Netwealth Investments Limited <Warp Services A/C>	761,084	0.07
19	Bond Street Custodians Limited <Property Securities A/C>	755,629	0.07
20	SBN Nominees Pty Limited <10004 Account>	703,000	0.07
	Sub total	**930,017,235**	**91.45**
	Balance of register	**86,950,065**	**8.55**
	Total of issued capital	**1,016,967,300**	**100.00**

Substantial holders at 31 July 2017

The names of substantial holders, who at 31 July 2017 have notified the Responsible Entity in accordance with section 671B of the *Corporations Act 2001*, are:

Date	Name	Number of stapled securities	% voting
9 Feb 17	Vanguard Group	87,569,418	9.05%
23 Mar 17	State Street Corporation	57,873,621	5.98%
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.

Additional Information continued

Class of securities

Dexus has one class of stapled security trading on the ASX with security holders holding stapled securities at 31 July 2017.

Spread of securities at 31 July 2017

Range	Securities	%	No. of Holders
100,000 and over	941,289,109	92.56	61
50,000 to 100,000	2,742,798	0.27	40
10,001 to 50,000	17,038,189	1.68	1,012
5,001 to 10,000	17,496,910	1.72	2,546
1,001 to 5,000	32,899,317	3.24	13,867
1 to 1,000	5,500,977	0.54	11,217
Total	**1,016,967,300**	**100.00**	**28,743**

At 31 July 2017, the number of security holders holding less than a marketable parcel of 53 Securities ($500) was 428 and they hold in total 2,994 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, 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 has no on-market buy back in place

Cost base apportionment

For capital gains tax purposes, the cost base apportionment details for Dexus securities for the 12 months ended 30 June 2017 are:

Date	Dexus Diversified Trust	Dexus Industrial Trust	Dexus Office Trust	Dexus Operating Trust
1 Jul 2016 to 31 Dec 2016	30.48%	12.47%	52.23%	4.82%
1 Jan 2017 to 30 Jun 2017	29.01%	12.08%	54.96%	3.95 %

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 FY17, our senior management together with the Investor Relations (IR) team met with 200 investor/broker groups to discuss the Group's business strategy, operational and financial performance. These contacts were undertaken across a wide range of investor activities including telephone calls, conferences, roadshows, one-on-one meetings, dinners, investor briefings and roundtables. We participated in investor conferences and roadshows in Australia, Singapore, Hong Kong, London 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 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 FY17, we hosted an Investor Day highlighting how we create value across our many business units and toured the new city retail precinct at Gateway, 1 Macquarie Place, Sydney.

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 Tuesday, 24 October 2017, 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 periods 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

Attribution Managed Investment Trust Member Annual Statement (previously the Annual Taxation Statement)

An Attribution Managed Investment Trust Member Annual Statement (AMMA) 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. AMMA statements are also available online at www.dexus.com/update

2018 Reporting calendar

2017 Annual General Meeting
24 October 2017

2018 Half year results
14 February 2018

2018 Annual results
15 August 2018

2018 Annual General Meeting
24 October 2018

Distribution calendar

Period end	ASX announcement	Ex-distribution date	Record date	Payment date
31 Dec 2017	21 Dec 2017	28 Dec 2017	29 Dec 2017	28 February 2018
30 Jun 2018	25 Jun 2018	28 Jun 2018	29 Jun 2018	30 August 2018

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.

Investor Information continued

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 **+61 1800 819 675.**

Investor communications

Dexus is committed to ensuring all investors have equal access to information. In line with our commitment to long term integration of sustainable business practices, investor communications are provided via various electronic methods including:

Dexus's website – www.dexus.com

Other investor tools available include:

Online enquiry – www.dexus.com/enquire is an easy 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. www.dexus.com/LinkedIn and click follow us

Twitter – We engage with our followers on Twitter

Search Dexus on Twitter and follow us

Facebook – We engage with our followers on Facebook

Search Dexus on Facebook and 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

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
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

10 Aug 2017	Completion of Security Purchase Plan
7 Aug 2017	Appointment of non-executive director
26 Jul 2017	Dexus settles on three properties
14 Jul 2017	Despatch of Dexus Security Purchase Plan
4 Jul 2017	Dexus Security Purchase Plan
30 Jun 2017	Exchange on 90 Mills Road Braeside
30 Jun 2017	Dexus amends Constitutions for AMIT
28 Jun 2017	Dexus establishes new healthcare JV with Commercial & General
27 Jun 2017	Institutional placement allotment and cleansing statement
23 Jun 2017	Appendix 3B – New issue announcement
22 Jun 2017	Successful completion of $500 million institutional placement
21 Jun 2017	Dexus announces acquisition and equity raising
20 Jun 2017	Market evidence drives increases in valuations
20 Jun 2017	30 June 2017 Distribution details
20 Jun 2017	Appendix 3A.1 – Notification of distribution
23 May 2017	Sale of remaining FY17 trading property
02 May 2017	Suit Supply launches at 5 Martin Place
02 May 2017	2017 Macquarie Australia Conference
02 May 2017	March 2017 quarterly portfolio update
06 Apr 2017	Dexus Industrial Tour
28 Feb 2017	31 December 2016 distribution and HY17 Review
24 Feb 2017	Appendix 3Y – Change of Director's Interest Notice for Darren Steinberg
15 Feb 2017	HY17 Appendix 4D and Financial Statements
15 Feb 2017	HY17 Results Presentation
15 Feb 2017	HY17 Property Synopsis
15 Feb 2017	HY17 Results Release
15 Feb 2017	HY17 Distribution details
31 Jan 2017	Settlement of Auburn trading property sale
19 Jan 2017	Settlement of acquisition of The Mill, Alexandria
13 Dec 2016	Increase in valuations for HY17
12 Dec 2016	Appendix 3A.1 – Notification of Distribution
12 Dec 2016	Distribution details for the six months to 31 December 2016
14 Nov 2016	Sale of 39 Martin Place Sydney
11 Nov 2016	Appendix 3Y – Change of Director's Interest Notice for Darren Steinberg
10 Nov 2016	2016 Corporate Governance Statement
09 Nov 2016	Dexus acquires The Mill Alexandria
07 Nov 2016	Settlement of initial tranche of Southgate Complex, Melbourne
01 Nov 2016	Appendix 3X – Initial Director's Interest Notice – Mark Ford
26 Oct 2016	Appointment of Non-Executive Director
26 Oct 2016	2016 Annual General Meeting
26 Oct 2016	2016 Annual General Meeting Results
25 Oct 2016	September 2016 quarterly portfolio update
25 Oct 2016	2016 Investor Day Presentation
30 Sep 2016	Appendix 3F – Final share buy-back notice
16 Sep 2016	2016 Notice of Annual General Meeting
07 Sep 2016	Settlement of 108 North Terrace Adelaide
31 Aug 2016	2016 Annual Report
31 Aug 2016	Appendix 4G – Key to Disclosures Corporate Governance Council Principles and Recommendations
31 Aug 2016	30 June 2016 distribution

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
Mark H Ford
Darren J Steinberg, CEO
Peter B St George

Secretaries of the Responsible Entity

Brett Cameron
Rachel Caralis

Registered office of the Responsible Entity

Level 25, Australia Square
264 George Street
Sydney NSW 2000

PO Box R1822
Royal Exchange
Sydney NSW 1225

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

www.dexus.com

Auditors

PricewaterhouseCoopers
Chartered Accountants
201 Sussex Street
Sydney NSW 2000

Investor Enquiries

Registry Infoline: +61 1800 819 675
Investor Relations: +61 2 9017 1330
Email: dexus@linkmarketservices.com.au

www.dexus.com

Security Registry

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

Locked Bag A14
Sydney South NSW 1235

www.linkmarketservices.com.au

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 groups including investors, employees, customers, suppliers and the community.

Australian Securities Exchange

ASX Code: DXS

LinkedIn, Twitter, Facebook

Dexus now engages with its followers via LinkedIn, Twitter and Facebook

IR App

Download the Dexus IR App to gain instant access to the latest Dexus stock price, ASX announcements, presentations, reports, webcasts and more.

About this report

The 2017 Annual Report is a consolidated summary of Dexus's performance for the financial year ended 30 June 2017. This report should be read in conjunction with the reports that comprise the 2017 Annual Reporting Suite.

In this report, unless otherwise stated, references to 'Dexus' 'the group', 'we', 'us' and 'our' refer to Dexus comprising the ASX listed entity and the Third Party Funds Management business. Any reference in this report to a 'year' relates to the financial year ended 30 June 2017. 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 2017 Annual Reporting Suite has been prepared in accordance with the GRI Standards: Core option and nominated indicators have been externally assured. The GRI index will be provided with the 2017 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 2017 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 environmental and social data within the integrated online reporting suite covering the 12 months to 30 June 2017. The assurance statement, the GRI verification report and associated reporting criteria documents will be available from the online reporting suite in early September 2017.

www.dexus.com