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:

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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.

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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.