Dexus (ASX: DXS)

ASX release

15 August 2018

2018 Financial Statements

In addition to Dexus's 2018 Annual Report, which includes the Financial Statements for Dexus Diversified Trust, we provide the 2018 Financial Statements for Dexus Industrial Trust, Dexus Office Trust and Dexus Operations Trust.

For further information please contact:

Investor Relations
Rowena Causley
+61 2 9017 1390
+61 416 122 383
rowena.causley@dexus.com

Media Relations
Louise Murray
+61 2 9017 1446
+61 403 260 754
louise.murray@dexus.com

About Dexus

Dexus is one of Australia's leading real estate groups, proudly managing a high quality Australian property portfolio valued at $27.2 billion. We believe that the strength and quality of our relationships will always be 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 $13.3 billion of office and industrial properties. We manage a further $13.9 billion of office, retail, industrial and healthcare properties for third party clients. The group's $4.2 billion development 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 27,000 investors from 20 countries. With more than 30 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 2018

ARSN: 090 879 137

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 Industrial Trust (DIT or the Trust) present their Directors' Report together with the consolidated Financial Statements for the year ended 30 June 2018. 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	Resigned
W Richard Sheppard, BEc (Hons), FAICD	1 January 2012	
Elizabeth A Alexander, AM, BComm, FCA, FAICD, FCPA	1 January 2005	24 October 2017
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 2018 are as follows:

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

Appointed: 31 October 2014

Brett is the General Counsel and 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.

Rachel Caralis LLB/B Com (Acc), M Com (Property Development), Grad Dip (Applied Corporate Governance) AGIA, AAPI

Appointed: 17 February 2016

Rachel is Senior Legal Counsel and Company Secretary of Dexus.

Rachel joined Dexus in 2008 after five years at King and Wood Mallesons where she worked in the real estate and projects team. Rachel has 15 years' experience as in-house counsel and in private practice working on real estate and corporate transactions, funds management and corporate finance for wholesale and listed clients.

Rachel graduated from the University of Canberra with a Bachelor of Laws and Bachelor of Commerce (Accounting), has completed a Masters of Commerce (Property Development) at the University of Western Sydney and a Graduate Diploma in Applied Corporate Governance at the Governance Institute of Australia. Rachel is a member of the Law Society of New South Wales, an associate of the Australian Property Institute and an associate of the Governance Institute of Australia.

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 13 times during the year. Ten Board meetings were main meetings and three meetings were held to consider specific business.

	Main meetings held	Main meetings attended	Specific meetings held	Specific meetings attended
W Richard Sheppard	10	10	3	3
Elizabeth A Alexander, AM [1]	4	4	-	-
Penny Bingham-Hall	10	10	3	3
John C Conde, AO	10	10	3	3
Tonianne Dwyer	10	10	3	3
Mark Ford	10	9	3	3
The Hon. Nicola L Roxon [2]	8	8	3	3
Darren J Steinberg	10	10	3	3
Peter B St George	10	10	3	3

1 Ceased directorship 24 October 2017.
2 Commenced directorship on 1 September 2017.

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 2018.

	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	-	-	-	-	4	4	5	5
Elizabeth A Alexander,AM[1]	1	1	-	-	-	-	-	-
Penny Bingham-Hall	-	-	4	4	4	4	5	5
John C Conde, AO	3	3	-	-	4	4	1	1
Tonianne Dwyer	4	4	4	4	-	-	-	-
The Hon. Nicola L Roxon[2]	-	-	3	3	-	-	4	4
Mark Ford	4	4	4	4	-	-	-	-
Peter B St George	4	4	4	4	-	-	-	-

1 Ceased directorship 24 October 2017.
2 Commenced directorship on 1 September 2017.

Elizabeth A Alexander and Tonianne Dwyer were also Directors of Dexus Wholesale Property Limited (DWPL) and attended DWPL Board meetings during the year ended 30 June 2018. John Conde joined as a Director of Dexus Wholesale Property Limited (DWPL) on 25 October 2017.

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	70,090
Penny Bingham-Hall	16,534
John C Conde, AO	16,667
Tonianne Dwyer	16,667
Mark Ford	1,667
The Hon. Nicola L Roxon	Nil
Darren J Steinberg	1,219,571
Peter B St George	17,333

Operating and financial review

The relevant financial information for the year ended 30 June 2018 were:

- profit attributable to unitholders was $94.2 million (2017: $110.0 million)
- total assets were $980.5 million (2017: $1,113.1 million)
- net assets were $943.4 million (2017: $1,067.2 million)

A review of the results, financial position and operations of the Group, of which the Trust forms part thereof, is set out in the Operating and Financial Review of the Dexus Financial 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	Cardno Limited[3]	25 June 2012
	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]	May 2011

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.
3 Directorship ceased 27 January 2016.

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 2018 was $980.5 million (2017: $1,113.1 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 2018 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 2018 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 2018 are detailed in note 9 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 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 14 August 2018.

W Richard Sheppard
Chair
14 August 2018

Darren J Steinberg
Chief Executive Officer
14 August 2018

Auditor's Independence Declaration

As lead auditor for the audit of Dexus Industrial Trust for the year ended 30 June 2018, 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
14 August 2018

PricewaterhouseCoopers, ABN 52 780 433 757
One International Towers Sydney, Watermans Quay, Barangaroo, GPO BOX 2650, SYDNEY NSW 2001
T: +61 2 8266 0000, F: +61 2 8266 9999, www.pwc.com.au

Level 11, 1PSQ, 169 Macquarie Street, Parramatta NSW 2150, PO Box 1155 Parramatta NSW 2124
T: +61 2 9659 2476, F: +61 2 8266 9999, www.pwc.com.au

Consolidated Statement of Comprehensive Income

For the year ended 30 June 2018

	Note	2018 $'000	2017 $'000
Revenue from ordinary activities			
Property revenue	2	**52,848**	57,848
Interest revenue		**13,088**	11,764
Total revenue from ordinary activities		**65,936**	69,612
Net fair value gain of investment properties		**43,232**	53,686
Net gain on sale of investment properties		**6**	-
Net fair value gain of derivatives		**-**	328
Net foreign exchange gain		**-**	1,440
Total income		**109,174**	125,066
Expenses			
Property expenses	2	**(11,517)**	(12,373)
Management fee expense		**(2,126)**	(2,067)
Finance costs	3	**(793)**	(140)
Management operations, corporate and administration expenses		**(499)**	(468)
Total expenses		**(14,935)**	(15,048)
Profit/(loss) before tax		**94,239**	110,018
Profit/(loss) for the year		**94,239**	110,018
Other comprehensive income/(loss):			
Other comprehensive income/(loss)		**-**	-
Total comprehensive income/(loss) for the year		**94,239**	110,018

		Cents	Cents
Earnings per unit on profit/(loss) attributable to unitholders of the parent entity			
Basic earnings per unit	4	**9.26**	11.34
Diluted earnings per unit	4	**9.26**	11.34

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

Consolidated Statement of Financial Position

As at 30 June 2018

	Note	2018 $'000	2017 $'000
Current assets			
Cash and cash equivalents	10(a)	**963**	1,246
Receivables	10(b)	**3,804**	2,064
Other current assets		**965**	1,085
Total current assets		**5,732**	4,395
Non-current assets			
Investment properties	6	**744,150**	734,211
Loans with related parties	13	**230,376**	374,016
Derivative financial instruments	7(c)	**179**	434
Other		**25**	-
Total non-current assets		**974,730**	1,108,661
Total assets		**980,462**	1,113,056
Current liabilities			
Payables	10(c)	**11,545**	6,059
Provisions	10(d)	**15,975**	26,237
Derivative financial instruments	7(c)	**911**	358
Total current liabilities		**28,431**	32,654
Non-current liabilities			
Derivative financial instruments	7(c)	**8,633**	13,165
Other non-current liabilities		**-**	2
Total non-current liabilities		**8,633**	13,167
Total liabilities		**37,064**	45,821
Net assets		**943,398**	1,067,235
Equity			
Contributed equity	9	**1,139,628**	1,314,430
Retained profits/(accumulated losses)		**(196,230)**	(247,195)
Total equity		**943,398**	1,067,235

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

Consolidated Statement of Changes in Equity

For the year ended 30 June 2018

	Contributed equity $'000	Retained profits/ (losses) $'000	Reserves $'000	Total equity $'000
Opening balance as at 1 July 2016	1,255,798	(308,625)	-	947,173
Profit/(loss) for the period	-	110,018	-	110,018
Other comprehensive income/(loss) for the year	-	-	-	-
Total comprehensive income for the year	-	110,018	-	110,018
Transactions with owners in their capacity as unitholders:				
Issue of additional equity, net of transaction costs	58,632	-	-	58,632
Distributions paid or provided for	-	(48,588)	-	(48,588)
Total transactions with owners in their capacity as owners	58,632	(48,588)	-	10,044
Closing balance as at 30 June 2017	1,314,430	(247,195)	-	1,067,235
Opening balance as at 1 July 2017	**1,314,430**	**(247,195)**	**-**	**1,067,235**
Profit/(loss) for the period	**-**	**94,239**	**-**	**94,239**
Other comprehensive income/(loss) for the period	**-**	**-**	**-**	**-**
Total comprehensive income for the period	**-**	**94,239**	**-**	**94,239**
Transactions with owners in their capacity as unitholders:				
Issue of additional equity, net of transaction costs	**475**	**-**	**-**	**475**
Capital return[1]	**(175,095)**	**-**	**-**	**(175,095)**
Buy-back of contributed equity, net of transaction costs	**(182)**	**-**	**-**	**(182)**
Distributions paid or provided for	**-**	**(43,274)**	**-**	**(43,274)**
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**

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 2018

	2018 $'000	2017 $'000
Cash flows from operating activities		
Receipts in the course of operations (inclusive of GST)	**67,610**	66,724
Payments in the course of operations (inclusive of GST)	**(21,367)**	(22,111)
Interest received	**18**	16
Interest received/(paid) on derivatives	**(4,387)**	5,720
Net cash inflow/(outflow) from operating activities	**41,874**	50,349
Cash flows from investing activities		
Proceeds from sale of investment properties	**45,200**	-
Payments for capital expenditure on investment properties	**(15,808)**	(8,286)
Net cash inflow/(outflow) from investing activities	**29,392**	(8,286)
Cash flows from financing activities		
Borrowings provided to related parties	**(122,101)**	(156,269)
Borrowings received from related parties	**103,795**	102,351
Proceeds from issue of additional equity, net of transactions costs	**293**	58,632
Distributions paid to unit holders	**(53,536)**	(47,972)
Net cash inflow/(outflow) from financing activities	**(71,549)**	(43,258)
Net increase/(decrease) in cash and cash equivalents	**(283)**	(1,195)
Cash and cash equivalents at the beginning of the year	**1,246**	2,441
Cash and cash equivalents at the end of the year	**963**	1,246

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

About This Report

In this section

This section sets out the basis upon which the 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.

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 in 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 2018, the Trust had a net current asset deficiency of $22.7 million (2017: $28.3 million). This is primarily due to the provision for distribution of $16.0 million due to be paid in August 2018.

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 $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 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(c)	Derivative financials instruments	Page 26

Principles of consolidation

These consolidated Financial Statements incorporate the assets, liabilities and results of all subsidiaries as at 30 June 2018.

(a) Controlled entities

Subsidiaries are all entities over which the 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 2018, 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

Certain new accounting standards and interpretations have been published that are not mandatory for the 30 June 2018 reporting period. The Trust'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 rules for hedge accounting and impairment of financial assets. The following areas have specifically been considered.

Impairment of financial assets – The current impairment assessment model is an 'incurred loss' model requiring the Trust to consider whether or not the financial asset is impaired at the date of performing the assessment. Under AASB 9 this model has changed to an 'expected credit loss' model. Under this model, the Trust is required to consider the historical actual write off rates for a type of financial asset, and forward looking indicators that might impact the recoverability of similar financial assets currently recognised. Management is currently working through the model to quantify the impact but does not expect a material impact on the provision for doubtful debts.

The Trust intends to adopt the new standard from 1 July 2018 and will not restate comparative information.

***AASB 15 Revenue from Contracts with Customers* (effective application for the 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. The Trust's revenue is largely comprised of income under leases (see below), sales of inventory, management fees and development services.

Management has substantially completed its assessment of the impact of transition to the new standard and does not expect there to be an impact on the recognition and measurement of revenue although additional disclosures will be required.

The following specific revenue streams have been assessed:

Income under leases - Within its lease arrangements, the Trust provides certain services to tenants (such as utilities, cleaning, maintenance and certain parking arrangements) which will be accounted for within AASB 15. A portion of the consideration within the lease arrangement will be allocated to revenue for the provision of services. The service revenue will be recognised over time as the services are provided and as such, the timing of recognition of income is not expected to change. Such revenue will, however, be disclosed separately.

The Trust will adopt the new standard from 1 July 2018 using the modified retrospective approach whereby comparatives for the year ended 30 June 2018 will not be restated.

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

AASB 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases. In 2018, revenue recognised from leases was approximately $57.7 million (2017: $60.8 million). The accounting for this lease income is not expected to change with the adoption of the new standard other than the separation of service income from lease income for disclosure purposes as a result of the application of AASB 15 described above.

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

The Trust intends to 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. 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, management operations, corporate and administration expenses, finance costs, taxation, earnings per unit and distributions paid and payable.

Note 1 Operating segments

Description of segments

The Group's operating segments have been identified based on the sectors analysed within the management reports reviewed in order to monitor performance across the Group and to appropriately allocate resources.

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.

Property revenue is recognised as the service is delivered, in accordance with the terms of the relevant contracts.

	2018 $'000	2017 $'000
Rent and recoverable outgoings	**57,686**	60,756
Incentive amortisation	**(10,192)**	(6,575)
Other revenue	**5,354**	3,667
Total property revenue	**52,848**	57,848

Property expenses of $11.5 million (2017: $12.4 million) includes rates, taxes and other property outgoings incurred in relation to investment properties.

Note 3 Finance costs

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

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

Note 3 Finance costs (continued)

	2018 $'000	2017 $'000
Interest paid/payable	-	80
Net fair value (gain)/loss of interest rate swaps	663	-
Amount capitalised	(89)	-
Other finance costs	219	60
Total finance costs	**793**	140

The average capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation if 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

	2018 $'000	2017 $'000
Profit attributable to unitholders of the parent entity	94,239	109,849

b) Weighted average number of units used as a denominator

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

Note 5 Distributions paid and payable

Distributions are recognised when declared.

a) Distribution to security holders

	2018 $'000	2017 $'000
31 December (paid 28 February 2018)	27,299	22,351
30 June (payable 30 August 2018)	15,975	26,237
Total distribution to unitholders	**43,274**	48,588

b) Distribution rate

	2018 Cents per unit	2017 Cents per unit
31 December (paid 28 February 2018)	2.68	2.31
30 June (payable 30 August 2018)	1.57	2.58
Total distributions	**4.25**	4.89

Property portfolio assets

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**	**Development $'000**	**2018 $'000**	2017 $'000
Opening balance at the beginning of the year	**196,000**	**528,007**	**10,204**	**734,211**	674,321
Additions	**10,423**	**6,160**	**420**	**17,003**	8,089
Lease incentives	**2,421**	**4,473**	**-**	**6,894**	4,811
Amortisation of lease incentives	**(4,496)**	**(5,696)**	**-**	**(10,192)**	(6,575)
Rent straightlining	**(1,267)**	**(531)**	**-**	**(1,798)**	(121)
Disposals	**-**	**(45,200)**	**-**	**(45,200)**	-
Net fair value gain/(loss) of investment properties	**19,919**	**23,577**	**(264)**	**43,232**	53,686
Closing balance at the end of the year	**223,000**	**510,790**	**10,360**	**744,150**	734,211

b) Valuations process

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

The 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)

c) Fair value measurement, valuation techniques and inputs

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

Class of property	Fair value hierarchy	Inputs used to measure fair value	Range of unobservable inputs 2018	2017
Office[1]	Level 3	Adopted capitalisation rate	**6.25%**	6.50%
		Adopted discount rate	**7.00%**	7.50%
		Adopted terminal yield	**6.50%**	6.75%
		Current net market rental (per sqm)	**$429**	$388
Industrial	Level 3	Adopted capitalisation rate	**5.75% - 11.00%**	6.25% - 11.00%
		Adopted discount rate	**7.00% - 11.00%**	7.25% - 11.25%
		Adopted terminal yield	**6.00% - 11.00%**	6.50% - 11.25%
		Current net market rental (per sqm)	**$38 - $338**	$38 - $335
Development		Land rate (per sqm)	**$425**	$415

1 Excludes car parks.

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

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

Note 6 Investment properties (continued)

d) Sensitivity information (continued)

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 2019	June 2020	June 2021	June 2022	June 2023
	$'000	$'000	$'000	$'000	$'000
A$ hedged	120,000	40,000	-	-	-
A$ hedged rate (%)	6.04%	6.04%	-	-	-

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.

		2018	2017
		(+/-) $'000	(+/-) $'000
+/- 0.50% (50 basis points)	A$	**1,752**	1,870
Total A$ equivalent		**1,752**	1,870

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

Sensitivity analysis on fair value of interest rate derivatives

The sensitivity analysis on interest rate derivatives below shows the effect on net profit or loss of changes in the fair value of interest rate derivatives for a 50 basis point movement in short-term and long-term market interest rates. The sensitivity on fair value arises from the impact that changes in market rates will have on the valuation of the interest rate derivatives.

The fair value of interest rate derivatives is calculated as the present value of estimated future cash flows on the instruments. Although interest rate derivatives are transacted for the purpose of providing the 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.

		2018	2017
		(+/-) $'000	(+/-) $'000
+/- 0.50% (50 basis points)	A$	**770**	1,255
Total A$ equivalent		**770**	1,255

Note 7 Capital and 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.

	2018				2017			
	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	**(11,545)**				(6,059)			
Interest bearing liabilities & interest								
Loans receivable/(payable) with related parties and interest	**9,843**	**240,300**	**-**	**-**	15,746	16,517	390,899	
Total interest bearing liabilities & interest[1]	**9,843**	**240,300**	**-**	**-**	15,746	16,517	390,899	-
Derivative financial instruments								
Derivative liabilities	**(6,244)**	**(1,373)**	**-**	**-**	(4,909)	(5,925)	(1,232)	-
Total net derivative financial instruments[2]	**(6,244)**	**(1,373)**	**-**	**-**	(4,909)	(5,925)	(1,232)	-

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)

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 2018 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 2018 is the carrying amounts of the trade receivables recognised on the Statement of Financial Position.

iv) Fair value

As at 30 June 2018 and 30 June 2017, the carrying amounts of financial assets and liabilities are held at fair value. 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 financial instruments, excluding cash, were measured at Level 2 for the periods presented in this report. During the year, there were no transfers between Level 1, 2 and 3 fair value measurements.

Key assumptions: fair value of derivatives

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)

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.

	2018 $'000	2017 $'000
Non-current assets		
Interest rate swap contracts	**179**	434
Total non-current assets - derivative financial instruments	**179**	434
Current liabilities		
Interest rate swap contracts	**911**	358
Total current liabilities - derivative financial instruments	**911**	358
Non-current liabilities		
Interest rate swap contracts	**8,633**	13,165
Total non-current liabilities - derivative financial instruments	**8,633**	13,165
Net derivative financial instruments	**(9,365)**	(13,089)

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:

	2018 $'000	2017 $'000
Investment properties	**12,640**	2,166
Total capital commitments	**12,640**	2,166

Note 8 Commitments and contingencies (continued)

a) Commitments (continued)

Lease receivable commitments

The future minimum lease payments receivable by the Trust are:

	2018 $'000	2017 $'000
Within one year	**49,194**	40,439
Later than one year but not later than five years	**192,032**	133,890
Later than five years	**39,645**	48,675
Total lease receivable commitments	**280,871**	223,004

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.

b) Contingencies

The Trust, together with DXO, DOT and DDF, is a guarantor of A$4,358.9 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

	2018 No. of units	2017 No. of units
Opening balance at the beginning of the year	**1,016,967,300**	967,947,692
Issue of additional equity	**437,242**	49,019,608
Buy-back of contributed equity	**(207,665)**	-
Closing balance at the end of the year	**1,017,196,877**	1,016,967,300

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

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 established when there is objective evidence that the Trust will not be able to collect all amounts due according to the original terms of the receivables.

	2018 $'000	2017 $'000
Rent receivable	**1,568**	735
Total rental receivables	**1,568**	735
Interest receivable	**966**	1,045
Other receivables	**1,270**	284
Total other receivables	**2,236**	1,329
Total receivables	**3,804**	2,064

c) Payables

	2018 $'000	2017 $'000
Trade creditors	**836**	897
Accruals	**1,386**	1,384
Accrued capital expenditure	**6,113**	2,412
Prepaid income	**2,820**	1,043
Management fee payable	**186**	184
Other payables	**204**	139
Total payables	**11,545**	6,059

Capital and financial risk management and working capital (continued)

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.

	2018	2017
	$'000	$'000
Provision for distribution	**15,975**	26,237
Total current provisions	**15,975**	26,237

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

	2018	2017
	$'000	$'000
Provision for distribution		
Opening balance at the beginning of the year	**26,237**	25,621
Additional provisions	**43,274**	48,588
Payment of distributions	**(53,536)**	(47,972)
Closing balance at the end of the year	**15,975**	26,237

A provision for distribution has been raised for the period ended 30 June 2018. This distribution is to be paid on 30 August 2018.

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:

	2018 $	2017 $
Audit fees		
PwC Australia - audit and review of Financial Statements	**266,264**	269,280
PwC fees paid in relation to outgoings audits	**8,500**	6,426
PwC Australia - regulatory audit and compliance services	**9,078**	9,180
Audit fees paid to PwC	**283,842**	284,886

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:

	2018 $'000	2017 $'000
Net profit/(loss) for the year	**94,239**	110,018
Capitalised interest	**(89)**	-
Net fair value (gain)/loss of investment properties	**(43,232)**	(53,686)
Net fair value (gain)/loss of interest rate swaps	**-**	(675)
Net (gain)/loss on sale of investment properties	**(6)**	-
Net foreign exchange (gain)/loss	**-**	(1,623)
Provision for doubtful debts	**-**	(296)
Change in operating assets and liabilities		
(Increase)/decrease in receivables	**(1,819)**	1,195
(Increase)/decrease in other current assets	**120**	(14)
(Increase)/decrease in derivative financial instruments	**-**	8,675
(Increase)/decrease in other non-current assets	**(5,144)**	(7,641)
Increase/(decrease) in payables	**1,786**	(2,758)
Increase/(decrease) in current liabilities	**553**	(17)
Increase/(decrease) in other non-current liabilities	**(4,534)**	(2,828)
Net cash inflow/(outflow) from operating activities	**41,874**	50,350

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:

	2018	2017
	$	$
Responsible Entity fees paid and payable	**2,126,429**	2,066,916
Property management fees paid and payable to DXPS	**1,338,909**	1,404,971
Responsible Entity fees payable at the end of each reporting year (included above)	**186,038**	183,553
Property management fees payable at the end of each reporting year (included above)	**125,235**	109,874
Administration expenses payable at the end of each reporting year (included above)	**29,746**	7,631

Entities within DXS

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

	2018	2017
	$	$
Interest revenue	**13,087,776**	11,748,744
Interest bearing loans advanced from entities within DXS	**278,708,594**	102,350,486
Interest bearing loans advanced to entities within DXS	**135,068,302**	156,268,846

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

	2018	2017
	$'000	$'000
Compensation		
Short-term employee benefits	**9,275**	8,967
Post employment benefits	**350**	717
Security-based payments	**3,725**	3,011
Total key management personnel compensation	**13,350**	12,695

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:

	2018 $'000	2017 $'000
Total current assets	**3,344**	4,288
Total assets	**966,610**	1,058,399
Total current liabilities	**20,906**	37,909
Total liabilities	**29,538**	51,076
Equity		
Contributed equity	**1,139,628**	1,314,430
Reserves	**-**	-
Retained profits	**(202,556)**	(307,106)
Total equity	**937,072**	1,007,324
Net profit/(loss) for the year	**147,824**	52,398
Total comprehensive income/(loss) for the year	**147,824**	52,398

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 2018 (2017: 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:

	2018 $'000	2017 $'000
Investment properties	**467**	203
Total capital commitments	**467**	203

Note 15 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 32:

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

(ii) give a true and fair view of the Group's financial position as at 30 June 2018 and of its performance, as represented by the results of its operations and 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 2018.

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

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

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

W Richard Sheppard

Chair

14 August 2018

Independent auditor's report

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 Registered Scheme) 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 2018 and of its financial performance for the year then ended

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

What we have audited

The Group financial report comprises:

- the Consolidated Statement of Financial Position as at 30 June 2018
- the Consolidated Statement of Comprehensive Income for the year then ended
- the Consolidated Statement of Changes in Equity for the year then ended
- the Consolidated Statement of Cash Flows for the year then ended
- the Notes to the Financial Statements, which include significant accounting policies
- the Directors' Declaration.

Basis for opinion

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

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

Independence

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant 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
One International Towers Sydney, Watermans Quay, Barangaroo, GPO BOX 2650, SYDNEY NSW 2001
T: +61 2 8266 0000, F: +61 2 8266 9999, www.pwc.com.au

Level 11, 1PSQ, 169 Macquarie Street, Parramatta NSW 2150, PO Box 1155 Parramatta NSW 2124
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

- For the purpose of our audit we used overall materiality of $3.0 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 utlised 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 parent entity Dexus Industrial 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 matter to the Board Audit Committee:
  - Valuation of investment properties
- This is further described in the *Key audit matters* section of our report.

pwc

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
(Refer to Note 6)
 	
The Group's investment property portfolio comprises \$744.1 million (2017: \$734.2 million) of industrial properties directly held in Australia.
 	
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:
• The capitalisation rate
• The adopted discount rate.
 	
We considered the valuation of investment properties to be a key audit matter due to the:
• Financial significance of investment properties in the Consolidated Statement of Financial Position.
• Potential for changes in the fair value of investment properties to have a significant effect on the Group's comprehensive income.
• Inherently subjective nature of investment property valuations arising from the use of assumptions in the valuation methodology.
• Sensitivity of valuations to key input assumptions, including capitalisation rates, and discount rates.
	To assess the valuation of investment properties we performed the following procedures amongst others:
	• We considered the valuation methodology adopted by the Group and found it to be consistent with commonly accepted valuation approaches used for investment properties in the industry and the Group's valuation policy.
	• We obtained recent independent property market reports to develop an understanding of the prevailing market conditions in which the Group invests. We leveraged this knowledge to form independent expectations for movements in investment property values and underlying key assumptions such as capitalisation rates and discount rates.
	• We compared the capitalisation rates and discount rates used by the Group to ranges we determined were reasonable based on benchmark market data. Where capitalisation rates, discount rates and/or movements in individual property valuations fell outside of our anticipated ranges, we performed the following procedures, amongst others:
	  – Met with the Group's Senior Valuation Manager and discussed the specifics of the selected individual properties including, amongst other things, any new leases entered into during the year, lease expiries, capital expenditure and vacancy rates.
	  – Agreed significant changes in inputs to supporting documentation such as new lease agreements.
	We found that typically the variances related to the relative age, or size/location of the individual property in comparison to the market. In the context of the specific properties identified, we found the reasons for variances appropriate.
	• As the Group engaged external experts to determine the fair value of investment properties, we considered the independence, experience and competency of the Group's independent experts as well as the results of their procedures.

Other information

The Directors of the responsible entity of the Group, Dexus Funds Management Limited (the Directors), are responsible for the other information. The other information comprises the information included in the financial report for the year ended 30 June 2018, including the Directors' Report, but does not include the financial statements and related note disclosures 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 identified above and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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

Responsibilities of the Directors for the financial report

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

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

Auditor's responsibilities for the audit of the financial report

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

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

PricewaterhouseCoopers

PricewaterhouseCoopers

Matthew Lunn
Partner

Sydney
14 August 2018

Dexus Office Trust
Financial Report
30 June 2018

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 2018. 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	Resigned
W Richard Sheppard, BEc (Hons), FAICD	1 January 2012	
Elizabeth A Alexander, AM, BComm, FCA, FAICD, FCPA	1 January 2005	24 October 2017
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 2018 are as follows:

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

Appointed: 31 October 2014

Brett is the General Counsel and 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.

Rachel Caralis LLB/B Com (Acc), M Com (Property Development), Grad Dip (Applied Corporate Governance) AGIA, AAPI

Appointed: 17 February 2016

Rachel is Senior Legal Counsel and Company Secretary of Dexus.

Rachel joined Dexus in 2008 after five years at King and Wood Mallesons where she worked in the real estate and projects team. Rachel has 15 years' experience as in-house counsel and in private practice working on real estate and corporate transactions, funds management and corporate finance for wholesale and listed clients.

Rachel graduated from the University of Canberra with a Bachelor of Laws and Bachelor of Commerce (Accounting), has completed a Masters of Commerce (Property Development) at the University of Western Sydney and a Graduate Diploma in Applied Corporate Governance at the Governance Institute of Australia. Rachel is a member of the Law Society of New South Wales, an associate of the Australian Property Institute and an associate of the Governance Institute of Australia.

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 13 times during the year. Ten Board meetings were main meetings and three meetings were held to consider specific business.

	Main meetings held	Main meetings attended	Specific meetings held	Specific meetings attended
W Richard Sheppard	10	10	3	3
Elizabeth A Alexander, AM [1]	4	4	-	-
Penny Bingham-Hall	10	10	3	3
John C Conde, AO	10	10	3	3
Tonianne Dwyer	10	10	3	3
Mark Ford	10	9	3	3
The Hon. Nicola L Roxon [2]	8	8	3	3
Darren J Steinberg	10	10	3	3
Peter B St George	10	10	3	3

1 Ceased directorship 24 October 2017.
2 Commenced directorship on 1 September 2017.

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 2018.

	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	-	-	-	-	4	4	5	5
Elizabeth A Alexander,AM[1]	1	1	-	-	-	-	-	-
Penny Bingham-Hall	-	-	4	4	4	4	5	5
John C Conde, AO	3	3	-	-	4	4	1	1
Tonianne Dwyer	4	4	4	4	-	-	-	-
The Hon. Nicola L Roxon[2]	-	-	3	3	-	-	4	4
Mark Ford	4	4	4	4	-	-	-	-
Peter B St George	4	4	4	4	-	-	-	-

1 Ceased directorship 24 October 2017.
2 Commenced directorship on 1 September 2017.

Elizabeth A Alexander and Tonianne Dwyer were also Directors of Dexus Wholesale Property Limited (DWPL) and attended DWPL Board meetings during the year ended 30 June 2018. John Conde joined as a Director of Dexus Wholesale Property Limited (DWPL) on 25 October 2017.

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	70,090
Penny Bingham-Hall	16,534
John C Conde, AO	16,667
Tonianne Dwyer	16,667
Mark Ford	1,667
The Hon. Nicola L Roxon	Nil
Darren J Steinberg[1]	1,219,571
Peter B St George	17,333

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 2018 is as follows:

- profit attributable to unitholders was $1,069.8 million (2017: $858.2 million)
- total assets were $9,090.8 million (2017: $7,911.7 million)
- net assets were $5,986.4 million (2017: $4,851.0 million)

A review of the results, financial position and operations of the Group, of which the Trust forms part thereof, is set out in the Operating and Financial Review of the Dexus Financial 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	Carndo Limited[3]	25 June 2012
	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[2]	20 October 2003
Mark Ford	Kiwi Property Group Limited[2]	16 May 2011

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.
3 Directorship ceased 27 January 2016.

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 2018 was $9,090.5 million (2017: $7,911.7 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 2018 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 2018 are outlined in note 16 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 2018 are detailed in note 12 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 14 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 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 14 August 2018.

W Richard Sheppard
Chair
14 August 2018

Darren J Steinberg
Chief Executive Officer
14 August 2018

Auditor's Independence Declaration

As lead auditor for the audit of Dexus Office Trust for the year ended 30 June 2018, 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
14 August 2018

PricewaterhouseCoopers, ABN 52 780 433 757
One International Towers Sydney, Watermans Quay, Barangaroo, GPO BOX 2650, SYDNEY NSW 2001
T: +61 2 8266 0000, F: +61 2 8266 9999, www.pwc.com.au

Level 11, 1PSQ, 169 Macquarie Street, Parramatta NSW 2150, PO Box 1155 Parramatta NSW 2124
T: +61 2 9659 2476, F: +61 2 8266 9999, www.pwc.com.au

Consolidated Statement of Comprehensive Income

For the year ended 30 June 2018

	Note	2018 $m	2017 $m
Revenue from ordinary activities			
Property revenue	2	**294.8**	278.9
Interest revenue		**0.3**	0.2
Total revenue from ordinary activities		**295.1**	279.1
Net fair value gain of investment properties		**487.3**	314.7
Share of net profit of investments accounted for using the equity method	7	**516.3**	458.7
Net gain on sale of investment properties		**1.9**	23.4
Net fair value gain of derivatives		**6.6**	-
Other income		**2.4**	-
Total income		**1,309.6**	1,075.9
Expenses			
Property expenses	2	**(78.9)**	(78.8)
Management fee expense		**(14.6)**	(12.6)
Finance costs	3	**(144.9)**	(125.6)
Management operations, corporate and administration expenses		**(1.4)**	(0.7)
Total expenses		**(239.8)**	(217.7)
Profit/(loss) before tax		**1,069.8**	858.2
Income tax expense		**-**	-
Profit/(loss) for the year		**1,069.8**	858.2
Other comprehensive income/(loss):			
Other comprehensive income/(loss)		**-**	-
Total comprehensive income/(loss) for the year		**1,069.8**	858.2
		Cents	Cents
Earnings per unit on profit/(loss) attributable to unitholders of the parent entity			
Basic earnings per unit	4	**105.16**	88.61
Diluted earnings per unit	4	**105.16**	88.61

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

Consolidated Statement of Financial Position

As at 30 June 2018

	Note	2018 $m	2017 $m
Current assets			
Cash and cash equivalents	13(a)	**7.2**	5.8
Receivables	13(b)	**26.9**	36.9
Non-current assets classified as held for sale	8	**-**	283.7
Derivative financial instruments	9(c)	**6.7**	-
Other	13(c)	**17.1**	3.4
Total current assets		**57.9**	329.8
Non-current assets			
Investment properties	6	**4,810.5**	3,883.2
Investments accounted for using the equity method	7	**4,218.5**	3,690.5
Derivative financial instruments	9(c)	**2.7**	6.3
Other		**1.2**	1.9
Total non-current assets		**9,032.9**	7,581.9
Total assets		**9,090.8**	7,911.7
Current liabilities			
Payables	13(d)	**70.0**	68.3
Provisions	13(e)	**149.9**	119.6
Derivative financial instruments	9(c)	**4.5**	5.3
Loans with related parties	11	**-**	149.0
Total current liabilities		**224.4**	342.2
Non-current liabilities			
Loans with related parties		**2,867.0**	2,696.6
Derivative financial instruments	9(c)	**12.9**	21.8
Other		**0.1**	0.1
Total non-current liabilities		**2,880.0**	2,718.5
Total liabilities		**3,104.4**	3,060.7
Net assets		**5,986.4**	4,851.0
Equity			
Contributed equity	12	**3,050.8**	2,699.7
Retained profits		**2,935.6**	2,151.3
Parent entity unitholders' interest		**5,986.4**	4,851.0
Total equity		**5,986.4**	4,851.0

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

Consolidated Statement of Changes in Equity

For the year ended 30 June 2018

	Note	Contributed equity $m	Retained profits/ (losses) $m	Reserves $m	Total equity $m
Opening balance as at 1 July 2016		2,432.4	1,534.3	-	3,966.7
					-
Profit/(loss) for the year		-	858.2	-	858.2
Other comprehensive income/(loss) for the year		-	-	-	-
Total comprehensive income for the year		-	858.2	-	858.2
Transactions with owners in their capacity as unitholders:					
Issue of additional equity, net of transaction costs		267.3	-	-	267.3
Distributions paid or provided for	5	-	(241.2)	-	(241.2)
Total transactions with owners in their capacity as owners		267.3	(241.2)	-	26.1
Closing balance as at 30 June 2017		2,699.7	2,151.3	-	4,851.0
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**
Other comprehensive income/(loss) for the year		**-**	**-**	**-**	**-**
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	12	**2.1**	**-**	**-**	**2.1**
Buy-back of contributed equity, net of transaction costs	12	**(1.1)**	**-**	**-**	**(1.1)**
Distributions paid or provided for	5	**-**	**(285.5)**	**-**	**(285.5)**
Capital contribution[1]		**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**

1 DXFM as Responsible Entity of DOT made a capital contribution of 34.42 cents per unit to the existing unitholders as part of the reallocation process that was approved at the Annual General Meeting 19 September 2017.

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 2018

		2018 $m	2017 $m
Cash flows from operating activities			
Receipts in the course of operations (inclusive of GST)		**339.5**	321.8
Payments in the course of operations (inclusive of GST)		**(126.4)**	(118.6)
Interest received		**0.3**	0.2
Finance costs paid to financial institutions		**(12.4)**	(68.1)
Distributions received from investments accounted for using the equity method		**315.1**	235.9
Net cash inflow/(outflow) from operating activities	15	**516.1**	371.2
Cash flows from investing activities			
Proceeds from sale of investment properties		**288.9**	422.9
Payments for capital expenditure on investment properties		**(102.3)**	(84.8)
Payments for acquisition of investment properties		**(345.7)**	(21.4)
Payments for investments accounted for using the equity method		**(322.7)**	(50.7)
Net cash inflow/(outflow) from investing activities		**(481.8)**	266.0
Cash flows from financing activities			
Borrowings provided to related parties		**(2,270.2)**	(1,656.6)
Borrowings received from related parties		**2,499.7**	963.3
Payments for buy-back of contributed equity		**(1.1)**	-
Proceeds from issue of additional equity, net of transaction costs		**2.1**	267.3
Distributions paid to unit holders		**(263.4)**	(212.6)
Net cash inflow/(outflow) from financing activities		**(32.9)**	(638.6)
Net increase/(decrease) in cash and cash equivalents		**1.4**	(1.4)
Cash and cash equivalents at the beginning of the year		**5.8**	7.2
Cash and cash equivalents at the end of the year		**7.2**	5.8

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

About This Report

In this section

This section sets out the basis upon which the 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.

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 2018, the Trust had a net current asset deficiency of $166.5 million (2017: $12.4 million). This is primarily due to the provision of distribution for $149.9 million due to be paid in August 2018.

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 $886.6 million (2017: $1,060.5 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

Principles of consolidation

These consolidated Financial Statements incorporate the assets, liabilities and results of all subsidiaries as at 30 June 2018.

(a) Controlled entities

Subsidiaries are all entities over which the 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 2018, 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

Certain new accounting standards and interpretations have been published that are not mandatory for the 30 June 2018 reporting period. The Trust's assessment of the impact of these new standards and interpretations is set out below:

***AASB 9 Financial Instruments* (effective application date is 1 July 2018)**

AASB 9 addresses the classification, measurement and de-recognition of financial assets and financial liabilities and introduces new rules for hedge accounting and impairment of financial assets. The following areas have specifically been considered.

Impairment of financial assets – The current impairment assessment model is an 'incurred loss' model requiring the Trust to consider whether or not the financial asset is impaired at the date of performing the assessment. Under AASB 9 this model has changed to an 'expected credit loss' model. Under this model, the Trust is required to consider the historical actual write off rates for a type of financial asset, and forward looking indicators that might impact the recoverability of similar financial assets currently recognised. Management is currently working through the model to quantify the impact but does not expect a material impact on the provision for doubtful debts.

The Trust intends to adopt the new standard from 1 July 2018 and will not restate comparative information.

***AASB 15 Revenue from Contracts with Customers* (effective application for the 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. The Trust's revenue is largely comprised of income under leases (see below).

Management has substantially completed its assessment of the impact of transition to the new standard and does not expect there to be an impact on the recognition and measurement of revenue although additional disclosures will be required.

The following specific revenue streams have been assessed:

Income under leases - Within its lease arrangements, the Trust provides certain services to tenants (such as utilities, cleaning, maintenance and certain parking arrangements) which will be accounted for within AASB 15. A portion of the consideration within the lease arrangement will be allocated to revenue for the provision of services. The service revenue will be recognised over time as the services are provided and as such, the timing of recognition of income is not expected to change. Such revenue will, however, be disclosed separately.

The Trust will adopt the new standard from 1 July 2018 using the modified retrospective approach whereby comparatives for the year ended 30 June 2018 will not be restated.

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

AASB 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases. In 2018, revenue recognised from leases was approximately $297.9 million (2017: $267.6 million). The accounting for this lease income is not expected to change with the adoption of the new standard other than the separation of service income from lease income for disclosure purposes as a result of the application of AASB 15 described above.

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

The Trust intends to 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	6. Investment properties	9. Capital and financial risk management	14. Audit, taxation and transaction service fees
2. Property revenue and expenses	7. Investments accounted for using the equity method	10. Commitments and contingencies	15. Cash flow information
3. Finance costs	8. Non-current assets classified as held for sale	11. Loans with related parties	16. Related parties
4. Earnings per unit		12. Contributed equity	17. Parent entity disclosures
5. Distributions paid and payable		13. Working capital	18. 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. Property rental revenue is recognised on a straight-line basis over the lease term for leases with fixed rent review clauses.

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

Property revenue is recognised as the service is delivered, in accordance with the terms of the relevant contracts.

	2018 $m	2017 $m
Rent and recoverable outgoings	**297.9**	267.6
Incentive amortisation	**(45.0)**	(41.8)
Other revenue	**41.9**	53.1
Total property revenue	**294.8**	278.9

Property expenses of $78.9 million (2017: $78.8 million) includes rates, taxes and other property outgoings incurred in relation to investment properties.

Note 3 Finance costs

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

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

	2018 $m	2017 $m
Interest paid to related parties	**140.9**	130.0
Net fair value (gain)/loss of interest rate swaps	**10.1**	(0.5)
Amount capitalised	**(6.1)**	(3.9)
Total finance costs	**144.9**	125.6

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

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

	2018 $m	2017 $m
Profit attributable to unitholders of the parent entity	**1,069.8**	858.2

b) Weighted average number of units used as a denominator

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

Note 5 Distributions paid and payable

Distributions are recognised when declared.

a) Distribution to security holders

	2018 $m	2017 $m
31 December (paid 28 February 2018)	**135.6**	121.6
30 June (payable 30 August 2018)	**149.9**	119.6
Total distribution to unitholders	**285.5**	241.2

b) Distribution rate

	2018 Cents per unit	2017 Cents per unit
31 December (paid 28 February 2018)	**13.33**	12.56
30 June (payable 30 August 2018)	**14.74**	11.76
Total distributions	**28.07**	24.32

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.
- *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 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

	Office	**Development**	**2018**	2017
	$m	**$m**	**$m**	$m
Opening balance at the beginning of the year	**3,803.1**	**80.1**	**3,883.2**	3,482.8
Additions	**38.0**	**57.4**	**95.4**	61.9
Acquisitions	**345.9**	**-**	**345.9**	18.2
Lease incentives	**35.2**	**-**	**35.2**	48.1
Amortisation of lease incentives	**(43.2)**	**-**	**(43.2)**	(39.0)
Rent straightlining	**10.3**	**-**	**10.3**	4.7
Net fair value gain/(loss) of investment properties	**418.7**	**65.0**	**483.7**	306.5
Closing balance at the end of the year	**4,608.0**	**202.5**	**4,810.5**	3,883.2

Acquisitions

- On 18 July 2017, settlement occurred for the acquisition of 100 Harris Street, Pyrmont for $327.5 million excluding acquisition 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 2018, 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 2018	2017
Office[1]	Level 3	Adopted capitalisation rate	**4.63% - 9.00%**	4.75% - 9.50%
		Adopted discount rate	**6.25% - 10.50%**	6.63% - 10.50%
		Adopted terminal yield	**5.00% - 9.75%**	5.25% - 9.50%
		Current net market rental (per sqm)	**$346 - $1,338**	$307 - $1,319

[1] Includes 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 Adopted discount rate Adopted terminal yield	Decrease	Increase
Net market rental (per sqm) Land rate (per sqm)	Increase	Decrease

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

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

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

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

Note 7 Investments accounted for using the equity method

Investments are accounted for in the Financial Statements using the equity method of accounting (refer to the 'About this Report' section). Information relating to these entities is set out below.

Name of entity	2018 %	2017 %	2018 $m	2017 $m
Bent Street Trust	**33.3**	33.3	**344.7**	319.1
Dexus Creek Street Trust	**50.0**	50.0	**161.8**	143.9
Dexus Martin Place Trust[1]	**50.0**	50.0	**376.9**	166.3
Grosvenor Place Holding Trust[2,3]	**50.0**	50.0	**452.3**	385.5
Site 6 Homebush Bay Trust[2]	**50.0**	50.0	**33.6**	33.3
Site 7 Homebush Bay Trust[2]	**50.0**	50.0	**47.2**	44.9
Dexus 480 Q Holding Trust	**50.0**	50.0	**380.5**	366.7
Dexus Kings Square Trust	**50.0**	50.0	**216.3**	214.0
Dexus Office Trust Australia[4,5]	**50.0**	50.0	**2,172.2**	1,985.0
Dexus Eagle Street Pier Trust	**50.0**	50.0	**33.0**	31.8
Total investments accounted for using the equity method			**4,218.5**	3,690.5

1 On 19 July 2017, settlement occurred for the acquisition of MLC Centre, 19 Martin Place, Sydney for $361.3 million excluding acquisition costs. This represents the Group's 25% interest. The Group's loan with related parties was subsequently repaid upon Dexus Martin Place Trust's settlement of MLC Centre.

2 These entities are 50% owned by DOTA. The Group's economic interest is therefore 75% when combined with the interest held by DOTA. These entities are classified as joint ventures and are accounted for using the equity method as a result of contractual arrangements requiring unanimous decisions on all relevant matters.

3 Grosvenor Place Holding Trust owns 50% of Grosvenor Place, at 225 George Street, Sydney, NSW. The Group's economic interest in this property is therefore 37.5%.

4 On 1 August 2017, settlement occurred on the disposal of 46 Colin Street, West Perth for $16.8 million excluding disposal costs, representing the Group's 50% interest held through DOTA.

5 On 21 March 2018, settlement occurred for the disposal or 11 Waymouth Street, Adelaide for $101.3 million excluding disposal costs, representing the Group's 50% interest held through DOTA.

The above entities were formed in Australia and their principal activity is property investment in Australia.

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

Summarised Statement of Financial Position	Dexus Office Trust Australia 2018 $m	2017 $m	Grosvenor Place Holding Trust 2018 $m	2017 $m	Dexus 480Q Holding Trust 2018 $m	2017 $m	Other joint ventures 2018 $m	2017 $m	Total 2018 $m	2017 $m
Current assets										
Cash and cash equivalents	**20.3**	15.9	**0.1**	2.1	**2.3**	0.2	**20.2**	5.5	**42.9**	23.7
Non-current assets classified as held for sale	**-**	-	**-**	-	**-**	-	**-**	6.0	**-**	6.0
Loan to related party[1]	**-**	-	**-**	-	**-**	-	**-**	148.9	**-**	148.9
Other current assets	**4.0**	4.4	**2.1**	0.7	**2.9**	1.1	**8.1**	19.8	**17.1**	26.0
Total current assets	**24.3**	20.3	**2.2**	2.8	**5.2**	1.3	**28.3**	180.2	**60.0**	204.6
Non-current assets										
Investment properties	**2,008.4**	1,865.8	**452.5**	385.0	**384.2**	366.5	**1,215.5**	798.9	**4,060.6**	3,416.2
Investments accounted for using the equity method	**266.5**	231.9	**-**	-	**-**	-	**-**	-	**266.5**	231.9
Other non-current assets	**0.4**	0.3	**-**	-	**0.1**	0.1	**0.1**	0.1	**0.6**	0.5
Total non-current assets	**2,275.3**	2,098.0	**452.5**	385.0	**384.3**	366.6	**1,215.6**	799.0	**4,327.7**	3,648.6
Current liabilities										
Provision for distribution	**17.1**	21.3	**-**	-	**-**	-	**4.1**	3.9	**21.2**	25.2
Borrowings	**74.5**	74.5	**-**	-	**-**	-	**-**	-	**74.5**	74.5
Other current liabilities	**24.7**	26.5	**2.4**	2.3	**9.1**	1.2	**26.2**	22.0	**62.4**	52.0
Total current liabilities	**116.3**	122.3	**2.4**	2.3	**9.1**	1.2	**30.3**	25.9	**158.1**	151.7
Non-current liabilities										
Borrowings	**11.0**	11.0	**-**	-	**-**	-	**-**	-	**11.0**	11.0
Other non-current Liabilities	**0.1**	-	**-**	-	**-**	-	**-**	-	**0.1**	-
Total non-current liabilities	**11.1**	**11.0**	**-**	-	**-**	-	**-**	-	**11.1**	11.0
Net assets	**2,172.2**	1,985.0	**452.3**	385.5	**380.4**	366.7	**1,213.6**	953.3	**4,218.5**	3,690.5
Reconciliation of carrying amounts:										
Opening balance at the beginning of the year	**1,985.0**	1,844.8	**385.5**	352.9	**366.7**	344.1	**953.3**	876.8	**3,690.5**	3,418.6
Additions	**82.4**	24.4	**1.9**	9.9	**3.8**	5.0	**234.7**	11.5	**322.8**	50.8
Share of net profit/(loss) after tax	**313.3**	264.6	**86.1**	40.5	**29.2**	34.8	**88.0**	118.8	**516.6**	458.7
Distributions received/receivable	**(208.5)**	(148.8)	**(21.2)**	(17.8)	**(19.3)**	(17.2)	**(62.4)**	(53.8)	**(311.4)**	(237.6)
Closing balance at the end of the year	**2,172.2**	1,985.0	**452.3**	385.5	**380.4**	366.7	**1,213.6**	953.3	**4,218.5**	3,690.5
Summarised Statement of Comprehensive Income										
Property revenue	**154.5**	151.9	**25.2**	21.0	**26.9**	24.1	**71.6**	57.0	**278.2**	254.0
Property revaluations	**214.8**	166.6	**66.4**	24.6	**10.9**	17.8	**39.6**	29.9	**331.7**	238.9
Gain on sale of investment properties	**(2.6)**	-	**-**	-	**-**	-	**-**	47.2	**(2.6)**	47.2
Interest income	**0.3**	0.4	**0.1**	0.1	**-**	-	**0.2**	-	**0.6**	0.5
Finance costs	**(4.8)**	(5.0)	**-**	-	**-**	-	**-**	-	**(4.8)**	(5.0)
Other expenses	**(48.9)**	(49.2)	**(5.6)**	(5.2)	**(8.6)**	(7.3)	**(23.7)**	(15.3)	**(86.8)**	(77.0)
Net profit/(loss) for the year	**313.3**	264.7	**86.1**	40.5	**29.2**	34.6	**87.7**	118.8	**516.3**	458.6
Total comprehensive income/(loss) for the year	**313.3**	264.7	**86.1**	40.5	**29.2**	34.6	**87.7**	118.8	**516.3**	458.6

1 Loan to related parties included a non-interest bearing loan payable on demand provided to the co-owners from the proceeds on sale of 39 Martin Place, Sydney, NSW. The loan was subsequently repaid upon the settlement of the MLC Centre, 19 Martin Place, Sydney.

Note 8 Non-current assets classified as held for sale

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use, and a sale is considered highly probable.

Non-current assets classified as held for sale are presented separately from the other assets in the balance sheet. Non-current assets classified as held for sale relate to investment properties and are measured at fair value.

As at 30 June 2018, the Trust had no assets held for sale

Disposals

- On 31 May 2018, settlement occurred on the Group's remaining 50% share of Southgate Complex at 3 Southgate Avenue, Melbourne for gross proceeds of $289.0 million.

Capital and financial risk management and working capital

In this section

The 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 9 *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 10;
- Equity: *Contributed equity* in note 12.

Note 13 provides a breakdown of the working capital balances held in the Consolidated Statement of Financial Position.

Note 9 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 9 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 9 Capital and financial risk management (continued)

b) Financial risk management (continued)

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

Interest rate risk (continued)

	June 2019 $m	June 2020 $m	June 2021 $m	June 2022 $m	June 2023 $m
Interest rate derivatives					
A$ hedged ($)[1]	1,426.9	1,630.8	1,438.3	856.7	266.7
A$ hedge rate (%)	2.69%	2.66%	2.66%	2.65%	2.91%

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.

		2018 (+/-) $m	2017 (+/-) $m
+/- 0.50% (50 basis points)	A$	**7.7**	9.5
Total A$ equivalent		**7.7**	9.5

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

Sensitivity analysis on fair value of interest rate derivatives

The sensitivity analysis on interest rate derivatives below shows the effect on net profit or loss 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.

		2018 (+/-) $m	2017 (+/-) $m
+/- 0.50% (50 basis points)	A$	**18.4**	15.0
Total A$ equivalent		**18.4**	15.0

Note 9 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.

	2018				2017			
	Within one year $m	**Between one and two years $m**	**Between two and five years $m**	**After five years $m**	Within one year $m	Between one and two years $m	Between two and five years $m	After five years $m
Payables	(69.7)	-	-	-	(68.3)	-	-	-
Loans with related parties and interest[1]	(122.5)	(2,990.5)	-	-	(113.5)	(119.1)	(2,818.3)	-
Derivative financial instruments								
Derivative assets	-	1.2	13.9	0.1	-	0.7	12.9	-
Derivative liabilities	(6.8)	(0.7)	-	-	(11.7)	(5.0)	-	-
Total net derivative financial instruments[2]	(6.8)	0.5	13.9	0.1	(11.7)	(4.3)	12.9	-

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 9(c) for fair value of derivatives and refer to note 10(b) for financial guarantees.

Note 9 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 2017 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 2017 is the carrying amounts of the trade receivables recognised on the Consolidated Statement of Financial Position.

Note 9 Capital and financial risk management (continued)

b) Financial risk management (continued)

iv) Fair value

As at 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 financial instruments, excluding cash, were measured at Level 2 for the periods presented in this report. During the year, there were no transfers between Level 1, 2 and 3 fair value measurements.

Key assumptions: fair value of derivatives

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 10 Commitments and contingencies

a) Commitments

Capital commitments

The following amounts represent remaining capital expenditure on investment properties and inventories contracted at the end of each reporting period but not recognised as liabilities payable:

	2018 $m	2017 $m
Investment properties	**158.8**	102.9
Investments accounted for using the equity method	**33.8**	37.5
Total capital commitments	**192.6**	140.4

Lease payable commitments

The future minimum lease payments receivable by the Trust are:

	2018 $m	2017 $m
Within one year	**0.5**	0.5
Later than one year but not later than five years	**2.0**	2.0
Later than five years	**3.4**	3.9
Total lease payable commitments	**5.9**	6.4

Lease receivable commitments

The future minimum lease payments receivable by the Trust are:

	2018 $m	2017 $m
Within one year	**243.2**	240.8
Later than one year but not later than five years	**951.0**	642.5
Later than five years	**295.4**	305.9
Total lease receivable commitments	**1,489.6**	1,189.2

b) Contingencies

The Trust, together with DDF, DIT and DXO, is a guarantor of A$4,358.9 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 11 Loans with related parties

The 30 June 2017 current loan with related parties balance represented a non-interest bearing loan provided by Dexus Martin Place Trust, which is co-owned by the Trust and DWPF. The balance of the loan represented the Trust's share of the proceeds from the disposal of 39 Martin Place, Sydney less the deposit paid for MLC Centre, 19 Martin Place, Sydney. This loan was subsequently repaid in on the 19 July 2017 upon Dexus Martin Place Trust's settlement of the acquisition of the MLC Centre.

Note 12 Contributed equity

Number of units on issue

	2018 No. of units	2017 No. of units
Opening balance at the beginning of the year	**1,016,967,300**	967,947,692
Issue of additional equity	**437,242**	49,019,608
Buy-back of contributed equity	**(207,665)**	-
Closing balance at the end of the year	**1,017,196,877**	1,016,967,300

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

Note 13 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 established when there is objective evidence that the Trust will not be able to collect all amounts due according to the original terms of the receivables.

	2018 $m	2017 $m
Rent receivable	**5.0**	7.4
Total rental receivables	**5.0**	7.4
Distributions receivable	**21.2**	25.3
Other receivables	**0.7**	**4.2**
Total other receivables	**21.9**	29.5
Total receivables	**26.9**	36.9

c) Other current assets

	2018 $m	2017 $m
Prepayments	**17.1**	3.4
Total other current assets	**17.1**	3.4

Note 13 Working capital (continued)

d) Payables

	2018 $m	2017 $m
Trade creditors	**13.3**	13.9
Accruals	**1.2**	1.2
Accrued capital expenditure	**30.4**	32.8
Prepaid income	**11.8**	9.0
Accrued interest	**12.1**	9.3
Other payables	**1.2**	2.1
Total payables	**70.0**	68.3

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.

	2018 $m	2017 $m
Provision for distribution	**149.9**	119.6
Total current provisions	**149.9**	119.6

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

	2018 $m	2017 $m
Opening balance at the beginning of the year	**119.6**	91.0
Additional provisions	**285.5**	241.2
Payment of distributions	**(255.2)**	(212.6)
Closing balance at the end of the year	**149.9**	119.6

A provision for distribution has been raised for the period ended 30 June 2018. This distribution is to be paid on 30 August 2018.

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 14 Audit, taxation and transaction service fees

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

	2018 $'000	2017 $'000
Audit fees		
PwC Australia - audit and review of Financial Statements	**387**	419
PwC fees paid in relation to outgoings audits	**96**	74
PwC Australia - regulatory audit and compliance services	**5**	5
Audit fees paid to PwC	**488**	498
Taxation fees		
Fees paid to PwC Australia and New Zealand	**-**	20
Taxation fees paid to PwC	**-**	20
Total audit and taxation fees paid to PwC	**488**	518

Note 15 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:

	2018 $m	2017 $m
Net profit/(loss) for the year	**1,069.8**	858.2
Capitalised interest	**(6.1)**	(3.9)
Net fair value (gain)/loss of investment properties	**(487.3)**	(314.7)
Share of net (profit)/loss of investments accounted for using the equity method	**(516.3)**	(458.7)
Net fair value (gain)/loss of derivatives	**(12.0)**	(70.3)
Net fair value (gain)/loss of interest rate swaps	**3.7**	3.8
Net (gain)/loss on sale of investment properties	**(1.9)**	(23.4)
Change in operating assets and liabilities		
(Increase)/decrease in receivables	**10.1**	5.8
(Increase)/decrease in prepaid expenses	**(5.5)**	1.3
(Increase)/decrease in other non-current assets - investments	**319.8**	248.5
(Increase)/decrease in other non-current assets	**0.5**	(0.6)
Increase/(decrease) in payables	**1.0**	(2.8)
Increase/(decrease) in current liabilities	**(0.5)**	(2.0)
Increase/(decrease) in other non-current liabilities	**140.8**	130.0
Net cash inflow/(outflow) from operating activities	**516.1**	371.2

Note 15 Cash flow information (continued)

b) Net debt reconciliation

	Loans with related parties $m
Balance as at 1 July 2017	**2,845.6**
Changes from financing cash flows	
Proceeds from loan with related party	**2,499.7**
Repayment of loan with related party	**(2,270.2)**
Non cash changes	
Swap interest accrued	**-**
Capital reallocation	**(350.1)**
Intercompany interest capitalised to loan	**140.9**
Changes in fair value	**1.1**
Balance as at 30 June 2018	**2,867.0**

Note 16 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:

	2018 $'000	2017 $'000
Responsible Entity fees paid and payable	**16,346**	13,869
Property management fees paid and payable to DXPS	**6,924**	6,467
Responsible Entity fees payable at the end of each reporting year (included above)	**968**	932
Property management fees payable at the end of each reporting year (included above)	**570**	504
Administration expenses payable at the end of each reporting year (included above)	**104**	1,063
Rent received	**2,365**	2,348

Note 16 Related parties (continued)

Entities within DXS

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

	2018 $'000	2017 $'000
Interest expense	**144,527**	133,749
Interest bearing loans advanced from entities within DXS	**2,149,649**	989,470
Interest bearing loans advanced to entities within DXS	**1,979,292**	1,638,554

Related party transactions

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

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

	2018 $'000	2017 $'000
Responsible Entity fees paid and payable	**16,346**	13,869
Property management fees paid and payable to DXPS	**6,924**	6,467
Responsible Entity fees payable at the end of each reporting year (included above)	**968**	932
Property management fees payable at the end of each reporting year (included above)	**570**	504
Administration expenses payable at the end of each reporting year (included above)	**104**	1,063
Rent received	**2,760**	2,348

Key management personnel compensation

	2018 $'000	2017 $'000
Compensation		
Short-term employee benefits	**9,275**	8,967
Post employment benefits	**350**	717
Security-based payments	**3,725**	3,011
Total key management personal compensation	**13,350**	12,695

Note 17 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.

Note 17 Parent entity disclosures (continued)

a) Summary financial information

The individual Financial Statements for the parent entity show the following aggregate amounts:

	2018 **$m**	2017 $m
Total current assets	**1,107.0**	1,270.3
Total assets	**9,057.6**	7,865.3
Total current liabilities	**213.3**	168.8
Total liabilities	**3,093.2**	3,036.3
Equity		
Contributed equity	**3,050.8**	2,699.7
Retained profits	**2,913.6**	2,129.4
Total equity	**5,964.4**	4,829.1
Net profit/(loss) for the year	**1,069.7**	858.1
Total comprehensive income/(loss) for the year	**1,069.8**	858.1

b) Guarantees entered into by the parent entity

Refer to note 10 for details of guarantees entered into by the parent entity.

c) Contingent liabilities

The parent entity had no contingent liabilities as at 30 June 2018 (2017: 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:

	2018 **$m**	2017 $m
Investment properties	**37.7**	8.2
Total capital commitments	**37.7**	8.2

Note 18 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 Office 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 Trust's financial position as at 30 June 2018 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 2018.

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

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

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

W Richard Sheppard

Chair

14 August 2018

Independent auditor's report

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 Registered Scheme) 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 2018 and of its financial performance for the year then ended

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

What we have audited

The Group financial report comprises:

- the Consolidated Statement of Financial Position as at 30 June 2018
- the Consolidated Statement of Comprehensive Income for the year then ended
- the Consolidated Statement of Changes in Equity for the year then ended
- the Consolidated Statement of Cash Flows for the year then ended
- the Notes to the Financial Statements, which include significant accounting policies
- the Directors' Declaration.

Basis for opinion

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

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

Independence

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant 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
One International Towers Sydney, Watermans Quay, Barangaroo, GPO BOX 2650, SYDNEY NSW 2001
T: +61 2 8266 0000, F: +61 2 8266 9999, www.pwc.com.au

Level 11, 1PSQ, 169 Macquarie Street, Parramatta NSW 2150, PO Box 1155 Parramatta NSW 2124
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 $16.1 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 utlised 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 parent entity Dexus Office 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.	• Amongst other relevant topics, we communicated the following key audit matter to the Board Audit Committee: – Valuation of investment properties, including those investment properties in investments accounted for under the equity method • 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 matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Further, any commentary on the outcomes of a particular audit procedure is made in that context.

Key audit matter	*How our audit addressed the key audit matter*
Valuation of investment properties, including those investment properties in investments accounted for under the equity method *(Refer to Note 6 and 7)* The Group's investment property portfolio comprises: • Directly held properties included in the Consolidated Statement of Financial Position as *Investment Properties* valued at $4,810.5 million as at 30 June 2018 (2017: $3,883.2 million). • 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 $4,327.1 million as at 30 June 2018 (2017: $3,648.1 million). 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: • The capitalisation rate • The adopted discount rate. We considered the valuation of investment properties to be a key audit matter due to the: • Financial significance of investment properties in the Consolidated Statement of Financial Position. • Potential for changes in the fair value of investment properties to have a significant effect on the Group's comprehensive income.	To assess the valuation of investment properties we performed the following procedures amongst others: • We considered the valuation methodology adopted by the Group and found it to be consistent with commonly accepted valuation approaches used for investment properties in the industry and the Group's valuation policy. • We obtained recent independent property market reports to develop an understanding of the prevailing market conditions in which the Group invests. We leveraged this knowledge to form independent expectations for movements in investment property values and underlying key assumptions such as capitalisation rates and discount rates. • We compared the capitalisation rates and discount rates used by the Group to ranges we determined were reasonable based on benchmark market data. Where capitalisation rates, discount rates and/or movements in individual property valuations fell outside of our anticipated ranges, we performed the following procedures, amongst others: - Met with the Group's Senior Valuation Manager and discussed the specifics of the selected individual properties including, amongst other things, any new leases entered into during the year, lease expiries, capital expenditure and vacancy rates. - Agreed significant changes in inputs to supporting documentation such as new lease agreements. We found that typically the variances related to the relative age, or size/location of the individual property in comparison to the market. In the context of the specific properties identified, we found the reasons for variances appropriate.

Key audit matter	*How our audit addressed the key audit matter*
• Inherently subjective nature of investment property valuations arising from the use of assumptions in the valuation methodology. • Sensitivity of valuations to key input assumptions, including capitalisation rates, and discount rates.	• 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 the responsible entity of the Group, Dexus Funds Management Limited (the Directors), are responsible for the other information. The other information comprises the information included in the financial report for the year ended 30 June 2018, including the Directors' Report, but does not include the financial statements and related note disclosures 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 identified above and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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

Responsibilities of the Directors for the financial report

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

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

Auditor's responsibilities for the audit of the financial report

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

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

PricewaterhouseCoopers

PricewaterhouseCoopers

Matthew Lunn
Partner

Sydney
14 August 2018

Dexus Operations Trust
Financial Report
30 June 2018

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 2018. 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	Resigned
W Richard Sheppard, BEc (Hons), FAICD	1 January 2012	
Elizabeth A Alexander, AM, BComm, FCA, FAICD, FCPA	1 January 2005	24 October 2017
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 2018 are as follows:

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

Appointed: 31 October 2014

Brett is the General Counsel and 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.

Rachel Caralis LLB/B Com (Acc), M Com (Property Development), Grad Dip (Applied Corporate Governance) AGIA, AAPI

Appointed: 17 February 2016

Rachel is Senior Legal Counsel and Company Secretary of Dexus.

Rachel joined Dexus in 2008 after five years at King and Wood Mallesons where she worked in the real estate and projects team. Rachel has 15 years' experience as in-house counsel and in private practice working on real estate and corporate transactions, funds management and corporate finance for wholesale and listed clients.

Rachel graduated from the University of Canberra with a Bachelor of Laws and Bachelor of Commerce (Accounting), has completed a Masters of Commerce (Property Development) at the University of Western Sydney and a Graduate Diploma in Applied Corporate Governance at the Governance Institute of Australia. Rachel is a member of the Law Society of New South Wales, an associate of the Australian Property Institute and an associate of the Governance Institute of Australia.

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 13 times during the year. Ten Board meetings were main meetings and three meetings were held to consider specific business.

	Main meetings held	Main meetings attended	Specific meetings held	Specific meetings attended
W Richard Sheppard	10	10	3	3
Elizabeth A Alexander, AM [1]	4	4	-	-
Penny Bingham-Hall	10	10	3	3
John C Conde, AO	10	10	3	3
Tonianne Dwyer	10	10	3	3
Mark Ford	10	9	3	3
The Hon. Nicola L Roxon [2]	8	8	3	3
Darren J Steinberg	10	10	3	3
Peter B St George	10	10	3	3

1 Ceased directorship 24 October 2017.
2 Commenced directorship on 1 September 2017.

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 2018.

	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	-	-	-	-	4	4	5	5
Elizabeth A Alexander,AM[1]	1	1	-	-	-	-	-	-
Penny Bingham-Hall	-	-	4	4	4	4	5	5
John C Conde, AO	3	3	-	-	4	4	1	1
Tonianne Dwyer	4	4	4	4	-	-	-	-
The Hon. Nicola L Roxon[2]	-	-	3	3	-	-	4	4
Mark Ford	4	4	4	4	-	-	-	-
Peter B St George	4	4	4	4	-	-	-	-

1 Ceased directorship 24 October 2017.
2 Commenced directorship on 1 September 2017.

Elizabeth A Alexander and Tonianne Dwyer were also Directors of Dexus Wholesale Property Limited (DWPL) and attended DWPL Board meetings during the year ended 30 June 2018. John Conde joined as a Director of Dexus Wholesale Property Limited (DWPL) on 25 October 2017.

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	70,090
Penny Bingham-Hall	16,534
John C Conde, AO	16,667
Tonianne Dwyer	16,667
Mark Ford	1,667
The Hon. Nicola L Roxon	Nil
Darren J Steinberg[1]	1,219,571
Peter B St George	17,333

1 Includes interests held directly and through performance rights (refer note 22).

Operating and financial review

The results for the year ended 30 June 2018 were:

- profit attributable to unitholders was $90.6 million (2017: $93.0 million);
- total assets were $921.4 million (2017: $772.2 million); and
- net assets were $224.4 million (2017: $359.4 million).

A review of the results, financial position and operations of the Group, of which the Trust forms part thereof, is set out in the Operating and Financial Review of the Dexus Financial 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	Cardno Limited[3]	25 June 2012
	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

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.
3 Directorship ceased 27 January 2016.

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 2018 was $921.4 million (2017: $772.2 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 2018 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 2018. Details are outlined in note 23 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 2018 are detailed in note 14 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 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 20 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 14 August 2018.

W Richard Sheppard
Chair
14 August 2018

Darren J Steinberg
Chief Executive Officer
14 August 2018

Auditor's Independence Declaration

As lead auditor for the audit of Dexus Operations Trust for the year ended 30 June 2018, 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
14 August 2018

PricewaterhouseCoopers, ABN 52 780 433 757
One International Towers Sydney, Watermans Quay, Barangaroo, GPO BOX 2650, SYDNEY NSW 2001
T: +61 2 8266 0000, F: +61 2 8266 9999, www.pwc.com.au

Level 11, 1PSQ, 169 Macquarie Street, Parramatta NSW 2150, PO Box 1155 Parramatta NSW 2124
T: +61 2 9659 2476, F: +61 2 8266 9999, www.pwc.com.au

Consolidated Statement of Comprehensive Income

For the year ended 30 June 2018

	Note	2018 $'000	2017 $'000
Revenue from ordinary activities			
Property revenue	3	**36,034**	28,040
Development revenue		**145,579**	224,343
Distribution revenue		**357**	321
Interest revenue		**97**	101
Management fee revenue and other	2	**176,661**	160,641
Total revenue from ordinary activities		**358,728**	413,446
Net fair value gain of investment properties	9(a)	**29,788**	14,416
Other income		**455**	-
Total income		**388,971**	427,862
Expenses			
Property expenses	3	**(11,430)**	(9,683)
Development costs	10	**(95,845)**	(146,860)
Finance costs	5	**(16,190)**	(9,403)
Impairment of inventories		**(599)**	-
Impairment of goodwill	18	**(99)**	(99)
Share of net loss of investments accounted for using the equity method		**(819)**	-
Transaction costs		**(1,132)**	-
Management operations, corporate and administration expenses	4	**(135,996)**	(127,687)
Total expenses		**(262,110)**	(293,732)
Profit/(loss) before tax		**126,861**	134,130
Income tax expense	6(a)	**(36,260)**	(41,121)
Profit/(loss) for the year		**90,601**	93,009
Other comprehensive income/(loss):			
Changes in fair value of available-for-sale financial assets	15	**(456)**	(175)
Total comprehensive income/(loss) for the year		**90,145**	92,834

		Cents	Cents
Earnings per unit on profit attributable to unitholders of the parent entity			
Basic earnings per unit	7	**8.91**	9.60
Diluted earnings per unit	7	**8.91**	9.60

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

Consolidated Statement of Financial Position

As at 30 June 2018

	Note	**2018 $'000**	2017 $'000
Current assets			
Cash and cash equivalents	16(a)	**5,095**	2,035
Receivables	16(b)	**32,513**	33,939
Non-current assets classified as held for sale	11	**2,027**	-
Inventories	10	**37,573**	-
Other current assets		**3,851**	3,871
Total current assets		**81,059**	39,845
Non-current assets			
Investment properties	9	**222,058**	179,614
Plant and equipment	17	**16,035**	16,441
Inventories	10	**268,826**	211,315
Investments accounted for using the equity method		**293**	-
Intangible assets	18	**314,639**	309,450
Available for sale financial assets	19	**15,529**	13,425
Other non-current assets		**2,913**	2,106
Total non-current assets		**840,293**	732,351
Total assets		**921,352**	772,196
Current liabilities			
Payables	16(c)	**21,715**	38,435
Current tax liabilities	6(c)	**5,178**	24,777
Provisions	16(d)	**82,123**	79,885
Other current liabilities		**7**	-
Total current liabilities		**109,023**	143,097
Non-current liabilities			
Loans with related parties		**479,801**	172,105
Deferred tax liabilities	6(e)	**93,740**	82,912
Provisions	16(d)	**10,763**	9,656
Other non-current liabilities		**3,579**	5,064
Total non-current liabilities		**587,883**	269,737
Total liabilities		**696,906**	412,834
Net assets		**224,446**	359,362
Equity			
Contributed equity	14	**86,700**	261,664
Reserves	15	**43,637**	44,190
Retained profits		**94,109**	53,508
Total equity		**224,446**	359,362

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

Consolidated Statement of Changes in Equity

For the year ended 30 June 2018

	Note	Contributed equity $'000	Asset revaluation reserve $'000	Treasury securities reserve $'000	Security-based payments reserve $'000	Available-for-sale financial assets $'000	Retained profits/ (losses) $'000	Total equity $'000
Opening balance as at 1 July 2016		237,985	42,738	(379)	305	1,761	10,499	292,909
Profit/(loss) for the year		-	-	-	-	-	93,009	93,009
Other comprehensive income/(loss) for the year		-	-	-	-	(175)	-	(175)
Total comprehensive income/(loss) for the year		-	-	-	-	(175)	93,009	92,834
Transactions with owners in their capacity as unitholders:								
Issue of additional equity, net of transaction costs		23,679	-	-	-	-	-	23,679
Purchase of securities, net of transaction costs	15	-	-	(200)	-	-	-	(200)
Security-based payments expense	15	-	-	-	140	-	-	140
Distributions paid or provided for	8	-	-	-	-	-	(50,000)	(50,000)
Total transactions with owners in their capacity as owners		23,679	-	(200)	140	-	(50,000)	(26,381)
Closing balance as at 30 June 2017		261,664	42,738	(579)	445	1,586	53,508	359,362
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/(loss) for the year		**-**	**-**	**-**	**-**	**(456)**	**90,601**	**90,145**
Transactions with owners in their capacity as unitholders:								
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 securities, net of transaction costs	15	**-**	**-**	**(279)**	**-**	**-**	**-**	**(279)**
Security-based payments expense	15	**-**	**-**	**-**	**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**

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 2018

	Note	2018 $'000	2017 $'000
Cash flows from operating activities			
Receipts in the course of operations (inclusive of GST)		**234,692**	213,118
Payments in the course of operations (inclusive of GST)		**(173,777)**	(125,894)
Interest received		**97**	101
Finance costs paid to financial institutions		**1,546**	(186)
Income and withholding taxes paid		**(45,031)**	(52,809)
Proceeds from sale of property classified as inventory		**147,942**	221,980
Payments for property classified as inventory		**(182,129)**	(73,106)
Net cash inflow/(outflow) from operating activities	21	**(16,660)**	183,204
Cash flows from investing activities			
Proceeds from sale of investment properties		**-**	912
Payments for capital expenditure on investment properties		**(21,749)**	(8,109)
Payments for acquisition of investments		**(1,000)**	-
Payments for investments accounted for using the equity method		**(1,112)**	-
Payments for plant and equipment		**(3,077)**	(3,048)
Payments for other intangible assets		**(10,983)**	(7,140)
Net cash inflow/(outflow) from investing activities		**(37,921)**	(17,385)
Cash flows from financing activities			
Borrowings provided to related parties		**(458,180)**	(298,596)
Borrowings received from related parties		**572,384**	137,120
Payments for buy-back of contributed equity		**(46)**	-
Proceeds from issue of additional equity, net of transaction costs		**177**	23,679
Purchase of securities for security-based payments plans		**(7,051)**	(7,369)
Distributions received		**357**	321
Distributions paid to security holders		**(50,000)**	(25,000)
Net cash inflow/(outflow) from financing activities		**57,641**	(169,845)
Net increase/(decrease) in cash and cash equivalents		**3,060**	(4,026)
Cash and cash equivalents at the beginning of the year		**2,035**	6,061
Cash and cash equivalents at the end of the year		**5,095**	2,035

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

About This Report

In this section

This section sets out the basis upon which the 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.

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 in 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 2018, the Trust had a current net asset deficiency of $28.0 million (2017: $103.3 million). This is due to the provision of distribution of $50.0 million due to be paid in August 2018.

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 DXO) 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 $886.6 million (2017: $1,060.5 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.

The Financial Statements are presented in Australian dollars.
As at 30 June 2018, 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 21
Note 10	Inventories	Page 24
Note 18	Intangible assets	Page 34
Note 22	Security-based payment	Page 38

Principles of consolidation

These consolidated Financial Statements incorporate the assets, liabilities and results of all subsidiaries as at 30 June 2018.

(a) Controlled entities

Subsidiaries are all entities over which the 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

Certain new accounting standards and interpretations have been published that are not mandatory for the 30 June 2018 reporting period. The Trust'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 rules for hedge accounting and impairment of financial assets. The following areas have specifically been considered.

Impairment of financial assets – The current impairment assessment model is an 'incurred loss' model requiring the Trust to consider whether or not the financial asset is impaired at the date of performing the assessment. Under AASB 9 this model has changed to an 'expected credit loss' model. Under this model, the Trust is required to consider the historical actual write off rates for a type of financial asset, and forward looking indicators that might impact the recoverability of similar financial assets currently recognised. Management is currently working through the model to quantify the impact but does not expect a material impact on the provision for doubtful debts.

Available for sale financial assets – The Trust has available-for-sale financial assets representing investments in equity securities which will remain being measured at fair value with fair value changes recognised through other comprehensive income. Under AASB 9, the gains and losses recognised in other comprehensive income will not be recycled to profit and loss on disposal of the equity instrument.

The Trust intends to adopt the new standard from 1 July 2018 and will not restate comparative information.

New accounting standards and interpretations (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. The Trust's revenue is largely comprised of income under leases (see below), sales of inventory, management fees and development services.

Management has substantially completed its assessment of the impact of transition to the new standard and does not expect there to be an impact on the recognition and measurement of revenue although additional disclosures will be required.

The following specific revenue streams have been assessed:

Income under leases - Within its lease arrangements, the Trust provides certain services to tenants (such as utilities, cleaning, maintenance and certain parking arrangements) which will be accounted for within AASB 15. A portion of the consideration within the lease arrangement will be allocated to revenue for the provision of services. The service revenue will be recognised over time as the services are provided and as such, the timing of recognition of income is not expected to change. Such revenue will, however, be disclosed separately.

Investment management and property management fees - Where the Trust earns investment and property management fees, the fees will continue to be recognised monthly over the duration of the agreements. Management is still assessing any impact of the new guidance on property management contracts and whether these should be presented on a gross or net basis.

Sales of inventory and development services - AASB 15 provides an expedient whereby contracts that are completed as of the date of transition (1 July 2018) are not required to be re-assessed. Management expects to apply this expedient. There is no impact on existing sales of inventory and development services as the Trust has no uncompleted inventory or development contracts at 1 July 2018 which require re-assessment. All sales of inventory and development service contracts entered into post 1 July 2018 will be evaluated in accordance with the new model which will require management to assess: 1) whether there are multiple performance obligations in the contract and if so, whether the consideration is allocated based on relative stand-alone selling price; 2) whether the Trust's obligations are satisfied at a point in time or over time and 3) the appropriate timing and pattern of recognition.

The Trust will adopt the new standard from 1 July 2018 using the modified retrospective approach whereby comparatives for the year ended 30 June 2018 will not be restated.

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

AASB 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases. In 2018, revenue recognised from leases was approximately $32.5 million (2017: $24.6 million). The accounting for this lease income is not expected to change with the adoption of the new standard other than the separation of service income from lease income for disclosure purposes as a result of the application of AASB 15 described above.

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

The Trust intends to 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	12. Capital and financial risk management	17. Plant and Equipment
2. Management fee revenue	10. Inventories	13. Commitments and contingencies	18. Intangible assets
3. Property revenue and expenses	11. Non-current assets classified as held for sale	14. Contributed equity	19. Available for sale financial assets
4. Management operations, corporate and administration expenses		15. Reserves	20. Audit, taxation and transaction service fees
5. Finance costs		16. Working capital	21. Cash flow information
6. Taxation			22. Security-based payment
7. Earnings per unit			23. Related parties
8. Distributions paid and payable			24. Parent entity disclosures
			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.

	2018 **$'000**	2017 $'000
Investment management & responsible entity fees	**96,630**	85,618
Rent and lease renewal fees	**12,061**	12,483
Property management fees	**37,939**	35,411
Capital works and development fees	**8,111**	10,122
Wages recovery and other fees	**21,920**	17,007
Total management fee revenue	**176,661**	160,641

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.

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

	2018	2017
	$'000	$'000
Rent and recoverable outgoings	**32,467**	24,644
Incentive amortisation	**(4,353)**	(3,903)
Other revenue	**7,920**	7,299
Total property revenue	**36,034**	28,040

Property expenses of $11.4 million (2017: $9.7 million) includes rates, taxes and other property outgoings incurred in relation to investment properties.

Note 4 Management operations, corporate and administration expenses

	2018	2017
	$'000	$'000
Audit, taxation, legal and other professional fees	**4,099**	5,010
Depreciation and amortisation	**9,178**	7,761
Employee benefits expense and other staff expenses	**106,220**	99,833
Administration and other expenses	**16,499**	15,083
Management operations, corporate and administration expenses	**135,996**	127,687

Note 5 Finance costs

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

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

	2018	2017
	$'000	$'000
Interest paid to related parties	**19,945**	11,799
Amount capitalised	**(3,959)**	(2,582)
Other finance costs	**204**	186
Total finance costs	**16,190**	9,403

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

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

	2018 $'000	2017 $'000
Current income tax expense	**(25,431)**	(37,486)
Deferred income tax expense	**(10,828)**	(3,635)
Total income tax expense	**(36,260)**	(41,121)
Deferred income tax expense included in income tax expense comprises:		
Increase in deferred tax assets	**2,114**	1,735
Increase in deferred tax liabilities	**(12,942)**	(5,370)
Total deferred tax expense	**(10,828)**	(3,635)

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

	2018 $'000	2017 $'000
Profit before income tax	**126,861**	134,130
Profit subject to income tax	**126,861**	134,130
Prima facie tax expense at the Australian tax rate of 30% (2017: 30%)	**(38,058)**	(40,239)
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
(Non-assessable)/non-deductible items	**1,010**	(882)
Other timing differences	**789**	-
Income tax expense	**(36,260)**	(41,121)

c) Current Tax Liabilities

	2018 $'000	2017 $'000
Current tax liabilities	**5,178**	24,777
Total current tax liabilities	**5,178**	24,777

Note 6 Taxation (continued)

d) Deferred tax assets

	2018 $'000	2017 $'000
The balance comprises temporary differences attributable to:		
Employee provisions	**13,604**	11,378
Other	**1,805**	1,917
Total non-current assets - deferred tax assets	**15,409**	13,295
Movements:		
Opening balance at the beginning of the year	**13,295**	11,560
Movement in deferred tax asset arising from temporary differences	**2,114**	1,735
Credited to the Statement of Comprehensive Income	**2,114**	1,735
Closing balance at the end of the year	**15,409**	13,295

e) Deferred tax liabilities

	2018 $'000	2017 $'000
The balance comprises temporary differences attributable to:		
Intangible assets	**74,812**	74,911
Investment properties	**34,184**	20,893
Other	**153**	403
Total non-current liabilities - deferred tax liabilities	**109,149**	96,207
Movements		
Opening balance at the beginning of the year	**96,207**	90,837
Movement in deferred tax liability arising from temporary differences	**12,942**	5,370
Charged/(credited) to the Statement of Comprehensive Income	**12,942**	5,370
Closing balance at the end of the year	**109,149**	96,207

Net deferred tax liabilities

	2018 $'000	2017 $'000
Deferred tax assets	**15,409**	13,295
Deferred tax liabilities	**(109,149)**	(96,207)
Net deferred tax liabilities	**(93,740)**	(82,912)

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

	2018 $'000	2017 $'000
Profit attributable to unitholders of the parent entity	**90,601**	93,009

b) Weighted average number of units used as a denominator

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

Note 8 Distributions paid and payable

Distributions are recognised when declared.

a) Distribution to unit holders

	2018 $'000	2017 $'000
30 June (payable 30 August 2018)	**50,000**	-
30 June (paid 29 August 2017)	**-**	50,000
Total distribution to unitholders	**50,000**	50,000

b) Distribution rate

	2018 Cents per unit	2017 Cents per unit
30 June (payable 30 August 2018)	**4.92**	-
30 June (paid 29 August 2017)	**-**	4.92
Total distributions	**4.92**	4.92

c) Franked dividends

	2018 $'000	2017 $'000
Opening balance at the beginning of the year	**33,298**	1,910
Income tax paid during the year	**45,030**	52,817
Franking credits utilised for payment of distribution	**(21,429)**	(21,429)
Closing balance at the end of the year	**56,899**	33,298

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

Property portfolio assets

In this section

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 $'000	**Industrial $'000**	**Development $'000**	**2018 $'000**	2017 $'000
Opening balance at the beginning of the year	**129,999**	**31,756**	**17,859**	**179,614**	155,456
Additions	**1,633**	**1,301**	**18,472**	**21,406**	8,014
Lease incentives	**2,910**	**521**	**-**	**3,431**	4,405
Amortisation of lease incentives	**(1,742)**	**(552)**	**-**	**(2,294)**	(2,241)
Rent straightlining	**1,915**	**221**	**-**	**2,136**	391
Disposals	**-**	**-**	**-**	**-**	(827)
Transfer to non-current assets classified as held	**-**	**(2,023)**	**-**	**(2,023)**	-
Transfer to inventories	**(10,000)**	**-**	**-**	**(10,000)**	-
Transfer from/(to) development properties	**-**	**28,484**	**(28,484)**	**-**	-
Net fair value gain/(loss) of investment properties	**19,284**	**6,511**	**3,993**	**29,788**	14,416
Closing balance at the end of the year	**143,999**	**66,219**	**11,840**	**222,058**	179,614

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 2018, 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 2018	2017
Office[1]	Level 3	Adopted capitalisation rate	**5.88%**	6.25%
		Adopted discount rate	**7.25%**	7.50%
		Adopted terminal yield	**6.25%**	6.63%
		Current net market rental (per sqm)	**$462**	$449
Industrial	Level 3	Adopted capitalisation rate	**5.50% - 6.50%**	6.25% - 7.25%
		Adopted discount rate	**7.00% - 7.50%**	7.25% - 7.50%
		Adopted terminal yield	**6.25% - 7.00%**	6.75% - 7.25%
		Current net market rental (per sqm)	**$69 - $79**	$67 - $77
Development	Level 3	Land rate (per sqm)	**$38 - $677**	$35 - $90

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

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

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

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

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

	2018 $'000	2017 $'000
Current assets		
Development properties held for resale	**37,573**	-
Total current assets - inventories	**37,573**	-
Non-current assets		
Development properties held for resale	**268,826**	211,315
Total non-current assets - inventories	**268,826**	211,315
Total assets - inventories	**306,399**	211,315

b) Reconciliation

	2018 $'000	2017 $'000
Opening balance at the beginning of the year	**211,315**	276,084
Transfer from investment properties	**10,000**	-
Disposals	**(10,046)**	(148,321)
Impairment	**(599)**	-
Acquisitions and additions	**95,729**	83,552
Closing balance at the end of the year	**306,399**	211,315

Disposals

On the 22 June 2018, 140 George Street, Parramatta was sold to DOTA.

Note 11 Non-current assets classified as held for sale

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use, and a sale is considered highly probable.

Non-current assets classified as held for sale are presented separately from the other assets in the balance sheet. Non-current assets classified as held for sale relate to investment properties and are measured at fair value.

As at 30 June 2018, the held for sale balance relates to Truganina land lots to be disposed of in the next 12 months.

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 12 *Capital and financial risk management* outlines how the Group manages its exposure to a variety of financial risks (interest rate risk, foreign currency risk, liquidity risk and credit risk).

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:

- Debt: *Interest bearing liabilities* in note 12,
- Equity: *Contributed equity* in note 14 and *Reserves and retained profits* in note 15
- Note 16 provides a breakdown of the working capital balances held in the Statement of Financial Position.

Note 12 Capital and financial risk management

Capital and financial risk management is carried out through a centralised treasury function which is governed by a Board approved Treasury Policy. The 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 12 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.

		2018	2017
		(+/-) $'000	(+/-) $'000
+/- 0.50% (50 basis points)	A$	**2,399**	861

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 12 Capital and financial risk management (continued)

b) Financial risk management (continued)
ii) Liquidity risk (continued)

Refinancing risk (continued)

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 2018 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 2018 is the carrying amounts of the trade receivables recognised on the Statement of Financial Position.

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.

	2018				2017			
	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	**(21,715)**	**-**	**-**	**-**	(38,435)	-	-	-
Interest bearing loans with related parties and interest[1]	**(20,500)**	**(500,468)**	**-**	**-**	(7,246)	(7,600)	(179,874)	-

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.

Note 12 Capital and financial risk management (continued)

b) Financial risk management (continued)
iv) Fair value

As at 30 June 2018 and 30 June 2017, the carrying amounts of financial assets and liabilities are held at fair value. 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 financial instruments, excluding cash, were measured at Level 2 for the periods presented in this report. During the year, there were no transfers between Level 1, 2 and 3 fair value measurements.

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 13 Commitments and contingencies

a) Commitments

Capital commitments

The following amounts represent remaining capital expenditure on investment properties and inventories contracted at the end of each reporting period but not recognised as liabilities payable:

	2018	2017
	$'000	$'000
Investment properties	**1,029**	12,696
Inventories	**1,998**	24,646
Total capital commitments	**3,027**	37,342

Lease payable commitments

The future minimum lease payments payable by the Trust are:

	2018	2017
	$'000	$'000
Within one year	**7,402**	5,827
Later than one year but not later than five years	**19,871**	20,008
Later than five years	**-**	1,608
Total lease payable commitments	**27,273**	27,443

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.

Note 13 Commitments and contingencies (continued)

a) Commitments (continued)

Lease receivable commitments

The future minimum lease payments receivable by the Trust are:

	2018 **$'000**	2017 $'000
Within one year	**33,988**	25,840
Later than one year but not later than five years	**147,693**	94,590
Later than five years	**67,542**	96,009
Total lease receivable commitments	**249,223**	216,439

b) Contingencies

DDF, together with DIT, DOT and DXO, is a guarantor of A$4,358.9 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 $43.4 million, comprising $42.2 million held to comply with the terms of the Australian Financial Services Licences (AFSL) and $1.2 million largely in respect of developments.

The above guarantees are issued in respect of the 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 14 Contributed equity

Number of units on issue

	2018 **No. of units**	2017 No. of units
Opening balance at the beginning of the year	**1,016,967,300**	967,947,692
Issue of additional equity	**437,242**	49,019,608
Buy-back of contributed equity	**(207,665)**	-
Closing balance at the end of the year	**1,017,196,877**	1,016,967,300

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

Note 15 Reserves

	2018 $'000	2017 $'000
Asset revaluation reserve	**42,738**	42,738
Security-based payment reserve	**311**	445
Available for sale financial assets	**1,130**	1,586
Treasury securities reserve	**(542)**	(579)
Total reserves	**43,637**	44,190
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	**445**	305
Issue of securities to employees	**(221)**	(185)
Security-based payment expense	**87**	325
Closing balance at the end of the year	**311**	445
Available for sale financial assets		
Opening balance at the beginning of the year	**1,586**	1,761
Fair value (loss)/gain on securities	**(456)**	(175)
Closing balance at the end of the year	**1,130**	1,586
Treasury securities reserve		
Opening balance at the beginning of the year	**(579)**	(379)
Issue of securities to employees	**316**	154
Purchase of securities	**(279)**	(354)
Closing balance at the end of the year	**(542)**	(579)

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 22 for further details.

Available for sale financial assets

Changes in the fair value arising on valuation of investments, classified as available for sale financial assets, 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.

Treasury securities reserve

The treasury securities reserve is used to record the acquisition of securities purchased to fulfil the obligations of the Deferred Short Term Incentive Plans (DSTI) and the Long Term Incentive Plans (LTI). As at 30 June 2018, DXS held 1,645,469 stapled securities which includes acquisitions of 726,280 and unit vesting of 589,953 (2017: 1,509,142).

Note 16 Working capital

a) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with financial institutions and other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

b) Receivables

Rental, management fees and interest revenue are brought to account on an accruals basis. Dividends and distributions are recognised when declared and, if not received at the end of the reporting period, reflected in the Statement of Financial Position as a receivable.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method, less provision for doubtful debts. Trade receivables are required to be settled within 30 days and are assessed on an ongoing basis for impairment. Receivables which are known to be uncollectable are written off by reducing the carrying amount directly. A provision for doubtful debts is established when there is objective evidence that the Trust will not be able to collect all amounts due according to the original terms of the receivables.

	2018	2017
	$'000	$'000
Rent receivable	**2,437**	4,622
Total rental receivables	**2,437**	4,622
Fee Receivable	**25,643**	26,277
Receivables from related entities	**4,115**	2,386
Other receivables	**318**	654
Total other receivables	**30,076**	29,317
Total receivables	**32,513**	33,939

c) Payables

	2018	2017
	$'000	$'000
Trade creditors	**4,862**	17,220
Accruals	**3,555**	3,809
Accrued capital expenditure	**8,040**	12,545
GST payable	**116**	324
Other payables	**5,142**	4,537
Total payables	**21,715**	38,435

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 22.

Note 16 Working capital (continued)

d) Provisions (continued)

	2018 $'000	2017 $'000
Provision for distribution	**50,000**	50,000
Provision for employee benefits	**32,123**	29,885
Total current provisions	**82,123**	79,885

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:

	2018 $'000	2017 $'000
Provision for distribution		
Opening balance at the beginning of the year	**50,000**	25,000
Additional provisions	**50,000**	50,000
Payment of distributions	**(50,000)**	(25,000)
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 2018. This distribution is to be paid on 30 August 2018.

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 17 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

	2018	2017
	$'000	$'000
Opening balance at the beginning of the year	**16,441**	16,481
Additions	**3,075**	3,048
Depreciation charge	**(3,481)**	(3,088)
Closing balance at the end of the year	**16,035**	16,441

	2018	2017
	$'000	$'000
Cost	**27,846**	25,500
Accumulated depreciation	**(11,811)**	(9,059)
Cost - Fully depreciated assets written off	**(729)**	(3,599)
Accumulated depreciation - Fully depreciated assets written off	**729**	3,599
Net book value as at the end of the year	**16,035**	16,441

Note 18 Intangible assets

Management rights represent the asset management rights owned by Dexus Holdings Pty Limited, a wholly owned subsidiary of DXO, which entitles it to management fee revenue from both finite life trusts and indefinite life trusts. Those rights that are deemed to have a finite useful life (held at a value of $3.7 million (2017: $4.1 million) are measured at cost and amortised using the straight-line method over their estimated remaining useful lives of 15 years. Management rights that are deemed to have an indefinite life are held at a value of $286.0 million (2017: $286.0 million).

Software is measured at cost and amortised using the straight-line method over its estimated useful life, expected to be three to five years.

Note 18 Intangible assets (continued)

	2018 $'000	2017 $'000
Management rights		
Opening balance at the beginning of the year	**290,088**	290,418
Amortisation charge	**(330)**	(330)
Closing balance at the end of the year	**289,758**	290,088
Cost	**294,382**	294,382
Accumulated amortisation	**(4,624)**	(4,294)
Total management rights	**289,758**	290,088
Goodwill		
Opening balance at the beginning of the year	**1,211**	1,310
Impairment	**(99)**	(99)
Closing balance at the end of the year	**1,112**	1,211
Cost	**2,998**	2,998
Accumulated impairment	**(1,886)**	(1,787)
Total goodwill	**1,112**	1,211
Software		
Opening balance at the beginning of the year	**18,151**	15,348
Additions	**10,983**	7,140
Amortisation charge	**(5,365)**	(4,337)
Closing balance at the end of the year	**23,769**	18,151
Cost	**37,488**	36,738
Accumulated amortisation	**(13,719)**	(18,587)
Cost - Fully amortised assets written off	**(2,790)**	(10,233)
Accumulated amortisation - Fully amortised assets written off	**2,790**	10,233
Total software	**23,769**	18,151
Total non-current intangible assets	**314,639**	309,450

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 18 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% (2017: 10.0%–20.0%) was used incorporating an appropriate risk premium for a management business.
- Cash flows have been discounted at 9.0% (2017: 9.0%) based on externally published weighted average cost of capital for an appropriate peer group plus an appropriate premium for risk. A 1.0% (2017: 1.0%) decrease in the discount rate would increase the valuation by $20.0 million (2017: $18.6 million).

Note 19 Available for sale financial assets

Available for sale financial assets comprise DXS securities acquired on-market in order to fulfil the future requirements of the security-based payment plans.
They are included in non-current assets except for those securities that will be used to fulfil security based payment plans that vest within 12 months, which are classified as current assets. 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.

Note 20 Audit, taxation and transaction service fees

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

	2018 $	2017 $
Audit fees		
PwC Australia - audit and review of Financial Statements	**263,360**	262,803
PwC fees paid in relation to outgoings audits	**5,000**	3,856
PwC Australia - regulatory audit and compliance services	**247,187**	176,868
Audit fees paid to PwC	**515,547**	443,527
Transaction services fees		
Fees paid to PwC Australia - other	**30,000**	25,000
Total transaction services fees paid to PwC	**30,000**	25,000
Total audit, taxation and transaction services fees paid to PwC	**545,547**	468,527

Note 21 Cash flow information

a) Reconciliation of cash flows from operating activities

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

	2018 $'000	2017 $'000
Net profit/(loss) for the year	**90,601**	93,009
Capitalised interest	**19,306**	11,712
Depreciation and amortisation	**9,178**	7,761
Impairment of inventories	**599**	-
Impairment of goodwill	**99**	99
Net fair value (gain)/loss of investment properties	**(29,788)**	(14,416)
Share of net (profit)/loss of investments accounted for using the equity method	**819**	-
Lease incentives	**(3,724)**	(1,301)
Distribution revenue	**(357)**	(321)
Change in operating assets and liabilities		
(Increase)/decrease in receivables	**1,426**	5,953
(Increase)/decrease in inventories	**(37,573)**	74,296
(Increase)/decrease in other current assets	**20**	(2,074)
(Increase)/decrease in other non-current assets	**(44,389)**	(6,306)
Increase/(decrease) in payables	**(16,839)**	18,097
Increase/(decrease) in current liabilities	**(17,354)**	(11,296)
Increase/(decrease) in other non-current liabilities	**488**	4,356
(Increase)/decrease in deferred tax liabilities	**10,828**	3,635
Net cash inflow/(outflow) from operating activities	**(16,660)**	183,204

b) Net debt reconciliation

Reconciliation of net debt movements:

	Loans with related parties $'000
Balance as at 1 July 2017	**172,105**
Changes from financing cash flows	
Proceeds from loan with related party	**572,384**
Repayment of loan with related party	**(458,180)**
Non cash changes	
Capital reallocation	**175,095**
Intercompany interest capitalised to loan	**18,397**
Balance as at 30 June 2018	**479,801**

Note 22 Security-based payment

The DXFM Board has approved a grant of performance rights to DXS stapled securities to eligible participants. Awards, via the Deferred Short Term Incentive Plans (DSTI) and Long Term Incentive Plans (LTI), will be in the form of performance rights awarded to eligible participants which convert to DXS stapled securities for nil consideration subject to satisfying specific service and performance conditions.

For each Plan, the eligible participants will be granted performance rights, based on performance against agreed key performance indicators, as a percentage of their remuneration mix. Participants must remain in employment for the vesting period in order for the performance rights to vest. The fair value of the performance rights is adjusted to reflect market vesting conditions. Non-market vesting conditions, including Funds from Operations (FFO), Return on Equity (ROE) and employment status at vesting, are included in assumptions about the number of performance rights that are expected to vest. When performance rights vest, the 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

25% of any award under the Short Term Incentive Plan (STI) for certain participants will be deferred and awarded in the form of performance rights to DXS securities.

50% of the performance rights awards will vest one year after grant and 50% of the awards will vest two years after grant, subject to participants satisfying employment service conditions. In accordance with AASB 2 *Share-based Payment*, the year of employment in which participants become eligible for the DSTI, the year preceding the grant, is included in the vesting period over which the fair value of the performance rights is amortised. Consequently, 50% of the fair value of the performance rights is amortised over two years and 50% of the award is amortised over three years.

The number of performance rights granted in respect of the year ended 30 June 2018 was 263,222 (2017: 274,801) and the fair value of these performance rights is $9.88 (2017: $10.00) per performance right. The total security-based payment expense recognised during the year ended 30 June 2018 was $2,665,556 (2017: $2,858,356).

b) Long Term Incentive Plan

50% of the awards will vest three years after grant and 50% of the awards will vest four years after grant, subject to participants satisfying employment service conditions and performance hurdles. In accordance with AASB 2 *Share-based Payment*, the year of employment in which participants become eligible for the LTI, the year preceding the grant, is included in the vesting period over which the fair value of the performance rights is amortised. Consequently, 50% of the fair value of the performance rights is amortised over four years and 50% of the award is amortised over five years.

The number of performance rights granted in respect of the year ended 30 June 2018 was 465,701 (2017: 480,660). The weighted average fair value of these performance rights is $9.02 (2017: $8.04) per performance right. The total security-based payment expense recognised during the year ended 30 June 2018 was $3,805,708 (2017: $5,123,989).

Note 23 Related parties

Responsible Entity and Investment Manager

DXH is the parent entity of DXFM, the Responsible Entity of DDF, DIT, DOT and DXO and the Trustee of DOTA and the investment manager for DITA.

DXH is also the parent entity of DWPL and DWFL, the Responsible Entities of DWPF and HWPF respectively.

DXH is the Investment Manager of DOTA.

Management Fees

Under the terms of the Constitutions of the entities within the 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.

Related party transactions

Transactions between the consolidated entity and related parties were made on commercial terms and conditions. All agreements with third party funds and joint ventures are conducted on normal commercial terms and conditions.

Transactions with related parties

	2018 **$**	2017 $
Responsible Entity fee income	**96,630,688**	85,618,268
Property management fee income	**37,938,614**	35,411,201
Responsible Entity fees receivable at the end of each reporting year (included above)	**8,181,859**	7,491,622
Property management fees receivable at the end of each reporting year (included above)	**3,801,771**	3,288,957

Key management personnel compensation

	2018 **$**	2017 $
Compensation		
Short-term employee benefits	**9,275,046**	8,967,303
Post employment benefits	**349,530**	717,454
Security-based payments	**3,725,389**	3,010,935
Total key management personnel compensation	**13,349,965**	12,695,692

Note 24 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:

	2018 $'000	2017 $'000
Total current assets	**442,413**	**258,118**
Total assets	**709,286**	**558,608**
Total current liabilities	**77,791**	**94,732**
Total liabilities	**557,591**	**267,184**
Equity		
Contributed equity	**86,700**	**261,664**
Retained profits	**64,995**	**29,759**
Total equity	**151,695**	**291,423**
Net profit/(loss) for the year	**85,236**	**94,309**
Total comprehensive income/(loss) for the year	**85,236**	**94,309**

b) Guarantees entered into by the parent entity

Refer to note 13(b) for details of guarantees entered into by the parent entity.

c) Contingent liabilities

Refer to note 13(b) for details of the parent entity's contingent liabilities.

d) Capital commitments

The parent entity had no capital commitments as at 30 June 2018 (2017: nil)

Note 25 Subsequent events

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 40:

(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 2018 and of its performance, as represented by the results of its operations and their cash flows, for the year ended on that date.

In the Directors' opinion:

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

(b) there are reasonable grounds to believe that the 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 2018.

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

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

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

W Richard Sheppard

Chair

14 August 2018

Independent auditor's report

To the stapled security holders 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 Registered Scheme) 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 2018 and of its financial performance for the year then ended

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

What we have audited

The Group financial report comprises:

- the Consolidated Statement of Financial Position as at 30 June 2018
- the Consolidated Statement of Comprehensive Income for the year then ended
- the Consolidated Statement of Changes in Equity for the year then ended
- the Consolidated Statement of Cash Flows for the year then ended
- the Notes to the Financial Statements, which include significant accounting policies
- the Directors' Declaration.

Basis for opinion

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

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

Independence

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant 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
One International Towers Sydney, Watermans Quay, Barangaroo, GPO BOX 2650, SYDNEY NSW 2001
T: +61 2 8266 0000, F: +61 2 8266 9999, www.pwc.com.au

Level 11, 1PSQ, 169 Macquarie Street, Parramatta NSW 2150, PO Box 1155 Parramatta NSW 2124
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

- For the purpose of our audit we used overall materiality of $3.6 million, which represents approximately 5% of the Group's adjusted profit before tax (Funds From Operations or FFO).
- We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole.
- We chose FFO because, in our view, it is the key performance measure of the Group. An explanation of what is included in FFO is outlined in Note 1, Operating segments of the Dexus Annual Report.
- We utlised 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 parent entity Dexus Operations 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
  - Carrying amount of inventory
  - Carrying amount of indefinite life intangible assets
  - Development revenue
- 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 *(Refer to Note 9)* The Group's investment property portfolio comprises $222.0 million (2017: $179.6 million) of office and industrial properties directly held in Australia. 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: • The capitalisation rate • The adopted discount rate. We considered the valuation of investment properties to be a key audit matter due to the: • Financial significance of investment properties in the Consolidated Statement of Financial Position. • Potential for changes in the fair value of investment properties to have a significant effect on the Group's comprehensive income. • Inherently subjective nature of investment property valuations arising from the use of assumptions in the valuation methodology. • Sensitivity of valuations to key input assumptions, including capitalisation rates, and discount rates.	To assess the valuation of investment properties we performed the following procedures amongst others: • We considered the valuation methodology adopted by the Group and found it to be consistent with commonly accepted valuation approaches used for investment properties in the industry and the Group's valuation policy. • We obtained recent independent property market reports to develop an understanding of the prevailing market conditions in which the Group invests. We leveraged this knowledge to form independent expectations for movements in investment property values and underlying key assumptions such as capitalisation rates and discount rates. • We compared the capitalisation rates and discount rates used by the Group to ranges we determined were reasonable based on benchmark market data. Where capitalisation rates, discount rates and/or movements in individual property valuations fell outside of our anticipated ranges, we performed the following procedures, amongst others: – Met with the Group's Senior Valuation Manager and discussed the specifics of the selected individual properties including, amongst other things, any new leases entered into during the year, lease expiries, capital expenditure and vacancy rates. – Agreed significant changes in inputs to supporting documentation such as new lease agreements.

Key audit matter	How our audit addressed the key audit matter
	We found that typically the variances related to the relative age, or size/location of the individual property in comparison to the market. In the context of the specific properties identified, we found the reasons for variances appropriate. • As the Group engaged external experts to determine the fair value of investment properties, we considered the independence, experience and competency of the Group's independent experts as well as the results of their procedures.
Carrying amount of inventory *(Refer to Note 10)* The Group develops a portfolio of office and industrial sites for future sale, which are classified as inventory. At 30 June 2018 the carrying amount of the Group's inventory was \$306.4 million (2017: \$211.3 million). The Group's inventories are held at the lower of the cost or net realisable value for each inventory asset. The cost of inventory is calculated using actual acquisition costs, construction costs, development related costs and interest capitalised for eligible projects. Net realisable value is determined by using the valuation techniques referred to in the key audit matter: *Valuation of investment properties* to determine the estimated future selling price, and then adjusted for estimated costs to complete and transaction costs. We considered the carrying value of inventory to be a key audit matter given the: • Judgement required in determining the fair value of properties transferred from investment properties to inventory at the date of transfer. Refer to key audit matter: *Valuation of investment properties* for key judgments in determining the fair value. • Judgements required by the Group in determining the estimated future selling prices, costs to complete and transaction costs.	To assess the carrying amount of inventory we performed the following procedures amongst others: • We used a risk based approach to select a sample of inventory assets on which to perform net realisable value testing. For the selected assets we: - Discussed with management the life cycle of the project, key project risks, changes to project strategy, current and future estimated sales prices, construction progress and costs and any new and previous impairments. - Tested a sample of costs capitalised to inventory to ensure that the cost had been capitalised in accordance with the Group's policy/methodology and the requirements of Australian Accounting Standards. - Compared the market capitalisation rates and net market income used by the Group to calculate net realisable value to market capitalisation rates and rental rates published by external independent valuation experts. - Compared the carrying amount of inventory against the Group's estimate of net realisable value as at 30 June 2018.

Key audit matter	*How our audit addressed the key audit matter*
• Financial significance of the inventory balance in the Consolidated Statement of Financial Position. • The subsequent impact to FFO from the disposal of inventory where cost is determined by the fair value at the date of transfer.	• For properties transferred from investment property to inventory, we: - Performed the procedures outlined in the key audit matter: *Valuation of investment properties* in assessing the appropriateness of the fair value at the date of transfer. - Inspected the investment committee paper and board approval to ensure that the transfer was executed in accordance with the approved terms.
Carrying amount of indefinite life management rights *(Refer to Note 18)* At 30 June 2018 indefinite life management rights (management rights) amounting to $286 million (2017: $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. The Group performed impairment testing of the management rights by comparing the recoverable amount of the management rights to their carrying amount. The Group concluded that management rights were not impaired. We considered the carrying amount of management rights a key audit matter given the: • Financial significance of the balance in the Consolidated Statement of Financial Position • Significant judgement required by the Group in estimating the recoverable amount of management rights • Sensitivity of the Group's assessment to changes in key assumptions such as growth rates, discount rates, and future cash flows.	To assess the impairment model used to determine the recoverable amount, we performed the following audit procedures, amongst others: • Assessed whether the division of the Group's management rights into cash generating units (CGU), was in line with the Australian Accounting Standards and consistent with our knowledge of the Group's operations and internal Group reporting. • Tested the mathematical accuracy of each impairment model's calculations. • Evaluated the Group's methodology and selected inputs and assumptions in the impairment model, such as discount rate, revenue and expense growth rates by comparing to observable market expectations. • Tested that forecast cash flows used in the impairment model were consistent with the most up-to-date budgets approved by the Board. For cash flows beyond year three not covered by formal budgets, we assessed the growth rates applied by comparing to observable market expectations. • Evaluated the Group's historical ability to forecast future cash flows by comparing budgets to reported actual results. • Considered the Group's sensitivity analysis on key assumptions used in the impairment model to assess under which assumptions an impairment would occur and whether this was reasonably possible. • Together with PwC valuation experts we considered whether the discount rate applied was consistent with observable market expectations.

Key audit matter	*How our audit addressed the key audit matter*
Development revenue *(Refer to Note 10)* The Group recognised $145.6 million of property development revenue for the year ended 30 June 2018 (2017: $224.3 million). Property development revenue includes proceeds from the sale of inventory and revenue earned through the provision of development services in relation to assets sold to third parties. Revenue earned on the provision of development services is recognised on a percentage of completion basis as described in Note 10. The percentage of completion is assessed by reference to the proportion of contract costs incurred and the estimated costs to complete the project. We considered development revenue a key audit matter given the: • Significance of development revenue to the Consolidated Statement of Comprehensive Income and FFO. • Significant judgement required by the Group in determining the costs to complete each project which impacts the timing of revenue and profit recognised over the life of the project. • Complexity of sales contracts related to the sale of inventory and the resulting timing of revenue recognition.	We performed the following audit procedures, amongst others, over revenue earned through the provision of development services: • Inspected the development contract to assess whether the revenue recognised by the Group during the year is in accordance with the revenue recognition criteria set out in Australian Accounting Standards. • Recalculated the revenue recognised by reference to the project's percentage of completion. We assessed the appropriateness of the percentage of completion ratio by agreeing a sample of the project's costs to third party support. • Agreed revenue recognised to the underlying contract and supporting evidence of cash settlement. We performed the following audit procedures, amongst others, over proceeds from the sale of inventory: • Inspected the relevant terms of the sales contract to assess whether revenue from the sale of inventory was recognised in accordance with the contract and the requirements of the Australian Accounting Standards. • Agreed the settlement proceeds to the bank statement.

Other information

The Directors of the responsible entity of the Group, Dexus Funds Management Limited (the Directors), are responsible for the other information. The other information comprises the information included in the financial report for the year ended 30 June 2018, including the Directors' Report, but does not include the Financial Statements, related note disclosures 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 identified above and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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

Responsibilities of the Directors for the financial report

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

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

Auditor's responsibilities for the audit of the financial report

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

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

PricewaterhouseCoopers

PricewaterhouseCoopers

Matthew Lunn
Partner

Sydney
14 August 2018