Dexus (ASX: DXS) Appendix 4D

Results for announcement to the market

Dexus

ARSN 089 324 541

Financial reporting for the half year ended 31 December 2017

Dexus Diversified Trust[1]			
	31 Dec 2017	**31 Dec 2016**	**%**
	$m	**$m**	**Change**
Revenue from ordinary activities	437.3	384.0	13.9%
Net profit attributable to security holders after tax	997.1	716.0	39.3%
Adjusted funds from operations (AFFO) [2]	246.3	214.3	14.9%
Funds from operations (FFO)[2]	321.8	296.0	8.7%
Underlying FFO[3]	307.5	287.7	6.9%
Distribution to security holders [4]	241.1	210.1	14.8%
	CPS	**CPS**	
FFO per security[2]	31.6	30.6	3.3%
Distribution per security for the period	23.7	21.71	9.2%
Payout ratio (distribution as a % of AFFO)	97.9%	98.0%	-0.1%
Basic and diluted earnings per security	98.02	73.97	32.5%
Franked distribution amount per security	-	-	-
	$m	**$m**	
Total assets	13,807.0	11,916.8	15.9%
Total borrowings	3,622.3	3,170.4	14.3%
Security holders equity	9,556.5	8,104.4	17.9%
Market capitalisation	9,614.5	9,311.7	3.3%
	$ per security	**$ per security**	
Net tangible assets	9.16	8.05	13.8%
Securities price	9.45	9.62	-1.8%
Securities on issue	1,017,404,542	967,947,692	
Record date	29 Dec 2017	30 Dec 2016	
Payment date	28 Feb 2018	28 Feb 2017	

Dexus (ASX: DXS) Appendix 4D

Results for announcement to the market

Results commentary

Refer to the attached ASX release for a commentary on the results of Dexus

Details of joint ventures and associates

	Ownership Interest		Share of net profit after tax	
	31 Dec 2017	31 Dec 2016	6 months ended 31 Dec 2017	6 months ended 31 Dec 2016
Name of Entity	%	%	$m	$m
Bent Street Trust	33.3	33.3	10.7	17.3
Dexus Creek Street Trust	50.0	50.0	11.7	4.7
Dexus Martin Place Trust	50.0	50.0	(8.3)	53.8
Grosvenor Place Holding Trust	50.0	50.0	33.1	16.3
Site 6 Homebush Bay Trust	50.0	50.0	1.8	1.3
Site 7 Homebush Bay Trust	50.0	50.0	1.9	1.8
Dexus 480 Q Holding Trust	50.0	50.0	14.5	18.1
Dexus Kings Square Trust	50.0	50.0	4.2	5.4
Dexus Office Trust Australia	50.0	50.0	188.2	139.3
Dexus Industrial Trust Australia	50.0	50.0	5.0	(0.2)
Dexus Eagle Street Pier Trust	50.0	50.0	1.9	2.0
Healthcare Wholesale Property Fund	23.8	-	4.6	-

Distribution Reinvestment Plan (DRP)

As announced on 13 December 2010, the DRP has been suspended until further notice. As a consequence, the DRP will not operate for this distribution payment.

1 For the purposes of statutory reporting, the stapled entity, known as DXS, must be accounted for as a consolidated group. Accordingly, one of the stapled entities must be the "deemed acquirer" of all other entities in the group. Dexus Diversified Trust has been chosen as the deemed acquirer of the balance of the DXS stapled entities, comprising Dexus Industrial Trust, Dexus Office Trust and Dexus Operations Trust.

2 The Directors consider the Property Council of Australia definition of AFFO and FFO to be measures that reflect the underlying performance of the Group. FFO comprises net profit/loss after tax attributable to stapled security holders calculated in accordance with Australian Accounting Standards and adjusted for: property revaluations, impairments, derivative and FX mark to market impacts, fair value movements of interest bearing liabilities, amortisation of tenant incentives, gain/loss on sale of certain assets, straight line rent adjustments, deferred tax expense/benefit, transaction costs, amortisation of intangible assets, rental guarantees and coupon income.

3 Underlying FFO excludes trading profits (net of tax).

4 The distribution for the period 1 July 2017 to 31 December 2017 is the aggregate of the distributions from Dexus Diversified Trust, Dexus Office Trust, Dexus Operations Trust and Dexus Industrial Trust. The Attribution Management Investment Trust Annual Member Statement will provide details of the components of DXS's distributions.

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About Dexus

Dexus is one of Australia's leading real estate groups, proudly managing a high quality Australian property portfolio valued at $26.5 billion. As property innovators, we are deeply committed to working with our customers to provide spaces that engage and inspire, as well as delivering quality, sustainable returns for our investors. We invest only in Australia, and directly own $13.1 billion of office and industrial properties. We manage a further $13.4 billion of office, retail, industrial and healthcare properties for third party clients. The group's $4.2 billion development pipeline provides the opportunity to grow both portfolios and enhance future returns. With more than 1.8 million square metres of office workspace across 55 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
Interim Report
31 December 2017

ARSN: 089 324 541

Contents

HY18 Operating and Financial Review

The Group's financial performance for the six months ended 31 December 2017 is summarised in the following section. In order to fully understand the results, the interim Financial Statements included in this Financial Report should be referred to.

Review of Operations

Dexus has adopted Adjusted Funds from Operations (AFFO) as its primary 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 items including fair value movements in asset and liability values. AFFO 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 and deducting the cost of maintenance capex and leasing incentives (including rent free income).

The Directors consider AFFO to be a measure that reflects the performance of the Group and returns to Security holders.

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

	31 December 2017[1] ($m)	31 December 2016[1] ($m)
Net profit for the period attributable to stapled security holders	**997.1**	**716.0**
Net fair value gain of investment properties	(730.2)	(396.0)
Net fair value loss of derivatives and interest-bearing liabilities	(9.2)	(10.5)
Net (gain)/loss on sale of investment properties	0.7	(71.4)
Incentive amortisation and rent straight-line[2]	51.5	50.3
Amortisation of intangible assets	3.3	2.0
Rental guarantees, coupon income and other	8.6	6.8
Non-FFO tax	-	(1.2)
Funds from Operations (FFO)	**321.8**	**296.0**
Less maintenance and leasing capex	**(75.5)**	**(81.7)**
AFFO	**246.3**	**214.3**
Distributions	**241.1**	**210.1**
Distribution per security (cents)	23.7	21.71
Net tangible asset per security ($)	9.16	8.05

1 Including Dexus's share of equity accounted investments.

2 Including cash, rent free and fit out incentives amortisation.

Operating result

Group

Dexus's net profit after tax was $997.1 million or 98.0 cents per security, an increase of $281.1 million from the previous corresponding period (HY17: $716.0 million). The key drivers of this movement included:

- An increase in total property FFO of $17.7 million as a result of lease commencements across the portfolio and income received from the acquisition of the MLC Centre, Sydney, 100 Harris Street, Pyrmont and 90 Mills Road, Braeside in July 2017.
- Additional $6.0 million of trading profits recognised compared to the previous corresponding period.
- Net revaluation gains of investment properties of $730.2 million, representing a 6.4% uplift across the total portfolio, were $334.2 million higher than the HY17 gains.
- The above impacts are partially offset by the reduced gains on the sale of investment properties. Gains on the sale of investment properties in HY17 were $71.4 million compared to a loss of $0.7 million in HY18

At 31 December 2017, 96 of Dexus's 103 assets were externally valued, comprising 44 office properties and 52 industrial properties. Valuation gains across the total property portfolio were the primary driver of a 71 cent increase in NTA per security to $9.16 as at 31 December 2017.

Most of the valuation uplift was due to further capitalisation rate compression experienced in both Sydney and Melbourne, supported by market sales evidence, with the remainder from market rent growth.

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

	31 December 2017 $m	31 December 2016 $m
Office Property FFO	299.4	292.6
Industrial Property FFO	64.6	53.7
Total Property FFO	**364.0**	**346.3**
Management operations[4]	25.1	21.0
Group corporate	(13.6)	(10.7)
Net finance costs	(63.3)	(64.5)
Other (including tax)	(4.7)	(4.4)
Underlying FFO	**307.5**	**287.7**
Trading profits (net of tax)	14.3	8.3
Total FFO	**321.8**	**296.0**
Maintenance capex, lease incentives and leasing costs paid	(75.5)	(81.7)
Total AFFO[5]	**246.3**	**214.3**

4 'Management Operations' income includes development management fees.

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

Operationally, AFFO increased 14.9% to $246.3 million (HY17: $214.3 million)

The key drivers of the $32.0 million increase include:

- An increase in total property FFO of $17.7 million increase compared to the previous corresponding period primarily as a result of lease commencements across the portfolio and income received from the acquisition of the MLC Centre, Sydney, 100 Harris Street, Pyrmont and 90 Mills Road, Braeside in July 2017.
- Additional $6.0 million of trading profits recognised compared to the previous corresponding period. Trading profits of $14.3 million post tax have been recognised in HY18, primarily om relation to the sale 105 Phillip Street, Parramatta. Trading profits recognised in HY17 of $8.3 million related to the sale of Templar Road, Erskine Park.
- Maintenance and incentives capex being $6.2 million lower than the previous corresponding period.

Operating result (continued)

Distribution

Distribution per security of 23.7 cents for the six months ended 31 December 2017, represented a 9.2% increase compared to the previous corresponding period (HY17: 21.71 cents) with the distribution payout remaining in line with free cashflow, in accordance with Dexus's distribution policy. The distribution will be paid to Dexus Security holders on Wednesday, 28 February 2018.

Management expense ratio

	31 December 2017 $m	31 December 2016 $m
Group corporate costs	(13.6)	(10.7)
Asset management costs	(8.0)	(9.4)
Total corporate and asset management costs	**(21.6)**	**(20.1)**
Closing funds under management (balance sheet only)	13,080	10,981
Group management expense ratio (MER)	**33bps**	**36bps**

Group corporate costs increased to $13.6 million up $2.9 million on the previous corresponding period, however remaining stable on the second half of FY17, as a result of continued investment in corporate strategic initiatives. Group management expense ratio improved, reducing to 33 basis points as a result of increased funds under management driven largely by revaluation gains.

Property transactions

In July 2017, Dexus settled the acquisition of a 25% interest in MLC Centre, Sydney ($361.3 million), a 100% interest in 100 Harris Street, Pyrmont ($327.5 million) and 90 Mills Road, Braeside ($50.6 million). Also in July 2017, settlement occurred for the divestment of 46 Colin Street, West Perth ($16.8 million) on behalf of the Dexus Office Partnership (in which Dexus holds a 50% interest) and Dexus's 30 Taras Road, Altona North ($13.1 million).

On 16 October 2017, the Dexus Office Partnership exchanged contracts for the off-market acquisition of 56 Berry Street, North Sydney ($62.0 million), with settlement occurring on 1 December 2017.

On 22 December 2017, Dexus announced that the Dexus Office Partnership had conditionally exchanged contracts for the divestment of 11 Waymouth Street, Adelaide in line with the strategy to divest assets from non-core markets. The sale is subject to the purchaser obtaining FIRB approval and settlement is expected in the first quarter of 2018.

The divestment of the remaining 50% interest in Southgate Complex, Melbourne for $289.0 million is expected to occur in the second quarter of 2018. The sale was originally announced in August 2016 with settlement of the initial 50% tranche occurring in November 2016.

Dexus performance

The following sections review the HY18 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% of AFFO in HY18.

The size of Dexus's direct portfolio increased $0.9 billion since 30 June 2017 to $13.1 billion at 31 December 2017 primarily as a result of development spend and valuation uplifts.

Dexus performance (continued)

i) Property portfolio (continued)

Office portfolio

Portfolio value:	$10.9 billion
Total area:	1,553,052 square metres
Area leased during the period:	118,405 square metres[8,9]

Key metrics	31 December 2017	30 June 2017
Occupancy by income	96.5%	97.2%
Occupancy by area	95.7%	97%
WALE by income	4.6 years	4.8 years
Average incentive	15.0%[10]	14.5%
Retention rate	39%	46%
Total return – 1 year	15.8%	14.1%

Dexus's office portfolio achieved solid one year total returns of 15.8%, driven mostly by valuation uplifts and leasing. Like-for-like income in the office portfolio of -0.4% was impacted by activity at 30 The Bond in Sydney. Excluding 30 The Bond, like-for-like income growth in office was 6.1%. Dexus remains confident of achieving its FY18 like-for-like income growth target of 4-5%.

Dexus leased 82,577 square metres[8] of spaces across 130 transactions on average lease terms of 6.4 years and average incentives of 15.0%[10]. In addition, 35,828 square metres[8] of development leasing was secured, locking in future income streams. Occupancy reduced slightly to 96.5% as a result of Commonwealth Bank Australia vacating 2 Dawn Fraser, Sydney Olympic Park in December 2017, which also impacted retention for the period. Dexus is currently in discussions with a number of parties in regards to the vacancy, with the property presenting well for groups looking to consolidate their accommodation needs.

The high levels of leasing enquiry Dexus has experienced in the Perth office market have materialised into significant leasing at 240 St Georges Terrace, with three deals secured across 15,464 square metres of the future space that Woodside will vacate in December 2018, bringing committed space to approximately 40%. Dexus is encouraged by the early tenant interest and hopes to capitalise on improving economic and market fundamentals over the next 18 months as the asset is repositioned.

In Sydney, Dexus has achieved office leasing spreads of +16% and over the past 18 months has benefited from the trend of large companies in the health, insurance and pharmaceutical sectors centralising into the CBD, while in Melbourne the education sector has grown its footprint in the CBD.

Since completion of the acquisition of the MLC Centre, six leasing deals have been completed with small space users, with all deals supporting Dexus's acquisition metrics in relation to rents and incentives.

From a sustainability perspective, Dexus now has 765,000 square metres of its office properties with a 5 star NABERS Energy rating or above, progressing the Group's target of having one million square metres at this position by 2020.

8 Including Heads of Agreement.

9 Including development leasing of 35,828 square metres.

10 Excluding development leasing.

Dexus performance (continued)

i) Property portfolio (continued)

Industrial portfolio

Portfolio value:	$2.1 billion
Total area:	1,246,506 square metres
Area leased during the period:	118,537 square metres[8]

Key metrics	31 December 2017	30 June 2017
Occupancy by income	97.5%	96.5%
Occupancy by area	97.9%	96.6%
WALE by income	5.0 years	5.1 years
Average incentive	15.8%	14.5%
Retention rate	62%	74%
Total return – 1 year	15.4%	12.6%

The industrial portfolio continues to benefit from an uptick in logistics and e-commerce demand, which contributed to an improvement in occupancy to 97.5%.

Dexus leased 118,537 square metres[8] of industrial space across 54 transactions on average lease terms of 5.4 years and average incentives of 15.8%. Weighted average lease expiry remains steady at 5.0 years.

The industrial portfolio achieved like-for-like income growth of 1.0% and Dexus remains confident of achieving its FY18 like-for-like income growth target of 3-4% in industrial.

Development

Dexus enhances future investor returns through the Group's $4.2 billion development pipeline, of which $2.1 billion sits within the Dexus portfolio and $2.1 billion within third party funds.

Works progressed at 100 Mount Street, North Sydney, and NBN was secured as a new customer across 20,364 square metres, the first major leasing deal at the project since construction commenced in early 2016. As a result, the building is now 60% committed by area, ahead of its completion in early 2019. Works at 105 Phillip Street, Parramatta remain on track with construction topping out in September 2017.

In industrial, two developments leased to Isuzu and Anmar covering 37,600 square metres were completed in Laverton North, Victoria and construction continues at five properties, two located in Laverton North and three in Greystanes, NSW with all properties 100% pre-leased.

With leasing success in its core office markets Dexus has activated two high quality office projects. 180 Flinders Street will be a 20,100 square metre project in the heart of Melbourne's CBD, while the 12 Creek Street Annex project, which is on a prominent corner in Brisbane's golden triangle, will bring to market a very boutique small floorplate offering across a total of 6,700 square metres. Dexus is finalising the development plans for 240 St Georges Terrace, Perth which will become part of Dexus's development pipeline from FY19. The extensive works include creating a new street entry, a new north facing outdoor terrace on Level 16 for functions, new end-of-trip facilities and gymnasium, in addition to an improved retail offering. The targeted returns are in line with previous office developments, targeting a yield on cost of circa 7% and a double-digit IRR.

ii) Funds management

Dexus now manages $13.4 billion of funds on behalf of 73 third party clients following the completion of the first equity raise for the Healthcare Wholesale Property Fund. This fund is seeded with approximately $370 million of properties (on completion value) and has a pipeline of high quality opportunities with estimated on completion values of approximately $445 million including the North Shore Health Hub at 12 Frederick Street, St Leonards in Sydney and a medical research facility in Adelaide.

Dexus continued to deliver on its clients' investment objectives with the third party funds outperforming their respective benchmarks.

8 Including Heads of Agreement.

Dexus performance (continued)

ii) **Funds management** (continued)

Dexus Wholesale Property Fund (DWPF) achieved a one-year total return of 13.75%, outperforming its benchmark over one, three, five, seven and ten years. The Dexus Office Partnership delivered a one year unlevered total property return of 16.5% and an annualised unlevered total property return of 15.3% since inception.

During the six months to 31 December 2017, Dexus completed DWPF's $300 million equity offer following the acquisition of its 25% interest in the MLC Centre, Sydney.

Dexus continued to progress the $2.1 billion third party development pipeline which provides an opportunity to improve the quality of its clients' property portfolios and enhance future returns.

iii) Trading

Trading involves acquiring properties to reposition through development and leasing, or unlocking the highest and best use of existing properties, and realising value through divestment.

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.

During the period, $14.3 million (net of tax) of trading profits were recognised primarily in relation to the sale of 105 Phillip Street Parramatta. This property was divested in May 2017 with profits recognised across both FY17 and FY18 in line with development progress. 105 Phillip Street will secure approximately 60% of FY18 trading profits. Dexus is confident of achieving the full year profit target of $35-$40 million post tax through the sale of one other trading property, which is expected in the second half of FY18.

Progress was made at 12 Frederick Street, St Leonards with the completion of a leasing expression of interest campaign in late 2017 and submission of development concepts for planning approval. Six projects have been earmarked to deliver trading profits in future years, including potential opportunities at Parramatta and Gladesville.

Capital management

Cost of debt	4.0%
Duration of debt	7.0 years
Gearing (look through)	26.5%
S&P/Moody's credit rating:	A-/A3

Dexus's gearing (look through)[11] of 26.5% at 31 December 2017, sits below the target range of 30-40%. Gearing is broadly in line with 30 June 2017 but is expected to decrease in the first half of 2018 with the receipt of proceeds from the divestments of 11 Waymouth Street, Adelaide, the second 50% tranche of Southgate Complex, Melbourne, and the remaining FY18 trading property.

Debt duration has been extended to 7.0 years following the issuance of $653 million of US Private Placement notes with an average duration of 13.5 years and average margin of 175 basis points over the Bank Bill Swap Rate.

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

Outlook

Australia is expected to continue to benefit from global economic growth, population growth and considerable construction activity in the infrastructure sector over the next two years. Dexus believes this will have a positive flow on effect on demand for office and industrial space over the same time period.

Dexus expects to see support for real estate values over the next 12 months as a result of the strength of property fundamentals in Sydney and Melbourne along with the improving fundamentals in Perth and Brisbane.

Dexus is well positioned to continue to benefit from positive property fundamentals and deliver future growth.

Recent volatility in equity markets, has resulted in Dexus announcing plans to initiate an on-market securities buy-back of up to 5% of Dexus securities on issues, providing the opportunity to enhance investor returns.

11 Adjusted for cash and debit in equity accounted investments.

FY18 Guidance

As a result of improved performance across a number of areas in the underlying business Dexus has upgraded its market guidance[12] for distribution per security growth to 4.5-5.0% from 4.0-4.5% for the 12 months ending 30 June 2018.

[12] Barring unforeseen circumstances guidance is supported by the following assumptions: impacts of announced divestments and acquisitions; underlying FFO per security growth of 2.5-3.0% underpinned by Dexus office portfolio like-for-like growth of 4-5%, Dexus industrial portfolio like-for-like growth of 3-4%, management operations of c.$50 million and cost of debt broadly 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.

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 half year ended 31 December 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

Directors

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

Directors	Appointed	Resigned
W Richard Sheppard, BEc (Hons), FAICD	1 January 2012	
Elizabeth A Alexander, AM, BComm, FCA, FAICD, FCPA	1 January 2005	24 October 2017
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	
The Hon. Nicola L Roxon, BA/LLB (Hons), GAICD	1 September 2017	
Darren J Steinberg, BEc, FRICS, FAPI, FAICD	1 March 2012	
Peter B St George, CA(SA), MBA	29 April 2009	

Review of results and operations

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 1-7 of this Interim Report.

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 10 and forms part of this Directors' Report.

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 13 February 2018.

W Richard Sheppard
Chair
13 February 2018

Darren J Steinberg
Chief Executive Officer
13 February 2018

Auditor's Independence Declaration

As lead auditor for the review of Dexus Diversified Trust (the Trust) for the half-year ended 31 December 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 review; and

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

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

Matthew Lunn
Partner
PricewaterhouseCoopers

Sydney
13 February 2018

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Consolidated Statement of Comprehensive Income

For the half year ended 31 December 2017

	Note	31 Dec 2017 $m	31 Dec 2016 $m
Revenue from ordinary activities			
Property revenue		**281.7**	275.4
Development revenue		**90.4**	50.0
Interest revenue		**0.4**	0.3
Management fees and other revenue		**64.8**	58.3
Total revenue from ordinary activities		**437.3**	384.0
Net fair value gain of investment properties		**555.2**	270.5
Net gain on sale of investments	6	**1.7**	-
Share of net profit of investments accounted for using the equity method		**269.3**	259.8
Net gain on sale of investment properties		**-**	24.2
Net fair value gain of interest bearing liabilities		**18.4**	91.4
Total income		**1,281.9**	1,029.9
Expenses			
Property expenses		**(78.3)**	(77.0)
Development costs		**(70.0)**	(38.1)
Finance costs	2	**(60.4)**	(49.9)
Impairment of inventories		**(0.6)**	-
Net fair value loss of derivatives		**(10.3)**	(93.6)
Net loss on sale of investment properties		**(0.1)**	-
Transaction costs		**(0.8)**	-
Management operations, corporate and administration expenses		**(51.9)**	(48.5)
Total expenses		**(272.4)**	(307.1)
Profit/(loss) before tax		**1,009.5**	722.8
Income tax expense	3	**(12.4)**	(6.8)
Profit/(loss) for the period		**997.1**	716.0
Other comprehensive income/(loss):			
Changes in the fair value of cash flow hedges		**(22.7)**	6.8
Total comprehensive income/(loss) for the period		**974.4**	722.8
Profit/(loss) for the year attributable to:			
Unitholders of the parent entity		**284.7**	99.1
Unitholders of other stapled entities (non-controlling interests)		**712.4**	616.9
Profit/(loss) for the period		**997.1**	716.0
Total comprehensive income/(loss) for the year attributable to:			
Unitholders of the parent entity		**262.0**	105.9
Unitholders of other stapled entities (non-controlling interests)		**712.4**	616.9
Total comprehensive income/(loss) for the period		**974.4**	722.8
		Cents	Cents
Earnings per unit on profit/(loss) attributable to unitholders of the Trust (parent entity)			
Basic earnings per unit		**27.99**	10.24
Diluted earnings per unit		**27.99**	10.24
Earnings per stapled security on profit/(loss) attributable to stapled security holders			
Basic earnings per security		**98.02**	73.97
Diluted earnings per security		**98.02**	73.97

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

Consolidated Statement of Financial Position

As at 31 December 2017

	Note	**31 Dec 2017 $m**	30 Jun 2017 $m
Current assets			
Cash and cash equivalents		**24.5**	21.2
Receivables		**178.6**	81.7
Non-current assets classified as held for sale	8	**286.3**	296.8
Derivative financial instruments	13	**16.0**	15.5
Other		**25.0**	13.3
Total current assets		**530.4**	428.5
Non-current assets			
Investment properties	5	**8,084.5**	7,169.1
Plant and equipment		**15.7**	16.4
Inventories	7	**297.1**	211.3
Investments accounted for using the equity method	6	**4,309.2**	3,823.8
Derivative financial instruments	13	**257.1**	306.7
Intangible assets	12	**309.3**	309.5
Other		**3.7**	4.8
Total non-current assets		**13,276.6**	11,841.6
Total assets		**13,807.0**	12,270.1
Current liabilities			
Payables		**179.0**	162.1
Current tax liabilities		**22.4**	21.8
Interest bearing liabilities	9	**305.2**	-
Loans with related parties		**-**	149.0
Provisions		**275.7**	266.1
Derivative financial instruments	13	**7.6**	7.8
Total current liabilities		**789.9**	606.8
Non-current liabilities			
Interest bearing liabilities	9	**3,317.1**	2,697.8
Derivative financial instruments	13	**52.1**	49.1
Deferred tax liabilities		**85.9**	85.9
Provisions		**1.9**	1.9
Other		**3.6**	4.1
Total non-current liabilities		**3,460.6**	2,838.8
Total liabilities		**4,250.5**	3,445.6
Net assets		**9,556.5**	8,824.5
Equity			
Equity attributable to unitholders of the Trust (parent entity)			
Contributed equity	11	**2,127.7**	2,126.7
Reserves		**(15.8)**	6.9
Retained profits		**633.6**	427.2
Parent entity unitholders' interest		**2,745.5**	2,560.8
Equity attributable to unitholders of other stapled entities			
Contributed equity	11	**4,278.6**	4,275.7
Reserves		**36.6**	41.8
Retained profits		**2,495.8**	1,946.2
Other stapled unitholders' interest		**6,811.0**	6,263.7
Total equity		**9,556.5**	8,824.5

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

Consolidated Statement of Changes in Equity

For the half year ended 31 December 2017

		Attributable to unitholders of the Trust (parent entity)				Attributable to unitholders of other stapled entities				
	Note	Contributed equity $m	Reserves $m	Retained profits $m	Total $m	Contributed equity $m	Reserves $m	Retained profits $m	Total $m	Total equity $m
Opening balance as at 1 July 2016		1,984.0	9.1	321.7	2,314.8	3,926.1	43.0	1,312.4	5,281.5	7,596.3
Net profit/(loss) for the period		-	-	99.1	99.1	-	-	616.9	616.9	716.0
Other comprehensive income/(loss) for the period		-	6.8	-	6.8	-	-	-	-	6.8
Total comprehensive income for the period		-	6.8	99.1	105.9	-	-	616.9	616.9	722.8
Transactions with owners in their capacity as owners										
Purchase of securities, net of transaction costs		-	-	-	-	-	(7.4)	-	(7.4)	(7.4)
Security-based payments expense		-	-	-	-	-	2.8	-	2.8	2.8
Distributions paid or provided for	4	-	-	(66.2)	(66.2)	-	-	(143.9)	(143.9)	(210.1)
Total transactions with owners in their capacity as owners		-	-	(66.2)	(66.2)	-	(4.6)	(143.9)	(148.5)	(214.7)
Closing balance as at 31 December 2016		1,984.0	15.9	354.6	2,354.5	3,926.1	38.4	1,785.4	5,749.9	8,104.4
Opening balance as at 1 July 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**
Net profit/(loss) for the period		**-**	**-**	**284.6**	**284.6**	**-**	**-**	**712.5**	**712.5**	**997.1**
Other comprehensive income/(loss) for the period		**-**	**(22.7)**	**-**	**(22.7)**	**-**	**-**	**-**	**-**	**(22.7)**
Total comprehensive income for the period		**-**	**(22.7)**	**284.6**	**261.9**	**-**	**-**	**712.5**	**712.5**	**974.4**
Transactions with owners in their capacity as owners										
Issue of additional equity, net of transaction costs	11	**1.0**	**-**	**-**	**1.0**	**2.9**	**-**	**-**	**2.9**	**3.9**
Purchase of securities, net of transaction costs		**-**	**-**	**-**	**-**	**-**	**(7.1)**	**-**	**(7.1)**	**(7.1)**
Security-based payments expense		**-**	**-**	**-**	**-**	**-**	**1.9**	**-**	**1.9**	**1.9**
Distributions paid or provided for	4	**-**	**-**	**(78.2)**	**(78.2)**	**-**	**-**	**(162.9)**	**(162.9)**	**(241.1)**
Total transactions with owners in their capacity as owners		**1.0**	**-**	**(78.2)**	**(77.2)**	**2.9**	**(5.2)**	**(162.9)**	**(165.2)**	**(242.4)**
Closing balance as at 31 December 2017		**2,127.7**	**(15.8)**	**633.6**	**2,745.5**	**4,278.6**	**36.6**	**2,495.8**	**6,811.0**	**9,556.5**

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

Consolidated Statement of Cash Flows

For the half year ended 31 December 2017

	31 Dec 2017 $m	31 Dec 2016 $m
Cash flows from operating activities		
Receipts in the course of operations (inclusive of GST)	**394.3**	388.7
Payments in the course of operations (inclusive of GST)	**(158.1)**	(152.6)
Interest received	**0.4**	0.3
Finance costs paid to financial institutions	**(61.6)**	(72.4)
Distributions received from investments accounted for using the equity method	**108.7**	121.2
Income and withholding taxes paid	**(11.8)**	(6.4)
Proceeds from sale of property classified as inventory	**0.8**	50.0
Payments for property classified as inventory and development services	**(91.8)**	(27.2)
Net cash inflow/(outflow) from operating activities	**180.9**	301.6
Cash flows from investing activities		
Proceeds from sale of investment properties	**56.9**	422.7
Proceeds from sale of investments accounted for using the equity method	**30.2**	-
Payments for capital expenditure on investment properties	**(89.1)**	(67.6)
Payments for investments accounted for using the equity method	**(368.7)**	(29.6)
Payments for acquisition of investment properties	**(374.0)**	(67.6)
Payments for plant and equipment	**(1.0)**	(2.3)
Payments for intangibles	**(2.7)**	(3.2)
Net cash inflow/(outflow) from investing activities	**(748.4)**	252.4
Cash flows from financing activities		
Proceeds from borrowings	**2,208.6**	1,551.2
Repayment of borrowings	**(1,244.0)**	(2,059.3)
Proceeds from loan with related party	**-**	161.1
Repayment of loan with related party	**(149.0)**	-
Proceeds from issue of additional equity, net of transaction costs	**3.9**	-
Purchase of securities for security-based payments plans	**(7.1)**	(7.4)
Distributions paid to security holders	**(241.6)**	(198.0)
Net cash inflow/(outflow) from financing activities	**570.8**	(552.4)
Net increase/(decrease) in cash and cash equivalents	**3.3**	1.6
Cash and cash equivalents at the beginning of the period	**21.2**	18.1
Cash and cash equivalents at the end of the period	**24.5**	19.7

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.

Basis of preparation

These interim 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 annual Financial Statements for the year ended 30 June 2017 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.

These Financial Statements do not include notes of the type normally included in an annual financial report. Accordingly, these Financial Statements should be read in conjunction with the annual Financial Statements for the year ended 30 June 2017 and any public pronouncements made by the Group during the half year in accordance with the continuous disclosure requirements of the *Corporations Act 2001*. The accounting policies adopted are consistent with those of the previous financial year and corresponding financial reporting period, unless otherwise stated.

Working capital deficiency

The Group has unutilised facilities of $727.5 million (June 2017: $1,060.5 million) (refer to note 9) and sufficient working capital and cash flows in order to fund all requirements arising from the net current asset deficiency as at 31 December 2017 of $259.5 million (June 2017: $178.3 million). The deficiency is largely driven by the provision for distribution and interest bearing liabilities due to expire within the next 12 months.

Critical accounting estimates

The preparation of Financial Statements requires the use of certain critical accounting estimates and management to exercise its judgement in the process of applying the Group's accounting policies. Other than the estimates and assumptions used for the measurement of items measured at fair value such as certain financial instruments, investment properties, and security-based payments, and the assumptions for intangible assets and the net realisable value for inventories, no key assumptions concerning the future or other estimation of uncertainty at the end of each reporting period could have a significant risk of causing material adjustments to the Financial Statements.

Notes to the Financial Statements

The notes are organised into the following sections:

Group performance	Property portfolio assets	Capital management and other investments	Other disclosures
1. Operating segments	5. Investment properties	9. Interest bearing liabilities	14. Subsequent events
2. Finance costs	6. Investments accounted for using the equity method	10. Contingencies	
3. Taxation	7. Inventories	11. Contributed equity	
4. Distributions paid and payable	8. Non-current assets classified as held for sale	12. Intangible assets	
		13. Fair value of financial instruments	

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, finance costs 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 and Healthcare investments.

Note 1 Operating segments (continued)

31 December 2017	Office $m	Industrial $m	Property management $m	Funds management $m	Development and trading $m	All other segments $m	Eliminations $m	Total $m
Segment performance measures								
Property revenue	332.7	72.3	-	-	-	-	(1.2)	**403.8**
Property management fees	-	-	16.9	-	-	-	-	**16.9**
Development revenue	-	-	-	-	90.4	-	-	**90.4**
Management fee revenue	-	-	18.8	27.8	2.2	-	-	**48.8**
Total operating segment revenue	**332.7**	**72.3**	**35.7**	**27.8**	**92.6**	**-**	**(1.2)**	**559.9**
Property expenses & property management salaries	(76.8)	(14.1)	(12.7)	-	-	-	-	**(103.6)**
Management operations expenses	-	-	(13.3)	(11.2)	(3.4)	-	-	**(27.9)**
Corporate and administration expenses	(6.4)	(1.6)	-	-	-	(13.6)	1.2	**(20.4)**
Development costs	-	-	-	-	(70.0)	-	-	**(70.0)**
Interest revenue	-	-	-	-	-	0.7	-	**0.7**
Finance costs	-	-	-	-	-	(64.0)	-	**(64.0)**
Incentive amortisation and rent straight-line	43.5	8.0	-	-	-	-	-	**51.5**
FFO tax expense	-	-	-	-	(6.1)	(6.3)	-	**(12.4)**
Coupon income, rental guarantee and other	6.4	-	-	-	-	1.6	-	**8.0**
Funds From Operations (FFO)	**299.4**	**64.6**	**9.7**	**16.6**	**13.1**	**(81.6)**	**-**	**321.8**
Net fair value gain/(loss) of investment properties	662.9	62.3	-	-	-	5.0	-	**730.2**
Impairment of inventories	-	(0.6)	-	-	-	-	-	**(0.6)**
Net fair value gain/(loss) of derivatives	-	-	-	-	-	(9.2)	-	**(9.2)**
Transaction costs	-	-	-	-	-	(0.8)	-	**(0.8)**
Net gain/(loss) on sale of investment properties	(0.7)	-	-	-	-	-	-	**(0.7)**
Net fair value gain/(loss) of interest bearing liabilities	-	-	-	-	-	18.4	-	**18.4**
Incentive amortisation and rent straight-line	(43.5)	(8.0)	-	-	-	-	-	**(51.5)**
Amortisation of intangible assets	-	-	-	-	-	(2.7)	-	**(2.7)**
Coupon income, rental guarantee and other	(6.1)	-	-	-	-	(1.7)	-	**(7.8)**
Net profit/(loss) attributable to stapled security holders	**912.0**	**118.3**	**9.7**	**16.6**	**13.1**	**(72.6)**	**-**	**997.1**
Investment properties	6,367.9	1,716.6	-	-	-	-	-	**8,084.5**
Non-current assets held for sale	286.3	-	-	-	-	-	-	**286.3**
Inventories	-	-	-	-	297.1	-	-	**297.1**
Equity accounted investment properties	4,211.2	155.9	-	-	-	45.0	-	**4,412.1**
Direct property portfolio	**10,865.4**	**1,872.5**	**-**	**-**	**297.1**	**45.0**	**-**	**13,080.0**

Note 1 Operating segments (continued)

31 December 2016	Office $m	Industrial $m	Property management $m	Funds management $m	Development and trading $m	All other segments $m	Eliminations $m	Total $m
Segment performance measures								
Property revenue	326.2	63.6	-	-	-	-	(1.1)	**388.7**
Property management fees	-	-	13.5	-	-	-	-	**13.5**
Development revenue	-	-	-	-	50.0	-	-	**50.0**
Management fee revenue	-	-	17.7	25.6	3.5	-	-	**46.8**
Total operating segment revenue	**326.2**	**63.6**	**31.2**	**25.6**	**53.5**	**-**	**(1.1)**	**499.0**
Property expenses & property management salaries	(77.2)	(13.1)	(12.1)	-	-	-	-	**(102.4)**
Management operations expenses	-	-	(12.7)	(10.0)	(4.5)	-	-	**(27.2)**
Corporate and administration expenses	(7.6)	(1.8)	-	-	-	(10.7)	1.1	**(19.0)**
Development costs	-	-	-	-	(38.1)	-	-	**(38.1)**
Interest revenue	-	-	-	-	-	0.6	-	**0.6**
Finance costs	-	-	-	-	-	(65.1)	-	**(65.1)**
Incentive amortisation and rent straight-line	45.3	5.0	-	-	-	-	-	**50.3**
FFO tax expense	-	-	-	-	(3.6)	(4.4)	-	**(8.0)**
Rental guarantee and other	5.9	-	-	-	-	-	-	**5.9**
Funds From Operations (FFO)	**292.6**	**53.7**	**6.4**	**15.6**	**7.3**	**(79.6)**	**-**	**296.0**
Net fair value gain/(loss) of investment properties	381.4	14.6	-	-	-	-	-	**396.0**
Net fair value gain/(loss) of derivatives	-	-	-	-	-	(80.9)	-	**(80.9)**
Net gain/(loss) on sale of investment properties	71.4	-	-	-	-	-	-	**71.4**
Net fair value gain/(loss) of interest bearing liabilities	-	-	-	-	-	91.4	-	**91.4**
Incentive amortisation and rent straight-line	(45.3)	(5.0)	-	-	-	-	-	**(50.3)**
Amortisation of intangible assets	-	-	-	-	-	(2.0)	-	**(2.0)**
Non FFO deferred tax expense	-	-	-	-	-	1.2	-	**1.2**
Coupon income, rental guarantees and other	(6.8)	-	-	-	-	-	-	**(6.8)**
Net profit/(loss) attributable to stapled security holders	**693.3**	**63.3**	**6.4**	**15.6**	**7.3**	**(69.9)**	**-**	**716.0**
30 June 2017								
Investment properties	5,539.8	1,629.3	-	-	-	-	-	**7,169.1**
Non-current assets held for sale	283.7	13.1	-	-	-	-	-	**296.8**
Inventories	-	-	-	-	211.3	-	-	**211.3**
Equity accounted investment properties	3,653.7	131.7	-	-	-	-	-	**3,785.4**
Direct property portfolio	**9,477.2**	**1,774.1**	**-**	**-**	**211.3**	**-**	**-**	**11,462.6**

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

	31 Dec 2017 $m	31 Dec 2016 $m
Gross operating segment revenue	**559.9**	499.0
Share of property revenue from joint ventures	**(139.1)**	(126.7)
Share of management fees charged to joint ventures	**16.1**	11.4
Interest revenue	**0.4**	0.3
Total revenue from ordinary activities	**437.3**	384.0

Reconciliation of segment assets to the Statement of Financial Position

	31 Dec 2017 $m	30 Jun 2017 $m
Direct property portfolio[1]	**13,080.0**	11,462.6
Cash and cash equivalents	**24.5**	21.2
Receivables	**178.6**	81.7
Intangible assets	**309.3**	309.5
Derivative financial instruments	**273.1**	322.2
Plant and equipment	**15.7**	16.4
Prepayments and other assets[2]	**(74.2)**	56.5
Total assets	**13,807.0**	12,270.1

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 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 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.

	31 Dec 2017 $m	31 Dec 2016 $m
Interest paid/payable	**56.6**	59.4
Net fair value (gain)/loss of interest rate swaps	**6.2**	(7.8)
Amount capitalised	**(6.4)**	(4.8)
Other finance costs	**4.0**	3.1
Total finance costs	**60.4**	49.9

The average capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation is 5.75%.

Note 3 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.

	31 Dec 2017 $m	31 Dec 2016 $m
Profit before income tax	**1,009.5**	722.8
Less: profit attributed to entities not subject to tax	**(945.5)**	(695.2)
Profit subject to income tax	**64.0**	27.6
Prima facie tax expense at the Australian tax rate of 30% (31 Dec 2016: 30%)	**(19.2)**	(8.3)
Tax effect of amounts which are not deductible/(assessable) in calculating taxable income:		
(Non-assessable)/non-deductible items	**6.8**	1.5
Income tax expense	**(12.4)**	(6.8)

Note 4 Distributions paid and payable

Distributions are recognised when declared.

a) Distribution to security holders

	31 Dec 2017 $m	31 Dec 2016 $m
31 December (payable 28 February 2018)	**241.1**	210.1
Total distribution to security holders	**241.1**	210.1

b) Distribution rate

	31 Dec 2017 Cents per security	31 Dec 2016 Cents per security
31 December (payable 28 February 2018)	**23.7**	21.7
Total distributions	**23.7**	21.7

Property portfolio assets

In this section

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

31 December 2017	Note	Office $m	Industrial $m	Healthcare $m	Total $m
Investment properties	5	6,367.9	1,716.6	-	**8,084.5**
Equity accounted investments	6	4,211.2	155.9	45.0	**4,412.1**
Inventories	7	45.1	252.0	-	**297.1**
Assets held for sale	8	286.3	-	-	**286.3**
Total		**10,910.5**	**2,124.5**	**45.0**	**13,080.0**

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.

Note 5 Investment properties

a) Reconciliation

		For the 6 months to 31 Dec 2017 $m	For the 12 months to 30 Jun 2017 $m
Opening balance at the beginning of the period		**7,169.1**	6,419.5
Additions		**77.0**	117.1
Acquisitions		**382.3**	178.6
Lease incentives		**35.1**	80.2
Amortisation of lease incentives		**(38.4)**	(69.4)
Rent straightlining		**6.0**	7.6
Disposals		**(44.0)**	(0.8)
Transfer to non-current assets classified as held for sale		**-**	(13.0)
Transfer to inventories	7	**(55.2)**	-
Net fair value gain/(loss) of investment properties		**552.6**	449.3
Closing balance at the end of the period		**8,084.5**	7,169.1

Acquisitions

- On 18 July 2017, settlement occurred for the acquisition of 100 Harris Street, Pyrmont for $327.5 million excluding acquisition costs.
- On 25 July 2017, settlement occurred for the acquisition of 90 Mills Road, Braeside for $50.6 million excluding acquisition costs.

Note 6 Investments accounted for using the equity method

Investments are accounted for in the Financial Statements using the equity method of accounting. Information relating to these entities is set out below.

	Ownership interest			
	31 Dec 2017	30 Jun 2017	**31 Dec 2017**	30 Jun 2017
Name of entity	**%**	%	**$m**	$m
Bent Street Trust	**33.3**	33.3	**320.8**	319.1
Dexus Creek Street Trust	**50.0**	50.0	**151.8**	143.9
Dexus Martin Place Trust[1]	**50.0**	50.0	**364.5**	166.3
Grosvenor Place Holding Trust[2,3]	**50.0**	50.0	**408.0**	385.5
Site 6 Homebush Bay Trust[2]	**50.0**	50.0	**33.7**	33.3
Site 7 Homebush Bay Trust[2]	**50.0**	50.0	**44.9**	44.9
Dexus 480 Q Holding Trust	**50.0**	50.0	**373.0**	366.7
Dexus Kings Square Trust	**50.0**	50.0	**214.3**	214.0
Dexus Office Trust Australia[4,5] (DOTA)	**50.0**	50.0	**2,158.4**	1,985.0
Dexus Industrial Trust Australia (DITA)	**50.0**	50.0	**156.8**	133.2
Dexus Eagle Street Pier Trust	**50.0**	50.0	**33.5**	31.9
Healthcare Wholesale Property Fund [6]	**23.8**	-	**49.5**	-
Total assets - investments accounted for using the equity method[7]			**4,309.2**	3,823.8

1 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. The Group's loan with related parties was subsequently repaid on the upon Dexus Martin Place Trust's settlement of MLC Centre.

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 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 DOTA.

5 On 22 December 2017, contracts were conditionally exchanged for the disposal of 11 Waymouth Street, Adelaide for $101.3 million excluding disposal costs, representing the Group's 50% interest held through DOTA.

6 On 7 August 2017, Dexus invested in the Healthcare Wholesale Property Fund together with Commercial and General (C&G). On 21 December 2017, additional investors invested in the fund and Dexus sold down its investment to 23.8%, recording a gain on sale of investments of $1.7 million.

7 The Group's share of investment properties in the investments accounted for using the equity method was $4,412.1 million (June 2017: $3,785.4 million).

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

Note 7 Inventories

a) Development properties held for sale

	31 Dec 2017 $m	30 Jun 2017 $m
Non-current assets		
Development properties held for sale	**297.1**	211.3
Total non-current assets - inventories	**297.1**	211.3
Total assets - inventories	**297.1**	211.3

b) Reconciliation

	Note	For the 6 months to 31 Dec 2017 $m	For the 12 months to 30 Jun 2017 $m
Opening balance at the beginning of the period		**211.3**	276.0
Transfer from investment properties	5	**55.2**	-
Disposals		**-**	(148.3)
Impairment		**(0.6)**	-
Additions		**31.2**	83.6
Closing balance at the end of the period		**297.1**	211.3

Note 8 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 31 December 2017, the balance relates to the Group's remaining 50% share of Southgate Complex at 3 Southgate Avenue, Melbourne. The carrying value of $286.3 million represents the cash price equivalent at 31 December 2017 of the deferred gross proceeds of $289.0 million.

Disposals

On 7 July 2017, settlement occurred on the sale of 30-68 Tarras Road, Altona North for gross proceeds of $13.1 million.

Capital management and other investments

In this section

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

- Debt: *Interest bearing liabilities* in note 8 and *Contingent liabilities* in note 9;
- Equity: *Contributed equity* in note 11.

Note 9 Interest bearing liabilities

	Note	31 Dec 2017 $m	30 Jun 2017 $m
Current			
Unsecured			
Commercial paper	(d)	**100.0**	-
Medium term notes	(e)	**205.2**	-
Total unsecured		**305.2**	-
Total current liabilities - interest bearing liabilities		**305.2**	-
Non-current			
Unsecured			
US senior notes	(a), (b)	**2,034.8**	1,427.5
Bank loans	(c)	**814.0**	556.0
Commercial paper	(d)	**-**	100.0
Medium term notes	(e)	**480.6**	624.7
Total unsecured		**3,329.4**	2,708.2
Deferred borrowing costs		**(12.3)**	(10.4)
Total non-current liabilities - interest bearing liabilities		**3,317.1**	2,697.8

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	**320.1**	**320.1**
US Senior notes (USPP)[1]	(b)	US$	Unsecured	Jul-23 to Nov -32	**1,455.1**	**1,455.1**
US Senior notes (USPP)	(b)	A$	Unsecured	Jun-28 to Nov-32	**250.0**	**250.0**
Medium term notes	(e)	A$	Unsecured	Sep-18 to May-27	**685.8**	**685.8**
Commercial paper	(d)	A$	Unsecured	Sep-18	**100.0**	**100.0**
Multi-option revolving credit facilities	(c)	Multi Currency	Unsecured	Jul-18 to Jun-24	**814.0**	**1,575.0**
Total					**3,625.0**	**4,386.0**
Bank guarantee in place					33.5	
Unused at balance date					727.5	

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.

Note 9 Interest bearing liabilities (continued)

a) US senior notes (144A)

This includes a total of US$250.0 million (A$320.5 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$1,135.0 million and A$250.0 million (A$1,705.1 million) of US senior notes with a weighted average maturity of June 2028. US$1,135.0 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 19 facilities maturing between July 2018 and June 2024 with a weighted average maturity of February 2021. A$33.5 million is utilised as bank guarantees for AFSL requirements and other business requirements including developments.

d) Commercial paper

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

e) Medium term notes

This includes a total of A$680.0 million of Medium Term Notes with a weighted average maturity of April 2023. The remaining A$5.8 million is the net premium on the issue of these instruments.

Note 10 Contingencies

DDF, together with DIT, DOT and DXO, is a guarantor of A$4,386.0 million of debt facilities. 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 constitute an additional liability to those already existing in interest bearing liabilities on the Consolidated 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 11 Contributed equity

Number of securities on issue

	For the 6 months to 31 Dec 2017	For the 12 months to 30 Jun 2017
	No. of securities	No. of securities
Opening balance at the beginning of the period	**1,016,967,300**	967,947,692
Issue of additional equity	**437,242**	49,019,608
Closing balance at the end of the period	**1,017,404,542**	1,016,967,300

Note 12 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 $3.9 million (June 2017: $4.1 million)) are measured at cost and amortised using the straight-line method over their estimated remaining useful lives of 15 years. Management rights that are deemed to have an indefinite life are held at a value of $286.0 million (June 2017: $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.

	31 Dec 2017 $m	30 Jun 2017 $m
Management rights		
Opening balance at the beginning of the period	**290.1**	290.6
Amortisation charge	**(0.1)**	(0.5)
Closing balance at the end of the period	**290.0**	290.1
Cost	**294.4**	294.4
Accumulated amortisation	**(4.4)**	(4.3)
Total management rights	**290.0**	290.1
Goodwill		
Opening balance at the beginning of the period	**1.2**	1.3
Impairment	**(0.1)**	(0.1)
Closing balance at the end of the period	**1.1**	1.2
Cost	**3.0**	3.0
Accumulated impairment	**(1.9)**	(1.8)
Total goodwill	**1.1**	1.2
Software		
Opening balance at the beginning of the period	**18.2**	15.2
Additions	**2.7**	7.3
Amortisation charge	**(2.7)**	(4.3)
Closing balance at the end of the period	**18.2**	18.2
Cost	**29.2**	36.8
Accumulated amortisation	**(11.0)**	(18.6)
Cost - Fully amortised assets written off	**-**	(10.2)
Accumulated amortisation - Fully amortised assets written off	**-**	10.2
Total software	**18.2**	18.2
Total non-current intangible assets	**309.3**	309.5

As at 31 December 2017, management had not identified any events or circumstances that would indicate an impairment of the carrying amount of management rights associated with indefinite life trusts.

Note 13 Fair value of financial instruments

As at 31 December 2017 and 30 June 2017, the carrying amounts of financial assets and liabilities are held at fair value excluding interesting bearing liabilities which have a carrying amount of $3,622.3 million (June 2017: $2,708.2 million) and a fair value of $3,725.3 million (June 2017: $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 no based on observable data.

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

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 14 Subsequent events

Since the end of the period, 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

In the Directors' opinion:

a) The Financial statements and notes set out on pages 11 to 29 are in accordance with the *Corporations Act 2001,* including:

   (i) complying with Australian Accounting Standards, the *Corporations Act 2001* and other mandatory professional reporting requirements; and

   (ii) giving a true and fair view of the Group's financial position as at 31 December 2017 and of its performance for the half year ended on that date; and

(b) there are reasonable grounds to believe that the Group will be able to pay their debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Directors.

W Richard Sheppard

Chair

13 February 2018

Independent auditor's review report to the securityholders of Dexus Diversified Trust

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Dexus Diversified Trust (the Trust), which comprises the consolidated statement of financial position as at 31 December 2017, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, selected explanatory notes and the directors declaration of Dexus Funds Management Limited (the Responsible Entity) in respect of the Trust and its consolidated entities (the consolidated entity). The consolidated entity comprises the Trust and the entities it controlled during the half-year.

Directors' responsibility for the half-year financial report

The directors of the Responsible Entity (the directors) are responsible for the preparation of the half-year 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 half-year financial report that is free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the consolidated entity's financial position as at 31 December 2017 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Trust, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of the Trust is not in accordance with the *Corporations Act 2001* including:

a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2017 and of its performance for the half-year ended on that date; and

b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers

Matthew Lunn
Partner

Sydney
13 February 2018

Dexus Industrial Trust
Interim Report
31 December 2017

ARSN 090 879 137

Contents

Directors' Report

The Directors of Dexus Funds Management Limited (DXFM) as Responsible Entity of Dexus Industrial Trust (DIT or the Trust) present their Directors' Report together with the consolidated Financial Statements for the half year ended 31 December 2017. The consolidated Financial Statements represents DIT and its consolidated entities.

The Trust together with Dexus Diversified Trust (DDF), Dexus Operations Trust (DXO) and Dexus Office Trust (DOT) form the Dexus stapled security (DXS or the Group).

Directors

Directors

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

Directors	Appointed	Resigned
W Richard Sheppard, BEc (Hons), FAICD	1 January 2012	
Elizabeth A Alexander, AM, BComm, FCA, FAICD, FCPA	1 January 2005	24 October 2017
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	
The Hon. Nicola Roxon, BA/LLB (Hons), GAICD	1 September 2017	
Darren J Steinberg, BEc, FRICS, FAPI, FAICD	1 March 2012	
Peter B St George, CA(SA), MBA	29 April 2009	

Operating and financial review

The results for the half year ended 31 December 2017 were:

- profit attributable to unitholders was $46.9 million (December 2016: $40.7 million);
- total assets were $962.3 million (June 2017: $1,113.1 million); and
- net assets were $909.6 million (June 2017: $1,067.2 million).

A review of the results, financial position and operations of the Group, which the Trust forms part thereof, is set out in the Directors' Report of the Dexus Interim Report.

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 3 and forms part of this Directors' Report.

Rounding of amounts and currency

As the Trust is a registered scheme 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 thousand dollars, unless otherwise indicated. The Trust 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 13 February 2018.

W Richard Sheppard
Chair
13 February 2018

Darren J Steinberg
Chief Executive Officer
13 February 2018

Auditor's Independence Declaration

As lead auditor for the review of Dexus Industrial Trust (the Trust) for the half-year ended 31 December 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 review; and

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

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

Matthew Lunn
Partner
PricewaterhouseCoopers

Sydney
13 February 2018

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T: +61 2 8266 0000, F: +61 2 8266 9999, www.pwc.com.au

Consolidated Statement of Comprehensive Income

For the half year ended 31 December 2017

	Note	31 Dec 2017 $'000	31 Dec 2016 $'000
Revenue from ordinary activities			
Property revenue		**26,010**	28,934
Interest revenue		**7,867**	4,730
Total revenue from ordinary activities		**33,877**	33,664
Net fair value gain of investment properties		**20,334**	14,713
Net fair value gain of derivatives		**-**	1,207
Total income		**54,211**	49,584
Expenses			
Property expenses		**(5,298)**	(5,818)
Management fee expense		**(1,044)**	(1,018)
Finance costs	2	**(697)**	(235)
Net foreign exchange loss		**-**	(1,537)
Management operations, corporate and administration expenses		**(277)**	(270)
Total expenses		**(7,316)**	(8,878)
Profit/(loss) before tax		**46,895**	40,706
Profit/(loss) for the period		**46,895**	40,706
Other comprehensive income/(loss):			
Other comprehensive income/(loss)		**-**	-
Total comprehensive income/(loss) for the period		**46,895**	40,706
		Cents	Cents
Earnings per unit on profit/(loss) attributable to unitholders of the parent entity			
Basic earnings per unit		**4.61**	4.21
Diluted earnings per unit		**4.61**	4.21

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

Consolidated Statement of Financial Position

As at 31 December 2017

	Note	31 Dec 2017 $'000	30 Jun 2017 $'000
Current assets			
Cash and cash equivalents		**1,311**	1,246
Receivables		**2,160**	2,064
Other current assets		**2,383**	1,085
Total current assets		**5,854**	4,395
Non-current assets			
Investment properties	3	**712,124**	734,211
Loans with related parties		**244,007**	374,016
Derivative financial instruments		**334**	434
Other		**16**	-
Total non-current assets		**956,481**	1,108,661
Total assets		**962,335**	1,113,056
Current liabilities			
Payables		**7,936**	6,059
Provisions		**29,244**	26,237
Derivative financial instruments		**960**	358
Total current liabilities		**38,140**	32,654
Non-current liabilities			
Derivative financial instruments		**11,990**	13,165
Other non-current liabilities		**2**	2
Total non-current liabilities		**11,992**	13,167
Total liabilities		**50,132**	45,821
Net assets		**912,203**	1,067,235
Equity			
Contributed equity		**1,139,802**	1,314,430
Retained profits/(accumulated losses)		**(227,599)**	(247,195)
Total equity		**912,203**	1,067,235

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

Consolidated Statement of Changes in Equity

For the half year ended 31 December 2017

	Contributed equity $'000	Retained profits/ (losses) $'000	Reserves $'000	Total equity $'000
Opening balance as at 1 July 2016	1,255,798	(308,625)	-	947,173
Profit/(loss) for the period	-	40,706	-	40,706
Other comprehensive income/(loss) for the period	-	-	-	-
Total comprehensive income for the period	-	40,706	-	40,706
Transactions with owners in their capacity as unitholders:				
Distributions paid or provided for	-	(22,351)	-	(22,351)
Total transactions with owners in their capacity as owners	-	(22,351)	-	(22,351)
Closing balance as at 31 December 2016	1,255,798	(290,270)	-	965,528
Opening balance as at 1 July 2017	**1,314,430**	**(247,195)**	**-**	**1,067,235**
Profit/(loss) for the period	**-**	**46,895**	**-**	**46,895**
Other comprehensive income/(loss) for the period	**-**	**-**	**-**	**-**
Total comprehensive income for the period	**-**	**46,895**	**-**	**46,895**
Transactions with owners in their capacity as unitholders:				
Issue of additional equity, net of transaction costs	**467**	**-**	**-**	**467**
Capital return[1]	**(175,095)**	**-**	**-**	**(175,095)**
Distributions paid or provided for	**-**	**(27,299)**	**-**	**(27,299)**
Total transactions with owners in their capacity as owners	**(174,628)**	**(27,299)**	**-**	**(201,927)**
Closing balance as at 31 December 2017	**1,139,802**	**(227,599)**	**-**	**912,203**

1 DXFM as Responsible Entity of DIT made a capital return of 17.21 cents per unit to the existing unitholders as part of the capital reallocation process that was approved at the Annual General Meeting on 19 September 2017

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

Consolidated Statement of Cash Flows

For the half year ended 31 December 2017

	31 Dec 2017 $'000	31 Dec 2016 $'000
Cash flows from operating activities		
Receipts in the course of operations (inclusive of GST)	**32,365**	33,771
Payments in the course of operations (inclusive of GST)	**(8,427)**	(9,750)
Interest received	**5**	8
Interest received/(paid) on derivatives	**(910)**	-
Finance costs paid to financial institutions	**-**	(1,143)
Net cash inflow/(outflow) from operating activities	**23,033**	22,886
Cash flows from investing activities		
Proceeds from sale of investment properties	**45,200**	-
Payments for capital expenditure on investment properties	**(5,169)**	(2,575)
Net cash inflow/(outflow) from investing activities	**40,031**	(2,575)
Cash flows from financing activities		
Borrowings provided to related parties	**(82,836)**	(56,846)
Borrowings received from related parties	**45,607**	61,648
Proceeds from issue of additional equity, net of transactions costs	**467**	-
Distributions paid to unit holders	**(26,237)**	(25,621)
Net cash inflow/(outflow) from financing activities	**(62,999)**	(20,819)
Net increase/(decrease) in cash and cash equivalents	**65**	(508)
Cash and cash equivalents at the beginning of the period	**1,246**	2,441
Effects of exchange rate changes on cash and cash equivalents	**-**	(19)
Cash and cash equivalents at the end of the period	**1,311**	1,914

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 Trust's Financial Statements are prepared.

Basis of preparation

These general purpose financial statements have been prepared;

- for a for-profit entity,
- in accordance with the requirements of the Constitution of the entities within the Group, the *Corporations Act 2001*, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board and International Financial Reporting Standards (IFRS),
- in Australian dollars with all values rounded in the nearest thousand 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, 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 annual Financial Statements for the year ended 30 June 2017 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. Each entity forming part of DXS continues as a separate legal entity in its own right under the *Corporations Act 2001* and is therefore required to comply with reporting and disclosure requirements under the *Corporations Act 2001* and Australian Accounting Standards.

These Financial Statements do not include notes of the type normally included in an annual financial report. Accordingly these Financial Statements should be read in conjunction with the annual Financial Statements for the year ended 30 June 2017 and any public pronouncements made by DXS during the half year in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

Working capital deficiency

As at 31 December 2017, the Trust had a net current asset deficiency of $34.9 million (June 2017: $28.3 million). This is primarily due to the provision of distribution for $31.9 million.

The capital risk management is not managed at the Trust level, but rather holistically as part of the Group. This is done through a centralised treasury function which ensures that entities within the Group (including DIT) will be able to continue as a going concern. The Group has in place both external and internal funding arrangements to support the cash flow requirements of the Trust, including undrawn facilities of $727.5 million (refer to note 9 Interest bearing liabilities in the Dexus Interim Report).

In the event that the entity requires additional funding to meet current liabilities in the 12 months succeeding the date of this financial report, the Group will make adequate funds available to the Trust.

In determining the basis of preparation of the financial report, the directors of the responsible entity of the Trust, have taken into consideration the unutilised facilities available to the Group. As such the Trust is a going concern and the Financial Statements have been prepared on that basis.

Critical accounting estimates

The preparation of Financial Statements requires the use of certain critical accounting estimates and management to exercise its judgement in the process of applying the Group's accounting policies. Other than the estimates and assumptions used for the measurement of items measured at fair value such as certain financial instruments and investment properties no key assumptions concerning the future or other estimation of uncertainty at the end of each reporting period could have a significant risk of causing material adjustments to the Financial Statements.

Notes to the Financial Statements

The notes are organised into the following sections:

Trust performance	Property portfolio assets	Capital management and other investments	Other disclosures
1. Operating segments	3. Investment properties	4. Contingencies	7. Subsequent events
2. Finance costs		5. Contributed equity	
		6. Fair value of financial instruments	

Trust Performance

In this section

This section explains the results and performance of the Trust.

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 Trust, including: results by operating segment, and finance costs.

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.

The operating segments within DXS are reviewed on a consolidated basis and are not monitored at an individual trust level.

Disclosures concerning DXS's operating segments are presented in the Dexus Interim Report.

Note 2 Finance costs

	31 Dec 2017	31 Dec 2016
	$'000	$'000
Interest paid/payable	**-**	69
Net fair value (gain)/loss of interest rate swaps	**437**	-
Other finance costs	**260**	166
Total finance costs	**697**	235

Property Portfolio Assets

In this section

Property portfolio assets are used to generate the Trusts performance and are considered to be the most relevant to the operations of the Trust. The assets are detailed in the following notes:

- *Investment properties*: relates to investment properties, both stabilised and under development.

Note 3 Investment properties

	For the 6 Months to 31 Dec 2017 $'000	For the 12 Months to 30 June 2017 $'000
Opening balance at the beginning of the period	**734,211**	674,321
Additions	**3,900**	8,089
Lease incentives	**4,154**	4,811
Amortisation of lease incentives	**(5,210)**	(6,575)
Rent straightlining	**(65)**	(121)
Disposals	**(45,200)**	-
Net fair value gain/(loss) of investment properties	**20,334**	53,686
Closing balance at the end of the period	**712,124**	734,211

Capital management and other investments

In this section

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 unit holders (equity) in order to finance the Trust's activities both now and in the future. This capital structure is detailed in the following notes:

- Debt: *Contingencies* in note 4;
- Equity: *Contributed equity* in note 5.

Note 4 Contingencies

The Trust, together with DXO and DOT and DDF, is a guarantor of A$4,386.0 million of interest bearing liabilities (refer to note 9 of the Dexus Interim Report). 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 above guarantees are issued in respect of the Trust and constitute an additional liability to those already existing in interest bearing liabilities on the Consolidated Statement of Financial Position.

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

Note 5 Contributed equity

Number of units on issue

	For the 6 months to 31 Dec 2017 No. of units	For the 12 months to 30 Jun 2017 No. of units
Opening balance at the beginning of the period	**1,016,967,300**	967,947,692
Issue of additional equity	**437,242**	49,019,608
Closing balance at the end of the period	**1,017,404,542**	1,016,967,300

Note 6 Fair value of financial instruments

As at 31 December 2017 and 30 June 2017, the carrying amount of financial assets and liabilities are held at fair value. The Trust uses the following methods in the determination and disclosure of the fair value of financial instruments:

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

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

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

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

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 Trust.

Note 7 Subsequent events

Since the end of the period, 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 Trust, the results of those operations, or state of the Trust's affairs in future financial periods.

Directors' Declaration

In the Directors' opinion:

a) The Financial statements and notes set out on pages 4 to 13 are in accordance with the *Corporations Act 2001,* including:

   (i) complying with Australian Accounting Standards, the *Corporations Act 2001* and other mandatory professional reporting requirements; and

   (ii) giving a true and fair view of the Trust's financial position as at 31 December 2017 and of its performance for the half year ended on that date; and

(b) there are reasonable grounds to believe that the Trust will be able to pay their debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Directors.

W Richard Sheppard

Chair

13 February 2018

Independent auditor's review report to the securityholders of Dexus Industrial Trust

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Dexus Industrial Trust (the Trust), which comprises the consolidated statement of financial position as at 31 December 2017, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, selected explanatory notes and the directors declaration of Dexus Funds Management Limited (the Responsible Entity) in respect of the Trust and its consolidated entities (the consolidated entity). The consolidated entity comprises the Trust and the entities it controlled during the half-year.

Directors of the Responsible Entity's responsibility for the half-year financial report

The directors of the Responsible Entity (the directors) are responsible for the preparation of the half-year 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 half-year financial report that is free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the consolidated entity's financial position as at 31 December 2017 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Trust, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of the Trust is not in accordance with the *Corporations Act 2001* including:

a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2017 and of its performance for the half-year ended on that date; and

b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers

Matthew Lunn
Partner

Sydney
13 February 2018

Dexus Office Trust
Interim Report
31 December 2017

ARSN 090 768 531

Contents

Directors' Report

The Directors of Dexus Funds Management Limited (DXFM) as Responsible Entity of Dexus Office Trust (DOT or the Trust) present their Directors' Report together with the consolidated Financial Statements for the period ended 31 December 2017. The consolidated Financial Statements represents Dexus Office Trust and its consolidated entities.

The Trust together with Dexus Diversified Trust (DDF), Dexus Industrial Trust (DIT) and Dexus Operations Trust (DXO) form the Dexus (DXS or the Group) stapled security.

Directors

Directors

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

Directors	Appointed	Resigned
W Richard Sheppard, BEc (Hons), FAICD	1 January 2012	
Elizabeth A Alexander, AM, BComm, FCA, FAICD, FCPA	1 January 2005	24 October 2017
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	
The Hon. Nicola L Roxon, BA/LLB (Hons), GAICD	1 September 2017	
Darren J Steinberg, BEc, FRICS, FAPI, FAICD	1 March 2012	
Peter B St George, CA(SA), MBA	29 April 2009	

Operating and financial review

The results for the period ended 31 December 2017 were:

- profit attributable to unitholders was $613.8 million (December 2016: $555.3 million);
- total assets were $9,048.1 million (June 2017: $7,911.7 million); and
- net assets were $5,681.5 million (June 2017: $4,851.0 million).

A review of the results, financial position and operations of the Group, of which the Trust forms part thereof, is set out in the Operating and Financial Review of the Dexus Financial Report and forms part of this Directors' Report.

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 3 and forms part of this Directors' Report.

Rounding of amounts and currency

As the Trust is a registered scheme 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 Trust 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 13 February 2018.

W Richard Sheppard
Chair
13 February 2018

Darren J Steinberg
Chief Executive Officer
13 February 2018

Auditor's Independence Declaration

As lead auditor for the review of Dexus Office Trust (the Trust) for the half-year ended 31 December 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 review; and

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

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

Matthew Lunn
Partner
PricewaterhouseCoopers

Sydney
13 February 2018

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

Consolidated Statement of Comprehensive Income

For the period ended 31 December 2017

	Note	31 Dec 2017 $m	31 Dec 2016 $m
Revenue from ordinary activities			
Property revenue		**144.8**	150.0
Interest revenue		**0.2**	0.1
Total revenue from ordinary activities		**145.0**	150.1
Net fair value gain of investment properties		**327.9**	226.8
Share of net profit of investments accounted for using the equity method		**259.7**	260.1
Net gain on sale of investment properties		**-**	24.2
Total income		**732.6**	661.2
Expenses			
Property expenses		**(38.0)**	(39.3)
Management fee expense		**(7.1)**	(6.1)
Finance costs	2	**(72.9)**	(60.3)
Management operations, corporate and administration expenses		**(0.8)**	(0.2)
Total expenses		**(118.8)**	(105.9)
Profit/(loss) before tax		**613.8**	555.3
Profit/(loss) for the period		**613.8**	555.3
Other comprehensive income/(loss):			
Other comprehensive income/(loss)		**-**	-
Total comprehensive income/(loss) for the period		**613.8**	555.3

		Cents	Cents
Earnings per unit on profit/(loss) attributable to unitholders of the parent entity			
Basic earnings per unit		**60.34**	57.37
Diluted earnings per unit		**60.34**	57.37

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

Consolidated Statement of Financial Position

As at 31 December 2017

	Note	31 Dec 2017 $m	30 Jun 2017 $m
Current assets			
Cash and cash equivalents		**13.5**	5.8
Receivables		**44.7**	36.9
Non-current assets classified as held for sale	5	**286.3**	283.7
Other		**11.3**	3.4
Total current assets		**355.8**	329.8
Non-current assets			
Investment properties	3	**4,583.4**	3,883.2
Investments accounted for using the equity method	4	**4,102.9**	3,690.5
Derivative financial instruments	8	**5.4**	6.3
Other		**0.6**	1.9
Total non-current assets		**8,692.3**	7,581.9
Total assets		**9,048.1**	7,911.7
Current liabilities			
Payables		**68.0**	68.3
Provisions		**143.8**	119.6
Derivative financial instruments	8	**4.0**	5.3
Loans with related parties		**-**	149.0
Total current liabilities		**215.8**	342.2
Non-current liabilities			
Loans with related parties		**3,133.7**	2,696.6
Derivative financial instruments	8	**17.0**	21.8
Other		**0.1**	0.1
Total non-current liabilities		**3,150.8**	2,718.5
Total liabilities		**3,366.6**	3,060.7
Net assets		**5,681.5**	4,851.0
Equity			
Contributed equity	7	**3,052.0**	2,699.7
Retained profits		**2,629.5**	2,151.3
Total equity		**5,681.5**	4,851.0

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

Consolidated Statement of Changes in Equity

For the period ended 31 December 2017

	Contributed equity $m	Retained profits/ (losses) $m	Total equity $m
Opening balance as at 1 July 2016	2,432.4	1,534.3	3,966.7
Profit/(loss) for the period	-	555.3	555.3
Other comprehensive income/(loss) for the period	-	-	-
Total comprehensive income for the period	-	555.3	555.3
Transactions with owners in their capacity as unitholders:			
Distributions paid or provided for	-	(120.0)	(120.0)
Total transactions with owners in their capacity as owners	-	(120.0)	(120.0)
Closing balance as at 31 December 2016	2,432.4	1,969.6	4,402.0
Opening balance as at 1 July 2017	**2,699.7**	**2,151.3**	**4,851.0**
Profit/(loss) for the period	**-**	**613.8**	**613.8**
Other comprehensive income/(loss) for the period	**-**	**-**	**-**
Total comprehensive income for the period	**-**	**613.8**	**613.8**
Transactions with owners in their capacity as unitholders:			
Issue of additional equity, net of transaction costs	**2.1**	**-**	**2.1**
Capital contribution[1]	**350.2**	**-**	**350.2**
Distributions paid or provided for	**-**	**(135.6)**	**(135.6)**
Total transactions with owners in their capacity as owners	**352.3**	**(135.6)**	**216.7**
Closing balance as at 31 December 2017	**3,052.0**	**2,629.5**	**5,681.5**

1 DXFM as Responsible Entity of DOT made a capital contribution of 34.42 cents per unit to the existing unitholders as part of the reallocation process that was approved at the Annual General Meeting 19 September 2017.

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

Consolidated Statement of Cash Flows

For the period ended 31 December 2017

	31 Dec 2017 $m	31 Dec 2016 $m
Cash flows from operating activities		
Receipts in the course of operations (inclusive of GST)	**165.6**	173.0
Payments in the course of operations (inclusive of GST)	**(56.7)**	(51.4)
Interest received	**0.2**	0.1
Finance costs paid to financial institutions	**(7.2)**	(61.6)
Distributions received from investments accounted for using the equity method	**105.3**	120.7
Net cash inflow/(outflow) from operating activities	**207.2**	180.8
Cash flows from investing activities		
Proceeds from sale of investment properties	**-**	422.7
Payments for capital expenditure on investment properties	**(56.1)**	(49.3)
Payments for investments accounted for using the equity method	**(270.0)**	(17.6)
Payments for acquisition of investment properties	**(323.7)**	(18.1)
Net cash inflow/(outflow) from investing activities	**(649.8)**	337.7
Cash flows from financing activities		
Borrowings provided to related parties	**(483.6)**	(1,078.8)
Borrowings received from related parties	**1,051.4**	655.6
Proceeds from issue of additional equity, net of transaction costs	**2.1**	-
Distributions paid to security holders	**(119.6)**	(91.0)
Net cash inflow/(outflow) from financing activities	**450.3**	(514.2)
Net increase/(decrease) in cash and cash equivalents	**7.7**	4.3
Cash and cash equivalents at the beginning of the period	**5.8**	7.2
Cash and cash equivalents at the end of the period	**13.5**	11.5

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 Trust's Financial Statements are prepared.

Basis of preparation

These general purpose Financial Statements have been prepared;

- for a for-profit entity,
- in accordance with the requirements of the Constitution of the entities within the Group, the *Corporations Act 2001*, Australian Accounting Standards and other authoritative pronouncements 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 annual Financial Statements for the year ended 30 June 2017 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 period 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. Each entity forming part of DXS continues as a separate legal entity in its own right under the *Corporations Act 2001* and is therefore required to comply with reporting and disclosure requirements under the *Corporations Act 2001* and Australian Accounting Standards.

Critical accounting estimates

The preparation of Financial Statements requires the use of certain critical accounting estimates and management to exercise its judgment in the process of applying the Trust's accounting policies. Other than the estimates and assumptions used for the measurement of items measured at fair value such as certain financial instruments and investment properties, no key assumptions concerning the future or other estimation of uncertainty at the end of each reporting period could have a significant risk of causing material adjustments to the Financial Statements.

Notes to the Financial Statements

The notes are organised into the following sections:

Trust performance	Property portfolio assets	Capital management and other investments	Other disclosures
1. Operating segments	3. Investment properties	6. Contingencies	9. Subsequent events
2. Finance costs	4. Investments accounted for using the equity method	7. Contributed equity	
	5. Non-current assets classified as held for sale	8. Fair value of financial instruments	

Trust Performance

In this section

This section explains the results and performance of the Trust.

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 Trust, including: results by operating segment, and finance costs.

Note 1 Operating segments

Description of segments

The Trust's operating segments have been identified based on the sectors analysed within the management reports reviewed in order to monitor performance across the Trust and to appropriately allocate resources.

The operating segments within DXS are reviewed on a consolidated basis and are not monitored at an individual trust level.

Disclosures concerning DXS's operating segments are presented in the Dexus Financial Report

Note 2 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 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.

	31 Dec 2017	31 Dec 2016
	$m	$m
Interest paid to related parties	**71.4**	68.7
Net fair value (gain)/loss of interest rate swaps	**4.1**	(6.6)
Amount capitalised	**(2.6)**	(1.8)
Total finance costs	**72.9**	60.3

The average capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation is 5.75%

Property Portfolio Assets

In this section

Property portfolio assets are used to generate the Trust's performance and are considered to be the most relevant to the operations of the Trust. 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 Trust's joint ventures comprise interests in property portfolio assets held through investments in trusts.
- *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.

Note 3 Investment properties

	For the 6 months to 31 Dec 2017 $m	For the 12 months to 30 Jun 2017 $m
Opening balance at the beginning of the period	**3,883.2**	3,482.8
Additions	**42.9**	61.9
Acquisitions	**330.3**	18.2
Lease incentives	**18.5**	48.1
Amortisation of lease incentives	**(21.6)**	(39.0)
Rent straightlining	**4.9**	4.7
Net fair value gain/(loss) of investment properties	**325.2**	306.5
Closing balance at the end of the period	**4,583.4**	3,883.2

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

Note 4 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			
	31 Dec 2017	30 Jun 2017	**31 Dec 2017**	30 Jun 2017
Name of entity	**%**	%	**$m**	$m
Bent Street Trust	**33.3**	33.3	**320.8**	319.1
Dexus Creek Street Trust	**50.0**	50.0	**151.8**	143.9
Dexus Martin Place Trust[1]	**50.0**	50.0	**364.5**	166.3
Grosvenor Place Holding Trust[2,3]	**50.0**	50.0	**408.0**	385.5
Site 6 Homebush Bay Trust[2]	**50.0**	50.0	**33.7**	33.3
Site 7 Homebush Bay Trust[2]	**50.0**	50.0	**44.9**	44.9
Dexus 480 Q Holding Trust	**50.0**	50.0	**373.0**	366.7
Dexus Kings Square Trust	**50.0**	50.0	**214.3**	214.0
Dexus Office Trust Australia[4]	**50.0**	50.0	**2,158.4**	1,985.0
Dexus Eagle Street Pier Trust	**50.0**	50.0	**33.5**	31.8
Total assets - investments accounted for using the equity method			**4,102.9**	3,690.5

1 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 Trust's 25% interest. The Trust's loan with related parties was subsequently repaid upon Dexus Martin Place Trust's settlement of MLC Centre.

2 These entities are 50% owned by Dexus Office Trust Australia. The Trust'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 Trust's economic interest in this property is therefore 37.5%.

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

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

Note 5 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 31 December 2017, the balance relates to the Trust's remaining 50% share of Southgate Complex at 3 Southgate Avenue, Melbourne. The balance represents the cash price equivalent at 31 December 2017 of the deferred gross proceeds of $289.0 million

Capital management and other investments

In this section

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 unit holders (equity) in order to finance the Trust's activities both now and in the future. This capital structure is detailed in the following notes:

- Debt: *Contingencies* in note 6;
- Equity: *Contributed equity* in note 7.

Note 6 Contingencies

The Trust, together with DDF, DIT and DXO, is a guarantor of A$4,386.0 million of interest bearing liabilities (refer note 10 of the Dexus Interim Report). 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 above guarantees are issued in respect of the Trust and constitute an additional liability to those already existing in interest bearing liabilities on the Consolidated Statement of Financial Position.

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

Note 7 Contributed equity

Number of units on issue

	For the 6 months to 31 Dec 2017 No. of units	For the 12 months to 30 Jun 2017 No. of units
Opening balance at the beginning of the period	**1,016,967,300**	967,947,692
Issue of additional equity	**437,242**	49,019,608
Closing balance at the end of the period	**1,017,404,542**	1,016,967,300

Note 8 Fair value of financial instruments

As at 31 December 2017 and 30 June 2017, the fair value of financial assets and liabilities held at fair value were determined using the following methods:

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

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 Trust.

Note 9 Subsequent events

Since the end of the period, 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 Trust, the results of those operations, or state of the Trust’s affairs in future financial periods.

Directors' Declaration

In the Directors' opinion:

a) The Directors of Dexus Funds Management Limited as Responsible Entity of Dexus Office Trust (the Trust) declare that the Financial Statements and notes set out on pages 4 to 14:

   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 Trust's financial position as at 31 December 2017 and of their performance, as represented by the results of their operations and their cash flows, for the period ended on that date.

(b) there are reasonable grounds to believe that the Trust and its consolidated entities will be able to pay their debts as and when they become due and payable; and

This declaration is made in accordance with a resolution of the Directors.

W Richard Sheppard

Chair

13 February 2018

Independent auditor's review report to the securityholders of Dexus Office Trust

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Dexus Office Trust (the Trust), which comprises the consolidated statement of financial position as at 31 December 2017, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, selected explanatory notes and the directors declaration of Dexus Funds Management Limited (the Responsible Entity) in respect of the Trust and its consolidated entities (the consolidated entity). The consolidated entity comprises the Trust and the entities it controlled during the half-year.

Directors of the Responsible Entity's responsibility for the half-year financial report

The directors of the Responsible Entity (the directors) are responsible for the preparation of the half-year 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 half-year financial report that is free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the consolidated entity's financial position as at 31 December 2017 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Trust, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of the Trust is not in accordance with the *Corporations Act 2001* including:

a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2017 and of its performance for the half-year ended on that date; and

b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

PricewaterhouseCoopers

Matthew Lunn	Sydney
Partner	13 February 2018

Dexus Operations Trust
Interim Report
31 December 2017

ARSN: 110 521 223

Contents

Directors' Report

The Directors of Dexus Funds Management Limited (DXFM) as Responsible Entity of Dexus Operations Trust (DXO or the Trust) present their Directors' Report together with the consolidated Financial Statements for the half year ended 31 December 2017. The consolidated Financial Statements represents DXO and its consolidated entities.

The Trust together with Dexus Diversified Trust (DDF), Dexus Industrial Trust (DIT) and Dexus Office Trust (DOT) form the Dexus (DXS or the Group) stapled security.

Directors

Directors

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

Directors	Appointed	Resigned
W Richard Sheppard, BEc (Hons), FAICD	1 January 2012	
Elizabeth A Alexander, AM, BComm, FCA, FAICD, FCPA	1 January 2005	24 October 2017
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	
The Hon. Nicola Roxon, BA/LLB (Hons), GAICD	1 September 2017	
Darren J Steinberg, BEc, FRICS, FAPI, FAICD	1 March 2012	
Peter B St George, CA(SA), MBA	29 April 2009	

Review of results and operations

The results for the half year ended 31 December 2017 were:

- net profit for the half year was $47.7 million (December 2016: $23.6 million);
- total assets were $975.4 million (June 2017: $772.2 million); and
- net assets were $231.1 million (June 2017: $359.4 million).

A review of the results, financial position and operations of the Group, of which the Trust forms part thereof, is set out in the Directors' Report of the Dexus Interim Report.

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 3 and forms part of this Directors' Report.

Rounding of amounts and currency

As the Trust is a registered scheme 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 thousand dollars, unless otherwise indicated. The Trust 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 13 February 2018.

W Richard Sheppard
Chair
13 February 2018

Darren J Steinberg
Chief Executive Officer
13 February 2018

Auditor’s Independence Declaration

As lead auditor for the review of Dexus Operations Trust (the Trust) for the half-year ended 31 December 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 review; and

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

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

Matthew Lunn
Partner
PricewaterhouseCoopers

Sydney
13 February 2018

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Consolidated Statement of Comprehensive Income

For the half year ended 31 December 2017

	Note	31 Dec 2017 $'000	31 Dec 2016 $'000
Revenue from ordinary activities			
Property revenue		**17,657**	13,302
Development revenue		**90,428**	50,000
Distribution revenue		**346**	-
Interest revenue		**46**	57
Management fee revenue and other	2	**86,706**	77,969
Total revenue from ordinary activities		**195,183**	141,328
Net fair value gain of investment properties	6	**15,484**	668
Other income		**3**	-
Total income		**210,670**	141,996
Expenses			
Property expenses		**(5,630)**	(4,854)
Development costs		**(69,996)**	(38,147)
Finance costs	3	**(5,490)**	(4,812)
Impairment of inventories		**(599)**	-
Impairment of goodwill		**(49)**	(49)
Transaction costs		**(790)**	-
Management operations, corporate and administration expenses	4	**(68,038)**	(62,790)
Total expenses		**(150,592)**	(110,652)
Profit before tax		**60,078**	31,344
Income tax expense	5	**(12,386)**	(7,761)
Profit for the period		**47,692**	23,583
Other comprehensive income/(loss):			
Changes in fair value of available-for-sale financial assets		**(844)**	36
Total comprehensive income for the period		**46,848**	23,619
		Cents	Cents
Earnings per unit on profit attributable to unitholders of the parent entity			
Basic earnings per unit		**4.69**	2.44
Diluted earnings per unit		**4.69**	2.44

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

Consolidated Statement of Financial Position

As at 31 December 2017

	Note	31 Dec 2017 $'000	30 Jun 2017 $'000
Current assets			
Cash and cash equivalents		**3,939**	2,035
Receivables		**128,962**	33,939
Other current assets		**2,075**	3,871
Total current assets		**134,976**	39,845
Non-current assets			
Investment properties	6	**201,871**	179,614
Plant and equipment		**15,733**	16,441
Inventories	7	**297,061**	211,315
Intangible assets	10	**309,253**	309,450
Available for sale financial assets		**14,456**	13,425
Other non-current assets		**2,044**	2,106
Total non-current assets		**840,418**	732,351
Total assets		**975,394**	772,196
Current liabilities			
Payables		**46,078**	38,435
Current tax liabilities		**25,429**	24,777
Provisions		**20,965**	79,885
Other current liabilities		**7**	-
Total current liabilities		**92,479**	143,097
Non-current liabilities			
Loans with related parties		**556,694**	172,105
Deferred tax liabilities		**82,912**	82,912
Provisions		**7,909**	9,656
Other non-current liabilities		**4,338**	5,064
Total non-current liabilities		**651,853**	269,737
Total liabilities		**744,332**	412,834
Net assets		**231,062**	359,362
Equity			
Contributed equity	9	**86,752**	261,664
Reserves		**43,110**	44,190
Retained profits		**101,200**	53,508
Total equity		**231,062**	359,362

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

Consolidated Statement of Changes in Equity

For the half year ended 31 December 2017

	Contributed equity $'000	Retained profits/ (losses) $'000	Reserves $'000	Total equity $'000
Opening balance as at 1 July 2016	237,985	83,699	44,425	366,109
Profit/(loss) for the period	-	23,583	-	23,583
Other comprehensive income/(loss) for the period	-	-	36	36
Total comprehensive income/(loss) for the period	-	23,583	36	23,619
Transactions with owners in their capacity as unitholders:				
Purchase of securities, net of transaction costs	-	-	(202)	(202)
Security-based payments expense	-	-	16	16
Total transactions with owners in their capacity as owners	-	-	(186)	(186)
Closing balance as at 31 December 2016	237,985	107,282	44,275	389,542
Opening balance as at 1 July 2017	**261,664**	**53,508**	**44,190**	**359,362**
Profit/(loss) for the period	**-**	**47,692**	**-**	**47,692**
Other comprehensive income/(loss) for the period	**-**	**-**	**(844)**	**(844)**
Total comprehensive income/(loss) for the period	**-**	**47,692**	**(844)**	**46,848**
Transactions with owners in their capacity as unitholders:				
Issue of additional equity, net of transaction costs	**183**	**-**	**(135)**	**48**
Purchase of securities, net of transaction costs	**-**	**-**	**(278)**	**(278)**
Security-based payments expense	**-**	**-**	**177**	**177**
Capital return[1]	**(175,095)**	**-**	**-**	**(175,095)**
Total transactions with owners in their capacity as owners	**(174,912)**	**-**	**(236)**	**(175,148)**
Closing balance as at 31 December 2017	**86,752**	**101,200**	**43,110**	**231,062**

1. DXFM, as Responsible Entity of DXO, made a capital return of 17.21 cents per unit to the existing unit holders as part of the capital reallocation process that was approved at the Annual General Meeting on 19 September 2017.

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

Consolidated Statement of Cash Flows

For the half year ended 31 December 2017

	31 Dec 2017 $'000	31 Dec 2016 $'000
Cash flows from operating activities		
Receipts in the course of operations (inclusive of GST)	**109,927**	103,040
Payments in the course of operations (inclusive of GST)	**(86,007)**	(76,155)
Interest received	**46**	57
Finance costs paid to financial institutions	**(96)**	(97)
Income and withholding taxes paid	**(11,734)**	(5,601)
Proceeds from sale of property classified as inventory	**812**	50,000
Payments for acquisition of inventory	**(45,200)**	-
Payments for property classified as inventory	**(91,842)**	(27,212)
Net cash inflow/(outflow) from operating activities	**(124,094)**	44,032
Cash flows from investing activities		
Payments for capital expenditure on investment properties	**(15,231)**	(2,146)
Payments for plant and equipment	**(977)**	(2,282)
Payments for other intangible assets	**(2,690)**	(3,265)
Net cash inflow/(outflow) from investing activities	**(18,898)**	(7,693)
Cash flows from financing activities		
Borrowings provided to related parties	**(13,828)**	(61,667)
Proceeds from borrowings	**213,174**	-
Borrowings received from related parties	**2,253**	52,826
Purchase of securities for security-based payments plans	**(7,051)**	(7,369)
Distributions received	**348**	-
Distributions paid to security holders	**(50,000)**	(25,000)
Net cash inflow/(outflow) from financing activities	**144,896**	(41,210)
Net increase/(decrease) in cash and cash equivalents	**1,904**	(4,871)
Cash and cash equivalents at the beginning of the period	**2,035**	6,061
Cash and cash equivalents at the end of the period	**3,939**	1,190

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 Trust's Financial Statements are prepared.

Basis of preparation

These interim Financial Statements have been prepared:

- for a for-profit entity;
- in accordance with the requirements of the Constitutions of the entities within the Trust, 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 thousand 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, security based payments and other financial liabilities which are stated at their 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.

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.

The capital risk management is not managed at the Trust level, but rather holistically as part of the Group. This is done through a centralised treasury function which ensures that entities within the Group (including DXO) will be able to continue as a going concern.

The Group has in place both external and internal funding arrangements to support the cash flow requirements of the Trust, including undrawn facilities of $1,060.5 million [refer to note 9 Interest bearing liabilities in the Dexus Interim Report].

These Financial Statements do not include notes of the type normally included in an annual financial report. Accordingly, these Financial Statements should be read in conjunction with the annual Financial Statements for the year ended 30 June 2017 and any public pronouncements made by the Group during the half year in accordance with the continuous disclosure requirements of the *Corporations Act 2001*. The accounting policies adopted are consistent with those of the previous financial year and corresponding financial reporting period, unless otherwise stated.

Working capital deficiency

In the event that the entity requires additional funding to meet current liabilities in the 12 months succeeding the date of this financial report, the Group will make adequate funds available to the Trust.

In determining the basis of preparation of the financial report, the directors of the responsible entity of the Trust, have taken into consideration the unutilised facilities available to the Group. As such the Trust is a going concern and the Financial Statements have been prepared on that basis.

The Financial Statements are presented in Australian dollars.
As at 31 December 2017, the Trust had no investments in foreign operations.

Critical accounting estimates

The preparation of Financial Statements requires the use of certain critical accounting estimates and management to exercise its judgement in the process of applying the Trust's accounting policies. Other than the estimates and assumptions used for the measurement of items measured at fair value such as certain financial instruments, investment properties and security-based payments, and the assumptions for intangible assets and the net realisable value for inventories, no key assumptions concerning the future or other estimation of uncertainty at the end of each reporting period could have a significant risk of causing material adjustments to the Financial Statements.

Notes to the Financial Statements

The notes are organised into the following sections:

Trust performance	Property portfolio assets	Capital management and other assets	Other disclosures
1. Operating segments	6. Investment properties	8. Contingencies	12. Subsequent events
2. Management fee revenue	7. Inventories	9. Contributed equity	
3. Finance costs		10. Intangible assets	
4. Management operations, corporate and administration expenses		11. Fair value of financial instruments	
5. Income tax			

Trust performance

In this section

This section explains the results and performance of the Trust.

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 Trust, including: operating segments, management fee revenue and finance costs.

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.

The operating segments within DXS are reviewed on a consolidated basis and are not monitored at an individual trust level.

Disclosures concerning DXS's operating segments are presented in the Dexus Interim Report.

Note 2 Management fee revenue

	31 Dec 2017 $'000	31 Dec 2016 $'000
Investment management & responsible entity fees	**45,904**	42,085
Property management fees	**29,357**	24,750
Capital works and development fees	**3,758**	3,505
Wages recovery and other fees	**7,687**	7,629
Total management fee revenue	**86,706**	77,969

Note 3 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 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.

	31 Dec 2017 $'000	31 Dec 2016 $'000
Interest paid to related parties	**7,596**	5,849
Amount capitalised	**(2,202)**	(1,134)
Other finance costs	**96**	97
Total finance costs	**5,490**	4,812

The average capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation is 5.75%**.**

Note 4 Management operations, corporate and administration expenses

	31 Dec 2017 $'000	31 Dec 2016 $'000
Audit, taxation, legal and other professional fees	**1,226**	1,383
Depreciation and amortisation	**4,523**	3,701
Employee benefits expense and other staff expenses	**55,495**	50,674
Administration and other expenses	**6,794**	7,032
Management operations, corporate and administration expenses	**68,038**	62,790

Note 5 Income tax

	31 Dec 2017 $'000	31 Dec 2016 $'000
Profit before income tax	**60,078**	31,344
Profit subject to income tax	**60,078**	31,344
Prima facie tax expense at the Australian tax rate of 30% (31 Dec 2016: 30%)	**(18,023)**	(9,403)
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
(Non-assessable)/non-deductible items	**5,637**	1,642
Income tax expense	**(12,386)**	(7,761)

Property portfolio assets

In this section

This section summarises the property portfolio assets.

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

- *Investment properties*: relates to investment properties, both stabilised and under development.
- *Inventories*: relates to the Trust's ownership of industrial and office assets or land held for repositioning, development and sale.

Note 6 Investment properties

a) Reconciliation

	For the 6 months to 31 Dec 2017 $'000	For the 12 months to 30 Jun 2017 $'000
Opening balance at the beginning of the period	**179,614**	155,456
Additions	**14,426**	8,014
Lease incentives	**1,888**	4,405
Amortisation of lease incentives	**(1,234)**	(2,241)
Rent straightlining	**1,687**	391
Disposals	**-**	(827)
Transfer to inventories	**(9,994)**	-
Net fair value gain/(loss) of investment properties	**15,484**	14,416
Closing balance at the end of the period	**201,871**	179,614

Note 7 Inventories

a) Development properties held for sale

	31 Dec 2017 $'000	30 Jun 2017 $'000
Non-current assets		
Development properties held for resale	**297,061**	211,315
Total non-current assets - inventories	**297,061**	211,315
Total assets - inventories	**297,061**	211,315

b) Reconciliation

	For the 6 months to 31 Dec 2017 $'000	For the 12 months to 30 Jun 2017 $'000
Opening balance at the beginning of the period	**211,315**	276,084
Transfer from investment properties	**9,994**	-
Disposals	**-**	(148,321)
Impairment	**(599)**	-
Acquisitions	**45,200**	-
Additions	**31,151**	83,552
Closing balance at the end of the period	**297,061**	211,315

Capital management and other assets

In this section

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

- Debt: *Contingencies and commitments* in note 6;
- Equity: *Contributed equity* in note 7.

Note 8 Contingencies

DDF, together with DIT, DOT and DXO, is a guarantor of A$4,386.0 million of debt facilities. 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 $32.2 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 constitute an additional liability to those already existing in interest bearing liabilities on the Consolidated Statements of Financial Position.

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

Note 9 Contributed equity

Number of units on issue

	For the 6 months to 31 Dec 2017 No. of units	For the 12 months to 30 Jun 2017 No. of units
Opening balance at the beginning of the period	**1,016,967,300**	967,947,692
Issue of additional equity	**437,242**	49,019,608
Closing balance at the end of the period	**1,017,404,542**	1,016,967,300

Note 10 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 $3.9 million (June 2017: $4.1 million)) are measured at cost and amortised using the straight-line method over their estimated remaining useful lives of 15 years. Management rights that are deemed to have an indefinite life are held at a value of $286.0 million (June 2017: $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.

	31 Dec 2017 $'000	30 Jun 2017 $'000
Management rights		
Opening balance at the beginning of the period	**290,088**	290,418
Amortisation charge	**(165)**	(330)
Closing balance at the end of the period	**289,923**	290,088
Cost	**294,382**	294,382
Accumulated amortisation	**(4,459)**	(4,294)
Total management rights	**289,923**	290,088
Goodwill		
Opening balance at the beginning of the period	**1,211**	1,310
Impairment	**(49)**	(99)
Closing balance at the end of the period	**1,162**	1,211
Cost	**2,998**	2,998
Accumulated impairment	**(1,836)**	(1,787)
Total goodwill	**1,162**	1,211
Software		
Opening balance at the beginning of the period	**18,151**	15,348
Additions	**2,690**	7,140
Amortisation charge	**(2,673)**	(4,337)
Closing balance at the end of the period	**18,168**	18,151
Cost	**29,195**	36,738
Accumulated amortisation	**(11,027)**	(18,587)
Cost - Fully amortised assets written off	**-**	(10,233)
Accumulated amortisation - Fully amortised assets written off	**-**	10,233
Total software	**18,168**	18,151
Total non-current intangible assets	**309,253**	309,450

As at 31 December 2017, management had not identified any events or circumstances that would indicate an impairment of the carrying amount of management rights associated with indefinite life trusts.

Note 11 Fair value of financial instruments

As at 31 December 2017 and 30 June 2017, the fair value of financial assets and liabilities held at fair value were determined using the following methods:

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

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 Trust.

Note 12 Subsequent events

Since the end of the period, 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 Trust, the results of those operations, or state of the Trust's affairs in future financial periods.

Directors' Declaration

In the Directors' opinion:

a) The Financial statements and notes set out on pages 4 to 17 are in accordance with the *Corporations Act 2001*, including:

   (i) complying with Australian Accounting Standards, the *Corporations Act 2001* and other mandatory professional reporting requirements; and

   (ii) giving a true and fair view of the Trust's financial position as at 31 December 2017 and of its performance for the half year ended on that date; and

(b) there are reasonable grounds to believe that the Trust will be able to pay their debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Directors.

W Richard Sheppard

Chair

13 February 2018

Independent auditor's review report to the securityholders of Dexus Operations Trust

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Dexus Operations Trust (the Trust), which comprises the consolidated statement of financial position as at 31 December 2017, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, selected explanatory notes and the directors declaration of Dexus Funds Management Limited (the Responsible Entity) in respect of the Trust and its consolidate entities (the consolidated entity). The consolidated entity comprises the Registered Scheme and the entities it controlled during the half-year.

Directors' of the Responsible Entity's responsibility for the half-year financial report

The directors of the Responsible Entity (the directors) are responsible for the preparation of the half-year 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 half-year financial report that is free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the consolidated entity's financial position as at 31 December 2017 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Trust, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

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Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of the Trust is not in accordance with the *Corporations Act 2001* including:

a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2017 and of its performance for the half-year ended on that date; and

b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers

Matthew Lunn
Partner

Sydney
13 February 2018