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

		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

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

Financial Report

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 Adopted discount rate Adopted terminal yield	Decrease	Increase
Net market rental (per sqm) Land rate (per sqm)	Increase	Decrease

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

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

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

A decrease (softening) in the forecast rental growth rate may result in a negative impact on the discounted cash flow approach value 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

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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
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Independent Auditor's Report
continued

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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). • 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. • 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. • 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. • Our audit focused on where the Group made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events. • 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: – Valuation of investment properties, including those investment properties in investments accounted for under the equity method – Carrying amount of indefinite life management rights – Carrying amount of inventory • 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 *(Refer to Note 8 and 9)* The Group's investment property portfolio comprises: • 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). • 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). 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: • The capitalisation rate • The adopted discount rate. We considered the valuation of investment properties to be a key audit matter due to the: • Financial significance of investment properties in the Consolidated Statement of Financial Position. • 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: • 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. • 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. • 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: - 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. - Agreed significant changes in inputs to supporting documentation such as new lease agreements. 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
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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. • 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. • 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 *(Refer to Note 19)* 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. 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. We considered the carrying amount of management rights a key audit matter given the: • Financial significance of the balance in the Consolidated Statement of Financial Position • Significant judgement required by the Group in estimating the recoverable amount of management rights • 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: • 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. • Tested the mathematical accuracy of each impairment model's calculations. • 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. • 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. • Evaluated the Group's historical ability to forecast future cash flows by comparing budgets to reported actual results. • 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. • 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
(Refer to Note 10)

The Group develops a portfolio of office and industrial sites for future sale, which are classified as inventory.

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.

The cost of inventory is calculated using actual acquisition costs, construction costs, development related costs and interest capitalised for eligible projects.

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.

We considered the carrying amount of inventory to be a key audit matter given the:

- 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.
- Judgements required by the Group in determining the estimated future selling prices, costs to complete and transaction costs.
- Financial significance of the inventory balance in the Consolidated Statement of Financial Position.
- 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:

- 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:
  - 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.
  - 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.
  - 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.
  - Compared the carrying amount of inventory against the Group's estimate of net realisable value as at 30 June 2018.
- For properties transferred from investment property to inventory, we:
  - 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.
  - 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

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

Registered office of the Responsible Entity

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Chartered Accountants

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Security Registry

Link Market Services Limited

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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.