

**Dexus Office Trust  
Financial Report  
30 June 2017**

# Contents

Directors' Report .....	1
Auditor's Independence Declaration .....	7
Consolidated Statement of Comprehensive Income .....	8
Consolidated Statement of Financial Position .....	9
Consolidated Statement of Changes in Equity .....	10
Consolidated Statement of Cash Flows .....	11
About this Report .....	12
Notes to the Financial Statements .....	14
Trust Performance .....	15
Note 1    Operating segments .....	15
Note 2    Property revenue and expenses .....	15
Note 3    Finance costs .....	16
Note 4    Earnings per unit .....	16
Note 5    Distributions paid and payable .....	17
Property Portfolio Assets .....	18
Note 6    Investment properties .....	18
Note 7    Investments accounted for using the equity method .....	21
Note 8    Non-current assets classified as held for sale .....	23
Capital and financial risk management and working capital .....	24
Note 9    Capital and financial risk management .....	24
Note 10   Commitments and contingencies .....	30
Note 11   Loans with related parties .....	30
Note 12   Contributed equity .....	31
Note 13   Working capital .....	31
Other disclosures .....	33
Note 14   Audit, taxation and transaction service fees .....	33
Note 15   Reconciliation of cash flows from operating activities .....	33
Note 16   Related parties .....	34
Note 17   Parent entity disclosures .....	35
Note 18   Subsequent events .....	35
Directors' Declaration .....	36
Independent Auditor's Report .....	37



# Directors' Report

The Directors of Dexus Funds Management Limited (DXFM) as Responsible Entity of Dexus Office Trust (DOT or the Trust) present their Directors' Report together with the consolidated Financial Statements for the year ended 30 June 2017. The consolidated Financial Statements represents Dexus Office Trust and its consolidated entities.

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

## Directors and Secretaries

### Directors

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

Directors	Appointed
W R Sheppard, BEc (Hons), FAICD	1 January 2012
E A Alexander, AM, BComm, FCA, FAICD, FCPA	1 January 2005
P Bingham-Hall, BA (Industrial Design), FAICD, SF (Fin)	10 June 2014
J C Conde, AO, BSc, BE (Hons), MBA, FAICD	29 April 2009
T Dwyer, BJuris (Hons), LLB (Hons)	24 August 2011
M H Ford, Dip. Tech (Commerce), CA, FAICD	1 November 2016
D J Steinberg, BEc, FRICS, FAPI, FAICD	1 March 2012
P B St George, CA(SA), MBA	29 April 2009

### Company Secretaries

The names and details of the Company Secretaries of DXFM as at 30 June 2017 are as follows:

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

Appointed: 31 October 2014

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

Prior to joining Dexus, Brett was Head of Legal for Macquarie Real Estate (Asia) and has held senior legal positions at Macquarie Capital Funds in Hong Kong and Minter Ellison in Sydney and Hong Kong. Brett has 20 years' experience as in-house counsel and in private practice in Australia and in Asia, where he worked on real estate structuring and operations, funds management, mergers and acquisitions, private equity and corporate finance across a number of industries.

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

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

Appointed: 17 February 2016

Rachel is Senior Legal Counsel and Company Secretary of Dexus.

Rachel joined Dexus in 2008 after five years at King and Wood Mallesons where she worked in the real estate and projects team. Rachel has 14 years' experience as in-house counsel and in private practice working on real estate and corporate transactions, funds management and corporate finance for wholesale and listed clients.

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



## Attendance of Directors at Board Meetings and Board Committee Meetings

The number of Directors' meetings held during the year and each Director's attendance at those meetings 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
W Richard Sheppard	10	10	1	1
Elizabeth A Alexander, AM	10	10	1	1
Penny Bingham-Hall	10	10	1	1
John C Conde, AO	10	10	1	1
Tonianne Dwyer	10	10	1	1
Mark Ford <sup>1</sup>	6	6	1	1
Darren J Steinberg	10	10	1	1
Peter B St George	10	10	1	1

<sup>1</sup> Commenced directorship in 1 November 2016 and attended the Annual General Meeting as a guest.

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

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

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

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

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

### Directors' relevant interests

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

Directors	No. of securities
W Richard Sheppard	70,090
Elizabeth A Alexander, AM	16,667
Penny Bingham-Hall	16,534
John C Conde, AO	16,667
Tonianne Dwyer	16,667
Mark Ford	1,667
Darren J Steinberg	977,604
Peter B St George	17,333

### Operating and financial review

The results for the year ended 30 June 2017 were:

- profit attributable to unitholders was \$858.2 million (2016: \$816.5 million);
- total assets were \$7,911.7 million (2016: \$7,606.7 million); and
- net assets were \$4,907.1 million (2016: \$3,966.7 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 Dexs Financial Report and forms part of this Directors' Report.

### Directors' directorships in other listed entities

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

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

<sup>1</sup> Listed for trading on the Australian Securities Exchange since 24 November 2014.

<sup>2</sup> Listed for trading on the Toronto Stock Exchange in Canada and the London Stock Exchange in the United Kingdom.

### Principal activities

During the year the principal activity of the Trust was to own, manage and develop high quality real estate assets. There were no significant changes in the nature of the Trust's activities during the year.

### Total value of Trust assets

The total value of the assets of the Trust as at 30 June 2017 was \$7,911.7 million (2016: \$7,606.7 million). Details of the basis of this valuation are outlined in the Notes to the Financial Statements and form part of this Directors' Report.



### Likely developments and expected results of operations

In the opinion of the Directors, disclosure of any further information regarding business strategies and future developments or results of the 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.

### 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.

### 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.

### Distributions

Distributions paid or payable by the Trust for the year ended 30 June 2017 are outlined in note 5 of the Notes to the Financial Statements and form part of this Director's report.

### DXFM fees

Details of fees paid or payable by the Trust for the year ended 30 June 2017 are outlined in note 16 of the Notes to the Financial Statements and form part of this Directors' Report.

### 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 2017 are detailed in note 12 of the Notes to the Financial Statements and form part of this Directors' Report.

### 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.

### 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 Dexu Holdings Pty Limited (DXH).

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

### Audit

#### Auditor

PricewaterhouseCoopers continues in office in accordance with section 327 of the *Corporations Act 2001*. In accordance with section 324DAA of the *Corporations Act 2001*, the 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 ended 30 June 2016, the Board granted approval to extend the term of the current lead auditor for one year, to include the audit for the year ended 30 June 2017.

#### Non-audit services

The 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:

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

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

#### Auditor's Independence Declaration

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

### Corporate governance

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

### Rounding of amounts and currency

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

## Directors' authorisation

The Directors' Report is made in accordance with a resolution of the Directors. The Financial Statements were authorised for issue by the Directors on 15 August 2017.



**W Richard Sheppard**

Chair

15 August 2017

**Darren J Steinberg**

Chief Executive Officer

15 August 2017





## Auditor's Independence Declaration

As lead auditor for the audit of Dexus Office Trust for the year ended 30 June 2017, I declare that to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- (b) no contraventions of any applicable code of professional conduct in relation to the audit.

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

A handwritten signature in black ink, appearing to read 'E A Barron'.

E A Barron  
Partner  
PricewaterhouseCoopers

Sydney  
15 August 2017

# Consolidated Statement of Comprehensive Income

For the year ended 30 June 2017



	Note	2017 \$m	2016 \$m
<b>Revenue from ordinary activities</b>			
Property revenue	2	278.9	300.7
Interest revenue		0.2	0.2
<b>Total revenue from ordinary activities</b>		<b>279.1</b>	<b>300.9</b>
Net fair value gain of investment properties		314.7	279.4
Share of net profit of investments accounted for using the equity method	7	458.7	519.5
Net gain on sale of investment properties		23.4	-
<b>Total income</b>		<b>1,075.9</b>	<b>1,099.8</b>
<b>Expenses</b>			
Property expenses	2	(78.8)	(84.8)
Management fee expense		(12.6)	(13.3)
Finance costs	3	(125.6)	(183.6)
Management operations, corporate and administration expenses		(0.7)	(1.3)
<b>Total expenses</b>		<b>(217.7)</b>	<b>(283.0)</b>
<b>Profit/(loss) before tax</b>		<b>858.2</b>	<b>816.8</b>
Income tax expense		-	(0.3)
<b>Profit/(loss) for the year</b>		<b>858.2</b>	<b>816.5</b>
<b>Other comprehensive income/(loss):</b>			
Other comprehensive income/(loss)		-	-
<b>Total comprehensive income/(loss) for the year</b>		<b>858.2</b>	<b>816.5</b>
		<b>Cents</b>	<b>Cents</b>
<b>Earnings per unit on profit/(loss) attributable to unitholders of the parent entity</b>			
Basic earnings per unit	4	88.61	84.29
Diluted earnings per unit	4	88.61	84.29

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

# Consolidated Statement of Financial Position

As at 30 June 2017



	Note	2017 \$m	2016 \$m
<b>Current assets</b>			
Cash and cash equivalents	13(a)	5.8	7.2
Receivables	13(b)	36.9	39.6
Non-current assets classified as held for sale	8	283.7	651.2
Derivative financial instruments	9(c)	-	0.1
Other	13(c)	3.4	4.7
<b>Total current assets</b>		<b>329.8</b>	<b>702.8</b>
<b>Non-current assets</b>			
Investment properties	6	3,883.2	3,482.8
Investments accounted for using the equity method	7	3,690.5	3,418.5
Derivative financial instruments	9(c)	6.3	1.4
Other		1.9	1.2
<b>Total non-current assets</b>		<b>7,581.9</b>	<b>6,903.9</b>
<b>Total assets</b>		<b>7,911.7</b>	<b>7,606.7</b>
<b>Current liabilities</b>			
Payables	13(d)	68.3	53.1
Provisions	13(e)	119.6	91.0
Derivative financial instruments	9(c)	5.3	4.1
Loans with related parties	11	149.0	55.7
<b>Total current liabilities</b>		<b>342.2</b>	<b>203.9</b>
<b>Non-current liabilities</b>			
Loans with related parties	11	2,696.6	3,345.7
Derivative financial instruments	9(c)	21.8	90.3
Other		0.1	0.1
<b>Total non-current liabilities</b>		<b>2,718.5</b>	<b>3,436.1</b>
<b>Total liabilities</b>		<b>3,060.7</b>	<b>3,640.0</b>
<b>Net assets</b>		<b>4,851.0</b>	<b>3,966.7</b>
<b>Equity</b>			
<b>Equity attributable to unitholders of the parent entity</b>			
Contributed equity	12	2,699.7	2,432.4
Retained profits		2,151.3	1,534.3
<b>Parent entity unitholders' interest</b>		<b>4,851.0</b>	<b>3,966.7</b>
<b>Total equity</b>		<b>4,851.0</b>	<b>3,966.7</b>

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 2017



	Note	Contributed equity \$m	Retained profits/ (losses) \$m	Reserves \$m	Total equity \$m
<b>Opening balance as at 1 July 2015</b>		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	12	(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)
<b>Closing balance as at 30 June 2016</b>		2,432.4	1,534.3	-	3,966.7
<b>Opening balance as at 1 July 2016</b>		2,432.4	1,534.3	-	3,966.7
Profit/(loss) for the year		-	858.2	-	858.2
Other comprehensive income/(loss) for the year		-	-	-	-
Total comprehensive income for the year		-	858.2	-	858.2
Transactions with owners in their capacity as unitholders:					
Issue of additional equity, net of transaction costs	12	267.3	-	-	267.3
Distributions paid or provided for	5	-	(241.2)	-	(241.2)
Total transactions with owners in their capacity as owners		267.3	(241.2)	-	26.1
<b>Closing balance as at 30 June 2017</b>		2,699.7	2,151.3	-	4,851.0

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 2017



	2017 \$m	2016 \$m
<b>Cash flows from operating activities</b>		
Receipts in the course of operations (inclusive of GST)	321.8	339.3
Payments in the course of operations (inclusive of GST)	(118.6)	(119.8)
Interest received	0.2	0.2
Finance costs paid to financial institutions	(68.1)	(41.6)
Distributions received from investments accounted for using the equity method	235.9	213.3
Income and withholding taxes paid	-	(4.6)
<b>Net cash inflow/(outflow) from operating activities</b>	<b>371.2</b>	<b>386.8</b>
	15	
<b>Cash flows from investing activities</b>		
Proceeds from sale of investment properties	422.9	(0.1)
Payments for capital expenditure on investment properties	(84.8)	(102.3)
Payments for acquisition of investment properties	(21.4)	(344.5)
Return of capital from investments accounted for using the equity method	(50.7)	(383.6)
<b>Net cash inflow/(outflow) from investing activities</b>	<b>266.0</b>	<b>(830.5)</b>
<b>Cash flows from financing activities</b>		
Borrowings provided to related parties	(1,656.6)	(456.6)
Borrowings received from related parties	963.3	1,067.3
Payments for buy-back of contributed equity	-	(10.2)
Proceeds from issue of additional equity, net of transaction costs	267.3	-
Distributions paid to unit holders	(212.6)	(156.7)
<b>Net cash inflow/(outflow) from financing activities</b>	<b>(638.6)</b>	<b>443.8</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>(1.4)</b>	<b>0.1</b>
Cash and cash equivalents at the beginning of the year	7.2	7.1
<b>Cash and cash equivalents at the end of the year</b>	<b>5.8</b>	<b>7.2</b>

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.

## Basis of preparation

These general purpose Financial Statements have been prepared;

- for a for-profit entity,
- in accordance with the requirements of the Constitution of the entities within the Group, the *Corporations Act 2001*, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board and International Financial Reporting Standards (IFRS),
- in Australian dollars with all values rounded in the nearest hundred thousand dollars in accordance with ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, unless otherwise stated.
- on a going concern basis,
- using historical cost conventions except for investment properties, investment properties within equity accounted investments, derivative financial instruments and other financial liabilities which are stated at their fair value. Refer to the specific accounting policies within the notes to the Financial Statements for the basis of valuation of assets and liabilities measured at fair value, and
- using consistent accounting policies in line with those of the previous financial year and corresponding interim reporting period, unless otherwise stated.

Dexus stapled securities are quoted on the Australian Securities Exchange under the "DXS" code and comprise one unit in each of DDF, DIT, DOT and DXO. Each entity forming part of DXS continues as a separate legal entity in its own right under the *Corporations Act 2001* and is therefore required to comply with reporting and disclosure requirements under the *Corporations Act 2001* and Australian Accounting Standards.

### Critical accounting estimates

In the process of applying the Trust'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 6	Investment properties	Page 18
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### Principles of consolidation

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

#### (a) Controlled entities

Subsidiaries are all entities over which the 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) 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 Consolidated Statement of Financial Position and Consolidated 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 Consolidated Statement of Comprehensive Income and distributions received from joint ventures are recognised as a reduction of the carrying amount of the investment.

### 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 Consolidated Statement of Comprehensive Income.

As at 30 June 2017, the Trust had no investments in foreign operations.

### Goods and services tax

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



### New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for the 30 June 2017 reporting period. The 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 addresses the classification, measurement and de-recognition of financial assets and financial liabilities and introduces new rules for hedge accounting and impairment of financial assets. The 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 is based on the principle that revenue is recognised when control of a good or service is transferred to a customer. It contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognised. It will not impact on investment properties rental revenue, as the revenue is currently accounted for under AASB 117 Leases and from 1 July 2019 will be accounted for under AASB 16 Leases.

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

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

AASB 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases. This standard will predominantly affect lessees, bringing all major leases on balance sheet. As the Trust operates mainly as a lessor, the application of this standard is not expected to 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.

### 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.

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 transactions service fees
2. Property revenue and expenses	7. Investments accounted for units the equity method	10. Commitments and contingencies	15. Reconciliation of cash flows from operating activities
3. Finance costs	8. Non-current assets classified as held for sale	11. Loans with related parties	16. Related parties
4. Earnings per unit		12. Contributed equity	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: results by operating segment, property revenue and expenses, finance costs, earnings per unit and distributions paid and payable.

## Note 1 Operating segments

### Description of segments

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

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

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

## Note 2 Property revenue and expenses

The Trust's main revenue streams is property rental revenue and is derived from holding properties as investment properties and earning rental yields over time. Rental revenue is recognised on a straight-line basis over the lease term for leases with fixed rent review clauses.

Prospective tenants may be offered incentives as an inducement to enter into operating leases. The costs of incentives are recognised as a reduction of rental revenue on a straight-line basis from the lease commencement date to the end of the lease term. The carrying amount of the lease incentives is reflected in the fair value of investment properties.

Property revenue is recognised as the service is delivered, in accordance with the terms of the relevant contracts.

	2017 \$m	2016 \$m
Rent and recoverable outgoings	267.6	299.9
Incentive amortisation	(41.8)	(42.9)
Other revenue	53.1	43.7
<b>Total property revenue</b>	<b>278.9</b>	<b>300.7</b>

Property expenses of \$78.8 million (2016: \$84.8 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.

A qualifying asset is an asset under development which takes a substantial period of time, where the works being carried out to bring to its intended use or sale is expected to exceed 12 months in duration. Finance costs incurred for the acquisition and construction of a qualifying asset are capitalised to the cost of the asset for the period of time that is required to complete the asset. To the extent that funds are borrowed generally to fund development, the amount of borrowing costs to be capitalised to qualifying assets must be determined by using an appropriate capitalisation rate.

	2017	2016
	\$m	\$m
Interest paid to related parties	130.0	138.5
Net fair value (gain)/loss of interest rate swaps	(0.5)	45.7
Amount capitalised	(3.9)	(0.6)
<b>Total finance costs</b>	<b>125.6</b>	<b>183.6</b>

The average capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation is 6.25%

### 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

	2017	2016
	\$m	\$m
Profit attributable to unitholders of the parent entity	858.2	816.5

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

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

## Note 5 Distributions paid and payable

Distributions are recognised when declared.

### a) Distribution to unitholders

	2017 \$m	2016 \$m
31 December (paid 28 February 2017)	121.6	127.2
30 June (payable 29 August 2017)	119.6	91.0
<b>Total distribution to unitholders</b>	<b>241.2</b>	<b>218.2</b>

### b) Distribution rate

	2017 Cents per unit	2016 Cents per unit
31 December (paid 28 February 2017)	12.56	13.14
30 June (payable 29 August 2017)	11.76	9.40
<b>Total distributions</b>	<b>24.32</b>	<b>22.54</b>

# Property Portfolio Assets

## In this section

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

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

The list of property portfolio assets is detailed in the Property Synopsis, available at <http://www.dexus.com/investors/investor-information>.

## 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 Consolidated 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 Consolidated 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	2017 \$m	2016 \$m
Opening balance at the beginning of the year		3,482.8	3,417.5
Additions		61.9	68.6
Acquisitions		18.2	344.5
Lease incentives		48.1	64.8
Amortisation of lease incentives		(39.0)	(42.9)
Rent straightlining		4.7	2.1
Transfer to non-current assets classified as held for sale	8	-	(651.2)
Net fair value gain/(loss) of investment properties		306.5	279.4
<b>Closing balance at the end of the year</b>		<b>3,883.2</b>	<b>3,482.8</b>

### Acquisitions

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

## Note 6 Investment properties (continued)

### b) Valuations process

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

The Trust's investment properties are required to be internally valued at least every six months unless they have been independently valued for the 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	
			2017	2016
Office <sup>1</sup>	Level 3	Adopted capitalisation rate	4.75% - 9.50%	5.25% - 7.00%
		Adopted discount rate	6.63% - 10.50%	7.00% - 8.50%
		Adopted terminal yield	5.25% - 9.50%	5.50% - 7.50%
		Current net market rental (per sqm)	\$307 - \$1,319	\$357 - \$1,269
Development	Level 3	Land rate (per sqm)	\$23,335	\$23,335

1 Excludes car parks, retail and other.

## 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 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.

### 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	Decrease	Increase
Adopted terminal yield		
Net market rental (per sqm)	Increase	Decrease
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.

## 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:

Name of entity	2017 %	2016 %	2017 \$m	2016 \$m
Bent Street Trust	33.3	33.3	319.1	308.1
Dexus Creek Street Trust	50.0	50.0	143.9	137.9
Dexus Martin Place Trust <sup>1</sup>	50.0	50.0	166.3	111.2
Grosvenor Place Holding Trust <sup>2,3</sup>	50.0	50.0	385.5	352.9
Site 6 Homebush Bay Trust <sup>2</sup>	50.0	50.0	33.3	30.7
Site 7 Homebush Bay Trust <sup>2</sup>	50.0	50.0	44.9	43.1
Dexus 480 Q Holding Trust	50.0	50.0	366.7	344.1
Dexus Kings Square Trust	50.0	50.0	214.0	216.1
Dexus Office Trust Australia <sup>4</sup>	50.0	50.0	1,985.0	1,844.8
Dexus Eagle Street Pier Trust	50.0	50.0	31.8	29.6
<b>Total investments accounted for using the equity method</b>			<b>3,690.5</b>	<b>3,418.5</b>

1 The Group has exchanged and settled on the sale of its 50% interest in the office tower at 39 Martin Place, Sydney, NSW on 11 November 2016 for gross proceeds of \$320 million. These proceeds were provided to the co-owners as a non-interest bearing loan payable on demand.

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

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

4 On 7 September 2016 DOTA disposed of 108 North Terrace, Adelaide for gross proceeds of \$43.3 million, reflecting the Group's 50% interest.

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



## Note 7 Investments accounted for using the equity method (continued)

	Dexus Office Trust Australia		Grosvenor Place Holding Trust		Dexus 480Q Holding Trust		Other joint ventures		Total	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<b>Summarised Statement of Financial Position</b>										
<b>Current assets</b>										
Cash and cash equivalents	15.9	21.8	2.1	0.9	0.2	1.0	5.5	1.7	23.7	25.4
Non-current assets classified as held for sale	-	41.8	-	-	-	-	6.0	-	6.0	41.8
Loan to related party <sup>1</sup>	-	-	-	-	-	-	148.9	-	148.9	-
Other current assets	4.4	5.6	0.7	1.0	1.1	2.0	19.8	4.7	26.0	13.3
<b>Total current assets</b>	<b>20.3</b>	<b>69.2</b>	<b>2.8</b>	<b>1.9</b>	<b>1.3</b>	<b>3.0</b>	<b>180.2</b>	<b>6.4</b>	<b>204.6</b>	<b>80.5</b>
<b>Non-current assets</b>										
Investment properties	1,865.8	1,695.4	385.0	353.7	366.5	343.8	798.9	891.4	3,416.2	3,284.3
Investments accounted for using the equity method	231.9	213.4	-	-	-	-	-	-	231.9	213.4
Other non-current assets	0.3	0.2	-	-	0.1	-	0.1	0.1	0.5	0.3
<b>Total non-current assets</b>	<b>2,098.0</b>	<b>1,909.0</b>	<b>385.0</b>	<b>353.7</b>	<b>366.6</b>	<b>343.8</b>	<b>799.0</b>	<b>891.5</b>	<b>3,648.6</b>	<b>3,498.0</b>
<b>Current liabilities</b>										
Provision for distribution	21.3	22.5	-	-	-	-	3.9	2.8	25.2	25.3
Borrowings	74.5	74.0	-	-	-	-	-	-	74.5	74.0
Other current liabilities	26.5	25.8	2.3	2.7	1.2	2.7	22.0	18.4	52.0	49.6
<b>Total current liabilities</b>	<b>122.3</b>	<b>122.3</b>	<b>2.3</b>	<b>2.7</b>	<b>1.2</b>	<b>2.7</b>	<b>25.9</b>	<b>21.2</b>	<b>151.7</b>	<b>148.9</b>
<b>Non-current liabilities</b>										
Borrowings	11.0	11.1	-	-	-	-	-	-	11.0	11.1
<b>Total non-current liabilities</b>	<b>11.0</b>	<b>11.1</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>11.0</b>	<b>11.1</b>
<b>Net assets</b>	<b>1,985.0</b>	<b>1,844.8</b>	<b>385.5</b>	<b>352.9</b>	<b>366.7</b>	<b>344.1</b>	<b>953.3</b>	<b>876.7</b>	<b>3,690.5</b>	<b>3,418.5</b>
<b>Reconciliation of carrying amounts:</b>										
Opening balance at the beginning of the year	1,844.8	1,546.3	352.9	303.3	344.1	149.7	876.8	739.2	3,418.6	2,738.5
Additions	24.4	158.0	9.9	13.0	5.0	139.6	11.5	73.0	50.8	383.6
Share of net profit/(loss) after tax	264.6	287.3	40.5	51.7	34.8	68.9	118.8	111.6	458.7	519.5
Distributions received/receivable	(148.8)	(146.8)	(17.8)	(15.1)	(17.2)	(14.1)	(53.8)	(47.1)	(237.6)	(223.1)
<b>Closing balance at the end of the year</b>	<b>1,985.0</b>	<b>1,844.8</b>	<b>385.5</b>	<b>352.9</b>	<b>366.7</b>	<b>344.1</b>	<b>953.3</b>	<b>876.7</b>	<b>3,690.5</b>	<b>3,418.5</b>
<b>Summarised Statement of Comprehensive Income</b>										
Property revenue	151.9	147.0	21.0	18.9	24.1	2.8	57.0	56.6	254.0	225.3
Property revaluations	166.6	181.1	24.6	37.5	17.8	68.2	29.9	83.1	238.9	369.9
Gain on sale of investment properties	-	14.0	-	-	-	-	47.2	-	47.2	14.0
Interest income	0.4	0.4	0.1	-	-	-	-	-	0.5	0.4
Finance costs	(5.0)	(7.7)	-	-	-	-	-	-	(5.0)	(7.7)
Other expenses	(49.2)	(47.5)	(5.2)	(4.7)	(7.3)	(2.1)	(15.3)	(28.1)	(77.0)	(82.4)
<b>Net profit/(loss) for the year</b>	<b>264.7</b>	<b>287.3</b>	<b>40.5</b>	<b>51.7</b>	<b>34.6</b>	<b>68.9</b>	<b>118.8</b>	<b>111.6</b>	<b>458.6</b>	<b>519.5</b>
<b>Total comprehensive income/(loss) for the year</b>	<b>264.7</b>	<b>287.3</b>	<b>40.5</b>	<b>51.7</b>	<b>34.6</b>	<b>68.9</b>	<b>118.8</b>	<b>111.6</b>	<b>458.6</b>	<b>519.5</b>

1 Loan to related parties includes a non-interest bearing loan payable on demand provided to the co-owners from the proceeds on sale of 39 Martin Place, Sydney, NSW.



### Note 8 Non-current assets classified as held for sale

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

Non-current assets classified as held for sale are presented separately from the other assets in the balance sheet. Non-current assets classified as held for sale relate to investment properties and are measured at fair value.

As at 30 June 2017, the balance relates to the Trust's remaining 50% share of Southgate Complex at 3 Southgate Avenue, Melbourne. The balance represents the cash price equivalent at 30 June 2017 of the deferred gross proceeds of \$289.0 million.

#### Disposals

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

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

# Capital and financial risk management and working capital



## In this section

The 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 unitholders (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 12.

Note 13 provides a breakdown of the working capital balances held in the Consolidated 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 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. 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 unitholders. 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 unitholders' 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. 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;
- liquidity risk; and
- credit risk.

The Trust uses derivatives to reduce the Trust's exposure to fluctuations in interest 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; and
- interest rate options.

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 predominantly 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 due to movements in variable interest rates.

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 Trust primarily enters into interest rate derivatives to manage the associated interest rate risk. The derivative contracts are recorded at fair value in the Consolidated Statement of Financial Position, being the market value as quoted in an active market.

Interest rate derivatives require settlement of net interest receivable or payable generally each 90 or 180 days. The settlement dates coincide with the dates on which the interest is payable on the underlying debt. The receivable and payable legs on interest rate derivative contracts are settled on a net basis.

## Note 9 Capital and financial risk management (continued)

### b) Financial risk management (continued)

#### i) Market risk (continued)

##### Interest rate risk (continued)

	June 2018 \$m	June 2019 \$m	June 2020 \$m	June 2021 \$m	June 2022 \$m
<b>Interest rate derivatives</b>					
A\$ hedged (\$)¹	1,288.3	1,401.7	1,247.5	730.0	273.3
A\$ hedge rate (%)	2.84%	2.78%	2.78%	2.74%	2.44%

##### Sensitivity analysis on interest expense

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

	2017 (+/-) \$m	2016 (+/-) \$m
+/- 0.50% (50 basis points)	A\$ 9.5	10.9
<b>Total A\$ equivalent</b>	<b>9.5</b>	<b>10.9</b>

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

##### Sensitivity analysis on fair value of interest rate derivatives

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

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

	2017 (+/-) \$m	2016 (+/-) \$m
+/- 0.50% (50 basis points)	A\$ 15.0	23.8
<b>Total A\$ equivalent</b>	<b>15.0</b>	<b>23.8</b>

## 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.

	2017				2016			
	Within one year \$m	Between one and two years \$m	Between two and five years \$m	After five years \$m	Within one year \$m	Between one and two years \$m	Between two and five years \$m	After five years \$m
Payables	(68.3)	-	-	-	(53.1)	-	-	-
<b>Loans with related parties and interest<sup>1</sup></b>	<b>(113.5)</b>	<b>(119.1)</b>	<b>(2,818.3)</b>	<b>-</b>	<b>(111.7)</b>	<b>(111.7)</b>	<b>(3,567.7)</b>	<b>-</b>
<b>Derivative financial instruments</b>								
Derivative assets	-	0.7	12.9	-	0.3	0.2	0.2	-
Derivative liabilities	(11.7)	(5.0)	-	-	(22.4)	(20.3)	(31.5)	-
<b>Total net derivative financial instruments<sup>2</sup></b>	<b>(11.7)</b>	<b>(4.3)</b>	<b>12.9</b>	<b>-</b>	<b>(22.1)</b>	<b>(20.1)</b>	<b>(31.3)</b>	<b>-</b>

1 Includes estimated interest and fees.

2 For interest rate swaps and options, only the net interest cash flows (not the notional principal) are included. Refer to note 9(c) for fair value of derivatives and 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 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 Consolidated 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 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 Dexu 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 2017 is the carrying amounts of financial assets recognised on the Consolidated 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 2017 is the carrying amounts of the trade receivables recognised on the Consolidated Statement of Financial Position.

### Note 9 Capital and financial risk management (continued)

#### b) Financial risk management (continued)

##### iv) Fair value

As at 30 June 2017 and 30 June 2016, the carrying amount of financial assets and liabilities are held at fair value.

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

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

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

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

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

##### Key assumptions: fair value of derivatives

The fair value of derivatives have been determined based on observable market inputs (interest rates) and applying a credit or debit value adjustment based on the current credit worthiness of counterparties and the Trust.

##### v) Offsetting financial assets and financial liabilities

Financial assets and liabilities are offset and the net amount reported in the Consolidated Statement of Financial Position where there is a legally enforceable right to set-off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously. No financial assets and liabilities are currently held under netting arrangements.

*Master Netting arrangements – not currently enforceable*

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

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.



## Note 10 Commitments and contingencies

### a) Commitments

#### Capital commitments

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

	2017 \$m	2016 \$m
Investment properties	102.9	156.7
Investments accounted for using the equity method	37.5	10.7
<b>Total capital commitments</b>	<b>140.4</b>	<b>167.4</b>

#### Lease receivable commitments

The future minimum lease payments receivable by the Trust are:

	2017 \$m	2016 \$m
Within one year	240.8	246.5
Later than one year but not later than five years	642.5	729.2
Later than five years	305.9	363.9
<b>Total lease receivable commitments</b>	<b>1,189.2</b>	<b>1,339.6</b>

### b) Contingencies

The Trust, together with DDF, DIT and DXO, is a guarantor of A\$3,774.2 million of interest bearing liabilities (refer note 13 of the Dexus 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 Consolidated Statement of Financial Position.

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

## Note 11 Loans with related parties

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



## Note 12 Contributed equity

### Number of units on issue

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

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.

## 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, 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 Consolidated 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.

	2017 \$m	2016 \$m
Rent receivable	7.4	10.6
Less: provision for doubtful debts	-	(0.2)
<b>Total rental receivables</b>	<b>7.4</b>	<b>10.4</b>
Distributions receivable	25.3	25.3
Other receivables	4.2	3.9
<b>Total other receivables</b>	<b>29.5</b>	<b>29.2</b>
<b>Total receivables</b>	<b>36.9</b>	<b>39.6</b>

### c) Other current assets

	2017 \$m	2016 \$m
Prepayments	3.4	4.7
<b>Total other current assets</b>	<b>3.4</b>	<b>4.7</b>

## Note 13 Working capital (continued)

### d) Payables

	2017 \$m	2016 \$m
Trade creditors	13.9	17.8
Accruals	1.2	1.0
Accrued capital expenditure	32.8	10.9
Prepaid income	9.0	8.8
Accrued interest	9.3	13.3
Other payables	2.1	1.3
<b>Total payables</b>	<b>68.3</b>	<b>53.1</b>

### 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.

	2017 \$m	2016 \$m
Provision for distribution	119.6	91.0
<b>Total current provisions</b>	<b>119.6</b>	<b>91.0</b>

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

	2017 \$m	2016 \$m
Opening balance at the beginning of the year	91.0	29.5
Additional provisions	241.2	218.2
Payment of distributions	(212.6)	(156.7)
<b>Closing balance at the end of the year</b>	<b>119.6</b>	<b>91.0</b>

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

# Other disclosures

## In this section

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

## Note 14 Audit, taxation and transaction service fees

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

	2017 \$'000	2016 \$'000
<b>Audit fees</b>		
PwC Australia - audit and review of Financial Statements	419	411
PwC fees paid in relation to outgoing audits	74	60
PwC Australia - regulatory audit and compliance services	5	5
<b>Audit fees paid to PwC</b>	<b>498</b>	<b>476</b>
<b>Taxation fees</b>		
Fees paid to PwC Australia and New Zealand	20	19
<b>Taxation fees paid to PwC</b>	<b>20</b>	<b>19</b>
<b>Total audit and taxation fees paid to PwC</b>	<b>518</b>	<b>495</b>

## Note 15 Reconciliation of cash flows from operating activities

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

	2017 \$m	2016 \$m
Net profit/(loss) for the year	858.2	816.5
Capitalised interest	(3.9)	(0.6)
Net fair value (gain)/loss of investment properties	(314.7)	(279.4)
Share of net (profit)/loss of investments accounted for using the equity method	(458.7)	(519.5)
Net fair value (gain)/loss of derivatives	(70.3)	-
Net fair value (gain)/loss of interest rate swaps	3.8	26.4
Net (gain)/loss on sale of investment properties	(23.4)	-
Change in operating assets and liabilities		
(Increase)/decrease in receivables	5.8	(16.1)
(Increase)/decrease in prepaid expenses	1.3	(1.0)
(Increase)/decrease in other non-current assets - investments	248.5	211.9
(Increase)/decrease in other non-current assets	(0.6)	(0.7)
Increase/(decrease) in payables	(2.8)	13.1
Increase/(decrease) in current liabilities	(2.0)	(4.2)
Increase/(decrease) in other non-current liabilities	130.0	140.4
<b>Net cash inflow/(outflow) from operating activities</b>	<b>371.2</b>	<b>386.8</b>



## Note 16 Related parties

### Responsible Entity and Investment Manager

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.

### Transactions with related parties

There were a number of transactions and balances between the Trust and the Responsible Entity and its related entities, as detailed below:

	2017 \$'000	2016 \$'000
Responsible Entity fees paid and payable	13,869	13,337
Property management fees paid and payable to DXPS	6,467	13,483
Responsible Entity fees payable at the end of each reporting year (included above)	932	1,171
Property management fees payable at the end of each reporting year (included above)	504	1,188
Administration expenses payable at the end of each reporting year (included above)	1,063	249
Rent received	2,348	1,786

### Entities within DXS

Aggregate amounts included in the determination of profit that resulted from transactions with each class of other related parties:

	2017 \$'000	2016 \$'000
Interest expense	133,749	141,238
Interest bearing loans advanced from entities within DXS	989,470	1,205,382
Interest bearing loans advanced to entities within DXS	1,638,554	456,611

### Key management personnel compensation

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



## Note 17 Parent entity disclosures

The financial information for the parent entity of Dexu Office 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 Consolidated Statement of Comprehensive Income, rather than being deducted from the carrying amount of these investments.

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

### a) Summary financial information

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

	2017 \$m	2016 \$m
Total current assets	1,270.3	1,696.9
Total assets	7,865.3	7,573.9
Total current liabilities	168.8	192.9
Total liabilities	3,036.3	3,629.0
<b>Equity</b>		
Contributed equity	2,699.7	2,432.4
Retained profits	2,129.4	1,512.5
<b>Total equity</b>	<b>4,829.1</b>	<b>3,944.9</b>
Net profit/(loss) for the year	858.1	816.5
<b>Total comprehensive income/(loss) for the year</b>	<b>858.1</b>	<b>816.5</b>

### 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 2017 (2016: 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:

	2017 \$m	2016 \$m
Investment properties	8.2	21.9
<b>Total capital commitments</b>	<b>8.2</b>	<b>21.9</b>

## Note 18 Subsequent events

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

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

On 01 August 2017, settlement occurred on the disposal of 46 Colin St, West Perth for \$16.8 million excluding disposal costs, representing the Trust's 50% interest held through Dexu Office Trust Australia.

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.

# Directors' Declaration

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 14 to 35:



- (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 2017 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 2017.

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

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

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

**W Richard Sheppard**

Chair

15 August 2017



## *Independent auditor's report*

To the stapled security holders of Dexus Office Trust

### *Report on the audit of the financial report*

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#### *Our opinion*

In our opinion:

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

- a) giving a true and fair view of the Group's financial position as at 30 June 2017 and of its financial performance for the year then ended
- b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

#### **What we have audited**

The Group's financial report comprises:

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

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#### *Basis for opinion*

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

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

#### **Independence**

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

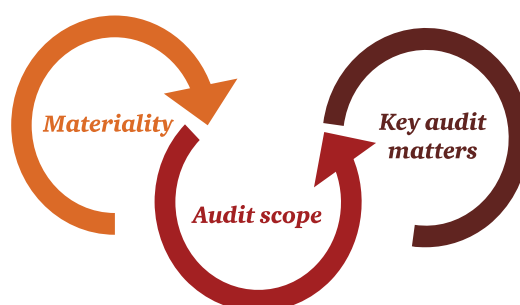
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#### *Our audit approach*

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



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



<i>Materiality</i>	<i>Audit scope</i>	<i>Key audit matters</i>
<ul style="list-style-type: none"> <li>For the purpose of our audit we used overall group materiality of \$30.85 million, which represents approximately 7% of the Group's adjusted profit before tax (Funds From Operations or "FFO").</li> <li>We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole.</li> <li>We chose FFO because, in our view, it is the key performance measure used by shareholders to measure the performance of the Group. An explanation of what is included in FFO is located in Note 1, Operating Segments.</li> <li>We selected 10% based on our professional judgement noting it is also within the range of commonly accepted profit related thresholds in the industry.</li> </ul>	<ul style="list-style-type: none"> <li>The Group is a consolidated entity with operations in Australia. The scope of our audit included the parent entity Dexus Office Trust and its controlled entities which are referred to as the Group.</li> <li>Our audit focused on where the directors made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events.</li> </ul>	<ul style="list-style-type: none"> <li>Amongst other relevant topics, we communicated the following key audit matters to the Audit Committee: <ul style="list-style-type: none"> <li>Valuation of investment properties, including those investment properties accounted for under the equity method.</li> </ul> </li> <li>They are further described in the <i>Key audit matters</i> section of our report.</li> </ul>

### *Key audit matters*

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



## Key audit matter

## How our audit addressed the key audit matter

### **Valuation of investment properties, including those investment properties in investments accounted for under the equity method (Refer to notes 6 and 7)**

The Group's investment property portfolio comprises:

- directly held properties included in the Consolidated Statement of Financial Position as "Investment properties" valued at \$3,883.2m as at 30 June 2017 (2016: \$3,482.8m).
- the Group's share of investment properties held through joint ventures included in the Consolidated Statement of Financial Position as "Investments accounted for using the equity method" valued at \$3,416.2m as at 30 June 2017 (2016: \$3,284.3m).

Investment properties are valued at fair value at reporting date using the Group's policy as described in Note 6. The valuation of investment properties is dependent on a number of assumptions and inputs including, tenant information, property age and location, expected future rental profiles, and prevailing market conditions. Certain non-tenant assumptions made by the Group in the valuation exercise are key in establishing fair value; in particular:

- The capitalisation rate.
- The adopted discount rate.
- Terminal yield.

We considered the valuation of investment properties to be a key audit matter due to the:

- Financial significance of the investment property balances in the Consolidated Statement of Financial Position.
- Quantum of revaluation gains that directly impact the Consolidated Statement of Comprehensive Income (either through the net fair value gain of investment properties, or Share of net profits of investments accounted for using the equity method).
- Inherently subjective nature of investment property valuations.
- Sensitivity of valuations to key input assumptions, specifically capitalisation rates, discount rates and terminal yields.

As tenant information (such as market rent) is a key input in determining the valuation of investment properties, we tested a sample of inputs back to executed lease agreements. For the samples tested, we found that the inputs used in the valuation process were consistent with the underlying leases.

For all properties that had significant changes in both tenant and non-tenant inputs, we performed the following audit procedures, amongst others:

- Met with the Group and discussed the specifics of the selected individual properties including, amongst other things, any new leases entered into during the year, lease expiries, capital expenditure and vacancy rates.
- Agreed significant changes in inputs to supporting documentation such as new lease agreements.
- Compared key non-tenant inputs, specifically market capitalisation rates, discount rate and terminal yield by location and asset grade to external market data such as market reports prepared by external valuation firms. Where capitalisation rates and discount rates were not consistent with external market data, we discussed with the Group the rationale supporting the rate applied in the valuation. Typically the variances related to the relative age or condition of the property or specific conditions such as lease expiry. In the context of the specific properties identified, we were satisfied that the reasons for variances were reasonable.

We compared historical valuations against current year valuations for all properties. Where current year valuation movements were inconsistent with market movements, the reasons for the movements were appropriate and supportable.

We also considered the valuation approach adopted and found it to be consistent with commonly accepted valuation approaches used for investment properties.

### **External valuations**

Where the Group relied on external experts to determine the fair value of investment properties, in addition to the above procedures, we assessed the competency, methodology, skills and familiarity of each of the valuers engaged. When inspecting a sample of reports, we also considered other factors such as caveats or limitations identified in the reports that may have influenced the outcomes.

### **Internal valuations**

For internal valuations, the Group utilises an off-the-shelf software package. In addition to the above procedures, we performed the following audit procedures on the software package, amongst others:

- Assessed the design of the key controls over the continued integrity of the valuation system. This involved considering how the Group implements program changes, who can access IT systems and other controls which influence the integrity of the system.
- Tested the calculation of the valuation algorithm

Key audit matter	How our audit addressed the key audit matter
	<p>applied.</p> <p>We also considered the experience and qualifications of the Group's internal valuers, all of whom hold recognised relevant professional qualifications and have previous experience as property valuers from major real estate valuation firms.</p>

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### *Other information*

The directors of Dexus Funds Management Limited (the responsible entity) are responsible for the other information included in the Group's annual report for the year ended 30 June 2017. The other information comprises the Directors Report but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion on this.

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

If we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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### *Responsibilities of the directors for the financial report*

The directors of Dexus Funds Management Limited are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

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

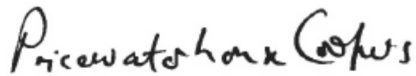
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### *Auditor's responsibilities for the audit of the financial report*

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

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at:

[http://www.auasb.gov.au/auditors\\_responsibilities/ar1.pdf](http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf). This description forms part of our auditor's report.

The logo for PricewaterhouseCoopers, featuring the company name in a stylized, handwritten-style font.

PricewaterhouseCoopers

A handwritten signature, likely of E A Barron, consisting of stylized initials and a surname.

E A Barron  
Partner

Sydney  
15 August 2017