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**

Financial Report

Notes to the Financial Statements
continued

Group Performance continued

Note 1 Operating segments continued

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

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

Notes to the Financial Statements
continued

Group Performance continued

Note 1 Operating segments continued

Other segment information

Funds from Operations (FFO)

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

Reconciliation of segment revenue to the Statement of Comprehensive Income

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

Reconciliation of segment assets to the Statement of Financial Position

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

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

Note 2 Property revenue and expenses

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

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

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

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

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

Note 3 Management operations, corporate and administration expenses

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

Note 4 Finance costs

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

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

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

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

Note 5 Taxation

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

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

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

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

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

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

Attribution managed investment trust regime

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

Notes to the Financial Statements continued

Group Performance continued

Note 5 Taxation continued

a) Income tax (expense)/benefit

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

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

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

c) Deferred tax assets

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

d) Deferred tax liabilities

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

Net deferred tax liabilities

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

Note 6 Earnings per unit

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

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

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

b) Weighted average number of securities used as a denominator

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

Notes to the Financial Statements
continued

Group Performance continued

Note 7 Distributions paid and payable

Distributions are recognised when declared.

a) Distribution to security holders

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

b) Distribution rate

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

c) Franked dividends

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

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

Property portfolio assets

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

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

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

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

Note 8 Investment properties

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

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

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

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

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

Notes to the Financial Statements
continued

Property portfolio assets continued

Note 8 Investment properties continued

a) Reconciliation

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

Acquisitions

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

b) Valuations process

Independent valuations are carried out for each individual property at least once every three years by a member of the Australian Property Institute of Valuers. Each valuation firm and its signatory valuer are appointed on the basis that they are engaged for no more than three consecutive valuations except properties under development and co-owned properties. Independent valuations may be undertaken earlier where the Responsible Entity believes there is potential for a change in the fair value of the property being the greater of 5% of the asset value, or $5.0 million. At 30 June 2018, all investment properties were independently externally valued.

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

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

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

c) Fair value measurement, valuation techniques and inputs

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

Class of property	Fair value hierarchy	Inputs used to measure fair value	Range of unobservable inputs 2018	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.