# Dexus (ASX:DXS)

## ASX release

**14 August 2019**

### 2019 Financial Statements

In addition to Dexus's 2019 Annual Report, which includes the Financial Statements for Dexus Diversified Trust, Dexus provides the 2019 Financial Statements for Dexus Industrial Trust, Dexus Office Trust and Dexus Operations Trust.

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**About Dexus**

Dexus is one of Australia's leading real estate groups, proudly managing a high quality Australian property portfolio valued at $31.8 billion. We believe that the strength and quality of our relationships is central to our success, and are deeply committed to working with our customers to provide spaces that engage and inspire. We invest only in Australia, and directly own $15.6 billion of office and industrial properties. We manage a further $16.2 billion of office, retail, industrial and healthcare properties for third party clients. The group's circa $9.3 billion development and concept pipeline provides the opportunity to grow both portfolios and enhance future returns. With 1.7 million square metres of office workspace across 53 properties, we are Australia's preferred office partner. Dexus is a Top 50 entity by market capitalisation listed on the Australian Securities Exchange (trading code: DXS) and is supported by 26,000 investors from 19 countries. With 35 years of expertise in property investment, development and asset management, we have a proven track record in capital and risk management, providing service excellence to tenants and delivering superior risk-adjusted returns for investors. www.dexus.com

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Dexus Funds Management Ltd ABN 24 060 920 783, AFSL 238163, as Responsible Entity for Dexus (ASX: DXS)

# Dexus Industrial Trust
# Financial Report
# 30 June 2019

ARSN: 090 879 137

# Contents

# Directors' Report

The Directors of Dexus Funds Management Limited (DXFM) as Responsible Entity of Dexus Industrial Trust (DIT or the Trust) present their Directors' Report together with the consolidated Financial Statements for the year ended 30 June 2019. The consolidated Financial Statements represents DIT and its consolidated entities.

The Trust together with Dexus Diversified Trust (DDF), Dexus Operations Trust (DXO) and Dexus Office Trust (DOT) form the Dexus (DXS or the Group) stapled security.

# Directors and Secretaries

### Directors

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

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

### Company Secretaries

The names and details of the Company Secretaries of DXFM as at 30 June 2019 are as follows:

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

Appointed: 31 October 2014

Brett is the General Counsel and a Company Secretary of Dexus companies and is responsible for the legal function, company secretarial services and compliance, risk and governance systems and practices across the Group.

Prior to joining Dexus, Brett was Head of Legal for Macquarie Real Estate (Asia) and has held senior legal positions at Macquarie Capital Funds in Hong Kong and Minter Ellison in Sydney and Hong Kong. Brett has 22 years' experience as in-house counsel and in private practice in Australia and in Asia, where he worked on real estate structuring and operations, funds management, mergers and acquisitions, private equity and corporate finance across a number of industries.

Brett graduated from The University of New South Wales and holds a Bachelor of Laws and a Bachelor of Arts (Science and Technology) and is a member of the Law Societies of New South Wales and Hong Kong. Brett is also a graduate of the Australian Institute of Company Directors and a Fellow of the Governance Institute of Australia.

**Scott Mahony BBus(Acc), Grad Dip (Business Administration), MBA (eCommerce), Grad Dip (Applied Corporate Governance) FGIA, FCIS**

Appointed: 5 February 2019

Scott is the Head of Governance of Dexus and is responsible for the development, implementation and oversight of Dexus's governance policies and practices. Prior to being appointed the Head of Governance in 2018, Scott had oversight of Dexus's risk and compliance programs.

Scott joined Dexus in October 2005 after two years with Commonwealth Bank of Australia as a Senior Compliance Manager. Prior to this, Scott worked for over 11 years for Assure Services & Technology (part of AXA Asia Pacific) where he held various management roles.

## Attendance of Directors at Board Meetings and Board Committee Meetings

The number of Directors' meetings held during the year and each Director's attendance at those meetings is set out in the table below. The Directors met 12 times during the year. Ten board meetings were main meetings and two meetings were held to consider specific business.

| | Main meetings held | Main meetings attended | Specific meetings held | Specific meetings attended |
|---|---|---|---|---|
| W Richard Sheppard | 10 | 10 | 2 | 2 |
| Penny Bingham-Hall | 10 | 10 | 2 | 2 |
| John C Conde, AO | 10 | 10 | 2 | 2 |
| Tonianne Dwyer | 10 | 10 | 2 | 2 |
| Mark Ford | 10 | 10 | 2 | 2 |
| The Hon. Nicola L Roxon | 10 | 10 | 2 | 2 |
| Darren J Steinberg | 10 | 10 | 2 | 2 |
| Peter B St George | 10 | 10 | 2 | 2 |

Special meetings are held at a time to enable the maximum number of Directors to attend and are generally held to consider specific items that cannot be held over to the next scheduled main meeting.

The table below shows non-executive Directors' attendances at Board Committee meetings of which they were a member during the year ended 30 June 2019.

| | Board Audit Committee | | Board Risk Committee | | Board Nomination Committee | | Board People and Remuneration Committee | |
|---|---|---|---|---|---|---|---|---|
| | Held | Attended | Held | Attended | Held | Attended | Held | Attended |
| W Richard Sheppard | - | - | - | - | 3 | 3 | 6 | 6 |
| Penny Bingham-Hall | - | - | 4 | 4 | 3 | 3 | 6 | 6 |
| John C Conde, AO | 4 | 4 | - | - | 3 | 3 | - | - |
| Tonianne Dwyer | 4 | 4 | 4 | 4 | - | - | - | - |
| Mark Ford | 4 | 4 | 4 | 4 | - | - | - | - |
| The Hon. Nicola L Roxon | - | - | 4 | 4 | - | - | 6 | 6 |
| Peter B St George | 4 | 4 | 4 | 4 | - | - | - | - |

John Conde and Tonianne Dwyer were also Directors of Dexus Wholesale Property Limited (DWPL) and attended DWPL Board meetings during the year ended 30 June 2019.

# Directors' relevant interests

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

| Directors | No. of securities |
|---|---|
| W Richard Sheppard | 71,329 |
| Penny Bingham-Hall | 17,773 |
| John C Conde, AO | 17.906 |
| Tonianne Dwyer | 16.667 |
| Mark Ford | 1,667 |
| The Hon. Nicola L Roxon | Nil |
| Darren J Steinberg | 1,307,574 |
| Peter B St George | 18,573 |

# Operating and financial review

The relevant financial information for the Trust for the year ended 30 June 2019 were:

- profit attributable to unitholders was $76.1 million (2018: $94.2 million)
- total assets were $1,025.5 million (2018: $980.5 million)
- net assets were $953.6 million (2018: $943.4 million)

A review of the results, financial position and operations of the Group, of which the Trust forms part thereof, is set out on pages 28-36 of the Dexus Annual Report and forms part of this Directors' Report.

# Directors' directorships in other listed entities

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

| Director | Company | Date Appointed |
|---|---|---|
| W Richard Sheppard | Star Entertainment Group | 21 November 2012 |
| Penny Bingham-Hall | BlueScope Steel Limited | 29 March 2011 |
| | Fortescue Metals Group Ltd | 16 November 2016 |
| John C Conde, AO | Whitehaven Coal Limited | 3 May 2007 |
| | Cooper Energy Limited | 25 February 2013 |
| Tonianne Dwyer | Metcash Limited | 24 June 2014 |
| | ALS Limited | 1 July 2016 |
| | OZ Minerals Limited | 21 March 2017 |
| The Hon. Nicola L Roxon | Lifestyle Communities Limited | 1 September 2017 |
| Peter B St George | First Quantum Minerals Limited[1] | 20 October 2003 |
| Mark Ford | Kiwi Property Group Limited[2] | 16 May 2011 |
| Darren J Steinberg | VGI Partners Limited | 12 May 2019 |

1 Listed for trading on the Toronto Stock Exchange in Canada.
2 Listed for trading on the New Zealand Stock Exchange since 22 December 2014.

# Principal activities

During the year the principal activity of the Trust was to own, manage and develop high quality real estate assets for future use as investment properties. There were no significant changes in the nature of the Trust's activities during the year.

# Total value of Trust assets

The total value of the assets of the Trust as at 30 June 2019 was $1,025.5 million (2018: $980.5 million). Details of the basis of this valuation are outlined in the Notes to the Financial Statements and form part of this Directors' Report.

# Likely developments and expected results of operations

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

# Significant changes in the state of affairs

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

# Matters subsequent to the end of the financial year

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

# Distributions

Distributions paid or payable by the Trust for the year ended 30 June 2019 are outlined in note 5 of the Notes to the Financial Statements and form part of this Directors' Report.

# DXFM fees

Details of fees paid or payable by the Trust for the year ended 30 June 2019 are outlined in note 13 of the Notes to the Financial Statements and form part of this Directors' Report.

# Units on Issue

The movement in units on issue in the Trust during the year and the number of units on issue as at 30 June 2019 are detailed in note 9 of the Notes to the Financial Statements and form part of this Directors' Report.

# Environmental regulation

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

# Indemnification and insurance

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

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

# Audit

**Auditor**

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

**Non-audit services**

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

Details of the amounts paid or payable to the Auditor for audit and non-audit services provided during the year are set out in note 11 of the Notes to the Financial Statements.

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

The reasons for the Directors being satisfied are:

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

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

**Auditor's Independence Declaration**

A copy of the Auditor's Independence Declaration as required under section 307C of the *Corporations Act 2001* is set out on page 7 and forms part of this Directors' Report.

# Corporate governance

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

# Rounding of amounts and currency

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

## Directors' authorisation

The Directors' Report is made in accordance with a resolution of the Directors. The Financial Statements were authorised for issue by the Directors on 13 August 2019.

**W Richard Sheppard**
Chair
13 August 2019

**Darren J Steinberg**
Chief Executive Officer
13 August 2019

## *Auditor's Independence Declaration*

As lead auditor for the audit of Dexus Industrial Trust for the year ended 30 June 2019, I declare that to the best of my knowledge and belief, there have been:

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

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

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

Matthew Lunn
Partner
PricewaterhouseCoopers

Sydney
13 August 2019

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# Consolidated Statement of Comprehensive Income

**For the year ended 30 June 2019**

| | Note | 2019 $'000 | 2018 $'000 |
|---|---|---|---|
| **Revenue from ordinary activities** | | | |
| Property revenue | 2 | **54,313** | 52,848 |
| Interest revenue | | **14,364** | 13,088 |
| **Total revenue from ordinary activities** | | **68,677** | 65,936 |
| Net fair value gain of investment properties | | **19,437** | 43,232 |
| Net gain on sale of investment properties | | **2,149** | 6 |
| **Total income** | | **90,263** | 109,174 |
| | | | |
| **Expenses** | | | |
| Property expenses | 2 | **(10,681)** | (11,517) |
| Management fee expense | | **(1,921)** | (2,126) |
| Finance costs | 3 | **(683)** | (793) |
| Transaction costs | | **(360)** | - |
| Management operations, corporate and administration expenses | | **(563)** | (499) |
| **Total expenses** | | **(14,208)** | (14,935) |
| **Profit/(loss) for the year** | | **76,055** | 94,239 |
| | | | |
| **Other comprehensive income/(loss):** | | | |
| Other comprehensive income/(loss) | | **-** | - |
| **Total comprehensive income/(loss) for the year** | | **76,055** | 94,239 |

| | | Cents | Cents |
|---|---|---|---|
| **Earnings per unit on profit/(loss) attributable to unitholders of parent entity** | | | |
| Basic earnings per unit | 4 | **7.39** | 9.26 |
| Diluted earnings per unit | 4 | **7.34** | 9.26 |

The above Consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

# Consolidated Statement of Financial Position

**As at 30 June 2019**

| | Note | 2019 $'000 | 2018 $'000 |
|---|---|---|---|
| **Current assets** | | | |
| Cash and cash equivalents | 10(a) | **1,191** | 963 |
| Receivables | 10(b) | **1,658** | 3,804 |
| Derivative financial instruments | 7(c) | **22** | - |
| Other | | **123** | 965 |
| **Total current assets** | | **2,994** | 5,732 |
| | | | |
| **Non-current assets** | | | |
| Investment properties | 6 | **357,982** | 744,150 |
| Derivative financial instruments | 7(c) | **-** | 179 |
| Loans with related parties | 13 | **664,550** | 230,376 |
| Other | | **-** | 25 |
| **Total non-current assets** | | **1,022,532** | 974,730 |
| **Total assets** | | **1,025,526** | 980,462 |
| | | | |
| **Current liabilities** | | | |
| Payables | 10(c) | **7,487** | 11,545 |
| Derivative financial instruments | 7(c) | **3,357** | 911 |
| Provisions | 10(d) | **61,088** | 15,975 |
| **Total current liabilities** | | **71,932** | 28,431 |
| | | | |
| **Non-current liabilities** | | | |
| Derivative financial instruments | 7(c) | **-** | 8,633 |
| **Total non-current liabilities** | | **-** | 8,633 |
| **Total liabilities** | | **71,932** | 37,064 |
| **Net assets** | | **953,594** | 943,398 |
| | | | |
| **Equity** | | | |
| Contributed equity | 9 | **1,220,456** | 1,139,628 |
| Retained profits | | **(266,862)** | (196,230) |
| **Total equity** | | **953,594** | 943,398 |

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

# Consolidated Statement of Changes in Equity

**For the year ended 30 June 2019**

| | Contributed equity $'000 | Retained profits/ (losses) $'000 | Total equity $'000 |
|---|---|---|---|
| **Opening balance as at 1 July 2017** | 1,314,430 | (247,195) | 1,067,235 |
| Profit/(loss) for the year | - | 94,239 | 94,239 |
| Total comprehensive income for the year | - | 94,239 | 94,239 |
| Transactions with owners in their capacity as unitholders: | | | |
| Issue of additional equity, net of transaction costs | 475 | - | 475 |
| Buy-back of contributed equity, net of transaction costs | (182) | - | (182) |
| Distributions paid or provided for | | (43,274) | (43,274) |
| Capital return[1] | (175,095) | - | (175,095) |
| Total transactions with owners in their capacity as owners | (174,802) | (43,274) | (218,076) |
| **Closing balance as at 30 June 2018** | 1,139,628 | (196,230) | 943,398 |
| **Opening balance as at 1 July 2018** | **1,139,628** | **(196,230)** | **943,398** |
| Change in accounting policy | **-** | (188) | (188) |
| **Restated openning balance as at 1 July 2018** | **1,139,628** | **(196,418)** | **943,210** |
| Profit/(loss) for the year | **-** | **76,055** | **76,055** |
| Other comprehensive income/(loss) for the year | **-** | **-** | **-** |
| Total comprehensive income for the year | **-** | **76,055** | **76,055** |
| Transactions with owners in their capacity as unitholders: | | | |
| Issue of additional equity, net of transaction costs | **80,828** | **-** | **80,828** |
| Distributions paid or provided for | **-** | **(146,499)** | **(146,499)** |
| Total transactions with owners in their capacity as owners | **80,828** | **(146,499)** | **(65,671)** |
| **Closing balance as at 30 June 2019** | **1,220,456** | **(266,862)** | **953,594** |

1 DXFM as Responsible Entity of DIT made a capital return of 17.21 cents per unit to the existing unitholders of the capital reallocation process that was approved at the Annual General Meeting on 19 September 2017.

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

# Consolidated Statement of Cash Flows

**For the year ended 30 June 2019**

| | 2019 $'000 | 2018 $'000 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Receipts in the course of operations (inclusive of GST) | **62,191** | 67,610 |
| Payments in the course of operations (inclusive of GST) | **(16,882)** | (21,367) |
| Interest received | **70** | 18 |
| Interest received/(paid) on derivatives | **(6,742)** | (4,387) |
| Finance costs paid to financial institutions | **(1)** | - |
| **Net cash inflow/(outflow) from operating activities** | **38,636** | 41,874 |
| **Cash flows from investing activities** | | |
| Proceeds from sale of investment properties | **442,963** | 45,200 |
| Payments for capital expenditure on investment properties | **(12,235)** | (15,808) |
| Payments for acquisition of investment properties | **(27,843)** | - |
| **Net cash inflow/(outflow) from investing activities** | **402,885** | 29,392 |
| **Cash flows from financing activities** | | |
| Borrowings provided to related parties | **(522,105)** | (122,101) |
| Borrowings received from related parties | **101,370** | 103,795 |
| Proceeds from issue of additional equity, net of transaction costs | **80,828** | 293 |
| Distributions paid to security holders | **(101,386)** | (53,536) |
| **Net cash inflow/(outflow) from financing activities** | **(441,293)** | (71,549) |
| **Net increase/(decrease) in cash and cash equivalents** | **228** | (283) |
| Cash and cash equivalents at the beginning of the year | **963** | 1,246 |
| **Cash and cash equivalents at the end of the year** | **1,191** | 963 |

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

# Notes to the Financial Statements

| **In this section** |
|---|
| This section sets out the basis upon which the Trust's Financial Statements are prepared. |
| Specific accounting policies are described in their respective notes to the Financial Statements. This section also shows information on new or amended accounting standards and their impact on the financial position and performance of the Trust. |

## About This Report

## Basis of preparation

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

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

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

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

Dexus stapled securities are quoted on the Australian Securities Exchange under the "DXS" code and comprise one unit in each of DDF, DIT, DOT and DXO. Each entity forming part of DXS continues as a separate legal entity in its own right under the *Corporations Act 2001* and is therefore required to comply with reporting and disclosure requirements under the *Corporations Act 2001* and Australian Accounting Standards.

*Working capital deficiency*

As at 30 June 2019, the Trust had a net current asset deficiency of $68.9 million (2018: $22.7 million). This is primarily due to the provision for distribution of $61.1 million due to be paid in August 2019.

The capital risk management is not managed at the Trust level, but rather holistically as part of the Group. This is done through a centralised treasury function which ensures that entities within the Group (including DIT) will be able to continue as a going concern.

The Group has in place both external and internal funding arrangements to support the cash flow requirements of the Trust, including undrawn facilities of $921.0 million. Refer to note 13 Interest bearing liabilities in the Group's Financial Statements.

In the event that the entity requires additional funding to meet current liabilities in the 12 months succeeding the date of this financial report, the Group will make adequate funds available to the Trust.

In determining the basis of preparation of the financial report, the directors of the responsible entity of the Trust, have taken into consideration the unutilised facilities available to the Group. As such the Trust is a going concern and the Financial Statements have been prepared on that basis.

**Critical accounting estimates**

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

| | | |
|---|---|---|
| Note 6 | Investment properties | Page 18 |
| Note 7 | Capital and financial risk management | Page 27 |

# Principles of consolidation

These consolidated Financial Statements incorporate the assets, liabilities and results of all subsidiaries as at 30 June 2019.

**(a) Controlled entities**

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

**(b) Joint arrangements**

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

*Joint operations*

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

# Foreign currency

The Financial Statements are presented in Australian dollars.

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

As at 30 June 2019, the Trust had no investments in foreign operations.

# Goods and services tax

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

# New accounting standards and interpretations

***AASB 16 Leases* (effective application for the Trust is 1 July 2019).**

AASB 16 has been published however is not mandatory for the 30 June 2019 reporting period. The Trust's assessment of the impact of AASB 16 is set out below.

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

There is no transition impact on 1 July 2019 as there are no leases where the Trust is lessee.

The Trust will apply the standard from 1 July 2019.

# Notes to the Financial Statements

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 Trust.

**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 | 6. Investment properties | 7. Capital and financial risk management | 11. Audit, taxation and transaction service fees |
| 2. Property revenue and expenses | | 8. Commitments and contingencies | 12. Cash flow information |
| 3. Finance costs | | 9. Contributed equity | 13. Related parties |
| 4. Earnings per unit | | 10. Working capital | 14. Parent entity disclosures |
| 5. Distributions paid and payable | | | 15. Changes in accounting policies |
| | | | 16. Subsequent events |

# Trust performance

**In this section**

This section explains the results and performance of the Trust.

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 Trust, including: results by operating segment, property revenue and expenses, finance costs, 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.

The operating segments within DXS are reviewed on a consolidated basis and are not monitored at an individual trust level.

Disclosures concerning DXS's operating segments are presented in the Dexus Financial Report.

## Note 2 Property revenue and expenses

The Trust'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.

Within its lease arrangements, the Trust provides certain services to tenants (such as utilities, cleaning, maintenance and certain parking arrangements) which are accounted for within AASB 15. A portion of the consideration within the lease arrangements is therefore allocated to revenue for the provision of services. Refer to note 15 for further information relating to revenue policies adopted under AASB 15 *Revenue from Contracts with Customers*.

| | **2019 $'000** | 2018 $'000 |
|---|---|---|
| Rent and recoverable outgoings | **44,237** | 57,686 |
| Services revenue[1] | **5,953** | - |
| Incentive amortisation | **(4,411)** | (10,192) |
| Other revenue | **8,534** | 5,354 |
| **Total property revenue** | **54,313** | 52,848 |

1 The Trust applied AASB 15 Revenue from Contracts with Customers on 1 July 2018. A portion of the consideration within lease arrangements has been allocated to service revenue which has previously been disclosed as part of property lease revenue. Refer to Note 15.

Property expenses of $10.7 million (2018: $11.5 million) includes rates, taxes and other property outgoings incurred in relation to investment properties.

## Note 3 Finance costs

Finance costs include interest, amortisation or other costs incurred in connection with arrangement of borrowings and net fair value movements of interest rate swaps. Finance 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.

| | **2019** | 2018 |
|---|---|---|
| | **$'000** | $'000 |
| Net fair value (gain)/loss of interest rate swaps | **713** | 663 |
| Amount capitalised | **(31)** | (89) |
| Other finance costs | **1** | 219 |
| **Total finance costs** | **683** | 793 |

The average capitalisation rate used to determine the amount of finance costs eligible for capitalisation is 5.25% (2018: 5.75%).

## Note 4 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 unit

| | **2019** | 2018 |
|---|---|---|
| | **$'000** | $'000 |
| Profit attributable to unitholders of the parent entity | **76,055** | 94,239 |

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

| | **2019** | 2018 |
|---|---|---|
| | **No. of units** | No. of units |
| Weighted average number of units outstanding used in calculation of basic earnings per unit | **1,028,577,220** | 1,017,299,246 |
| Effect on exchange of Exchangeable Notes | **8,046,239** | - |
| Weighted average number of units outstanding used in calculation of diluted earnings per unit | **1,036,623,459** | 1,017,299,246 |

# Note 5 Distributions paid and payable

Distributions are recognised when declared.

**a) Distribution to security holders**

| | **2019** **$'000** | 2018 $'000 |
|---|---|---|
| 31 December (paid 28 February 2019) | **85,411** | 27,299 |
| 30 June (payable 29 August 2019) | **61,088** | 15,975 |
| **Total distribution to unitholders** | **146,499** | 43,274 |

**b) Distribution rate**

| | **2019** **Cents per unit** | 2018 Cents per unit |
|---|---|---|
| 31 December (paid 28 February 2019) | **8.40** | 2.68 |
| 30 June (payable 29 August 2019) | **5.57** | 1.57 |
| **Total distributions** | **13.97** | 4.25 |

# Property portfolio assets

**In this section**

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

- *Investment properties*: relates to investment properties, both stabilised and under development.

## Note 6 Investment properties

The Trust'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 carried 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.

### a) Reconciliation

| | Office $'000 | Industrial $'000 | 2019 $'000 | 2018 $'000 |
|---|---|---|---|---|
| Opening balance at the beginning of the year | **223,000** | **521,150** | **744,150** | 734,211 |
| Additions | **2,209** | **4,230** | **6,439** | 17,003 |
| Acquisitions | **-** | **27,843** | **27,843** | - |
| Lease incentives | **2,142** | **3,612** | **5,754** | 6,894 |
| Amortisation of lease incentives | **(2,244)** | **(2,976)** | **(5,220)** | (10,192) |
| Rent straightlining | **268** | **124** | **392** | (1,798) |
| Disposals | **(232,882)** | **(207,931)** | **(440,813)** | (45,200) |
| Net fair value gain/(loss) of investment properties | **7,507** | **11,930** | **19,437** | 43,232 |
| **Closing balance at the end of the year** | **-** | **357,982** | **357,982** | 744,150 |

**Acquisitions**

On 14 February 2019, DIT acquired 112 Cullen Avenue, Eagle Farm from Dexus Industrial Trust Australia (DITA) for $26.1 million, excluding acquisition costs.

**Disposals**

On 30 November 2018, Dexus established a new unlisted logistics vehicle in joint venture with GIC which was seeded with various industrial assets from the Group. The disposals therefore include the disposal of assets to Dexus Australian Logistics Trust. On 30 April 2019, DIT also disposed 25% of its interest in 131 Mica Street, Carole Park for $6.7 million, excluding disposal costs.

On 21 June 2019, DIT disposed of 11 Talavera Road, Macquarie Park, NSW for $231.2 million, excluding disposal costs.

# Note 6 Investment properties (continued)

### a) Reconciliation (continued)

**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 2019, all investment properties were independently externally valued.

The Trust'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 Trust'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.

# Note 6 Investment properties (continued)

### b) 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 2019 | 2018 |
|---|---|---|---|---|
| Office[1] | Level 3 | Adopted capitalisation rate | **-** | 6.25% |
| | | Adopted discount rate | **-** | 7.00% |
| | | Adopted terminal yield | **-** | 6.50% |
| | | Current net market rental (per sqm) | - | $429 |
| Industrial | Level 3 | Adopted capitalisation rate | **5.75% - 8.25%** | 5.75% - 11.00% |
| | | Adopted discount rate | **6.75% - 8.00%** | 7.00% - 11.00% |
| | | Adopted terminal yield | **6.00% - 8.75%** | 6.00% - 11.00% |
| | | Current net market rental (per sqm) | **$38 - $338** | $38 - $338 |
| Development | Level 3 | Land rate (per sqm) | **$425** | $425 |

1 The remaining office asset in the Trust was sold during the period

**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.

# Note 6 Investment properties (continued)

### c) 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 Trust's investment properties as shown below.

| Significant inputs | Fair value measurement sensitivity to significant increase in input | Fair value measurement sensitivity to significant decrease in input |
|---|---|---|
| Adopted capitalisation rate<br>Adopted discount rate<br>Adopted terminal yield | Decrease | Increase |
| Net market rental (per sqm)<br>Land rate (per sqm) | Increase | Decrease |

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

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

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

A decrease (softening) in the forecast rental growth rate may result in a negative impact on the discounted cash flow approach value whilst a strengthening may have a positive impact on the value under the same approach.

# Capital and financial risk management and working capital

**In this section**

The Trust'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 Trust.

Note 7 *Capital and financial risk management* outlines how the Trust 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 Trust.

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 Trust's activities both now and in the future. This capital structure is detailed in the following notes:

- Debt: *Commitments and contingencies* in note 8;
- Equity: *Contributed equity* in note 9.

Note 10 provides a breakdown of the working capital balances held in the Consolidated Statement of Financial Position.

## Note 7 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 of the Responsible Entity 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 DXS 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; and
- other market factors.

The Trust is not rated by ratings agencies, however DXS has been rated A- by Standard and Poor's (S&P) and A3 by Moody's. Gearing levels and bank debt covenants are managed holistically as part of the DXS Group.

DXFM, the Responsible Entity for the Trust, 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.

# Note 7 Capital and financial risk management (continued)

### b) Financial risk management

The Trust'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 Trust. The Trust'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 Trust's exposure to financial risks namely:

- interest rate risk;
- liquidity risk; and
- credit risk.

The Trust uses derivatives to reduce the Trust'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 Trust may use to hedge its risks include:

- interest rate swaps;
- interest rate options.

The Trust does not trade in derivative instruments for speculative purposes. The Trust 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 Trust utilises. Non-derivative interest bearing financial instruments are predominantly short term liquid assets and long term debt issued at fixed rates which expose the Trust to fair value interest rate risk as the Trust may pay higher interest costs than if it were at variable rates. The Trust's borrowings which have a variable interest rate give rise to cash flow interest rate risk due to movements in variable interest rates.

The Trust'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 Trust primarily enters into interest rate derivatives to manage the associated interest rate risk. The derivative contracts are recorded at fair value in the Statement of Financial Position, being the market value as quoted in an active market.

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.

# Note 7 Capital and financial risk management (continued)

**b) Financial risk management** (continued)

***i) Market risk*** *(continued)*

**Interest rate risk** (continued)

| | June 2020 $'000 | June 2021 $'000 | June 2022 $'000 | June 2023 $'000 | June 2024 $'000 |
|---|---|---|---|---|---|
| **Interest rate derivatives** | | | | | |
| A$ hedged | 40,000.0 | - | - | - | - |
| A$ hedge rate (%) | 6.04% | - | - | - | - |

*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 Trust with an economic hedge, the Trust 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.

| | **2019 (+/-) $'000** | 2018 (+/-) $'000 |
|---|---|---|
| +/- 0.50% (50 basis points) | **155** | 770 |
| **Total A$ equivalent** | **155** | 770 |

# Note 7 Capital and financial risk management (continued)

**b) Financial risk management** (continued)

***ii) Liquidity risk***

Liquidity risk is associated with ensuring that there are sufficient funds available to meet the Trust's financial commitments as and when they fall due and planning for any unforeseen events which may curtail cash flows. The Trust 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 Trust cash requirements over the next 1-24 month period. The Trust 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); and
- 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.

***Refinancing risk***

Refinancing risk is the risk that the Trust:

- 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 Trust's interest-bearing liabilities and derivative financial instruments is shown in the table below. The amounts in the table represent undiscounted cash flows.

| | **2019** | | | | 2018 | | | |
|---|---|---|---|---|---|---|---|---|
| | **Within one year $'000** | **Between one and two years $'000** | **Between two and five years $'000** | **After five years $'000** | Within one year $'000 | Between one and two years $'000 | Between two and five years $'000 | After five years $'000 |
| Payables | **(7,487)** | **-** | **-** | **-** | (11,545) | - | - | - |
| **Derivative financial instruments** | | | | | | | | |
| Derivative liabilities | **(2,008)** | **-** | **-** | **-** | (6,244) | (1,373) | - | - |
| **Total net derivative financial instruments[2]** | **(2,008)** | **-** | **-** | **-** | (6,244) | (1,373) | - | - |

1 Includes estimated interest and fees.
2 For interest rate swaps, only the net interest cash flows (not the notional principal) are included. Refer to note 7(c) for fair value of derivatives. Refer to note 8(b) for financial guarantees.

# Note 7 Capital and financial risk management (continued)

**b) Financial risk management** (continued)

***iii) Credit risk***

The Trust is exposed to credit risk on cash balances and on derivative financial instruments with financial institutions. The Trust 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 Trust's policy requirements.

Financial instrument transactions are spread among a number of approved financial institutions within specified credit limits to minimise the Trust'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 2019 is the carrying amounts of financial assets recognised on the Consolidated Statement of Financial Position.

The Trust is exposed to credit risk on trade receivable balances. The Trust 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 2019 is the carrying amounts of the trade receivables recognised on the Statement of Financial Position.

***iv) Fair value***

As at 30 June 2019 and 30 June 2018, the carrying amounts of financial assets and liabilities are held at fair value. The Trust 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 derivative financial instruments 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.

Since cash, receivables and payables are short-term in nature, their fair values are not materially different from their carrying amounts. For all of the borrowings, the fair values are not materially different to their carrying amounts, since the interest payable on those borrowings is either close to current market rates or the borrowings are of a short-term nature.

**Key assumptions: fair value of derivatives**

The fair value of derivatives has been determined based on observable market inputs (interest rates) and applying a credit or debit value adjustment based on the current credit worthiness of counterparties and the Trust.

# Note 7 Capital and financial risk management (continued)

**b) Financial risk management** (continued)

***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 Trust 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 Trust's exposures and updates its treasury policies and procedures. The Trust does not trade in derivative instruments for speculative purposes.

| | **2019 $'000** | 2018 $'000 |
|---|---|---|
| **Current assets** | | |
| Interest rate derivative contracts | **22** | - |
| **Total current assets - derivative financial instruments** | **22** | - |
| **Non-current assets** | | |
| Interest rate derivative contracts | **-** | 179 |
| **Total non-current assets - derivative financial instruments** | **-** | 179 |
| **Current liabilities** | | |
| Interest rate derivative contracts | **3,357** | 911 |
| **Total current liabilities - derivative financial instruments** | **3,357** | 911 |
| **Non-current liabilities** | | |
| Interest rate derivative contracts | **-** | 8,633 |
| **Total non-current liabilities - derivative financial instruments** | **-** | 8,633 |
| **Net derivative financial instruments** | **(3,335)** | (9,365) |

# Note 8 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:

| | **2019 $'000** | 2018 $'000 |
|---|---|---|
| Investment properties | **754** | 12,640 |
| **Total capital commitments** | **754** | 12,640 |

*Lease payable commitments*

Payments made under operating leases are expensed on a straight-line basis over the term of the lease, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased property.

*Lease receivable commitments*

The future minimum lease payments receivable by the Trust are:

| | **2019 $'000** | 2018 $'000 |
|---|---|---|
| Within one year | **39,878** | 49,194 |
| Later than one year but not later than five years | **155,154** | 192,032 |
| Later than five years | **35,168** | 39,645 |
| **Total lease receivable commitments** | **230,200** | 280,871 |

## b) Contingencies

The Trust, together with DXO, DOT and DDF, is a guarantor of A$5,004 million of interest bearing liabilities (refer to note 13 of the Dexus Financial Report). 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 above guarantees are issued in respect of the Trust and do not constitute 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 Trust, other than those disclosed in the Financial Statements, which should be brought to the attention of unit holders as at the date of completion of this report.

# Note 9 Contributed equity

**Number of units on issue**

| | **2019 No. of units** | 2018 No. of units |
|---|---|---|
| Opening balance at the beginning of the year | **1,017,196,877** | 1,016,967,300 |
| Issue of additional equity | **79,660,788** | 437,242 |
| Buy-back of contributed equity | **-** | (207,665) |
| **Closing balance at the end of the year** | **1,096,857,665** | 1,017,196,877 |

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

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 3 May 2019, Dexus successfully completed an institutional placement to partly fund the Group's acquisition of a 75% interest in 80 Collins Street, Melbourne. In satisfaction of the placement, Dexus issued 74.4 million new securities. In June 2019, Dexus completed a Security Purchase Plan (SPP), issuing 5.3 million securities. These securities rank equally with existing Dexus securities and will be entitled to the full distribution for the six months ended 30 June 2019. Refer note 15 Contributed Equity in the Group's Financial Statements for further information.

# Note 10 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 recognised for expected credit losses on trade receivables and contract assets. The expected credit losses are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date. The provision for doubtful debts is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted as the effect of discounting is immaterial.

| | **2019 $'000** | 2018 $'000 |
|---|---|---|
| Rent receivable[1] | **74** | 1,568 |
| Less: provision for doubtful debts | **(3)** | - |
| **Total rental receivables** | **71** | 1,568 |
| Interest receivable | **1,501** | 966 |
| Other receivables | **86** | 1,270 |
| **Total other receivables** | **1,587** | 2,236 |
| **Total receivables** | **1,658** | 3,804 |

1 Rent receivable includes outgoings.

### c) Payables

| | **2019 $'000** | 2018 $'000 |
|---|---|---|
| Trade creditors | **749** | 836 |
| Accruals | **2,276** | 1,386 |
| Management fee payable | **631** | 186 |
| Accrued capital expenditure | **2,777** | 6,113 |
| Prepaid income | **876** | 2,820 |
| Other payables | **178** | 204 |
| **Total payables** | **7,487** | 11,545 |

# Note 10 Working capital (continued)

### d) 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 Trust 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.

| | **2019** | 2018 |
|---|---|---|
| | **$'000** | $'000 |
| Provision for distribution | **61,088** | 15,975 |
| **Total current provisions** | **61,088** | 15,975 |

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

| | **2019** | 2018 |
|---|---|---|
| | **$'000** | $'000 |
| **Provision for distribution** | | |
| Opening balance at the beginning of the year | **15,975** | 26,237 |
| Additional provisions | **146,499** | 43,274 |
| Payment of distributions | **(101,386)** | (53,536) |
| **Closing balance at the end of the year** | **61,088** | 15,975 |

A provision for distribution has been raised for the period ended 30 June 2019. This distribution is to be paid on 29 August 2019.

# 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 Trust.

## Note 11 Audit, taxation and transaction service fees

During the year, the Auditor and its related practices earned the following remuneration:

| | **2019** | 2018 |
|---|---|---|
| | **$** | $ |
| **Audit fees** | | |
| PwC Australia - audit and review of Financial Statements | **218,927** | 266,264 |
| PwC fees paid in relation to outgoings audits | **7,854** | 8,500 |
| PwC Australia - regulatory audit and compliance services | **4,584** | 9,078 |
| **Audit fees paid to PwC** | **231,365** | 283,842 |

## Note 12 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:

| | **2019** | 2018 |
|---|---|---|
| | **$'000** | $'000 |
| **Net profit/(loss) for the year** | **76,055** | 94,239 |
| Capitalised interest | **(31)** | (89) |
| Net fair value (gain)/loss of investment properties | **(19,437)** | (43,232) |
| Net (gain)/loss on sale of investment properties | **(2,149)** | (6) |
| Transaction costs | **360** | - |
| **Change in operating assets and liabilities** | | |
| (Increase)/decrease in receivables | **3,260** | (1,819) |
| (Increase)/decrease in other current assets | **(121)** | 120 |
| (Increase)/decrease in other non-current assets | **(12,391)** | (5,144) |
| Increase/(decrease) in payables | **(723)** | 1,786 |
| Increase/(decrease) in current liabilities | **2,446** | 553 |
| Increase/(decrease) in other non-current liabilities | **(8,633)** | (4,534) |
| **Net cash inflow/(outflow) from operating activities** | **38,636** | 41,874 |

# Note 13 Related parties

### Responsible Entity

DXFM is the Responsibility Entity of the Trust.

### Management Fees

Under the terms of the Trust's Constitutions, the Responsible Entity is entitled to receive fees in relation to the management of the Trust. DXFM's parent entity, DXH, is entitled to be reimbursed for administration expenses incurred on behalf of the Trust. Dexus Property Services Pty Limited (DXPS), a wholly owned subsidiary of DXH, is entitled to property management fees from the Trust.

### Related party transactions

Responsible Entity fees in relation to the Trust assets are on a cost recovery basis.

### Transactions with related parties

There were a number of transactions and balances between the Trust and the Responsible Entity and its related entities, as detailed below:

| | **2019** | 2018 |
|---|---|---|
| | **$** | $ |
| Responsible Entity fees paid and payable | **1,920,826** | 2,126,429 |
| Property management fees paid and payable to DXPS | **1,263,477** | 1,338,909 |
| Responsible Entity fees payable at the end of each reporting year (included above) | **631,088** | 186,038 |
| Property management fees payable at the end of each reporting year (included above) | **56,919** | 125,235 |
| Administration expenses payable at the end of each reporting year (included above) | **429,324** | 29,746 |

### Dexus Finance

Aggregate amounts included in the determination of profit that resulted from transactions with each class of other related parties:

| | **2019** | 2018 |
|---|---|---|
| | **$** | $ |
| Interest revenue | **14,293,494** | 13,087,776 |
| Interest bearing loans advanced from Dexus Finance | **314,449,092** | 278,708,594 |
| Interest bearing loans advanced to Dexus Finance | **748,908,984** | 135,068,302 |

### Loans with related parties

Non-current loans with related parties are interest bearing loans with Dexus Finance Pty Limited (DXF). These loan balances eliminate on consolidation within DXS.

### Key management personnel compensation

| | **2019** | 2018 |
|---|---|---|
| | **$'000** | $'000 |
| **Compensation** | | |
| Short-term employee benefits | **9,933** | 9,275 |
| Post employment benefits | **318** | 350 |
| Security-based payments | **5,918** | 3,725 |
| **Total key management personnel compensation** | **16,169** | 13,350 |

# Note 14 Parent entity disclosures

The financial information for the parent entity of Dexus Industrial 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:

| | **2019** **$'000** | 2018 $'000 |
|---|---|---|
| Total current assets | **159,226** | 3,344 |
| Total assets | **1,068,687** | 966,610 |
| Total current liabilities – payables | **69,432** | 20,906 |
| Total liabilities | **69,432** | 29,538 |
| | | |
| **Equity** | | |
| Contributed equity | **1,220,456** | 1,139,628 |
| Retained profits | **(221,201)** | (202,556) |
| **Total equity** | **999,255** | 937,072 |
| | | |
| Net profit/(loss) for the year | **128,039** | 147,824 |
| **Total comprehensive income/(loss) for the year** | **128,039** | 147,824 |

### b) Guarantees entered into by the parent entity

Refer to note 8 for details of guarantees entered into by the parent entity.

### c) Contingent liabilities

The parent entity had no contingent liabilities as at 30 June 2019 (2018: nil)

### 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:

| | **2019** **$'000** | 2018 $'000 |
|---|---|---|
| Investment properties | **502** | 467 |
| **Total capital commitments** | **502** | 467 |

# Note 15 Changes in accounting policies

AASB 15 *Revenue from Contracts with Customers* and AASB 9 *Financial Instruments* are effective for annual periods beginning on or after 1 January 2018. Both these standards were adopted by the Group on 1 July 2018. As the Group has adopted the modified retrospective approach upon implementation of these standards, comparatives have not been restated, however the Group has disclosed below the restatement of the 1 July 2018 opening retained earnings balance and respective balance sheet positions impacted as a result of the change. The changes and considerations are detailed below:

**AASB 15 *Revenue from Contracts with Customers***

AASB 15 provides new guidance for determining when the Trust should recognise revenue. The new revenue recognition model is based on the principle that revenue is recognised when control of a good or service is transferred to a customer - either at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognised.

Per the new requirements of AASB 15, revenue is recognised over time if:

- the customer simultaneously receives and consumes the benefits as the entity performs;
- the customer controls the asset as the entity creates or enhances it; or
- the seller's performance does not create an asset for which the seller has an alternative use and there is a right to payment for performance to date.

Where the above criteria is not met, revenue is recognised at a point in time

The impact of applying the new standard has been assessed on each of the following major revenue streams:

*Property revenue*

Within its lease arrangements, the Trust provides certain services to tenants (such as utilities, cleaning, maintenance and certain parking arrangements) which are accounted for within AASB 15. A portion of the consideration within the lease arrangements are therefore allocated to revenue for the provision of services. The service revenue is recognised over time as the services are provided and as such, the timing of recognition of income is not affected. Such revenue has, however, been disclosed separately in *Note 2 Property Revenue and Expenses.*

*Management fees & other revenue*

Where the Trust earns investment, property management fees and development fees the fees continue to be recognised monthly over the duration of the agreements. Management have determined that there are no impacts of the new guidance on property management contracts.

**AASB 9 *Financial Instruments***

AASB 9 addresses the classification, measurement and de-recognition of financial assets and financial liabilities and introduces new requirements for:

- the classification and measurement of financial assets;
- the classification and measurement of financial liabilities;
- impairment of financial assets;
- hedge accounting

The impact of applying the new standard has been assessed on each of the following:

# Note 15 Changes in accounting policies (continued)

**AASB 9 *Financial Instruments*** (continued)

*Classification and measurement of financial assets*

All recognised financial assets that are within the scope of AASB 9 are required to be measured subsequently at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. The Trust has assessed which business models and cash flow characteristics apply to the financial assets held by the Trust and has classified its financial instruments into the appropriate AASB 9 categories. The adoption of AASB 9 has not impacted the carrying value of financial assets but has resulted in classification changes on initial application at 1 July 2018 which are shown in the following table:

| Financial Assets | AASB 139 Classification | AASB 9 Classification |
|---|---|---|
| Cash and cash equivalents | Loans and receivables at amortised cost | Financial assets at amortised cost |
| Rent receivable | Loans and receivables at amortised cost | Financial assets at amortised cost |
| Distributions receivable | Loans and receivables at amortised cost | Financial assets at amortised cost |
| Other receivables | Loans and receivables at amortised cost | Financial assets at amortised cost |
| Other financial assets | Fair value through profit and loss[1] | Fair value through profit and loss[1] |

*Classification and measurement of financial liabilities*

Under AASB 9 the classification of financial liabilities held by the Trust does not change from that previously prescribed in AASB 139 Financial Instruments: Recognition and Measurement. The main change introduced by AASB 9 is in relation to the accounting treatment for a gain or loss arising from a modification of a financial liability that does not result in the derecognition thereof. The requirements of AASB 9 state that the gain or loss on modification needs to be recognised immediately within profit or loss. The Trust has assessed the impact resulting from the initial application of AASB 9 and has determined that non-substantial modifications to interest bearing liabilities have occurred in the past, thereby requiring an adjustment of $0.2 million to decrease retained earnings and to increase the interest-bearing liabilities. Refer below for a reconciliation of retained earnings and the impacts on the Consolidated Statement of Financial Position.

*Impairment of financial assets*

In relation to the impairment of financial assets, AASB 9 requires an expected credit loss model as opposed to an incurred credit loss model under AASB 139. The expected credit loss model requires the Trust to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets.

AASB 9 requires the Trust to measure the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses (ECL). The Trust has assessed the impact resulting from the initial application of AASB 9, by considering the historical actual write off rates for relevant types of financial assets and taking into account forward looking indicators that might impact the recoverability of currently recognised financial assets. Based on this assessment, it was determined that the credit risk of trade receivables is low and therefore the application of an ECL model in determining the loss allowance for expected credit losses on trade receivables, has resulted in an immaterial impact on the financial reporting of the Trust. Therefore, no restatement is evident.

The following table reconciles the changes in retained earnings upon implementation of the new accounting standards.

| | 30 June 2019<br>$'000 |
|---|---|
| **Closing retained earning balance at 30 Jun 2018 - AASB139** | **(196,230)** |
| Implementation of expected credit loss | (188) |
| **Opening retained earnings balance as at 1 July 2018 - AASB 9** | **(196,418)** |

## Note 15 Changes in accounting policies (continued)

**AASB 9 *Financial Instruments*** (continued)

*Impairment of financial assets* (continued)

The table below details the impacts to the Consolidated Statement of Financial Position on implementation of the new accounting standards.

| | 30 June 2018 $'000 | AASB 9 $'000 | 1 July 2018 Restated $'000 |
|---|---|---|---|
| Current assets | 1,928 | - | 1,928 |
| Receivables | 3,804 | (188) | 3,616 |
| **Total current assets** | 5,732 | (188) | 5,544 |
| **Total assets** | 980,462 | (188) | 980,274 |
| **Net assets** | 943,398 | (188) | 943,210 |
| **Equity** | 1,139,628 | - | 1,139,628 |
| Retained profits | (196,230) | (188) | (196,418) |
| **Total equity** | 943,398 | (188) | 943,210 |

## Note 16 Subsequent events

Since the end of the year, 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 Trust, the results of those operations, or state of the Trust's affairs in future financial periods.

# Directors' Declaration

The Directors of Dexus Funds Management Limited as Responsible Entity of Dexus Industrial Trust declare that the Financial Statements and notes set out on pages 8 to 37:

(i) comply with Australian Accounting Standards, the *Corporations Act 2001* and other mandatory professional reporting requirements; and

(ii) give a true and fair view of the Group's financial position as at 30 June 2019 and of its performance, as represented by the results of its operations and its cash flows, for the year ended on that date.

In the Directors' opinion:

(a) the Financial Statements and notes are in accordance with the *Corporations Act 2001*;

(b) there are reasonable grounds to believe that the Trust and its consolidated entities will be able to pay their debts as and when they become due and payable; and

(c) the Trust has operated in accordance with the provisions of the Constitution dated 15 August 1984 (as amended) during the year ended 30 June 2019.

The Financial Statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The Directors have been given the declarations by the Chief Executive Officer and the Chief Financial Officer required by section 295A of the *Corporations Act 2001*.

This declaration is made in accordance with a resolution of the Directors.

**W Richard Sheppard**

Chair

13 August 2019

# *Independent auditor's report*

To the stapled security holders of Dexus Industrial Trust

## *Report on the audit of the financial report*

### *Our opinion*

In our opinion:

The accompanying financial report of Dexus Industrial Trust (the Trust) and its controlled entities (together the Group) is in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the Group's financial position as at 30 June 2019 and of its financial performance for the year then ended

(b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

***What we have audited***

The Group financial report comprises:

- the Consolidated Statement of Financial Position as at 30 June 2019
- the Consolidated Statement of Comprehensive Income for the year then ended
- the Consolidated Statement of Changes in Equity for the year then ended
- the Consolidated Statement of Cash Flows for the year then ended
- the Notes to the Consolidated Financial Statements, which include a summary of significant accounting policies
- the Directors' Declaration.

### *Basis for opinion*

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

***Independence***

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

***PricewaterhouseCoopers, ABN 52 780 433 757***
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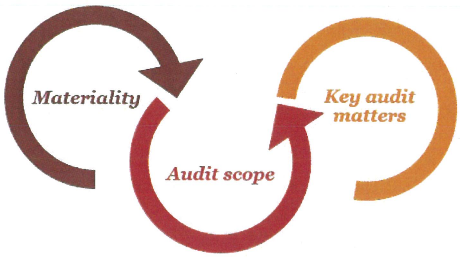
*T: +61 2 9659 2476, F: +61 2 8266 9999, www.pwc.com.au*

## *Our audit approach*

An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial report as a whole, taking into account the geographic and management structure of the Group, its accounting processes and controls and the industry in which it operates.




| *Materiality* | *Audit scope* | *Key audit matters* |
|---|---|---|
| • For the purpose of our audit we used overall materiality of \$2.5 million, which represents approximately 5% of the Group's adjusted profit before tax (Funds from Operations or FFO).<br>• We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole.<br>• We chose FFO because, in our view, it is the key performance measure of the Group. An explanation of what is included in FFO is outlined in Note 1, Operating segments of the Dexus Annual Report.<br>• We utilised a 5% threshold based on our professional judgement, noting it is within the range of commonly acceptable profit related thresholds. | • The Group is a consolidated entity with operations in Australia. The scope of our audit included the Trust and its controlled entities.<br>• Our audit focused on where the Group made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events. | • Amongst other relevant topics, we communicated the following key audit matter to the Board Audit Committee:<br>– Valuation of investment properties<br>• This is further described in the *Key audit matters* section of our report. |

## *Key audit matters*

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. The key audit matter was addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter. Further, any commentary on the outcomes of a particular audit procedure is made in that context.

| *Key audit matter* | *How our audit addressed the key audit matter* |
|---|---|
| ***Valuation of investment properties***<br>*(Refer to Note 6)*<br><br>The Group's investment property portfolio comprises \$357.9 million (2018: \$744.1 million) of industrial properties directly held in Australia.<br><br>Investment properties are carried at fair value at reporting date using the Group's policy as described in Note 6. The valuation of investment properties is dependent on a number of assumptions and inputs including, tenant information, property age and location, expected future rental profiles, and prevailing market conditions. Amongst others, the following assumptions are key in establishing fair value:<br>• The capitalisation rate<br>• The adopted discount rate.<br><br>We considered the valuation of investment properties to be a key audit matter due to the:<br>• Financial significance of investment properties in the Consolidated Statement of Financial Position.<br>• Potential for changes in the fair value of investment properties to have a significant effect the Consolidated Statement of Comprehensive Income.<br>• Inherently subjective nature of investment property valuations arising from the use of assumptions in the valuation methodology.<br>• Sensitivity of valuations to key input assumptions, including capitalisation rates, and discount rates. | To assess the valuation of investment properties we performed the following procedures amongst others:<br><br>• We compared the valuation methodology adopted by the Group with commonly accepted valuation approaches used for investment properties in the industry, and with the Group's stated valuation policy.<br><br>• We obtained recent independent property market reports to develop an understanding of the prevailing market conditions in which the Group invests. We leveraged this knowledge to form independent expectations of likely movements in investment property values and underlying key assumptions such as capitalisation rates and discount rates.<br><br>• For a sample of leases, we compared the rental income used in the investment property valuations to the tenancy schedules.<br><br>• We compared the capitalisation rates and discount rates used by the Group in their investment property valuations to market data we determined reasonable based on location and asset grade. Where capitalisation rates, discount rates and/or movements in individual property valuations fell outside of our expectation, we performed the following procedures, amongst others:<br>  - Met with the Group's Senior Valuation Manager and discussed the specifics of the selected individual properties including, amongst other things, any new leases entered into during the year, lease expiries, capital expenditure and vacancy rates.<br>  - Agreed significant changes in inputs from previous valuations to supporting documentation such as new lease agreements.<br>  - Assessed key inputs in the investment property valuations to observable external market data. |

| *Key audit matter* | *How our audit addressed the key audit matter* |
| --- | --- |
| | As the Group engaged external experts to determine the fair value of investment properties, we considered the independence, experience and competency of the Group's independent experts as well as the results of their procedures. |

## *Other information*

The Directors of Dexus Funds Management Limited as Responsible Entity of the Trust (the Directors) are responsible for the other information. The other information comprises the information included in the annual report for the year ended 30 June 2019, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## *Responsibilities of the directors for the financial report*

The Directors are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the Directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the Directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

## *Auditor's responsibilities for the audit of the financial report*

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our auditor's report.

PricewaterhouseCoopers

PricewaterhouseCoopers

Matthew Lunn
Partner

Sydney
13 August 2019

# Dexus Office Trust
# Financial Report
# 30 June 2019

ARSN: 090 768 531

# Contents



**Dexus Property Group (DXS) (ASX Code: DXS) consists of Dexus Diversified Trust (DDF) (ARSN 089 324 541), Dexus Industrial Trust (DIT), Dexus Office Trust (DOT) and Dexus Operations Trust (DXO), collectively known as DXS or the Group.**

**The registered office of the Group is Level 25, Australia Square, 264-278 George Street, Sydney, NSW 2000.**

# Directors' Report

The Directors of Dexus Funds Management Limited (DXFM) as Responsible Entity of Dexus Office Trust (DOT or the Trust) present their Directors' Report together with the consolidated Financial Statements for the year ended 30 June 2019. The consolidated Financial Statements represents Dexus Office Trust and its consolidated entities.

The Trust together with Dexus Diversified Trust (DDF), Dexus Industrial Trust (DIT) and Dexus Operations Trust (DXO) form the Dexus (DXS or the Group) stapled security.

## Directors and Secretaries

### Directors

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

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

### Company Secretaries

The names and details of the Company Secretaries of DXFM as at 30 June 2019 are as follows:

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

Appointed: 31 October 2014

Brett is the General Counsel and a Company Secretary of Dexus companies and is responsible for the legal function, company secretarial services and compliance, risk and governance systems and practices across the Group.

Prior to joining Dexus, Brett was Head of Legal for Macquarie Real Estate (Asia) and has held senior legal positions at Macquarie Capital Funds in Hong Kong and Minter Ellison in Sydney and Hong Kong. Brett has 22 years' experience as in-house counsel and in private practice in Australia and in Asia, where he worked on real estate structuring and operations, funds management, mergers and acquisitions, private equity and corporate finance across a number of industries.

Brett graduated from The University of New South Wales and holds a Bachelor of Laws and a Bachelor of Arts (Science and Technology) and is a member of the Law Societies of New South Wales and Hong Kong. Brett is also a graduate of the Australian Institute of Company Directors and a Fellow of the Governance Institute of Australia.

**Scott Mahony BBus(Acc), Grad Dip (Business Administration), MBA (eCommerce), Grad Dip (Applied Corporate Governance) FGIA, FCIS**

Appointed: 5 February 2019

Scott is the Head of Governance of Dexus and is responsible for the development, implementation and oversight of Dexus's governance policies and practices. Prior to being appointed the Head of Governance in 2018, Scott had oversight of Dexus's risk and compliance programs.

Scott joined Dexus in October 2005 after two years with Commonwealth Bank of Australia as a Senior Compliance Manager. Prior to this, Scott worked for over 11 years for Assure Services & Technology (part of AXA Asia Pacific) where he held various management roles.

## Attendance of Directors at Board Meetings and Board Committee Meetings

The number of Directors' meetings held during the year and each Director's attendance at those meetings is set out in the table below. The Directors met 12 times during the year. Ten board meetings were main meetings and two meetings were held to consider specific business.

| | Main meetings held | Main meetings attended | Specific meetings held | Specific meetings attended |
|---|---|---|---|---|
| W Richard Sheppard | 10 | 10 | 2 | 2 |
| Penny Bingham-Hall | 10 | 10 | 2 | 2 |
| John C Conde, AO | 10 | 10 | 2 | 2 |
| Tonianne Dwyer | 10 | 10 | 2 | 2 |
| Mark Ford | 10 | 10 | 2 | 2 |
| The Hon. Nicola L Roxon | 10 | 10 | 2 | 2 |
| Darren J Steinberg | 10 | 10 | 2 | 2 |
| Peter B St George | 10 | 10 | 2 | 2 |

Special meetings are held at a time to enable the maximum number of Directors to attend and are generally held to consider specific items that cannot be held over to the next scheduled main meeting.

The table below shows non-executive Directors' attendances at Board Committee meetings of which they were a member during the year ended 30 June 2019.

| | Board Audit Committee | | Board Risk Committee | | Board Nomination Committee | | Board People and Remuneration Committee | |
|---|---|---|---|---|---|---|---|---|
| | Held | Attended | Held | Attended | Held | Attended | Held | Attended |
| W Richard Sheppard | - | - | - | - | 3 | 3 | 6 | 6 |
| Penny Bingham-Hall | - | - | 4 | 4 | 3 | 3 | 6 | 6 |
| John C Conde, AO | 4 | 4 | - | - | 3 | 3 | - | - |
| Tonianne Dwyer | 4 | 4 | 4 | 4 | - | - | - | - |
| Mark Ford | 4 | 4 | 4 | 4 | - | - | - | - |
| The Hon. Nicola L Roxon | - | - | 4 | 4 | - | - | 6 | 6 |
| Peter B St George | 4 | 4 | 4 | 4 | - | - | - | - |

John Conde and Tonianne Dwyer were also Directors of Dexus Wholesale Property Limited (DWPL) and attended DWPL Board meetings during the year ended 30 June 2019.

# Directors' relevant interests

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

| Directors | No. of securities |
|---|---|
| W Richard Sheppard | 71,329 |
| Penny Bingham-Hall | 17,773 |
| John C Conde, AO | 17,906 |
| Tonianne Dwyer | 16,667 |
| Mark Ford | 1,667 |
| The Hon. Nicola L Roxon | Nil |
| Darren J Steinberg[1] | 1,307,574 |
| Peter B St George | 18,573 |

1 Includes interests held directly and through performance rights.

# Operating and financial review

The relevant financial information for the Trust for the year ended 30 June 2019 is as follows:

- profit attributable to unitholders was $781.0 million (2018: $1,069.8 million)
- total assets were $11,138.4 million (2018: $9,090.8 million)
- net assets were $7,154.3 million (2018: $5,986.4 million)

A review of the results, financial position and operations of the Group, of which the Trust forms part thereof, is set out on pages 28-36 of the Dexus Annual Report and forms part of this Directors' Report.

# Remuneration Report

The Remuneration Report is set out on pages 68-91 of the Annual Report and forms part of this Directors' Report.

# Directors' directorships in other listed entities

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

| Director | Company | Date Appointed |
|---|---|---|
| W Richard Sheppard | Star Entertainment Group | 21 November 2012 |
| Penny Bingham-Hall | BlueScope Steel Limited | 29 March 2011 |
| | Fortescue Metals Group Ltd | 16 November 2016 |
| John C Conde, AO | Whitehaven Coal Limited | 3 May 2007 |
| | Cooper Energy Limited | 25 February 2013 |
| Tonianne Dwyer | Metcash Limited | 24 June 2014 |
| | ALS Limited | 1 July 2016 |
| | OZ Minerals Limited | 21 March 2017 |
| The Hon. Nicola L Roxon | Lifestyle Communities Limited | 1 September 2017 |
| Peter B St George | First Quantum Minerals Limited[1] | 20 October 2003 |
| Mark Ford | Kiwi Property Group Limited[2] | 16 May 2011 |
| Darren J Steinberg | VGI Partners Limited | 12 May 2019 |

1 Listed for trading on the Toronto Stock Exchange in Canada.
2 Listed for trading on the New Zealand Stock Exchange.

# Principal activities

During the year the principal activity of the Trust was to own, manage and develop high quality real estate assets for future use as investment properties. There were no significant changes in the nature of the Trust's activities during the year.

## Total value of Trust assets

The total value of the assets of the Trust as at 30 June 2019 was $11,138.4 million (2018: $9,090.8 million). Details of the basis of this valuation are outlined in the Notes to the Financial Statements and form part of this Directors' Report.

## Likely developments and expected results of operations

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

## Significant changes in the state of affairs

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

## Matters subsequent to the end of the financial year

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

## Distributions

Distributions paid or payable by the Trust for the year ended 30 June 2019 are outlined in note 5 of the Notes to the Financial Statements and form part of this Director's report.

## DXFM fees

Details of fees paid or payable by the Trust for the year ended 30 June 2019 are outlined in note 14 of the Notes to the Financial Statements and form part of this Directors' Report.

## Units on Issue

The movement in units on issue in the Trust during the year and the number of units on issue as at 30 June 2019 are detailed in note 10 of the Notes to the Financial Statements and form part of this Directors' Report.

## Environmental regulation

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

## Indemnification and insurance

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

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

# Audit

**Auditor**

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

**Non-audit services**

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

Details of the amounts paid or payable to the Auditor for audit and non-audit services provided during the year are set out in note 13 of the Notes to the Financial Statements.

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

The reasons for the Directors being satisfied are:

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

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

**Auditor's Independence Declaration**

A copy of the Auditor's Independence Declaration as required under section 307C of the *Corporations Act 2001* is set out on page 8 and forms part of this Directors' Report.

# Corporate governance

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

# Rounding of amounts and currency

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

## Directors' authorisation

The Directors' Report is made in accordance with a resolution of the Directors. The Financial Statements were authorised for issue by the Directors on 13 August 2019.

**W Richard Sheppard**
Chair
13 August 2019

**Darren J Steinberg**
Chief Executive Officer
13 August 2019

# *Auditor's Independence Declaration*

As lead auditor for the audit of Dexus Office Trust for the year ended 30 June 2019, I declare that to the best of my knowledge and belief, there have been:

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

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

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

Matthew Lunn
Partner
PricewaterhouseCoopers

Sydney
13 August 2019

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# Consolidated Statement of Comprehensive Income

**For the year ended 30 June 2019**

| | Note | 2019 $m | 2018 $m |
|---|---|---|---|
| **Revenue from ordinary activities** | | | |
| Property revenue | 2 | **291.2** | 294.8 |
| Interest revenue | | **0.2** | 0.3 |
| **Total revenue from ordinary activities** | | **291.4** | 295.1 |
| Net fair value gain of investment properties | | **299.4** | 487.3 |
| Share of net profit of investments accounted for using the equity method | 7 | **425.1** | 516.3 |
| Net gain on sale of investment properties | | **-** | 1.9 |
| Net fair value gain of derivatives | | **20.8** | 6.6 |
| Other income | | **-** | 2.4 |
| **Total income** | | **1,036.7** | 1,309.6 |
| | | | |
| **Expenses** | | | |
| Property expenses | 2 | **(79.2)** | (78.9) |
| Management fee expense | | **(14.4)** | (14.6) |
| Finance costs | 3 | **(157.5)** | (144.9) |
| Net loss on sale of investment properties | | **(3.5)** | - |
| Management operations, corporate and administration expenses | | **(1.1)** | (1.4) |
| **Total expenses** | | **(255.7)** | (239.8) |
| Income tax expense | | **-** | - |
| **Profit/(loss) for the year** | | **781.0** | 1,069.8 |
| | | | |
| **Other comprehensive income/(loss):** | | | |
| Other comprehensive income/(loss) | | **-** | - |
| **Total comprehensive income/(loss) for the year** | | **781.0** | 1,069.8 |

| | | Cents | Cents |
|---|---|---|---|
| **Earnings per unit on profit/(loss) attributable to unitholders of the Trust** | | | |
| Basic earnings per unit | 4 | **75.93** | 105.16 |
| Diluted earnings per unit | 4 | **74.13** | 105.16 |

The above Consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

# Consolidated Statement of Financial Position

**As at 30 June 2019**

| | Note | **2019 $m** | 2018 $m |
|---|---|---|---|
| **Current assets** | | | |
| Cash and cash equivalents | 11(a) | **13.4** | 7.2 |
| Receivables | 11(b) | **41.5** | 26.9 |
| Derivative financial instruments | 8(c) | **-** | 6.7 |
| Other | 11(c) | **6.7** | 17.1 |
| **Total current assets** | | **61.6** | 57.9 |
| | | | |
| **Non-current assets** | | | |
| Investment properties | 6 | **5,221.7** | 4,810.5 |
| Investments accounted for using the equity method | 7 | **5,851.0** | 4,218.5 |
| Derivative financial instruments | 8(c) | **2.5** | 2.7 |
| Other | | **1.6** | 1.2 |
| **Total non-current assets** | | **11,076.8** | 9,032.9 |
| **Total assets** | | **11,138.4** | 9,090.8 |
| | | | |
| **Current liabilities** | | | |
| Payables | 11(d) | **90.6** | 70.0 |
| Derivative financial instruments | 8(c) | **5.2** | 4.5 |
| Provisions | 11(e) | **72.0** | 149.9 |
| **Total current liabilities** | | **167.8** | 224.4 |
| | | | |
| **Non-current liabilities** | | | |
| Loans with related parties | | **3,752.4** | 2,867.0 |
| Derivative financial instruments | 8(c) | **63.8** | 12.9 |
| Other | | **0.1** | 0.1 |
| **Total non-current liabilities** | | **3,816.3** | 2,880.0 |
| **Total liabilities** | | **3,984.1** | 3,104.4 |
| **Net assets** | | **7,154.3** | 5,986.4 |
| | | | |
| **Equity** | | | |
| Contributed equity | 10 | **3,620.8** | 3,050.8 |
| Retained profits | | **3,533.5** | 2,935.6 |
| **Total equity** | | **7,154.3** | 5,986.4 |

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

# Consolidated Statement of Changes in Equity

**For the year ended 30 June 2019**

| | Note | Contributed equity $m | Retained profits/ (losses) $m | Total equity $m |
|---|---|---|---|---|
| **Opening balance as at 1 July 2017** | | 2,699.7 | 2,151.3 | 4,851.0 |
| Profit/(loss) for the year | | - | 1,069.8 | 1,069.8 |
| Total comprehensive income for the year | | - | 1,069.8 | 1,069.8 |
| Transactions with owners in their capacity as unitholders: | | | | |
| Issue of additional equity, net of transaction costs | 10 | 2.1 | - | 2.1 |
| Buy-back of contributed equity, net of transaction costs | 10 | (1.1) | - | (1.1) |
| Distributions paid or provided for | 5 | - | (285.5) | (285.5) |
| Capital contribution | | 350.1 | - | 350.1 |
| Total transactions with owners in their capacity as owners | | 351.1 | (285.5) | 65.6 |
| **Closing balance as at 30 June 2018** | | 3,050.8 | 2,935.6 | 5,986.4 |
| **Opening balance as at 1 July 2018** | | **3,050.8** | **2,935.6** | **5,986.4** |
| Profit/(loss) for the year | | **-** | **781.0** | **781.0** |
| Other comprehensive income/(loss) for the year | | **-** | **-** | **-** |
| Total comprehensive income for the year | | **-** | **781.0** | **781.0** |
| Transactions with owners in their capacity as unitholders: | | | | |
| Issue of additional equity, net of transaction costs | 10 | **570.0** | **-** | **570.0** |
| Distributions paid or provided for | 5 | **-** | **(183.1)** | **(183.1)** |
| Total transactions with owners in their capacity as owners | | **570.0** | **(183.1)** | **386.9** |
| **Closing balance as at 30 June 2019** | | **3,620.8** | **3,533.5** | **7,154.3** |

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying note

# Consolidated Statement of Cash Flows

**For the year ended 30 June 2019**

| | Note | 2019 $m | 2018 $m |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts in the course of operations (inclusive of GST) | | **324.3** | 339.5 |
| Payments in the course of operations (inclusive of GST) | | **(105.0)** | (126.4) |
| Interest received | | **0.2** | 0.3 |
| Finance costs paid to financial institutions | | **(5.5)** | (12.4) |
| Distributions received from investments accounted for using the equity method | | **216.5** | 315.1 |
| **Net cash inflow/(outflow) from operating activities** | 13 | **430.5** | 516.1 |
| | | | |
| Proceeds from sale of investment properties | | **241.6** | 288.9 |
| Payments for capital expenditure on investment properties | | **(184.4)** | (102.3) |
| Proceeds from sale of underlying investment | | **27.2** | - |
| Payments for investments accounted for using the equity method | | **(1,432.3)** | (322.7) |
| Payments for acquisition of investment properties | | **(169.2)** | (345.7) |
| **Net cash inflow/(outflow) from investing activities** | | **(1,517.1)** | (481.8) |
| | | | |
| **Cash flows from financing activities** | | | |
| Borrowings provided to related parties | | **(3,215.3)** | (2,270.2) |
| Borrowings received from related parties | | **3,999.2** | 2,499.7 |
| Payments for buy-back of contributed equity | | **-** | (1.1) |
| Proceeds from issue of additional equity, net of transaction costs | | **569.9** | 2.1 |
| Distributions paid to security holders | | **(261.0)** | (263.4) |
| **Net cash inflow/(outflow) from financing activities** | | **1,092.8** | (32.9) |
| | | | |
| **Net increase/(decrease) in cash and cash equivalents** | | **6.2** | 1.4 |
| Cash and cash equivalents at the beginning of the year | | **7.2** | 5.8 |
| **Cash and cash equivalents at the end of the year** | | **13.4** | 7.2 |

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

# Notes to the Financial Statements

**In this section**

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

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

## About This Report
## Basis of preparation

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

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

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

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

Dexus stapled securities are quoted on the Australian Securities Exchange under the "DXS" code and comprise one unit in each of DDF, DIT, DOT and DXO. Each entity forming part of DXS continues as a separate legal entity in its own right under the *Corporations Act 2001* and is therefore required to comply with reporting and disclosure requirements under the *Corporations Act 2001* and Australian Accounting Standards.

*Working Capital Deficiency*

As at 30 June 2019, the Trust had a net current asset deficiency of $106.2 million (2018: $166.5 million). This is primarily due to the provision of distribution for $72.0 million due to be paid in August 2019.

The capital risk management is not managed at the Trust level, but rather holistically as part of the Group. This is done through a centralised treasury function which ensures that entities within the Group (including DOT) will be able to continue as a going concern.

The Group has in place both external and internal funding arrangements to support the cash flow requirements of the Trust, including undrawn facilities of $921.0 million (2018: $886.6 million). Refer to note 13 Interest bearing liabilities in the DXS financial statements.

In the event that the entity requires additional funding to meet current liabilities in the 12 months succeeding the date of this financial report, the Group will make adequate funds available to the Trust.

In determining the basis of preparation of the financial report, the directors of the responsible entity of the Trust, have taken into consideration the unutilised facilities available to the Group. As such the Trust is a going concern and the Financial Statements have been prepared on that basis.

### Critical accounting estimates

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

| | | |
|---|---|---|
| Note 6 | Investment properties | Page 19 |
| Note 8(c) | Capital and financial risk management | Page 30 |

# Principles of consolidation

These consolidated Financial Statements incorporate the assets, liabilities and results of all subsidiaries as at 30 June 2019.

**(a) Controlled entities**

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

**(b) Joint arrangements**

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

*Joint operations*

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

*Joint ventures*

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

# Foreign currency

The Financial Statements are presented in Australian dollars.

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

As at 30 June 2019, the Trust had no investments in foreign operations.

# Goods and services tax

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

# New accounting standards and interpretations

***AASB 16 Leases* (effective application for the Group is 1 July 2019).**

AASB 16 has been published however is not mandatory for the 30 June 2019 reporting period. The Trust's assessment of the impact of AASB 16 is set out below.

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

The transition impact on 1 July 2019 has been assessed to be an increase in assets and liabilities of up to approximately $5 million. As the Trust has adopted the cumulative retrospective approach, comparatives will not be restated and the cumulative effect will be recognised on initial application.

The Trust will apply the standard from 1 July 2019.

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 Trust.

**The notes are organised into the following sections:**

| Trust performance | Property portfolio assets | Capital and financial risk management and working capital | Other disclosures |
|---|---|---|---|
| 1. Operating segments | 6. Investment properties | 8. Capital and financial risk management | 12. Audit, taxation and transaction service fees |
| 2. Property revenue and expenses | 7. Investments accounted for using the equity method | 9. Commitments and contingencies | 13. Cash flow information |
| 3. Finance costs | | 10. Contributed equity | 14. Related parties |
| 4. Earnings per unit | | 11. Working capital | 15. Parent entity disclosures |
| 5. Distributions paid and payable | | | 16. Changes in accounting policies |
| | | | 17. Subsequent events |

# Trust performance

**In this section**

This section explains the results and performance of the Trust.

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 Trust, including: results by operating segment, property revenue and expenses, finance costs, 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.

The operating segments within DXS are reviewed on a consolidated basis and are not monitored at an individual trust level.

Disclosures concerning DXS's operating segments are presented in the Dexus Financial Report.

## Note 2 Property revenue and expenses

The Trust'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.

Within its lease arrangements, the Trust provides certain services to tenants (such as utilities, cleaning, maintenance and certain parking arrangements) which are accounted for in accordance with AASB 15. A portion of the consideration within the lease arrangements is therefore allocated to revenue for the provision of services. Refer to note 16 for further information relating to revenue policies adopted under AASB 15 *Revenue from Contracts with Customers*.

| | **2019** **$m** | 2018 $m |
|---|---|---|
| Rent and recoverable outgoings | **247.7** | 297.9 |
| Services revenue | **40.8** | - |
| Incentive amortisation | **(38.9)** | (45.0) |
| Other revenue | **41.6** | 41.9 |
| **Total property revenue** | **291.2** | 294.8 |

1 The trust applied *AASB 15 Revenue from Contracts with Customers* on 1 July 2018. A portion of the consideration within lease arrangements has been allocated to service revenue which has previously been disclosed as part of rent and recoverable outgoings. Refer to *Note 16 Changes in accounting policies*.

Property expenses of $79.2 million (2018: $78.9 million) includes rates, taxes and other property outgoings incurred in relation to investment properties.

# Note 3 Finance costs

Finance costs include interest, amortisation or other costs incurred in connection with arrangement of borrowings and net fair value movements of interest rate swaps. Finance 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.

| | **2019** | 2018 |
|---|---|---|
| | **$m** | $m |
| Interest paid to related parties | **137.0** | 140.9 |
| Net fair value (gain)/loss of interest rate swaps | **35.9** | 10.1 |
| Amount capitalised | **(15.4)** | (6.1) |
| **Total finance costs** | **157.5** | 144.9 |

The average capitalisation rate used to determine the amount of finance costs eligible for capitalisation is 5.25% (2018: 5.75%).

# Note 4 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 unit

| | **2019** | 2018 |
|---|---|---|
| | **$m** | $m |
| Profit attributable to unitholders of the Trust for basic earnings per security | **781.0** | 1,069.8 |
| Effect on exchange of Exchangeable Notes | **(12.6)** | - |
| Profit attributable to unitholders of the Trust for diluted earnings per security | **768.4** | 1,069.8 |

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

| | **2019** | 2018 |
|---|---|---|
| | **No. of units** | No. of units |
| Weighted average number of units outstanding used in calculation of basic earnings per unit | **1,028,577,220** | 1,017,299,246 |
| Effect on exchange of Exchangeable Notes | **8,046,239** | - |
| Weighted average number of units outstanding used in calculation of diluted earnings per unit | **1,036,623,459** | 1,017,299,246 |

# Note 5 Distributions paid and payable

Distributions are recognised when declared.

### a) Distribution to security holders

| | **2019** | 2018 |
|---|---|---|
| | **$m** | $m |
| 31 December (paid 28 February 2019) | **111.1** | 135.6 |
| 30 June (payable 29 August 2019) | **72.0** | 149.9 |
| **Total distribution to unitholders** | **183.1** | 285.5 |

### b) Distribution rate

| | **2019** | 2018 |
|---|---|---|
| | **Cents per unit** | Cents per unit |
| 31 December (paid 28 February 2019) | **10.92** | 13.33 |
| 30 June (payable 29 August 2019) | **6.56** | 14.74 |
| **Total distributions** | **17.48** | 28.07 |

# Property portfolio assets

**In this section**

Property portfolio assets are used to generate the Trust's performance and are considered to be the most relevant to the operations of the Trust. 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 material joint ventures and other joint ventures. The Trust's joint ventures comprise interests in property portfolio assets held through investments in trusts.

## Note 6 Investment properties

The Trust'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 Consolidated 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.

### a) Reconciliation

| | **2019<br>$m** | 2018<br>$m |
|---|---|---|
| Opening balance at the beginning of the year | **4,810.5** | 3,883.2 |
| Additions | **192.1** | 95.4 |
| Acquisitions | **169.2** | 345.9 |
| Lease incentives | **31.2** | 35.2 |
| Amortisation of lease incentives | **(44.2)** | (43.2) |
| Rent straightlining | **8.0** | 10.3 |
| Disposals | **(244.5)** | - |
| Net fair value gain/(loss) of investment properties | **299.4** | 483.7 |
| **Closing balance at the end of the year** | **5,221.7** | 4,810.5 |

**Acquisitions**

On 31 October 2018, settlement occurred for the acquisition of 60 Collins Street, Melbourne for $160.0 million excluding acquisition costs.

**Disposals**

On 1 June 2019, settlement occurred for the disposal of 201 Elizabeth Street, Sydney for $241.6 million excluding disposal costs.

# Note 6 Investment properties (continued)

### 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 2019, all investment properties were independently externally valued.

The Trust's investment properties are required to be internally valued at least every six months at each reporting period 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 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 Trust'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 2019 | 2018 |
|---|---|---|---|---|
| Office[1] | Level 3 | Adopted capitalisation rate | **4.50 - 7.00%** | 4.63% - 9.00% |
| | | Adopted discount rate | **6.00% - 7.50%** | 6.25% - 10.50% |
| | | Adopted terminal yield | **4.75 - 7.50%** | 5.00% - 9.75% |
| | | Current net market rental (per sqm) | **$383 - $1,398** | $346 - $1,338 |

1 Includes office development and excludes car parks, retail and other.

# Note 6 Investment properties (continued)

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

**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.

### 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 Trust's investment properties as shown below.

| Significant inputs | Fair value measurement sensitivity to significant increase in input | Fair value measurement sensitivity to significant decrease in input |
|---|---|---|
| Adopted capitalisation rate<br>Adopted discount rate<br>Adopted terminal yield | Decrease | Increase |
| Net market rental (per sqm)<br>Land rate (per sqm) | Increase | Decrease |

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

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

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

A decrease (softening) in the forecast rental growth rate may result in a negative impact on the discounted cash flow approach value whilst a strengthening may have a positive impact on the value under the same approach.

# Note 7 Investments accounted for using the equity method

## a) Interest in joint ventures

Investments are accounted for in the Financial Statements using the equity method of accounting (refer to the 'About this Report' section). The proportion of ownership interest and the carrying amount of the Trust's interest in these entities is set out below. The below entities were formed in Australia and their principal activity is property investment in Australia.

| | Ownership interest | | | |
|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 |
| **Name of entity** | **%** | % | **$m** | $m |
| Bent Street Trust | **33.3** | 33.3 | **349.5** | 344.7 |
| Dexus Creek Street Trust | **50.0** | 50.0 | **176.8** | 161.8 |
| Dexus Martin Place Trust[1] | **50.0** | 50.0 | **826.9** | 376.9 |
| Grosvenor Place Holding Trust[2,3] | **50.0** | 50.0 | **469.7** | 452.3 |
| Site 6 Homebush Bay Trust[2] | **50.0** | 50.0 | **43.1** | 33.6 |
| Site 7 Homebush Bay Trust[2] | **50.0** | 50.0 | **54.4** | 47.2 |
| Dexus 480 Q Holding Trust | **50.0** | 50.0 | **386.5** | 380.5 |
| Dexus Kings Square Trust | **50.0** | 50.0 | **220.9** | 216.3 |
| Dexus Office Trust Australia (DOTA) | **50.0** | 50.0 | **2,418.4** | 2,172.2 |
| Dexus Eagle Street Pier Trust | **50.0** | 50.0 | **31.4** | 33.0 |
| Dexus 80C Trust[4] | **75.0** | - | **873.4** | - |
| **Total assets - investments accounted for using the equity method[5]** | | | **5,851.0** | 4,218.5 |

1 On 1 April 2019, settlement occurred for the acquisition of a further 25% interest in MLC Centre, 19 Martin Place, Sydney for $400 million excluding acquisition costs. This represents the Trust's 50% interest.
2 These entities are 50% owned by DOTA. The Trust's economic interest is therefore 75% when combined with the interest held by DOTA.
3 Grosvenor Place Holding Trust owns 50% of Grosvenor Place, at 225 George Street, Sydney, NSW. The Trust's economic interest in this property is therefore 37.5%.
4 On 9 May 2019, settlement occurred for the acquisition of 80 Collins Street, Melbourne for $1.09 billion excluding acquisition costs. This represents the Trust's 75% interest.
5 The Trust's share of investment properties in the investments accounted for using the equity method was $5,966.4 million (2018: $4,327.0 million). These investments are accounted for using the equity method as a result of contractual arrangements requiring unanimous decisions on all relevant matters.

## b) Summarised financial information for joint ventures

The tables below provide summarised financial information for the joint ventures which, in the opinion of the directors, are most material to the Trust. The information disclosed reflects the amounts presented in the financial statements of the relevant joint ventures and not the Trust's share of those amounts.

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# Property portfolio assets (continued)

## Note 7 Investments accounted for using the equity method (continued)

### b) Summarised financial information for individually material joint ventures (continued)

| | Dexus Office Trust Australia | | Dexus 80C Trust | | Grosvenor Place Holding Trust | | Dexus Martin Place Trust | | Dexus 480Q Holding Trust | | Bent Street Trust | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Summarised Statement of Financial Position** | **2019 $m** | 2018 $m | **2019 $m** | 2018 $m | **2019 $m** | 2018 $m | **2019 $m** | 2018 $m | **2019 $m** | 2018 $m | **2019 $m** | 2018 $m |
| **Current assets** | | | | | | | | | | | | |
| Cash and cash equivalents | **14.6** | 40.5 | **2.9** | - | **2.2** | 0.2 | **8.3** | 18.4 | **1.0** | 4.6 | **2.1** | 4.7 |
| Other current assets | **110.6** | 7.9 | **35.0** | - | **3.0** | 4.2 | **24.0** | 12.0 | **7.9** | 5.8 | **1.9** | 1.2 |
| **Total current assets** | **125.2** | 48.4 | **37.9** | - | **5.2** | 4.4 | **32.3** | 30.4 | **8.9** | 10.4 | **4.0** | 5.9 |
| **Non-current assets** | | | | | | | | | | | | |
| Investment properties | **4,346.3** | 4,016.9 | **1,211.6** | - | **937.5** | 905.0 | **1,644.0** | 744.5 | **781.0** | 768.5 | **1,070.0** | 1,049.9 |
| Investments accounted for using the equity method | **566.8** | 533.0 | **-** | - | **-** | - | **-** | - | **-** | - | **-** | - |
| Other non-current assets | **44.5** | 0.8 | **-** | - | **0.1** | 0.1 | **0.2** | - | **0.2** | 0.1 | **-** | - |
| **Total non-current assets** | **4,957.6** | 4,550.7 | **1,211.6** | - | **937.6** | 905.1 | **1,644.2** | 744.5 | **781.2** | 768.6 | **1,070.0** | 1,049.9 |
| **Current liabilities** | | | | | | | | | | | | |
| Provision for distribution | **22.2** | 34.1 | **7.6** | - | **-** | - | **-** | - | **-** | - | **16.4** | 12.4 |
| Borrowings | **149.3** | 149.1 | **-** | - | **-** | - | **-** | - | **-** | - | **-** | - |
| Other current liabilities | **51.9** | 49.5 | **27.8** | - | **3.4** | 4.9 | **22.8** | 21.2 | **17.1** | 18.0 | **8.0** | 9.3 |
| **Total current liabilities** | **223.4** | 232.7 | **35.4** | - | **3.4** | 4.9 | **22.8** | 21.2 | **17.1** | 18.0 | **24.4** | 21.7 |
| **Non-current liabilities** | | | | | | | | | | | | |
| Borrowings | **22.6** | 22.1 | **49.5** | - | **-** | - | **-** | - | **-** | - | **-** | - |
| **Total non-current liabilities** | **22.6** | 22.1 | **49.5** | - | **-** | - | **-** | - | **-** | - | **-** | - |
| **Net assets** | **4,836.8** | 4,344.3 | **1,164.6** | - | **939.4** | 904.6 | **1,653.7** | 753.7 | **773.0** | 761.0 | **1,049.6** | 1,034.1 |
| **Reconciliation to carrying amounts:** | | | | | | | | | | | | |
| Opening balance at the beginning of the year | **4,344.3** | 3,969.9 | **-** | - | **904.6** | 771.1 | **753.7** | 332.5 | **761.0** | 733.5 | **1,034.1** | 957.4 |
| Additions | **199.9** | 164.7 | **1,169.2** | - | **5.1** | 3.8 | **870.6** | 438.6 | **2.9** | 7.7 | **-** | **-** |
| Profit for the year | **508.5** | 626.6 | **3.0** | - | **76.8** | 172.1 | **66.0** | 7.8 | **38.3** | 58.4 | 73.1 | 131.7 |
| Distributions received/receivable | **(215.9)** | (416.9) | **(7.6)** | - | **(47.1)** | (42.4) | **(36.6)** | (25.2) | **(29.2)** | (38.6) | **(57.6)** | (55.0) |
| **Closing balance at the end of the year** | **4,836.8** | 4,344.3 | **1,164.6** | - | **939.4** | 904.6 | **1,653.7** | 753.7 | **773.0** | 761.0 | **1,049.6** | 1,034.1 |
| **Groups Share in $** | **2,418.4** | 2,172.2 | **873.4** | - | **469.7** | 452.3 | **826.9** | 376.9 | **386.5** | 380.4 | **349.5** | 344.7 |
| **Summarised Statement of Comprehensive Income** | | | | | | | | | | | | |
| Property revenue | **279.3** | 278.4 | **3.5** | **-** | **52.8** | 50.5 | **56.0** | 40.4 | **65.7** | 53.8 | **52.5** | **53.0** |
| Property revaluations | **276.1** | 362.6 | **1.2** | **-** | **36.4** | 132.8 | **27.6** | (19.8) | **14.3** | 21.7 | **33.6** | **90.1** |
| Gain on sale of investment properties | **2.7** | (5.2) | **-** | **-** | **-** | - | **-** | - | **-** | - | **-** | **-** |
| Interest Income | **0.7** | 0.5 | - | **-** | **0.1** | 0.1 | **0.2** | 0.2 | **0.8** | 0.1 | **0.1** | **0.1** |
| Other Income | **56.2** | 90.8 | - | **-** | **-** | - | **-** | (0.1) | **(0.1)** | - | **-** | **(0.1)** |
| Finance Costs | **(9.9)** | (9.7) | **-** | **-** | **-** | - | **-** | - | **-** | - | **-** | **-** |
| Other expenses | **(96.6)** | (90.8) | **(1.7)** | **-** | **(12.5)** | (11.3) | **(17.8)** | (12.9) | **(42.4)** | (17.2) | **(13.1)** | **(11.4)** |
| **Net profit/(loss) for the year** | **508.5** | 626.6 | **3.0** | **-** | **76.8** | 172.1 | **66.0** | 7.8 | **38.3** | 58.4 | **73.1** | **131.7** |
| **Total comprehensive income/(loss) for the year** | **508.5** | 626.6 | **3.0** | **-** | **76.8** | 172.1 | **66.0** | 7.8 | **38.3** | 58.4 | **73.1** | **131.7** |

# Note 7 Investments accounted for using the equity method

(continued)

### c) Individually immaterial joint ventures

In addition to the interests in the joint ventures disclosed in Note 7(b), the Group also has interests in a number of individually immaterial joint ventures that are accounted for using the equity method.

| | **2019** | 2018 |
|---|---|---|
| | **$m** | $m |
| **Aggregate carrying amount of individually immaterial joint ventures** | **525.7** | 491.9 |
| | | |
| **Aggregate amounts of the Group's share of:** | | |
| Profit from continuing operations | **53.7** | 39.9 |
| Other comprehensive income | **-** | - |
| **Total comprehensive income** | **53.7** | 39.9 |

# Capital and financial risk management and working capital

**In this section**

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

Note 8 *Capital and financial risk management* outlines how the Trust 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 Trust.

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

- Debt: *Commitments and contingencies* in note 9;
- Equity: *Contributed equity* in note 10.

Note 11 provides a breakdown of the working capital balances held in the Consolidated Statement of Financial Position.

## Note 8 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 Trust manages its capital to ensure that entities within the Trust 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 Trust consists of debt, cash and cash equivalents and equity attributable to unitholders. The Trust 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 unitholders' equity;
- potential impacts on the DXS Group's credit rating; and
- other market factors.

The Trust is not rated by ratings agencies, however DXS has been rated A- by Standard and Poor's (S&P) and A3 by Moody's. Gearing levels and bank debt covenants are managed holistically as part of the DXS Group.

DXFM, the Responsible Entity for the Trust, 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.

# Note 8 Capital and financial risk management (continued)

**b) Financial risk management**

The Trust'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 Trust. The Trust's principal financial instruments, other than derivatives, comprise cash, and related party loans. The main purpose of financial instruments is to manage liquidity and hedge the Trust's exposure to financial risks namely:

- interest rate risk;
- liquidity risk; and
- credit risk.

The Trust uses derivatives to reduce the Trust's exposure to fluctuations in interest 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 Trust may use to hedge its risks include:

- interest rate swaps; and
- interest rate options.

The Trust does not trade in derivative instruments for speculative purposes. The Trust 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 Trust utilises. Non-derivative interest bearing financial instruments are predominantly short term liquid assets and long term debt issued at fixed rates which expose the Trust to fair value interest rate risk as the Trust may pay higher interest costs than if it were at variable rates. The Trust's borrowings which have a variable interest rate give rise to cash flow interest rate risk due to movements in variable interest rates.

The Trust'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 Trust primarily enters into interest rate derivatives to manage the associated interest rate risk. The derivative contracts are recorded at fair value in the Consolidated Statement of Financial Position, being the market value as quoted in an active market.

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.

# Note 8 Capital and financial risk management (continued)

**b) Financial risk management** (continued)

***i) Market risk** (continued)*

**Interest rate risk** (continued)

| | June 2020 $m | June 2021 $m | June 2022 $m | June 2023 $m | June 2024 $m |
|---|---|---|---|---|---|
| **Interest rate derivatives** | | | | | |
| A$ hedged[1] | 1,485.8 | 1,648.3 | 1,223.3 | 1,000.0 | 850.0 |
| A$ hedge rate (%) | 2.04% | 1.94% | 2.23% | 2.33% | 2.22% |

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 Trust'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 Trust'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.

| | **2019 (+/-) $m** | 2018 (+/-) $m |
|---|---|---|
| +/- 0.50% (50 basis points) | **13.8** | 7.7 |
| **Total A$ equivalent** | **13.8** | 7.7 |

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 for 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 Trust with an economic hedge, the Trust 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.

| | **2019 (+/-) $m** | 2018 (+/-) $m |
|---|---|---|
| +/- 0.50% (50 basis points) | **24.9** | 18.4 |
| **Total A$ equivalent** | **24.9** | 18.4 |

# Note 8 Capital and financial risk management (continued)

## b) Financial risk management (continued)

### *ii) Liquidity risk*

Liquidity risk is associated with ensuring that there are sufficient funds available to meet the Trust's financial commitments as and when they fall due and planning for any unforeseen events which may curtail cash flows. The Trust 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 Trust cash requirements over the next 1-24 month period. The Trust 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); and
- 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.

*Refinancing risk*

Refinancing risk is the risk that the Trust:

- 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 Trust'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 Trust's interest bearing liabilities and derivative financial instruments is shown in the table below. The amounts in the table represent undiscounted cash flows.

| | **2019** | | | | 2018 | | | |
|---|---|---|---|---|---|---|---|---|
| | **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 | **(90.6)** | **-** | **-** | **-** | (69.7) | - | - | - |
| Loans with related parties and interest[1] | **(121.4)** | **(120.4)** | **(407.1)** | **(4,246.1)** | (122.5) | (2,990.5) | - | - |
| **Derivative financial instruments** | | | | | | | | |
| Derivative assets | **-** | **-** | **0.5** | **3.2** | - | 1.2 | 13.9 | 0.1 |
| Derviative liabilities | **(10.1)** | **(9.1)** | **(11.1)** | **-** | (6.8) | (0.7) | - | - |
| **Total net derivative financial instruments[2]** | **(10.1)** | **(9.1)** | **(10.6)** | **3.2** | (6.8) | 0.5 | 13.9 | 0.1 |

1 Includes estimated interest and fees.
2 For interest rate swaps and options, only the net interest cash flows (not the notional principal) are included. Refer to note 8(c) for fair value of derivatives and refer to note 9(b) for financial guarantees.

# Note 8 Capital and financial risk management (continued)

**(b) Financial risk management** (continued)

***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 Trust. The Trust has exposure to credit risk on all financial assets included in the Trust's Consolidated Statement of Financial Position.

The Trust 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 a 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;
- monitoring tenants exposure within approved credit limits;
- 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 Trust is exposed to credit risk on cash balances and on derivative financial instruments with financial institutions. The Trust 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 Trust's policy requirements.

Financial instrument transactions are spread among a number of approved financial institutions within specified credit limits to minimise the Trust'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 2019 is the carrying amounts of financial assets recognised on the Consolidated Statement of Financial Position.

The Trust is exposed to credit risk on trade receivable balances. The Trust 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 is determined that no significant concentrations of credit risk exists for trade receivables balances. The maximum exposure to credit risk at 30 June 2019 is the carrying amounts of the trade receivables recognised on the Consolidated Statement of Financial Position.

# Note 8 Capital and financial risk management (continued)

## b) Financial risk management (continued)

### *iv) Fair value*

As at 30 June 2019, the carrying amounts of financial assets and liabilities are held at fair value.
The Trust 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 derivative financial instruments and investments in equity instruments (where the trust neither controls nor has significant influence) 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.

Since cash, receivables and payables are short-term in nature, their fair values are not materially different from their carrying amounts. For all the borrowings, the fair values are not materially different to their carrying amounts, since the interest payable on those borrowings is either close to current market rates or the borrowings are of a short-term nature.

**Key assumptions: fair value of derivatives**

The fair value of derivatives have been determined based on observable market inputs (interest rates) and applying a credit or debit value adjustment based on the current credit worthiness of counterparties and the Trust.

### *v) Offsetting financial assets and financial liabilities*

Financial assets and liabilities are offset and the net amount reported in the Consolidated 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 Consolidated 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 Trust uses derivatives to manage its exposure to interest rates.

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 Trust's exposures and updates its treasury policies and procedures. The Trust does not trade in derivative instruments for speculative purposes.

# Note 9 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:

| | **2019 $m** | 2018 $m |
|---|---|---|
| Investment properties | **59.9** | 158.8 |
| Investments accounted for using the equity method | **272.0** | 33.8 |
| **Total capital commitments** | **331.9** | 192.6 |

*Lease payable commitments*

The future minimum lease payments payable by the Trust are:

| | **2019 $m** | 2018 $m |
|---|---|---|
| Within one year | **0.4** | 0.5 |
| Later than one year but not later than five years | **1.5** | 2.0 |
| Later than five years | **2.5** | 3.4 |
| **Total lease payable commitments** | **4.4** | 5.9 |

*Lease receivable commitments*

The future minimum lease payments receivable by the Trust are:

| | **2019 $m** | 2018 $m |
|---|---|---|
| Within one year | **289.1** | 243.2 |
| Later than one year but not later than five years | **1,076.4** | 951.0 |
| Later than five years | **280.2** | 295.4 |
| **Total lease receivable commitments** | **1,645.7** | 1,489.6 |

## b) Contingencies

The Trust, together with DDF, DIT and DXO, is a guarantor of A$5,004 million of interest bearing liabilities (refer note 13 of the Dexus Financial Report). 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 above guarantees are issued in respect of the Trust and do not constitute 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 Trust, other than those disclosed in the Financial Statements, which should be brought to the attention of unitholders as at the date of completion of this report.

# Note 10 Contributed equity

**Number of units on issue**

| | **2019 No. of units** | 2018 No. of units |
|---|---|---|
| Opening balance at the beginning of the year | **1,017,196,877** | 1,016,967,300 |
| Issue of additional equity | **79,660,788** | 437,242 |
| Buy-back of contributed equity | **-** | (207,665) |
| **Closing balance at the end of the year** | **1,096,857,665** | 1,017,196,877 |

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

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 3 May 2019, Dexus successfully completed an institutional placement to partly fund the Group's acquisition of a 75% interest in 80 Collins Street, Melbourne. In satisfaction of the placement, Dexus issued 74.4 million new securities. In June 2019, Dexus completed a Security Purchase Plan (SPP), issuing 5.3 million securities. These securities rank equally with existing Dexus securities and will be entitled to the full distribution for the six months ended 30 June 2019. Refer note 15 Contributed Equity in the Group's Financial Statements for further information.

# Note 11 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 Consolidated 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 recognised for expected credit losses on trade receivables and contract assets. The expected credit losses are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date. The provision for doubtful debts is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted as the effect of discounting is immaterial.

# Note 11 Working capital (continued)

### b) Receivables (continued)

| | 2019 $m | 2018 $m |
|---|---|---|
| Rent receivable | **1.5** | 5.0 |
| Accrued property income | **1.1** | - |
| **Total rental receivables** | **2.6** | 5.0 |
| Distributions receivable | **29.8** | 21.2 |
| Other receivables | **9.1** | 0.7 |
| **Total other receivables** | **38.9** | 21.9 |
| **Total receivables** | **41.5** | 26.9 |

### c) Other current assets

| | 2019 $m | 2018 $m |
|---|---|---|
| Prepayments | **6.7** | 17.1 |
| **Total other current assets** | **6.7** | 17.1 |

### d) Payables

| | 2019 $m | 2018 $m |
|---|---|---|
| Trade creditors | **19.8** | 13.3 |
| Accruals | **2.5** | 2.1 |
| Accrued capital expenditure | **46.6** | 30.4 |
| Prepaid income | **7.8** | 11.8 |
| Accrued interest | **13.9** | 12.1 |
| Other payables | **-** | 0.3 |
| **Total payables** | **90.6** | 70.0 |

### 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 Trust 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.

| | 2019 $m | 2018 $m |
|---|---|---|
| Provision for distribution | **72.0** | 149.9 |
| **Total current provisions** | **72.0** | 149.9 |

Movements in each class of provision during the financial year are set out below:

| | 2019 $m | 2018 $m |
|---|---|---|
| **Provision for distribution** | | |
| Opening balance at the beginning of the year | **149.9** | 119.6 |
| Additional provisions | **183.1** | 285.5 |
| Payment of distributions | **(261.0)** | (255.2) |
| **Closing balance at the end of the year** | **72.0** | 149.9 |

A provision for distribution has been raised for the period ended 30 June 2019. This distribution is to be paid on 29 August 2019

# 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 Trust.

## Note 12 Audit, taxation and transaction service fees

During the year, the Auditor and its related practices earned the following remuneration:

| | 2019<br>$'000 | 2018<br>$'000 |
|---|---|---|
| **Audit fees** | | |
| PwC Australia - audit and review of Financial Statements | **391** | 387 |
| PwC fees paid in relation to outgoings audits | **59** | 96 |
| PwC Australia - regulatory audit and compliance services | **5** | 5 |
| **Audit fees paid to PwC** | **455** | 488 |

## Note 13 Cash flow information

### a) Reconciliation of cash flows from operating activities

Reconciliation of net profit after income tax to net cash outflows from operating activities:

| | 2019<br>$m | 2018<br>$m |
|---|---|---|
| **Net profit/(loss) for the year** | **781.0** | 1,069.8 |
| Capitalised interest | **(15.4)** | (6.1) |
| Net fair value (gain)/loss of investment properties | **(299.4)** | (487.3) |
| Share of net (profit)/loss of investments accounted for using the equity method | **(425.1)** | (516.3) |
| Net fair value (gain)/loss of derivatives | **2.0** | (8.3) |
| Net (gain)/loss on sale of investment properties | **3.5** | (1.9) |
| **Change in operating assets and liabilities** | | |
| (Increase)/decrease in receivables | **(14.6)** | 10.1 |
| (Increase)/decrease in prepayments and other current assets | **17.2** | (5.5) |
| (Increase)/decrease in other non-current assets - investments | **240.6** | 319.8 |
| (Increase)/decrease in other non-current assets | **(0.3)** | 0.5 |
| Increase/(decrease) in payables | **2.8** | 1.0 |
| Increase/(decrease) in current liabilities | **0.5** | (0.5) |
| Increase/(decrease) in other non-current liabilities | **137.7** | 140.8 |
| **Net cash inflow/(outflow) from operating activities** | **430.5** | 516.1 |

# Note 13 Cash flow information (continued)

### b) Net debt reconciliation

| | **2019** **Loans with related parties** **$m** | 2018 Loans with related parties $m |
|---|---|---|
| Opening balance | **2,867.0** | 2,845.6 |
| **Changes from financing cash flows** | | |
| Proceeds from loan with related party | **3,999.2** | 2,499.7 |
| Repayment of loan with related party | **(3,221.3)** | (2,270.2) |
| **Non cash changes** | | |
| Capital reallocation | **-** | (350.1) |
| Intercompany interest capitalised to loan | **137.5** | 140.9 |
| Changes in fair value and other | **(30.0)** | 1.1 |
| **Closing balance** | **3,752.4** | 2,867.0 |

# Note 14 Related parties

### Responsible Entity

DXFM is the Responsible Entity of the Trust.

### Management Fees

Under the terms of the Trust's Constitution, the Responsible Entity is entitled to receive fees in relation to the management of the Trust. DXFM's parent entity, DXH, is entitled to be reimbursed for administration expenses incurred on behalf of the Trust. Dexus Property Services Pty Limited (DXPS), a wholly owned subsidiary of DXH, is entitled to property management fees from the Trust.

### Related party transactions

Responsible Entity fees in relation to the Trust assets are on a cost recovery basis.

### Transactions with related parties

There were a number of transactions and balances between the Trust and the Responsible Entity and its related entities, as detailed below:

| | **2019** **$'000** | 2018 $'000 |
|---|---|---|
| Responsible Entity fees paid and payable | **14,365** | 16,346 |
| Property management fees paid and payable to DXPS | **6,611** | 6,924 |
| Responsible Entity fees payable at the end of each reporting year (included above) | **1,012** | 968 |
| Property management fees payable at the end of each reporting year (included above) | **1,119** | 570 |
| Administration expenses payable at the end of each reporting year (included above) | **1,711** | 104 |
| Rent received | **3,012** | 2,365 |

### Entities within DXS

Aggregate amounts included in the determination of profit that resulted from transactions with each class of other related parties:

| | **2019** **$'000** | 2018 $'000 |
|---|---|---|
| Interest expense | 138,912 | 144,527 |
| Interest bearing loans advanced from entities within DXS | 4,118,537 | 2,149,649 |
| Interest bearing loans advanced to entities within DXS | 3,233,423 | 1,979,292 |

# Note 14 Related parties (continued)

**Key management personnel compensation**

| | 2019 $'000 | 2018 $'000 |
|---|---|---|
| **Compensation** | | |
| Short-term employee benefits | **9,933** | 9,275 |
| Post employment benefits | **318** | 350 |
| Security-based payments | **5,918** | 3,725 |
| **Total key management personnel compensation** | **16,169** | 13,350 |

# Note 15 Parent entity disclosures

The financial information for the parent entity of Dexus Office 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:

| | 2019 $m | 2018 $m |
|---|---|---|
| Total current assets | **1,036.0** | 1,107.0 |
| Total assets | **10,522.3** | 9,057.6 |
| Total current liabilities | **160.8** | 213.3 |
| Total liabilities | **3,977.1** | 3,093.2 |
| | | |
| **Equity** | | |
| Contributed equity | **3,620.8** | 3,050.8 |
| Retained profits | **2,924.4** | 2,913.6 |
| **Total equity** | **6,545.2** | 5,964.4 |
| | | |
| Net profit/(loss) for the year | **351.9** | 1,069.8 |
| **Total comprehensive income/(loss) for the year** | **351.9** | 1,069.8 |

### b) Guarantees entered into by the parent entity

Refer to note 9 for details of guarantees entered into by the parent entity.

### c) Contingent liabilities

The parent entity had no contingent liabilities as at 30 June 2019 (2018: nil).

### 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:

| | 2019 $m | 2018 $m |
|---|---|---|
| Investment properties | **14.1** | 37.7 |
| **Total capital commitments** | **14.1** | 37.7 |

# Note 16 Changes in accounting policies

Certain new accounting standards and interpretations have been published that are mandatory for the 30 June 2019 reporting period. The Trusts's assessment of the impact of these new standards and interpretations is set out below:

**AASB 9 *Financial Instruments* (effective application for the Trust is 1 July 2018)**

AASB 9 addresses the classification, measurement and de-recognition of financial assets and financial liabilities and introduces new requirements for:

- the classification and measurement of financial assets;
- the classification and measurement of financial liabilities;
- impairment of financial assets.

The impact of applying the new standard has been assessed on each of the following:

*Classification and measurement of financial assets*
All recognised financial assets that are within the scope of AASB 9 are required to be measured subsequently at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. The Trust has assessed which business models and cash flow characteristics apply to the financial assets held by the Trust and has classified its financial instruments into the appropriate AASB 9 categories. The adoption of AASB 9 has not impacted the carrying value of financial assets but has resulted in classification changes on initial application at 1 July 2018 which is shown in the following table:

| Financial Assets | AASB 139 Classification | AASB 9 Classification |
|---|---|---|
| Cash and cash equivalents | Loans and receivables at amortised cost | Financial assets at amortised cost |
| Rent receivable | Loans and receivables at amortised cost | Financial assets at amortised cost |
| Distributions receivable | Loans and receivables at amortised cost | Financial assets at amortised cost |
| Fees receivable | Loans and receivables at amortised cost | Financial assets at amortised cost |
| Other receivables | Loans and receivables at amortised cost | Financial assets at amortised cost |
| Other financial assets | Fair value through profit and loss | Fair value through profit and loss |

*Classification and measurement of financial liabilities*
Under AASB 9 the classification of financial liabilities held by the Trust does not change from that previously prescribed in AASB 139 *Financial Instruments: Recognition and Measurement.* The main change introduced by AASB 9 is in relation to the accounting treatment for a gain or loss arising from a modification of a financial liability that does not result in the derecognition thereof. The requirements of AASB 9 state that the gain or loss on modification needs to be recognised immediately within profit or loss. The Trust has assessed the impact resulting from the initial application of AASB 9 and has determined that non-substantial modifications to interest bearing liabilities have not occurred in the past, and thereby no adjustment to retained earnings is required.

*Impairment of financial assets*
In relation to the impairment of financial assets, AASB 9 requires an expected credit loss model as opposed to an incurred credit loss model under AASB 139. The expected credit loss model requires the Trust to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets.

AASB 9 requires the Trust to measure the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses (ECL). The Trust has assessed the impact resulting from the initial application of AASB 9, by considering the historical actual write off rates for relevant types of financial assets and taking into account forward looking indicators that might impact the recoverability of currently recognised financial assets. Based on this assessment, it was determined that the credit risk of trade receivables is low and therefore the application of an ECL model in determining the loss allowance for expected credit losses on trade receivables, has resulted in an immaterial impact on the financial reporting of the Group. Therefore, no restatement is evident.

# Note 16 Changes in accounting policies (continued)

**AASB 15 *Revenue from Contracts with Customers* (effective application for the Trust is 1 July 2018)**

AASB 15 provides new guidance for determining when the Trust should recognise revenue. The new revenue recognition model is based on the principle that revenue is recognised when control of a good or service is transferred to a customer - either at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognised.

Per the new requirements of AASB 15, revenue is recognised over time if:

- the customer simultaneously receives and consumes the benefits as the entity performs;
- the customer controls the asset as the entity creates or enhances it; or
- the seller's performance does not create an asset for which the seller has an alternative use and there is a right to payment for performance to date.

Where the above criteria is not met, revenue is recognised at a point in time.

The impact of applying the new standard has been assessed on each of the following major revenue streams:

*Property revenue*

Within its lease arrangements, the Trust provides certain services to tenants (such as utilities, cleaning, maintenance and certain parking arrangements) which are accounted for in accordance with AASB 15. A portion of the consideration within the lease arrangements are therefore allocated to revenue for the provision of services. The service revenue is recognised over time as the services are provided and as such, the timing of recognition of income is not affected. Such revenue has, however, been disclosed separately in *Note 2 Property revenue and expenses.*

*Management fees and other revenue*

Where the Trust earns investment, property management fees and development fees the fees continue to be recognised monthly over the duration of the agreements. Management have determined that there are no impacts of the new guidance on property management contracts.

It is therefore concluded that apart from providing more extensive disclosures, the initial application of this new accounting standard has not had a material impact on the financial reporting of the Trust and therefore no restatement is required.

# Note 17 Subsequent events

On 31 July 2019, settlement occurred for the acquisition of 52 Collins Street, Melbourne for $70.0 million, excluding acquisition costs.

Since the end of the year other than the matter 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 Trust, the results of those operations, or state of the Trust's affairs in future financial periods.

# Directors' Declaration

The Directors of Dexus Funds Management Limited as Responsible Entity of Dexus Office Trust declare that the Financial Statements and notes set out on pages 8 to 38:

(i) comply with Australian Accounting Standards, the *Corporations Act 2001* and other mandatory professional reporting requirements; and

(ii) give a true and fair view of the Trust's financial position as at 30 June 2019 and of its performance, as represented by the results of its operations and its cash flows, for the year ended on that date.

In the Directors' opinion:

(a) the Financial Statements and notes are in accordance with the *Corporations Act 2001*;

(b) there are reasonable grounds to believe that the Trust and its consolidated entities will be able to pay its debts as and when they become due and payable; and

(c) the Trust has operated in accordance with the provisions of the Constitution dated 15 August 1984 (as amended) during the year ended 30 June 2019.

The Financial Statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The Directors have been given the declarations by the Chief Executive Officer and the Chief Financial Officer required by section 295A of the *Corporations Act 2001*.

This declaration is made in accordance with a resolution of the Directors.

**W Richard Sheppard**

Chair

13 August 2019

# *Independent auditor's report*

To the stapled security holders of Dexus Office Trust

## *Report on the audit of the financial report*

### *Our opinion*

In our opinion:

The accompanying financial report of Dexus Office Trust (the Trust) and its controlled entities (together the Group) is in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the Group's financial position as at 30 June 2019 and of its financial performance for the year then ended

(b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

#### ***What we have audited***

The Group financial report comprises:

- the Consolidated Statement of Financial Position as at 30 June 2019
- the Consolidated Statement of Comprehensive Income for the year then ended
- the Consolidated Statement of Changes in Equity for the year then ended
- the Consolidated Statement of Cash Flows for the year then ended
- the Notes to the Consolidated Financial Statements, which include a summary of significant accounting policies
- the Directors' Declaration.

### *Basis for opinion*

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### ***Independence***

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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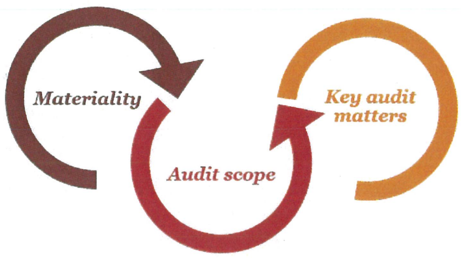
## *Our audit approach*

An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial report as a whole, taking into account the geographic and management structure of the Group, its accounting processes and controls and the industry in which it operates.




### *Materiality*

- For the purpose of our audit we used overall materiality of $17.5 million, which represents approximately 5% of the Group's adjusted profit before tax (Funds from Operations or FFO).
- We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole.
- We chose FFO because, in our view, it is the key performance measure of the Group. An explanation of what is included in FFO is outlined in Note 1, Operating segments of the Dexus Annual Report.
- We utilised a 5% threshold based on our professional judgement, noting it is within the range of commonly acceptable profit related thresholds.

### *Audit scope*

- The Group is a consolidated entity with operations in Australia. The scope of our audit included the Trust and its controlled entities.
- Our audit focused on where the Group made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events.

### *Key audit matters*

- Amongst other relevant topics, we communicated the following key audit matters to the Board Audit Committee:
  - Valuation of investment properties, including those investment properties in investments accounted for under the equity method
- These are further described in the *Key audit matters* section of our report.

## *Key audit matters*

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. The key audit matter was addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter. Further, any commentary on the outcomes of a particular audit procedure is made in that context.

| *Key audit matter* | *How our audit addressed the key audit matter* |
|---|---|
| ***Valuation of investment properties, including those investment properties in investments accounted for under the equity method***<br>*(Refer to Note 6 and 7)*<br><br>The Group's investment property portfolio comprises:<br><br>• Directly held properties included in the Consolidated Statement of Financial Position as *Investment Properties* valued at $5,221.7 million as at 30 June 2019 (2018: $4,810.5 million).<br><br>• The Group's share of investment properties held through equity accounted investments included in the Consolidated Statement of Financial Position in *Investments accounted for using the equity method* valued at $5,966.4 million as at 30 June 2019 (2018: $4,327.0 million).<br><br>Investment properties are carried at fair value at reporting date using the Group's policy as described in Note 6. The valuation of investment properties is dependent on a number of assumptions and inputs including, tenant information, property age and location, expected future rental profiles, and prevailing market conditions. Amongst others, the following assumptions are key in establishing fair value:<br><br>• The capitalisation rate<br>• The adopted discount rate.<br><br>We considered the valuation of investment properties to be a key audit matter due to the:<br><br>• Financial significance of investment properties in the Consolidated Statement of Financial Position.<br><br>• Potential for changes in the fair value of | To assess the valuation of investment properties we performed the following procedures amongst others:<br><br>• We compared the valuation methodology adopted by the Group with commonly accepted valuation approaches used for investment properties in the industry, and with the Group's stated valuation policy.<br><br>• We obtained recent independent property market reports to develop an understanding of the prevailing market conditions in which the Group invests. We leveraged this knowledge to form independent expectations of likely movements in investment property values and underlying key assumptions such as capitalisation rates and discount rates.<br><br>• For a sample of leases, we compared the rental income used in the investment property valuations to the tenancy schedules.<br><br>• We compared the capitalisation rates and discount rates used by the Group in their investment property valuations to market data we determined reasonable based on location and asset grade. Where capitalisation rates, discount rates and/or movements in individual property valuations fell outside of our expectation, we performed the following procedures, amongst others:<br><br>- Met with the Group's Senior Valuation Manager and discussed the specifics of the selected individual properties including, amongst other things, any new leases entered into during the year, lease expiries, capital expenditure and vacancy rates.<br>- Agreed significant changes in inputs from previous valuations to supporting documentation such as new lease agreements.<br>- Assessed key inputs in the investment property valuations to observable external market data. |

| *Key audit matter* | *How our audit addressed the key audit matter* |
| --- | --- |
| investment properties to have a significant effect the Consolidated Statement of Comprehensive Income.<br>• Inherently subjective nature of investment property valuations arising from the use of assumptions in the valuation methodology.<br>• Sensitivity of valuations to key input assumptions, including capitalisation rates, and discount rates. | • As the Group engaged external experts to determine the fair value of investment properties, we considered the independence, experience and competency of the Group's independent experts as well as the results of their procedures. |

## *Other information*

The Directors of Dexus Funds Management Limited as Responsible Entity of the Trust (the Directors) are responsible for the other information. The other information comprises the information included in the annual report for the year ended 30 June 2019, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## *Responsibilities of the directors for the financial report*

The Directors are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the Directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the Directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

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## *Auditor's responsibilities for the audit of the financial report*

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our auditor's report.

PricewaterhouseCoopers

PricewaterhouseCoopers

Matthew Lunn
Partner

Sydney
13 August 2019

# Dexus Operations Trust
# Financial Report
# 30 June 2019

ARSN: 110 521 223

# Contents



**Dexus (DXS) (DXS Code : DXS) consists of Dexus Diversified Trust (DDF), Dexus Industrial Trust (DIT), Dexus Office Trust (DOT) and Dexus Operations Trust (DXO), collectively known as DXS or the Group.**

**The registered office of the Group is Level 25, 264 -278 George Street, Sydney, NSW, 2000.**

# Directors' Report

The Directors of Dexus Funds Management Limited (DXFM) as Responsible Entity of Dexus Operations Trust (DXO or the Trust) present their Directors' Report together with the consolidated Financial Statements for the year ended 30 June 2019. The consolidated Financial Statements represents DXO and its consolidated entities.

The Trust together with Dexus Diversified Trust (DDF), Dexus Industrial Trust (DIT) and Dexus Office Trust (DOT) form the Dexus (DXS or the Group) stapled security.

## Directors and Secretaries

### Directors

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

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

### Company Secretaries

The names and details of the Company Secretaries of DXFM as at 30 June 2019 are as follows:

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

Appointed: 31 October 2014

Brett is the General Counsel and a Company Secretary of Dexus companies and is responsible for the legal function, company secretarial services and compliance, risk and governance systems and practices across the Group.

Prior to joining Dexus, Brett was Head of Legal for Macquarie Real Estate (Asia) and has held senior legal positions at Macquarie Capital Funds in Hong Kong and Minter Ellison in Sydney and Hong Kong. Brett has 22 years' experience as in-house counsel and in private practice in Australia and in Asia, where he worked on real estate structuring and operations, funds management, mergers and acquisitions, private equity and corporate finance across a number of industries.

Brett graduated from The University of New South Wales and holds a Bachelor of Laws and a Bachelor of Arts (Science and Technology) and is a member of the Law Societies of New South Wales and Hong Kong. Brett is also a graduate of the Australian Institute of Company Directors and a Fellow of the Governance Institute of Australia.

**Scott Mahony BBus(Acc), Grad Dip (Business Administration), MBA (eCommerce), Grad Dip (Applied Corporate Governance) FGIA, FCIS**

Appointed: 5 February 2019

Scott is the Head of Governance of Dexus and is responsible for the development, implementation and oversight of Dexus's governance policies and practices. Prior to being appointed the Head of Governance in 2018, Scott had oversight of Dexus's risk and compliance programs.

Scott joined Dexus in October 2005 after two years with Commonwealth Bank of Australia as a Senior Compliance Manager. Prior to this, Scott worked for over 11 years for Assure Services & Technology (part of AXA Asia Pacific) where he held various management roles.

# Attendance of Directors at Board Meetings and Board Committee Meetings

The number of Directors' meetings held during the year and each Director's attendance at those meetings is set out in the table below. The Directors met 12 times during the year. Ten board meetings were main meetings and two meetings were held to consider specific business.

| | Main meetings held | Main meetings attended | Specific meetings held | Specific meetings attended |
|---|---|---|---|---|
| W Richard Sheppard | 10 | 10 | 2 | 2 |
| Penny Bingham-Hall | 10 | 10 | 2 | 2 |
| John C Conde, AO | 10 | 10 | 2 | 2 |
| Tonianne Dwyer | 10 | 10 | 2 | 2 |
| Mark Ford | 10 | 10 | 2 | 2 |
| The Hon. Nicola L Roxon | 10 | 10 | 2 | 2 |
| Darren J Steinberg | 10 | 10 | 2 | 2 |
| Peter B St George | 10 | 10 | 2 | 2 |

Special meetings are held at a time to enable the maximum number of Directors to attend and are generally held to consider specific items that cannot be held over to the next scheduled main meeting.

The table below shows Non-Executive Directors' attendances at Board Committee meetings of which they were a member during the year ended 30 June 2019.

| | Board Audit Committee | | Board Risk Committee | | Board Nomination Committee | | Board People and Remuneration Committee | |
|---|---|---|---|---|---|---|---|---|
| | Held | Attended | Held | Attended | Held | Attended | Held | Attended |
| W Richard Sheppard | - | - | - | - | 3 | 3 | 6 | 6 |
| Penny Bingham-Hall | - | - | 4 | 4 | 3 | 3 | 6 | 6 |
| John C Conde, AO | 4 | 4 | - | - | 3 | 3 | - | - |
| Tonianne Dwyer | 4 | 4 | 4 | 4 | - | - | - | - |
| Mark Ford | 4 | 4 | 4 | 4 | - | - | - | - |
| The Hon. Nicola L Roxon | - | - | 4 | 4 | - | - | 6 | 6 |
| Peter B St George | 4 | 4 | 4 | 4 | - | - | - | - |

John Conde and Tonianne Dwyer were also Directors of Dexus Wholesale Property Limited (DWPL) and attended DWPL Board meetings during the year ended 30 June 2019.

## Directors' relevant interests

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

| Directors | No. of securities |
|---|---|
| W Richard Sheppard | 71,329 |
| Penny Bingham-Hall | 17,773 |
| John C Conde, AO | 17,906 |
| Tonianne Dwyer | 16,667 |
| Mark Ford | 1,667 |
| The Hon. Nicola L Roxon | Nil |
| Darren J Steinberg[1] | 1,307,574 |
| Peter B St George | 18,573 |

1 Includes interests held directly and through performance rights (refer note 21).

## Operating and financial review

The relevant results for the Trust for the year ended 30 June 2019 were:
- profit attributable to unitholders was $102.2 million (2018: $90.6 million);
- total assets were $1,113.5 million (2018: $921.4 million); and
- net assets were $306.1 million (2018: $224.4 million).

A review of the results, financial position and operations of the Group, of which the Trust forms part thereof, is set out on pages 28-36 of the Dexus Annual Report and forms part of this Directors' Report.

## Remuneration Report

The Remuneration Report is set out on pages 68-91 of the Annual Report and forms part of this Directors' Report.

## Directors' directorships in other listed entities

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

| Director | Company | Date Appointed |
|---|---|---|
| W Richard Sheppard | Star Entertainment Group | 21 November 2012 |
| Penny Bingham-Hall | BlueScope Steel Limited | 29 March 2011 |
| | Fortescue Metals Group Ltd | 16 November 2016 |
| John C Conde, AO | Whitehaven Coal Limited | 3 May 2007 |
| | Cooper Energy Limited | 25 February 2013 |
| Tonianne Dwyer | Metcash Limited | 24 June 2014 |
| | ALS Limited | 1 July 2016 |
| | OZ Minerals Limited | 21 March 2017 |
| The Hon. Nicola L Roxon | Lifestyle Communities Limited | 1 September 2017 |
| Peter B St George | First Quantum Minerals Limited[1] | 20 October 2003 |
| Mark Ford | Kiwi Property Group Limited[2] | 16 May 2011 |
| Darren J Steinberg | VGI Partners Limited | 12 May 2019 |

1 Listed for trading on the Toronto Stock Exchange in Canada.
2 Listed for trading on the New Zealand Stock Exchange since 22 December 2014.

## Principal activities

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

## Total value of Trust assets

The total value of the assets of the Trust as at 30 June 2019 was $1,113.5 million (2018: $921.4 million). Details of the basis of this valuation are outlined in the Notes to the Financial Statements and form part of this Directors' Report.

## Likely developments and expected results of operations

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

## Significant changes in the state of affairs

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

## Matters subsequent to the end of the financial year

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

## Distributions

Distributions paid or payable by the Trust for the year ended 30 June 2019 are outlined in note 8 of the Notes to the Financial Statements and form part of this Directors' report.

## DXFM fees

Details of fees paid or payable by the Trust to DXFM are eliminated on consolidation for the year ended 30 June 2019. Details are outlined in note 22 of the Notes to the Financial Statements and form part of this Directors' Report.

## Units on Issue

The movement in units on issue in the Trust during the year and the number of units on issue as at 30 June 2019 are detailed in note 13 of the Notes to the Financial Statements and form part of this Directors' Report.

## Environmental regulation

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

## Indemnification and insurance

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

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

# Audit

**Auditor**

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

**Non-audit services**

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

Details of the amounts paid or payable to the Auditor for audit and non-audit services provided during the year are set out in note 19 of the Notes to the Financial Statements.

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

The reasons for the Directors being satisfied are:

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

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

**Auditor's Independence Declaration**

A copy of the Auditor's Independence Declaration as required under section 307C of the *Corporations Act 2001* is set out on page 7 and forms part of this Directors' Report.

# Corporate governance

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

# Rounding of amounts and currency

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

## Directors' authorisation

The Directors' Report is made in accordance with a resolution of the Directors. The Financial Statements were authorised for issue by the Directors on 13 August 2019.

| | |
|---|---|
| **W Richard Sheppard** | **Darren J Steinberg** |
| Chair | Chief Executive Officer |
| 13 August 2019 | 13 August 2019 |

# *Auditor's Independence Declaration*

As lead auditor for the audit of Dexus Operations Trust for the year ended 30 June 2019, I declare that to the best of my knowledge and belief, there have been:

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

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

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

Matthew Lunn
Partner
PricewaterhouseCoopers

Sydney
13 August 2019

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# Consolidated Statement of Comprehensive Income

**For the year ended 30 June 2019**

| | Note | 2019 $'000 | 2018 $'000 |
|---|---|---|---|
| **Revenue from ordinary activities** | | | |
| Property revenue | 3 | **31,856** | 36,034 |
| Development revenue | | **96,910** | 145,579 |
| Distribution revenue | | **828** | 357 |
| Interest revenue | | **123** | 97 |
| Management fees and other revenue | 2 | **200,169** | 176,661 |
| **Total revenue from ordinary activities** | | **329,886** | 358,728 |
| Net fair value gain of investment properties | 9(a) | **52,080** | 29,788 |
| Net gain on sale of investment properties | | **382** | - |
| Other income | | **145** | 455 |
| **Total income** | | **382,493** | 388,971 |
| | | | |
| **Expenses** | | | |
| Property expenses | 3 | **(10,723)** | (11,430) |
| Development costs | 10 | **(47,360)** | (95,845) |
| Finance costs | 5 | **(14,879)** | (16,190) |
| Impairment of inventories | | **-** | (599) |
| Impairment of goodwill | 18 | **(99)** | (99) |
| Share of net loss of investments accounted for using the equity method | | **(820)** | (819) |
| Transaction costs | | **-** | (1,132) |
| Management operations, corporate and administration expenses | 4 | **(163,685)** | (135,996) |
| **Total expenses** | | **(237,566)** | (262,110) |
| **Profit/(loss) before tax** | | **144,927** | 126,861 |
| Income tax expense | 6(a) | **(42,717)** | (36,260) |
| **Profit/(loss) for the year** | | **102,210** | 90,601 |
| | | | |
| **Other comprehensive income/(loss):** | | | |
| *Items that may be reclassified to profit or loss* | | | |
| Changes in fair value of available-for-sale financial assets | | **-** | (456) |
| Changes in financial assets at fair value through other comprehensive income | 14 | **2,828** | - |
| **Total comprehensive income/(loss) for the year** | | **105,038** | 90,145 |
| | | | |
| | | **Cents** | Cents |
| **Earnings per unit on profit/(loss) attributable to unitholders of the Trust (parent entity)** | | | |
| Basic earnings per unit | 7 | **9.94** | 8.91 |
| Diluted earnings per unit | 7 | **9.86** | 8.91 |

The above Consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

# Consolidated Statement of Financial Position

**As at 30 June 2019**

| | Note | 2019 $'000 | 2018 $'000 |
|---|---|---|---|
| **Current assets** | | | |
| Cash and cash equivalents | 15(a) | **9,885** | 5,095 |
| Receivables | 15(b) | **83,592** | 32,513 |
| Non-current assets classified as held for sale | | **-** | 2,027 |
| Inventories | 10 | **170,385** | 37,573 |
| Other | | **6,533** | 3,851 |
| **Total current assets** | | **270,395** | 81,059 |
| **Non-current assets** | | | |
| Investment properties | 9 | **193,419** | 222,058 |
| Plant and equipment | 16 | **14,986** | 16,035 |
| Inventories | 10 | **289,679** | 268,826 |
| Investments accounted for using the equity method | | **304** | 293 |
| Intangible assets | 17 | **322,108** | 314,639 |
| Available-for-sale financial assets | | **-** | 15,529 |
| Investment in financial assets at fair value through other comprehensive income | 18 | **19,648** | - |
| Investment in financial assets at fair value through profit and loss | | **2,825** | 2,825 |
| Other | | **105** | 88 |
| **Total non-current assets** | | **843,074** | 840,293 |
| **Total assets** | | **1,113,469** | 921,352 |
| **Current liabilities** | | | |
| Payables | 15(c) | **40,773** | 21,715 |
| Current tax liabilities | 6(c) | **21,516** | 5,178 |
| Provisions | 15(d) | **88,115** | 82,123 |
| Other | | **153** | 7 |
| **Total current liabilities** | | **150,557** | 109,023 |
| **Non-current liabilities** | | | |
| Loans with related parties | | **546,365** | 479,801 |
| Deferred tax liabilities | 6(e) | **89,317** | 93,740 |
| Provisions | 15(d) | **18,039** | 10,763 |
| Other | | **3,070** | 3,579 |
| **Total non-current liabilities** | | **656,791** | 587,883 |
| **Total liabilities** | | **807,348** | 696,906 |
| **Net assets** | | **306,121** | 224,446 |
| **Equity** | | | |
| Contributed equity | 13 | **113,394** | 86,700 |
| Reserves | 14 | **46,408** | 43,637 |
| Retained profits | | **146,319** | 94,109 |
| **Other stapled unitholders' interest** | | **306,121** | 224,446 |
| **Total equity** | | **306,121** | 224,446 |

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

# Consolidated Statement of Changes in Equity

**For the year ended 30 June 2019**

| | Note | Contributed equity $'000 | Asset revaluation reserve $'000 | Treasury securities reserve $'000 | Security-based payments reserve $'000 | Investment in financial assets at fair value through other comprehensive income $'000 | Available-for-sale financial assets $'000 | Retained profits/ (losses) $'000 | Total equity $'000 |
|---|---|---|---|---|---|---|---|---|---|
| **Opening balance as at 1 July 2017** | | 261,664 | 42,738 | (579) | 445 | - | 1,586 | 53,508 | 359,362 |
| Profit/(loss) for the year | | - | - | - | - | - | | 90,601 | 90,601 |
| Other comprehensive income/(loss) for the year | | - | - | - | - | - | (456) | - | (456) |
| Total comprehensive income for the year | | - | - | - | - | - | (456) | 90,601 | 90,145 |
| Issue of additional equity, net of transaction costs | | 177 | - | 316 | (221) | - | - | - | 272 |
| Buy-back of contributed equity, net of transaction costs | | (46) | - | - | - | - | - | - | (46) |
| Purchase of units, net of transaction costs | 14 | - | - | (279) | - | - | - | - | (279) |
| Security-based payments expense | 14 | - | - | - | 87 | - | - | - | 87 |
| Distributions paid or provided for | 8 | - | - | - | - | - | - | (50,000) | (50,000) |
| Capital Return[1] | | (175,095) | - | - | - | - | - | - | (175,095) |
| Total transactions with owners in their capacity as owners | | (174,964) | - | 37 | (134) | - | - | (50,000) | (225,061) |
| **Closing balance as at 30 June 2018** | | 86,700 | 42,738 | (542) | 311 | - | 1,130 | 94,109 | 224,446 |
| **Opening balance as at 1 July 2018** | | **86,700** | **42,738** | **(542)** | **311** | **-** | **1,130** | **94,109** | **224,446** |
| Change in accounting policy | | **-** | **-** | **-** | **-** | **1,130** | **(1,130)** | **(1)** | **(1)** |
| Restated opening balance as at 1 July 2018 | | **86,700** | **42,738** | **(542)** | **311** | **1,130** | **-** | **94,108** | **224,445** |
| Profit/(loss) for the year | | **-** | **-** | **-** | **-** | **-** | **-** | **102,210** | **102,210** |
| Other comprehensive income/(loss) for the year | | **-** | **-** | **-** | **-** | **2,828** | **-** | **-** | **2,828** |
| Total comprehensive income for the year | | **-** | **-** | **-** | **-** | **2,828** | **-** | **102,210** | **105,038** |
| Issue of additional equity, net of transaction costs | | **26,694** | **-** | **(154)** | **-** | **-** | **-** | **-** | **26,540** |
| Security-based payments expense | 14 | **-** | **-** | **-** | **97** | **-** | **-** | **-** | **97** |
| Distributions paid or provided for | 8 | **-** | **-** | **-** | **-** | **-** | **-** | **(50,000)** | **(50,000)** |
| Total transactions with owners in their capacity as owners | | **26,694** | **-** | **(154)** | **97** | **-** | **-** | **(50,000)** | **(23,363)** |
| **Closing balance as at 30 June 2019** | | **113,394** | **42,738** | **(696)** | **408** | **3,958** | **-** | **146,319** | **306,121** |

1. DXFM, as Responsible Entity of DXO, made a capital return of 17.21 cents per unit to the existing unit holders as part of the capital reallocation process that was approved at the Annual General Meeting on 19 September 2017.

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

# Consolidated Statement of Cash Flows

**For the year ended 30 June 2019**

| | Note | 2019 $'000 | 2018 $'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts in the course of operations (inclusive of GST) | | **203,366** | 234,692 |
| Payments in the course of operations (inclusive of GST) | | **(155,244)** | (173,777) |
| Interest received | | **123** | 97 |
| Finance costs paid to financial institutions | | **(172)** | 1,546 |
| Income and withholding taxes paid | | **(30,802)** | (45,031) |
| Proceeds from sale of property classified as inventory | | **89,075** | 147,942 |
| Payments for acquisition of inventory | | **(241,633)** | - |
| Payments for property classified as inventory and development services | | **(53,382)** | (182,129) |
| **Net cash inflow/(outflow) from operating activities** | 20 | **(188,669)** | (16,660) |
| | | | |
| **Cash flows from investing activities** | | | |
| Proceeds from sale of investment properties | | **201,977** | - |
| Payments for capital expenditure on investment properties | | **(7,308)** | (21,749) |
| Payments for acquisition of investments | | **-** | (1,000) |
| Payments for investments accounted for using the equity method | | **(831)** | (1,112) |
| Payments for plant and equipment | | **(2,885)** | (3,077) |
| Payments for intangibles | | **(13,924)** | (10,983) |
| **Net cash inflow/(outflow) from investing activities** | | **177,029** | (37,921) |
| | | | |
| **Cash flows from financing activities** | | | |
| Borrowings provided to related parties | | **(334,237)** | (458,180) |
| Borrowings received from related parties | | **382,536** | 572,384 |
| Payments for buy-back of contributed equity | | **-** | (46) |
| Proceeds from issue of additional equity, net of transaction costs | | **26,540** | 177 |
| Purchase of securities for security-based payments plans | | **(9,237)** | (7,051) |
| Distributions received | | **828** | 357 |
| Distributions paid to security holders | | **(50,000)** | (50,000) |
| **Net cash inflow/(outflow) from financing activities** | | **16,430** | 57,641 |
| | | | |
| **Net increase/(decrease) in cash and cash equivalents** | | **4,790** | 3,060 |
| Cash and cash equivalents at the beginning of the year | | **5,095** | 2,035 |
| **Cash and cash equivalents at the end of the year** | | **9,885** | 5,095 |

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

# Notes to the Financial Statements

**In this section**

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

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

# About this report

## Basis of preparation

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

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

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

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

Dexus stapled securities are quoted on the Australian Securities Exchange under the "DXS" code and comprise one unit in each of DDF, DIT, DOT and DXO. Each entity forming part of DXS continues as a separate legal entity in its own right under the *Corporations Act 2001* and is therefore required to comply with reporting and disclosure requirements under the *Corporations Act 2001* and Australian Accounting Standards.

The Financial Statements are presented in Australian dollars.

As at 30 June 2019, the Trust had no investments in foreign operations.

**Critical accounting estimates**

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

| | | |
|---|---|---|
| Note 9 | Investment properties | Page 20 |
| Note 10 | Inventories | Page 23 |
| Note 17 | Intangible assets | Page 33 |
| Note 21 | Security-based payment | Page 37 |

# Principles of consolidation

These consolidated Financial Statements incorporate the assets, liabilities and results of all subsidiaries as at 30 June 2019.

### (a) Controlled entities

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

### (b) Joint arrangements

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

*Joint operations*

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

*Joint ventures*

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

### (c) Employee share trust

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

# Goods and services tax

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

# New accounting standards and interpretations

***AASB 16 Leases*** **(effective application for the Trust is 1 July 2019).**

AASB 16 has been published however is not mandatory for the 30 June 2019 reporting period. The Trust's assessment of the impact of AASB 16 is set out below.

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

The transition impact on 1 July 2019 has been assessed to be an increase in assets and liabilities of approximately $40 - $50 million. As the Trust has adopted the cumulative retrospective approach, comparatives will not be restated and the cumulative effect will be recognised on initial application.

The Trust will apply the standard from 1 July 2019.

# Notes to the Financial Statements

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 Trust.

**The notes are organised into the following sections:**

| Trust performance | Property portfolio assets | Capital and financial risk management and working capital | Other disclosures |
|---|---|---|---|
| 1. Operating segments | 9. Investment properties | 11. Capital and financial risk management | 16. Plant and Equipment |
| 2. Management fee revenue | 10. Inventories | 12. Commitments and contingencies | 17. Intangible assets |
| 3. Property revenue and expenses | | 13. Contributed equity | 18. Available for sale financial assets |
| 4. Management operations, corporate and administration expenses | | 14. Reserves | 19. Audit, taxation and transaction service fees |
| 5. Finance costs | | 15. Working capital | 20. Cash flow information |
| 6. Taxation | | | 21. Security-based payment |
| 7. Earnings per unit | | | 22. Related parties |
| 8. Distributions paid and payable | | | 23. Parent entity disclosures |
| | | | 24. Changes in accounting policies |
| | | | 25. Subsequent events |

# Trust performance

**In this section**

This section explains the results and performance of the Trust.

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 Trust, including: results by operating segment, management fee revenue, 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 Trust'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.

The operating segments within DXS are reviewed on a consolidated basis and are not monitored at an individual trust level.

Disclosures concerning DXS's operating segments are presented in the Dexus Financial Report.

## Note 2 Management fee revenue

Management fees are brought to account on an accruals basis.

| | **2019** | 2018 |
|---|---|---|
| | **$'000** | $'000 |
| Investment management & responsible entity fees | **105,223** | 96,630 |
| Rent and lease renewal fees | **16,046** | 12,061 |
| Property management fees | **39,415** | 37,939 |
| Capital works and development fees | **16,655** | 8,111 |
| Wages recovery and other fees | **22,830** | 21,920 |
| **Total Management fee revenue** | **200,169** | 176,661 |

## Note 3 Property revenue and expenses

Property rental revenue 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.

Within its lease arrangements, the Trust provides certain services to tenants (such as utilities, cleaning, maintenance and certain parking arrangements) which are accounted for within AASB 15. A portion of the consideration within the lease arrangements is therefore allocated to revenue for the provision of services. Refer to note 24 for further information relating to revenue policies adopted under AASB 15 *Revenue from Contracts with Customers*.

| | **2019** | 2018 |
|---|---|---|
| | **$'000** | $'000 |
| Rent and recoverable outgoings | **24,125** | 32,467 |
| Services revenue | **4,067** | - |
| Incentive amortisation | **(3,238)** | (4,353) |
| Other revenue | **6,902** | 7,920 |
| **Total property revenue** | **31,856** | 36,034 |

Property expenses of $10.7 million (2018: $11.4 million) includes rates, taxes and other property outgoings incurred in relation to investment properties.

## Note 4 Management operations, corporate and administration expenses

| | **2019** | 2018 |
|---|---|---|
| | **$'000** | $'000 |
| Audit, taxation, legal and other professional fees | **4,703** | 4,099 |
| Depreciation and amortisation | **10,290** | 9,178 |
| Employee benefits expense and other staff expenses | **129,393** | 106,220 |
| Administration and other expenses | **19,299** | 16,499 |
| **Total management operations, corporate and administration expenses** | **163,685** | 135,996 |

## Note 5 Finance costs

Finance costs include interest, amortisation or other costs incurred in connection with arrangement of borrowings and net fair value movements of interest rate swaps. Finance 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.

| | **2019** | 2018 |
|---|---|---|
| | **$'000** | $'000 |
| Interest paid to related parties | **17,107** | 19,945 |
| Amount capitalised | **(2,400)** | (3,959) |
| Other finance costs | **172** | 204 |
| **Total finance costs** | **14,879** | 16,190 |

The average capitalisation rate used to determine the amount of finance costs eligible for capitalisation is 5.25% (2018: 5.75%).

# Note 6 Taxation

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.

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

| | 2019<br>$'000 | 2018<br>$'000 |
|---|---|---|
| Current income tax (expense)/benefit | **(47,140)** | (25,432) |
| Deferred income tax (expense)/benefit | **4,423** | (10,828) |
| **Total income tax expense** | **(42,717)** | (36,260) |
| | | |
| **Deferred income tax expense included in income tax (expense)/benefit comprises:** | | |
| (Decrease)/increase in deferred tax assets | **2,428** | 2,114 |
| (Increase)/decrease in deferred tax liabilities | **1,995** | (12,942) |
| **Total deferred tax expense** | **4,423** | (10,828) |

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

| | 2019<br>$'000 | 2018<br>$'000 |
|---|---|---|
| Profit before income tax | **144,927** | 126,861 |
| Profit subject to income tax | **144,927** | 126,861 |
| | | |
| Prima facie tax expense at the Australian tax rate of 30% (2018: 30%) | **(43,478)** | (38,058) |
| | | |
| **Tax effect of amounts which are not deductible/(assessable) in calculating taxable income:** | | |
| (Non-assessable)/non-deductible items | **-** | 1,010 |
| Other timing differences | **761** | 788 |
| **Income tax expense** | **(42,717)** | (36,260) |

### c) Current Tax Liabilities

| | 2019<br>$'000 | 2018<br>$'000 |
|---|---|---|
| (Increase)/decrease in current tax liabilities | **21,516** | 5,178 |
| **Total current tax expense** | **21,516** | 5,178 |

# Note 6 Taxation (continued)

## d) Deferred tax assets

| | 2019 $'000 | 2018 $'000 |
|---|---|---|
| **The balance comprises temporary differences attributable to:** | | |
| Employee provisions | **15,882** | 13,604 |
| Other | **1,955** | 1,805 |
| **Total non-current assets - deferred tax assets** | **17,837** | 15,409 |
| | | |
| **Movements:** | | |
| Opening balance at the beginning of the year | **15,409** | 13,295 |
| Movement in deferred tax asset arising from temporary differences | **2,428** | 2,114 |
| (Charged)/credited to the Statement of Comprehensive Income | **2,428** | 2,114 |
| **Closing balance at the end of the year** | **17,837** | 15,409 |

## e) Deferred tax liabilities

| | 2019 $'000 | 2018 $'000 |
|---|---|---|
| **The balance comprises temporary differences attributable to:** | | |
| Intangible assets | **74,812** | 74,812 |
| Investment properties | **31,503** | 34,184 |
| Other | **839** | 153 |
| **Total non-current liabilities - deferred tax liabilities** | **107,154** | 109,149 |
| | | |
| **Movements** | | |
| Opening balance at the beginning of the year | **109,149** | 96,207 |
| Movement in deferred tax liability arising from temporary differences | **(1,995)** | 12,942 |
| Charged/(credited) to the Statement of Comprehensive Income | **(1,995)** | 12,942 |
| **Closing balance at the end of the year** | **107,154** | 109,149 |

## Net deferred tax liabilities

| | 2019 $'000 | 2018 $'000 |
|---|---|---|
| Deferred tax assets | **17,837** | 15,409 |
| Deferred tax liabilities | **(107,154)** | (109,149) |
| **Net deferred tax assets** | **(89,317)** | (93,740) |

## Note 7 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 unit

| | **2019** **$'000** | 2018 $'000 |
|---|---|---|
| Profit attributable to unitholders of the parent entity | **102,210** | 90,601 |

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

| | **2019** **No. of units** | 2018 No. of units |
|---|---|---|
| Weighted average number of units outstanding used in calculation of basic earnings per unit | **1,028,577,220** | 1,017,299,246 |
| Effect on exchange of Exchangeable Notes | **8,046,239** | - |
| Weighted average number of units outstanding used in calculation of diluted earnings per unit | **1,036,623,459** | 1,017,299,246 |

## Note 8 Distributions paid and payable

Distributions are recognised when declared.

### a) Distribution to unit holders

| | **2019** **$'000** | 2018 $'000 |
|---|---|---|
| 30 June (payable 29 August 2019) | **50,000** | - |
| 30 June (paid 30 August 2018) | **-** | 50,000 |
| **Total distribution to unitholders** | **50,000** | 50,000 |

### b) Distribution rate

| | **2019** **Cents per unit** | 2018 Cents per unit |
|---|---|---|
| 30 June (payable 29 August 2019) | **4.56** | - |
| 30 June (paid 30 August 2018) | **-** | 4.92 |
| **Total distributions** | **4.56** | 4.92 |

### c) Franked dividends

| | **2019** **$'000** | 2018 $'000 |
|---|---|---|
| Opening balance at the beginning of the year | **56,899** | 33,298 |
| Income tax paid during the year | **30,802** | 45,030 |
| Franking credits utilised for payment of distribution | **(21,429)** | (21,429) |
| **Closing balance at the end of the year** | **66,272** | 56,899 |

As at 30 June 2019, the Trust had a current tax liability of $21.5 million, which will be added to the franking account balance once payment is made.

# Property portfolio assets

**In this section**

This section summarises the property portfolio assets.

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

- *Investment properties*: relates to investment properties, both stabilised and under development.
- *Inventories*: relates to the Trust'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 9 Investment properties

The Trust'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.

**a) Reconciliation**

| | **Office** | **Industrial** | **2019** | 2018 |
|---|---|---|---|---|
| | **$'000** | **$'000** | **$'000** | $'000 |
| Opening balance at the beginning of the year | **143,999** | **78,059** | **222,058** | 179,614 |
| Additions | **482** | **11,312** | **11,794** | 21,406 |
| Lease incentives | **2,461** | **864** | **3,325** | 3,431 |
| Amortisation of lease incentives | **(1,722)** | **(375)** | **(2,095)** | (2,294) |
| Rent straightlining | **464** | **367** | **831** | 2,136 |
| Disposals | **-** | **(198,831)** | **(198,831)** | - |
| Transfer to non-current assets classified as held for sale | **-** | **-** | **-** | (2,023) |
| Transfer to inventories | **-** | **-** | **-** | (10,000) |
| Transfer from inventories | **-** | **104,257** | **104,257** | - |
| Net fair value gain/(loss) of investment properties | **20,318** | **31,762** | **52,080** | 29,788 |
| **Closing balance at the end of the year** | **166,002** | **27,415** | **193,419** | 222,058 |

# Note 9 Investment properties (continued)

### 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 2019, all investment properties were independently externally valued.

The Trust'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 Trust'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 2019 | 2018 |
|---|---|---|---|---|
| Office[1] | Level 3 | Adopted capitalisation rate | **5.25% - 5.50%** | 5.88% |
| | | Adopted discount rate | **6.50% - 6.75%** | 7.25% |
| | | Adopted terminal yield | **5.75%** | 6.25% |
| | | Current net market rental (per sqm) | **$526 - $794** | $462 |
| Industrial | Level 3 | Adopted capitalisation rate | **5.00% - 5.75%** | 5.50% - 6.50% |
| | | Adopted discount rate | **6.50% - 7.00%** | 7.00% - 7.50% |
| | | Adopted terminal yield | **5.75% - 6.25%** | 6.25% - 7.00% |
| | | Current net market rental (per sqm) | **$78 - $238** | $69 - $79 |
| Development - Industrial | Level 3 | Land rate (per sqm) | **$51 - $710** | $38 - $677 |

1 Excludes car parks, retail and other.

# Note 9 Investment properties (continued)

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

**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.

### 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 Trust's investment properties as shown below.

| Significant inputs | Fair value measurement sensitivity to significant increase in input | Fair value measurement sensitivity to significant decrease in input |
|---|---|---|
| Adopted capitalisation rate<br>Adopted discount rate<br>Adopted terminal yield | Decrease | Increase |
| Net market rental (per sqm)<br>Land rate (per sqm) | Increase | Decrease |

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

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

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

A decrease (softening) in the forecast rental growth rate may result in a negative impact on the discounted cash flow approach value whilst a strengthening may have a positive impact on the value under the same approach.

# 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

| | **2019** | 2018 |
|---|---|---|
| | **$'000** | $'000 |
| **Current assets** | | |
| Development properties held for sale | **170,385** | 37,573 |
| **Total current assets - inventories** | **170,385** | 37,573 |
| | | |
| **Non-current assets** | | |
| Development properties held for sale | **289,679** | 268,826 |
| **Total non-current assets - inventories** | **289,679** | 268,826 |
| **Total assets - inventories** | **460,064** | 306,399 |

### b) Reconciliation

| | **2019** | 2018 |
|---|---|---|
| | **$'000** | $'000 |
| Opening balance at the beginning of the year | **306,399** | 211,315 |
| Transfer from investment properties | **-** | 10,000 |
| Transfer to investment properties | **(104,257)** | - |
| Disposals | **(40,266)** | (10,046) |
| Impairment | **-** | (599) |
| Acquisitions and additions | **298,188** | 95,729 |
| **Closing balance at the end of the year** | **460,064** | 306,399 |

# Capital and financial risk management and working capital

**In this section**

The Trust'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 Trust.

Note 11 *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).

The Board determines the appropriate capital structure of the Trust, 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 Trust's activities both now and in the future. This capital structure is detailed in the following notes:

- Equity: *Contributed equity* in note 13 and *Reserves* in note 14
- Note 15 provides a breakdown of the working capital balances held in the Statement of Financial Position.

## Note 11 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 Trust (as part of DXS) 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 Trust 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 Trust consists of debt, cash and cash equivalents and equity attributable to security holders. The Trust 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; and
- other market factors.

The Trust is not rated by ratings agencies, however, DXS is rated A- by Standard and Poor's (S&P) and A3 by Moody's. Gearing levels and bank debt covenants are managed holistically as part of the DXS Group.

DXFM is the Responsible Entity for the Trust. 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.

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. Dexus Wholesale Funds Limited (DWFL), a wholly owned entity, has been issued with an AFSL as it is the Responsible Entity for Dexus Wholesale Industrial Fund (DWIF). These entities are subject to the capital requirements described above.

# Note 11 Capital and financial risk management (continued)

**b) Financial risk management**

The Trust'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 Trust. The Trust'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 Trust's exposure to financial risks namely:

- interest rate risk;
- liquidity risk; and
- credit risk.

***i) Market risk***

**Interest rate risk**

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

The Trust'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 Trust, which is managed on a portfolio basis.

*Sensitivity analysis on interest expense*

The table below shows the impact on the Trust'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 Trust's floating rate debt on average during the financial year.

| | **2019** | 2018 |
|---|---|---|
| | **(+/-) $'000** | (+/-) $'000 |
| +/- 0.50% (50 basis points) | **2,732** | 2,399 |
| **Total A$ equivalent** | **2,732** | 2,399 |

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

***ii) Liquidity risk***

Liquidity risk is associated with ensuring that there are sufficient funds available to meet the Trust's financial commitments as and when they fall due and planning for any unforeseen events which may curtail cash flows. The Trust 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 Trust cash requirements over the next 1-24 month period. The Trust 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); and
- 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.

*Refinancing risk*

Refinancing risk is the risk that the Trust:

- 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).

# Note 11 Capital and financial risk management (continued)

**b) Financial risk management** (continued)

***ii) Liquidity risk*** (continued)

*Refinancing risk* (continued)

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 Trust's interest bearing liabilities and derivative financial instruments is shown in the table below. The amounts in the table represent undiscounted cash flows.

| | 2019 | | | | 2018 | | | |
|---|---|---|---|---|---|---|---|---|
| | Within one year $'000 | Between one and two years $'000 | Between two and five years $'000 | After five years $'000 | Within one year $'000 | Between one and two years $'000 | Between two and five years $'000 | After five years $'000 |
| Payables | (40,773) | - | - | - | (21,715) | - | - | - |
| Interest bearing loans with related parties and interest[1] | (19,757) | (19,602) | (66,269) | (691,118) | (20,500) | (500,468) | - | - |

1 Includes estimated interest.

***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 Trust. The Trust has exposure to credit risk on all financial assets included in the Trust's Statement of Financial Position.

The Trust 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;
- monitoring tenants exposure within approved credit limits;
- 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 Trust is exposed to credit risk on cash balances and on derivative financial instruments with financial institutions. The Trust 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 Trust's policy requirements.

Financial instrument transactions are spread among a number of approved financial institutions within specified credit limits to minimise the Trust'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 2019 is the carrying amounts of financial assets recognised on the Statement of Financial Position.

The Trust is exposed to credit risk on trade receivable balances. The Trust 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 is determined that no significant concentrations of credit risk exists for trade receivables balances. The maximum exposure to credit risk at 30 June 2019 is the carrying amounts of the trade receivables recognised on the Statement of Financial Position.

# Note 11 Capital and financial risk management (continued)

**b) Financial risk management** (continued)

***iv) Fair value***

As at 30 June 2019 and 30 June 2018, the carrying amounts of financial assets and liabilities are held at fair value. The Trust 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.

Since cash, receivables and payables are short-term in nature, their fair values are not materially different from their carrying amounts. For all the borrowings, the fair values are not materially different to their carrying amounts, since the interest payable on those borrowings is either close to current market rates or the borrowings are of a short-term nature.

***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.

# Note 12 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:

| | **2019** | 2018 |
|---|---|---|
| | **$'000** | $'000 |
| Investment properties | **9,018** | 1,029 |
| Inventories | **108,051** | 1,998 |
| **Total capital commitments** | **117,069** | 3,027 |

*Lease payable commitments*

The future minimum lease payments payable by the Trust are:

| | **2019** | 2018 |
|---|---|---|
| | **$'000** | $'000 |
| Within one year | **6,645** | 7,402 |
| Later than one year but not later than five years | **16,044** | 19,871 |
| Later than five years | **2,589** | - |
| **Total lease payable commitments** | **25,278** | 27,273 |

Payments made under operating leases are expensed on a straight-line basis over the term of the lease, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased property.

*Lease receivable commitments*

The future minimum lease payments receivable by the Trust are:

| | **2019** | 2018 |
|---|---|---|
| | **$'000** | $'000 |
| Within one year | **20,497** | 33,988 |
| Later than one year but not later than five years | **134,687** | 147,693 |
| Later than five years | **99,912** | 67,542 |
| **Total lease receivable commitments** | **255,096** | 249,223 |

## b) Contingencies

DDF, together with DIT, DOT and DXO, is a guarantor of A$5,004 million of interest bearing liabilities. 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 Trust has bank guarantees of $69.0 million, comprising $43.2 million held to comply with the terms of the Australian Financial Services Licences (AFSL) and $25.8 million largely in respect of developments.

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

The Directors of the Responsible Entity are not aware of any other contingent liabilities in relation to the Trust, 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 13 Contributed equity

**Number of units on issue**

| | **2019 No. of units** | 2018 No. of units |
|---|---|---|
| Opening balance at the beginning of the year | **1,017,196,877** | 1,016,967,300 |
| Issue of additional equity | **79,660,788** | 437,242 |
| Buy-back of contributed equity | **-** | (207,665) |
| **Closing balance at the end of the year** | **1,096,857,665** | 1,017,196,877 |

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

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 3 May 2019, Dexus successfully completed an institutional placement to partly fund the Group's acquisition of a 75% interest in 80 Collins Street, Melbourne. In satisfaction of the placement, Dexus issued 74.4 million new securities. In June 2019, Dexus completed a Security Purchase Plan (SPP), issuing 5.3 million securities. These securities rank equally with existing Dexus securities and will be entitled to the full distribution for the six months ended 30 June 2019. Refer note 15 *Contributed Equity* in the Group's Financial Statements for further information.

# Note 14 Reserves

| | 2019 $'000 | 2018 $'000 |
|---|---|---|
| Asset revaluation reserve | **42,738** | 42,738 |
| Security-based payments reserve | **408** | 311 |
| Treasury securities reserve | **(696)** | (542) |
| Financial assets at fair value through other comprehensive income | **3,958** | 1,130 |
| **Total reserves** | **46,408** | 43,637 |
| **Movements:** | | |
| **Asset revaluation reserve** | | |
| Opening balance at the beginning of the year | **42,738** | 42,738 |
| **Closing balance at the end of the year** | **42,738** | 42,738 |
| **Security-based payments reserve** | | |
| Opening balance at the beginning of the year | **311** | 445 |
| Issue of securities to employees | **-** | (221) |
| Security-based payments expense | **97** | 87 |
| **Closing balance at the end of the year** | **408** | 311 |
| **Treasury securities reserve** | | |
| Opening balance at the beginning of the year | **(542)** | (579) |
| Issue of securities to employees | **(154)** | 316 |
| Purchase of securities | **-** | (279) |
| **Closing balance at the end of the period** | **(696)** | (542) |
| **Financial assets at fair value through other comprehensive income** | | |
| Opening balance at the beginning of the period | **1,130** | 1,586 |
| Purchase of securities | **2,828** | (456) |
| **Closing balance at the end of the period** | **3,958** | 1,130 |

**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.

*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 21 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 2019, DXS held 1,580,175 stapled securities which includes acquisitions of 813,443 and unit vesting of 680,177 (2018: 1,645,469).

*Financial assets at fair value through other comprehensive income*

Changes in the fair value arising on valuation of investments, classified as fair value through other comprehensive income, are recognised in other comprehensive income and accumulated in a separate reserve within equity. Amounts are reclassified to profit or loss when the associated assets are sold, transferred or impaired.

# Note 15 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 and management fees 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 recognised for expected credit losses on trade receivables and contract assets. The expected credit losses are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date. The provision for doubtful debts is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted as the effect of discounting is immaterial.

| | **2019 $'000** | 2018 $'000 |
|---|---|---|
| Rent receivable[1] | **1,248** | 2,437 |
| Less: provision for doubtful debts | **(1)** | - |
| **Total rental receivables** | **1,247** | 2,437 |
| | | |
| Fee receivable | **55,454** | 25,643 |
| Receivables from related entities | **21,639** | 4,115 |
| Other receivables | **5,252** | 318 |
| **Total other receivables** | **82,345** | 30,076 |
| **Total receivables** | **83,592** | 32,513 |

1 Rent receivable includes outgoings.

### c) Payables

| | **2019 $'000** | 2018 $'000 |
|---|---|---|
| Trade creditors | **19,229** | 4,862 |
| Accruals | **2,166** | 3,555 |
| Accrued capital expenditure | **12,282** | 8,040 |
| GST payable | **3,085** | 116 |
| Other payables | **4,011** | 5,142 |
| **Total payables** | **40,773** | 21,715 |

# Note 15 Working capital (continued)

### d) 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 Trust 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 Trust 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 21.

| | **2019 $'000** | 2018 $'000 |
|---|---|---|
| Provision for distribution | **50,000** | 50,000 |
| Provision for employee benefits | **38,115** | 32,123 |
| **Total current provisions** | **88,115** | 82,123 |

Non-current provisions relate to employee benefits.

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

| | **2019 $'000** | 2018 $'000 |
|---|---|---|
| **Provision for distribution** | | |
| Opening balance at the beginning of the year | **50,000** | 50,000 |
| Additional provisions | **50,000** | 50,000 |
| Payment of distributions | **(50,000)** | (50,000) |
| **Closing balance at the end of the year** | **50,000** | 50,000 |

A provision for distribution has been raised for the period ended 30 June 2019. This distribution is to be paid on 29 August 2019.

# 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 Trust.

## Note 16 Plant and Equipment

Plant and equipment is stated at historical cost less depreciation and accumulated impairment. Historical cost includes expenditure that is directly attributable to its acquisition. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Trust and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the Statement of Comprehensive Income during the reporting period in which they are incurred.

Plant and equipment is tested for impairment whenever events or changes in circumstances indicate that the carrying amounts exceed their recoverable amounts.

Depreciation is calculated using the straight-line method so as to allocate their cost, net of their residual values, over their expected useful lives as follows:

- Furniture and fittings: 10-20 years
- IT and office equipment: 3-5 years

| | **2019** | 2018 |
|---|---|---|
| | **$'000** | $'000 |
| Opening balance at the beginning of the year | **16,035** | 16,441 |
| Additions | **2,885** | 3,075 |
| Depreciation charge | **(3,934)** | (3,481) |
| **Closing balance at the end of the year** | **14,986** | 16,035 |

| | **2019** | 2018 |
|---|---|---|
| | **$'000** | $'000 |
| Cost | **30,002** | 27,846 |
| Accumulated depreciation | **(15,016)** | (11,811) |
| Cost - Fully depreciated assets written off | **(1,891)** | (729) |
| Accumulated depreciation - Fully depreciated assets written off | **1,891** | 729 |
| **Net book value as at the end of the year** | **14,986** | 16,035 |

## Note 17 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 $3.3 million (2018: $3.7 million) are measured at cost and amortised using the straight-line method over their estimated remaining useful lives of 10 years. Management rights that are deemed to have an indefinite life are held at a value of $286.0 million (2018: $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.

# Note 17 Intangible assets (continued)

| | 2019<br>$'000 | 2018<br>$'000 |
|---|---|---|
| **Management rights** | | |
| Opening balance at the beginning of the year | **289,758** | 290,088 |
| Amortisation charge | **(330)** | (330) |
| **Closing balance at the end of the year** | **289,428** | 289,758 |
| | | |
| Cost | **294,382** | 294,382 |
| Accumulated amortisation | **(4,954)** | (4,624) |
| **Total management rights** | **289,428** | 289,758 |
| | | |
| **Goodwill** | | |
| Opening balance at the beginning of the year | **1,112** | 1,211 |
| Impairment | **(99)** | (99) |
| **Closing balance at the end of the year** | **1,013** | 1,112 |
| | | |
| Cost | **2,998** | 2,998 |
| Accumulated impairment | **(1,985)** | (1,886) |
| **Total goodwill** | **1,013** | 1,112 |
| | | |
| **Software** | | |
| Opening balance at the beginning of the year | **23,769** | 18,151 |
| Additions | **13,924** | 10,983 |
| Amortisation charge | **(6,026)** | (5,365) |
| **Closing balance at the end of the year** | **31,667** | 23,769 |
| | | |
| Cost | **48,622** | 37,488 |
| Accumulated amortisation | **(16,955)** | (13,719) |
| Cost - Fully amortised assets written off | **(7,122)** | (2,790) |
| Accumulated amortisation - Fully amortised assets written off | **7,122** | 2,790 |
| **Total software** | **31,667** | 23,769 |
| | | |
| **Total non-current intangible assets** | **322,108** | 314,639 |

Goodwill represents the excess of the cost of an acquisition over the fair value of the Trust'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.

# Note 17 Intangible assets (continued)

**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% (2018: 10.0%–20.0%) was used incorporating an appropriate risk premium for a management business.
- Cash flows have been discounted at 9.0% (2018: 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% (2018: 1.0%) decrease in the discount rate would increase the valuation by $24.0 million (2018: $20.0 million).

# Note 18 Investment in financial assets at fair value through other comprehensive income

Investment in financial assets through other comprehensive income comprise DXS securities acquired on-market in order to fulfil the future requirements of the security-based payment plans.

Changes in fair value arising on valuation of investments are recognised in other comprehensive income net of tax, in a separate reserve in equity. Amounts are reclassified to profit or loss when the associated assets are sold, transferred or impaired. The classification of financial assets changed from Available-for-sale to Investments in financial assets at fair value through other comprehensive income under AASB 9 *Financial Instruments*. Refer to Note 24 for further information.

# Note 19 Audit, taxation and transaction service fees

During the year, the Auditor and its related practices earned the following remuneration:

| | **2019** | 2018 |
|---|---|---|
| | **$** | $ |
| **Audit fees** | | |
| PwC Australia - audit and review of Financial Statements | **268,132** | 263,360 |
| PwC fees paid in relation to outgoings audits | **5,150** | 5,000 |
| PwC Australia - regulatory audit and compliance services | **176,636** | 247,187 |
| **Audit fees paid to PwC** | **449,918** | 515,547 |
| | | |
| **Transaction services fees** | | |
| Fees paid to PwC Australia - other | **30,000** | 30,000 |
| **Total transaction services fees paid to PwC** | **30,000** | 30,000 |
| **Total audit, taxation and transaction services fees paid to PwC** | **479,918** | 545,547 |

# Note 20 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:

| | **2019** **$'000** | 2018 $'000 |
|---|---|---|
| **Net profit/(loss) for the year** | **102,210** | 90,601 |
| Capitalised interest | **16,743** | 19,306 |
| Depreciation and amortisation | **10,290** | 9,178 |
| Impairment of inventories | **-** | 599 |
| Impairment of goodwill | **99** | 99 |
| Net fair value (gain)/loss of investment properties | **(52,080)** | (29,788) |
| Share of net (profit)/loss of investments accounted for using the equity method | **820** | 819 |
| Net (gain)/loss on sale of investment properties | **(382)** | - |
| Provision for doubtful debts | **1** | - |
| Lease incentives | **(1,939)** | (3,724) |
| Distribution revenue | **(828)** | (357) |
| **Change in operating assets and liabilities** | | |
| (Increase)/decrease in receivables | **(51,087)** | 1,426 |
| (Increase)/decrease in inventories | **(132,811)** | (37,573) |
| (Increase)/decrease in other current assets | **(2,683)** | 20 |
| (Increase)/decrease in other non-current assets | **(117,827)** | (44,389) |
| Increase/(decrease) in payables | **15,965** | (16,839) |
| Increase/(decrease) in current liabilities | **22,483** | (17,354) |
| Increase/(decrease) in other non-current liabilities | **6,780** | 488 |
| (Increase)/decrease in deferred tax assets | **(4,423)** | 10,828 |
| **Net cash inflow/(outflow) from operating activities** | **(188,669)** | (16,660) |

### b) Net debt reconciliation

Reconciliation of net debt movements:

| | **2019** **Loans with related parties** **$'000** | 2018 Loans with related parties $'000 |
|---|---|---|
| Opening balance | **479,801** | 172,105 |
| | | |
| **Changes from financing cash flows** | | |
| Proceeds from loan with related party | **382,536** | 572,384 |
| Repayment of loan with related party | **(334,237)** | (458,180) |
| | | |
| **Non cash changes** | | |
| Capital reallocation | **-** | 175,095 |
| Intercompany interest capitalised to loan | **18,265** | 18,397 |
| **Closing balance** | **546,365** | 479,801 |

# Note 21 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 Adjusted Funds from Operations (AFFO), Return on Contributed Equity (ROCE) 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 Trust 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; and
- 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 Trust 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

The number of performance rights granted in respect of the year ended 30 June 2019 was 410,171 (2018: 263,222) and the fair value of these performance rights is $12.98 (2018: $9.88) per performance right. The total security-based payment expense recognised during the year ended 30 June 2019 was $5,015,005 (2018: $2,665,556).

### b) Long Term Incentive Plan

The number of performance rights granted in respect of the year ended 30 June 2019 was 594,094 (2018: 465,701). The weighted average fair value of these performance rights at grant date is $11.75 (2018: $9.02) per performance right. The total security-based payment expense recognised during the year ended 30 June 2019 was $8,213,769 (2018: $3,805,708).

# Note 22 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 Trust, the Responsible Entity and Investment Manager are entitled to receive fees in relation to the management of the Trust. DXFM's parent entity, DXH, is entitled to be reimbursed for administration expenses incurred on behalf of the Trust. Dexus Property Services Pty Limited (DXPS), a wholly owned subsidiary of DXH, is entitled to property management fees from the Trust.

The Trust 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

| | **2019** | 2018 |
|---|---|---|
| | **$** | $ |
| Responsible Entity & Asset management fee income | **105,222,525** | 96,630,688 |
| Property management fee income | **39,415,369** | 37,938,614 |
| Rent paid | **2,987,689** | 2,795,521 |
| Responsible Entity fees receivable at the end of each reporting year (included above) | **20,923,130** | 8,181,859 |
| Property management fees receivable at the end of each reporting year (included above) | **9,504,632** | 3,801,771 |

### Key management personnel compensation

| | **2019** | 2018 |
|---|---|---|
| | **$** | $ |
| **Compensation** | | |
| Short-term employee benefits | **9,933,107** | 9,275,046 |
| Post employment benefits | **317,902** | 349,530 |
| Security-based payments | **5,917,609** | 3,725,389 |
| **Total key management personnel compensation** | **16,168,618** | 13,349,965 |

# Note 23 Parent entity disclosures

The financial information for the parent entity of Dexus Operations 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:

| | **2019 $'000** | 2018 $'000 |
|---|---|---|
| Total current assets | **576,031** | 442,413 |
| Total assets | **894,868** | 709,286 |
| Total current liabilities – payables | **92,779** | 77,791 |
| Total liabilities | **643,238** | 557,591 |
| | | |
| **Equity** | | |
| Contributed equity | **113,394** | 86,700 |
| Reserves | **157** | - |
| Retained profits | **138,079** | 64,995 |
| **Total equity** | **251,630** | 151,695 |
| | | |
| Net profit/(loss) for the year | **121,910** | 85,236 |
| **Total comprehensive income/(loss) for the year** | **121,910** | 85,236 |

### b) Guarantees entered into by the parent entity

Refer to note 12(b) for details of guarantees entered into by the parent entity.

### c) Contingent liabilities

Refer to note 12(b) for details of the parent entity's contingent liabilities.

### d) Capital commitments

The parent entity had no capital commitments as at 30 June 2019 (2018: nil)

# Note 24 Changes in accounting policies

AASB 15 *Revenue from Contracts with Customers* and AASB 9 *Financial Instruments* are effective for annual periods beginning on or after 1 January 2018. Both these standards were adopted by the Trust on 1 July 2018. As the Trust has adopted the modified retrospective approach upon implementation of these standards, comparatives have not been restated, however the Trust has disclosed below the restatement of the 1 July 2018 opening retained earnings balance and respective balance sheet positions impacted as a result of this change. The changes and considerations are detailed below.

**AASB 15 *Revenue from Contracts with Customers***

AASB 15 provides new guidance for determining when the Trust should recognise revenue. The new revenue recognition model is based on the principle that revenue is recognised when control of a good or service is transferred to a customer - either at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognised.

Per the new requirements of AASB 15, revenue is recognised over time if:

- the customer simultaneously receives and consumes the benefits as the entity performs;
- the customer controls the asset as the entity creates or enhances it; or
- the seller's performance does not create an asset for which the seller has an alternative use and there is a right to payment for performance to date.

Where the above criteria is not met, revenue is recognised at a point in time.

The impact of applying the new standard has been assessed on each of the following major revenue streams:

*Property revenue*

Within its lease arrangements, the Trust provides certain services to tenants (such as utilities, cleaning, maintenance and certain parking arrangements) which are accounted for within AASB 15. A portion of the consideration within the lease arrangements are therefore allocated to revenue for the provision of services. The service revenue is recognised over time as the services are provided and as such, the timing of recognition of income is not affected.

*Management fees & other revenue*

Where the Trust earns investment, property management fees and development fees the fees continue to be recognised monthly over the duration of the agreements. Management have determined that there are no impacts of the new guidance on property management contracts.

*Development revenue*

AASB 15 provides an expedient whereby contracts that are completed as of the date of transition (1 July 2018) are not required to be re-assessed. Management have chosen to apply this expedient. There is no impact on transition as the Trust had no uncompleted inventory or development contracts at 1 July 2018 which required re-assessment.

It is therefore concluded that apart from providing more extensive disclosures, the initial application of this new accounting standard has not had a material impact on the financial reporting of the Trust and therefore no restatement is required.

**AASB 9 *Financial Instruments***

AASB 9 addresses the classification, measurement and de-recognition of financial assets and financial liabilities and introduces new requirements for:

- the classification and measurement of financial assets;
- the classification and measurement of financial liabilities;
- impairment of financial asset

The impact of applying the new standard has been assessed on each of the following:

*Classification and measurement of financial assets*

All recognised financial assets that are within the scope of AASB 9 are required to be measured subsequently at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. The Trust has assessed which business models and cash flow characteristics apply to the financial assets held by the Trust and has classified its financial instruments into the appropriate AASB 9 categories. The adoption of AASB 9 has not impacted the carrying value of financial assets but has resulted in classification changes on initial application at 1 July 2018 which are shown in the following table:

## Note 24 Changes in accounting policies (continued)

**AASB 9 *Financial Instruments*** (continued)

| Financial Assets | AASB 139 Classification | AASB 9 Classification |
|---|---|---|
| Cash and cash equivalents | Loans and receivables at amortised cost | Financial assets at amortised cost |
| Rent receivable | Loans and receivables at amortised cost | Financial assets at amortised cost |
| Distributions receivable | Loans and receivables at amortised cost | Financial assets at amortised cost |
| Fees receivable | Loans and receivables at amortised cost | Financial assets at amortised cost |
| Other receivables | Loans and receivables at amortised cost | Financial assets at amortised cost |
| Other financial assets | Available for sale | Financial assets at fair value through other comprehensive income |

*Classification and measurement of financial liabilities*

Under AASB 9 the classification of financial liabilities held by the Trust does not change from that previously prescribed in AASB 139 *Financial Instruments: Recognition and Measurement*. The main change introduced by AASB 9 is in relation to the accounting treatment for a gain or loss arising from a modification of a financial liability that does not result in the derecognition thereof. The requirements of AASB 9 state that the gain or loss on modification needs to be recognised immediately within profit or loss. The Trust has assessed the impact resulting from the initial application of AASB 9 and has determined that non-substantial modifications to interest bearing liabilities have not occurred in the past, and no adjustment to retained earnings is required.

*Impairment of financial assets*

In relation to the impairment of financial assets, AASB 9 requires an expected credit loss model as opposed to an incurred credit loss model under AASB 139. The expected credit loss model requires the Trust to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets.

AASB 9 requires the Trust to measure the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses (ECL). The Trust has assessed the impact resulting from the initial application of AASB 9, by considering the historical actual write off rates for relevant types of financial assets and taking into account forward looking indicators that might impact the recoverability of currently recognised financial assets. Based on this assessment, it was determined that the credit risk of trade receivables is low and therefore the application of an ECL model in determining the loss allowance for expected credit losses on trade receivables, has resulted in an immaterial impact on the financial reporting of the Trust.

The following table reconciles the changes in retained earnings upon implementation of the new accounting standards.

| | 30 June 2019 $'000 |
|---|---|
| **Closing retained earnings balance as at 30 Jun 2018 - AASB 139** | **94,109** |
| Increase in provision for doubtful debts | **(1)** |
| **Opening retained earnings balance as at 1 Jul 2018 - AASB 9** | **94,108** |

## Note 25 Subsequent events

On 9 August 2019, the Group exchanged contracts to sell a 25% interest in 201 Elizabeth Street, Sydney for $157.5 million, excluding disposal costs and entered into a put and call option to sell its remaining 25% interest in late 2020.

Post 30 June 2019, Dexus reached agreement to restructure the investment management joint venture with Commercial & General for HWPF, resulting in a streamlined governance structure and Dexus continuing as the sole investment manager of the Fund.

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 Trust, the results of those operations, or state of the Trust's affairs in future financial periods.

# Directors' Declaration

The Directors of Dexus Funds Management Limited as Responsible Entity of Dexus Operations Trust declare that the Financial Statements and notes set out on pages 8 to 41:

(i) comply with Australian Accounting Standards, the *Corporations Act 2001* and other mandatory professional reporting requirements; and

(ii) give a true and fair view of the Trust's financial position as at 30 June 2019 and of its performance, as represented by the results of its operations and their cash flows, for the year ended on that date.

In the Directors' opinion:

(a) the Financial Statements and notes are in accordance with the *Corporations Act 2001*;

(b) there are reasonable grounds to believe that the Trust and its consolidated entities will be able to pay their debts as and when they become due and payable; and

(c) the Trust has operated in accordance with the provisions of the Constitution dated 15 August 1984 (as amended) during the year ended 30 June 2019.

The Financial Statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The Directors have been given the declarations by the Chief Executive Officer and the Chief Financial Officer required by section 295A of the *Corporations Act 2001*.

This declaration is made in accordance with a resolution of the Directors.

**W Richard Sheppard**

Chair

13 August 2019

# *Independent auditor's report*

To the stapled security of Dexus Operations Trust

## *Report on the audit of the financial report*

### *Our opinion*

In our opinion:

The accompanying financial report of Dexus Operations Trust (the Trust) and its controlled entities (together the Group) is in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the Group's financial position as at 30 June 2019 and of its financial performance for the year then ended

(b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

***What we have audited***

The Group financial report comprises:

- the Consolidated Statement of Financial Position as at 30 June 2019
- the Consolidated Statement of Comprehensive Income for the year then ended
- the Consolidated Statement of Changes in Equity for the year then ended
- the Consolidated Statement of Cash Flows for the year then ended
- the Notes to the Consolidated Financial Statements, which include a summary of significant accounting policies
- the Directors' declaration.

### *Basis for opinion*

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

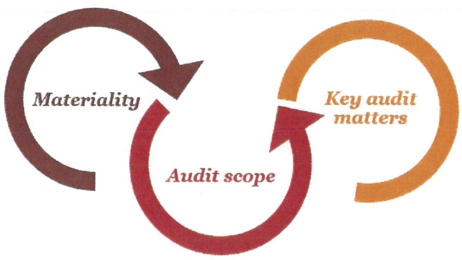
***Independence***

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

## *Our audit approach*

An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial report as a whole, taking into account the geographic and management structure of the Group, its accounting processes and controls and the industry in which it operates.




| *Materiality* | *Audit scope* | *Key audit matters* |
|---|---|---|
| • For the purpose of our audit we used overall materiality of $3.7 million, which represents approximately 5% of the Group's adjusted profit before tax (Funds From Operations or FFO).<br>• We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole.<br>• We chose FFO because, in our view, it is the key performance measure of the Group. An explanation of what is included in FFO is outlined in Note 1, Operating segments of the Dexus Annual Report.<br>• We utilised a 5% threshold based on our professional judgement, noting it is within the range of commonly acceptable profit related thresholds. | • The Group is a consolidated entity with operations in Australia. The scope of our audit included the Trust and its controlled entities.<br>• Our audit focused on where the Group made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events. | • Amongst other relevant topics, we communicated the following key audit matters to the Board Audit Committee:<br>– Valuation of investment properties<br>– Carrying amount of inventory<br>– Carrying amount of indefinite life intangible assets<br>• These are further described in the *Key audit matters* section of our report. |

## *Key audit matters*

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. The key audit matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Further, any commentary on the outcomes of a particular audit procedure is made in that context.

| *Key audit matter* | *How our audit addressed the key audit matter* |
|---|---|
| ***Valuation of investment properties***<br>*(Refer to Note 9)*<br><br>The Group's investment property portfolio comprises \$193.4 million (2018: \$222.0 million) of office and industrial properties directly held in Australia.<br><br>Investment properties are carried at fair value at reporting date using the Group's policy as described in Note 9. The valuation of investment properties is dependent on a number of assumptions and inputs including, tenant information, property age and location, expected future rental profiles, and prevailing market conditions. Amongst others, the following assumptions are key in establishing fair value:<br>• The capitalisation rate<br>• The adopted discount rate.<br><br>We considered the valuation of investment properties to be a key audit matter due to the:<br>• Financial significance of investment properties in the Consolidated Statement of Financial Position.<br>• Potential for changes in the fair value of investment properties to have a significant effect on the Consolidated Statement of Comprehensive Income.<br>• Inherently subjective nature of investment property valuations arising from the use of assumptions in the valuation methodology.<br>• Sensitivity of valuations to key input assumptions, including capitalisation rates, and discount rates. | To assess the valuation of investment properties we performed the following procedures amongst others:<br><br>• We compared the valuation methodology adopted by the Group with commonly accepted valuation approaches used for investment properties in the industry, and with the Group's stated valuation policy.<br><br>• We obtained recent independent property market reports to develop an understanding of the prevailing market conditions in which the Group invests. We leveraged this knowledge to form independent expectations of likely movements in investment property values and underlying key assumptions such as capitalisation rates and discount rates.<br><br>• For a sample of leases, we compared the rental income used in the investment property valuations to the tenancy schedules.<br><br>• We compared the capitalisation rates and discount rates used by the Group in their investment property valuations to market data we determined reasonable based on location and asset grade. Where capitalisation rates, discount rates and/or movements in individual property valuations fell outside of our expectation, we performed the following procedures, amongst others:<br>- Met with the Group's Senior Valuation Manager and discussed the specifics of the selected individual properties including, amongst other things, any new leases entered into during the year, lease expiries, capital expenditure and vacancy rates.<br>- Agreed significant changes in inputs from previous valuations to supporting documentation such as new lease agreements.<br>- Assessed key inputs in the investment property valuations to observable external market data. |

| Key audit matter | How our audit addressed the key audit matter |
| --- | --- |
| | • As the Group engaged external experts to determine the fair value of investment properties, we considered the independence, experience and competency of the Group's independent experts as well as the results of their procedures. |
| ***Carrying amount of inventory***<br>*(Refer to Note 10)*<br><br>The Group develops a portfolio of office and industrial sites for future sale, which are classified as inventory. At 30 June 2019 the carrying amount of the Group's inventory was $460.0 million (2018: $306.4 million). The Group's inventories are held at the lower of the cost or net realisable value for each inventory asset.<br><br>The cost of inventory is calculated using actual acquisition costs, construction costs, development related costs and interest capitalised for eligible projects.<br><br>Net realisable value is determined by using the valuation techniques referred to in the key audit matter: *Valuation of investment properties, including those properties in investments accounted for under the equity method* to determine the estimated future selling price, and adjusted for the estimated cost to complete and transaction costs.<br><br>We considered the carrying amount of inventory to be a key audit matter given the:<br>• Judgement required in determining the fair value of properties transferred from investment properties to inventory at the date of transfer, or used in net realisable value calculations. Refer to key audit matter: *Valuation of investment properties, including those properties in investments accounted for under the equity method* for key judgements in determining the fair value.<br>• Judgements required by the Group in determining the costs to complete and transaction costs used in net realisable value calculations.<br>• Financial significance of the inventory balance in the Consolidated Statement of Financial Position.<br>• The subsequent impact to FFO from the disposal of inventory. | To assess the carrying amount of inventory we performed the following procedures amongst others:<br><br>• Tested that a sample of costs, transfers to inventory and acquisitions capitalised to inventory were in accordance with the Group's policy/methodology and the requirements of Australian Accounting Standards.<br><br>• We used a risk based approach to select a sample of inventory assets on which to perform net realisable value testing. For the selected assets we:<br>- Discussed with management the life cycle of the project, key project risks, changes to project strategy, current and future estimated sales prices, construction progress and costs and any new and previous impairments.<br>- Compared the market capitalisation rates and net market income used by the Group to calculate net realisable value to market capitalisation rates and rental rates published by external independent valuation experts.<br>- Compared the carrying amount of inventory against the Group's estimate of net realisable value as at 30 June 2019. |

| *Key audit matter* | *How our audit addressed the key audit matter* |
|---|---|
| ***Carrying amount of indefinite life intangible assets***<br>*(Refer to Note 17)*<br><br>At 30 June 2019 indefinite life management rights (management rights) amounting to $286.0 million (2018: $286 million) were recognised by the Group (included in the intangible assets balance). In accordance with the requirements of Australian Accounting Standards, indefinite life management rights are not amortised and are tested at least annually for impairment.<br><br>The Group performed impairment testing of the management rights by comparing the recoverable amount of the management rights to their carrying amount. The Group concluded that management rights were not impaired.<br><br>We considered the carrying amount of indefinite life management rights a key audit matter given the:<br>• Financial significance of the balance in the Consolidated Statement of Financial Position<br>• Significant judgement required by the Group in estimating the recoverable amount of indefinite life management rights<br>• Sensitivity of the Group's assessment of the recoverable amount of indefinite life management rights to changes in key assumptions such as growth rates, discount rates, and future cash flows. | To assess the impairment models used to determine the recoverable amount, we performed the following audit procedures, amongst others:<br>• Assessed whether the division of the Group's management rights into cash generating units (CGU), was in line with the Australian Accounting Standards and consistent with our knowledge of the Group's operations and internal Group reporting.<br>• Tested the mathematical accuracy of each impairment model's calculations.<br>• Evaluated the Group's methodology and selected inputs and assumptions in the impairment models, such as discount rate, revenue and expense growth rates by comparing to observable market expectations.<br>• Compared forecast cash flows used in each impairment model with the most up-to-date budgets approved by the Board. For cash flows beyond year three that were not covered by formal budgets, we compared the growth rates applied to observable market expectations.<br>• Evaluated the Group's historical ability to forecast future cash flows by comparing budgets to reported actual results.<br>• Considered the Group's sensitivity analysis on key assumptions used in the impairment models to assess under which assumptions an impairment would occur and whether this was reasonably possible.<br>• Together with PwC valuation experts we considered whether the discount rate applied in each model was consistent with observable market expectations. |

## *Other information*

The Directors of Dexus Funds Management Limited as Responsible Entity of the Trust (the Directors) are responsible for the other information. The other information comprises the information included in the annual report for the year ended 30 June 2019, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## *Responsibilities of the directors for the financial report*

The Directors are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the Directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the Directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

## *Auditor's responsibilities for the audit of the financial report*

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our auditor's report.

PricewaterhouseCoopers

PricewaterhouseCoopers

Matthew Lunn
Partner

Sydney
13 August 2019