dexus

# Strong foundations
# Positive momentum

**Annual Report 2018**

10 years being listed as Dexus

# Strong Foundations. Positive Momentum.

**We have established strong foundations that have enabled us to consistently deliver on our strategy, and positive momentum across the business is enhancing our position for the future.**

**10** years being listed as Dexus

It has been 10 years since we fully internalised our management structure and started on the journey towards becoming one of Australia's leading property groups, today known as Dexus. See our journey on page 3.

## 2018 ANNUAL REPORTING SUITE

Dexus presents its 2018 Annual Reporting Suite for the year ended 30 June 2018.

### 2018 Annual Report

Provides a consolidated summary of Dexus's performance, Dexus's Consolidated Financial Report, Operating and Financial Review, and Corporate Responsibility & Sustainability (CR&S) performance.

### 2018 Financial Statements

Comprises the Financial Statements for Dexus Industrial Trust, Dexus Office Trust and Dexus Operations Trust. This report should be read in conjunction with the 2018 Annual Report.

### 2018 Sustainability Performance Pack

Provides data and detailed information supporting the results outlined in the 2018 Annual Report available in the online 2018 Annual Reporting Suite at **www.dexus.com**

### 2018 Annual Results Presentation

Provides an overview of Dexus's operational and financial performance available in the online 2018 Annual Reporting Suite at **www.dexus.com**

### 2018 Property Synopsis

Provides an overview of the Dexus property portfolio, available in the online 2018 Annual Reporting Suite at **www.dexus.com**

The 2018 Annual Reporting Suite is available in hard copy by email request to ir@dexus.com or by calling **+61 1800 819 675.**

www.dexus2018.reportonline.com.au

# Highlights

Growth in distribution and AFFO per security

**5.1%**

Realised trading profits net of tax

**$36.6m**

Property portfolio valuation uplift

**$1.2bn**

Progressed minimum 5 star NABERS Energy rating across

**89%**

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

Return on contributed equity

**7.6%**

Office portfolio like-for-like income growth

**+4.5%**

**Achieved gender pay equity in like-for-like roles**

**Completed the first round equity raising for the Healthcare Wholesale Property Fund**

## IN THIS REPORT

# About Dexus

## Dexus is one of Australia's leading real estate groups, managing a high quality Australian property portfolio valued at $27.2 billion.

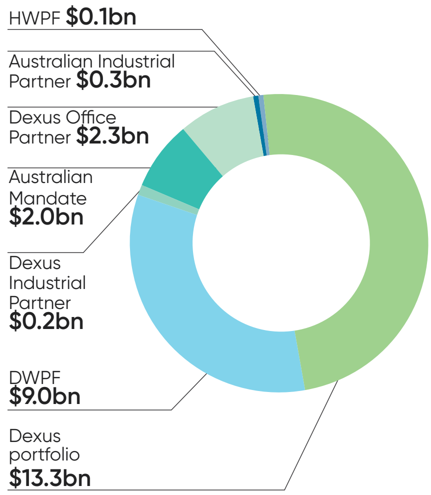
We believe the strength and quality of our relationships will be central to our success, and are deeply committed to working with our customers to provide spaces that engage and inspire.

The creation of sustained value is underpinned by our quality property portfolio, located across Australia's major cities. We are committed to playing a leading role in shaping Australian cities for the future as desirable places to live, work and play.

We invest only in Australia, and directly own $13.3 billion of office and industrial properties. We manage a further $13.9 billion of office, retail, industrial and healthcare properties for third party clients. The group's $4.2 billion development pipeline provides the opportunity to grow both portfolios and enhance future returns.

Dexus is a Top 50 entity by market capitalisation listed on the Australian Securities Exchange (trading code: DXS) and is supported by 27,000 investors from 20 countries. With more than 30 years of expertise in property, investment, development and asset management, we have a proven track record in capital and risk management and delivering superior risk adjusted returns for our investors.

> **"We are deeply committed to working with our customers to provide spaces that engage and inspire."**




**$27.2bn**
Total funds under management

**148**
Properties

**4.5m**
Square metres across the group

**427**
Engaged employees

**$9.9bn**
Market capitalisation

**Top 50**
Entity on ASX

# 10 years being listed as Dexus

**It has been 10 years since we fully internalised our management structure and started on the journey towards becoming one of Australia's leading property groups, today known as Dexus.**

Since acquiring the remaining 50% interest in DB RREEF Holdings from Deutsche Bank in 2008, we have built on our strong foundations to grow our group portfolio from $15.3 billion to $27.2 billion.

We continue to deliver superior risk-adjusted returns to our investors through investment in a high quality portfolio, predominantly comprising office buildings, and the management of a strongly performing funds management business. Our focus on active portfolio management, underpinned by a prudent and disciplined financial approach, has not changed.

Our strategy was revised in 2012 to build on our strengths of office ownership and funds management, while enhancing our position in the Australian property market. We divested our exposure to offshore properties and reinvested in high quality assets located in Australia's major cities, while at the same time growing and diversifying our funds management business to include new partnerships with global investors in the office, industrial and healthcare sectors.

Our approach to sustainability was further aligned with our overarching goal of delivering sustained value and is fully integrated into our daily business operations.

Our customer centric approach uses the insights and understanding of our customers, to provide market-leading solutions and services while refreshing our brand to further establish our customer connection. Today we have a diverse and inclusive corporate culture that reflects our customer base and delivers high performance outcomes.

## A decade of growth

| | 2008 | 2018 |
|---|---|---|
| **Investors** | 21,927 | 27,226 |
| **Funds under management** | | |
| Total FUM | $15.3bn | $27.2bn |
| Dexus | $8.9bn | $13.3bn |
| Third Party | $6.4bn | $13.9bn |
| **Sectors** | | |
| Office | $7.2bn | $18.1bn |
| Industrial | $4.4bn | $3.8bn |
| Retail | $3.6bn | $5.2bn |
| Healthcare | – | $0.1bn |
| **People** | 270 | 427 |
| **Market capitalisation** | $4.2bn | $9.9bn |

# Our Strategy

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

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

We have two strategic objectives that underpin this strategy:

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

Leadership in office is an aspiration that is supported by our scale. As the largest office owner and manager in Australia, we have scale that provides many advantages.

Our scale supports the generation of investment outperformance, through providing valuable customer insights and the opportunity to invest in people, systems and technologies that enhance our customers' experience. It also enhances our ability to find the ideal workspace solution for customers and generates cost efficiencies.

Our objectives of leadership in office and funds management partner of choice complement each other. Our success in the office sector has enabled Dexus to attract investment partners not just in office, but also in the industrial, and healthcare sectors, in turn providing the opportunity to drive investment performance for those clients.

| | | |
|---|---|---|
| **Vision** | To be globally recognised as Australia's leading real estate company | |
| **Strategy** | To deliver superior risk-adjusted returns for investors from high quality real estate in Australia's major cities | |
| **Strategic objectives** | **Leadership in office** | **Funds management partner of choice** |
| | Being the leading owner and manager of Australian office property | Being the wholesale partner of choice in Australian property |

## How our business creates value

Our strategy is underpinned by our business activities of developing, managing and transacting properties.

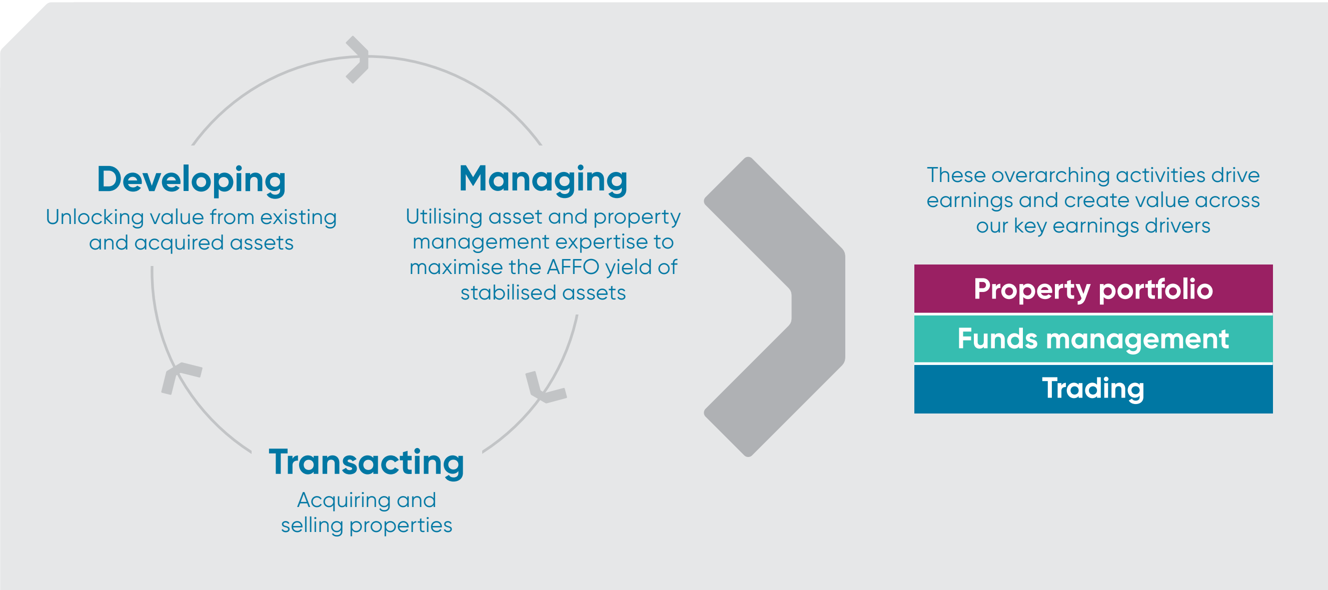
To generate superior risk-adjusted returns for investors it is necessary that for each asset we own or manage, we maximise cash flow and unlock value over the investment lifecycle.

We do this through applying our transactional, asset and property management expertise to drive earnings and create value across three areas of focus:

- **Property portfolio** – the largest driver of value and contains the Dexus office and industrial portfolios
- **Funds Management** – provides access to wholesale sources of capital and a steady annuity-style income stream
- **Trading** – packaging of investment opportunities to generate trading profits

### What sets Dexus apart?

- High performing, engaged and diverse workforce
- Quality real estate portfolio across key Australian cities
- Funds management business with access to diverse sources of capital
- Pipeline of development opportunities to create value over the long term
- Customer centric focus




## Long-term value creation

To support long-term value creation, we consider corporate responsibility and sustainability an integral part of our business activities. Our approach supports our strategy through the overarching goal of delivering sustained value for all stakeholders. The outcomes we seek to achieve are as follows:

| | |
|---|---|
| Leading Cities | Playing a leading role in shaping **Australia's cities** for the future as desirable places to work, live and play |
| Future Enabled Customers | Preparing **our customers** for the future through enabling enhanced productivity and supporting future growth |
| Strong Communities | Nurturing well-connected, prosperous and supported **communities** in and around our buildings |
| Thriving People | Enhancing the wellbeing of **our people** and those in our properties |
| Enriched Environment | Optimising the **environmental performance** and resilience of our buildings |

To learn more about our approach to managing these areas as well as our FY18 achievements and performance visit www.dexus.com/crsapproach

# Performance against strategy

## We achieved strong performance against our strategic objectives and key focus areas, delivering sustained value for Security holders.

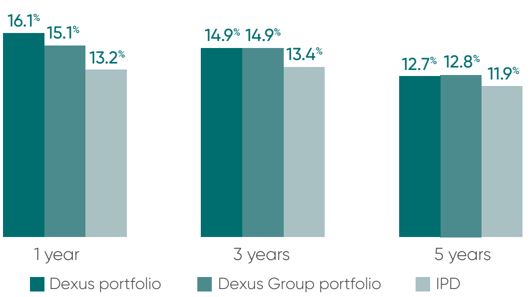
### Leadership in office

Dexus's owned and group office portfolios achieved IPD outperformance over the 1, 3 and 5 years to 31 March 2018. Supporting our strategic objective of leadership in office, leasing success enabled us to maintain high portfolio occupancy and lock in future income streams across the development pipeline. From a development perspective, two office projects were activated in Melbourne and Brisbane, and we successfully leased[1] 51% of the space at 240 St Georges Terrace in Perth, where development works commenced in July 2018.

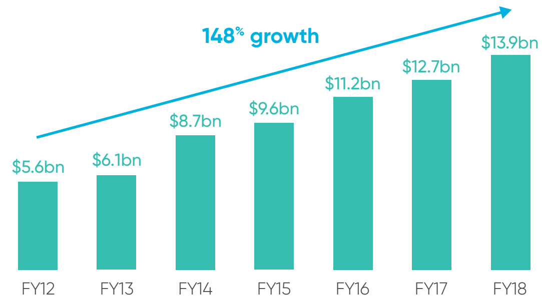
### Funds management partner of choice

Supporting our strategic objective of being the wholesale partner of choice in Australian property, we achieved strong performance for our wholesale investors and clients, with DWPF outperforming over 1, 3, 5, 7 and 10 year time periods. In addition, the first round equity raise for the Healthcare Wholesale Property Fund was completed. The $2.0 billion funds management development pipeline was progressed, and a number of transactions were undertaken to meet our clients' investment objectives.

**Dexus office portfolio performance vs IPD[2]**




**Third party funds under management**




We achieved strong outcomes across our key focus areas of Customer, People and Environment. These results assist us in fulfilling our strategic objectives and delivering sustained value for Security holders.

### Customer

Improved overall customer Net Promoter Score[3] to

**+32**

Improved customer satisfaction score to

**8.3/10**

### People

Improved employee engagement score to

**87%**

Workplace Gender Equality Agency recognised Dexus as an Employer of Choice for

**Gender equality**

### Environment

Achieved

**1st**

ranking in global listed office category and 3rd overall in the 2017 GRESB survey

Launched new goal to achieve

**Net Zero**

carbon emissions across the group's managed property portfolio by 2030

1. Including Heads of Agreement signed post 30 June 2018, with 57% of the impending Woodside vacancy now solved.
2. As at 31 March 2018.
3. Net Promoter Score (NPS) is calculated as the difference between the percentage of Promoters and Detractors. The NPS is expressed as an absolute number between -100 and +100.

## Creating value from earnings drivers

The FY18 contribution for our earnings drivers and outlook for FY19 is outlined below.

| Driver | FY18 contribution | FY19 outlook |
|---|---|---|
| **Property portfolio** | Property AFFO[1] of $568.7 million<br>4.5% office LFL income growth<br>3.0% industrial LFL income growth | 4–5% office LFL income growth<br>2.5–3.5% industrial LFL income growth |
| **Funds management** | FFO of $52.5 million | FFO broadly in line with FY18 |
| **Trading** | Trading profits of $36.6 million[2] from the sale of 105 Phillip Street and 140 George Street, Parramatta | Trading profits of $35–40 million[2] |

1. Adjusted funds from operations.
2. Net of tax.

# Chair and CEO review


In FY18, we performed well across all areas of the business, meeting or exceeding our financial and operational targets, while continuing to unlock opportunities to ensure that we create sustained value for our investors.

**In an era of emerging technologies, evolving cities and changing customer expectations, the business environment is rapidly changing and Dexus is well positioned for continued success.**

We are building on the strong foundations developed not only over the past decade since becoming Dexus, but over the past 34 years from the establishment of our first associated property trust.

In FY18, positive momentum across the business has further cemented the group's leading position in the Australian property market. Dexus is Australia's largest owner and manager of office property, with $27.2 billion in funds under management, of which $18.1 billion is invested in the office sector and the majority of our office portfolio located in the Sydney CBD.

We strive to deliver outstanding destinations and experiences for our customers and communities across Australia, while addressing the drivers of change in our market sectors. This year we achieved strong operational results across our core markets and activated new development projects, while further strengthening Dexus's balance sheet.

Our office portfolio has consistently outperformed the IPD office benchmark over 1, 3 and 5-year time periods, with our success underpinned by our customer focus and active management of the portfolio. Our funds management portfolio of $13.9 billion covers the office, industrial, retail and healthcare property sectors. Leveraging our multi-sector capabilities, we are delivering on our key strategic objectives of leadership in office and being the wholesale partner of choice.

## Positive momentum drives strong financial result

This year, net profit increased 36.8% to $1.73 billion supported by strong property valuation increases. The full year distribution of 47.8 cents per security reflects an increase of 5.1% on the prior year and exceeds the 4.5-5.0% guidance range that was tightened in February 2018 (from the original guidance of 4.0-5.0%). Underlying Funds from Operations per security, which excludes trading profits, increased 2.9%, highlighting the solid contribution from the property portfolio and funds management business.

The delivery of 3-5% growth in Adjusted Funds from Operations (AFFO) per security and an internal target for Return on Contributed Equity through the cycle, are key measures that drive long-term value creation for security holders. In FY18, we delivered AFFO per security growth of 5.1%, a Return on Contributed Equity of 7.6% and a Return on Equity of 19.8%.

At 30 June 2018, look-through gearing was 24.1%, below Dexus's target range of 30-40%. This position is a result of active divestment of properties over the past few years and provides the capacity to fund projects in Dexus's current and future development pipeline.

## Total Security holder Return

Dexus delivered a 7.5% total Security holder return for the year, underperforming the S&P/ASX 200 Property Accumulation (A-REIT) Index by 550 basis points, following a strong year of outperformance in FY17. Dexus continues to outperform the index over three, five and ten-year time periods.


* Annualised compound return

Source: UBS Australia as at 30 June 2018

## Growth from all key earnings drivers

Our business has been set up to deliver earnings growth through the cycle, and in FY18 each of the earnings drivers positively contributed to the result (refer to page 7).

Across our property portfolio, we achieved strong valuation increases of $1.2 billion, up 10.5% on prior book values. Our office and industrial portfolios delivered +4.5% and +3.0% like-for-like income growth respectively. Strong property returns were driven by rental growth from leasing, most notably at our properties in the buoyant Sydney market. In addition, leasing success was achieved at our development at 100 Mount Street in North Sydney (now 63% committed[1]) and 240 St Georges Terrace in Perth, where strong levels of enquiry converted to significant leasing (now 51% leased[1]) (refer to page 12).

In the funds management business, we now have 73 third party clients following the completion of the first equity raise for the Healthcare Wholesale Property Fund. The Fund is currently undertaking a second equity raise with active interest from a number of global and domestic investors. Dexus Wholesale Property Fund (DWPF) and other funds delivered strong performance and we continue to achieve our clients' objectives (refer to page 13).

In trading, we delivered $36.6 million in trading profits net of tax, realising our FY18 target. In addition, FY19 trading profits were de-risked through the announced sale of 32 Flinders Street, Melbourne (refer to page 13).

## Enhancing future returns

Activity across the development pipeline saw the commencement of office projects in Melbourne and Brisbane enabling Dexus to leverage our leasing and development expertise.

The group's $4.2 billion development pipeline provides opportunity to enhance future returns while growing the Dexus portfolio and the portfolios of our third party clients, which is an efficient use of capital at this time in the cycle. Leasing success in our core office markets provided us with the confidence to activate two quality office projects at 180 Flinders Street in Melbourne and the Annex project at 12 Creek Street in Brisbane. Dexus is also shortlisted or in an exclusive position on potential concept development opportunities valued at circa $2 billion (refer to page 12).

Post year end, Dexus entered into agreements to acquire three industrial development landbanks (one jointly with DWPF) enabling us to leverage our industrial development management and leasing capabilities to build out circa $700 million of new industrial properties.

We actively review the property portfolio in line with market conditions to determine the best performance for our investors and acquire properties where we can add value over the long-term while ensuring alignment with strategy. During FY18, we completed $2.0 billion of transactions for the Dexus portfolio and on behalf of our third party clients.


1. Includes Heads of Agreement signed post 30 June 2018.

# Chair and CEO review continued

"We are focused on creating sustained value and making decisions that future-proof the business."

## New energy, New opportunities

Our focus on sustainability continues to play a key role in delivering long-term value for our investors, and is integrated into everything we do. Each year we set ourselves measurable Corporate Responsibility & Sustainability commitments which we report against and encourage you to view our achievements in the 2018 Annual Reporting suite.

Dexus has an established track record in sustainability. We are globally recognised as having the most sustainable listed office portfolio and have been awarded for our management of environmental, social and governance principles, providing us with a strong foundation to improve upon into the future.

Over the past decade, we have been focused on energy efficiency as well as reducing the group's emissions and environmental footprint. This year, we launched our *"New energy, New opportunities"* strategy that sets a pathway for Dexus to achieve net zero emissions by 2030 through improving energy efficiency and increasing renewables. You can read more about this approach on page 17.

## Importance of strong governance

In a year that saw the financial services sector come under intense scrutiny, the importance of strong governance and corporate culture as well as long-term thinking have been brought into account. It has stressed the importance of having an open and inclusive culture and a Board focus on non-financial performance measures, even when things are going well. As a Board, we use our Board Committee structure to get closer to the detail and have regular access and dialogue with executives and employees at various levels across the group.

Our Board comprises seven non-executive directors and one executive director, following the appointment of The Hon. Nicola Roxon to the Board as an independent director, effective from 1 September 2017 and the resignation of Elizabeth Alexander at the Annual General Meeting on 24 October 2017 after more than 12 years of service.

This year we further enhanced the way we report the key activities undertaken by the Board and its respective committees (refer to pages 22-23). Further details relating to the Board and our governance practices are included on pages 18-21 and the Corporate Governance Statement is available at www.dexus.com/corporategovernance

## An engaged and diverse workforce

Our people and culture are key to delivering the group's strategy, and we believe that having an engaged and diverse workforce contributes to strong performance.

During the year, Dexus's employee engagement survey delivered a score of 87%, which is significantly above Willis Towers Watson's Australian National norm as well as above their Global Property and Asset Management norm. We have maintained long-term stability across our senior team and over the past 12 months, 26% of our role vacancies were filled internally, highlighting the capable, agile talent we have at Dexus.

The safety of our people and contractors is paramount. Safety performance metrics are now a measure in the Group Scorecard to ensure safety is front of mind. For our corporate activities, there were no serious incidents reported this year, and independent external safety audits achieved scores above target.

We believe the best thinking and outcomes are realised when a workforce is diverse and inclusive. Having achieved our initial gender diversity targets, this year, we set a new target of 40:40:20 to be reached by 30 June 2021. This means that we are aiming to achieve 40% female representation, 40% male representation and 20% of either male or female representation across senior manager roles and above. This target signals our ongoing commitment and progress towards gender equity and will widen our talent pool to strengthen Dexus's competitive edge while providing us with the flexibility to continue promotion based on merit.

"We strive to deliver outstanding destinations and experiences for our customers and communities across Australia."

**FY19 Guidance**

Deliver circa

# 5%

growth in distribution per security for the year.

## Outlook

Over the past six years, the combination of earnings from our properties, funds management business and trading profits have enabled us to deliver consistent growth in distributions, through a variety of market conditions.

Australian cities are expected to continue to benefit from global economic growth, population growth and considerable infrastructure construction activity over the next few years, which we believe will have a positive effect on demand for office and industrial space.

We are focused on creating sustained value and making decisions that future-proof our business. Being innovative, adopting new technologies and keeping abreast of customer needs are key to achieving this. Our development pipeline is a source of embedded long-term value, and the diversification of our funds management business sets us up for further expansion as superannuation and global fund flows continue to grow.

On behalf of the Board and management, we extend our thanks to all Dexus employees across Australia for their dedication and significant contribution in delivering this year's results. We thank our funds management clients and capital partners, in addition to our customers, for their ongoing support.

Importantly, we thank you, our investors, for your continued investment in Dexus.

**Richard Sheppard**
Chair

**Darren Steinberg**
Chief Executive Officer

# Strong foundations. Positive momentum.

**We have established strong foundations that have enabled us to constantly deliver on our strategy, and positive momentum across the business is enhancing our position for the future.**

### Shaping leading cities

The creation of value is underpinned by our quality property portfolio, located across Australia's major cities. We are committed to playing a leading role in shaping Australian cities for the future as desirable places to live, work and play. (refer to page 14)

### Connecting our customers and communities

With a growing customer base of more than 4,900 customers, we are using technologies and providing products and services which create better enabled workspaces to support our customers' growth and productivity goals. (refer to page 15)

### People, culture and systems

We invest heavily into developing our high performing workforce. This has involved embracing diversity and inclusion to achieve diversity of thought and innovative results. Our commitment to gender equality, and the benefits it brings to the group's performance, has been recognised both internally and externally to the group. (refer to page 16)

### Our pathway to net zero emissions

As the momentum continues towards secure, affordable and environmentally conscious energy, Dexus is acting on Australia's transition to a low carbon future. We believe now is the time to leverage the opportunities presented by evolving energy markets and new technologies and have set a goal to achieve a net zero position for carbon emissions across the group's managed property portfolio by 2030. (refer to page 17)

# Property portfolio

## Our office and industrial portfolios achieved strong total returns of 16.9% and 13.6% respectively. Both portfolios continue to outperform the IPD benchmarks over one and three year periods, with the office portfolio also outperforming over five years.

Across Dexus's office portfolio we leased 242,957 square metres of space, in addition to securing future income streams through leasing 52,589 square metres of space within development projects. Portfolio occupancy reduced marginally to 96% driven by the known departure of CBA at Sydney Olympic Park, providing opportunity for us to improve this position in FY19.

Our office portfolio recorded a $1.1 billion or 10.6% increase on prior book values, reflecting further capitalisation rate compression and increasing market rents. Strong leasing, increasing market rents and further capitalisation rate compression in the core industrial markets of South Sydney, Western Sydney and Western Melbourne led to an industrial valuation uplift of $141.9 million or 6.7% on prior book values.

Tenant activity and market dynamics have remained positive in all of our core office markets. Strong levels of enquiry in Perth have converted to significant leasing at 240 St Georges Terrace and Kings Square as tenants seek to upgrade to better quality buildings and centralise into the CBD.

Our industrial portfolio continues to benefit from an uptick in logistics and e-commerce demand, which contributed to the leasing of 192,116 square metres of space, driving an improvement in occupancy to 98.3%.

In FY19, we expect rental growth across all of our core office and industrial markets, in addition to continued investment demand for well leased Prime properties which will, in turn, support values.

### Progressing the development pipeline

We activated two office projects in Dexus's $2.2 billion development pipeline at 180 Flinders Street in the Melbourne CBD and 12 Creek Street – The Annex in Brisbane, and in July 2018, commenced development works at 240 St Georges Terrace in Perth. Dexus is also shortlisted or in an exclusive position on potential concept development opportunities valued at circa $2 billion.

The works at 240 St Georges Terrace include the creation of a new street entry, new end-of-trip facilities, and an improved retail offering. On-floor upgrades will commence from October 2018, prior to Woodside's lease expiry, with 57%[1] of the impending Woodside vacancy now solved.

Works also progressed at 100 Mount Street, North Sydney, where NBN Co. was secured as a new customer across 20,364 square metres. In aggregate, 50%[1] of the space is already committed at these four key office developments with completions scheduled over the next four years.

Our longer dated major development projects also progressed. In Sydney, we received stage 1 approval of the State Significant Development Application for the mixed-use development at 201 Elizabeth Street. In Brisbane, the Queensland Government endorsed Dexus's Waterfront Precinct proposal to progress to the next stage under the Market-Led-Proposal Program. The plan is to revitalise Brisbane's premier dining hub and create a traffic-free precinct that delivers a global-standard business address and tourist destination in the heart of the CBD.

Six industrial developments were completed, all of which were 100% leased. Construction continues over a further 67,200 square metres of industrial space in Greystanes and Laverton North, with 20% of the space pre-leased.

Post 30 June 2018, we replenished the industrial development pipeline through entering into agreements to acquire three industrial development sites in Melbourne, Sydney and Brisbane, one of which will be acquired jointly with DWPF. These developments have a combined end value of circa $700 million and will be built out over the next five to seven years. They provide the opportunity to leverage Dexus's extensive market knowledge, development and leasing capabilities and track record in each of these markets.

1. Includes Heads of Agreement signed post 30 June 2018.

### FY19 Focus

- Maintain office and industrial occupancy >95%
- Target like-for-like income growth in office of 4-5% and industrial of 2.5-3.5%
- Manage capital expenditure down to $155-165 million
- Selective forward leasing to manage expiry risk
- Capture upside in Sydney market

### Case Study

#### Enhancing value through active management

**At Sydney properties, 45 Clarence Street and 1 Farrer Place, Dexus has improved the customer offer, achieving strong leasing outcomes while enhancing the tenant mix.**

The number of tenants at 45 Clarence Street has increased from 30 in 2014 to 54 today, while over the same period the number of tenants at 1 Farrer Place increased from 63 to 108. The end-of-trip amenity at both properties has been enhanced and the on-floor lift lobbies and bathrooms at 45 Clarence Street refreshed, with a retail redevelopment currently underway at 1 Farrer Place.

An active management approach is reflected in the values of these properties. Since 2014, the value of 45 Clarence Street has increased by $186.7 million, with $90.3 million of this uplift occurring in the past 12 months. 1 Farrer Place has achieved $327.2 million[1] of valuation uplifts over the past four years, with $63.8 million[1] of this occurring in the past 12 months, and both increases driven mainly by rising market rents.

1. Dexus share.

# Funds management

## Our funds management business has grown by $1.2 billion to $13.9 billion through transactions, developments and strong revaluations.

All funds delivered strong performance, with Dexus Wholesale Property Fund delivering top quartile performance and a one year total return of 13.8%, outperforming its benchmark over all time periods. The Dexus Office Partnership delivered a one year unlevered total property return of 16.0%.

The first equity raise for the Healthcare Wholesale Property Fund was completed, the development of Calvary Adelaide Hospital progressed, and planning approval was received for the North Shore Health Hub in St Leonards.

We undertook $801 million[1] of transactions on behalf of our third party partners to fulfil their investment objectives. In addition to the acquisition of seed properties by the Healthcare Wholesale Property Fund, the Dexus Office Partnership acquired 140 George Street in Parramatta for $13.5 million and 56 Berry Street in North Sydney for $31 million. The Dexus Office Partnership also divested non-core properties at 11 Waymouth Street in Adelaide and 46 Colin Street in West Perth, accompanied by some other small divestments by DWPF.

### FY19 Focus

- Deliver fund performance
- Deliver on clients' investment objectives and match capital to opportunities
- Progress the launch of new unlisted funds or partnerships over the next 12-18 months

> "We continue to deliver strong performance for all of our clients and are progressing the funds management development pipeline which provides a source of organic growth."
>
> Deborah Coakley, Executive General Manager, Funds Management

1. Includes transactions settled or announced post 30 June 2017 as well as the acquisition of 11-167 Palm Springs Road, Ravenhall VIC, which was announced post 30 June 2018.

# Trading

## We achieved our FY18 trading profit target of $35-40 million, delivering $36.6 million net of tax from the sale of 105 Phillip Street and 140 George Street, both located in Parramatta.

The exchange of contracts to sell 32 Flinders Street, Melbourne has de-risked FY19 trading profits.

Progress was made at 12 Frederick Street, St Leonards (North Shore Health Hub) with Stage 1 planning approval received, in addition to the completion of a leasing expression of interest campaign which received strong interest from potential tenants.

> "We had another strong year in our trading business, achieving our target and de-risking FY19 trading profits."
>
> Ross Du Vernet, Chief Investment Officer

Since 2012 our value-add strategies have led to the sale of 12 properties identified for trading purposes, delivering an average unlevered IRR of circa 30% and $267 million in trading profits pre-tax to Dexus Security holders.

A total of six projects diversified across sectors and trading strategies have been earmarked to deliver trading profits of $260-280 million pre-tax in future years.

### FY19 Focus

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

# Shaping leading cities

## Dexus is positioned to benefit from continuing infrastructure investment, densification and growth within our major cities.

Dexus's office portfolio is concentrated in the key Central Business Districts (CBDs) of cities around Australia which are locations our customers favour for amenity, access and business influence. Dexus's future is closely aligned with the future of our cities.

As part of that future, both position and population are on our side. Australia has enjoyed more than 25 years of economic growth and is now benefiting from its proximity to, and connection with, growing Asian economies. As engines of economic activity, our cities are significant beneficiaries of this growth trajectory.

Population growth will also play an important role. Australia has one of the highest population growth rates in the developed world, and 75 per cent of this growth is forecast to take place in Sydney, Melbourne, Brisbane and Perth.

Over the past decade, Sydney and Melbourne added close to 800,000 and 1 million people respectively: each is projected to grow to populations of eight million people by 2056, comparable to the current size of Hong Kong, London or New York.

To accommodate this growth, change is on the horizon. Australia's city planners are now favouring higher density environments over urban sprawl. A shift to densification, will move people, businesses and capital closer to our CBDs, reinforcing them as dominant economic and employment centres.

Significant change like this requires the right infrastructure. Record levels of infrastructure development are underway across our major cities to ensure they are increasingly accessible and liveable for the population growth they are expected to experience.

Infrastructure aside, Australian cities are highly adaptive and are already evolving around this changing land use. Dexus is constantly reviewing its portfolio to realise opportunities that this presents.

Sydney's existing central city core is land constrained being only about one-quarter of the size of New York's Central Park.

In Sydney, we manage around 10 per cent of the developable land in the city's core, making us an owner and manager of a large and valuable land holding in the Sydney CBD. An investment in Dexus is an investment in cities.

> **"We are committed to playing a leading role in shaping Australian cities for the future as desirable places to live, work and play."**
>
> Darren Steinberg, Dexus Chief Executive Officer


### + Case Study

**Adapting to our evolving cities**

**With Australian cities just one third of their way through a 100-year cycle of urbanisation, Dexus is adapting to evolving cities by progressing mixed-use developments.**

**201 Elizabeth Street, Sydney**

The City of Sydney has approved removal of the existing office building and redevelopment into a 50-storey mixed-use hotel, retail and residential building overlooking Hyde Park.

Clever site planning will achieve a 50% reduction of the building's shadow cast on Hyde Park with no loss of building area.

There is also an opportunity to enhance the vibrancy of the precinct through new retail amenity.

As cities evolve, Dexus will continue to strengthen its capabilities to deliver mixed-use developments, in turn benefitting the wider community.

Leading Cities

To learn more about Dexus's focus in FY19 in playing a role in shaping Australia's cities for the future as desirable places to work and live, visit www.dexus.com

# Connecting our customers and communities

**Technology is impacting the way our customers work. Whether they are small businesses or major corporations, our customers want spaces that support productivity, collaboration and engagement.**

## + Case Study

### SuiteX – a new workspace offering

**SuiteX is the next step in evolving Dexus's suites strategy. This new workspace offer aims to satisfy the growing customer demand for flexibility by providing flexibility in both space and tenure.**

SuiteX occupies a whole floor at 44 Market Street, Sydney, where the space has been converted into ten flexible suites.

A unique modular design with demountable inter-tenancy walls, combined with flexible lease terms starting from as short as six months, allow customers to quickly expand or consolidate as needed.

Customers also have access to shared facilities including meeting rooms, quiet rooms and a fully equipped kitchen.

SuiteX enables our customers to align their space needs with their business needs, providing a quality workspace which does not require the need for a long-term commitment. It's a natural extension of Dexus's focus on partnering with customers throughout each step of their property journey.

> **"We believe the workplace should be a strategic lever for organisations to unlock potential. It's through this lens that we seek to support our customers to be the best they can be by providing better enabled environments."**
>
> Kevin George, Dexus Executive General Manager, Office & Industrial

We believe technological advancement brings opportunities and we see this as a chance to further support our customers in their growth and productivity goals.

Our approach, which puts our customers first, helps businesses create more connected workspaces with a better work-life experience.

### Building in Wellness

A truly sustainable building not only addresses the environmental impact, but also the social impact on its community. That's why Wellness is an important inclusion in our customer offer.

In our buildings, we consider the health, wellbeing and experience of our customers as a way of impacting organisational culture, engagement and productivity. Embracing Wellness enables us to attract and retain high quality customers and maximise financial performance through lower vacancy rates and higher rents.

Continuing to build on our momentum in this area, this year we introduced *Wellplace* to our customers. *Wellplace* provides a suite of health and wellbeing services and amenities within our buildings that can be accessed across our building community portals. This includes integrating fitness into office life by providing quality end of trip facilities, including bicycle storage and group fitness, yoga and pilates classes.

wellplace

### Creating communities that go beyond the physical space

A 'smart building' provides solutions that improve the occupants' quality of life not simply through gadgets or smart devices, but by using carefully selected, efficient and flexible technology. When used well, a building's technology can both support and connect all of its occupants.

We are embedding sophisticated technologies into the fabric of our buildings to not only future proof their performance by improving their quality and long-term appeal, but to create smart buildings of the future.

Our smart building blueprint will be rolled out at 100 Mount Street, North Sydney, where we are implementing more than 15 innovative technologies to deliver a better customer experience, optimising workforce productivity and wellbeing, and improving the building's sustainability performance.

Our smart building solutions aim to provide advanced connectivity, including whole building cellular coverage which is future enabled for the arrival of the 5G network. Data captured through sensors aims to provide rich insights into building performance and enable our customers to tailor their experience by controlling their workspace heating and cooling, or to understand how their space is being used to optimise their own workspace design.

The benefits of new technologies for our customers are wide ranging. In our smart buildings, customers will not only be able to enhance the productivity, wellbeing and safety of their employees, they will reduce energy consumption; all advantages that our customers can use to attract and retain talent.

Future Enabled Customers

Strong Communities

To learn more about Dexus's FY19 focus to prepare our customers for the future, while nurturing well-connected, prosperous and supported communities, visit www.dexus.com

# People, culture and systems

## Underpinning Dexus's performance is our engaged, talented and diverse workforce.

In the decade since Dexus internalised its management, we have spent time developing our high performing, multi-disciplined workforce to deliver performance for our investors and capital partners.

We believe that a diverse and inclusive workforce fosters diversity of thought and innovative results, and we have invested in programs and policies that support this goal.

It's a move that has been commended both inside and outside the business. In recognition of our commitment to gender equality and the benefits it brings, Dexus was this year awarded an Employer of Choice for Gender Equality citation by the Workplace Gender Equality Agency (WGEA).

Our achievements include gender pay equity in like-for-like roles, flexible working embedded and utilised across the business, and continuation of superannuation payments to primary carers throughout their leave period to close the superannuation retirement gender gap.

Since reaching our initial gender diversity target of 33% female representation for senior leaders, we have set a new three-year 40:40:20 (40% men, 40% women, 20% either) target for senior management roles. Our Board remains gender diverse with 38% of our directors being female.

Our commitment to diversity extends across our recruitment, retention, promotions, succession planning and training and development practices. We also provide our leaders and managers with the tools to remove unconscious bias, an important aspect of our journey to create a more inclusive culture.

We are proud of our corporate culture and engaged workforce. Our employee surveys reveal a high engagement score of 87%. Our workforce is also connected to the group's strategy and focused on sustainable performance outcomes.

We see this commitment at all levels of the organisation. Our people and culture strategy has led to an engaged stable management team that is delivering consistent business results. We are also building the next generation of leaders with ongoing internal career mobility, leadership development and training opportunities.

### Strengthening our systems

To support our people, we are investing in systems and processes that will define how we operate as a business, which includes a new enterprise platform designed to enhance the efficiency of our day-to-day operations. Reducing the operational demands on our people will enable them to spend more time and focus on the customer. This platform will set up Dexus for the future, creating a foundation for operational excellence, improving our customer experience and supporting the delivery of our strategy.

**"Achieving gender equality is important for many reasons. Yes, it is 'fair' and 'the right thing to do', but it's also linked to performance. Our commitment in this area enhances our reputation, improves our culture and allows us to attract and retain talented employees."**

Alison Harrop, Dexus Chief Financial Officer

### + Case Study

#### Fathers at work

**Leading programs that support working parents help Dexus attract and retain the best talent.**

In Australian workplaces, it remains uncommon for fathers to take primary carers leave, with 70% back at work within two weeks of the birth of their child.

Recognising that parental leave is a valuable experience for both women and men, Dexus introduced its 'Dexus Dads' program supporting fathers who take primary carers leave through networking opportunities with fellow working fathers.

The program has been embraced by new fathers at Dexus and had a positive impact on the take-up of primary carers leave amongst men who now comprise almost 20% of the primary carers at Dexus, up from zero participation in 2016. Dexus Dads have reported that they were able to enjoy a rewarding carer's experience, while gaining a new appreciation for the challenges of caring for a newborn.

Thriving People

To learn more about Dexus's FY19 focus on enhancing the wellbeing of our people and those in our buildings, visit www.dexus.com

# Our pathway to Net Zero emissions

## New energy, New opportunities. Dexus is preparing for the future.

**"Building on our track record of achieving strong environmental outcomes over the past decade, we are creating a pathway to net zero emissions through our approach to new energy and smart buildings."**

Darren Steinberg, Dexus Chief Executive Officer

### Case Study

#### Setting a new benchmark for energy ratings

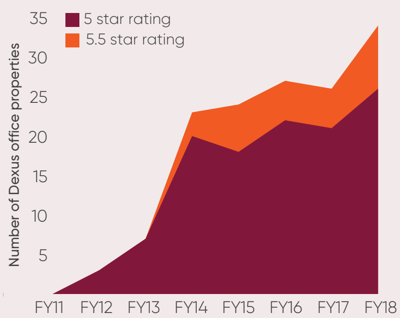
**Dexus is driving the next phase of energy efficiency through a targeted building refurbishment program to optimise energy performance, reduce costs and deliver an enhanced customer experience.**

Our 'virtual engineering' analytics platform identifies areas for optimisation, and together with strategic partnerships, has resulted in improvements to the NABERS Energy ratings across 15 Dexus office buildings.

As a result, we are well progressed on our target of delivering 1,000,000 square metres to a minimum 5 star NABERS Energy rating across the group's office portfolio by 2020.

A number of properties have achieved a 5.5 star NABERS Energy rating, including 14 Lee Street in Sydney and Waterfront Place in Brisbane where the building management control systems and central chiller plants have been upgraded, fully integrating sustainability initiatives to realise maximum efficiency and operational cost savings from the projects.

**Office NABERS Energy rating improvements[1]**




1. Ratings exclude GreenPower

We believe it is time to leverage the opportunities presented by rapidly evolving energy markets and ground breaking new technologies. Now is the time to adopt a long-term solution which secures sustainable, affordable energy for our efficient, intelligent and integrated property portfolio.

With these developments, we have set a goal to achieve a net zero position for all carbon emissions across the group's managed property portfolio by 2030.

Net zero means that on balance, our base building operations will produce zero carbon emissions by 2030.

Why net zero? Not only is it the right thing to do, but it builds resilience into our portfolio and brings other real benefits to a wide variety of stakeholders. The direct beneficiaries of our *New energy, New opportunities* approach are our customers, and the cities and communities in which we operate.

We have long proven that setting bold group targets leads to the best outcomes. Applying the NABERS ratings system, we benchmark the energy efficiency, water usage, waste management and indoor environment quality of our buildings and tenancies to measure their environmental impact.

Since 2009, we have set and achieved each progressive target for NABERS Energy rating improvements and energy reduction. We are well on our way to achieving our current target to deliver 1,000,000 square metres of office space with a 5 stars NABERS Energy rating or above by 2020, which currently stands at 892,000 square metres.

How will we get there? Net zero will be achieved through continuing improvement in energy efficiency and transitioning our portfolio to operate from renewable energy.

The carbon emissions under our operational control are mostly from electricity. Reducing emissions starts with improving efficiency, an outcome we will achieve by embracing new technologies and creating smarter buildings where nothing is wasted (refer to page 15). Our goal is to reduce our energy use by up to 50% by 2030, setting the standard for the future of energy efficient workplaces.

Transitioning to renewable energy will see Dexus looking for new ways to generate, and smarter ways to purchase, electricity. As new technology advances, costs will reduce, while power purchase agreements will allow us to minimise risk and provide certainty for our customers in a volatile national energy market.

We have been working on this goal for some time, incorporating renewable energy, virtual engineering analytics and high efficiency plant upgrades into our operations. We are ready to leverage new opportunities from emerging technologies in addition to forward thinking to respond to our customers' needs, today and tomorrow.

Not only will our net zero commitment enable us to deliver on the expectations of our customers and investors – many of whom are keen for us to limit the climate change impacts of our properties – but Dexus will be making a positive contribution to a sustainable future for all Australians.

Enriched Environment

To learn more about Dexus's FY19 focus on optimising the environmental performance and resilience of our buildings, visit www.dexus.com

# Governance

## Good corporate governance is the foundation for the long-term success of the group, and the achievement of Dexus's strategy is underpinned by a strong governance platform.

The Dexus Board and Group Management Committee are committed to excellence in corporate governance and aspire to the highest standards of conduct and disclosure. To support this aspiration, Dexus has embedded a set of well-defined policies and processes that enhance corporate performance and protect the interests of all key stakeholders.

The Board regularly reviews its corporate governance policies and processes to ensure they are appropriate and meet governance standards and regulatory requirements. For the 2018 financial year, the group's governance practices complied with the latest ASX Corporate Governance Council's Corporate Governance Principles and Recommendations. Further details are set out in the Corporate Governance Statement, which outlines key aspects of Dexus's corporate governance framework and practices, which is available at www.dexus.com/corporategovernance

### Board of Directors

The Board comprises a majority of Independent Directors with all directors other than the CEO being Independent Non-Executive Directors. The Board currently comprises seven Independent Non-Executive Directors and one Executive Director.

The Board renewal process over the past several years has produced a strong Board of Directors with a broad and diverse skill set. The Board has determined that, along with individual director performance, diversity is integral to a well-functioning board.

The members of the Board of Directors and the relevant business and management experience the Directors bring to the Board is detailed on pages 20-21 and available at www.dexus.com/corporategovernance

### The Dexus Board and Board Committee membership

| Director | Board | Audit Committee | Risk Committee | People & Remuneration Committee | Nomination Committee |
|---|---|---|---|---|---|
| Richard Sheppard | Chair and member | | | Member | Chair and member |
| Darren Steinberg | Member | | | | |
| Penny Bingham-Hall | Member | | Member | Chair and member | Member |
| John Conde | Member | Member | | | Member |
| Tonianne Dwyer | Member | Member | Chair and member | | |
| Mark Ford | Member | Member | Member | | |
| The Hon. Nicola Roxon | Member | | Member | Member | |
| Peter St George | Member | Chair and member | Member | | |

Chair and member   Member

## Board skills and experience

The Board has determined the skills, expertise and experience required as a collective to ensure diversity of thought and vigorous debate on key decisions. The collective experience of the current directors has been outlined against the categories in the table below and the Board has determined that the current composition of the Board meets or exceeds the minimum requirements in each category.

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

# Board of Directors


From L to R: Tonianne Dwyer, The Hon. Nicola Roxon, John Conde, Richard Sheppard, Darren Steinberg, Mark Ford, Penny Bingham-Hall, Peter St George

## Richard Sheppard

Chair and Independent Director
BEc Hons, FAICD

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

Richard brings to the Dexus Board extensive experience in banking and finance sector and as a director and Chairman of listed and unlisted property trusts. Richard was formerly Managing Director and Chief Executive Officer of Macquarie Bank Limited.

## Penny Bingham-Hall

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

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

Penny has broad industry experience including business strategy and planning, corporate affairs, investor relations and governance across construction, property and infrastructure development. Penny was formerly Executive General Manager, Strategy of Leighton Holdings Limited.

## John Conde

Independent Director
BSc, BE (Hons), MBA, FAICD

John Conde is an Independent Director of Dexus Funds Management Limited and Dexus Wholesale Property Limited and a member of the Board Audit Committee and Board Nomination Committee.

John brings to the Board extensive experience across diverse sectors including commerce, industry and government and was previously Chair of Bupa Australia and New Zealand.

## Tonianne Dwyer

Independent Director
BJuris (Hons), LLB (Hons)

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

Tonianne brings to the Board significant experience as a company director and executive working in listed property, funds management and corporate strategy across a variety of international markets. Tonianne was previously a Director of Quintain Estates and Development – a listed United Kingdom property company.

### Mark Ford

Independent Director
Dip. Tech (Commerce), CA, FAICD

Mark Ford is an Independent Director of Dexus Funds Management Limited and a member of the Board Audit Committee and Board Risk Committee.

Mark has extensive property industry experience and has been involved in real estate funds management for over 25 years. Mark was previously Managing Director, Head of DB Real Estate Australia managing more than $10 billion in property funds.

### Peter St George

Independent Director
CA(SA), MBA

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

Peter has more than 20 years' experience in senior corporate advisory and finance roles within NatWest Markets and Hill Samuel & Co in London. Peter was previously Chief Executive/Co-Chief Executive Officer of Salomon Smith Barney Australia/NatWest Markets Australia.

### The Hon. Nicola Roxon

Independent Director
BA/LLB (Hons), GAICD

Nicola Roxon is an Independent Director of Dexus Funds Management Limited and a member of the Board People & Remuneration Committee and Board Risk Committee.

Nicola has more than 20 years' experience in the public sector and significant expertise in highly regulated consumer industries, professional services and the not-for-profit sector. She has deep industry knowledge of the health, government and professional service sector acquired in positions including Federal Attorney General, Federal Minister for Health and Ageing, and Industrial Lawyer and Advocate at Maurice Blackburn and the National Union of Workers.

### Darren Steinberg

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

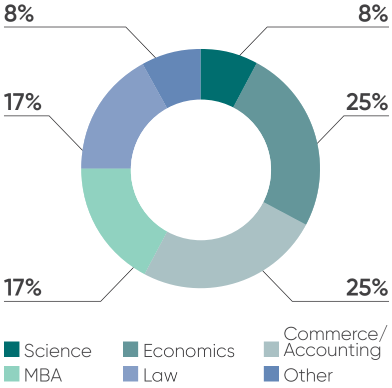
Darren Steinberg is the CEO of Dexus and an Executive Director of Dexus Funds Management Limited.

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

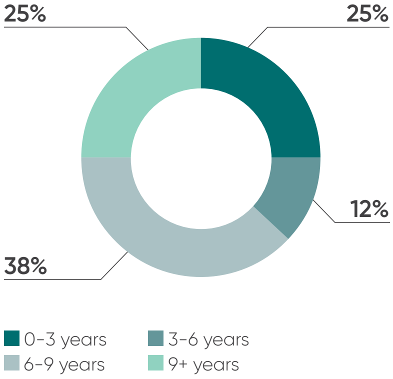
Darren is a Director and former National President of the Property Council of Australia, a Fellow of the Australian Institute of Company Directors, Royal Institution of Chartered Surveyors and the Australian Property Institute. He is also a founding member of Property Male Champions of Change.

## Board composition

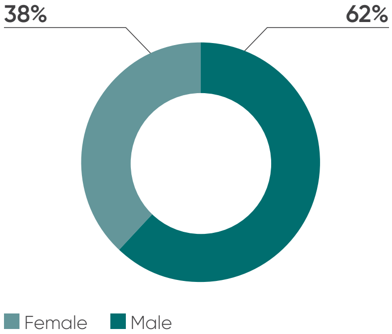
### Professional qualifications




### Board tenure




### Board gender diversity



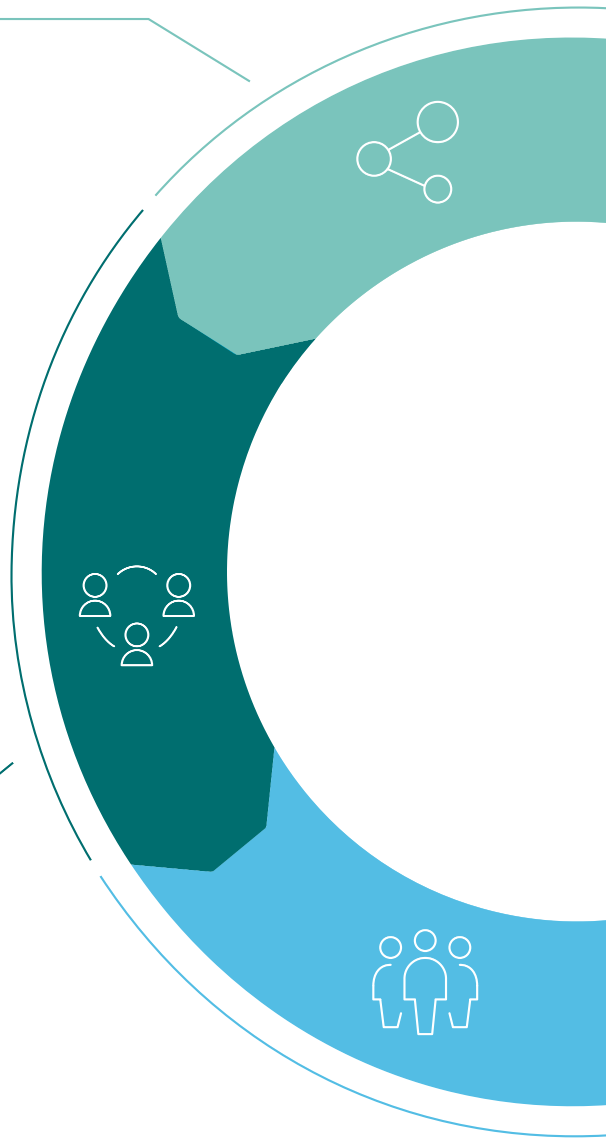
# Board activities across the year

## Our Board plays an active role in key decisions that affect the implementation of Dexus's strategy.

The following identifies the key areas of activity for the Board and its respective Board Committees during FY18.

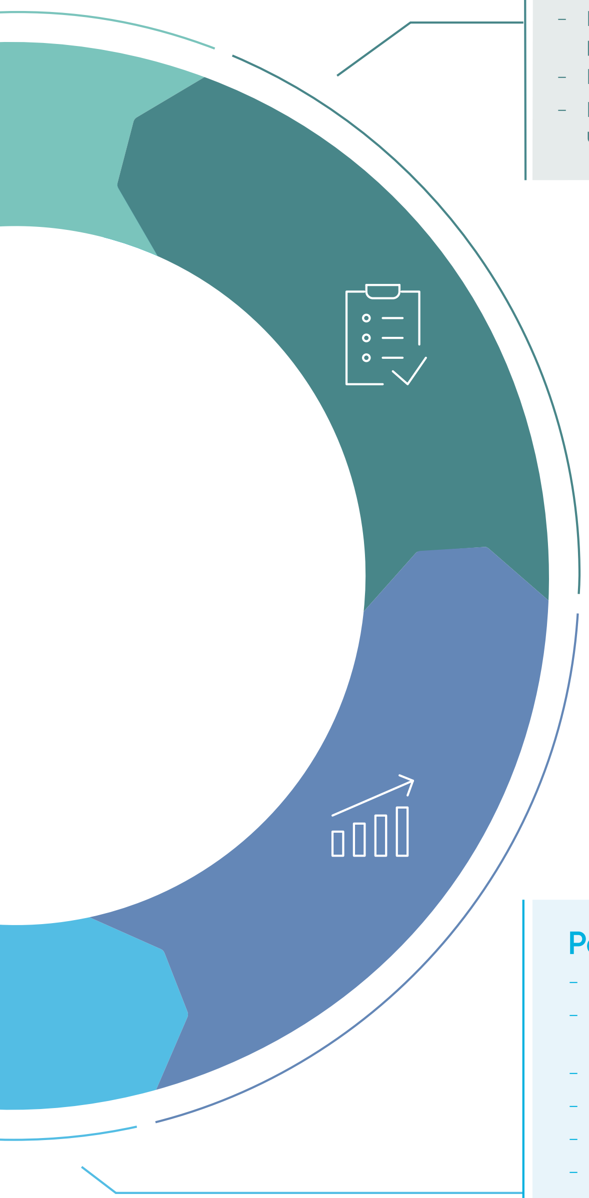
### Strategy, transactions and developments

- Reviewed Dexus's strategy and endorsed areas of focus for FY19
- Considered and approved the Dexus property portfolio Investment Plan
- Considered and approved the establishment of the Healthcare Wholesale Property Fund
- Considered and approved the development projects at 180 Flinders Street, Melbourne, The Annex at 12 Creek Street, Brisbane and 11 Talavera Road, Macquarie Park, subject to tenant pre-commitment
- Considered and approved the acquisitions of 56 Berry Street, North Sydney (DXS 50%), 586 Wickham Street, Fortitude Valley, and three industrial landbanks
- Considered and approved the divestment of 11 Waymouth Street, Adelaide (DXS 50%)
- Considered and approved the divestment of 140 George Street, Parramatta to the Dexus Office Partnership
- Reviewed the performance of key acquisitions or developments against Board approved metrics
- Considered and discussed mega-trends impacting the real estate sector



### Governance, customers, investors and the environment

- Approved changes to membership of the Board People and Remuneration Committee, Board Nomination Committee, Board Audit Committee and Board Risk Committee
- Reviewed the annual customer survey results
- Reviewed and approved the Corporate Governance Statement
- Met with proxy advisers and key investors in Sydney and Melbourne
- Reviewed and considered institutional investor perception studies and opportunities for improvement
- Reviewed and discussed the APRA report released in May 2018 and the proposed ASX Listing Rule changes to be implemented on 1 July 2019
- Approved the appointment of the Hon. Nicola Roxon to the Dexus Board
- Discussed the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) report
- Reviewed and endorsed the group's *New energy, New opportunities* strategy to achieve net zero emissions by 2030



## Risk management

- The Board Risk Committee and Group Management Committee (GMC) reviewed, considered and revised Dexus's top key risks via an externally facilitated strategic risk workshop
- Reviewed and approved the Risk Management Framework including the implementation of Risk Appetite Statements
- Held discussions with the Auditors without management present
- Reviewed and considered the results of externally facilitated internal audits and associated actions for improvement
- Undertook a variety of site visits and met with operational staff
- Reviewed and considered external reports on facade cladding and appropriate action plans for assets requiring remediation
- Discussed cyber-security, terrorism and security risks
- Reviewed learnings from externally facilitated crisis management planning exercise undertaken by Dexus senior managers

## Financial performance

- Considered, approved and at the half-year, tightened Dexus's FY18 market guidance to the higher end of the previously stated guidance range
- Approved the distribution per security payment amount for HY18 and FY18
- Reviewed and approved the independent external property valuations for HY18 and FY18
- Considered the financial performance of the business and approved the Three Year Financial Business Plan
- Reviewed and considered the Audit Report for 2018
- Considered and approved the issuance of US Private Placement notes in October 2017
- Reviewed and considered the three year Funding Plan, Treasury policy and liquidity of the group
- Reviewed and approved the results materials including the financial statements, Annual Report, ASX release and investor presentation

## People and Leadership

- Reviewed and discussed the results of the group employee engagement survey
- Undertook regular engagement, discussions and monitoring to reinforce an appropriate risk culture across the group
- Approved a minimum security holding guideline for members of the GMC
- Approved the new 40:40:20 by 2021 gender diversity target
- Reviewed and considered succession planning for GMC and other key roles
- Monitored gender pay parity
- Considered and discussed the Board and Committee composition, succession and renewal planning
- Undertook and discussed the outcomes of an internal Board evaluation and effectiveness review and associated actions
- Reviewed and considered Dexus's risk culture framework and reporting
- Reviewed and discussed scorecards, KPIs, performance and remuneration outcomes for the group and GMC

# Directors' Report

## Remuneration Report

We are pleased to share our remuneration report which focuses on our remuneration strategy and outcomes, in addition to our people and culture highlights for the financial year ending 30 June 2018.

This year, Dexus delivered strong results across all key financial metrics and achieved sustained performance improvements across non-financial areas including the customer net promoter score, safety, employee engagement and environmental sustainability.

At Dexus, we also focus on building a great workplace and corporate culture to support our business strategy and ensure that decisions contribute to sustainable long-term returns. To drive genuine diversity of thought and experience across the group, we launched a new gender diversity target of 40% female representation, 40% male representation and 20% either male or female representation across senior manager roles and above, to be reached by 30 June 2021.

To achieve alignment of interests with our security holders and strengthen engagement within Dexus, our remuneration structure includes deferral of an equity component of the short-term incentive (STI) over 1 and 2 years and long-term incentives (LTI) vesting over 3 and 4 years. And from FY19, we have established a new guideline that will result in Executive Key Management Personnel (KMP) being required to maintain a minimum DXS security holding equivalent to 150% of fixed remuneration for the CEO and 75% of fixed remuneration for other executive KMP.

In FY18, remuneration benchmarking across A-REIT competitors and other companies highlighted that fixed remuneration and the maximum potential opportunity for LTI at Dexus was below our market comparators of similar size and complexity. The Board has agreed to increase the maximum available LTI, delivered as Performance Rights, to ensure that the total remuneration opportunity remains competitive.

In FY18, STI outcomes across the balanced scorecard for KMP were above target, resulting in STIs being awarded to KMP at an average 86% of their maximum potential. All of the four performance hurdles for the LTI plans that vested during FY18 were achieved in full as determined by the Board.

There are no changes proposed to Non-Executive Director remuneration for FY19.

As a Board we continue to set incentive targets which reflect our focus on delivering superior risk adjusted returns for investors and sustained performance over the long term. We also monitor the Dexus culture to ensure that behaviours reflect our values and that decisions are made in the best interests of all stakeholders.

**Penny Bingham-Hall**
Chair – People and Remuneration Committee

The report has been prepared and audited in accordance with section 308(3C) of the *Corporations Act 2001*.

**This Remuneration Report forms part of the Directors' Report and outlines the remuneration framework and outcomes for Key Management Personnel (KMP) for FY18.**

The main objective of the People and Remuneration Committee (PRC) is to assist the Board in fulfilling its responsibilities by developing the remuneration strategy, framework and policies for Non-Executive Directors, Executive KMP and the Group Management Committee (GMC), for Board approval.

**During FY18 the Committee**

- Reviewed and validated the group's risk culture framework and metrics
- Monitored the staff engagement survey approach and results
- Reviewed and approved performance objectives and Key Performance Indicators for the CEO, KMP and other executives
- Reviewed company performance against business objectives and strategic goals
- Revised the diversity and inclusion strategy introducing a new gender diversity target of 40:40:20 by 2021
- Reviewed executive and key talent assessments for succession planning and talent management
- Introduced a new GMC minimum security holding guideline
- Undertook remuneration benchmarking for the CEO, KMP and other executives

**During FY19 the Committee will focus on**

- Monitoring talent and leadership development programs
- Monitoring culture metrics and outcomes
- Refreshing the group's diversity and inclusion strategy
- Monitoring and assessing group, CEO, KMP and other executives' performance
- Reviewing and approving the group balanced scorecard
- Continuing to monitor the Company's executive remuneration to support the business strategy

CONTENTS



# 1. Introduction

## 1.1 Key Management Personnel

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

They comprise:

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

**Executive Directors and other Executives considered KMP are referred to collectively as "Executive KMP" in this report. The below outlines KMP of the group during FY17 and FY18. There have been no changes to KMP since the end of the reporting period.**

| Independent Non-Executive Directors | KMP FY17 | KMP FY18 |
|---|---|---|
| **W Richard Sheppard**<br>Non-Executive Chair | ✔ | ✔ |
| **Elizabeth A Alexander AM**<br>Non-Executive Director | ✔ | To 24 October 2017 |
| **Penny Bingham-Hall**<br>Non-Executive Director | ✔ | ✔ |
| **John C Conde AO**<br>Non-Executive Director | ✔ | ✔ |
| **Tonianne Dwyer**<br>Non-Executive Director | ✔ | ✔ |
| **Mark H Ford**<br>Non-Executive Director | From 1 November 2016 | ✔ |
| **Nicola Roxon**<br>Non-Executive Director | ✗ | From 1 September 2017 |
| **Peter B St George**<br>Non-Executive Director | ✔ | ✔ |
| **Executive Directors** | | |
| **Darren J Steinberg**<br>Executive Director and Chief Executive Officer | ✔ | ✔ |
| **Craig D Mitchell**<br>Executive Director and Chief Operating Officer | To 15 July 2016 | ✗ |
| **Other Executives** | | |
| **Alison C Harrop**<br>Chief Financial Officer | ✔ | ✔ |
| **Ross G Du Vernet**<br>Chief Investment Officer | ✔ | ✔ |
| **Kevin L George**<br>Executive General Manager, Office & Industrial | ✔ | ✔ |
| **Deborah C Coakley**<br>Executive General Manager, Funds Management | ✔ | ✔ |

Directors' Report

# 2. Remuneration strategy and governance

## 2.1 Our remuneration strategy

### Our Vision
To be globally recognised as Australia's leading real estate company

### Our Strategy
To deliver superior risk-adjusted returns for investors from high quality real estate in Australia's major cities

### Our Remuneration Strategy
To attract, retain and motivate the best people to drive a great culture that delivers on our business strategy and contributes to sustainable long-term returns

### Remuneration principles

**Culture**
We align reward to our strong risk, high performance, diverse and inclusive culture

**Alignment to performance**
We reward for performance aligned with our business strategy

**Market competitive**
We position reward opportunity to attract and retain the best talent

**Sustainable**
We balance our financial and non-financial priorities

**Simple and Transparent**
We keep it simple and set clear expectations

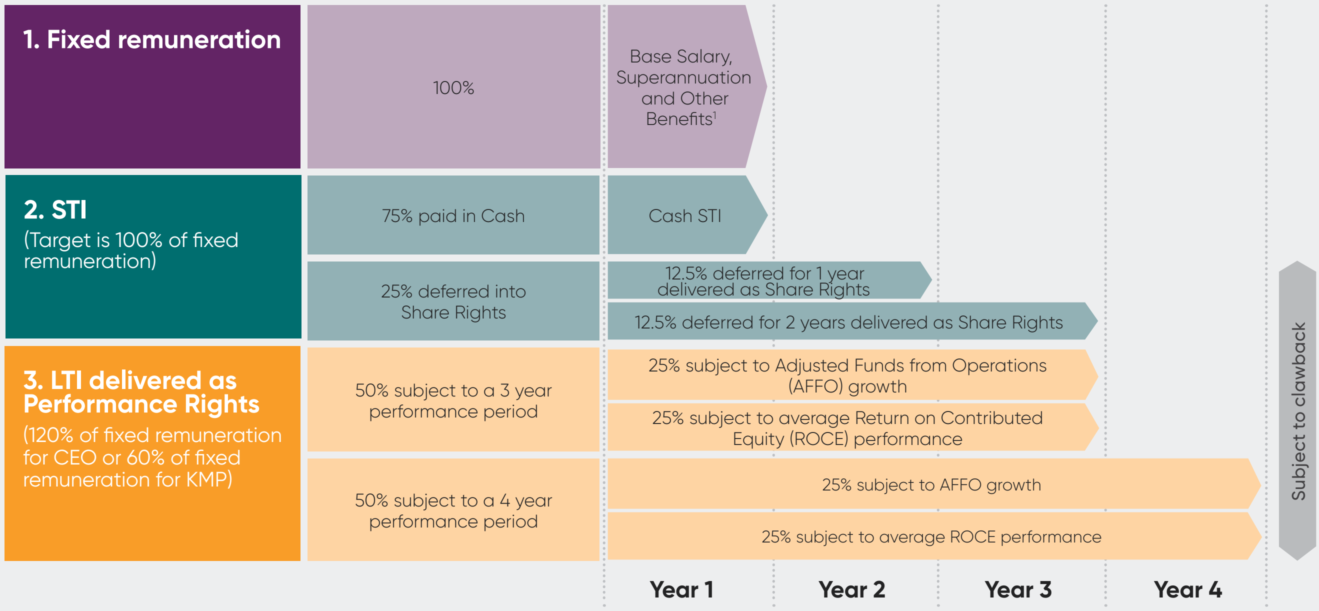
| Executive Remuneration Components | Fixed Remuneration | Short-Term Incentive | Long-Term Incentive |
|---|---|---|---|
| Purpose | Attract and retain executives with the capability and experience to deliver our strategy. | Reward for performance against annual objectives and key performance indicators (KPIs). | Align performance focus with the long-term business strategy to drive sustained earnings and security holder returns. |
| Link to performance | Motivation to drive a great culture and deliver on the business strategy. | Strategic annual objectives embedded in each executive's personalised scorecard of KPIs. | Performance hurdles are set by the Board over three and four year periods to deliver sustained security holder value. |
| Performance measures | Significant position accountabilities that support the execution of the business strategy. | Group financial, customer, culture, environment, risk, safety and other strategic objectives. | 50% AFFO growth[1]<br>50% ROCE[1] |
| Alignment | Attract and retain the best people. | Reward year-on-year performance achieved in a balanced and sustainable manner. | Encourage sustainable, long-term value creation. |
| Delivery | Competitive market based fixed remuneration.<br>(Base Salary and Statutory Superannuation). | Annual cash payment (75%)<br>Deferred Rights (25%)[2]: 12.5% 1 year; 12.5% 2 years | Performance Rights[3] with allocation calculated at Face Value<br>50% 3 years; 50% 4 years |

1. LTI grants prior to the 2016 Grant had the following four performance conditions: Funds from Operations (FFO) growth, average Return on Equity (ROE) relative ROE, relative Total Security holder Return (TSR). Adjusted Funds from Operations (AFFO) was introduced in 2015 and Return on Contributed Equity (ROCE) was introduced in 2016.
2. The deferred component is subject to clawback and requires continued employment during the vesting period.
3. There is no re-testing and the LTI is subject to forfeiture if: (1) performance conditions are not met, (2) the Executive terminates within 12 months of the grant date or (3) the Executive voluntarily resigns or is terminated for cause prior to vesting.

## 2.2 Remuneration delivery and mix

The Executive KMP remuneration mix is structured so that a substantial portion of remuneration is delivered as Dexus securities through either deferred STI or LTI. The total remuneration opportunity is positioned at the top quartile for outperformance. The following diagram (which is not to scale) sets out the remuneration structure and delivery timing for Executive KMP.

**Remuneration delivery**

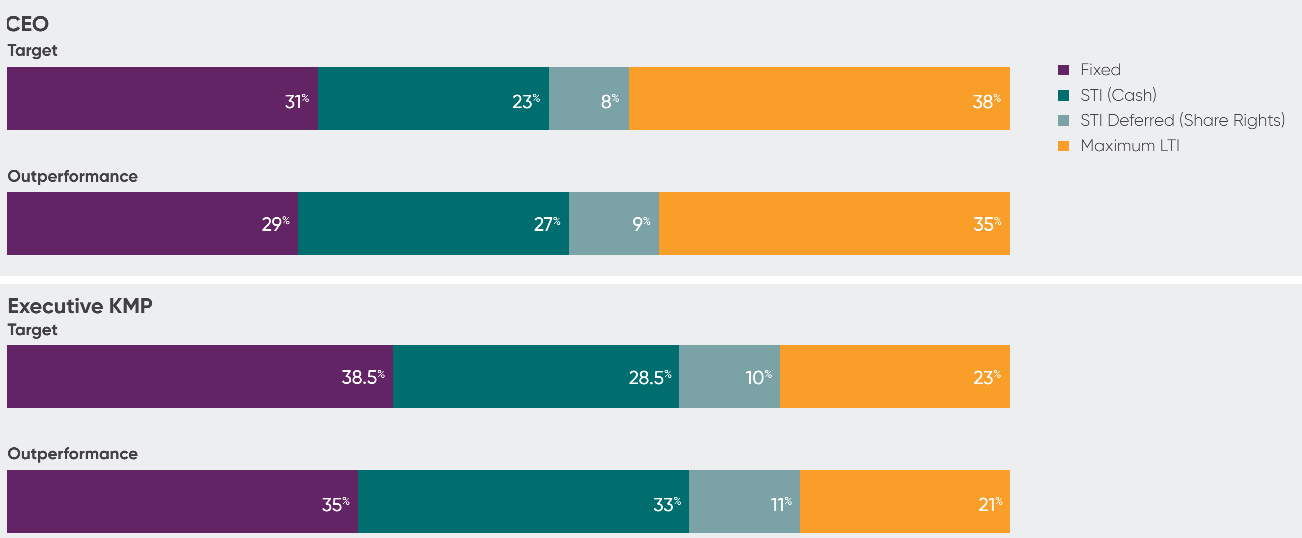



1. Other Benefits comprise wellbeing and insurance arrangements provided to all employees. These benefits do not flow into the STI and LTI calculations.

**Remuneration mix**

The remuneration components for each KMP are expressed as a percentage of total remuneration, with the STI value varied to reflect target performance (100% of target amount) and outperformance (125% of target amount).

The following diagram sets out the remuneration structure for Executive KMP.



## 2.3 Changes for FY19

### Executive remuneration

#### Fixed remuneration

In FY18, the PRC undertook executive remuneration benchmarking across A-REIT competitors and similar size companies. Total remuneration was found to be below our market comparators of similar size and complexity. To ensure the total remuneration opportunity remains competitive, the Board approved an average increase of 6.5% to Executive KMP (excluding the CEO) fixed remuneration for FY19. In FY19 there is no fixed remuneration increase for the CEO.

#### Long-term incentive (LTI)

The remuneration benchmarking across A-REIT competitors and similar sized companies highlighted that the maximum LTI opportunity at Dexus was below the market. The Board has agreed to increase the maximum LTI opportunity from 120% to 150% of fixed remuneration for the CEO[1] and from 60% to 75% of fixed remuneration for other KMP. The Board believes the change will improve the market competitiveness of our remuneration offering.

### GMC minimum security holding guidelines

#### Introduction of a minimum security holding guideline

The introduction of this guideline requires the Chief Executive Officer (CEO), and members of Dexus's Group Management Committee (GMC), to build and maintain a holding of Dexus securities within 5 years. This guideline was introduced on 1 July 2018.

Minimum value of security holding as a percentage of fixed remuneration:

**CEO = 150%** **KMP = 75%** **Non-KMP = 50%**

## 2.4 Securities Trading Policy

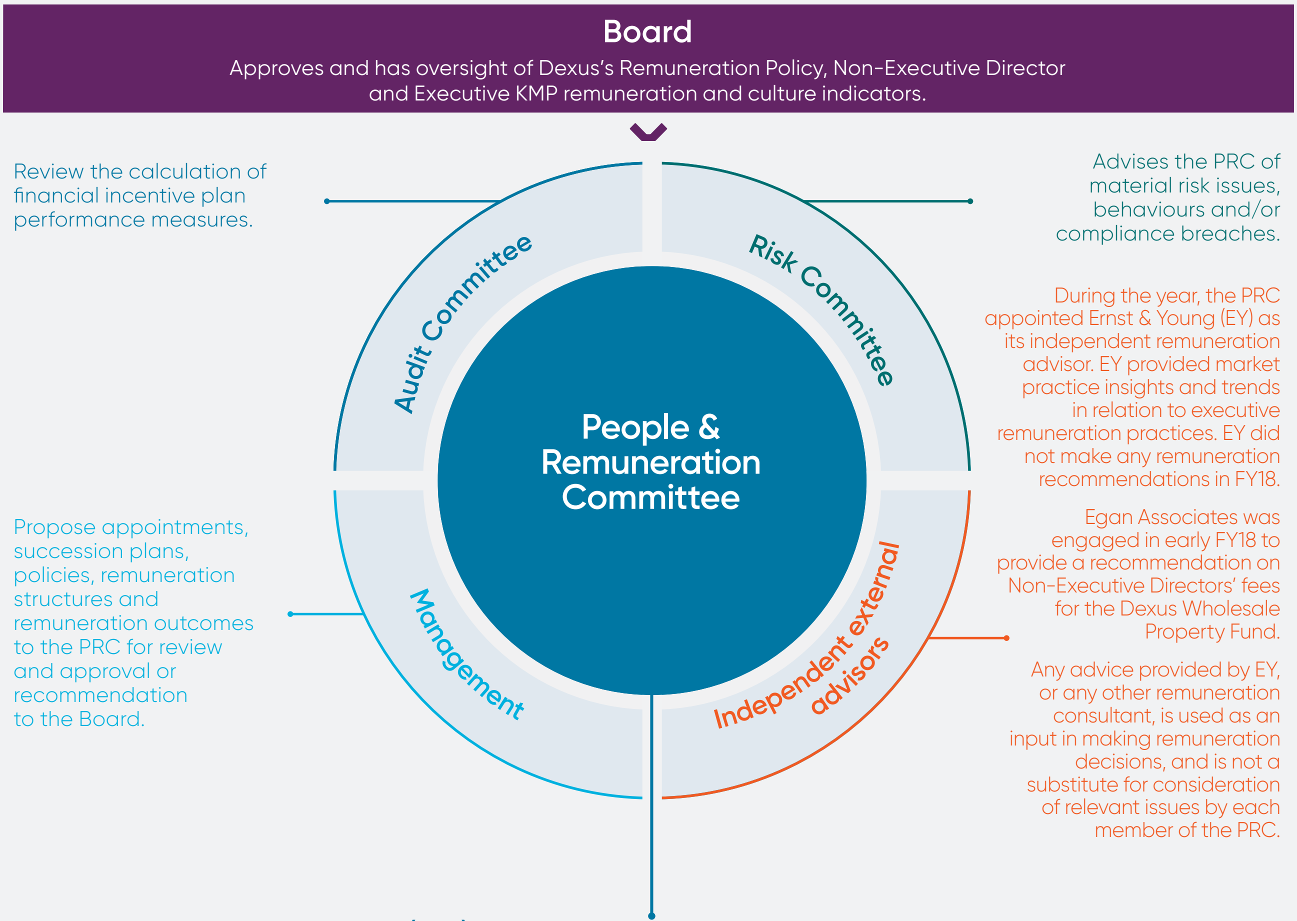
The Securities Trading Policy provides guidance to Directors, Employees (including Key Management Personnel), Contractors and Associates for ongoing compliance with legal obligations relating to trading or investing in financial products managed by Dexus.

The Policy prohibits employees from trading in financial products while they are in possession of Inside Information (non-public price sensitive information) and hedging their exposure to unvested DXS securities. Trading in DXS securities or related products is only permitted with the permission of the CEO.

The group also has Conflict of Interest and Insider Trading policies in place which extend to family members and associates of employees.

1. Subject to approval at the 2018 Annual General Meeting.

## 2.5 Remuneration governance




### People & Remuneration Committee (PRC)

The PRC is responsible for developing the remuneration strategy, framework and policies for Non-Executive Directors, Executive KMP and the Group Management Committee (GMC) for Board approval.

The responsibilities of the PRC are outlined in the PRC's Terms of Reference available at www.dexus.com/remuneration-committee, which is reviewed and approved annually by the Board. The primary accountabilities of the PRC are:

- Reviewing and recommending to the Board for approval Dexus's Remuneration Policy, which applies to Executive KMP, GMC members and all other Dexus employees
- Reviewing and approving the annual performance objectives of the CEO and GMC members
- Recommending to the Board for approval CEO and GMC members' remuneration and incentive payments
- Reviewing and approving aggregate fixed remuneration changes and annual incentive payments for all Dexus employees
- Reviewing and recommending to the Board for approval the Code of Conduct and Diversity Principles
- Reviewing and approving processes for talent assessment, development and succession planning
- Reviewing processes and metrics for measuring culture

### Members

The PRC comprises of three independent Non-Executive Directors: Penny Bingham-Hall (Chair), Nicola Roxon and Richard Sheppard. PRC members have experience in remuneration, leadership, human resources, risk management and compliance which enables effective oversight and governance of Dexus's remuneration framework. The PRC Chair, Penny Bingham-Hall, and Nicola Roxon are also members of the Board Risk Committee.

### Meetings

The PRC is required to meet at least three times per year. In FY18, the PRC met five times to discuss and review remuneration and people-related matters.

Accurate and complete Committee papers are provided to all PRC members prior to meetings to enable timely, considered and effective decision making. The PRC may request additional information from management or external advisors where required.

The PRC uses a range of inputs when assessing Executive KMP performance and determining remuneration outcomes.

- Financial performance is measured using audited financial measures
- Management provide detailed examples of how non-financial outcomes have been achieved
- Demonstration of the Dexus values and behaviours is considered
- External remuneration benchmarking is provided by independent external advisors

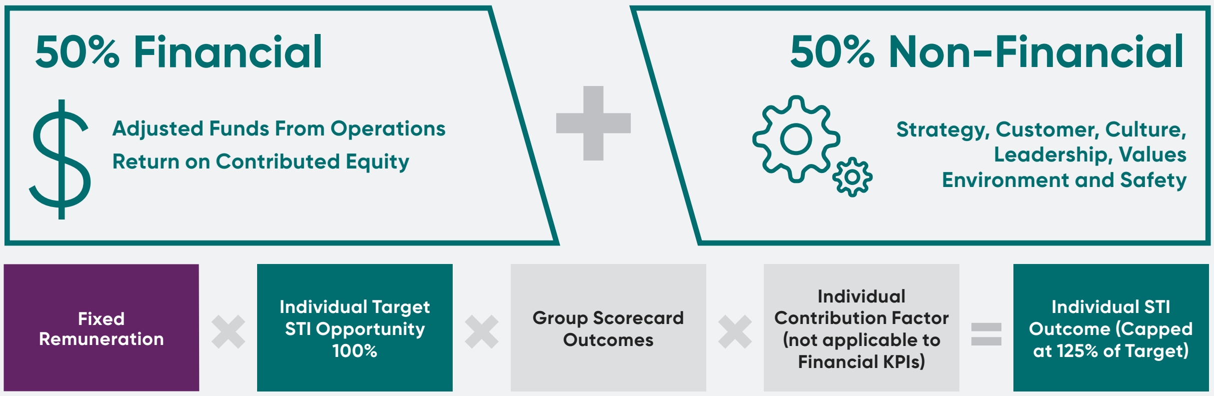
Under certain circumstances the PRC and Board may adjust proposed remuneration outcomes or clawback Rights issued under the Dexus LTI or STI Plans.

# 3. Remuneration structure

## 3.1 How performance translates into STI outcomes

**The STI plan is aligned to security holder interests by:**

- Encouraging executives to achieve year-on-year performance in a balanced and sustainable manner (i.e. through a mix of financial and non-financial performance measures)
- Mandatory deferral of 25% of each STI award into Rights acting as a retention mechanism




Each Executive KMP is awarded an individual STI outcome between zero and 125% of their target. Scores are based on group performance and individual contribution.

## STI plan structure

**How much of the STI award is deferred?**

25% of any award under the STI plan is deferred in the form of Rights to DXS securities.

The rights vest in two equal tranches, 1 and 2 years after being granted. Rights deferred under the STI plan are subject to clawback and continued employment during the vesting period.

The number of Rights awarded is based on 25% of the awarded STI value divided by the volume weighted average price (VWAP) of DXS securities 10 trading days either side of the first trading day of the new financial year.

The remaining 75% of any award is paid in cash in August following the announcement of the group's annual results.

DXS securities are purchased on market to satisfy the performance rights for the STI plan.

**Are distributions paid on unvested Rights awarded under the STI plan?**

For the portion of STI deferred as Rights, participants are entitled to the benefit of distributions paid on the underlying DXS securities prior to vesting, through the issue of additional Rights at the time of vesting.

**When are STI awards forfeited?**

Forfeiture will occur should the participant's employment terminate within 6 months of the grant date for any reason, or if the participant voluntarily resigns or is terminated for cause prior to the vesting date.

Notwithstanding the above, if a participant's employment is terminated for reasons such as retirement, redundancy, reorganisation, change in control or other unforeseen circumstances, the People & Remuneration Committee may recommend to the Board that the executive should remain in the plan as a 'good leaver'.

## 3.2 How performance translates into LTI outcomes

**The LTI plan is aligned to security holders' interests in the following ways:**

- **Encourages executives to make sustainable business decisions within the Board-approved strategy of the group**
- **Aligns the financial interests of executives participating in the LTI Plan with security holders through exposure to DXS securities**

The Board sets the performance conditions for the LTI plan on an annual basis. The two performance conditions under the LTI plan are Adjusted Funds From Operations (AFFO) per security growth (implied)[1] and average Return on Contributed Equity (ROCE). The ROCE calculation excludes the impact of asset revaluations. These performance conditions were selected to align the plan outcomes with commercial long-term performance that is within the executive's ability to influence.

AFFO per security growth and average ROCE performance hurdles are set by the Board and are in line with Dexus's target range through the cycle. Both the AFFO per security growth and average ROCE performance targets will be disclosed retrospectively at the end of the performance period. The group does not publish details of the hurdles prior to the testing of the first tranche at the end of the first performance period (year 3), as this would result in the disclosure of commercially sensitive information in connection with the group's forecasts.

### Adjusted Funds From Operations (AFFO)

**50% of the award is subject to performance against the group's AFFO growth per security hurdle**

AFFO is a key measure of growth and is calculated in line with the Property Council of Australia (PCA) definition. AFFO is Funds From Operations (FFO) as per the PCA's definition adjusted for maintenance capex, incentives (including rent free incentives) given to tenants during the period and other one-off items.

AFFO growth is measured as the implied[1] compound annual growth rate (CAGR) of the aggregate AFFO earnings per security over both the three and four year vesting periods.

### Return on Contributed Equity (ROCE)

**50% of the award is subject to performance against the group's average ROCE performance hurdle**

ROCE represents the annualised average rate of return to security holders, calculated as a percentage, comprising AFFO together with the net tangible asset impact from completed developments, divided by the average contributed equity during the period.

ROCE is measured as the per annum average at the respective conclusion of the three and four year vesting periods.

**Vesting under both the AFFO growth and average ROCE measures are on a sliding scale per security against performance conditions set by the Board.**

| Performance | Vesting Outcome |
|---|---|
| Below Target performance | Nil vesting |
| Target performance | 50% vesting |
| Between Target and Outperformance | Straight line vesting |
| Outperformance | 100% vesting |

## LTI plan structure

**How is the number of Performance Rights determined?**

The number of Performance Rights granted is the participant's LTI grant value (based on a percentage of fixed remuneration) divided by the VWAP of DXS securities ten trading days either side of the first trading day of the new financial year. The methodology computes grants based on 'face value' rather than 'fair value'.

The maximum LTI opportunity is set at 120% of fixed remuneration for the CEO, 60% for other Executive KMP and 36% for other participants. In FY19 the maximum LTI opportunity will increase to 150% of fixed remuneration for the CEO and 75% for Executive KMP.

**Do participants receive distributions on unvested LTI awards?**

Participants are not entitled to distributions paid on underlying DXS securities during the performance period prior to Performance Rights being tested for vesting.

**When are LTI awards forfeited?**

If the performance conditions are not met, Performance Rights relating to that tranche will be forfeited. There is no retesting of forfeited Rights. Performance rights are subject to clawback at the discretion of the Board.

Additionally, forfeiture will occur should the participant's employment terminate within 12 months of the grant date for any reason, or if the participant voluntarily resigns or is terminated for cause prior to the vesting date.

Notwithstanding the above, if a participant's employment is terminated for reasons such as retirement, redundancy, reorganisation, change in control or other unforeseen circumstances, the People & Remuneration Committee may recommend for approval by the Board that the participant remain in the plan as a 'good leaver'.

**How is the LTI plan administered?**

The administration of the LTI plan is supported by the LTI plan rules.

DXS securities are purchased on market (for all participants including the CEO) to satisfy the performance rights for the LTI plan.

The Board retains the right to amend, suspend or cancel the LTI plan at any time.

1. The implied compound annual growth rate refers to the nominal growth per annum that is required to achieve the target AFFO earnings per security over the vesting period.

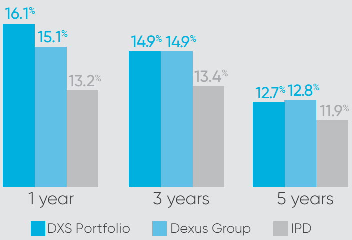
# 4. FY18 Dexus performance highlights

| Five year performance | | FY18 | FY17 | FY16 | FY15 | FY14 |
|---|---|---|---|---|---|---|
| Funds From Operations (FFO) | ($m) | **653.3** | 617.7 | 610.8 | 544.5 | 446.6 |
| Adjusted Funds From Operations (AFFO) | ($m) | **485.5** | 439.7 | 413.9 | 369.8 | 310.7 |
| Net Profit After Tax | ($m) | **1,728.9** | 1,264.2 | 1,259.8 | 618.7 | 406.6 |
| AFFO per security | (cents) | **47.7** | 45.4 | 42.7 | 40.4 | 37.9[6] |
| Distribution per security | (cents) | **47.8** | 45.47 | 43.51 | 41.04 | 37.56[6] |
| Return on Equity (ROE) | (%) | **19.8** | 18.2 | 19.3 | 11.5 | 6.7 |
| Return on Contributed Equity (ROCE) | (%) | **7.6** | 7.6 | n/a | n/a | n/a |
| Closing Dexus security price | ($) | **9.71** | 9.48 | 9.02 | 7.30 | 6.66[6] |
| NTA per security | ($) | **9.64** | 8.45 | 7.53 | 6.68 | 6.36[6] |
| Gearing (look-through) | (%) | **24.1** | 26.7[1] | 30.7 | 28.5 | 33.7 |
| Customer satisfaction score | (/10) | **8.3** | 8.0 | 8.0 | 7.9 | 7.7 |
| Females in senior management roles | (%) | **35** | 33 | 29 | 26 | 26 |
| Listed office portfolio average NABERS Energy rating | (stars) | **4.9** | 4.8 | 4.8 | 4.7 | 4.6 |

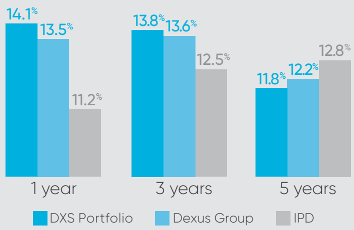
**87%**

**Employee engagement score[2]**

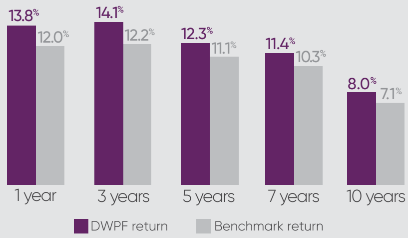
### Dexus Office portfolio performance vs IPD[3]




### Dexus Industrial portfolio performance vs IPD[3]




### Dexus Wholesale Property Fund performance[4]

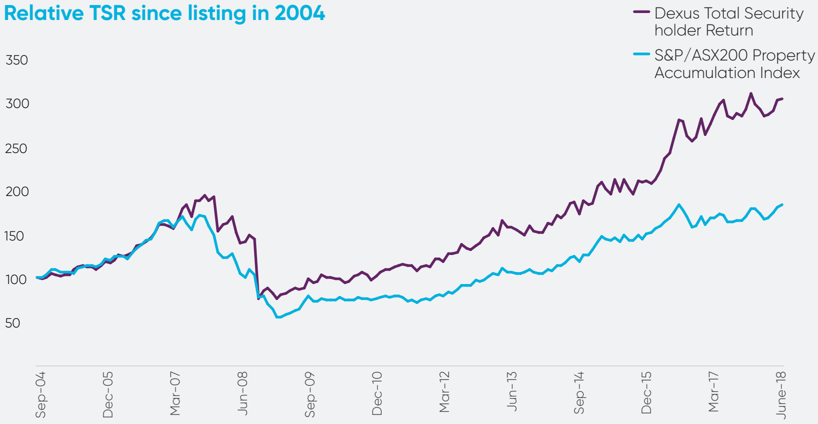



### Total Security holder return (TSR)

| | 1 Year | 3 Years* | 5 Years* | 10 Years* |
|---|---|---|---|---|
| Dexus | 7.5% p.a. | 15.5% p.a. | 14.4% p.a. | 8.4% p.a. |
| S&P/ASX 200 Property Accumulation Index | 13.0% p.a. | 9.7% p.a. | 12.0% p.a. | 6.0% p.a. |

Source: UBS Australia as at June 2018. *Annual compound returns.

### Relative TSR since listing in 2004




Source: UBS Australia for year to 30 June 2018.

**Distribution and AFFO per security growth**

**5.1%**

**Return on Contributed Equity**

**7.6%**

**Customer Net Promoter Score[5]**

**+32**

**Progressed minimum 5 star NABERS Energy rating across**

**89%**

**of the office portfolio towards target of 1,000,000 sqm by 2020**

1. FY17 pro forma gearing is adjusted for post 30 June 2017 acquisitions.
2. Employee engagement score maintained top quartile performance.
3. As at 31 March 2018.
4. As at 30 June 2018.
5. The Net Promoter Score (NPS) is calculated as the difference between the percentage of Promoters and Detractors. The NPS is not expressed as a percentage but as an absolute number between -100 and +100.
6. In November 2014, Dexus completed a one-for-six security consolidation and this number has been adjusted to reflect this.

## 5. FY18 CEO performance

The below summarises the CEO's performance relative to the FY18 CEO performance scorecard.

**Key:** Culture | Alignment to performance | Market competitive | Sustainable | Simple and transparent

| Strategic objectives | Remuneration principle | CEO weighting | Result | Performance detail |
|---|---|---|---|---|
| **Financial performance** | | | | |
| **Group Financial Performance**<br>- Adjusted Funds from Operations (AFFO) growth<br>- Return on Contributed Equity (ROCE)<br>- Return on Equity (ROE) | | 50% | Outperformance<br>Below Target Above | - AFFO per security growth = 5.1%<br>- ROCE = 7.6%<br>- ROE = 19.8% |
| **Non-Financial performance** | | | | |
| **Leadership in Office**<br>- Outperform 3 and 5-year Property Fund Index (IPD) returns<br>- Improve office customer Net Promoter Score (NPS)<br>- Develop workspace capabilities<br>- Introduce new customers to the platform | | 15% | Target<br>Below Target Above | - Dexus and group office portfolios outperformed IPD over 1, 3 and 5-year time periods<br>- Office customer NPS increased from +31 to +33<br>- Developed workspace capability plan<br>- Launched 5 new customer initiatives<br>- Added more than 220 new customers to the platform |
| **Funds Management Partner of Choice**<br>- Outperform 3 and 5-year benchmarks<br>- Launch and achieve targets for Healthcare Fund | | 15% | Target<br>Below Target Above | - All funds performed strongly with DWPF achieving top quartile performance<br>- Completed first round equity raising for Healthcare Wholesale Property Fund<br>- Planning underway that will see the launch of new unlisted funds or partnerships over the next 12-18 months |
| **Customer, Culture and Environment**<br>- Increase brand recognition<br>- Improve culture and engagement indicators<br>- Improve overall customer NPS<br>- Maintain strong investor relationships<br>- Increase Corporate Responsibility & Sustainability awareness and rankings in industry surveys | | 7.5% | Outperformance<br>Below Target Above | - Increased brand perception and recognition<br>- Improved employee engagement score to 87% from 84%<br>- Increased overall customer NPS to +32 from +31<br>- Maintained strong investor perception ratings<br>- Achieved 1st ranking in global listed office category and 3rd overall in 2017 GRESB survey<br>- Launched new goal to reach Net Zero emissions by 2030 |
| **Safety**<br>- Provide a safe work environment with zero fatalities<br>- Safety audit score above 85% | | 5% | Target<br>Below Target Above | - Improved safety culture across the group<br>- Zero fatalities<br>- Achieved an average safety audit score of 97% |
| **Values and behaviours**<br>- Role model values, leadership behaviours, collaboration and inclusiveness | | 7.5% | Outperformance<br>Below Target Above | - Led internal initiatives focused on leadership development and culture<br>- Recognition through citations including WGEA Employer of Choice for Gender Equality 2018<br>- Achieved gender diversity targets and established new 40:40:20 target<br>- Achieved gender pay equity in like-for-like roles |

# 6. Remuneration outcomes

## 6.1 STI awards for FY18 performance

The STI awards made to each Executive KMP with respect to their performance during the year ended 30 June 2018 are provided below. The 75% cash component will be paid in August 2018 following the approval of statutory accounts and announcement of the group's annual results. This payment will form a part of the FY19 cash earnings for Executive KMP.

| Executive KMP | STI target % of fixed remuneration | STI max % of fixed remuneration | STI award ($) | % of target STI awarded | % of maximum STI awarded | % of maximum STI forfeited | % of STI award deferred |
|---|---|---|---|---|---|---|---|
| Darren J Steinberg | 100% | 125% | 1,840,000 | 115% | 92% | 8% | 25% |
| Ross G Du Vernet | 100% | 125% | 770,000 | 110% | 88% | 12% | 25% |
| Kevin L George | 100% | 125% | 735,000 | 105% | 84% | 16% | 25% |
| Alison C Harrop | 100% | 125% | 708,750 | 105% | 84% | 16% | 25% |
| Deborah C Coakley | 100% | 125% | 603,750 | 105% | 84% | 16% | 25% |

## 6.2 Deferred STI and LTI grants

The number of Rights granted to Executive KMP is determined by dividing the Deferred STI value and LTI grant value by the VWAP of DXS securities ten trading days either side of 1 July 2018, which was $9.87759. The minimum value of the grant is nil if the performance conditions are not met. The maximum value is based on the estimated fair value calculated at the time of grant and amortised in accordance with the accounting standard requirements.

The below details the number of Rights granted to Executive KMP on 1 July 2018 under the Deferred STI and LTI plans.

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

| Executive KMP | Plan name | Maximum Award as a % of fixed remuneration | Performance measure | Number of Rights granted | Fair value per performance right $[1] | Maximum total value of grant $[2] | 1st Vesting date 50% | 2nd Vesting date 50% |
|---|---|---|---|---|---|---|---|---|
| Darren J Steinberg | Deferred STI | 25% | Nil | 46,570 | 9.88 | 459,999 | 1 July 2019 | 1 July 2020 |
| | LTI | 150% | AFFO | 121,487 | 8.18[1] | 993,764 | 1 July 2021 | 1 July 2022 |
| | | | ROCE | 121,487 | | 993,764 | | |
| Ross G Du Vernet | Deferred STI | 25% | Nil | 19,488 | 9.88 | 192,494 | 1 July 2019 | 1 July 2020 |
| | LTI | 75% | AFFO | 28,473 | 8.18[1] | 232,909 | 1 July 2021 | 1 July 2022 |
| | | | ROCE | 28,473 | | 232,909 | | |
| Kevin L George | Deferred STI | 25% | Nil | 18,602 | 9.88 | 183,743 | 1 July 2019 | 1 July 2020 |
| | LTI | 75% | AFFO | 28,473 | 8.18[1] | 232,909 | 1 July 2021 | 1 July 2022 |
| | | | ROCE | 28.473 | | 232,909 | | |
| Alison C Harrop | Deferred STI | 25% | Nil | 17,938 | 9.88 | 177,184 | 1 July 2019 | 1 July 2020 |
| | LTI | 75% | AFFO | 27,524 | 8.18[1] | 225,146 | 1 July 2021 | 1 July 2022 |
| | | | ROCE | 27,524 | | 225,146 | | |
| Deborah C Coakley | Deferred STI | 25% | Nil | 15,280 | 9.88 | 150,930 | 1 July 2019 | 1 July 2020 |
| | LTI | 75% | AFFO | 22,778 | 8.18[1] | 186,324 | 1 July 2021 | 1 July 2022 |
| | | | ROCE | 22,778 | | 186,324 | | |

1. Fair value for the Deferred STI reflects the number of rights multiplied by the VWAP of DXS securities 10 days either side of 1 July 2018 ($9.87759). Fair value for the LTI reflects the average valuation ($8.18) of both tranches as provided by EY under the Black-Scholes Analytic model. Tranche 1 was valued at $8.38 and tranche 2 was valued at $7.98.
2. The maximum total value of the grant reflects the numbers of rights granted multiplied by the fair value per performance right.

## 6.3 Performance of LTI awards which vested during FY18

AFFO and ROCE were established as the performance hurdles in 2016, simplifying the plan and providing greater LTI plan alignment with the business strategy and the metrics that drive long-term company performance. Prior grants had four performance hurdles including two relative measures (TSR and ROE). The comparator group included specified comparators for 2013 and prior years but transitioned to the following indexes from 2014:

- Relative TSR – S&P/ASX200 A-REIT Index
- Relative ROE – Mercer IPD Core Wholesale Property Fund Index

The second tranche of the 2013 LTI plan and the first tranche of the 2014 LTI plan vested for participating Executive KMP on 1 July 2017. The vesting outcome of 100% for both tranches was determined by the Board, referencing the previously approved performance hurdles.

### Results of each performance condition for the second tranche of the 2013 LTI Plan:

| Performance condition | Weighting | Hurdle range | Group result | Vesting outcome |
|---|---|---|---|---|
| Funds from Operations growth[1] | 25% | 3.0% to 5.5% | 8.1% | 25% |
| Average Return on Equity[2] | 25% | 9.0% to 11.0% | 13.2% | 25% |
| Relative Total Security holder Return[3] | 25% | Median to 75th percentile | 2nd out of 6 | 25% |
| Relative Return on Equity[4] | 25% | Median to 75th percentile | 2nd out of 7 | 25% |
| | | | **Overall Result** | **100%** |

### Results of each performance condition for the first tranche of the 2014 LTI Plan:

| Performance condition | Weighting | Hurdle range | Group result | Vesting outcome |
|---|---|---|---|---|
| Funds from Operations growth[5] | 25% | 4.0% to 6.0% | 6.8% | 25% |
| Average Return on Equity[6] | 25% | 9.0% to 10.0% | 15.3% | 25% |
| Relative Total Security holder Return[7] | 25% | Median to 75th percentile | 2nd out of 17 | 25% |
| Relative Return on Equity[8] | 25% | Median to 75th percentile | 2nd out of 14 | 25% |
| | | | **Overall Result** | **100%** |

1. Funds from Operations (FFO) growth hurdle was measured on a linear scale for testing, with a 3.0% Compound Annual Growth Rate (CAGR) set as the Target (where 50% would vest) and 5.5% set as the Outperformance hurdle (where 100% would vest). Dexus's FFO growth result over the four-year performance period was 8.1% resulting in full vesting from this performance condition.
2. Average Return on Equity (ROE) hurdle was measured on a linear scale for testing, with a 9.0% simple ROE average set as the target (where 50% would vest) and 11.0% set as the Outperformance hurdle (where 100% would vest). Dexus's average ROE result was 13.2% over the four-year performance period, resulting in full vesting from this performance condition.
3. Relative Total Security Holder Return (TSR) was measured with reference to the TSR percentile rank of DXS against a comparator group of listed A-REIT peers Investa Office Fund, SCA Property Group, The GPT Group, Vicinity Centres and Cromwell Property Group. A median rank was set as the Target (where 50% would vest) and a 75th percentile or better rank was set as the Outperformance hurdle (where 100% would vest). Dexus's relative TSR rank of 2nd out of 6 listed A-REIT peers over the four-year performance period, resulted in full vesting from this performance condition.
4. Relative ROE was measured with reference to the average ROE result achieved by DXS against a comparator group of unlisted property funds GPT Wholesale Office Fund, ISPT Core Fund, Australian Prime Property Commercial Fund, AMP Capital Wholesale Office Fund, QIC Property Fund and Australian Prime Property Retail Fund. A median rank was set as the Target (where 50% would vest) and a 75th percentile or better rank was set as the Outperformance hurdle (where 100% would vest). Dexus's relative ROE rank of 2nd out of 7 unlisted property peers over the four-year performance period, resulted in full vesting from this performance condition.
5. FFO growth hurdle was measured on a linear scale for testing, with a 4.0% CAGR set as the Target (where 50% would vest) and 6.0% set as the Outperformance hurdle (where 100% would vest). Dexus's FFO growth result over the three-year performance period was 6.8% resulting in full vesting from this performance condition.
6. Average ROE hurdle was measured on a linear scale for testing, with a 9.0% simple ROE average set as the Target (where 50% would vest) and 10.0% set as the Outperformance hurdle (where 100% would vest). Dexus's average ROE result was 15.3% over the three-year performance period, resulting in full vesting from this performance condition.
7. Relative TSR was measured with reference to the TSR percentile rank of DXS against a comparator group comprising members of the S&P/ASX 200's A-REIT Index. A median rank was set as the target (where 50% would vest) and a 75th percentile or better rank was set as the Outperformance hurdle (where 100% would vest). Dexus's relative TSR rank of 2nd out of 17 listed A-REIT peers over the three-year performance period, resulted in full vesting from this performance condition.
8. Relative ROE was measured with reference to the average ROE result achieved by DXS against a comparator group comprising the members of the Mercer IPD Core Wholesale Property Fund Index. A median rank was set as the Target (where 50% would vest) and a 75th percentile or better rank was set as the Outperformance hurdle (where 100% would vest), Dexus's relative ROE rank of 2nd out of 14 unlisted property peers over the three-year performance period, resulted in full vesting from this performance condition.

## 6.4 Actual FY18 remuneration awarded

The actual remuneration awarded during the year comprises the following elements:

- Cash salary including any salary sacrifice arrangements
- Superannuation benefits
- Other short-term benefits comprised of the wellbeing allowance and insurance arrangements provided to all employees
- STI cash payment to be made in August 2018 in recognition of performance during FY18 (noting that 25% of the award is deferred and will be reported in future years)
- Deferred STI vested: the value of the deferred STI from prior years that vested on 1 July 2018 (being the number of rights that vested multiplied by the VWAP for the five days prior to the vesting date)
- LTI: the value of performance rights that vested on 1 July 2018 (being the number of performance rights that vested multiplied by the VWAP for the five days prior to the vesting date)

These values differ from the executive statutory remuneration table which has been prepared in accordance with statutory requirements and accounting standards.

| Executive | Cash salary ($) | Super-annuation benefits ($) | Other short term benefits ($) | STI cash payment ($) | Deferred STI – vested ($) | LTI – vested ($) | Total ($) |
|---|---|---|---|---|---|---|---|
| Darren J Steinberg | 1,579,951 | 20,049 | 4,689 | 1,380,000 | 441,852 | 1,960,596 | 5,387,137 |
| Ross G Du Vernet | 679,951 | 20,049 | 2,042 | 577,500 | 176,411 | 354,862 | 1,810,815 |
| Kevin L George | 679,951 | 20,049 | 4,054 | 551,250 | 177,007 | 427,768 | 1,860,080 |
| Alison C Harrop | 654,951 | 20,049 | 5,340 | 531,563 | 142,789 | 109,838 | 1,464,530 |
| Deborah C Coakley | 554,951 | 20,049 | 2,236 | 452,813 | 137,648 | 177,323 | 1,345,019 |

## 6.5 Executive statutory remuneration

The total remuneration paid to Executive KMP for FY18 and FY17 is calculated in accordance with the AASB 124 Related Party Disclosures. Amounts shown under Long-term benefits reflect the accounting expense recorded during the year with respect to prior year deferred remuneration and awards that have or are yet to vest.

| | | Short-term benefits | | | | Long-term benefits | | | Security-based benefits | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Executive KMP | Year | Cash salary ($) | STI cash award ($) | Annual Leave movement[1] | Other short-term benefits ($) | Super benefits ($) | Term-ination benefits ($) | Long Service Leave movement[1] | Deferred STI plan accrual ($) | LTI plan accrual ($) | Total ($) |
| Darren J Steinberg | **FY18** | 1,579,951 | 1,380,000 | (32,569) | 4,689 | 20,049 | – | 31,995 | 428,351 | 1,502,853 | 4,915,319 |
| | FY17 | 1,580,384 | 1,320,000 | – | – | 19,616 | – | – | 385,964 | 1,305,851 | 4,611,815 |
| Craig D Mitchell[2] | **FY18** | – | – | – | – | – | – | – | – | – | – |
| | FY17 | 37,679 | – | – | – | 1,608 | 477,301 | – | – | – | 516,588 |
| Ross G Du Vernet | **FY18** | 679,951 | 577,500 | (4,275) | 2,042 | 20,049 | – | 13,771 | 176,723 | 316,129 | 1,781,890 |
| | FY17 | 680,384 | 551,250 | – | – | 19,616 | – | – | 151,423 | 259,260 | 1,661,934 |
| Kevin L George | **FY18** | 679,951 | 551,250 | (19,949) | 4,054 | 20,049 | – | 34,318 | 173,247 | 333,083 | 1,776,004 |
| | FY17 | 675,584 | 551,250 | – | – | 24,416 | – | – | 154,968 | 291,071 | 1,697,289 |
| Alison C Harrop | **FY18** | 654,951 | 531,563 | (21,661) | 5,340 | 20,049 | – | – | 155,775 | 260,401 | 1,606,445 |
| | FY17 | 600,728 | 492,188 | – | – | 19,616 | – | – | 106,065 | 131,401 | 1,349,997 |
| Deborah C Coakley | **FY18** | 554,951 | 452,813 | – | 2,236 | 20,049 | – | 25,702 | 138,291 | 240,356 | 1,434,420 |
| | FY17 | 545,900 | 431,250 | – | – | 29,100 | – | – | 101,912 | 123,019 | 1,231,181 |
| **Total** | **FY18** | **4,149,755** | **3,493,125** | **(78,454)** | **18,362** | **100,244** | **–** | **105,786** | **1,072,387** | **2,652,823** | **11,514,207** |
| | FY17 | 4,120,659 | 3,345,938 | – | – | 113,971 | 477,301 | – | 900,333 | 2,110,602 | 11,068,804 |

1. Leave movements have been included for the first time in FY18 to improve disclosures. The accounting value of these may be negative, for example, where an Executive's annual leave balance decreases as a result of taking more than the 20 days' annual leave they accrue during the current year. Long service leave accrues from 5 years service and the movement may be high in the first year of accrual.
2. Craig Mitchell ceased employment on 15 July 2016, with final payments made in early FY17.

## 7. Terms of KMP service agreements

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

| | CEO | Other Executive KMP |
|---|---|---|
| **Employment agreement** | An ongoing Executive Service Agreement or individual contract. | |
| **Termination by the Executive** | Termination by Mr Steinberg requires a 6 month notice period. The group may choose to place Mr Steinberg on 'leave' or make a payment in lieu of notice at the Board's discretion.<br>All unvested STI and LTI awards are forfeited in this circumstance. | Termination by other Executive KMP requires a 3 month notice period. The group may choose to place the Executive on 'leave' or make a payment in lieu of notice at the Board's discretion.<br>All unvested STI and LTI awards are forfeited in this circumstance. |
| **Termination by the group without cause** | If the group terminates the Executive without cause, the Executive is entitled to a combined maximum notice and severance payment of 12 months fixed remuneration. The Board may (in its absolute discretion) also approve a pro-rata STI payment.<br>Depending on the circumstances, the Board has the ability to treat the Executive as a 'good leaver', which may result in the Executive retaining some or all of the unvested Deferred STI or LTI. | |
| **Termination by the group with cause** | No notice or severance is payable. | |
| **Other contractual provisions and restrictions** | All KMP service agreements include standard clauses covering intellectual property, confidentiality, moral rights and disclosure obligations. | |

# 8. Non-Executive Directors' remuneration

## 8.1 Changes for FY19

There are no changes proposed to Non-Executive Directors' remuneration in FY19.

## 8.2 Non-Executive Directors' remuneration

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

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

Other than the Chair who receives a single base fee, Non-Executive Directors receive a base fee plus additional fees for membership of Board Committees. Non-Executive Directors do not participate in incentive plans or receive any retirement benefits other than statutory superannuation contributions.

The Board fee structure (inclusive of statutory superannuation contributions) for FY17 and FY18 is provided below.

| Committee | Year | Chair ($) | Member ($) |
|---|---|---|---|
| Director's Base Fee (DXFM) | **FY18** | 400,000[1] | 170,000 |
| | FY17 | 400,000[1] | 170,000 |
| Board Risk Committee | **FY18** | 30,000 | 15,000 |
| | FY17 | 30,000 | 15,000 |
| Board Audit Committee | **FY18** | 30,000 | 15,000 |
| | FY17 | 30,000 | 15,000 |
| Board Nomination Committee | **FY18** | 15,000 | 7,500 |
| | FY17 | 15,000 | 7,500 |
| Board People & Remuneration Committee | **FY18** | 30,000 | 15,000 |
| | FY17 | 30,000 | 15,000 |
| DWPL Board | **FY18** | n/a[2] | 30,000 |
| | FY17 | 55,000 | 22,500 |

1. The Board Chair receives a single fee for service, including service on Board Committees.
2. In 2018 the DWPF Chair was transitioned to a third party Non-Executive Director role. Effective 1 April 2018, the member fees for the DWPF Board were increased from $22,500 to $30,000.

Total fees paid to Non-Executive Directors for the year ended 30 June 2018 remained within the aggregate fee pool of $2,500,000 per annum which was approved by security holders at the AGM in October 2017.

## 8.3 Non-Executive Directors' security holding requirement

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

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

As at 30 June 2018, all Directors met the minimum security holding requirement, except for Mr Ford who has until 2020 and Ms Roxon who has until 2021 to satisfy this requirement. The relevant interests of each Non-Executive Director in DXS securities are shown in section 8.5.

## 8.4 Non-Executive Directors' remuneration table

This summary of the actual cash and benefits received by each Non-Executive Director for the year ended 30 June 2018 is prepared in accordance with AASB 124 Related Party Disclosures.

| Non-Executive Director | Year | Short-term benefits[1] ($) | Post employment benefits (superannuation) ($) | Other long-term benefits ($) | Total ($) |
|---|---|---|---|---|---|
| W Richard Sheppard | **FY18** | 379,951 | 20,049 | – | 400,000 |
| | FY17 | 380,384 | 19,616 | – | 400,000 |
| Elizabeth A Alexander AM | **FY18** | 173,516 | 16,484 | – | 190,000 |
| | FY17 | 210,384 | 21,206 | – | 231,591 |
| Penny Bingham-Hall | **FY18** | 198,396 | 18,653 | – | 217,049 |
| | FY17 | 189,008 | 17,956 | – | 206,964 |
| John C Conde AO | **FY18** | 194,635 | 18,490 | – | 213,125 |
| | FY17 | 189,498 | 18,002 | – | 207,500 |
| Tonianne Dwyer | **FY18** | 221,097 | 20,227 | – | 241,324 |
| | FY17 | 217,884 | 19,616 | – | 237,500 |
| Mark H Ford | **FY18** | 184,610 | 17,352 | – | 201,962 |
| | FY17 | 117,199 | 11,134 | – | 128,333 |
| Nicola Roxon | **FY18** | 143,706 | 13,592 | – | 157,298 |
| | FY17 | – | – | – | – |
| Peter B St George | **FY18** | 196,347 | 18,653 | – | 215,000 |
| | FY17 | 196,347 | 18,653 | – | 215,000 |
| **Total** | **FY18** | **1,692,258** | **143,500** | **–** | **1,835,758** |
| | FY17 | 1,500,706 | 126,183 | – | 1,626,888 |

1. Includes Director fees and insurance contributions.

## 8.5 Security movements

| Non-Executive Director | Number of securities held at 1 July 2017 | Movement | Number of securities held at 30 June 2018 | Minimum number of securities[1] |
|---|---|---|---|---|
| W Richard Sheppard | 70,090 | nil | 70,090 | 16,500 |
| Elizabeth A Alexander AM | 16,667 | nil | 16,667 | 16,500 |
| Penny Bingham-Hall | 16,534 | nil | 16,534 | 16,500 |
| John C Conde AO | 16,667 | nil | 16,667 | 16,500 |
| Tonianne Dwyer | 16,667 | nil | 16,667 | 16,500 |
| Mark H Ford[2] | 1,667 | nil | 1,667 | 16,500 |
| Nicola Roxon[3] | – | nil | – | 16,500 |
| Peter B St George | 17,333 | nil | 17,333 | 16,500 |

1. Directors are required to attain the minimum number of securities within three years of appointment.
2. Mark H Ford was recently appointed to the Board and has until 2020 to attain the minimum number of securities.
3. Nicola Roxon was recently appointed to the Board and has until 2021 to attain the minimum number of securities.

# 9. Additional disclosures

## 9.1 Performance of LTI awards vesting in FY19

On 1 July 2018, the second tranche of the 2014 LTI plan and the first tranche in the 2015 LTI plan vested for participating Executive KMP.

The vesting outcome was determined by the Board, referencing the previously approved performance hurdles set and communicated to participants upon the original Grant Dates of 1 July 2014 and 1 July 2015 respectively.

### Results of each performance condition within tranche 2 of the 2014 LTI plan:

| Performance condition | Weighting | Hurdle range | Group result | Vesting outcome |
|---|---|---|---|---|
| Funds from Operations growth | 25% | 4.0% to 6.0% | 5.7% | 93.1% |
| Average Return on Equity | 25% | 9.0% to 10.0% | 19.9% | 100% |
| Relative Total Security Holder Return | 25% | Median to 75th percentile | 6th of 17 | 87.5% |
| Relative Return on Equity | 25% | Median to 75th percentile | 2nd of 16 | 100% |
| | | | **Overall Result** | **95.15%** |

### Results of each performance condition within tranche 1 of the 2015 LTI plan:

| Performance condition | Weighting | Hurdle range | Group result | Vesting outcome |
|---|---|---|---|---|
| Adjusted Funds from Operations growth | 25% | 3.0% to 5.0% | 5.8% | 100% |
| Average Return on Equity | 25% | 9.0% to 10.0% | 19.1% | 100% |
| Relative Total Security Holder Return | 25% | Median to 75th percentile | 5th of 17 | 100% |
| Relative Return on Equity | 25% | Median to 75th percentile | 2nd of 16 | 100% |
| | | | **Overall Result** | **100%** |

Further details and quantification in dollars of these vesting tranches will be provided in the FY19 Remuneration Report.

## 9.2 Deferred STI and LTI awards which vested during FY18

The summary below outlines the number of Rights which vested under the Deferred STI and LTI plans during FY18. The vesting date for all Rights was 1 July 2017. No rights lapsed during FY18.

| Executive KMP | Plan name | Grant date | Tranche | Number of Rights which vested | Market value at vesting[1] ($) |
|---|---|---|---|---|---|
| Darren J Steinberg | Deferred STI | 1/07/2015 | 2 | 26,200 | 258,616 |
| | | 1/07/2016 | 1 | 20,333 | 200,703 |
| | LTI | 1/07/2013 | 2 | 94,015 | 928,013 |
| | | 1/07/2014 | 1 | 102,971 | 1,016,416 |
| Ross G Du Vernet | Deferred STI | 1/07/2015 | 2 | 9,193 | 90,742 |
| | | 1/07/2016 | 1 | 7,705 | 76,056 |
| | LTI | 1/07/2013 | 2 | 19,751 | 194,960 |
| | | 1/07/2014 | 1 | 18,388 | 181,506 |
| Kevin L George | Deferred STI | 1/07/2015 | 2 | 10,572 | 104,354 |
| | | 1/07/2016 | 1 | 7,762 | 76,691 |
| | LTI | 1/07/2013 | 2 | 27,177 | 268,261 |
| | | 1/07/2014 | 1 | 22,985 | 226,883 |
| Alison C Harrop[2] | Deferred STI | 1/07/2015 | 2 | 2,206 | 21,778 |
| | | 1/07/2016 | 1 | 5,451 | 53,803 |
| Deborah C Coakley | Deferred STI | 1/07/2015 | 2 | 5,516 | 54,445 |
| | | 1/07/2016 | 1 | 5,993 | 59,155 |
| | LTI | 1/07/2013 | 2 | 9,480 | 93,576 |
| | | 1/07/2014 | 1 | 8,826 | 87,121 |

1. Market value at vesting is the VWAP of DXS securities for the five day period before the vesting date.
2. Alison Harrop was not employed at the time of the 2013 or 2014 LTI grant.

## 9.3 KMP unvested security rights outstanding

The table below shows the number of unvested Rights held by Executive KMP as at 30 June 2018 under the Deferred STI and LTI plans. The STI and LTI awards in respect of which the elements below are deferred elements were disclosed in prior year remuneration reports.

| Executive KMP | Plan type | Grant date | Vesting date | Tranche | Number of Rights |
|---|---|---|---|---|---|
| Darren J Steinberg | Deferred STI | 1/07/2016 | 1/07/2018 | 2 | 19,488 |
| | | 1/07/2017 | 1/07/2018 | 1 | 22,556 |
| | | 1/07/2017 | 1/07/2019 | 2 | 22,556 |
| | LTI | 1/07/2014 | 1/07/2018 | 2 | 102,971 |
| | | 1/07/2015 | 1/07/2018 | 1 | 101,689 |
| | | 1/07/2015 | 1/07/2019 | 2 | 101,689 |
| | | 1/07/2016 | 1/07/2019 | 1 | 98,466 |
| | | 1/07/2016 | 1/07/2020 | 2 | 98,466 |
| | | 1/07/2017 | 1/07/2020 | 1 | 98,426 |
| | | 1/07/2017 | 1/07/2021 | 2 | 98,426 |
| Ross G Du Vernet | Deferred STI | 1/07/2016 | 1/07/2018 | 2 | 7,385 |
| | | 1/07/2017 | 1/07/2018 | 1 | 9.420 |
| | | 1/07/2017 | 1/07/2019 | 2 | 9,420 |
| | LTI | 1/07/2014 | 1/07/2018 | 2 | 18,388 |
| | | 1/07/2015 | 1/07/2018 | 1 | 18,643 |
| | | 1/07/2015 | 1/07/2019 | 2 | 18,643 |
| | | 1/07/2016 | 1/07/2019 | 1 | 19,693 |
| | | 1/07/2016 | 1/07/2020 | 2 | 19,693 |
| | | 1/07/2017 | 1/07/2020 | 1 | 21,531 |
| | | 1/07/2017 | 1/07/2021 | 2 | 21,531 |
| Kevin L George | Deferred STI | 1/07/2016 | 1/07/2018 | 2 | 7,440 |
| | | 1/07/2017 | 1/07/2018 | 1 | 9,420 |
| | | 1/07/2017 | 1/07/2019 | 2 | 9,420 |
| | LTI | 1/07/2014 | 1/07/2018 | 2 | 22,985 |
| | | 1/07/2015 | 1/07/2018 | 1 | 21,694 |
| | | 1/07/2015 | 1/07/2019 | 2 | 21,694 |
| | | 1/07/2016 | 1/07/2019 | 1 | 21,006 |
| | | 1/07/2016 | 1/07/2020 | 2 | 21,006 |
| | | 1/07/2017 | 1/07/2020 | 1 | 21,531 |
| | | 1/07/2017 | 1/07/2021 | 2 | 21,531 |
| Alison C Harrop | Deferred STI | 1/07/2016 | 1/07/2018 | 2 | 5,224 |
| | | 1/07/2017 | 1/07/2018 | 1 | 8,410 |
| | | 1/07/2017 | 1/07/2019 | 2 | 8,410 |
| | LTI | 1/07/2015 | 1/07/2018 | 1 | 11,186 |
| | | 1/07/2015 | 1/07/2019 | 2 | 11,186 |
| | | 1/07/2016 | 1/07/2019 | 1 | 18,052 |
| | | 1/07/2016 | 1/07/2020 | 2 | 18,052 |
| | | 1/07/2017 | 1/07/2020 | 1 | 19,224 |
| | | 1/07/2017 | 1/07/2021 | 2 | 19,224 |

## 9.3 KMP unvested security rights outstanding continued

| Executive KMP | Plan type | Grant date | Vesting date | Tranche | Number of Rights |
|---|---|---|---|---|---|
| Deborah C Coakley | Deferred STI | 1/07/2016 | 1/07/2018 | 2 | 5,744 |
| | | 1/07/2017 | 1/07/2018 | 1 | 7,369 |
| | | 1/07/2017 | 1/07/2019 | 2 | 7,369 |
| | LTI | 1/07/2014 | 1/07/2018 | 2 | 8,826 |
| | | 1/07/2015 | 1/07/2018 | 1 | 9,660 |
| | | 1/07/2015 | 1/07/2019 | 2 | 9,660 |
| | | 1/07/2016 | 1/07/2019 | 1 | 17,232 |
| | | 1/07/2016 | 1/07/2020 | 2 | 17,232 |
| | | 1/07/2017 | 1/07/2020 | 1 | 17,686 |
| | | 1/07/2017 | 1/07/2021 | 2 | 17,686 |

## 9.4 Equity Investments

| Held at 1 July 2017 | | | Net Change | | | Held as at 30 June 2018 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Securities | Deferred STI | Total Balance[1] | Securities | Deferred STI | Total Balance[1] | Securities | Deferred STI | Total Balance[1] | Market value as at 30 June 2018 $[2] | Minimum security holding guideline $[3] |
| Darren J Steinberg | | | | | | | | | | |
| 211,317 | 63,127 | 274,444 | 243,519 | 1,473 | 244,992 | 454,836 | 64,600 | 519,436 | 5,100,530 | 2,400,000 |
| Ross G Du Vernet | | | | | | | | | | |
| 77,228 | 23,244 | 100,472 | 24,038 | 2,980 | 27,018 | 101,266 | 26,224 | 127,490 | 1,251,874 | 562,500 |
| Kevin L George | | | | | | | | | | |
| 63,113 | 24,625 | 87,738 | – | 1,654 | 1,654 | 63,113 | 26,279 | 89,392 | 877,772 | 562,500 |
| Alison C Harrop | | | | | | | | | | |
| – | 12,482 | 12,482 | – | 9,563 | 9,563 | – | 22,045 | 22,045 | 216,468 | 543,750 |
| Deborah C Coakley | | | | | | | | | | |
| – | 16,572 | 16,572 | – | 3,910 | 3,910 | – | 20,482 | 20,482 | 201,122 | 450,000 |

1. The following securities are included in the balance for the purpose of the guideline (1) Any DXS securities that the Executive or their related person or entity hold (e.g. Family Trust), (2) Securities that the Executive acquires on vesting of awards granted under Dexus's equity incentive plans; and (3) Unvested equity granted that the Executive holds under Dexus's equity incentive plans which are not subject to performance hurdles (e.g. deferred short-term incentives).
2. Market value as at 30 June 2018 is the VWAP of DXS securities for the five-day period up to and including 30 June 2018 ($9.81936).
3. A minimum security holding guideline was introduced on 1 July 2018, with all Executive KMP targeting to attain the minimum security holding by 1 July 2023. The value is calculated by reference to the 12-month average fixed remuneration for the relevant financial year. For existing Executive KMP as at 1 July 2018, the guide is based on fixed remuneration as at 1 July 2018.

## 9.5 Other Transactions

There were no transactions involving an equity instrument (other than share based payment compensation) to KMP or related parties.

## 9.6 Loans

No loans were provided to KMP or related parties.

# Operating and Financial Review

The Group's financial performance for the year ended 30 June 2018 is summarised in the following section. In order to fully understand the results, the Annual Report and full Financial Statements included in this Financial Report should be read in conjunction with this section.

## Five year performance

| | **FY18** | FY17 | FY16 | FY15 | FY14 |
|---|---|---|---|---|---|
| Funds from Operations (FFO) ($m) | **653.3** | 617.7 | 610.8 | 544.5 | 446.6 |
| Adjusted FFO (AFFO) ($m) | **485.5** | 439.7 | 413.9 | 369.8 | 310.7 |
| Net profit after tax ($m) | **1,728.9** | 1,264.2 | 1,259.8 | 618.7 | 406.6 |
| FFO per security (cents) | **64.2** | 63.8 | 63.1 | 59.5 | 41.7[1] |
| AFFO per security (cents) | **47.7** | 45.4 | 42.7 | 40.4 | 37.9[1] |
| Distribution per security (cents) | **47.8** | 45.47 | 43.51 | 41.04 | 37.56[1] |
| Return on Equity (%) | **19.8** | 18.2 | 19.3 | 11.5 | 6.7 |
| Return on Contributed Equity (%) | **7.6** | 7.6 | n/a | n/a | n/a |
| One-Year Total Security holder return (%) | **7.5** | 10.1 | 30.3 | 15.8 | 9.9 |
| Net tangible asset backing per security ($) | **9.64** | 8.45 | 7.53 | 6.68 | 6.36[1] |
| Gearing (look-through) (%) | **24.1** | 26.7[2] | 30.7 | 28.5 | 33.7 |
| Duration of debt (years) | **7.0** | 5.6 | 5.5 | 5.7 | 5.2 |
| Customer satisfaction score (out of 10) | **8.3** | 8.0 | 8.0 | 7.9 | 7.7 |
| Females in Senior Management roles (%) | **35** | 33 | 29 | 26 | 26 |
| Listed office portfolio average NABERS Energy rating (stars) | **4.9** | 4.8 | 4.8 | 4.7 | 4.6 |

## Review of Operations

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

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

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

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

| | **30 June 2018 ($m)** | 30 June 2017 ($m) |
|---|---|---|
| **Net profit for the year attributable to stapled security holders** | **1,728.9** | 1,264.2 |
| Net fair value gain of investment properties | **(1,201.8)** | (704.7) |
| Impairment of inventories | **0.6** | – |
| Net fair value (gain)/loss of derivatives and interest bearing liabilities | **(8.3)** | 3.6 |
| Net (gain)/loss on sale of investment properties | **0.9** | (70.7) |
| Incentive amortisation and rent straight-line[3] | **101.4** | 100.1 |
| Coupon income, rental guarantees received and other | **17.7** | 12.7 |
| Amortisation of intangible assets | **5.5** | 4.5 |
| Transaction costs | **1.1** | – |
| Non-FFO tax expense | **7.3** | 8.0 |
| **Funds from Operations (FFO)[4]** | **653.3** | 617.7 |
| **Retained FFO[5]** | **166.9** | 166.0 |
| **Distributions** | **486.4** | 451.7 |
| FFO per security (cents) | **64.2** | 63.8 |
| Distribution per security (cents) | **47.8** | 45.47 |
| Net tangible asset backing per security ($) | **9.64** | 8.45 |

1. In November 2014, Dexus completed a one-for-six security consolidation and this number has been adjusted to reflect this.
2. FY17 pro forma gearing is adjusted for post balance date acquisitions. Actual gearing was 22.1%.
3. Including cash, rent free and fit out incentives amortisation.
4. Including Dexus's share of equity accounted investments.
5. Based on Dexus's distribution policy to payout in line with free cash flow. The distribution payout ratio equated to 74.4% of FFO in FY18 and 73.1% of FFO in FY17.

# Operating and Financial Review
continued

## Operating result

### Performance of the Group

Dexus's net profit after tax was $1,728.9 million, an increase of $464.7 million from the prior year (FY17: $1,264.2 million). The key drivers of this movement included:

- Net revaluation gains of investment properties of $1,201.8 million, representing a 10.5% uplift across the portfolio, were $497.1 million higher than the prior year (FY17: $704.7 million)
- FFO, which increased by $35.6 million resulting in FFO per security of 64.2 cents, an increase of 0.6%
- Partially offset by lower gains from the sale of investment properties compared to FY17

Valuation gains achieved across Dexus's property portfolio primarily drove the $1.19 increase in net tangible assets (NTA) per security to $9.64 over the year. The valuation uplift was driven primarily by the Sydney office portfolio where capitalisation rates have compressed further, and the buoyant leasing market has delivered higher market rents.

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

| | **30 June 2018 $m** | 30 June 2017 $m |
|---|---|---|
| Office Property FFO | **603.8** | 567.4 |
| Industrial Property FFO | **132.7** | 114.8 |
| **Total Property FFO** | **736.5** | 682.2 |
| Management operations[1] | **52.5** | 46.3 |
| Group corporate | **(27.4)** | (23.7) |
| Net finance costs | **(134.4)** | (121.8) |
| Other (including tax) | **(10.5)** | (12.5) |
| **Underlying FFO** | **616.7** | 570.5 |
| Trading profits (net of tax) | **36.6** | 47.2 |
| **Total FFO** | **653.3** | 617.7 |
| Maintenance capex, lease incentives and leasing costs paid | **(167.8)** | (178.0) |
| **Total AFFO[2]** | **485.5** | 439.7 |

The key drivers of the $35.6 million increase in FFO include:

- Office Property FFO of $603.8 million increased from FY17 as a result of like-for-like income growth of 4.5%, acquisitions including MLC Centre in Sydney (Dexus's 25% interest) and 100 Harris Street in Pyrmont, offset by asset sales including 11 Waymouth Street in Adelaide (Dexus's 50% interest) and Southgate Complex in Melbourne (remaining 50% tranche settled in May 2018)
- Industrial Property FFO increased by $17.9 million to $132.7 million due to like-for-like growth of 3.0% following a record year of leasing in FY17 which significantly improved portfolio occupancy as well as income from acquisitions and completed developments

This was partially offset by:

- Finance costs net of interest revenue increased by $12.6 million driven by acquisitions, partially offset by the equity raising completed in June 2017 and proceeds from asset sales used to repay debt
- The realisation of $36.6 million of trading profits (net of tax) representing a decrease of $10.6 million on the prior year

The underlying business, excluding trading profits, delivered FFO per security of 60.6 cents, and grew by 2.9% on the prior year.

### Distributions

Distributions per security for the 12 months ended 30 June 2018 were 47.8 cents per security, up 5.1% on the prior year (FY17: 45.47 cents), with the distribution payout remaining in line with free cash flow, in accordance with Dexus's distribution policy. The distribution for the six months ended 30 June 2018 of 24.1 cents per security will be paid to Dexus Security holders on Thursday 30 August 2018.

### Return on contributed equity and return on equity

Dexus achieved a Return on Contributed Equity[3] (ROCE) for FY18 of 7.6% driven largely by AFFO.

Dexus delivered a Return on Equity[4] (ROE) of 19.8% in FY18, driven by property revaluations and distributions, resulting in a six year average ROE of 14.5%.

1. Management operations' income includes development management fees.
2. AFFO is in line with the Property Council of Australia definition.
3. ROCE is calculated as AFFO plus the net tangible asset impact from completed developments divided by the average contributed equity during the period.
4. ROE is calculated as the growth in net tangible assets per security plus the distribution paid/payable per security divided by the opening net tangible assets per security.

**Management Expense Ratio**

| | **30 June 2018 $m** | 30 June 2017 $m |
|---|---|---|
| Group corporate costs | **27.4** | 23.7 |
| Asset management costs | **16.0** | 15.6 |
| **Total corporate and asset management costs** | **43.4** | 39.3 |
| Closing funds under management (balance sheet only) | **13,338** | 11,463[1] |
| Group management expense ratio (MER) | **33bps** | 34bps |

Group corporate costs increased to $27.4 million as a result of investment in platform initiatives while asset management costs increased to $16.0 million as a result of investment in platform initiatives and completion of developments. Dexus's MER[2] reduced to 33 basis points largely driven by investment property revaluation gains of $1.2 billion.

## Property transactions

Dexus completed $2.0 billion of transactions for the group including the settlement of the acquisitions of the MLC Centre, Sydney (Dexus's 25% interest), 100 Harris Street, Pyrmont and 90 Mills Road, Braeside in addition to the divestment of 11 Waymouth Street, Adelaide (Dexus's 50% interest) and Dexus's remaining 50% interest in Southgate, Melbourne. Other transactions included the Dexus Office Partnership's acquisition of 56 Berry Street, North Sydney and 140 George Street, Parramatta in addition to the sale of 46 Colin Street, West Perth.

Post 30 June 2018, Dexus acquired 568 Wickham Street, Brisbane QLD and also entered into agreements to acquire industrial development landbanks at 11-167 Palm Springs, Ravenhall, VIC (in which Dexus and DWPF each acquired a 50% interest), 425-479 Freeman Road, Richlands, QLD and 54 Ferndell Street, South Granville, NSW.

## Dexus performance

The following sections review the FY18 performance of the Group's key financial drivers: Property Portfolio, Funds Management and Trading.

### i) Property portfolio

Dexus remains focused on maximising the performance of its property portfolio through leasing and asset management activities, with the property portfolio contributing to 89%[3] of FFO in FY18.

Dexus increased the size of its direct portfolio to $13.3 billion from $12.2 billion[4] at FY17. This movement was driven by revaluation gains of $1.2 billion and acquisitions of $31.0 million[5], which was partially offset by $449.0 million of divestments.

#### Office portfolio

| | |
|---|---|
| Portfolio value: | $11.0 billion |
| Total area: | 1,495,238 square metres |
| Area leased during the year: | 242,957 square metres[6] |

| Key metrics | **30 June 2018** | 30 June 2017 |
|---|---|---|
| Occupancy by income | **96.0%** | 97.2% |
| Occupancy by area | **95.7%** | 97.0% |
| WALE by income | **4.6 years** | 4.8 years |
| Average incentives[6] | **13.9%** | 14.5% |
| Retention rate | **54%** | 46% |
| Total return – 1 year | **16.9%** | 14.1% |

1. Actual closing funds under management at 30 June 2017.
2. Management Expense Ratio.
3. FFO contribution is calculated before finance costs, group corporate costs and tax.
4. Funds under management at 30 June 2017 adjusted for transactions settled up to 16 August 2017.
5. Transactions include properties which settled during FY18 and exclude the acquisitions of MLC Centre, in Sydney 100 Harris Street in Pyrmont and 90-110 Mills Road in Braeside which were included in the FY17 pro forma direct portfolio amount.
6. Including Heads of Agreement and excluding development leasing.

# Operating and Financial Review
continued

## Dexus performance continued

### Office portfolio continued

During the year, Dexus leased 242,957 square metres[1] of office space across 293 transactions as well as 52,589 square metres of office development space across 15 transactions, locking in future income streams.

It has been an excellent year for the portfolio in which Dexus has seen significant valuation gains driven by strong leasing outcomes. Leasing has been supported by the buoyant markets of Sydney and Melbourne and assisted by the improving markets of Perth and Brisbane. The property valuation reduced at 100 Harris Street in Pyrmont, driven by acquisition costs being written off, increases in outgoings and additional capex to fund fitouts on vacant space. Dexus has maintained its focus on reducing incentives and driving rents for popular properties, which is being captured in our returns and valuations.

The office portfolio delivered 4.5% like-for-like income growth and a 16.9% total return for the year which was driven by increased market rents and leasing. Sydney office properties experienced strong effective rental growth.

Occupancy reduced marginally to 96.0% at 30 June 2018 (FY17: 97.2%) driven by the known departure of CBA at Sydney Olympic Park, which was also reflected in the 54% tenant retention metric, providing the opportunity for Dexus to improve this position during FY19.

Tenant activity and market dynamics have remained positive across Dexus's core office markets with strong levels of enquiry in Perth converting to significant leasing at 240 St Georges Terrace and Kings Square as tenants seek to upgrade to better quality buildings and centralise into the CBD.

### Industrial portfolio

| | |
|---|---|
| Portfolio value: | $2.2 billion |
| Total area: | 1,322,557 square metres |
| Area leased during the year: | 192,116 square metres[1] |

| Key metrics | **30 June 2018** | 30 June 2017 |
|---|---|---|
| Occupancy by income | **98.3%** | 96.5% |
| Occupancy by area | **98.8%** | 96.6% |
| WALE by income | **4.8 years** | 5.1 years |
| Average incentives | **12.6%** | 14.5% |
| Retention rate | **48%** | 74% |
| Total return – 1 year | **13.6%** | 12.6% |

During the year, Dexus leased 192,116 square metres[1] of industrial space across 91 transactions, with the portfolio continuing to benefit from an uptick in logistics and e-commerce demand. As a result of this activity, portfolio occupancy further improved to 98.3%[1] (FY17: 96.5%) and like-for-like income growth was 3.0% (FY17: 3.6%).

Portfolio weighted average lease expiry (WALE) reduced slightly to 4.8 years. Average incentives reduced to 12.6% (FY17: 14.5%) as a result of leasing in the competitive Melbourne market.

Industrial portfolio retention reduced to 48% from 74% at 30 June 2017 as a number of leases were retired to reposition assets. The industrial portfolio performance has improved over the past two years with occupancy increasing from 90.4% in FY16 to 98.3% in FY18.

Dexus's industrial portfolio delivered a one-year unlevered total return of 13.6% (FY17: 12.6%).

### Customer

Dexus continued to drive great customer experience outcomes during the year as evidenced by the strong overall Net Promoter Score of +32 and customer satisfaction score of 8.3 out of 10 in the latest customer survey. These scores have improved, and survey participation has increased on the back of the strength of Dexus's customer relationships and despite the disruption that can be caused when assets are under development.

### FY19 Focus (Office and Industrial)

In FY19 Dexus will target $155-165 million of capital expenditure (including rent free incentives); target like-for-like income growth of 4-5% for the office portfolio and 2.5-3.5% for the industrial portfolio; maintain occupancy above 95%; undertake selective forward leasing to manage expiry risk; and capture upside in the Sydney market.

1. Including Heads of Agreement.

### Development

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

Dexus has a significant opportunity to drive future value through its $4.2 billion group development pipeline, which is diversified across uses and locations and is the most efficient way to access quality product at this point in the cycle. Dexus is also short listed or in an exclusive position on circa $2 billion of future potential concept development projects.

Two office projects at 180 Flinders Street in the Melbourne CBD and 12 Creek Street – The Annex in Brisbane were activated, and in July 2018 development works commenced at 240 St Georges Terrace in Perth. Works also progressed at 100 Mount Street, North Sydney, where NBN Co. was secured as a new customer across 20,364 square metres. In aggregate, 50% of the space is already committed[1] at these four key office developments with completions scheduled over the next four years.

The extensive ground floor works at 240 St Georges Terrace include the creation of a new street entry, a new north facing outdoor terrace on level 16 for functions, new end-of-trip facilities and gymnasium, and an improved retail offering. On-floor upgrades will commence from October 2018 prior to Woodside's lease expiry, with 57% of the impending Woodside vacancy now solved.

Post 30 June 2018, Dexus replenished the industrial development pipeline by entering into agreements to acquire three industrial development sites, one of which will be acquired jointly with DWPF. These developments have a combined end value of circa $700 million and will be built out over the next five to seven years. They provide the opportunity to leverage Dexus's extensive market knowledge, development and leasing capabilities and track record in each of these markets.

Dexus allocates up to 15% of funds under management (FUM) across its listed portfolio to development and trading/value-add activities. Currently circa 7.4% of FUM is allocated to these activities providing earnings accretion and enhancing total return.

#### FY19 Focus

In FY19 Dexus will complete the development of 100 Mount Street, North Sydney; advance and de-risk leasing of key projects in the development pipeline; and activate new opportunities.

### ii) Funds management

Dexus's Funds Management business represents over half of the Group's $27.2 billion FUM and its $2.0 billion development pipeline will drive organic growth across the platform. Third party funds under management increased to $13.9 billion, up 9.4% from 30 June 2017, driven by acquisitions, developments and revaluations, partially offset by divestments.

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

All funds delivered strong performance, with DWPF achieving top quartile performance and a one-year total return of 13.8%, outperforming its benchmark over one, three, five, seven and ten years. The Dexus Office Partnership delivered a one-year unlevered total property return of 16.0% and an annualised unlevered total property return of 14.9% since inception.

Growth over the next 12-18 months is supported by the $647 million committed development pipeline. Planning is also now underway that will see the launch of new unlisted funds or partnerships over the same time period.

Dexus completed the first round equity raising for its unlisted Healthcare Wholesale Property Fund which was seeded with approximately $370 million of properties and an additional pipeline of high quality opportunities with an estimated on completion value of $460 million.

The Healthcare Wholesale Property Fund diversifies and expands Dexus's Funds Management business in a scalable sector that is attractive to investors, due to the low volatility of returns. Demand for healthcare is also non-discretionary, which insulates the sector from economic cycles.

#### FY19 Focus

In FY19, Dexus will continue to drive strong performance across all of its unlisted funds and partnerships, while progressing the launch of new unlisted funds or partnerships.



1. Including Heads of Agreement signed post 30 June 2018.

# Operating and Financial Review
## continued

### Dexus performance continued

#### iii) Trading

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

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

Since 2010, Dexus has been undertaking trading activities and recognising trading profits in its FFO. Over the past seven years, Dexus has sold and settled on 12 trading properties which have realised an aggregate $267 million of trading profits pre-tax at an average unlevered project IRR of 30%.

Trading profits of $36.6 million net of tax were achieved in FY18 following the sale of 105 Phillip Street and 140 George Street, both located in Parramatta.

The exchange of contracts to sell 32 Flinders Street, Melbourne, has de-risked FY19 trading profits. Future projects were progressed with 201 Elizabeth Street, Sydney added to the pipeline, and planning approval received for Stage 1 of 12 Frederick Street, St Leonards (North Shore Health Hub).

A total of six projects diversified across sectors and trading strategies have been earmarked to deliver trading profits of $260-280 million pre-tax in future years. Other opportunities include stage 2 of 12 Frederick Street in St Leonards, Lakes South in Botany and Gladesville, NSW.

FY19 Focus

In FY19, Dexus will target trading profits of $35-40 million, net of tax, and advance future opportunities.

#### iv) Financial position (look-through)

| | 30 June 2018 $m | 30 June 2017 $m |
|---|---|---|
| Office investment properties | **11,038** | 9,511 |
| Industrial investment properties | **2,245** | 1,952 |
| Healthcare investment properties | **54** | – |
| Other[1] | **572** | 490 |
| **Total assets** | **13,909** | 11,953 |
| Borrowings | **(3,445)** | (2,783) |
| Other liabilities | **(658)** | (582) |
| **Net tangible assets** | **9,806** | 8,588 |
| Total number of securities on issue | **1,017,196,877** | 1,016,967,300 |
| **NTA ($)** | **9.64** | 8.45 |

Total look-through assets increased by $1,956 million primarily due to $770.4 million of acquisitions, development capital expenditure and $1,201.8 million of property valuation increases, partially offset by $478.9 million of divestments.

Total look-through borrowings increased by $662 million due to funding required for the acquisitions and development capital expenditure mentioned above, offset by asset sales during the year.

1. Excludes the deferred tax liability on management rights in line with accounting changes as disclosed in the FY17 financial statements.

## Capital Management

| | |
|---|---|
| Cost of debt: | 4.2% |
| Duration of debt: | 7.0 years |
| Gearing (look through)[1]: | 24.1%[1] |
| S&P/Moody's credit rating: | A-/A3 |

Dexus continued to maintain a strong and conservative balance sheet. Gearing[1] reduced to 24.1% from 26.7%, remaining below the 30-40% target range, as a result of the receipt of proceeds from sold properties and property revaluation gains offset by development costs and property acquisitions.

Since announcing plans in February 2018 to initiate an on-market securities buy-back of up to 5% of Dexus securities on issue, Dexus has acquired and cancelled 207,665 securities. Dexus will continue to utilise the buy-back where there is an opportunity to enhance investor returns.

Total debt duration extended to 7.0 years as a result of Dexus's largest ever debt raising via the US Private Placement market valued at $653 million. Dexus's strong balance sheet provides the capacity to fund projects in its current and future development pipeline.

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

### FY19 Focus

In FY19, Dexus will focus on preserving its debt duration and will continue to seek further debt diversification options.

## Outlook

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

Within Australia, economic growth is rebalancing between the states with Queensland and WA forecast to catch up to Victoria and NSW over the next couple of years. While buoyed by infrastructure investment, Victoria and NSW may face some additional headwinds in FY19 and FY20 as weakening housing construction drags on employment growth.

The low and steady cost of capital continues to support investment demand for real estate. The maintenance of reasonably wide spreads between real estate yields and government bond yields has supported investment activity to date in a maturing pricing cycle. Over time, pricing will be sensitive to a normalisation of interest rate yields, however such rises still seem some way off.

### i) Property portfolio

#### Office

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

Office markets continue to perform well. Modest levels of supply in Sydney and Melbourne helped push vacancy rates lower to circa 4.5% and we expect further falls with vacancy expected to fall below 3.5% in Sydney in FY19. Perth continued its recovery while the overall Brisbane market showed mild improvement.

The outlook for office demand is positive in the short term due to solid employment growth and positive business confidence. The outlook is for mild upward pressure on rents in the short term in Sydney and Melbourne, with growth declining on a two to three-year timeframe as new supply materialises.

A key theme for office markets is growth in small office users as service firms shift to more collaborative, outsourced modes of working and the IT sector continues its mini-boom built on mobile applications, big data, fintech and social media.



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

# Operating and Financial Review
## continued

### i) Property portfolio continued

#### Industrial

The industrial sector is in a growth phase with demand running ahead of supply. Demand is expected to remain solid in the year ahead given population growth and infrastructure investment are supporting economic activity. Sydney, Melbourne, and to a lesser extent Brisbane, are well placed to benefit.

E-commerce is emerging as a significant driver of demand as online sales expand at double digit growth rates, and online retailers and fulfilment providers seek to increase scale.

The outlook for rents is likely to remain positive, particularly in land constrained areas in Sydney and Melbourne. Conditions in Brisbane are projected to continue to improve in the short-term as the economy rebounds, while Perth appears to have bottomed.

### ii) Funds management

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

For retail, sales performance continued to strengthen for supermarkets and food retailing while the department stores and apparel categories have been disrupted by the changing retail dynamics including an increasing shift to online sales and increased competition from international retailers at a time when consumer preferences are shifting in Australia, as cost and convenience of online delivery improves. There may be some relief ahead as employment growth flows through to wages and retail spending growth benefits from continued low interest rates. However, a softening housing market is likely to prevent spending growth from increasing too much. The outlook for retail rents is subdued in the short to medium term, reflecting high occupancy costs and poor retail margins.

Retail sales growth across Dexus's Funds Management portfolio was strongest at Regional centres which have recently undergone redevelopment, leveraging the opportunity to enhance the centres' offer to grow foot traffic and sales.

For healthcare, demand for healthcare services and consequently properties will continue to benefit from ageing demographics, longer life expectancy and population growth.

Dexus will continue to satisfy the investment objectives of its Funds Management clients and funds through growing existing funds via acquisitions and progressing the $2.0 billion Funds Management development pipeline, while maximising the performance.

### iii) Trading

Dexus's Trading business is an ongoing revenue stream, with the recognition of trading profits included in FFO. Dexus continues to identify potential trading opportunities within its existing portfolio and seeks new trading opportunities for the future trading pipeline. Dexus has de-risked FY19 trading profits of $35-40 million, net of tax, and is progressing its remaining pipeline projects.

#### FY19 Guidance

Dexus's guidance[1] for the 12 months ending 30 June 2019 is circa 5% growth in distribution per security.

1. Barring unforeseen circumstances, guidance is supported by the following assumptions: Impacts of announced divestments and acquisitions; FFO per security growth of circa 3% and underlying FFO per security growth of circa 3% underpinned by Dexus office portfolio like-for-like growth of 4-5%, Dexus industrial portfolio like-for-like income growth of 2.5-3.5%, management operations FFO and cost of debt in line with FY18; trading profits of $35-40 million net of tax; maintenance capex, cash incentives, leasing costs and rent free incentives of $155-165 million; and excluding any further transactions.

## Risks and megatrends

There are various risks and megatrends that could impact Dexus's strategy and outlook, and the nature and potential impact of these can change over time. Further information relating to Dexus's risk management framework is detailed in the Corporate Governance Statement available at www.dexus.com

Dexus actively reviews and manages the risks and megatrends facing its business over the short, medium and long-term, overseen by the Board Risk Committee. The key risks and megatrends and how Dexus manages and monitors them are outlined in the tables below.

| Key risk | Description | How Dexus is equipped to manage and monitor risks |
|---|---|---|
| **Performance** | Ability to meet market guidance, deliver superior risk adjusted performance relative to industry benchmarks and complete developments in line with expectations. | Processes are in place to regularly review progress against Dexus's strategy, with risk tolerances which are identified and managed. Detailed due diligence is undertaken for all acquisitions and external experts are appointed to assist in the design and costing process for developments. |
| **Capital markets** | Positioning the capital structure of the business to withstand unexpected changes in equity and debt markets. | Prudent management of capital, including regular sensitivity analysis and periodic independent reviews of hedging policy, assists in protecting Dexus's balance sheet from unexpected changes in capital markets. Further information relating to financial risk management is detailed in note 12 of the Financial Statements. |
| **Key client** | Retention of existing wholesale third party client or capital partner. | Dexus's funds management model includes strong governance principles and processes designed to build and strengthen relationships with existing and new clients. A periodic client survey helps in identifying key issues for action by the funds management team. |
| **Compliance & regulatory** | Compliance with regulatory requirements including continuous disclosure, ASX Listing Rules, REIT status and Dexus policies and procedures. | Dexus has systems and processes in place that address adherence to compliance policies and regulatory requirements. Independent industry experts are appointed to undertake reviews where appropriate. |
| **Cyber/data & governance risk** | Management and maintenance of data security. | Regular training, testing and disaster recovery activities, along with the employment of data security software, assists in reducing the risk of a breach of data security. |
| **Security & emergency management** | Ensuring the safety of employees, customers and the public at Dexus sites. | Procedures are in place to minimise threats to safety including the adoption of plans relating to crisis management, business continuity and emergency management. Responsiveness is regularly tested through scenario planning exercises. |
| **Talent & capability** | Retention of key talent within Dexus. | To assist in the retention of key talent, succession plans for key employees are adopted and regularly reviewed. In addition, external mapping is undertaken for key roles. Training and development of key personnel assists with employee career progression within Dexus. |
| **Corporate culture** | Maintaining a respectful, open and transparent culture which supports diversity of opinion and values including acting honestly, ethically and with integrity. | Having a diverse and inclusive culture is a focus of the Dexus Board and the Group Management Committee. This is supported by regular employee surveys and other reports that provide data on engagement levels and organisational culture. There is continual monitoring of lead and lag indicators to assist in identifying areas that may require additional focus. |
| **Climate change & environment** | Mitigation against the impact of climate change. | The impact of climate change is reduced through careful portfolio construction combined with assessment of climate change risks and associated adaptation planning. For new developments, long-term environmental performance benchmarks are adopted in the design and construction phase. For existing properties, Dexus manages greenhouse gas (GHG) emission performance against a science-based GHG emissions target. |
| **Building and workplace health & safety** | Identify and remediate health and safety issues relating to the fabric of our buildings including facades.<br>Prevention of death or serious injury at a Dexus owned or controlled site due to unsafe work practices. | Dexus adopts the following measures to ensure building and workplace health and safety is maintained in and around its buildings:<br>- Engagement of external consultants for facade audits<br>- Ongoing monitoring and testing of existing sites<br>- Adoption of comprehensive work health and safety programs and compliance by site contractors and employees<br>- Independent certification against OHSAS 18001 Occupational Health and Safety Management Systems<br>- Independent reviews by industry experts |

# Operating and Financial Review
## continued

| Megatrends | Description | How Dexus is equipped to manage and monitor megatrends |
|---|---|---|
| **Globalisation** | The integration of capital, goods and services across national borders is driving increased connectivity between countries and cities, blending global cultures and business practices. As a result, businesses are seeking more flexibility in their working environments. | Dexus is responding to the growing demand from customers who seek workspaces that are flexible, collaborative and engaging through the launch of various initiatives including:<br>- Dexus Place<br>- Expanded suite offerings<br>- Dexus simple and easy lease<br>- Smart buildings connected to leading technologies |
| **Shifting demographics and societal expectations** | The ageing of the population, drift of people to coastal urban areas and increasing diversity in the workforce is impacting the way people work. | Dexus keeps abreast of the latest workspace trends and is responding to increasing preferences for 'plug and play' or 'work anywhere' environments.<br>Dexus's smart building blueprint provides technology solutions that promote both connectivity across different spaces and flexibility in workplace locations.<br>*Wellplace* caters for the growing wellbeing trend in the workplace, providing a suite of health and wellbeing services and amenities.<br>For Dexus's own workforce, the adoption of a flexible working policy allows our employees to work anywhere, anytime, supporting personal wellbeing and productivity. |
| **Technological change** | Technology and connectivity is driving mobility and collaboration in workplaces. Artificial Intelligence, automation and robotics is replacing repetitive tasks, together with a new focus on the value of big data and analytics. | Technological advancement brings opportunities to further support our customers in their growth and productivity goals, and Dexus is implementing innovative technologies in new developments to deliver a better customer experience and optimise workforce productivity.<br>To support our employees, we are investing in systems and processes that will define how we operate as a business and create a foundation for operational excellence. This includes a new enterprise platform designed to enhance the efficiency of our day to day operations and reduce the operational demands on our people, enabling them to spend more time and focus on our customers. |
| **Urban density** | The growth of cities is increasing urban density in Australia's major cities creating challenges for social equity, the environment, transport systems and city planning. | Dexus's property portfolio is concentrated in the key CBDs of cities around Australia where our customers want and need to be, a circumstance that sees Dexus's value and the future of our cities closely interrelated.<br>Dexus is creating vibrant hubs with spaces that offer a sense of community and high amenity which are well-connected through technology and transport.<br>We are conscious of the impact of our operations on the environment and we are embracing new technologies and new energy sources to provide energy efficient workspaces. |
| **Sustainability** | As the world becomes more polluted and urbanised, demand for energy, food and water will rise, putting pressure on supply of resources and the wellbeing of people. | Over the past decade, we have been focused on energy efficiency as well as reducing the group's greenhouse gas emissions and environmental footprint.<br>As Australia continues its search for secure, affordable, and environmentally conscious energy, Dexus has made progress on the transition to a low carbon future. Our *New energy, New opportunities* strategy sets a pathway for Dexus to achieve net zero emissions by 2030 through improving energy efficiency and increasing renewables. |

# Directors' report

The Directors of Dexus Funds Management Limited (DXFM) as Responsible Entity of Dexus Diversified Trust (DDF or the Trust) present their Directors' Report together with the consolidated Financial Statements for the year ended 30 June 2018. The consolidated Financial Statements represents DDF and its consolidated entities, Dexus (DXS or the Group).

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

## Directors and Secretaries

### Directors

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

| Directors | Appointed | Resigned |
|---|---|---|
| W Richard Sheppard, BEc (Hons), FAICD | 1 January 2012 | |
| Elizabeth A Alexander, AM, BComm, FCA, FAICD, FCPA | 1 January 2005 | 24 October 2017 |
| Penny Bingham-Hall, BA (Industrial Design), FAICD, SF (Fin) | 10 June 2014 | |
| John C Conde, AO, BSc, BE (Hons), MBA, FAICD | 29 April 2009 | |
| Tonianne Dwyer, BJuris (Hons), LLB (Hons) | 24 August 2011 | |
| Mark Ford, Dip. Tech (Commerce), CA, FAICD | 1 November 2016 | |
| The Hon. Nicola L Roxon, BA/LLB (Hons), GAICD | 1 September 2017 | |
| Darren J Steinberg, BEc, FRICS, FAPI, FAICD | 1 March 2012 | |
| Peter B St George, CA(SA), MBA | 29 April 2009 | |

## Company Secretaries

The names and details of the Company Secretaries of DXFM as at 30 June 2018 are as follows:

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

**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 22 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 and a Fellow of the Governance Institute of Australia.

**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 15 years' experience as in-house counsel and in private practice working on real estate and corporate transactions, funds management and corporate finance for wholesale and listed clients.

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

# Directors' report
## continued

### 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 13 times during the year. Ten Board meetings were main meetings and three meetings were held to consider specific business.

| | Main meetings held | Main meetings attended | Specific meetings held | Specific meetings attended |
|---|---|---|---|---|
| W Richard Sheppard | 10 | 10 | 3 | 3 |
| Elizabeth A Alexander, AM[1] | 4 | 4 | – | – |
| Penny Bingham-Hall | 10 | 10 | 3 | 3 |
| John C Conde, AO | 10 | 10 | 3 | 3 |
| Tonianne Dwyer | 10 | 10 | 3 | 3 |
| Mark Ford | 10 | 9 | 3 | 3 |
| The Hon. Nicola L Roxon[2] | 8 | 8 | 3 | 3 |
| Darren J Steinberg | 10 | 10 | 3 | 3 |
| Peter B St George | 10 | 10 | 3 | 3 |

1. Ceased directorship 24 October 2017.
2. Commenced directorship on 1 September 2017.

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 2018.

| | 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 | – | – | – | – | 4 | 4 | 5 | 5 |
| Elizabeth A Alexander, AM[1] | 1 | 1 | – | – | – | – | – | – |
| Penny Bingham-Hall | – | – | 4 | 4 | 4 | 4 | 5 | 5 |
| John C Conde, AO | 3 | 3 | – | – | 4 | 4 | 1 | 1 |
| Tonianne Dwyer | 4 | 4 | 4 | 4 | – | – | – | – |
| The Hon. Nicola L Roxon[2] | – | – | 3 | 3 | – | – | 4 | 4 |
| Mark Ford | 4 | 4 | 4 | 4 | – | – | – | – |
| Peter B St George | 4 | 4 | 4 | 4 | – | – | – | – |

1. Ceased directorship 24 October 2017.
2. Commenced directorship on 1 September 2017.

Elizabeth A Alexander and Tonianne Dwyer were also Directors of Dexus Wholesale Property Limited (DWPL) and attended DWPL Board meetings during the year ended 30 June 2018. John Conde joined as a Director of Dexus Wholesale Property Limited (DWPL) on 25 October 2017.

## Remuneration Report

The Remuneration Report that forms part of this Directors' Report is provided on pages 24-42 of this Annual Report.

## Directors' relevant interests

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

| Directors | No. of securities |
|---|---|
| W Richard Sheppard | 70,090 |
| Penny Bingham-Hall | 16,534 |
| John C Conde, AO | 16,667 |
| Tonianne Dwyer | 16,667 |
| Mark Ford | 1,667 |
| The Hon. Nicola L Roxon | Nil |
| Darren J Steinberg [1] | 1,219,571 |
| Peter B St George | 17,333 |

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

## Operating and financial review

Information on the operations and financial position of the Group and its business strategies and prospects is set out in the operating and financial review on pages 43-52 of this financial report.

## Directors' directorships in other listed entities

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

| Director | Company | Date Appointed |
|---|---|---|
| W Richard Sheppard | Star Entertainment Group | 21 November 2012 |
| 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 | Cardno Limited [1] | 25 June 2012 |
| | Metcash Limited | 24 June 2014 |
| | ALS Limited | 1 July 2016 |
| | Oz Minerals Limited | 21 March 2017 |
| The Hon. Nicola L Roxon | Lifestyle Communities Limited | 1 September 2017 |
| Peter B St George | First Quantum Minerals Limited [2] | 20 October 2003 |
| Mark Ford | Kiwi Property Group Limited [3] | 16 May 2011 |

1. Directorship ceased 27 January 2016.
2. Listed for trading on the Toronto Stock Exchange in Canada.
3. Listed for trading on the New Zealand Stock Exchange since 22 December 2014.

## Principal activities

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

## Total value of Trust assets

The total value of the assets of the Group as at 30 June 2018 was $14,017.3 million (2017: $12,270.1 million). Details of the basis of this valuation are outlined in the Notes to the Financial Statements and form part of this Directors' Report.

## Likely developments and expected results of operations

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

## Significant changes in the state of affairs

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

# Directors' report
## continued

### Matters subsequent to the end of the financial year

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

### Distributions

Distributions paid or payable by the Group for the year ended 30 June 2018 were 47.8 cents per security (2017: 45.47 cents per security) as outlined in note 7 of the Notes to the Financial Statements.

### DXFM fees

Details of fees paid or payable by the Group to DXFM are eliminated on consolidation for the year ended 30 June 2018. Details are outlined in note 23 of the Notes to the Financial Statements and form part of this Directors' Report.

### Interests in DXS securities

The movement in securities on issue in the Group during the year and the number of securities on issue as at 30 June 2018 are detailed in note 16 of the Notes to the Financial Statements and form part of this Directors' Report.

Details of the number of interests in the Group held by DXFM or its associates as at the end of the financial year are outlined in note 23 of the Notes to the Financial Statements and form part of this Directors' Report.

The DXFM Board has approved a grant of performance rights of DXS stapled securities to eligible participants. Details of the performance rights awarded during the financial year are detailed in note 22. The Group did not have any options on issue as at 30 June 2018 (2017: nil).

### Environmental regulation

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

### Indemnification and insurance

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

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

### Audit

#### Auditor

PricewaterhouseCoopers continues in office in accordance with section 327 of the *Corporations Act 2001*.

#### Non-audit services

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

Details of the amounts paid or payable to the Auditor for audit and non-audit services provided during the year are set out in note 20 of the Notes to the Financial Statements.

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

The reasons for the Directors being satisfied are:

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

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

### Auditor's Independence Declaration

A copy of the Auditor's Independence Declaration as required under section 307C of the *Corporations Act 2001* is set out on page 58 and forms part of this Directors' Report.

### Corporate governance

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

### Rounding of amounts and currency

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

### Directors' authorisation

The Directors' Report is made in accordance with a resolution of the Directors. The Financial Statements were authorised for issue by the Directors on 14 August 2018.

**W Richard Sheppard**
Chair
14 August 2018

**Darren J Steinberg**
Chief Executive Officer
14 August 2018

# Auditor's Independence Declaration

## *Auditor's Independence Declaration*

As lead auditor for the audit of Dexus Diversified Trust for the year ended 30 June 2018, I declare that to the best of my knowledge and belief, there have been:

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

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

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

Matthew Lunn
Partner
PricewaterhouseCoopers

Sydney
14 August 2018

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# Financial Report
## 30 June 2018

Contents

# Consolidated Statement of Comprehensive Income
## For the year ended 30 June 2018

| | Note | 2018 $m | 2017 $m |
|---|---|---|---|
| **Revenue from ordinary activities** | | | |
| Property revenue | 2 | 577.2 | 540.6 |
| Development revenue | 10 | 133.1 | 224.3 |
| Interest revenue | | 0.7 | 0.6 |
| Management fees and other revenue | | 129.6 | 116.2 |
| **Total revenue from ordinary activities** | | 840.6 | 881.7 |
| Net fair value gain of investment properties | | 854.2 | 457.6 |
| Share of net profit of investments accounted for using the equity method | 9 | 535.8 | 470.4 |
| Net gain on sale of investment properties | | 1.7 | 23.4 |
| Net fair value gain of interest bearing liabilities | | 85.8 | 87.5 |
| Other income | | 0.5 | – |
| **Total income** | | 2,318.6 | 1,920.6 |
| **Expenses** | | | |
| Property expenses | 2 | (155.9) | (150.7) |
| Development costs | 10 | (80.8) | (156.9) |
| Finance costs | 4 | (128.5) | (108.1) |
| Impairment of inventories | | (0.6) | – |
| Net fair value loss of derivatives | | (79.9) | (101.0) |
| Net loss on sale of investments | | (0.3) | – |
| Transaction costs | | (1.1) | – |
| Management operations, corporate and administration expenses | 3 | (106.3) | (98.9) |
| **Total expenses** | | (553.4) | (615.6) |
| **Profit/(loss) before tax** | | 1,765.2 | 1,305.0 |
| Income tax expense | 5(a) | (36.3) | (40.8) |
| **Profit/(loss) for the year** | | 1,728.9 | 1,264.2 |
| **Other comprehensive income/(loss):** | | | |
| Changes in the fair value of cash flow hedges | 17 | (19.4) | (2.2) |
| **Total comprehensive income/(loss) for the year** | | 1,709.5 | 1,262.0 |
| **Profit/(loss) for the year attributable to:** | | | |
| Unitholders of the parent entity | | 468.8 | 217.4 |
| Unitholders of other stapled entities (non-controlling interests) | | 1,260.1 | 1,046.8 |
| **Profit/(loss) for the year** | | 1,728.9 | 1,264.2 |
| **Total comprehensive income/(loss) for the year attributable to:** | | | |
| Unitholders of the parent entity | | 449.4 | 215.2 |
| Unitholders of other stapled entities (non-controlling interests) | | 1,260.1 | 1,046.8 |
| **Total comprehensive income/(loss) for the year** | | 1,709.5 | 1,262.0 |

| | Note | Cents | Cents |
|---|---|---|---|
| **Earnings per unit on profit/(loss) attributable to unitholders of the Trust (parent entity)** | | | |
| Basic earnings per unit | 6 | 46.08 | 22.45 |
| Diluted earnings per unit | 6 | 46.08 | 22.45 |
| **Earnings per stapled security on profit/(loss) attributable to stapled security holders** | | | |
| Basic earnings per security | 6 | 169.95 | 130.53 |
| Diluted earnings per security | 6 | 169.95 | 130.53 |

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 2018

| | Note | 2018 $m | 2017 $m |
|---|---|---|---|
| **Current assets** | | | |
| Cash and cash equivalents | 18(a) | **33.3** | 21.2 |
| Receivables | 18(b) | **63.4** | 81.7 |
| Non-current assets classified as held for sale | 11 | **2.0** | 296.8 |
| Inventories | 10 | **37.6** | – |
| Derivative financial instruments | 12(c) | **24.1** | 15.5 |
| Other | 18(c) | **27.8** | 13.3 |
| **Total current assets** | | **188.2** | 428.5 |
| **Non-current assets** | | | |
| Investment properties | 8 | **8,242.6** | 7,169.1 |
| Plant and equipment | | **16.0** | 16.4 |
| Inventories | 10 | **507.1** | 211.3 |
| Investments accounted for using the equity method | 9 | **4,432.9** | 3,823.8 |
| Derivative financial instruments | 12(c) | **310.8** | 306.7 |
| Intangible assets | 19 | **314.6** | 309.5 |
| Other | | **5.1** | 4.8 |
| **Total non-current assets** | | **13,829.1** | 11,841.6 |
| **Total assets** | | **14,017.3** | 12,270.1 |
| **Current liabilities** | | | |
| Payables | 18(d) | **149.7** | 162.1 |
| Current tax liabilities | | **5.2** | 21.8 |
| Interest bearing liabilities | 13 | **205.1** | – |
| Loans with related parties | 14 | **–** | 149.0 |
| Provisions | 18(e) | **271.7** | 266.1 |
| Derivative financial instruments | 12(c) | **6.7** | 7.8 |
| **Total current liabilities** | | **638.4** | 606.8 |
| **Non-current liabilities** | | | |
| Interest bearing liabilities | 13 | **3,154.5** | 2,697.8 |
| Derivative financial instruments | 12(c) | **78.6** | 49.1 |
| Deferred tax liabilities | 5(d) | **93.7** | 85.9 |
| Provisions | | **2.0** | 1.9 |
| Other | | **2.7** | 4.1 |
| **Total non-current liabilities** | | **3,331.5** | 2,838.8 |
| **Total liabilities** | | **3,969.9** | 3,445.6 |
| **Net assets** | | **10,047.4** | 8,824.5 |
| **Equity** | | | |
| **Equity attributable to unitholders of the Trust (parent entity)** | | | |
| Contributed equity | 16 | **2,127.3** | 2,126.7 |
| Reserves | 17 | **(12.5)** | 6.9 |
| Retained profits | | **788.5** | 427.2 |
| **Parent entity unitholders' interest** | | **2,903.3** | 2,560.8 |
| **Equity attributable to unitholders of other stapled entities** | | | |
| Contributed equity | 16 | **4,277.0** | 4,275.7 |
| Reserves | 17 | **39.7** | 41.8 |
| Retained profits | | **2,827.4** | 1,946.2 |
| **Other stapled unitholders' interest** | | **7,144.1** | 6,263.7 |
| **Total equity** | | **10,047.4** | 8,824.5 |

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

# Consolidated Statement of Changes in Equity

## For the year ended 30 June 2018

| | | Attributable to unitholders of the Trust (parent entity) | | | | Attributable to unitholders of other stapled entities | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Note | Contri-buted equity $m | Reserves $m | Retained profits $m | Total $m | Contri-buted equity $m | Reserves $m | Retained profits $m | Total $m | Total equity $m |
| **Opening balance as at 1 July 2016** | | 1,984.0 | 9.1 | 321.7 | 2,314.8 | 3,926.1 | 43.0 | 1,239.2 | 5,208.3 | 7,523.1 |
| Net profit/(loss) for the year | | – | – | 217.4 | 217.4 | – | – | 1,046.8 | 1,046.8 | 1,264.2 |
| Other comprehensive income/(loss) for the year | | – | (2.2) | – | (2.2) | – | – | – | – | (2.2) |
| Total comprehensive income for the year | | – | (2.2) | 217.4 | 215.2 | – | – | 1,046.8 | 1,046.8 | 1,262.0 |
| Transactions with owners in their capacity as owners | | | | | | | | | | |
| Issue of additional equity, net of transaction costs | 16 | 142.7 | – | – | 142.7 | 349.6 | – | – | 349.6 | 492.3 |
| Purchase of securities, net of transaction costs | | – | – | – | – | – | (7.4) | – | (7.4) | (7.4) |
| Security-based payments expense | | – | – | – | – | – | 6.2 | – | 6.2 | 6.2 |
| Distributions paid or provided for | 7 | – | – | (111.9) | (111.9) | – | – | (339.8) | (339.8) | (451.7) |
| Total transactions with owners in their capacity as owners | | 142.7 | – | (111.9) | 30.8 | 349.6 | (1.2) | (339.8) | 8.6 | 39.4 |
| **Closing balance as at 30 June 2017** | | 2,126.7 | 6.9 | 427.2 | 2,560.8 | 4,275.7 | 41.8 | 1,946.2 | 6,263.7 | 8,824.5 |
| | | | | | | | | | | |
| **Opening balance as at 1 July 2017** | | **2,126.7** | **6.9** | **427.2** | **2,560.8** | **4,275.7** | **41.8** | **1,946.2** | **6,263.7** | **8,824.5** |
| Net profit/(loss) for the year | | **–** | **–** | **468.8** | **468.8** | **–** | **–** | **1,260.1** | **1,260.1** | **1,728.9** |
| Other comprehensive income/(loss) for the year | | **–** | **(19.4)** | **–** | **(19.4)** | **–** | **–** | **–** | **–** | **(19.4)** |
| Total comprehensive income for the year | | **–** | **(19.4)** | **468.8** | **449.4** | **–** | **–** | **1,260.1** | **1,260.1** | **1,709.5** |
| Transactions with owners in their capacity as owners | | | | | | | | | | |
| Issue of additional equity, net of transaction costs | 16 | **1.1** | **–** | **–** | **1.1** | **2.7** | **–** | **–** | **2.7** | **3.8** |
| Buy-back of contributed equity | 16 | **(0.5)** | **–** | **–** | **(0.5)** | **(1.4)** | **–** | **–** | **(1.4)** | **(1.9)** |
| Purchase of securities, net of transaction costs | | **–** | **–** | **–** | **–** | **–** | **(7.1)** | **–** | **(7.1)** | **(7.1)** |
| Security-based payments expense | | **–** | **–** | **–** | **–** | **–** | **5.0** | **–** | **5.0** | **5.0** |
| Distributions paid or provided for | 7 | **–** | **–** | **(107.5)** | **(107.5)** | **–** | **–** | **(378.9)** | **(378.9)** | **(486.4)** |
| Total transactions with owners in their capacity as owners | | **0.6** | **–** | **(107.5)** | **(106.9)** | **1.3** | **(2.1)** | **(378.9)** | **(379.7)** | **(486.6)** |
| **Closing balance as at 30 June 2018** | | **2,127.3** | **(12.5)** | **788.5** | **2,903.3** | **4,277.0** | **39.7** | **2,827.4** | **7,144.1** | **10,047.4** |

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 2018

| | Note | 2018 $m | 2017 $m |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts in the course of operations (inclusive of GST) | | **809.0** | 751.9 |
| Payments in the course of operations (inclusive of GST) | | **(351.7)** | (298.9) |
| Interest received | | **0.7** | 0.6 |
| Finance costs paid to financial institutions | | **(137.5)** | (129.9) |
| Distributions received from investments accounted for using the equity method | | **323.6** | 237.6 |
| Income and withholding taxes paid | | **(44.0)** | (53.1) |
| Proceeds from sale of property classified as inventory | | **147.9** | 222.0 |
| Payments for property classified as inventory | | **(138.3)** | (73.1) |
| **Net cash inflow/(outflow) from operating activities** | 21 | **609.7** | 657.1 |
| **Cash flows from investing activities** | | | |
| Proceeds from sale of investment properties | | **347.3** | 423.9 |
| Proceeds from sale of investments accounted for using the equity method | | **30.2** | – |
| Payments for capital expenditure on investment properties | | **(192.8)** | (139.1) |
| Payments for investments accounted for using the equity method | | **(429.3)** | (69.8) |
| Payments for acquisition of investment properties | | **(369.3)** | (187.0) |
| Payments for plant and equipment | | **(3.1)** | (3.0) |
| Payments for intangibles | | **(11.0)** | (7.1) |
| **Net cash inflow/(outflow) from investing activities** | | **(628.0)** | 17.9 |
| **Cash flows from financing activities** | | | |
| Proceeds from borrowings | | **2,599.0** | 3,155.1 |
| Repayment of borrowings | | **(1,931.6)** | (4,052.7) |
| Proceeds from loan with related party | | **–** | 167.1 |
| Repayment of loan with related party | | **(149.0)** | (18.1) |
| Payments for buy-back of contributed equity | | **(1.9)** | – |
| Proceeds from issue of additional equity, net of transaction costs | | **3.8** | 492.3 |
| Purchase of securities for security-based payments plans | | **(7.1)** | (7.4) |
| Distributions paid to security holders | | **(482.8)** | (408.2) |
| **Net cash inflow/(outflow) from financing activities** | | **30.4** | (671.9) |
| **Net increase/(decrease) in cash and cash equivalents** | | **12.1** | 3.1 |
| Cash and cash equivalents at the beginning of the year | | **21.2** | 18.1 |
| **Cash and cash equivalents at the end of the year** | | **33.3** | 21.2 |

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

# About This Report

**In this section**

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

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

## Basis of preparation

The financial statements are general purpose financial reports which have been prepared in accordance with the requirements of the Constitutions of the entities within the Group, the *Corporations Act 2001*, AASB's issued by the Australian Accounting Standards Board and International Financial Reporting Standards adopted by the International Accounting Standard Board.

Unless otherwise stated the financial statements have been prepared using consistent accounting policies in line with those of the previous financial year and corresponding interim reporting period.

The financial statements are presented in Australian dollars, with all values rounded in the nearest tenth of a million dollars in accordance with ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, unless otherwise stated.

The financial statements have been prepared on a going concern basis using historical cost conventions, except for investment properties, investment properties within the equity accounted investments, derivative financial instruments, and other financial liabilities which are stated at their fair value.

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

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

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

### Working capital deficiency

The Group has unutilised facilities of $886.6 million (2017: $1,060.5 million) (refer to note 13) and sufficient working capital and cash flows in order to fund all requirements arising from the net current asset deficiency as at 30 June 2018 of $450.2 million (2017: $178.3 million). The deficiency is largely driven by the provision for distribution due to be paid in August 2018 and pending expiry of medium term notes.

### Critical accounting estimates

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


| | | |
|---|---|---|
| Note 8 | Investment properties | Page 75 |
| Note 10 | Inventories | Page 82 |
| Note 12(b) | Interest bearing liabilities | Page 84 |
| Note 12(c) | Derivative financial instruments | Page 87 |
| Note 19 | Intangible assets | Page 94 |
| Note 22 | Security-based payment | Page 97 |


## Principles of consolidation

These consolidated Financial Statements incorporate the assets, liabilities and results of all subsidiaries as at 30 June 2018.

### a) Controlled entities

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

### b) Joint arrangements

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

#### Joint operations

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

#### Joint ventures

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

### c) Employee share trust

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

## Foreign currency

The Financial Statements are presented in Australian dollars.

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

As at 30 June 2018, the Group had no investments in foreign operations.

## Goods and services tax

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

# About This Report
continued

## New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for the 30 June 2018 reporting period. The Group's assessment of the impact of these new standards and interpretations is set out below:

**AASB 9 *Financial Instruments* (effective application for the Group is 1 July 2018).**
AASB 9 addresses the classification, measurement and de-recognition of financial assets and financial liabilities and introduces new rules for hedge accounting and impairment of financial assets. The following areas have specifically been considered.

Impairment of financial assets – The current impairment assessment model is an 'incurred loss' model requiring the Group to consider whether or not the financial asset is impaired at the date of performing the assessment. Under AASB 9 this model has changed to an 'expected credit loss' model. Under this model, the Group is required to consider the historical actual write off rates for a type of financial asset, and forward looking indicators that might impact the recoverability of similar financial assets currently recognised. Management is currently working through the model to quantify the impact but does not expect a material impact on the provision for doubtful debts.

Hedging – The new hedging rules align hedge accounting more closely with the reporting entity's risk management practices. AASB 9 requires updated hedge documentation to reflect the new requirements of AASB 9. Existing hedge relationships will continue to qualify as effective hedge relationships upon adoption of the new standard. The Group uses interest rate swaps and cross currency interest rate swaps to manage interest rate and foreign currency risk exposures arising from external debt obligations. Applying AASB 9 hedge accounting, changes in foreign currency basis spreads will be recognised in a separate cost of hedging reserve within equity.

Debt modifications – The amendment to AASB 9 clarified that gain or loss arising on modification of a financial liability that does not result in derecognition is immediately recognised in profit or loss. Management is currently working through to quantify the impact but does not expect a material impact as a result of the amendments.

The Group intends to adopt the new standard from 1 July 2018 and will not restate comparative information.

**AASB 15 *Revenue from Contracts with Customers* (effective application for the Group is 1 July 2018).**
AASB 15 provides new guidance for determining when the Group should recognise revenue. The new revenue recognition model is based on the principle that revenue is recognised when control of a good or service is transferred to a customer – either at a point in time or over time. The model features a contract–based five-step analysis of transactions to determine whether, how much and when revenue is recognised. The Group's revenue is largely comprised of income under leases (see below), sales of inventory, management fees and development services.

Management has substantially completed its assessment of the impact of transition to the new standard and does not expect there to be an impact on the recognition and measurement of revenue although additional disclosures will be required.

The following specific revenue streams have been assessed:

Income under leases – Within its lease arrangements, the Group provides certain services to tenants (such as utilities, cleaning, maintenance and certain parking arrangements) which will be accounted for within AASB 15. A portion of the consideration within the lease arrangement will be allocated to revenue for the provision of services. The service revenue will be recognised over time as the services are provided and as such, the timing of recognition of income is not expected to change. Such revenue will, however, be disclosed separately.

Investment management and property management fees – Where the Group earns investment and property management fees, the fees will continue to be recognised monthly over the duration of the agreements. Management is still assessing any impact of the new guidance on property management contracts and whether these should be presented on a gross or net basis.

Sales of inventory and development services – AASB 15 provides an expedient whereby contracts that are completed as of the date of transition (1 July 2018) are not required to be re-assessed. Management expects to apply this expedient. There is no impact on existing sales of inventory and development services as the Group has no uncompleted inventory or development contracts at 1 July 2018 which require re-assessment. All sales of inventory and development service contracts entered into post 1 July 2018 will be evaluated in accordance with the new model which will require management to assess: 1) whether there are multiple performance obligations in the contract and if so, whether the consideration is allocated based on relative stand-alone selling price; 2) whether the Group's obligations are satisfied at a point in time or over time and 3) the appropriate timing and pattern of recognition.

The Group will adopt the new standard from 1 July 2018 using the modified retrospective approach whereby comparatives for the year ended 30 June 2018 will not be restated.

**AASB 16 Leases (effective application for the Group is 1 July 2019).**
AASB 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases. In 2018, revenue recognised from leases was approximately $585.4 million (2017: $533.2 million). The accounting for this lease income is not expected to change with the adoption of the new standard other than the separation of service income from lease income for disclosure purposes as a result of the application of AASB 15 described above.

With respect to leases where the Group is lessee, all leases, including ground lease, will be required to be recognised on balance sheet with the exception of short-term or low-value leases. An asset (the right to use the leased item) and a financial liability to pay rentals will be recognised with associated depreciation expense and finance cost. This differs to the current operating lease treatment where lease payments are recognised on a straight-line basis over the lease term.

The Group intends to apply the standard from 1 July 2019.

# Notes to the Financial Statements

## Group Performance

The notes include information which is required to understand the Financial Statements and is material and relevant to the operations, financial position and performance of the Group.

The notes are organised into the following sections:

| Group performance | Property portfolio assets | Capital and financial risk management and working capital | Other disclosures |
|---|---|---|---|
| 1. Operating segments | 8. Investment properties | 12. Capital and financial risk management | 19. Intangible assets |
| 2. Property revenue and expenses | 9. Investments accounted for using the equity method | 13. Interest bearing liabilities | 20. Audit, taxation and transaction service fees |
| 3. Management operations, corporate and administration expenses | 10. Inventories | 14. Loans with related parties | 21. Cash flow information |
| 4. Finance costs | 11. Non-current assets classified as held for sale | 15. Commitments and contingencies | 22. Security-based payment |
| 5. Taxation | | 16. Contributed equity | 23. Related parties |
| 6. Earnings per unit | | 17. Reserves | 24. Parent entity disclosures |
| 7. Distributions paid and payable | | 18. Working capital | 25. Subsequent events |

**In this section**

This section explains the results and performance of the Group.

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

### Note 1 Operating segments

**Description of segments**

The Group's operating segments have been identified based on the sectors analysed within the management reports reviewed in order to monitor performance across the Group and to appropriately allocate resources. Refer to the table below for a brief description of the Group's operating segments.

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

# Notes to the Financial Statements
continued

## Group Performance continued

### Note 1 Operating segments continued

| 30 June 2018 | Office $m | Industrial $m |
|---|---|---|
| **Segment performance measures** | | |
| Property revenue | 712.3 | 152.0 |
| Property management fees | – | – |
| Development revenue | – | – |
| Management fee revenue | – | – |
| **Total operating segment revenue** | **712.3** | **152.0** |
| Property expenses & property management salaries | (195.3) | (30.4) |
| Management operations expenses | – | – |
| Corporate and administration expenses | (12.8) | (3.2) |
| Development costs | – | – |
| Interest revenue | – | – |
| Finance costs | – | – |
| Incentive amortisation and rent straight-line | 87.1 | 14.3 |
| FFO tax expense | – | – |
| Rental guarantees, coupon income and other | 12.5 | – |
| **Funds From Operations (FFO)** | **603.8** | **132.7** |
| Net fair value gain/(loss) of investment properties | 1,054.0 | 141.9 |
| Amortisation of intangible assets | – | – |
| Impairment of inventories | – | (0.6) |
| Net fair value gain/(loss) of derivatives | – | – |
| Transaction costs | – | – |
| Net gain/(loss) on sale of investment properties | (0.9) | – |
| Net fair value gain/(loss) of interest bearing liabilities | – | – |
| Incentive amortisation and rent straight-line | (87.1) | (14.3) |
| Non FFO deferred tax expense | – | – |
| Rental guarantees, coupon income and other | (15.0) | – |
| **Net profit/(loss) attributable to stapled security holders** | **1,554.8** | **259.7** |
| Investment properties | 6,437.2 | 1,805.4 |
| Non-current assets held for sale | – | 2.0 |
| Inventories | – | – |
| Equity accounted investment properties | 4,327.0 | 167.2 |
| **Direct property portfolio** | **10,764.2** | **1,974.6** |

| Property management $m | Funds management $m | Development and trading $m | All other segments $m | Eliminations $m | **Total $m** |
|---|---|---|---|---|---|
| | | | | | |
| – | – | – | – | (2.8) | **861.5** |
| 29.2 | – | – | – | – | **29.2** |
| – | – | 133.1 | – | – | **133.1** |
| 38.8 | 58.0 | 5.0 | – | – | **101.8** |
| **68.0** | **58.0** | **138.1** | **–** | **(2.8)** | **1,125.6** |
| (19.5) | – | – | – | – | **(245.2)** |
| (32.4) | (22.1) | (4.5) | – | – | **(59.0)** |
| – | – | – | (27.4) | 2.8 | **(40.6)** |
| – | – | (80.8) | – | – | **(80.8)** |
| – | – | – | 1.4 | – | **1.4** |
| – | – | – | (135.8) | – | **(135.8)** |
| – | – | – | – | – | **101.4** |
| – | – | (15.7) | (13.3) | – | **(29.0)** |
| – | – | – | 2.8 | – | **15.3** |
| **16.1** | **35.9** | **37.1** | **(172.3)** | **–** | **653.3** |
| – | – | – | 5.9 | – | **1,201.8** |
| – | – | – | (5.5) | – | **(5.5)** |
| – | – | – | – | – | **(0.6)** |
| – | – | – | (77.5) | – | **(77.5)** |
| – | – | – | (1.1) | – | **(1.1)** |
| – | – | – | – | – | **(0.9)** |
| – | – | – | 85.8 | – | **85.8** |
| – | – | – | – | – | **(101.4)** |
| – | – | – | (7.3) | – | **(7.3)** |
| – | – | – | (2.7) | – | **(17.7)** |
| **16.1** | **35.9** | **37.1** | **(174.7)** | **–** | **1,728.9** |
| – | – | – | – | – | **8,242.6** |
| – | – | – | – | – | **2.0** |
| – | – | 544.7 | – | – | **544.7** |
| – | – | – | 54.1 | – | **4,548.3** |
| **–** | **–** | **544.7** | **54.1** | **–** | **13,337.6** |

# Notes to the Financial Statements
continued

## Group Performance continued

### Note 1 Operating segments continued

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

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

# Notes to the Financial Statements
continued

## Group Performance continued

### Note 1 Operating segments continued

#### Other segment information

**Funds from Operations (FFO)**

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

**Reconciliation of segment revenue to the Statement of Comprehensive Income**

| | 2018 $m | 2017 $m |
|---|---|---|
| Gross operating segment revenue | 1,125.6 | 1,119.2 |
| Share of property revenue from joint ventures | (313.5) | (258.6) |
| Share of management fees charged to joint ventures | 27.8 | 20.5 |
| Interest revenue | 0.7 | 0.6 |
| **Total revenue from ordinary activities** | **840.6** | **881.7** |

**Reconciliation of segment assets to the Statement of Financial Position**

| | 2018 $m | 2017 $m |
|---|---|---|
| Direct property portfolio [1] | 13,337.6 | 11,462.6 |
| Cash and cash equivalents | 33.3 | 21.2 |
| Receivables | 63.4 | 81.7 |
| Intangible assets | 314.6 | 309.5 |
| Derivative financial instruments | 334.9 | 322.2 |
| Plant and equipment | 16.0 | 16.4 |
| Prepayments and other assets [2] | (82.5) | 56.5 |
| **Total assets** | **14,017.3** | **12,270.1** |

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

### Note 2 Property revenue and expenses

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

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

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

| | 2018 $m | 2017 $m |
|---|---|---|
| Rent and recoverable outgoings | 585.4 | 533.2 |
| Incentive amortisation | (80.7) | (73.9) |
| Other revenue | 72.5 | 81.3 |
| **Total property revenue** | **577.2** | **540.6** |

Property expenses of $155.9 million (2017: $150.7 million) includes rates, taxes and other property outgoings incurred in relation to investment properties.

### Note 3 Management operations, corporate and administration expenses

| | 2018 $m | 2017 $m |
|---|---|---|
| Audit, taxation, legal and other professional fees | **5.3** | 5.8 |
| Depreciation and amortisation | **9.2** | 7.8 |
| Employee benefits expense and other staff expenses | **78.0** | 72.9 |
| Administration and other expenses | **13.8** | 12.4 |
| **Total management operations, corporate and administration expenses** | **106.3** | 98.9 |

### Note 4 Finance costs

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

A qualifying asset is an asset under development which takes a substantial period of time, where the works being carried out to bring it to its intended use or sale are 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.

| | 2018 $m | 2017 $m |
|---|---|---|
| Interest paid/payable | **122.4** | 114.0 |
| Net fair value (gain)/loss of interest rate swaps | **12.9** | (0.8) |
| Amount capitalised | **(13.1)** | (9.8) |
| Other finance costs | **6.3** | 4.7 |
| **Total finance costs** | **128.5** | 108.1 |

The average capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation is 5.75% (2017: 6.25%).

### Note 5 Taxation

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

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

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

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

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

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

#### Attribution managed investment trust regime

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

# Notes to the Financial Statements continued

## Group Performance continued

### Note 5 Taxation continued

**a) Income tax (expense)/benefit**

| | 2018 $m | 2017 $m |
|---|---|---|
| Current income tax (expense)/benefit | (28.5) | (34.6) |
| Deferred income tax (expense)/benefit | (7.8) | (6.2) |
| **Total income tax expense** | (36.3) | (40.8) |
| **Deferred income tax expense included in income tax (expense)/benefit comprises:** | | |
| (Decrease)/increase in deferred tax assets | 2.2 | 1.8 |
| (Increase)/decrease in deferred tax liabilities | (10.0) | (8.0) |
| **Total deferred tax expense** | (7.8) | (6.2) |

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

| | 2018 $m | 2017 $m |
|---|---|---|
| Profit before income tax | 1,765.2 | 1,305.0 |
| Less: profit attributed to entities not subject to tax | (1,628.3) | (1,171.9) |
| Profit subject to income tax | 136.9 | 133.1 |
| Prima facie tax expense at the Australian tax rate of 30% (2017: 30%) | (41.1) | (39.9) |
| **Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:** | | |
| (Non-assessable)/non-deductible items | 4.8 | (0.9) |
| **Income tax expense** | (36.3) | (40.8) |

**c) Deferred tax assets**

| | 2018 $m | 2017 $m |
|---|---|---|
| **The balance comprises temporary differences attributable to:** | | |
| Employee provisions | 13.6 | 11.4 |
| Other | 1.9 | 1.9 |
| **Total non-current assets – deferred tax assets** | 15.5 | 13.3 |
| **Movements:** | | |
| Opening balance at the beginning of the year | 13.3 | 11.5 |
| Movement in deferred tax asset arising from temporary differences | 2.2 | 1.8 |
| (Charged)/credited to the Statement of Comprehensive Income | 2.2 | 1.8 |
| **Closing balance at the end of the year** | 15.5 | 13.3 |

### d) Deferred tax liabilities

| | 2018 $m | 2017 $m |
|---|---|---|
| **The balance comprises temporary differences attributable to:** | | |
| Intangible assets | 74.8 | 74.9 |
| Investment properties | 34.2 | 20.9 |
| Other | 0.2 | 3.4 |
| **Total non-current liabilities – deferred tax liabilities** | 109.2 | 99.2 |
| **Movements** | | |
| Opening balance at the beginning of the year | 99.2 | 91.2 |
| Movement in deferred tax liability arising from temporary differences | 10.0 | 8.0 |
| Charged/(credited) to the Statement of Comprehensive Income | 10.0 | 8.0 |
| **Closing balance at the end of the year** | 109.2 | 99.2 |

#### Net deferred tax liabilities

| | 2018 $m | 2017 $m |
|---|---|---|
| Deferred tax assets | 15.5 | 13.3 |
| Deferred tax liabilities | 109.2 | 99.2 |
| **Net deferred tax liabilities** | 93.7 | 85.9 |

## Note 6 Earnings per unit

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

### a) Net profit used in calculating basic and diluted earnings per security

| | 2018 $m | 2017 $m |
|---|---|---|
| Profit attributable to unitholders of the Trust (parent entity) | 468.8 | 217.4 |
| Profit attributable to stapled security holders | 1,728.9 | 1,264.2 |

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

| | 2018 No. of securities | 2017 No. of securities |
|---|---|---|
| Weighted average number of securities outstanding used in calculation of basic and diluted earnings per security | 1,017,299,246 | 968,484,893 |

# Notes to the Financial Statements
continued

## Group Performance continued

### Note 7 Distributions paid and payable

Distributions are recognised when declared.

#### a) Distribution to security holders

| | 2018 $m | 2017 $m |
|---|---|---|
| 31 December (paid 28 February 2018) | **241.1** | 210.1 |
| 30 June (payable 30 August 2018) | **245.3** | 241.6 |
| **Total distribution to security holders** | **486.4** | 451.7 |

#### b) Distribution rate

| | 2018 Cents per security | 2017 Cents per security |
|---|---|---|
| 31 December (paid 28 February 2018) | **23.7** | 21.7 |
| 30 June (payable 30 August 2018) | **24.1** | 23.8 |
| **Total distributions** | **47.8** | 45.5 |

#### c) Franked dividends

| | 2018 $m | 2017 $m |
|---|---|---|
| Opening balance at the beginning of the year | **33.4** | 2.0 |
| Income tax paid during the year | **45.0** | 52.8 |
| Franking credits utilised for payment of distribution | **(21.4)** | (21.4) |
| **Closing balance at the end of the year** | **57.0** | 33.4 |

As at 30 June 2018, the Group had a current tax liability of $5.2 million, which will be added to the franking account balance once payment is made.

## Property portfolio assets

**In this section**

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

| 30 June 2018 | Note | Office $m | Industrial $m | Healthcare $m | Total $m |
|---|---|---|---|---|---|
| Investment properties | 8 | 6,437.2 | 1,805.4 | – | **8,242.6** |
| Equity accounted investments | 9 | 4,327.0 | 167.2 | 54.1 | **4,548.3** |
| Inventories | 10 | 274.2 | 270.5 | – | **544.7** |
| Assets held for sale | 11 | – | 2.0 | – | **2.0** |
| **Total** | | **11,038.4** | **2,245.1** | **54.1** | **13,337.6** |

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

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

### Note 8 Investment properties

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

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

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

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

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

# Notes to the Financial Statements continued

## Property portfolio assets continued

### Note 8 Investment properties continued

#### a) Reconciliation

| | Note | Office $m | Industrial $m | Development $m | 2018 $m | 2017 $m |
|---|---|---|---|---|---|---|
| Opening balance at the beginning of the year | | 5,459.8 | 1,600.5 | 108.8 | 7,169.1 | 6,419.5 |
| Additions | | 67.0 | 18.2 | 83.2 | 168.4 | 117.1 |
| Acquisitions | | 345.9 | 52.2 | – | 398.1 | 178.6 |
| Lease incentives | | 47.6 | 15.3 | – | 62.9 | 80.2 |
| Amortisation of lease incentives | | (62.0) | (14.9) | – | (76.9) | (69.4) |
| Rent straightlining | | 9.7 | 2.5 | – | 12.2 | 7.6 |
| Disposals | | (44.0) | – | – | (44.0) | (0.8) |
| Transfer to non-current assets classified as held for sale | 11 | – | (2.0) | – | (2.0) | (13.0) |
| Transfer to inventories | 10 | (250.7) | (45.2) | – | (295.9) | – |
| Transfer from/(to) development properties | | (103.1) | 28.5 | 74.6 | – | – |
| Net fair value gain/(loss) of investment properties | | 650.2 | 128.1 | 72.4 | 850.7 | 449.3 |
| **Closing balance at the end of the year** | | **6,120.4** | **1,783.2** | **339.0** | **8,242.6** | 7,169.1 |

**Acquisitions**

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

#### 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 except properties under development and co-owned properties. Independent valuations may be undertaken earlier where the Responsible Entity believes there is potential for a change in the fair value of the property being the greater of 5% of the asset value, or $5.0 million. At 30 June 2018, all investment properties were independently externally valued.

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

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

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

### c) Fair value measurement, valuation techniques and inputs

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

| Class of property | Fair value hierarchy | Inputs used to measure fair value | Range of unobservable inputs 2018 | Range of unobservable inputs 2017 |
|---|---|---|---|---|
| Office[1] | Level 3 | Adopted capitalisation rate | **4.63% – 9.00%** | 4.75% – 9.50% |
| | | Adopted discount rate | **6.25% – 10.50%** | 6.63% – 10.50% |
| | | Adopted terminal yield | **5.13% – 9.75%** | 5.25% – 9.50% |
| | | Current net market rental (per sqm) | **$346 – $1,338** | $307 – $1,319 |
| Industrial | Level 3 | Adopted capitalisation rate | **5.50% – 11.00%** | 5.75% – 11.00% |
| | | Adopted discount rate | **6.75% – 11.00%** | 7.00% – 11.25% |
| | | Adopted terminal yield | **6.00% – 11.00%** | 6.00% – 11.25% |
| | | Current net market rental (per sqm) | **$38 – $445** | $38 – $431 |
| Development – Industrial | Level 3 | Land rate (per sqm) | **$38 – $677** | $35 – $445 |

1. Includes developments and excludes car parks, retail and other.

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

Judgement is required in determining the following key assumptions:

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

# Notes to the Financial Statements continued

## Property portfolio assets continued

### Note 8 Investment properties continued

**d) Sensitivity information**

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

| Significant inputs | Fair value measurement sensitivity to significant increase in input | Fair value measurement sensitivity to significant decrease in input |
|---|---|---|
| Adopted capitalisation rate<br>Adopted discount rate<br>Adopted terminal yield | Decrease | Increase |
| Net market rental (per sqm)<br>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 while a strengthening may have a positive impact on the value under the same approach.

**e) Investment properties pledged as security**

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

## Note 9 Investments accounted for using the equity method

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

| | Ownership interest | | | |
|---|---|---|---|---|
| Name of entity | 2018 % | 2017 % | 2018 $m | 2017 $m |
| Bent Street Trust | **33.3** | 33.3 | **344.7** | 319.1 |
| Dexus Creek Street Trust | **50.0** | 50.0 | **161.8** | 143.9 |
| Dexus Martin Place Trust [1] | **50.0** | 50.0 | **376.9** | 166.3 |
| Grosvenor Place Holding Trust [2,3] | **50.0** | 50.0 | **452.3** | 385.5 |
| Site 6 Homebush Bay Trust [2] | **50.0** | 50.0 | **33.6** | 33.3 |
| Site 7 Homebush Bay Trust [2] | **50.0** | 50.0 | **47.2** | 44.9 |
| Dexus 480 Q Holding Trust | **50.0** | 50.0 | **380.5** | 366.7 |
| Dexus Kings Square Trust | **50.0** | 50.0 | **216.3** | 214.0 |
| Dexus Office Trust Australia [4,5] (DOTA) | **50.0** | 50.0 | **2,164.7** | 1,985.0 |
| Dexus Industrial Trust Australia (DITA) | **50.0** | 50.0 | **172.3** | 133.2 |
| Dexus Eagle Street Pier Trust | **50.0** | 50.0 | **33.0** | 31.9 |
| Healthcare Wholesale Property Fund [6] | **23.8** | – | **49.6** | – |
| **Total assets – investments accounted for using the equity method** [7] | | | **4,432.9** | 3,823.8 |

1. On 19 July 2017, settlement occurred for the acquisition of MLC Centre, 19 Martin Place, Sydney for $361.3 million excluding acquisition costs. This represents the Group's 25% interest. The Group's loan with related parties was subsequently repaid upon Dexus Martin Place Trust's settlement of MLC Centre.
2. These entities are 50% owned by DOTA. The Group's economic interest is therefore 75% when combined with the interest held by DOTA. These entities are classified as joint ventures and are accounted for using the equity method as a result of contractual arrangements requiring unanimous decisions on all relevant matters.
3. Grosvenor Place Holding Trust owns 50% of Grosvenor Place, at 225 George Street, Sydney, NSW. The Group's economic interest in this property is therefore 37.5%.
4. On 1 August 2017, settlement occurred on the disposal of 46 Colin Street, West Perth for $16.8 million excluding disposal costs, representing the Group's 50% interest held through DOTA.
5. On 21 March 2018, settlement occurred for the disposal of 11 Waymouth Street, Adelaide for $101.3 million excluding disposal costs, representing the Group's 50% interest held through DOTA.
6. On 7 August 2017, Dexus invested in the Healthcare Wholesale Property Fund together with Commercial and General (C&G). On 21 December 2017, additional investors invested in the fund and Dexus sold down its investment to 23.8%.
7. The Group's share of investment properties in the investments accounted for using the equity method was $4,548.3 million (2017: $3,785.4 million).

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

# Notes to the Financial Statements
continued

## Property portfolio assets continued

### Note 9 Investments accounted for using the equity method continued

| | Dexus Office Trust Australia | | Grosvenor Place Holding Trust | |
|---|---|---|---|---|
| Summarised Statement of Financial Position | 2018 $m | 2017 $m | 2018 $m | 2017 $m |
| **Current assets** | | | | |
| Cash and cash equivalents | **20.3** | 15.9 | **0.1** | 2.1 |
| Non-current assets classified as held for sale | **–** | – | **–** | – |
| Loans with related parties | **–** | – | **–** | – |
| Other current assets | **3.9** | 4.4 | **2.1** | 0.7 |
| **Total current assets** | **24.2** | 20.3 | **2.2** | 2.8 |
| **Non-current assets** | | | | |
| Investment properties | **2,008.4** | 1,865.8 | **452.5** | 385.0 |
| Investments accounted for using the equity method | **266.5** | 231.9 | **–** | – |
| Other non-current assets | **0.5** | 0.3 | **–** | – |
| **Total non-current assets** | **2,275.4** | 2,098.0 | **452.5** | 385.0 |
| **Current liabilities** | | | | |
| Provision for distribution | **17.1** | 21.3 | **–** | – |
| Borrowings | **74.5** | 74.5 | **–** | – |
| Other current liabilities | **24.8** | 26.5 | **2.4** | 2.3 |
| **Total current liabilities** | **116.4** | 122.3 | **2.4** | 2.3 |
| **Non-current liabilities** | | | | |
| Borrowings | **11.0** | 11.0 | **–** | – |
| Other non current liabilities | **–** | – | **–** | – |
| **Total non-current liabilities** | **11.0** | 11.0 | **–** | – |
| **Net assets** | **2,172.2** | 1,985.0 | **452.3** | 385.5 |
| **Reconciliation of carrying amounts:** | | | | |
| Opening balance at the beginning of the year | **1,985.0** | 1,844.8 | **385.5** | 352.9 |
| Additions | **74.9** | 24.3 | **1.9** | 9.9 |
| Share of net profit/(loss) after tax | **313.3** | 264.7 | **86.1** | 40.5 |
| Distributions received/receivable | **(208.5)** | (148.8) | **(21.2)** | (17.8) |
| **Closing balance at the end of the year** | **2,164.7** | 1,985.0 | **452.3** | 385.5 |

| Summarised Statement of Comprehensive Income | | | | |
|---|---|---|---|---|
| Property revenue | **154.5** | 151.9 | **25.2** | 21.0 |
| Property revaluations | **214.8** | 166.6 | **66.4** | 24.6 |
| Interest income | **0.3** | 0.4 | **–** | 0.1 |
| Gain/(loss) on sale of investment properties | **(2.6)** | – | **–** | – |
| Finance costs | **(4.8)** | (5.0) | **–** | – |
| Other expenses | **(48.9)** | (49.2) | **(5.5)** | (5.2) |
| **Net profit/(loss) for the year** | **313.3** | 264.7 | **86.1** | 40.5 |
| **Total comprehensive income/(loss) for the year** | **313.3** | 264.7 | **86.1** | 40.5 |

| Dexus 480Q Holding Trust | | Dexus Martin Place Trust | | Bent Street Trust | | Other joint ventures | | Total | |
|---|---|---|---|---|---|---|---|---|---|
| **2018 $m** | 2017 $m | **2018 $m** | 2017 $m | **2018 $m** | 2017 $m | **2018 $m** | 2017 $m | **2018 $m** | 2017 $m |
| | | | | | | | | | |
| **2.3** | 0.2 | **9.2** | 0.1 | **1.6** | 0.4 | **18.4** | 9.5 | **51.9** | 28.2 |
| **–** | – | **–** | 6.0 | **–** | – | **–** | – | **–** | 6.0 |
| **–** | – | **–** | 149.0 | **–** | – | **–** | – | **–** | 149.0 |
| **2.9** | 1.1 | **6.0** | 18.1 | **0.4** | 0.5 | **3.0** | 1.9 | **18.3** | 26.7 |
| **5.2** | 1.3 | **15.2** | 173.2 | **2.0** | 0.9 | **21.4** | 11.4 | **70.2** | 209.9 |
| | | | | | | | | | |
| **384.3** | 366.5 | **372.2** | – | **350.0** | 323.3 | **714.4** | 607.2 | **4,281.8** | 3,547.8 |
| **–** | – | **–** | – | **–** | – | **–** | – | **266.5** | 231.9 |
| **0.1** | 0.1 | **–** | – | **–** | – | **5.6** | 0.1 | **6.2** | 0.5 |
| **384.4** | 366.6 | **372.2** | – | **350.0** | 323.3 | **720.0** | 607.3 | **4,554.5** | 3,780.2 |
| | | | | | | | | | |
| **–** | – | **–** | – | **4.1** | 3.4 | **1.6** | 1.4 | **22.8** | 26.1 |
| **–** | – | **–** | – | **–** | – | **–** | – | **74.5** | 74.5 |
| **9.1** | 1.2 | **10.5** | 6.9 | **3.2** | 1.7 | **17.1** | 16.1 | **67.1** | 54.7 |
| **9.1** | 1.2 | **10.5** | 6.9 | **7.3** | 5.1 | **18.7** | 17.5 | **164.4** | 155.3 |
| | | | | | | | | | |
| **–** | – | **–** | – | **–** | – | **–** | – | **11.0** | 11.0 |
| **–** | – | **–** | – | **–** | – | **1.1** | – | **1.1** | – |
| **–** | – | **–** | – | **–** | – | **1.1** | – | **12.1** | 11.0 |
| **380.5** | 366.7 | **376.9** | 166.3 | **344.7** | 319.1 | **721.6** | 601.2 | **4,448.2** | 3,823.8 |
| | | | | | | | | | |
| **366.7** | 344.1 | **166.3** | 111.3 | **319.1** | 308.1 | **601.2** | 559.1 | **3,823.8** | 3,520.3 |
| **3.9** | 5.2 | **219.3** | 3.9 | **–** | – | **91.2** | 29.9 | **391.2** | 73.2 |
| **29.2** | 34.6 | **3.9** | 56.5 | **43.9** | 29.1 | **59.5** | 45.0 | **535.8** | 470.4 |
| **(19.3)** | (17.2) | **(12.6)** | (5.4) | **(18.3)** | (18.1) | **(38.0)** | (32.8) | **(317.9)** | (240.1) |
| **380.5** | 366.7 | **376.9** | 166.3 | **344.7** | 319.1 | **713.9** | 601.2 | **4,432.9** | 3,823.8 |
| | | | | | | | | | |
| | | | | | | | | | |
| **26.9** | 24.1 | **20.2** | 6.4 | **17.7** | 17.7 | **40.4** | 37.5 | **284.9** | 258.6 |
| **10.9** | 17.8 | **(9.9)** | 2.9 | **30.0** | 15.0 | **35.4** | 20.2 | **347.6** | 247.1 |
| **–** | – | **0.1** | – | **–** | – | **0.2** | 0.1 | **0.6** | 0.6 |
| **–** | – | **–** | 48.4 | **–** | – | **–** | – | **(2.6)** | 48.4 |
| **–** | – | **–** | – | **–** | – | **(0.2)** | – | **(5.0)** | (5.0) |
| **(8.6)** | (7.3) | **(6.5)** | (1.2) | **(3.8)** | (3.6) | **(16.3)** | (12.8) | **(89.7)** | (79.3) |
| **29.2** | 34.6 | **3.9** | 56.5 | **43.9** | 29.1 | **59.5** | 45.0 | **535.8** | 470.4 |
| **29.2** | 34.6 | **3.9** | 56.5 | **43.9** | 29.1 | **59.5** | 45.0 | **535.8** | 470.4 |

# Notes to the Financial Statements
continued

## Property portfolio assets continued

### Note 10 Inventories

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

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

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

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

#### a) Development properties held for sale

| | 2018 $m | 2017 $m |
|---|---|---|
| **Current assets** | | |
| Development properties held for sale | **37.6** | – |
| **Total current assets – inventories** | **37.6** | – |
| **Non-current assets** | | |
| Development properties held for sale | **507.1** | 211.3 |
| **Total non-current assets – inventories** | **507.1** | 211.3 |
| **Total assets – inventories** | **544.7** | 211.3 |

#### b) Reconciliation

| | Note | 2018 $m | 2017 $m |
|---|---|---|---|
| Opening balance at the beginning of the year | | **211.3** | 276.0 |
| Transfer from investment properties | 8 | **295.9** | – |
| Disposals | | **(10.0)** | (148.3) |
| Impairment | | **(0.6)** | – |
| Acquisitions and additions | | **48.1** | 83.6 |
| **Closing balance at the end of the year** | | **544.7** | 211.3 |

**Disposals**
On 22 June 2018, 140 George Street, Parramatta was sold to DOTA. As the asset was sold to a joint venture, the Group eliminated 50% of the proceeds in line with its investment in the joint venture.

### Note 11 Non-current assets classified as held for sale

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

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

As at 30 June 2018, the held for sale balance relates to Truganina land lots to be disposed of in the next 12 months.

**Disposals**
- On 7 July 2017, settlement occurred on the sale of 30-68 Tarras Road, Altona North for gross proceeds of $13.1 million.
- On 31 May 2018, settlement occurred on the Group's remaining 50% share of Southgate Complex at 3 Southgate Avenue, Melbourne for gross proceeds of $289.0 million.

## Capital and financial risk management and working capital

**In this section**

The Group's overall risk management program focuses on reducing volatility from impacts of movements in financial markets and seeks to minimise potential adverse effects on the financial performance of the Group.

Note 12 *Capital and financial risk management* outlines how the Group manages its exposure to a variety of financial risks (interest rate risk, foreign currency risk, liquidity risk and credit risk) and details the various derivative financial instruments entered into by the Group.

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

- Debt: *Interest bearing liabilities* in note 13, *Loans with related parties* in note 14 and *Commitments and contingencies* in note 15
- Equity: *Contributed equity* in note 16 and *Reserves* in note 17

Note 18 provides a breakdown of the working capital balances held in the Statement of Financial Position.

### Note 12 Capital and financial risk management

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

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

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

#### a) Capital risk management

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

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

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

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

| | 2018 $m | 2017 $m |
|---|---|---|
| Total interest bearing liabilities [1] | **3,164.5** | 2,486.8 |
| Total tangible assets [2] | **13,367.8** | 11,638.5 |
| **Gearing ratio** | **23.7%** | 21.4% |
| **Gearing ratio (look-through)** [3] | **24.1%** | 22.1% |

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

The Group is rated A- by Standard & Poor's (S&P) and A3 by Moody's. The Group is required to comply with certain financial covenants in respect of its interest bearing liabilities. During the 2018 and 2017 reporting periods, the Group was in compliance with all of its financial covenants.

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

# Notes to the Financial Statements
continued

## Capital and financial risk management and working capital continued

### Note 12 Capital and financial risk management continued

**a) Capital risk management** continued

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

**b) Financial risk management**

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

- interest rate risk
- foreign currency risk
- liquidity risk
- credit risk

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

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

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

**i) Market risk**

**Interest rate risk**

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

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

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

As at 30 June 2018, 88% (2017: 81%) of the interest bearing liabilities of the Group were hedged. The average hedged percentage for the financial year was 71% (2017: 65%).

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. The net notional amount of average fixed rate debt and interest rate derivatives in place in each year and the weighted average effective hedge rate is set out below:

| | June 2019 $m | June 2020 $m | June 2021 $m | June 2022 $m | June 2023 $m |
|---|---|---|---|---|---|
| A$ fixed rate debt | 1,045.5 | 938.5 | 886.5 | 824.0 | 623.1 |
| A$ hedged[1] | 1,546.6 | 1,670.8 | 1,438.3 | 856.7 | 266.7 |
| **Combined fixed rate debt and derivatives (A$ equivalent)** | 2,592.1 | 2,609.3 | 2,324.8 | 1,680.7 | 889.8 |
| **Hedge rate (%)** | 2.90% | 2.74% | 2.65% | 2.66% | 2.79% |

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

### Sensitivity analysis on interest expense

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

| | 2018 (+/-) $m | 2017 (+/-) $m |
|---|---|---|
| +/- 0.50% (50 basis points) | 7.5 | 6.5 |
| **Total A$ equivalent** | 7.5 | 6.5 |

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

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

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

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

| | 2018 (+/-) $m | 2017 (+/-) $m |
|---|---|---|
| +/- 0.50% (50 basis points) | 19.1 | 16.2 |
| **Total A$ equivalent** | 19.1 | 16.2 |

### Sensitivity analysis on fair value of cross currency swaps

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

| | | 2018 (+/-) $m | 2017 (+/-) $m |
|---|---|---|---|
| +/- 0.50% (50 basis points) | US$ (A$ equivalent) | 4.5 | 6.4 |
| **Total A$ equivalent** | | 4.5 | 6.4 |

### Foreign currency risk

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

- highly probable forecast transactions denominated in foreign currency
- borrowings denominated in foreign currency

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

### Foreign currency assets and liabilities

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

### ii) Liquidity risk

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

- short-term liquidity management covering the month ahead on a rolling basis with continuous monitoring of forecast and actual cash flows
- medium-term liquidity management of liquid assets, working capital and standby facilities to cover Group cash requirements over the next 1-24 month period. The Group maintains a level of committed borrowing facilities above the forecast committed debt requirements (liquidity headroom buffer). Committed debt includes future expenditure that has been approved by the Board or Investment Committee (as required within delegated limits)
- 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

# Notes to the Financial Statements
continued

## Capital and financial risk management and working capital continued

### Note 12 Capital and financial risk management continued

**b) Financial risk management** continued

**ii) Liquidity risk** continued

**Refinancing risk**

Refinancing risk is the risk that the Group:

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

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

| | 2018 | | | | 2017 | | | |
|---|---|---|---|---|---|---|---|---|
| | 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 | (149.7) | – | – | – | (162.1) | – | – | – |
| **Interest bearing liabilities & interest** | | | | | | | | |
| Fixed interest rate liabilities | (333.8) | (248.4) | (927.6) | (2,253.1) | (111.1) | (304.1) | (725.6) | (1,732.8) |
| Floating interest rate liabilities | (35.9) | (517.8) | (699.2) | (256.4) | (195.6) | (526.5) | (1,095.3) | (259.0) |
| **Total interest bearing liabilities & interest** [1] | (369.7) | (766.2) | (1,626.8) | (2,509.5) | (306.7) | (830.6) | (1,820.9) | (1,991.8) |
| **Derivative financial instruments** | | | | | | | | |
| Derivative assets | 77.7 | 78.2 | 543.2 | 1,793.0 | 58.1 | 58.1 | 486.3 | 1,130.5 |
| Derivative liabilities | (65.0) | (65.5) | (513.4) | (1,911.9) | (44.5) | (45.6) | (444.5) | (1,082.0) |
| **Total net derivative financial instruments** [2] | 12.7 | 12.7 | 29.8 | (118.9) | 13.6 | 12.5 | 41.8 | 48.5 |

1. Refer to note 13. Excludes deferred borrowing costs but includes estimated fees and interest.
2. The notional maturities on derivatives are shown for cross currency interest rate swaps (refer to interest rate risk) as they are the only instruments where a principal amount is exchanged. For interest rate derivatives, only the net interest cash flows (not the notional principal) are included. Refer to note 12(c) for fair value of derivatives. Refer to note 15(b) for financial guarantees.

**iii) Credit risk**

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

The Group manages this risk by:

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

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

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

Financial instrument transactions are spread among a number of approved financial institutions within specified credit limits to minimise the Group's exposure to any one counterparty. As a result, there is no significant concentration of credit risk for financial instruments. The maximum exposure to credit risk at 30 June 2018 is the carrying amounts of financial assets recognised on the Statement of Financial Position.

The Group is exposed to credit risk on trade receivable balances. The Group has a policy to continuously assess and monitor the credit quality of trade debtors on an ongoing basis. Given the historical profile and exposure of the trade receivables, it has been determined that no significant concentrations of credit risk exists for trade receivables balances. The maximum exposure to credit risk at 30 June 2018 is the carrying amounts of the trade receivables recognised on the Statement of Financial Position.

### iv) Fair value

As at 30 June 2018 and 30 June 2017, the carrying amounts of financial assets and liabilities are held at fair value excluding interest bearing liabilities which have a carrying amount of $3,371.1 million and a fair value of $3,587.3 million. The Group uses the following methods in the determination and disclosure of the fair value of financial instruments:

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

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

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

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

**Key assumptions: fair value of derivatives and interest bearing liabilities**

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

### v) Offsetting financial assets and financial liabilities

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

Master Netting arrangements – not currently enforceable

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

### c) Derivative financial instruments

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

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

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

At inception the Group can elect to formally designate and document the relationship between certain hedge derivative instruments (cross currency interest rate swaps only) and the associated hedged items (foreign currency bonds only).

The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

#### Fair value hedge

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

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

#### Cash flow hedge

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

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

# Notes to the Financial Statements
continued

## Capital and financial risk management and working capital continued

### Note 12 Capital and financial risk management continued

c) Derivative financial instruments continued

| | 2018 $m | 2017 $m |
|---|---|---|
| **Current assets** | | |
| Interest rate derivative contracts | 2.6 | 2.2 |
| Cross currency swap contracts | 14.9 | 13.3 |
| Other derivative contracts | 6.6 | – |
| **Total current assets – derivative financial instruments** | 24.1 | 15.5 |
| **Non-current assets** | | |
| Interest rate derivative contracts | 2.8 | 9.7 |
| Cross currency swap contracts | 308.0 | 297.0 |
| **Total non-current assets – derivative financial instruments** | 310.8 | 306.7 |
| **Current liabilities** | | |
| Interest rate derivative contracts | 5.5 | 7.8 |
| Cross currency swap contracts | 1.2 | – |
| **Total current liabilities – derivative financial instruments** | 6.7 | 7.8 |
| **Non-current liabilities** | | |
| Interest rate derivative contracts | 21.5 | 37.8 |
| Cross currency swap contracts | 57.1 | 11.3 |
| **Total non-current liabilities – derivative financial instruments** | 78.6 | 49.1 |
| **Net derivative financial instruments** | 249.6 | 265.3 |

### Note 13 Interest bearing liabilities

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

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

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

| | Note | 2018 $m | 2017 $m |
|---|---|---|---|
| **Current** | | | |
| **Unsecured** | | | |
| Medium term notes | (e) | 205.1 | – |
| **Total unsecured** | | 205.1 | – |
| **Total current liabilities – interest bearing liabilities** | | 205.1 | – |
| **Non-current** | | | |
| **Unsecured** | | | |
| US senior notes | (a), (b) | 2,065.7 | 1,427.5 |
| Bank loans | (c) | 520.0 | 556.0 |
| Commercial paper | (d) | 100.0 | 100.0 |
| Medium term notes | (e) | 480.3 | 624.7 |
| **Total unsecured** | | 3,166.0 | 2,708.2 |
| Deferred borrowing costs | | (11.5) | (10.4) |
| **Total non-current liabilities – interest bearing liabilities** | | 3,154.5 | 2,697.8 |
| **Total interest bearing liabilities** | | 3,359.6 | 2,697.8 |

### Financing arrangements

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

| Type of facility | Notes | Currency | Security | Maturity Date | Utilised[1] $m | Facility Limit $m |
|---|---|---|---|---|---|---|
| US senior notes (144A) | (a) | US$ | Unsecured | Mar-21 | **337.8** | **337.8** |
| US Senior notes (USPP)[1] | (b) | US$ | Unsecured | Jul-23 to Nov-32 | **1,535.7** | **1,535.7** |
| US Senior notes (USPP) | (b) | A$ | Unsecured | Jun-28 to Nov-32 | **250.0** | **250.0** |
| Medium term notes | (e) | A$ | Unsecured | Sep-18 to May-27 | **685.4** | **685.4** |
| Commercial paper | (d) | A$ | Unsecured | Sep-21 | **100.0** | **100.0** |
| Multi-option revolving credit facilities | (c) | Multi Currency | Unsecured | Nov-19 to Jun-24 | **520.0** | **1,450.0** |
| **Total** | | | | | **3,428.9** | **4,358.9** |
| Bank guarantee in place | | | | | (43.4) | |
| Unused at balance date | | | | | 886.6 | |

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

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

#### a) US senior notes (144A)

This includes a total of US$250.0 million (A$338.2 million) of US senior notes with a maturity of March 2021. The USD exposure is economically hedged using cross currency interest rate swaps with a notional value of US$250.0 million.

#### b) US senior notes (USPP)

This includes a total of US$1,135.0 million and A$250.0 million (A$1,785.7 million) of US senior notes with a weighted average maturity of June 2028. US$1,135.0 million is designated as an accounting hedge using cross currency interest rate swaps with the same notional value.

#### c) Multi-option revolving credit facilities

This includes 17 facilities maturing between November 2019 and June 2024 with a weighted average maturity of August 2021. A$43.4 million is utilised as bank guarantees for AFSL requirements and other business requirements including developments.

#### d) Commercial paper

This includes a total of A$100.0 million of Commercial Paper which is supported by a standby facility of A$100.0 million with a weighted average maturity of September 2021. The standby facility has same day availability.

#### e) Medium term notes

This includes a total of A$680.0 million of Medium Term Notes with a weighted average maturity of April 2023. The remaining A$5.4 million is the net premium on the issue of these instruments.

## Note 14 Loans with related parties

There are no loans with related parties as at 30 June 2018. The 30 June 2017 balance represented a non-interest bearing loan provided by Dexus Martin Place Trust, which is co-owned by the Group and DWPF. The balance of this loan represented the Group's share of the proceeds from the disposal of 39 Martin Place, Sydney less the deposit paid for MLC Centre, 19 Martin Place, Sydney. This loan was subsequently repaid on 19 July 2017 upon Dexus Martin Place Trust's settlement of the acquisition of the MLC Centre.

## Note 15 Commitments and contingencies

### a) Commitments

#### Capital commitments

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

| | 2018 $m | 2017 $m |
|---|---|---|
| Investment properties | **289.5** | 122.8 |
| Inventories | **1.2** | 24.6 |
| Investments accounted for using the equity method | **48.6** | 55.4 |
| **Total capital commitments** | **339.3** | 202.8 |

# Notes to the Financial Statements
continued

## Capital and financial risk management and working capital continued

### Note 15 Commitments and contingencies continued

**a) Commitments** continued

**Lease payable commitments**

The future minimum lease payments payable by the Group are:

| | 2018 $m | 2017 $m |
|---|---|---|
| Within one year | 7.4 | 5.8 |
| Later than one year but not later than five years | 21.7 | 20.0 |
| Later than five years | 3.4 | 1.6 |
| **Total lease payable commitments** | **32.5** | 27.4 |

**Lease receivable commitments**

The future minimum lease payments receivable by the Group are:

| | 2018 $m | 2017 $m |
|---|---|---|
| Within one year | 508.3 | 487.8 |
| Later than one year but not later than five years | 1,864.9 | 1,400.4 |
| Later than five years | 625.0 | 716.6 |
| **Total lease receivable commitments** | **2,998.2** | 2,604.8 |

**b) Contingencies**

DDF, together with DIT, DOT and DXO, is a guarantor of A$4,358.9 million of interest bearing liabilities (refer to note 13). The guarantees have been given in support of debt outstanding and drawn against these facilities and may be called upon in the event that a borrowing entity has not complied with certain requirements such as failure to pay interest or repay a borrowing, whichever is earlier. During the period no guarantees were called.

The Group has bank guarantees of $43.4 million, comprising $42.2 million held to comply with the terms of the Australian Financial Services Licences (AFSL) and $1.2 million largely in respect of developments.

The above guarantees are issued in respect of the Group and represent an additional liability to those already existing in interest bearing liabilities on the Consolidated Statement of Financial Position.

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

### Note 16 Contributed equity

**Number of securities on issue**

| | 2018 No. of securities | 2017 No. of securities |
|---|---|---|
| Opening balance at the beginning of the year | 1,016,967,300 | 967,947,692 |
| Issue of additional equity | 437,242 | 49,019,608 |
| Buy-back of contributed equity | (207,665) | – |
| **Closing balance at the end of the year** | **1,017,196,877** | 1,016,967,300 |

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

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

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

On 14 February 2018, the Group announced its intentions to initiate an on-market securities buy-back opportunity to enhance investor returns.

## Note 17 Reserves

| | 2018 $m | 2017 $m |
|---|---|---|
| Asset revaluation reserve | **42.7** | 42.7 |
| Cash flow hedge reserve | **(12.5)** | 6.9 |
| Security-based payments reserve | **12.5** | 10.8 |
| Treasury securities reserve | **(15.5)** | (11.7) |
| **Total reserves** | **27.2** | 48.7 |
| **Movements:** | | |
| **Asset revaluation reserve** | | |
| Opening balance at the beginning of the year | **42.7** | 42.7 |
| **Closing balance at the end of the year** | **42.7** | 42.7 |
| **Cash flow hedge reserve** | | |
| Opening balance at the beginning of the year | **6.9** | 9.1 |
| Changes in the fair value of cash flow hedges | **(19.4)** | (2.2) |
| **Closing balance at the end of the year** | **(12.5)** | 6.9 |
| **Security-based payments reserve** | | |
| Opening balance at the beginning of the year | **10.8** | 7.4 |
| Issue of securities to employees | **(3.3)** | (2.8) |
| Security-based payments expense | **5.0** | 6.2 |
| **Closing balance at the end of the year** | **12.5** | 10.8 |
| **Treasury securities reserve** | | |
| Opening balance at the beginning of the year | **(11.7)** | (7.1) |
| Issue of securities to employees | **3.3** | 2.8 |
| Purchase of securities | **(7.1)** | (7.4) |
| **Closing balance at the end of the year** | **(15.5)** | (11.7) |

### Nature and purpose of reserves

#### Asset revaluation reserve

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

#### Cash flow hedge reserve

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

#### Security-based payment reserve

The security-based payment reserve is used to recognise the fair value of performance rights to be issued under the Deferred Short-Term Incentive Plans (DSTI) and the Long-Term Incentive Plans (LTI). Refer to note 22 for further details.

#### Treasury securities reserve

The treasury securities reserve is used to record the acquisition of securities purchased to fulfil the obligations of the Deferred Short-Term Incentive Plans (DSTI) and the Long-Term Incentive Plans (LTI). As at 30 June 2018, DXS held 1,645,469 stapled securities which includes acquisitions of 726,280 and unit vesting of 589,953 (2017: 1,509,142).

# Notes to the Financial Statements
continued

## Capital and financial risk management and working capital continued

### Note 18 Working capital

**a) Cash and cash equivalents**

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

**b) Receivables**

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

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

| | 2018 $m | 2017 $m |
|---|---|---|
| Rent receivable | 13.3 | 19.4 |
| **Total rental receivables** | **13.3** | 19.4 |
| Distributions receivable | 22.9 | 26.3 |
| Fee receivable | 20.5 | 22.0 |
| Other receivables | 6.7 | 14.0 |
| **Total other receivables** | **50.1** | 62.3 |
| **Total receivables** | **63.4** | 81.7 |

**c) Other current assets**

| | 2018 $m | 2017 $m |
|---|---|---|
| Prepayments | 16.6 | 12.6 |
| Other | 11.2 | 0.7 |
| **Total other current assets** | **27.8** | 13.3 |

**d) Payables**

| | 2018 $m | 2017 $m |
|---|---|---|
| Trade creditors | 21.2 | 32.3 |
| Accruals | 11.7 | 12.6 |
| Accrued capital expenditure | 63.2 | 70.0 |
| Prepaid income | 20.6 | 15.7 |
| Accrued interest | 30.1 | 26.9 |
| Other payables | 2.9 | 4.6 |
| **Total payables** | **149.7** | 162.1 |

### e) Provisions

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

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

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

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

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

The provision is calculated using expected future increases in wage and salary rates including related on-costs and expected settlement dates based on turnover history and is discounted using the Australian Corporate Bond Index rates at the end of the reporting period that most closely matches the term of the maturity of the related liabilities. The provision for employee benefits also includes the employee incentives schemes which are shown separately in note 22.

| | **2018 $m** | 2017 $m |
|---|---|---|
| Provision for distribution | **245.3** | 241.6 |
| Provision for employee benefits | **26.4** | 24.5 |
| **Total current provisions** | **271.7** | 266.1 |

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

| | **2018 $m** | 2017 $m |
|---|---|---|
| **Provision for distribution** | | |
| Opening balance at the beginning of the year | **241.6** | 198.0 |
| Additional provisions | **486.4** | 451.7 |
| Payment of distributions | **(482.7)** | (408.1) |
| **Closing balance at the end of the year** | **245.3** | 241.6 |

A provision for distribution has been raised for the period ended 30 June 2018. This distribution is to be paid on 30 August 2018.

# Notes to the Financial Statements
continued

## Other Disclosures

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

### Note 19 Intangible assets

Management rights represent the asset management rights owned by Dexus Holdings Pty Limited, a wholly owned subsidiary of DXO, which entitles it to management fee revenue from both finite life trusts and indefinite life trusts. Those rights that are deemed to have a finite useful life (held at a value of $3.7 million (2017: $4.1 million) are measured at cost and amortised using the straight-line method over their estimated remaining useful lives of 15 years. Management rights that are deemed to have an indefinite life are held at a value of $286.0 million (2017: $286.0 million).

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

| | 2018 $m | 2017 $m |
|---|---|---|
| **Management rights** | | |
| Opening balance at the beginning of the year | **290.1** | 290.6 |
| Amortisation charge | **(0.3)** | (0.5) |
| **Closing balance at the end of the year** | **289.8** | 290.1 |
| Cost | **294.4** | 294.4 |
| Accumulated amortisation | **(4.6)** | (4.3) |
| **Total management rights** | **289.8** | 290.1 |
| **Goodwill** | | |
| Opening balance at the beginning of the year | **1.2** | 1.3 |
| Impairment | **(0.1)** | (0.1) |
| **Closing balance at the end of the year** | **1.1** | 1.2 |
| Cost | **3.0** | 3.0 |
| Accumulated impairment | **(1.9)** | (1.8) |
| **Total goodwill** | **1.1** | 1.2 |
| **Software** | | |
| Opening balance at the beginning of the year | **18.2** | 15.2 |
| Additions | **10.9** | 7.3 |
| Amortisation charge | **(5.4)** | (4.3) |
| **Closing balance at the end of the year** | **23.7** | 18.2 |
| Cost | **47.7** | 36.8 |
| Accumulated amortisation | **(24.0)** | (18.6) |
| Cost – Fully amortised assets written off | **(2.8)** | (10.2) |
| Accumulated amortisation – Fully amortised assets written off | **2.8** | 10.2 |
| **Total software** | **23.7** | 18.2 |
| **Total non-current intangible assets** | **314.6** | 309.5 |

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

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

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

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

**Key assumptions: value in use of management rights**

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

- Terminal capitalisation rate range between 10.0%-20.0% (2017: 10.0%–20.0%) was used incorporating an appropriate risk premium for a management business
- Cash flows have been discounted at 9.0% (2017: 9.0%) based on externally published weighted average cost of capital for an appropriate peer group plus an appropriate premium for risk. A 1.0% (2017: 1.0%) decrease in the discount rate would increase the valuation by $20.0 million (2017: $18.6 million)

## Note 20 Audit, taxation and transaction service fees

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

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| **Audit fees** | | |
| PwC Australia – audit and review of Financial Statements | 1,404 | 1,357 |
| PwC fees paid in relation to outgoings audits | 138 | 105 |
| PwC Australia – regulatory audit and compliance services | 378 | 209 |
| PwC Australia – sustainability assurance | 75 | 85 |
| **Audit fees paid to PwC** | **1,995** | **1,756** |
| **Taxation fees** | | |
| Fees paid to PwC Australia and New Zealand | 24 | 20 |
| **Taxation fees paid to PwC** | **24** | **20** |
| **Total audit and taxation fees paid to PwC** | **2,019** | **1,776** |
| **Transaction services fees** | | |
| Fees paid to PwC Australia in respect of the Healthcare establishment | 30 | – |
| Fees paid to PwC Australia – other | 99 | 25 |
| **Total transaction services fees paid to PwC** | **129** | **25** |
| **Total audit, taxation and transaction services fees paid to PwC** | **2,148** | **1,801** |

# Notes to the Financial Statements continued

## Other Disclosures continued

### Note 21 Cash flow information

**a) Reconciliation of cash flows from operating activities**

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

| | 2018 $m | 2017 $m |
|---|---|---|
| **Net profit/(loss) for the year** | **1,728.9** | 1,264.2 |
| Capitalised interest | **(13.1)** | (9.8) |
| Depreciation and amortisation | **9.2** | 7.8 |
| Impairment of inventories | **0.6** | – |
| Net fair value (gain)/loss of investment properties | **(854.2)** | (457.6) |
| Share of net (profit)/loss of investments accounted for using the equity method | **(535.8)** | (470.4) |
| Net fair value (gain)/loss of derivatives | **79.9** | 101.0 |
| Net fair value (gain)/loss of interest rate swaps | **(2.4)** | (9.8) |
| Amortisation of deferred borrowing costs | **3.9** | 3.9 |
| Net (gain)/loss on sale of investment properties | **(1.7)** | (23.4) |
| Net fair value gain/(loss) of interest bearing liabilities | **(85.8)** | (87.5) |
| Provision for doubtful debts | **–** | (0.5) |
| Distributions from investments accounted for using the equity method | **331.0** | 237.6 |
| **Change in operating assets and liabilities** | | |
| (Increase)/decrease in receivables | **8.9** | 11.4 |
| (Increase)/decrease in prepaid expenses | **(4.0)** | (1.6) |
| (Increase)/decrease in inventories | **(37.8)** | 67.3 |
| (Increase)/decrease in other current assets | **(9.0)** | (0.4) |
| (Increase)/decrease in other non-current assets | **22.5** | 20.4 |
| Increase/(decrease) in payables | **(24.4)** | 9.2 |
| Increase/(decrease) in current liabilities | **(16.4)** | (15.5) |
| Increase/(decrease) in other non-current liabilities | **(1.4)** | 7.5 |
| (Increase)/decrease in deferred tax assets | **10.8** | 3.3 |
| **Net cash inflow/(outflow) from operating activities** | **609.7** | 657.1 |

**b) Net debt reconciliation**

Reconciliation of net debt movements:

| | Interest bearing liabilities | Loans with related parties |
|---|---|---|
| Balance as at 1 July 2017 | **2,697.8** | **149.0** |
| **Changes from financing cash flows** | | |
| Proceeds from borrowings | **2,599.0** | **–** |
| Repayment of borrowings | **(1,921.2)** | **–** |
| Repayment of loan with related party | **–** | **(149.0)** |
| **Non cash changes** | | |
| Movement in deferred borrowing costs | **(1.2)** | **–** |
| The effect of changes in foreign exchange rates | **71.2** | **–** |
| Changes in fair value | **(85.8)** | **–** |
| **Balance as at 30 June 2018** | **3,359.8** | **–** |

## Note 22 Security-based payment

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

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

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

**Key assumptions: fair value of performance rights granted**

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

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

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

### a) Deferred Short-Term Incentive Plan

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

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

The number of performance rights granted in respect of the year ended 30 June 2018 was 263,222 (2017: 274,801) and the fair value of these performance rights is $9.88 (2017: $10.00) per performance right. The total security-based payment expense recognised during the year ended 30 June 2018 was $2,585,116 (2017: $2,655,472).

### b) Long-Term Incentive Plan

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

The number of performance rights granted in respect of the year ended 30 June 2018 was 465,701 (2017: 480,660). The weighted average fair value of these performance rights is $9.02 (2017: $8.04) per performance right. The total security-based payment expense recognised during the year ended 30 June 2018 was $3,231,041 (2017: $3,390,504).

# Notes to the Financial Statements
continued

## Other Disclosures continued

### Note 23 Related parties

**Responsible Entity and Investment Manager**

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

DXH is also the parent entity of DWPL and DWFL, the Responsible Entities of DWPF and HWPF respectively.

DXH is the Investment Manager of DOTA.

**Management Fees**

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

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

**Related party transactions**

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

**Transactions with related parties**

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| Responsible Entity & asset management fee income | **70,450** | 62,772 |
| Property management fee income | **24,841** | 22,446 |
| Rent paid | **2,760** | 2,627 |
| Responsible Entity fees receivable at the end of each reporting year (included above) | **6,572** | 5,631 |
| Property management fees receivable at the end of each reporting year (included above) | **2,612** | 98 |
| Administration expenses receivable at the end of each reporting year (included above) | **5,552** | 5,641 |

**Key management personnel compensation**

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| **Compensation** | | |
| Short-term employee benefits | **9,275** | 8,967 |
| Post employment benefits | **350** | 717 |
| Security-based payments | **3,725** | 3,011 |
| **Total key management personnel compensation** | **13,350** | 12,695 |

Information regarding individual Directors' and Senior Executives' remuneration is provided in the Remuneration Report on pages 24 to 42 of this Annual Report.

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

## Note 24 Parent entity disclosures

The financial information for the parent entity of Dexus Diversified Trust has been prepared on the same basis as the Consolidated Financial Statements except as set out below.

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

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

### a) Summary financial information

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

| | 2018 $m | 2017 $m |
|---|---|---|
| Total current assets | **33.5** | 47.7 |
| Total assets | **5,095.6** | 4,079.0 |
| Total current liabilities – payables | **75.9** | 84.1 |
| Total liabilities | **2,192.6** | 1,518.4 |
| **Equity** | | |
| Contributed equity | **2,127.1** | 2,126.6 |
| Reserves | **(12.5)** | 6.9 |
| Retained profits | **788.4** | 427.2 |
| **Total equity** | **2,903.0** | 2,560.7 |
| Net profit/(loss) for the year | **468.8** | 217.4 |
| **Total comprehensive income/(loss) for the year** | **449.4** | 215.2 |

### b) Guarantees entered into by the parent entity

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

### c) Contingent liabilities

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

### d) Capital commitments

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

| | 2018 $m | 2017 $m |
|---|---|---|
| Investment properties | **102.8** | 1.8 |
| **Total capital commitments** | **102.8** | 1.8 |

### e) Going concern

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

## Note 25 Subsequent events

On 12 July 2018, settlement occurred for the acquisition of 586 Wickham Street, Fortitude Valley, QLD for $86.8 million excluding acquisition costs.

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

# Directors' Declaration

The Directors of Dexus Funds Management Limited as Responsible Entity of Dexus Diversified Trust declare that the Financial Statements and notes set out on pages 58 to 99:

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

(ii) give a true and fair view of the Group's financial position as at 30 June 2018 and of its performance, as represented by the results of its operations and their cash flows, for the year ended on that date.

In the Directors' opinion:

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

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

(c) the Group has operated in accordance with the provisions of the Constitution dated 15 August 1984 (as amended) during the year ended 30 June 2018.

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

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

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

**W Richard Sheppard**
Chair

14 August 2018

# Independent Auditor's Report

## *Independent auditor's report*

To the stapled security holders of Dexus Diversified Trust

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

### *Our opinion*

In our opinion:

The accompanying financial report of Dexus Diversified Trust (the Registered Scheme) and its controlled entities and stapled 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 2018 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***

For the purposes of consolidation accounting, Dexus Diversified Trust (DDF) is the parent entity and deemed acquirer of Dexus Industrial Trust (DIT), Dexus Office Trust (DOT) and Dexus Operations Trust (DXO). The financial report represents the consolidated results of DDF and include DDF and its controlled entities, DIT and its controlled entities, DOT and its controlled entities, and DXO and its controlled entities.

The Group financial report comprises:

- the Consolidated Statement of Financial Position as at 30 June 2018
- 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 Financial Statements, which include significant accounting policies
- the Directors' Declaration.

### *Basis for opinion*

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

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

***Independence***

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant

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

*Level 11, 1PSQ, 169 Macquarie Street, Parramatta NSW 2150, PO Box 1155 Parramatta NSW 2124*
*T: +61 2 9659 2476, F: +61 2 8266 9999, www.pwc.com.au*

# Independent Auditor's Report
continued

to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

## *Our audit approach*

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

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


| *Materiality* | *Audit scope* | *Key audit matters* |
|---|---|---|
| • For the purpose of our audit we used overall materiality of $32.6 million, which represents approximately 5% of the Group's adjusted profit before tax (Funds From Operations or FFO).<br>• 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.<br>• We chose FFO because, in our view, it is the key performance measure of the Group. An explanation of what is included in FFO is outlined in Note 1, Operating segments.<br>• We utilised a 5% threshold based on our professional judgement, noting it is within the range of commonly acceptable profit related thresholds. | • The Group is a stapled entity with operations in Australia. In a stapled group the securities of two or more entities are 'stapled' together and cannot be traded separately. In the case of the Group, the stapled entity includes DDF, DIT, DOT and DXO and their controlled entities.<br>• Our audit focused on where the Group made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events.<br>• We audited each of the individual stapled trusts that form the Group as well as the consolidation of the Group. | • Amongst other relevant topics, we communicated the following key audit matters to the Board Audit Committee:<br>– Valuation of investment properties, including those investment properties in investments accounted for under the equity method<br>– Carrying amount of indefinite life management rights<br>– Carrying amount of inventory<br>• These are further described in the *Key audit matters* section of our report. |

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## *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***<br>*(Refer to Note 8 and 9)*<br><br>The Group's investment property portfolio comprises:<br><br>• Directly held properties included in the Consolidated Statement of Financial Position as *Investment Properties* valued at $8,242.6 million as at 30 June 2018 (2017: $7,169.1 million).<br><br>• The Group's share of investment properties held through associates and joint ventures included in the Consolidated Statement of Financial Position as *Investments accounted for using the equity method* valued at $4,548.3 million as at 30 June 2018 (2017: $3,779.7 million).<br><br>Investment properties are carried at fair value at reporting date using the Group's policy as described in Note 8. The valuation of investment properties is dependent on a number of assumptions and inputs including, tenant information, property age and location, expected future rental profiles, and prevailing market conditions. Amongst others, the following assumptions are key in establishing fair value:<br><br>• The capitalisation rate<br>• The adopted discount rate.<br><br>We considered the valuation of investment properties to be a key audit matter due to the:<br><br>• Financial significance of investment properties in the Consolidated Statement of Financial Position.<br>• Potential for changes in the fair value of investment properties to have a significant effect on the Group's comprehensive income. | To assess the valuation of investment properties we performed the following procedures amongst others:<br><br>• We considered the valuation methodology adopted by the Group and found it to be consistent with commonly accepted valuation approaches used for investment properties in the industry and the Group's valuation policy.<br><br>• We obtained recent independent property market reports to develop an understanding of the prevailing market conditions in which the Group invests. We leveraged this knowledge to form independent expectations for movements in investment property values and underlying key assumptions such as capitalisation rates and discount rates.<br><br>• We compared the capitalisation rates and discount rates used by the Group to ranges we determined were reasonable based on benchmark market data. Where capitalisation rates, discount rates and/or movements in individual property valuations fell outside of our anticipated ranges, we performed the following procedures, amongst others:<br>  - Met with the Group's Senior Valuation Manager 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.<br>  - Agreed significant changes in inputs to supporting documentation such as new lease agreements.<br><br>We found that typically the variances related to the relative age, or size/location of the individual property in comparison to the market. In the |

Financial Report

# Independent Auditor's Report
## continued

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| *Key audit matter* | *How our audit addressed the key audit matter* |
|---|---|
| • Inherently subjective nature of investment property valuations arising from the use of assumptions in the valuation methodology.<br>• Sensitivity of valuations to key input assumptions, including capitalisation rates, and discount rates. | context of the specific properties identified, we found the reasons for variances appropriate.<br>• As the Group engaged external experts to determine the fair value of investment properties, we considered the independence, experience and competency of the Group's independent experts as well as the results of their procedures. |
| ***Carrying amount of indefinite life management rights***<br>*(Refer to Note 19)*<br><br>At 30 June 2018 indefinite life management rights (management rights) amounting to $286.0 million (2017: $286.0 million) were recognised by the Group (included in the intangible assets balance). In accordance with the requirements of Australian Accounting Standards, indefinite life management rights are not amortised and are tested at least annually for impairment.<br><br>The Group performed impairment testing of the management rights by comparing the recoverable amount of the management rights to their carrying amount. The Group concluded that management rights were not impaired.<br><br>We considered the carrying amount of management rights a key audit matter given the:<br>• Financial significance of the balance in the Consolidated Statement of Financial Position<br>• Significant judgement required by the Group in estimating the recoverable amount of management rights<br>• Sensitivity of the Group's assessment to changes in key assumptions such as growth rates, discount rates, and future cash flows. | To assess the impairment model used to determine the recoverable amount, we performed the following audit procedures, amongst others:<br>• Assessed whether the division of the Group's management rights into cash generating units (CGU), was in line with the Australian Accounting Standards and consistent with our knowledge of the Group's operations and internal Group reporting.<br>• Tested the mathematical accuracy of each impairment model's calculations.<br>• Evaluated the Group's methodology and selected inputs and assumptions in the impairment model, such as discount rate, revenue and expense growth rates by comparing to observable market expectations.<br>• Tested that forecast cash flows used in the impairment model were consistent with the most up-to-date budgets approved by the Board. For cash flows beyond year three that were not covered by formal budgets, we assessed the growth rates applied by comparing to observable market expectations.<br>• Evaluated the Group's historical ability to forecast future cash flows by comparing budgets to reported actual results.<br>• Considered the Group's sensitivity analysis on key assumptions used in the impairment model to assess under which assumptions an impairment would occur and whether this was reasonably possible.<br>• Together with PwC valuation experts we considered whether the discount rate applied was consistent with observable market expectations. |

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| *Key audit matter* | *How our audit addressed the key audit matter* |
|---|---|
| ***Carrying amount of inventory*** <br> *(Refer to Note 10)* <br><br> The Group develops a portfolio of office and industrial sites for future sale, which are classified as inventory. <br><br> At 30 June 2018 the carrying amount of the Group's inventory was $544.7 million (2017: $211.3 million). The Group's inventories are held at the lower of the cost or net realisable value for each inventory asset. <br><br> The cost of inventory is calculated using actual acquisition costs, construction costs, development related costs and interest capitalised for eligible projects. <br><br> Net realisable value is determined by using the valuation techniques referred to in the key audit matter: *Valuation of investment properties, including those properties in investments accounted for under the equity method* to determine the estimated future selling price, and adjusted for the estimated cost to complete and transaction costs. <br><br> We considered the carrying amount of inventory to be a key audit matter given the: <br> • Judgement required in determining the fair value of properties transferred from investment properties to inventory at the date of transfer. Refer to key audit matter: *Valuation of investment properties, including those properties in investments accounted for under the equity method* for key judgements in determining the fair value. <br> • Judgements required by the Group in determining the estimated future selling prices, costs to complete and transaction costs. <br> • Financial significance of the inventory balance in the Consolidated Statement of Financial Position. <br> • The subsequent impact to FFO from the disposal of inventory where cost is determined by the fair value at the date of transfer. | To assess the carrying amount of inventory we performed the following procedures amongst others: <br><br> • We used a risk based approach to select a sample of inventory assets on which to perform net realisable value testing. For the selected assets we: <br> - Discussed with management the life cycle of the project, key project risks, changes to project strategy, current and future estimated sales prices, construction progress and costs and any new and previous impairments. <br> - Selected a sample of costs capitalised to inventory to test that the cost had been capitalised in accordance with the Group's policy/methodology and the requirements of Australian Accounting Standards. <br> - Compared the market capitalisation rates and net market income used by the Group to calculate net realisable value to market capitalisation rates and rental rates published by external independent valuation experts. <br> - Compared the carrying amount of inventory against the Group's estimate of net realisable value as at 30 June 2018. <br><br> • For properties transferred from investment property to inventory, we: <br> - Performed the procedures outlined in the key audit matter: *Investment Properties for Valuation of investment properties, including those properties in investments accounted for under the equity method* in assessing the appropriateness of the fair value at the date of transfer. <br> - Inspected the investment committee paper and board approval to ensure that the transfer was executed in accordance with the approved terms. |

# Independent Auditor's Report
continued

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## *Other information*

The Directors of the responsible entity of the Group, Dexus Funds Management Limited (the Directors), are responsible for the other information. The other information comprises the information included in the annual report for the year ended 30 June 2018, including Overview, Performance, Positive Momentum, Governance, Directors' Report and Investor Information, 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 we do not and will not express an opinion or any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information identified above and, in doing so, 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, based on the work we have performed, 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.

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

The Directors 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 have no realistic alternative but to do so.

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

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

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

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## *Report on the remuneration report*

### *Our opinion on the remuneration report*

We have audited the remuneration report included in pages 24 to 42 of the Directors' Report for the year ended 30 June 2018.

In our opinion, the remuneration report of Dexus Diversified Trust for the year ended 30 June 2018 complies with section 300A of the *Corporations Act 2001*.

### *Responsibilities*

The directors are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of *the Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

PricewaterhouseCoopers

PricewaterhouseCoopers

Matthew Lunn
Partner

Sydney
14 August 2018

# Investor Information

**We recognise the importance of effective communication with existing and potential institutional investors, sell-side analysts and retail investors**

Our senior management maintain a strong rapport with the investment community through proactive and regular investor engagement initiatives. We are committed to delivering a high level of transparency and disclosure by:

- Releasing accurate and relevant information to investors to ensure they can make informed investment decisions
- Providing regular access to senior management through one-on-one meetings, presentations, property tours, conferences, dedicated investor roadshows, conference calls and webcasts

We adopt strong corporate governance principles including a policy that ensures a minimum of two Dexus representatives participate in any investor or sell-side analyst meetings and that a record of the meeting is maintained on an internal relationship database.

During FY18, our senior management together with the Investor Relations (IR) team held 275 meetings with investor/broker groups to discuss the Group's business strategy, operational and financial performance. These contacts were undertaken across a wide range of investor activities including telephone calls, conferences, roadshows, one-on-one meetings, dinners, investor briefings and roundtables. We held investor meetings in Australia, Singapore, Hong Kong, Japan, New York, Montreal, Toronto, London and Amsterdam. These meetings enabled access to potential new investors and assisted with strengthening existing relationships with long-term investors.

Our IR team arranged tours of Dexus properties with investors and sell-side analysts to increase awareness of the quality of the portfolio, Dexus's active asset management approach and importantly where Dexus creates value.

We regularly commission independent investor perception studies to gather feedback from the institutional investment community. These studies involve independent surveys and interviews with institutional investors and sell-side analysts to measure investor perceptions on a number of attributes and report on the findings. The results help the Board and Executive team understand the investment community's views and concerns and assists in the enhancement of the group's Investor Relations and communications efforts.

## Annual General Meeting

On Wednesday, 24 October 2018, commencing at 2.00pm, Dexus's Annual General Meeting (AGM) will be held in Sydney. Details relating to the meeting, including the venue location will be provided to all investors in the Notice of Meeting. We invite you to attend the AGM in person to meet the Board of Directors and members of the Executive team. The AGM will be webcast at www.dexus.com for investors who are unable to attend in person.

## Distribution payments

Dexus's payout policy is to distribute in line with free cash flow. Distributions are paid for the six month periods to 31 December and 30 June each year. Distribution statements are available in print and electronic formats and distributions are paid via direct credit into nominated bank accounts or by cheque.

To change the method of receiving distributions, please use the investor login facility at www.dexus.com/update

## Unclaimed distribution income

Unpresented cheques or unclaimed distribution income can be claimed by contacting the Dexus Infoline on +61 1800 819 675. For monies outstanding greater than seven years, please contact the NSW Office of State Revenue on +61 1300 366 016, 8.30am-5.00pm Monday to Friday, use their search facility at osr.nsw.gov.au/ucm or email unclaimedmoney@osr.nsw.gov.au

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

An Attribution Managed Investment Trust Member Annual Statement (AMMA) is sent to investors at the end of August each year. The statement summarises distributions provided during the financial year and includes information required to complete your tax return. AMMA statements are also available online at www.dexus.com/update

## 2019 Reporting calendar

**2018 Annual General Meeting**
24 October 2018

**2019 Half year results**
6 February 2019

**2019 Annual results**
14 August 2019

**2019 Annual General Meeting**
30 October 2019

## Distribution calendar

| Period end | ASX announcement | Ex-distribution date | Record date | Payment date |
|---|---|---|---|---|
| 31 Dec 2018 | 21 Dec 2018 | 28 Dec 2018 | 31 Dec 2018 | 28 February 2019 |
| 30 Jun 2019 | 24 Jun 2019 | 27 Jun 2019 | 28 Jun 2019 | 29 August 2019 |

Please note that these dates are indicative and are subject to change without prior notice.
Any changes in our key dates will be published on our website.

## Go electronic for convenience and speed

Did you know you can receive all or part of your security holder communications electronically? You can change your communication preferences at any time by logging in at www.dexus.com/update or by contacting Link Market Services on +61 1800 819 675.

## Investor communications

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

**Dexus's website –** www.dexus.com
Other investor tools available include:

**Online enquiry –** www.dexus.com/enquire
is an easy online enquiry form

**Investor login –** www.dexus.com/update
enables investors to update their details and download statements

**Subscribe to alerts –** www.dexus.com/subscribe
enables investors to receive Dexus communications immediately after release

**Key dates** – Provides investors with key events and reporting dates

**LinkedIn** – We engage with our followers on LinkedIn. www.dexus.com/LinkedIn and click follow us

**Twitter** – We engage with our followers on Twitter
Search Dexus on Twitter and follow us

**Facebook –** We engage with our followers on Facebook
Search Dexus on Facebook and follow us

**Dexus IR App** – provides users access to our investor communications and security price. Download for free from Apple's App Store or Google Play

## Making contact

If you have any questions regarding your security holding or wish to update your personal or distribution payment details, please contact the Registry by calling the Dexus Infoline on +61 1800 819 675. This service is available from 8.30am to 5.30pm (Sydney time) on all business days. All correspondence should be addressed to:

Dexus
C/- Link Market Services Limited
Locked Bag A14
Sydney South NSW 1235
Email: dexus@linkmarketservices.com.au

Dexus is committed to delivering a high level of service to all investors. If you feel Dexus could improve its service or you would like to make a suggestion or a complaint, your feedback is appreciated. Dexus's contact details are:

## Investor Relations

Dexus
PO Box R1822
Royal Exchange NSW 1225
Email: ir@dexus.com

Dexus Funds Management Limited is also a member of the Financial Ombudsman Service (FOS), an independent dispute resolution scheme. If you are not satisfied with the resolution of your complaint, you may refer your complaint to FOS.

## Financial Ombudsman Service

GPO Box 3
Melbourne VIC 3001
Phone: 1300 780 808
Email: info@fos.org.au

# Additional Information

## Top 20 security holders at 31 July 2018

| Rank | Name | No. of units | % of issued capital |
|---|---|---|---|
| 1 | HSBC Custody Nominees (Australia) Limited | 511,433,786 | 50.28 |
| 2 | J P Morgan Nominees Australia Limited | 209,399,194 | 20.59 |
| 3 | Citicorp Nominees Pty Limited | 94,823,310 | 9.32 |
| 4 | National Nominees Limited | 45,591,612 | 4.48 |
| 5 | BNP Paribas Nominees Pty Ltd <Agency Lending DRP A/C> | 26,975,577 | 2.65 |
| 6 | BNP Paribas Noms Pty Ltd <DRP> | 14,622,816 | 1.44 |
| 7 | Citicorp Nominees Pty Limited <Colonial First State Inv A/C> | 10,441,869 | 1.03 |
| 8 | AMP Life Limited | 4,361,995 | 0.43 |
| 9 | IOOF Investment Management Limited <IPS Super A/C> | 3,471,084 | 0.34 |
| 10 | HSBC Custody Nominees (Australia) Limited <NT-Comnwlth Super Corp A/C> | 3,109,803 | 0.31 |
| 11 | Bond Street Custodians Limited <ENH Property Securities A/C> | 2,516,235 | 0.25 |
| 12 | Pacific Custodians Pty Limited Perf Rights Plan TST | 1,631,859 | 0.16 |
| 13 | BNP Paribas Nominees Pty Ltd <Agency Lending Collateral> | 1,542,500 | 0.15 |
| 14 | BNP Paribas Noms (NZ) Ltd <DRP> | 1,029,679 | 0.10 |
| 15 | HSBC Custody Nominees (Australia) Limited | 896,354 | 0.09 |
| 16 | Bond Street Custodians Limited <Property Securities A/C> | 841,288 | 0.08 |
| 17 | Netwealth Investments Limited <Wrap Services A/C> | 828,404 | 0.08 |
| 18 | National Nominees Limited <DB A/C> | 740,100 | 0.07 |
| 19 | HSBC Custody Nominees (Australia) Limited – GSCO ECA | 636,424 | 0.06 |
| 20 | BNP Paribas Nominees Pty Ltd HUB24 Custodial Serv Ltd DRP | 635,984 | 0.06 |
| **Sub total** | | **935,528,873** | **91.97** |
| **Balance of register** | | **81,668,004** | **8.03** |
| **Total of issued capital** | | **1,017,196,877** | **100.00** |

## Substantial holders at 31 July 2018

The names of substantial holders, who at 31 July 2018 have notified the Responsible Entity in accordance with section 671B of the *Corporations Act 2001*, are:

| Date | Name | Number of stapled securities | % voting |
|---|---|---|---|
| 9 Feb 17 | Vanguard Group | 87,569,418 | 9.05 |
| 23 Mar 17 | State Street Corporation | 57,873,621 | 5.98 |
| 22 Aug 17 | Blackrock Group | 79,55,806 | 7.82 |

Note: Dexus issued capital changed from 1,017,404,542 to 1,017,196,877 between January and March 2018 following the purchase and cancellation of 207,665 securities as noted in the on-market buy-back section.

## Class of securities

Dexus has one class of stapled security trading on the ASX with security holders holding stapled securities at 31 July 2018.

## Spread of securities at 31 July 2018

| Range | Securities | % | No. of Holders |
|---|---|---|---|
| 100,000 and over | 946,450,437 | 93.04 | 63 |
| 50,000 to 100,000 | 2,274,880 | 0.22 | 34 |
| 10,001 to 50,000 | 16,425,907 | 1.61 | 965 |
| 5,001 to 10,000 | 16,407,010 | 1.61 | 2,392 |
| 1,001 to 5,000 | 30,455,509 | 2.99 | 12,807 |
| 1 to 1,000 | 5,183,134 | 0.51 | 10,828 |
| **Total** | **1,017,196,877** | **100.00** | **27,089** |

At 31 July 2018, the number of security holders holding less than a marketable parcel of 50 Securities ($500) was 413 and they hold a total of 2,250 securities.

## Voting rights

At meetings of the security holders of Dexus Diversified Trust, Dexus Industrial Trust, Dexus Office Trust and Dexus Operations Trust, being the Trusts that comprise Dexus, on a show of hands, each security holder of each Trust has one vote. On a poll, each security holder of each Trust has one vote for each dollar of the value of the total interests they have in the Trust.

## Securities restricted or subject to voluntary escrow

There are no stapled securities that are restricted or subject to voluntary escrow.

## On-market buy-back

Dexus announced an on-market securities buy-back program on 14 February 2018 for up to 5% of securities. Throughout the year, Dexus acquired 207,665 securities for $1.9 million at an average price of $9.17 under the buy-back program.

As at the date of this report the buy-back program is still open.

## Cost base apportionment

For capital gains tax purposes, the cost base apportionment details for Dexus securities for the 12 months ended 30 June 2018 are:

| Date | Dexus Diversified Trust | Dexus Industrial Trust | Dexus Office Trust | Dexus Operating Trust |
|---|---|---|---|---|
| 1 Jul 2017 to 31 Dec 2017 | 29.01% | 12.08% | 54.96% | 3.95% |
| 1 Jan 2018 to 30 Jun 2018 | 28.96% | 9.53% | 59.37% | 2.41% |

Historical cost base details are available at www.dexus.com

# Key ASX Announcements

| | |
|---|---|
| **14 Aug 2018** | Replenishing industrial development pipeline in core locations |
| **22 Jun 2018** | Settlement of 140 George Street Parramatta |
| **19 Jun 2018** | Higher market rents contribute to valuation uplift |
| **19 Jun 2018** | Distribution for the six months ending 30 June 2018 |
| **19 Jun 2018** | Appendix 3A – Notice of Distribution |
| **01 Jun 2018** | Settlement of the remaining interest of Southgate Complex Melbourne |
| **08 May 2018** | Sale of trading property secures FY19 trading profits |
| **01 May 2018** | 2018 Macquarie Australia Conference |
| **01 May 2018** | March 2018 quarter portfolio update |
| **01 May 2018** | On market buy back and cancellation of securities |
| **17 Apr 2018** | Appendix 3E – Daily share buy-back notice |
| **27 Mar 2018** | Appendix 3E – Daily share buy-back notice |
| **21 Mar 2018** | Settlement of 11 Waymouth Street Adelaide |
| **05 Mar 2018** | Daiwa Investment Conference Presentation |
| **28 Feb 2018** | 31 December 2017 distribution payment and HY18 Review |
| **14 Feb 2018** | HY18 Appendix 4D and Financial Statements |
| **14 Feb 2018** | HY18 Distribution details |
| **14 Feb 2018** | HY18 Results release |
| **14 Feb 2018** | HY18 Property Synopsis |
| **14 Feb 2018** | HY18 Results presentation |
| **14 Feb 2018** | Appendix 3C on market securities buy back |
| **22 Dec 2017** | Sale of 11 Waymouth Street Adelaide |
| **18 Dec 2017** | $660 million valuation uplift across Dexus portfolio |
| **18 Dec 2017** | Appendix 3A 1 – Notice of Distribution |
| **18 Dec 2017** | Distribution details for six months to 31 December 2017 |
| **01 Dec 2017** | Appendix 3Y – Change of Director's Interest Notice for Darren Steinberg |
| **29 Nov 2017** | Implementation of Capital Reallocation Proposal |
| **21 Nov 2017** | ASX CEO Connect presentation |
| **10 Nov 2017** | Dexus successfully prices long dated US Private Placement |
| **26 Oct 2017** | Appendix 3Z – Final Director's Interest Notice for Elizabeth Alexander |
| **25 Oct 2017** | BAML Australian Real Estate Conference |
| **24 Oct 2017** | September 2017 quarter portfolio update |
| **24 Oct 2017** | 2017 Annual General Meeting presentation and script |
| **24 Oct 2017** | 2017 Annual General Meeting results |
| **19 Sep 2017** | Changes to the Board and Notice of Annual General Meeting |
| **01 Sep 2017** | Appendix 3X- Initial Director's interest notice for Nicola Roxon |
| **29 Aug 2017** | 30 June 2017 distribution payment |
| **17 Aug 2017** | Appendix 3B – New issue announcement, application for quotation of additional securities and agreement |
| **16 Aug 2017** | 2017 Final distribution details |
| **16 Aug 2017** | Appendix 4E and Financial Reports as at 30 June 2017 |
| **16 Aug 2017** | FY17 Annual Results Presentation |
| **16 Aug 2017** | FY17 Annual Results Release |
| **16 Aug 2017** | FY17 Property Synopsis and Debt Summary |
| **16 Aug 2017** | FY17 Property Synopsis spreadsheet |
| **16 Aug 2017** | Appendix 3Y – Change of Director's Interest Notice for Darren Steinberg |
| **16 Aug 2017** | Appendix 4G and 2017 Corporate Governance Statement |
| **16 Aug 2017** | 2017 Dexus Annual Report |

# Directory

### Dexus Diversified Trust
ARSN 089 324 541

### Dexus Industrial Trust
ARSN 090 879 137

### Dexus Office Trust
ARSN 090 768 531

### Dexus Operations Trust
ARSN 110 521 223

### Responsible Entity
**Dexus Funds Management Limited**
ABN 24 060 920 783
AFSL 238163

### Directors of the Responsible Entity
W Richard Sheppard, Chair
Penny Bingham-Hall
John C Conde AO
Tonianne Dwyer
Mark H Ford
The Hon. Nicola Roxon
Darren J Steinberg, CEO
Peter B St George

### Secretaries of the Responsible Entity
Brett Cameron
Rachel Caralis

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### Auditors
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Chartered Accountants
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Sydney NSW 2000

### Investor Enquiries
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Investor Relations: +61 2 9017 1330
Email: dexus@linkmarketservices.com.au
www.dexus.com

### Security Registry
Link Market Services Limited
Level 12, 680 George Street
Sydney NSW 2000
Locked Bag A14
Sydney South NSW 1235
www.linkmarketservices.com.au

Open Monday to Friday between 8.30am and 5.30pm (Sydney time). For enquiries regarding security holdings, contact the security registry, or access security holding details at www.dexus.com/update groups including investors, employees, customers, suppliers and the community.

### Australian Securities Exchange
ASX Code: DXS

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

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

The 2018 Annual Report is a consolidated summary of Dexus's performance for the financial year ended 30 June 2018. This report should be read in conjunction with the reports that comprise the 2018 Annual Reporting Suite.

In this report, unless otherwise stated, references to 'Dexus' 'the group', 'we', 'us' and 'our' refer to Dexus comprising the ASX listed entity and the Third Party Funds Management business. Any reference in this report to a 'year' relates to the financial year ended 30 June 2018. All dollar figures are expressed in Australian dollars unless otherwise stated.

Dexus referred to the Global Reporting Initiative (GRI) Sustainability Reporting Guidelines to determine the report's boundaries for guidance on identifying and reporting its material issues, management approaches and reporting key performance indicators across stakeholder groups including investors, employees, customers, suppliers and the community.

The 2018 Annual Reporting Suite has been prepared in accordance with the GRI Standards: Core option and nominated indicators have been externally assured. The GRI index will be provided with the 2018 Dexus Sustainability Performance Pack at www.dexus.com/2018gri

Dexus's Funds From Operations (FFO) is in line with Property Council of Australia's definition and comprises net profit/loss after tax attributable to stapled security holders calculated in accordance with Australian Accounting Standards and adjusted for: property revaluations, impairments, derivative and foreign exchange (FX) mark-to-market impacts, fair value movements of interest bearing liabilities, amortisation of tenant incentives, gain/loss on sale of certain assets, straight-line rent adjustments, deferred tax expense/benefit, rental guarantees, coupon income and distribution income net of funding costs.

### Report scope
The Annual Report covers financial performance at all locations. Environmental data only includes properties under the Group's operational control as defined under the National Greenhouse and Energy Reporting System (NGER Act). All resource performance figures in this report display consumption and GHG emissions on an intensity (per square metre) basis. Absolute consumption and additional information is provided in the 2018 Sustainability Performance Pack available from the online reporting suite at www.dexus.com

### Independent assurance
In addition to auditing Dexus's Financial Statements, PricewaterhouseCoopers (PwC) has provided limited assurance over select environmental and social data within the integrated online reporting suite covering the 12 months to 30 June 2018. The assurance statement, the GRI verification report and associated reporting criteria documents will be available from the online reporting suite in September 2018.

10 years being listed as Dexus

dexus