Dexus (ASX: DXS) Appendix 4D

Results for announcement to the market

Dexus

ARSN 089 324 541

Financial reporting for the half year ended 31 December 2018

Dexus Diversified Trust[1]			
	31 Dec 2018	**31 Dec 2017**	**%**
	$m	**$m**	**Change**
Revenue from ordinary activities	455.6	437.3	4.2%
Net profit attributable to security holders after tax	726.4	997.1	-27.1%
Adjusted funds from operations (AFFO) [2]	282.0	246.3	14.5%
Funds from operations (FFO)[2]	353.3	321.8	9.8%
Underlying FFO[3]	318.6	307.5	3.6%
Distribution to security holders[4]	276.7	241.1	14.8%
	CPS	**CPS**	
FFO per security[2]	34.7	31.6	9.8%
Distribution per security for the period	27.2	23.7	14.8%
Payout ratio (distribution as a % of AFFO)	98.1%	97.9%	0.2%
Basic and diluted earnings per security	71.41	98.02	-27.1%
Franked distribution amount per security	-	-	-
	$m	**$m**	
Total assets	14,711.8	13,807.0	6.6%
Total borrowings	3,558.4	3,622.3	-1.8%
Security holders equity	10,492.8	9,556.5	9.8%
Market capitalisation	10,802.6	9,614.5	12.4%
	$ per security	**$ per security**	
Net tangible assets	10.07	9.16	9.9%
Securities price	10.62	9.45	12.4%
Securities on issue	1,017,196,877	1,017,404,542	
Record date	31 Dec 2018	29 Dec 2017	
Payment date	28 Feb 2019	28 Feb 2018	

Dexus (ASX: DXS) Appendix 4D

Results for announcement to the market

Results commentary

Refer to the attached ASX release for a commentary on the results of Dexus.

Details of joint ventures and associates

	Ownership Interest		Share of net profit after tax	
	31 Dec 2018	31 Dec 2017	6 months ended 31 Dec 2018	6 months ended 31 Dec 2017
Name of Entity	%	%	$m	$m
Bent Street Trust	33.3	33.3	13.1	10.7
Dexus Creek Street Trust	50.0	50.0	8.6	11.7
Dexus Martin Place Trust	50.0	50.0	35.0	(8.3)
Grosvenor Place Holding Trust	50.0	50.0	21.5	33.1
Site 6 Homebush Bay Trust	50.0	50.0	10.9	1.8
Site 7 Homebush Bay Trust	50.0	50.0	3.5	1.9
Dexus 480 Q Holding Trust	50.0	50.0	8.2	14.5
Dexus Kings Square Trust	50.0	50.0	12.3	4.2
Dexus Office Trust Australia	50.0	50.0	122.8	188.2
Dexus Industrial Trust Australia	50.0	50.0	30.5	5.0
Dexus Eagle Street Pier Trust	50.0	50.0	(2.2)	1.9
Healthcare Wholesale Property Fund	23.8	23.8	1.3	4.6
Dexus Australian Logistics Trust	75.0	-	8.3	-
Dexus Australian Logistics Trust No. 2	51.0	-	(2.3)	-

Distribution Reinvestment Plan (DRP)

As announced on 13 December 2010, the DRP has been suspended until further notice. As a consequence, the DRP will not operate for this distribution payment.

1 For the purposes of statutory reporting, the stapled entity, known as DXS, must be accounted for as a consolidated group. Accordingly, one of the stapled entities must be the "deemed acquirer" of all other entities in the group. Dexus Diversified Trust has been chosen as the deemed acquirer of the balance of the DXS stapled entities, comprising Dexus Industrial Trust, Dexus Office Trust and Dexus Operations Trust.

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

3 Underlying FFO excludes trading profits (net of tax).

4 The distribution for the period 1 July 2018 to 31 December 2018 is the aggregate of the distributions from Dexus Diversified Trust, Dexus Office Trust, Dexus Operations Trust and Dexus Industrial Trust. The Attribution Management Investment Trust Annual Member Statement will provide details of the components of DXS's distributions.

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About Dexus

Dexus is one of Australia's leading real estate groups, proudly managing a high quality Australian property portfolio valued at $28.9 billion. As property innovators, we are deeply committed to working with our customers to provide spaces that engage and inspire, as well as delivering quality, sustainable returns for our investors. We invest only in Australia, and directly own $13.9 billion of office and industrial properties. We manage a further $15.0 billion of office, retail, industrial and healthcare properties for third party clients. The group's $5.2 billion development pipeline provides the opportunity to grow both portfolios and enhance future returns. With more than 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 28,000 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

Download the Dexus IR app

Download the Dexus IR app to your preferred mobile device to gain instant access to the latest stock price, ASX Announcements, presentations, reports, webcasts and more.

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

Dexus
Interim Report
31 December 2018

ARSN: 089 324 541

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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.

HY19 Operating and Financial Review

The Group's financial performance for the six months ended 31 December 2018 is summarised in the following section. In order to fully understand the results, the interim Financial Statements included in this Interim Report should be referred to.

Review of Operations

Dexus has adopted Adjusted Funds from Operations (AFFO) as its primary earnings measure which has been defined in accordance with the guidelines established by the Property Council of Australia (PCA) for its reporting with effect from 1 July 2014, including the recent PCA publication effective from 1 July 2018.

In accordance with Australian Accounting Standards, net profit includes a number of non-cash items including fair value movements in asset and liability values. AFFO is a financial measure of real estate operating performance and is determined by adjusting net profit after finance costs and taxes for certain items which are non-cash, unrealised or capital in nature and deducting the cost of maintenance capex and leasing incentives (including rent free income).

The Directors consider AFFO to be a measure that reflects the performance of the Group and returns to Security holders.

The following table reconciles between profit attributable to stapled security holders, AFFO and distributions paid to Security holders.

	31 December 2018[1]	31 December 2017[1]
	$m	**$m**
Net profit for the period attributable to stapled security holders	**726.4**	**997.1**
Net fair value gain of investment properties	(456.5)	(730.2)
Net fair value (gain)/loss of derivatives and interest-bearing liabilities	2.8	(9.2)
Net (gain)/loss on sale of investment properties	(3.1)	0.7
Incentive amortisation and rent straight-line[2]	58.0	51.5
Amortisation of intangible assets	3.0	3.3
Rental guarantees, coupon income and other	10.0	8.6
Non-FFO tax expense	12.7	-
Funds from Operations (FFO)	**353.3**	**321.8**
Less maintenance and leasing capex	**(71.3)**	**(75.5)**
AFFO	**282.0**	**246.3**
Distributions	**276.7**	**241.1**
Distribution per security (cents)	27.2	23.7
Net tangible asset per security ($)	10.07	9.16

1 Including Dexus's share of equity accounted investments.

2 Including cash, rent free and fit out incentive amortisation.

Operating result

Group

Dexus's net profit after tax was $726.4 million or 71.4 cents per security, a decrease of $270.7 million from the previous corresponding period (HY18: $997.1 million). The key drivers of this movement included:

- Net revaluation gains of investment properties of $456.5 million, representing a 3.4% uplift across the total portfolio, were $273.7 million lower than the HY18 gains.
- The above impact was partially offset by a $20.4 million increase in trading profits (net of tax) to $34.7 million and an $8.4 million increase in Total Property FFO to $372.4 million compared to the previous corresponding period

At 31 December 2018, 107 of Dexus's 111 office and industrial assets were externally valued, including 45 office properties and 62 industrial properties. Valuation gains across the total property portfolio since 30 June 2018, were the primary driver of a 43 cent increase in NTA per security to $10.07 at 31 December 2018.

Most of the valuation uplift across the office portfolio was due to further capitalisation rate compression and increasing market rents, particularly in Sydney. Revaluation increases across the industrial portfolio were driven by continued tightening in capitalisation rates at properties across the key Eastern seaboard markets.

The following table provides a summary of the key components of AFFO based on the information provided in the Group Performance and Property Portfolio assets sections included in this Financial Report.

	31 December 2018 $m	31 December 2017 $m
Office Property FFO	303.8	299.4
Industrial Property FFO	68.6	64.6
Total Property FFO	**372.4**	**364.0**
Management operations[3]	27.5	25.1
Group corporate	(14.2)	(13.6)
Net finance costs	(63.2)	(63.3)
Other (including tax)[4]	(3.9)	(4.7)
Underlying FFO	**318.6**	**307.5**
Trading profits (net of tax)	34.7	14.3
Total FFO	**353.3**	**321.8**
Maintenance capex, lease incentives and leasing costs paid	(71.3)	(75.5)
Total AFFO	**282.0**	**246.3**

Operationally, AFFO increased 14.5% to $282.0 million (HY18: $246.3 million)

The key drivers of the $35.7 million increase include:

- An increase in Total Property FFO of $8.4 million compared to the previous corresponding period primarily as a result of fixed rental increases across the portfolio, recently completed industrial developments and the acquisition of 570-586 Wickham Street, Fortitude Valley, partially offset by divestment of the second tranche of Southgate Complex, Melbourne and 11 Waymouth Street, Adelaide.
- Additional $20.4 million of trading profits (net of tax) recognised compared to the previous corresponding period. Trading profits of $34.7 million (net of tax) have been recognised in HY19 from the settlement on the sale of 32 Flinders Street, Melbourne.
- Maintenance capex, lease incentives and leasing costs paid being $4.2 million lower than the previous corresponding period.

3 'Management Operations' income includes development management fees.

4 Other includes non-trading related tax expense

Operating result (continued)

Distribution

Distribution per security of 27.2 cents for the six months ended 31 December 2018, represented a 14.8% increase compared to the previous corresponding period (HY18: 23.7 cents) with the distribution payout remaining in line with free cashflow, in accordance with Dexus's distribution policy. The distribution will be paid to Dexus Security holders on Thursday, 28 February 2019.

Management expense ratio

	31 December 2018 $m	31 December 2017 $m
Group corporate costs	(14.2)	(13.6)
Asset management costs	(8.2)	(8.0)
Total corporate and asset management costs	**(22.4)**	**(21.6)**
Closing funds under management (balance sheet only)	13,915	13,080
Group management expense ratio (MER)	**32bps**	**33bps**

Group corporate costs increased to $14.2 million, up $0.6 million on the previous corresponding period due to continued investment in corporate strategic initiatives. Group management expense ratio improved, reducing to 32 basis points as a result of increased funds under management driven largely by revaluation gains.

Sustainability

Supporting Dexus's *New Energy, New Opportunities* strategy to achieve net zero carbon emissions by 2030, Dexus announced that terms had been agreed for one of Australia's first supply-linked renewable Energy Supply Agreements, which will purchase renewable energy off-site to power the base building services of more than 40 buildings across its New South Wales group property portfolio. This will be achieved through the procurement of renewable energy generation and presents a new lever for Dexus to achieve its 2030 target.

Dexus has made progress towards the group's target of having one million square metres of the office portfolio at a 5-star or above NABERS Energy rating by 2020, with 904,500 square metres now at this position.

Property transactions

In September 2018, Dexus announced that it had exchanged contracts to acquire 60 Collins Street, Melbourne for $160.0 million[5], with the acquisition settling on 31 October 2018. In addition, Dexus entered into an agreement to acquire the adjoining property at 52 Collins Street, Melbourne for $70.0 million[5], with settlement expected to occur in July 2019. Further details on these acquisitions is provided in the Development section.

In November 2018, Dexus announced the establishment of a new circa $2 billion unlisted trust that will invest in Australian logistics properties, known as Dexus Australian Logistics Trust ("DALT"). DALT was seeded with assets from Dexus's existing industrial portfolio comprising $1.4 billion of core logistics properties which settled into DALT in December 2018, as well as ownership interests in a $138 million development landbank. DALT's foundation investor, GIC, has taken an initial 25% investment in the core portfolio, with put and call rights to acquire an additional 24% by June 2020. GIC will own a 49% interest in the development landbank and fund its share of development spend.

Dexus originally announced the acquisition of the development landbank referred to above in August 2018. The development landbank is located in South Granville (settled September 2018), Ravenhall (settled in December 2018) and Richlands (expected to settle in February 2019). Further detail on DALT is provided in the Funds Management section.

5 Excludes acquisition costs.

Dexus performance

The following sections review the HY19 performance of the Group's key financial drivers: Property portfolio, Funds management and Trading.

Property portfolio

Dexus remains focused on maximising the performance of its property portfolio through leasing and asset management activities, with the property portfolio contributing to 86% of FFO in HY19.

The size of Dexus's direct portfolio increased $0.6 billion since 30 June 2018 to $13.9 billion at 31 December 2018 primarily as a result of development spend, acquisitions and valuation uplifts, partially offset by the divestment of an effective 25% interest in the properties that form the DALT core portfolio.

Office portfolio

Portfolio value:	$11.7 billion
Total area:	1,504,943 square metres
Area leased during the period:	91,146 square metres[6]

Key metrics	31 December 2018	30 June 2018
Occupancy by income	97.3%	96.0%
Occupancy by area	97.0%	95.7%
WALE by income	4.5 years	4.6 years
Average incentives[6]	11.9%	13.9%
Retention rate	61%	54%
Total return – 1 year	13.0%	16.9%

Dexus's office portfolio achieved a total return of 13.0%, driven both by valuation uplifts and leasing. Occupancy increased to 97.3% from 96% at 30 June 2018, driven by leasing in Sydney, our largest core market.

Improving conditions in the Perth Prime office market continued to flow through to leasing activity at 240 St Georges Terrace resulting in 64% of the building now being leased[7]. Dexus will capitalise on improving fundamentals in the local economy over the next 12 months as the property is repositioned.

In Sydney, office leasing spreads of +18% were achieved, driven by continued strength in tenant demand.

Leasing also progressed at 100 Mount Street, North Sydney with the development now 84% committed.

Other notable activity during the period included securing Heads of Agreement for a substantial portion of 2 and 4 Dawn Fraser Avenue, Sydney Olympic Park, with 59.4% of the total space across both buildings now committed.

The office portfolio achieved like-for-like income growth of 1.7%, which was affected by the vacancy at Sydney Olympic Park, however this is expected to normalise to 4-5% for FY19, consistent with the previously stated target.

6 Including Heads of Agreement and excluding development leasing.

7 Includes Heads of Agreement signed post 31 December 2018.

Dexus performance (continued)

Property portfolio (continued)

Industrial portfolio

Portfolio value:	$2.2 billion
Total area:	1,432,620 square metres
Area leased during the period:	136,400 square metres[8]

Key metrics	31 December 2018	30 June 2018
Occupancy by income	96.8%	98.3%
Occupancy by area	97.8%	98.8%
WALE by income	5.0 years	4.8 years
Average incentives	7.7%	12.6%
Retention rate	65%	48%
Total return – 1 year	15.5%	13.6%

The industrial portfolio continues to benefit from an uptick in logistics and e-commerce demand, however occupancy decreased to 96.8% as a result of expiries within the portfolio.

Dexus sees further opportunities within the logistics sector as businesses seek to drive supply chain efficiencies and preferences for online retail continue to rise.

Development

Dexus enhances future investor returns through the Group's $5.2 billion development pipeline, of which $2.8 billion sits within the Dexus portfolio and $2.4 billion within third party funds.

During the period, Dexus secured a prime office development site in the Melbourne CBD, through entering into agreements to acquire adjoining properties at 60 and 52 Collins Street which, along with the development at 140 George Street, Parramatta, increased Dexus's development pipeline to $2.8 billion.

The Melbourne acquisitions provide Dexus with a presence in the tightly held 'Paris end' of Collins Street in the CBD. They also present a unique opportunity to undertake an office development creating long term value for investors in the next supply cycle, in a prime location where Dexus receives significant enquiry from its existing customer base.

Development works commenced at 240 St Georges Terrace in Perth which is due for completion in late 2020, one year earlier than previously stated due to the leasing success achieved over the past six months.

Construction topped out at 100 Mount Street in North Sydney, with the development expected to complete in May 2019. Works continue to progress at 180 Flinders Street in Melbourne and at 12 Creek Street – The Annex in Brisbane.

Construction continues at four industrial properties across 83,600 square metres with three at Dexus Industrial Estate in Truganina, Victoria, two of which are pre-leased, and one at Greystanes which is also pre-leased.

Funds management

Dexus now manages $15.0 billion of funds on behalf of 73 third party clients after securing new investors during the period.

GIC is the foundation investor in DALT, a circa $2 billion unlisted trust that invests in Australian logistics properties. DALT has been seeded with assets from Dexus's existing industrial portfolio comprising $1.4 billion of core logistics properties and a $138 million development landbank (circa $0.5 billion on completion).

The establishment of this new unlisted logistics vehicle unlocks the growth potential of the Dexus industrial platform, broadening Dexus's relationships and providing a stable long-term source of capital to invest alongside through the cycle.

During the period, Dexus also secured M&G Real Estate as a new investor in the Dexus Industrial Partnership. Since its establishment in June 2014, Dexus has achieved an unlevered IRR of 15.2% on its investment in the Partnership (including fees) and will continue to deliver on the Partnership's growth mandate through acquisitions and active management.

8 Including Heads of Agreement.

Dexus performance (continued)

Funds management (continued)

From a healthcare property perspective, works commenced on the North Shore Health Hub (a Dexus trading asset) targeted for the Healthcare Wholesale Property Fund which continues to generate interest from prospective investors and remains open for investment.

Supporting the group's commitment to the healthcare property sector, Dexus conditionally agreed[9] to acquire an interest in Heathley Limited, the external manager of the Heathley Healthcare REIT, a new stapled vehicle proposed to list on the Australian Securities Exchange and in which Dexus would take a 10% cornerstone investment upon its listing. In December 2018, the proposed initial public offering was put on hold and discussions continue with the management of Heathley Limited.

All funds delivered strong performance, with DWPF achieving a one-year total return of 12.54%, outperforming its benchmark over one, three, five, seven and ten years. The Dexus Office Partnership delivered a one-year unlevered total property return of 12.09% and an annualised unlevered total property return of 14.59% since inception.

Dexus continued to progress the $2.4 billion third party development pipeline which provides the opportunity to improve the quality of its clients' property portfolios and enhance future returns.

Trading

Trading involves acquiring properties to reposition through development and leasing or unlocking the highest and best use of existing properties and realising value through divestment. Since 2010, Dexus has been undertaking trading activities and recognising trading profits in its FFO. Over the past five years Dexus has established a track record of consistently delivering trading profits.

During the period, Dexus settled on the sale of an identified trading asset at 32 Flinders Street, Melbourne, which realised $34.7 million of FY19 trading profits (net of tax).

A further five projects diversified across sectors and trading strategies have been earmarked to deliver trading profits of $210-$270 million pre-tax in future years, including 201 Elizabeth Street, Sydney where the hotel stratum is currently being marketed.

Construction is now underway at the North Shore Health Hub at 12 Frederick Street in St Leonards, with the facility now 51% leased ahead of expected completion in late 2020. The multi-tenanted facility will be located adjacent to the North Shore hospital precincts, offering occupants a new benchmark in medical workspace.

Capital management

Cost of debt	4.2%
Duration of debt	7.3 years
Gearing (look through)	23.7%
S&P/Moody's credit rating:	A-/A3

Dexus's gearing (look-through)[10] of 23.7% at 31 December 2018, reduced from 24.1% at 30 June 2018 and remains below the target range of 30-40%.

Debt duration has been extended further to 7.3 years following the issuance of $75 million of US Private Placement notes and $30 million of Medium Term Notes with an average duration of 20 years.

Dexus has manageable short-term refinancing requirements and remains within all of its debt covenant limits and target ranges.

9 In October 2018, Dexus conditionally agreed that it would acquire an initial 28.5% interest in Heathley for $11.3 million, with an option to acquire a further 21.5% interest in the future. Dexus would take a 10% cornerstone investment in the Healthcare REIT at the proposed issue price of $2.00 per stapled security for consideration of $37.3 million. Subject to the satisfaction of certain conditions including approval by Heathley shareholders and unitholders investing in existing Heathley-managed funds that are to become part of Healthcare REIT, key management personnel signing up to new employment contracts, successful completion of the IPO and no material adverse change in the PDS prepared with respect to the offer.

10 Adjusted for cash and debt in equity accounted investments.

Outlook

Heading into 2019, Dexus is cautious as a result of local and global uncertainty however is well positioned to continue to add value for its investors.

In this environment, Dexus is supported by positive office fundamentals in key markets driving high portfolio occupancy, a significant pipeline of development projects creating future value, and quality unlisted partners to invest alongside through the cycle. All of this is underpinned by a strong balance sheet.

FY19 Guidance

Dexus reaffirms its market guidance[11] for distribution per security growth of circa 5% for the 12 months ending 30 June 2019.

11 Barring unforeseen circumstances, guidance is supported by the following assumptions: Impacts of announced divestments and acquisitions; FFO per security growth of circa 3%, underlying FFO per security growth of circa 3% underpinned by Dexus office portfolio like-for-like growth of 4-5%, Dexus industrial portfolio like-for-like income growth of 2.5-3.5%, management operations FFO and cost of debt broadly in line with FY18; trading profits of $35-40 million net of tax; maintenance capex, cash incentives, leasing costs and rent free incentives of $155-165 million; and excluding any further transactions.

Directors' Report

The Directors of Dexus Funds Management Limited (DXFM) as Responsible Entity of Dexus Diversified Trust (DDF or the Trust) present their Directors' Report together with the consolidated Financial Statements for the half year ended 31 December 2018. The consolidated Financial Statements represents DDF and its consolidated entities, Dexus (DXS or the Group).

The Trust together with Dexus Industrial Trust (DIT), Dexus Office Trust (DOT) and Dexus Operations Trust (DXO) form the Dexus stapled security.

Directors

Directors

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

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

Review of results and operations

Information on the operations and financial position of the Group and its business strategies and prospects is set out in the operating and financial review on pages 1 to 7 of this Interim Report.

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 10 and forms part of this Directors' Report.

Rounding of amounts and currency

As the Group 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. 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 5 February 2019.

W Richard Sheppard
Chair
5 February 2019

Darren J Steinberg
Chief Executive Officer
5 February 2019

Auditor's Independence Declaration

As lead auditor for the review of Dexus Diversified Trust (the Trust) for the half-year ended 31 December 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 review; and

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

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

Matthew Lunn
Partner
PricewaterhouseCoopers

Sydney
5 February 2019

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Consolidated Statement of Comprehensive Income

For the half year ended 31 December 2018

	Note	31 Dec 2018 $m	31 Dec 2017 $m
Revenue from ordinary activities			
Property revenue		**291.9**	281.7
Development revenue		**94.4**	90.4
Interest revenue		**0.3**	0.4
Management fees and other revenue		**69.0**	64.8
Total revenue from ordinary activities	1	**455.6**	437.3
Net fair value gain of investment properties		**276.4**	555.2
Net gain on sale of investments		**-**	1.7
Share of net profit of investments accounted for using the equity method		**271.1**	269.3
Net gain on sale of investment properties		**3.1**	-
Net fair value gain of foreign currency interest bearing liabilities		**-**	18.4
Net fair value gain of derivatives		**37.1**	-
Total income		**1,043.3**	1,281.9
Expenses			
Property expenses		**(76.3)**	(78.3)
Development costs		**(44.8)**	(70.0)
Finance costs	2	**(71.4)**	(60.4)
Impairment of inventories		**-**	(0.6)
Net fair value loss of derivatives		**-**	(10.3)
Net loss on sale of investment properties		**-**	(0.1)
Net fair value loss of foreign currency interest bearing liabilities		**(29.1)**	-
Transaction costs		**(3.0)**	(0.8)
Management operations, corporate and administration expenses		**(58.6)**	(51.9)
Total expenses		**(283.2)**	(272.4)
Profit/(loss) before tax		**760.1**	1,009.5
Income tax expense	3	**(33.7)**	(12.4)
Profit/(loss) for the period		**726.4**	997.1
Other comprehensive income/(loss):			
Changes in the fair value of cash flow hedges		**5.3**	(22.7)
Changes in the foreign currency basis spread reserve		**(3.6)**	-
Total comprehensive income/(loss) for the period		**728.1**	974.4
Profit/(loss) for the year attributable to:			
Unitholders of the parent entity		**182.4**	284.7
Unitholders of other stapled entities (non-controlling interests)		**544.0**	712.4
Profit/(loss) for the period		**726.4**	997.1
Total comprehensive income/(loss) for the year attributable to:			
Unitholders of the parent entity		**184.1**	262.0
Unitholders of other stapled entities (non-controlling interests)		**544.0**	712.4
Total comprehensive income/(loss) for the period		**728.1**	974.4
		Cents	Cents
Earnings per unit on profit/(loss) attributable to unitholders of the Trust (parent entity)			
Basic earnings per unit		**17.93**	27.99
Diluted earnings per unit		**17.93**	27.99
Earnings per stapled security on profit/(loss) attributable to stapled security holders			
Basic earnings per security		**71.41**	98.02
Diluted earnings per security		**71.41**	98.02

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

Consolidated Statement of Financial Position

As at 31 December 2018

	Note	31 Dec 2018 $m	30 Jun 2018 $m
Current assets			
Cash and cash equivalents		**36.7**	33.3
Receivables		**101.9**	63.4
Non-current assets classified as held for sale	8	**0.9**	2.0
Inventories	7	**1.6**	37.6
Derivative financial instruments	13	**17.1**	24.1
Other		**30.4**	27.8
Total current assets		**188.6**	188.2
Non-current assets			
Investment properties	5	**8,019.5**	8,242.6
Plant and equipment		**16.6**	16.0
Inventories	7	**422.8**	507.1
Investments accounted for using the equity method	6	**5,322.9**	4,432.9
Derivative financial instruments	13	**418.0**	310.8
Intangible assets	12	**318.6**	314.6
Other financial assets at fair value through profit or loss		**2.8**	2.8
Other		**2.0**	2.3
Total non-current assets		**14,523.2**	13,829.1
Total assets		**14,711.8**	14,017.3
Current liabilities			
Payables		**157.0**	149.7
Current tax liabilities		**21.3**	5.2
Interest bearing liabilities	9	**-**	205.1
Provisions		**310.4**	271.7
Derivative financial instruments	13	**8.7**	6.7
Other		**0.1**	-
Total current liabilities		**497.4**	638.4
Non-current liabilities			
Interest bearing liabilities	9	**3,558.4**	3,154.5
Derivative financial instruments	13	**69.8**	78.6
Deferred tax liabilities		**89.2**	93.7
Provisions		**1.7**	2.0
Other		**2.5**	2.7
Total non-current liabilities		**3,721.6**	3,331.5
Total liabilities		**4,219.0**	3,969.9
Net assets		**10,492.8**	10,047.4
Equity			
Equity attributable to unitholders of the Trust (parent entity)			
Contributed equity	11	**2,127.3**	2,127.3
Reserves		**19.2**	(12.5)
Retained profits		**859.6**	788.5
Parent entity unitholders' interest		**3,006.1**	2,903.3
Equity attributable to unitholders of other stapled entities			
Contributed equity	11	**4,277.0**	4,277.0
Reserves		**35.6**	39.7
Retained profits		**3,174.1**	2,827.4
Other stapled unitholders' interest		**7,486.7**	7,144.1
Total equity		**10,492.8**	10,047.4

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

Consolidated Statement of Changes in Equity

For the half year ended 31 December 2018

		Attributable to unitholders of the Trust (parent entity)				Attributable to unitholders of other stapled entities				
	Note	Contributed equity $m	Reserves $m	Retained profits $m	Total $m	Contributed equity $m	Reserves $m	Retained profits $m	Total $m	Total equity $m
Opening balance as at 1 July 2017		2,126.7	6.9	427.2	2,560.8	4,275.7	41.8	1,946.2	6,263.7	8,824.5
Net profit/(loss) for the period		-	-	284.6	284.6	-	-	712.5	712.5	997.1
Other comprehensive income/(loss) for the period		-	(22.7)	-	(22.7)	-	-	-	-	(22.7)
Total comprehensive income for the period		-	(22.7)	284.6	261.9	-	-	712.5	712.5	974.4
Transactions with owners in their capacity as owners										
Issue of additional equity, net of transaction costs		1.0	-	-	1.0	2.9	-	-	2.9	3.9
Purchase of securities, net of transaction costs		-	-	-	-	-	(7.1)	-	(7.1)	(7.1)
Security-based payments expense		-	-	-	-	-	1.9	-	1.9	1.9
Distributions paid or provided for	4	-	-	(78.2)	(78.2)	-	-	(162.9)	(162.9)	(241.1)
Total transactions with owners in their capacity as owners		1.0	-	(78.2)	(77.2)	2.9	(5.2)	(162.9)	(165.2)	(242.4)
Closing balance as per 31 December 2017		2,127.7	(15.8)	633.6	2,745.5	4,278.6	36.6	2,495.8	6,811.0	9,556.5
Opening balance as at 1 July 2018		**2,127.3**	**(12.5)**	**788.5**	**2,903.3**	**4,277.0**	**39.7**	**2,827.4**	**7,144.1**	**10,047.4**
Change in accounting policy	14	-	29.9	(31.4)	(1.5)	-	-	(0.4)	(0.4)	(1.9)
Restated opening balance as at 1 July 2018		**2,127.3**	**17.4**	**757.1**	**2,901.8**	**4,277.0**	**39.7**	**2,827.0**	**7,143.7**	**10,045.5**
Net profit/(loss) for the period		**-**	**-**	**182.4**	**182.4**	**-**	**-**	**544.0**	**544.0**	**726.4**
Other comprehensive income/(loss) for the period		**-**	**1.7**	**-**	**1.7**	**-**	**-**	**-**	**-**	**1.7**
Total comprehensive income for the period		**-**	**1.7**	**182.4**	**184.1**	**-**	**-**	**544.0**	**544.0**	**728.1**
Purchase of securities, net of transaction costs		**-**	**-**	**-**	**-**	**-**	**(9.1)**	**-**	**(9.1)**	**(9.1)**
Security-based payments expense		**-**	**-**	**-**	**-**	**-**	**5.0**	**-**	**5.0**	**5.0**
Distributions paid or provided for	4	**-**	**-**	**(79.9)**	**(79.9)**	**-**	**-**	**(196.8)**	**(196.8)**	**(276.7)**
Total transactions with owners in their capacity as owners		**-**	**-**	**(79.9)**	**(79.9)**	**-**	**(4.1)**	**(196.8)**	**(200.9)**	**(280.8)**
Closing balance as at 31 December 2018		**2,127.3**	**19.2**	**859.6**	**3,006.1**	**4,277.0**	**35.6**	**3,174.1**	**7,486.7**	**10,492.8**

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

Consolidated Statement of Cash Flows

For the half year ended 31 December 2018

	31 Dec 2018 $m	31 Dec 2017 $m
Cash flows from operating activities		
Receipts in the course of operations (inclusive of GST)	**381.0**	394.3
Payments in the course of operations (inclusive of GST)	**(138.8)**	(158.1)
Interest received	**0.3**	0.4
Finance costs paid to financial institutions	**(72.7)**	(61.6)
Distributions received from investments accounted for using the equity method	**105.2**	108.7
Income and withholding taxes paid	**(22.1)**	(11.8)
Proceeds from sale of property classified as inventory	**87.5**	0.8
Payments for property classified as inventory and development services	**(9.1)**	(91.8)
Net cash inflow/(outflow) from operating activities	**331.3**	180.9
Cash flows from investing activities		
Proceeds from sale of investment properties	**385.5**	56.9
Proceeds from sale of investments accounted for using the equity method	**-**	30.2
Payments for capital expenditure on investment properties	**(119.1)**	(89.1)
Proceeds from sale of underlying investments	**16.2**	-
Payments for investments accounted for using the equity method	**(89.4)**	(368.7)
Payments for acquisition of investment properties	**(331.3)**	(374.0)
Payments for plant and equipment	**(2.5)**	(1.0)
Payments for intangibles	**(7.2)**	(2.7)
Net cash inflow/(outflow) from investing activities	**(147.8)**	(748.4)
Cash flows from financing activities		
Proceeds from borrowings	**1,630.1**	2,208.6
Repayment of borrowings	**(1,555.9)**	(1,244.0)
Repayment of loan with related party	**-**	(149.0)
Proceeds from issue of additional equity, net of transaction costs	**-**	3.9
Purchase of securities for security-based payments plans	**(9.1)**	(7.1)
Distributions paid to security holders	**(245.2)**	(241.6)
Net cash inflow/(outflow) from financing activities	**(180.1)**	570.8
Net increase/(decrease) in cash and cash equivalents	**3.4**	3.3
Cash and cash equivalents at the beginning of the period	**33.3**	21.2
Cash and cash equivalents at the end of the period	**36.7**	24.5

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

About This Report

In this section

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

Basis of preparation

These interim Financial Statements have been prepared in accordance with the requirements of the Constitutions of the entities within the Group, the *Corporations Act 2001*, AASB's issued by the Australian Accounting Standards Board and International Financial Reporting Standards (IFRS) 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. Refer to note 14 for changes in accounting policies.

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

The financial statements have been prepared on a going concern basis using historical cost conventions, except for investment properties, investment properties within the equity accounted investments, derivative financial instruments, and other financial assets and liabilities which are stated at their fair value. Refer to specific accounting policies within the notes to the annual Financial Statements for the year ended 30 June 2018 for the basis of valuation of assets and liabilities measured at fair value.

Dexus stapled securities are quoted on the Australian Securities Exchange under the "DXS" code and comprise one unit in each of DDF, DIT, DOT and DXO. In accordance with Australian Accounting Standards, the entities within the Group must be consolidated for financial reporting purposes. DDF is the parent entity and deemed acquirer of DIT, DOT and DXO. These Financial Statements therefore represent the consolidated results of DDF and include DDF and its controlled entities, DIT and its controlled entities, DOT and its controlled entities, and DXO and its controlled entities. All entities within the Group are for-profit entities.

Equity attributable to other trusts stapled to DDF is a form of non-controlling interest and represents the equity of DIT, DOT and DXO. The amount of non-controlling interest attributable to stapled security holders is disclosed in the Statement of Financial Position. DDF is a for-profit entity for the purpose of preparing Financial Statements.

Each entity forming part of the Group continues as a separate legal entity in its own right under the *Corporations Act 2001* and is therefore required to comply with the reporting and disclosure requirements under the *Corporations Act 2001* and Australian Accounting Standards. Dexus Funds Management Limited (DXFM) as Responsible Entity for DDF, DIT, DOT and DXO may only unstaple the Group if approval is obtained by a special resolution of the stapled security holders.

These Financial Statements do not include notes of the type normally included in an annual financial report. Accordingly, these Financial Statements should be read in conjunction with the annual Financial Statements for the year ended 30 June 2018 and any public pronouncements made by the Group during the half year in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

Working capital deficiency

The Group has unutilised facilities of $929.7 million (June 2018: $886.6 million) (refer to note 9) and sufficient working capital and cash flows in order to fund all requirements arising from the net current asset deficiency as at 31 December 2018 of $308.8 million (June 2018: $450.2 million). The deficiency is largely driven by the provision for distribution due to be paid in February 2019.

Critical accounting estimates

The preparation of Financial Statements requires the use of certain critical accounting estimates and management to exercise its judgement in the process of applying the Group's accounting policies. Other than the estimates and assumptions used for the measurement of items measured at fair value such as certain financial instruments, investment properties, and security-based payments, and the assumptions for intangible assets and the net realisable value for inventories, no key assumptions concerning the future or other estimation of uncertainty at the end of each reporting period could have a significant risk of causing material adjustments to the Financial Statements.

Notes to the Financial Statements

The notes are organised into the following sections:

Group performance	Property portfolio assets	Capital management and other investments	Other disclosures
1. Operating segments	5. Investment properties	9. Interest bearing liabilities	14. Changes in accounting policies
2. Finance costs	6. Investments accounted for using the equity method	10. Contingencies	15. Subsequent events
3. Taxation	7. Inventories	11. Contributed equity	
4. Distributions paid and payable	8. Non-current assets classified as held for sale	12. Intangible assets	
		13. Fair value of financial instruments	

Group performance

In this section

This section explains the results and performance of the Group.

It provides additional information about those individual line items in the Financial Statements that the Directors consider most relevant in the context of the operations of the Group, including: results by operating segment, finance costs and distributions paid and payable.

Note 1 Operating segments

Description of segments

The Group's operating segments have been identified based on the sectors analysed within the management reports reviewed in order to monitor performance across the Group and to appropriately allocate resources. Refer to the table below for a brief description of the Group's operating segments.

Segment	Description
Office	Office space with any associated retail space; as well as car parks and office developments.
Industrial	Industrial properties, industrial estates and industrial developments.
Property management	Property management services for third party clients and owned assets.
Funds management	Funds management of third party client assets.
Development and trading	Revenue earned and costs incurred by the Group on development services for third party clients, and inventory.
All other segments	Corporate expenses associated with maintaining and operating the Group. This segment also includes the centralised treasury function and direct property portfolio value of the Group's healthcare investments.

Note 1 Operating segments (continued)

31 December 2018	Office $m	Industrial $m	Property management $m	Funds management $m	Development and trading $m	All other segments $m	Eliminations $m	Total $m
Segment performance measures								
Property revenue	362.4	83.5	-	-	-	-	(1.4)	**444.5**
Property management fees	-	-	13.2	-	-	-	-	**13.2**
Development revenue	-	-	-	-	94.4	-	-	**94.4**
Management fee revenue	-	-	20.4	31.2	3.4	-	-	**55.0**
Total operating segment revenue	**362.4**	**83.5**	**33.6**	**31.2**	**97.8**	**-**	**(1.4)**	**607.1**
Property expenses & property management salaries	(110.6)	(17.2)	(11.3)	-	-	-	-	**(139.1)**
Management operations expenses	-	-	(15.0)	(11.3)	(3.1)	-	-	**(29.4)**
Corporate and administration expenses	(5.6)	(2.6)	-	-	-	(14.2)	1.4	**(21.0)**
Development costs	-	-	-	-	(44.8)	-	-	**(44.8)**
Interest revenue	-	-	-	-	-	0.6	-	**0.6**
Finance costs	-	-	-	-	-	(63.8)	-	**(63.8)**
Incentive amortisation and rent straight-line	53.1	4.9	-	-	-	-	-	**58.0**
FFO tax expense	-	-	-	-	(14.9)	(6.1)	-	**(21.0)**
Rental guarantees, coupon income and other	4.5	-	-	-	-	2.2	-	**6.7**
Funds From Operations (FFO)	**303.8**	**68.6**	**7.3**	**19.9**	**35.0**	**(81.3)**	**-**	**353.3**
Net fair value gain/(loss) of investment properties	356.7	98.6	-	-	-	1.2	-	**456.5**
Net fair value gain/(loss) of derivatives	-	-	-	-	-	26.3	-	**26.3**
Transaction costs	-	-	-	-	-	(3.0)	-	**(3.0)**
Net gain/(loss) on sale of investment properties	-	3.1	-	-	-	-	-	**3.1**
Net fair value gain/(loss) of interest bearing liabilities	-	-	-	-	-	(29.1)	-	**(29.1)**
Incentive amortisation and rent straight-line	(53.1)	(4.9)	-	-	-	-	-	**(58.0)**
Amortisation of intangible assets	-	-	-	-	-	(3.0)	-	**(3.0)**
Non FFO tax expense	-	-	-	-	-	(12.7)	-	**(12.7)**
Rental guarantees, coupon income and other	(4.5)	-	-	-	-	(2.5)	-	**(7.0)**
Net profit/(loss) attributable to stapled security holders	**602.9**	**165.4**	**7.3**	**19.9**	**35.0**	**(104.1)**	**-**	**726.4**
Investment properties	6,908.5	1,111.0	-	-	-	-	-	**8,019.5**
Non-current assets held for sale	-	0.9	-	-	-	-	-	**0.9**
Inventories	-	-	-	-	424.4	-	-	**424.4**
Equity accounted investment properties	4,521.3	879.3	-	-	-	69.1	-	**5,469.7**
Direct property portfolio	**11,429.8**	**1,991.2**	**-**	**-**	**424.4**	**69.1**	**-**	**13,914.5**

Note 1 Operating segments (continued)

31 December 2017	Office $m	Industrial $m	Property management $m	Funds management $m	Development and trading $m	All other segments $m	Eliminations $m	Total $m
Segment performance measures								
Property revenue	349.6	72.3	-	-	-	-	(1.2)	**420.7**
Property management fees	-	-	16.9	-	-	-	-	**16.9**
Development revenue	-	-	-	-	90.4	-	-	**90.4**
Management fee revenue	-	-	18.8	27.8	2.2	-	-	**48.8**
Total operating segment revenue	**349.6**	**72.3**	**35.7**	**27.8**	**92.6**	**-**	**(1.2)**	**576.8**
Property expenses & property management salaries	(93.7)	(14.1)	(12.7)	-	-	-	-	**(120.5)**
Management operations expenses	-	-	(13.3)	(11.2)	(3.4)	-	-	**(27.9)**
Corporate and administration expenses	(6.4)	(1.6)	-	-	-	(13.6)	1.2	**(20.4)**
Development costs	-	-	-	-	(70.0)	-	-	**(70.0)**
Interest revenue	-	-	-	-	-	0.7	-	**0.7**
Finance costs	-	-	-	-	-	(64.0)	-	**(64.0)**
Incentive amortisation and rent straight-line	43.5	8.0	-	-	-	-	-	**51.5**
FFO tax expense	-	-	-	-	(6.1)	(6.3)	-	**(12.4)**
Rental guarantees, coupon income and other	6.4	-	-	-	-	1.6	-	**8.0**
Funds From Operations (FFO)	**299.4**	**64.6**	**9.7**	**16.6**	**13.1**	**(81.6)**	**-**	**321.8**
Net fair value gain/(loss) of investment properties	662.9	62.3	-	-	-	5.0	-	**730.2**
Impairment of inventories	-	(0.6)	-	-	-	-	-	**(0.6)**
Net fair value gain/(loss) of derivatives	-	-	-	-	-	(9.2)	-	**(9.2)**
Transaction costs	-	-	-	-	-	(0.8)	-	**(0.8)**
Net gain/(loss) on sale of investment properties	(0.7)	-	-	-	-	-	-	**(0.7)**
Net fair value gain/(loss) of interest bearing liabilities	-	-	-	-	-	18.4	-	**18.4**
Incentive amortisation and rent straight-line	(43.5)	(8.0)	-	-	-	-	-	**(51.5)**
Amortisation of intangible assets	-	-	-	-	-	(2.7)	-	**(2.7)**
Rental guarantees, coupon income and other	(6.1)	-	-	-	-	(1.7)	-	**(7.8)**
Net profit/(loss) attributable to stapled security holders	**912.0**	**118.3**	**9.7**	**16.6**	**13.1**	**(72.6)**	**-**	**997.1**
30 June 2018								
Investment properties	6,437.2	1,805.4	-	-	-	-	-	**8,242.6**
Non-current assets held for sale	-	2.0	-	-	-	-	-	**2.0**
Inventories	-	-	-	-	544.7	-	-	**544.7**
Equity accounted investment properties	4,327.0	167.2	-	-	-	54.1	-	**4,548.3**
Direct property portfolio	**10,764.2**	**1,974.6**	**-**	**-**	**544.7**	**54.1**	**-**	**13,337.6**

Note 1 Operating segments (continued)

Other segment information

Funds from Operations (FFO)

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

Reconciliation of segment revenue to the Statement of Comprehensive Income

	31 Dec 2018 $m	31 Dec 2017 $m
Property lease revenue	**395.0**	420.7
Property services revenue[1]	**49.5**	-
Property revenue	**444.5**	420.7
Property management fees	**13.2**	16.9
Development revenue	**94.4**	90.4
Management fee revenue	**55.0**	48.8
Total operating segment revenue	**607.1**	576.8
Share of revenue from joint ventures	**(151.8)**	(139.9)
Interest revenue	**0.3**	0.4
Total revenue from ordinary activities	**455.6**	437.3

1 The Group applied AASB 15 Revenue from Contracts on 1 July 2018. A portion of the consideration within lease arrangements has been allocated to service revenue which has previously been disclosed as part of property lease revenue. Refer to *Note 14 Changes in Accounting Policies*.

Reconciliation of segment assets to the Statement of Financial Position

	31 Dec 2018 $m	30 Jun 2018 $m
Direct property portfolio[1]	**13,914.5**	13,337.6
Cash and cash equivalents	**36.7**	33.3
Receivables	**101.9**	63.4
Intangible assets	**318.6**	314.6
Derivative financial instruments	**435.1**	334.9
Plant and equipment	**16.6**	16.0
Prepayments and other assets[2]	**(111.6)**	(82.5)
Total assets	**14,711.8**	14,017.3

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

Note 2 Finance costs

Borrowing costs include interest, amortisation or ancillary 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 where the works being carried out to bring to its intended use or sale is expected to exceed six 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.

	31 Dec 2018 $m	31 Dec 2017 $m
Interest paid/payable	**61.5**	56.6
Net fair value (gain)/loss of interest rate swaps	**16.7**	6.2
Amount capitalised	**(10.0)**	(6.4)
Other finance costs	**3.2**	4.0
Total finance costs	**71.4**	60.4

The average capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation is 5.25%.

Note 3 Taxation

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

	31 Dec 2018 $m	31 Dec 2017 $m
Profit before income tax	**760.1**	1,009.5
Less: profit attributed to entities not subject to tax	**(645.6)**	(945.5)
Profit subject to income tax	**114.5**	64.0
Prima facie tax expense at the Australian tax rate of 30% (31 Dec 2017: 30%)	**(34.3)**	(19.2)
Tax effect of amounts which are not deductible/(assessable) in calculating taxable income:		
(Non-assessable)/non-deductible items	**0.6**	6.8
Income tax expense	**(33.7)**	(12.4)

Note 4 Distributions paid and payable

Distributions are recognised when declared.

a) Distribution to security holders

	31 Dec 2018 $m	31 Dec 2017 $m
31 December (payable 28 February 2019)	**276.7**	241.1
Total distribution to security holders	**276.7**	241.1

b) Distribution rate

	31 Dec 2018 Cents per security	31 Dec 2017 Cents per security
31 December (payable 28 February 2019)	**27.2**	23.7
Total distributions	**27.2**	23.7

Property portfolio assets

In this section

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

31 December 2018	Note	Office $m	Industrial $m	Healthcare $m	Total $m
Investment properties	5	6,908.5	1,111.0	-	**8,019.5**
Equity accounted investments	6	4,521.3	879.3	69.1	**5,469.7**
Inventories	7	239.7	184.7	-	**424.4**
Assets held for sale	8	-	0.9	-	**0.9**
Total		**11,669.5**	**2,175.9**	**69.1**	**13,914.5**

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

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

Note 5 Investment properties

a) Reconciliation

		For the 6 months to 31 Dec 2018 $m	For the 12 months to 30 Jun 2018 $m
Opening balance at the beginning of the period		**8,242.6**	7,169.1
Additions		**105.7**	168.4
Acquisitions		**331.3**	398.1
Lease incentives		**29.7**	62.9
Amortisation of lease incentives		**(37.2)**	(76.9)
Rent straightlining		**5.4**	12.2
Transfers from investment property to investments accounted for using the equity method[1]		**(642.7)**	-
Disposals		**(382.6)**	(44.0)
Transfer to non-current assets classified as held for sale		**(0.9)**	(2.0)
Transfer to inventories	7	**-**	(295.9)
Transfer from inventories	7	**91.8**	-
Net fair value gain/(loss) of investment properties		**276.4**	850.7
Closing balance at the end of the period		**8,019.5**	8,242.6

1 On 30 November 2018, Dexus established a new unlisted logistics vehicle, in joint venture with GIC, which was seeded with various industrial assets from the Group. See note 6 for more information on Dexus's investment in Dexus Australian Logistics Trust and Dexus Australian Logistics Trust No. 2.

Acquisitions

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

On 12 July 2018, settlement occurred for the acquisition of 586 Wickham Street, Fortitude Valley for $92.1 million excluding acquisition costs.

On 13 September 2018, settlement occurred for the acquisition of 54 Ferndell Street, South Granville for $61.5 million excluding acquisition costs.

Note 6 Investments accounted for using the equity method

Investments are accounted for in the Financial Statements using the equity method of accounting. Information relating to these entities is set out below.

	Ownership interest			
	31 Dec 2018	30 Jun 2018	**31 Dec 2018**	30 Jun 2018
Name of entity	**%**	%	**$m**	$m
Bent Street Trust	**33.3**	33.3	**347.9**	344.7
Dexus Creek Street Trust	**50.0**	50.0	**171.0**	161.8
Dexus Martin Place Trust	**50.0**	50.0	**405.0**	376.9
Grosvenor Place Holding Trust[1,2]	**50.0**	50.0	**461.9**	452.3
Site 6 Homebush Bay Trust[1]	**50.0**	50.0	**42.9**	33.6
Site 7 Homebush Bay Trust[1]	**50.0**	50.0	**51.6**	47.2
Dexus 480 Q Holding Trust	**50.0**	50.0	**370.6**	380.5
Dexus Kings Square Trust	**50.0**	50.0	**220.1**	216.3
Dexus Office Trust Australia (DOTA)	**50.0**	50.0	**2,295.4**	2,164.7
Dexus Industrial Trust Australia (DITA)	**50.0**	50.0	**207.4**	172.3
Dexus Eagle Street Pier Trust	**50.0**	50.0	**30.4**	33.0
Healthcare Wholesale Property Fund	**23.8**	23.8	**50.6**	49.6
Dexus Australian Logistics Trust (DALT)[3]	**75.0**	-	**618.6**	-
Dexus Australian Logistics Trust No.2 (DALT2)[3]	**51.0**	-	**49.5**	-
AHP Investment Management Pty Ltd	**50.0**	50.0	**-**	-
Total assets - investments accounted for using the equity method[4]			**5,322.9**	4,432.9

1 These entities are 50% owned by Dexus Office Trust Australia. The Group's economic interest is therefore 75% when combined with the interest held by Dexus Office Trust Australia. 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.

2 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%.

3 On 30 November 2018, the Group established a new unlisted logistics vehicle which was seeded with various industrial assets from the Group. These investments were previously wholly owned by the Group, prior to the disposal to the joint venture partner, GIC. The Group equity accounts its investments as it has joint control of the joint venture with GIC.

4 The Group's share of investment properties in the investments accounted for using the equity method was $5,469.7 million (June 2018: $4,548.3 million).

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

Note 7 Inventories

a) Development properties held for sale

	31 Dec 2018 $m	30 Jun 2018 $m
Current assets		
Development properties held for sale	**1.6**	37.6
Total current assets - inventories	**1.6**	37.6
Non-current assets		
Development properties held for sale	**422.8**	507.1
Total non-current assets - inventories	**422.8**	507.1
Total assets - inventories	**424.4**	544.7

b) Reconciliation

	Note	For the 6 months to 31 Dec 2018 $m	For the 12 months to 30 Jun 2018 $m
Opening balance at the beginning of the period		**544.7**	211.3
Transfer from investment properties	5	**-**	295.9
Transfer to investment properties	5	**(91.8)**	-
Disposals		**(38.4)**	(10.0)
Impairment		**-**	(0.6)
Additions		**9.9**	48.1
Closing balance at the end of the period		**424.4**	544.7

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 31 December 2018, the held for sale balance related to land lots at Dexus Industrial Estate, Truganina.

Capital management and other investments

In this section

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 shareholders (equity) in order to finance the Group's activities both now and in the future. This capital structure is detailed in the following notes:

- Debt: *Interest bearing liabilities* in note 9 and *Contingencies* in note 10;
- Equity: *Contributed equity* in note 11.

Note 9 Interest bearing liabilities

	Note	31 Dec 2018 $m	30 Jun 2018 $m
Current			
Unsecured			
Medium term notes	(e)	**-**	205.1
Total unsecured		**-**	205.1
Total current liabilities - interest bearing liabilities		**-**	205.1
Non-current			
Unsecured			
US senior notes	(a), (b)	**2,258.2**	2,065.7
Bank loans	(c)	**704.0**	520.0
Commercial paper	(d)	**97.0**	100.0
Medium term notes	(e)	**509.7**	480.3
Total unsecured		**3,568.9**	3,166.0
Deferred borrowing costs		**(10.5)**	(11.5)
Total non-current liabilities - interest bearing liabilities		**3,558.4**	3,154.5
Total interest beaing liabilities[1]		**3,558.4**	3,359.6

1 The restated opening balance for interest bearing liabilities on implementation of AASB 9 is $3,156.4 million. Refer to *Note 14 Changes in accounting policies* for further information.

Financing arrangements

The following table summarises the maturity profile of the Group's financing arrangements:

Type of facility	Notes	Currency	Security	Maturity Date	Utilised[1] $m	Facility Limit $m
US senior notes (144A)	(a)	US$	Unsecured	Mar-21	353.9	353.9
US senior notes (USPP)[1]	(b)	US$	Unsecured	Jul-23 to Nov-32	1,608.1	1,608.1
US senior notes (USPP)	(b)	A$	Unsecured	Jun-28 to Oct-38	325.0	325.0
Medium term notes	(e)	A$	Unsecured	Nov-22 to Aug-38	509.7	509.7
Commercial paper	(d)	A$	Unsecured	Sep-22	97.0	100.0
Multi-option revolving credit facilities	(c)	Multi Currency	Unsecured	Sep-19 to Jul-24	704.0	1,675.0
Total					**3,597.7**	**4,571.7**
Bank guarantee in place					44.3	
Unused at balance date					929.7	

1 Includes drawn amounts and excludes fair value adjustments recorded in interest bearing liabilities in relation to effective fair value hedges.

Each of the Group's unsecured borrowing facilities are supported by guarantee arrangements, and have negative pledge provisions which limit the amount and type of encumbrances that the Group can have over its assets and ensures that all senior unsecured debt ranks pari passu.

Note 9 Interest bearing liabilities (continued)

a) US senior notes (144A)

This includes a total of US$250.0 million (A$353.9 million) of US senior notes with a maturity of March 2021. The USD exposure is economically hedged using cross currency interest rate swaps with a notional value of US$250.0 million.

b) US senior notes (USPP)

This includes a total of US$1,135.0 million and A$325.0 million (A$1,933.1 million) of US senior notes with a weighted average maturity of October 2028. US$1,135.0 million is designated as an accounting hedge using cross currency interest rate swaps with the same notional value.

c) Multi-option revolving credit facilities

This includes 19 facilities maturing between September 2019 and July 2024 with a weighted average maturity of October 2021. A$44.3 million is utilised as bank guarantees for AFSL requirements and other business requirements including developments.

d) Commercial paper

This includes a total of A$97.0 million of Commercial Paper which is supported by a standby facility of A$100.0 million with a weighted average maturity of September 2022. The standby facility has same day availability.

e) Medium term notes

This includes a total of A$505.0 million of Medium Term Notes with a weighted average maturity of January 2026. The remaining A$4.7 million is the net premium on the issue of these instruments.

Note 10 Contingencies

DDF, together with DIT, DOT and DXO, is a guarantor of A$4,571.7 million of debt facilities. The guarantees have been given in support of debt outstanding and drawn against these facilities, and may be called upon in the event that a borrowing entity has not complied with certain requirements such as failure to pay interest or repay a borrowing, whichever is earlier. During the period no guarantees were called.

The Group has bank guarantees of $44.3 million, comprising $43.1 million held to comply with the terms of the Australian Financial Services Licences (AFSL) and $1.2 million largely in respect of developments.

The above guarantees are issued in respect of the Group and 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 Group, other than those disclosed in the Financial Statements, which should be brought to the attention of security holders as at the date of completion of this report.

Note 11 Contributed equity

Number of securities on issue

	For the 6 months to 31 Dec 2018 No. of securities	For the 12 months to 30 Jun 2018 No. of securities
Opening balance at the beginning of the period	**1,017,196,877**	1,016,967,300
Issue of additional equity	**-**	437,242
Buy-back of contributed equity	**-**	(207,665)
Closing balance at the end of the period	**1,017,196,877**	1,017,196,877

Note 12 Intangible assets

Management rights represent the asset management rights owned by Dexus Holdings Pty Limited, a wholly owned subsidiary of DXO, which entitle 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 $3.6 million (June 2018: $3.7 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 (June 2018: $286.0 million).

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

	31 Dec 2018 $m	30 Jun 2018 $m
Management rights		
Opening balance at the beginning of the period	**289.8**	290.1
Amortisation charge	**(0.2)**	(0.3)
Closing balance at the end of the period	**289.6**	289.8
Cost	**294.4**	294.4
Accumulated amortisation	**(4.8)**	(4.6)
Total management rights	**289.6**	289.8
Goodwill		
Opening balance at the beginning of the period	**1.1**	1.2
Impairment	**-**	(0.1)
Closing balance at the end of the period	**1.1**	1.1
Cost	**3.0**	3.0
Accumulated impairment	**(1.9)**	(1.9)
Total goodwill	**1.1**	1.1
Software		
Opening balance at the beginning of the period	**23.7**	18.2
Additions	**7.2**	10.9
Amortisation charge	**(3.0)**	(5.4)
Closing balance at the end of the period	**27.9**	23.7
Cost	**52.1**	47.7
Accumulated amortisation	**(24.2)**	(24.0)
Cost - Fully amortised assets written off	**-**	(2.8)
Accumulated amortisation - Fully amortised assets written off	**-**	2.8
Total software	**27.9**	23.7
Total non-current intangible assets	**318.6**	314.6

As at 31 December 2018, management had not identified any events or circumstances that would indicate an impairment of the carrying amount of management rights associated with indefinite life trusts.

Note 13 Fair value of financial instruments

As at 31 December 2018 and 30 June 2018, the carrying amounts of financial assets and liabilities are held at fair value excluding interesting bearing liabilities which have a carrying amount of $3,568.9 million (June 2018: $3,371.1 million) and a fair value of $3,687.1 million (June 2018: $3,587.3 million). The Group uses the following methods in the determination and disclosure of the fair value of financial instruments:

Level 1: the fair value is calculated using quoted prices in active markets.

Level 2: the fair value is determined using inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: the fair value is estimated using inputs for the asset or liability that are no based on observable data.

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

Other disclosures

In this section

This section includes other information that must be disclosed to comply with the Accounting Standards, the *Corporations Act 2001* or the Corporations Regulations, but which are not considered critical in understanding the financial performance or position of the Group.

Note 14 Changes in accounting policies

AASB 15 Revenue from Contracts with Customers and AASB 9 Financial Instruments were adopted by the Group on 1 July 2018. As the Group has adopted the modified retrospective approach upon implementation of these standards, comparatives have not been restated, however the Group has disclosed below the restatement of the 1 July 2018 opening retained earnings balance and respective balance sheet positions impacted as a result of this change.

AASB 15 Revenue from Contracts with Customers

AASB 15 provides new guidance for determining when the Group should recognise revenue. The new revenue recognition model is based on the principle that revenue is recognised when control of a good or service is transferred to a customer - either at a point in time or over time. The model features a contract–based five-step analysis of transactions to determine whether, how much and when revenue is recognised. The Group's revenue is largely comprised of income under leases (see below), sales of inventory, management fees and development services.

The following specific revenue streams have been assessed:

Income under leases
Within its lease arrangements, the Group provides certain services to tenants (such as utilities, cleaning, maintenance and certain parking arrangements) which are accounted for within AASB 15. A portion of the consideration within the lease arrangements are therefore allocated to revenue for the provision of services. The service revenue is recognised over time as the services are provided and as such, the timing of recognition of income is not affected. Such revenue has, however, been disclosed separately in *Note 1 Operating segments*.

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

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 have chosen to apply this expedient. There is no impact on transition as the Group had no uncompleted inventory or development contracts at 1 July 2018 which required re-assessment.

AASB 9 Financial Instruments

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
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.

The previous impairment assessment model was an 'incurred loss' model requiring the Group to consider whether or not the financial asset was impaired at the date of performing the assessment. Under AASB 9 this model has changed to an 'expected credit loss' (ECL) model. The Group has therefore considered 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. This rate has been applied to the Group's trade debtors to calculate impairment under the ECL model. The change has had an immaterial impact to the Group.

Hedging
The new hedging rules align hedge accounting more closely with the reporting entity's risk management practices. AASB 9 requires updated hedge documentation to reflect the new requirements of AASB 9. Existing hedge relationships will continue to qualify as effective hedge relationships upon adoption of the new standard.

Note 14 Changes in accounting policies (continued)

Hedging (continued)
The Group uses interest rate swaps and cross currency interest rate swaps to manage interest rate and foreign currency risk exposures arising from external debt obligations. By applying AASB 9 hedge accounting, changes in foreign currency basis spreads are recognised in a separate cost of hedging reserve within equity. There has been no remeasurement of the Group's derivatives.

Debt modifications
The implementation of AASB 9 requires a gain or loss arising on modification of a financial liability that does not result in derecognition to be immediately recognised in profit or loss. The Group has assessed the impact and on application of AASB 9 the Group has an adjustment of $1.8 million to retained earnings, resulting in an increase to interest bearing liabilities. Refer below for a reconciliation of retained earnings and the impacts on the Consolidated Statement of Financial Position.

Classification of financial assets
The Group has assessed the classification of significant asset classes summarised in the table below:

Financial Assets	AASB 139 Classification	AASB 9 Classification
Rent receivable	Loans and receivables	Financial assets at amortised cost
Distributions receivable	Loans and receivables	Financial assets at amortised cost
Fees receivable	Loans and receivables	Financial assets at amortised cost
Other receivables	Loans and receivables	Financial assets at amortised cost
Derivative assets	Fair value through profit and loss[1]	Fair value through profit and loss[1]
Other financial assets	Other financial assets at FVTPL	Other financial assets at FVTPL

1 Excluding where hedge accounting is applied.

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

	31 Dec 2018 $m
Closing retained earnings balance as at 30 Jun 2018 - AASB 139	**3,615.9**
(Increase)/Decrease in debt investments at amortised cost	**(1.9)**
Cashflow hedge reserve and foreign currency basis reserve	**(29.9)**
Opening retained earnings balance as at 1 Jul 2018 - AASB 9	**3,584.1**

Note 14 Changes in accounting policies (continued)

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

	30 Jun 2018 $m	AASB 9 $m	1 Jul 2018 Restated $m
Non-current liabilities			
Interest bearing liabilities	3,154.5	1.9	**3,156.4**
Total non-current liabilities	3,331.5	1.9	**3,333.4**
Total liabilities	3,969.9	1.9	**3,971.8**
Net assets	10,047.4	(1.9)	**10,045.5**
Equity			
Equity attributable to unitholders of the Trust (parent entity)			
Reserves	(12.5)	29.9	**17.4**
Retained profits	788.5	(31.4)	**757.1**
Parent entity unitholders' interest	2,903.3	(1.5)	**2,901.8**
Equity attributable to unitholders of other stapled entities			
Retained profits	2,827.4	(0.4)	**2,827.0**
Other stapled unitholders' interest	7,144.1	(0.4)	**7,143.7**
Total equity	10,047.4	(1.9)	**10,045.5**

Note 15 Subsequent events

On 31 January 2019, settlement occurred for the disposal of Laverton land lot 23 at Truganina, Victoria for gross proceeds of $2.5 million.

Since the end of the period, 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

In the Directors' opinion:

a) The Financial statements and notes set out on pages 11 to 32 are in accordance with the *Corporations Act 2001,* including:

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

(ii) giving a true and fair view of the Group's financial position as at 31 December 2018 and of its performance for the half year ended on that date; and

(b) there are reasonable grounds to believe that the Group will be able to pay their debts as and when they become due and payable.

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

W Richard Sheppard

Chair

5 February 2019

Independent auditor's review report to the securityholders of Dexus Diversified Trust

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report (the financial report) of Dexus Diversified Trust (the Trust), which comprises the consolidated statement of financial position as at 31 December 2018, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, selected other explanatory notes and the directors declaration of Dexus Funds Management Limited (the Responsible Entity) in respect of the Trust and its consolidated entities (the consolidated entity). The consolidated entity comprises the Trust and the entities it controlled during that half-year.

Directors responsibility for the financial report

The directors of the Responsible Entity (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 is free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the consolidated entity's financial position as at 31 December 2018 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Trust, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the financial report of the Trust is not in accordance with the *Corporations Act 2001* including:

1. giving a true and fair view of the consolidated entity's financial position as at 31 December 2018 and of its performance for the half-year ended on that date; and

2. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers

Matthew Lunn
Partner

Sydney
5 February 2019

Dexus Industrial Trust

Interim Report

31 December 2018

ARSN 090 879 137

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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 half year ended 31 December 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 stapled security (DXS or the Group).

Directors

Directors

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

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

Operating and financial review

The results for the half year ended 31 December 2018 were:

- profit attributable to unitholders was $42.7 million (December 2017: $46.9 million);
- total assets were $1,008.5 million (June 2018: $980.5 million); and
- net assets were $900.4 million (June 2018: $943.4 million).

A review of the results, financial position and operations of the Group, which the Trust forms part thereof, is set out in the Directors' Report of the Dexus Interim Report.

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 3 and forms part of this Directors' Report.

Rounding of amounts and currency

As the Trust is a registered scheme 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 5 February 2019.

W Richard Sheppard
Chair
5 February 2019

Darren J Steinberg
Chief Executive Officer
5 February 2019

Auditor's Independence Declaration

As lead auditor for the review of Dexus Industrial Trust (the Trust) for the half-year ended 31 December 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 review; and

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

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

Matthew Lunn
Partner
PricewaterhouseCoopers

Sydney
5 February 2019

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Consolidated Statement of Comprehensive Income

For the half year ended 31 December 2018

	Note	31 Dec 2018 $'000	31 Dec 2017 $'000
Revenue from ordinary activities			
Property revenue	2	**29,204**	26,010
Interest revenue		**5,480**	7,867
Total revenue from ordinary activities		**34,684**	33,877
Net fair value gain of investment properties		**12,137**	20,334
Net gain on sale of investment properties		**4,036**	-
Total income		**50,857**	54,211
Expenses			
Property expenses		**(6,207)**	(5,298)
Management fee expense		**(1,021)**	(1,044)
Finance costs	3	**(216)**	(697)
Transaction costs		**(360)**	-
Management operations, corporate and administration expenses		**(347)**	(277)
Total expenses		**(8,151)**	(7,316)
Profit/(loss) before tax		**42,706**	46,895
Profit/(loss) for the period		**42,706**	46,895
Other comprehensive income/(loss):			
Other comprehensive income/(loss)		**-**	-
Total comprehensive income/(loss) for the period		**42,706**	46,895

	Cents	Cents
Earnings per unit on profit/(loss) attributable to unitholders of the parent entity		
Basic earnings per unit	**4.20**	4.61
Diluted earnings per unit	**4.20**	4.61

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

Consolidated Statement of Financial Position

As at 31 December 2018

	Note	31 Dec 2018 $'000	30 Jun 2018 $'000
Current assets			
Cash and cash equivalents		**5,311**	963
Receivables		**1,999**	3,804
Derivative financial instruments	7	**111**	-
Other		**2,625**	965
Total current assets		**10,046**	5,732
Non-current assets			
Investment properties	4	**559,418**	744,150
Derivative financial instruments	7	**-**	179
Loans with related parties		**438,900**	230,376
Other		**96**	25
Total non-current assets		**998,414**	974,730
Total assets		**1,008,460**	980,462
Current liabilities			
Payables		**14,563**	11,545
Provisions		**87,149**	15,975
Derivative financial instruments	7	**6,338**	911
Total current liabilities		**108,050**	28,431
Non-current liabilities			
Derivative financial instruments	7	**-**	8,633
Total non-current liabilities		**-**	8,633
Total liabilities		**108,050**	37,064
Net assets		**900,410**	943,398
Equity			
Contributed equity	6	**1,139,628**	1,139,628
Retained profits/(accumulated losses)		**(239,218)**	(196,230)
Other stapled unitholders' interest		**900,410**	943,398
Total equity		**900,410**	943,398

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

Consolidated Statement of Changes in Equity

For the half year ended 31 December 2018

	Note	Contributed equity $'000	Retained profits/ (losses) $'000	Total equity $'000
Opening balance as at 1 July 2017		1,314,430	(247,195)	1,067,235
Profit/(loss) for the period		-	46,895	46,895
Other comprehensive income/(loss) for the period		-	-	-
Total comprehensive income for the period		-	46,895	46,895
Transactions with owners in their capacity as unitholders:				
Issue of additional equity, net of transaction costs		467	-	467
Capital return[1]		(175,095)		(175,095)
Distributions paid or provided for		-	(27,299)	(27,299)
Total transactions with owners in their capacity as owners		(174,628)	(27,299)	(201,927)
Closing balance as at 31 December 2017		1,139,802	(227,599)	912,203
Opening balance as at 1 July 2018		**1,139,628**	**(196,230)**	**943,398**
Change in accounting policy	8	-	(188)	(188)
Restated opening balance as at 1 July 2018		**1,139,628**	**(196,418)**	**943,210**
Profit/(loss) for the period		**-**	**42,706**	**42,706**
Other comprehensive income/(loss) for the period		**-**	**-**	**-**
Total comprehensive income for the period		**-**	**42,706**	**42,706**
Transactions with owners in their capacity as unitholders:				
Distributions paid or provided for		**-**	**(85,506)**	**(85,506)**
Total transactions with owners in their capacity as owners		**-**	**(85,506)**	**(85,506)**
Closing balance as at 31 December 2018		**1,139,628**	**(239,218)**	**900,410**

1 DXFM as Responsible Entity of DIT made a capital return of 17.21 cents per unit to the existing unitholders 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 half year ended 31 December 2018

	31 Dec 2018 $'000	31 Dec 2017 $'000
Cash flows from operating activities		
Receipts in the course of operations (inclusive of GST)	**35,965**	32,365
Payments in the course of operations (inclusive of GST)	**(6,090)**	(8,427)
Interest received	**8**	5
Interest received/(paid) on derivatives	**(3,384)**	(910)
Net cash inflow/(outflow) from operating activities	**26,499**	23,033
Cash flows from investing activities		
Proceeds from sale of investment properties	**205,264**	45,200
Payments for capital expenditure on investment properties	**(7,795)**	(5,169)
Net cash inflow/(outflow) from investing activities	**197,469**	40,031
Cash flows from financing activities		
Borrowing provided to related parties	**(219,604)**	(82,836)
Proceeds from loan with related party	**15,958**	45,607
Proceeds from issue of additional equity, net of transaction costs	**-**	467
Distributions paid to unit holders	**(15,975)**	(26,237)
Net cash inflow/(outflow) from financing activities	**(219,621)**	(62,999)
Net increase/(decrease) in cash and cash equivalents	**4,348**	65
Cash and cash equivalents at the beginning of the period	**963**	1,246
Cash and cash equivalents at the end of the period	**5,311**	1,311

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.

Basis of preparation

These general purpose financial statements have been prepared;

- for a for-profit entity,
- in accordance with the requirements of the Constitution of the entities within the Group, the *Corporations Act 2001*, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board and International Financial Reporting Standards (IFRS),
- 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.
- on a going concern basis,
- using historical cost conventions except for investment properties, derivative financial instruments and other financial liabilities which are stated at their fair value. Refer to the specific accounting policies within the notes to the annual Financial Statements for the year ended 30 June 2018 for the basis of valuation of assets and liabilities measured at fair value, and
- using consistent accounting policies in line with those of the previous financial year and corresponding interim reporting period, unless otherwise stated.

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.

These Financial Statements do not include notes of the type normally included in an annual financial report. Accordingly these Financial Statements should be read in conjunction with the annual Financial Statements for the year ended 30 June 2018 and any public pronouncements made by DXS during the half year in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

Working capital deficiency

As at 31 December 2018, the Trust had a net current asset deficiency of $98.0 million (June 2018: $22.7 million). This is primarily due to the provision for distribution of $85.5 million (June 2018: $16.0 million).

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 $929.7 million (refer to note 9 Interest bearing liabilities in the Dexus Interim Report).

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

The preparation of Financial Statements requires the use of certain critical accounting estimates and management to exercise its judgement in the process of applying the Group's accounting policies. Other than the estimates and assumptions used for the measurement of items measured at fair value such as certain financial instruments and investment properties no key assumptions concerning the future or other estimation of uncertainty at the end of each reporting period could have a significant risk of causing material adjustments to the Financial Statements.

Notes to the Financial Statements

The notes are organised into the following sections:

Trust performance	Property portfolio assets	Capital management and other investments	Other disclosures
1. Operating segments	4. Investment properties	5. Contingencies	8. Changes in accounting policies
2. Property revenue and expenses		6. Contributed equity	9. Subsequent events
3. Finance costs		7. Fair value of financial instruments	

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 and finance costs.

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 Interim 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.

	31 Dec 2018	31 Dec 2017
	$'000	$'000
Property lease revenue	**25,124**	28,328
Property services revenue[1]	**3,248**	-
Incentive amortisation	**(2,625)**	(5,211)
Other revenue	**3,457**	2,893
Total property revenue	**29,204**	26,010

1 The Trust applied AASB 15 Revenue from Contracts on 1 July 2018. A portion of the consideration within lease arrangements has been allocated to service revenue which has previously been disclosed as part of property lease revenue. Refer to Note 8.

Property expenses of $6.2 million includes rates, taxes and other property outgoings incurred in relation to investment properties.

Note 3 Finance costs

	31 Dec 2018	31 Dec 2017
	$'000	$'000
Net fair value (gain)/loss of interest rate swaps	**247**	437
Amount capitalised	**(31)**	-
Other finance costs	**-**	260
Total finance costs	**216**	697

Property Portfolio Assets

In this section

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

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

Note 4 Investment properties

	For the 6 months to 31 Dec 2018 $'000	For the 12 months to 30 Jun 2018 $'000
Opening balance at the beginning of the period	**744,150**	734,211
Additions	**2,603**	17,003
Lease incentives	**4,019**	6,894
Amortisation of lease incentives	**(2,988)**	(10,192)
Rent straightlining	**725**	(1,798)
Disposal[1]	**(201,228)**	(45,200)
Net fair value gain/(loss) of investment properties	**12,137**	43,232
Closing balance at the end of the period	**559,418**	744,150

1 On 26 November 2018, Dexus established a new unlisted logistics vehicle that will invest in Australian logistics properties. The new unlisted vehicle, known as Dexus Australian Logistic Trust (DALT) was seeded with assets from Dexus's existing industrial portfolio. The disposals therefore include the disposal of assets to DALT.

Capital management and other investments

In this section

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 unit 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: *Contingencies* in note 5;
- Equity: *Contributed equity* in note 6.

Note 5 Contingencies

The Trust, together with DXO and DOT and DDF, is a guarantor of A$4,571.7 million of interest bearing liabilities (refer to note 9 of the Dexus Interim 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 constitute an additional contingent 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 6 Contributed equity

Number of units on issue

	For the 6 months to 31 Dec 2018	For the 12 months to 30 Jun 2018
	No. of units	No. of units
Opening balance at the beginning of the period	**1,017,196,877**	1,016,967,300
Issue of additional equity	**-**	437,242
Buy-back of contributed equity	**-**	(207,665)
Closing balance at the end of the period	**1,017,196,877**	1,017,196,877

Note 7 Fair value of financial instruments

As at 31 December 2018 and 30 June 2018, the carrying amount 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 were measured at Level 2 for the periods presented in this report. During the half year, there were no transfers between Level 1, 2 and 3 fair value measurements.

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 8 Changes in accounting policies

AASB 15 Revenue from Contracts with Customers and AASB 9 Financial Instruments were adopted by the Trust on 1 July 2018. As the Trust has adopted the modified retrospective approach upon implementation of these standards, comparatives have not been restated. The adoption of the new accounting standards does not have a material impact on the Trust. The changes and considerations are detailed below.

AASB 15 Revenue from Contracts with Customers

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

The following specific revenue stream has 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 are accounted for within AASB 15. A portion of the consideration within the lease arrangements are therefore allocated to revenue for the provision of services. The service revenue is recognised over time as the services are provided and as such, the timing of recognition of income is not affected.

AASB 9 Financial Instruments

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
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.

The previous impairment assessment model was an 'incurred loss' model requiring the Trust to consider whether or not the financial asset was impaired at the date of performing the assessment. Under AASB 9 this model has changed to an 'expected credit loss' (ECL) model. The Trust has therefore considered 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. This rate has been applied to the Trust's trade debtors to calculate impairment under the ECL model. The change has had an immaterial impact to the Trust.

Note 8 Changes in accounting policies (continued)

Classification of financial assets

The Trust has assessed the classification of significant asset classes summarised in the table below:

Financial Assets	AASB 139 Classification	AASB 9 Classification
Rent receivable	Loans and receivables	Financial assets at amortised cost
Distributions receivable	Loans and receivables	Financial assets at amortised cost
Other receivables	Loans and receivables	Financial assets at amortised cost
Derivative assets	Fair value through profit and loss[1]	Fair value through profit and loss[1]

1 Excluding where hedge accounting is applied.

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

	31 Dec 2018 $'000
Closing retained earnings balance as at 30 Jun 2018 - AASB 139	**(196,230)**
Increase in provision for doubtful debts	**(188)**
Opening retained earnings balance as at 1 Jul 2018 - AASB 9	**(196,418)**

Note 9 Subsequent events

Since the end of the period, 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

In the Directors' opinion:

a) The Financial statements and notes set out on pages 4 to 14 are in accordance with the *Corporations Act 2001,* including:

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

   (ii) giving a true and fair view of the Trust's financial position as at 31 December 2018 and of its performance for the half year ended on that date; and

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

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

W Richard Sheppard

Chair

5 February 2019

Independent auditor's review report to the securityholders of Dexus Industrial Trust

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report (the financial report) of Dexus Industrial Trust (the Trust), which comprises the consolidated statement of financial position as at 31 December 2018, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, selected other explanatory notes and the directors declaration of Dexus Funds Management Limited (the Responsible Entity) in respect of the Trust and its consolidated entities (the consolidated entity). The consolidated entity comprises the Trust and the entities it controlled during that half-year.

Directors of the Responsible Entity's responsibility for the financial report

The directors of the Responsible Entity (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 is free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the consolidated entity's financial position as at 31 December 2018 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Trust, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

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Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the financial report of the Trust is not in accordance with the *Corporations Act 2001* including:

1. giving a true and fair view of the consolidated entity's financial position as at 31 December 2018 and of its performance for the half-year ended on that date; and

2. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers

Matthew Lunn
Partner

Sydney
5 February 2019

Dexus Office Trust
Interim Report
31 December 2018

ARSN 090 768 531

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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 period ended 31 December 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

Directors

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

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

Operating and financial review

The results for the period ended 31 December 2018 were:

- profit attributable to unitholders was $420.6 million (December 2017: $613.8 million);
- total assets were $9,664.1 million (June 2018: $9,090.8 million); and
- net assets were $6,295.7 million (June 2018: $5,986.4 million).

A review of the results, financial position and operations of the Group, of which the Trust forms part thereof, is set out in the Operating and Financial Review of the Dexus Financial Report and forms part of this Directors' Report.

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 3 and forms part of this Directors' Report.

Rounding of amounts and currency

As the Trust is a registered scheme 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 5 February 2019.

W Richard Sheppard
Chair
5 February 2019

Darren J Steinberg
Chief Executive Officer
5 February 2019

Auditor's Independence Declaration

As lead auditor for the review of Dexus Office Trust (the Trust) for the half-year ended 31 December 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 review; and

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

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

Matthew Lunn
Partner
PricewaterhouseCoopers

Sydney
5 February 2019

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Consolidated Statement of Comprehensive Income

For the period ended 31 December 2018

	Note	31 Dec 2018 $m	31 Dec 2017 $m
Revenue from ordinary activities			
Property revenue	2	**150.9**	144.8
Interest revenue		**0.1**	0.2
Total revenue from ordinary activities		**151.0**	145.0
Net fair value gain of investment properties		**143.6**	327.9
Share of net profit of investments accounted for using the equity method		**233.7**	259.7
Net fair value gain of derivatives		**11.6**	-
Total income		**539.9**	732.6
Expenses			
Property expenses		**(38.7)**	(38.0)
Management fee expense		**(7.1)**	(7.1)
Finance costs	3	**(72.9)**	(72.9)
Management operations, corporate and administration expenses		**(0.6)**	(0.8)
Total expenses		**(119.3)**	(118.8)
Profit before tax		**420.6**	613.8
Profit for the period		**420.6**	613.8
Other comprehensive income/(loss):			
Other comprehensive income/(loss)		**-**	-
Total comprehensive income for the period		**420.6**	613.8

	Cents	Cents
Earnings per unit on profit attributable to unitholders of the Trust (parent entity)		
Basic earnings per unit	**41.35**	60.34
Diluted earnings per unit	**41.35**	60.34

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

Consolidated Statement of Financial Position

As at 31 December 2018

	Note	31 Dec 2018 $m	30 Jun 2018 $m
Current assets			
Cash and cash equivalents		**11.5**	7.2
Receivables		**39.8**	26.9
Derivative financial instruments	8	**2.0**	6.7
Other		**11.8**	17.1
Total current assets		**65.1**	57.9
Non-current assets			
Investment properties	4	**5,192.6**	4,810.5
Investments accounted for using the equity method	5	**4,404.7**	4,218.5
Derivative financial instruments	8	**0.6**	2.7
Other		**1.1**	1.2
Total non-current assets		**9,599.0**	9,032.9
Total assets		**9,664.1**	9,090.8
Current liabilities			
Payables		**65.3**	70.0
Provisions		**119.7**	149.9
Derivative financial instruments	8	**1.7**	4.5
Total current liabilities		**186.7**	224.4
Non-current liabilities			
Loans with related parties		**3,162.7**	2,867.0
Derivative financial instruments	8	**19.0**	12.9
Other		**-**	0.1
Total non-current liabilities		**3,181.7**	2,880.0
Total liabilities		**3,368.4**	3,104.4
Net assets		**6,295.7**	5,986.4
Equity			
Contributed equity	7	**3,050.8**	3,050.8
Retained profits		**3,244.9**	2,935.6
Other stapled unitholders' interest		**6,295.7**	5,986.4
Total equity		**6,295.7**	5,986.4

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

Consolidated Statement of Changes in Equity

For the period ended 31 December 2018

	Note	Contributed equity $m	Retained profits/ (losses) $m	Total equity $m
Opening balance as at 1 July 2017		2,699.7	2,151.3	4,851.0
Profit/(loss) for the period		-	613.8	613.8
Other comprehensive income/(loss) for the period		-	-	-
Total comprehensive income for the period		-	613.8	613.8
Transactions with owners in their capacity as unitholders:				
Issue of additional equity, net of transaction costs		2.1	-	2.1
Capital contribution[1]		350.1		350.1
Distributions paid or provided for		-	(135.6)	(135.6)
Total transactions with owners in their capacity as owners		352.2	(135.6)	216.6
Closing balance as at 31 December 2017		3,051.9	2,629.5	5,681.4
Opening balance as at 1 July 2018		**3,050.8**	**2,935.6**	**5,986.4**
Profit/(loss) for the period		**-**	**420.6**	**420.6**
Other comprehensive income/(loss) for the period		**-**	**-**	**-**
Total comprehensive income for the period		**-**	**420.6**	**420.6**
Transactions with owners in their capacity as unitholders:				
Distributions paid or provided for		**-**	**(111.3)**	**(111.3)**
Total transactions with owners in their capacity as owners		**-**	**(111.3)**	**(111.3)**
Closing balance as at 31 December 2018		**3,050.8**	**3,244.9**	**6,295.7**

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 notes.

Consolidated Statement of Cash Flows

For the period ended 31 December 2018

	31 Dec 2018 $m	31 Dec 2017 $m
Cash flows from operating activities		
Receipts in the course of operations (inclusive of GST)	**169.8**	165.6
Payments in the course of operations (inclusive of GST)	**(39.7)**	(56.7)
Interest received	**0.1**	0.2
Finance costs paid to financial institutions	**(7.8)**	(7.2)
Distributions received from investments accounted for using the equity method	**101.0**	105.3
Net cash inflow/(outflow) from operating activities	**223.4**	207.2
Cash flows from investing activities		
Payments for capital expenditure on investment properties	**(78.1)**	(56.1)
Proceeds from sale of underlying investment	**16.2**	-
Payments for investments accounted for using the equity method	**(64.9)**	(270.0)
Payments for acquisition of investment properties	**(168.9)**	(323.7)
Net cash inflow/(outflow) from investing activities	**(295.7)**	(649.8)
Cash flows from financing activities		
Borrowing provided to related parties	**(358.1)**	(483.6)
Borrowing received from related parties	**584.6**	1,051.4
Proceeds from issue of additional equity, net of transaction costs	**-**	2.1
Distributions paid to security holders	**(149.9)**	(119.6)
Net cash inflow/(outflow) from financing activities	**76.6**	450.3
Net increase/(decrease) in cash and cash equivalents	**4.3**	7.7
Cash and cash equivalents at the beginning of the period	**7.2**	5.8
Cash and cash equivalents at the end of the period	**11.5**	13.5

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.

Basis of preparation

These general purpose Financial Statements have been prepared;

- for a for-profit entity,
- in accordance with the requirements of the Constitution of the entities within the Group, the *Corporations Act 2001*, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board and International Financial Reporting Standards (IFRS),
- in Australian dollars with all values rounded in the nearest tenth of a million dollars in accordance with ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, unless otherwise stated.
- on a going concern basis,
- using historical cost conventions except for investment properties, investment properties within equity accounted investments, derivative financial instruments and other financial liabilities which are stated at their fair value. Refer to the specific accounting policies within the notes to the annual Financial Statements for the year ended 30 June 2018 for the basis of valuation of assets and liabilities measured at fair value, and
- using consistent accounting policies in line with those of the previous financial period and corresponding interim reporting period, unless otherwise stated.

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 31 December 2018, the Trust had a net current asset deficiency of $121.6 million (June 2018: $166.5 million). This is primarily due to the provision for distribution of $111.3 million (June 2018: $149.9 million).

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 $929.7 million (refer to note 9 Interest bearing liabilities in the Dexus Interim Report).

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

The preparation of Financial Statements requires the use of certain critical accounting estimates and management to exercise its judgment in the process of applying the Trust's accounting policies. Other than the estimates and assumptions used for the measurement of items measured at fair value such as certain financial instruments and investment properties, no key assumptions concerning the future or other estimation of uncertainty at the end of each reporting period could have a significant risk of causing material adjustments to the Financial Statements.

Notes to the Financial Statements

The notes are organised into the following sections:

Trust performance	Property portfolio assets	Capital management and other investments	Other disclosures
1. Operating segments	4. Investment properties	6. Contingencies	9. Changes in accounting policies
2. Property revenue and expenses	5. Investments accounted for using the equity method	7. Contributed equity	10. Subsequent events
3. Finance costs		8. Fair value of financial instruments	

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 and finance costs.

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 Trust 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.

	31 Dec 2018 $m	31 Dec 2017 $m
Property lease revenue	**125.3**	145.5
Property services revenue[1]	**19.9**	-
Incentive amortisation	**(20.0)**	(22.5)
Other revenue	**25.7**	21.8
Total property revenue	**150.9**	144.8

1 The trust applied AASB 15 Revenue from Contracts on 1 July 2018. A portion of the consideration within lease arrangements has been allocated to service revenue which has previously been disclosed as part of property lease revenue. Refer to *Note 9 Changes in accounting policies*.

Property expenses of $38.7 million includes rates, taxes and other property outgoings incurred in relation to investment properties.

Note 3 Finance costs

Borrowing costs include interest, amortisation or ancillary 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.

Note 3 Finance costs (continued)

A qualifying asset is an asset under development which takes a substantial period of time, where the works being carried out to bring to its intended use or sale is 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.

	31 Dec 2018 $m	31 Dec 2017 $m
Interest paid to related parties	**64.1**	71.4
Net fair value (gain)/loss of interest rate swaps	**15.3**	4.1
Amount capitalised	**(6.5)**	(2.6)
Total finance costs	**72.9**	72.9

The average capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation is 5.25%.

Property Portfolio Assets

In this section

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

- *Investment properties*: relates to investment properties, both stabilised and under development.
- *Investments accounted for using the equity method*: provides summarised financial information on the material joint ventures and other joint ventures. The Trust's joint ventures comprise interests in property portfolio assets held through investments in trusts.

Note 4 Investment properties

	For the 6 months to 31 Dec 2018 $m	For the 12 months to 30 Jun 2018 $m
Opening balance at the beginning of the period	**4,810.5**	3,883.2
Additions	**72.0**	95.4
Acquisitions	**169.2**	345.9
Lease incentives	**15.9**	35.2
Amortisation of lease incentives	**(22.5)**	(43.2)
Rent straightlining	**3.9**	10.3
Net fair value gain/(loss) of investment properties	**143.6**	483.7
Closing balance at the end of the period	**5,192.6**	4,810.5

Acquisitions

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

Note 5 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	31 Dec 2018 %	30 Jun 2018 %	31 Dec 2018 $m	30 Jun 2018 $m
Bent Street Trust	**33.3**	33.3	**348.2**	344.7
Dexus Creek Street Trust	**50.0**	50.0	**170.9**	161.8
Dexus Martin Place Trust	**50.0**	50.0	**405.0**	376.9
Grosvenor Place Holding Trust[1,2]	**50.0**	50.0	**461.9**	452.3
Site 6 Homebush Bay Trust[1]	**50.0**	50.0	**42.9**	33.6
Site 7 Homebush Bay Trust[1]	**50.0**	50.0	**51.6**	47.2
Dexus 480 Q Holding Trust	**50.0**	50.0	**371.0**	380.5
Dexus Kings Square Trust	**50.0**	50.0	**220.0**	216.3
Dexus Office Trust Australia (DOTA)	**50.0**	50.0	**2,302.9**	2,172.2
Dexus Eagle Street Pier Trust	**50.0**	50.0	**30.3**	33.0
Total assets - investments accounted for using the equity method[3]			**4,404.7**	4,218.5

1 These entities are 50% owned by Dexus Office Trust Australia. The Group's economic interest is therefore 75% when combined with the interest held by Dexus Office Trust Australia. 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.

2 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%.

3 The Group's share of investment properties in the investments accounted for using the equity method was $4,521.3 million (June 2018: $4,327.0 million).

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

Capital management and other investments

In this section

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 unit 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: *Contingencies* in note 7;
- Equity: *Contributed equity* in note 8.

Note 6 Contingencies

The Trust, together with DDF, DIT and DXO, is a guarantor of A$4,571.7 million of interest bearing liabilities (refer note 10 of the Dexus Interim 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 constitute an additional contingent 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 7 Contributed equity

Number of units on issue

	For the 6 months to 31 Dec 2018	For the 12 months to 30 Jun 2018
	No. of units	No. of units
Opening balance at the beginning of the period	**1,017,196,877**	1,016,967,300
Issue of additional equity	**-**	437,242
Buy-back of contributed equity	**-**	(207,665)
Closing balance at the end of the period	**1,017,196,877**	1,017,196,877

Note 8 Fair value of financial instruments

As at 31 December 2018 and 30 June 2018, the fair value of financial assets and liabilities held at fair value were determined using the following methods:

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 carried at fair value were measured at Level 2 for the periods presented in this report. During the period, there were no transfers between Level 1, 2 and 3 fair value measurements.

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 9 Changes in accounting policies

AASB 15 Revenue from Contracts with Customers and AASB 9 Financial Instruments were adopted by the Trust on 1 July 2018. As the Trust has adopted the modified retrospective approach upon implementation of these standards, comparatives have not been restated. The adoption of the new accounting standards does not have a material impact on the Trust.

AASB 15 Revenue from Contracts with Customers

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

The following specific revenue stream has 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 are accounted for within AASB 15. A portion of the consideration within the lease arrangements is therefore allocated to revenue for the provision of services. The service revenue is recognised over time as the services are provided and as such, the timing of recognition of income is not affected.

AASB 9 Financial Instruments

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
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.

The previous impairment assessment model was an 'incurred loss' model requiring the Trust to consider whether or not the financial asset was impaired at the date of performing the assessment. Under AASB 9 this model has changed to an 'expected credit loss' (ECL) model. The Trust has therefore considered 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. This rate has been applied to the Trust's trade debtors to calculate impairment under the ECL model. The change has had an immaterial impact to the Trust.

Hedging
The new hedging rules align hedge accounting more closely with the reporting entity's risk management practices. AASB 9 requires updated hedge documentation to reflect the new requirements of AASB 9. Existing hedge relationships will continue to qualify as effective hedge relationships upon adoption of the new standard. The Group uses interest rate swaps and cross currency interest rate swaps to manage interest rate and foreign currency risk exposures arising from external debt obligations. By applying AASB 9 hedge accounting, changes in foreign currency basis spreads are recognised in a separate cost of hedging reserve within equity. There has been no remeasurement of the Group's derivatives.

Note 9 Changes in accounting policies (continued)

Classification of financial assets
The Trust has assessed the classification of significant asset classes summarised in the table below:

Financial Assets	AASB 139 Classification	AASB 9 Classification
Rent receivable	Loans and receivables	Financial assets at amortised cost
Distributions receivable	Loans and receivables	Financial assets at amortised cost
Other receivables	Loans and receivables	Financial assets at amortised cost
Derivative assets	Fair value through profit and loss[1]	Fair value through profit and loss[1]

1 Excluding where hedge accounting is applied.

Note 10 Subsequent events

Since the end of the period, 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

In the Directors' opinion:

a) The Directors of Dexus Funds Management Limited as Responsible Entity of Dexus Office Trust (the Trust) declare that the Financial Statements and notes set out on pages 4 to 15:

   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 31 December 2018 and of their performance, as represented by the results of their operations and their cash flows, for the period ended on that date.

(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

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

W Richard Sheppard

Chair

5 February 2019

Independent auditor's review report to the securityholders of Dexus Office Trust

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report (the financial report) of Dexus Office Trust (the Trust), which comprises the consolidated statement of financial position as at 31 December 2018, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, selected other explanatory notes and the directors declaration of Dexus Funds Management Limited (the Responsible Entity) in respect of the Trust and its consolidated entities (the consolidated entity). The consolidated entity comprises the Trust and the entities it controlled during that half-year.

Directors of the Responsible Entity's responsibility for the financial report

The directors of the Responsible Entity (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 is free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the consolidated entity's financial position as at 31 December 2018 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Trust, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

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Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the financial report of the Trust is not in accordance with the *Corporations Act 2001* including:

1. giving a true and fair view of the consolidated entity's financial position as at 31 December 2018 and of its performance for the half-year ended on that date; and

2. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

PricewaterhouseCoopers

Matthew Lunn
Partner

Sydney
5 February 2019

Dexus Operations Trust
Interim Report
31 December 2018

ARSN: 110 521 223

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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 half year ended 31 December 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

Directors

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

Directors	Appointed
W Richard Sheppard, BEc (Hons), FAICD	1 January 2012
Penny Bingham-Hall, BA (Industrial Design), FAICD, SF (Fin)	10 June 2014
John C Conde, AO, BSc, BE (Hons), MBA, FAICD	29 April 2009
Tonianne Dwyer, BJuris (Hons), LLB (Hons)	24 August 2011
Mark Ford, Dip. Tech (Commerce), CA, FAICD	1 November 2016
The Hon. Nicola 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

Review of results and operations

The results for the half year ended 31 December 2018 were:

- net profit for the half year was $78.0 million (December 2017: $47.7 million);
- total assets were $799.9 million (June 2018: $921.4 million); and
- net assets were $302.1 million (June 2018: $224.4 million).

A review of the results, financial position and operations of the Group, of which the Trust forms part thereof, is set out in the Directors' Report of the Dexus Interim Report.

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 3 and forms part of this Directors' Report.

Rounding of amounts and currency

As the Trust is a registered scheme 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 5 February 2019.

W Richard Sheppard
Chair
5 February 2019

Darren J Steinberg
Chief Executive Officer
5 February 2019

Auditor's Independence Declaration

As lead auditor for the review of Dexus Operations Trust (the Trust) for the half-year ended 31 December 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 review; and

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

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

Matthew Lunn
Partner
PricewaterhouseCoopers

Sydney
5 February 2019

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Consolidated Statement of Comprehensive Income

For the half year ended 31 December 2018

	Note	31 Dec 2018 $'000	31 Dec 2017 $'000
Revenue from ordinary activities			
Property revenue	3	**17,938**	17,657
Development revenue		**94,435**	90,428
Distribution revenue		**272**	346
Interest revenue		**53**	46
Management fees and other revenue	2	**90,958**	86,706
Total revenue from ordinary activities		**203,656**	195,183
Net fair value gain of investment properties		**40,423**	15,484
Net gain on sale of investment properties		**449**	-
Other income		**10**	3
Total income		**244,538**	210,670
Expenses			
Property expenses		**(4,539)**	(5,630)
Development costs		**(44,795)**	(69,996)
Finance costs	4	**(9,235)**	(5,490)
Impairment of inventories		**-**	(599)
Impairment of goodwill		**(49)**	(49)
Share of net loss of investments accounted for using the equity method		**(468)**	-
Transaction costs		**(2,746)**	(790)
Management operations, corporate and administration expenses	5	**(71,004)**	(68,038)
Total expenses		**(132,836)**	(150,592)
Profit/(loss) before tax		**111,702**	60,078
Income tax expense	6	**(33,681)**	(12,386)
Profit/(loss) for the period		**78,021**	47,692
Other comprehensive income/(loss):			
Changes in financial assets at fair value through other comprehensive income		**(141)**	(844)
Total comprehensive income/(loss) for the period		**77,880**	46,848

	Cents	Cents
Earnings per unit on profit/(loss) attributable to unitholders of the parent entity		
Basic earnings per unit	**7.67**	4.69
Diluted earnings per unit	**7.67**	4.69

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

Consolidated Statement of Financial Position

As at 31 December 2018

	Note	31 Dec 2018 $'000	30 Jun 2018 $'000
Current assets			
Cash and cash equivalents		**8,305**	5,095
Receivables		**60,607**	32,513
Non-current assets classified as held for sale		**879**	2,027
Inventories	8	**1,596**	37,573
Other		**4,692**	3,851
Total current assets		**76,079**	81,059
Non-current assets			
Investment properties	7	**180,921**	222,058
Plant and equipment		**16,591**	16,035
Inventories	8	**185,516**	268,826
Investments accounted for using the equity method		**328**	293
Intangible assets	11	**318,485**	314,639
Available for sale financial assets		**-**	15,529
Investments in financial assets at fair value through other comprehensive income		**19,021**	-
Investments in financial assets at fair value through profit and loss		**2,825**	2,825
Other		**155**	88
Total non-current assets		**723,842**	840,293
Total assets		**799,921**	921,352
Current liabilities			
Payables		**27,216**	21,715
Current tax liabilities		**21,262**	5,178
Provisions		**23,036**	82,123
Other		**61**	7
Total current liabilities		**71,575**	109,023
Non-current liabilities			
Loans with related parties		**324,275**	479,801
Deferred tax liabilities		**89,187**	93,740
Provisions		**9,315**	10,763
Other		**3,460**	3,579
Total non-current liabilities		**426,237**	587,883
Total liabilities		**497,812**	696,906
Net assets		**302,109**	224,446
Equity			
Contributed equity	10	**86,700**	86,700
Reserves		**43,280**	43,637
Retained profits		**172,129**	94,109
Other stapled unitholders' interest		**302,109**	224,446
Total equity		**302,109**	224,446

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

Consolidated Statement of Changes in Equity

For the half year ended 31 December 2018

	Note	Contributed equity $'000	Retained profits/ (losses) $'000	Reserves $'000	Total equity $'000
Opening balance as at 1 July 2017		261,664	53,508	44,190	359,362
Profit/(loss) for the period		-	47,692	-	47,692
Other comprehensive income/(loss) for the period		-	-	(844)	(844)
Total comprehensive income for the period		-	47,692	(844)	46,848
Transactions with owners in their capacity as unitholders:					
Issue of additional equity, net of transaction costs		183	-	(135)	48
Purchase of securities, net of transaction costs		-	-	(278)	(278)
Security-based payments expense		-	-	177	177
Capital contribution[1]		(175,095)	-	-	(175,095)
Total transactions with owners in their capacity as owners		(174,912)	-	(236)	(175,148)
Closing balance as at 31 December 2017		86,752	101,200	43,110	231,062
Opening balance as at 1 July 2018		**86,700**	**94,109**	**43,637**	**224,446**
Change in accounting policy	13	-	(1)	-	(1)
Restated opening balance as at 1 July 2018		**86,700**	**94,108**	**43,637**	**224,445**
Profit/(loss) for the period		**-**	**78,021**	**-**	**78,021**
Other comprehensive income/(loss) for the period		**-**	**-**	**(141)**	**(141)**
Total comprehensive income for the period		**-**	**78,021**	**(141)**	**77,880**
Transactions with owners in their capacity as unitholders:					
Purchase of securities, net of transaction costs		**-**	**-**	**(156)**	**(156)**
Security-based payments expense		**-**	**-**	**(60)**	**(60)**
Total transactions with owners in their capacity as owners		**-**	**-**	**(216)**	**(216)**
Closing balance as at 31 December 2018		**86,700**	**172,129**	**43,280**	**302,109**

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

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.

Consolidated Statement of Cash Flows

For the half year ended 31 December 2018

	31 Dec 2018 $'000	31 Dec 2017 $'000
Cash flows from operating activities		
Receipts in the course of operations (inclusive of GST)	**87,355**	109,927
Payments in the course of operations (inclusive of GST)	**(85,582)**	(86,007)
Interest received	**53**	46
Finance costs paid to financial institutions	**(149)**	(96)
Income and withholding taxes paid	**(22,150)**	(11,734)
Proceeds from sale of property classified as inventory	**87,512**	812
Payments for acquisition of inventory	**-**	(45,200)
Payments for property classified as inventory and development services	**(8,727)**	(91,842)
Net cash inflow/(outflow) from operating activities	**58,312**	(124,094)
Cash flows from investing activities		
Proceeds from sale of investment properties	**179,102**	-
Payments for capital expenditure on investment properties	**(3,715)**	(15,231)
Payments for investments accounted for using the equity method	**(504)**	-
Payments for plant and equipment	**(2,497)**	(977)
Payments for other intangible assets	**(7,060)**	(2,690)
Net cash inflow/(outflow) from investing activities	**165,326**	(18,898)
Cash flows from financing activities		
Borrowing provided to related parties	**(388,582)**	(13,828)
Borrowing received from related parties	**222,002**	215,427
Purchase of securities for security-based payments plans	**(3,848)**	(7,051)
Distributions received	**-**	348
Distributions paid to unit holders	**(50,000)**	(50,000)
Net cash inflow/(outflow) from financing activities	**(220,428)**	144,896
Net increase/(decrease) in cash and cash equivalents	**3,210**	1,904
Cash and cash equivalents at the beginning of the period	**5,095**	2,035
Cash and cash equivalents at the end of the period	**8,305**	3,939

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.

Basis of preparation

These interim Financial Statements have been prepared:

- for a for-profit entity;
- in accordance with the requirements of the Constitutions of the entities within the Trust, the *Corporations Act 2001*, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board and International Financial Reporting Standards (IFRS);
- 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;
- on a going concern basis;
- using historical cost conventions except for investment properties, security based payments and other financial assets which are stated at their fair value; and
- using consistent accounting policies in line with those of the previous financial year and corresponding interim reporting period, unless otherwise stated.

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 the Group continues as a separate legal entity in its own right under the *Corporations Act 2001* and is therefore required to comply with the reporting and disclosure requirements under the *Corporations Act 2001* and Australian Accounting Standards.

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.

These Financial Statements do not include notes of the type normally included in an annual financial report. Accordingly, these Financial Statements should be read in conjunction with the annual Financial Statements for the year ended 30 June 2018 and any public pronouncements made by the Group during the half year in accordance with the continuous disclosure requirements of the *Corporations Act 2001*. The accounting policies adopted are consistent with those of the previous financial year and corresponding financial reporting period, unless otherwise stated.

The Financial Statements are presented in Australian dollars.

Critical accounting estimates

The preparation of Financial Statements requires the use of certain critical accounting estimates and management to exercise its judgement in the process of applying the Trust's accounting policies. Other than the estimates and assumptions used for the measurement of items measured at fair value such as certain financial instruments, investment properties and security-based payments, and the assumptions for intangible assets and the net realisable value for inventories, no key assumptions concerning the future or other estimation of uncertainty at the end of each reporting period could have a significant risk of causing material adjustments to the Financial Statements.

Notes to the Financial Statements

The notes are organised into the following sections:

Trust performance	Property portfolio assets	Capital management and other assets	Other disclosures
1. Operating segments	7. Investment properties	9. Contingencies	13. Changes in accounting policies
2. Management fee revenue	8. Inventories	10. Contributed equity	14. Subsequent events
3. Property revenue and expenses		11. Intangible assets	
4. Finance costs		12. Fair value of financial instruments	
5. Management operations, corporate and administration expenses			
6. Income tax			

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: operating segments, management fee revenue, property revenue and expenses and finance costs.

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 Interim Report.

Note 2 Management fee revenue

	31 Dec 2018	31 Dec 2017
	$'000	$'000
Investment management & responsible entity fees	**50,486**	45,904
Property management fees	**23,510**	29,357
Capital works and development fees	**5,586**	3,758
Wages recovery and other fees	**11,376**	7,687
Total management fee revenue	**90,958**	86,706

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.

	31 Dec 2018	31 Dec 2017
	$'000	$'000
Property lease revenue	**13,123**	15,983
Property services revenue[1]	**1,685**	-
Incentive amortisation	**(1,830)**	(2,345)
Other revenue	**4,960**	4,019
Total property revenue	**17,938**	17,657

1 The Trust applied AASB 15 Revenue from Contracts on 1 July 2018. A portion of the consideration within lease arrangements has been allocated to service revenue which has previously been disclosed as part of property lease revenue. Refer to *Note 13 Changes in accounting policies.*

Property expenses of $4.5 million includes rates, taxes and other property outgoings incurred in relation to investment properties.

Note 4 Finance costs

Borrowing costs include interest, amortisation or ancillary 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 to its intended use or sale is 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.

	31 Dec 2018	31 Dec 2017
	$'000	$'000
Interest paid to related parties	**9,820**	7,596
Amount capitalised	**(734)**	(2,202)
Other finance costs	**149**	96
Total finance costs	**9,235**	5,490

The average capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation is 5.25%**.**

Note 5 Management operations, corporate and administration expenses

	31 Dec 2018	31 Dec 2017
	$'000	$'000
Audit, taxation, legal and other professional fees	**2,325**	1,226
Depreciation and amortisation	**5,104**	4,523
Employee benefits expense and other staff expenses	**54,745**	55,495
Administration and other expenses	**8,830**	6,794
Total management operations, corporate and administration expenses	**71,004**	68,038

Note 6 Income tax

	31 Dec 2018	31 Dec 2017
	$'000	$'000
Profit before income tax	**111,702**	60,078
Profit subject to income tax	**111,702**	60,078
Prima facie tax expense at the Australian tax rate of 30% (31 Dec 2017: 30%)	**(33,511)**	**(18,023)**
Tax effect of amounts which are not deductible/(assessable) in calculating taxable income:		
(Non-assessable)/non-deductible items	**(170)**	5,637
Income tax expense	**(33,681)**	(12,386)

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 operations 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.

Note 7 Investment properties

a) Reconciliation

	Note	**For the 6 months to 31 Dec 2018 $'000**	For the 12 months to 30 Jun 2018 $'000
Opening balance at the beginning of the period		**222,058**	179,614
Additions		**2,264**	21,406
Lease incentives		**1,915**	3,431
Amortisation of lease incentives		**(1,175)**	(2,294)
Rent straightlining		**574**	2,136
Disposals[1]		**(176,083)**	-
Transfer to non-current assets classified as held for sale		**(879)**	(2,023)
Transfer to inventories	8	**-**	(10,000)
Transfer from inventories	8	**91,824**	-
Net fair value gain/(loss) of investment properties		**40,423**	29,788
Closing balance at the end of the period		**180,921**	222,058

1 On 26 November 2018, Dexus established a new unlisted logistics vehicle that will invest in Australian logistics properties. The new unlisted vehicle, known as Dexus Australian Logistic Trust (DALT) was seeded with assets from Dexus's existing industrial portfolio. The disposals therefore include the disposal of assets to DALT.

Note 8 Inventories

a) Development properties held for sale

	31 Dec 2018 $'000	30 Jun 2018 $'000
Current assets		
Development properties held for sale	**1,596**	37,573
Total current assets - inventories	**1,596**	37,573
Non-current assets		
Development properties held for sale	**185,516**	268,826
Total non-current assets - inventories	**185,516**	268,826
Total assets - inventories	**187,112**	306,399

b) Reconciliation

	Note	For the 6 months to 31 Dec 2018 $'000	For the 12 months to 30 Jun 2018 $'000
Opening balance at the beginning of the period		**306,399**	211,315
Transfer to investment properties	7	**(91,824)**	-
Transfer from investment properties	7	**-**	10,000
Disposals		**(38,414)**	(10,046)
Impairment		**-**	(599)
Additions		**10,951**	95,729
Closing balance at the end of the period		**187,112**	306,399

Capital management and other assets

In this section

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 shareholders (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: *Contingencies* in note 9;
- Equity: *Contributed equity* in note 10.

Note 9 Contingencies

DDF, together with DIT, DOT and DXO, is a guarantor of A$4,571.7 million of debt facilities. The guarantees have been given in support of debt outstanding and drawn against these facilities, and may be called upon in the event that a borrowing entity has not complied with certain requirements such as failure to pay interest or repay a borrowing, whichever is earlier. During the period, no guarantees were called.

The Group has bank guarantees of $44.3 million, comprising $43.1 million held to comply with the terms of the Australian Financial Services Licences (AFSL) and $1.2 million largely in respect of developments.

The above guarantees are issued in respect of the Group and constitute an additional liability to those already existing in interest bearing liabilities on the Consolidated Statements 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 10 Contributed equity

Number of units on issue

	For the 6 months to 31 Dec 2018	For the 12 months to 30 Jun 2018
	No. of units	No. of units
Opening balance at the beginning of the period	**1,017,196,877**	1,016,967,300
Issue of additional equity	**-**	437,242
Buy-back of contributed equity	**-**	(207,665)
Closing balance at the end of the period	**1,017,196,877**	1,017,196,877

Note 11 Intangible assets

Management rights represent the asset management rights owned by Dexus Holdings Pty Limited, a wholly owned subsidiary of DXO, which entitle 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 $3.6 million (June 2018: $3.7 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 (June 2018: $286.0 million).

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

	31 Dec 2018 $'000	30 Jun 2018 $'000
Management rights		
Opening balance at the beginning of the period	**289,758**	290,088
Amortisation charge	**(165)**	(330)
Closing balance at the end of the period	**289,593**	289,758
Cost	**294,382**	294,382
Accumulated amortisation	**(4,789)**	(4,624)
Total management rights	**289,593**	289,758
Goodwill		
Opening balance at the beginning of the period	**1,112**	1,211
Impairment	**(49)**	(99)
Closing balance at the end of the period	**1,063**	1,112
Cost	**2,998**	2,998
Accumulated impairment	**(1,935)**	(1,886)
Total goodwill	**1,063**	1,112
Software		
Opening balance at the beginning of the period	**23,769**	18,151
Additions	**7,060**	10,983
Amortisation charge	**(3,000)**	(5,365)
Closing balance at the end of the period	**27,829**	23,769
Cost	**41,758**	37,488
Accumulated amortisation	**(13,929)**	(13,719)
Cost - Fully amortised assets written off	**-**	(2,790)
Accumulated amortisation - Fully amortised assets written off	**-**	2,790
Total software	**27,829**	23,769
Total non-current intangible assets	**318,485**	314,639

As at 31 December 2018, management had not identified any events or circumstances that would indicate an impairment of the carrying amount of management rights associated with indefinite life trusts.

Note 12 Fair value of financial instruments

As at 31 December 2018 and 30 June 2018, the fair value of financial assets and liabilities held at fair value were determined using the following methods:

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 carried at fair value were measured at Level 2 for the periods presented in this report. During the period, there were no transfers between Level 1, 2 and 3 fair value measurements.

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 13 Changes in accounting policies

AASB 15 Revenue from Contracts with Customers and AASB 9 Financial Instruments were adopted by the Trust on 1 July 2018. As the Trust has adopted the modified retrospective approach upon implementation of these standards, comparatives have not been restated. The adoption of the new accounting standards does not have a material impact on the Trust.

AASB 15 Revenue from Contracts with Customers

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

The following specific revenue stream has 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 are accounted for within AASB 15. A portion of the consideration within the lease arrangements are therefore allocated to revenue for the provision of services. The service revenue is recognised over time as the services are provided and as such, the timing of recognition of income is not affected.

AASB 9 Financial Instruments

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
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.

The previous impairment assessment model was an 'incurred loss' model requiring the Trust to consider whether or not the financial asset was impaired at the date of performing the assessment. Under AASB 9 this model has changed to an 'expected credit loss' (ECL) model. The Trust has therefore considered 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. This rate has been applied to the Trust's trade debtors to calculate impairment under the ECL model. The change has had an immaterial impact to the Trust.

Note 13 Changes in accounting policies (continued)

Classification of financial assets

The Trust has assessed the classification of significant asset classes summarised in the table below:

Financial Assets	AASB 139 Classification	AASB 9 Classification
Rent receivable	Loans and receivables	Financial assets at amortised cost
Distributions receivable	Loans and receivables	Financial assets at amortised cost
Fees receivable	Loans and receivables	Financial assets at amortised cost
Other receivables	Loans and receivables	Financial assets at amortised cost
Other financial assets	Available for sale	Financial assets at fair value through other comprehensive income
Derivative assets	Fair value through profit and loss[1]	Fair value through profit and loss[1]

1 Excluding where hedge accounting is applied.

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

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

Note 14 Subsequent events

On 31 January 2019, settlement occurred for the disposal of Laverton land lot 23 at Truganina, Victoria for gross proceeds of $2.5 million.

Since the end of the period, 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

In the Directors' opinion:

a) The Financial statements and notes set out on pages 4 to 18 are in accordance with the *Corporations Act 2001,* including:

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

   (ii) giving a true and fair view of the Trust's financial position as at 31 December 2018 and of its performance for the half year ended on that date; and

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

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

W Richard Sheppard

Chair

5 February 2019

Independent auditor's review report to the securityholders of Dexus Operations Trust

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report (the financial report) of Dexus Operations Trust (the Trust), which comprises the consolidated statement of financial position as at 31 December 2018, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, selected other explanatory notes and the directors declaration of Dexus Funds Management Limited (the Responsible Entity) in respect of the Trust and its consolidated entities (the consolidated entity). The consolidated entity comprises the Trust and the entities it controlled during that half-year.

Directors of the Responsible Entity's responsibility for the financial report

The directors of the Responsible Entity (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 is free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the consolidated entity's financial position as at 31 December 2018 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Trust, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

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Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the financial report of the Trust is not in accordance with the *Corporations Act 2001* including:

1. giving a true and fair view of the consolidated entity's financial position as at 31 December 2018 and of its performance for the half-year ended on that date; and

2. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers

Matthew Lunn
Partner

Sydney
5 February 2019