

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

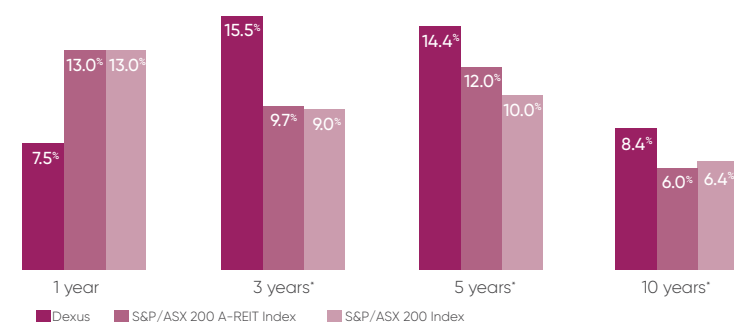
This year, net profit increased 36.8% to \$1.73 billion supported by strong property valuation increases. The full year distribution of 47.8 cents per security reflects an increase of 5.1% on the prior year and exceeds the 4.5-5.0% guidance range that was tightened in February 2018 (from the original 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 Dexs'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 Dexs's current and future development pipeline.

Total Security holder Return

Dexs 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. Dexs continues to outperform the index over three, five and ten-year time periods.



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% committed¹) and 240 St Georges Terrace in Perth, where strong levels of enquiry converted to significant leasing (now 51% leased¹) (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. Dexs 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 Dexs to leverage our leasing and development expertise.

The group's \$4.2 billion development pipeline provides opportunity to enhance future returns while growing the Dexs 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. Dexs 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, Dexs 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 Dexs 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 Dexu 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 Dexu.

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, Dexu 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)