DEXUS Property Group (ASX: DXS) Appendix 4E

Results for announcement to the market

DEXUS Property Group
ARSN 089 324 541

Financial reporting for the year ended 30 June 2016

DEXUS Diversified Trust[1]			
	30 June 2016	**30 June 2015**	**%**
	$m	**$m**	**Change**
Revenue from ordinary activities	865.5	858.9	0.8%
Net profit attributable to security holders after tax	1,259.8	618.7	103.6%
Funds from operations (FFO)[2]	610.8	544.5	12.2%
Underlying FFO[3]	547.5	501.9	9.1%
Distribution to security holders	421.1	385.6	9.2%
	CPS	**CPS**	
FFO per security[2]	63.1	59.5	6.0%
Distributions per security for the period ending:			
31 December	23.05	19.68	17.1%
30 June	20.46	21.36	-4.2%
Total distributions[4]	43.51	41.04	6.0%
Payout ratio (distributions as a % of FFO)	69.0%	69.0%	-
Basic and diluted earnings per security	130.06	67.58	92.5%
Franked distribution amount per security	2.58	-	-
	$m	**$m**	
Total assets	11,782.8	10,025.6	17.5%
Total borrowings	3,686.8	2,774.0	32.9%
Security holders equity	7,596.3	6,777.3	12.1%
Market capitalisation	8,730.9	7,086.9	23.2%
	$ per security	**$ per security**	
Net tangible assets	7.53	6.68	12.7%
Securities price	9.02	7.30	23.6%
Securities on issue	967,947,692	970,806,349	
Record date	30 Jun 2016	30 Jun 2015	
Payment date	31 Aug 2016	31 Aug 2015	

DEXUS PROPERTY GROUP

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Results for announcement to the market

Results commentary

Refer to the attached ASX release for a commentary on the results of DEXUS Property Group.

Details of joint ventures and associates

	Ownership Interest		Share of net profit after tax	
	30 June 2016	30 June 2015	12 months ended 30 June 2016	12 months ended 30 June 2015
Name of entity	%	%	$m	$m
Bent Street Trust	**33.3**	**33.3**	**60.3**	**29.2**
DEXUS Creek Street Trust	**50.0**	**50.0**	**12.8**	**1.7**
DEXUS Martin Place Trust	**50.0**	**50.0**	**27.1**	**13.4**
Grosvenor Place Holding Trust	**50.0**	**50.0**	**51.7**	**14.7**
Site 6 Homebush Bay Trust	**50.0**	**50.0**	**(3.8)**	**2.5**
Site 7 Homebush Bay Trust	**50.0**	**50.0**	**(2.9)**	**2.8**
DEXUS 480 Q Holding Trust	**50.0**	**50.0**	**68.9**	**7.0**
DEXUS Kings Square Trust	**50.0**	**50.0**	**11.0**	**2.4**
DEXUS Office Trust Australia	**50.0**	**50.0**	**287.3**	**182.6**
DEXUS Industrial Trust Australia	**50.0**	**50.0**	**5.9**	**(4.2)**
DEXUS Eagle Street Pier Trust	**50.0**	**50.0**	**7.2**	**-**

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 FFO to be a measure that reflects the underlying performance of the Group. FFO comprises net profit/loss after tax attributable to stapled security holders calculated in accordance with Australian Accounting Standards and adjusted for: property revaluations, impairments, derivative and FX mark to market impacts, fair value movements of interest bearing liabilities, amortisation of tenant incentives, gain/loss on sale of certain assets, straight line rent adjustments, deferred tax expense/benefit, transaction costs, amortisation of intangible assets, rental guarantees and coupon income.
3. Underlying FFO excludes trading profits (net of tax).
4. The distribution for the period 1 July 2015 to 30 June 2016 is the aggregate of the distributions from DEXUS Diversified Trust, DEXUS Office Trust, DEXUS Operations Trust and DEXUS Industrial Trust. The Annual Tax Statement will provide details of the components of DXS's distributions.

DEXUS
PROPERTY GROUP

DEXUS Property Group

(ARSN 089 324 541)

Financial Report
30 June 2016

DEXUS
PROPERTY GROUP

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

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

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

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

FY16 OPERATING AND FINANCIAL REVIEW

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

DEXUS OVERVIEW

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

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

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

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

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

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

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

Scale provides DEXUS with valuable customer insights and the capacity and flexibility to find the ideal workspace solution for customers in more than one location.

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

STRATEGY

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

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

We have two key strategic objectives:

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

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

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

Our strategy has four key elements:

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

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

2. **Intense focus on investment performance**

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

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

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

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

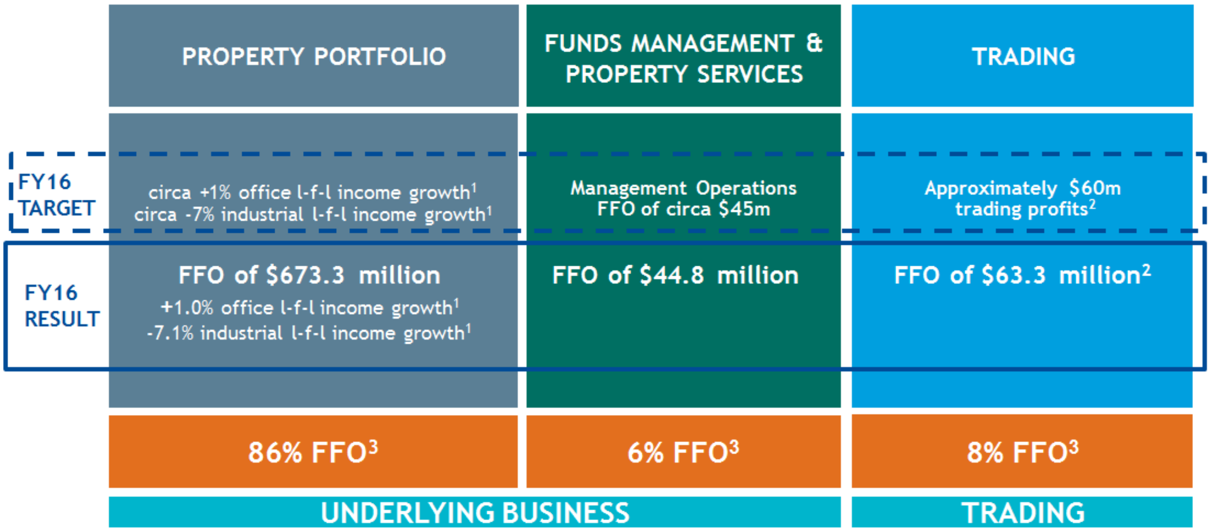
   DEXUS has a strong 'A-' Standard & Poor's credit rating and 'A3' investment grade rating from Moody's. These ratings are the result of measuring, pricing and managing risk in a prudent manner. The significant amounts of capital attracted from third party clients are an endorsement of our approach to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

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

STRATEGY (continued)

Key earnings drivers - FY16 result

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



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

1 Like-for-like income growth is on an effective basis.

2 Trading profits net of tax.

3 FFO contribution is calculated before Finance costs and Group corporate costs.

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

FY16 strategic achievements

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

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

REVIEW OF OPERATIONS

Operating result

GROUP

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

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

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

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

	30 June 2016 ($m)	30 June 2015 ($m)
Net profit for the year attributable to stapled security holders	**1,259.8**	**618.7**
Net fair value gain of investment properties	(814.4)	(241.0)
Net fair value loss of derivatives and interest bearing liabilities	40.3	47.0
Net (gain)/loss on sale of investment properties	(15.0)	3.1
Foreign currency translation reserve transfer on disposal of foreign operations	-	2.1
Incentive amortisation and rent straight-line[5]	92.9	79.9
Coupon income and rental guarantees received	23.7	15.5
Amortisation of intangible assets	3.3	-
Transaction costs	7.1	-
Deferred tax	13.1	19.2
Funds from Operations (FFO) [6]	**610.8**	**544.5**
Retained earnings[7]	**189.3**	**158.9**
Distributions	**421.1**	**385.6**
FFO per security[8] (cents)	63.1	59.5
Distribution per security[8] (cents)	43.51	41.04
Net tangible asset backing per security[8] ($)	7.53	6.68

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

6 Including DEXUS's share of equity accounted investments.

7 Based on DEXUS's distribution policy to payout in line with free cash flow. The payout ratio equated to 69% of FFO in both FY15 and FY16.

8 Prior period per security figures are adjusted for the one-for-six security consolidation completed in November 2014.

REVIEW OF OPERATIONS (continued)

Operating result (continued)

GROUP (continued)

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

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

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

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

	30 June 2016	30 June 2015
	$m	$m
Office Property FFO	567.2	533.3
Industrial Property FFO	106.1	112.3
Total Property FFO	**673.3**	**645.6**
Management operations[9]	44.8	37.9
Group corporate	(25.4)	(30.4)
Net finance costs	(142.0)	(150.8)
Other	(3.2)	(0.4)
Underlying FFO	**547.5**	**501.9**
Trading profits (net of tax)	63.3	42.6
Total FFO	**610.8**	**544.5**
Maintenance capital expenditure, lease incentives and leasing costs paid	(196.9)	(174.7)
Total AFFO[10]	**413.9**	**369.8**

9 'Management operations' income includes development management fees.

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

REVIEW OF OPERATIONS (continued)

Operating result (continued)

GROUP (continued)

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

The key drivers of the $66.3 million increase included:

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

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

Distributions

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

Return on equity

DEXUS delivered a Return on Equity (ROE) of 19.3%[11] in FY16, above the 9-10% per annum target through the cycle, resulting in a four-year average ROE of 12.2%.

Management expense ratio

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

Group corporate costs reduced to $25.4 million as a result of the benefit of on-going investments in the platform and operational efficiency while asset management costs increased to $12.6 million as a result of the acquisition of Waterfront Place and development completions at key office developments. As a result, DEXUS has been able to reduce the overall Management Expense Ratio[12] (MER) to 35 basis points, from 41 basis points in FY15.

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

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

REVIEW OF OPERATIONS (continued)

Operating result (continued)

GROUP (continued)

IOF transaction

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

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

Property transactions

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

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

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

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

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

i) PROPERTY PORTFOLIO

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

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

Office portfolio

Portfolio value:	$9.2 billion
Total area:	1,562,997 square metres
Area leased during the year:	269,866 square metres[13]

13 Including Heads of Agreement.

REVIEW OF OPERATIONS (continued)

Operating result (continued)

Office portfolio (continued)

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

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

During the year, DEXUS leased 269,866 square metres[13] of office space across 385 transactions. Office portfolio occupancy by income increased to 96.3% at 30 June 2016 (FY15: 95.3%), delivering on the 'above 95%' target set at the start of the year. Occupancy by area at Grosvenor Place in Sydney increased from 83.6% at 31 December 2015 to 94.5%, and at 1 Farrer Place in Sydney increased from 78.5% at 31 December 2015 to 92.2%.

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

Forward lease expiries were also significantly de-risked, with FY17 expiries reducing from 12.7% at FY15 to 9.6%, below the 10% target set at the start of the year. An opportunity for DEXUS to further enhance value exists with 59% of FY17 expiries being located in the Sydney CBD office market. The completion of major developments at 5 Martin Place, Sydney, 480 Queen Street, Brisbane, and Kings Square, Perth increased the portfolio WALE from 4.3 years at FY15 to 4.7 years.

Office like-for-like income increased by 1.0% compared to FY15. DEXUS's office portfolio delivered a one year total return of 16.0% (FY15: 9.6%) driven by a strong revaluation uplift across the portfolio, partially offset by a reduction in the value of 254 Georges Terrace in Perth.

FY17 focus

In FY17 DEXUS will continue to proactively manage and drive the investment performance of its office portfolio. DEXUS will focus on maintaining occupancy above 96%; reducing FY19 office lease expiries to 12% by end of FY17; reducing incentives and rolling out initiatives to increase the understanding of customers. DEXUS is targeting office like-for-like income growth to return to normalised levels of 2-3% (3.5-4.3% excluding 240 Georges Terrace, Perth) in FY17.

REVIEW OF OPERATIONS (continued)

Operating result (continued)

Industrial portfolio

Portfolio value:	$1.8 billion
Total area:	1,284,554 square metres
Area leased during the year:	207,732 square metres[13]

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

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

During the year, DEXUS leased 204,238 square metres[13] of industrial space across 73 transactions including 42 leases with new tenants. Tenant retention reduced to 32% and DEXUS's industrial portfolio occupancy by income reduced to 90.4% at 30 June 2016 (FY15: 92.4%), as a result of some large tenant movements and reduced leasing activity, particularly in Melbourne's south east. These vacancies also impacted like-for-like income, which reduced by 7.1% compared to FY15 however is expected to recover to normalised levels in FY17.

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

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

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

FY17 focus

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

REVIEW OF OPERATIONS (continued)

Operating result (continued)

Development

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

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

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

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

FY17 focus

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

ii) FUNDS MANAGEMENT and PROPERTY SERVICES

DEXUS's Funds Management business represents over half of the Group's $22.2 billion funds under management and its $3 billion development pipeline will drive organic growth across the platform. Third party funds under management increased to $11.2 billion, up 17% from 30 June 2015, driven by acquisitions, developments and revaluations. DEXUS continued to deliver performance for its clients with DWPF outperforming its benchmark and the DEXUS Office Partnership delivering strong returns.

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

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

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

FY17 focus

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

REVIEW OF OPERATIONS (continued)

Operating result (continued)

iii) TRADING

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

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

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

Trading profits of $63.3 million[14] were achieved in FY16, which included the settlement of 5-13 Rothschild Avenue and 22-55 Rosebery Avenue, Rosebery and 154 O'Riordan Street, Mascot in July 2015.

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

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

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

FY17 focus

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

FINANCIAL POSITION (look-through)

	30 June 2016 $m	30 June 2015 $m
Office investment properties[15]	9,238	7,822
Industrial investment properties[15]	1,749	1,711
Other assets[16]	653	546
Total assets	**11,640**	**10,079**
Borrowings[17]	3,772	2,957
Other liabilities	579	637
Net tangible assets	**7,289**	**6,485**
Total number of securities on issue	967,947,692	970,806,349
NTA ($)	**7.53**	**6.68**

14 Trading profits generated less FFO tax expense.

15 Includes DEXUS's share of investment properties in equity accounted investments.

16 Excludes intangibles.

17 Includes DEXUS's share of borrowings in equity accounted investments.

REVIEW OF OPERATIONS (continued)

Operating result (continued)

FINANCIAL POSITION (look-through)

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

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

CAPITAL MANAGEMENT

- Cost of debt 4.8%
- Duration of debt 5.5 years
- Gearing (look through)[18] 30.7%[19]
- S&P/Moody's credit rating: A-/A3

DEXUS continued to maintain a strong and conservative balance sheet. Gearing[18] increased to 30.7%, as a result of an increase in development costs, property acquisitions, and capital expenditure offset by an increase in property valuations and the receipt of sale proceeds from the settlement of trading properties and 36 George Street, Burwood. DEXUS also acted on reverse enquiry during the year securing $260 million of new capital markets debt on average terms of 10.2 years, which resulted in duration of debt remaining high at 5.5 years.

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

On market securities buy-back

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

OUTLOOK

GROUP

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

i) PROPERTY PORTFOLIO

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

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

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

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

OUTLOOK - (continued)

Property Portfolio – (continued)

Office - (continued)

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

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

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

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

ii) FUNDS MANAGEMENT and PROPERTY SERVICES

DEXUS's funds management platform current exposure is 51% to office, 12% to industrial and 38% to retail properties. Its office and industrial property performance will be influenced by the key lead indicators described above. For retail properties, retail sales growth has been easing nationally, but mainly in locations outside of Sydney and Melbourne. Consumer confidence is important, but remains a relatively neutral factor despite such events as Brexit and a swing away from the sitting government in the latest Federal election. Going forward, issues such as job security and house prices may sway confidence in either direction.

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

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

DEXUS will continue to satisfy the investment objectives of its third party clients and funds through growing existing funds via acquisitions and progressing the $3 billion third party development pipeline. DEXUS will maximise the performance of properties managed on their behalf to continue its recognition as a wholesale partner of choice.

iii) TRADING

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

FY17 GUIDANCE

Taking into account recently announced divestments DEXUS's guidance[20] for the 12 months ending 30 June 2017 is:

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

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

RISKS

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

Risk	Description	Potential impact	How DEXUS is equipped to manage and monitor this risk
Market volatility - general	Volatility in equity or debt markets and GDP growth (domestically or globally) has a material adverse effect on leasing, investment demand, or financing costs	▪ Reduction in business confidence and leasing activity ▪ Reduction in ability to attract and retain tenants ▪ Increased cost of borrowing	▪ DEXUS has a high quality, diversified portfolio which is less sensitive to changes in investment demand ▪ DEXUS has a low level of gearing, with a stated target range of 30-40% ▪ Further information relating to Financial risk management is detailed in note 12 of the financial statements ▪ DEXUS has a diversified source of income with rental income being derived from 102 properties with 970 tenants. In addition, DEXUS derives income from funds management and trading activities ▪ A high proportion of DEXUS's near term income is secured via contractual lease obligation, with WALE of 4.7 years and 4.1 years on the office and industrial portfolios respectively ▪ DEXUS adopts a conservative approach to interest rate hedging, with 69% of debt currently hedged ▪ DEXUS tracks and reports performance through monthly monitoring of budgets and expenditures ▪ DEXUS tracks economic conditions and forecasts real estate market performance
Property valuations decline	Depreciation in the value of DEXUS's property investments. This can be caused by changes in investment demand for commercial property and/or changes to the property fundamentals (e.g. property income) and/or changes to global bond rates	▪ Reduction in Net Tangible Asset backing per security ▪ Deterioration of key credit metrics ▪ Increased cost of financing and/or need to refinance ▪ Reduction in market price of DXS securities	▪ DEXUS has a high quality, diversified portfolio which is less sensitive to changes in investment demand ▪ DEXUS has a low level of gearing, with a stated target range of 30-40% ▪ Further information relating to Financial risk management is detailed in note 12 of the financial statements
Funds from Operations (FFO) decline	FFO is lower than that assumed in management forecasts	▪ Reduction in distributions to investors ▪ Reduction in market price of DXS securities	▪ DEXUS has a diversified source of income with rental income being derived from 102 properties with 970 tenants. In addition, DEXUS derives income from funds management and trading activities ▪ A high proportion of DEXUS's near term income is secured via contractual lease obligation, with WALE of 4.7 years and 4.1 years on the office and industrial portfolios respectively ▪ DEXUS adopts a conservative approach to interest rate hedging, with 64% of debt currently hedged ▪ DEXUS tracks and reports performance through monthly monitoring of budgets and expenditures
Workplace health and safety	Financial or physical impact arising from an accident or event at an asset owned or managed by DEXUS	▪ Death or serious injury ▪ Financial loss arising from an event claim ▪ Reputational damage ▪ Legal proceedings	▪ DEXUS maintains comprehensive work health and safety programs ▪ Ensures compliance by site contractors and employees ▪ Maintains ongoing independent certification by British Standards International
Talent retention	Inability to attract and retain the talent required to execute the strategy	▪ Loss of property and platform expertise ▪ Increased operating costs via staff churn and wage impacts	▪ DEXUS monitors and acts upon employee opinions received through the Employee Opinion Surveys and Culture Surveys ▪ Annually reviews remuneration framework to benchmark against market rates ▪ Maintains succession plans for senior management ▪ Implements awareness programs covering diversity, gender and health in the workplace, ensuring diversity and equality are understood and valued

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

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

1 Directors and Secretaries

1.1 Directors

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

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

1.2 Company Secretaries

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

Brett D Cameron LLB/BA (Science and Technology), GAICD
Appointed: 31 October 2014

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

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

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

Rachel Caralis LLB/B Com (Acc), M Com (Property Development), Grad Dip (Applied Corporate Governance) AGIA, AAPI
Appointed: 17 February 2016

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

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

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

2 Attendance of Directors at Board meetings and Board Committee meetings

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

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

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

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

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

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

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

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

3 Remuneration report

OVERVIEW

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

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

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

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

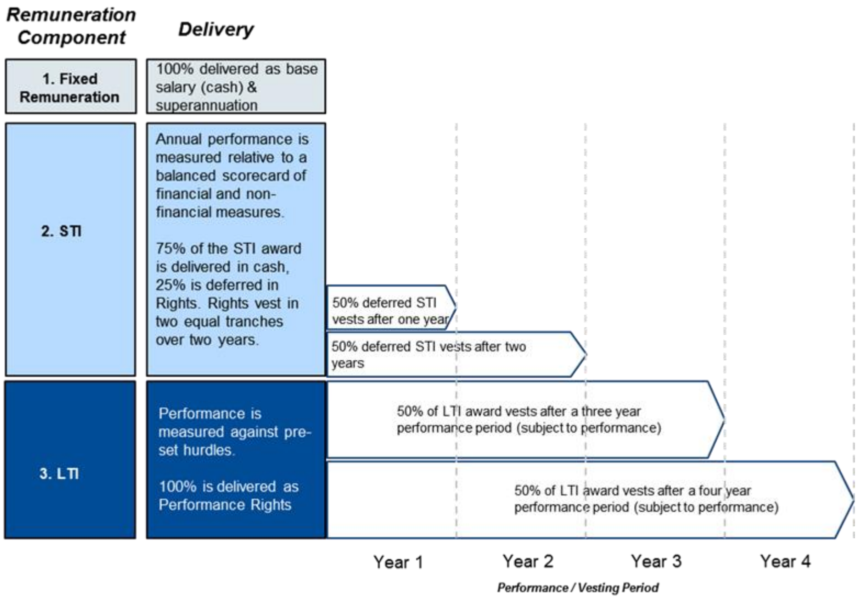
Other features of the Remuneration framework and approach include:

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

3 Remuneration report (continued)

Overview (continued)

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



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

Changes from Previous Year (FY16)	
KMP changes	*Non-Executive Directors* ▪ Mr Christopher Beare retired from his position as Non-Executive Director and Chair of the Board on 28 October 2015. ▪ Mr Richard Sheppard was appointed Chair of the Board on 28 October 2015. *Executives* ▪ Mr Craig Mitchell's Finance responsibilities were transitioned to Ms Alison Harrop, Chief Financial Officer on 6 October 2015 ▪ Mrs Deborah Coakley's role was expanded to include responsibility for both People and Culture and Asset Solutions. ▪ Mr Ross Du Vernet took on additional responsibilities, expanding his leadership role to include the Office and Industrial Development teams. ▪ Mr Craig Mitchell, Executive Director and Chief Operating Officer, announced his resignation on 20 April 2016, effective 19 July 2016. On cessation of employment Mr Mitchell received a termination payment of $262,640 which included accrued statutory leave entitlements and compensation for deferred STI Rights which vested 1 July 2016. All other unvested Rights and Performance Rights were forfeited with a market value (assuming full vesting) of $2,310,042
Fixed remuneration increases	▪ No increases to fixed remuneration for the Executive Director and Chief Executive Officer and Executive Director and Chief Operating Officer were made during FY16. ▪ Other Executive KMP received modest fixed remuneration increases during FY16.
Short-term incentive (STI) awards	▪ The CEO received an STI award for the year ending 30 June 2016 equal to 76% of his maximum STI potential. ▪ The average STI awarded to Executive KMP (as a % of maximum STI opportunity) was 62%, which excludes Mr Mitchell who forfeited his FY16 STI award.

3 Remuneration report (continued)

Overview (continued)

<table>
<tr><th colspan="2">Changes to the Coming Year (FY17)</th></tr>
<tr><td>Changes to executive remuneration for the year commencing 1 July 2016</td><td>Fixed remuneration
▪ The approach to benchmarking fixed pay for Executive KMP roles was refined so that DEXUS remains competitive relative to industry peers and to companies of a similar size and complexity.
▪ Effective 1 July 2016, the Board approved an increase to the CEO's fixed remuneration to become $1,600,000 per annum (+$100,000 p.a.). This represents only the second increase Mr Steinberg has received since joining the Group in March 2012.
▪ The Board has also approved increases to relevant Executive KMP following the reorganisation of the Group's senior leadership team and the expanded roles and responsibilities of a number of executives following Mr Mitchell's resignation.

STI
▪ There are no material changes to the STI plan.

LTI
We reviewed our LTI plan to ensure the design was achieving the desired outcomes of aligning, rewarding and retaining KMP and other Executives.
The following changes will be made to future grants:
▪ Quantum: Following external advice and comparison of market practices we concluded the way we grant LTI awards was not competitive. Specifically, by granting at face value as opposed to fair value we were discounting materially the potentially realised awards given to KMP and other Executives by amounts estimated to range up to as much as 50%.
    o Face value refers to the stated value of the performance right at issuance and is a straightforward calculation. Fair value incorporates discounts for dividends forgone and the probability of vesting and results in more securities being granted to represent a particular award; and it is a more complex calculation.
    o In order to address the difference between property industry market practice (many peers use fair value) and the DEXUS plan (face value), the Board has approved an increase to the maximum LTI grant opportunity. The maximum LTI grant value (expressed as a percentage of fixed remuneration) will increase by 20% and DEXUS will continue to use face value methodology for calculating the number of securities to be granted.
▪ Performance measures: The LTI plan will be simplified to comprise two equally weighted performance hurdles, being Return on Contributed Equity (ROCE) and growth in Adjusted Funds From Operations (AFFO) per security. The four performance conditions used in previous years' LTI plan grants will continue to apply to awards already made but yet to be tested against their respective hurdles. Those measures are Relative Total Security holder Return (Relative TSR), Relative Return on Equity (Relative ROE), Adjusted Funds From Operations (AFFO) growth, and Return on Equity (ROE).</td></tr>
<tr><th colspan="2">Non-Executive Director fees</th></tr>
<tr><td>Board Chair and Director base fees</td><td>Non-Executive Director fees were reviewed relative to comparable companies, with the following changes made effective from 1 July 2016:
▪ The Board Chair's base fee increased from $375,000 to $400,000 per annum
▪ Board member base fees increased from $160,000 to $170,000 per annum
▪ There were no increases to Committee fees</td></tr>
<tr><td>Non-Executive Director minimum security holding</td><td>As at 30 June 2016 all Non-Executive Directors held more than the minimum number of securities required under the Non-Executive Director minimum security holding requirement (16,500 DXS securities).</td></tr>
</table>

3 Remuneration report (continued)

Key Management Personnel

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

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

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

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

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

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

3 Remuneration report (continued)

Remuneration Governance

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

Board

People and Remuneration Committee

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

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

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

The Committee comprises three independent Non-Executive Directors.

External advisors

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

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

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

Management

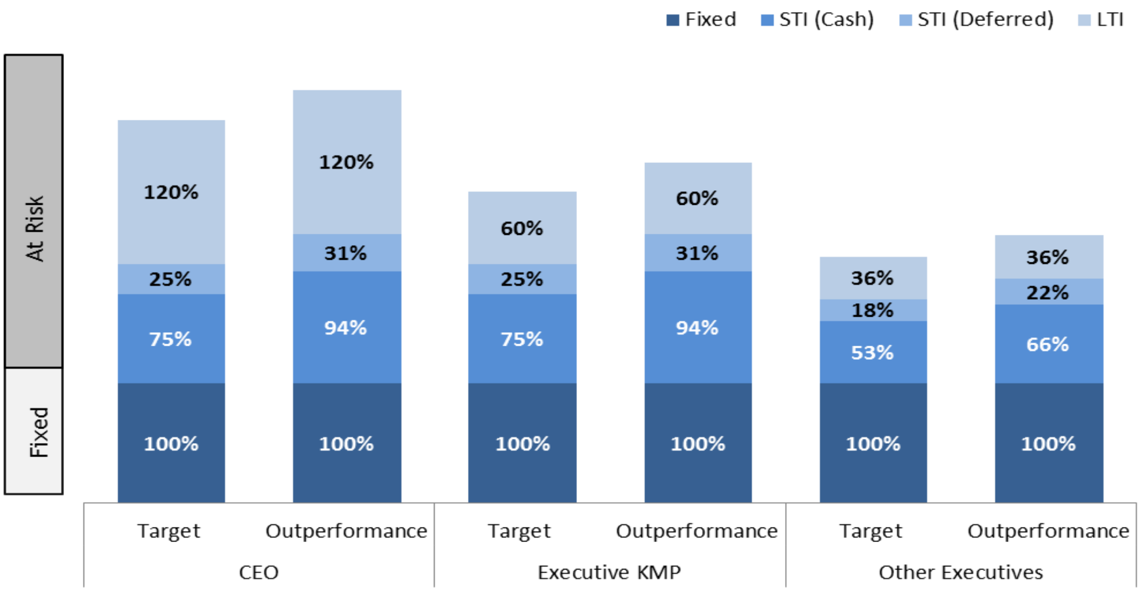
Remuneration Design and Approach

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

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

3 Remuneration report (continued)

Remuneration Design and Approach (continued)



Remuneration Structure

Fixed Remuneration

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

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

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

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

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

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

3 Remuneration report (continued)

Remuneration Structure (continued)

STI Plan

What is the purpose of the STI plan?	The STI plan is designed to motivate and reward Executives for their contribution to the annual financial and non-financial performance of the Group.
How does the STI plan align with the interests of DEXUS' Security holders?	The STI plan is aligned to Security holder interests in the following ways: ▪ Encourages executives to achieve year-on-year growth in a balanced and sustainable manner (i.e. through the mix of financial and non-financial performance measures). ▪ Mandatory deferral of 25% of each STI award into Rights aligns the interests of executives and Security holders and acts as a retention mechanism.
What is the target and maximum STI opportunity?	The target STI opportunity for the CEO and Executive KMP will be 100% of fixed remuneration. The target STI opportunity for other Executives will be between 70% and 100% of fixed remuneration. The maximum STI each Executive KMP can earn is 125% of target STI opportunity, and will only be awarded when outperformance is achieved. The 25% of the STI award which is deferred into Rights is subject to clawback and potential forfeiture.
What are the performance measures?	The amount each Executive KMP can earn is dependent on how they perform against a balanced scorecard of key performance indicators (KPIs) which are set at the beginning of the financial year. Each executive's performance is measured relative to their personalised balanced scorecard. Both financial and non-financial performance measures are used to assess performance. Performance is assessed relative to seven components being Group financial performance, customer, business excellence, projects, people and culture, corporate responsibility and sustainability and values and behaviour. KPIs are set with an element of stretch, which ensures that it is difficult for Executive KMP to achieve target. To achieve above target performance would require exceptional performance.
When are STI payments made?	STI payments are made in August following the sign-off of statutory accounts and announcement of the Group's annual results for the period to which the performance relates.
How much of the STI award is deferred?	25% of any award under the STI plan is deferred in the form of Rights to DXS securities. The rights vest in two equal tranches, 12 and 24 months after being granted. Rights deferred under the STI plan are subject to clawback and continued employment during the vesting period. The number of Rights awarded is based on 25% of the awarded STI value divided by the volume weighted average price (VWAP) of DXS securities 10 trading days either side of the first trading day of the new financial year.
Are distributions paid on unvested Rights awarded under the STI plan?	For the portion of STI deferred as Rights, executives are entitled to the benefit of distributions paid on the underlying DXS securities prior to vesting, through the issue of additional Rights.
When are STI awards forfeited?	Forfeiture will occur should the executive's employment terminate within 6 months of the grant date for any reason, or if the executive voluntarily resigns or is terminated for cause prior to the vesting date. Notwithstanding the above, if an executive's employment is terminated for reasons such as retirement, redundancy, reorganisation, change in control or other unforeseen circumstances, the People and Remuneration Committee may recommend to the Board that the executive should remain in the plan as a 'good leaver'.

3 Remuneration report (continued)

Remuneration Structure (continued)

STI Plan (continued)

Who has oversight of the STI plan?	The CEO monitors and assesses performance of executives as part of the Group's annual performance management cycle. The CEO makes STI recommendations to the People and Remuneration Committee, which makes a recommendation to the Board for approval. The CEO's own performance is assessed by the Board Chair, and is discussed by the People and Remuneration Committee, which makes an STI recommendation to the Board. The Board retains the right to amend, suspend or cancel the STI plan at any time.
What is changing for the FY17 STI plan?	There are no other proposed changes to the STI plan.

LTI plan

What is the purpose of the LTI plan?	The LTI plan is designed to motivate and reward executives for sustained earnings and security holder returns and is delivered in the form of Performance Rights.
How is the LTI plan aligned to security holder interests?	The LTI plan is aligned to security holders interests in the following ways: ▪ Encourages Executive KMP to make sustainable business decisions within the Board-approved strategy of the Group. ▪ Aligns the financial interests of Executive KMP to security holders through exposure to DXS securities.
Who participates in the LTI plan?	All Executive KMP and other nominated executives participate in the LTI plan.
What is the quantum of LTI grants?	The maximum LTI opportunities for the 2015 plan were 100% of fixed remuneration for the CEO and between 30% and 75% of fixed remuneration for other Executives/ KMP.
How is the number of Performance Rights determined?	The number of Performance Rights granted is based on the executive's LTI grant value (expressed as a percentage of fixed remuneration) divided by the VWAP of securities ten trading days either side of the first trading day of the new financial year. The methodology computes grants based on 'face value' rather than 'fair value'.
How long is the LTI performance period?	Each grant is split into two equal tranches, with a vesting period of three and four years respectively after the grant date.
What are the LTI performance conditions?	The Board sets the performance conditions for the LTI plan on an annual basis. The four performance conditions for past grants made under the LTI plan are: **External performance conditions (50%)** ▪ 25% is based on the Group's performance against a relative Total Shareholder Return (Relative TSR) performance hurdle measured against all members of the S&P/ASX 200 A-REIT Index. TSR represents an investor's return, calculated as the percentage difference between the initial amount invested and the final value of DXS securities at the end of the relevant period, assuming distributions were reinvested. ▪ 25% is based on the Group's performance against a Return on Equity (Relative ROE) performance hurdle measured against all members of the Mercer IPD Core Wholesale Property Fund Index.

3 Remuneration report (continued)

Remuneration Structure (continued)

LTI Plan (continued)

What are the LTI performance conditions?	**Internal performance conditions (50%)** ▪ 25% is based on the Group's performance against an Adjusted Funds From Operations (AFFO) per security growth hurdle. LTI grants made prior to the 2014 plan use Funds From Operations (FFO) measures for performance conditions. AFFO is a key measure of growth and is calculated in line with the Property Council of Australia (PCA) definition. AFFO is Funds From Operations (FFO) as per the PCA's definition adjusted for maintenance capex, incentives (including rent free incentives) given to tenants during the period and other one-off items. ▪ 25% is based on the Group's performance against a Return on Equity (ROE) performance hurdle. ROE represents the annualised composite rate of return to security holders, calculated as a percentage, comprising the change in net tangible asset value per security together with the distributions paid to security holders per security, divided by the net tangible asset value per security at the beginning on the period.
What level of performance is required for LTI awards to vest for past grants?	**Relative TSR and Relative ROE** Vesting under both the Relative TSR and Relative ROE performance conditions will be on a sliding scale reflecting performance relative to a comparator group of entities. ▪ Nil vesting for performance below the median of the comparator group ▪ 50% vesting for performance at the median of the comparator group ▪ Straight line vesting for performance between the 50th and 75th percentile ▪ 100% vesting for performance at or above the 75th percentile Relative performance is measured by an independent external advisor at 30 June each year. **AFFO growth and ROE** Vesting under both the AFFO growth and ROE measures will be on a sliding scale reflecting performance against performance conditions set by the Board. ▪ Nil vesting for below Target performance ▪ 50% vesting for Target performance ▪ Straight line vesting between Target and Outperformance ▪ 100% vesting for Outperformance AFFO Growth is the implied compound annual growth rate (CAGR) of the aggregate AFFO earnings per security in the three and four year vesting periods. ROE is measured as the per annum average at the conclusion of each vesting period. The ROE performance hurdles set by the Board are in line with DEXUS' target ROE range of 9-10% per annum through the cycle. The AFFO growth performance hurdle was determined by the Board following extensive internal forecasting and is broadly aligned with FFO growth guidance provided to the market. LTI grants made prior to 2014 use FFO measures for performance conditions. Both the ROE and AFFO growth performance targets will be disclosed retrospectively at the end of the performance period.

3 Remuneration report (continued)

Remuneration Structure (continued)

LTI Plan (continued)

What are the changes to the LTI Plan design from previous years?	Following a review of external practices in the market and advice on what measures will align performance better with Security holders' interests, it has been decided to simplify the LTI Plan to two hurdles based on absolute performance measures. This decision will focus the LTI plan on commercial performance that is within Executive KMP's ability to control and influence. Prospectively, the LTI Plan will be measured with reference to the existing AFFO/security performance condition and a new Return on Contributed Equity (ROCE) measure which will replace ROE. Each performance condition will be weighted 50%. The testing and vesting schedule will remain unchanged. Specifically, performance rights are divided into tranches with performance conditions and vesting date(s) set by the Board (50% tranche at Year 3 and 50% tranche at Year 4). Performance rights that fail to vest in any tranche are permanently forfeited, with no re-testing in subsequent years. Subject to meeting the performance conditions, all performance rights are automatically exercisable at vesting, or as otherwise determined or approved by the Board. There is no entitlement to dividends, interest or distribution equivalency payments with respect to performance rights during the performance period. The Board believes this simplification to two performance hurdles provides greater focus on the fundamentals of DEXUS' business and on the performance of the executive team in meeting the targets which the Board sets. If these conditions are met, the Board's view is that security holders will be rewarded, over time, by superior market performance. Additionally, with greater clarity on the long-term performance of the Group, the simplification also removes the potential favourable or unfavourable impact of macro-economic variables impacting asset valuations, as well as the composition vagaries of listed and unlisted peer groups. It is noted that the Group is currently performing well against both Relative TSR and Relative ROE performance conditions within prior year LTI plans.
What are the changes to the LTI Plan grant quantum from previous years?	Following external benchmarking and market practices on the prevalence of the use of fair value as distinct from face value for the purpose of allocating equity (and DEXUS continued use of the face value methodology which awards fewer securities than fair value methodology), and the overall quantum granted versus realised, the Board has approved an increase to the maximum LTI grant opportunity. Fair value methodology can potentially result in grants estimated to range up to as much as 50% more "rights" than face value. The maximum LTI opportunity for all participants will increase by 20% for future grants, with the CEO maximum set at 120% of fixed remuneration and 60% for other Executive KMP.
Do executives receive distributions on unvested LTI awards?	Executives are not entitled to distributions paid on underlying DXS securities during the performance period prior to Performance Rights being tested for vesting.
When are LTI awards forfeited?	If the performance conditions are not met Performance Rights relating to that tranche will be forfeited. There is no re-testing of forfeited Rights. Additionally, forfeiture will occur should the executive's employment terminate within 12 months of the grant date for any reason, or if the Executive voluntarily resigns or is terminated for cause prior to the vesting date. Notwithstanding the above, if an Executive's employment is terminated for reasons such as retirement, redundancy, re-organisation, change in control or other unforeseen circumstances, the People and Remuneration Committee may recommend for approval by the Board that the executive remain in the plan as a 'good leaver'.

3 Remuneration report (continued)

Remuneration Structure (continued)

LTI Plan (continued)

How is the LTI plan administered?	The administration of the LTI plan is supported by the LTI plan rules. Executives are prevented from hedging their exposure to unvested DXS securities. Trading in DXS securities or related products is only permitted with the permission of the CEO. The Group also has Conflict of Interest and Insider Trading policies in place to support the integrity of the LTI plan, which extends to family members and associates of the executive. The Board has appointed Link Market Services as Trustee and Administrators of the DEXUS Performance Rights Plan Trust, which is the vehicle into which unvested units are purchased and held in trust for the executive pending performance assessment. The Board retains the right to amend, suspend or cancel the LTI plan at any time.

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

Actual Executive Remuneration Received

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

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

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

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

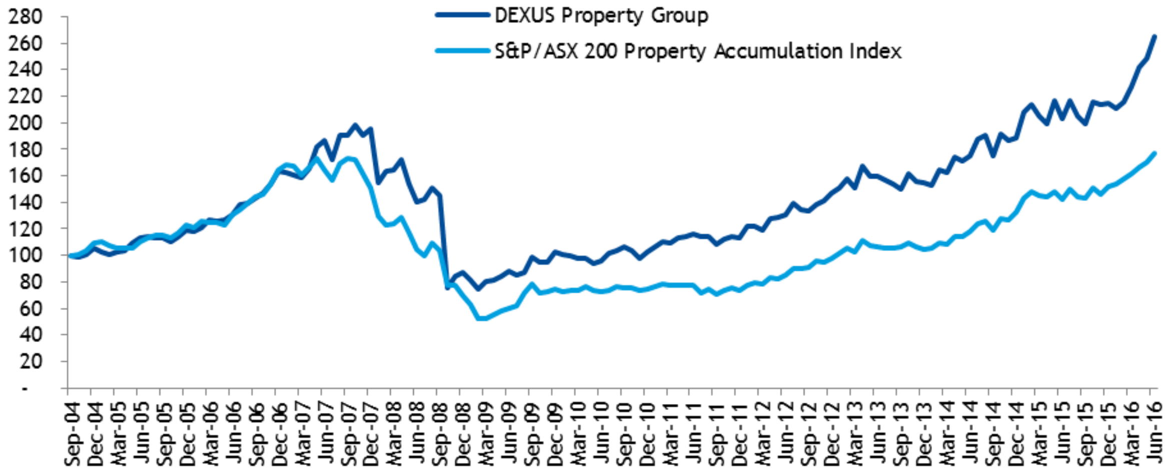
GROUP	PROPERTY PORTFOLIO	THIRD PARTY FUNDS MANAGEMENT	TRADING	CAPITAL MANAGEMENT
Delivered a 6.0% increase in FFO and distribution per security. Increased AFFO by 11.9% to $413.9 million	Leased circa 270,000 square metres of office space and completed 3 key developments in the DEXUS office portfolio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

3 Remuneration report (continued)

Group Performance and Executive Remuneration Outcomes

Total Return of DEXUS Securities

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



Total Return Analysis

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

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

Source: UBS Australia. *Annual compound returns.

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

Individual Performance Assessment – Balanced Scorecard

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

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

3 Remuneration report (continued)

Group Performance and Executive Remuneration Outcomes (continued)

Individual Performance Assessment – Balanced Scorecard

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

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

3 Remuneration report (continued)

Group Performance and Executive Remuneration Outcomes (continued)

STI Awards

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

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

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

Deferred STI and LTI Grants

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

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

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

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

3 Remuneration report (continued)

Executive Statutory Remuneration

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

		Short term benefits			Post-employment benefits	Share based and long term benefits			
Executive KMP	**Year**	**Cash salary ($)**	**STI cash award [2] ($)**	**Other short term benefits ($)**	**Pension and super benefits [3] ($)**	**Deferred STI plan accrual [4] ($)**	**Transition plan accrual [5] ($)**	**LTI plan accrual [6] ($)**	**Total ($)**
Darren J Steinberg	**2016**	1,480,692	1,068,750	-	19,308	370,221	-	1,075,601	4,014,572
	2015	1,481,217	1,068,750	-	18,783	430,168	104,853	748,595	3,852,366
Craig D Mitchell	**2016**	866,472	-	-	33,528	100,489	-	-	1,000,489
	2015	866,997	607,500	-	33,003	231,836	124,825	295,273	2,159,434
Ross G Du Vernet	**2016**	580,692	405,000	-	19,308	139,730	-	207,889	1,352,619
	2015	531,217	375,000	-	18,783	155,454	49,930	142,487	1,272,871
Kevin L George	**2016**	620,692	408,000	-	19,308	135,543	-	250,329	1,433,872
	2015	616,417	431,250	-	23,583	131,628	-	180,568	1,383,446
Like for Like Sub-Total	**2016**	3,548,548	1,881,750	-	91,452	745,983	-	1,533,819	7,801,552
	2015	3,495,848	2,482,500	-	94,152	949,086	279,608	1,366,923	8,668,117
Alison C Harrop[1]	**2016**	398,019	214,875	-	14,481	30,158	-	44,963	702,496
Deborah C Coakley	**2016**	505,692	315,000	-	19,308	44,210	-	57,226	941,436
Total	**2016**	4,452,259	2,411,625	-	125,241	820,351	-	1,636,008	9,445,484

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

3 Remuneration report (continued)

Executive Statutory Remuneration (continued)

Deferred STI and Transitional Awards Which Vested During FY16

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

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

1. *Market Value at vesting is the VWAP of DXS securities for the five day period before the vesting date.*

* *Alison Harrop and Deborah Coakley were not employed at the time of grant.*

Unvested Deferred STI Awards

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

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

3 Remuneration report (continued)

Executive Statutory Remuneration (continued)

Unvested LTI Awards

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

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

3 Remuneration report (continued)

Executive Statutory Remuneration (continued)

Executive Service Agreements

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

CEO – Mr Steinberg

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

All Other Executive KMP

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

3 Remuneration report (continued)

Executive Statutory Remuneration (continued)

Termination Payments

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

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

Non-Executive Director Fees

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

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

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

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

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

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

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

3 Remuneration report (continued)

Non-Executive Director Fees (continued)

Non-Executive Director Minimum Security Holding

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

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

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

Non-Executive Director	Number of securities held at 30 June 2016
Elizabeth A Alexander AM	16,667
Penelope Bingham-Hall	16,534
John C Conde AO	16,667
Tonianne Dwyer	16,667
W Richard Sheppard	70,090
Peter B St George	17,334

Non-Executive Directors Statutory Remuneration Table

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

Non-executive Director	Year	Short Term Benefits ($)	Post Employment Benefits ($)	Other Long Term Benefits ($)	Total ($)
Christopher T Beare	2016	116,283	6,436	-	122,719
	2015	356,217	18,783	-	375,000
W Richard Sheppard	2016	303,653	18,945	-	322,598
	2015	191,781	18,219	-	210,000
Elizabeth A Alexander AM	2016	200,913	17,496	-	218,409
	2015	201,683	18,317	-	220,000
Penelope Bingham-Hall	2016	173,516	16,484	-	190,000
	2015	168,950	18,147	-	187,097
John C Conde AO	2016	180,365	17,135	-	197,500
	2015	179,224	17,026	-	196,250
Tonianne Dwyer	2016	208,192	19,308	-	227,500
	2015	205,596	18,764	-	224,360
Peter B St George	2016	182,804	17,366	-	200,170
	2015	171,233	16,267	-	187,500
Total	2016	1,365,726	113,170	-	1,478,896
	2015	1,474,684	125,523	-	1,600,207

4 Directors' relevant interests

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

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

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

5 Operating and financial review

Information on the operations and financial position of the group and its business strategies and prospects is set out in the operating and financial review on pages 1 – 15 of this financial report.

6 Directors' directorships in other listed entities

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

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

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

7 Principal activities

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

8 Total value of Trust assets

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

9 Likely developments and expected results of operations

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

10 Significant changes in the state of affairs

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

11 Matters subsequent to the end of the financial year

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

12 Distributions

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

13 DXFM fees

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

14 Interests in DXS securities

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

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

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

15 Environmental regulation

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

16 Indemnification and insurance

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

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

17 Audit

17.1 Auditor

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

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

17 Audit (continued)

17.2 Non-audit services

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

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

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

The reasons for the Directors being satisfied are:

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

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

17.3 Auditor's Independence Declaration

A copy of the Auditor's Independence Declaration as required under section 307C of the *Corporations Act 2001* is set out on page 42 and forms part of this Directors' Report.

18 Corporate governance

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

19 Rounding of amounts and currency

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

20 Directors' authorisation

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

W Richard Sheppard
Chair
16 August 2016

Darren J Steinberg
Chief Executive Officer
16 August 2016

Auditor's Independence Declaration

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

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

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

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

E A Barron
Partner
PricewaterhouseCoopers

Sydney
16 August 2016

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Consolidated Statement of Comprehensive Income

For the year ended 30 June 2016

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

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

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

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

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

Consolidated Statement of Changes in Equity

For the year ended 30 June 2016

		Attributable to unitholders of the parent entity				Attributable to unitholders of other stapled entities				
		Contributed equity	Reserves	Retained profits	Total	Contributed equity	Reserves	Retained profits	Total	Total equity
	Note	$m	$m	$m	$m	$m	$m	$m	$m	$m
Opening balance as at 1 July 2014		1,833.4	(9.3)	193.0	2,017.1	3,625.7	41.2	369.3	4,036.2	6,053.3
Net profit/(loss) for the year		-	-	174.7	174.7	-	-	444.0	444.0	618.7
Other comprehensive income/(loss) for the year		-	17.9	-	17.9	-	1.8	-	1.8	19.7
Total comprehensive income for the year		-	17.9	174.7	192.6	-	1.8	444.0	445.8	638.4
Transactions with owners in their capacity as owners										
Issue of additional equity	15	157.2	-	-	157.2	314.2	-	-	314.2	471.4
Purchase of securities, net of transaction costs	16	-	-	-	-	-	(4.0)	-	(4.0)	(4.0)
Security-based payments expense	16	-	-	-	-	-	3.8	-	3.8	3.8
Distributions paid or provided for	7	-	-	(177.4)	(177.4)	-	-	(208.2)	(208.2)	(385.6)
Total transactions with owners in their capacity as owners		157.2	-	(177.4)	(20.2)	314.2	(0.2)	(208.2)	105.8	85.6
Closing balance as at 30 June 2015		1,990.6	8.6	190.3	2,189.5	3,939.9	42.8	605.1	4,587.8	6,777.3
Opening balance as at 1 July 2015		**1,990.6**	**8.6**	**190.3**	**2,189.5**	**3,939.9**	**42.8**	**605.1**	**4,587.8**	**6,777.3**
Net profit for the year		**-**	**-**	**259.5**	**259.5**	**-**	**-**	**1,000.3**	**1,000.3**	**1,259.8**
Other comprehensive income for the year		**-**	**0.5**	**-**	**0.5**	**-**	**-**	**-**	**-**	**0.5**
Total comprehensive income for the year		**-**	**0.5**	**259.5**	**260.0**	**-**	**-**	**1,000.3**	**1,000.3**	**1,260.3**
Transactions with owners in their capacity as owners										
Buy-back of contributed equity, net of transaction costs	15	**(6.6)**	**-**	**-**	**(6.6)**	**(13.8)**	**-**	**-**	**(13.8)**	**(20.4)**
Purchase of securities, net of transaction costs	16	**-**	**-**	**-**	**-**	**-**	**4.8**	**-**	**4.8**	**4.8**
Security-based payments expense	16	**-**	**-**	**-**	**-**	**-**	**(4.6)**	**-**	**(4.6)**	**(4.6)**
Distributions paid or provided for	7	**-**	**-**	**(143.3)**	**(143.3)**	**-**	**-**	**(277.8)**	**(277.8)**	**(421.1)**
Total transactions with owners in their capacity as owners		**(6.6)**	**-**	**(143.3)**	**(149.9)**	**(13.8)**	**0.2**	**(277.8)**	**(291.4)**	**(441.3)**
Closing balance as at 30 June 2016		**1,984.0**	**9.1**	**306.5**	**2,299.6**	**3,926.1**	**43.0**	**1,327.6**	**5,296.7**	**7,596.3**

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

Consolidated Statement of Cash Flows

For the year ended 30 June 2016

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

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

About this Report

In this section

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

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

(a) Basis of preparation

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

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

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

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

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

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

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

Critical accounting estimates

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

Note 8	Investment properties	Page 60
Note 10	Inventories	Page 67
Note 12(b)	Interest bearing liabilities	Page 79
Note 12(c)	Derivative financial instruments	Page 78
Note 18	Intangible assets	Page 88
Note 21	Security-based payment	Page 91

(b) Principles of consolidation

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

(i) Controlled entities

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

(ii) Joint arrangements

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

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

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

(iii) Employee share trust

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

(c) Foreign currency

The Financial Statements are presented in Australian dollars.

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

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

(d) Goods and services tax

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

(e) New accounting standards and interpretations

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

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

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

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

(f) Notes to the Financial Statements

The notes include information which is required to understand the Financial Statements and is material and relevant to the operations, financial position and performance of the Group. Information is considered material and relevant if, for example:
- the amount in question is significant because of its size or nature;
- it is important in understanding the results of the Group;
- it helps to explain the impact of significant changes in the Group's business;
- it relates to an aspect of the Group's operations that is important to its future performance.

The notes are organised into the following sections:

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

Group performance

In this section

This section explains the results and performance of the Group.

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

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

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

1 Funds From Operations (FFO) is defined in note 1.

FFO and Adjusted FFO (AFFO) have been restated for previous periods to reflect the Property Council of Austrlia (PCA) definition.

2 Net Tangible Assets (NTA) is calculated as net assets less intangible assets.

3 Change in NTA per security plus distribution per security divided by previous year's NTA per security.

4 Gearing calculation is detailed in note 12(a) and is adjusted for cash and for debt in equity accounted investments.

Note 1

Operating segments

(a) Description of segments

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

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

Note 1

Operating segments (continued)

(b) Segment information provided to the CODM

30 June 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 and property management fees	632.2	126.6	24.1	-	-	-	(1.7)	781.2
Proceeds from sale of inventory	-	-	-	-	204.7	-	-	204.7
Management fee revenue	-	-	33.5	46.1	6.7	-	-	86.3
Total operating segment revenue	632.2	126.6	57.6	46.1	211.4	-	(1.7)	1,072.2
Property expenses and property management salaries	(161.1)	(27.3)	(17.0)	-	-	-	-	(205.4)
Management operations expenses	-	-	(26.3)	(16.8)	(5.5)	-	-	(48.6)
Corporate and administration expenses	(10.5)	(2.1)	-	-	-	(25.4)	1.7	(36.3)
Cost of sale of inventory	-	-	-	-	(114.3)	-	-	(114.3)
Interest revenue	-	-	-	-	-	1.1	-	1.1
Finance costs	-	-	-	-	-	(143.1)	-	(143.1)
Incentive amortisation and rent straight-line	84.0	8.9	-	-	-	-	-	92.9
Tax expense	-	-	-	-	(27.1)	(3.2)	-	(30.3)
Coupon income, rental guarantees and other	22.6	-	-	-	-	-	-	22.6
Funds From Operations (FFO)	567.2	106.1	14.3	29.3	64.5	(170.6)	-	610.8
Net fair value gain/(loss) of investment properties	769.1	45.3	-	-	-	-	-	814.4
Net fair value gain/(loss) of derivatives	-	-	-	-	-	70.5	-	70.5
Transaction costs	-	-	-	-	-	(7.1)	-	(7.1)
Net gain/(loss) on sale of investment properties	15.0	-	-	-	-	-	-	15.0
Net fair value gain/(loss) of interest bearing liabilities	-	-	-	-	-	(110.8)	-	(110.8)
Incentive amortisation and rent straight-line	(84.0)	(8.9)	-	-	-	-	-	(92.9)
Amortisation of intangible assets	-	-	-	-	-	(3.3)	-	(3.3)
Deferred tax (expense)/ benefit	-	-	-	-	-	(13.1)	-	(13.1)
Coupon income, rental guarantees and other	(23.7)	-	-	-	-	-	-	(23.7)
Net profit/(loss) attributable to stapled security holders	1,243.6	142.5	14.3	29.3	64.5	(234.4)	-	1,259.8
Segment asset measures								
Investment properties	4,997.4	1,422.1	-	-	-	-	-	6,419.5
Non-current assets held for sale	651.2	-	-	-	-	-	-	651.2
Inventories	-	-	-	-	276.0	-	-	276.0
Equity accounted investment properties	3,539.7	101.0	-	-	-	-	-	3,640.7
Direct property portfolio	9,188.3	1,523.1	-	-	276.0	-	-	10,987.4

Note 1

Operating segments (continued)

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

30 June 2015	Office $m	Industrial $m	Property management $m	Funds management $m	Development and trading $m	All other segments $m	Eliminations $m	Total $m
Segment performance measures								
Property revenue and property management fees	607.4	133.1	17.2	-	-	-	(0.8)	**756.9**
Proceeds from sale of inventory	-	-	-	-	220.1	-	-	**220.1**
Management fee revenue	-	-	32.5	40.5	6.4	-	-	**79.4**
Total operating segment revenue	**607.4**	**133.1**	**49.7**	**40.5**	**226.5**	**-**	**(0.8)**	**1,056.4**
Property expenses and property management salaries	(156.0)	(25.1)	(12.2)	-	-	-	-	**(193.3)**
Management operations expenses	-	-	(24.3)	(15.8)	(6.2)	-	-	**(46.3)**
Corporate and administration expenses	(7.4)	(1.7)	-	-	-	(30.4)	0.8	**(38.7)**
Cost of sale of inventory	-	-	-	-	(172.2)	-	-	**(172.2)**
Interest revenue	-	-	-	-	-	1.0	-	**1.0**
Finance costs	-	-	-	-	-	(151.8)	-	**(151.8)**
Incentive amortisation and rent straight-line	73.9	6.0	-	-	-	-	-	**79.9**
Tax expense	-	-	-	-	(5.3)	(0.8)	-	**(6.1)**
Coupon income and other	15.4	-	-	-	-	0.2	-	**15.6**
Funds From Operations (FFO)	**533.3**	**112.3**	**13.2**	**24.7**	**42.8**	**(181.8)**	**-**	**544.5**
Net fair value gain/(loss) of investment properties	213.5	27.5	-	-	-	-	-	**241.0**
Net fair value gain/(loss) of derivatives	-	-	-	-	-	(31.1)	-	**(31.1)**
Foreign currency translation reserve transfer	-	-	-	-	-	(2.1)	-	**(2.1)**
Net gain/(loss) on sale of investment properties	(2.4)	(0.7)	-	-	-	-	-	**(3.1)**
Net fair value gain/(loss) of interest bearing liabilities	-	-	-	-	-	(15.9)	-	**(15.9)**
Incentive amortisation and rent straight-line	(73.9)	(6.0)	-	-	-	-	-	**(79.9)**
Deferred tax (expense)/ benefit	-	-	-	-	-	(19.2)	-	**(19.2)**
Coupon income	(15.5)	-	-	-	-	-	-	**(15.5)**
Net profit/(loss) attributable to stapled security holders	**655.0**	**133.1**	**13.2**	**24.7**	**42.8**	**(250.1)**	**-**	**618.7**
Segment asset measures								
Investment properties	4,795.5	1,411.8	-	-	-	-	-	**6,207.3**
Non-current assets held for sale	-	5.5	-	-	-	-	-	**5.5**
Inventories	-	-	-	-	274.8	-	-	**274.8**
Equity accounted investment properties	2,983.9	61.9	-	-	-	-	-	**3,045.8**
Direct property portfolio	**7,779.4**	**1,479.2**	**-**	**-**	**274.8**	**-**	**-**	**9,533.4**

Note 1

Operating segments (continued)

(c) Other segment information

(i) Funds From Operations (FFO)

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

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

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

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

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

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

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

Note 2

Property revenue and expenses

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

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

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

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

Note 3

Management operations, corporate and administration expenses

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

Note 4

Finance costs

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

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

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

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

Note 5
Taxation

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

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

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

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

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

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

(a) Income tax (expense)/benefit

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

Note 5

Taxation (continued)

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

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

(c) Deferred tax assets

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

Note 5

Taxation (continued)

(d) Deferred tax liabilities

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

Net Deferred tax liabilities

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

Note 6

Earnings per unit

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

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

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

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

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

Note 7

Distributions paid and payable

Distributions are recognised when declared.

(a) Distribution to security holders

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

(b) Distribution rate

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

(c) Franked dividends

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

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

Property portfolio assets

In this section

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

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

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

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

The list of property portfolio assets is detailed in the Property Synopsis, available at www.dexus.com/investor-centre/dxs/announcements/asx.

Note 8

Investment properties

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

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

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

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

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

Note 8

Investment properties (continued)

(a) Reconciliation

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

Acquisitions

- On 30 September 2015, settlement occurred on the acquisition of Waterfront Place at 1 Eagle Street, Brisbane, QLD, jointly acquired by the Group and DWPF for $592.0 million excluding acquisition costs (Group share of $314.3 million including acquisition costs).
- On 30 October 2015, settlement occurred on the acquisition of Naldham House at 193 Mary Street, Brisbane, QLD, jointly acquired by the Group and DWPF for $14.0 million excluding acquisition costs (Group share of $7.5 million including acquisition costs).
- On 22 April 2016, settlement occurred on the acquisition of 90 and 100 Mount Street in North Sydney ("100 Mount Street") jointly acquired by the Group and DWPF for an initial acquisition price of $41.0 million excluding acquisition costs (Group share of $22.6 million including acquisition costs).

(b) Valuation process

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

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

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

Note 8

Investment properties (continued)

(b) Valuation process (continued)

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

(c) Fair value measurement, valuation techniques and inputs

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

Class of property	Fair value hierarchy	Inputs used to measure fair value	Range of unobservable inputs 2016	2015
Office[1]	Level 3	Adopted capitalisation rate	**5.25% - 7.50%**	5.83% - 8.25%
		Adopted discount rate	**7.00% - 8.25%**	7.76% - 9.50%
		Adopted terminal yield	**5.50% - 7.75%**	5.87% - 8.50%
		Current net market rental (per sqm)	**$320 - $1,269**	$338 - $1,141
Industrial	Level 3	Adopted capitalisation rate	**6.25% - 11.00%**	6.75% - 11.00%
		Adopted discount rate	**7.75% - 12.00%**	8.25% - 11.50%
		Adopted terminal yield	**6.50% - 11.25%**	7.00% - 11.00%
		Current net market rental (per sqm)	**$36 - $311**	$40 - $305
Development	Level 3	Adopted capitalisation rate	**0.00%**	6.50%
		Land rate (per sqm)	**$35 - $23,335**	$35 - $418

1 Excludes car parks and retail.

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

Judgement is required in determining the following key assumptions:

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

Note 8

Investment properties (continued)

(d) Sensitivity information

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

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

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

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

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

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

(e) Investment properties pledged as security

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

Note 9

Investments accounted for using the equity method

Investments are accounted for in the Financial Statements using the equity method of accounting (refer to the 'About this Report' section).
Information relating to these entities is set out below:

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

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

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

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

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

Note 9

Investments accounted for using the equity method (continued)

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

	DEXUS Office Trust Australia		Grosvenor Place Holdings Trust		DEXUS 480Q Holding Trust		Other joint ventures		Total	
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015
Summarised Statement of Financial Position	**$m**	$m	**$m**	$m	**$m**	$m	**$m**	$m	**$m**	$m
Current assets										
Cash and cash equivalents	**21.8**	6.6	**0.9**	0.8	**1.0**	-	**6.2**	4.7	**29.9**	12.1
Non-current assets classified as held for sale	**41.8**	-	**-**	-	**-**	-	**-**	-	**41.8**	-
Other current assets	**5.6**	3.9	**1.0**	0.6	**2.0**	0.9	**5.1**	4.5	**13.7**	9.9
Total current assets	**69.2**	10.5	**1.9**	1.4	**3.0**	0.9	**11.3**	9.2	**85.4**	22.0
Non-current assets										
Investment properties	**1,695.4**	1,567.9	**353.7**	304.6	**343.8**	157.1	**992.4**	820.4	**3,385.3**	2,850.0
Investments accounted for using the equity method	**213.4**	195.2	**-**	-	**-**	-	**-**	-	**213.4**	195.2
Other non-current assets	**0.2**	0.4	**-**	-	**-**	-	**0.1**	0.1	**0.3**	0.5
Total non-current assets	**1,909.0**	1,763.5	**353.7**	304.6	**343.8**	157.1	**992.5**	820.5	**3,599.0**	3,045.7
Current liabilities										
Provision for distribution	**22.5**	11.0	**-**	-	**-**	-	**3.0**	2.0	**25.5**	13.0
Borrowings	**74.0**	172.0	**-**	-	**-**	-	**-**	-	**74.0**	172.0
Other current liabilities	**25.8**	33.6	**2.7**	2.7	**2.7**	8.3	**22.4**	31.1	**53.6**	75.7
Total current liabilities	**122.3**	216.6	**2.7**	2.7	**2.7**	8.3	**25.4**	33.1	**153.1**	260.7
Non-current liabilities										
Borrowings	**11.1**	11.1	**-**	-	**-**	-	**-**	-	**11.1**	11.1
Total non-current liabilities	**11.1**	11.1	**-**	-	**-**	-	**-**	-	**11.1**	11.1
Net assets	**1,844.8**	1,546.3	**352.9**	303.3	**344.1**	149.7	**978.4**	796.6	**3,520.2**	2,795.9
Reconciliation of carrying amounts:										
Opening balance at the beginning of the year	**1,546.3**	1,777.8	**303.3**	293.5	**149.7**	82.9	**796.6**	659.7	**2,795.9**	2,813.9
Additions	**158.0**	56.2	**13.0**	8.8	**139.6**	67.3	**111.8**	132.0	**422.4**	264.3
Share of net profit/(loss) after tax	**287.3**	182.6	**51.7**	14.7	**68.9**	7.0	**117.6**	47.8	**525.5**	252.1
Distributions received/receivable	**(146.8)**	(97.7)	**(15.1)**	(13.7)	**(14.1)**	(7.5)	**(47.6)**	(42.9)	**(223.6)**	(161.8)
Return of capital	**-**	(372.6)	**-**	-	**-**	-	**-**	-	**-**	(372.6)
Closing balance at the end of the year	**1,844.8**	1,546.3	**352.9**	303.3	**344.1**	149.7	**978.4**	796.6	**3,520.2**	2,795.9

Note 9

Investments accounted for using the equity method (continued)

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

	DEXUS Office Trust Australia		Grosvenor Place Holdings Trust		DEXUS 480Q Holding Trust		Other joint ventures		Total	
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015
Summarised Statement of Comprehensive Income	**$m**	$m	**$m**	$m	**$m**	$m	**$m**	$m	**$m**	$m
Property revenue	**147.0**	143.8	**18.9**	20.3	**2.8**	-	**57.6**	44.0	**226.3**	208.1
Property revaluations	**181.1**	91.2	**37.5**	(0.7)	**68.2**	7.0	**75.5**	13.1	**362.3**	110.6
Interest income	**0.4**	0.4	**-**	-	**-**	-	**0.1**	0.2	**0.5**	0.6
Gain on sale of investment properties	**14.0**	-	**-**	-	**-**	-	**-**	-	**14.0**	-
Finance costs	**(7.7)**	(8.0)	**-**	-	**-**	-	**-**	-	**(7.7)**	(8.0)
Other expenses	**(47.5)**	(44.8)	**(4.7)**	(4.9)	**(2.1)**	-	**(15.6)**	(9.5)	**(69.9)**	(59.2)
Net profit/(loss) for the year	**287.3**	182.6	**51.7**	14.7	**68.9**	7.0	**117.6**	47.8	**525.5**	252.1
Total comprehensive income/(loss) for the year	**287.3**	182.6	**51.7**	14.7	**68.9**	7.0	**117.6**	47.8	**525.5**	252.1

Note 10

Inventories

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

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

Key estimate: net realisable value (NRV) of inventories

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

(a) Land and properties held for resale

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

(b) Reconciliation

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

Disposals

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

Note 11

Non-current assets classified as held for sale

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

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

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

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

Refer to note 24 for further details.

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

Capital and financial risk management and working capital

In this section

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

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

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

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

Note 12

Capital and financial risk management

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

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

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

(a) Capital risk management

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

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

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

Note 12

Capital and financial risk management (continued)

(a) Capital risk management (continued)

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

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

1 Total interest bearing liabilities excludes deferred borrowing costs and includes the impact of foreign currency fluctuations of cross currency swaps.

2 Total tangible assets comprise total assets less intangible assets, derivatives and deferred tax balances.

3 The look-through gearing ratio is adjusted for cash and debt in equity accounted investments and is not a financial covenant.

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

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

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

(b) Financial risk management

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

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

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

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

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

Note 12

Capital and financial risk management (continued)

(b) Financial risk management (continued)

(i) Market risk

Interest rate risk

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

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

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

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

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

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

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

Sensitivity analysis on interest expense

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

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

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

Note 12

Capital and financial risk management (continued)

(b) Financial risk management (continued)

(i) Market risk (continued)

Interest rate risk (continued)

Sensitivity analysis on fair value of interest rate swaps

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

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

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

Sensitivity analysis on fair value of cross currency swaps

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

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

Foreign currency risk

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

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

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

Foreign currency assets and liabilities

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

Note 12

Capital and financial risk management (continued)

(b) Financial risk management (continued)

(ii) Liquidity risk

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

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

Refinancing risk

Refinancing risk is the risk that the Group:

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

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

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

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

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

Note 12

Capital and financial risk management (continued)

(b) Financial risk management (continued)

(iii) Credit risk

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

The Group manages this risk by:

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

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

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

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

The Group is exposed to credit risk on trade receivable balances. The Group has a policy to continuously assess and monitor the credit quality of trade debtors on an ongoing basis. Given the historical profile and exposure of the trade receivables, it has been is determined that no significant concentrations of credit risk exists for trade receivables balances. The maximum exposure to credit risk at 30 June 2016 is the carrying amounts of the trade receivables recognised on the Statement of Financial Position.

Note 12

Capital and financial risk management (continued)

(b) Financial risk management (continued)

(iv) Fair value

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

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

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

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

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

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

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

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

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

Note 12

Capital and financial risk management (continued)

(b) Financial risk management (continued)

(iv) Fair value (continued)

Key assumptions: fair value of borrowings

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

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

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

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

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

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

(v) Offsetting financial assets and financial liabilities

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

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

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

Note 12

Capital and financial risk management (continued)

(b) Financial risk management (continued)

(v) Offsetting financial assets and financial liabilities (continued)

Master netting arrangements – not currently enforceable

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

(c) Derivative financial instruments

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

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

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

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

Fair value hedge

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

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

Cash flow hedge

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

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

Note 12

Capital and financial risk management (continued)

(c) Derivative financial instruments (continued)

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

Key assumptions: fair value of derivatives

The fair value of derivative financial instruments has been determined based on a discounted cash flow analysis using observable market inputs (interest rates, exchange rates and currency basis) and applying a credit or debit valuation adjustment based on the current credit worthiness of counterparties and the Group.
Refer to note 12(b)(iv) *Capital and financial risk management* for further detail.

Note 13

Interest bearing liabilities

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

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

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

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

Note 13

Interest bearing liabilities (continued)

Financing arrangements

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

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

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

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

(a) US senior notes (144A)

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

(b) US senior notes (USPP)

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

(c) Multi-option revolving credit facilities

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

(d) Commercial Paper

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

(e) Medium Term Notes

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

Note 14

Commitments and contingencies

(a) Commitments

(i) Capital commitments

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

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

(ii) Lease payable commitments

The future minimum lease payments payable by the Group are:

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

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

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

(iii) Lease receivable commitments

The future minimum lease payments receivable by the Group are:

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

Note 14

Commitments and contingencies (continued)

(b) Contingencies

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

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

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

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

Note 15

Contributed equity

(a) Contributed equity of unitholders of the parent entity

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

(b) Contributed equity of unitholders of other stapled entities

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

Note 15

Contributed equity (continued)

(c) Number of securities on issue

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

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

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

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

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

Note 16

Reserves and retained profits

(a) Reserves

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

(b) Nature and purpose of reserves

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

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

Note 16

Reserves and retained profits (continued)

(b) Nature and purpose of reserves (continued)

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

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

Note 17

Working capital

(a) Cash and cash equivalents

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

(b) Receivables

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

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

	2016	2015
	$m	$m
Rent receivable	**19.2**	13.9
Less: provision for doubtful debts	**(0.5)**	(0.2)
Total rental receivables	**18.7**	13.7
Distributions receivable	**25.5**	12.9
Fee receivable	**22.3**	18.9
Other receivables	**15.4**	10.0
Total other receivables	**63.2**	41.8
Total receivables	**81.9**	55.5

Note 17

Working capital (continued)

(c) Other current assets

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

(d) Payables

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

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

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

(e) Provisions

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

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

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

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

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

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

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

Note 17

Working capital (continued)

(e) Provisions (continued)

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

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

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

Other disclosures

In this section

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

Note 18

Intangible assets

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

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

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

Note 18

Intangible assets (continued)

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

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

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

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

Key assumptions: value in use of management rights

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

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

Note 19

Audit, taxation and transaction services fees

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

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

Note 20

Reconciliation of net profit to net cash flows from operating activities

(a) Reconciliation

	2016 $m	2015 $m
Net profit/(loss) for the year	**1,259.8**	618.7
Capitalised interest	**(9.3)**	(6.0)
Depreciation and amortisation	**5.8**	2.9
Net fair value (gain)/loss of investment properties	**(452.1)**	(130.4)
Share of net (profit)/loss of investments accounted for using the equity method	**(525.5)**	(252.1)
Net fair value (gain)/loss of derivatives	**(106.4)**	(17.4)
Net fair value (gain)/loss of interest rate swaps	**35.8**	48.5
Amortisation of deferred borrowing costs	**4.3**	3.6
Net (gain)/loss on sale of investment properties	**(1.0)**	3.0
Net fair value (gain)/loss of interest bearing liabilities	**110.8**	15.9
Foreign currency translation reserve transfer on disposal of foreign operations	**-**	2.1
Transaction costs	**7.1**	-
Provision for doubtful debts	**0.3**	0.1
Distributions from investments accounted for using the equity method	**213.2**	217.6
Change in operating assets and liabilities		
(Increase)/decrease in prepaid expenses	**1.5**	(4.5)
(Increase)/decrease in inventories	**80.5**	118.9
(Increase)/decrease in other current assets	**(7.4)**	(0.9)
(Increase)/decrease in other non-current assets	**7.3**	15.8
Increase/(decrease) in payables	**1.2**	5.9
Increase/(decrease) in current liabilities	**34.7**	(0.2)
Increase/(decrease) in other non-current liabilities	**3.2**	(1.3)
(Increase)/decrease in deferred tax assets	**(0.1)**	21.2
Net cash inflow/(outflow) from operating activities	**663.7**	661.4

(b) Capital expenditure on investment properties

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

Note 21

Security-based payment

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

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

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

Key assumptions: fair value of performance rights granted

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

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

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

(a) 2012 Transitional Performance Rights Plan

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

(b) Deferred Short Term Incentive Plan

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

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

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

Note 21

Security-based payment (continued)

(c) Long Term Incentive Plan

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

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

Note 22

Related parties

Responsible Entity and Investment Manager

DXH is the parent entity of DXFM, the Responsible Entity of DDF, DIT, DOT and DXO and the Trustee of DOTA and the investment manager for DITA.

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

DXH is the Investment Manager of DOTA.

Management fees

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

Related party transactions

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

DEXUS Wholesale Property Fund

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

Note 22

Related parties (continued)

Investments accounted for using the equity method

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

Directors

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

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

1 Independent Director.
2 Board Nomination Committee Member as at 30 June 2016.
3 Board People and Remuneration Committee Member as at 30 June 2016.
4 Board Audit Committee Member as at 30 June 2016.
5 Board Risk Committee Member as at 30 June 2016.
6 Mr Steinberg ceased to be a member of the Board Nomination Committee and was replaced by Penny Bingham-Hall effective 27 July 2016.

Other key management personnel

In addition to the Directors listed above, the following persons were deemed by the Board Nomination Committee to be key management personnel during all or part of the financial year:

Name	Title
Alison Harrop	Chief Financial Officer
Ross Du Vernet	Chief Investment Officer
Craig Mitchell	Chief Operating Officer
Deborah Coakley	Executive General Manager, Customer and Marketing
Kevin George	Executive General Manager, Office and Industrial

Note 22

Related parties (continued)

Key management personnel compensation

	2016 $'000	2015 $'000
Compensation		
Short-term employee benefits	**8,130**	7,453
Post employment benefits	**235**	220
Security-based payments	**2,456**	2,595
	10,821	10,268

Equity instrument disclosures relating to key management personnel

The relevant interest in DXS stapled securities held during the financial year by each key management personnel, including their personally related parties, are set out below:

	Opening Balance 1 July 2015	Purchases	Performance rights granted	Other change	Closing Balance 30 June 2016
Directors	1,068,187	8,200	387,044	(436,477)	1,026,954
Other key management personnel	348,396	-	181,362	51,507	581,265
Total	**1,416,583**	**8,200**	**568,406**	**(384,970)**	**1,608,219**

The DXFM Board has approved a grant of performance rights to DXS stapled securities to eligible participants (refer to note 21). Details of the number of performance rights issued to each of the key management personnel are set out in section 3 of the Directors' Report.

There were no loans or other transactions with key management personnel or their related parties during the years ended 30 June 2016 and 30 June 2015.

Note 23

Parent entity disclosures

The financial information for the parent entity of DEXUS Diversified Trust has been prepared on the same basis as the consolidated Financial Statements except as set out below:

Distributions received from associates are recognised in the parent entity's Statement of Comprehensive Income, rather than being deducted from the carrying amount of these investments.

Interests held by the parent entity in controlled entities are measured at fair value through profit and loss to reduce a measurement or recognition inconsistency.

(a) Summary financial information

The individual Financial Statements for the parent entity show the following aggregate amounts:

	2016	2015
	$m	$m
Total current assets	**609.1**	105.6
Total assets	**3,989.7**	3,724.6
Total current liabilities	**118.7**	183.4
Total liabilities	**1,674.8**	1,535.0
Equity		
Contributed equity	**1,984.0**	1,990.6
Reserves	**9.1**	8.6
Retained profits	**321.8**	190.4
Total equity	**2,314.9**	2,189.6
Net profit/(loss) for the year	**259.5**	174.7
Total comprehensive income/(loss) for the year	**260.0**	183.4

(b) Guarantees entered into by the parent entity

Refer to note 14(b) for details of guarantees entered into by the parent entity.

(c) Contingent liabilities

The parent entity had no contingent liabilities as at 30 June 2016 (2015: nil).

(d) Capital commitments

The following amounts represent capital expenditure of the parent entity on investment properties contracted at the end of the reporting period but not recognised as liabilities payable:

	2016	2015
	$m	$m
Investment properties	**6.2**	3.0
Total capital commitments	**6.2**	3.0

Note 24

Subsequent events

On 1 July 2016, settlement occurred on the sale of 57-65 Templar Road, Erskine Park, NSW for gross proceeds of $50 million.

On 6 July 2016, contracts were exchanged for the sale of 108 North Terrace, Adelaide, SA for gross proceeds of $86.5 million. The property is owned by the DEXUS Office Partnership, in which the Group has a 50% interest.

29 July 2016, settlement occurred on the sale of The Zenith, 821 Pacific Highway, Chatswood, NSW for gross proceeds of $139.5 million.

On 5 August 2016, contracts were exchanged for the sale of 79-99 St Hilliers Road, Auburn, NSW for gross proceeds of $65 million.

On 5 August 2016, the Group exchanged contracts for the sale of the Southgate Complex at 3 Southgate Avenue, Southbank, VIC for gross proceeds of $578.0 million. The sale is conditional on the purchaser receiving Foreign Investment Review Board (FIRB) approval.

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

The Directors of DEXUS Funds Management Limited as Responsible Entity of DEXUS Diversified Trust declare that the Financial Statements and notes set out on pages 43 to 96:

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

(ii) give a true and fair view of the Group's financial position as at 30 June 2016 and of their performance, as represented by the results of their operations and their cash flows, for the year ended on that date.

In the Directors' opinion:

(a) the Financial Statements and notes are in accordance with the *Corporations Act 2001*;

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

(c) the Group has operated in accordance with the provisions of the Constitution dated 15 August 1984 (as amended) during the year ended 30 June 2016.

The Financial Statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The Directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer required by section 295A of the *Corporations Act 2001*.

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

W Richard Sheppard
Chair
16 August 2016

Independent auditor's report to the stapled security holders of DEXUS Diversified Trust

Report on the financial report

We have audited the accompanying financial report of DEXUS Diversified Trust (the registered scheme), which comprises the consolidated statement of financial position as at 30 June 2016, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for the DEXUS Property Group (the consolidated entity). The DEXUS Property Group comprises the registered scheme and the entities it controlled at year's end or from time to time during the financial year as disclosed in the Basis of preparation.

Directors' responsibility for the financial report

The directors of DEXUS Funds Management Limited (the responsible entity) are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In the Basis of preparation, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the consolidated entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Independence

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

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Auditor's opinion

In our opinion:

(a) the financial report of DEXUS Diversified Trust is in accordance with the *Corporations Act 2001,* including:

   (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of its performance for the year ended on that date; and

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

(b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in the Basis of preparation.

Report on the Remuneration Report

We have audited the remuneration report included in pages 18 to 37 of the directors' report for the year ended 30 June 2016. The directors of the registered scheme are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion

In our opinion, the remuneration report of DEXUS Diversified Trust for the year ended 30 June 2016 complies with section 300A of the *Corporations Act 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers

E A Barron
Partner

Sydney
16 August 2016

DEXUS Industrial Trust

(ARSN 090 879 137)

Financial Report
30 June 2016

DEXUS
PROPERTY GROUP

Contents

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

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

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

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

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

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

1 Directors and Secretaries

1.1 Directors

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

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

1.2 Company Secretaries

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

Brett D Cameron LLB/BA (Science & Technology), GAICD
Appointed: 31 October 2014

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

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

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

Rachel Caralis LLB/B Com (Acc), M Com (Property Development), Grad Dip (Applied Corporate Governance) AGIA, AAPI
Appointed: 17 February 2016

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

Rachel joined DEXUS in 2008 after 5 years at King & Wood Mallesons where she worked in the real estate and projects team. Rachel has 13 years' experience as in-house counsel and in private practice working on real estate and corporate transactions, funds management and corporate finance for wholesale and listed clients.

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

2 Attendance of Directors at Board meetings and Board Committee meetings

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

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

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

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

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

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

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

3 Directors' relevant interests

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

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

4 Review and results of operations

The results for the year ended 30 June 2016 were:

- profit attributable to unitholders was $74.9 million (2015: $56.6 million);
- total assets were $1,050.7 million (2015: $1,082.4 million); and
- net assets were $947.2 million (2015: $924.9 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 Property Group Financial Report and forms part of this Directors' Report.

5 Directors' directorships in other listed entities

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

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

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

6 Principal activities

During the year the principal activity of the Trust was investment in real estate assets. There were no significant changes in the nature of the Trust's activities during the year.

7 Total value of Trust assets

The total value of the assets of the Trust as at 30 June 2016 was $1,050.7 million (2015: $1,082.4 million). Details of the basis of this valuation are outlined in the Notes to the Financial Statements and form part of this Directors' Report.

8 Likely developments and expected results of operations

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

9 Significant changes in the state of affairs

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

10 Matters subsequent to the end of the financial year

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

11 Distributions

Distributions paid or payable by the Trust for the year ended 30 June 2016 are outlined in note 6 of the Notes to the Financial Statements and form part of the Directors' Report.

12 DXFM fees

Details of fees paid or payable by the Trust to DXFM for the year ended 30 June 2016 are outlined in note 15 of the Notes to the Financial Statements and form part of this Directors' Report.

13 Units on issue

The movement in units on issue in the Trust during the year and the number of units on issue as at 30 June 2016 are detailed in note 11 of the Notes to the Financial Statements and form part of this Directors' report.

Details of the number of interests in the Trust held by DXFM or its associates as at the end of the financial year are outlined in note 15 of the Notes to the Financial Statements and form part of this Directors' report.

The trust did not have any options on issue as at 30 June 2016 (2015: nil).

14 Environmental regulation

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

15 Indemnification and insurance

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

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

16 Audit

16.1 Auditor

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

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

16.2 Non-audit services

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

Details of the amounts paid or payable to the Auditor for audit and non-audit services provided during the year are set out in note 13 of the Notes to the Financial Statements.

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

The reasons for the Directors being satisfied are:

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

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

16.3 Auditor's Independence Declaration

A copy of the Auditor's Independence Declaration as required under section 307C of the *Corporations Act 2001* is set out on page 7 and forms part of this Directors' Report.

17 Corporate governance

DXFM's Corporate Governance Statement is available at http://www.dexus.com/corporate-governance/2/corporate-governance.

18 Rounding of amounts and currency

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

19 Directors' authorisation

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

W Richard Sheppard
Chair
16 August 2016

Darren J Steinberg
Chief Executive Officer
16 August 2016

Auditor's Independence Declaration

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

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

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

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

E A Barron
Partner
PricewaterhouseCoopers

Sydney
16 August 2016

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Consolidated Statement of Comprehensive Income

For the year ended 30 June 2016

	Note	2016 $'000	2015 $'000
Revenue from ordinary activities			
Property revenue	2	**61,687**	66,737
Interest revenue	3	**8,158**	3,850
Total revenue from ordinary activities		**69,845**	70,587
Net fair value gain of investment properties		**27,045**	20,405
Net gain on sale of investment properties		**-**	62
Net fair value gain of derivatives		**-**	38
Total income		**96,890**	91,092
Expenses			
Property expenses	2	**(13,751)**	(14,608)
Management fee expense		**(2,094)**	(2,183)
Finance costs	4	**(3,712)**	(7,325)
Net fair value loss of derivatives		**(16)**	-
Net loss on sale of investment properties		**(256)**	-
Net foreign exchange loss		**(1,728)**	(9,596)
Corporate and administration expenses		**(400)**	(775)
Total expenses		**(21,957)**	(34,487)
Profit/(loss) for the year		**74,933**	56,605
Other comprehensive income/(loss):			
Total comprehensive income/(loss) for the year		**74,933**	56,605

		Cents	Cents
Earnings per unit on profit/(loss) attributable to unitholders of the parent entity			
Basic earnings per unit	5	**7.74**	6.18
Diluted earnings per unit	5	**7.74**	6.18

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

	Note	2016 $'000	2015 $'000
Current assets			
Cash and cash equivalents	12(a)	**2,441**	1,979
Receivables	12(b)	**2,786**	4,293
Non-current assets classified as held for sale	8	**-**	102,200
Loans with related parties	9(b)(iv)	**138,948**	138,948
Derivative financial instruments	9(c)	**8,675**	742
Other		**1,070**	1,447
Total current assets		**153,920**	249,609
Non-current assets			
Investment properties	7	**674,321**	655,646
Loans with related parties	9(b)(iv)	**221,243**	168,299
Derivative financial instruments	9(c)	**1,243**	8,834
Total non-current assets		**896,807**	832,779
Total assets		**1,050,727**	1,082,388
Current liabilities			
Payables	12(c)	**61,785**	68,258
Provisions	12(d)	**25,621**	67,356
Derivative financial instruments	9(c)	**153**	3,961
Total current liabilities		**87,559**	139,575
Non-current liabilities			
Derivative financial instruments	9(c)	**15,993**	17,931
Other		**2**	4
Total non-current liabilities		**15,995**	17,935
Total liabilities		**103,554**	157,510
Net assets		**947,173**	924,878
Equity			
Contributed equity	11	**1,255,798**	1,258,587
Retained profits/(accumulated losses)		**(308,625)**	(333,709)
Total equity		**947,173**	924,878

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

	Note	Contributed equity $'000	Retained profits/ (losses) $'000	Reserves $'000	Total equity $'000
Opening balance as at 1 July 2014		1,190,969	(322,958)	-	868,011
Profit/(loss) for the year		-	56,605	-	56,605
Other comprehensive income/(loss) for the year		-	-	-	-
Total comprehensive income for the year		-	56,605	-	56,605
Transactions with owners in their capacity as unitholders:					
Issue of additional equity, net of transaction costs	11	67,618	-	-	67,618
Distributions paid or provided for	6	-	(67,356)	-	(67,356)
Total transactions with owners in their capacity as owners		67,618	(67,356)	-	262
Closing balance as at 30 June 2015		1,258,587	(333,709)	-	924,878
Opening balance as at 1 July 2015		**1,258,587**	**(333,709)**	**-**	**924,878**
Profit/(loss) for the year		**-**	**74,933**	**-**	**74,933**
Other comprehensive income/(loss) for the year		**-**	**-**	**-**	**-**
Total comprehensive income for the year		**-**	**74,933**	**-**	**74,933**
Transactions with owners in their capacity as unitholders:					
Buy-back of contributed equity, net of transaction costs	11	**(2,789)**	**-**	**-**	**(2,789)**
Distributions paid or provided for	6	**-**	**(49,849)**	**-**	**(49,849)**
Total transactions with owners in their capacity as owners		**(2,789)**	**(49,849)**	**-**	**(52,638)**
Closing balance as at 30 June 2016		**1,255,798**	**(308,625)**	**-**	**947,173**

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

	Note	2016 $'000	2015 $'000
Cash flows from operating activities			
Receipts in the course of operations (inclusive of GST)		**71,452**	72,536
Payments in the course of operations (inclusive of GST)		**(29,288)**	(21,495)
Interest received		**17**	20
Finance costs paid to financial institutions		**(10,060)**	(7,371)
Net cash inflow/(outflow) from operating activities	14	**32,121**	43,690
Cash flows from investing activities			
Proceeds from sale of investment properties		**115,594**	1,345
Payments for capital expenditure on investment properties		**(8,130)**	(8,866)
Net cash inflow/(outflow) from investing activities		**107,464**	(7,521)
Cash flows from financing activities			
Borrowings provided to related parties		**(191,234)**	(192,430)
Borrowings received from related parties		**146,484**	88,391
Payments for buy-back of contributed equity		**(2,789)**	-
Proceeds from issue of additional equity		**-**	67,618
Distributions paid to unitholders		**(91,584)**	-
Net cash inflow/(outflow) from financing activities		**(139,123)**	(36,421)
Net increase/(decrease) in cash and cash equivalents		**462**	(252)
Cash and cash equivalents at the beginning of the year		**1,979**	2,197
Effects of exchange rate changes on cash and cash equivalents		**-**	34
Cash and cash equivalents at the end of the year		**2,441**	1,979

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.

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

(a) Basis of preparation

DEXUS Property Group stapled securities are quoted on the Australian Securities Exchange under the "DXS" code and comprise one unit in each of DDF, DIT, DOT and DXO.

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

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

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

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

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

Critical accounting estimates

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

Note 7	Investment properties	Page 18
Note 9(c)	Derivative financial instruments	Page 30

(b) Principles of consolidation

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

(i) Controlled entities

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

(b) Principles of consolidation (continued)

(ii) Joint arrangements

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

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

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

(c) Foreign currency

The Financial Statements are presented in Australian dollars.

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

(d) Goods and services tax

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

(e) New accounting standards and interpretations

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

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

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

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

(f) Notes to the Financial Statements

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

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

The notes are organised into the following sections:

Trust performance	**Property portfolio assets**	**Capital and financial risk management and working capital**	**Other disclosures**
1. Operating segments	7. Investment properties	9. Capital and financial risk management	13. Audit, taxation and transaction services fees
2. Property revenue and expenses	8. Non-current assets classified as held for sale	10. Commitments and contingencies	14. Reconciliation of net profit to net cash flows from operating activities
3. Interest revenue		11. Contributed equity	15. Related parties
4. Finance costs		12. Working capital	16. Parent entity disclosures
5. Earnings per unit			17. Subsequent events
6. Distributions paid and payable			

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, property revenue and expenses, interest revenue, finance costs, taxation and earnings per unit.

Note 1

Operating segments

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

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.

Consistent with how the CODM manages the business, the operating segments within DXS are reviewed on a consolidated basis and are not monitored at an individual trust level. The results of the individual trusts are not limited to any one of the segments described above.

Disclosures concerning DXS's operating segments, as well as the operating segments' key financial information provided to the CODM, are presented in the DEXUS Property Group Financial Report.

Note 2

Property revenue and expenses

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

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

	2016	2015
	$'000	$'000
Rent and recoverable outgoings	**62,217**	64,358
Incentive amortisation	**(6,948)**	(6,653)
Other revenue	**6,418**	9,032
Total property revenue	**61,687**	66,737

Property expenses of $13.8 million (2015: $14.6 million) include rates, taxes and other property outgoings incurred in relation to investment properties.

Note 3

Interest revenue

Interest revenue is brought to account on an accruals basis using the effective interest rate method and, if not received at the end of the reporting period, is reflected in the Statement of Financial Position as a receivable.

	2016	2015
	$'000	$'000
Interest revenue from financial insititutions	**17**	20
Interest revenue from related parties	**8,141**	3,830
Total interest revenue	**8,158**	3,850

Note 4

Finance costs

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

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

	2016	2015
	$'000	$'000
Interest paid/payable	**360**	1,042
Net fair value loss of interest rate swaps	**3,001**	5,975
Other finance costs	**351**	308
Total finance costs	**3,712**	7,325

Note 5

Earnings per unit

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

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

	2016 $'000	2015 $'000
Profit attributable to unitholders of the parent entity	**74,933**	56,605

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

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

Note 6

Distributions paid and payable

Distributions are recognised when declared.

(a) Distribution to unitholders

	2016 $'000	2015 $'000
31 December (paid 29 February 2016)	**24,228**	-
30 June (payable 31 August 2016)	**25,621**	67,356
Total distributions to unitholders	**49,849**	67,356

(b) Distribution rate

	2016 Cents per unit	2015 Cents per unit
31 December (paid 29 February 2016)	**2.50**	-
30 June (payable 31 August 2016)	**2.65**	6.94
Total distributions	**5.15**	6.94

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.
- *Non-current assets classified as held for sale:* relates to investment properties which are expected to be sold within 12 months of the balance sheet date and are currently being marketed for sale.

The list of property portfolio assets is detailed in the Property Synopsis, available at www.dexus.com/investor-centre/dxs/announcements/asx.

Note 7

Investment properties

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

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

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

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

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

(a) Reconciliation

	Office $'000	Industrial $'000	Development $'000	2016 $'000	2015 $'000
Opening balance at the beginning of the year	155,650	489,996	10,000	655,646	726,391
Additions	1,394	4,528	189	6,111	5,550
Lease incentives	765	4,990	-	5,755	12,438
Amortisation of lease incentives	(3,316)	(3,503)	-	(6,819)	(6,653)
Rent straightlining	(31)	392	-	361	1,364
Disposals	-	(35,950)	-	(35,950)	(1,649)
Transfer to/from non-current assets classified as held for sale[1]	-	22,300	-	22,300	(102,200)
Net fair value gain/(loss) of investment properties	19,089	7,828	-	26,917	20,405
Closing balance at the end of the year	173,551	490,581	10,189	674,321	655,646

1 These transfers eliminate on consolidation in the DXS Group Financial Statements.

Note 7

Investment properties (continued)

(b) Valuation process

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

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

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

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

(c) Fair value measurement, valuation techniques and inputs

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

Class of property	Fair value hierarchy	Inputs used to measure fair value	Range of unobservable inputs 2016	2015
Office[1]	Level 3	Adopted capitalisation rate	**7.50%**	8.25%
		Adopted discount rate	**8.00%**	9.00%
		Adopted terminal yield	**7.50%**	8.25%
		Current net market rental (per sqm)	**$387**	$378
Industrial	Level 3	Adopted capitalisation rate	**6.50% - 11.00%**	7.00% - 11.00%
		Adopted discount rate	**8.00% - 12.00%**	8.25% - 11.50%
		Adopted terminal yield	**6.75% - 11.25%**	7.50% - 11.00%
		Current net market rental (per sqm)	**$40 - $300**	$40 - $305
Development	Level 3	Land rate (per sqm)	**$425**	$418

1 Excludes car parks and retail

Note 7

Investment properties (continued)

(c) Fair value measurement, valuation techniques and inputs (continued)

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

Judgement is required in determining the following key assumptions:

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

(d) Sensitivity information

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

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

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

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

Note 7

Investment properties (continued)

(d) Sensitivity information (continued)

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

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

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.

Assets classified as held for sale relate to investment properties and are measured at fair value.

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

Capital and financial risk management and working capital

In this section

The Trust's overall risk management program focuses on reducing volatility from impacts in movements of financial markets and seeks to minimise potential adverse effects on the financial performance of the Trust. Note 9 *Capital and financial risk management* outlines how the Trust manages its exposure to a variety of financial risks (interest rate risk, foreign currency risk, liquidity risk and credit risk) and details the various derivative financial instruments entered into by the Trust.

The Board determines the appropriate capital structure of the Trust, 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: *Commitments and contingencies* in note 10;
- Equity: *Contributed equity* in note 11.

Note 12 provides a breakdown of the working capital balances held in the Statement of Financial Position.

Note 9

Capital and financial risk management

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

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

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

(a) Capital risk management

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

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

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

The trust is not rated by rating agencies, however, DXS is rated A- by Standard and Poor's (S&P) and A3 by Moody's. Gearing levels and bank debt covenants are managed holistically as part of the DXS Group.

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

Note 9

Capital and financial risk management (continued)

(b) Financial risk management

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

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

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

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

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

(i) Market risk

Interest rate risk

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

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

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

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

Note 9

Capital and financial risk management (continued)

(b) Financial risk management (continued)

(i) Market risk (continued)

Interest rate risk (continued)

	June 2017	June 2018	June 2019	June 2020	June 2021	> June 2022
	$'000	$'000	$'000	$'000	$'000	$'000
A$ hedged[1]	70,000	80,000	120,000	40,000	-	-
A$ hedge rate (%)	2.05%	4.00%	6.04%	2.04%	-	-

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

Sensitivity analysis on interest expense

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

		2016	2015
		(+/-) $'000	(+/-) $'000
+/- 0.50% (50 basis points)	A$	**2**	652
Total A$ equivalent		**652**	652

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

Sensitivity analysis on fair value of interest rate swaps

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

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

		2016	2015
		(+/-) $'000	(+/-) $'000
+/- 0.50% (50 basis points)	A$	**1,305**	3,538
+/- 0.50% (50 basis points)	US$	**(56)**	(150)
Total A$ equivalent		**1,249**	3,388

Note 9

Capital and financial risk management (continued)

(b) Financial risk management (continued)

(i) Market risk (continued)

Interest rate risk (continued)

Sensitivity on fair value of cross currency swaps

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

	2016	2015
	(+/-) $'000	(+/-) $'000
+/- 0.50% (50 basis points)	**17**	17
Total A$ equivalent	**17**	17

1 The above analysis does not include sensitivity to movements in BILLS LIBOR

Foreign currency risk

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

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

The objective of the Trust's foreign exchange risk management policy is to ensure that movements in exchange rates have minimal adverse impact on the Trust's foreign currency assets and liabilities.

Foreign currency assets and liabilities

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

(ii) Liquidity risk

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

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

Note 9

Capital and financial risk management (continued)

(b) Financial risk management (continued)

(ii) Liquidity risk (continued)

Refinancing risk

Refinancing risk is the risk that the Trust:

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

The Group's key risk management strategy for margin price risk on refinancing is to spread the maturities of debt facilities over different time periods to reduce the volume of facilities to be refinanced and the exposure to market conditions in any one period.

An analysis of the contractual maturities of the Trust's interest bearing liabilities and derivative financial instruments is shown in the table below. The amounts in the table represent undiscounted cash flows.

	2016					2015				
	Within one year	Between one and two years	Between two and five years	After five years	Total	Within one year	Between one and two years	Between two and five years	After five years	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Payables	(61,785)	-	-	-	(61,785)	(68,258)	-	-	-	(68,258)
Interest bearing liabilities & interest										
Loans receivable/(payable) with related parties and interest[1]	(20,446)	8,312	255,431	-	243,296	(8,270)	(8,270)	(176,569)	-	(193,109)
Derivative financial instruments										
Derivative assets	828	-	-	-	828	2,165	27,458	-	-	29,623
Derivative liabilities	(21,685)	(4,806)	(8,720)	-	(35,211)	(7,212)	(22,558)	(20,660)	-	(50,430)
Total net derivative financial instruments[2]	(20,857)	(4,806)	(8,720)	-	(34,383)	(5,047)	4,900	(20,660)	-	(20,807)

1 Includes estimated interest.
2 The notional maturities on derivatives are shown for cross currency interest rate swaps (refer to foreign exchange rate risk) as they are the only instruments where a principal amount is exchanged. For interest rate swaps, only the net interest cash flows (not the notional principal) are included. Refer to note 9(c) for fair value of derivatives. Refer to note 10(b) for financial guarantees.

Note 9

Capital and financial risk management (continued)

(b) Financial risk management (continued)

(iii) Credit risk

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

The Trust manages this risk by:

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

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

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

Financial instrument transactions are spread among a number of approved financial institutions within specified credit limits to minimise the Trust's exposure to any one counterparty. As a result, there is no significant concentration of credit risk for financial instruments.

The Trust is exposed to credit risk on trade receivable balances. The Trust has a policy to continuously assess and monitor the credit quality of trade debtors on an ongoing basis. Given the historical profile and exposure of the trade receivables, it has been is determined that no significant concentrations of credit risk exists for trade receivable balances. The maximum exposure to credit risk at 30 June 2016 is the carrying amounts of the trade receivables recognised on the Statement of Financial Position.

Note 9

Capital and financial risk management (continued)

(b) Financial risk management (continued)

(iv) Fair value

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

Financial asset/liability	Classification	Valuation basis	Reference
Receivables[1]	Loans and receivables	Amortised cost	Refer to note 12(b)
Payables[1]	Financial liability at amortised cost	Amortised cost	Refer to note 12(c)
Non-interest bearing loan from related party	Loans and receivables	Amortised cost	Refer to note 15
Derivatives	Fair value through profit or loss	Fair value	Refer to note 9(c)

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

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

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

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

	2016 Carrying amount[1] $'000	2016 Fair value[2] $'000	2015 Carrying amount[1] $'000	2015 Fair value[2] $'000
Financial assets				
Cash and cash equivalents	**2,441**	**2,441**	1,979	1,979
Loans and receivables (current)	**2,786**	**2,786**	4,293	4,293
Derivative assets	**9,918**	**9,918**	9,576	9,576
Non-interest bearing loans with related parties[3]	**138,948**	**138,948**	138,948	138,948
Interest bearing loans with related parties[4]	**221,243**	**221,243**	168,299	168,299
Total financial assets	**375,336**	**375,336**	323,095	323,095
Financial liabilities				
Trade payables	**61,785**	**61,785**	68,258	68,258
Derivative liabilities	**16,146**	**16,146**	21,892	21,892
Total financial liabilities	**77,931**	**77,931**	90,150	90,150

1 Carrying value is equal to the value of the financial instruments on the Statement of Financial Position.
2 Fair value is the price that would be received to transfer the asset or liability in an orderly transaction between market participants at the measurement date. Where there is a difference between the carrying amount and fair value, the difference is not recognised in the Statement of Financial Position.
3 Non-interest bearing loans with entities within DXS were created to effect the stapling of the Trust, DDF, DOT and DXO. These loan balances eliminate on consolidation within DXS.
4 Interest bearing loans with DEXUS Finance Pty Limited (DXF). These loan balances eliminate on consolidation within DXS.

Note 9

Capital and financial risk management (continued)

(b) Financial risk management (continued)

(iv) Fair value (continued)

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 year, there were no transfers between Level 1, 2 and 3 fair value measurements.

(v) Offsetting financial assets and financial liabilities

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

The Trust does not have any agreements in place with derivative counterparties that allow for offsetting financial assets and financial liabilities.

Master netting arrangements – not currently enforceable

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

(c) Derivative financial instruments

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

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

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

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

Note 9

Capital and financial risk management (continued)

(c) Derivative financial instruments (continued)

	2016 $'000	2015 $'000
Current assets		
Interest rate swap contracts	**711**	742
Cross currency swap contracts	**7,964**	-
Total current assets - derivative financial instruments	**8,675**	742
Non-current assets		
Interest rate swap contracts	**1,243**	1,766
Cross currency swap contracts	**-**	7,068
Total non-current assets - derivative financial instruments	**1,243**	8,834
Current liabilities		
Interest rate swap contracts	**137**	3,953
Cross currency swap contracts	**16**	8
Total current liabilities - derivative financial instruments	**153**	3,961
Non-current liabilities		
Interest rate swap contracts	**15,993**	17,931
Total non-current liabilities - derivative financial instruments	**15,993**	17,931
Net derivative financial instruments	**(6,228)**	(12,316)

Key assumptions: fair value of derivatives

The fair value of derivative financial instruments has been determined based on a discounted cash flow analysis using observable market inputs (interest rates, exchange rates and currency basis) and applying a credit or debit valuation adjustment based on the current credit worthiness of counterparties and the Group.
Refer to note 9(b)(iv) *Capital and financial Risk Management* for further detail.

Note 10

Commitments and contingencies

(a) Commitments

(i) Capital commitments

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

	2016	2015
	$'000	$'000
Investment properties	**763**	1,196
Total capital commitments	**763**	1,196

(ii) Lease receivable commitments

The future minimum lease payments receivable by the Trust are:

	2016	2015
	$'000	$'000
Within one year	**40,040**	42,095
Later than one year but not later than five years	**110,761**	117,016
Later than five years	**57,210**	71,716
Total lease receivable commitments	**208,011**	230,827

(b) Contingencies

The Trust, together with DDF, DOT and DXO, is a guarantor of a total of A$4,027.9 million of interest bearing liabilities (refer note 13 of the DEXUS Property Group Financial 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 do not constitute an additional liability to those already existing in interest bearing liabilities on the Statement of Financial Position.

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

Note 11
Contributed equity

(a) Contributed equity

	2016 $'000	2015 $'000
Opening balance at the beginning of the year	**1,258,587**	1,190,969
Issue of additional equity, net of transaction costs	**-**	67,618
Buy-back of contributed equity, net of transaction costs	**(2,789)**	-
Closing balance at the end of the year	**1,255,798**	1,258,587

(b) Number of units on issue

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

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

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

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

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

Note 12

Working capital

(a) Cash and cash equivalents

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

(b) Receivables

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

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

	2016 **$'000**	2015 $'000
Rent receivable	**2,148**	1,966
Less: provision for doubtful debts	**(296)**	-
Total rental receivables	**1,852**	1,966
Interest receivable	**755**	489
Other receivables	**179**	1,838
Total other receivables	**934**	2,327
Total receivables	**2,786**	4,293

(c) Payables

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

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

	2016 **$'000**	2015 $'000
Trade creditors	**1,919**	4,248
Accruals	**1,531**	2,455
Accrued capital expenditure	**1,194**	2,417
Prepaid income	**2,648**	1,121
Management fee payable	**167**	185
Other payable to related parties	**54,072**	52,279
Other payables	**254**	5,553
Total payables	**61,785**	68,258

Note 12

Working capital (continued)

(d) Provisions

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

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

	2016	2015
	$'000	$'000
Provision for distribution	**25,621**	67,356
Total current provisions	**25,621**	67,356

Movements in the provision for distribution during the financial year are set out below:

	2016	2015
	$'000	$'000
Provision for distribution		
Opening balance at the beginning of the year	**67,356**	-
Additional provisions	**49,849**	67,356
Payment of distributions	**(91,584)**	-
Closing balance at the end of the year	**25,621**	67,356

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

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 13

Audit, taxation and transaction services fees

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

	2016 $	2015 $
Audit fees		
PwC Australia - audit and review of Financial Statements	**304,000**	300,000
PwC fees paid in relation to outgoings audits	**5,040**	3,200
PwC Australia - regulatory audit and compliance services	**9,000**	8,500
Audit fees paid to PwC	**318,040**	311,700
Taxation fees		
Fees paid to PwC Australia	**-**	-
Taxation fees paid to PwC	**-**	-
Total audit and taxation fees paid to PwC	**318,040**	311,700
Total audit, taxation and transaction services fees paid to PwC	**318,040**	311,700

Note 14

Reconciliation of net profit to net cash flows from operating activities

(a) Reconciliation

	2016 $'000	2015 $'000
Net profit/(loss) for the year	**74,933**	56,605
Net fair value (gain)/loss of investment properties	**(27,045)**	(20,405)
Net fair value (gain)/loss of derivatives	**16**	(38)
Net fair value (gain)/loss of interest rate swaps	**2,685**	4,549
Net (gain)/loss on sale of investment properties	**256**	(62)
Net foreign exchange (gain)/loss	**1,728**	9,596
Provision for doubtful debts	**296**	-
Change in operating assets and liabilities		
(Increase)/decrease in receivables	**1,477**	184
(Increase)/decrease in prepaid expenses	**377**	(352)
(Increase)/decrease in other non-current assets	**(7,508)**	(676)
Increase/(decrease) in payables	**(7,043)**	(5,514)
Increase/(decrease) in other non-current liabilities	**(8,051)**	(197)
Net cash inflow/(outflow) from operating activities	**32,121**	43,690

Note 15

Related parties

Responsible Entity and Investment Manager

DXFM is the Responsible Entity of the Trust.

Management fees

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

Related party transactions

Responsible Entity fees in relation to the Trust assets are on a cost recovery basis.

Note 15

Related parties (continued)

There were a number of transactions and balances between the Trust and the Responsible Entity and its related entities, as detailed below:

DEXUS Funds Management Limited and its related entities

	2016	2015
Responsible Entity fees paid and payable	**2,094,431**	2,229,262
Property management fees paid and payable to DXPS	**1,740,076**	1,710,226
Responsible Entity fees payable at the end of each reporting period (included above)	**167,280**	184,866
Property management fees payable at the end of each reporting period (included above)	**-**	1,174,176
Administration expenses payable at the end of each reporting period (included above)	**45,575**	50,667

Entities within DXS

Aggregate amounts included in the determination of profit that resulted from transactions with each class of other related parties:

	2016	2015
	$	$
Interest revenue	**8,141,260**	3,829,655
Interest bearing loans advanced from entities within DXS	**146,483,765**	88,391,440
Interest bearing loans advanced to entities within DXS	**191,233,642**	192,429,525

Directors

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

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

1 Independent Director.
2 Board Nomination Committee Member as at 30 June 2016.
3 Board People & Remuneration Committee Member as at 30 June 2016.
4 Board Audit Committee Member as at 30 June 2016.
5 Board Risk Committee Member as at 30 June 2016.

Note 15

Related parties (continued)

Other key management personnel

In addition to the Directors listed above, the following persons were deemed by the Board People & Remuneration Committee to be key management personnel during all or part of the financial year:

Name	Title
Alison Harrop	Chief Financial Officer
Ross Du Vernet	Chief Investment Officer
Craig Mitchell	Chief Operating Officer
Deborah Coakley	Executive General Manager, Customer and Marketing
Kevin George	Executive General Manager, Office & Industrial

Key management personnel compensation

	2016	2015
	$	$
Compensation		
Short-term employee benefits	**8,130,108**	7,453,029
Post employment benefits	**234,789**	219,677
Security-based payments	**2,456,357**	2,595,615
	10,821,254	10,268,321

Equity instrument disclosures relating to key management personnel

The relevant interest in DXS stapled securities held during the financial year by each key management personnel, including their personally related parties, are set out below:

	Opening Balance 1 July 2015	Purchases	Performance rights granted	Other change	Closing Balance 30 June 2016
Directors	1,068,187	8,200	387,044	(436,477)	1,026,954
Other key management personnel	348,396	-	181,362	51,507	581,265
Total	**1,416,583**	**8,200**	**568,406**	**(384,970)**	**1,608,219**

The DXFM Board has approved a grant of performance rights to DXS stapled securities to eligible participants (refer to note 21 of the DEXUS Property Group Financial Report).

There were no loans or other transactions with key management personnel or their related parties during the years ended 30 June 2016 and 30 June 2015.

Note 16

Parent entity disclosures

The financial information for the parent entity, DEXUS Diversified Trust has been prepared on the same basis as the consolidated Financial Statements except as set out below:

Distributions received from associates are recognised in the parent entity's Statement of Comprehensive Income, rather than being deducted from the carrying amount of these investments.

Interests held by the parent entity in controlled entities are measured at fair value through profit and loss to reduce a measurement or recognition inconsistency.

(a) Summary financial information

The individual Financial Statements for the parent entity show the following aggregate amounts:

	2016 $'000	2015 $'000
Total current assets	**151,820**	246,634
Total assets	**1,053,465**	1,075,781
Total current liabilities	**92,589**	135,262
Total liabilities	**108,583**	153,194
Equity		
Contributed equity	**1,255,798**	1,258,587
Retained profits	**(310,916)**	(336,000)
Total equity	**944,882**	922,587
Profit/(loss) for the year	**84,281**	56,750
Total comprehensive income/(loss) for the year	**84,281**	56,750

(b) Guarantees entered into by the parent entity

Refer to note 10 for details of guarantees entered into by the parent entity.

(c) Contingent liabilities

The parent entity had no contingent liabilities as at 30 June 2016 (2015: nil).

(d) Capital commitments

The following amounts represent capital expenditure of the parent entity on investment properties contracted at the end of the reporting period but not recognised as liabilities payable:

	2016 $'000	2015 $'000
Investment properties	**525**	907
Total capital commitments	**525**	907

Note 17

Subsequent events

Since the end of the year, 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.

The Directors of DEXUS Funds Management Limited as Responsible Entity of DEXUS Industrial Trust declare that the Financial Statements and notes set out on pages 8 to 39:

(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 30 June 2016 and of their performance, as represented by the results of their operations and their cash flows, for the year ended on that date.

In the Directors' opinion:

(a) the Financial Statements and notes are in accordance with the *Corporations Act 2001*;

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

(c) the Trust has operated in accordance with the provisions of the Constitution dated 1 August 1997 (as amended) during the year ended 30 June 2016.

The Financial Statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The Directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer required by section 295A of the *Corporations Act 2001*.

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

W Richard Sheppard
Chair
16 August 2016

Independent auditor's report to the members of DEXUS Industrial Trust

Report on the financial report

We have audited the accompanying financial report of DEXUS Industrial Trust (the registered scheme), which comprises the consolidated statement of financial position as at 30 June 2016, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for DEXUS Industrial Trust (the consolidated entity). The consolidated entity comprises the registered scheme and the entities it controlled at year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of DEXUS Funds Management Limited (the responsible entity) are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In the Basis of preparation, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the consolidated entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Independence

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

PricewaterhouseCoopers, ABN 52 780 433 757
Darling Park Tower 2, 201 Sussex Street, GPO BOX 2650, SYDNEY NSW 1171
T: +61 2 8266 0000, F: +61 2 8266 9999, www.pwc.com.au

Auditor's opinion

In our opinion:

(a) the financial report of DEXUS Industrial Trust is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of its performance for the year ended on that date; and

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

(b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in the Basis of preparation.

PricewaterhouseCoopers

PricewaterhouseCoopers

E A Barron
Partner

Sydney
16 August 2016

DEXUS Office Trust

(ARSN 090 768 531)

Financial Report

30 June 2016

DEXUS

PROPERTY GROUP

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

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

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

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

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

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

1 Directors and Secretaries

1.1 Directors

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

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

1.2 Company Secretaries

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

Brett D Cameron LLB/BA (Science & Technology), GAICD
Appointed: 31 October 2014

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

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

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

Rachel Caralis LLB/B Com (Acc), M Com (Property Development), Grad Dip (Applied Corporate Governance) AGIA, AAPI
Appointed: 17 February 2016

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

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

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

2 Attendance of Directors at Board meetings and Board Committee meetings

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

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

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

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

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

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

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

3 Directors' relevant interests

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

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

4 Review of results and operations

The results for the year ended 30 June 2016 were:

- profit attributable to unitholders was \$816.5 million (2015: \$318.8 million);
- total assets were \$7,606.7 million (2015: \$6,202.0 million); and
- net assets were \$3,966.7 million (2015: \$3,378.6 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 Property Group Financial Report and forms part of this Directors' Report.

5 Directors' directorships in other listed entities

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

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

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

6 Principal activities

During the year the principal activity of the Trust was investment in real estate assets. There were no significant changes in the nature of the Trust's activities during the year.

7 Total value of Trust assets

The total value of the assets of the Trust as at 30 June 2016 was \$7,606.7 million (2015: \$6,202.0 million). Details of the basis of this valuation are outlined in the Notes to the Financial Statements and form part of this Directors' Report.

8 Likely developments and expected results of operations

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

9 Significant changes in the state of affairs

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

10 Matters subsequent to the end of the financial year

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

11 Distributions

Distributions paid or payable by the Trust for the year ended 30 June 2016 are outlined in note 5 of the Notes to the Financial Statements and form part of this Directors' Report.

12 DXFM fees

Details of fees paid or payable by the Trust to DXFM for the year ended 30 June 2016 are outlined in note 16 of the Notes to the Financial Statements and form part of this Directors' Report.

13 Units on issue

The movement in units on issue in the Trust during the year and the number of units on issue as at 30 June 2016 are detailed in note 11 of the Notes to the Financial Statements and form part of this Directors' Report.

Details of the number of interests in the Trust held by DXFM or its associates as at the end of the financial year are outlined in note 16 of the Notes to the Financial Statements and form part of this Directors' Report.

The Trust did not have any options on issue as at 30 June 2016 (2015: nil).

14 Environmental regulation

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

15 Indemnification and insurance

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

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

16 Audit

16.1 Auditor

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

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

16.2 Non-audit services

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

Details of the amounts paid or payable to the Auditor, for audit and non-audit services provided during the year are set out in note 14 of the Notes to the Financial Statements.

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

The reasons for the Directors being satisfied are:

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

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

16.3 Auditor's Independence Declaration

A copy of the Auditor's Independence Declaration as required under section 307C of the *Corporations Act 2001* is set out on page 7 and forms part of this Directors' Report.

17 Corporate governance

DXFM's Corporate Governance Statement is available at http://www.dexus.com/corporate-governance/2/corporate-governance.

18 Rounding of amounts and currency

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

19 Directors' authorisation

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

W Richard Sheppard
Chair
16 August 2016

Darren J Steinberg
Chief Executive Officer
16 August 2016

Auditor's Independence Declaration

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

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

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

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

E A Barron
Partner
PricewaterhouseCoopers

Sydney
16 August 2016

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	Note	2016 $m	2015 $m
Revenue from ordinary activities			
Property revenue	2	**300.7**	277.2
Interest revenue		**0.2**	0.2
Total revenue from ordinary activities		**300.9**	277.4
Net fair value gain of investment properties		**279.4**	63.7
Share of net profit of investments accounted for using the equity method	7	**519.5**	256.3
Total income		**1,099.8**	597.4
Expenses			
Property expenses	2	**(84.8)**	(77.6)
Management fee expense		**(13.3)**	(13.5)
Finance costs	3	**(183.6)**	(184.4)
Net loss on sale of investment properties		**-**	(2.1)
Net foreign exchange loss		**-**	(0.1)
Corporate and administration expenses		**(1.3)**	(1.7)
Total expenses		**(283.0)**	(279.4)
Foreign currency translation reserve transfer on disposal of foreign operations	12(a)	**-**	(2.1)
Profit/(loss) before tax		**816.8**	315.9
Income tax benefit/(expense)		**(0.3)**	2.9
Profit/(loss) for the year		**816.5**	318.8
Other comprehensive income/(loss):			
Exchange differences on translating foreign operations	12(a)	**-**	(0.3)
Foreign currency translation reserve transfer on disposal of foreign operations	12(a)	**-**	2.1
Other comprehensive income/(loss)		**-**	1.8
Total comprehensive income/(loss) for the year		**816.5**	320.6

		Cents	Cents
Earnings per unit on profit/(loss) attributable to unitholders of the parent entity			
Basic earnings per unit	4	**84.29**	34.82
Diluted earnings per unit	4	**84.29**	34.82

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

	Note	2016 $m	2015 $m
Current assets			
Cash and cash equivalents	13(a)	**7.2**	7.1
Receivables	13(b)	**39.6**	18.1
Non-current assets classified as held for sale	8	**651.2**	-
Derivative financial instruments	9(c)	**0.1**	0.3
Other	13(c)	**4.7**	18.4
Total current assets		**702.8**	43.9
Non-current assets			
Investment properties	6	**3,482.8**	3,417.5
Investments accounted for using the equity method	7	**3,418.5**	2,738.5
Derivative financial instruments	9(c)	**1.4**	1.6
Other		**1.2**	0.5
Total non-current assets		**6,903.9**	6,158.1
Total assets		**7,606.7**	6,202.0
Current liabilities			
Payables	13(d)	**53.1**	43.3
Current tax liabilities		**-**	4.2
Loans with related parties	9(b)(iv)	**55.7**	55.7
Provisions	13(e)	**91.0**	29.5
Derivative financial instruments	9(c)	**4.1**	3.8
Total current liabilities		**203.9**	136.5
Non-current liabilities			
Loans with related parties	9(b)(iv)	**3,345.7**	2,596.9
Derivative financial instruments	9(c)	**90.3**	89.8
Other		**0.1**	0.2
Total non-current liabilities		**3,436.1**	2,686.9
Total liabilities		**3,640.0**	2,823.4
Net assets		**3,966.7**	3,378.6
Equity			
Contributed equity	11	**2,432.4**	2,442.6
Retained profits/(accumulated losses)	12	**1,534.3**	936.0
Total equity		**3,966.7**	3,378.6

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

	Note	Contributed equity $m	Retained profits/ (losses) $m	Reserves $m	Total equity $m
Opening balance as at 1 July 2014		2,212.7	758.0	(1.8)	2,968.9
Profit/(loss) for the year		-	318.8	-	318.8
Other comprehensive income/(loss) for the year		-	-	1.8	1.8
Total comprehensive income for the year		-	318.8	1.8	320.6
Transactions with owners in their capacity as unitholders:					
Issue of additional equity, net of transaction costs	11	229.9	-	-	229.9
Distributions paid or provided for	5	-	(140.8)	-	(140.8)
Total transactions with owners in their capacity as owners		229.9	(140.8)	-	89.1
Closing balance as at 30 June 2015		2,442.6	936.0	-	3,378.6
Opening balance as at 1 July 2015		**2,442.6**	**936.0**	**-**	**3,378.6**
Profit/(loss) for the year		**-**	**816.5**	**-**	**816.5**
Other comprehensive income/(loss) for the year		**-**	**-**	**-**	**-**
Total comprehensive income for the year		**-**	**816.5**	**-**	**816.5**
Transactions with owners in their capacity as unitholders:					
Buy-back of contributed equity, net of transaction costs	11	**(10.2)**	**-**	**-**	**(10.2)**
Distributions paid or provided for	5	**-**	**(218.2)**	**-**	**(218.2)**
Total transactions with owners in their capacity as owners		**(10.2)**	**(218.2)**	**-**	**(228.4)**
Closing balance as at 30 June 2016		**2,432.4**	**1,534.3**	**-**	**3,966.7**

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

	Note	2016 $m	2015 $m
Cash flows from operating activities			
Receipts in the course of operations (inclusive of GST)		**339.3**	315.4
Payments in the course of operations (inclusive of GST)		**(119.8)**	(119.2)
Interest received		**0.2**	0.2
Finance costs paid to financial institutions		**(41.6)**	(14.4)
Distributions received from investments accounted for using the equity method		**213.3**	217.8
Income and withholding taxes paid		**(4.6)**	(0.9)
Net cash inflow/(outflow) from operating activities	15	**386.8**	398.9
Cash flows from investing activities			
Proceeds from sale of investment properties		**(0.1)**	126.9
Payments for capital expenditure on investment properties		**(102.3)**	(55.5)
Payments for acquisition of investment properties		**(344.5)**	(14.8)
Payments for investments accounted for using the equity method		**(383.6)**	(224.1)
Return of capital from investments accounted for using the equity method		**-**	372.6
Transaction costs paid		**-**	(13.6)
Net cash inflow/(outflow) from investing activities		**(830.5)**	191.5
Cash flows from financing activities			
Borrowings provided to related parties		**(456.6)**	(973.8)
Borrowings received from related parties		**1,067.3**	693.3
Repayment of loan with related party			(338.4)
Payments for buy-back of contributed equity		**(10.2)**	-
Proceeds from issue of additional equity		**-**	229.9
Distributions paid to security holders		**(156.7)**	(203.0)
Net cash inflow/(outflow) from financing activities		**443.8**	(592.0)
Net increase/(decrease) in cash and cash equivalents		**0.1**	(1.6)
Cash and cash equivalents at the beginning of the year		**7.1**	8.7
Cash and cash equivalents at the end of the year		**7.2**	7.1

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

About this Report

In this section

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

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

(a) Basis of preparation

DEXUS Property Group stapled securities are quoted on the Australian Securities Exchange under the "DXS" code and comprise one unit in each of DDF, DIT, DOT and DXO.

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 the Australian Accounting Standards.

DEXUS Funds Management Limited (DXFM) as Responsible Entity for DDF, DIT, DOT and DXO may only unstaple the Group if approval is obtained by a special resolution of the stapled security holders.

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

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

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

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

Critical accounting estimates

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

Note 6	Investment properties	Page 18
Note 9(c)	Derivative financial instruments	Page 32

(b) Principles of consolidation

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

(i) Controlled entities

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

(b) Principles of consolidation (continued)

(ii) Joint arrangements

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

Joint operations

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

Joint ventures

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

(c) Foreign currency

The Financial Statements are presented in Australian dollars.

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

As at 30 June 2016, the Trust has no investments in foreign operations.

(d) Goods and services tax

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

(e) New accounting standards and interpretations

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

AASB 9 *Financial Instruments* (effective application for the Trust is 1 July 2018).
AASB 9 *Financial Instruments* addresses the classification, measurement and derecognition of financial assets and financial liabilities. It also sets out new rules for hedge accounting and impairment of financial assets. The Trust intends to apply the standards from 1 July 2018. Application of this standard will not affect any of the amounts recognised in the Financial Statements but will require the disclosure of additional information.

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

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

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

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

(f) Notes to the Financial Statements

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

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

The notes are organised into the following sections:

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

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, property revenue and expenses, finance costs, taxation, earnings per unit and distributions paid and payable.

Note 1

Operating segments

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

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.

Consistent with how the CODM manages the business, the operating segments within DXS are reviewed on a consolidated basis and are not monitored at an individual trust level. The results of the individual trusts are not limited to any one of the segments described above.

Disclosures concerning DXS's operating segments, as well as the operating segments' key financial information provided to the CODM, are presented in the DEXUS Property Group Financial Report.

Note 2

Property revenue and expenses

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

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

	2016	2015
	$m	$m
Rent and recoverable outgoings	**299.9**	282.0
Incentive amortisation	**(42.9)**	(38.1)
Other revenue	**43.7**	33.3
Total property revenue	**300.7**	277.2

Property expenses of $84.8 million (2015: $77.6 million) include rates, taxes and other property outgoings incurred in relation to investment properties.

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.

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

	2016	2015
	$m	$m
Interest paid to related parties	**138.5**	129.9
Net fair value loss of interest rate swaps	**45.7**	54.5
Amount capitalised	**(0.6)**	-
Total finance costs	**183.6**	184.4

Note 4

Earnings per unit

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

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

	2016	2015
	$m	$m
Profit attributable to unitholders of the parent entity	**816.5**	318.8

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

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

Note 5

Distributions paid and payable

Distributions are recognised when declared.

(a) Distribution to unitholders

	2016	2015
	$m	$m
31 December (paid 29 February 2016)	**127.2**	111.3
30 June (payable 31 August 2016)	**91.0**	29.5
Total distributions to unitholders	**218.2**	140.8

(b) Distribution rate

	2016	2015
	Cents per unit	Cents per unit
31 December (paid 29 February 2016)	**13.14**	12.29
30 June (payable 31 August 2016)	**9.40**	3.04
Total distributions	**22.54**	15.33

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 primarily 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.

The list of property portfolio assets is detailed in the Property Synopsis, available at www.dexus.com/investor-centre/dxs/announcements/asx.

Note 6

Investment properties

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

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

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

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

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

(a) Reconciliation

	Note	2016 $m	2015 $m
Opening balance at the beginning of the year		**3,417.5**	3,310.6
Additions		**68.6**	32.8
Acquisitions		**344.5**	-
Lease incentives		**64.8**	49.4
Amortisation of lease incentives		**(42.9)**	(37.9)
Rent straightlining		**2.1**	(0.9)
Transfer to non-current assets classified as held for sale	8	**(651.2)**	-
Net fair value gain/(loss) of investment properties		**279.4**	63.5
Closing balance at the end of the year		**3,482.8**	3,417.5

Note 6

Investment properties (continued)

(b) Valuation process

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

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

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

(c) Fair value measurement, valuation techniques and inputs

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

Class of property	**Fair value hierarchy**	**Inputs used to measure fair value**	**Range of unobservable inputs** 2016	2015
Office[1]	Level 3	Adopted capitalisation rate	**5.25% - 7.00%**	5.83% - 7.75%
		Adopted discount rate	**7.00% - 8.50%**	7.76% - 8.75%
		Adopted terminal yield	**5.50% - 7.50%**	5.87% - 7.75%
		Current net market rental (per sqm)	**$357 - $1,269**	$356 - $1,141

1 Excludes car parks and retail.

Note 6

Investment properties (continued)

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

Judgement is required in determining the following key assumptions:

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

(d) Sensitivity information

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

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

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

Note 6

Investment properties (continued)

(d) Sensitivity information (continued)

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

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

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

Note 7

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			
	2016	2015	**2016**	2015
Name of entity	**%**	%	**$m**	$m
Bent Street Trust	**33.3**	33.3	**308.1**	264.2
DEXUS Creek Street Trust	**50.0**	50.0	**137.9**	131.5
DEXUS Martin Place Trust[1]	**50.0**	50.0	**111.2**	89.7
Grosvenor Place Holding Trust[2,3]	**50.0**	50.0	**352.9**	303.3
Site 6 Homebush Bay Trust[2]	**50.0**	50.0	**30.7**	37.2
Site 7 Homebush Bay Trust[2]	**50.0**	50.0	**43.1**	49.8
DEXUS 480 Q Holding Trust	**50.0**	50.0	**344.1**	149.7
DEXUS Kings Square Trust	**50.0**	50.0	**216.1**	165.7
DEXUS Office Trust Australia	**50.0**	50.0	**1,844.8**	1,546.3
DEXUS Eagle Street Pier Trust	**50.0**	50.0	**29.6**	1.1
Total investments accounted for using the equity method			**3,418.5**	2,738.5

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

2 These entities are 50% owned by DEXUS Office Trust Australia. The 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 required unanimous decisions on all relevant matters.

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

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

Note 7

Investments accounted for using the equity method (continued)

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

	DEXUS Office Trust Australia		Grosvenor Place Holding Trust		DEXUS 480Q Holding Trust		Other joint ventures		Total	
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015
Summarised Statement of Financial Position	**$m**	$m	**$m**	$m	**$m**	$m	**$m**	$m	**$m**	$m
Current assets										
Cash and cash equivalents	**21.8**	6.6	**0.9**	0.8	**1.0**	-	**1.7**	3.7	**25.4**	11.1
Non-current assets classified as held for sale	**41.8**	-	**-**	-	**-**	-	**-**	-	**41.8**	-
Other current assets	**5.6**	4.0	**1.0**	0.6	**2.0**	0.9	**4.7**	4.4	**13.3**	9.9
Total current assets	**69.2**	10.6	**1.9**	1.4	**3.0**	0.9	**6.4**	8.1	**80.5**	21.0
Non-current assets										
Investment properties	**1,695.4**	1,567.9	**353.7**	304.6	**343.8**	157.1	**891.4**	758.6	**3,284.3**	2,788.2
Investments accounted for using the equity method	**213.4**	195.2	**-**	-	**-**	-	**-**	-	**213.4**	195.2
Other non-current assets	**0.2**	0.4	**-**	-	**-**	-	**0.1**	0.1	**0.3**	0.5
Total non-current assets	**1,909.0**	1,763.5	**353.7**	304.6	**343.8**	157.1	**891.5**	758.7	**3,498.0**	2,983.9
Current liabilities										
Provision for distribution	**22.5**	11.0	**-**	-	**-**	-	**2.8**	1.8	**25.3**	12.8
Borrowings	**74.0**	172.1	**-**	-	**-**	-	**-**	-	**74.0**	172.1
Other current liabilities	**25.8**	33.6	**2.7**	2.7	**2.7**	8.3	**18.4**	25.8	**49.6**	70.4
Total current liabilities	**122.3**	216.7	**2.7**	2.7	**2.7**	8.3	**21.2**	27.6	**148.9**	255.3
Non-current liabilities										
Borrowings	**11.1**	11.1	**-**	-	**-**	-	**-**	-	**11.1**	11.1
Total non-current liabilities	**11.1**	11.1	**-**	-	**-**	-	**-**	-	**11.1**	11.1
Net assets	**1,844.8**	1,546.3	**352.9**	303.3	**344.1**	149.7	**876.7**	739.2	**3,418.5**	2,738.5
Reconciliation of carrying amounts:										
Opening balance at the beginning of the year	**1,546.3**	1,777.8	**303.3**	293.5	**149.7**	82.9	**739.2**	640.6	**2,738.5**	2,794.8
Additions	**158.0**	56.2	**13.0**	8.8	**139.6**	67.3	**73.0**	89.5	**383.6**	221.8
Share of net profit/(loss) after tax	**287.3**	182.6	**51.7**	14.7	**68.9**	7.0	**111.6**	52.0	**519.5**	256.3
Distributions received/receivable	**(146.8)**	(97.7)	**(15.1)**	(13.7)	**(14.1)**	(7.5)	**(47.1)**	(42.9)	**(223.1)**	(161.8)
Return of capital	**-**	(372.6)	**-**	-	**-**	-	**-**	-	**-**	(372.6)
Closing balance at the end of the year	**1,844.8**	1,546.3	**352.9**	303.3	**344.1**	149.7	**876.7**	739.2	**3,418.5**	2,738.5

Note 7

Investments accounted for using the equity method (continued)

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

	DEXUS Office Trust Australia		Grosvenor Place Holding Trust		DEXUS 480Q Holding Trust		Other joint ventures		Total	
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015
Summarised Statement of Comprehensive Income	**$m**	$m	**$m**	$m	**$m**	$m	**$m**	$m	**$m**	$m
Property revenue	**147.0**	143.8	**18.9**	20.3	**2.8**	-	**56.6**	43.7	**225.3**	207.8
Property revaluations	**181.1**	91.2	**37.5**	(0.6)	**68.2**	7.0	**83.1**	17.4	**369.9**	115.0
Gain on sale of investment properties	**14.0**	-	**-**	-	**-**	-	**-**	-	**14.0**	-
Interest income	**0.4**	0.4	**-**	-	**-**	-	**-**	-	**0.4**	0.4
Finance costs	**(7.7)**	(8.0)	**-**	-	**-**	-	**-**	-	**(7.7)**	(8.0)
Other expenses	**(47.5)**	(44.8)	**(4.7)**	(5.0)	**(2.1)**	-	**(28.1)**	(9.1)	**(82.4)**	(58.9)
Net profit/(loss) for the year	**287.3**	182.6	**51.7**	14.7	**68.9**	7.0	**111.6**	52.0	**519.5**	256.3
Total comprehensive income/(loss) for the year	**287.3**	182.6	**51.7**	14.7	**68.9**	7.0	**111.6**	52.0	**519.5**	256.3

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.

Assets classified as held for sale relate to investment properties and are measured at fair value. As at 30 June 2016, the balance related to the following properties:

- The Trust's 50% interest in 'The Zenith', 821 Pacific Highway, Chatswood, NSW.
- Southgate Complex at 3 Southgate Avenue, Southbank, VIC.

Refer to note 18 for further details.

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

Capital and financial risk management and working capital

In this section

The Trust's overall risk management program focuses on reducing volatility from impacts in movements of financial markets and seeks to minimise potential adverse effects on the financial performance of the Trust. Note 9 *Capital and financial risk management* outlines how the Trust manages its exposure to a variety of financial risks (interest rate risk, foreign currency risk, liquidity risk and credit risk) and details the various derivative financial instruments entered into by the Trust.

The Board determines the appropriate capital structure of the Trust, 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: *Commitments and contingencies* in note 10;
- Equity: *Contributed equity* in note 11 and *Reserves and retained profits* in note 12.

Note 13 provides a breakdown of the working capital balances held in the Statement of Financial Position.

Note 9

Capital and financial risk management

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

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

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

(a) Capital risk management

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

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

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

The Trust is not rated by ratings agencies, however, DXS has been rated A- by Standard and Poor's (S&P) and A3 by Moody's. General levels and bank debt covenants are managed holistically as part of the DXS Group.

Note 9

Capital and financial risk management (continued)

(a) Capital risk management (continued)

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

(b) Financial risk management

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

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

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

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

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

Note 9

Capital and financial risk management (continued)

(b) Financial risk management (continued)

(i) Market risk

Interest rate risk

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

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

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

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

	June 2017	June 2018	June 2019	June 2020	June 2021	> June 2022
	$m	$m	$m	$m	$m	$m
Interest rate swaps						
A$ hedged[1]	**1,225.0**	**1,294.2**	**1,211.7**	**684.6**	**160.8**	**-**
A$ hedge rate (%)	3.84%	3.62%	3.58%	3.56%	2.45%	n/a

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

Sensitivity analysis on interest expense

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

		2016	2015
		(+/-) $m	(+/-) $m
+/- 0.50% (50 basis points)	A$	**10.9**	6.0
Total A$ equivalent		**10.9**	6.0

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

Note 9

Capital and financial risk management (continued)

(b) Financial risk management (continued)

(i) Market risk (continued)

Interest rate risk (continued)

Sensitivity analysis on fair value of interest rate swaps

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

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

		2016	2015
		(+/-) $m	(+/-) $m
+/- 0.50% (50 basis points)	A$	**23.8**	31.4

Foreign currency risk

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

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

The objective of the Trust's foreign exchange risk management policy is to ensure that movements in exchange rates have minimal adverse impact on the Trust's foreign currency assets and liabilities.

Foreign currency assets and liabilities

Where foreign currency borrowings are used to fund Australian investments, the Trust transacts cross currency swaps to reduce the risk that movements in foreign exchange rates will have an impact on security holder's equity and net tangible assets.

Note 9

Capital and financial risk management (continued)

(b) Financial risk management (continued)

(ii) Liquidity risk

Liquidity risk is associated with ensuring that there are sufficient funds available to meet the Trust's financial commitments as and when they fall due and planning for any unforeseen events which may curtail cash flows. The Trust identifies and manages liquidity risk across the following categories:

- short-term liquidity management covering the month ahead on a rolling basis with continuous monitoring of forecast and actual cash flows;
- medium-term liquidity management of liquid assets, working capital and standby facilities to cover Trust cash requirements over the next 1- 24 month period. The Trust maintains a level of committed borrowing facilities above the forecast committed debt requirements (liquidity headroom buffer). Committed debt includes future expenditure that has been approved by the Board or Investment Committee (as required within delegated limits); and
- long-term liquidity management through ensuring an adequate spread of maturities of borrowing facilities so that refinancing risk is not concentrated in certain time periods, and ensuring an adequate diversification of funding sources where possible, subject to market conditions.

Refinancing risk

Refinancing risk is the risk that the Trust:

- will be unable to refinance its debt facilities as they mature; and/or
- will only be able to refinance its debt facilities at unfavourable interest rates and credit market conditions (margin price risk).

The Group's key risk management strategy for margin price risk on refinancing is to spread the maturities of debt facilities over different time periods to reduce the volume of facilities to be refinanced and the exposure to market conditions in any one period.

An analysis of the contractual maturities of the Trust's interest bearing liabilities and derivative financial instruments is shown in the table below. The amounts in the table represent undiscounted cash flows.

	2016				2015			
	Within one year $m	**Between one and two years $m**	**Between two and five years $m**	**After five years $m**	Within one year $m	Between one and two years $m	Between two and five years $m	After five years $m
Cash	7.2	-	-	-	7.1	-	-	-
Receivables	39.6	-	-	-	18.1	-	-	-
Payables	(53.1)	-	-	-	(43.3)	-	-	-
	(6.3)	**-**	**-**	**-**	(18.1)	-	-	-
Loans with related parties and interest[1]	**(111.7)**	**(111.7)**	**(3,567.7)**	**-**	(130.1)	(130.1)	(2,727.0)	-
Derivative financial instruments								
Derivative assets	**0.3**	**0.2**	**0.2**	**-**	12.9	0.1	-	-
Derivative liabilities	**(22.4)**	**(20.3)**	**(31.5)**	**-**	(47.6)	(35.5)	(69.2)	-
Total net derivative financial instruments[2]	**(22.1)**	**(20.1)**	**(31.3)**	**-**	(34.7)	(35.4)	(69.2)	-

1 Includes estimated interest.
2 The notional maturities on derivatives are shown for cross currency interest rate swaps (refer to foreign exchange rate risk) as they are the only instruments where a principal amount is exchanged. For interest rate swaps, only the net interest cash flows (not the notional principal) are included. Refer to note 9(c) for fair value of derivatives. Refer to note 10(b) for financial guarantees.

Note 9

Capital and financial risk management (continued)

(b) Financial risk management (continued)

(iii) Credit risk

Credit risk is the risk that counterparty will not fulfil its obligations under the terms of a financial instrument and will cause financial loss to the Trust. The Trust has exposure to credit risk on all financial assets included in the Trust's Statement of financial position.

The Trust manages this risk by:
- adopting a process for determining an approved counterparty, with consideration of qualitative factors as well as the counterparty's credit rating;
- regularly monitoring counterparty exposure within approved credit limits that are based on the lower of a S&P, Moody's and Fitch credit rating. The exposure includes the current market value of in-the-money contracts as well as potential exposure, which is measured with reference to credit conversion factors as per APRA guidelines;
- entering into ISDA Master Agreements once a financial institution counterparty is approved;
- monitoring tenant exposure within approved credit limits;
- for some trade receivables, obtaining collateral where necessary in the form of bank guarantees and tenant bonds; and
- regularly monitoring loans and receivables on an ongoing basis.

A minimum S&P rating of A- (or Moody's or Fitch equivalent) is required to become or remain an approved counterparty unless otherwise approved by the DEXUS Board.

The Trust is exposed to credit risk on cash balances and on derivative financial instruments with financial institutions. The Trust has a policy that sets limits as to the amount of credit exposure to each financial institution. New derivatives and cash transactions are limited to financial institutions that meet minimum credit rating criteria in accordance with the Trust's policy requirements.

Financial instrument transactions are spread among a number of approved financial institutions within specified credit limits to minimise the Trust's exposure to any one counterparty. As a result, there is no significant concentration of credit risk for financial instruments.

The maximum exposure to credit risk at 30 June 2016 is the carrying amounts of financial assets recognised on the Statement of Financial Position.

The Group is exposed to credit risk on trade receivable balances. The Group has a policy to continuously assess and monitor the credit quality of trade debtors on an ongoing basis. Given the historical profile and exposure of the trade receivables, it has been determined that no significant concentrations of credit risk exists for trade receivables balances. The maximum exposure to credit risk at 30 June 2016 is the carrying amounts of the trade receivables recognised on the Statement of Financial Position.

Note 9

Capital and financial risk management (continued)

(b) Financial risk management (continued)

(iv) Fair value

The Trust has classified its financial assets and liabilities as follows:

Financial asset/liability	Classification	Valuation basis	Reference
Receivables[1]	Loans and receivables	Amortised cost	Refer to note 13(b)
Payables[1]	Financial liability at amortised cost	Amortised cost	Refer to note 13(d)
Non-interest bearing loan from related party	Loans and receivables	Amortised cost	Refer to note 16
Derivatives	Fair value through profit or loss	Fair value	Refer to note 9(c)

1 The face value of these is approximately equal to their fair value; these amounts are unsecured and are usually paid within 30 days of recognition.

Financial assets and liabilities are classified in accordance with the purpose for which they were acquired. As noted in section (c) below, derivative financial instruments are initially recognised in the Statement of Financial Position at fair value on the date on which the derivative contract is entered into and subsequently remeasured to fair value.

The valuation techniques applied by the Trust are consistent with those applied in prior year financial reports. The valuation technique used to measure the various financial instruments namely foreign currency contracts and interest rate contracts is based on market observable spot exchange rates and interest rate yield curves. This method records any change in fair value of a derivative in the financial statements.

The carrying amounts and estimated fair value of all the Trust's financial assets and liabilities recognised in the Financial Statements are as follows:

	2016 Carrying amount[1] $m	**2016 Fair value[2] $m**	2015 Carrying amount[1] $m	2015 Fair value[2] $m
Financial assets				
Cash and cash equivalents	**7.2**	**7.2**	7.1	7.1
Loans and receivables (current)	**39.6**	**39.6**	18.1	18.1
Derivative assets	**1.5**	**1.5**	1.9	1.9
Total financial assets	**48.3**	**48.3**	27.1	27.1
Financial liabilities				
Trade payables	**53.1**	**53.1**	43.3	43.3
Non-interest bearing loans with related parties[3]	**55.7**	**55.7**	55.7	55.7
Interest bearing loans with related parties[4]	**3,345.7**	**3,345.7**	2,596.9	2,596.9
Derivative liabilities	**94.4**	**94.4**	93.6	93.6
Total financial liabilities	**3,548.9**	**3,548.9**	2,789.5	2,789.5

1 Carrying value is equal to the value of the financial instruments on the Statement of Financial Position.
2 Fair value is the price that would be received to transfer the asset or liability in an orderly transaction between market participants at the measurement date. Where there is a difference between the carrying amount and fair value, the difference is not recognised in the Statement of Financial Position.
3 Non-interest bearing loans with entities within DXS were created to effect the stapling of the Trust, DIT, DDF and DXO. These loan balances eliminate on consolidation within DXS.
4 Interest bearing loans with DEXUS Finance Pty Limited (DXF). These loan balances eliminate on consolidation within DXS.

Note 9

Capital and financial risk management (continued)

(b) Financial risk management (continued)

(iv) Fair value (continued)

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 year, there were no transfers between Level 1, 2 and 3 fair value measurements.

(v) Offsetting financial assets and financial liabilities

Financial assets and liabilities are offset and the net amount reported in the Statement of Financial Position where the Trust currently has a legally enforceable right to set-off the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The Trust has also entered into arrangements that do not meet the criteria for offsetting except in certain circumstances, such as bankruptcy or the termination of the underlying contract.

The Trust does not have any agreements in place with derivative counterparties that allow for offsetting financial assets and financial liabilities.

Master netting arrangements – not currently enforceable

Agreements with derivative counterparties are based on an ISDA Master Agreement. Under the terms of these arrangements, where certain credit events occur (such as default), the net position owing/receivable to a single counterparty in the same currency will be taken as owing and all the relevant arrangements terminated. As the Trust does not presently have a legally enforceable right of set-off, these amounts have not been offset in the Statement of Financial Position.

(c) Derivative financial instruments

A derivative is a type of financial instrument typically used to manage risk. A derivative's value changes over time in response to underlying variables including interest rates or exchange rates and is entered into for a fixed period. A hedge is where a derivative is used to manage an underlying exposure and the Trust uses derivatives to manage its exposure to interest rates and foreign exchange risk accordingly.

Written policies and limits are approved by the Board of Directors of the Responsible Entity, in relation to the use of financial instruments to manage financial risks. The Responsible Entity continually reviews the Trust's exposures and updates its treasury policies and procedures. The Trust does not trade in derivative instruments for speculative purposes.

Derivatives including interest rate swaps, the interest rate component of cross currency swaps, and foreign exchange contracts, are measured at fair value with any changes in fair value recognised in the Statement of Comprehensive Income.

At inception the Trust can elect to formally designate and document the relationship between the hedge derivative instruments (cross currency interest rate swaps only) and the associated hedged items (foreign currency bonds only). The Trust also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

Note 9

Capital and financial risk management (continued)

(c) Derivative financial instruments (continued)

	2016 $m	2015 $m
Current assets		
Interest rate swap contracts	**0.1**	0.3
Total current assets - derivative financial instruments	**0.1**	0.3
Non-current assets		
Interest rate swap contracts	**1.4**	1.6
Total non-current assets - derivative financial instruments	**1.4**	1.6
Current liabilities		
Interest rate swap contracts	**4.1**	3.8
Total current liabilities - derivative financial instruments	**4.1**	3.8
Non-current liabilities		
Interest rate swap contracts	**90.3**	89.8
Total non-current liabilities - derivative financial instruments	**90.3**	89.8
Net derivative financial instruments	**(92.9)**	(91.7)

Key assumptions: fair value of derivatives

The fair value of derivative financial instruments has been determined based on a discounted cash flow analysis using observable market inputs (interest rates, exchange rates and currency basis) and applying a credit or debit valuation adjustment based on the current credit worthiness of counterparties and the Trust.
Refer to note 9 (b)(iv) *Capital and Financial Risk Management* for further detail.

Note 10

Commitments and contingencies

(a) Commitments

(i) Capital commitments

The following amounts represent remaining capital expenditure on investment properties contracted at the end of each reporting period but not recognised as liabilities payable:

	2016 $m	2015 $m
Investment properties	**156.7**	41.1
Investments accounted for using the equity method	**10.7**	176.7
Total capital commitments	**167.4**	217.8

(ii) Lease receivable commitments

The future minimum lease payments receivable by the Trust are:

	2016 $m	2015 $m
Within one year	**246.5**	167.0
Later than one year but not later than five years	**729.2**	395.2
Later than five years	**363.9**	153.1
Total lease receivable commitments	**1,339.6**	715.3

(b) Contingencies

The Trust, together with DDF, DIT and DXO, is a guarantor of a total of A$4,027.9 million of interest bearing liabilities (refer note 13 of the DEXUS Property Group Financial 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 do not constitute an additional liability to those already existing in interest bearing liabilities on the Statement of Financial Position.

The Directors of the Responsible Entity are not aware of any other contingent liabilities in relation to the Trust, other than those disclosed in the Financial Statements, which should be brought to the attention of unitholders as at the date of completion of this report.

Note 11

Contributed equity

(a) Contributed equity

	2016	2015
	$m	$m
Opening balance at the beginning of the year	**2,442.6**	2,212.7
Issue of additional equity, net of transaction costs	**-**	229.9
Buy-back of contributed equity, net of transaction costs	**(10.2)**	-
Closing balance at the end of the year	**2,432.4**	2,442.6

(b) Number of units on issue

	2016	2015
	No. of units	No. of units
Opening balance at the beginning of the year	**970,806,349**	5,433,110,810
Issue of additional equity	**-**	65,274,552
One-for-six security consolidation	**-**	(4,527,579,013)
Buy-back of contributed equity	**(2,858,657)**	-
Closing balance at the end of the year	**967,947,692**	970,806,349

Each stapled security ranks equally with all other stapled securities for the purposes of distributions and on termination of the Trust.

Each stapled security entitles the holder to vote in accordance with the provisions of the Constitution and the *Corporations Act 2001*.

Transaction costs arising on the issue of equity instruments are recognised directly in equity (net of tax) as a reduction of the proceeds of the equity instruments to which the costs relate. Transaction costs are the costs that are incurred directly in connection with the issue of those equity instruments and which would not have been incurred had those instruments not been issued.

On 29 October 2014, the Group announced a one-for-six consolidation of DEXUS Property Group stapled securities. The consolidation was completed on 14 November 2014. Where the number of securities held by a security holder following the consolidation results in a fraction of a security, the fraction was rounded up to the nearest whole number.

Note 12

Reserves and retained profits

(a) Reserves

	2016 $m	2015 $m
Foreign currency translation reserve		
Opening balance at the beginning of the year	-	(1.8)
Exchange differences on translating foreign operations	-	(0.3)
Foreign currency translation reserve transfer on disposal of foreign operations	-	2.1
Closing balance at the end of the year	-	-

(b) Nature and purpose of reserves

Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the Financial Statements of foreign operations.

(c) Retained profits

	2016 $m	2015 $m
Opening balance at the beginning of the year	**936.0**	758.0
Net profit/(loss) attributable to security holders	**816.5**	318.8
Distributions provided for or paid	**(218.2)**	(140.8)
Closing balance at the end of the year	**1,534.3**	936.0

Note 13

Working capital

(a) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with financial institutions and other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(b) Receivables

Rental and interest revenue are brought to account on an accruals basis. Dividends and distributions are recognised when declared and, if not received at the end of the reporting period, reflected in the Statement of Financial Position as a receivable.

Note 13

Working capital (continued)

(b) Receivables (continued)

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method, less provision for doubtful debts. Trade receivables are required to be settled within 30 days and are assessed on an ongoing basis for impairment. Receivables which are known to be uncollectable are written off by reducing the carrying amount directly. A provision for doubtful debts is established when there is objective evidence that the Trust will not be able to collect all amounts due according to the original terms of the receivables.

	2016 $m	2015 $m
Rent receivable	10.6	5.2
Less: provision for doubtful debts	(0.2)	(0.2)
Total rental receivables	10.4	5.0
Distributions receivable	25.3	12.9
Other receivables	3.9	0.2
Total other receivables	29.2	13.1
Total receivables	39.6	18.1

(c) Other current assets

	2016 $m	2015 $m
Prepayments	4.7	3.6
Deposit for the acquisition of investment property	-	14.8
Total other current assets	4.7	18.4

(d) Payables

Expenses are brought to account on an accruals basis and, if not paid at the end of the reporting period, are reflected in the Statement of Financial Position as a payable.

These amounts represent liabilities for amounts owing at the end of the reporting period. The amounts are unsecured and are usually paid within 30 days of recognition.

	2016 $m	2015 $m
Trade creditors	17.8	13.5
Accruals	1.0	1.8
Accrued capital expenditure	10.9	10.1
Prepaid income	8.8	6.1
Accrued interest	13.3	10.1
Other payables	1.3	1.7
Total payables	53.1	43.3

Note 13

Working capital (continued)

(e) Provisions

A provision is recognised when an obligation exists as a result of a past event and it is probable that a future outflow of cash or other benefit will be required to settle the obligation.

In accordance with the Trust's Constitution, the Trust distributes its distributable income to unitholders by cash or reinvestment. Distributions are provided for when they are approved by the Board of Directors and declared.

	2016 **$m**	2015 $m
Provision for distribution	**91.0**	29.5
Total current provisions	**91.0**	29.5

Movements in the provision for distribution during the financial year are set out below:

	2016 **$m**	2015 $m
Opening balance at the beginning of the year	**29.5**	91.7
Additional provisions	**218.2**	140.8
Payment of distributions	**(156.7)**	(203.0)
Closing balance at the end of the year	**91.0**	29.5

A provision for distribution has been raised for the period ended 30 June 2016. This distribution is to be paid on 31 August 2016.

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 14

Audit, taxation and transaction services fees

During the year, the Auditor and its related practices earned the following remuneration:

	2016 $'000	2015 $'000
Audit fees		
PwC Australia - audit and review of Financial Statements	**411**	385
PwC fees paid in relation to outgoings audits	**60**	60
PwC Australia - regulatory audit and compliance services	**5**	4
Audit fees paid to PwC	**476**	449
Taxation fees		
Fees paid to PwC Australia and New Zealand	**19**	21
Taxation fees paid to PwC	**19**	21
Total audit and taxation fees paid to PwC	**495**	470
Total audit and taxation fees paid to PwC	**495**	470

Note 15

Reconciliation of net profit to net cash flows from operating activities

(a) Reconciliation

	2016	2015
	$m	$m
Net profit/(loss) for the year	**816.5**	318.8
Capitalised interest	**(0.6)**	-
Net fair value (gain)/loss of investment properties	**(279.4)**	(63.7)
Share of net (profit)/loss of investments accounted for using the equity method	**(519.5)**	(256.3)
Net fair value (gain)/loss of interest rate swaps	**26.4**	40.9
Net (gain)/loss on sale of investment properties	**-**	2.1
Net foreign exchange (gain)/loss	**-**	0.1
Foreign currency translation reserve transfer on disposal of foreign operations	**-**	2.1
Provision for doubtful debts	**-**	0.1
Change in operating assets and liabilities		
(Increase)/decrease in receivables	**(16.1)**	57.9
(Increase)/decrease in prepaid expenses	**(1.0)**	(0.8)
(Increase)/decrease in other non-current assets - investments	**211.9**	176.7
(Increase)/decrease in other non-current assets	**(0.7)**	0.4
Increase/(decrease) in payables	**13.1**	(4.2)
Increase/(decrease) in current liabilities	**(4.2)**	3.0
Increase/(decrease) in other non-current liabilities	**140.4**	128.6
Increase/(decrease) in deferred tax liabilities	**-**	(6.8)
Net cash inflow/(outflow) from operating activities	**386.8**	**398.8**

Note 16

Related parties

Responsible Entity

DXFM is the Responsible Entity of the Trust.

Responsible Entity fees

Under the terms of the Trust's Constitution, the Responsible Entity is entitled to receive fees in relation to the management of the Trust. DXFM's parent entity, DXH, is entitled to be reimbursed for administration expenses incurred on behalf of the Trust. DEXUS Property Services Pty Limited (DXPS), a wholly owned subsidiary of DXH, is entitled to property management fees from the Trust.

Related party transactions

Responsible Entity fees in relation to the Trust assets are on a cost recovery basis.

Note 16

Related parties (continued)

There were a number of transactions and balances between the Trust and the Responsible Entity and its related entities, as detailed below:

DEXUS Funds Management Limited and its related entities

	2016 $'000	2015 $'000
Responsible Entity fees paid and payable	13,337	13,484
Property management fees paid and payable to DXPS	13,483	12,286
Responsible Entity fees payable at the end of each reporting period (included above)	1,171	1,134
Property management fees payable at the end of each reporting period (included above)	1,188	4,475
Administration expenses payable at the end of each reporting period (included above)	249	88
Capex contribution payable at the end of each reporting period	-	60
Rent paid	1,786	1,026

Entities within DXS

Aggregate amounts included in the determination of profit that resulted from transactions with each class of other related parties:

	2016 $'000	2015 $'000
Interest expense	141,238	131,580
Interest bearing loans advanced from entities within DXS	1,205,382	828,675
Interest bearing loans advanced to entities within DXS	456,611	976,120

Note 16

Related parties (continued)

Directors

The following persons were Directors of DXFM at all times during the year and to the date of this report, unless otherwise stated:

E A Alexander, AM, BComm, FCA, FAICD, FCPA [1,4]
P Bingham-Hall, BA (Industrial Design), FAICD, SF (Fin) [1,3,5]
J C Conde, AO, BSc, BE (Hons), MBA [1,2,3]
T Dwyer, BJuris (Hons), LLB (Hons) [1,4,5]
W R Sheppard, BEc (Hons) [1,2,3,4,5]
D J Steinberg, BEc, FRICS, FAPI [1,2]
P B St George, CA(SA), MBA [1,4,5]

1 Independent Director.
2 Board Nomination Committee Member as at 30 June 2016.
3 Board People & Remuneration Committee Member as at 30 June 2016.
4 Board Audit Committee Member as at 30 June 2016.
5 Board Risk Committee Member as at 30 June 2016.

Other key management personnel

In addition to the Directors listed above, the following persons were deemed by the Board People & Remuneration Committee to be key management personnel during all or part of the financial year:

Name	Title
Alison Harrop	Chief Financial Officer
Ross Du Vernet	Chief Investment Officer
Craig Mitchell	Chief Operating Officer
Deborah Coakley	Executive General Manager, Customer and Marketing
Kevin George	Executive General Manager, Office and Industrial

Key management personnel compensation

	2016	2015
	$'000	$'000
Compensation		
Short-term employee benefits	**8,130**	7,453
Post employment benefits	**235**	220
Security-based payments	**2,456**	2,595
	10,821	10,268

Note 16

Related parties (continued)

Equity instrument disclosures relating to key management personnel

The relevant interests in DXS stapled securities held during the financial year by each key management personnel, including their personally related parties, are set out below:

The DXFM Board has approved a grant of performance rights to DXS stapled securities to eligible participants (refer note 21 of the DEXUS Property Group Financial Report).

There were no loans or other transactions with key management personnel or their related parties during the years ended 30 June 2016 and 30 June 2015.

	Opening Balance 1 July 2015	Purchases	Performance rights granted	Other change	Closing Balance 30 June 2016
Directors	1,068,187	8,200	387,044	(436,477)	1,026,954
Other key management personnel	348,396	-	181,362	51,507	581,265
Total	**1,416,583**	**8,200**	**568,406**	**(384,970)**	**1,608,219**

Note 17

Parent entity disclosures

The financial information for the parent entity has been prepared on the same basis as the consolidated Financial Statements except as set out below:

Distributions received from associates are recognised in the parent entity's Statement of Comprehensive Income, rather than being deducted from the carrying amount of these investments.

Interests held by the parent entity in controlled entities are measured at fair value through profit and loss to reduce a measurement or recognition inconsistency.

(a) Summary financial information

The individual Financial Statements for the parent entity show the following aggregate amounts:

	2016	2015
	$m	$m
Total current assets	**1,696.9**	1,343.6
Total assets	**7,573.9**	6,171.0
Total current liabilities	**192.9**	127.5
Total liabilities	**3,629.0**	2,814.4
Equity		
Contributed equity	**2,432.4**	2,442.6
Retained profits	**1,512.5**	914.1
Total equity	**3,944.9**	3,356.7
Net profit/(loss) for the year	**816.5**	320.6
Total comprehensive income/(loss) for the year	**816.5**	320.6

Note 17

Parent entity disclosures (continued)

(b) Guarantees entered into by the parent entity

Refer to note 10 for details of guarantees entered into by the parent entity.

(c) Contingent liabilities

The parent entity had no contingent liabilities as at 30 June 2016 (2015: nil).

(d) Capital commitments

The following amounts represent capital expenditure of the parent entity on investment properties contracted at the end of the reporting period but not recognised as liabilities payable:

	2016	2015
	$m	$m
Investment properties	**21.9**	34.4
Total capital commitments	**21.9**	34.4

Note 18

Subsequent events

On 29 July 2016, settlement occurred on the sale of The Zenith, 821 Pacific Highway, Chatswood, NSW for gross proceeds of $139.5 million.

On 5 August 2016, the Group exchanged contracts for the sale of the Southgate Complex at 3 Southgate Avenue, Southbank, VIC for gross proceeds of $578.0 million. The sale is conditional on the purchaser receiving Foreign Investment Review Board (FIRB) approval.

Since the end of the year, other than the matters disclosed above, the Directors are not aware of any matter or circumstance not otherwise dealt with in their Directors' Report or the Financial Statements that has significantly or may significantly affect the operations of the Trust, the results of those operations, or state of the Trust's affairs in future financial periods.

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 8 to 44:

(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 30 June 2016 and of their performance, as represented by the results of their operations and their cash flows, for the year ended on that date.

In the Directors' opinion:

(a) the Financial Statements and notes are in accordance with the *Corporations Act 2001*;

(b) there are reasonable grounds to believe that the Trust and its consolidated entities will be able to pay their debts as and when they become due and payable; and

(c) the Trust has operated in accordance with the provisions of the Constitution dated 17 June 1998 (as amended) during the year ended 30 June 2016.

The Financial Statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The Directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer required by section 295A of the *Corporations Act 2001*.

This declaration is made in accordance with a resolution of the Directors.

W Richard Sheppard
Chair
16 August 2016

Independent auditor's report to the members of DEXUS Office Trust

Report on the financial report

We have audited the accompanying financial report of DEXUS Office Trust (the registered scheme), which comprises the consolidated statement of financial position as at 30 June 2016, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for DEXUS Office Trust (the consolidated entity). The consolidated entity comprises the registered scheme and the entities it controlled at year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of DEXUS Funds Management Limited (the responsible entity) are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In the Basis of preparation, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the consolidated entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001.*

Auditor's opinion

In our opinion:

(a) the financial report of DEXUS Office Trust is in accordance with the *Corporations Act 2001*, including:

  (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of its performance for the year ended on that date; and

  (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

(b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in the Basis of preparation.

PricewaterhouseCoopers

PricewaterhouseCoopers

E A Barron
Partner

Sydney
16 August 2016

DEXUS Operations Trust

(ARSN 110 521 223)

Financial Report
30 June 2016

DEXUS
PROPERTY GROUP

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DEXUS Property Group (DXS) (ASX Code: DXS) consists of DEXUS Diversified Trust (DDF) (ARSN 089 324 541), DEXUS Industrial Trust (DIT), DEXUS Office Trust (DOT) and DEXUS Operations Trust (DXO), collectively known as DXS or the Group.

The registered office of the Group is Level 25, Australia Square, 264-278 George Street, Sydney, NSW 2000.

Under Australian Accounting Standards, DDF has been deemed the parent entity for accounting purposes. Therefore the DDF consolidated Financial Statements include all entities forming part of DXS. The DDF consolidated financial statements are presented in separate Financial Statements.

All ASX and media releases, Financial Statements and other information are available on our website: www.dexus.com

Directors' Report

The Directors of DEXUS Funds Management Limited (DXFM) as Responsible Entity of DEXUS Operations Trust present their Directors' Report together with the consolidated Financial Statements for the year ended 30 June 2016. The consolidated Financial Statements represents DEXUS Operations Trust and its consolidated entities (DXO or the Trust).

The Trust together with DEXUS Diversified Trust (DDF), DEXUS Industrial Trust (DIT) and DEXUS Office Trust (DOT) form the DEXUS Property Group (DXS or the Group) stapled security.

1 Directors and Secretaries

1.1 Directors

The following persons were Directors of DXFM at all times during the year and to the date of this Directors' Report, unless otherwise stated:

Directors	Appointed	Resigned
Christopher T Beare	4 August 2004	28 October 2015
Elizabeth A Alexander, AM	1 January 2005	
Penny Bingham-Hall	10 June 2014	
John C Conde, AO	29 April 2009	
Tonianne Dwyer	24 August 2011	
Craig D Mitchell	12 February 2013	21 April 2016
W Richard Sheppard	1 January 2012	
Darren J Steinberg	1 March 2012	
Peter B St George	29 April 2009	

1.2 Company Secretaries

The names and details of the Company Secretaries of DXFM as at 30 June 2016 are as follows:

Brett D Cameron LLB/BA (Science & Technology), GAICD
Appointed: 31 October 2014

Brett is the General Counsel and Company Secretary of DEXUS Property Group companies and is responsible for the legal function, company secretarial services and compliance, risk and governance systems and practices across the Group.

Prior to joining DEXUS, Brett was Head of Legal for Macquarie Real Estate (Asia) and has held senior legal positions at Macquarie Capital Funds in Hong Kong and Minter Ellison in Sydney and Hong Kong. Brett has 19 years' experience as in-house counsel and in private practice in Australia and in Asia, where he worked on real estate structuring and operations, funds management, mergers and acquisitions, private equity and corporate finance across a number of industries.

Brett graduated from The University of New South Wales and holds a Bachelor of Laws and a Bachelor of Arts (Science and Technology) and is a member of the Law Societies of New South Wales and Hong Kong. Brett is also a graduate of the Australian Institute of Company Directors.

Rachel Caralis LLB/B Com (Acc), M Com (Property Development), Grad Dip (Applied Corporate Governance) AGIA, AAPI
Appointed: 17 February 2016

Rachel is Senior Legal Counsel & Company Secretary of DEXUS Property Group.

Rachel joined DEXUS in 2008 after 5 years at King & Wood Mallesons where she worked in the real estate and projects team. Rachel has 13 years' experience as in-house counsel and in private practice working on real estate and corporate transactions, funds management and corporate finance for wholesale and listed clients.

Rachel graduated from the University of Canberra with a Bachelor of Laws and Bachelor of Commerce (Accounting), has completed a Masters of Commerce (Property Development) at the University of Western Sydney and a Graduate Diploma in Applied Corporate Governance at the Governance Institute of Australia. Rachel is a member of the Law Society of New South Wales, an associate of the Australian Property Institute and an associate of the Governance Institute of Australia.

2 Attendance of Directors at Board meetings and Board Committee meetings

The number of Directors' meetings held during the year and each Director's attendance at those meetings is set out in the table below. The Directors met 11 times during the year. Ten Board meetings were main meetings and one meeting was held to consider specific business.

	Main meetings held	Main meetings attended	Specific meetings held	Specific meetings attended
Christopher T Beare [1]	4	4	-	-
Elizabeth A Alexander, AM	10	10	1	1
Penny Bingham-Hall [2]	10	9	1	1
John C Conde, AO	10	10	1	1
Tonianne Dwyer	10	10	1	1
Craig D Mitchell [3]	7	7	1	1
W Richard Sheppard	10	10	1	1
Darren J Steinberg	10	10	1	1
Peter B St George [4]	10	9	1	1

1 Mr Beare did not stand for re-election at the 2015 AGM and resigned as Independent Director and Chair of the Board on 28 October 2015.
2 Ms Bingham-Hall was an apology for the 31 May 2016 Board meeting.
3 Mr Mitchell resigned from DEXUS Property Group and from the Board on 21 April 2016.
4 Mr St George was an apology for the 27 June 2016 Board meeting.

Special meetings are held at a time to enable the maximum number of Directors to attend and are generally held to consider specific items that cannot be held over to the next scheduled main meeting.

The table below sets out the number of Board Committee meetings held during the year and each Director's attendance at those meetings.

	Board Audit Committee		Board Risk Committee		Board Nomination Committee		Board People & Remuneration Committee	
	held	attended	held	attended	held	attended	held	attended
Christopher T Beare [1]	-	-	-	-	-	-	1	1
Elizabeth A Alexander, AM	4	4	-	-	-	-	-	-
Penny Bingham-Hall	-	-	4	4	-	-	6	6
John C Conde, AO	-	-	-	-	4	4	6	6
Tonianne Dwyer	4	4	4	4	-	-	-	-
Craig D Mitchell [2]	-	-	-	-	-	-	-	-
W Richard Sheppard [3]	4	4	4	4	4	4	5	5
Darren J Steinberg [4,5]	-	-	-	-	4	4	-	-
Peter B St George	4	4	4	4	-	-	-	-

1 Mr Beare did not stand for re-election at the 2015 AGM and resigned as Independent Director and Chair of the Board on 28 October 2015.
2 Mr Mitchell resigned from DEXUS Property Group and from the Board on 21 April 2016.
3 Mr Sheppard joined as a member of the People & Remuneration Committee effective 28 October 2015.
4 Mr Steinberg joined as a member of the Nomination Committee effective 28 October 2015.
5 Mr Steinberg ceased to be a member of the Board Nomination Committee effective 27 July, 2016, and was replaced by Penny Bingham-Hall.

Elizabeth A Alexander and Tonianne Dwyer were also Directors of DEXUS Wholesale Property limited (DWPL) (refer note 22) and attended Board Meetings during the year ended 30 June 2016.

3 Directors' relevant interests

The relevant interests of each Director in DXS stapled securities as at the date of this Directors' Report are shown below:

Directors	No. of securities
Elizabeth A Alexander, AM	16,667
Penny Bingham-Hall	16,534
John C Conde, AO	16,667
Tonianne Dwyer	16,667
W Richard Sheppard	70,090
Darren J Steinberg	872,996[1]
Peter B St George	17,334

1 Includes interests held directly and through performance rights (refer note 21).

4 Review of results and operations

The results for the year ended 30 June 2016 were:

- profit attributable to unitholders was $112.0 million (2015: $68.9 million);
- total assets were $814.6 million (2015: $1,047.6 million); and
- net assets were $366.1 million (2015: $278.9 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 Property Group Financial Report and forms part of this Directors' Report.

5 Directors' directorships in other listed entities

The following table sets out directorships of other ASX listed entities (unless otherwise stated), not including DXFM, held by the Directors at any time in the three years immediately prior to the end of the year, and the period for which each directorship was held:

Director	Company	Date appointed	Date resigned
Christopher T Beare	Flexigroup Limited	1 July 2014	10 August 2015
Elizabeth A Alexander, AM	Medibank Private Limited[1]	31 October 2008	
Penny Bingham-Hall	Bluescope Steel Limited	29 March 2011	
John C Conde, AO	Whitehaven Coal Limited	3 May 2007	
	Cooper Energy Limited	25 February 2013	
Tonianne Dwyer	Cardno Limited	25 June 2012	27 January 2016
	Metcash Limited	24 June 2014	
W Richard Sheppard	Star Entertainment Group[2]	21 November 2012	
Peter B St George	First Quantum Minerals Limited[3]	20 October 2003	

1 Listed for trading on the Australian Securities Exchange since 24 November 2014.
2 Formerly Echo Entertainment Group.
3 Listed for trading on the Toronto Stock Exchange in Canada and the London Stock Exchange in the United Kingdom.

6 Principal activities

During the year the principal activity of the Trust was to own, manage and develop high quality real estate assets and manage real estate funds on behalf of third party investors. There were no significant changes in the nature of the Trust's activities during the year.

7 Total value of Trust assets

The total value of the assets of the Trust as at 30 June 2016 was $814.6 million (2015: $1,047.6 million). Details of the basis of this valuation are outlined in the Notes to the Financial Statements and form part of this Directors' Report.

8 Likely developments and expected results of operations

In the opinion of the Directors, disclosure of any further information regarding business strategies and future developments or results of the Trust, other than the information already outlined in this Directors' Report or the Financial Statements accompanying this Directors' Report would be unreasonably prejudicial to the Trust.

9 Significant changes in the state of affairs

The Directors are not aware of any matter or circumstance not otherwise dealt with in this Directors' Report or the Financial Statements that has significantly or may significantly affect the operations of the Trust, the results of those operations, or the state of the Trust's affairs in future financial years.

10 Matters subsequent to the end of the financial year

Since the end of the financial year the Directors are not aware of any matter or circumstance not otherwise dealt with in this Directors' Report or the Financial Statements that has significantly or may significantly affect the operations of the Trust, the results of those operations, or the state of the Trust's affairs in future financial years.

11 Distributions

Distributions paid or payable by the Trust for the year ended 30 June 2016 are outlined in note 8 of the Notes to the Financial Statements and form part of this Directors' report.

12 DXFM fees

Details of fees paid or payable by the Trust to DXFM for the year ended 30 June 2016 are outlined in note 22 of the Notes to the Financial Statements and form part of this Directors' Report.

13 Units on Issue

The movement in units on issue in the Trust during the year and the number of units on issue as at 30 June 2016 are detailed in note 13 of the Notes to the Financial Statements and form part of this Directors' Report.

Details of the number of interests in the Trust held by DXFM or its associates as at the end of the financial year are outlined in note 22 of the Notes to the Financial Statements and form part of this Directors' Report.

The Trust did not have any options on issue as at 30 June 2016 (2015: nil).

14 Environmental regulation

DXS senior management, through its Board Risk Committee, oversee the policies, procedures and systems that have been implemented to ensure the adequacy of its environmental risk management practices. It is the opinion of this Committee that adequate systems are in place for the management of its environmental responsibilities and compliance with its various licence requirements and regulations. Further, the Committee is not aware of any material breaches of these requirements.

15 Indemnification and insurance

The insurance premium for a policy of insurance indemnifying Directors, officers and others (as defined in the relevant policy of insurance) is paid by DEXUS Holdings Pty Limited (DXH).

PricewaterhouseCoopers (PwC or the Auditor), is indemnified out of the assets of the Trust pursuant to the DEXUS Specific Terms of Business agreed for all engagements with PwC, to the extent that the Trust inappropriately uses or discloses a report prepared by PwC. The Auditor, PwC, is not indemnified for the provision of services where such an indemnification is prohibited by the *Corporations Act 2001*.

16 Audit

16.1 Auditor

PricewaterhouseCoopers continues in office in accordance with section 327 of the *Corporations Act 2001*. In accordance with section 324DAA of the *Corporations Act 2001*, the Trust's lead auditor and review auditor must be rotated every five years unless the Board grants approval to extend the term for up to a further two years.

16 Audit (continued)

16.1 Auditor (continued)

During the year the Board granted approval to extend the term of the current lead auditor for one year, to include the audit for the year ended 30 June 2017 in light of the business and operational changes undertaken by the Trust which are ongoing and are expected to impact the 2017 audit.

16.2 Non-audit services

The Trust may decide to employ the Auditor on assignments, in addition to their statutory audit duties, where the Auditor's expertise and experience with the Trust and/or DXS are important.

Details of the amounts paid or payable to the Auditor for audit and non-audit services provided during the year are set out in note 19 of the Notes to the Financial Statements.

The Board Audit Committee is satisfied that the provision of non-audit services provided during the year by the Auditor (or by another person or firm on the Auditor's behalf) is compatible with the standard of independence for auditors imposed by the *Corporations Act 2001.*

The reasons for the Directors being satisfied are:

- a Charter of Audit Independence provides guidelines under which the Auditor may be engaged to provide non-audit services without impairing the Auditor's objectivity or independence.
- the Charter states that the Auditor will not provide services where the Auditor may be required to review or audit its own work, including:
  - the preparation of tax provisions, accounting records and financial statements;
  - the design, implementation and operation of information technology systems;
  - the design and implementation of internal accounting and risk management controls;
  - conducting valuation, actuarial or legal services;
  - consultancy services that include direct involvement in management decision making functions;
  - investment banking, borrowing, dealing or advisory services;
  - acting as trustee, executor or administrator of trust or estate;
  - prospectus independent expert reports and being a member of the due diligence committee; and
  - providing internal audit services.
- the Board Audit Committee regularly reviews the performance and independence of the Auditor and whether the independence of this function has been maintained having regard to the provision of non-audit services. The Auditor has provided a written declaration to the Board regarding its independence at each reporting period and Board Audit Committee approval is required before the engagement of the Auditor to perform any non-audit service for a fee in excess of $100,000.

The above Directors' statements are in accordance with the advice received from the Board Audit Committee.

16.3 Auditor's Independence Declaration

A copy of the Auditor's Independence Declaration as required under section 307C of the *Corporations Act 2001* is set out on page 7 and forms part of this Directors' Report.

17 Corporate governance

DXFM's Corporate Governance Statement is available at http://www.dexus.com/corporate-governance/2/corporate-governance.

18 Rounding of amounts and currency

The Trust is a registered scheme of the kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, issued by the Australian Securities & Investments Commission, relating to the rounding off of amounts in this Directors' Report and the Financial Statements. Amounts in this Directors' Report and the Financial Statements have been rounded off in accordance with that Class Order to the nearest thousand dollars, unless otherwise indicated. All figures in this Directors' Report and the Financial Statements, except where otherwise stated, are expressed in Australian dollars.

19 Directors' authorisation

The Directors' Report is made in accordance with a resolution of the Directors. The Financial Statements were authorised for issue by the Directors on 16 August 2016. The Directors have the power to amend and reissue the Financial Statements.

W Richard Sheppard	**Darren J Steinberg**
Chair	Chief Executive Officer
16 August 2016	16 August 2016

Auditor's Independence Declaration

As lead auditor for the audit of DEXUS Operations Trust for the year ended 30 June 2016, I declare that to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of DEXUS Operations Trust and the entities it controlled during the period.

E A Barron
Partner
PricewaterhouseCoopers

Sydney
16 August 2016

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	Note	2016 $'000	2015 $'000
Revenue from ordinary activities			
Property revenue	3	**44,920**	55,979
Proceeds from sale of inventory		**204,727**	220,125
Distribution revenue		**491**	480
Interest revenue		**154**	118
Management fee revenue	2	**147,177**	126,226
Total revenue from ordinary activities		**397,469**	402,928
Net fair value gain of investment properties	9(a)	**20,136**	10,807
Net gain on sale of investment properties		**6,247**	-
Net foreign exchange gain		**-**	316
Total income		**423,852**	414,051
Expenses			
Property expenses	3	**(13,215)**	(15,236)
Cost of sale of inventory	10	**(114,285)**	(172,156)
Finance costs	5	**(19,657)**	(30,065)
Impairment of goodwill	17	**(99)**	(99)
Net loss on sale of investment properties		**-**	(727)
Transaction costs		**(5,880)**	-
Management operations, corporate and administration expenses	4	**(113,890)**	(98,299)
Total expenses		**(267,026)**	(316,582)
Profit/(loss) before tax		**156,826**	97,469
Income tax expense	6(a)	**(44,784)**	(28,575)
Profit/(loss) for the year		**112,042**	68,894
Other comprehensive income/(loss):			
Fair value gain of available-for-sale financial assets	14	**1,086**	341
Total comprehensive income/(loss) for the year		**113,128**	69,235

		Cents	Cents
Earnings per unit on profit/(loss) attributable to unitholders of the parent entity			
Basic earnings per unit	7	**11.57**	7.53
Diluted earnings per unit	7	**11.57**	7.53

The above Consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

	Note	2016 $'000	2015 $'000
Current assets			
Cash and cash equivalents	15(a)	**6,061**	1,389
Receivables	15(b)	**39,892**	38,037
Inventories	10	**74,296**	118,495
Other		**1,797**	3,209
Total current assets		**122,046**	161,130
Non-current assets			
Investment properties	9	**155,456**	407,731
Plant and equipment	16	**16,481**	11,251
Inventories	10	**201,788**	156,297
Intangible assets	17	**307,076**	301,400
Available-for-sale financial assets	18	**9,767**	8,994
Other		**1,997**	832
Total non-current assets		**692,565**	886,505
Total assets		**814,611**	1,047,635
Current liabilities			
Payables	15(c)	**19,663**	28,342
Current tax liabilities	6(c)	**40,100**	-
Loans with related parties	11(b)	**48,932**	48,932
Provisions	15(d)	**50,858**	27,269
Derivative financial instruments	11(c)	**-**	148
Total current liabilities		**159,553**	104,691
Non-current liabilities			
Loans with related parties	11(b)	**272,368**	650,201
Deferred tax liabilities	6(d)	**6,077**	4,266
Provisions	15(d)	**7,477**	6,450
Other		**3,027**	3,147
Total non-current liabilities		**288,949**	664,064
Total liabilities		**448,502**	768,755
Net assets		**366,109**	278,880
Equity			
Contributed equity	13	**237,985**	238,829
Reserves	14	**44,425**	43,394
Retained profits/(accumulated losses)	14	**83,699**	(3,343)
Total equity		**366,109**	278,880

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

Consolidated Statement of Changes in Equity

For the year ended 30 June 2016

	Note	Contributed equity $'000	Asset revaluation reserve $'000	Treasury securities reserve $'000	Security-based payments reserve $'000	Available-for-sale financial assets $'000	Retained profits/ (losses) $'000	Total equity $'000
Opening balance as at 1 July 2014		222,086	42,738	(165)	157	334	(72,237)	192,913
Profit/(loss) for the year		-	-	-	-	-	68,894	68,894
Other comprehensive income/(loss) for the year		-	-	-	-	341	-	341
Total comprehensive income for the year		-	-	-	-	341	68,894	69,235
Transactions with owners in their capacity as unitholders:								
Issue of additional equity, net of transaction costs	13	16,743	-	-	-	-	-	16,743
Purchase of securities, net of transaction costs	14	-	-	(184)	-	-	-	(184)
Security-based payments expense	14	-	-	-	173	-	-	173
Total transactions with owners in their capacity as owners		16,743	-	(184)	173	-	-	16,732
Closing balance as at 30 June 2015		238,829	42,738	(349)	330	675	(3,343)	278,880
Opening balance as at 1 July 2015		**238,829**	**42,738**	**(349)**	**330**	**675**	**(3,343)**	**278,880**
Profit/(loss) for the year		**-**	**-**	**-**	**-**	**-**	**112,042**	**112,042**
Other comprehensive income/(loss) for the year		**-**	**-**	**-**	**-**	**1,086**	**-**	**1,086**
Total comprehensive income for the year		**-**	**-**	**-**	**-**	**1,086**	**112,042**	**113,128**
Transactions with owners in their capacity as unitholders:								
Buy-back of contributed equity, net of transaction costs	13	**(844)**	**-**	**-**	**-**	**-**	**-**	**(844)**
Purchase of securities, net of transaction costs	14	**-**	**-**	**(30)**	**-**	**-**	**-**	**(30)**
Security-based payments expense	14	**-**	**-**	**-**	**(25)**	**-**	**-**	**(25)**
Distributions paid or provided for	8	**-**	**-**	**-**	**-**	**-**	**(25,000)**	**(25,000)**
Total transactions with owners in their capacity as owners		**(844)**	**-**	**(30)**	**(25)**	**-**	**(25,000)**	**(25,899)**
Closing balance as at 30 June 2016		**237,985**	**42,738**	**(379)**	**305**	**1,761**	**83,699**	**366,109**

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

	Note	2016 $'000	2015 $'000
Cash flows from operating activities			
Receipts in the course of operations (inclusive of GST)		**201,432**	184,356
Payments in the course of operations (inclusive of GST)		**(142,211)**	(105,624)
Interest received		**154**	118
Finance costs paid to financial institutions		**(205)**	(503)
Income and withholding taxes paid		**(2,873)**	-
Proceeds from sale of property classified as inventory		**204,727**	221,852
Payments for property classified as inventory		**(109,088)**	(83,722)
Net cash inflow/(outflow) from operating activities	20	**151,936**	216,477
Cash flows from investing activities			
Proceeds from sale of investment properties		**305,708**	15,624
Payments for capital expenditure on investment properties		**(27,334)**	(6,285)
Payments for acquisition of investment properties		**56**	-
Payments for acquisition of subsidiaries		**-**	(160,001)
Payments for other intangible assets		**(9,158)**	-
Payments for plant and equipment		**(7,681)**	(12,175)
Net cash inflow/(outflow) from investing activities		**261,591**	(162,837)
Cash flows from financing activities			
Borrowings provided to related parties		**(843,619)**	(843,697)
Borrowings received from related parties		**439,520**	792,041
Proceeds from issue of additional equity		**(844)**	16,743
Purchase of securities for security-based payments plans		**(4,653)**	(3,985)
Distributions received		**741**	378
Distributions paid to security holders		**-**	(15,000)
Net cash inflow/(outflow) from financing activities		**(408,855)**	(53,520)
Net increase/(decrease) in cash and cash equivalents		**4,672**	120
Cash and cash equivalents at the beginning of the year		**1,389**	1,269
Cash and cash equivalents at the end of the year		**6,061**	1,389

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.

Specific accounting policies are described in their respective notes to the Financial Statements. This section also shows information on new or amended accounting standards and their impact on the financial position and performance of the Trust.

(a) Basis of preparation

DEXUS Property Group stapled securities are quoted on the Australian Securities Exchange under the "DXS" code and comprise one unit in each of DDF, DIT, DOT and DXO. 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.

DEXUS Funds Management Limited (DXFM) as Responsible Entity for DDF, DIT, DOT and DXO may only unstaple the Group if approval is obtained by a special resolution of the stapled security holders.

These general purpose Financial Statements have been prepared in accordance with the requirements of the Trust's Constitutions, *the Corporations Act 2001*, Australian Accounting Standards and other authoritative pronouncements and interpretations of the Australian Accounting Standards Board. Compliance with Australian Accounting Standards ensures that the Financial Statements and notes also comply with International Financial Reporting Standards (IFRS). The Trust is a for-profit entity for the purpose of preparing Financial Statements.

Amounts in these Financial Statements have been presented in Australian dollars and rounded off in accordance with ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 to the nearest thousand dollars, unless otherwise indicated.

These Financial Statements are prepared on a going concern basis, using historical cost conventions except for investment properties, security-based payment, derivative financial instruments and other financial liabilities which are stated at their fair value. Refer to the specific accounting policies within the notes to the Financial Statements for the basis of valuation of assets and liabilities measured at fair value.

As at 30 June 2016, the Company had a current net asset deficiency of $37.5 million (2015: Surplus $56.4 million). The DXS Group has in place both external and internal funding arrangements to support the cashflow requirements of the Company. The Company is a going concern and the Financial Statements have been prepared on that basis.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, unless otherwise stated.

Critical accounting estimates

In the process of applying the Trust's accounting policies, management have made a number of judgements and applied estimates of future events. Judgements and estimates which are material to the financial report are discussed in the following notes:

Note 9	Investment properties	Page 21
Note 10	Inventories	Page 24
Note 11(c)	Derivative financial instruments	Page 33
Note 17	Intangible assets	Page 41
Note 21	Security-based payment	Page 44

(b) Principles of consolidation

These consolidated Financial Statements incorporate the assets, liabilities and results of all subsidiaries as at 30 June 2016.

(i) Controlled entities

Subsidiaries are all entities over which the Trust has control. The Trust controls an entity when the Trust is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Trust. They are deconsolidated from the date that control ceases.

(ii) Joint arrangements

Investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations each investor has, rather than the legal structure of the joint arrangement.

Joint operations
Where assets are held directly as tenants in common, the Trust's proportionate share of revenues, expenses, assets and liabilities are included in their respective items of the Statement of Financial Position and Statement of Comprehensive Income.

Joint ventures
Investments in joint ventures are accounted for using the equity method. Under this method, the Trust's share of the joint ventures' post-acquisition profits or losses is recognised in the Statement of Comprehensive Income and distributions received from joint ventures are recognised as a reduction of the carrying amount of the investment.

(iii) Employee share trust

DXO has formed a trust to administer the trust's securities-based employee benefits. The employee share trust is consolidated as the substance of the relationship is that the trust is controlled by DXO.

(c) Foreign currency

Items included in the Financial Statements of the Trust are measured using the currency of the primary economic environment in which the entity operates. The Financial Statements are presented in Australian dollars.

(d) Goods and services tax

Revenues, expenses and capital assets are recognised net of any amount of Australian Goods and Services Tax (GST), except where the amount of GST incurred is not recoverable. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of the expense. Cash flows are included in the Statement of Cash Flows on a gross basis. The GST component of cash flows arising from investing and financing activities that is recoverable from or payable to the Australian Taxation Office is classified as cash flows from operating activities.

(e) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for the 30 June 2016 reporting period. The Trust's assessment of the impact of these new standards and interpretations is set out below:

AASB 9 *Financial Instruments* (effective application for the Trust is 1 July 2018).
AASB 9 *Financial Instruments* addresses the classification, measurement and derecognition of financial assets and financial liabilities. It also sets out new rules for hedge accounting and impairment of financial assets. The Trust intends to apply the standard from 1 July 2018. Application of this standard will not affect any of the amounts recognised in the Financial Statements but will require the disclosure of additional information.

AASB 15 *Revenue from Contracts with Customers* (effective application for the Trust is 1 July 2018).

AASB 15 *Revenue from Contracts with Customers* clarifies the principles for recognising revenue from contracts with customers. It applies to all contracts with customers except leases, financial instruments and insurance contracts. The Trust intends to apply the standard from 1 July 2018 and does not expect any significant impacts.

AASB 16 *Leases* (effective application for the Trust is 1 July 2019).
AASB 16 *Leases* introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. It is not expected that the application of this standard will have a significant impact on any of the amounts recognised in the Financial Statements but may impact some of the Trust's current classification and disclosures. The Trust intends to apply the standard from 1 July 2019.

(f) Notes to the Financial Statements

The notes include information which is required to understand the Financial Statements and is material and relevant to the operations, financial position and performance of the Trust. Information is considered material and relevant if, for example:
- the amount in question is significant because of its size or nature;
- it is important in understanding the results of the Trust;
- it helps to explain the impact of significant changes in the Trust's business;
- it relates to an aspect of the Trust's operations that is important to its future performance.

The notes are organised into the following sections:

Trust performance	Property portfolio assets	Capital and financial risk management and working capital	Other disclosures
1. Operating segments	9. Investment properties	11. Capital and financial risk management	16. Plant and equipment
2. Management fee revenue	10. Inventories	12. Commitments and contingencies	17. Intangible assets
3. Property revenue and expenses		13. Contributed equity	18. Available-for-sale financial assets
4. Management operations, corporate and administration expenses		14. Reserves and retained profits/ accumulated losses	19. Audit, taxation and transaction services fees
5. Finance costs		15. Working capital	20. Reconciliation of net profit to net cash flows from operating activities
6. Taxation			21. Security-based payment
7. Earnings per unit			22. Related parties
8. Distributions paid and payable			23. Parent entity disclosures
			24. Subsequent events

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, property revenue and expenses, management operations, corporate and administration expenses, finance costs, taxation, earnings per unit and distributions paid and payable.

Note 1
Operating segments

(a) Description of segments

The Chief Operating Decision Maker (CODM) has been identified as the Board of Directors as they are responsible for the strategic decision making within the Group. DXS management has identified the Group's operating segments based on the sectors analysed within the management reports reviewed by the CODM in order to monitor performance across the Group and to appropriately allocate resources. Refer to the table below for a brief description of the Group's operating segments.

Segment	Description
Office	Domestic office space with any associated retail space; as well as car parks and office developments.
Industrial	Domestic industrial properties, industrial estates and industrial developments.
Property management	Property management services for third party clients and owned assets.
Funds management	Funds management of third party client assets.
Development and trading	Revenue earned and costs incurred by the Trust on developments and inventory.
All other segments	Corporate expenses associated with maintaining and operating the Trust. This segment also includes the centralised treasury function.

Consistent with how the CODM manages the business, the operating segments within DXS are reviewed on a consolidated basis and are not monitored at an individual trust level. The results of the individual trusts are not limited to any one of the segments described above.

Disclosures concerning DXS's operating segments as well as the operating segments' key financial information provided to the CODM, are presented in the DEXUS Property Group Financial Report.

Note 2

Management fee revenue

Management fees are brought to account on an accruals basis.

	2016 $'000	2015 $'000
Investment management & responsible entity fees	**75,071**	65,944
Rent and lease renewal fees	**14,033**	9,918
Property management fees	**32,518**	30,896
Capital works and development fees	**11,373**	8,333
Wages recovery and other fees	**14,182**	11,135
Total management fee revenue	**147,177**	126,226

Note 3

Property revenue and expenses

Rental revenue is recognised on a straight-line basis over the lease term for leases with fixed rent review clauses.

Prospective tenants may be offered incentives as an inducement to enter into operating leases. These incentives may take various forms including cash payments, rent free periods, or a contribution to certain lessee costs such as fit-out costs or relocation costs. The costs of incentives are recognised as a reduction of rental revenue on a straight-line basis from the lease commencement date to the end of the lease term. The carrying amount of the lease incentives is reflected in the fair value of investment properties.

	2016 $'000	2015 $'000
Rent and recoverable outgoings	**43,077**	53,318
Incentive amortisation	**(3,649)**	(2,830)
Other revenue	**5,492**	5,491
Total property revenue	**44,920**	55,979

Property expenses of $13.2 million (2015: $15.2 million) include rates, taxes and other property outgoings incurred in relation to investment properties.

Note 4

Management operations, corporate and administration expenses

	2016 $'000	2015 $'000
Audit, taxation, legal and other professional fees	**4,501**	4,637
Depreciation and amortisation	**5,834**	2,808
Employee benefits expense and other staff expenses	**93,704**	83,517
Administration and other expenses	**9,851**	7,337
Management operations, corporate and administration expenses	**113,890**	98,299

Note 5

Finance costs

Borrowing costs include interest, amortisation or ancillary costs incurred in connection with arrangement of borrowings, and net fair value movements of interest rate swaps. Borrowing costs are expensed as incurred unless they relate to qualifying assets.

Qualifying assets include investment properties and inventories which take more than 12 months to develop for their intended use or sale. In these circumstances, borrowing costs are capitalised to the cost of the asset during the period of time that is required to complete and develop the asset for its intended use or sale. To the extent that funds are borrowed generally to fund development, the amount of borrowing costs to be capitalised to qualifying assets must be determined by using a weighted average capitalisation rate.

	2016	2015
	$'000	$'000
Interest paid to related parties	**23,697**	32,842
Net fair value loss of interest rate swaps	**(43)**	129
Amount capitalised	**(4,097)**	(2,966)
Other finance costs	**100**	60
Total finance costs	**19,657**	30,065

The average capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation is 6.75% (2015: 7.00%).

Note 6

Taxation

DXO is liable for income tax and has formed a tax consolidated group with its wholly owned and controlled Australian entities. As a consequence, these entities are taxed as a single entity.

Income tax expense is comprised of current and deferred tax expense. Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case it is recognised in other comprehensive income or directly in equity, respectively.

Current tax expense represents the expense relating to the expected taxable income at the applicable rate of the financial year.

Deferred tax expense represents the tax expense in respect of the future tax consequences of recovering or settling the carrying amount of an asset or liability. Deferred income tax liabilities are recognised for all taxable temporary differences. Deferred income tax assets are recognised for all deductible temporary differences, and unused tax losses, to the extent it is probable that future taxable profit will be available to utilise them.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date.

The carrying amount of deferred income tax assets is reviewed at balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to utilise them.

Note 6

Taxation (continued)

(a) Income tax (expense)/benefit

	Note	2016 $'000	2015 $'000
Current income tax (expense)/benefit		**(42,972)**	-
Deferred income tax (expense)/benefit		**(1,812)**	(28,575)
Total income tax (expense)/benefit		**(44,784)**	(28,575)
Deferred income tax expense included in income tax (expense)/benefit comprises:			
(Decrease)/increase in deferred tax assets	6(d)	**760**	(25,036)
(Increase)/decrease in deferred tax liabilities	6(d)	**(2,571)**	(3,539)
Total deferred tax expense		**(1,811)**	(28,575)

(b) Reconciliation of income tax (expense)/benefit to net profit

	2016 $'000	2015 $'000
Profit/(loss) before income tax	**156,826**	97,469
Prima facie tax (expense)/benefit at the Australian tax rate of 30% (2015: 30%)	**(47,048)**	(29,241)
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Non-assessable items	**2,667**	1,633
Non-deductible items	**(403)**	(967)
	2,264	666
Income tax (expense)/benefit	**(44,784)**	(28,575)

(c) Current tax liabilities

	2016 $'000	2015 $'000
Current tax liabilities	**40,100**	-
Total current tax liabilities	**40,100**	-

Note 6

Taxation (continued)

(d) Deferred tax assets

	2016 $'000	2015 $'000
The balance comprises temporary differences attributable to:		
Derivative financial instruments	-	37
Tax losses	-	951
Employee provisions	9,845	8,318
Other	1,715	1,494
Total non-current assets - deferred tax assets	11,560	10,800
Movements:		
Opening balance at the beginning of the year	10,800	35,836
(Utilisation)/recognition of tax losses	(951)	(24,226)
Movement in deferred tax asset arising from temporary differences	1,711	(810)
(Charged)/credited to the Statement of Comprehensive Income	760	(25,036)
Closing balance at the end of the year	11,560	10,800

Deferred tax liabilities

	2016 $'000	2015 $'000
The balance comprises temporary differences attributable to:		
Intangible assets	1,810	1,909
Investment properties	15,481	12,729
Other	346	428
Total non-current liabilities - deferred tax liabilities	17,637	15,066
Movements		
Opening balance at the beginning of the year	15,066	11,527
Charged/(credited) to the Statement of Comprehensive Income	2,571	3,539
Closing balance at the end of the year	17,637	15,066

Net deferred tax liability

	2016 $'000	2015 $'000
Deferred tax assets	11,560	10,800
Deferred tax liabilities	(17,637)	(15,066)
Net deferred tax liabilities	(6,077)	(4,266)

Note 7

Earnings per unit

Earnings per unit are determined by dividing the net profit attributable to unitholders by the weighted average number of ordinary units outstanding during the year. Diluted earnings per unit are adjusted from the basic earnings per unit by taking into account the impact of dilutive potential units.

(a) Net profit used in calculating basic and diluted earnings per unit

	2016	2015
	$'000	$'000
Profit attributable to unitholders of the parent entity	**112,042**	68,894

(b) Weighted average number of units used as a denominator

	2016	2015
	No. of units	No. of units
Weighted average number of units outstanding used in calculation of basic and diluted earnings per unit	**968,639,060**	915,462,824

Note 8

Distributions paid and payable

Distributions are recognised when declared.

(a) Distribution to unitholders

	2016	2015
	$'000	$'000
30 June (payable 31 August 2016)	**25,000**	-
Total distribution to unitholders	**25,000**	-

(b) Distribution rate

	2016	2015
	Cents per unit	Cents per unit
30 June (payable 31 August 2016)	**2.58**	-
Total distributions	**2.58**	-

(c) Franked dividends

	2016	2015
	$'000	$'000
Opening balance at the beginning of the year	**9,752**	9,752
Income tax paid during the year	**2,872**	-
Franking credits utilised for payment of distribution	**(10,714)**	-
Closing balance at the end of the year	**1,910**	9,752

As at 30 June 2016, the Trust had a current tax liability of $40.1 million, which will be added to the franking account balance once payment is made.

Property portfolio assets

In this section

The following table summarises the property portfolio assets detailed in this section:

30 June 2016	Note	Office $'000	Industrial $'000	Development $'000	Total $'000
Investment properties	**9**	112,999	29,402	13,055	**155,456**
Inventories	**10**	49,825	226,259	-	**276,084**
Total		**162,824**	**255,661**	**13,055**	**431,540**

These 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;
- *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. 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.

The list of property portfolio assets is detailed in the Property Synopsis, available at www.dexus.com/investor-centre/dxs/announcements/asx.

Note 9

Investment properties

The Trust's investment properties consist of properties held for long-term rental yields and/or capital appreciation and property that is being constructed or developed for future use as investment property. Investment properties are initially recognised at cost including transaction costs. Investment properties are subsequently recognised at fair value in the Financial Statements.

The basis of valuations of investment properties is fair value, being the price that would be received to sell the asset in an orderly transaction between market participants at the measurement date.

Changes in fair values are recorded in the Statement of Comprehensive Income. The gain or loss on disposal of an investment property is calculated as the difference between the carrying amount of the asset at the date of disposal and the net proceeds from disposal and is included in the Statement of Comprehensive Income in the year of disposal.

Subsequent redevelopment and refurbishment costs (other than repairs and maintenance) are capitalised to the investment property where they result in an enhancement in the future economic benefits of the property.

Leasing fees incurred and incentives provided are capitalised and amortised over the lease periods to which they relate.

Note 9

Investment properties (continued)

(a) Reconciliation

	Office $'000	Industrial $'000	Development $'000	2016 $'000	2015 $'000
Opening balance at the beginning of the year	83,799	292,809	31,123	407,731	275,397
Additions	3,446	775	20,548	24,769	12,786
Acquisitions	-	(56)	-	(56)	114,428
Lease incentives	1,488	2,545	114	4,147	2,975
Amortisation of lease incentives	(420)	(2,078)	(13)	(2,511)	(1,413)
Rent straightlining	25	651	25	701	1,223
Disposals	-	(261,462)	(37,999)	(299,461)	(6,851)
Transfer to inventories	-	-	-	-	(1,621)
Transfer from/(to) development properties	-	648	(648)	-	-
Net fair value gain/(loss) of investment properties	24,661	(4,430)	(95)	20,136	10,807
Closing balance at the end of the year	112,999	29,402	13,055	155,456	407,731

(b) Valuation process

Independent valuations are carried out for each individual property at least once every three years by a member of the Australian Property Institute of Valuers. Each valuation firm and its signatory valuer are appointed on the basis that they are engaged for no more than three consecutive valuations. Independent valuations may be undertaken earlier where the Responsible Entity believes there is potential for a material change in the fair value of the property being the greatest of 5% of the asset value, or $5 million.

The Trust's investment properties are required to be internally valued at least every six months unless they have been independently valued during the current reporting period. Internal valuations are compared to the carrying value of investment properties at the reporting date. Where the Directors determine the internal valuations present a more reliable estimate of fair value the internal valuation is adopted as book value. Internal valuations are performed by the Trust's internal valuers who hold recognised relevant professional qualifications and have previous experience as property valuers from major real estate valuation firms.

An appropriate valuation methodology is utilised according to asset class. In relation to Office and Industrial assets this includes the capitalisation approach (market approach) and the discounted cash flow approach (income approach). The valuation is also compared to, and supported by, direct comparison to recent market transactions. The adopted capitalisation rates and discount rates are determined based on industry expertise and knowledge and, where possible, a direct comparison to third party rates for similar assets in a comparable location. Rental revenue from current leases and assumptions about future leases, as well as any expected operational cash outflows in relation to the property, are also built into each asset assessment of fair value.

In relation to development properties under construction for future use as investment property, where reliably measurable, fair value is determined based on the market value of the property on the assumption it had already been completed at the valuation date (using the methodology as outlined above) less costs still required to complete the project, including an appropriate adjustment for industry benchmarked profit and development risk.

(c) Fair value measurement, valuation techniques and inputs

The following table represents the level of the fair value hierarchy and the associated unobservable inputs utilised in the fair value measurement for each class of investment property.

Note 9

Investment properties (continued)

(c) Fair value measurement, valuation techniques and inputs (continued)

Class of property	Fair value hierarchy	Inputs used to measure fair value	Range of unobservable inputs 2016	2015
Office[1]	Level 3	Adopted capitalisation rate	**6.75%**	8.25%
		Adopted discount rate	**7.75%**	9.50%
		Adopted terminal yield	**7.00%**	8.50%
		Current net market rental (per sqm)	**$429**	$405
Industrial	Level 3	Adopted capitalisation rate	**7.00% - 7.25%**	6.75% - 7.75%
		Adopted discount rate	**8.00% - 8.25%**	8.25% - 8.75%
		Adopted terminal yield	**7.25% - 7.75%**	7.00% - 8.00%
		Current net market rental (per sqm)	**$36 - $75**	$71 - $272
Development	Level 3	Adopted capitalisation rate	**6.50%**	6.50%
		Land rate (per sqm)	**$35 - $90**	$35 - $350
Total				

1 Excludes car park and retail.

Key estimates: inputs used to measure fair value of investment properties

Judgement is required in determining the following key assumptions:

- **Adopted capitalisation rate**: The rate at which net market rental revenue is capitalised to determine the value of a property. The rate is determined with regards to market evidence and the prior external valuation.
- **Adopted discount rate**: The rate of return used to convert cash flows, payable or receivable in the future, into present value. It reflects the opportunity cost of capital, that is, the rate of return the cash can earn if put to other uses having similar risk. The rate is determined with regards to market evidence and the prior external valuation.
- **Adopted terminal yield**: The capitalisation rate used to convert the future net market rental revenue into an indication of the anticipated value of the property at the end of the holding period when carrying out a discounted cash flow calculation. The rate is determined with regards to market evidence and the prior external valuation.
- **Net market rental (per sqm)**: The net market rent is the estimated amount for which a property should lease between a lessor and a lessee on appropriate lease terms in an arm's length transaction.
- **Land rate (per sqm)**: The land rate is the market land value per sqm.

(d) Sensitivity information

Significant movement in any one of the inputs listed in the table above may result in a change in the fair value of the Trust's investment properties as shown below:

Significant inputs	Fair value measurement sensitivity to significant increase in input	Fair value measurement sensitivity to significant decrease in input
Adopted capitalisation rate Adopted discount rate Adopted terminal yield	Decrease	Increase
Net market rental (per sqm) Land rate (per sqm)	Increase	Decrease

Note 9

Investment properties (continued)

(d) Sensitivity information (continued)

Generally, a change in the assumption made for the adopted capitalisation rate is often accompanied by a directionally similar change in the adopted terminal yield. The adopted capitalisation rate forms part of the capitalisation approach whilst the adopted terminal yield forms part of the discounted cash flow approach.

Under the capitalisation approach, the net market rental has a strong interrelationship with the adopted capitalisation rate as the fair value of the investment property is derived by capitalising, in perpetuity, the total net market rent receivable. An increase (softening) in the adopted capitalisation rate may offset the impact to fair value of an increase in the total net market rent. A decrease (tightening) in the adopted capitalisation rate may also offset the impact to fair value of a decrease in the total net market rent. A directionally opposite change in the total net market rent and the adopted capitalisation rate may increase the impact to fair value.

The discounted cash flow is primarily made up of the discounted cash flow of net income over the cashflow period and the discounted terminal value (which is largely based upon market rents grown at forecast market rental growth rates capitalised at an adopted terminal yield). An increase (softening) in the adopted discount rate may offset the impact to fair value of a decrease (tightening) in the adopted terminal yield. A decrease (tightening) in the discount rate may offset the impact to fair value of an increase (softening) in the adopted terminal yield. A directionally similar change in the adopted discount rate and the adopted terminal yield may increase the impact to fair value.

A decrease (softening) in the forecast rental growth rate may result in a negative impact on the discounted cash flow approach value whilst a strengthening may have a positive impact on the value under the same approach.

Note 10

Inventories

Land and properties held for repositioning, development and sale are recorded at the lower of cost and net realisable value. Cost is assigned by specific identification and includes the cost of acquisition, and development and holding costs such as borrowing costs, rates and taxes. Holding costs incurred after completion of development are expensed.

Key estimate: net realisable value (NRV) of inventories

NRV is determined using the estimated selling price in the ordinary course of business less estimated costs to bring inventories to their finished condition, including marketing and selling expenses. NRV is based on the most reliable evidence available at the time and the amount the inventories are expected to be realised. These key assumptions are reviewed annually or more frequently if indicators of impairment exist. Key estimates have been reviewed and no impairment provisions have been recognised.

(a) Land and properties held for resale

	2016 $'000	2015 $'000
Current assets		
Land and properties held for resale	**74,296**	118,495
Total current assets - inventories	**74,296**	118,495
Non-current assets		
Land and properties held for resale	**201,788**	156,297
Total non-current assets - inventories	**201,788**	156,297
Total assets - inventories	**276,084**	274,792

Note 10

Inventories (continued)

(b) Reconciliation

	Note	2016 $'000	2015 $'000
Opening balance at the beginning of the year		**274,792**	316,277
Transfer from investment properties	9	**-**	1,621
Disposals		**(114,285)**	(172,156)
Acquisitions and additions		**115,577**	129,050
Closing balance at the end of the year		**276,084**	274,792

Capital and financial risk management and working capital

In this section

The Trust's overall risk management program focuses on reducing volatility from impacts in movements of financial markets and seeks to minimise potential adverse effects on the financial performance of the Trust. Note 11 *Capital and financial risk management* outlines how the Trust manages its exposure to a variety of financial risks (interest rate risk, foreign currency risk, liquidity risk and credit risk) and details the various derivative financial instruments entered into by the Trust.

The Board determines the appropriate capital structure of the Trust, 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: *Commitments and contingencies* in note 12;
- Equity: *Contributed equity* in note 13 and *Reserves and retained profits/accumulated losses* in note 14.

Note 15 provides a breakdown of the working capital balances held in the Statement of Financial Position.

Note 11

Capital and financial risk management

Capital and financial risk management is carried out through a centralised treasury function which is governed by a Board approved Treasury Policy. The Trust (as part of DXS) has an established governance structure which consists of the Group Management Committee and Capital Markets Committee.

The Board has appointed a Group Management Committee responsible for achieving DEXUS's goals and objectives, including the prudent financial and risk management of the Group. The Group Management Committee generally meets weekly. A Capital Markets Committee has been established to advise the Group Management Committee.

The Capital Markets Committee is a management committee that is accountable to the Board. It convenes at least quarterly and conducts a review of financial risk management exposures including liquidity, funding strategies and hedging. It is also responsible for the development of financial risk management policies and funding strategies for recommendation to the Board, and the approval of treasury transactions within delegated limits and powers.

(a) Capital risk management

The Trust manages its capital to ensure that entities within the Trust will be able to continue as a going concern while maximising the return to owners through the optimisation of the debt and equity balance.

The capital structure of the Trust consists of debt, cash and cash equivalents and equity attributable to unit holders. The Trust continuously monitors its capital structure and it is managed in consideration of the following factors:

- the cost of capital and the financial risks associated with each class of capital;
- gearing levels and other debt covenants;
- potential impacts on net tangible assets and security holders' equity;
- potential impacts on the DXS's credit rating; and
- other market factors.

The Trust is not rated by ratings agencies, however, DXS is rated A- by Standard and Poor's (S&P) and A3 by Moody's. Gearing levels and bank debt covenants are managed holistically as part of the DXS Group.

DXFM, the Responsible Entity for the Trust, has been issued with an Australian Financial Services Licence (AFSL). The licence is subject to certain capital requirements including the requirement to maintain liquidity above specified limits. DXFM must also prepare rolling cash projections over at least the next 12 months and demonstrate it will have access to sufficient financial resources to meet its liabilities that are expected to be payable over that period. Cash projections and assumptions are approved, at least quarterly, by the Board of the Responsible Entity.

Note 11

Capital and financial risk management (continued)

(a) Capital risk management (continued)

DWPL, a wholly owned entity, has been issued with an AFSL as it is the Responsible Entity for DEXUS Wholesale Property Fund (DWPF). DEXUS Wholesale Management Limited (DWML), a wholly owned entity, has been issued with an AFSL as it is the trustee of third party managed funds. These entities are subject to the capital requirements described above.

(b) Financial risk management

The Trust's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Trust. The Trust's principal financial instruments, other than derivatives, comprise cash, bank loans and capital markets issuance. The main purpose of financial instruments is to manage liquidity and hedge the Trust's exposure to financial risks namely:

- interest rate risk;
- foreign currency risk;
- liquidity risk; and
- credit risk.

The Trust uses derivatives to reduce the Trust's exposure to fluctuations in interest rates and foreign exchange rates. These derivatives create an obligation or a right that effectively transfers one or more of the risks associated with an underlying financial instrument, asset or obligation. Derivative financial instruments that the Trust may use to hedge its risks include:

- interest rate swaps;
- cross currency interest rate swaps;
- foreign exchange contracts; and
- option contracts (interest rates).

The Trust does not trade in derivative instruments for speculative purposes. The Trust uses different methods to measure the different types of risks to which it is exposed, including monitoring the current and forecast levels of exposure and conducting sensitivity analysis.

(i) Market risk

Interest rate risk

Interest rate risk arises from interest bearing financial assets and liabilities that the Trust utilises. Non-derivative interest bearing financial instruments are predominately short term liquid assets and long term debt issued at fixed rates which expose the Trust to fair value interest rate risk as the Trust may pay higher interest costs than if it were at variable rates. The Trust's borrowings which have a variable interest rate give rise to cash flow interest rate risk as variable interest rates may increase.

The Trust's risk management policy for interest rate risk seeks to minimise the effects of interest rate movements on its asset and liability portfolio through active management of the exposures. The policy prescribes minimum and maximum hedging amounts for the Trust, which is managed on a portfolio basis.

The Trust maintains a mix of offshore and local currency fixed rate and variable rate debt, as well as a mix of long term and short term debt. The Trust primarily enters into interest rate swaps and cross currency interest rate swap agreements to manage the associated interest rate risk. The Trust hedges the interest rate and currency risk on the majority of its foreign currency borrowings by entering into cross currency swaps, which have the economic effect of converting foreign currency borrowings to local currency borrowings at contracted rates. The derivative contracts are recorded at fair value in the Statement of Financial Position, being the market value as quoted in an active market.

Interest rate swaps require settlement of net interest receivable or payable each 90 or 180 days. The settlement dates coincide with the dates on which the interest is payable on the underlying debt. The receivable and payable legs on interest rate swap contracts are settled on a net basis.

Note 11

Capital and financial risk management (continued)

(b) Financial risk management (continued)

(i) Market risk (continued)

Interest rate risk (continued)

Sensitivity analysis on interest expense

The table below shows the impact on the Trust's net interest expense of a 50 basis point increase or decrease in market interest rates. The sensitivity on cash flow arises due to the impact that a change in interest rates will have on the Trust's floating rate debt and derivative cash flows. Net interest expense is only sensitive to movements in market rates to the extent that floating rate debt is not hedged.

		2016	2015
		(+/-) $'000	(+/-) $'000
+/- 0.50% (50 basis points)	A$	**1,362**	2,951

The increase or decrease in interest expense is proportional to the increase or decrease in interest rates.

Sensitivity analysis on fair value of interest rate swaps

The sensitivity analysis on interest rate swaps below shows the effect on net profit or loss for changes in the fair value of interest rate swaps for a 50 basis point increase or decrease in short-term and long-term market interest rates. The sensitivity on fair value arises from the impact that changes in market rates will have on the valuation of the interest rate swaps.

The fair value of interest rate swaps is calculated as the present value of estimated future cash flows on the instruments. Although interest rate swaps are transacted for the purpose of providing the Trust with an economic hedge, the Trust has elected not to apply hedge accounting to its interest rate derivatives. Accordingly, gains or losses arising from changes in the fair value are reflected in the profit or loss.

		2016	2015
		(+/-) $'000	(+/-) $'000
+/- 0.50% (50 basis points)	A$	**-**	-

Equity price risk

Equity price risk is the risk that the fair value of investments in listed entities fluctuates due to changes in the underlying unit price. The Trust's equity price risk arises from investments in DXS securities purchased in order to fulfil the future requirements of the security-based payment plans. These investments are classified as available for-sale assets, with any resultant fair value movement recognised in other comprehensive income.

Sensitivity analysis on equity price risk

The following sensitivity analysis shows the effect on the Statement of Comprehensive Income if the market price of the underlying equity securities/units at balance date had been 10% higher/lower with all other variables held constant.

	2016	2015
	(+/-) $'000	(+/-) $'000
+/- 10%	**-**	817

Note 11

Capital and financial risk management (continued)

(b) Financial risk management (continued)

(ii) Liquidity risk

Liquidity risk is associated with ensuring that there are sufficient funds available to meet the Trust's financial commitments as and when they fall due and planning for any unforeseen events which may curtail cash flows. The Trust identifies and manages liquidity risk across the following categories:

- short-term liquidity management covering the month ahead on a rolling basis with continuous monitoring of forecast and actual cash flows;
- medium-term liquidity management of liquid assets, working capital and standby facilities to cover Trust cash requirements over the next 1-24 month period. The Trust maintains a level of committed borrowing facilities above the forecast committed debt requirements (liquidity headroom buffer). Committed debt includes future expenditure that has been approved by the Board or Investment Committee (as required within delegated limits); and
- long-term liquidity management through ensuring an adequate spread of maturities of borrowing facilities so that refinancing risk is not concentrated in certain time periods, and ensuring an adequate diversification of funding sources where possible, subject to market conditions.

Refinancing risk

Refinancing risk is the risk that the Trust:

- will be unable to refinance its debt facilities as they mature; and/or
- will only be able to refinance its debt facilities at unfavourable interest rates and credit market conditions (margin price risk).

The Group's key risk management strategy for margin price risk on refinancing is to spread the maturities of debt facilities over different time periods to reduce the volume of facilities to be refinanced and the exposure to market conditions in any one period.

An analysis of the contractual maturities of the Trust's interest bearing liabilities and derivative financial instruments is shown in the table below. The amounts in the table represent undiscounted cash flows.

	2016				2015			
	Within one year $'000	**Between one and two years $'000**	**Between two and five years $'000**	**After five years $'000**	Within one year $'000	Between one and two years $'000	Between two and five years $'000	After five years $'000
Payables	**19,663**	**-**	**-**	**-**	28,342	-	-	-
Interest bearing loans with related parties and interest[1]	**9,097**	**9,097**	**290,438**	**-**	7,121	7,121	657,322	-

1 Includes estimated interest.

2 For interest rate swaps, only the net interest cash flows (not the notional principal) are included. For derivative assets and liabilities that have floating interest cash flows, future cash flows have been calculated using static interest and exchange rates prevailing at the end of each reporting period. Refer to note 11(c) for fair value of derivatives. Refer to note 12 for financial guarantees.

Note 11

Capital and financial risk management (continued)

(b) Financial risk management (continued)

(iii) Credit risk

Credit risk is the risk that the counterparty will not fulfil its obligations under the terms of a financial instrument and will cause financial loss to the Trust. The Trust has exposure to credit risk on all financial assets included in the Trust's Statement of Financial Position.

The Trust manages this risk by:

- adopting a process for determining an approved counterparty, with consideration of qualitative factors as well as the counterparty's credit rating;
- regularly monitoring counterparty exposure within approved credit limits that are based on the lower of a S&P, Moody's and Fitch credit rating. The exposure includes the current market value of in-the-money contracts and the potential exposure, which is measured with reference to credit conversion factors as per APRA guidelines;
- entering into ISDA Master Agreements once a financial institution counterparty is approved;
- monitoring tenant exposure within approved credit limits;
- for some trade receivables, obtaining collateral where necessary in the form of bank guarantees and tenant bonds; and
- regularly monitoring loans and receivables on an ongoing basis.

A minimum S&P rating of A- (or Moody's or Fitch equivalent) is required to become or remain an approved counterparty, unless otherwise approved by the DEXUS Board.

The Trust is exposed to credit risk on cash balances and on derivative financial instruments with financial institutions. The Trust has a policy that sets limits as to the amount of credit exposure to each financial institution. New derivatives and cash transactions are limited to financial institutions that meet minimum credit rating criteria in accordance with the Trust's policy requirements.

Financial instrument transactions are spread among a number of approved financial institutions within specified credit limits to minimise the Trust's exposure to any one counterparty. As a result, there is no significant concentration of credit risk for financial instruments. The maximum exposure to credit risk at 30 June 2016 is the carrying amounts of financial assets recognised on the Statement of Financial Position.

The Trust is exposed to credit risk on trade receivable balances. The Trust has a policy to continuously assess and monitor the credit quality of trade debtors on an ongoing basis. Given the historical profile and exposure of the trade receivables, it has been determined that no significant concentrations of credit risk exists for trade receivables balances. The maximum exposure to credit risk at 30 June 2016 is the carrying amounts of the trade receivables recognised on the Statement of Financial Position.

(iv) Fair value

The Trust has classified its financial assets and liabilities as follows:

Financial asset/liability	Classification	Valuation basis	Reference
Receivables[1]	Loans and receivables	Amortised cost	Refer to note 15(b)
Other financial assets	Available-for-sale	Fair value	Refer to note 18
Payables[1]	Financial liability at amortised cost	Amortised cost	Refer to note 15(c)
Interest bearing liabilities loan from related party	Financial liability at amortised cost	Amortised cost	Refer to note 11(b)
Non-interest bearing loans from related party	Loans and receivables	Amortised cost	Refer to note 11(b)
Derivatives	Fair value through profit or loss	Fair value	Refer to note 11(c)

1 The face value of these is approximately equal to their fair value; these amounts are unsecured and are usually paid within 30 days of recognition.

Note 11

Capital and financial risk management (continued)

(b) Financial risk management (continued)

(iv) Fair value (continued)

Financial assets and liabilities are classified in accordance with the purpose for which they were acquired. As noted in section (c) below, derivative financial instruments are initially recognised in the Statement of Financial Position at fair value on the date on which the derivative contract is entered into and subsequently remeasured to fair value.

The valuation techniques applied by the Trust are consistent with those applied in prior year financial reports. The valuation technique used to measure the various financial instruments namely foreign currency contracts and interest rate contracts is based on market observable spot exchange rates and interest rate yield curves. This method records any change in fair value of a derivative in the Financial Statements.

The carrying amounts and estimated fair value of all the Trust's financial assets and liabilities recognised in the Financial Statements are as follows:

	2016 Carrying amount[1] $'000	2016 Fair value[2] $'000	2015 Carrying amount[1] $'000	2015 Fair value[2] $'000
Financial assets				
Cash and cash equivalents	**6,061**	**6,061**	1,389	1,389
Loans and receivables (current)	**39,892**	**39,892**	38,037	38,037
Available-for-sale financial assets	**9,767**	**9,767**	8,994	8,994
Total financial assets	**55,720**	**55,720**	48,420	48,420
Financial liabilities				
Trade payables	**19,663**	**19,663**	28,342	28,342
Non-interest bearing loans with related parties[3]	**48,932**	**48,932**	48,932	48,932
Interest bearing loans with related parties[4]	**272,368**	**272,368**	650,201	650,201
Derivative liabilities	**-**	**-**	148	148
Total financial liabilities	**340,963**	**340,963**	727,623	727,623

1 Carrying value is equal to the value of the financial instruments on the Statement of Financial Position.

2 Fair value is the price that would be received to transfer the asset or liability in an orderly transaction between market participants at the measurement date. Where there is a difference between the carrying amount and fair value, the difference is not recognised in the Statement of Financial Position.

3 Non-interest bearing loans with entities within DXS were created to effect the stapling of the Trust, DIT, DOT and DDF. These loan balances eliminate on consolidation within DXS.

4 Interest bearing loans with DEXUS Finance Pty Limited (DXF). These loan balances eliminate on consolidation within DXS.

Note 11

Capital and financial risk management (continued)

(b) Financial risk management (continued)

(iv) Fair value (continued)

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.

The following table presents the assets and liabilities measured and recognised as at fair value 30 June 2016 and 30 June 2015.

2016	**Level 1 $'000**	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
Financial assets				
Available-for-sale financial assets	**9,767**	**-**	**-**	**9,767**
Financial liabilities				
Interest rate derivatives	**-**	**-**	**-**	**-**

2015	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial assets				
Available-for-sale financial assets	8,994	-	-	8,994
Financial liabilities				
Interest rate derivatives	-	148	-	148

(v) Offsetting financial assets and financial liabilities

Financial assets and liabilities are offset and the net amount reported in the Statement of Financial Position where the Trust currently has a legally enforceable right of set-off, the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The Trust has also entered into arrangements that do not meet the criteria for offsetting except in certain circumstances, such as bankruptcy or the termination of the underlying contract.

There are no derivatives held by the Trust and therefore disclosure of the offsetting arrangements is consistent with the amounts disclosed in the Statement of Financial Position.

Master netting arrangements – not currently enforceable

Agreements with derivative counterparties are based on an ISDA Master Agreement. Under the terms of these arrangements, where certain credit events occur (such as default), the net position owing/receivable to a single counterparty in the same currency will be taken as owing and all the relevant arrangements terminated. As the Trust does not presently have a legally enforceable right of set-off, these amounts have not been offset in the Statement of Financial Position.

Note 11

Capital and financial risk management (continued)

(c) Derivative financial instruments

A derivative is a type of financial instrument typically used to manage risk. A derivative's value changes over time in response to underlying variables including interest rates or exchange rates and is entered into for a fixed period. A hedge is where a derivative is used to manage an underlying exposure and the Trust uses derivatives to manage its exposure to interest rates and foreign exchange risk accordingly.

Written policies and limits are approved by the Board of Directors of the Responsible Entity, in relation to the use of financial instruments to manage financial risks. The Responsible Entity continually reviews the Trust's exposures and updates its treasury policies and procedures. The Trust does not trade in derivative instruments for speculative purposes.

Even though derivative financial instruments are entered into for the purpose of providing the Trust with an economic hedge, the Trust has elected not to apply hedge accounting under AASB 139 *Financial Instruments: Recognition and Measurement*. Accordingly, derivatives including interest rate swaps are measured at fair value with any changes in fair value recognised in the Statement of Comprehensive Income.

	2016 $'000	2015 $'000
Current liabilities		
Interest rate swap contracts	-	148
Total current liabilities - derivative financial instruments	-	148
Total liabilities - derivative financial instruments	-	148

Key assumptions: fair value of derivatives

The fair value of derivative financial instruments has been determined based on a discounted cash flow analysis using observable market inputs (interest rates, exchange rates and currency basis) and applying a credit or debit valuation adjustment based on the current credit worthiness of counterparties and the Group.
Refer to note 11(b)(iv) *Capital and financial Risk Management* for further detail.

Note 12

Commitments and contingencies

(a) Commitments

(i) Capital commitments

The following amounts represent remaining capital expenditure on investment properties and inventories contracted at the end of each reporting period but not recognised as liabilities payable:

	2016 $'000	2015 $'000
Investment properties	1,667	4,148
Inventories	2,006	-
Total capital commitments	3,673	4,148

Note 12

Commitments and contingencies (continued)

(a) Commitments (continued)

(ii) Lease payable commitments

The future minimum lease payments payable by the Trust are:

	2016 $'000	2015 $'000
Within one year	**4,435**	3,678
Later than one year but not later than five years	**18,478**	10,441
Later than five years	**3,366**	982
Total lease payable commitments	**26,279**	15,101

Payments made under operating leases are expensed on a straight-line basis over the term of the lease, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased property.

No provisions have been recognised in respect of non-cancellable operating leases.

(iii) Lease receivable commitments

The future minimum lease payments receivable by the Trust are:

	2016 $'000	2015 $'000
Within one year	**24,343**	45,812
Later than one year but not later than five years	**90,438**	133,198
Later than five years	**92,276**	85,017
Total lease receivable commitments	**207,057**	264,027

(b) Contingencies

The Trust, together with DDF, DIT and DOT, is a guarantor of a total of A$4,027.9 million of interest bearing liabilities (refer note 13 of the DEXUS Property Group Financial 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 Group has bank guarantees of $32.1 million, comprising $30.2 million held to comply with the terms of the Australian Financial Services Licenses (AFSL) and $1.9 million in respect of developments.

The above guarantees are issued in respect of the Group and do not constitute an additional liability to those already existing in interest bearing liabilities on the Statement of Financial Position.

The Directors of the Responsible Entity are not aware of any other contingent liabilities in relation to the Group, other than those disclosed in the Financial Statements, which should be brought to the attention of security holders as at the date of completion of this report.

Note 13
Contributed equity

(a) Contributed equity

	2016 $'000	2015 $'000
Opening balance at the beginning of the year	**238,829**	222,086
Issue of additional equity, net of transaction costs	**-**	16,743
Buy-back of contributed equity, net of transaction costs	**(844)**	-
Closing balance at the end of the year	**237,985**	238,829

(b) Number of units on issue

	2016 No. of units	2015 No. of units
Opening balance at the beginning of the year	**970,806,349**	5,433,110,810
Issue of additional equity	**-**	65,274,552
One-for-six security consolidation	**-**	(4,527,579,013)
Buy-back of contributed equity	**(2,858,657)**	-
Closing balance at the end of the year	**967,947,692**	970,806,349

Each stapled security ranks equally with all other stapled securities for the purposes of distributions and on termination of the Trust.

Each stapled security entitles the holder to vote in accordance with the provisions of the Constitutions and the *Corporations Act 2001*.

Transaction costs arising on the issue of equity instruments are recognised directly in equity (net of tax) as a reduction of the proceeds of the equity instruments to which the costs relate. Transaction costs are the costs that are incurred directly in connection with the issue of those equity instruments and which would not have been incurred had those instruments not been issued.

On 29 October 2014, the Trust announced a one-for-six consolidation of DEXUS Property Trust stapled securities. The consolidation was completed on 14 November 2014. Where the number of securities held by a security holder following the consolidation resulted in a fraction of a security, the fraction was rounded up to the nearest whole number.

Note 14

Reserves and accumulated losses

(a) Reserves

	2016 $'000	2015 $'000
Asset revaluation reserve	**42,738**	42,738
Security-based payments reserve	**305**	330
Available-for-sale financial assets	**1,761**	675
Treasury securities reserve	**(379)**	(349)
Total reserves	**44,425**	43,394
Movements:		
Asset revaluation reserve		
Opening balance at the beginning of the year	**42,738**	42,738
Closing balance at the end of the year	**42,738**	42,738
Security-based payments reserve		
Opening balance at the beginning of the year	**330**	157
Security-based payments expense	**(25)**	173
Closing balance at the end of the year	**305**	330
Available-for-sale financial assets		
Opening balance at the beginning of the year	**675**	334
Fair value gain of securities	**1,086**	341
Closing balance at the end of the year	**1,761**	675
Treasury securities reserve		
Opening balance at the beginning of the year	**(349)**	(165)
Purchase of securities	**(30)**	(184)
Closing balance at the end of the year	**(379)**	(349)

(b) Nature and purpose of reserves

Asset revaluation reserve

The asset revaluation reserve is used to record the fair value adjustment arising on a business combination.

Security-based payment reserve

The security-based payment reserve is used to recognise the fair value of performance rights to be issued under the 2012 Transitional Performance Rights Plan, the Deferred Short Term Incentive Plans (DSTI) and the Long Term Incentive Plans (LTI). Refer to note 21 for further details.

Note 14

Reserves and accumulated losses (continued)

(b) Nature and purpose of reserves (continued)

Available-for-sale financial assets
Changes in the fair value arising on valuation of investments, classified as available-for-sale financial assets, are recognised in other comprehensive income and accumulated in a separate reserve within equity. Amounts are reclassified to profit or loss when the associated assets are sold, transferred or impaired.

Treasury securities reserve
The treasury securities reserve is used to record the acquisition of securities purchased to fulfil the obligations of the 2012 Transitional Performance Rights Plan, the Deferred Short Term Incentive Plans (DSTI) and the Long Term Incentive Plans (LTI). As at 30 June 2016, DXS held 1,129,577 stapled securities which includes acquisitions of 596,138 and unit vesting of 638,753 (2015: 1,170,525 restated to reflect the one-for-six security consolidation).

(c) Retained profits/ accumulated losses

	2016	2015
	$'000	$'000
Opening balance at the beginning of the year	**(3,343)**	(72,237)
Net profit/(loss) attributable to security holders	**112,042**	68,894
Distributions provided for or paid	**(25,000)**	-
Closing balance at the end of the year	**83,699**	(3,343)

Note 15

Working capital

(a) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with financial institutions and other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(b) Receivables

Rental, management fees and interest revenue are brought to account on an accruals basis. Dividends and distributions are recognised when declared and, if not received at the end of the reporting period, reflected in the Statement of Financial Position as a receivable.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method, less provision for doubtful debts. Trade receivables are required to be settled within 30 days and are assessed on an ongoing basis for impairment. Receivables which are known to be uncollectable are written off by reducing the carrying amount directly. A provision for doubtful debts is established when there is objective evidence that the Trust will not be able to collect all amounts due according to the original terms of the receivables.

Note 15

Working capital (continued)

(b) Receivables (continued)

	2016 $'000	2015 $'000
Rent receivable	**1,050**	2,347
Total rental receivables	**1,050**	2,347
Distributions receivable	**-**	250
Fee receivable	**26,309**	28,051
Receivables from related entities	**2,288**	2,768
Other receivables	**10,245**	4,621
Total other receivables	**38,842**	35,690
Total receivables	**39,892**	38,037

(c) Payables

Expenses are brought to account on an accruals basis and, if not paid at the end of the reporting period, are reflected in the Statement of Financial Position as a payable.

These amounts represent liabilities for amounts owing at the end of the reporting period. The amounts are unsecured and are usually paid within 30 days of recognition.

	2016 $'000	2015 $'000
Trade creditors	**9,761**	18,421
Accruals	**2,836**	3,433
Accrued capital expenditure	**2,439**	667
GST payable	**1,133**	766
Other payable to related parties	**-**	2,569
Other payables	**3,494**	2,486
Total payables	**19,663**	28,342

(d) Provisions

A provision is recognised when an obligation exists as a result of a past event and it is probable that a future outflow of cash or other benefit will be required to settle the obligation.

In accordance with the Trust's Constitution, the Trust distributes its distributable income to unitholders by cash or reinvestment. Distributions are provided for when they are approved by the Board of Directors and declared.

Provision for employee benefits relates to the liabilities for wages, salaries, annual leave and long service leave.

Liabilities for employee benefits for wages, salaries and annual leave expected to be settled within 12 months represent present obligations resulting from employees' services provided to the end of the reporting period. They are measured based on remuneration wage and salary rates that the Trust expects to pay at the end of the reporting period including related on-costs, such as workers compensation, insurance and payroll tax.

The provision for employee benefits for long service leave represents the present value of the estimated future cash outflows, to be made resulting from employees' services provided to the end of the reporting period.

The provision is calculated using expected future increases in wage and salary rates including related on-costs and expected settlement dates based on turnover history and is discounted using the Australian Corporate Bond Index rates at the end of the reporting period that most closely matches the term of the maturity of the related liabilities.

Note 15

Working capital (continued)

(d) Provisions (continued)

The provision for employee benefits also includes the employee incentive schemes which are shown separately in note 21.

	2016 $'000	2015 $'000
Current		
Provision for distribution	**25,000**	-
Provision for employee benefits	**25,858**	27,269
Total current provisions	**50,858**	27,269

Non-current provisions relate to employee benefits.

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 16

Plant and equipment

Plant and equipment is stated at historical cost less depreciation and accumulated impairment. Historical cost includes expenditure that is directly attributable to its acquisition. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the Statement of Comprehensive Income during the reporting period in which they are incurred.

Plant and equipment is tested for impairment whenever events or changes in circumstances indicate that the carrying amounts exceed their recoverable amounts.

Depreciation is calculated using the straight-line method so as to allocate their cost, net of their residual values, over their expected useful lives as follows:

- Furniture and fittings 10-20 years
- IT and office equipment 3-5 years

	2016	2015
	$'000	$'000
Opening balance at the beginning of the year	**11,251**	5,714
Additions	**7,691**	6,526
Depreciation charge	**(2,461)**	(989)
Closing balance at the end of the year	**16,481**	11,251

	2016	2015
	$'000	$'000
Cost	**26,051**	18,360
Accumulated depreciation	**(9,570)**	(7,109)
Net book value as at the end of the year	**16,481**	11,251

Note 17

Intangible assets

Management rights represent the asset management rights owned by DXH, which entitle it to management fee revenue from both finite life trusts and indefinite life trusts. Those rights that are deemed to have a finite useful life (held at a value of $4,395,484 (2015: $4,725,145)) are measured at cost and amortised using the straight-line method over their estimated remaining useful lives of 16 years. Management rights that are deemed to have an indefinite life are held at a value of $286,022,841 million (2015: $286,022,841 million).

Software is measured at cost and amortised using the straight-line method over its estimated useful life expected to be 3-5 year useful lives of the assets.

	2016 $'000	2015 $'000
Management rights		
Opening balance at the beginning of the year	**290,748**	291,078
Amortisation charge	**(330)**	(330)
Closing balance at the end of the year	**290,418**	290,748
Cost	**294,382**	294,382
Accumulated amortisation	**(3,964)**	(3,634)
Total management rights	**290,418**	290,748
Goodwill		
Opening balance at the beginning of the year	**1,409**	1,508
Impairment	**(99)**	(99)
Closing balance at the end of the year	**1,310**	1,409
Cost	**2,998**	2,998
Accumulated impairment	**(1,688)**	(1,589)
Total goodwill	**1,310**	1,409
Other Intangible Assets - Software		
Opening balance at the beginning of the year	**9,243**	5,084
Additions	**9,158**	5,649
Amortisation charge	**(3,053)**	(1,490)
Closing balance at the end of the year	**15,348**	9,243
Cost	**29,598**	20,440
Accumulated amortisation	**(14,250)**	(11,197)
Total other intangible assets	**15,348**	9,243
Total non-current assets - intangible assets	**307,076**	301,400

Note 17

Intangible assets (continued)

Goodwill represents the excess of the cost of an acquisition over the fair value of the Trust's share of the net identifiable assets of the acquired subsidiary at the date of acquisition.

Goodwill and management rights with an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. An impairment loss is recognised in the Statement of Comprehensive Income for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows, which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units).

During the current year, management carried out a review of the recoverable amount of its management rights. There was no change in the carrying value of the management rights in the current year.

The value in use has been determined using Board approved long-term forecasts in a five year discounted cash flow model. Forecasts were based on projected returns of the business in light of current market conditions.
The performance in year five has been used as a terminal value.

Key assumptions: value in use of management rights

Judgement is required in determining the following key assumptions used to calculate the value in use:

- Terminal capitalisation rate range between 10.0% - 16.7% (2015: 10.0% – 16.7%) was used incorporating an appropriate risk premium for a management business.
- Cash flows have been discounted at 9.0% (2015: 9.0%) based on externally published weighted average cost of capital for an appropriate peer group plus an appropriate premium for risk. A 1.0% (2015: 1.0%) decrease in the discount rate would increase the valuation by $15.3 million (2015: $17.1 million).

Note 18

Available-for-sale financial assets

Available-for-sale financial assets comprise DXS securities acquired on-market in order to fulfil the future requirements of the security-based payment plans.

They are included in non-current assets except for those securities that will be used to fulfil security based payment plans that vest within 12 months, which are classified as current assets. Changes in fair value arising on valuation of investments are recognised in other comprehensive income net of tax, in a separate reserve in equity. Amounts are reclassified to profit or loss when the associated assets are sold, transferred or impaired.

Note 19

Audit, taxation and transaction services fees

During the year, the Auditor and its related practices earned the following remuneration:

	2016 $	2015 $
Audit fees		
PwC Australia - audit and review of Financial Statements	**254,850**	250,159
PwC fees paid in relation to outgoings audits	**5,460**	20,600
PwC Australia - regulatory audit and compliance services	**210,066**	198,690
Audit fees paid to PwC	**470,376**	469,449
Taxation fees		
Fees paid to PwC Australia	**278,438**	125,470
Taxation fees paid to PwC	**278,438**	125,470
Total audit and taxation fees paid to PwC	**748,814**	594,919

Note 20

Reconciliation of net profit to net cash flows from operating activities

(a) Reconciliation

	2016 $'000	2015 $'000
Net profit/(loss) for the year	**112,042**	68,894
Capitalised interest	**(1,567)**	(1,976)
Depreciation and amortisation	**5,834**	2,808
Impairment of goodwill	**99**	99
Net fair value (gain)/loss of investment properties	**(20,136)**	(10,807)
Net (gain)/loss on sale of investment properties	**(6,247)**	727
Lease incentives	**(5,234)**	(5,110)
Transaction costs	**5,880**	-
Distribution revenue	**(491)**	(480)
Change in operating assets and liabilities		
(Increase)/decrease in receivables	**(2,105)**	2,698
(Increase)/decrease in inventories	**(656)**	87,058
(Increase)/decrease in other current assets	**1,412**	(941)
(Increase)/decrease in other non-current assets	**3,771**	(124)
Increase/(decrease) in payables	**(5,597)**	12,116
Increase/(decrease) in current liabilities	**38,541**	2,840
Increase/(decrease) in other non-current liabilities	**24,579**	30,100
(Increase)/decrease in deferred tax assets	**-**	25,036
(Increase)/decrease in deferred tax liabilities	**1,811**	3,539
Net cash inflow/(outflow) from operating activities	**151,936**	216,477

Note 21

Security-based payment

The DXFM Board has approved a grant of performance rights to DXS stapled securities to eligible participants. Awards, via the 2012 Transitional Performance Rights Plan, Deferred Short Term Incentive Plans (DSTI) and Long Term Incentive Plans (LTI), will be in the form of performance rights awarded to eligible participants which convert to DXS stapled securities for nil consideration subject to satisfying specific service and performance conditions.

For each Plan, the eligible participants will be granted performance rights, based on performance against agreed key performance indicators, as a percentage of their remuneration mix. Participants must remain in employment for the vesting period in order for the performance rights to vest. The fair value of the performance rights is adjusted to reflect market vesting conditions. Non-market vesting conditions, including Funds from Operations (FFO), Return on Equity (ROE) and employment status at vesting, are included in assumptions about the number of performance rights that are expected to vest. When performance rights vest, the Trust will arrange for the allocation and delivery of the appropriate number of securities to the participant.

The fair value of performance rights granted is recognised as an employee benefit expense with a corresponding increase in the provision for employee benefits and security-based payment reserve in equity. The total amount to be expensed is determined by reference to the fair value of the performance rights granted.

Key assumptions: fair value of performance rights granted

Judgement is required in determining the fair value of performance rights granted. In accordance with AASB 2 *Share-based Payment*, fair value is determined independently using Binomial and Monte Carlo pricing models with reference to:

- the expected life of the rights;
- the security price at grant date;
- the expected price volatility of the underlying security;
- the expected distribution yield; and
- the risk free interest rate for the term of the rights and expected total security-holder returns (where applicable).

The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each period, the Trust revises its estimates of the number of performance rights that are expected to vest based on the non-market vesting conditions. The impact of the revised estimates, if any, is recognised in profit or loss with a corresponding adjustment to equity.

(a) 2012 Transitional Performance Rights Plan

Subject to satisfying employment service conditions, the award has vested over a four year period ending 30 June 2015. No performance rights were granted in respect of the year ended 30 June 2016 (2015: nil).The total security-based payment expense recognised during the year ended 30 June 2016 was $nil (2015: $435,970).

(b) Deferred Short Term Incentive Plan

25% of any award under the Short Term Incentive Plan (STI) for certain participants will be deferred and awarded in the form of performance rights to DXS securities.

50% of the performance rights awards will vest one year after grant and 50% of the awards will vest two years after grant, subject to participants satisfying employment service conditions. In accordance with AASB 2 *Share-based Payment*, the year of employment in which participants become eligible for the DSTI, the year preceding the grant, is included in the vesting period over which the fair value of the performance rights is amortised. Consequently, 50% of the fair value of the performance rights is amortised over two years and 50% of the award is amortised over three years.

The number of performance rights granted in respect of the year ended 30 June 2016 was 292,995 (2015: 356,412) and the fair value of these performance rights is $9.14 (2015: $7.30) per performance right. The total security-based payment expense recognised during the year ended 30 June 2016 was $2,505,064 (2015: $2,230,210).

Note 21

Security-based payment (continued)

(c) Long Term Incentive Plan

50% of the awards will vest three years after grant and 50% of the awards will vest four years after grant, subject to participants satisfying employment service conditions and performance hurdles. In accordance with AASB 2 *Share-based Payment*, the year of employment in which participants become eligible for the LTI, the year preceding the grant, is included in the vesting period over which the fair value of the performance rights is amortised. Consequently, 50% of the fair value of the performance rights is amortised over four years and 50% of the award is amortised over five years.

The number of performance rights granted in respect of the year ended 30 June 2016 was 380,963 (2015: 533,328). The fair value of these performance rights is $6.69 (2015: $5.43) per performance right. The total security-based payment expense recognised during the year ended 30 June 2016 was $2,384,557 (2015: $1,550,694).

Note 22

Related parties

Responsible Entity and Investment Manager

DXH is the parent entity of DXFM, the Responsible Entity of DDF, DIT, DOT and DXO, the trustee of DEXUS Office Trust Australia (DOTA) and the investment manager of DEXUS industrial Trust Australia (DITA).

DXH is also the parent entity of DWPL, the Responsible Entity for DWPF.

DXH is the parent entity of DWML, the trustee of DITA.

DXH is the investment manager of DOTA.

Management fees

Under the terms of the Constitutions of the entities within the Trust, the Responsible Entity and Investment Manager are entitled to receive fees in relation to the management of the Trust. DXFM's parent entity, DXH, is entitled to be reimbursed for administration expenses incurred on behalf of the Trust. DEXUS Property Services Pty Limited (DXPS), a wholly owned subsidiary of DXH, is entitled to property management fees from the Trust.

Related party transactions

Responsible entity fees in relation to DXS assets are on a cost recovery basis. DXPS has a contractual agreement to pay rent on one component of an investment property owned by DEXUS Office Trust (DOT). The agreement is conducted on normal commercial terms and conditions. Agreements with third party funds are conducted under normal commercial terms and conditions.

DEXUS Funds Management Limited and its related entities

There were a number of transactions and balances between the Trust and the Responsible Entity and its related entities as detailed below:

	2016 **$**	2015 $
Transactions with DEXUS Diversified Trust		
Responsible Entity fee income	**5,248,892**	4,819,380
Property management fee income	**6,551,936**	4,595,419
Purchase of investment properties	**79,678,396**	30,400,000
Responsible Entity fees receivable at the end of each reporting period (included above)	**445,130**	402,194
Property management fees receivable at the end of each reporting period (included above)	**995,728**	2,250,332
Rent paid	**-**	23,271

Note 22

Related parties (continued)

	2016 $	2015 $
Transactions with DEXUS Industrial Trust		
Responsible Entity fee income	**2,094,431**	2,229,262
Property management fee income	**1,740,076**	1,710,226
Purchase of investment properties	**-**	-
Responsible Entity fees receivable at the end of each reporting period (included above)	**167,280**	184,866
Property management fees receivable at the end of each reporting period (included above)	**-**	1,174,176
Transactions with DEXUS Office Trust		
Responsible Entity fee income	**13,337,167**	13,483,677
Property management fee income	**13,483,063**	12,286,117
Responsible Entity fees receivable at the end of each reporting period (included above)	**1,171,225**	1,134,334
Property management fees receivable at the end of each reporting period (included above)	**1,187,602**	4,474,715
Rent paid	**1,786,372**	1,025,976
Transactions with DEXUS Finance Pty Limited		
Management fee revenue	**839,655**	1,078,120
Interest bearing loan receivable at the end of each reporting period	**272,368,000**	650,200,633
Transactions with DEXUS Wholesale Property Fund		
Responsible Entity fee income	**32,860,872**	28,049,813
Property management fee income	**18,199,511**	12,405,145
Responsible Entity fees receivable at the end of each reporting period (included above)	**4,007,830**	2,452,636
Property management fees receivable at the end of each reporting period (included above)	**1,685,297**	1,742,245
Rent paid	**50,737**	62,692
Transactions with Bent Street Trust		
Property management fee income	**405,976**	434,330
Transactions with Kent Street Joint Venture		
Asset management fee income	**846,421**	590,250
Property management fee income	**749,559**	433,905
Transactions with DEXUS Office Trust Australia		
Asset management fee income	**11,023,469**	9,840,422
Property management fee income	**13,545,461**	13,731,521
Responsible Entity fees receivable at the end of each reporting period (included above)	**2,796,734**	2,493,892
Property management fees receivable at the end of each reporting period (included above)	**25,306**	2,775,758
Rent paid	**2,046,138**	1,235,319
Transactions with DEXUS Industrial Trust Australia		
Responsible Entity fee income	**474,650**	373,973
Property management fee income	**1,291,720**	989,794
Responsible Entity fees receivable at the end of each reporting period (included above)	**126,966**	99,611
Property management fees receivable at the end of each reporting period (included above)	**-**	13,481

Note 22

Related parties (continued)

Entities within DXS

Aggregate amounts included in the determination of profit that resulted from transactions with each class of other related parties:

	2016 $	2015 $
Interest expense	**23,696,807**	32,841,993

Directors

The following persons were Directors of DXFM at all times during the year and to the date of this report, unless otherwise stated:

E A Alexander, AM, BComm, FCA, FAICD, FCPA [1,4]
P Bingham-Hall, BA (Industrial Design), FAICD, SF (Fin) [1,3,5]
J C Conde, AO, BSc, BE (Hons), MBA [1,2,3]
T Dwyer, BJuris (Hons), LLB (Hons) [1,4,5]
W R Sheppard, BEc (Hons) [1,2,3,4,5]
D J Steinberg, BEc, FRICS, FAPI [1,2]
P B St George, CA(SA), MBA [1,4,5]

1 Independent Director.
2 Board Nomination Committee Member as at 30 June 2016.
3 Board People & Remuneration Committee Member as at 30 June 2016.
4 Board Audit Committee Member as at 30 June 2016.
5 Board Risk Committee Member as at 30 June 2016.

Other key management personnel

In addition to the Directors listed above, the following persons were deemed by the Board Nomination Committee to be key management personnel during all or part of the financial year:

Name	Title
Alison Harrop	Chief Financial Officer
Ross Du Vernet	Chief Investment Officer
Craig Mitchell	Chief Operating Officer
Deborah Coakley	Executive General Manager, Customer and Marketing
Kevin George	Executive General Manager, Office & Industrial

Key management personnel compensation

	2016 $	2015 $
Compensation		
Short-term employee benefits	**8,130,108**	7,453,029
Post employment benefits	**234,789**	219,677
Security-based payments	**2,456,357**	2,595,615
	10,821,254	10,268,321

Note 22

Related parties (continued)

Equity instrument disclosures relating to key management personnel

The relevant interest in DXS stapled securities held during the financial year by each key management personnel, including their personally related parties, are set out below:

	Opening Balance 1 July 2015	Purchases	Performance rights granted	Other change	Closing Balance 30 June 2016
Directors	1,068,187	8,200	387,044	(436,477)	1,026,954
Other key management personnel	348,396	-	181,362	51,507	581,265
Total	**1,416,583**	**8,200**	**568,406**	**(384,970)**	**1,608,219**

The DXFM Board has approved a grant of performance rights to DXS stapled securities to eligible participants (refer to note 21).

There were no loans or other transactions with key management personnel or their related parties during the years ended 30 June 2016 and 30 June 2015.

Note 23

Parent entity disclosures

(a) Summary financial information

The financial information for the parent entity, DEXUS Operations Trust has been prepared on the same basis as the consolidated Financial Statements except as set out below:

Distributions received from associates are recognised in the parent entity's Statement of Comprehensive Income, rather than being deducted from the carrying amount of these investments.

Interests held by the parent entity in controlled entities are measured at fair value through profit and loss to reduce a measurement or recognition inconsistency.

The individual Financial Statements for the parent entity show the following aggregate amounts:

	2016 $'000	2015 $'000
Total current assets	**205,086**	126,398
Total assets	**378,529**	769,517
Total current liabilities	**126,025**	446,098
Total liabilities	**155,094**	595,417
Equity		
Contributed equity	**237,985**	238,829
Retained profits/(accumulated losses)	**(14,550)**	(64,729)
Total equity	**223,435**	174,100
Net profit/(loss) for the year	**75,179**	10,484
Total comprehensive income/(loss) for the year	**75,179**	10,484

Note 23

Parent entity disclosures (continued)

(b) Guarantees entered into by the parent entity

Refer to note 12 for details of guarantees entered into by the parent entity.

(c) Contingent liabilities

The parent entity had no contingent liabilities as at 30 June 2016 (2015: nil).

(d) Capital commitments

The following amounts represent capital expenditure of the parent entity on investment properties contracted at the end of the reporting period but not recognised as liabilities payable:

	2016	2015
	$'000	$'000
Investment properties	**1,667**	4,148
Inventories	**2,006**	-
Total capital commitments	**3,673**	4,148

Note 24

Subsequent events

On 1 July 2016, settlement occurred on the sale of 57-65 Templar Road, Erskine Park, NSW for gross proceeds of $50 million.

On 5 August 2016, contracts were exchanged for the sale of 79-99 St Hilliers Road, Auburn, NSW for gross proceeds of $65 million.

Since the end of the year, other than the matter 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.

The Directors of DEXUS Funds Management Limited as Responsible Entity of DEXUS Operations Trust declare that the Financial Statements and notes set out on pages 8 to 49:

(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 30 June 2016 and of their performance, as represented by the results of their operations and their cash flows, for the year ended on that date.

In the Directors' opinion:

(a) the Financial Statements and notes are in accordance with the *Corporations Act 2001*;

(b) there are reasonable grounds to believe that the Trust and its consolidated entities will be able to pay their debts as and when they become due and payable; and

(c) the Trust has operated in accordance with the provisions of the Constitution dated 11 August 2004 (as amended) during the year ended 30 June 2016.

The Financial Statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The Directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer required by section 295A of the *Corporations Act 2001*.

This declaration is made in accordance with a resolution of the Directors.

W Richard Sheppard
Chair
16 August 2016

Independent auditor's report to the members of DEXUS Operations Trust

Report on the financial report

We have audited the accompanying financial report of DEXUS Operations Trust (the registered scheme), which comprises the consolidated statement of financial position as at 30 June 2016, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for DEXUS Operations Trust (the consolidated entity). The consolidated entity comprises the registered scheme and the entities it controlled at year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of DEXUS Funds Management Limited (the responsible entity) are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In the Basis of preparation, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the consolidated entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's opinion

In our opinion:

(a) the financial report of DEXUS Operations Trust is in accordance with the *Corporations Act 2001,* including:

  (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of its performance for the year ended on that date; and

  (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

(b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in the Basis of preparation.

PricewaterhouseCoopers

PricewaterhouseCoopers

E A Barron
Partner

Sydney
16 August 2016