Dexus (ASX:DXS)

ASX release

14 August 2019

2019 Annual Report

Dexus provides its 2019 Annual Report which will be mailed to Security holders who have elected to receive a hard copy on 29 August 2019.

For further information please contact:

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

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

About Dexus

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

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)

Annual Report 2019

Securing opportunities.
Adding value.

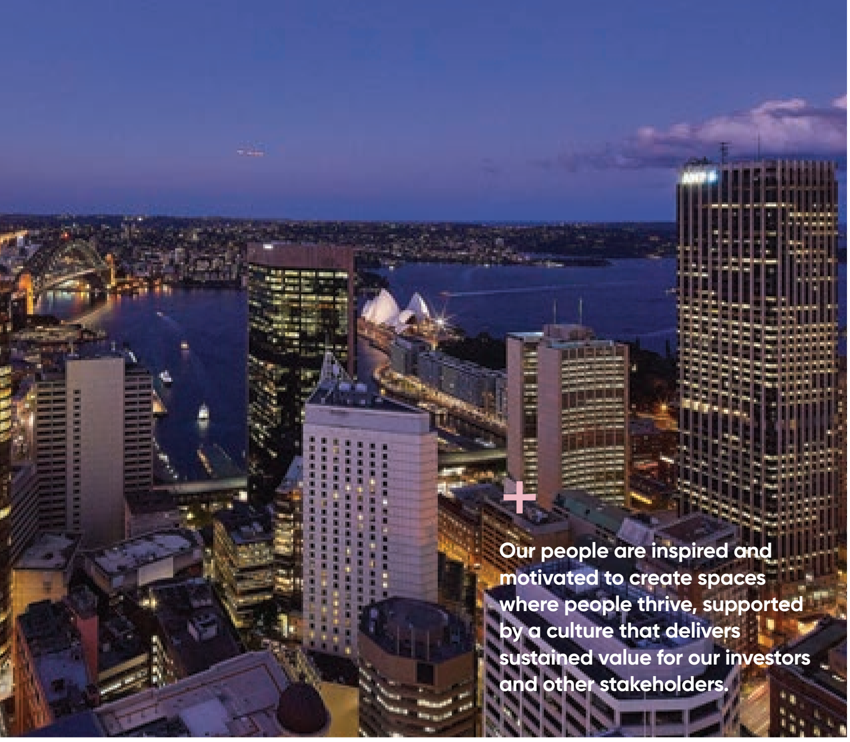
Securing opportunities. Adding value.

The 2019 financial year was an active one for Dexus, where we have leveraged our capabilities to secure opportunities with embedded value that will enhance returns for Dexus Security holders into the future.

Through our day-to-day operational focus on leasing, funds management, development management, customer and sustainability we have continued to create sustained value for our stakeholders.

About this report

We are in the process of redesigning our reporting to better articulate how we deliver long-term value for Dexus Security holders, our third party capital partners and other key stakeholders. This report refers to the International Integrated Reporting Council <IR> Framework to outline our strategy, key resources and business activities undertaken to create sustained value. We also explore the external factors, or key megatrends, influencing our business model as well as identify the key risks and material issues that could impact our business.



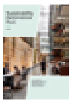
In this report

2019 Annual Reporting Suite

Dexus presents its 2019 Annual Reporting Suite for the year ended 30 June 2019, available at www.dexus.com/investor-centre

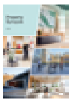
2019 Annual Report
An integrated summary of the value created across Dexus's key resources and the Consolidated Financial report.

2019 Financial Statements
The Financial Statements for Dexus Industrial Trust, Dexus Office Trust and Dexus Operations Trust, which should be read in conjunction with the 2019 Annual Report.



2019 Sustainability Performance Pack
Comprehensive sustainability reporting that supports the results outlined in the 2019 Annual Report.

2019 Annual Results Presentation
A summary of Dexus's operational and financial performance.



2019 Property Synopsis
An overview of Dexus's property portfolio.

The 2019 Annual Reporting Suite is available in hard copy by email request to ir@dexus.com or by calling +61 1800 819 675.

www.dexus2019.reportonline.com.au

FY19 highlights

Throughout this report we detail the key resources and relationships we rely on to create value now and into the future.

Financial

Maintaining strong financial performance by delivering on our strategy

5.0%

Growth in distribution per security

FY18: 5.1% growth

5.5%

Growth in AFFO per security

FY18: 5.1% growth

10.1%

Return on Contributed Equity

FY18: 7.6%

⟶ p.28

Properties

Our strategy is underpinned by our business activities of developing, managing and transacting properties

$1.6bn

Gross Value Added to the Australian economy from developments completed in FY19 and currently underway

10,149

Construction jobs supported from developments completed in FY19 and currently underway

⟶ p.38

People and capabilities

Attracting, retaining and developing an engaged workforce that delivers on our strategy

→ p.50

+40

Employee Net Promoter Score

37%

Females in senior and executive management roles

Progressing the 2021 target of a minimum of 40%

FY18: 34%

Customers and communities

Supporting the success of our customers, the wellbeing of building occupants, the strength of our local communities and the capabilities of our suppliers

→ p.54

+46

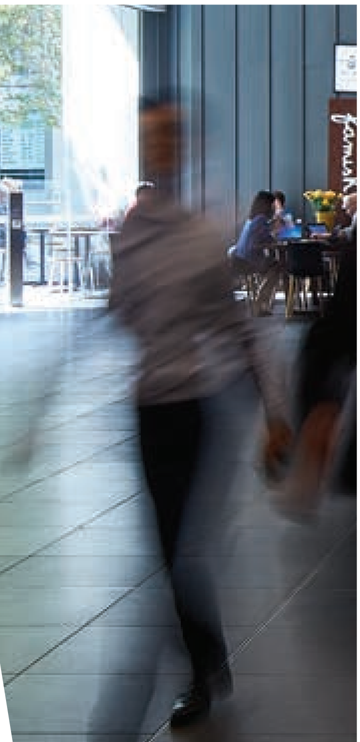
Customer Net Promoter Score

FY18: +32

>$1.2m

Community contribution value

FY18: $1.0m



Environment

Advancing the efficiency and resilience of our portfolio to minimise its environmental footprint and mitigate climate risk

→ p.58

46GWh

Contracted renewable energy to power 50% of the base building load for over 40 properties across our NSW group portfolio

950,351sqm

Rated 5 star NABERS Energy or above across our group office portfolio (1m sqm target by 2020)

FY18: 892,000sqm

About Dexus

$31.8bn
Total funds under management

157
Properties

4.7m
square metres across the group

$14bn
Market capitalisation as at 30 June 2019

Top 50
Entity on ASX

539
Employees

Dexus is a Top 50 entity by market capitalisation listed on the Australian Securities Exchange (trading code: DXS) and is supported by more than 26,000 investors from 19 countries.

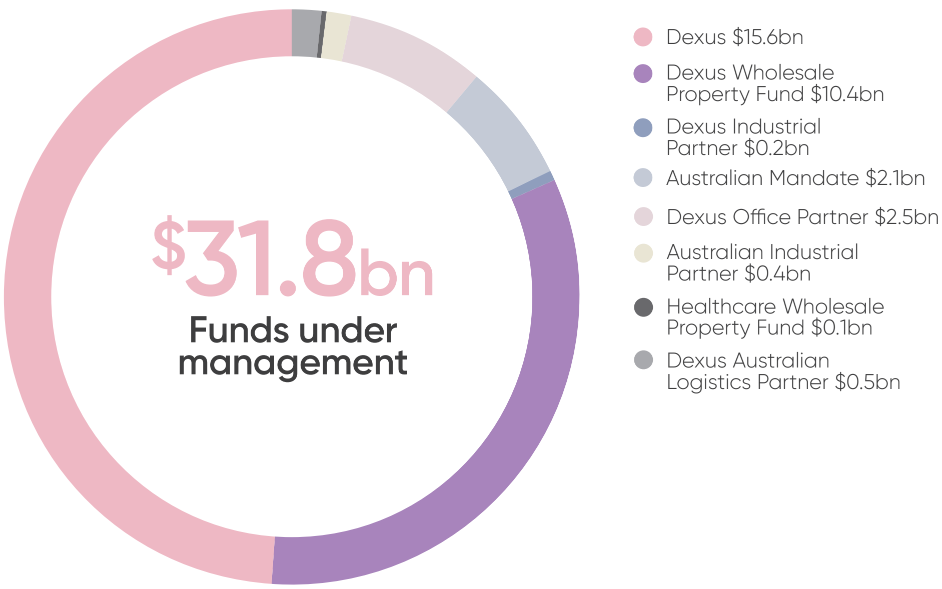
With 35 years of expertise in property, investment, development and asset management, we have a proven track record in managing capital and risk to deliver superior risk-adjusted returns for our investors.

We invest only in Australia, and directly own $15.6 billion of office and industrial properties. We manage a further $16.2 billion of office, retail, industrial and healthcare properties for our third party capital partners. The group's circa $9.3 billion development and concept pipeline provides the opportunity to grow both portfolios and enhance future returns.

We consider sustainability to be an integral part of our business with the objectives of leading cities, future-enabled customers, strong communities, thriving people and an enriched environment supporting our overarching goal of sustained value.

We believe the strength and quality of our relationships will always be central to our success and we are deeply committed to working with our customers to provide spaces that engage and inspire.

Dexus group portfolio



Our Purpose

Our purpose is an affirmation of our reason for being in business and supports our strategy and business model. It is the driving force behind our brand and desired culture.

Who we are

We are a passionate and agile team who want to make a difference

Why we come to work

We create spaces where people thrive

What we believe in

We are here to create value for:

- Our customers
- Our investors
- Our communities
- Our people

How we behave and what we value

- Openness and trust
- Empowerment
- Integrity

Group portfolio composition

$21.8bn
Office

$4.6bn
Industrial

$5.1bn
Retail

$0.2bn
Healthcare

Chair and CEO review

We entered the year with a clear strategy and readiness to respond to both market opportunities and challenges.

Richard Sheppard
Chair

Darren Steinberg
Chief Executive Officer

Our focus on maintaining a leading position in the Australian property market has been achieved through delivering strong financial results underpinned by the performance of our portfolio, selective acquisitions where we could add value, growth in our funds management business and the delivery of trading profits.

Our strategic objectives of leadership in office and being the funds management partner of choice are underpinned by two megatrends, urbanisation and the growth in global pension capital fund flows. Urbanisation will drive long term value creation from our properties located in key economic hubs around Australia, while the growth in global pension capital fund flows is contributing to the attraction of like-minded partners and investors to invest alongside us over the long term.

Total funds under management increased to $31.8 billion, with $15.6 billion directly invested in office and industrial assets. Dexus remains Australia's largest owner and manager of office property, with $21.8 billion invested in the Central Business Districts (CBDs) of key office markets around Australia. Our scale provides us with the ability to produce solutions that meet the evolving needs of our customers.

In our funds management business, we now manage $16.2 billion of properties across the office, industrial, retail and healthcare sectors, providing an important source of income and assisting us in obtaining scale in our core markets.

This year we have adopted elements of integrated reporting to enhance the way we report to our investors and demonstrate our focus on long-term value creation. We also defined our organisational purpose, which reinforces our reason for being in business. It is a key anchor for employee engagement and attracting talent, and will align our decision making to values and principles beyond financial outcomes.

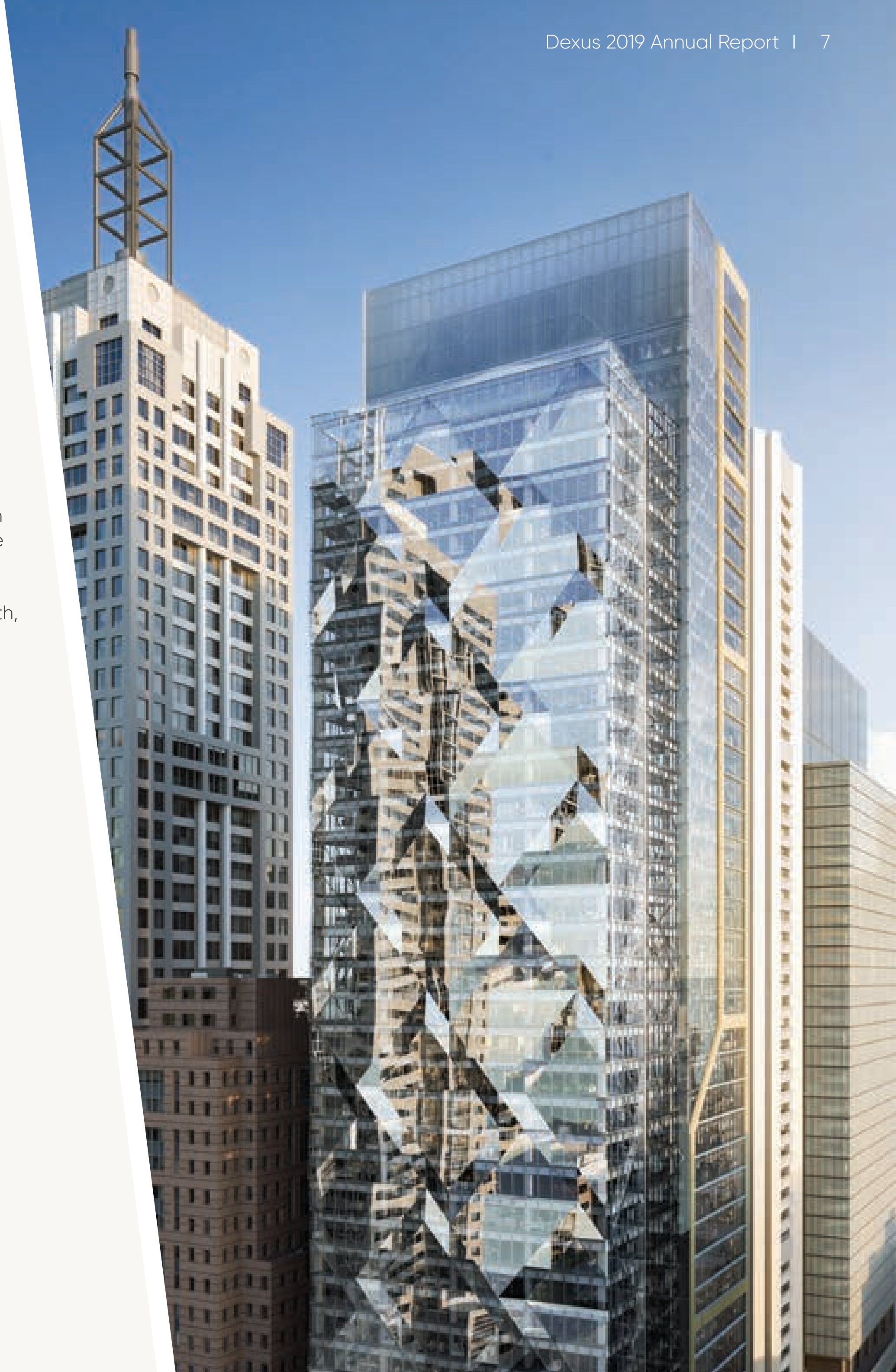
Securing opportunities. Adding value.

A consequence of our scale means that we are continually reviewing acquisition opportunities and seeking properties where we can add value.

This approach resulted in the group securing $3.1 billion of properties this year while increasing our exposure in a tightly held precinct of the Melbourne CBD. These included:

– A future development site at 60 and 52 Collins Street, Melbourne (100% Dexus) to create the latest generation of prime office space in the 'Paris end' of the Melbourne CBD
– A large-scale mixed-use development at 80 Collins Street, Melbourne (75% Dexus, 25% Dexus Wholesale Property Fund (DWPF)) further expanding our presence in the 'Paris end' of the Melbourne CBD
– The remaining 50% interest in MLC Centre, Sydney (25% Dexus, 25% DWPF), enabling the commencement of a project to transform the precinct into a true mixed-use destination, which involved securing a long-term lease with the NSW Government to enable the reactivation of the Theatre Royal
– Three properties located adjacent to 56 Pitt Street, Sydney (50% Dexus, 50% Dexus Office Partner), two of which have exchanged to be acquired on delayed settlement terms post 30 June 2019, providing a compelling opportunity to consolidate the site and create a potential super site (Pitt and Bridge precinct) to deliver a significant office development located in the financial core of the Sydney CBD in a future supply cycle.

Our ability to deliver on these opportunities is in part due to the conservative management of our balance sheet and recycling capital from divestments.



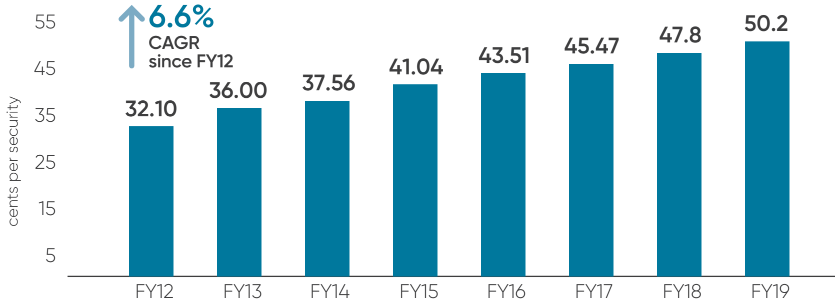
Delivering sustained value

This year we again delivered strong financial performance for investors. The full year distribution of 50.2 cents per security reflects a 5.0% increase on the prior year, in line with our guidance of circa 5% growth. This achievement demonstrates our track record of delivering consistent distribution growth, resulting in a 6.6% compound annual growth rate since FY12.

Dexus's net profit after tax was $1.28 billion, down 25.9% primarily due to revaluation gains which were $428.7 million lower than in FY18. Underlying Funds from Operations per security of 62.9 cents, which excludes trading profits, grew by 3.8%, highlighting the contribution from the property portfolio and funds management business.

Adjusted Funds From Operations (AFFO) per security growth and Return on Contributed Equity (ROCE) through the cycle are key measures that drive long-term value creation for security holders. In FY19, we delivered AFFO per security growth of 5.5% and a ROCE of 10.1%.

History of Dexus distribution per security[1] (cents)



1. Adjusted for the one-for-six security consolidation completed in FY15. Compound annual growth rate (CAGR) is calculated over seven years.

Chair and CEO review

In a year of significant transaction activity, we maintained a strong and conservative balance sheet. We funded the acquisition of Dexus's additional 25% interest in the MLC Centre, Sydney with the issue of $425 million of Exchangeable Notes. Under this structure, we were able to offer Exchangeable Note holders the ability to own DXS securities in the future combined with a return, while we received competitively priced funding that matched the income profile of the property.

In May 2019 an equity raising, comprising a $900 million institutional placement and a $50 million Security Purchase Plan (SPP), was used to partially fund Dexus's 75% interest in 80 Collins Street, Melbourne. In response to strong interest for the SPP from eligible Security holders, we decided to increase the $50 million cap to $63.9 million in June 2019, enabling all eligible applications to be accepted.

We continued to maintain a strong and conservative balance sheet with gearing at 24.0% at 30 June 2019, well below our target range of 30-40%. This provides us with the capacity to fund projects in our development pipeline.

In FY19, each of our earnings drivers positively contributed to the financial result. Across our property portfolio, we achieved valuation increases of $773.1 million, and our office and industrial portfolios delivered +3.4% and +8.0%[1] like-for-like income growth respectively.

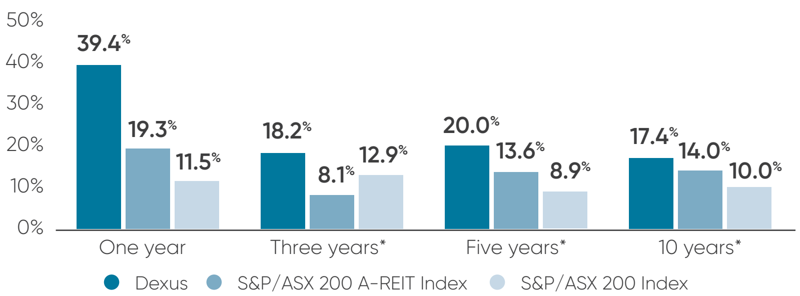
Our funds management business continued to expand through the launch of a new logistics fund called the Dexus Australian Logistics Trust (DALT), the introduction of other new third party capital partners, acquisitions, developments and valuation increases. Importantly, our funds continued to achieve strong performance while delivering on our third party capital partners' objectives.

We now manage 129 properties on behalf of 79 third party capital partners and welcomed GIC (Government Investment Corporation of Singapore) as a foundation investor in DALT, which will be a circa $2 billion portfolio on completion, seeded with assets from Dexus's existing industrial portfolio. We also welcomed M&G Real Estate as a new investor in the Dexus Industrial Partnership and Employees Provident Fund (EPF) Malaysia as a new investor in the Healthcare Wholesale Property Fund (HWPF). DWPF attracted nine new investors over the year, including six investors which joined through an equity raising to fund its acquisition of an additional 25% interest in the MLC Centre.

In trading, we secured $34.7 million of trading profits net of tax following the sale of 32 Flinders Street in Melbourne. Dexus progressed the sale of the North Shore Health Hub, St Leonards[2], and post 30 June 2019 exchanged contracts to sell a 25% interest in 201 Elizabeth Street, Sydney, while entering into a put and call option to sell the remaining 25% interest in late 2020. The sale of 201 Elizabeth Street is expected to contribute circa $34 million in trading profits pre-tax in FY20 and a further circa $34 million in FY21 in the event either option is exercised.

Dexus delivered a 39.4% total Security holder return for the year, outperforming the S&P/ASX 200 Property Accumulation (A-REIT) Index by 201 basis points. This outperformance occurred in an environment of reducing 10-year bond yields where well managed A-REITs with exposure to office and industrial properties, generating an attractive yield, were favoured by investors. Dexus continues to outperform the A-REIT index over three, five and ten-year time horizons.

Total Security holder Return



*Annualised compound return. Source: UBS Australia at 30 June 2019.

We are focused on creating sustained value and making decisions that future-proof the business.

1. Excluding one-off income is 2.5%.
2. Subject to Responsible Entity and Advisory Committee approvals and securing debt financing.

Contributing to leading cities

As a real estate company, our properties are central to how we create value, being concentrated in Australia's major cities which we help shape as leading destinations to live, work and play.

The leasing success achieved across our office and industrial portfolios this year optimised cash flow and maintained high occupancy levels, with our office portfolio occupancy at 98.0% and industrial portfolio occupancy at 97.0%.

The group's circa $9.3 billion development and concept pipeline provides Dexus with the opportunity to enhance future returns by growing the core property portfolio and those managed on behalf of our third party capital partners. Development is an efficient use of our capital at this time in the cycle when access to quality properties on-market is competitively bid. Our $7.1 billion group development pipeline comprises committed and uncommitted projects, and our circa $2.2 billion pipeline of potential concept development projects across the group provides us with embedded future growth.

In May 2019, our newest office development at 100 Mount Street in North Sydney was completed, providing a showcase for smart building technology and setting a new benchmark for office in the North Sydney CBD. Marking a significant milestone, the development of our premium industrial estate Quarry at Greystanes was completed, delivering a key economic hub to Western Sydney and enhancing returns for Dexus Security holders and our third party capital partners.

Chair and CEO review

Developing thriving people

Our people are central to the success of our strategy and their knowledge, expertise and ability to innovate are critical inputs to how we add value.

We are continuing to build an engaged workforce which is committed to delivering on our strategy. We are proud of the high levels of engagement demonstrated by our strong employee Net Promoter Score of +40.

We believe the best thinking and outcomes are realised through an inclusive and diverse workforce, and have made progress against our gender diversity target. This year, we achieved 37% female representation across senior and executive management roles, an improvement from 34% at FY18.

We continued to build the capabilities of our workforce, focusing on the development of our leaders to lead high performing teams to deliver our strategy. We also provided training across the workforce that both enhances business capability and meets our people's needs for career development.

The safety of our employees, contractors, customers and community is of paramount importance and we maintained our steadfast focus during the year. Independent external safety audits across our corporate and management workspaces achieved a strong score of 98%.

Building strong partnerships

We build strong partnerships with our customers, local communities and suppliers to create value across our properties.

Our customers are at the heart of what we do and we spend time understanding their needs and delivering solutions to help them thrive in their workspace. Our annual customer survey returned a customer Net Promoter Score of +46, a significant increase from +32 in FY18, reflecting the strength of our customer centric approach.

Our success depends on our relationships with local communities that interact with our assets and people as part of their daily lives. This year we delivered community contributions valued at more than $1.2 million, helping to extend our social impact.

We also supported employment across the communities in which we operate through the group's spend on operational suppliers, totalling over $550 million during the year.

We are committed to ensuring our operations provide quality jobs with the right conditions. Recognising the global challenge of addressing modern slavery and the new Modern Slavery Act coming into effect in Australia on 1 January 2019, we signed up to the UN Global Compact, signalling our continued commitment to corporate sustainability principles. We also updated our Human Rights Policy and formed an internal Modern Slavery Working Group involving broad operational functions across the business. We are collaborating with our suppliers to understand how we can support and contribute to upholding human rights across our supply chain.

Enriching the environment

This year we progressed our ambitious long-term goal to achieve net zero carbon emissions by 2030 by improving energy efficiency and increasing the adoption of renewable energy sources. Importantly, we obtained external certification that our 2030 target aligns with the global ambitions of the Paris Agreement.

We progressed our 2020 NABERS targets and secured one of Australia's first supply-linked renewable Energy Supply Agreements, through which 50% of base building power across 40 NSW properties will be sourced from wind and solar projects from 1 January 2020.

We completed a portfolio-wide review of exposure to the physical impacts of climate change, with the results informing our strategy to enhance portfolio resilience for the long term. Refer to page 60 for our approach to climate related issues disclosed in accordance with the Taskforce on Climate-related Financial Disclosures' recommendations.

Going beyond managing our own emissions, we are focused on bringing our customers on the journey to reduce total building energy consumption. We continue to see the benefits of our energy, water and waste management initiatives, both in terms of portfolio efficiency and customer satisfaction.

Focusing on strong governance

We instil robust corporate governance and sound risk management at all levels of our business and we continually work on maintaining a strong culture across the group.

Together, the Board and senior management are responsible for creating a culture where everyone has ownership and responsibility for acting lawfully and responsibly. We are reinforcing and sustaining this culture across the business, ensuring that it supports best practice norms and behaviours. The right culture encourages sound decision making by managing risk and upholding business ethics.

To support this culture, we articulate our core values of openness and trust, empowerment and integrity, and recognise the Board's oversight role to ensure that management instils these values.

Recognising the importance of managing environmental, social and governance (ESG) issues, we are currently finalising plans to establish a new Board Committee in FY20, known as the Board ESG Committee, which will oversee the implementation of the group's ESG activities, including our Sustainability Approach. We also created a Head of Governance function within the business with a core focus on ensuring the Board and our people operate under leading governance policies and procedures.

There were no changes to the composition of our Board during the year, with the structure comprising seven non-executive directors and one executive director, with female gender representation at 38%.

Further details relating to the Board and our governance practices are included in the Governance and Board of Directors section, as well as the Corporate Governance Statement available at www.dexus.com

Outlook

We expect to continue to deliver on our strategy and enhance our capabilities while retaining our financial strength to create value in the years ahead.

Australian office and industrial property market fundamentals remain solid and continue to support our business despite increased economic uncertainty. We remain attracted to Australian cities due to their enduring appeal for commerce and businesses, talent and investors supported by population growth, employment growth and considerable infrastructure construction activity.

Our circa $9.3 billion group development and concept pipeline is a source of embedded long-term value, and the diversification of our funds management business sets us up for further expansion as domestic and global pension capital fund flows continue to grow.

Dexus's market guidance for the 12 months ending 30 June 2020 is to deliver distribution per security growth of circa 5%.

On behalf of the Board and management, we extend our appreciation to our people across Australia for their dedication and significant contribution in delivering this year's strong result. We also thank our third party capital partners for entrusting us with the management of their investments, and our customers for their commitment across our property portfolio.

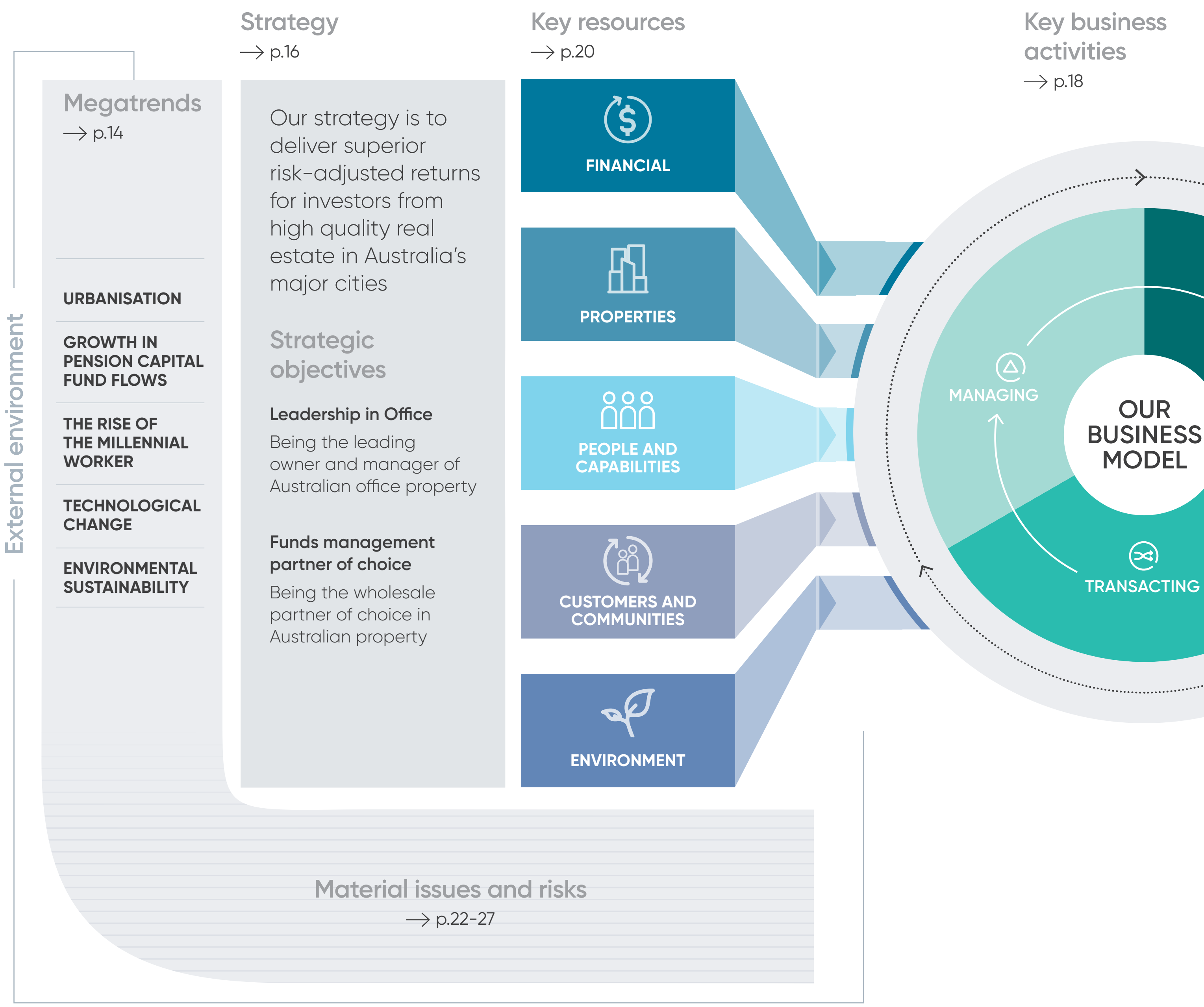
Importantly, we thank our investors for your continued investment in Dexus.

Richard Sheppard
Chair

Darren Steinberg
Chief Executive Officer

How we create value

Our value creation roadmap outlines the process through which we create value for our stakeholders.

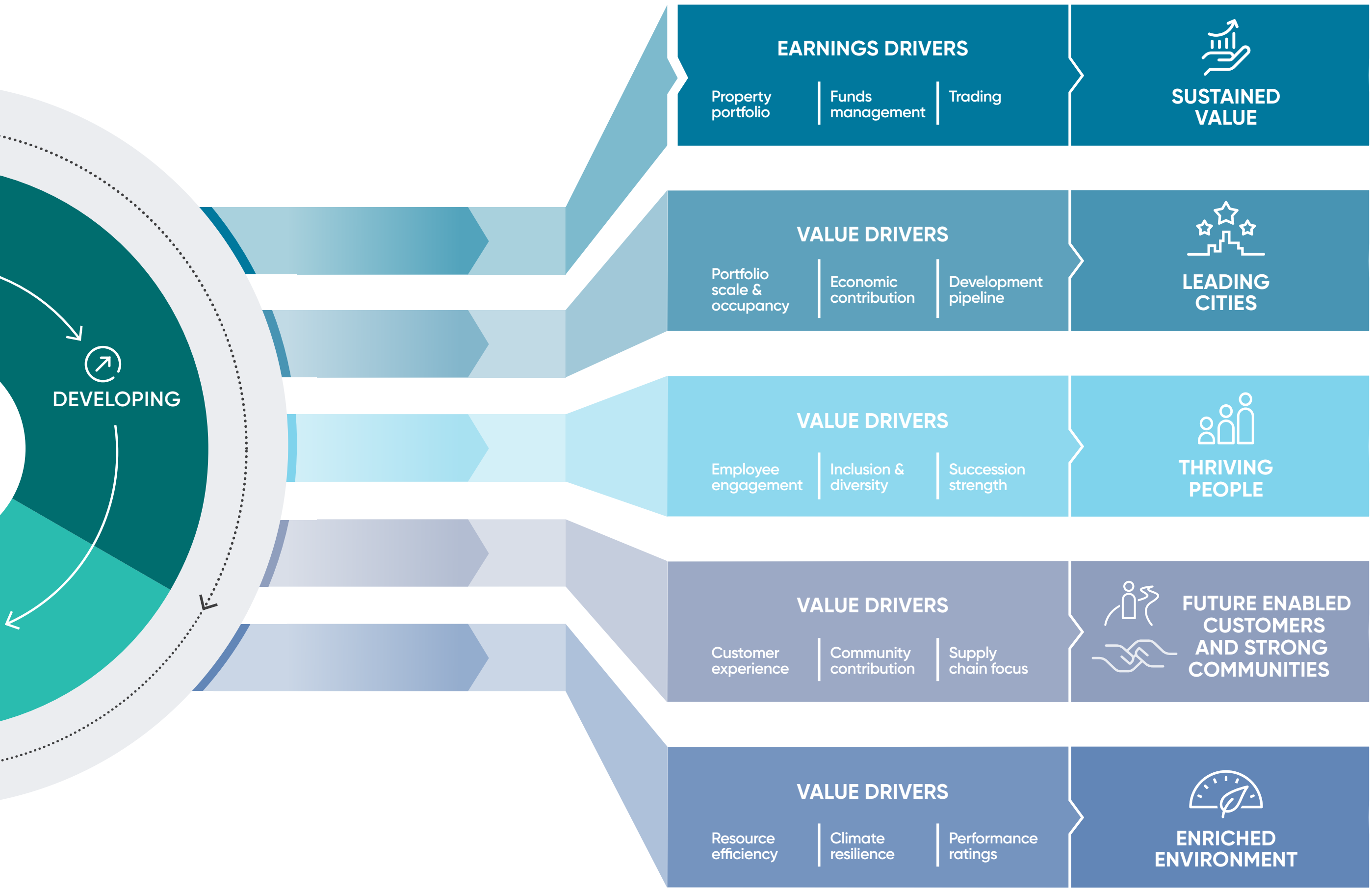


Our vision is to be globally recognised as Australia's leading real estate company

→ p.16

Value created

→ from p.28



Why we come to work: to create spaces where people thrive

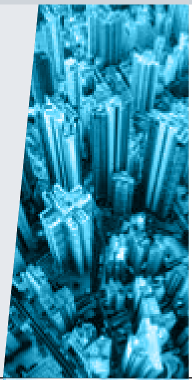
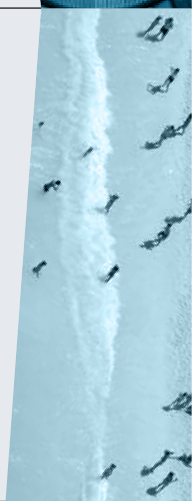
Our values: Openness and trust | Empowerment | Integrity

Megatrends

We are in a period of rapid change and the context in which we operate our business, both today and in the future, is informed by the disruption and opportunity created by global megatrends.

There are various megatrends that could impact Dexus's strategy and outlook, and the nature and potential of these can change over time.

We actively review the megatrends our business faces over the medium and long term, which is a process overseen by the Board. This section outlines the key megatrends, the implications for our business model and how we are monitoring and responding to them.

Megatrend		Description
Urbanisation		Urbanisation in major cities both in Australia and around the world is increasing. This creates challenges for social equity, the environment, transport systems and city planning.
Growth in pension capital fund flows		Funds under management within pension funds are expected to increase significantly as populations in developed nations continue to age. Consequently, real estate is expected to receive a higher share of capital allocation.
The rise of the millennial worker		Increased participation by millennials in the workforce is changing how people work.
Technological change		Technology and connectivity is driving mobility and collaboration in workplaces. Artificial Intelligence, automation and robotics is replacing repetitive tasks, together with a new focus on the value of big data and analytics.
Environmental sustainability		A growing global population continues to place demands on the world's finite resources, while the financial impacts of environmental risks such as climate change are becoming increasingly apparent.

Implications for our business model and how we are monitoring and responding to megatrends	Key resources that the megatrends relate to

An investment in Dexus is an investment in Australia's cities. Our property portfolio is concentrated in the CBDs of Australia's major cities and we believe these locations are where our customers want and need to be.

In response to the megatrend of urbanisation, we are expanding our existing development capabilities so we are optimally positioned to maximise value from our existing portfolio. In addition, we are investing in mixed-use development capabilities so that our contribution towards the creation of vibrant 'work, live, play' communities is maximised. We are working closely with our third party capital partners, public authorities, real estate consultants, technology providers and the wider community in undertaking these activities.

We are conscious of the impacts that will arise from continued urbanisation on the environment. In response we are embracing new initiatives and technologies to directly contribute toward the establishment of efficient, reliable, and environmentally friendly energy sources while reducing the emissions and waste created from our properties and business activities.

Dexus is a leading Australian real estate fund manager. Our funds management business provides wholesale investors with exposure to quality sector specific and diversified real estate investment products. The property funds within our unlisted funds management platform have a strong track record of performance and benefit from leveraging the leasing, asset and property management capabilities provided by Dexus. For acquisition and development opportunities, we often invest alongside our third party capital partners, enhancing alignment to our strategy to generate superior risk-adjusted returns.

We expect that our funds management business will benefit from the megatrend of the growth in pension fund capital flows through selectively expanding existing funds and launching new investment products where we believe a competitive advantage can be obtained, as demonstrated by the recent establishment of the Healthcare Wholesale Property Fund (HWPF) and Dexus Australian Logistics Trust (DALT).

Millennial workers are technology savvy and have different expectations regarding the workplace than previous generations. Workplaces are now expected to provide a seamless experience, while enabling collaboration and providing the flexibility to work anywhere at any time.

We are responding to the megatrend of the rise of the millennial worker and their growing demands for seamless experiences by reducing pain points, enabling collaboration and developing communities within our properties. Major initiatives include:
- Simple and easy lease
- Dexus Place
- SuiteX
- Online building portals

Wellness is an important priority for millennials. In response, we have developed Wellplace, catering for the growing importance of wellbeing in the workplace by providing a suite of health and wellbeing services and amenities to our customers through the online building portals.

We have enabled these factors for our own workforce through the adoption of a flexible working policy that enables our employees to work anywhere, anytime, supporting personal wellbeing and productivity.

Technological advancement brings opportunities to further support our customers in their growth and productivity goals, and we are implementing innovative technologies in new developments to deliver a better customer experience and optimise workforce productivity.

In response to the technological change megatrend, we have established a smart building blueprint to provide a benchmark for technology solutions across our properties that promotes both connectivity across different spaces and flexibility in workplace locations.

To support our employees, we are investing in systems and processes that will define a foundation for operational excellence. This includes the implementation of a new enterprise platform designed to enhance the efficiency of our day-to-day operations and reduce the operational demands on our people, enabling us to focus more time and energy on our customers.

For over a decade, we have reduced our environmental footprint by concentrating on improving energy and water efficiency across our properties as well as reducing the group's greenhouse gas emissions.

We have integrated risks and opportunities from climate change into our operations, through investing in the physical resilience of the portfolio and supporting the transition to a low carbon economy by committing to achieve net zero carbon emissions by 2030.

Strategy

Dexus's strategy is to deliver superior risk-adjusted returns for investors from high-quality real estate in Australia's major cities.

Delivering superior risk-adjusted returns means outperforming the relevant three and five-year benchmarks in each market in which Dexus owns or manages properties while providing Dexus Security holders with sustainable and growing distributions.

We have two strategic objectives that underpin this strategy.

- **Leadership in office: being the leading owner and manager of Australian office property**
- **Funds management partner of choice: being the wholesale partner of choice in Australian property**

Leadership in office is an aspiration that is supported by our scale. As the largest office owner and manager in Australia, we have scale that provides many advantages.

Our scale supports the generation of investment outperformance through providing valuable customer insights and the opportunity to invest in people, systems and technologies that enhance our customers' experience. It also enhances our ability to find the ideal workspace solution for customers and generates cost efficiencies.

Our objectives of leadership in office and funds management partner of choice complement each other. Our success in the office sector has enabled Dexus to attract investment partners not just in office, but also in the industrial and healthcare sectors, in turn providing the opportunity to drive investment performance for those third party capital partners.

To be globally recognised as Australia's leading real estate company

To deliver superior risk-adjusted returns for investors from high-quality real estate in Australia's major cities

Leadership in Office

Being the leading owner and manager of Australian office property

Funds management partner of choice

Being the wholesale partner of choice in Australian property

What sets Dexus apart?

A quality real estate portfolio located across key Australian cities

A scalable customer offering

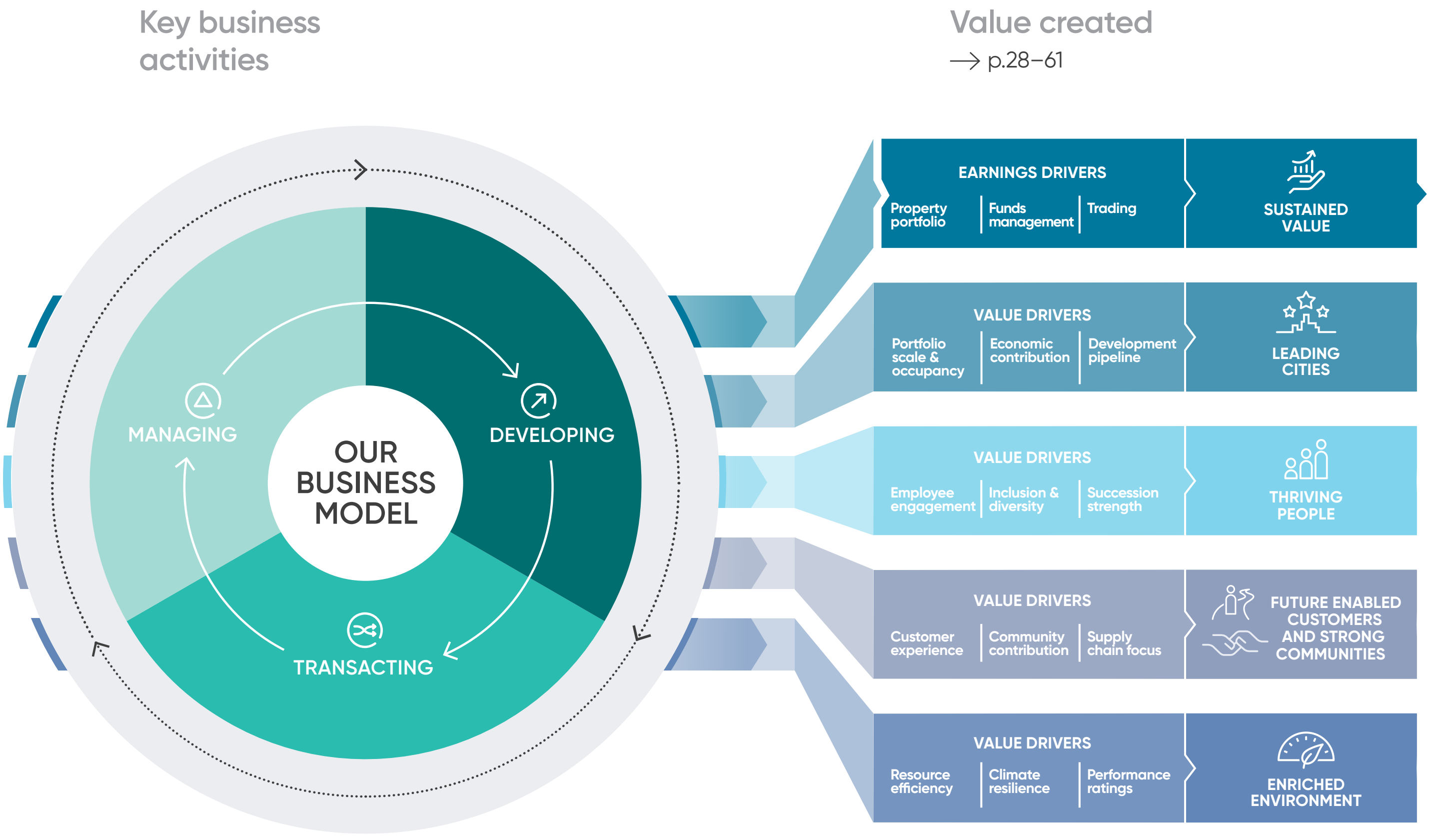
A development and trading business that unlocks value

A high performing funds management business with diverse sources of capital

A talented, engaged, inclusive and diverse workforce

Key business activities

We create value for all our stakeholders through utilising our asset management, development and transaction capabilities.



Managing

The majority of our earnings are derived from the rental income we receive from the properties we own in our $15.6 billion Australian property portfolio. In addition, we manage $16.2 billion of Australian property investments on behalf of our third party capital partners. We utilise our asset and property management expertise to maximise cash flow across the group portfolio. This active approach seeks to add value through development or leasing to diversify the customer mix and capitalise on the stage that we are at in the property cycle. Our in-house project delivery group assists in effectively managing downtime and delivering capital works projects in a timely manner.

Developing

Dexus has a circa $9.3 billion group development and concept pipeline. We utilise our expertise to access and manage development opportunities, enhancing future returns and improving portfolio quality and diversification. Development also delivers on our third party capital partners' strategies and provides organic growth in assets under management, and therefore revenue potential to Dexus.

Transacting

We utilise our multi-disciplinary expertise to identify, evaluate, and execute acquisition and divestment opportunities across a range of sectors and asset types. We invest alongside our third party capital partners to access product with the objectives of improving portfolio quality and performance and achieving scale in our core markets. We have demonstrated our ability to invest capital at the right time in the property cycle, acting quickly and evolving our approach to secure opportunities while adhering to our strict investment criteria.

Key resources

We rely on our key resources or relationships to create value now and into the future.

Key resources	How our key resources are linked to value creation
Financial	Our financial resources are the pool of funds available to us for deployment, which includes debt and equity capital, as well as profits retained from our property management, development and trading activities. This also includes the financial capital from our third party capital partners which we deploy on their behalf. Our prudent management of financial capital underpins the delivery of superior risk-adjusted returns to Dexus Security holders with a through the cycle target for Adjusted Funds From Operations (AFFO) per security growth of 3-5% and Return on Contributed Equity (ROCE) of 7-10%. Our policy is to pay distributions to Security holders in line with free cashflow for which AFFO is a proxy.
Properties	As a real estate company, our properties are central to how we create value. We actively manage our property portfolio to enhance its potential, while unlocking further value by developing our properties to further enhance quality in their current use, or for higher and better uses. Our portfolio is concentrated in Australia's major cities, which we help shape as leading destinations to live, work and play.
People and capabilities	Our people's knowledge and expertise are critical inputs to how we create value. We are a passionate and agile team who want to make a difference. We focus on sustaining a high-performing workforce supported by an inclusive and diverse culture. Our intellectual capital enables us to instil strong corporate governance, sound risk management and maintain a focus on safety at all levels of our business.
Customers and communities	Our capacity to create value depends on strong relationships with our customers, local communities and suppliers. We work in partnership with our customers to provide engaging and productive spaces that anticipate their evolving needs. We support the communities in which we operate in recognition of their contribution to the activity and vibrancy of our spaces. We partner with our suppliers to deliver our development projects and manage our properties more efficiently, while maintaining a proactive focus on safety.
Environment	The efficient use of natural resources and sound management of environmental risks supports our creation of value through delivering cost efficiencies and operational resilience. We understand, monitor and manage our environmental impact, setting short-term and long-term measurable environmental performance targets. We prepare for the physical impacts of climate change, while harnessing opportunities that support the transition to a low carbon economy.

The value that is created	How we measure value
Sustained value Superior long-term returns for our investors and third party capital partners.	– Growth in distribution per security – Growth in Adjusted Funds From Operations (AFFO) per security – Return on Contributed Equity (ROCE) → p.28
Leading cities A high-quality portfolio that contributes to economic prosperity and supports sustainable urban development across Australia's key cities.	– Scale: value of portfolio – Customer demand and space use: portfolio occupancy rates – Economic contribution: Construction jobs supported and Gross Value Added (GVA) to the economy from development projects – Future value: value of development and concept pipeline → p.38
Thriving people An engaged and capable workforce that delivers on our strategy.	– Employee engagement: employee Net Promoter Score – Gender diversity: female representation in senior management roles – Succession strength: proportion of internal candidates placed in available roles → p.50
Future enabled customers and strong communities Satisfied and successful customers supported by high-performing workspaces and a comprehensive customer product and service offering. Well connected, prosperous and strong communities within and around our properties. A network of capable and effective supplier relationships that ensures environmental, social and governance standards are maintained throughout our supply chain.	– Customer advocacy: customer Net Promoter Score – Community contribution: total value contributed – Supply chain economic contribution: value of spend with suppliers → p.54
Enriched environment An efficient and resilient portfolio that minimises our environmental footprint and mitigates climate risk.	– Resource efficiency – energy and water reductions and waste management – Climate resilience: Greenhouse gas emissions reductions – Performance ratings: NABERS Energy and Water ratings → p.58

Material issues

Our material issues are informed by our knowledge of our business environment and play a key role in business planning.

Dexus has used the materiality definitions from the Integrated Reporting Framework and the GRI Standards, which consider material issues to be those that are of high importance to our stakeholders and that affect the organisation's ability to create value over the short, medium and long term.

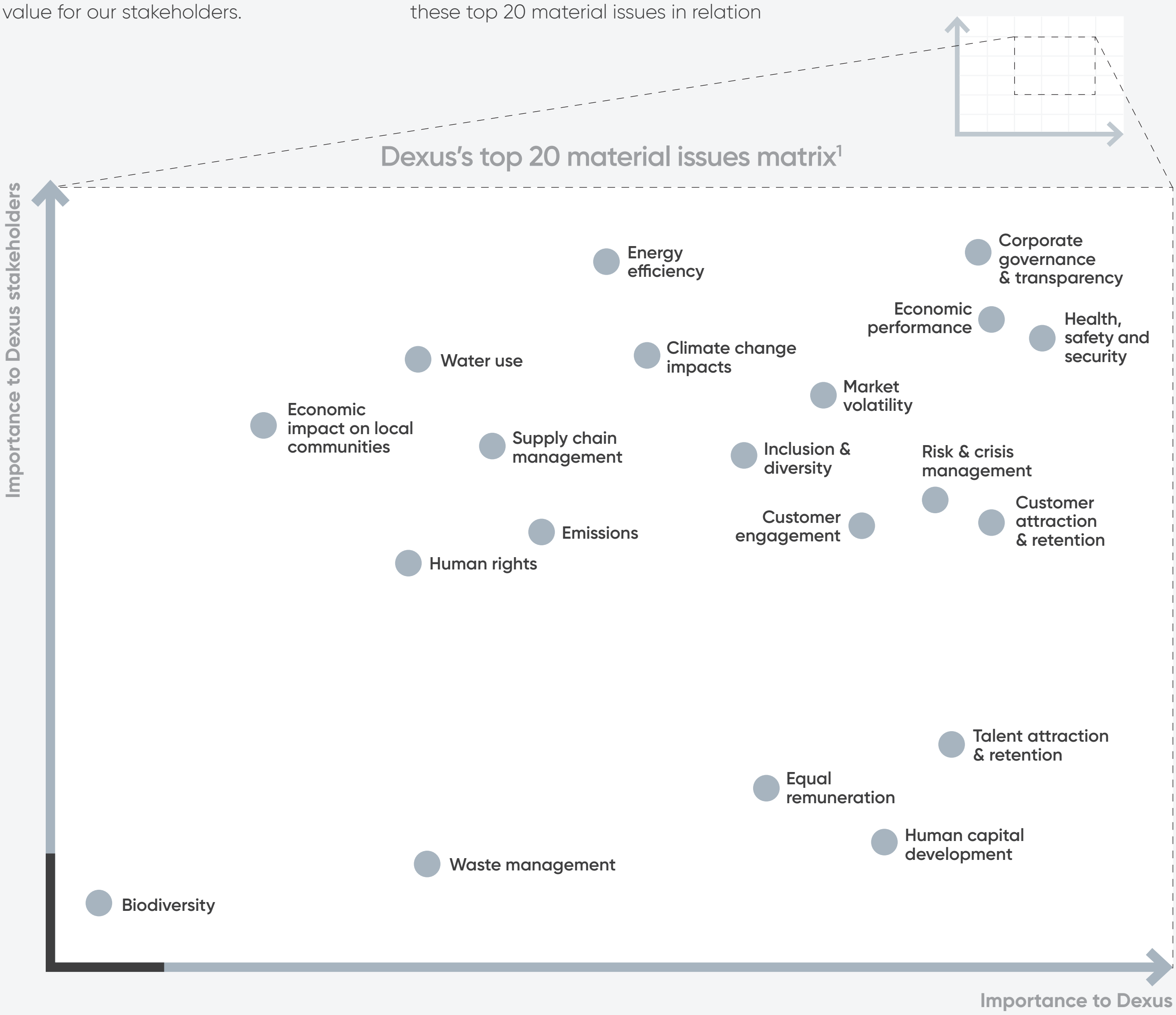
This year, we undertook a materiality assessment to identify key topics that impact our ability to create value for our stakeholders.

We included issues that linked to strategy, governance, performance or opportunities, while considering what was important to key stakeholders and what we as a company can have a material impact upon.

We have created a matrix to assist in prioritising the top 20 material issues as the basis for ongoing disclosure. The matrix shows the importance that Dexus and its stakeholders place on these top 20 material issues in relation to their impact on our ability to create value. In the key risks section on page 24, we show how these material issues relate to key business risks.

Further information on our Materiality process is included in our 2019 Sustainability Performance Pack available on our website at www.dexus.com

Dexus's top 20 material issues matrix[1]



1. Each of the listed material issues are considered of high importance to Dexus stakeholders and to Dexus's business.

Our material issues influence our ability to create value by impacting one or more of the key resources that Dexus relies on.

We have reviewed the impact that each material issue has on our key resources and have arranged these into two main categories: a material impact and an important connection. The Financial key resource column in the table below recognises that all material issues ultimately impact our ability to create financial value.

Further information on how these material issues influence our respective key resources is provided on pages 28–61 and in the 2019 Sustainability Performance Pack.

	Financial	Properties	People and capabilities	Customers and communities	Environment
Biodiversity	○				●
Climate change impacts	○	●		◍	
Corporate governance & transparency	○		●	◍	
Customer attraction & retention	○	◍		●	
Customer engagement	○	◍		●	
Economic impact on local communities	○	◍		●	
Economic performance	●				
Emissions	○			◍	●
Energy efficiency	○	◍			●
Equal remuneration	○		●		
Health, safety & security	○		●	◍	
Human capital development	○		●		
Human rights	○		◍	●	
Inclusion & diversity	○		●		
Market volatility	●	◍			
Risk & crisis management	○	◍	●		
Supply chain management	○	◍		●	
Talent attraction & retention	○		●		
Waste management	○	◍			●
Water use	○	◍			●

● Material impact ◍ Important connections ○ Recognises influence on financial value creation

Key risks

There are various risks that could impact Dexus's strategy and outlook. We understand that effective risk management requires an understanding of risks during all phases of the investment life cycle.

We actively review and manage the risks facing our business over the short, medium and long-term, overseen by the Board Risk Committee. Periodically, we formally re-assess our key risks through an extensive process, facilitated by an independent specialist. In the intervening years, an annual management review of the key risks is conducted in line with reporting disclosure requirements.

This year, we undertook risk assurance mapping which reviewed the assurance program and the key risks. We also reviewed risk ratings and control processes. In this section we outline our key risks and Dexus's approach to responding to them, combined with how the key risks link to our material issues and key resources. For more information on our material issues, refer to page 22 or the 2019 Sustainability Performance Pack.

Key risk	Link to material issues
Performance **Ability to meet market guidance, deliver superior risk adjusted performance relative to industry benchmarks and complete developments in line with expectations.**	– Economic performance – Economic impact on local communities – Customer attraction & retention
Capital markets **Positioning the capital structure of the business to withstand unexpected changes in equity and debt markets.**	– Economic performance – Market volatility
Key client **Retention of existing wholesale third party client or funds management partner.**	– Economic performance – Corporate governance & transparency
Compliance and regulatory **Compliance with regulatory requirements including continuous disclosure, ASX Listing Rules, REIT status and Dexus policies and procedures.**	– Corporate governance & transparency
Cyber/data and governance **Management and maintenance of data security.**	– Risk & crisis management – Corporate governance & transparency

Potential impacts	How Dexus is responding	Link to key resources
– Reputational damage – Reduced investor sentiment (equity and debt) – Loss of broader community confidence – Reduced credit ratings and reduced availability of debt financing	The group's risk appetite is reviewed and approved annually by the Board and reviewed by management on a quarterly basis. The Board approved strategy is formally reviewed throughout the year with processes in place to monitor and manage risks that may impact on performance. The Investment Committee is responsible for material investment decisions, subject to delegated authority, and detailed due diligence is undertaken for all acquisitions and divestments. External experts are appointed to assist in the design and costing process for developments. These procedures are designed to mitigate against poor performance outcomes by ensuring decisions are made using relevant information and in the best interests of Dexus's Security holders.	
– Constrained capacity to execute strategy – Increased cost of funding (equity and debt) – Reduced investor sentiment (equity and debt) – Reduced credit ratings and reduced availability of debt financing	Our prudent management of capital, including regular sensitivity analysis and periodic independent reviews of hedging policy, assists in protecting Dexus's balance sheet from unexpected changes in capital markets. Further information relating to financial risk management is detailed in Note 12 of the Financial Statements.	
– Inability to attract new third party capital partners or loss of existing third party capital partners – Reduced funds management income	Our funds management model includes strong governance principles and processes designed to build and strengthen relationships with existing and new third party capital partners. Our active approach to engagement across the business enables employees to understand the interests of third party capital partners and design strategies to maintain partner satisfaction. Our funds management team also undertakes a periodic client survey to understand perceptions and identify areas for improvement.	
– Reputational damage – Loss of broader community confidence – Increased compliance costs – Sanctions impacting on business operations – Reduced investor sentiment (equity and debt)	We maintain comprehensive compliance policies and procedures that are regularly updated to ensure the business operates in accordance with regulatory expectations. Our employees and service providers receive training on their compliance obligations and are encouraged to raise concerns as appropriate. Independent industry experts are appointed to undertake reviews where appropriate.	
– Lost productivity following cyber disruption – Reputational and/or financial damage – Negative impact on customer and/or funds management partner relationships	We conduct regular training, testing and disaster recovery activities, along with the employment of data security software, to assist in reducing the risk of a breach of data security. We regularly review policies and procedures on information security and provide training to all employees.	

Key risks

Board focus

The Board Risk Committee is responsible for reviewing the Risk Management framework and risk appetite for the group. In FY19 the Board Risk Committee was involved in:

- Considering and reviewing the top key risks, their controls and mitigants
- Reviewing cyber risk and ongoing resilience
- Overseeing Dexus's preparedness to respond to a crisis

"The nature and potential of our risks can change over time.

Key risk	Link to material issues
Security and emergency management Ensuring the safety of employees, customers and the public at Dexus sites.	– Risk & crisis management – Health safety & security – Supply chain management – Customer engagement
Talent and capability Retention of key talent within Dexus.	– Talent attraction & retention – Human capital development – Equal remuneration – Equal development
Corporate culture Maintaining a respectful, open and transparent culture which supports diversity of opinion and values including acting honestly, ethically and with integrity.	– Inclusion & diversity – Corporate governance & transparency – Equal remuneration – Human rights
Climate change Mitigation against the impact of climate change.	– Climate change impacts – Energy efficiency – Emissions – Water use – Biodiversity – Waste management
Building and workplace health & safety Identification and remediation of health and safety issues relating to the fabric of properties across the portfolio including facades. Prevention of death or serious injury at a Dexus owned or controlled site due to unsafe work practices.	– Health, safety & security – Customer engagement

Potential impacts	How Dexus is responding	Link to key resources
– Death or injury to individuals at Dexus properties – Reputational damage – Loss of broader community confidence – Costs associated with criminal/civil proceedings – Costs associated with remediation and/or restoration	We maintain a business continuity management framework to mitigate against safety threats, including the adoption of plans relating to crisis management, business continuity and emergency management. Responsiveness at each property is regularly tested through scenario exercises. Key performance indicators for reporting and resolution of security issues are embedded into contractor agreements at Dexus-managed sites.	
– Disruption/impact to customer relationships and/or revenue – Increased workforce costs – Reduced workforce productivity – Loss of corporate knowledge	We aim to maintain an engaged and high-performing workforce that is aligned with our corporate objectives and is inspired to stay with the business. We focus on professional development at all levels to enhance employee capabilities and support continued employee engagement. We develop succession plans for key employees and undertake external mapping for key roles to assist in the retention of key talent.	
– Excessive regrettable employee turnover and associated increased costs – Inability to attract talent – Reduced investor sentiment (equity and debt) – Inappropriate conduct leading to investigation, potential costs and reputational damage	Our Board and Group Management Committee focus on fostering a culture that supports employees to deliver on the group's purpose of creating spaces where people thrive. We regularly survey employees and gather data through other reports to understand organisational culture and identify potential challenges that may require additional focus. We strive to invest in our employees' development and reward their achievement of sustainable business outcomes that add value to our stakeholder.	
– Increased costs associated with physical risks (e.g. asset damage from extreme weather) – Increased costs associated with transition risks (e.g. carbon regulation, requirements for building efficiency)	We focus on enhancing the resilience of our properties to physical climate risks, implementing energy efficiency initiatives and deploying renewable energy projects. Dexus's approach to climate change risk management is disclosed in accordance with the recommendations of the Task Force on Climate-related Financial Disclosures on page 60 and in the 2019 Sustainability Performance Pack.	
– Death or injury – Reputational damage – Loss of broader community confidence – Costs or sanctions associated with regulatory response – Costs associated with criminal/civil proceedings – Costs associated with remediation and/or restoration	We adopt a series of measures to ensure building and workplace health and safety is maintained in and around our properties, including: – Adoption of comprehensive work health and safety programs and compliance by site contractors and employees, including independent certification against OHSAS 18001 Occupational Health and Safety Management Systems – Engagement of external consultants for facade audits – Ongoing monitoring and testing of existing sites – Regular training for both employees and service providers.	

Financial

Dexus's quality portfolio, development pipeline and growing funds platform are underpinned by a strong balance sheet, facilitating a secure earnings stream with growth potential.

Strategy

Our strategy contributes to the generation of long-term and sustainable returns. The balance sheet investment strategy remains focused on:

- Activating and investing in the development pipeline
- Supporting growth in the funds management business
- Selective core asset acquisitions which provide potential to unlock additional value in the future, and
- Divesting non-core assets to continue improving the quality of the portfolio

In addition, we maintain diverse sources of capital as well as conservative gearing to provide capacity to fund the committed development pipeline and optionality to fund the uncommitted development pipeline.

Earnings drivers

Our earnings drivers comprise three areas:

- **Property portfolio:** the largest driver of financial value, containing the Dexus owned office and industrial portfolio
- **Funds management:** providing access to wholesale sources of financial capital and a steady annuity-style income stream
- **Trading:** packaging of properties to generate trading profits

How we measure financial performance

When measuring financial performance, we focus on growth in Adjusted Funds From Operations (AFFO) and distributions per security as well as Return on Contributed Equity to measure the returns achieved for our Security holders.

In addition to the investment characteristics outlined above, Dexus targets 10-year unlevered internal rate of returns of 7-8% for new acquisitions.

To learn more about our progress against our FY19 Sustained Value commitments, refer to the 2019 Sustainability Performance Pack available at www.dexus.com

Case study

Attracting new investors for sustained performance

Dexus broadened its relationships with third party capital partners, attracting and securing stable long-term capital sources to invest alongside it through the cycle.

During the year Dexus established a circa $2 billion[1] Dexus Australian Logistics Trust (DALT) with sovereign fund, GIC as its foundation investor. DALT was seeded with assets from Dexus's existing industrial portfolio and has an active acquisition and development mandate.

New investors were also secured across other managed funds, including:

- M&G Real Estate purchased Future Fund's 50% interest in the Dexus Industrial Partnership, which has achieved strong performance since inception and now has a revitalised growth mandate
- Healthcare Wholesale Property Fund (HWPF) secured a major equity commitment of $100 million from Employees Provident Fund (EPF) Malaysia. The investment enables HWPF to progress the acquisition of a large scale, high-quality healthcare asset for the fund's portfolio[2]
- DWPF undertook an equity raising to fund the acquisition of an additional 25% interest in the MLC Centre. The offer raised approximately $340 million of equity, attracting six new investors

These new investor relationships have further diversified Dexus's unlisted investor base, enabling it to pursue value accretive acquisition and development opportunities both within the funds management business and directly on balance sheet.

1. On completion.
2. Subject to Responsible Entity and Advisory Committee approvals and securing debt financing.

Sustained Value

5.0%
Growth in distribution per security

5.5%
Growth in AFFO per security

10.1%
Return on contributed equity

Board focus

Financial performance is a key focus area for the Board and the Board Audit Committee. In FY19, the Board and Board Audit Committee were involved in:

- Considering and approving Dexus's financial reports, audit reports, market guidance, distribution details, funding requirements and liquidity, as well as property portfolio valuation movements
- Approving the group's Financial KPIs and scorecard, in addition to annual and half year results materials
- Approving the group's capital management activities including a $425 million Exchangeable Note offering and an equity raising, comprising a $900 million institutional placement and a $63.9 million SPP, which was increased from its original $50 million cap

Future focus

- Deliver circa 5% growth in distribution per security for FY20
- Extend Weighted Average Lease Expiry (WALE) and maximise AFFO across the property portfolio
- Maintain a strong balance sheet and further diversify debt

Financial

Group performance and outlook

This year we again delivered strong financial performance for our investors.

Group performance

Our net profit after tax was $1.28 billion, down 25.9% on the prior year. The key driver of this movement was $773.1 million net revaluation gains, which were $428.7 million lower than the prior year.

These revaluation gains alongside an equity raising, comprising an institutional placement and Security Purchase Plan (SPP) also contributed to the 84 cent increase in Net Tangible Assets (NTA) per security to $10.48. Operationally, Funds From Operations (FFO) increased $28.2 million or 4.3% to $681.5 million. The key drivers of the increase include:

- Office Property FFO increased as a result of lease commencements across the portfolio and acquisitions, partly offset by divestments, vacancy at 240 St Georges Terrace and a delayed tenant payment
- Industrial Property FFO increased due to lease commencements, development completions and one-off income, which was offset by divestments
- Net finance costs reduced by $17.3 million driven by capitalised interest on development affected properties and a lower cost of debt

This was partially offset by:

- A slight decrease in the quantum of trading profits recognised year-on-year

Dexus's management expense ratio (MER) reduced to 30 basis points due to growth in funds under management largely driven by acquisitions alongside $773.1 million of revaluation gains.

Our underlying business, excluding trading profits, delivered FFO per security of 62.9 cents and grew by 3.8% on the prior year. AFFO per security of 50.3 cents grew 5.5%, driven by FFO growth and slightly lower maintenance capital expenditure.

Distributions per security were 50.2 cents, up 5.0% on the prior year, with our distribution payout remaining in line with free cash flow in accordance with Dexus's distribution policy.

We achieved a ROCE of 10.1% driven largely by the strong AFFO result as well as revaluation gains from the recently completed development at 100 Mount Street in North Sydney.

We continued to maintain a strong and conservative balance sheet with gearing at 24.0% at 30 June 2019, well below Dexus's target range of 30–40%. In May 2019, we raised $900 million through an institutional placement and a further $63.9 million through an SPP in June 2019, enabling us to partially fund 80 Collins Street, Melbourne.

Total debt duration remained high at 6.7 years and we further diversified our funding sources through the issue of $425 million of Exchangeable Notes to fund Dexus's share of the acquisition of the remaining stake in MLC Centre, Sydney.

Key financials	FY19	FY18	Change
Funds From Operations (FFO) ($m)	681.5	653.3	4.3%
Net profit after tax ($m)	1,281.0	1,728.9	(25.9)%
AFFO per security (cents)	50.3	47.7	5.5%
Distribution per security (cents)	50.2	47.8	5.0%
ROCE (%)	10.1%	7.6%	2.5ppt
Net tangible asset backing per security ($)	10.48	9.64	8.7%
Gearing (look-through) (%)	24.0%	24.1%	(10)bp

“

AFFO is a financial measure of real estate operating performance and is determined by adjusting Statutory net profit after tax for certain items which are non-cash, unrealised or capital in nature, then adjusting for maintenance capex and incentives.

The Directors consider AFFO to be a measure that reflects the underlying performance of the Group.

Statutory profit reconciliation	FY19 ($m)	FY18 ($m)
Statutory AIFRS Net profit after tax	**1,281.0**	**1,728.9**
(Gains)/losses from sales of investment property	(1.8)	0.9
Fair value gain on investment property	(773.1)	(1,201.8)
Fair value loss on the mark-to-market of derivatives	(109.4)	77.5
Incentives amortisation and rent straight-line[1]	116.8	101.4
Non-FFO tax expense	15.7	7.3
Other unrealised or one-off items	152.3	(60.9)
Funds From Operations (FFO)[2]	**681.5**	**653.3**
Maintenance capital expenditure	(63.2)	(72.9)
Cash incentives and leasing costs paid	(37.6)	(33.2)
Rent free incentives	(63.5)	(61.7)
Adjusted Funds From Operations (AFFO)[3]	**517.2**	**485.5**
Distribution	**529.0**	**486.4**
AFFO payout ratio	98.7%[4]	100.2%

FFO composition	FY19 $m	FY18 $m	Change %
Office property FFO	610.5	603.8	1.1%
Industrial property FFO	137.3	132.7	3.5%
Total property FFO	**747.8**	**736.5**	**1.5%**
Management operations[5]	54.6	52.5	4.0%
Group corporate	(30.2)	(27.4)	10.2%
Net Finance costs	(117.1)	(134.4)	(12.9)%
Other (including tax)	(8.3)	(10.5)	(21.0)%
Underlying FFO	**646.8**	**616.7**	**4.9%**
Trading profits (net of tax)	34.7	36.6	(5.2)%
FFO	**681.5**	**653.3**	**4.3%**

1. Including cash, rent free and fit out incentives amortisation.
2. Including Dexus's share of equity accounted investments.
3. AFFO is in line with the Property Council of Australia definition.
4. FY19 distribution payout ratio has been adjusted to exclude the $18.3 million of distributions paid on new securities issued through the Institutional Placement and Security Purchase Plan announced on 2 May 2019, which were fully entitled to the distribution for the six months ending 30 June 2019. The distribution payout ratio was 102.3% including this amount.
5. Management operations income includes development management fees and in FY19 includes bidding costs for a development opportunity.

Group outlook

Moderating economy to benefit from stimulus

Australian economic growth is moderating as the housing market rebalances. However, the medium-term outlook should benefit from reductions in official cash rates and fiscal stimulus from tax rebates.

The economy continues to benefit from population growth of 1.6% and a substantial infrastructure pipeline.

Australia's Q1 2019 GDP growth rate of 1.8% per annum is approximately equal to the average rate of growth across the OECD.

Business confidence is below average given uncertainty regarding the US and China trade war, Brexit and a slowing in Japan and Europe. However, confidence is likely to benefit from residential prices which are beginning to stabilise.

We expect financing costs to remain low after two cuts to official interest rates. 10-year government bond yields are forecast to remain below 2% for the next couple of years, supporting investment demand for the office, industrial and alternative sectors.

Financial

Property portfolio performance

We remain focused on maximising the performance of the property portfolio through leasing and asset management activities, with the property portfolio contributing to 89% of FFO in FY19.

Office portfolio performance

During the year, we leased 189,459 square metres of office space across 267 transactions as well as 52,815 square metres of space across office developments, locking in future income streams.

It has been an excellent year in which robust enquiry has converted to significant leasing success, including at our key office developments at 100 Mount Street in North Sydney and 240 St Georges Terrace in Perth. 100 Mount Street is now 96% committed after completing in May 2019, while 240 St Georges Terrace is now 93% committed.

Our office portfolio delivered 3.4% like-for-like income growth which was affected by vacancy at Sydney Olympic Park as well as a tenant dispute in Queensland, with timing for receipt of proceeds uncertain. The Queensland space has already been leased to a new tenant that is now in occupation. The portfolio achieved a 10.6% total return for the year to 30 June 2019 which was driven by valuation uplifts and leasing. Sydney office properties continued to experience strong effective rental growth.

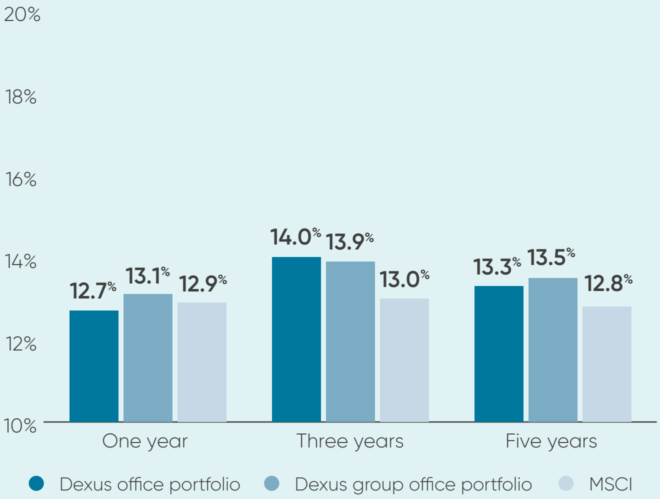
Occupancy increased to 98.0% at 30 June 2019 (FY18: 96.0%) driven by leasing in our largest core market, Sydney, as well as Brisbane.

Industrial portfolio performance

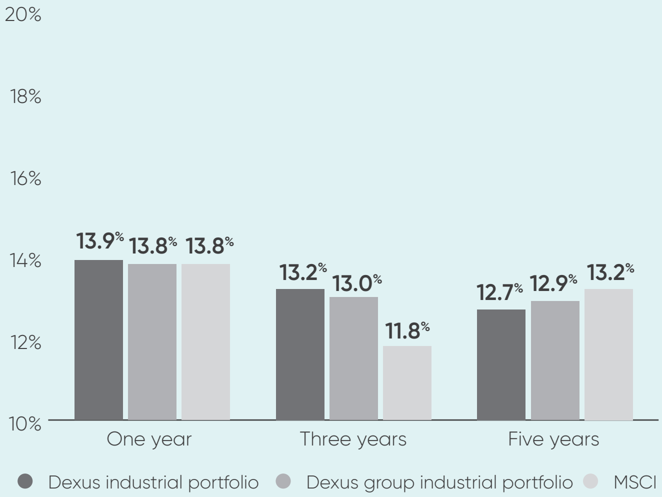
During the year, we leased 324,765 square metres of industrial space across 87 transactions, with the portfolio continuing to benefit from an uptick in logistics and e-commerce demand. Portfolio occupancy remained high at 97.0% (FY18: 98.3%) and like-for-like income growth was 8.0%[1] (FY18: 3.0%), an elevated result due to one-off income achieved above forecast.

Our industrial portfolio delivered a total return of 12.9% for the year to 30 June 2019 (FY18: 13.6%).

Dexus office portfolio vs MSCI at 31 March 2019[2]



Dexus industrial portfolio vs MSCI at 31 March 2019[2]



1. Excluding one-off income is 2.5%.
2. Period to 31 March 2019 which reflects the latest MSCI Australian Quarterly Digest for All Property benchmark (formerly IPD) data available.

Property market outlook

Office markets well positioned.

Leading indicators such as job advertisements and business confidence have eased. Net absorption is likely to be subdued in FY20 given a lack of available space in Sydney and Melbourne.

Australian office markets are well placed to handle a period of softer demand. Vacancy rates are at historic lows for Sydney (4.1%) and Melbourne (3.8%), and supply growth is still moderate overall with the exception of Melbourne (albeit 75% of the Melbourne supply up to the end of FY22 is pre-committed).

The Brisbane and Perth markets are in recovery phase with rising rents and falling vacancy rates. The fact that Brisbane and Perth are at different points in the cycle to Sydney and Melbourne provides useful diversification.

Inner city areas and CBDs benefit from faster employment growth than other regions. Over the long term, office properties in the CBD stand to benefit from a virtuous cycle of employment growth and new infrastructure investment.

The industrial sector is in a growth phase.

Demand is running at above average levels given population growth and infrastructure investment combined with investment in supply chains by retailers and suppliers.

E-commerce is emerging as a significant driver of demand as online sales expand at double digit growth rates.

Rents continue to grow, particularly in land constrained areas in Sydney and Melbourne. Conditions in Brisbane are expected to continue to improve in the medium term as the economy strengthens.

1. Excluding development leasing of 52,815 square metres.
2. Excluding one-off income is +2.5%.

Office

+3.4%
Effective LFL income
FY18: +4.5%

13.4%
Average incentives[1]
FY18: 13.9%

189,459sqm
Space leased[1]

98.0%
Occupancy
FY18: 96.0%

4.4 years
WALE
FY18: 4.6 years

Industrial

+8.0%[2]
Effective LFL income
FY18: +3.0%

11.7%
Average incentives
FY18: 12.6%

324,765sqm
Space leased

97.0%
Occupancy
FY18: 98.3%

4.7 years
WALE
FY18: 4.8 years

Financial

Funds management performance

Our strategic objective of being the wholesale partner of choice in Australian property and track record of driving investment performance enables Dexus to attract third party capital partners to invest alongside through the cycle.

Third party funds under management increased to $16.2 billion, up 16% from 30 June 2018, driven by the launch of a new fund, acquisitions, developments and revaluations, partially offset by divestments.

We welcomed GIC as the foundation investor in the Dexus Australian Logistics Trust (DALT). 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 group's industrial platform, broadening relationships and providing a stable long-term source of capital to invest alongside us through the cycle.

We also welcomed M&G Real Estate as a new investor in the Dexus Industrial Partnership. Since its establishment in June 2014, we have achieved an unlevered IRR of 14.5% on our investment in the Partnership (post fees) and will continue to deliver on the Partnership's growth mandate through acquisitions and active management.

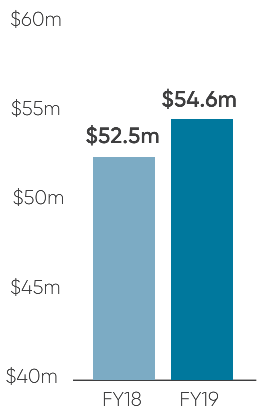
DWPF undertook an equity raising to fund its acquisition of an additional 25% interest in the MLC Centre acquisition, raising $340 million of equity, attracting six new investors and further diversifying DWPF's unitholder base. An additional three investors joined the fund during the year.

HWPF made significant progress in its capital raising efforts, securing a major equity commitment of $100 million from Employees Provident Fund (EPF) Malaysia. This commitment will enable HWPF to acquire[1] North Shore Health Hub, Stage 1 of the development at 12 Frederick Street, St Leonards currently held in Dexus's Trading portfolio.

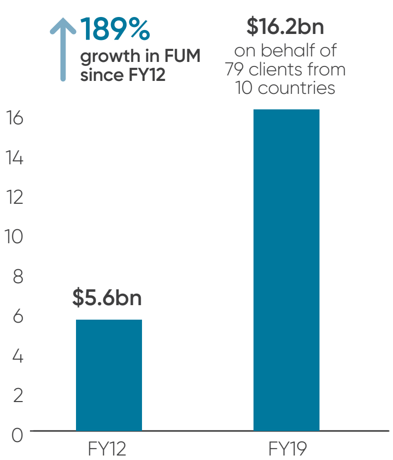
All funds delivered strong performance, with DWPF achieving a one-year total return of 10.24% post fees, outperforming its benchmark over one, three, five, seven and ten years. The Dexus Office Partnership has delivered an annualised unlevered total property return of 14.3% since inception.

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

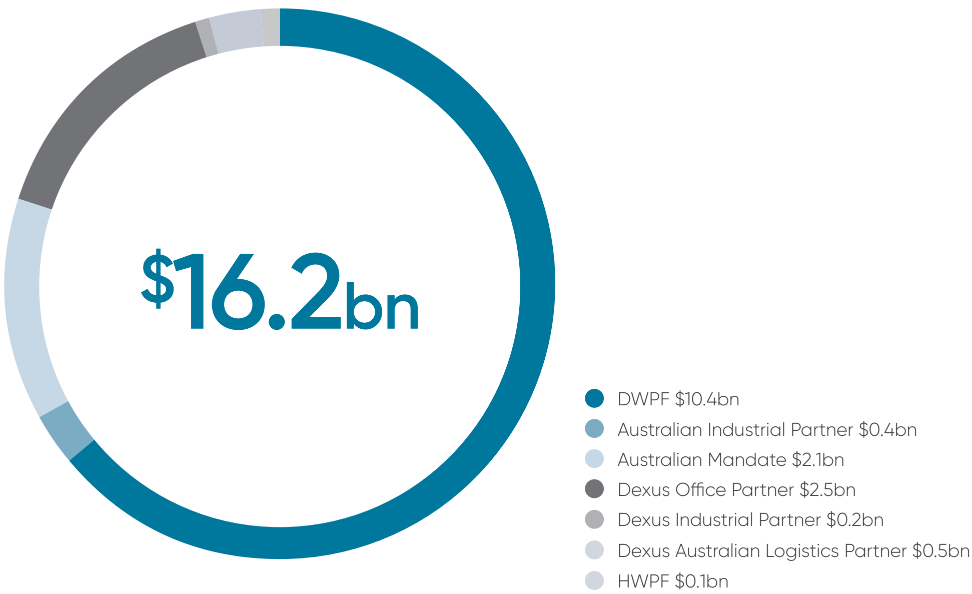
Management operations FFO



Diversified Funds Management platform



Funds Management portfolio



1. Subject to Responsible Entity and Advisory Committee approvals and securing debt financing.

Funds management outlook

Our funds management business's current exposure is 53% to office properties, 14% to industrial properties, 32% to retail properties and 1% to healthcare properties.

Office and industrial property performance is expected to be influenced by the key lead indicators described on page 33.

Australian retail turnover growth remains positive at 3.1% per annum on a moving annual basis. Going forward, spending should benefit from the stimulatory effect of recent cuts in bank mortgage rates and Federal tax rebates.

Online retail sales grew at 4.8% per annum in the year to May 2019. The importance of quality shopping centres is reinforced by a recent survey which found that 60% of online sales captured by domestic retailers are by players with an omni-channel (physical) presence.

Demand for healthcare services will continue to benefit from ageing demographics, longer life expectancy and population growth.

Trading performance and outlook

Trading is a capability that involves the identification of opportunities, repositioning to enhance value, and realising value through divestment.

Trading properties are either acquired with the direct purpose of repositioning or development, or they are identified in Dexus's existing portfolio as having value-add potential and subsequently transferred into the trading trust to be repositioned, and then sold.

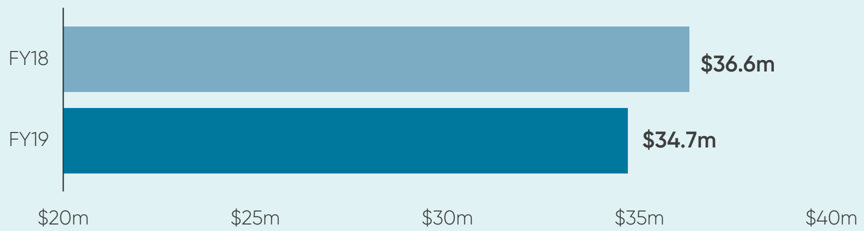
Trading profits of $34.7 million net of tax were achieved in FY19 following the sale of 32 Flinders Street, Melbourne.

Construction is now underway at the North Shore Health Hub at 12 Frederick Street in St Leonards, with the facility approximately 50% leased ahead of expected completion in late 2020. The multi-tenanted facility is located adjacent to the existing North Shore hospital precinct, offering occupants a new benchmark in medical workspace.

Dexus progressed the sale of the North Shore Health Hub, St Leonards[1], and post 30 June 2019 exchanged contracts to sell a 25% interest in 201 Elizabeth Street, Sydney, while entering into a put and call option to sell the remaining 25% interest in late 2020. The sale of 201 Elizabeth Street is expected to contribute circa $34 million in trading profits pre-tax in FY20 and a further circa $34 million in FY21 in the event either option is exercised.

Five projects[2] diversified across sectors and trading strategies have been earmarked to deliver trading profits of $210-$300 million pre-tax in future years, including 201 Elizabeth Street and North Shore Health Hub mentioned above.

Trading FFO



1. Subject to Responsible Entity and Advisory Committee approvals and securing debt financing.
2. Includes North Shore Health Hub, St Leonards and 201 Elizabeth Street, Sydney.

Financial

Financial position and capital management

Financial position

- Total look-through assets increased by $2,567 million primarily due to $1,726 million of acquisitions, development capital expenditures and $773.1 million of property valuation increases, partially offset by $682 million of divestments.
- Total look-through borrowings increased by $786 million due to funding required for the acquisition of the remaining interest in the MLC Centre, Sydney as well as development capital expenditure partly offset by divestments.
- Total number of securities on issue increased by 79,660,788 following the institutional placement and SPP mentioned on page 30.

	30 June 2019 $m	30 June 2018 $m
Office investment properties	13,193	11,038
Industrial investment properties	2,337	2,245
Healthcare investment properties	86	54
Other[1]	860	572
Total tangible assets	**16,476**	**13,909**
Borrowings	(4,231)	(3,445)
Other liabilities	(751)	(658)
Net tangible assets	**11,494**	**9,806**
Total number of securities on issue	1,096,857,665	1,017,196,877
NTA ($)	**10.48**	**9.64**

1. Excludes the $73.2 million deferred tax liability on management rights in line with accounting changes as disclosed in the FY17 financial statements.

Capital management

We continued to maintain a strong and conservative balance sheet, with gearing at 24.0%.

A $963.9 million institutional placement and SPP enabled us to partially fund the acquisition of 80 Collins Street, Melbourne.

Total debt duration remained high at 6.7 years and we further diversified our funding sources through the issue of $425 million of Exchangeable Notes to fund Dexus's 25% interest of the acquisition of the remaining stake in the MLC Centre, Sydney.

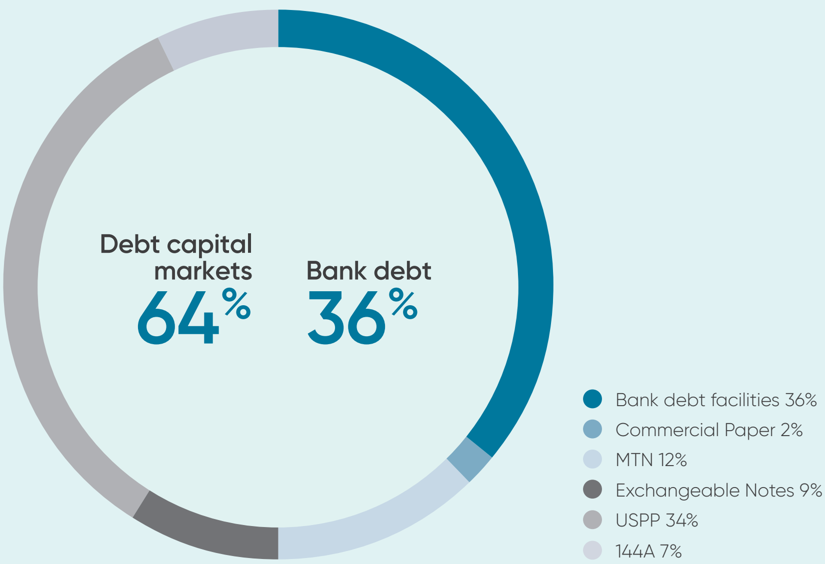
Our strong balance sheet provides the capacity to fund projects in our current and future development pipeline.

We have manageable short-term refinancing requirements and remain within all of our debt covenant limits and target ranges.

Key metrics	30 June 2019 $m	30 June 2018 $m
Gearing (look-through)[1]	24.0%	24.1%
Cost of debt[2]	4.0%	4.2%
Duration of debt	6.7 years	7.0 years
Hedged debt (incl caps)[3]	74%	71%
S&P/Moody's credit rating	A-/A3	A-/A3

1. Adjusted for cash and debt in equity accounted investments.
2. Weighted average for the year, inclusive of fees and margins on a drawn basis.
3. Average for the year. Hedged debt (excluding caps) was 58% for the 12 months to 30 June 2018 and 55% for the 12 months to 30 June 2019.

Diversified sources of debt



To learn more about our Sustained Value approach visit www.dexus.com


180 LONSDALE
LEVELS 15-28
ELS 7-14

Properties

As a real estate group, our properties are central to our value creation framework.

Dexus owns and manages high-quality, sustainable properties located in the key CBDs around Australia. Underpinned by our customer-centric approach, we utilise our asset and property management expertise to optimise building functionality and maintain high occupancy levels. Further value is unlocked by capitalising on development opportunities, in turn enhancing portfolio quality and increasingly meeting the growing demands of our customers.

“Our development projects contribute to creating Leading Cities by adding to the fabric and economic prosperity of cities, and satisfying the evolving needs of our growing customer base.

To learn more about our progress against our FY19 Leading Cities commitments, refer to the 2019 Sustainability Performance Pack available at www.dexus.com

Leading Cities

Cities around the world are just one third of their way through a 100-year cycle of urbanisation. In Australia, this is supported by strong long-term population growth forecasts in Sydney and Melbourne and record levels of infrastructure investment to support their accessibility, liveability and sustainability as they grow.

One of the key megatrends impacting our business model is the continued growth of cities and urbanisation. There is a mutual relationship between these growth drivers and the role that Dexus can, and does, play in shaping our cities for the future as desirable places to live, work and play.

This is consistent with our strategy which is centred on delivering superior returns from high quality real estate located in Australia's major cities.

This city focus means that our value creation potential is closely linked to the success of Australia's major cities which are recognised for their amenity, ease of access, and place to do business. We are Australia's preferred office partner with 1.7 million square metres of office space spanning across 53 office properties, covering the central business districts of Sydney, Melbourne, Brisbane and Perth.

Our leasing efforts impact portfolio occupancy which is a key driver of cash flow optimisation. In FY19, the Sydney and Brisbane office markets drove strong leasing activity resulting in an increase in Dexus's office portfolio occupancy to 98.0% (FY18: 96.0%), with 52,815 square metres (FY18: 52,589 square metres) of development leasing undertaken, securing future income streams.

Our experience in developing high quality properties across Australian CBDs has demonstrated the value of securing opportunities and development sites with a long-term focus on creating value.

Kings Square, Perth was acquired by Dexus as a fund-through development project with DWPF in 2013. The property has performed well throughout a challenging period in the Perth market, due to income security being locked in at the time of acquisition, and the office complex is now 99% leased.

On the east coast, after years of limited supply 100 Mount Street was the catalyst for the next wave of quality office accommodation coming online in North Sydney that is appealing to a more diverse range of tenants who see North Sydney as a viable alternative to the Sydney CBD. The premium tower was completed in May 2019 and is now 96% leased.

Our approach towards Leading Cities involves:

- **Developing world-class office properties that deliver customer-focused, sustainable workplaces and which enhance the amenity and vibrancy of CBDs**
- **Contributing to the long-term viability of cities by integrating sustainable outcomes into developments**
- **Building mutual city partnerships through collaboration with industry associations**

To learn more about our Leading Cities approach visit www.dexus.com

Leading Cities

$31.8bn
Value of property portfolio

98.0%
Dexus office portfolio occupancy

10,149
Construction jobs supported[2]

$1.6bn
Gross Value Added[1] (GVA) to the Australian economy

$7.1bn
Group development pipeline

Circa
$2.2bn
Future concept development opportunities

Board focus

From a property portfolio perspective, the Board approves any acquisitions, divestments or developments. In FY19, the Board approved:

- Acquiring 52 and 60 Collins Street, Melbourne (a future development site)
- Acquiring the remaining interest in the MLC Centre, Sydney (Dexus 25%)
- Acquiring 80 Collins Street, Melbourne (Dexus 75%)
- Acquiring key Sydney properties, on a deferred settlement basis, to create a potential super site incorporating 56 Pitt Street, Sydney
- Establishing DALT which involved the sale of end value circa $2 billion of industrial properties into the trust
- Divesting 11 Talavera Road, Macquarie Park and Finlay Crisp Centre, Canberra
- Activating development projects at:
  - North Shore Health Hub, Stage 1 of 12 Frederick Street, St Leonards an identified trading property earmarked to become an asset of the HWPF
  - 140 George Street, Parramatta owned within the Dexus Office Partnership, subject to tenant pre-commitment

Future focus

- Maintain Dexus office portfolio occupancy at or above 95%
- Create city retail precincts that improve the amenity and vibrancy of our CBDs
- Contribute to economic growth through the generation of employment and contribution to GVA from development projects

1. Total Gross Value Added (GVA) includes estimated direct GVA and indirect GVA generated to the economy by developments completed in FY19 and currently underway. Source: Urbis; Dexus.
2. Total construction jobs include direct and indirect employment supported by developments completed in FY19 and currently underway. Source: Urbis; Dexus.

Properties

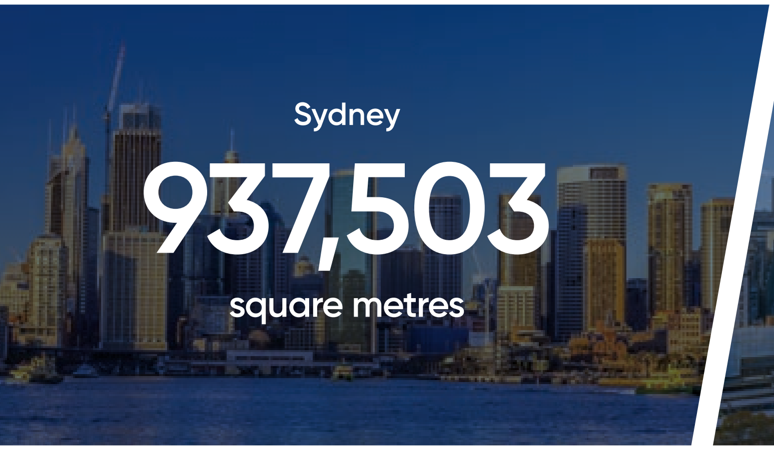
Securing opportunities. Adding value.

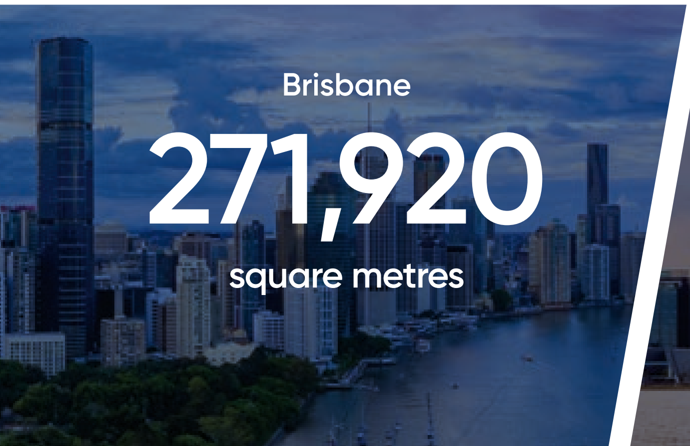
The acquisition of the remaining 50% interest in MLC Centre, Sydney during FY19 enabled the commencement of a project that will transform the retail offering over four levels, create a new lobby entrance, enhance the street appeal and community offering in the Sydney CBD.

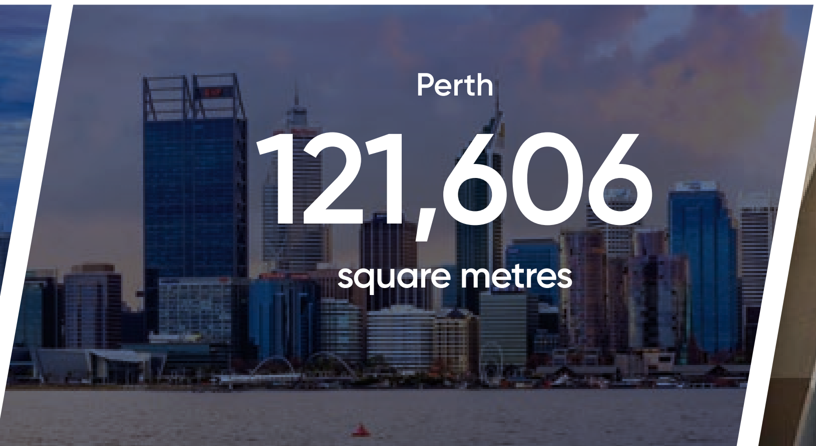
The recent acquisition of properties located adjacent to 56 Pitt Street, Sydney provides a compelling opportunity to consolidate the sites and to create a potential super site (Pitt and Bridge precinct) and deliver a significant office development located in the financial core of the Sydney CBD for a future supply cycle.

In Melbourne, we secured 60 and 52 Collins Street, providing a unique opportunity to consolidate the two sites to create value by delivering the latest generation of office space in the next supply cycle in a prime location where our customers want to be.

Our office properties are located where our customers want and need to be.







Properties

Committed development pipeline

Our development pipeline includes properties Dexus is developing to hold directly or on behalf of our third party capital partners (Core) and properties that will be packaged and sold to generate trading profits (Trading).

Our committed development pipeline includes properties that have achieved relevant approvals and have commenced or are set to commence construction shortly.

180 Flinders Street, Melbourne (Core)

A vibrant new office tower which complements the refurbishment of the existing heritage offices and building façade fully restored to its former glory.

Project cost: $146 million
Ownership: 100% Dexus
Expected completion: Mid-2020

12 Creek Street – The Annex, Brisbane (Core)

A new development featuring boutique office space with a rooftop terrace, cascading gardens that combine in a vertical village to provide access to fresh air, and a casual dining precinct set in a vibrant forecourt.

Project cost: $62 million
Ownership: 50% Dexus, 50% DWPF
Expected completion: Late 2019

240 St Georges Terrace, Perth (Core)

A Premium office building redevelopment located in the heart of the Perth CBD with new end-of-trip amenity, refurbished office floors and the introduction of a Dexus Place, along with a renewed street entry, improved retail offering and a new childcare centre.

Project cost: $193 million
Ownership: 100% Dexus
Expected completion: Late 2019

MLC Centre, 19 Martin Place, Sydney (Core)

The MLC Centre precinct will be transformed into a vibrant community offering retail, dining, cultural and commercial spaces in the heart of the Sydney CBD.

Project cost: $170 million
Ownership: 50% Dexus, 50% DWPF
Expected completion: Late 2021

North Shore Health Hub 12 Frederick Street, St Leonards (Stage 1): (Trading)

The North Shore Health Hub is a premium healthcare facility for auxiliary medical services supporting existing infrastructure in a growing healthcare precinct.

Ownership: 100% Dexus
Expected completion: Late 2020

Lot 15, 11-167 Palm Springs Road, Ravenhall, Victoria (Core)

- A purpose built facility across 35,300 square metres including manufacturing, warehousing and a corporate head office for Scalzo foods
- First pre-commitment development lease secured for the estate which was acquired in June 2018
- Speculative facility also being built

Project cost: $83 million
Ownership: 25.5% Dexus, 50% DWPF, 24.5% Dexus Australian Logistics Partner
Expected completion: Late 2020

Clearwater Place and Dohertys Road, Truganina, Victoria (Core)

- A purpose-built temperature controlled warehouse facility across 7,300 square metres for Coles Supermarkets Australia to service its Victorian market
- A 9,100 square metre multi-purpose facility designed to accommodate Dunlop Flooring's national distribution centre, head office and showroom

Project cost: $44 million
Ownership: 100% Dexus
Expected completion: Mid-2020

Properties

80 Collins Street,
Melbourne (Core)

This property is a key precinct project contributing to Leading Cities but not a part of the group's development pipeline as it was acquired on a fund-through basis which will deliver a completed project with the leasing of vacant space being undertaken by Dexus. The large-scale site is located at the 'Paris end' of Collins Street and comprises an existing 47 level A-grade office tower (North tower), and three components currently under development including a new 35 level premium office tower (South tower), a new retail podium and a new 255 room boutique hotel.

Total acquisition price: $1.476 billion[1]
Ownership: 75% Dexus, 25% DWPF
Expected completion: Mid–late 2020

Calvary Adelaide Hospital,
Adelaide (Core)

Upon completion, the new Calvary Adelaide Hospital will provide a high-quality contemporary facility with 343 beds. The new facility replaces the existing Calvary Wakefield and Calvary Rehabilitation Hospitals.

An asset of HWPF, the project is located on the corner of Angas and Pulteney Streets on the edge of the Adelaide CBD.

Current valuation (as if complete): $338 million
Ownership: 100% HWPF
Expected completion: Late 2019

1. Includes the existing North tower. The new components of the 80 Collins precinct are currently being developed. Dexus and DWPF have joint ownership and their contribution to the development is limited to the acquisition price.

Properties

Uncommitted development pipeline

Our uncommitted development pipeline includes properties identified for future development that are awaiting various approvals before commencing construction.

Carillon City, Perth (Core)

A masterplanned transformation of the Carillon City precinct into a vibrant mixed-use lifestyle destination offering retail, dining, entertainment and commercial spaces in the heart of the Perth CBD.

Project cost: Circa $100 million
Ownership: DWPF 100%

140 George Street, Parramatta (Core)

A Prime grade office development located in the heart of the Parramatta CBD, providing an innovative workplace environment and superior wellness amenity, complemented by an enhanced public domain.

Expected project cost: Circa $400 million
Ownership: 50% Dexus, 50% Dexus Office Partner

Industrial development landbanks (Core)

Three industrial sites in Melbourne, Sydney and Brisbane with a combined end value of $700 million.

- 11-167 Palm Springs Road, Ravenhall, VIC is a 127-hectare industrial estate in a core West Melbourne industrial precinct, with development planned over the next 5-7 years (Dexus 25.5%, DWPF 50%, Dexus Australian Logistics Partner 24.5%)
- 54 Ferndell Street, South Granville, NSW is a 10-hectare brownfield opportunity in a tightly held industrial market with constrained land supply (Dexus 51%, Dexus Australian Logistics Partner 49%) (artist's impression above)
- 425-479 Freeman Road, Richlands, QLD is a 9-hectare brownfield opportunity located in close proximity to DWPF's Drive Industrial Estate (Dexus 51%, Dexus Australian Logistics Partner 49%)

60 and 52 Collins Street, Melbourne (Core)

Consolidation of two adjacent sites to create a Prime grade office space located at the 'Paris end' of Collins Street.

Expected project cost: Circa $550 million
Ownership: 100% Dexus

12 Frederick Street, St Leonards (Stage 2) (Trading)

A world class health and education precinct adjoining major health infrastructure, the St Leonards Health Precinct combines clinical care, research facilities, a medi-hotel and key worker housing that will expand the existing medical precinct.

Ownership: 100% Dexus

Waterfront Precinct Masterplan, Brisbane (Core)

A major redevelopment of the Eagle Street Pier creating a precinct with an alternate master plan under review.

Expected project cost: Circa $900 million
Ownership: 50% Dexus, 50% DWPF

Pitt and Bridge precinct, Sydney (Core)

A potential office development for Dexus and the Dexus Office Partner on a large 3,300 square metre site located in the financial core of the Sydney CBD.

Expected project cost: Circa $2.6 billion
Ownership: 50% Dexus, 50% Dexus Office Partner

Case study

100 Mount Street delivers a new landmark for North Sydney

After years of limited supply, 100 Mount Street has kicked off the next wave of quality office accommodation coming online in North Sydney, supporting the revitalisation of the North Sydney CBD.

100 Mount is a landmark 35-level premium office tower spanning approximately 41,900 square metres. Occupying one of the best locations in North Sydney, the site is set to benefit from proximity to the new North Sydney Metro Station currently under construction.

The development was acquired by Dexus (50%) and DWPF (50%) in April 2016 at a time when there was a lack of quality space available in the North Sydney office market. During the period of construction, Dexus secured 12 new customers including NBN Co, taking leased space to 96% at practical completion in May 2019.

Dexus created significant value at 100 Mount Street, at a total cost, including acquisition and construction costs, of $466 million.

The property was valued at $764 million (100% interest) as at 30 June 2019 based on a capitalisation rate of 4.88% and has delivered an annualised unlevered IRR of 39.6% to 30 June 2019, above the target development IRR of 12–14%.

Contributing to leading cities

100 Mount is an iconic centre for commerce in North Sydney's growing CBD that sets a new benchmark for workplace design, sustainability features and public amenity.

The tower adopts 'smart' building technology solutions designed to promote connectivity, comfort and convenience for the building's occupants including:

- The ability to 'plug and play' technology as it becomes available without impacting on operations
- Leading full cellular coverage throughout the building and an upgrade path to the impending 5G standard
- High performance, free WiFi in common and public spaces
- A turnkey network-as-a-service solution enabling new customers to gain connectivity and leverage the substantial IT infrastructure embedded in the building from their first day of occupation

At the ground level, the lobby comes to life with digital artwork by internationally renowned photographer, Tamara Dean. The development offers new dining and retail experiences and a pedestrian pathway bisects the site to connect the building to nearby public transport.

An exemplar of sustainable design, 100 Mount is targeting 5 Star Green Star Design & As Built and 5 star NABERS Energy ratings. The International WELL Building Institute™ has awarded 100 Mount the WELL Core & Shell Gold Pre-certification.

This new development supported more than 1,800 construction jobs and contributed approximately $300 million in GVA during construction.

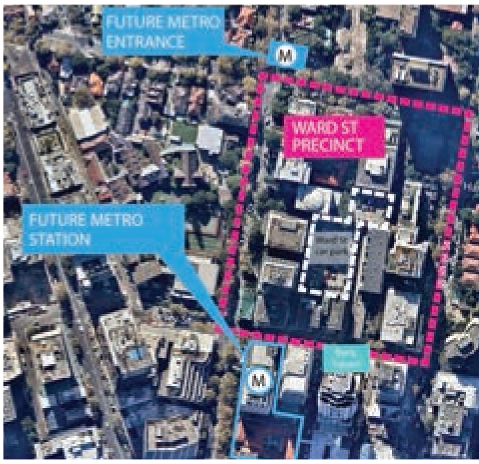
Properties

Concept development opportunities

We have identified circa $2.2 billion of future concept development opportunities to continue to grow its pipeline of value enhancing projects and contribute to Leading Cities.

Ward Street precinct, North Sydney (Core)

A new masterplan for the Ward Street precinct consolidates three existing properties to create circa 70,000 square metres of office space in close proximity to the future North Sydney Metro station. (Dexus, Dexus Office Partner)



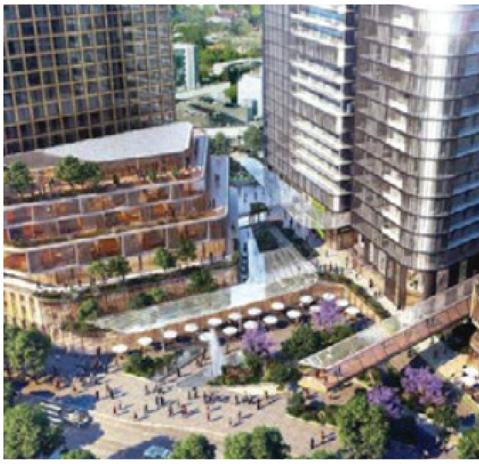
> The confidence we have in the sustainability of Australian cities puts us in a great position to actively seek new development opportunities.

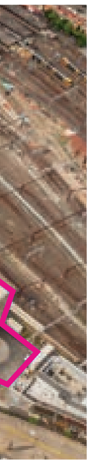
Henry Deane Place, Sydney (Core)

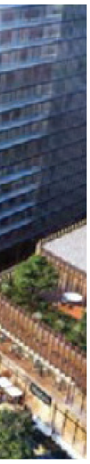
Dexus and Frasers Property are progressing an exclusive position to integrate the NSW Government's plans to revitalise Sydney's Central Station through the redevelopment of the Lee Street properties into a large scale, mixed-use development integrating a transport and pedestrian solution. (Dexus, Dexus Office Partner)

Axxess Corporate Park, Mount Waverley (Core)

A unique investment opportunity to create a health, education and research precinct underpinned by innovation and critical infrastructure. (Dexus)







Case study

Quarry, Greystanes delivers a premium industrial estate to Western Sydney

Quarry, Greystanes (Quarry) is the most significant industrial estate developed in the expanding Greater Western Sydney area in recent years.

Dexus and its third party capital partners acquired the 70-hectare site over two tranches in 2007 and 2014 and Dexus has delivered more than 310,000 square metres of premium warehouse space and 30,000 square metres of high-quality office space.

Dexus worked alongside its customers to deliver highly efficient, state-of-the-art facilities to meet their specific requirements.

With a focus on sustainability, facilities in the estate feature:

- Capacity for rooftop solar PV panels, achieving energy and operational cost savings through renewables
- Harvested rainwater from rooftops combined with highly efficient water fixtures in bathrooms and irrigation
- Intelligent LED lighting with sensors combined with motion and smart daylight harvesting
- Translucent roofs and wall sheeting for improved natural daylight linked to smart lighting

Contribution to leading cities

More than 30 high calibre customers across a range of sectors are located at Quarry including Bunnings Trade, Toshiba, HelloFresh, Symbion, Beaumont Tiles and Coco Republic, providing employment for around 3,000 people.

Quarry has established a key economic hub for Greater Western Sydney, supporting more than 1,400 construction jobs and contributing approximately $240 million in GVA during construction.

People and capabilities

Our people and capabilities are central to how Dexus delivers on its strategy. Our people are inspired and motivated to create spaces where people thrive, supported by a culture that delivers sustained value for our investors and other stakeholders.

Sustained employee engagement and commitment

Our people are passionate, agile and engaged in the purpose and direction of Dexus. Our most recent employee survey returned an employee Net Promoter Score of +40, signalling high levels of engagement and a strong connection to Dexus. In the same survey, more than 95% of our people indicated they were proud to work for Dexus. Our All People Flex policy empowers our people to work flexibly to achieve the work-life balance that suits them, and more than 80% of our employees participate in either formal or informal flexible working practices.

Our employee surveys also tell us that most of our people feel that we have a culture of openness and trust. We continue to work with our people to reinforce and sustain best practices when it comes to embedding a strong risk culture. We believe our risk culture is a strength at Dexus, leading to better decision making and fair and ethical outcomes for our customers and stakeholders.

539
Total Dexus employees

To learn more about our progress against our FY19 Thriving People commitments, refer to the 2019 Sustainability Performance Pack available at www.dexus.com

Fostering an inclusive and diverse workforce

Our approach to inclusion and diversity allows us to harness different perspectives for better decision-making, as well as providing access to the widest pool of available talent. Our people identify with 16 different cultural and ethnic backgrounds, and we are also focused on other segments of the Australian workforce to reflect our customers and communities. We recently signed up to the Veterans Employment Commitment to support and progress Australian Veterans returning to the workforce.

Over the past year, we continued our focus on gender equality, earning an Employer of Choice for Gender Equality citation by the Workplace Gender Equality Agency for the second consecutive year. We made progress toward our gender diversity target of at least 40% female representation in senior and executive management roles by 2021, with 37% female representation at 30 June 2019.

More broadly, our people continued to serve as mentors, sponsors, and mentees within the Property Council of Australia's Women in Property program and we have committed to programs such as Pride in Diversity to benchmark our inclusion efforts. We have also partnered with Career Trackers to provide industry experience for Indigenous students through internships.

Investing in our people

We continue to focus on internal career planning, development and new opportunities for our people. Over the past year, we placed internal candidates in 27% of available roles.

We believe that investments in our people and capabilities will create meaningful and productive workplaces for our teams and enable the right culture and behaviours to deliver sustained results.

During the year, senior leaders and future leaders participated in the Dexus Leadership Academy which focused on the role that culture, purpose and strategy plays in our organisation.

To help support continuous improvement, Dexus launched the Business Excellence Champion program, which will equip people with the skills required to drive efficiency, eliminate waste, and deliver sustained value for the group into the future.

Our commitment to building a diverse, capable and engaged workforce continues to support our strategy and deliver sustained results. For our people, coming to Dexus to create spaces where people thrive will continue to underpin our purpose, culture and values.

Thriving People

+40

Employee Net Promoter Score

37%

Females in senior and executive management roles

27%

Available roles filled by internal applicants

Board focus

- The Board People and Remuneration Committee oversees all aspects of human resource management as well as Director and Executive remuneration at Dexus. For further details on the key focus areas during FY19, refer to the Remuneration Report on page 68 or the Corporate Governance Statement available at www.dexus.com

Future focus

- Maintain an employee Net Promoter Score at or above +40
- Place internal candidates in more than 20% of available roles
- Achieve 40:40:20 gender mix in senior and executive management roles by FY21 (40% female, 40% male, 20% any gender)

People and capabilities

The importance of health and wellbeing

We support the health and wellbeing of our people through a suite of wellbeing benefits and a program of activities throughout the year, including Wellbeing Month which was held in May 2019. Throughout the remainder of the year, Dexus's *Give*, *Grow*, and *Thrive* wellbeing communities led initiatives including blood donations, first aid training, social events, and mindfulness sessions.

We value the safety of our workplaces across Australia. Our goal is a no harm, safe work environment, and during the year we recorded zero fatalities and no lost time injuries. We also achieved an average safety audit score of 98% across our corporate and management workspaces and continued to successfully implement our work health and safety system, which is certified under OHSAS 18001.

Case study

Creating a workplace where people thrive – Wellbeing Month

As part of a commitment to creating spaces where people thrive, Dexus designed a suite of benefits and programs focused on enhancing employee wellbeing. A highlight of Dexus's offering included Wellbeing Month, which featured a range of activities designed to enhance physical and mental health.

Wellbeing Month was held in May 2019 across Dexus offices around the country. Activities were organised by Dexus's *Thrive, Grow* and *Give* Communities and supported by weekly social events aimed at promoting a positive workplace culture.

The month attracted high participation rates in activities including:

201 flu vaccines

73 skin checks

164 massages

38 posture checks

65 employees participating in mindfulness training

18 employees completing first aid training

Dexus's commitment to employee health and wellbeing extends beyond the activities of Wellbeing Month, with a variety of ongoing initiatives available including:

- a monthly Wellbeing subsidy to put towards wellbeing activities such as gym memberships, massages or hobbies
- Dexus Days – five additional days of annual leave intended to help balance work and life
- Onsite health and fitness classes – a range of boot camps, yoga and Pilates classes
- Discounted membership to gyms, nutritional programs and health consultations

Dexus understands the importance of supporting health and wellbeing for its people and how it translates to performance and will continue to invest in programs that bring out the best in its people.

To learn more about our Thriving People approach, visit www.dexus.com

Customers and communities

Our ability to create value relies on strong and enduring relationships with our customers, suppliers and the communities where we operate.

Future enabled customers

We understand the importance of high-performing workspaces for employee productivity and business success, and our comprehensive customer product and service offering supports our customers' success today and into the future.

We know that our customers are more likely to be satisfied when we listen to their concerns and address their needs. Our customer-centric approach is underpinned by our Customer Promise to:

- Listen, understand and respond to customer needs
- Make things 'simple and easy'
- Innovate to enrich customer experience

This year we evolved the Dexus experience, which is our suite of customer benefits that includes access to a range of products and services designed to make our customers' work lives easier, healthier and more enjoyable. This includes priority access to childcare, concierge services, end-of-trip facilities and a growing program of building community events and wellbeing activities through our Wellplace offering.

Our customer focus has delivered positive results for our customers and for Dexus. This year our customer Net Promoter Score increased to +46, a strong improvement on the FY18 result of +32. Half of the customers who responded to our annual customer survey said that they were 'highly likely' to renew their lease (up from 43% in 2018 and 28% in 2013).

Our customers told us that they are more satisfied because we have:

- Enhanced consistency in service delivery across the portfolio
- Reduced operational issues by improving the resolution of service requests
- Implemented tailored action plans on the back of a thorough analysis of customer feedback

Our smart building blueprint

At Dexus, we leverage technological change for the long-term benefit of our workspaces, avoiding the gimmicks and securing the game changers that enhance the customer experience. Our smart building blueprint relies on six interconnected pillars that we know are important to our customers including safety, sustainability, productivity, experience, wellbeing and connectivity.

At 100 Mount Street, our new 35-level office tower in North Sydney, we have combined the latest in smart sensors and connectivity including a dedicated Internet of Things network. This provides the ability to plug and play technology as it becomes available without impacting day-to-day operations. The suite of technologies is designed to boost customer experience through optimising the use of space and supporting occupant comfort and wellbeing. A further driver is energy efficiency, where technology enhances the building's sustainability performance and progresses our pathway to net zero carbon emissions by 2030.

We determine the best use of technology not just for its suitability for one building, but its scalability across our portfolio. By applying our scale, we gain great commercial outcomes and ultimately offer a smooth and consistent experience for our customers.

>4,700

Customers

To learn more about our progress against our FY19 Future Enabled Customers and Strong Communities commitments, refer to the 2019 Sustainability Performance Pack available at www.dexus.com

Data-driven decisions

With the evolution of data collection and analytics, we are able to act upon deeper insights into how our customers are consuming spaces and services. Over the past three years we have integrated more than 270,000 data points across our portfolio into a fault detection and analytics platform, which enables us to quickly identify opportunities and ensure our properties are performing optimally.

With the help of sensors and data analytics at our SuiteX flexible offering, we have identified usage trends which were not envisaged and can adapt the space to suit. By sharing these insights, we can enhance the experience for the people who spend most of their days in our properties.

Future Enabled Customers and Strong Communities

+46

Customer Net Promoter Score

>$1.2m

Value of community contribution

>$550m

Operational procurement spend

Board focus

Our customer and communities are stakeholders that are a continued focus for the Board. In FY19 the Board was involved in:

- Reviewing and discussing the annual customer survey results and associated actions
- Discussing Management's approach to customer compliments and complaints
- Discussing Dexus's customer centric aspirations and alignment with group strategy
- Discussing Dexus's charitable initiatives
- Discussing and reviewing the group's approach in relation to Modern Slavery Act 2018 legislation

Future focus

- Maintain a customer Net Promoter Score at or above +40
- Strengthen customer communities through a program of activations within the foyers of our office properties
- Implement a new workplace consulting offer to help our customers to leverage their premises for business success
- Support the communities in which we operate through contributions valued at more than $1,000,000
- Implement the Property Council of Australia's modern slavery due diligence tool and target engagement on modern slavery with at least 100 suppliers.

Realising the potential of our customers' workspace

Across our customer community, we provide products and services to satisfy a strong desire to improve their workforce engagement and productivity. To further entrench our unique customer offer, we have acquired the Australian operations of Six Ideas, a strategic workplace and change management consulting service.

Six Ideas by Dexus will utilise expertise to tackle complex problems arising from continual change around the way we work. Senior practitioners with international experience will work alongside our customers to create environments that support organisational and cultural innovation, while maximising the potential of change events.

This service complements our in-house Project Delivery Group which provides project management and capital works delivery for office fit-outs.

We are now able to provide an end-to-end service that will help our customers to leverage their premises for business success.

Customers and communities

Partnering with our suppliers

Every year, we engage hundreds of suppliers to assist us in undertaking our business activities of transacting, managing and developing.

Building a network of supplier relationships helps us create value through our development activities and managing our properties more efficiently. This can be through the engagement of suppliers to provide cleaning, maintenance or security services at our properties, or through partnerships with suppliers to deliver elements of our customer offer, such as wellbeing service providers as part of our Wellplace offering.

Over the year we worked with our suppliers to understand modern slavery risk and prepare for the reporting requirements of the Australian Modern Slavery Act 2018. We have collaborated with industry peers through the Property Council of Australia to develop a common supplier due diligence tool that can be used across the industry to assess supplier modern slavery risk and enhance industry practice. We will deploy the tool to our suppliers to obtain information on their labour management practices from FY20.

Strong communities

Our capacity to create value is influenced by the strength of our relationships with local communities. That's why we focus on supporting well-connected, prosperous and engaged communities in and around our properties.

Many of our retail centres act as community hubs, providing essential spaces for people to gather, shop, and play. We work with local authorities and community groups on issues ranging from economic development to community safety, both enhancing our relationships and creating positive impact.

We also leverage our scale to amplify the important work of community organisations. We welcome the use of lobby space in our office properties by the community, supporting campaigns including Foodbank, the Cancer Council's Biggest Morning Tea and RSPCA awareness.

Over the year we contributed $1,205,035 financially and in-kind to communities across Australia.

We continued two major annual initiatives that raised funds for children in need, Dexus Diamond Week and Big Change for Small Change. Dexus Diamond Week is a volunteering campaign for our people to raise funds in building foyers to support the Sydney Children's Hospital Foundation, coinciding with the Foundation's premier Diamond Event. Our Big Change for Small Change campaign takes place at our local shopping centres, contributing funds raised to local hospitals around the country.

To support our engagement with charities, we enable our people one day of leave each year to volunteer at charities such as the Sydney Children's Hospital, Ronald McDonald House, Landcare, OzHarvest, or a charity of their choosing. Our employees volunteered a total of 1,711 hours using Dexus volunteering leave to support causes of their choosing.

To learn more about our approach to Future Enabled Customers and Strong Communities management approach, visit www.dexus.com

The Dexus experience

Listening to our customers, we have curated a range of services that are carefully designed to satisfy the everyday needs and enhance the experience of the people who work in our properties. The services we provide are grouped into the four key pillars of Convenience, Community, Wellbeing and Sustainability.

Convenience

Delivering a convenient work experience through five-star concierge, priority access to childcare, transport solutions, simple and easy leases, and access to Dexus Place, a tailored extension of our customers' work environment that includes meeting, training and conference facilities as well as bespoke event space supported by state-of-the-art technology.

Community

Creating customer communities through activations in our office foyers, convenient local shops, and online building community platforms providing workplace news and information, events and retail offerings.

Wellbeing

Offering services and amenities that promote the health and wellbeing of customers through quality end-of-trip facilities, yoga, Pilates and fitness classes.

Sustainability

Working with our customers to achieve energy, water and waste efficiencies for their tenancies along with sustainable fit-out designs.

Case study

Inspiring the next generation through a community initiative

An industry partnership initiative that actively promoted Science, Technology, Engineering and Mathematics (STEM) to girls through experiencing a live build at Dexus's 100 Mount Street, North Sydney (100 Mount) has encouraged girls to consider a career in property.

STEM industries are vital to Australia's economic growth however women are significantly under-represented in STEM education, comprising just 16% of those with STEM qualifications.

STEM+ is a partnership initiative of Dexus, 100 Mount's builder Laing O'Rourke, and project delivery partners Rider Levett Bucknall and Savills. The program immersed students from the local girls' secondary school, Monte Sant' Angelo Mercy College into the construction and engineering industry.

The program's modules aligned with the construction of 100 Mount, a premium office tower that was completed in May 2019. The modules included content such as innovative technologies and sustainability in construction, involving onsite participation and engagement throughout the year via Google Classroom.

More than 60 girls across years 8 to 12 participated in the two-year program, involving direct interactions with the industry partners. Students were provided key insights into STEM careers that were not typical science-based careers including digital engineering, construction, research and development, law, quantity surveying, commerce, property management, human resources and marketing.

As a result of the program, there were fundamental changes to the students' school subject selections and university pathways, with 25% of 2018 graduates pursuing science related careers.

STEM+ demonstrates Dexus's commitment to leverage its development projects for social impact, with students realising a pathway into an industry that they never thought was possible.

STEM+ students have been offered work experience places with Dexus and Laing O'Rourke. They have the opportunity to continue to participate in the program throughout their tertiary studies and a graduate position will also be offered.

"This program has had a palpable, culture shift with regards to women in the construction and property industry – when they could see it, they could be it."

Nicole Christensen,
Principal of Monte Sant' Angelo Mercy

Environment

Our capacity to create value is built on an efficient portfolio that minimises our environmental footprint and enhances our resilience to environmental risks.

Efficient use of natural resources creates value for Dexus and supports our customers to achieve their own corporate sustainability goals. We integrate energy, water and waste efficiency into the design and operation of our properties and regularly benchmark property performance using independent building certifications such as NABERS and Green Star.

Our commitment to achieve net zero emissions by 2030 supports the transition to a low-carbon economy, creates benefits for the bottom line, and aligns with the ambitions of our third party capital partners. We are also focused on understanding the impacts of climate change on our properties and invest in initiatives to enhance portfolio resilience.

Our pathway to net zero emissions

We achieved our target to reduce like-for-like energy consumption and emissions by 10% (FY15 baseline), a year earlier than the target of 2020, as our focus shifts towards our long-term objective to achieve net zero emissions by 2030 across the group's managed portfolio.

In June 2019, we received certification from the Science Based Targets initiative, confirming that our net zero target is aligned with the ambition required to meet the objectives of the Paris Agreement. The certification recognises the group's efforts to go beyond managing our own emissions and engaging with suppliers and customers to manage the emissions across our value chain.

Transforming this target into action, during the year we secured a new Energy Supply Agreement with Red Energy to purchase 46 gigawatt hours (per annum) of renewable energy generated offsite for over 40 properties across our NSW portfolio.

This arrangement is one of the first supply-linked deals for an Australian property group and satisfies the demand from both customers and investors for more environmentally responsible energy. From 1 January 2020, 50% of our NSW energy use will be sourced from Red Energy's wind and solar projects supported by the Snowy Hydro scheme. Beyond reducing emissions, the agreement provides long-term price certainty to insulate Dexus and our customers from electricity market volatility.

An efficient portfolio

We progressed our targets of achieving 1,000,000 square metres of office property at a minimum 5 star NABERS Energy rating and 4 star NABERS Water rating by 2020. At the end of FY19, we had 950,351 square metres of office space committed to or rated at 5 star NABERS Energy or higher, and 757,423 square metres of office space rated 4 star NABERS Water or higher. We are mindful of the challenge in achieving our 4 star NABERS Water target by 2020. Factors such as hot weather, extended operating hours, increased occupant density and end-of-trip facilities have increased demand for water use across our portfolio. In FY19, we gained momentum towards our target and will continue to implement water efficiency measures and programs to educate our customers on water conservation.

Waste management remained a priority as we continued to focus on re-use and recycling across tenancy fit out projects. We also delivered a series of customer education programs to build awareness on the benefits of effective recycling and implementation of industry operational waste guidelines, developed by the City of Sydney's Better Business Partnership.

Resource efficiency is embedded into our smart building blueprint which we successfully implemented at 100 Mount Street in North Sydney. Smart, practical investments such as occupancy sensors within the building regulate lighting and air conditioning only when needed, and automated blinds optimise the indoor environment by managing shade and glare.

Case study

Solar benefits Dexus and its customers

100 Harris Street in Pyrmont has had an interesting history dating back to the late 1890s when it served as one of Sydney's original woolsheds.

The heritage building was redeveloped into high quality office space in 2017 and following Dexus's acquisition of the property, the building has been taken to the next level through the installation of 606 rooftop solar PV panels.

When Dexus acquired the heritage building, it identified that the building was well suited for solar panels due to its distinctive sawtooth roof which was a typical design of manufacturing properties of its time.

The solar PV panels have the capacity to generate up to 250,000 kilowatt hours of energy per year which contributes to powering the base building services. The investment has a payback period of around five years and will contribute to increasing the building's NABERS Energy rating.

This solar PV system at 100 Harris Street also contributes to Dexus's target of net zero emissions across its managed portfolio by 2030, with Dexus progressing plans to rollout additional onsite renewable projects across its property portfolio.

To learn more about our progress against our FY19 Enriched Environment commitments, refer to the 2019 Sustainability Performance Pack available at www.dexus.com

Enriched Environment

10.9%

Reduction in like-for-like energy consumption since FY15

12.4%

Reduction in like-for-like greenhouse gas emissions since FY15

950,351sqm

of office space rated 5 star NABERS Energy or above

Board focus

Sustainability and the environment are a key focus area for the Board and the Board Risk Committee. In FY19, the Board and Board Risk Committee were involved in:

- Reviewing the group's progress in relation to 2020 targets
- Discussing the renewable Energy Supply Agreement
- Discussing and reviewing Dexus's position in relation to on-site and offsite renewables
- Discussing the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD)
- Reviewing the group's activities to enhance climate resilience

Future focus

- Deliver 1,000,000 square metres to a minimum 5 star NABERS Energy rating and 4 star NABERS Water rating across the group's office portfolio by 2020
- Establish new 2025 energy and emissions reduction targets as part of our pathway to net zero emissions by 2030
- Consistently demonstrate a resource recovery rate of 80% by 2020 from de-fitting vacated space, actively identifying resources for re-use and increasing waste diversion from landfill

Environment

To enhance disclosure on climate-related impacts, we report our approach to climate-related issues in accordance with the Task Force on Climate-related Financial Disclosures (TCFD) recommendations.

Governance

The Dexus Board oversees all strategic risks including climate change, with the Board Risk Committee overseeing the group's enterprise risk management practices, as well as environmental management and work health and safety. The Sustainability team, led by the Executive General Manager, Investor Relations, Communications and Sustainability, and the Senior Manager, Group Sustainability and Energy oversee the group's management response and reporting, presenting on a quarterly basis to the Board Risk Committee on progress against targets and to the Board as key topics emerge.

Strategy

Our corporate strategy considers climate-related risks and opportunities across short, medium and long-term timeframes. We have applied the Intergovernmental Panel on Climate Change RCP 8.5 scenario to assess exposure to physical risks and the IEA 2°C scenario to understand exposure to transition risks.

Key climate-related risks and opportunities are integrated into annual investment planning processes to enhance portfolio resilience across a range of possible climate futures.

We continue to enhance our understanding of climate-related risks and opportunities across the group's property portfolio. Over the past year, we updated our portfolio-wide climate exposure assessment and worked to understand site-specific vulnerabilities. We will use these insights in adaptation planning at priority locations, further integrating climate resilience into our Environmental Management System.

Risk management

Assessment of climate-related risks is integrated within our standard framework for managing risks, and climate change is acknowledged as a strategic corporate risk. When considering a potential acquisition, we review the sustainability risks as part of due diligence, taking into account environmental performance, climate change-related physical risk exposure and building upgrade and improvement plans. Any required upgrades are undertaken in line with the group's NABERS Energy and net zero emissions targets. For properties under management, we review property exposure to climate risks, and other vulnerabilities, and work to enhance adaptation planning at more vulnerable locations.

Refer to our 2019 Sustainability Performance Pack for additional detail on our approach to climate-related issues, available at www.dexus.com

Metrics and targets

We have set an ambitious pathway for emissions reduction through the goal of net zero emissions by 2030 across the group's managed portfolio. This goal has been certified by the Science Based Targets initiative as meeting objectives of the UN Paris Agreement. We monitor and report on absolute, like-for-like greenhouse gas emissions and emissions intensity for all properties under our operational control.

As part of our ongoing TCFD journey, we are bringing together teams across Dexus to combine data for new insights on the financial impacts of climate change on asset valuation, operating costs, revenue and capital purchases that will be used to inform portfolio strategy and asset resilience planning.

>$136m

Saved through enhancing portfolio energy efficiency since FY08

The summary of the key risks and opportunities that we have identified relating to climate change, as well as a high level summary of their potential financial impacts is detailed below.

Key climate-related risks	Potential financial impacts
Higher taxes on energy	Increased operating costs
Physical damage to assets resulting from extreme weather	Increased remediation costs and insurance premiums in specific locations
Rising mean temperatures and heat stress	Increased operating and maintenance costs
Lower investor and customer confidence in Dexus if it does not meet expectations regarding climate risk management	Loss in investment and/or customer demand

Key climate-related opportunities	Potential financial impacts
Availability of emissions reduction incentives	Additional sources of revenue
Access to new market revenue opportunities, particularly through self-generation and on-selling of renewable energy	Additional sources of revenue
Enhanced competitive positioning resulting from sound climate risk management	Increased investor and/or customer confidence

To learn more about our Enriched Environment approach visit www.dexus.com

Governance

Good corporate governance is the foundation for the long-term success of the group, and the achievement of Dexus's strategy is underpinned by a strong governance platform.

Our Board and Group Management Committee are committed to excellence in corporate governance and aspire to the highest standards of conduct and disclosure. To support this aspiration, we have embedded a set of well-defined policies and processes that enhance corporate performance and protect the interests of all key stakeholders.

We continue to focus on organisational culture by encouraging an environment where our people feel comfortable in raising issues and ensuring our Board and management are kept informed of incidents that may impact the business.

Our Board and its respective Board Committees have overall responsibility for corporate governance and are collectively responsible for the long term success of the group. Areas of specific responsibility include financial performance, setting strategy and overseeing its implementation, providing leadership and direction on workforce culture and values, and agreeing and monitoring the risk framework and risk appetite. During the year a Head of Governance function was created within the business with a core focus on ensuring the Dexus Board and our people operate under leading governance policies and procedures.

Our Board regularly reviews its corporate governance policies and processes to ensure they are appropriate and meet governance standards and regulatory requirements.

For the 2019 financial year, the group's governance practices complied with the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations (third edition).

We are improving our policies and procedures to ensure compliance against the recently published fourth edition which takes effect for the first full financial year commencing on or after 1 January 2020 (for Dexus, the FY21 financial year concluding 30 June 2021). Further details are set out in the Corporate Governance Statement, which outlines key aspects of our corporate governance framework and practices, which is available at www.dexus.com/corporategovernance.

The Dexus Board and Board Committee membership

Director	Board	Audit Committee	Risk Committee	People & Remuneration Committee	Nomination Committee
Richard Sheppard	Chair and member			Member	Chair and member
Darren Steinberg	Member				
Penny Bingham-Hall	Member		Member	Chair and member	Member
John Conde	Member	Member			Member
Tonianne Dwyer	Member	Member	Chair and member		
Mark Ford	Member	Member	Member		
The Hon. Nicola Roxon	Member		Member	Member	
Peter St George	Member	Chair and member	Member		

Chair and member   Member

Board of Directors

Our Board comprises a majority of Independent Directors with all directors other than the CEO being Independent Non-Executive Directors. The Board currently consists of seven Independent Non-Executive Directors and one Executive Director.

The Board renewal process over the past several years has produced an experienced Board of Directors with a broad and diverse skill set. Our Board has determined that, along with individual director performance, diversity is integral to a well-functioning board. We also acknowledge that an effective Board relies on board members with different tenures. Our current focus is on Board renewal centred around the skills and experience needed to complement other directors.

The members of the Board of Directors and the relevant business and management experience the Directors bring to the Board is detailed on pages 64-66 and available at www.dexus.com/corporategovernance.

Board skills and experience

Our Board has determined the skills, expertise and experience required as a collective to ensure diversity of thought and vigorous debate on key decisions. The collective experience of the current directors has been outlined against the categories in the table below and the Board believes that the current Board composition meets or exceeds the minimum requirements in each category.

Areas of Skills & Expertise	Experience
Leadership	– Directorship experience (past and present) – Senior management experience (past and present)
Capital & Funds Management	– Experience in the dynamics of raising capital and investment banking – Experience in the management of third party funds
Finance & Accounting	– Experience in analysing and challenging accounting material and financial statements and assessing financial viability – Experience in understanding financial drivers/funding and business models
Governance	– Experience with corporate governance and standards of complex organisations – Ability to assess and commitment to ensure the effectiveness of governance structures
People Management & Remuneration	– Experience in relation to remuneration and the legislation/framework governing remuneration – Experience in managing people and influencing organisational culture
Property Experience (Including Developments)	– Experience and industry knowledge in the management of properties including property development – Understanding of stakeholder needs and industry trends
Risk Management	– Experience in managing areas of major risk to the organisation – Experience in workplace health & safety, environmental & community, social responsibility and technology matters affecting organisations
Strategy	– Experience in merger and acquisition activities – Ability to guide and review strategy through constructive questioning and suggestions – Experience in developing and successful implementing strategy
Sustainability	– Experience in implementing sustainability policies and practices, adopting a long-term approach to decision making – Understanding of environmental and social topics relevant to the property sector

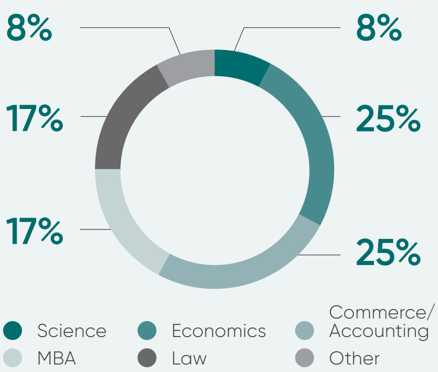
Governance

Board of Directors

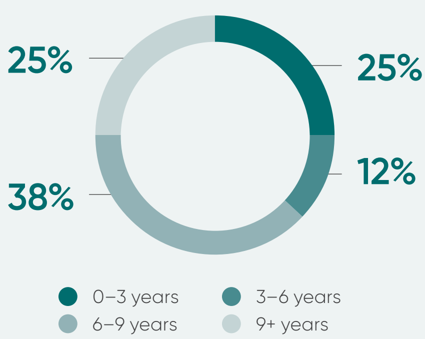
From L to R: Penny Bingham-Hall, Mark Ford, The Hon. Nicola Roxon, Darren Steinberg, Richard Sheppard, Tonianne Dwyer, Peter St George, John Conde

Board composition

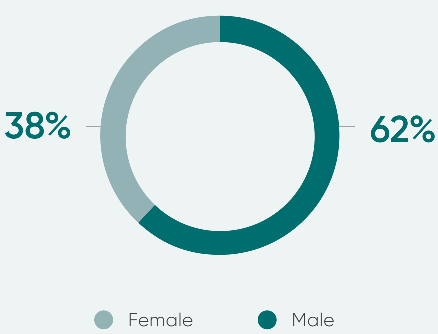
Board professional qualifications



Board tenure



Board gender diversity



Richard Sheppard

Chair and Independent Director
BEc Hons, FAICD

Appointed to Board on 1 January 2012

Richard Sheppard is both Chair and Independent Director of Dexus Funds Management Limited, Chair of the Board Nomination Committee and a member of the Board People & Remuneration Committee.

Richard is a Director of Snowy Hydro Limited, Star Entertainment Group and the Bradman Foundation.

Richard brings to the Board extensive experience in banking and finance and as a director and Chairman of listed and unlisted property trusts. He was Managing Director and Chief Executive Officer of Macquarie Bank Limited and Deputy Managing Director of Macquarie Group Limited from 2007 until late 2011. Following seven years at the Reserve Bank of Australia, Richard joined Macquarie Group's predecessor, Hill Samuel Australia in 1975, initially working in Corporate Finance. Richard became Head of the Corporate Banking Group in 1988 and headed a number of the Bank's major operating Groups, including the Financial Services Group and the Corporate Affairs Group. He was a member of the Group Executive Committee since 1986 and Deputy Managing Director since 1996. Richard was also Chairman of the Australian Government's Financial Sector Advisory Council, Macquarie Group Foundation, Eraring Energy and Green State Power Pty Limited.

Penny Bingham-Hall

Independent Director
BA (Industrial Design), FAICD, SF (Fin)

Appointed to Board on 10 June 2014

Penny Bingham-Hall is an Independent Director of Dexus Funds Management Limited, Chair of the Board People & Remuneration Committee and a member of the Board Nomination Committee and Board Risk Committee.

Penny is a Non-executive Director of Fortescue Metals Group Ltd, BlueScope Steel Limited, Port Authority of NSW and Taronga Conservation Society Australia. She is also an independent director of Crescent Foundation and Macquarie Specialised Asset Management Limited.

Penny has broad industry experience having spent more than 20 years in a variety of senior management roles with Leighton Holdings Limited including Executive General Manager Strategy, responsible for the Group's overall business strategy and Executive General Manager Corporate, responsible for business planning, corporate affairs including investor relations and governance systems. She is a former director of the Australian Postal Corporation, SCEGGS Darlinghurst Limited and the Global Foundation. Penny also served as the inaugural Chair of Advocacy Services Australia Limited from 2008 to 2011.

John Conde AO

Independent Director
BSc, BE (Hons), MBA, FAICD

Appointed to Board on 29 April 2009

John Conde is an Independent Director of Dexus Funds Management Limited and Dexus Wholesale Property Limited and a member of the Board Audit Committee and Board Nomination Committee.

John is the Chairman of Cooper Energy Limited and the McGrath Foundation. He is President of the Commonwealth Remuneration Tribunal (as President, John automatically serves as a Member of the Independent Parliamentary Expenses Authority) and Deputy Chairman of Whitehaven Coal Limited.

John brings to the Board extensive experience across diverse sectors including commerce, industry and government. He was previously Chairman of Bupa Australia Holdings Pty Limited, Ausgrid (formerly EnergyAustralia), Destination NSW, Sydney Symphony Orchestra and the Australian Olympic Committee (NSW) Fundraising Committee. John was Director of BHP Billiton and Excel Coal Limited, Managing Director of Broadcast Investment Holdings Pty Limited, Director of Lumley Corporation and President of the National Heart Foundation of Australia.

Board focus during the year

The key areas of focus for the Board and Board Committees during FY19 are aligned to each of our key resources.

RISK

The **Board Risk Committee** is involved in reviewing and monitoring our key risks.

→ p. 24

FINANCIAL

The **Board** and **Board Audit Committee** are involved in focusing on financial performance

→ p. 28

PROPERTIES

The **Board** is involved in approving transactions and developments across the portfolio.

→ p. 38

PEOPLE AND CAPABILITIES

The **Board** and **Board People and Remuneration Committee** are involved in aspects relating to employees.

→ p. 50

CUSTOMER AND COMMUNITIES

The **Board** is involved in reviewing aspects relating to customers and community related activities.

→ p. 54

ENVIRONMENT

The **Board** and **Board Risk Committee** are involved in reviewing aspects relating to climate change and the environment.

→ p. 58

Governance

Board of Directors

Tonianne Dwyer

Independent Director
BJuris (Hons), LLB (Hons)

Appointed to Board on 24 August 2011

Tonianne Dwyer is an Independent Director of Dexus Funds Management Limited and Dexus Wholesale Property Limited, Chair of the Board Risk Committee and a member of the Board Audit Committee.

Tonianne is a Director of OZ Minerals Limited, ALS Limited, Metcash Limited and Queensland Treasury Corporation. She is also Deputy Chancellor and a member of the Senate of the University of Queensland.

Tonianne brings to the Board significant experience as a company director and executive working in listed property, funds management and corporate strategy across a variety of international markets. She was a Director from 2006 until 2010 of Quintain Estates and Development – a listed United Kingdom property company comprising funds management, investment and urban regeneration – and was Head of Funds Management from 2003. Prior to joining Quintain, Tonianne was a Director of Investment Banking at Hambros Bank, SG Cowen and Societe Generale based in London. She also held directorships on Cardno Limited, the Bristol & Bath Science Park Stakeholder Board, and on a number of boards associated with Quintain's funds management business including the Quercus, Quantum and iQ Property Partnerships.

Mark Ford

Independent Director
Dip. Tech (Commerce), CA, FAICD

Appointed to Board on 1 November 2016

Mark Ford is an Independent Director of Dexus Funds Management Limited and a member of the Board Audit Committee and Board Risk Committee.

Mark is Chair of Kiwi Property Group and Non-executive Director of the manager for China Commercial Trust. He is a Director of Prime Property Fund Asia.

Mark has extensive property industry experience and has been involved in Real Estate Funds Management for over 25 years. He was previously Managing Director, Head of DB Real Estate Australia, where he managed more than $10 billion in property funds and sat on the Global Executive Committee for Deutsche Bank Real Estate and RREEF. Mark was also a Director in the Property Investment Banking division of Macquarie and was involved in listing the previous Macquarie Office Fund. His previous directorships include Comrealty Limited, Property Council of Australia, Deutsche Asset Management Australia and he was also Founding Chair of Cbus Property Pty Limited and South East Asia Property Company. Mark previously held senior roles with Price Waterhouse and Macquarie Bank.

Darren Steinberg

Chief Executive Officer
and Executive Director
BEc, FAICD, FRICS, FAPI

Appointed to Board on 1 March 2012

Darren Steinberg is the CEO of Dexus and an Executive Director of Dexus Funds Management Limited.

Darren has over thirty years' experience in the property and funds management industry with an extensive background in office, industrial and retail property investment and development. He has a Bachelor of Economics from the University of Western Australia.

Darren is a Fellow of the Australian Institute of Company Directors, the Royal Institution of Chartered Surveyors and the Australian Property Institute. He is a former National President of the Property Council of Australia and a founding member of Property Male Champions of Change. He is also a Director of VGI Partners Limited and a Trustee of the Museum of Applied Arts & Sciences.

The Hon. Nicola Roxon

Independent Director
BA/LLB (Hons), GAICD

Appointed to Board on 1 September 2017

Nicola Roxon is an Independent Director of Dexus Funds Management Limited and a member of the Board People & Remuneration Committee and Board Risk Committee.

Nicola is an Independent Chair of HESTA and Non-executive director of Lifestyle Communities Limited. She is a Patron for the BreastWest Foundation. Nicola was previously Chair of Cancer Council Australia, Bupa Australia Holdings Pty Limited and the Accounting Professional and Ethical Standards Board.

Nicola has more than 20 years' experience with background in the public sector and significant expertise in highly regulated consumer industries, professional services and the not-for-profit sector. She has deep industry knowledge of the health, government and professional service sector in positions including Federal Attorney General, Federal Minister for Health and Ageing, Member for Gellibrand and Industrial lawyer and advocate at Maurice Blackburn and the National Union of Workers.

Peter St George

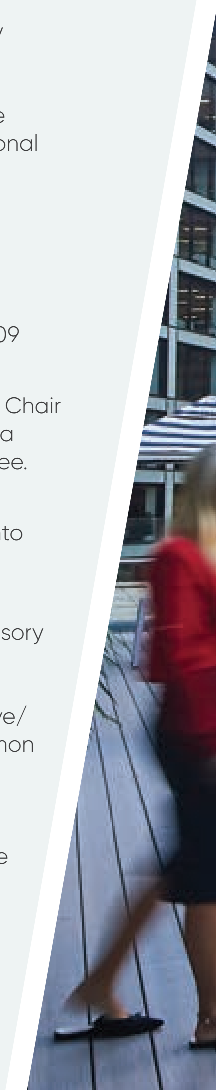
Independent Director
CA(SA), MBA

Appointed to Board on 29 April 2009

Peter is an Independent Director of Dexus Funds Management Limited, Chair of the Board Audit Committee and a member of the Board Risk Committee.

Peter is a Director of First Quantum Minerals Limited (listed on the Toronto Stock Exchange).

Peter has more than 20 years' experience in senior corporate advisory and finance roles within NatWest Markets and Hill Samuel & Co in London. He acted as Chief Executive/Co-Chief Executive Officer of Salomon Smith Barney Australia/NatWest Markets Australia from 1995 to 2001. Peter was previously a Director of Boart Longyear, Spark Infrastructure Group, its related companies and SFE Corporation Limited.



Remuneration Report

We are pleased to present the remuneration report which focuses on our remuneration strategy and outcomes, in addition to our people and culture highlights for the financial year ending 30 June 2019.

This Remuneration Report forms part of the Directors' Report and outlines the remuneration framework and outcomes for KMP for FY19.

A year of outperformance

This year, Dexus continued to deliver strong results against key financial and non-financial measures set by the Board. Distribution per security growth was 5.0%, Return on Contributed Equity (ROCE) was 10.1%, and growth in Adjusted Funds From Operations (AFFO) per security was 5.5%. This result was achieved through the performance of our property portfolio, selective asset acquisitions, growth in our funds management business and the delivery of trading profits. Security holders were delivered outstanding returns in FY19 and our CEO and his management team were rewarded with above target incentive outcomes.

Importantly, this year's outperformance was achieved while enhancing our platform's footprint to grow in the future, as well as strong outcomes in safety, customer satisfaction, employee engagement and sustainability measures.

In our office portfolio we continue to outperform benchmarks over three and five years through higher rents and lower incentives. The securing of $3.1 billion of quality acquisitions increased our office exposure in core markets while enhancing our embedded pipeline of office development projects in both the Melbourne and Sydney CBDs. This was achieved while maintaining a strong and conservative balance sheet. Our funds management business grew to $16.2 billion through the introduction of significant new funds management partners and all funds achieved strong performance.

We are on track to achieve our gender diversity target of at least 40% female representation in senior and executive management roles by 30 June 2021. We have also been recognised externally by the Workplace Gender Equality Agency for our diversity achievements and as a pay equity ambassador.

Our customer Net Promoter score increased to +46 and our strong culture and engaged workforce was demonstrated through an employee Net Promoter score of +40. This year we progressed our goal to achieve net zero carbon emissions by 2030 and secured one of Australia's first supply-linked Renewable Energy Supply Agreements.

Our remuneration approach

Our Remuneration framework supports our business strategy, where performance and Security holder returns are paramount. Increasing equity ownership among executives and staff to better align their interests with our Security holders, and to strengthen engagement within the organisation is a key element of our remuneration framework.

The Board sets hurdles where, if achieved, Dexus will deliver sustained value and returns for Security holders. We have made enhancements to our disclosures in this report to improve our transparency on how we set objectives which align executive remuneration to superior risk-adjusted returns for investors.

Our approach to executive remuneration continues to be a key factor in driving our success. In order to attract and retain top talent to lead the Group over the long term, Dexus has developed and embedded a competitive remuneration strategy to deliver long term performance and drive an appropriate risk culture.

FY19 awards

In line with Dexus's outperformance in FY19, STI outcomes for Executive Key Management Personnel (KMP) will range from 110% to 125% of target. As disclosed in FY18, LTI outcomes for Executive KMP resulted in a vesting outcome of 95% for the 2014 LTI Plan and 100% for the 2015 LTI Plan.

Changes to FY20 remuneration

Overall fixed remuneration increases for Executive KMP (excluding the CEO) for FY20 will average 3.5% and there will be no fixed remuneration increase for the CEO in FY20.

During the year an external review was completed on Board fees after several years of no increases for Non-Executive Directors (NEDs). A moderate fee increase has been approved from 1 July 2019. The NED fee pool remains unchanged.

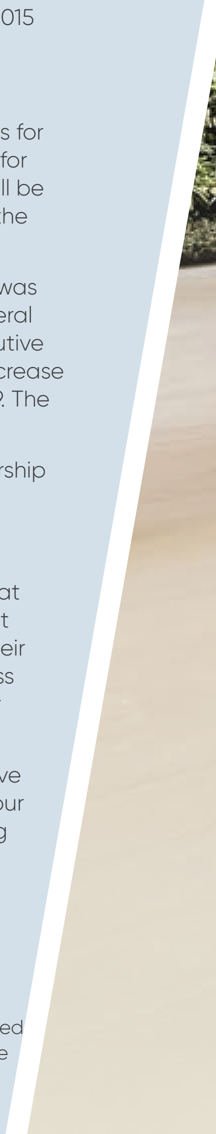
To further embed NED equity ownership a fee sacrifice program will be implemented in FY20.

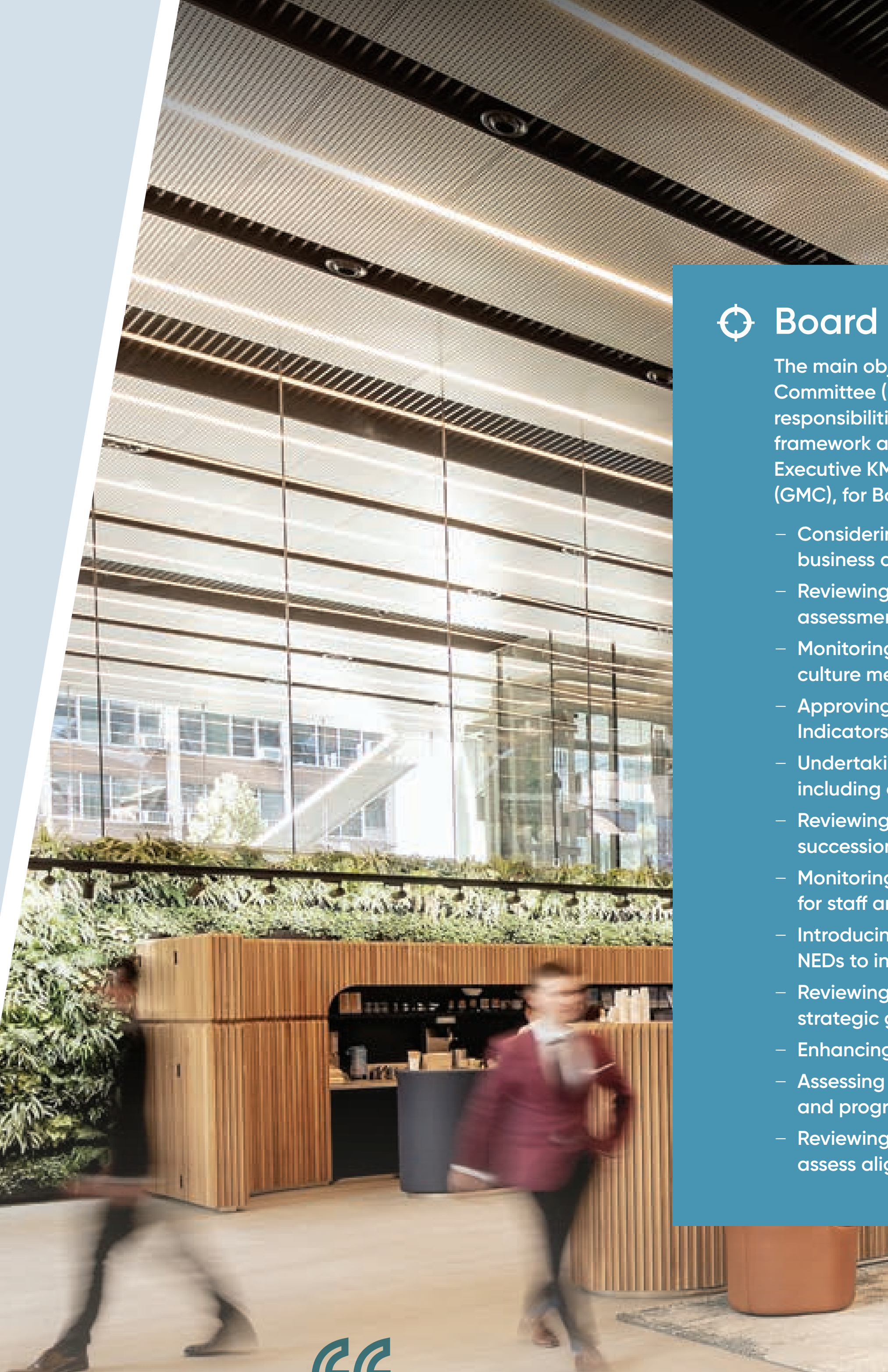
Our people are at the centre of what we do and we will continue to invest in their development and reward their achievement of sustainable business outcomes that add value for all our stakeholders.

I hope you find this report informative and we look forward to receiving your support for the resolution approving this report at the 2019 AGM.

Penny Bingham-Hall
Chair – People and Remuneration Committee

The report has been prepared and audited in accordance with section 308(3C) of the *Corporations Act 2001*.





Board focus

The main objective of the Board People and Remuneration Committee (PRC) is to assist the Board in fulfilling its responsibilities by developing the remuneration strategy, framework and policies for Non-Executive Directors, Executive KMP and the Group Management Committee (GMC), for Board approval. In FY19, the PRC were involved in:

- Considering how the talent management strategy supports business and cultural goals
- Reviewing the risk culture framework, metrics and assessment approach
- Monitoring employee engagement and corporate culture metrics
- Approving performance objectives and Key Performance Indicators for the CEO, KMP and other executives
- Undertaking a review of CEO and KMP remuneration, including assessment of benchmarks and market trends
- Reviewing executive and key talent assessments for succession planning and talent management
- Monitoring programs to increase security ownership for staff and key talent
- Introducing a security salary sacrifice program for NEDs to increase equity ownership
- Reviewing performance against business objectives and strategic goals
- Enhancing disclosures to address investor feedback
- Assessing performance on inclusion and diversity strategy and progress towards gender diversity target
- Reviewing new ASX Corporate Governance guidelines to assess alignment

“Our focus on diversity has kept us on track to achieve our gender diversity target. In FY19 we reached

37%

female representation in senior and executive management roles

FY20 focus areas

- Monitoring succession planning and talent programs
- Monitoring and assessing group, CEO, Executive KMP and other executives’ performance
- Reviewing and approving the Group balanced scorecard
- Strengthening our inclusion and diversity approach
- Overseeing the implementation of Purpose and Values programs
- Overseeing Executive and staff remuneration strategies and frameworks to align rewards to performance results
- Monitoring Risk and organisational culture

Contents

1. Introduction

1.1 Key Management Personnel

In this report, Key Management Personnel (KMP) are those individuals having the authority and responsibility for planning, directing and controlling the activities of the group, either directly or indirectly.

They comprise:

- Non-Executive Directors
- Executive Directors
- Other executives considered KMP

Executive Directors and other Executives considered KMP are referred to collectively as "Executive KMP" in this report. The below outlines KMP of the group during FY18 and FY19. There have been no changes to KMP since the end of the reporting period.

Independent Non-Executive Directors	KMP FY18	KMP FY19
W Richard Sheppard Non-Executive Chair	✓	✓
Elizabeth A Alexander AM Non-Executive Director	To 24 October 2017	✗
Penny Bingham-Hall Non-Executive Director	✓	✓
John C Conde AO Non-Executive Director	✓	✓
Tonianne Dwyer Non-Executive Director	✓	✓
Mark H Ford Non-Executive Director	✓	✓
Nicola Roxon Non-Executive Director	From 1 September 2017	✓
Peter B St George Non-Executive Director	✓	✓
Executive Director		
Darren J Steinberg Chief Executive Officer	✓	✓
Other Executives		
Alison C Harrop Chief Financial Officer	✓	✓
Ross G Du Vernet Chief Investment Officer	✓	✓
Kevin L George Executive General Manager, Office	✓	✓
Deborah C Coakley Executive General Manager, Funds Management	✓	✓

2. Remuneration strategy and governance

2.1 Our remuneration strategy

Our Vision

To be globally recognised as Australia's leading real estate company

Our Strategy

To deliver superior risk-adjusted returns for investors from high quality real estate in Australia's major cities

Our Remuneration Strategy

To attract, retain and motivate the best people to create a great culture that delivers our business strategy and contributes to sustainable long-term returns

Remuneration principles

CULTURE
We align reward to our strong risk, high performance, diverse and inclusive culture

ALIGNMENT TO PERFORMANCE
We reward for performance aligned to our business strategy with an emphasis on equity ownership

MARKET COMPETITIVE
We position reward opportunity to attract and retain the best talent

SUSTAINABLE
We appropriately reward for both financial and non-financial outcomes

SIMPLE AND TRANSPARENT
We keep it simple and set clear expectations

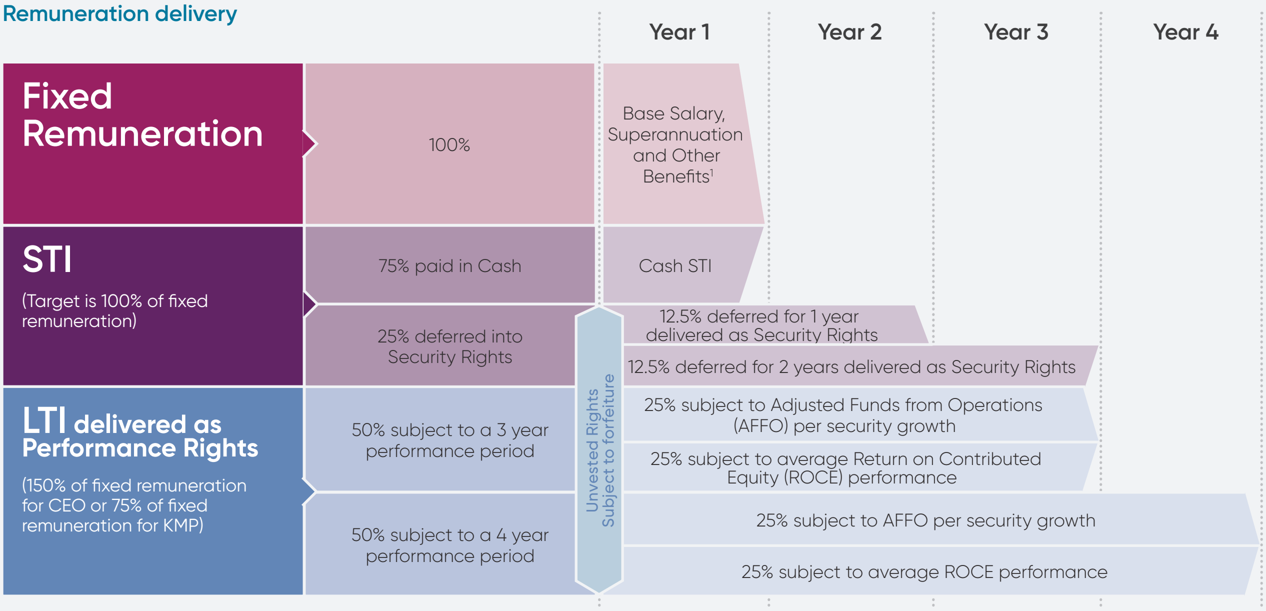
Executive remuneration components

	Fixed Remuneration (FR)	Short-Term Incentive (STI)	Long-Term Incentive (LTI)
Purpose	Attract and retain executives with the capability and experience to deliver our strategy.	Reward for performance against annual objectives and key performance indicators (KPIs).	Align performance focus with the long-term business strategy to drive sustained earnings and security holder returns.
Link to performance	Motivation to drive a great culture and deliver on the business strategy.	Strategic annual objectives embedded in each executive's personalised scorecard of KPIs.	Performance hurdles are set by the Board over three and four-year periods to deliver sustained security holder value.
Performance measures	Significant position accountabilities that support the execution of the business strategy.	Group financials, customer, culture, environmental sustainability, safety and individual objectives.	Adjusted Funds from Operations per security growth; Return on Contributed Equity
Alignment	Attract and retain the best people based upon the competitive landscape among relevant peers.	Reward year-on-year performance achieved in a balanced and sustainable manner.	Encourage sustainable, long-term value creation through equity ownership.
Delivery	Competitive market based fixed remuneration. (Base Salary and Statutory Superannuation and other benefits).	Annual cash payment (75%) Security Rights (25%): 12.5% 1 year; 12.5% 2 years; Deferred	Performance Rights with allocation calculated at Face Value 50% 3 years; 50% 4 years

2.2 Remuneration delivery and mix

The Executive KMP remuneration mix is structured so that a substantial portion of remuneration is delivered as Dexus securities through either deferred STI or LTI. The total remuneration opportunity provides for higher remuneration outcomes only if outperformance is delivered. The following diagram (which is not to scale) sets out the remuneration structure and delivery timing for Executive KMP.

Remuneration delivery

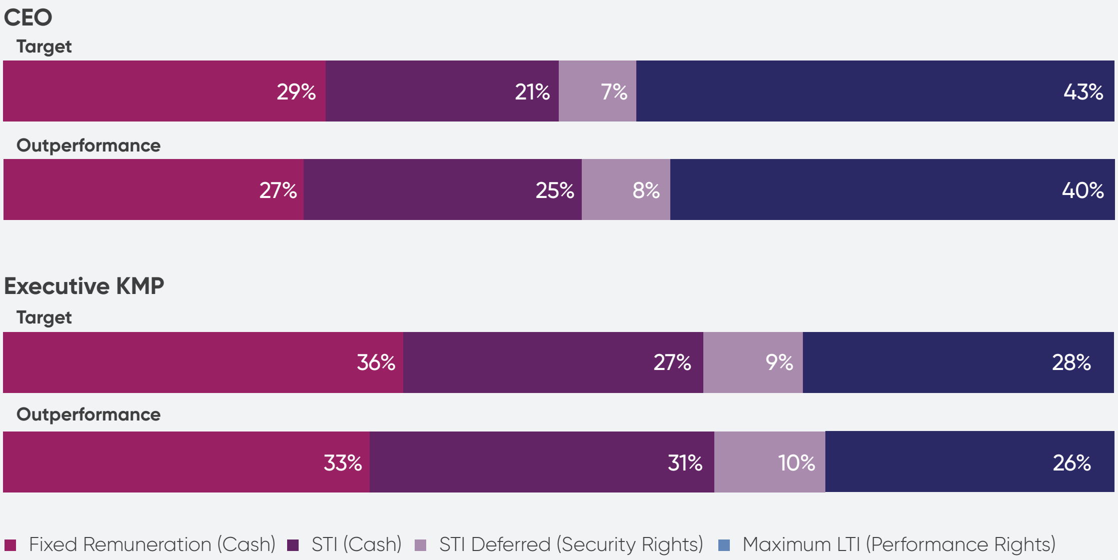


1. Other Benefits comprise wellbeing and insurance arrangements provided to all employees. These benefits do not flow into the STI and LTI calculations.

Remuneration mix

The remuneration components for each KMP are expressed as a percentage of total remuneration, with the STI value varied to reflect target performance (100% of target amount) and outperformance (125% of target amount).

The following diagram sets out the remuneration mix for Executive KMP.



2.3 Changes for FY20

Executive KMP remuneration

FIXED REMUNERATION

To ensure the total remuneration opportunity remains competitive and to improve internal equity, the Board approved an average increase of 3.5% for Executive KMP (excluding the CEO) fixed remuneration for FY20.

In FY20 there will be no fixed remuneration increase for the CEO.

VARIABLE PAY

There are no changes to the remuneration structure or opportunity levels for the CEO or Executive KMP.

NED remuneration

INCREASE TO FEES

NED fees have been increased based on a review of relevant ASX listed peers in order to reflect the responsibilities and workload of the Board and Committee Chairs and members. NED base fees were last increased in 2016, and Committee fees last increased in 2013. The NED remuneration pool will remain unchanged.

SIMPLIFICATION OF THE MINIMUM SECURITY HOLDING GUIDELINE

To align to the approach for Executive KMP, where the minimum value of security holding has been set as a percentage of fixed remuneration, the NED guidelines were adjusted from 16,500 DXS securities to the equivalent of 100% of NED Base fees, within five years from appointment.

To further support NED ownership of DXS securities, a security fee sacrifice program will be implemented in FY20.

2.4 Securities Trading Policy

The Securities Trading Policy provides guidance to Directors, Employees (including Key Management Personnel), Contractors and Associates for ongoing compliance with legal obligations relating to trading or investing in financial products managed by Dexus.

The Policy prohibits employees from trading in financial products while they are in possession of Inside Information (non-public price sensitive information) and hedging their exposure to unvested DXS securities. Trading in DXS securities or related products is only permitted with the permission of the Chair (for Directors and CEO) or the CEO (for Executive KMP and all other staff).

The Group also has Conflict of Interest and Insider Trading policies in place which extend to family members and associates of employees.

2.5 Remuneration governance

Board

Approves and has oversight of Dexus's Remuneration Policy, Non-Executive Director and Executive KMP remuneration and culture indicators.

People & Remuneration Committee

Members

Penny Bingham-Hall
The Hon. Nicola Roxon
Richard Sheppard

Audit Committee

Review the calculation of financial incentive plan performance measures.

Risk Committee

Advises the PRC of material risk issues, behaviours and/or compliance breaches.

Two joint meetings are held each year with the PRC to review Risk Culture frameworks, metrics and audit information.

Management

Propose executive appointments, succession plans, policies, remuneration structures and remuneration outcomes to the PRC for review and approval or recommendation to the Board.

Independent external advisors

The Board's independent remuneration advisor, EY, provides market practice insights and trends in relation to executive remuneration approaches. EY did not make any remuneration recommendations in FY19.

Any advice provided by EY, or any other remuneration consultant, is used as an input in making remuneration decisions, and is not a substitute for consideration of relevant issues by each member of the PRC.

People & Remuneration Committee (PRC)

The PRC is responsible for developing the remuneration strategy, framework and policies for Non-Executive Directors, Executive KMP and the Group Management Committee (GMC) for Board approval.

The responsibilities of the PRC are outlined in the PRC's Terms of Reference available at www.dexus.com/boardcommittees which is reviewed and approved annually by the Board. The primary accountabilities of the PRC are:

- Reviewing and recommending to the Board for approval Dexus's Remuneration Policy, which covers Executive KMP, GMC members and all other Dexus employees
- Reviewing and approving the Group Scorecard, annual performance objectives and KPIs of the CEO and GMC members
- Recommending to the Board for approval CEO and GMC members' remuneration and incentive payments
- Reviewing and approving aggregate fixed remuneration changes and annual incentive payments for all Dexus employees
- Reviewing and recommending to the Board for approval the Code of Conduct and Diversity Principles
- Reviewing and approving processes and information on talent assessments, leadership development and succession planning
- Reviewing processes and metrics for measuring culture and behaviours, including risk culture areas

Members

The PRC members have experience in remuneration, people, leadership, human resources, risk management and compliance which enables effective oversight and governance of Dexus's remuneration framework.

Meetings

The PRC is required to meet at least three times per year. In FY19, the PRC met six times to discuss and review remuneration, and people and culture related matters.

Accurate and complete Committee papers are provided to all PRC members prior to meetings to enable timely, considered and effective decision making. The PRC may request additional information from management or external advisors where required.

The PRC uses a range of inputs when assessing Executive KMP performance and determining remuneration outcomes:

- Financial performance, measured using audited financial measures
- Management providing detailed examples of how non-financial outcomes have been achieved
- Demonstrated leadership of the Dexus values and behaviours
- External remuneration benchmarking, provided by independent external advisors

Under certain circumstances, the PRC and Board may adjust proposed remuneration outcomes or forfeit Rights issued under the Dexus LTI or STI Plans.

3. Remuneration structure

3.1 Fixed Remuneration

Our fixed remuneration strategy is to pay at market competitive rates to attract and retain top talent. Remuneration levels are set based on role size, complexity, scope and leadership accountability. We adhere to the principle of pay equity, which has led to gender pay equity across Dexus in like-for-like roles in FY19. To determine fixed remuneration levels, we benchmark externally against A-REIT ASX100 companies, and compare similar roles in organisations with similar market capitalisation.

3.2 Short-Term Incentive (STI)

The STI plan is aligned to security holder interests by:

- **Encouraging executives to achieve year-on-year performance in a balanced and sustainable manner**
- **Mandatory deferral of 25% of each STI award into Security Rights deferred over two years, acting as a retention mechanism**

80% Financial

Adjusted Funds From Operations (AFFO)
Return on Contributed Equity (ROCE)
Office and funds management financial outcomes (relative measures)

+

20% Non-Financial

Customer, culture, environmental sustainability, safety and individual objectives

Short-Term Incentive (at risk)

Cash	Equity	
Annual cash payment (75%)	Deferred Rights (25%) 12.5% 1 year 12.5% 2 years	Subject to forfeiture provisions and continued employment during the vesting period.

Fixed Remuneration × **STI Target** × **Group Result on Financial and Non-financial measures** × **Individual Contribution Factor** = **Individual STI Outcome (Capped at 125% of Target)**

Each Executive KMP is awarded an individual STI outcome between zero and 125% of their target.
Individual STI outcomes are based on group performance and individual contribution, which includes a behavioural gateway.
The maximum STI opportunity for Executive KMP is 125% of Fixed Remuneration.

STI plan structure

The financial measures have been selected so that the overall focus is on the annual financial execution of business plans by KMP. AFFO per security growth and ROCE reflect the Group's overall financial performance. Further inclusion of Office and Funds Management financial outcomes ensure each business area has achieved required results. The Office and Funds management outcomes have been categorised in FY19 under the Financial category, resulting in the 80% Financial weighting (these outcomes were previously categorised as part of the Non-Financial measures resulting in the categories having a weighting of 50% Financial and 50% Non-Financial in FY18). The remaining items provide the Board with a mechanism to ensure that the sustainability of annual results are reflected in remuneration outcomes for KMP. A behavioural gateway underpins the STI award. If a participant of the STI plan does not meet behavioural expectations, then the individual's award may be forfeited regardless of company performance.

How much of the STI award is deferred?

25% of any award under the STI plan is deferred into Rights to DXS securities.

The rights vest in two equal tranches, 1 and 2 years after being granted. Rights deferred under the STI plan are subject to forfeiture and vest based on continued employment.

The number of Rights awarded is based on 25% of the awarded STI value divided by the volume weighted average price (VWAP) of DXS securities 10 trading days either side of the first trading day of the new financial year.

The remaining 75% of any award is paid in cash in August following the announcement of the Group's annual results.

DXS securities are purchased on market to satisfy the deferred rights for the STI plan.

Are distributions paid on unvested Rights awarded under the STI plan?

For the portion of STI deferred as Rights, participants are entitled to the benefit of distributions paid on the underlying DXS securities prior to vesting, through the issue of additional Rights at the time of vesting.

When are STI awards forfeited?

Forfeiture will occur should the participant's employment terminate within 6 months of the grant date for any reason, or if the participant voluntarily resigns or is terminated for cause prior to the vesting date.

Rights may be reduced or cancelled at the Board's discretion including in circumstances such as a participant committing an act of fraud, wilful misconduct, reputational damage to Dexus, serious or wilful negligence or incompetence, being convicted of a criminal offence or if there has been a material misstatement of the group's financial accounts as a consequence of a deliberate misrepresentation or fraud.

Notwithstanding the above, if a participant's employment is terminated for reasons such as retirement, redundancy, reorganisation, change in control or other unforeseen circumstances, the People & Remuneration Committee may recommend to the Board that the executive should remain in the plan as a 'good leaver'.

3.3 Long-Term Incentive (LTI)

The LTI plan is aligned to security holders' interests in the following ways:

- Encourages executives to make sustainable business decisions within the Board-approved strategy of the Group
- Aligns the financial interests of executives participating in the LTI Plan with security holders through exposure to DXS securities

50% Adjusted Funds From Operations (AFFO) per security growth + 50% Return on Contributed Equity (ROCE)

Long-Term Incentive (at risk)

Equity

Performance Rights with allocation calculated at Face Value

50% 3 year Performance Period

50% 4 year Performance Period

Subject to hurdles, forfeiture, and continued employment during the vesting period

Fixed Remuneration × **LTI Allocation** × (**50% AFFO per security growth performance** / **50% Average ROCE performance**) = **Individual LTI Outcome (Capped at 100% of Allocation)**

Each Executive KMP is allocated an LTI opportunity subject to performance hurdles. The award may vest between 50% to 100% of the allocation amount based on performance. LTI awards do not vest if performance targets are not met for both measures.

The maximum LTI opportunity for the CEO is 150% of Fixed Remuneration, and for other Executive KMP is 75% of Fixed Remuneration.

LTI performance hurdles

The two performance conditions under the LTI plan are Adjusted Funds From Operations (AFFO) per security growth (implied CAGR)[1] and average Return on Contributed Equity (ROCE)[2] over both three and four-year periods. These performance conditions are weighted equally and align the plan outcomes with the commercial long-term performance that is within the executive's ability to influence. If these hurdles are met, the Board's view is that Security holders will be rewarded over time by superior market performance.

AFFO per security growth is a key measure of growth and is calculated in line with the Property Council of Australia (PCA) definition. AFFO is Funds From Operations (FFO) as per the PCA's definition adjusted for maintenance capex, incentives (including rent free incentives) given to tenants during the period and other one-off items.

ROCE represents the annualised average rate of return to security holders, calculated as a percentage, comprising AFFO together with the net tangible asset impact from completed developments, divided by the average contributed equity during the period. ROCE is measured as the per annum average at the respective conclusion of the three and four-year vesting periods.

The two absolute measures provide greater focus on the fundamentals of Dexus's business and on the performance of the Executive team in meeting the targets which the Board sets than would general relative measures. AFFO per security growth and ROCE remove the potential favourable or unfavourable impact of macro-economic variables impacting asset valuations, as well as the composition vagaries of listed and unlisted peer groups. We include these two measures in both the STI and LTI plans as we believe they contribute significantly to Security holder returns both in the short-term and long-term.

Each year, the Board reviews existing performance measures and their hurdles to ensure they align with Security holder expectations and the current Dexus Strategy. In FY19 the Board reviewed the measures and resolved to retain AFFO per security growth and ROCE as these are the critical business metrics which will drive market performance and Security holder returns.

1. The implied compound annual growth rate refers to the nominal growth per annum that is required to achieve the target AFFO per security over the vesting period.
2. The ROCE calculation excludes the impact of asset revaluations.

LTI performance ranges

The Board sets the performance range for both LTI hurdles over three and four-year periods. The Board does not reset or change the ranges during the performance period. The Board aligns the target setting with the Group's key operational metrics of maintaining a through the cycle AFFO per security growth range of 3% to 5% and ROCE of 7% to 10%. Actual AFFO per security growth and average ROCE performance achieved relative to the targets are disclosed retrospectively at the end of the performance period. Dexus does not publish details of the hurdles prior to the testing of the first tranche at the end of the first performance period (year 3) as this would result in the disclosure of commercially sensitive information in connection with the group's forecasts.

Vesting under both the AFFO per security growth and average ROCE measures are on a sliding scale against performance conditions set by the Board.		
AFFO and ROCE Performance	**Vesting Outcome**	**Hurdle setting**
Below Target Performance	Nil vesting	Below target set by Board
Target performance	50% vesting	Target set between the 'through the cycle' ranges of: – AFFO per security growth 3% to 5% – ROCE 7% to 10%
Between Target and Outperformance	Straight line vesting	
Outperformance	100% vesting	Within or above the 'through the cycle' range

The Group aims to continually deliver AFFO per security growth and ROCE performance year on year, but fluctuations are to be expected. Factors that may cause fluctuation in AFFO are built into business forecasting and include the development pipeline, leasing assumptions, economic forecasts, management's actions in applying rent-free periods, incentives and maintenance expenditure.

LTI plan structure

How is the number of Performance Rights determined?

The number of Performance Rights granted is equal to the participant's LTI grant value (based on a percentage of fixed remuneration) divided by the VWAP of DXS securities ten trading days either side of the first trading day of the new financial year. The methodology computes grants based on 'face value' rather than 'fair value'.

From FY19, the maximum LTI opportunity is set at 150% of fixed remuneration for the CEO and 75% for other Executive KMP.

Do participants receive distributions on unvested LTI awards?

Participants are not entitled to distributions paid on underlying DXS securities during the performance period prior to Performance Rights being tested for vesting.

When are LTI awards forfeited?

If the performance conditions are not met, Performance Rights relating to that tranche will be forfeited. There is no retesting of forfeited Rights. The Board maintains the discretion to forfeit unvested Performance Rights in the case of significant misconduct or material misstatement of performance.

Additionally, forfeiture will occur should the participant's employment terminate within 12 months of the grant date for any reason, or if the participant voluntarily resigns or is terminated for cause prior to the vesting date.

Notwithstanding the above, if a participant's employment is terminated for reasons such as retirement, redundancy, reorganisation, change in control or other unforeseen circumstances, the People & Remuneration Committee may recommend for approval by the Board that the participant remain in the plan as a 'good leaver'.

How is the LTI Plan administered

The administration of the LTI plan is supported by the LTI plan rules.

DXS securities are purchased on market (for all participants including the CEO) to satisfy the Performance Rights for the LTI plan. The Board retains the right to amend, suspend or cancel the LTI plan at any time.

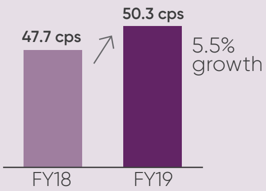
4. FY19 Dexus performance highlights

In FY19, Dexus continued to deliver strong results and outperformance across key metrics.

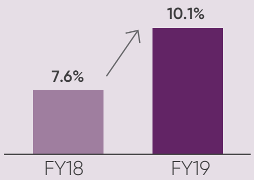
Financial performance

Group performance

AFFO per security growth

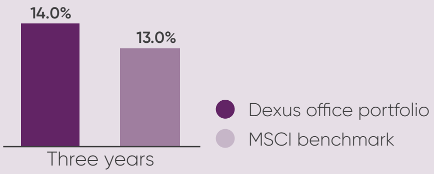


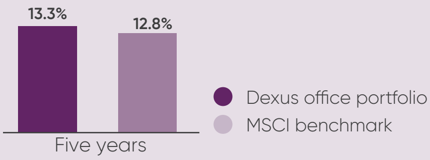
ROCE (%)



Leadership in office

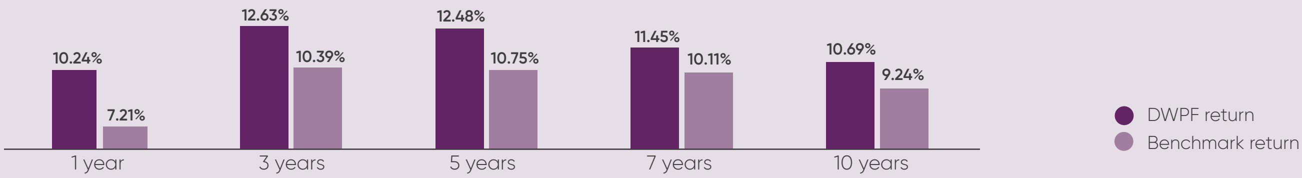
Dexus office portfolio performance versus benchmark[1] (%)





Funds performance

Dexus Wholesale Property Fund (DWPF) versus benchmark[2] (%)



Non-financial performance

Customer, Environment & Culture

Average safety audit score

98%

FY18: 97%

Customer NPS[3]

+46

FY18: +32

Employee NPS[3]

+40

Female representation in senior and executive management roles

37%

FY18: 34%
(40% female by FY21 target)

5 star NABERS Energy rating or above across

950,351sqm

FY18: 892,000sqm (1 million sqm by FY20 target)

✔ **WGEA Employer of Choice for Gender Equality and maintained pay equity in like-for-like roles**

4 star NABERS Water rating or above across

757,423sqm

FY18: 615,000sqm
(1 million sqm by FY20 target)

Increased renewables through securing an

Energy Supply Agreement

which will purchase offsite renewable energy from 1 January 2020

1. As at 31 March 2019 compared to MSCI Australian Quarterly Digest for Office Sector benchmark.
2. As at 30 June 2019 compared to MSCI/Mercer Australia Core Wholesale Monthly Property Fund Index (Net returns, Net Asset weighted).
3. The Net Promoter Score (NPS) is calculated as the difference between the percentage of Promoters and Detractors. The NPS is not expressed as a percentage, but as an absolute number between -100 and +100. There was no FY18 baseline for eNPS.

5. FY19 Group scorecard and STI outcomes

5.1 FY19 Group scorecard

For FY19 the Board considered a range of Financial and Non-Financial measures and targets that, if achieved, would be key indicators of company performance and drivers of Security holder value. The Board set *Threshold, Target* and *Outperformance* hurdles at the beginning of the financial year which remained unchanged throughout the performance period.

Category	Measurements	FY19 Result	Comments
Financial performance (80%)			
Group performance			
	AFFO per security growth ROCE		– AFFO per security of 50.3 cents, achieving growth of 5.5%. *(Threshold 4.0% growth, Target 5.0% growth and Outperformance 5.5% growth).* – ROCE of 10.1% achieved. *(Threshold 7%, Target 8% and Outperformance 9%).*
Leadership in office			
	Dexus office portfolio performance versus external benchmarks over 3 and 5 years		– Dexus office portfolio continued to outperform the MSCI office benchmark over three and five years. – To fully achieve Target performance, the Dexus office portfolio needed to reach the stretch target of 66th to 75th percentile which was not met.
Funds performance			
	DWPF versus benchmarks over 3 and 5 year returns All other funds outperforming financial objectives and targets		– Achieved strong performance across all funds with DWPF outperforming benchmark over 1, 3, 5, 7 and 10 years. – 100% of funds outperforming benchmarks over 3 and 5 years.
Non-financial performance (20%)			
Customer, Environment & Culture			
	Zero fatalities from incidents Safety audit score Customer NPS Progress environmental targets Employee NPS Senior management gender diversity		– Zero fatalities and an average safety audit score of 98% across Dexus's corporate and management workplaces *(Outperformance 90%).* – Customer NPS increased to +46 in FY19 *(Outperformance +34 NPS).* – Secured one of Australia's first supply-linked renewable Energy Supply Agreements and delivered 950,351sqm of office space rated minimum 5 star NABERS Energy *(Target).* – Employee NPS of +40 *(Outperformance).* – 37% Female representation in senior and executive management roles *(Target 40% by 2021).*
Overall			

Key

Category	Culture	Alignment to performance	Market competitive	Sustainable	Simple and transparent
FY19 Result	Outperformance (above target)	Target (full achievement against targets)	Partial (between Threshold and Target achievement)	Threshold (minimum achievement against targets)	Not achieved

5.2 STI outcomes for Executive KMP

Based on Group Performance and factoring in individual scorecards and weightings, the Board awarded the CEO 125% of target incentive in FY19. The weightings were 80% Financial (50% for Group Financial Performance, 15% for Office performance, and 15% for Funds performance) and 20% for Customer, Environment, Culture and individual scorecard components.

For other Executive KMP the STI outcomes ranged from 110% to 125% of Target. For all other Executive KMP, Group Financial Performance was also weighted at 50%. The other category weightings were varied based on areas of responsibility and accountabilities. Detailed STI outcomes for FY19 are provided in section 7.1.

6. Historical performance highlights

Five year financial performance

		FY19	FY18	FY17	FY16	FY15
Funds From Operations (FFO)	($m)	681.5	653.3	617.7	610.8	544.5
Adjusted Funds From Operations (AFFO)	($m)	517.2	485.5	439.7	413.9	369.8
Net Profit After Tax	($m)	1,281.0	1,728.9	1,264.2	1,259.8	618.7
AFFO per security	(cents)	50.3	47.7	45.4	42.7	40.4
AFFO per security growth	**(%)**	**5.5**	**5.1**	**6.3**	**5.7**	**6.6**
Distribution per security	(cents)	50.2	47.8	45.47	43.51	41.04
Return on Equity (ROE)	(%)	13.9	19.8	18.2	19.3	11.5
Return on Contributed Equity (ROCE)	**(%)**	**10.1**	**7.6**	**7.6**	**n/a**	**n/a**
Closing Dexus security price	($)	12.98	9.71	9.48	9.02	7.30
NTA per security	($)	10.48	9.64	8.45	7.53	6.68

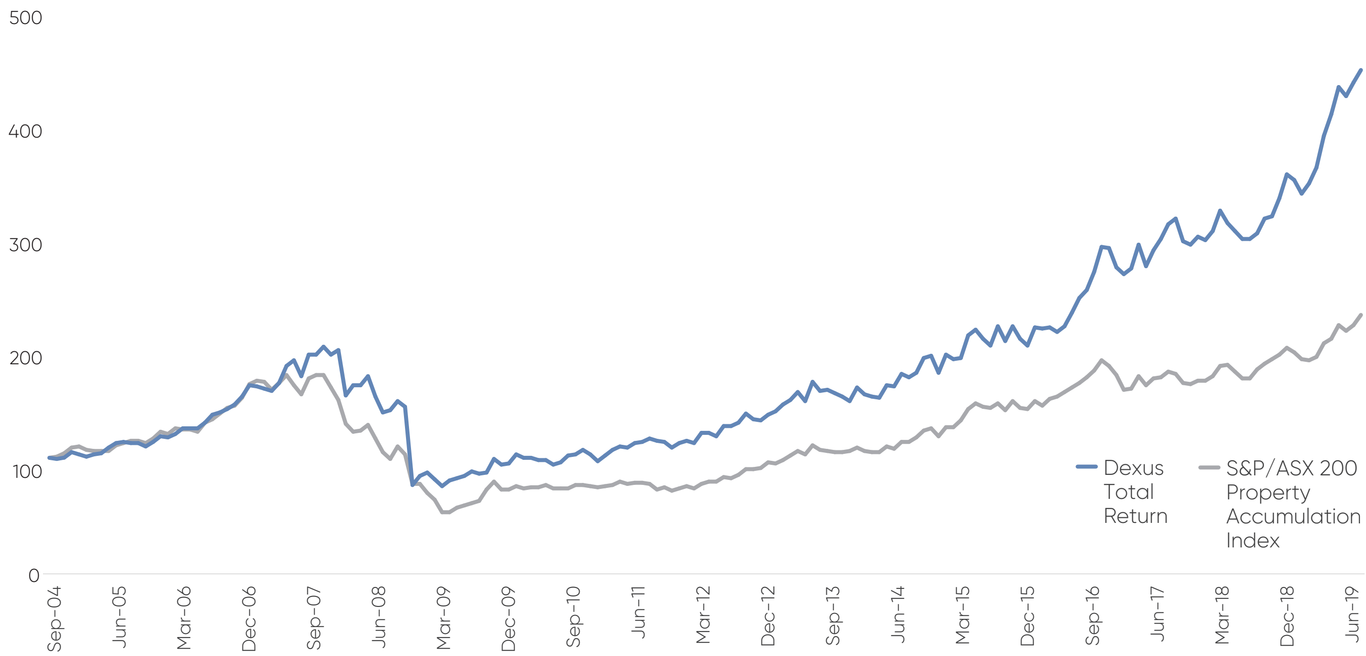
Total Security holder return (TSR)

	1 Year	3 Years*	5 Years*	10 Years*
Dexus	39.4% p.a.	18.2% p.a.	20.0% p.a.	17.4% p.a.
S&P/ASX 200 Property Accumulation Index	19.3% p.a.	8.1% p.a.	13.6% p.a.	14.0% p.a.

Source: UBS Australia as at 30 June 2019.

* Annual compound returns.

Relative TSR since listing in 2004



Source: UBS Australia to 30 June 2019.

7. Executive KMP remuneration outcomes

7.1 STI awards for FY19 performance

The STI awards made to each Executive KMP with respect to their performance during the year ended 30 June 2019 are provided below. The People and Remuneration Committee reviewed the results of the FY19 performance scorecard and recommended the STI awards for Executive KMP. The Board then approved the STI awards in the table below. The 75% cash component will be paid in August 2019 following the approval of statutory accounts and announcement of the group's annual results. This payment will form a part of the FY20 cash earnings for Executive KMP.

Executive KMP	STI target % of fixed remuneration	STI max % of fixed remuneration	STI award ($)	% of target STI awarded	% of maximum STI awarded	% of maximum STI forfeited	% of STI award deferred
Darren J Steinberg	100%	125%	$2,000,000	125%	100%	0%	25%
Ross G Du Vernet	100%	125%	$937,500	125%	100%	0%	25%
Kevin L George	100%	125%	$825,000	110%	88%	12%	25%
Alison C Harrop	100%	125%	$797,500	110%	88%	12%	25%
Deborah C Coakley	100%	125%	$750,000	125%	100%	0%	25%

7.2 Deferred STI and LTI grants

The number of Rights granted to Executive KMP is determined by dividing the Deferred STI value and LTI grant value by the VWAP of DXS securities ten trading days either side of 1 July 2019, which was $13.4759. The minimum value of the LTI grant is nil if the performance conditions are not met. The maximum value is based on the estimated fair value calculated at the time of the LTI grant and amortised in accordance with the accounting standard requirements.

The below details the number of Rights granted to Executive KMP on 1 July 2019 under the Deferred STI and LTI plans.

DXS securities relating to Deferred STI and LTI grants are purchased on-market in accordance with ASX Listing Rule 10.15B and are held by the Dexus Performance Rights Plan Trust until required.

Executive KMP	Plan name	Maximum award as a % of fixed remuneration	Performance measure	Number of security rights granted	Fair Value per security right $[1]	Maximum total value of grant $[2]	1st vesting date 50%	2nd vesting date 50%
Darren J Steinberg	Deferred STI	25%	Nil	37,103	$13.10	486,049	1 July 2020	1 July 2021
	LTI	150%	AFFO	89,047	$11.62	1,034,726	1 July 2022	1 July 2023
			ROCE	89,047	$11.16	993,765		
Ross G Du Vernet	Deferred STI	25%	Nil	17,392	$13.10	227,835	1 July 2020	1 July 2021
	LTI	75%	AFFO	20,870	$11.62	242,509	1 July 2022	1 July 2023
			ROCE	20,870	$11.16	232,909		
Kevin L George	Deferred STI	25%	Nil	15,305	$13.10	200,496	1 July 2020	1 July 2021
	LTI	75%	AFFO	20,870	$11.62	242,509	1 July 2022	1 July 2023
			ROCE	20,870	$11.16	232,909		
Alison C Harrop	Deferred STI	25%	Nil	14,794	$13.10	193,801	1 July 2020	1 July 2021
	LTI	75%	AFFO	20,870	$11.62	242,509	1 July 2022	1 July 2023
			ROCE	20,870	$11.16	232,909		
Deborah C Coakley	Deferred STI	25%	Nil	13,913	$13.10	182,260	1 July 2020	1 July 2021
	LTI	75%	AFFO	18,783	$11.62	218,258	1 July 2022	1 July 2023
			ROCE	18,783	$11.16	209,618		

1. Value for the Deferred STI reflects the valuation of $13.10. Fair value for the LTI reflects the valuation of Tranche 1 ($11.62) and Tranche 2 ($11.16). Valuations were provided by EY under the Black-Scholes Analytic model.
2. The maximum total value of the grant reflects the numbers of rights granted multiplied by the fair value per Security Right.

7.3 LTI awards which vested during FY19

AFFO per security growth and ROCE were established as the performance hurdles in 2016, simplifying the LTI plan and providing greater alignment with the business strategy and the metrics that drive long-term company performance. Prior grants had four performance hurdles including two relative measures (TSR and ROE). We compared ourselves to companies within the following indices:

- Relative TSR – S&P/ASX200 A-REIT Index
- Relative ROE – Mercer IPD Core Wholesale Property Fund Index

The second tranche of the 2014 LTI plan and the first tranche of the 2015 LTI plan vested for participating Executive KMP on 1 July 2018. The vesting outcomes of 95% and 100% respectively was determined by the Board, referencing the previously approved performance hurdles.

Results of each performance condition for the second tranche of the 2014 LTI Plan:

Performance condition	Weighting	Hurdle range	Group result	Vesting outcome
Funds from Operations growth[1]	25%	4.0% to 6.0%	5.7%	93.1%
Average Return on Equity[2]	25%	9.0% to 10.0%	19.9%	100%
Relative Total Security holder Return[3]	25%	Median to 75th percentile	6th out of 17	87.5%
Relative Return on Equity[4]	25%	Median to 75th percentile	2nd out of 16	100%
		Overall Result due to Weighting		**95%**

Results of each performance condition for the first tranche of the 2015 LTI Plan:

Performance condition	Weighting	Hurdle range	Group result	Vesting outcome
Funds from Operations growth[5]	25%	3.0% to 5.0%	5.8%	100%
Average Return on Equity[6]	25%	9.0% to 10.0%	19.1%	100%
Relative Total Security holder Return[7]	25%	Median to 75th percentile	5th out of 17	100%
Relative Return on Equity[8]	25%	Median to 75th percentile	2nd out of 16	100%
		Overall Result due to Weighting		**100%**

1. Funds from Operations (FFO) growth hurdle was measured on a linear scale for testing, with a 4.0% Compound Annual Growth Rate (CAGR) set as the Target (where 50% would vest) and 6.0% set as the Outperformance hurdle (where 100% would vest). Dexus's FFO growth result over the four-year performance period was 5.7% resulting in partial vesting from this performance condition.
2. Average Return on Equity (ROE) hurdle was measured on a linear scale for testing, with a 9.0% simple ROE average set as the target (where 50% would vest) and 10.0% set as the Outperformance hurdle (where 100% would vest). Dexus's average ROE result was 19.9% over the four-year performance period, resulting in full vesting from this performance condition.
3. Relative Total Security Holder Return (TSR) was measured with reference to the TSR percentile rank of DXS against a comparator group of the S&P/ASX 200 A-REIT Index. A median rank was set as the Target (where 50% would vest) and a 75th percentile or better rank was set as the Outperformance hurdle (where 100% would vest). Dexus's relative TSR rank of 6th out of 17 listed A-REIT peers over the four-year performance period, resulted in full vesting from this performance condition.
4. Relative ROE was measured with reference to the average ROE result achieved by DXS against a comparator group comprising the members of the Mercer IPD Core Wholesale Property Fund Index. A median rank was set as the Target (where 50% would vest) and a 75th percentile or better rank was set as the Outperformance hurdle (where 100% would vest). Dexus's relative ROE rank of 2nd out of 16 unlisted property peers over the four-year performance period, resulting in full vesting from this performance condition.
5. FFO growth hurdle was measured on a linear scale for testing, with a 3.0% CAGR set as the Target (where 50% would vest) and 5.0% set as the Outperformance hurdle (where 100% would vest). Dexus's FFO growth result over the three-year performance period was 5.8% resulting in full vesting from this performance condition.
6. Average ROE hurdle was measured on a linear scale for testing, with a 9.0% simple ROE average set as the Target (where 50% would vest) and 10.0% set as the Outperformance hurdle (where 100% would vest). Dexus's average ROE result was 19.1% over the three-year performance period, resulting in full vesting from this performance condition.
7. Relative TSR was measured with reference to the TSR percentile rank of DXS against a comparator group comprising members of the S&P/ASX 200 A-REIT Index. A median rank was set as the target (where 50% would vest) and a 75th percentile or better rank was set as the Outperformance hurdle (where 100% would vest). Dexus's relative TSR rank of 5th out of 17 listed A-REIT peers over the three-year performance period, resulting in full vesting from this performance condition.
8. Relative ROE was measured with reference to the average ROE result achieved by DXS against a comparator group comprising the members of the Mercer IPD Core Wholesale Property Fund Index. A median rank was set as the Target (where 50% would vest) and a 75th percentile or better rank was set as the Outperformance hurdle (where 100% would vest), Dexus's relative ROE rank of 2nd out of 16 unlisted property peers over the three-year performance period, resulting in full vesting from this performance condition.

7.4 Actual remuneration based on performance and service through FY19

The actual remuneration awarded during the year comprises the following elements:

- Cash salary including any salary sacrifice arrangements
- Superannuation benefits
- Other short-term benefits comprised of the wellbeing allowance and insurance arrangements provided to all employees
- STI cash payment to be made in August 2019 in recognition of performance during FY19 (noting that 25% of the award is deferred and will be reported in future years)
- Deferred STI vested: the value of the deferred STI from prior years that vested on 1 July 2019 (being the number of rights that vested multiplied by the VWAP for the five days prior to the vesting date)
- LTI vested: the value of performance rights that vested on 1 July 2019 (being the number of performance rights that vested multiplied by the VWAP for the five days prior to the vesting date)

These values differ from the executive statutory remuneration table which has been prepared in accordance with statutory requirements and accounting standards. The actual LTI awards reflect the significant increase in security price (+81% for the 2015 LTI grant, and +46% for the 2016 grant), demonstrating the alignment between Security holder value and rewards.

Executive	Cash salary ($)	Super-annuation benefits ($)	Other short-term benefits ($)	STI cash payment ($)	Deferred STI vested ($)	LTI vested ($)	Total ($)
Darren J Steinberg	1,579,468	20,532	5,075	1,500,000	648,685	2,678,945	6,432,705
Ross G Du Vernet	729,468	20,532	2,181	703,125	271,179	513,105	2,239,590
Kevin L George	729,468	20,532	4,440	618,750	265,024	571,508	2,209,722
Alison C Harrop	704,468	20,532	5,411	598,125	245,878	391,330	1,965,744
Deborah C Coakley	579,468	20,532	2,301	562,500	212,389	359,932	1,737,123

7.5 Statutory remuneration

The total remuneration paid to Executive KMP for FY19 and FY18 is calculated in accordance with the AASB 124 Related Party Disclosures. Amounts shown under Long-term benefits reflect the accounting expense recorded during the year with respect to prior year deferred remuneration and awards that have or are yet to vest.

		Short-term benefits				Long-term benefits			Security-based benefits		
Executive KMP	Year	Cash salary ($)	STI cash award ($)	Annual Leave movement[1]	Other short-term benefits ($)	Super benefits ($)	Term-ination benefits ($)	Long Service Leave movement[1]	Deferred STI plan accrual ($)	LTI plan accrual ($)	**Total ($)**
Darren J Steinberg	FY19	1,579,468	1,500,000	-18,224	5,075	20,532	–	35,113	522,092	2,472,707	6,146,763
	FY18	1,579,951	1,380,000	-32,569	4,689	20,049	–	31,995	428,351	1,502,853	4,915,319
Ross G Du Vernet	FY19	729,468	703,125	6,991	2,181	20,532	–	19,035	241,128	538,160	2,260,620
	FY18	679,951	577,500	-4,275	2,042	20,049	–	13,771	176,723	316,129	1,781,890
Kevin L George	FY19	729,468	618,750	11,222	4,440	20,532	–	16,344	224,948	553,614	2,179,319
	FY18	679,951	551,250	-19,949	4,054	20,049	–	34,318	173,247	333,083	1,776,003
Alison C Harrop	FY19	704,468	598,125	13,547	5,411	20,532	–	–	214,195	491,636	2,047,915
	FY18	654,951	531,563	-21,661	5,340	20,049	–	–	155,775	260,401	1,606,418
Deborah C Coakley	FY19	579,468	562,500	17,799	2,301	20,532	–	11,722	190,497	438,630	1,823,449
	FY18	554,951	452,813	–	2,236	20,049	–	25,702	138,291	240,356	1,434,398
Total	**FY19**	**4,322,340**	**3,982,500**	**31,334**	**19,408**	**102,660**	**–**	**82,214**	**1,422,861**	**4,494,747**	**14,458,065**
	FY18	**4,149,755**	**3,493,125**	**-78,454**	**18,362**	**100,244**	**–**	**105,786**	**1,072,387**	**2,652,823**	**11,514,028**

1. The accounting value of leave movements may be negative; for example, where an Executive's annual leave balance decreases as a result of taking more than the 20 days' annual leave they accrue during the current year. Long service leave accrues from five years of service and the movement may be high in the first year of accrual.

7.6 Changes for FY20

There are no changes to the remuneration structure or opportunity levels for the CEO in FY20. There are no changes to the STI and LTI plans, and levels, for Executive KMP. We review market and peer benchmarking information each year to keep fixed and total remuneration levels competitive. As a result of the benchmarking the following increases for Executive KMP will be implemented in FY20:

- Alison Harrop, CFO; from $725,000 to $750,000
- Deborah Coakley, EGM Funds Management; from $600,000 to $675,000

8. Terms of Executive KMP service agreements

KMP service agreements detail the individual terms and conditions of employment applying to Executive KMP. The quantum and structure of remuneration arrangements are detailed elsewhere in this report, with the termination scenarios and other key employment terms detailed below:

	CEO	Other Executive KMP
Employment agreement	An ongoing Executive Service Agreement	An ongoing Executive Service Agreement or individual contract
Resignation by the Executive	Resignation by Mr Steinberg requires a six-month notice period. The group may choose to place Mr Steinberg on leave or make a payment in lieu of notice at the Board's discretion. All unvested STI and LTI awards are forfeited.	Resignation by other Executive KMP requires a three-month notice period. The group may choose to place the Executive on leave or make a payment in lieu of notice at the Board's discretion. All unvested STI and LTI awards are forfeited.
	In the case of resignation, through mutual agreement, e.g. retirement, the Board has the ability to treat the Executive KMP as a 'good leaver', which may result in the Executive KMP retaining same or all of the unvested deferred STI or LTI.	
Termination by the group without cause	If the group terminates the Executive without cause, the Executive is entitled to a combined maximum notice and severance payment of 12 months fixed remuneration. The Board may (in its absolute discretion) also approve a pro-rata STI payment. Depending on the circumstances, the Board has the ability to treat the Executive as a 'good leaver', which may result in the Executive retaining some or all of the unvested Deferred STI or LTI.	
Termination by the group with cause	No notice or severance is payable.	
Other contractual provisions and restrictions	All KMP service agreements include standard clauses covering intellectual property, confidentiality, moral rights and disclosure obligations.	

9. Non-Executive Directors' (NED) remuneration

NED fees are reviewed annually by the Committee using information from a variety of sources, including:

- Publicly available remuneration data from ASX listed companies with similar market capitalisation and complexity
- Publicly available remuneration data from ASX 100 A-REITs
- Information supplied by external remuneration advisors, including EY

Other than the Chair who receives a single base fee, NEDs receive a base fee plus additional fees for membership of Board Committees. NEDs do not participate in incentive plans or receive any retirement benefits other than statutory superannuation contributions.

9.1 Fee structure

The Board fee structure (inclusive of statutory superannuation contributions) for FY18 and FY19 is provided below.

Committee	Year	Chair ($)	Member ($)
Directors base fee (DXFM)	FY19	400,000[1]	170,000
	FY18	400,000[1]	170,000
Board Risk Committee	FY19	30,000	15,000
	FY18	30,000	15,000
Board Audit Committee	FY19	30,000	15,000
	FY18	30,000	15,000
Board Nomination Committee	FY19	15,000	7,500
	FY18	15,000	7,500
Board People & Remunerations Committee	FY19	30,000	15,000
	FY18	30,000	15,000
DWPL Board	FY19	n/a	30,000
	FY18	n/a	30,000

1. The Board Chair receives a single fee for service, including service on Board Committees.

Total fees paid to NEDs for the year ended 30 June 2019 remained within the aggregate fee pool of $2,500,000 per annum which was approved by Security holders at the AGM in October 2017.

9.2 Security holding requirement

In FY19 NEDs were expected to hold a minimum of 16,500 DXS securities. Commencing in FY20, NEDs will be expected to hold the equivalent of 100% of their base fees in DXS Securities, to be acquired over 5 years from appointment date. To further facilitate NEDs' ability to acquire Dexus equity, we will introduce a fee sacrifice program in FY20.

Securities held by NEDs are subject to the group's security and insider trading policies. No additional remuneration is provided to NEDs to purchase these securities.

The relevant interests of each NED in DXS securities are shown in section 9.5.

9.3 Security movements

Non-Executive Director KMP	Number of securities held at 1 July 2018 ($)	Movement ($)	Number of securities held at 30 June 2019 ($)	FY19 Requirements for Minimum number of securities ($)
W Richard Sheppard	70,090	1,239	71,329	16,500
Penny Bingham-Hall	16,534	1,239	17,773	16,500
John C Conde AO	16,667	1,239	17,906	16,500
Tonianne Dwyer	16,667	Nil	16,667	16,500
Mark H Ford[1]	1,667	Nil	1,667	16,500
Nicola Roxon[2]	–	Nil	–	16,500
Peter St George	17,334	1,239	18,573	16,500

1. Mark H Ford was appointed in 2017 and has additional time to reach the requirement.
2. Nicola Roxon was appointed in 2018 and has additional time to reach the requirement.

9.4 Actual remuneration

This summary of the actual cash and benefits received by each Non-Executive Director for the year ended 30 June 2019 is prepared in accordance with AASB 124 Related Party Disclosures.

Non-Executive Director KMP	Year	Short-term benefits[1] ($)	Post employment benefits (super-annuation) ($)	Other long-term benefits	Total ($)
W Richard Sheppard	FY19	379,468	20,532	–	400,000
	FY18	379,951	20,049	–	400,000
Elizabeth A Alexander AM[2]	FY19	–	–	–	–
	FY18	173,516	16,484	–	190,000
Penny Bingham-Hall	FY19	204,531	19,304	–	223,835
	FY18	198,396	18,653	–	217,049
John C Conde AO	FY19	203,196	19,304	–	222,500
	FY18	194,635	18,490	–	213,125
Tonianne Dwyer	FY19	226,182	20,532	–	246,714
	FY18	221,097	20,227	–	241,324
Mark H Ford	FY19	184,287	17,352	–	201,639
	FY18	184,610	17,352	–	201,962
Nicola Roxon	FY19	183,513	17,352	–	200,865
	FY18	143,706	13,592	–	157,298
Peter St George	FY19	196,347	18,653	–	215,000
	FY18	196,347	18,653	–	215,000
Total	FY19	1,577,524	133,029	–	1,710,553
	FY18	1,692,258	143,500	–	1,835,758

1. Includes Director fees and insurance contributions.
2. In FY18, Elizabeth A Alexander AM ceased being a NED for Dexus Group but continues to be independent Chair of DWPF.

9.5 Changes for FY20

For FY20 increases will be made to the Board Chair fees, member base fees and committee fees. These increases bring Dexus closer to the market median based on A-REIT and relevant ASX-listed comparator companies. In particular, the Chair fee was shown to be well below market median. NED base fees were last increased in 2016. NED Committee fees were last increased in 2013. The NED fee pool remains unchanged.

The following increase of fees for Non-Executive Directors based on Board and Committee role effective 1 July 2019:

- Board Chair fees increase from $400,000 to $450,000
- NED base fees increase from $170,000 to $175,000
- Committee Chair fees increase from $30,000 to $35,000
- DWPL Board fees increase from $30,000 to $35,000
- Committee Member fees increase from $15,000 to $17,500 (except the Nomination Committee which did not increase).

10. Additional disclosures

10.1 Performance of LTI awards vesting in FY20 after the reporting period

On 1 July 2019, the second tranche of the 2015 LTI plan and the first tranche in the 2016 LTI plan vested for participating Executive KMP.

The vesting outcome was determined by the Board, referencing the previously approved performance hurdles set and communicated to participants upon the original Grant Dates of 1 July 2015 and 1 July 2016 respectively.

Results of each performance condition within tranche 2 of the 2015 LTI plan:

Performance condition	Weighting	Hurdle range	Group result	Vesting outcome
Funds from Operations growth	25%	3.0% to 5.0%	5.7%	100%
Average Return on Equity	25%	9.0% to 10.0%	17.1%	100%
Relative Total Security Holder Return	25%	Median to 75th percentile	3rd of 16	100%
Relative Return on Equity	25%	Median to 75th percentile	2nd of 16	100%
		Overall Result due to Weighting	**100%**	

Results of each performance condition within tranche 1 of the 2016 LTI plan:

Performance condition	Weighting	Hurdle range	Group result	Vesting outcome
Adjusted Funds from Operations per security growth	50%	3.5% to 4.5%	5.6%	100%
Average Return on Contributed Equity	50%	7.5% to 8.0%	8.5%	100%
		Overall Result due to Weighting	**100%**	

Further details and quantification in dollars of these vesting tranches will be provided in the FY20 Remuneration Report.

10.2 Deferred STI and LTI awards which vested during FY19

The summary below outlines the number of Rights which vested under the Deferred STI and LTI plans during FY19. The vesting date for all Rights was 1 July 2018. No rights lapsed during FY19.

Executive KMP	Plan name	Grant date	Tranche	Number of rights which vested	Market value at vesting[1] ($)
Darren J Steinberg	Deferred STI	1/07/2016	2	21,342	285,649
		1/07/2017	1	23,656	316,619
	LTI	1/07/2014	2	97,957	1,311,084
		1/07/2015	1	101,689	1,361,043
Ross G Du Vernet	Deferred STI	1/07/2016	2	8,087	108,238
		1/07/2017	1	9,879	132,220
	LTI	1/07/2014	2	17,492	234,122
		1/07/2015	1	18,643	249,525
Kevin L George	Deferred STI	1/07/2016	2	8,148	109,051
		1/07/2017	1	9,879	132,220
	LTI	1/07/2014	2	21,865	292,653
		1/07/2015	1	21,694	290,356
Alison C Harrop[2]	Deferred STI	1/07/2016	2	5,721	76,574
		1/07/2017	1	8,820	118,056
	LTI	1/07/2015	1	11,186	149,715
Deborah Coakley	Deferred STI	1/07/2016	2	6,290	84,185
		1/07/2017	1	7,728	103,436
	LTI	1/07/2014	2	8,396	112,379
		1/07/2015	1	9,660	129,299

1. Market value at vesting is the VWAP of DXS securities for the five-day period before the vesting date.
2. Alison Harrop was not employed at the time of the 2014 LTI grant.

10.3 KMP unvested security rights outstanding

The table below shows the number of unvested Rights held by Executive KMP as at 30 June 2019 under the Deferred STI and LTI plans. The STI and LTI awards in respect of which the elements below are deferred elements were disclosed in prior year remuneration reports.

Executive KMP	Plan name	Grant date	Vesting date	Tranche	Number of rights which vested
Darren J Steinberg	Deferred STI	1/07/2017	1/07/2019	2	22,556
		1/07/2018	1/07/2019	1	23,285
		1/07/2018	1/07/2020	2	23,285
	LTI	1/07/2015	1/07/2019	2	101,689
		1/07/2016	1/07/2019	1	98,466
		1/07/2016	1/07/2020	2	98,466
		1/07/2017	1/07/2020	1	98,426
		1/07/2017	1/07/2021	2	98,426
		1/07/2018	1/07/2021	1	121,487
		1/07/2018	1/07/2022	2	121,487
Ross G Du Vernet	Deferred STI	1/07/2017	1/07/2019	2	9,420
		1/07/2018	1/07/2019	1	9,744
		1/07/2018	1/07/2020	2	9,744
	LTI	1/07/2015	1/07/2019	2	18,643
		1/07/2016	1/07/2019	1	19,693
		1/07/2016	1/07/2020	2	19,693
		1/07/2017	1/07/2020	1	21,531
		1/07/2017	1/07/2021	2	21,531
		1/07/2018	1/07/2021	1	28,474
		1/07/2018	1/07/2022	2	28,474
Kevin L George	Deferred STI	1/07/2017	1/07/2019	2	9,420
		1/07/2018	1/07/2019	1	9,301
		1/07/2018	1/07/2020	2	9,301
	LTI	1/07/2015	1/07/2019	2	21,694
		1/07/2016	1/07/2019	1	21,006
		1/07/2016	1/07/2020	2	21,006
		1/07/2017	1/07/2020	1	21,531
		1/07/2017	1/07/2021	2	21,531
		1/07/2018	1/07/2021	1	28,474
		1/07/2018	1/07/2022	2	28,474
Alison C Harrop	Deferred STI	1/07/2017	1/07/2019	2	8,410
		1/07/2018	1/07/2019	1	8,969
		1/07/2018	1/07/2020	2	8,969
	LTI	1/07/2015	1/07/2019	2	11,186
		1/07/2016	1/07/2019	1	18,052
		1/07/2016	1/07/2020	2	18,052
		1/07/2017	1/07/2020	1	19,224
		1/07/2017	1/07/2021	2	19,224
		1/07/2018	1/07/2021	1	27,524
		1/07/2018	1/07/2022	2	27,524

Executive KMP	Plan name	Grant date	Vesting date	Tranche	Number of rights which vested
Deborah Coakley	Deferred STI	1/07/2017	1/07/2019	2	7,369
		1/07/2018	1/07/2019	1	7,640
		1/07/2018	1/07/2020	2	7,640
	LTI	1/07/2015	1/07/2019	2	9,660
		1/07/2016	1/07/2019	1	17,232
		1/07/2016	1/07/2020	2	17,232
		1/07/2017	1/07/2020	1	17,686
		1/07/2017	1/07/2021	2	17,686
		1/07/2018	1/07/2021	1	22,779
		1/07/2018	1/07/2022	2	22,779

10.4 Equity Investments

	Held at 1 July 2018			Net Change			Held as at 30 June 2019			Market value as at 30 June 2019[2] $	Minimum security holding guideline[3] $
	Securities	Deferred STI	**Total Balance[1]**	Securities	Deferred STI	**Total Balance[1]**	Securities	Deferred STI	**Total Balance[1]**		
Darren J Steinberg	454,836	64,600	**519,436**	45,164	4,526	**49,690**	500,000	69,126	**569,126**	7,617,363	2,400,000
Ross G Du Vernet	101,266	26,224	**127,490**	1,239	2,684	**3,923**	102,505	28,908	**131,413**	1,758,873	562,500
Kevin L George	63,113	26,279	**89,392**	0	1,743	**1,743**	63,113	28,022	**91,135**	1,219,780	562,500
Alison C Harrop	0	22,045	**22,045**	5,836	4,303	**10,139**	5,836	26,348	**32,184**	430,761	543,750
Deborah C Coakley	0	20,482	**20,482**	23,627	2,167	**25,794**	23,627	22,649	**46,276**	619,373	450,000

1. The following securities are included in the balance for the purpose of the guideline (1) Any DXS securities that the Executive or their related person or entity hold (e.g. Family Trust), (2) Securities that the Executive acquires on vesting of awards granted under Dexus's equity incentive plans; and (3) Unvested equity granted that the Executive holds under Dexus's equity incentive plans which are not subject to performance hurdles (e.g. deferred short-term incentives).
2. Market value as at 30 June 2019 is the VWAP of DXS securities for the five-day period up to and including 30 June 2019 ($13.38).
3. A minimum security holding guideline was introduced on 1 July 2018, with all Executive KMP targeting to attain the minimum security holding by 1 July 2023. The value is calculated by reference to the 12-month average fixed remuneration for the relevant financial year. For existing Executive KMP as at 1 July 2018, the guide is based on fixed remuneration as at 1 July 2018.

10.5 Other Transactions

There were no transactions involving an equity instrument (other than share based payment compensation) to KMP or related parties.

10.6 Loans

No loans were provided to KMP or related parties.

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 year ended 30 June 2019. 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 and Secretaries

Directors

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

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

Company Secretaries

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

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

Appointed: 31 October 2014

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

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

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

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

Appointed: 5 February 2019

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

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

Attendance of Directors at Board Meetings and Board Committee Meetings

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

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

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

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

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

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

Directors' relevant interests

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

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

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

Directors' Report
continued

Operating and financial review

Information on the operations and financial position of the Group and its business strategies and prospects is set out in on pages 28-37 of the Annual Report and forms part of this Directors' Report.

Remuneration Report

The Remuneration Report is set out on pages 68-89 of the Annual Report and forms part of this Directors' Report.

Directors' directorships in other listed entities

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

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

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

Principal activities

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

Total value of Trust assets

The total value of the assets of the Group as at 30 June 2019 was $16,521.3 million (2018: $14,017.3 million). Details of the basis of this valuation are outlined in the Notes to the Financial Statements and form part of this Directors' Report.

Likely developments and expected results of operations

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

Significant changes in the state of affairs

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

Matters subsequent to the end of the financial year

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

Distributions

Distributions paid or payable by the Group for the year ended 30 June 2019 were 50.2 cents per security (2018: 47.8 cents per security) as outlined in note 7 of the Notes to the Financial Statements.

DXFM fees

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

Interests in DXS securities

The movement in securities on issue in the Group during the year and the number of securities on issue as at 30 June 2019 are detailed in note 15 of the Notes to the Financial Statements and form part of this Directors' Report.

Details of the number of interests in the Group held by DXFM or its associates as at the end of the financial year are outlined in note 22 of the Notes to the Financial Statements and form part of this Directors' Report.

The DXFM Board has approved a grant of performance rights of DXS stapled securities to eligible participants. Details of the performance rights awarded during the financial year are detailed in note 21. The Group did not have any options on issue as at 30 June 2019 (2018: nil).

Environmental regulation

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

Indemnification and insurance

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

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

Audit

Auditor

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

Non-audit services

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

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

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

The reasons for the Directors being satisfied are:

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

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

Auditor's Independence Declaration

A copy of the Auditor's Independence Declaration as required under section 307C of the *Corporations Act 2001* is set out on page 94 and forms part of this Directors' Report.

Corporate governance

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

Rounding of amounts and currency

As the 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. The Group is an entity to which the Instrument applies. All figures in this Directors' Report and the Financial Statements, except where otherwise stated, are expressed in Australian dollars.

Directors' authorisation

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

W Richard Sheppard
Chair
13 August 2019

Darren J Steinberg
Chief Executive Officer
13 August 2019

Auditor's Independence Declaration

Auditor's Independence Declaration

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

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

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

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

Matthew Lunn
Partner
PricewaterhouseCoopers

Sydney
13 August 2019

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

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

Financial Report

30 June 2019

Contents

Consolidated Statement of Comprehensive Income
For the year ended 30 June 2019

	Note	2019 $m	2018 $m
Revenue from ordinary activities			
Property revenue	2	**547.4**	577.2
Development revenue	10	**96.9**	133.1
Interest revenue		**1.0**	0.7
Management fees and other revenue		**149.8**	129.6
Total revenue from ordinary activities		**795.1**	840.6
Net fair value gain of investment properties		**455.4**	854.2
Share of net profit of investments accounted for using the equity method	9	**535.6**	535.8
Net gain on sale of investment properties		**0.4**	1.7
Net fair value gain of foreign currency interest bearing liabilities		**–**	85.8
Net fair value gain of derivatives		**146.1**	–
Other income		**0.1**	0.5
Total income		**1,932.7**	2,318.6
Expenses			
Property expenses	2	**(157.6)**	(155.9)
Development costs	10	**(47.4)**	(80.8)
Finance costs	4	**(151.9)**	(128.5)
Impairment of inventories		**–**	(0.6)
Net fair value loss of derivatives		**–**	(79.9)
Net loss on sale of investment properties		**–**	(0.3)
Net fair value loss of foreign currency interest bearing liabilities		**(127.8)**	–
Transaction costs		**(3.1)**	(1.1)
Management operations, corporate and administration expenses	3	**(121.1)**	(106.3)
Total expenses		**(608.9)**	(553.4)
Profit/(loss) before tax		**1,323.8**	1,765.2
Income tax expense	5(a)	**(42.8)**	(36.3)
Profit/(loss) for the year		**1,281.0**	1,728.9
Other comprehensive income/(loss):			
Items that may be reclassified to profit or loss			
Changes in the fair value of cash flow hedges	16	**0.4**	(19.4)
Changes in the foreign currency basis spread reserve	16	**(4.6)**	–
Total comprehensive income/(loss) for the year		**1,276.8**	1,709.5
Profit/(loss) for the year attributable to:			
Unitholders of the parent entity		**315.7**	468.8
Unitholders of other stapled entities (non-controlling interests)		**965.3**	1,260.1
Profit/(loss) for the year		**1,281.0**	1,728.9
Total comprehensive income/(loss) for the year attributable to:			
Unitholders of the parent entity		**311.5**	449.4
Unitholders of other stapled entities (non-controlling interests)		**965.3**	1,260.1
Total comprehensive income/(loss) for the year		**1,276.8**	1,709.5
		Cents	Cents
Earnings per unit on profit/(loss) attributable to unitholders of the Trust (parent entity)			
Basic earnings per unit	6	**30.69**	46.08
Diluted earnings per unit	6	**30.45**	46.08
Earnings per stapled security on profit/(loss) attributable to stapled security holders			
Basic earnings per security	6	**124.54**	169.95
Diluted earnings per security	6	**122.36**	169.95

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

Consolidated Statement of Financial Position
As at 30 June 2019

	Note	2019 $m	2018 $m
Current assets			
Cash and cash equivalents	17(a)	**29.8**	33.3
Receivables	17(b)	**147.5**	63.4
Non-current assets classified as held for sale	11	**–**	2.0
Inventories	10	**170.4**	37.6
Derivative financial instruments	12(c)	**15.5**	24.1
Other	17(c)	**17.1**	27.8
Total current assets		**380.3**	188.2
Non-current assets			
Investment properties	8	**8,170.0**	8,242.6
Plant and equipment		**15.0**	16.0
Inventories	10	**287.3**	507.1
Investments accounted for using the equity method	9	**6,823.7**	4,432.9
Derivative financial instruments	12(c)	**517.1**	310.8
Intangible assets	18	**322.1**	314.6
Other financial assets at fair value through profit or loss		**3.9**	2.8
Other		**1.9**	2.3
Total non-current assets		**16,141.0**	13,829.1
Total assets		**16,521.3**	14,017.3
Current liabilities			
Payables	17(d)	**188.8**	149.7
Interest bearing liabilities	13	**70.0**	205.1
Derivative financial instruments	12(c)	**17.9**	6.7
Current tax liabilities		**21.5**	5.2
Provisions	17(e)	**284.2**	271.7
Total current liabilities		**582.4**	638.4
Non-current liabilities			
Interest bearing liabilities	13	**3,996.6**	3,154.5
Derivative financial instruments	12(c)	**105.6**	78.6
Deferred tax liabilities	5(d)	**89.4**	93.7
Provisions		**1.9**	2.0
Other		**2.1**	2.7
Total non-current liabilities		**4,195.6**	3,331.5
Total liabilities		**4,778.0**	3,969.9
Net assets		**11,743.3**	10,047.4
Equity			
Equity attributable to unitholders of the Trust (parent entity)			
Contributed equity	15	**2,399.0**	2,127.3
Reserves	16	**13.2**	(12.5)
Retained profits		**923.4**	788.5
Parent entity unitholders' interest		**3,335.6**	2,903.3
Equity attributable to unitholders of other stapled entities			
Contributed equity	15	**4,954.5**	4,277.0
Reserves	16	**40.5**	39.7
Retained profits		**3,412.7**	2,827.4
Other stapled unitholders' interest		**8,407.7**	7,144.1
Total equity		**11,743.3**	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 year ended 30 June 2019

		Attributable to unitholders of the Trust (parent entity)				Attributable to unitholders of other stapled entities				
	Note	Contri-buted equity $m	Reserves $m	Retained profits $m	Total $m	Contri-buted equity $m	Reserves $m	Retained profits $m	Total $m	Total equity $m
Opening balance as at 1 July 2017		2,126.7	6.9	427.2	2,560.8	4,275.7	41.8	1,946.2	6,263.7	8,824.5
Net profit/(loss) for the year		–	–	468.8	468.8	–	–	1,260.1	1,260.1	1,728.9
Other comprehensive income/(loss) for the year		–	(19.4)	–	(19.4)	–	–	–	–	(19.4)
Total comprehensive income for the year		–	(19.4)	468.8	449.4	–	–	1,260.1	1,260.1	1,709.5
Transactions with owners in their capacity as owners										
Issue of additional equity, net of transaction costs	15	1.1	–	–	1.1	2.7	–	–	2.7	3.8
Buy-back of contributed equity, net of transaction cost	15	(0.5)	–	–	(0.5)	(1.4)	–	–	(1.4)	(1.9)
Purchase of securities, net of transaction costs		–	–	–	–	–	(7.1)	–	(7.1)	(7.1)
Security-based payments expense		–	–	–	–	–	5.0	–	5.0	5.0
Distributions paid or provided for	7	–	–	(107.5)	(107.5)	–	–	(378.9)	(378.9)	(486.4)
Total transactions with owners in their capacity as owners		0.6	–	(107.5)	(106.9)	1.3	(2.1)	(378.9)	(379.7)	(486.6)
Closing balance as per 30 June 2018		2,127.3	(12.5)	788.5	2,903.3	4,277.0	39.7	2,827.4	7,144.1	10,047.4
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		**–**	**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 year		**–**	**–**	**315.7**	**315.7**	**–**	**–**	**965.3**	**965.3**	**1,281.0**
Other comprehensive income/(loss) for the year		**–**	**(4.2)**	**–**	**(4.2)**	**–**	**–**	**–**	**–**	**(4.2)**
Total comprehensive income for the year		**–**	**(4.2)**	**315.7**	**311.5**	**–**	**–**	**965.3**	**965.3**	**1,276.8**
Transactions with owners in their capacity as owners										
Issue of additional equity, net of transaction costs	15	**271.7**	**–**	**–**	**271.7**	**677.5**	**–**	**–**	**677.5**	**949.2**
Purchase of securities, net of transaction costs		**–**	**–**	**–**	**–**	**–**	**(7.6)**	**–**	**(7.6)**	**(7.6)**
Security-based payments expense		**–**	**–**	**–**	**–**	**–**	**8.4**	**–**	**8.4**	**8.4**
Distributions paid or provided for	7	**–**	**–**	**(149.4)**	**(149.4)**	**–**	**–**	**(379.6)**	**(379.6)**	**(529.0)**
Total transactions with owners in their capacity as owners		**271.7**	**–**	**(149.4)**	**122.3**	**677.5**	**0.8**	**(379.6)**	**298.7**	**421.0**
Closing balance as at 30 June 2019		**2,399.0**	**13.2**	**923.4**	**3,335.6**	**4,954.5**	**40.5**	**3,412.7**	**8,407.7**	**11,743.3**

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

Consolidated Statement of Cash Flows
For the year ended 30 June 2019

	Note	2019 $m	2018 $m
Cash flows from operating activities			
Receipts in the course of operations (inclusive of GST)		**713.5**	809.0
Payments in the course of operations (inclusive of GST)		**(290.2)**	(351.7)
Interest received		**1.0**	0.7
Finance costs paid to financial institutions		**(149.1)**	(137.5)
Distributions received from investments accounted for using the equity method		**214.8**	323.6
Income and withholding taxes paid		**(30.8)**	(44.0)
Proceeds from sale of property classified as inventory		**88.3**	147.9
Payments for property classified as inventory and development services		**(54.4)**	(138.3)
Net cash inflow/(outflow) from operating activities	20	**493.1**	609.7
Cash flows from investing activities			
Proceeds from sale of investment properties		**625.8**	347.3
Proceeds from sale of investments accounted for using the equity method		**–**	30.2
Payments for capital expenditure on investment properties		**(261.2)**	(192.8)
Proceeds from sale of underlying investments		**27.4**	–
Payments for investments accounted for using the equity method		**(1,447.4)**	(429.3)
Payments for acquisition of investment properties		**(359.1)**	(369.3)
Payments for plant and equipment		**(0.8)**	(3.1)
Payments for intangibles		**(6.0)**	(11.0)
Net cash inflow/(outflow) from investing activities		**(1,421.3)**	(628.0)
Cash flows from financing activities			
Proceeds from borrowings		**4,914.0**	2,599.0
Repayment of borrowings		**(4,407.3)**	(1,931.6)
Repayment of loan with related party		**–**	(149.0)
Payments for buy-back of contributed equity		**–**	(1.9)
Proceeds from issue of additional equity, net of transaction costs		**949.2**	3.8
Purchase of securities for security-based payments plans		**(9.2)**	(7.1)
Distributions paid to security holders		**(522.0)**	(482.8)
Net cash inflow/(outflow) from financing activities		**924.7**	30.4
Net increase/(decrease) in cash and cash equivalents		**(3.5)**	12.1
Cash and cash equivalents at the beginning of the year		**33.3**	21.2
Cash and cash equivalents at the end of the year		**29.8**	33.3

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

Notes to the Financial Statements

In this section

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

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

About this report

Basis of preparation

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

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

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

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

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

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

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

Working capital deficiency

The Group has unutilised facilities of $921.0 million (2018: $886.6 million) (refer to note 13) and sufficient working capital and cash flows in order to fund all requirements arising from the net current asset deficiency as at 30 June 2019 of $202.1 million (2018: $450.2 million). The deficiency is largely driven by the provision for distribution due to be paid in August 2019 and pending expiry of medium term notes.

Critical accounting estimates

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

Note 8	Investment properties	Page 114
Note 10	Inventories	Page 120
Note 12	Capital and Financial Risk Management	Page 122
Note 18	Intangible assets	Page 138
Note 21	Security-based payment	Page 141

Principles of consolidation

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

a) Controlled entities

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

b) Joint arrangements

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

Joint operations

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

Joint ventures

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

c) Employee share trust

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

Foreign currency

The Financial Statements are presented in Australian dollars.

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

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

Goods and services tax

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

New accounting standards and interpretations

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

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

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

The transition impact on 1 July 2019 has been assessed to be an increase in assets and liabilities of approximately $20 - $30 million. As the Group has adopted the modified retrospective approach, comparatives will not be restated and the cumulative effect will be recognised on initial application.

The Group will apply the standard from 1 July 2019.

Notes to the Financial Statements
continued

The notes include information which is required to understand the Financial Statements and is material and relevant to the operations, financial position and performance of the Group.

The notes are organised into the following sections:

Group performance

1. Operating segments
2. Property revenue and expenses
3. Management operations, corporate and administration expenses
4. Finance costs
5. Taxation
6. Earnings per unit
7. Distributions paid and payable

Property portfolio assets

8. Investment properties
9. Investments accounted for using the equity method
10. Inventories
11. Non-current assets classified as held for sale

Capital and financial risk management and working capital

12. Capital and financial risk management
13. Interest bearing liabilities
14. Commitments and contingencies
15. Contributed equity
16. Reserves
17. Working capital

Other disclosures

18. Intangible assets
19. Audit, taxation and transaction service fees
20. Cash flow information
21. Security-based payment
22. Related parties
23. Parent entity disclosures
24. Changes in accounting policies
25. Subsequent events

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, property revenue and expenses, management operations, corporate and administration expenses, finance costs, taxation, earnings per unit and distributions paid and payable.

Note 1 Operating segments

Description of segments

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

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

Group performance
continued

Note 1 Operating segments continued

30 June 2019	Office $m	Industrial $m
Segment performance measures		
Property revenue	724.8	164.0
Property management fees	–	–
Development revenue	–	–
Management fee revenue	–	–
Total operating segment revenue	**724.8**	**164.0**
Property expenses and property management salaries	(218.6)	(33.7)
Management operations expenses	–	–
Corporate and administration expenses	(13.3)	(3.3)
Development costs	–	–
Interest revenue	–	–
Finance costs	–	–
Incentive amortisation and rent straight-line	106.5	10.3
FFO tax expense	–	–
Rental guarantees, coupon income and other	11.1	–
Funds From Operations (FFO)	**610.5**	**137.3**
Net fair value gain/(loss) of investment properties	594.6	170.3
Amortisation of intangible assets	–	–
Net fair value gain/(loss) of derivatives	–	–
Transaction costs	–	–
Net gain/(loss) on sale of investment properties	–	1.8
Net fair value gain/(loss) of interest bearing liabilities	–	–
Incentive amortisation and rent straight-line	(106.5)	(10.3)
Non FFO tax expense	–	–
Rental guarantees, coupon income and other	(11.1)	–
Net profit/(loss) attributable to stapled security holders	**1,087.5**	**299.1**
Investment properties	6,984.4	1,185.6
Inventories	–	–
Equity accounted investment properties	5,966.4	935.6
Direct property portfolio	**12,950.8**	**2,121.2**

	Property management $m	Funds management $m	Development and trading $m	All other segments $m	Eliminations $m	**Total $m**
	–	–	–	–	(3.0)	**885.8**
	28.5	–	–	–	–	**28.5**
	–	–	96.9	–	–	**96.9**
	40.1	64.1	9.1	–	–	**113.3**
	68.6	**64.1**	**106.0**	**–**	**(3.0)**	**1,124.5**
	(19.6)	–	–	–	–	**(271.9)**
	(31.6)	(24.3)	(11.7)	–	–	**(67.6)**
	–	–	–	(30.2)	3.0	**(43.8)**
	–	–	(47.4)	–	–	**(47.4)**
	–	–	–	2.3	–	**2.3**
	–	–	–	(119.4)	–	**(119.4)**
	–	–	–	–	–	**116.8**
	–	–	(14.8)	(12.3)	–	**(27.1)**
	–	–	–	4.0	–	**15.1**
	17.4	**39.8**	**32.1**	**(155.6)**	**–**	**681.5**
	–	–	–	8.2	–	**773.1**
	–	–	–	(6.1)	–	**(6.1)**
	–	–	–	109.4	–	**109.4**
	–	–	–	(3.1)	–	**(3.1)**
	–	–	–	–	–	**1.8**
	–	–	–	(127.8)	–	**(127.8)**
	–	–	–	–	–	**(116.8)**
	–	–	–	(15.7)	–	**(15.7)**
	–	–	–	(4.2)	–	**(15.3)**
	17.4	**39.8**	**32.1**	**(194.9)**	**–**	**1,281.0**
	–	–	–	–	–	**8,170.0**
	–	–	457.7	–	–	**457.7**
	–	–	–	85.8	–	**6,987.8**
	–	**–**	**457.7**	**85.8**	**–**	**15,615.5**

Group performance
continued

Note 1 Operating segments continued

30 June 2018	Office $m	Industrial $m
Segment performance measures		
Property revenue	712.3	152.0
Property management fees	–	–
Development revenue	–	–
Management fee revenue	–	–
Total operating segment revenue	**712.3**	**152.0**
Property expenses and property management salaries	(195.3)	(30.4)
Management operations expenses	–	–
Corporate and administration expenses	(12.8)	(3.2)
Development costs	–	–
Interest revenue	–	–
Finance costs	–	–
Incentive amortisation and rent straight-line	87.1	14.3
FFO tax expense	–	–
Rental guarantees, coupon income and other	12.5	–
Funds From Operations (FFO)	**603.8**	**132.7**
Net fair value gain/(loss) of investment properties	1,054.0	141.9
Amortisation of intangible assets	–	–
Impairment of inventories	–	(0.6)
Net fair value gain/(loss) of derivatives	–	–
Transaction costs	–	–
Net gain/(loss) on sale of investment properties	(0.9)	–
Net fair value gain/(loss) of interest bearing liabilities	–	–
Incentive amortisation and rent straight-line	(87.1)	(14.3)
Non FFO tax expense	–	–
Rental guarantees, coupon income and other	(15.0)	–
Net profit/(loss) attributable to stapled security holders	**1,554.8**	**259.7**
Investment properties	6,437.2	1,805.4
Non-current assets held for sale	–	2.0
Inventories	–	–
Equity accounted investment properties	4,327.0	167.2
Direct property portfolio	**10,764.2**	**1,974.6**

Property management $m	Funds management $m	Development and trading $m	All other segments $m	Eliminations $m	Total $m
–	–	–	–	(2.8)	861.5
29.2	–	–	–	–	29.2
–	–	133.1	–	–	133.1
38.8	58.0	5.0	–	–	101.8
68.0	**58.0**	**138.1**	**–**	**(2.8)**	**1,125.6**
(19.5)	–	–	–	–	(245.2)
(32.4)	(22.1)	(4.5)	–	–	(59.0)
–	–	–	(27.4)	2.8	(40.6)
–	–	(80.8)	–	–	(80.8)
–	–	–	1.4	–	1.4
–	–	–	(135.8)	–	(135.8)
–	–	–	–	–	101.4
–	–	(15.7)	(13.3)	–	(29.0)
–	–	–	2.8	–	15.3
16.1	**35.9**	**37.1**	**(172.3)**	**–**	**653.3**
–	–	–	5.9	–	1,201.8
–	–	–	(5.5)	–	(5.5)
–	–	–	–	–	(0.6)
–	–	–	(77.5)	–	(77.5)
–	–	–	(1.1)	–	(1.1)
–	–	–	–	–	(0.9)
–	–	–	85.8	–	85.8
–	–	–	–	–	(101.4)
–	–	–	(7.3)	–	(7.3)
–	–	–	(2.7)	–	(17.7)
16.1	**35.9**	**37.1**	**(174.7)**	**–**	**1,728.9**
–	–	–	–	–	8,242.6
–	–	–	–	–	2.0
–	–	544.7	–	–	544.7
–	–	–	54.1	–	4,548.3
–	**–**	**544.7**	**54.1**	**–**	**13,337.6**

Group performance
continued

Note 1 Operating segments continued

Other segment information

Funds From Operations (FFO)

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

Reconciliation of segment revenue to the Statement of Comprehensive Income

	2019 $m	2018 $m
Property lease revenue	771.5	861.5
Property services revenue[1]	114.3	–
Property revenue	**885.8**	861.5
Property management fees	28.5	29.2
Development revenue	96.9	133.1
Management fee revenue	113.3	101.8
Total operating segment revenue	**1,124.5**	1,125.6
Share of property lease revenue from joint ventures	(321.3)	(313.5)
Share of property services revenue from joint ventures	(45.5)	–
Share of management fees charged to joint ventures	36.4	27.8
Interest revenue	1.0	0.7
Total revenue from ordinary activities	**795.1**	840.6

1. The Group applied AASB 15 Revenue from Contracts with Customers on 1 July 2018. A portion of the consideration within lease arrangements has been allocated to service revenue which has previously been disclosed as part of property lease revenue. Refer to note 24 Changes in accounting policies.

Reconciliation of segment assets to the Statement of Financial Position

	2019 $m	2018 $m
Direct property portfolio[1]	15,615.5	13,337.6
Cash and cash equivalents	29.8	33.3
Receivables	147.5	63.4
Intangible assets	322.1	314.6
Derivative financial instruments	532.6	334.9
Plant and equipment	15.0	16.0
Prepayments and other assets[2]	(141.2)	(82.5)
Total assets	**16,521.3**	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 Property revenue and expenses

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

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

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 is therefore allocated to revenue for the provision of services. Refer to note 24 for further information relating to revenue policies adopted under AASB 15 *Revenue from Contracts with Customers*.

	2019 $m	2018 $m
Rent and recoverable outgoings	**471.7**	585.4
Services revenue	**68.8**	–
Incentive amortisation	**(66.8)**	(80.7)
Other revenue	**73.7**	72.5
Total property revenue	**547.4**	577.2

Property expenses of $157.6 million (2018: $155.9 million) includes rates, taxes and other property outgoings incurred in relation to investment properties.

Note 3 Management operations, corporate and administration expenses

	2019 $m	2018 $m
Audit, taxation, legal and other professional fees	**6.0**	5.3
Depreciation and amortisation	**10.3**	9.2
Employee benefits expense and other staff expenses	**87.9**	78.0
Administration and other expenses	**16.9**	13.8
Total management operations, corporate and administration expenses	**121.1**	106.3

Group performance
continued

Note 4 Finance costs

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

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

	2019 $m	2018 $m
Interest paid/payable	**124.5**	122.4
Amount capitalised	**(24.4)**	(13.1)
Net fair value (gain)/loss of interest rate swaps	**46.4**	12.9
Other finance costs	**5.4**	6.3
Total finance costs	**151.9**	128.5

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

Note 5 Taxation

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

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

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

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

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

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

Attribution managed investment trust regime

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

a) Income tax (expense)/benefit

	2019 $m	2018 $m
Current income tax (expense)/benefit	**(47.1)**	(28.5)
Deferred income tax (expense)/benefit	**4.3**	(7.8)
Total income tax expense	**(42.8)**	(36.3)
Deferred income tax expense included in income tax (expense)/benefit comprises:		
(Decrease)/increase in deferred tax assets	**2.3**	2.2
(Increase)/decrease in deferred tax liabilities	**2.0**	(10.0)
Total deferred tax benefit/(expense)	**4.3**	(7.8)

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

	2019 $m	2018 $m
Profit before income tax	**1,323.8**	1,765.2
Less: profit attributed to entities not subject to tax	**(1,172.8)**	(1,628.3)
Profit subject to income tax	**151.0**	136.9
Prima facie tax expense at the Australian tax rate of 30% (2018: 30%)	**(45.3)**	(41.1)
Tax effect of amounts which are not deductible/(assessable) in calculating taxable income:		
(Non-assessable)/non-deductible items	**2.5**	4.8
Income tax expense	**(42.8)**	(36.3)

c) Deferred tax assets

	2019 $m	2018 $m
The balance comprises temporary differences attributable to:		
Employee provisions	**15.9**	13.6
Other	**1.9**	1.9
Total non-current assets – deferred tax assets	**17.8**	15.5
Movements:		
Opening balance at the beginning of the year	**15.5**	13.3
Movement in deferred tax asset arising from temporary differences	**2.3**	2.2
(Charged)/credited to the Statement of Comprehensive Income	**2.3**	2.2
Closing balance at the end of the year	**17.8**	15.5

Group performance
continued

Note 5 Taxation continued

d) Deferred tax liabilities

	2019 $m	2018 $m
The balance comprises temporary differences attributable to:		
Intangible assets	**74.8**	74.8
Investment properties	**31.5**	34.2
Other	**0.9**	0.2
Total non-current liabilities – deferred tax liabilities	**107.2**	109.2
Movements		
Opening balance at the beginning of the year	**109.2**	99.2
Movement in deferred tax liability arising from temporary differences	**(2.0)**	10.0
Charged/(credited) to the Statement of Comprehensive Income	**(2.0)**	10.0
Closing balance at the end of the year	**107.2**	109.2

Net deferred tax liabilities

	2019 $m	2018 $m
Deferred tax assets	**17.8**	15.5
Deferred tax liabilities	**107.2**	109.2
Net deferred tax liabilities	**89.4**	93.7

Note 6 Earnings per unit

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

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

	2019 $m	2018 $m
Profit attributable to unitholders of the Trust (parent entity) for basic and diluted earnings per security	**315.7**	468.8
Profit attributable to stapled security holders for basic earnings per security	**1,281.0**	1,728.9
Effect on exchange of Exchangeable Notes	**(12.6)**	–
Profit attributable to stapled security holders for diluted earnings per security	**1,268.4**	1,728.9

b) Weighted average number of securities used as a denominator

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

Note 7 Distributions paid and payable

Distributions are recognised when declared.

a) Distribution to security holders

	2019 $m	2018 $m
31 December (paid 28 February 2019)	**276.7**	241.1
30 June (payable 29 August 2019)	**252.3**	245.3
Total distribution to security holders	**529.0**	486.4

b) Distribution rate

	2019 Cents per security	2018 Cents per security
31 December (paid 28 February 2019)	**27.2**	23.7
30 June (payable 29 August 2019)	**23.0**	24.1
Total distributions	**50.2**	47.8

c) Franked dividends

	2019 $m	2018 $m
Opening balance at the beginning of the year	**57.0**	33.4
Income tax paid during the year	**30.8**	45.0
Franking credits utilised for payment of distribution	**(21.4)**	(21.4)
Closing balance at the end of the year	**66.4**	57.0

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

Property portfolio assets

In this section

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

30 June 2019	Note	Office $m	Industrial $m	Healthcare $m	Total $m
Investment properties	8	6,984.4	1,185.6	–	**8,170.0**
Equity accounted investments	9	5,966.4	935.6	85.8	**6,987.8**
Inventories	10	241.7	216.0	–	**457.7**
Total		**13,192.5**	**2,337.2**	**85.8**	**15,615.5**

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

- *Investment properties:* relates to investment properties, both stabilised and under development.
- *Investments accounted for using the equity method:* provides summarised financial information on the joint ventures and investments with significant influence. The Group's interests in its joint venture 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 8 Investment properties

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

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

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

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

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

a) Reconciliation

	Note	Office $m	Industrial $m	2019 $m	2018 $m
Opening balance at the beginning of the year		**6,437.3**	**1,805.3**	**8,242.6**	7,169.1
Additions		**259.6**	**24.4**	**284.0**	168.4
Acquisitions		**169.2**	**190.0**	**359.2**	398.1
Lease incentives		**44.7**	**12.9**	**57.6**	62.9
Amortisation of lease incentives		**(61.5)**	**(10.4)**	**(71.9)**	(76.9)
Rent straightlining		**6.7**	**3.2**	**9.9**	12.2
Disposals		**(232.9)**	**(395.4)**	**(628.3)**	(44.0)
Transfer to non-current assets classified as held for sale	11	**–**	**–**	**–**	(2.0)
Transfers from investment property to investments accounted for using the equity method	9	**–**	**(642.7)**	**(642.7)**	–
Transfer to inventories	10	**–**	**–**	**–**	(295.9)
Transfer from inventories	10	**–**	**104.2**	**104.2**	–
Net fair value gain/(loss) of investment properties		**361.3**	**94.1**	**455.4**	850.7
Closing balance at the end of the year		**6,984.4**	**1,185.6**	**8,170.0**	8,242.6

Acquisitions

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.

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

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

Disposals

On 21 June 2019, settlement occurred for the disposal of 11 Talavera Road, Macquarie Park for net proceeds of $231.2 million excluding transaction costs.

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 9 for more information on Dexus's investment in Dexus Australian Logistics Trust and Dexus Australian Logistics Trust No. 2. As part of the transaction, the Group also disposed of a 25% interest in various industrial assets to GIC for $395.4 million as part of the establishment of a new unlisted logistics vehicle.

b) Valuations process

Independent valuations are carried out for each individual property at least once every three years by a member of the Australian Property Institute of Valuers. Each valuation firm and its signatory valuer are appointed on the basis that they are engaged for no more than three consecutive valuations except properties under development and co-owned properties. Independent valuations may be undertaken earlier where the Responsible Entity believes there is potential for a change in the fair value of the property being the greater of 5% of the asset value, or $5.0 million. At 30 June 2019, all investment properties were independently externally valued.

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

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

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

Property portfolio assets
continued

Note 8 Investment properties continued

c) Fair value measurement, valuation techniques and inputs

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

Class of property	Fair value hierarchy	Inputs used to measure fair value	Range of unobservable inputs	
			2019	2018
Office[1]	Level 3	Adopted capitalisation rate	**4.50% – 7.00%**	4.63% – 9.00%
		Adopted discount rate	**6.50% – 7.50%**	6.25% – 10.50%
		Adopted terminal yield	**4.75% – 7.50%**	5.13% – 9.75%
		Current net market rental (per sqm)	**\$383 – \$1,398**	\$346 – \$1,338
Industrial	Level 3	Adopted capitalisation rate	**5.00% – 10.75%**	5.50% – 11.00%
		Adopted discount rate	**6.50% – 10.75%**	6.75% – 11.00%
		Adopted terminal yield	**5.25% – 10.75%**	6.00% – 11.00%
		Current net market rental (per sqm)	**\$38 – \$588**	\$38 – \$445
Development – Industrial	Level 3	Land rate (per sqm)	**\$51 – \$710**	\$38 – \$677

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

Key estimates: inputs used to measure fair value of investment properties

Judgement is required in determining the following key assumptions:

- **Adopted capitalisation rate:** The rate at which net market rental revenue is capitalised to determine the value of a property. The rate is determined with regard to market evidence and the prior external valuation
- **Adopted discount rate:** The rate of return used to convert cash flows, payable or receivable in the future, into present value. It reflects the opportunity cost of capital, that is, the rate of return the cash can earn if put to other uses having similar risk. The rate is determined with regard to market evidence and the prior external valuation
- **Adopted terminal yield:** The capitalisation rate used to convert the future net market rental revenue into an indication of the anticipated value of the property at the end of the holding period when carrying out a discounted cash flow calculation. The rate is determined with regard to market evidence and the prior external valuation
- **Net market rental (per sqm):** The net market rent is the estimated amount for which a property should lease between a lessor and a lessee on appropriate lease terms in an arm's length transaction
- **Land rate (per sqm):** The land rate is the market land value per sqm

d) Sensitivity information

Significant movement in any one of the inputs listed in the table above may result in a change in the fair value of the Group's investment properties as shown below.

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

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

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

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

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

e) Investment properties pledged as security

Refer to note 13 for information on investment properties pledged as security.

Note 9 Investments accounted for using the equity method

a) Interest in joint ventures

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

	Ownership interest			
Name of entity	**2019 %**	2018 %	**2019 $m**	2018 $m
Bent Street Trust	**33.3**	33.3	**349.5**	344.7
Dexus Creek Street Trust	**50.0**	50.0	**176.6**	161.8
Dexus Martin Place Trust[1]	**50.0**	50.0	**826.9**	376.9
Grosvenor Place Holding Trust[2,3]	**50.0**	50.0	**469.7**	452.3
Site 6 Homebush Bay Trust[2]	**50.0**	50.0	**42.9**	33.6
Site 7 Homebush Bay Trust[2]	**50.0**	50.0	**54.2**	47.2
Dexus 480 Q Holding Trust	**50.0**	50.0	**386.5**	380.5
Dexus Kings Square Trust	**50.0**	50.0	**220.7**	216.3
Dexus Office Trust Australia (DOTA)	**50.0**	50.0	**2,410.9**	2,164.7
Dexus Industrial Trust Australia (DITA)	**50.0**	50.0	**202.4**	172.3
Dexus Eagle Street Pier Trust	**50.0**	50.0	**31.2**	33.0
Healthcare Wholesale Property Fund	**23.8**	23.8	**56.1**	49.6
Dexus Australian Logistics Trust (DALT)[4]	**75.0**	–	**657.5**	–
Dexus Australian Logistics Trust No.2 (DALT2)[4]	**51.0**	–	**65.2**	–
Dexus 80C Trust[5]	**75.0**	–	**873.4**	–
Total assets – investments accounted for using the equity method[6]			**6,823.7**	4,432.9

1. On 1 April 2019, settlement occurred for the acquisition of a further 25% of MLC Centre, 19 Martin Place, Sydney for $400 million excluding acquisition costs. This represents the Group's 50% interest.
2. These entities are 50% owned by DOTA. The Group's economic interest is therefore 75% when combined with the interest held by DOTA.
3. Grosvenor Place Holding Trust owns 50% of Grosvenor Place, at 225 George Street, Sydney, NSW. The Group's economic interest in this property is therefore 37.5%.
4. 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 and joint venture partner, GIC. The Group equity accounts its investments as it has joint control of the joint venture with GIC.
5. On 9 May 2019, settlement occurred for the acquisition of 80 Collins Street, Melbourne for $1.09 billion excluding acquisition costs. This represents the Group's 75% interest.
6. The Group's share of investment properties in the investments accounted for using the equity method was $6,987.8 million (2018: $4,548.3 million). These investments are accounted for using the equity method as a result of contractual arrangements requiring unanimous decisions on all relevant matters.

b) Summarised financial information for joint ventures

The following table provides summarised financial information for the joint ventures which, in the opinion of the directors, are material to the Group. The information disclosed reflects the amounts presented in the financial statements of the relevant joint ventures and not Dexus's share of those amounts.

Property portfolio assets
continued

Note 9 Investments accounted for using the equity method continued

b) Summarised financial information for joint ventures continued

	Dexus Office Trust Australia		Dexus 80C Trust	
Summarised Statement of Financial Position	**2019 $m**	2018 $m	**2019 $m**	2018 $m
Current assets				
Cash and cash equivalents	**14.6**	40.5	**2.9**	–
Other current assets	**110.6**	7.9	**35.0**	–
Total current assets	**125.2**	48.4	**37.9**	–
Non-current assets				
Investment properties	**4,346.3**	4,016.9	**1,211.6**	–
Investments accounted for using the equity method	**566.8**	533.0	**–**	–
Other non-current assets	**44.5**	0.8	**–**	–
Total non-current assets	**4,957.6**	4,550.7	**1,211.6**	–
Current liabilities				
Provision for distribution	**22.2**	34.1	**7.6**	–
Borrowings	**149.3**	149.1	**–**	–
Other current liabilities	**51.9**	49.5	**27.8**	–
Total current liabilities	**223.4**	232.7	**35.4**	–
Non-current liabilities				
Borrowings	**22.6**	22.1	**49.5**	–
Total non-current liabilities	**22.6**	22.1	**49.5**	–
Net assets	**4,836.8**	4,344.3	**1,164.6**	–
Reconciliation to carrying amounts:				
Opening balance at the beginning of the year	**4,344.3**	3,969.9	**–**	–
Additions	**199.9**	164.7	**1,169.2**	–
Profit for the year	**508.5**	626.6	**3.0**	–
Distributions received/receivable	**(215.9)**	(416.9)	**(7.6)**	–
Closing balance at the end of the year	**4,836.8**	4,344.3	**1,164.6**	–
Group's share in $m	**2,418.4**	2,172.2	**873.4**	–
Elimination of downstream transactions	**(7.5)**	(7.5)	**–**	–
Group's carrying amount	**2,410.9**	2,164.7	**873.4**	–
Summarised Statement of Comprehensive Income				
Property revenue	**279.3**	278.4	**3.5**	–
Property revaluations	**276.1**	362.6	**1.2**	–
Gain on sale of investment properties	**2.7**	(5.2)	**–**	–
Interest income	**0.7**	0.5	**–**	–
Other income	**56.2**	90.8	**–**	–
Finance costs	**(9.9)**	(9.7)	**–**	–
Other expenses	**(96.6)**	(90.8)	**(1.7)**	–
Net profit/(loss) for the year	**508.5**	626.6	**3.0**	–
Total comprehensive income/(loss) for the year	**508.5**	626.6	**3.0**	–

Dexus Australian Logistics Trust		Grosvenor Place Holding Trust		Dexus Martin Place Trust		Dexus 480Q Holding Trust		Bent Street Trust	
2019 $m	2018 $m	2019 $m	2018 $m	2019 $m	2018 $m	2019 $m	2018 $m	2019 $m	2018 $m
26.4	–	2.2	0.2	8.3	18.4	1.0	4.6	2.1	4.7
3.1	–	3.0	4.2	24.0	12.0	7.9	5.8	1.9	1.2
29.5	–	5.2	4.4	32.3	30.4	8.9	10.4	4.0	5.9
876.5	–	937.5	905.0	1,644.0	744.5	781.0	768.5	1,070.0	1,049.9
–	–	–	–	–	–	–	–	–	–
0.4	–	–	0.1	0.2	–	0.2	0.1	–	–
876.9	–	937.5	905.1	1,644.2	744.5	781.2	768.6	1,070.0	1,049.9
22.4	–	–	–	–	–	–	–	16.4	12.4
–	–	–	–	–	–	–	–	–	–
7.3	–	3.3	4.9	22.8	21.2	17.1	18.0	8.0	9.3
29.7	–	3.3	4.9	22.8	21.2	17.1	18.0	24.4	21.7
–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–	–
876.7	–	939.4	904.6	1,653.7	753.7	773.0	761.0	1,049.6	1,034.1
–	–	904.6	771.1	753.7	332.5	761.0	733.5	1,034.1	957.4
812.8	–	5.1	3.8	870.6	438.6	2.9	7.7	–	–
86.2	–	76.8	172.1	66.0	7.8	38.3	58.4	73.1	131.7
(22.3)	–	(47.1)	(42.4)	(36.6)	(25.2)	(29.2)	(38.6)	(57.6)	(55.0)
876.7	–	939.4	904.6	1,653.7	753.7	773.0	761.0	1,049.6	1,034.1
657.5	–	469.7	452.3	826.9	376.9	386.5	380.5	349.5	344.7
–	–	–	–	–	–	–	–	–	–
657.5	–	469.7	452.3	826.9	376.9	386.5	380.5	349.5	344.7
35.9	–	52.8	50.5	56.0	40.4	65.7	53.8	52.5	53.0
60.8	–	36.4	132.8	27.6	(19.8)	14.3	21.7	33.6	90.1
–	–	–	–	–	–	–	–	–	–
0.1	–	0.1	0.1	0.2	0.2	0.8	0.1	0.1	0.1
–	–	–	(0.1)	–	(0.1)	(0.1)	–	–	(0.1)
–	–	–	–	–	–	–	–	–	–
(10.6)	–	(12.5)	(11.2)	(17.8)	(12.9)	(42.4)	(17.2)	(13.1)	(11.4)
86.2	–	76.8	172.1	66.0	7.8	38.3	58.4	73.1	131.7
86.2	–	76.8	172.1	66.0	7.8	38.3	58.4	73.1	131.7

Property portfolio assets
continued

Note 9 Investments accounted for using the equity method continued

c) Individually immaterial joint ventures

In addition to the interests in the joint ventures disclosed in Note 9(b), the Group also has interests in a number of individually immaterial joint ventures that are accounted for using the equity method.

	2019 $m	2018 $m
Aggregate carrying amount of individually immaterial joint ventures	**849.4**	713.8
Aggregate amounts of the Group's share of:		
Profit from continuing operations	**99.6**	59.8
Other comprehensive income/(loss)	**–**	–
Total comprehensive income	**99.6**	59.8

Note 10 Inventories

Development properties held for repositioning, construction and sale are recorded at the lower of cost or net realisable value. Cost is assigned by specific identification and includes the cost of acquisition, and development and holding costs such as borrowing costs, rates and taxes. Holding costs incurred after completion of development are expensed.

Development revenue includes proceeds on the sale of inventory and revenue earned through the provision of development services on assets sold as inventory. Revenue earned on the provision of development services is recognised using the percentage complete method. The stage of completion is measured by reference to costs incurred to date as a percentage of estimated total costs for each contract. Where the project result can be reliably estimated, development services revenue and associated expenses are recognised in profit or loss. Where the project result cannot be reliably estimated, profits are deferred and the difference between consideration received and expenses incurred is carried forward as either a receivable or payable. Development services revenue and expenses are recognised immediately when the project result can be reliably estimated.

Transfers from investment properties to inventories occur when there is a change in intention regarding the use of the property from an intention to hold for rental income or capital appreciation purposes to an intention to develop and sell. The transfer price is recorded as the fair value of the property as at the date of transfer. Development activities will commence immediately after they transfer.

Key estimate: net realisable value (NRV) of inventories

NRV is determined using the estimated selling price in the ordinary course of business less estimated costs to bring inventories to their finished condition, including marketing and selling expenses. NRV is based on the most reliable evidence available at the time and the amount the inventories are expected to be realised. These key assumptions are reviewed annually or more frequently if indicators of impairment exist. Key estimates have been reviewed and no impairment provisions have been recognised.

a) Development properties held for sale

	2019 $m	2018 $m
Current assets		
Development properties held for sale	**170.4**	37.6
Total current assets – inventories	**170.4**	37.6
Non-current assets		
Development properties held for sale	**287.3**	507.1
Total non-current assets – inventories	**287.3**	507.1
Total assets – inventories	**457.7**	544.7

b) Reconciliation

	Note	2019 $m	2018 $m
Opening balance at the beginning of the year		**544.7**	211.3
Transfer from investment properties	8	**–**	295.9
Transfer to investment properties	8	**(104.2)**	–
Disposals		**(40.3)**	(10.0)
Impairment		**–**	(0.6)
Additions		**57.5**	48.1
Closing balance at the end of the year		**457.7**	544.7

Note 11 Non-current assets classified as held for sale

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

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

As at 30 June 2019, there were no assets classified as held for sale. The balance as at 30 June 2018 related to Truganina land lots which were disposed of during 2019.

Capital and financial risk management and working capital

In this section

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

Note 12 *Capital and financial risk management* outlines how the Group manages its exposure to a variety of financial risks (interest rate risk, foreign currency risk, liquidity risk and credit risk) and details the various derivative financial instruments entered into by the Group.

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

- Debt: *Interest bearing liabilities* in note 13, and *Commitments and contingencies* in note 14;
- Equity: *Contributed equity* in note 15 and *Reserves* in note 16.

Note 17 provides a breakdown of the working capital balances held in the Statement of Financial Position.

Note 12 Capital and financial risk management

Capital and financial risk management is carried out through a centralised treasury function which is governed by a Board approved Treasury Policy. The Group has an established governance structure which consists of the Group Management Committee and Capital Markets Committee.

The Board has appointed a Group Management Committee responsible for achieving Dexus's goals and objectives, including the prudent financial and risk management of the Group. A Capital Markets Committee has been established to advise the Group Management Committee.

The Capital Markets Committee is a management committee that is accountable to the Board. It convenes at least quarterly and conducts a review of financial risk management exposures including liquidity, funding strategies and hedging. It is also responsible for the development of financial risk management policies and funding strategies for recommendation to the Board, and the approval of treasury transactions within delegated limits and powers.

a) Capital risk management

The Group manages its capital to ensure that entities within the Group will be able to continue as a going concern while maximising the return to owners through the optimisation of the debt and equity balance.

The capital structure of the Group consists of debt, cash and cash equivalents and equity attributable to security holders. The Group continuously monitors its capital structure and it is managed in consideration of the following factors:

- the cost of capital and the financial risks associated with each class of capital;
- gearing levels and other debt covenants;
- potential impacts on net tangible assets and security holders' equity;
- potential impacts on the Group's credit rating; and
- other market factors.

The Group has a stated target gearing level of 30% to 40%. The table below details the calculation of the gearing ratio in accordance with our primary financial covenant requirements.

	2019 $m	2018 $m
Total interest bearing liabilities[1]	**3,648.7**	3,164.5
Total tangible assets[2]	**15,666.6**	13,367.8
Gearing ratio	**23.3%**	23.7%
Gearing ratio (look-through)[3]	**24.0%**	24.1%

1. Total interest bearing liabilities excludes deferred borrowing costs and includes the impact of foreign currency fluctuations of cross currency swaps.
2. Total tangible assets comprise total assets less intangible assets, derivatives and deferred tax balances.
3. The look-through gearing ratio is adjusted for cash and debt in equity accounted investments and is not a financial covenant.

The Group is rated A- by Standard & Poor's (S&P) and A3 by Moody's. The Group is required to comply with certain financial covenants in respect of its interest bearing liabilities. During the 2019 and 2018 reporting periods, the Group was in compliance with all of its financial covenants.

DXFM is the Responsible Entity for the managed investment schemes (DDF, DOT, DIT and DXO) that are stapled to form the Group. DXFM has been issued with an Australian Financial Services Licence (AFSL). The licence is subject to certain capital requirements including the requirement to maintain liquidity above specified limits. DXFM must also prepare rolling cash projections over at least the next 12 months and demonstrate it will have access to sufficient financial resources to meet its liabilities that are expected to be payable over that period. Cash projections and assumptions are approved, at least quarterly, by the Board of the Responsible Entity.

DWPL, a wholly owned entity, has been issued with an AFSL as it is the Responsible Entity for Dexus Wholesale Property Fund (DWPF). Dexus Wholesale Management Limited (DWML), a wholly owned entity, has been issued with an AFSL as it is the trustee of third party managed funds. These entities are subject to the capital requirements described above. Dexus Wholesale Funds Limited (DWFL), a wholly owned entity, has been issued with an AFSL as it is the Responsible Entity for Healthcare Wholesale Property Fund (HWPF). Dexus Investment Management Limited (DIML), a wholly owned entity, has been issued with an AFSL as the Responsible Entity for Dexus Industrial Fund (DIF), a wholly owned entity. These entities are subject to the capital requirements described above.

b) Financial risk management

The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group's principal financial instruments, other than derivatives, comprise cash, bank loans and capital markets issuance. The main purpose of financial instruments is to manage liquidity and hedge the Group's exposure to financial risks namely:

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

The Group uses derivatives to reduce the Group's exposure to fluctuations in interest rates and foreign exchange rates. These derivatives create an obligation or a right that effectively transfers one or more of the risks associated with an underlying financial instrument, asset or obligation. Derivative financial instruments that the Group may use to hedge its risks include:

- interest rate swaps and interest rate options (together interest rate derivatives);
- cross currency interest rate swaps; and
- foreign exchange contracts.

The Group does not trade in derivative instruments for speculative purposes. The Group uses different methods to measure the different types of risks to which it is exposed, including monitoring the current and forecast levels of exposure and conducting sensitivity analysis.

i) Market risk

Interest rate risk

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

The Group's risk management policy for interest rate risk seeks to minimise the effects of interest rate movements on its asset and liability portfolio through active management of the exposures. The policy prescribes minimum and maximum hedging amounts for the Group, which is managed on a portfolio basis.

The Group maintains a mix of offshore and local currency fixed rate and variable rate debt, as well as a mix of long term and short term debt. The Group primarily enters into interest rate derivatives and cross currency interest rate swap agreements to manage the associated interest rate risk. The Group hedges the interest rate and currency risk on its foreign currency borrowings by entering into cross currency swaps, which have the economic effect of converting foreign currency borrowings to local currency borrowings at contracted rates. The derivative contracts are recorded at fair value in the Statement of Financial Position, using standard valuation techniques with market inputs.

As at 30 June 2019, 83% (2018: 88%) of the interest bearing liabilities of the Group were hedged. The average hedged percentage for the financial year was 73% (2018: 70%).

Capital and financial risk management and working capital continued

Note 12 Capital and financial risk management continued

b) Financial risk management continued

i) Market risk continued

Interest rate risk continued

Interest rate derivatives require settlement of net interest receivable or payable generally each 90 or 180 days. The settlement dates coincide with the dates on which the interest is payable on the underlying debt. The receivable and payable legs on interest rate derivative contracts are settled on a net basis. The net notional amount of average fixed rate debt and interest rate derivatives in place in each year and the weighted average effective hedge rate is set out below:

	June 2020 $m	June 2021 $m	June 2022 $m	June 2023 $m	June 2024 $m
A$ fixed rate debt	1,425.8	1,405.0	1,342.5	1,148.3	953.3
A$ hedged[1]	1,525.9	1,648.3	1,223.3	1,000.0	850.0
Combined fixed rate debt and derivatives (A$ equivalent)	2,951.7	3,053.3	2,565.8	2,148.3	1,803.3
Hedge rate (%)	2.28%	2.15%	2.32%	2.38%	2.38%

1. Amounts do not include fixed rate debt that has been swapped to floating rate debt through cross currency swaps.

Sensitivity analysis on interest expense

The table below shows the impact on the Group's net interest expense of a 50 basis point movement in market interest rates. The sensitivity on cash flow arises due to the impact that a change in interest rates will have on the Group's floating rate debt and derivative cash flows on average during the financial year. Net interest expense is only sensitive to movements in market rates to the extent that floating rate debt is not hedged.

	2019 (+/-) $m	2018 (+/-) $m
+/- 0.50% (50 basis points)	**8.4**	7.5
Total A$ equivalent	**8.4**	7.5

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

Sensitivity analysis on fair value of interest rate derivatives

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

The fair value of interest rate derivatives is calculated as the present value of estimated future cash flows on the instruments. Although interest rate derivatives are transacted for the purpose of providing the Group with an economic hedge, the Group has elected not to apply hedge accounting to these instruments. Accordingly, gains or losses arising from changes in the fair value are reflected in the profit or loss.

	2019 (+/-) $m	2018 (+/-) $m
+/- 0.50% (50 basis points)	**25.1**	19.1
Total A$ equivalent	**25.1**	19.1

Sensitivity analysis on fair value of cross currency swaps

The sensitivity analysis on cross currency interest rate swaps below shows the effect on net profit or loss for changes in the fair value for a 50 basis point increase and decrease in market rates. The sensitivity on fair value arises from the impact that changes in short-term and long-term market rates will have on the valuation of the cross currency swaps. The sensitivity analysis excludes the impact of hedge accounted cross currency swaps.

		2019 (+/-) $m	2018 (+/-) $m
+/- 0.50% (50 basis points)	US$ (A$ equivalent)	**2.7**	4.5
Total A$ equivalent		**2.7**	4.5

Foreign currency risk

Foreign currency risk refers to the risk that the value or the cash flows arising from a financial commitment, or recognised asset or liability will fluctuate due to changes in foreign currency rates. The Group's foreign currency risk arises primarily from:

- highly probable forecast transactions denominated in foreign currency; and
- borrowings denominated in foreign currency.

The objective of the Group's foreign exchange risk management policy is to ensure that movements in exchange rates have minimal adverse impact on the Group's foreign currency assets and liabilities. Refer to note 13 for the USD foreign currency exposures and management thereof via cross currency interest rate swaps.

Foreign currency assets and liabilities

Where foreign currency borrowings are used to fund Australian investments, the Group transacts cross currency swaps to reduce the risk that movements in foreign exchange rates will have an impact on security holder equity and net tangible assets.

ii) Liquidity risk

Liquidity risk is associated with ensuring that there are sufficient funds available to meet the Group's financial commitments as and when they fall due and planning for any unforeseen events which may curtail cash flows. The Group identifies and manages liquidity risk across the following categories:

- short-term liquidity management covering the month ahead on a rolling basis with continuous monitoring of forecast and actual cash flows;
- medium-term liquidity management of liquid assets, working capital and standby facilities to cover Group cash requirements over the next 1–24 month period. The Group maintains a level of committed borrowing facilities above the forecast committed debt requirements (liquidity headroom buffer). Committed debt includes future expenditure that has been approved by the Board or Investment Committee (as required within delegated limits); and
- long-term liquidity management through ensuring an adequate spread of maturities of borrowing facilities so that refinancing risk is not concentrated in certain time periods and ensuring an adequate diversification of funding sources where possible, subject to market conditions.

Refinancing risk

Refinancing risk is the risk that the Group:

- will be unable to refinance its debt facilities as they mature; and/or
- will only be able to refinance its debt facilities at unfavourable interest rates and credit market conditions (margin price risk).

The Group's key risk management strategy for margin price risk on refinancing is to spread the maturities of debt facilities over different time periods to reduce the volume of facilities to be refinanced and the exposure to market conditions in any one period. An analysis of the contractual maturities of the Group's interest bearing liabilities and derivative financial instruments is shown in the table below. The amounts in the table represent undiscounted cash flows.

Capital and financial risk management and working capital continued

Note 12 Capital and financial risk management continued

b) Financial risk management continued

ii) Liquidity risk continued

Refinancing risk continued

	2019				2018			
	Within one year $m	Between one and two years $m	Between two and five years $m	After five years $m	Within one year $m	Between one and two years $m	Between two and five years $m	After five years $m
Payables	(188.8)	–	–	–	(149.7)	–	–	–
Interest bearing liabilities & interest								
Fixed interest rate liabilities	(190.9)	(437.3)	(1,110.8)	(2,300.1)	(329.0)	(171.2)	(914.4)	(2,253.1)
Floating interest rate liabilities	(418.5)	(190.5)	(821.1)	(310.0)	(35.8)	(517.8)	(699.2)	(256.4)
Total interest bearing liabilities & interest[1]	(609.4)	(627.8)	(1,931.9)	(2,610.1)	(364.8)	(689.0)	(1,613.6)	(2,509.5)
Derivative financial liabilities								
Cash receipts	84.1	433.5	254.1	1,760.3	77.7	78.2	543.2	1,793.0
Cash payments	(54.7)	(355.2)	(203.6)	(1,594.2)	(65.0)	(65.5)	(513.4)	(1,911.9)
Total net derivative financial instrument[2]	29.4	78.3	50.5	166.1	12.7	12.7	29.8	(118.9)

1. Refer to note 13. Excludes deferred borrowing costs but includes estimated fees and interest.
2. The notional maturities on derivatives are shown for cross currency interest rate swaps (refer to interest rate risk) as they are the only instruments where a principal amount is exchanged. For interest rate derivatives, only the net interest cash flows (not the notional principal) are included. Refer to note 12(c) for fair value of derivatives. Refer to note 14(b) for financial guarantees.

iii) Credit risk

Credit risk is the risk that the counterparty will not fulfil its obligations under the terms of a financial instrument and will cause financial loss to the Group. The Group has exposure to credit risk on all financial assets included in the Group's Statement of Financial Position.

The Group manages this risk by:

- adopting a process for determining an approved counterparty, with consideration of qualitative factors as well as the counterparty's credit rating;
- regularly monitoring counterparty exposure within approved credit limits that are based on the lower of an S&P, Moody's and Fitch credit rating. The exposure includes the current market value of in-the-money contracts and the potential exposure, which is measured with reference to credit conversion factors as per APRA guidelines;
- entering into International Swaps and Derivatives Association (ISDA) Master Agreements once a financial institution counterparty is approved;
- for some trade receivables, obtaining collateral where necessary in the form of bank guarantees and tenant bonds; and
- regularly monitoring loans and receivables on an ongoing basis.

A minimum S&P rating of A– (or Moody's or Fitch equivalent) is required to become or remain an approved counterparty unless otherwise approved by the Dexus Board.

The Group is exposed to credit risk on cash balances and on derivative financial instruments with financial institutions. The Group has a policy that sets limits as to the amount of credit exposure to each financial institution. New derivatives and cash transactions are limited to financial institutions that meet minimum credit rating criteria in accordance with the Group's policy requirements.

Financial instrument transactions are spread among a number of approved financial institutions within specified credit limits to minimise the Group's exposure to any one counterparty. As a result, there is no significant concentration of credit risk for financial instruments. The maximum exposure to credit risk at 30 June 2019 is the carrying amounts of financial assets recognised on the Statement of Financial Position.

The Group is exposed to credit risk on trade receivable balances. The Group has a policy to continuously assess and monitor the credit quality of trade debtors on an ongoing basis. Given the historical profile and exposure of the trade receivables, it has been determined that no significant concentrations of credit risk exists for trade receivables balances. The maximum exposure to credit risk at 30 June 2019 is the carrying amounts of the trade receivables recognised on the Statement of Financial Position.

iv) Fair value

The Group uses the following methods in the determination and disclosure of the fair value of financial instruments:

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

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

Level 3: The fair value is estimated using inputs for the asset or liability that are not based on observable data.

All derivative financial instruments and investments in equity instruments (where the group neither controls nor has significant influence) were measured at Level 2 for the periods presented in this report. During the year, there were no transfers between Level 1, 2 and 3 fair value measurements.

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

Type	Maturity	**2019 Carrying Amount ($m)**	**2019 Fair Value ($m)**	2018 Carrying Amount ($m)	2018 Fair Value ($m)
USD borrowing	FY21	**356.2**	**373.9**	337.9	355.0
USD borrowing	FY24	**64.2**	**66.5**	60.9	60.1
USD borrowing	FY25	**156.9**	**165.5**	148.8	148.4
USD borrowing	FY26	**228.2**	**232.3**	216.5	205.6
USD borrowing	FY27	**442.0**	**471.2**	419.4	416.0
USD borrowing	FY29	**178.2**	**185.1**	169.1	161.0
USD borrowing	FY30	**299.4**	**309.9**	284.1	267.4
USD borrowing	FY33	**249.5**	**257.8**	236.8	219.4

Key assumptions: fair value of derivatives and interest bearing liabilities

The fair value of derivatives and interest bearing liabilities has been determined based on observable market inputs (interest rates, exchange rates and currency basis) and applying a credit or debit value adjustment based on the current credit worthiness of counterparties and the Group.

v) Offsetting financial assets and financial liabilities

Financial assets and liabilities are offset and the net amount reported in the Statement of Financial Position where there is a legally enforceable right to set-off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously. No financial assets and liabilities are currently held under netting arrangements.

Master Netting arrangements – not currently enforceable

Agreements with derivative counterparties are based on an ISDA Master Agreement. Under the terms of these arrangements, where certain credit events occur (such as default), the net position owing/receivable to a single counterparty in the same currency will be taken as owing and all the relevant arrangements terminated. As the Group does not presently have a legally enforceable right of set-off, these amounts have not been offset in the Statement of Financial Position.

Capital and financial risk management and working capital continued

Note 12 Capital and financial risk management continued

c) Derivative financial instruments

A derivative is a type of financial instrument typically used to manage risk. A derivative's value changes over time in response to underlying variables including interest rates or exchange rates and is entered into for a fixed period. A hedge is where a derivative is used to manage an underlying exposure and the Group uses derivatives to manage its exposure to interest rates and foreign exchange risk accordingly.

Written policies and limits are approved by the Board of Directors of the Responsible Entity, in relation to the use of financial instruments to manage financial risks. The Responsible Entity regularly reviews the Group's exposures and updates its treasury policies and procedures. The Group does not trade in derivative instruments for speculative purposes.

Derivatives including interest rate derivatives, cross currency swaps, and foreign exchange contracts, are measured at fair value with any changes in fair value recognised in the Statement of Comprehensive Income.

At inception the Group can elect to formally designate and document the relationship between certain hedge derivative instruments (cross currency interest rate swaps only) and the associated hedged items (foreign currency bonds only), along with its risk management objectives and its strategy for undertaking various hedge transactions.

The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the financial instrument is effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk. The hedging relationship is deemed effective when all of the following requirements are met:

- there is an economic relationship between the hedged item and the hedging instrument;
- the effect of credit risk does not dominate the value changes that result from that economic relationship; and
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

The Group uses cross currency interest rate swap contracts to hedge interest rate risk and foreign exchange risk. The Group designates the cross currency interest rate swap contracts in:

- fair value hedges against changing interest rates on foreign currency fixed rate borrowings;
- cash flow hedges or fair value hedges against foreign currency exposure on foreign currency borrowings;

The foreign currency basis spread of a cross currency interest rate swap is excluded from the designation of that financial instrument as the hedging instrument. Changes in fair value of the foreign currency basis spread of a financial instrument is accumulated in the foreign currency basis spread reserve, and are amortised to profit or loss on a rational basis over the term of the hedging relationship.

As the critical terms of the cross currency interest rate swap contracts and their corresponding hedged items match, the Group performs a qualitative assessment of effectiveness. The main source of hedge ineffectiveness in these hedge relationships is the effect of the counterparty and the Group's own credit risk on the fair value of the cross currency interest rate swap contracts, which is not reflected in the fair value of the hedged item attributable to the change in interest rates. No other sources of ineffectiveness emerged from these hedging relationships.

The Group has applied the hedge ratio of 1:1 to all hedge relationships.

Fair value hedge

A fair value hedge is a hedge of the exposure to changes in fair value of an asset or liability that is attributable to a particular risk and could affect the Statement of Comprehensive Income. Changes in the fair value of derivatives (hedging instruments) that are designated as fair value hedges are recorded in profit or loss, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk (hedged item).

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to profit or loss over the period to maturity using a recalculated effective interest rate.

Cash flow hedge

A cash flow hedge is a hedge of the exposure to variability in cash flows attributable to a particular risk to a highly probable forecast transaction pertaining to an asset or liability. The effective portion of changes in the fair value of derivatives that are designated as cash flow hedges is recognised in other comprehensive income in equity via the cash flow hedge reserve. Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss. Any gain or loss related to ineffectiveness is recognised in profit or loss immediately.

Hedge accounting is discontinued when the hedging instrument expires, is terminated, is no longer in an effective hedge relationship, is de-designated, or the forecast transaction is no longer expected to occur. The fair value gain or loss of derivatives recorded in equity is recognised in profit or loss over the period that the forecast transaction is recorded in profit or loss. If the forecast transaction is no longer expected to occur, the cumulative gain or loss in equity is recognised in profit or loss immediately.

	2019 $m	2018 $m
Current assets		
Interest rate derivative contracts	–	2.6
Cross currency swap contracts	**15.5**	14.9
Other derivatives	–	6.6
Total current assets – derivative financial instruments	**15.5**	24.1
Non-current assets		
Interest rate derivative contracts	**0.9**	2.8
Cross currency swap contracts	**516.2**	308.0
Total non-current assets – derivative financial instruments	**517.1**	310.8
Current liabilities		
Interest rate derivative contracts	**17.8**	5.5
Cross currency swap contracts	–	1.2
Other derivatives	**0.1**	–
Total current liabilities – derivative financial instruments	**17.9**	6.7
Non-current liabilities		
Interest rate derivative contracts	**47.8**	21.5
Cross currency swap contracts	**43.4**	57.1
Exchangeable note contracts[1]	**14.4**	–
Total non-current liabilities – derivative financial instruments	**105.6**	78.6
Net derivative financial instruments	**409.1**	249.6

1. Refer to note 13 (f) for description of this derivative financial instrument.

Effects of hedge accounting on the financial position and performance – Quantitative information

The following table details the notional principal amounts and remaining terms of the hedging instrument (cross currency interest rate swap) at the end of the financial year:

	Notional Amount of the Hedging Instrument ($m)			
	Under 1 year	1–2 years	2–5 years	Over 5 years
Foreign exchange risk and interest rate risk – Cross currency interest rate swap (hedging foreign currency debt)[1]				
Average contracted FX rate (AUD/USD)	0.8699	0.8699	0.8693	0.7984
Average contracted fixed USD rate	2.6433	2.6433	2.6402	2.4229
Average notional amount	1,304.7	1,304.7	3,887.7	5,012.7
Interest rate risk – Cross currency interest rate swap (hedging foreign currency debt)[1]				
Average contracted fixed USD rate	1.3889	1.3889	1.3875	1.4012
Average notional amount	1,304.7	1,304.7	3,887.7	5,012.7

1. Cross currency interest rate swaps totalling $1,135.0 million (notional) have been split into cash flow hedge and fair value hedge relationships.

Capital and financial risk management and working capital continued

Note 12 Capital and financial risk management continued

c) Derivative financial instruments continued

Effects of hedge accounting on the financial position and performance – Quantitative information continued

The following tables detail information regarding the cross currency interest rate swaps designated in cash flow hedge or fair value hedge relationships at the end of the reporting period and their related hedged items.

	Cash flow hedges Cross currency interest rate swaps ($m)	**Fair value hedges** Cross currency interest rate swaps ($m)
Current notional principal value of the hedging instrument	1,135.0	1,135.0
Carrying amount of the hedging instrument assets/(liabilities)[1]	17.8	367.7
Change in fair value of the hedging instrument used for calculating hedge ineffectiveness	17.8	372.3
Current notional amount of the hedged item	(17.8)	(1,688.4)
Change in value of the hedged item used for calculating hedge ineffectiveness	(30.5)	(383.8)
Balance in cash flow hedge reserve	(17.8)	n/a
Hedge ineffectiveness recognised in the Statement of Comprehensive Income[2]	–	(5.7)

1. The carrying amount is Included in the "Derivative Financial Instruments" line items in the Statement of Financial Position.
2. Included in the "Net fair value loss of derivatives" line item in the Statement of Comprehensive Income.

The cash flow hedge reserve represents the cumulative amount of gains and losses on hedging instruments deemed effective in cash flow hedges. The cumulative deferred gain or loss on the hedging instrument is recognised in profit or loss only when the hedged transaction impacts the profit or loss.

Cash flow hedge reserve	**Foreign exchange risk ($m)**
Balance at 1 July 2018 (before tax)	**17.4**
Movement	
Gain/(loss) arising on changes in fair value of hedging instruments during the period	**10.6**
Changes in fair value of foreign currency basis spread during the period	**(14.3)**
Transfer out	
(Gain)/loss reclassified to profit or loss – hedged item has affected profit or loss	**(5.4)**
(Gain)/loss arising on changes in fair value of foreign currency basis spread during the period	**4.8**
Balance at 30 June 2019 (before tax)	**13.1**

Note 13 Interest bearing liabilities

Borrowings are initially recognised at fair value net of transaction costs and subsequently measured at amortised cost using the effective interest rate method. Under the effective interest rate method, any transaction fees, costs, discounts and premiums directly related to the borrowings are capitalised to borrowings and amortised in profit or loss over the expected life of the borrowings.

If there is an effective fair value hedge of borrowings, a fair value adjustment will be applied based on the mark to market movement in the benchmark component of the borrowings. This movement is recognised in the profit or loss. Refer note 12(c) Capital and financial risk management for further detail.

All borrowings with contractual maturities greater than 12 months after reporting date are classified as non-current liabilities.

	Note	2019 $m	2018 $m
Current			
Unsecured			
Bank loans		**70.0**	–
Medium term notes	(e)	**–**	205.1
Total unsecured		**70.0**	205.1
Total current liabilities – interest bearing liabilities		**70.0**	205.1
Non-current			
Unsecured			
US senior notes[1]	(a),(b)	**2,369.6**	2,065.7
Bank loans	(c)	**640.0**	520.0
Commercial paper	(d)	**100.0**	100.0
Medium term notes	(e)	**509.3**	480.3
Exchangeable notes	(f)	**395.2**	–
Total unsecured		**4,014.1**	3,166.0
Deferred borrowing costs		**(17.5)**	(11.5)
Total non-current liabilities – interest bearing liabilities		**3,996.6**	3,154.5
Total interest bearing liabilities		**4,066.6**	3,359.6

1. Includes cumulative fair value adjustments amounting to $70.0 million (2018: $57.8 million) in relation to effective fair value hedges.

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**	**356.2**	**356.2**
US Senior notes (USPP)[1]	(b)	US$	Unsecured	**Jul-23 to Nov-32**	**1,618.4**	**1,618.4**
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**	**509.3**	**509.3**
Exchangeable note	(f)	A$	Unsecured	**Jun-26**	**395.2**	**395.2**
Commercial paper	(d)	A$	Unsecured	**Sep-22**	**100.0**	**100.0**
Multi-option revolving credit facilities	(c)	Multi Currency	Unsecured	**Nov-19 to Nov-24**	**710.0**	**1,700.0**
Total					**4,014.1**	**5,004.1**
Bank guarantee in place					(69.0)	
Unused at balance date					921.0	

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 their assets and ensures that all senior unsecured debt ranks pari passu.

Capital and financial risk management and working capital continued

Note 13 Interest bearing liabilities continued

Financing arrangements continued

a) US senior notes (144A)

This includes a total of US$250.0 million (A$356.2 million) of US senior notes with a maturity of March 2021. The USD exposure is economically hedged using cross currency interest rate swaps with a notional value of US$250.0 million.

b) US senior notes (USPP)

This includes a total of US$1,135.0 million and A$325.0 million (A$1,943.4 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 17 facilities maturing between November 2019 and November 2024 with a weighted average maturity of July 2022. A$69.0 million is utilised as bank guarantees for AFSL requirements and other business requirements including developments.

d) Commercial paper

This includes a total of A$100.0 million of Commercial Paper which is supported by a standby facility of A$100.0 million with a 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$4.3 million is the net premium on the issue of these instruments.

f) Exchangeable notes

On 19 March 2019, the Group issued Exchangeable Notes with a face value totalling $425 million. The notes are exchangeable into approximately 28.2 million securities after 40 days from settlement, at the election of the holder, until 19 March 2024. The holders have an option to put the notes to the issuer for face value 60 days prior but not later than 30 days after 19 March 2024. On expiration of the put option, the notes continue to be exchangeable until 10 days prior to maturity on 19 June 2026. Any securities issued on exchange will rank equally with existing securities. As at 30 June 2019, no notes have been exchanged.

Exchange price[1]	**$15.00**
Coupon (per annum)	**2.30%**
Notes on issue at 30 June 2019	**4,250,000**

1. The exchange price has been adjusted for any subsequent equity raises completed at greater than 5% discount to the five day VWAP prior to the raise. The price will also be adjusted in the event of any Dexus distributions which exceed quoted thresholds in the Exchangeable Note terms and conditions.

The exchangeable notes contain an embedded derivative as the issuer has the option to settle the exchange in shares or cash to an equivalent value. The embedded derivative, which is measured at fair value, is deducted from the host contract and recorded separately. The host contract is subsequently measured at amortised cost.

Note 14 Commitments and contingencies

a) Commitments

Capital commitments

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

	2019 $m	2018 $m
Investment properties	**129.6**	289.5
Inventories	**108.1**	1.2
Investments accounted for using the equity method	**276.5**	48.6
Total capital commitments	**514.2**	339.3

Lease payable commitments

Lease amounts to be paid includes future amounts to be paid on non-cancellable operating leases, not recognised in the financial statements at balance date. The future minimum lease payments payable by the Group are:

	2019 $m	2018 $m
Within one year	**3.8**	7.4
Later than one year but not later than five years	**9.0**	21.7
Later than five years	**8.4**	3.4
Total lease payable commitments	**21.2**	32.5

Lease receivable commitments

The future minimum lease payments receivable by the Group are:

	2019 $m	2018 $m
Within one year	**489.8**	508.3
Later than one year but not later than five years	**1,862.0**	1,864.9
Later than five years	**627.0**	625.0
Total lease receivable commitments	**2,978.8**	2,998.2

b) Contingencies

DDF, together with DIT, DOT and DXO, is a guarantor of A$5,004.1 million of interest bearing liabilities (refer to note 13). The guarantees have been given in support of debt outstanding and drawn against these facilities and may be called upon in the event that a borrowing entity has not complied with certain requirements such as failure to pay interest or repay a borrowing, whichever is earlier. During the period no guarantees were called.

The Group has bank guarantees of $69.0 million, comprising $43.2 million held to comply with the terms of the Australian Financial Services Licences (AFSL) and $25.8 million largely in respect of developments.

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

The Directors of the Responsible Entity are not aware of any other contingent liabilities in relation to the Group, other than those disclosed in the Financial Statements, which should be brought to the attention of security holders as at the date of completion of this report.

Outgoings are excluded from contingencies as they are expensed when incurred.

Capital and financial risk management and working capital
continued

Note 15 Contributed equity

Number of securities on issue

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

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

Each stapled security entitles the holder to vote in accordance with the provisions of the Constitutions and the *Corporations Act 2001*.

Transaction costs arising on the issue of equity instruments are recognised directly in equity (net of tax) as a reduction of the proceeds of the equity instruments to which the costs relate. Transaction costs are the costs that are incurred directly in connection with the issue of those equity instruments and which would not have been incurred had those instruments not been issued.

On 3 May 2019, Dexus successfully completed a $900 million institutional placement to partly fund the acquisition of a 75% interest in 80 Collins Street, Melbourne (refer note 9). In satisfaction of the placement, Dexus issued 74.4 million new securities at a fixed price of $12.10. These securities rank equally with existing Dexus securities and will be entitled to the full distribution for the six months ended 30 June 2019.

In June 2019, Dexus completed a Security Purchase Plan (SPP) where it raised $63.9 million of equity, issuing 5.3 million new securities at a fixed price of $12.10. These securities rank equally with existing Dexus securities and will be entitled to the full distribution for the six months ended 30 June 2019.

Note 16 Reserves

	2019 $m	2018 $m
Asset revaluation reserve	**42.7**	42.7
Cash flow hedge reserve	**17.8**	(12.5)
Foreign currency basis spread reserve	**(4.6)**	–
Security-based payments reserve	**16.3**	12.5
Treasury securities reserve	**(18.5)**	(15.5)
Total reserves	**53.7**	27.2
Movements:		
Asset revaluation reserve		
Opening balance at the beginning of the year	**42.7**	42.7
Closing balance at the end of the year	**42.7**	42.7
Cash flow hedge reserve		
Opening balance at the beginning of the year	**(12.5)**	6.9
Change in accounting policy adjustment (AASB 9 opening balance restatement)	**29.9**	–
Changes in the fair value of cash flow hedges	**0.4**	(19.4)
Closing balance at the end of the year	**17.8**	(12.5)
Foreign currency basis spread reserve		
Opening balance at the beginning of the period	**–**	–
Changes in cost of hedge reserve	**(4.6)**	–
Closing balance at the end of the period	**(4.6)**	–
Security-based payments reserve		
Opening balance at the beginning of the year	**12.5**	10.8
Issue of securities to employees	**(4.6)**	(3.3)
Security-based payments expense	**8.4**	5.0
Closing balance at the end of the year	**16.3**	12.5
Treasury securities reserve		
Opening balance at the beginning of the year	**(15.5)**	(11.7)
Issue of securities to employees	**6.4**	3.3
Purchase of securities	**(9.4)**	(7.1)
Closing balance at the end of the year	**(18.5)**	(15.5)

Nature and purpose of reserves

Asset revaluation reserve

The asset revaluation reserve is used to record the fair value adjustment arising on a business combination.

Cash flow hedge reserve

The cash flow hedge reserve is used to record the effective portion of changes in the fair value of derivatives that are designated as cash flow hedges.

Foreign currency basis spread reserve

The foreign currency basis spread reserve is used to record the changes in the fair value of cross currency derivatives attributable to movements in foreign currency basis spreads, and represents a cost of hedging.

Security-based payment reserve

The security-based payment reserve is used to recognise the fair value of performance rights to be issued under the Deferred Short Term Incentive Plans (DSTI) and the Long Term Incentive Plans (LTI). Refer to note 21 for further details.

Treasury securities reserve

The treasury securities reserve is used to record the acquisition of securities purchased to fulfil the obligations of the Deferred Short Term Incentive Plans (DSTI) and the Long Term Incentive Plans (LTI). As at 30 June 2019, DXS held 1,580,175 stapled securities which includes acquisitions of 813,443 and unit vesting of 680,177 (2018: 1,645,469).

Capital and financial risk management and working capital continued

Note 17 Working capital

a) Cash and cash equivalents

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

b) Receivables

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

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method, less provision for doubtful debts. Trade receivables are required to be settled within 30 days and are assessed on an ongoing basis for impairment. Receivables which are known to be uncollectable are written off by reducing the carrying amount directly.

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

	2019 $m	2018 $m
Rent receivable[1]	**17.3**	13.3
Less: provision for doubtful debts	**(0.1)**	–
Total rental receivables	**17.2**	13.3
Distributions receivable	**49.1**	22.9
Fee receivable	**58.5**	20.5
Other receivables	**22.7**	6.7
Total other receivables	**130.3**	50.1
Total receivables	**147.5**	63.4

1. Rent receivable includes outgoings.

c) Other current assets

	2019 $m	2018 $m
Prepayments	**15.4**	16.6
Other	**1.7**	11.2
Total other current assets	**17.1**	27.8

d) Payables

	2019 $m	2018 $m
Trade creditors	**43.5**	21.2
Accruals	**12.1**	11.7
Accrued capital expenditure	**86.1**	63.2
Prepaid income	**13.3**	20.6
Accrued interest	**30.4**	30.1
Other payables	**3.4**	2.9
Total payables	**188.8**	149.7

e) Provisions

A provision is recognised when an obligation exists as a result of a past event and it is probable that a future outflow of cash or other benefit will be required to settle the obligation.

In accordance with the Trust's Constitution, the Group distributes its distributable income to unitholders by cash or reinvestment. Distributions are provided for when they are approved by the Board of Directors and declared.

Provision for employee benefits relates to the liabilities for wages, salaries, annual leave and long service leave.

Liabilities for employee benefits for wages, salaries and annual leave expected to be settled within 12 months represent present obligations resulting from employees' services provided to the end of the reporting period. They are measured based on remuneration wage and salary rates that the Group expects to pay at the end of the reporting period including related on-costs, such as workers compensation, insurance and payroll tax.

The provision for employee benefits for long service leave represents the present value of the estimated future cash outflows, to be made resulting from employees' services provided to the end of the reporting period.

The provision is calculated using expected future increases in wage and salary rates including related on-costs and expected settlement dates based on turnover history and is discounted using the Australian Corporate Bond Index rates at the end of the reporting period that most closely matches the term of the maturity of the related liabilities. The provision for employee benefits also includes the employee incentives schemes which are shown separately in note 21.

	2019 $m	2018 $m
Provision for distribution	**252.3**	245.3
Provision for employee benefits	**31.9**	26.4
Total current provisions	**284.2**	271.7

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

	2019 $m	2018 $m
Provision for distribution		
Opening balance at the beginning of the year	**245.3**	241.6
Additional provisions	**529.0**	486.4
Payment of distributions	**(522.0)**	(482.7)
Closing balance at the end of the year	**252.3**	245.3

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

Other disclosures

In this section

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

Note 18 Intangible assets

Management rights represent the asset management rights owned by Dexus Holdings Pty Limited, a wholly owned subsidiary of DXO, which entitles it to management fee revenue from both finite life trusts and indefinite life trusts. Those rights that are deemed to have a finite useful life (held at a value of $3.3 million (2018: $3.7 million) are measured at cost and amortised using the straight-line method over their estimated remaining useful lives of 10 years. Management rights that are deemed to have an indefinite life are held at a value of $286.0 million (2018: $286.0 million).

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

	2019 $m	2018 $m
Management rights		
Opening balance at the beginning of the year	**289.8**	290.1
Amortisation charge	**(0.4)**	(0.3)
Closing balance at the end of the year	**289.4**	289.8
Cost	**294.4**	294.4
Accumulated amortisation	**(5.0)**	(4.6)
Total management rights	**289.4**	289.8
Goodwill		
Opening balance at the beginning of the year	**1.1**	1.2
Impairment	**(0.1)**	(0.1)
Closing balance at the end of the year	**1.0**	1.1
Cost	**3.0**	3.0
Accumulated impairment	**(2.0)**	(1.9)
Total goodwill	**1.0**	1.1
Software		
Opening balance at the beginning of the year	**23.7**	18.2
Additions	**14.0**	10.9
Amortisation charge	**(6.0)**	(5.4)
Closing balance at the end of the year	**31.7**	23.7
Cost	**48.7**	37.5
Accumulated amortisation	**(17.0)**	(13.8)
Cost – Fully amortised assets written off	**(7.2)**	(2.8)
Accumulated amortisation – Fully amortised assets written off	**7.2**	2.8
Total software	**31.7**	23.7
Total non-current intangible assets	**322.1**	314.6

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition.

Goodwill and management rights with an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. An impairment loss is recognised in the Statement of Comprehensive Income for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows, which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units).

During the year, management carried out a review of the recoverable amount of its management rights. There was no change in the carrying value of the management rights in the current year.

The value in use has been determined using Board approved long-term forecasts in a five year discounted cash flow model and applying a terminal value in year five. Forecasts were based on projected returns of the business in light of current market conditions.

Key assumptions: value in use of management rights

Judgement is required in determining the following key assumptions used to calculate the value in use:

- Terminal capitalisation rate range of between 10.0%–20.0% (2018: 10.0%–20.0%) was used incorporating an appropriate risk premium for a management business.
- Cash flows have been discounted at 9.0% (2018: 9.0%) based on externally published weighted average cost of capital for an appropriate peer group plus an appropriate premium for risk. A 1.0% (2018: 1.0%) decrease in the discount rate would increase the valuation by $24.0 million (2018: $20.0 million).

Note 19 Audit, taxation and transaction service fees

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

	2019 $'000	2018 $'000
Audit fees		
PwC Australia – audit and review of Financial Statements	**1,596**	1,404
PwC fees paid in relation to outgoings audits	**122**	138
PwC Australia – regulatory audit and compliance services	**213**	378
PwC Australia – sustainability assurance	**90**	75
Audit fees paid to PwC	**2,021**	1,995
Taxation fees		
Fees paid to PwC Australia and New Zealand	**30**	24
Taxation fees paid to PwC	**30**	24
Total audit and taxation fees paid to PwC	**2,051**	2,019
Transaction services fees		
Fees paid to PwC Australia in respect of the Healthcare establishment	**–**	30
Fees paid to PWC Australia in respect of the acquisition of 80 Collins St	**90**	–
Fees paid to PwC Australia – other	**112**	99
Total transaction services fees paid to PwC	**202**	129
Total audit, taxation and transaction services fees paid to PwC	**2,253**	2,148

Other disclosures
continued

Note 20 Cash flow information

a) Reconciliation of cash flows from operating activities

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

	2019 $m	2018 $m
Net profit/(loss) for the year	**1,281.0**	1,728.9
Capitalised interest	**(24.4)**	(13.1)
Depreciation and amortisation	**10.3**	9.2
Impairment of inventories	**–**	0.6
Net fair value (gain)/loss of investment properties	**(455.4)**	(854.2)
Share of net (profit)/loss of investments accounted for using the equity method	**(535.6)**	(535.8)
Net fair value (gain)/loss of derivatives	**(146.1)**	79.9
Net fair value (gain)/loss of interest rate swaps	**34.9**	(2.4)
Amortisation of deferred borrowing costs	**3.9**	3.9
Net (gain)/loss on sale of investment properties	**(0.4)**	(1.7)
Net fair value gain/(loss) of interest bearing liabilities	**127.8**	(85.8)
Distributions from investments accounted for using the equity method	**214.8**	331.0
Change in operating assets and liabilities		
(Increase)/decrease in receivables	**(56.6)**	8.9
(Increase)/decrease in prepaid expenses	**11.3**	(4.0)
(Increase)/decrease in inventories	**(17.4)**	(37.8)
(Increase)/decrease in other current assets	**(1.8)**	(9.0)
(Increase)/decrease in other non-current assets	**0.3**	22.5
Increase/(decrease) in payables	**38.6**	(24.4)
Increase/(decrease) in current liabilities	**5.5**	(13.4)
Increase/(decrease) in other non-current liabilities	**6.7**	(1.4)
(Increase)/decrease in deferred tax assets	**(4.3)**	7.8
Net cash inflow/(outflow) from operating activities	**493.1**	609.7

b) Net debt reconciliation

Reconciliation of net debt movements:

	2019	2018	
	Interest bearing liabilities $m	Interest bearing liabilities $m	Loans with related parties $m
Opening balance	**3,359.8**	2,697.8	149.0
Changes from financing cash flows			
Proceeds from borrowings	**4,914.0**	2,599.0	–
Repayment of borrowings	**(4,399.8)**	(1,921.2)	–
Repayment of loan with related party	**–**	–	(149.0)
Non cash changes			
Movement in deferred borrowing costs and other	**(36.0)**	(1.2)	–
The effect of changes in foreign exchange rates	**100.8**	71.2	–
Fair value hedge adjustment	**127.8**	(85.8)	–
Closing balance	**4,066.6**	3,359.8	–

Note 21 Security-based payment

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

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

The fair value of performance rights granted is recognised as an employee benefit expense with a corresponding increase in the security-based payment reserve in equity. The total amount to be expensed is determined by reference to the fair value of the performance rights granted.

Other disclosures
continued

Note 21 Security-based payment continued

Key assumptions: fair value of performance rights granted

Judgement is required in determining the fair value of performance rights granted. In accordance with AASB 2 *Share-based Payment*, fair value is determined independently using Binomial and Monte Carlo pricing models with reference to:

- the expected life of the rights
- the security price at grant date
- the expected price volatility of the underlying security
- the expected distribution yield
- the risk free interest rate for the term of the rights and expected total security-holder returns (where applicable)

The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each period, the Group revises its estimates of the number of performance rights that are expected to vest based on the non-market vesting conditions. The impact of the revised estimates, if any, is recognised in profit or loss with a corresponding adjustment to equity.

a) Deferred Short Term Incentive Plan

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

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

The number of performance rights granted in respect of the year ended 30 June 2019 was 410,171 (2018: 263,222) and the fair value of these performance rights is $12.98 (2018: $9.88) per performance right. The total security-based payment expense recognised during the year ended 30 June 2019 was $3,395,774 (2018: $2,585,116).

b) Long Term Incentive Plan

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

The number of performance rights granted in respect of the year ended 30 June 2019 was 594,094 (2018: 465,701). The weighted average fair value of these performance rights is $11.75 (2018: $9.02) per performance right. The total security-based payment expense recognised during the year ended 30 June 2019 was $3,470,130 (2018: $3,231,041).

Note 22 Related parties

Responsible Entity and Investment Manager

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

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

DXH is the Investment Manager of DOTA.

Management Fees

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

The Group received Responsible Entity and other Management Fees from the unlisted property funds managed by DXS during the financial year.

Related party transactions

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

Transactions with related parties

	2019 $'000	2018 $'000
Responsible Entity & asset management fee income	**106,022**	70,450
Property management fee income	**40,106**	24,841
Rent paid	**3,012**	2,760
Responsible Entity fees receivable at the end of each reporting year (included above)	**19,224**	6,572
Property management fees receivable at the end of each reporting year (included above)	**9,505**	2,612
Administration expenses receivable at the end of each reporting year (included above)	**11,415**	5,552

Key management personnel compensation

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

Information regarding individual Directors' and Senior Executives' remuneration is provided in the Remuneration Report on pages 68 to 89 of the Annual Report.

There have been no other transactions with key management personnel during the year.

Other disclosures
continued

Note 23 Parent entity disclosures

The financial information for the parent entity of Dexus Diversified Trust has been prepared on the same basis as the Consolidated Financial Statements except as set out below.

Distributions received from associates are recognised in the parent entity's Statement of Comprehensive Income, rather than being deducted from the carrying amount of these investments.

Interests held by the parent entity in controlled entities are measured at fair value through profit and loss to reduce a measurement or recognition inconsistency.

a) Summary financial information

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

	2019 $m	2018 $m
Total current assets	**51.6**	33.5
Total assets	**5,873.3**	5,095.6
Total current liabilities – payables	**130.7**	75.9
Total liabilities	**2,538.2**	2,192.6
Equity		
Contributed equity	**2,398.5**	2,127.1
Reserves	**13.2**	(12.5)
Retained profits	**923.4**	788.4
Total equity	**3,335.1**	2,903.0
Net profit/(loss) for the year	**315.7**	468.8
Total comprehensive income/(loss) for the year	**311.5**	449.4

b) Guarantees entered into by the parent entity

Refer to note 14(b) for details of guarantees entered into by the parent entity.

c) Contingent liabilities

Refer to note 14(b) for details of the parent entity's contingent liabilities.

d) Capital commitments

The following amounts represent capital expenditure of the parent entity on investment properties contracted at the end of the reporting period but not recognised as liabilities payable:

	2019 $m	2018 $m
Investment properties	**60.0**	102.8
Total capital commitments	**60.0**	102.8

e) Going concern

The parent entity is a going concern and its net current asset deficiency has been addressed in 'About this Report'.

Note 24 Changes in accounting policies

AASB 15 *Revenue from Contracts with Customers* and AASB 9 *Financial Instruments* are effective for annual periods beginning on or after 1 January 2018. Both these standards were adopted by the 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. The changes and considerations are detailed below.

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.

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

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

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

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

Property revenue

Within its lease arrangements, the 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*.

Management fees and other revenue

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

Development revenue

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

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

Other disclosures
continued

Note 24 Changes in accounting policies continued

AASB 9 *Financial Instruments*

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

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

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

Classification and measurement of financial assets

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

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

Classification and measurement of financial liabilities

Under AASB 9 the classification of financial liabilities held by the Group does not change from that previously prescribed in AASB 139 *Financial Instruments: Recognition and Measurement*. The main change introduced by AASB 9 is in relation to the accounting treatment for a gain or loss arising from a modification of a financial liability that does not result in the derecognition thereof. The requirements of AASB 9 state that the gain or loss on modification needs to be recognised immediately within profit or loss. The Group has assessed the impact resulting from the initial application of AASB 9 and has determined that non-substantial modifications to interest bearing liabilities have occurred in the past, thereby requiring an adjustment of $1.9 million to decrease retained earnings and to increase the interest bearing liabilities. Refer below for a reconciliation of retained earnings and the impacts on the Consolidated Statement of Financial Position.

Impairment of financial assets

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

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

Hedge Accounting

The new hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been replaced with the principle of an 'economic relationship'. Enhanced disclosure requirements about the Group's risk management activities have been introduced (refer note 12).

The Group's qualifying hedging relationships in place as at 1 July 2018 still qualify for hedge accounting in accordance with AASB 9 and were therefore regarded as continuing hedging relationships. No rebalancing of any of the hedging relationships was necessary on 1 July 2018. As the critical terms of the hedging instruments match those of their corresponding hedged items, all hedging relationships continue to be effective under AASB 9's effectiveness assessment requirements. The Group has also not designated any hedging relationships under AASB 9 that would not have met the qualifying hedge accounting criteria under AASB 139.

The Group uses cross currency interest rate swaps to manage interest rate and foreign currency risk exposures arising from external debt obligations. Historically, changes in foreign currency basis spreads were not included in the hedging relationship between the hedging instrument and the hedged item. Under AASB 139 the changes in the fair value of hedge instruments attributable to changes in foreign currency basis spreads were recognised immediately in profit or loss. Under AASB 9, the changes in foreign currency basis spreads are recognised in other comprehensive income and accumulated in the foreign currency basis spread reserve within equity. The amounts accumulated in equity are either reclassified to profit or loss when the hedged item affects profit or loss or removed directly from equity and included in the carrying amount of non-financial item. AASB 9 allows for the accounting impact of changes in foreign currency basis spreads to be applied retrospectively. This only applies to hedging relationships that existed at 1 July 2018 or were designated thereafter. The Group has assessed the impact resulting from the initial application of AASB 9 and has determined an adjustment of $29.9 million is required to decrease retained earnings and to increase the foreign currency basis spread reserve. Refer below for a reconciliation of retained earnings and the impacts to the Consolidated Statement of Financial Position.

Apart from this, the application of the AASB 9 hedge accounting requirements has had no impact on the results and financial position of the Group.

The table below reconciles the changes in retained earnings upon implementation of the new accounting standards:

	Attributable to unitholders of the trust (parent entity) $m	Attributable to unitholders of other stapled entities $m	**Total Retained Earnings $m**
Closing retained earnings balance as at 30 Jun 2018 – AASB 139	788.5	2,827.4	**3,615.9**
(Increase)/Decrease in debt investments at amortised cost[1]	(1.5)	(0.4)	**(1.9)**
(Increase)/Decrease in foreign currency basis spread reserve[2]	(29.9)	–	**(29.9)**
Opening retained earnings balance as at 1 Jul 2018 – AASB 9	757.1	2,827.0	**3,584.1**

1. Opening retained earnings impact resulting from historical non-substantial modifications to terms of interest bearing liabilities.
2. Opening retained earnings impact resulting from historical changes in foreign currency basis spreads not included in the cash hedge relationship.

Other disclosures
continued

Note 24 Changes in accounting policies continued

AASB 9 *Financial Instruments* 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[1]	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[2]	(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

1. Opening retained earnings impact resulting from historical non-substantial modifications to terms of interest bearing liabilities.
2. Opening retained earnings impact resulting from historical changes in foreign currency basis spreads not included in the cash flow hedge relationship.

Note 25 Subsequent events

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

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

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

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

Director's Declaration

The Directors of Dexus Funds Management Limited as Responsible Entity of Dexus Diversified Trust declare that the Financial Statements and notes set out on pages 96 to 148:

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

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

In the Directors' opinion:

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

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

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

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

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

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

W Richard Sheppard
Chair
13 August 2019

Independent Auditor's Report

Independent auditor's report

To the stapled security holders of Dexus Diversified Trust

Report on the audit of the financial report

Our opinion

In our opinion:

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

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

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

What we have audited

For the purposes of consolidation accounting, the Trust is the deemed parent entity and acquirer of Dexus Industrial Trust (DIT), Dexus Office Trust (DOT) and Dexus Operations Trust (DXO). The financial report represents the consolidated financial results of the Trust and includes the Trust and its controlled entities, DIT and its controlled entities, DOT and its controlled entities, and DXO and its controlled entities.

The Group financial report comprises:

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

Basis for opinion

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

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

Independence

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

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

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

pwc

Our audit approach

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

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

Materiality	*Audit scope*	*Key audit matters*
• For the purpose of our audit we used overall materiality of \$33.9 million, which represents approximately 5% of the Group's adjusted profit before tax (Funds From Operations or FFO). • We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole. • We chose FFO because, in our view, it is the key performance measure of the Group. An explanation of what is included in FFO is outlined in Note 1, Operating segments. • We utilised a 5% threshold based on our professional judgement, noting it is within the range of commonly acceptable profit related thresholds.	• The Group is a stapled entity with operations in Australia. In a stapled group the securities of two or more entities are 'stapled' together and cannot be traded separately. In the case of the Group, the stapled entity includes the Trust, DIT, DOT and DXO and their respective controlled entities. • Our audit focused on where the Group made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events. • We audited each of the individual stapled trusts that form the Group as well as the consolidation of the Group.	• Amongst other relevant topics, we communicated the following key audit matters to the Board Audit Committee: – Valuation of investment properties, including those investment properties in investments accounted for under the equity method – Carrying amount of indefinite life management rights – Carrying amount of inventory • These are further described in the *Key audit matters* section of our report.

Independent Auditor's Report
continued

pwc

Key audit matters

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

Key audit matter	*How our audit addressed the key audit matter*
Valuation of investment properties, including those investment properties in investments accounted for under the equity method *(Refer to Note 8 and 9)* The Group's investment property portfolio comprises: • Directly held properties included in the Consolidated Statement of Financial Position as *Investment Properties* valued at $8,170.0 million as at 30 June 2019 (2018: $8,242.6 million). • The Group's share of investment properties held through associates and joint ventures included in the Consolidated Statement of Financial Position as *Investments accounted for using the equity method* valued at $6,987.8 million as at 30 June 2019 (2018: $4,548.3 million). Investment properties are carried at fair value at reporting date using the Group's policy as described in Note 8. The valuation of investment properties is dependent on a number of assumptions and inputs including tenant information, property age and location, expected future rental profiles, and prevailing market conditions. Amongst others, the following assumptions are key in establishing fair value: • The capitalisation rate • The adopted discount rate. We considered the valuation of investment properties to be a key audit matter due to the: • Financial significance of investment properties in the Consolidated Statement of Financial Position. • Potential for changes in the fair value of investment properties to have a significant effect in the Consolidated Statement of Comprehensive	To assess the valuation of investment properties we performed the following procedures amongst others: • We compared the valuation methodology adopted by the Group with commonly accepted valuation approaches used for investment properties in the industry, and with the Group's stated valuation policy. • We obtained recent independent property market reports to develop an understanding of the prevailing market conditions in which the Group invests. We leveraged this knowledge to form independent expectations of likely movements in investment property values and underlying key assumptions such as capitalisation rates and discount rates. • For a sample of leases, we compared the rental income used in the investment property valuations to the tenancy schedules. • We compared the capitalisation rates and discount rates used by the Group in their investment property valuations to market data we determined reasonable based on location and asset grade. Where capitalisation rates, discount rates and/or movements in individual property valuations fell outside of our expectation, we performed the following procedures, amongst others: - Met with the Group's Senior Valuation Manager and discussed the specifics of the selected individual properties including, amongst other things, any new leases entered into during the year, lease expiries, capital expenditure and vacancy rates. - Agreed significant changes in inputs from previous valuations to supporting documentation such as new lease agreements. - Assessed key inputs in the investment property valuations to observable external market data.

Key audit matter	How our audit addressed the key audit matter
Income. • Inherently subjective nature of investment property valuations arising from the use of assumptions in the valuation methodology. • Sensitivity of valuations to key input assumptions, including capitalisation rates, and discount rates.	• As the Group engaged external experts to determine the fair value of investment properties, we considered the independence, experience and competency of the Group's independent experts as well as the results of their procedures.
Carrying amount of indefinite life management rights *(Refer to Note 18)* At 30 June 2019 indefinite life management rights (management rights) amounting to \$286.0 million (2018: \$286.0 million) were recognised by the Group (included in the intangible assets balance). In accordance with the requirements of Australian Accounting Standards, indefinite life management rights are not amortised and are tested at least annually for impairment. The Group performed impairment testing of the management rights by comparing the recoverable amount of the management rights to their carrying amount. The Group concluded that management rights were not impaired. We considered the carrying amount of indefinite life management rights a key audit matter given the: • Financial significance of the balance in the Consolidated Statement of Financial Position • Significant judgement required by the Group in estimating the recoverable amount of indefinite life management rights • Sensitivity of the Group's assessment of the recoverable amount of indefinite life management rights to changes in key assumptions such as growth rates, discount rates, and future cash flows.	To assess the impairment models used to determine the recoverable amount, we performed the following audit procedures, amongst others: • Assessed whether the division of the Group's management rights into cash generating units (CGU), was in line with the Australian Accounting Standards and consistent with our knowledge of the Group's operations and internal Group reporting. • Tested the mathematical accuracy of each impairment model's calculations. • Evaluated the Group's methodology and selected inputs and assumptions in the impairment models, such as discount rate, revenue and expense growth rates by comparing to observable market expectations. • Compared forecast cash flows used in each impairment model with the most up-to-date budgets approved by the Board. For cash flows beyond year three that were not covered by formal budgets, we compared the growth rates applied to observable market expectations. • Evaluated the Group's historical ability to forecast future cash flows by comparing budgets to reported actual results. • Considered the Group's sensitivity analysis on key assumptions used in the impairment models to assess under which assumptions an impairment would occur and whether this was reasonably possible. • Together with PwC valuation experts we considered whether the discount rate applied in each model was consistent with observable market expectations.

Independent Auditor's Report
continued

Key audit matter	*How our audit addressed the key audit matter*
Carrying amount of inventory *(Refer to Note 10)* The Group develops a portfolio of office and industrial sites for future sale, which are classified as inventory. At 30 June 2019 the carrying amount of the Group's inventory was \$457.7 million (2018: \$544.7 million). The Group's inventories are held at the lower of the cost or net realisable value for each inventory asset. The cost of inventory is calculated using actual acquisition costs, construction costs, development related costs and interest capitalised for eligible projects. Net realisable value is determined by using the valuation techniques referred to in the key audit matter: *Valuation of investment properties, including those properties in investments accounted for under the equity method* to determine the estimated future selling price, and adjusted for the estimated cost to complete and transaction costs. We considered the carrying amount of inventory to be a key audit matter given the: • Judgement required in determining the fair value of properties transferred from investment properties to inventory at the date of transfer, or used in net realisable value calculations. Refer to key audit matter: *Valuation of investment properties, including those properties in investments accounted for under the equity method* for key judgements in determining the fair value. • Judgements required by the Group in determining the costs to complete and transaction costs used in net realisable value calculations. • Financial significance of the inventory balance in the Consolidated Statement of Financial Position. • The subsequent impact to FFO from the disposal of inventory.	To assess the carrying amount of inventory we performed the following procedures amongst others: • Tested that a sample of costs, transfers to inventory and acquisitions capitalised to inventory were in accordance with the Group's policy/methodology and the requirements of Australian Accounting Standards. • We used a risk based approach to select a sample of inventory assets on which to perform net realisable value testing. For the selected assets we: - Discussed with management the life cycle of the project, key project risks, changes to project strategy, current and future estimated sales prices, construction progress and costs and any new and previous impairments. - Compared the market capitalisation rates and net market income used by the Group to calculate net realisable value to market capitalisation rates and rental rates published by external independent valuation experts. - Compared the carrying amount of inventory against the Group's estimate of net realisable value as at 30 June 2019.

Other information

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

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

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

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

Responsibilities of the Directors for the financial report

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

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

Auditor's responsibilities for the audit of the financial report

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

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

Independent Auditor's Report
continued

pwc

Report on the remuneration report

Our opinion on the remuneration report

We have audited the remuneration report included in pages 68 to 89 of the Directors' Report for the year ended 30 June 2019.

In our opinion, the remuneration report complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The Directors are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of *the Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

PricewaterhouseCoopers

PricewaterhouseCoopers

Matthew Lunn
Partner

Sydney
13 August 2019

Investor Information

Dexus recognises the importance of effective communication with existing and potential institutional investors, sell-side analysts and retail investors.

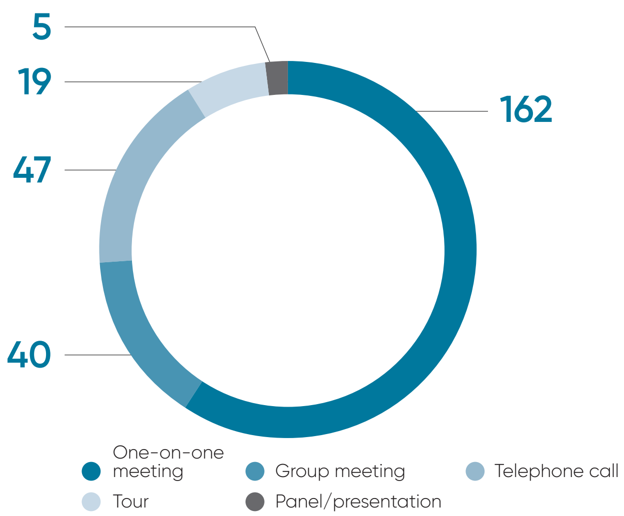
Our Executives and the Investor Relations team maintain a strong rapport with the investment community through proactive and regular engagement initiatives. We are committed to delivering high levels of transparency and disclosure by:

- Releasing accurate and relevant information to investors to ensure they can make informed investment decisions
- Providing regular access to senior management through one-on-one meetings, presentations, property tours, conferences, dedicated investor roadshows, conference calls and webcasts

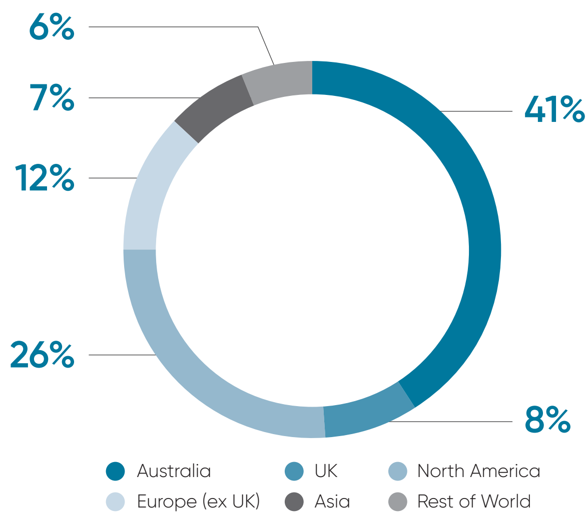
We adopt strong governance practices including a policy that ensures a minimum of two Dexus representatives participate in any institutional investor or sell-side broker meetings and that a record of the meeting is maintained on an internal customer relationship management database.

During FY19, senior management together with the Investor Relations team held 273 engagements with investor/broker groups to discuss the group's business strategy, operational and financial performance. These engagements were undertaken across a wide range of investor activities including telephone calls, conferences, roadshows, one-on-one meetings, dinners, investor briefings and roundtables.

Investor contact method (by number)



Security holders by geography (%)



We participated in investor conferences and roadshows in Australia, Singapore, Hong Kong, Japan and London. These conferences and roadshows enabled access to potential new investors and assisted with strengthening existing relationships with long term investors.

The Investor Relations team arranged two group property tours for institutional investors and sell-side brokers to strengthen the awareness of the quality of the portfolio, understand our active asset management approach and importantly how we create value. In Perth, 240 St Georges Terrace, 58 Mounts Bay Road, Kings Square and Carillon City, attracted 22 attendees, while in the Sydney North Shore tour, the North Shore Health Hub and the recently completed development at 100 Mount Street, attracted 28 attendees.

Investor relations events

2018

August

- Release of Dexus's FY18 results
- FY18 results roadshow: (Sydney and Melbourne)

September

- Conferences: JP Morgan (London), Morgan Stanley (London)

October

- Investor briefing with Dexus Chair (Hong Kong)
- Institutional investor roadshow (Singapore, Hong Kong)
- Annual General Meeting (Sydney)
- Conferences: Citi (Sydney), Bank of America Merrill Lynch (Sydney)

November

- Institutional investor and broker property tour (Perth)
- Conference: UBS (Sydney)

2019

February

- Release of Dexus's HY19 results
- HY19 results roadshow (Sydney and Melbourne)

March

- Conference: JP Morgan (Singapore, Hong Kong, Tokyo)
- Institutional investor roadshow (London, Singapore)

April

- Conference: Macquarie (Sydney)

May

- Debt and unlisted institutional investor tour (North Sydney)

June

- Institutional investor and broker property tour (North Sydney)
- Institutional investor roadshow (Hong Kong, Singapore)

We regularly commission independent investor perception studies to gather feedback from the institutional investment community. These studies involve independent surveys and interviews with institutional investors and sell-side brokers to measure perceptions on a number of attributes and report on the findings. The results help the Board and Executive team understand the investment community's views and concerns and assists in the enhancement of the group's Investor Relations and communications activities.

In 2018 the Australasian Investor Relations Association (AIRA) awarded Dexus second place in the Designate Award for Most Progress in Investor Relations by an Australasian Company at their annual awards evening.

Our Treasury team held non-deal specific meetings with institutional debt investors in Asia in November 2018 and the US in May 2019. In addition, the team participates in the Property Treasurers' Round Table events facilitated by the Property Council of Australia.

Annual General Meeting

On Wednesday, 30 October 2019, commencing at 2.00pm, Dexus's Annual General Meeting (AGM) will be held in Sydney. Details relating to the meeting, including the venue location will be provided to all investors in the Notice of Meeting. We invite you to attend the AGM in person to meet the Board of Directors and members of the Executive team. The AGM will be webcast at www.dexus.com for investors who are unable to attend in person.

Distribution payments

Dexus's payout policy is to distribute in line with free cash flow. Distributions are paid for the six-month periods to 31 December and 30 June each year. Distribution statements are available in print and electronic formats and distributions are paid only by direct credit into nominated bank accounts for all Australian and New Zealand Security holders and by cheque for other international Security holders.

To update the method of receiving distributions, please visit the investor login facility at www.dexus.com/update

Unclaimed distribution income

Unpresented cheques or unclaimed distribution income can be claimed by contacting the Dexus Infoline on +61 1800 819 675. For monies outstanding greater than seven years, please contact the NSW Office of State Revenue on +61 1300 366 016, 8.30am-5.00pm Monday to Friday, use their search facility at osr.nsw.gov.au/ucm or email unclaimedmoney@osr.nsw.gov.au

Attribution Managed Investment Trust Member Annual Statement (previously the Annual Taxation Statement)

An Attribution Managed Investment Trust Member Annual Statement (AMMA) is sent to investors at the end of August each year. The statement summarises distributions provided during the financial year and includes information required to complete your tax return. AMMA statements are also available online at www.dexus.com/update

2020 Reporting calendar[1]

2019 Annual General Meeting
30 October 2019

2020 Half year results
6 February 2020

2020 Annual results
19 August 2020

2020 Annual General Meeting
28 October 2020

Distribution calendar[1]

Period end	31 December 2019	30 June 2020
ASX announcement	23 December 2019	24 June 2020
Ex-distribution date	30 December 2019	29 June 2020
Record date	31 December 2019	30 June 2020
Payment date	28 February 2020	28 August 2020

1. Please note that these dates are indicative and are subject to change without prior notice. Any changes in our key dates will be published on our website.

Go electronic for convenience and speed

Did you know that you can receive all or part of your security holder communications electronically? You can change your communication preferences at any time by logging in at www.dexus.com/update or by contacting Link Market Services on +61 1800 819 675.

Investor communications

We are committed to ensuring all investors have equal access to information. In line with our commitment to long term integration of sustainable business practices, investor communications are provided via various electronic methods including:

Dexus's website – www.dexus.com

Other investor tools available include:

Online enquiry – www.dexus.com/enquire
is an easy online enquiry form

Investor login – www.dexus.com/update
enables investors to update their details and download statements

Subscribe to alerts – www.dexus.com/subscribe
enables investors to receive Dexus communications immediately after release

Key dates – notifies investors on key events and reporting dates

LinkedIn – We engage with our followers on LinkedIn
www.dexus.com/LinkedIn and click follow us

Twitter – We engage with our followers on Twitter
Search Dexus on Twitter and follow us

Facebook – We engage with our followers on Facebook
Search Dexus on Facebook and follow us

Dexus IR App – provides users access to our investor communications and security price. Download for free from Apple's App Store or Google Play

Making contact

If you have any questions regarding your security holding or wish to update your personal or distribution payment details, please contact the Registry by calling the Dexus Infoline on +61 1800 819 675. This service is available from 8.30am to 5.30pm (Sydney time) on all business days. All correspondence should be addressed to:

Dexus
C/- Link Market Services Limited
Locked Bag A14
Sydney South NSW 1235
Email: dexus@linkmarketservices.com.au

We are committed to delivering a high level of service to all investors. If you feel we could improve our service or you would like to make a suggestion or a complaint, your feedback is appreciated. Our contact details are:

Investor Relations

Dexus
PO Box R1822
Royal Exchange NSW 1225
Email: ir@dexus.com

Dexus Funds Management Limited is also a member of the Australian Financial Complaints Authority (AFCA), an independent dispute resolution scheme. If you are not satisfied with the resolution of your complaint, you may refer your complaint to AFCA.

Australian Financial Complaints Authority

GPO Box 3
Melbourne VIC 3001
Phone: +61 1800 931 678 (free call within Australia)
Fax: +61 3 9613 6399
Email: info@afca.org.au
Website: www.afca.org.au

Additional Information

Top 20 security holders at 31 July 2019

Rank	Name	No. of units	% of issued capital
1	HSBC Custody Nominees (Australia) Limited	491,678,945	44.83
2	J P Morgan Nominees Australia Pty Limited	276,169,077	25.18
3	Citicorp Nominees Pty Limited	102,713,173	9.36
4	National Nominees Limited	48,201,391	4.39
5	BNP Paribas Nominees Pty Ltd <Agency Lending DRP A/C>	34,813,192	3.17
6	BNP Paribas Nominees Pty Ltd <DRP>	19,469,161	1.77
7	Citicorp Nominees Pty Limited <Colonial First State Inv A/C>	11,192,576	1.02
8	AMP Life Limited	7,453,248	0.68
9	HSBC Custody Nominees (Australia) Limited GSCO ECA	4,606,227	0.42
10	Australian Executor Trustees Limited <IPS Super A/C>	3,128,078	0.29
11	HSBC Custody Nominees (Australia) Limited <NT Commonwealth Super Corp A/C>	3,017,852	0.28
12	HSBC Custody Nominees (Australia) Limited	2,561,117	0.23
13	Pacific Custodians Pty Limited Perf Rights Plan TST	1,669,226	0.15
14	Avanteos Investments Limited <Encircle IMA A/C>	1,474,773	0.13
15	BNP Paribas Nominees (NZ) Ltd <DRP>	1,135,152	0.10
16	One Managed Investment Funds Limited <Charter Hall Property Securities A/C>	1,115,000	0.10
17	Cs Third Nominees Pty Limited <HSBC Cust Nom AU Ltd 13 A/C>	982,952	0.09
18	Netwealth Investments Limited <Wrap Services A/C>	848,361	0.08
19	BNP Paribas Nominees Pty Ltd Hub24 Custodial Services Ltd DRP	802,847	0.07
20	Avanteos Investments Limited <Encircle Super>	652,742	0.06
Sub total		**1,013,685,090**	**92.42**
Balance of register		**83,172,575**	**7.58**
Total of issued capital		**1,096,857,665**	**100.00**

Substantial holders at 31 July 2019

The names of substantial holders, at 31 July 2019 that have notified the Responsible Entity in accordance with section 671B of the *Corporations Act 2001*, are:

Date	Name	Number of stapled securities	% voting
8 Apr 2019	State Street Corporation	70,998,322	6.98
21 Dec 2018	Vanguard Group	102,882,077	10.11
23 Nov 2018	Blackrock Group	89,843,853	8.83

Note: Dexus issued capital changed from 1,017,196,877 to 1,096,857,665 between April and June 2019 following the completion of the Institutional Placement and Security Purchase Plan as announced to the ASX.

Class of securities

Dexus has one class of stapled security trading on the ASX with Security holders holding stapled securities at 31 July 2019.

Spread of securities at 31 July 2019

Range	Securities	%	No. of Holders
100,000 and over	1,024,068,530	93.36	58
50,000 to 100,000	2,343,801	0.21	35
10,001 to 50,000	17,810,471	1.62	1,052
5,001 to 10,000	17,667,581	1.61	2,591
1,001 to 5,000	30,220,513	2.76	12,581
1 to 1,000	4,746,769	0.43	9,858
Total	1,096,857,665	100.00	26,175

At 31 July 2019, the number of security holders holding less than a marketable parcel of 39 Securities ($500) was 394 and they held a total of 1,772 securities.

Voting rights

At meetings of the security holders of Dexus Diversified Trust, Dexus Industrial Trust, Dexus Office Trust and Dexus Operations Trust, being the Trusts that comprise Dexus, on a show of hands, each Security holder of each Trust has one vote. On a poll, each Security holder of each Trust has one vote for each dollar of the value of the total interests they have in the Trust.

Securities restricted or subject to voluntary escrow

There are no stapled securities that are restricted or subject to voluntary escrow.

On-market buy-back

There was no on market buy-back in the financial year to 30 June 2019.

Cost base apportionment

For capital gains tax purposes, the cost base apportionment details for Dexus securities for the 12 months ended 30 June 2019 are:

Date	Dexus Diversified Trust	Dexus Industrial Trust	Dexus Office Trust	Dexus Operations Trust
1 Jul 2018 to 31 Dec 2018	28.87%	9.37%	59.54%	2.22%
1 Jan 2019 to 30 Jun 2019	28.62%	8.55%	59.98%	2.85%

Historical cost base details are available at www.dexus.com

Key ASX announcements

26 Jun 2019	$250 million valuation uplift achieved across Dexus's portfolio
21 Jun 2019	Notice of Distribution Appendix 3A
21 Jun 2019	Distribution for the six months ending 30 June 2019
21 Jun 2019	Settlement of 11 Talavera Road Macquarie Park
18 Jun 2019	100 Mount Street sets a new benchmark for North Sydney
13 Jun 2019	Dexus plans a mixed-use transformation of the MLC Centre
07 Jun 2019	Appendix 3Y - Change of Director's Interest Notice for John Conde
07 Jun 2019	Appendix 3Y - Change of Director's Interest Notice for Richard Sheppard
07 Jun 2019	Appendix 3Y - Change of Director's Interest Notice for Penny Bingham-Hall
07 Jun 2019	Appendix 3Y - Change of Director's Interest Notice for Peter St George
05 Jun 2019	North Shore Property Tour
04 Jun 2019	Revised Appendix 3B
04 Jun 2019	Appendix 3B SPP
03 Jun 2019	Dexus announces successful completion of Security Purchase Plan
09 May 2019	Initial settlement of 80 Collins Street Melbourne
08 May 2019	Institutional placement allotment and cleansing statement
08 May 2019	Despatch of Dexus Security Purchase Plan
07 May 2019	Appendix 3B
03 May 2019	Successful completion of $900m institutional placement
02 May 2019	Acquisition and equity raising 80 Collins Street Melbourne
30 Apr 2019	March 2019 quarter portfolio update
30 Apr 2019	2019 Macquarie Conference Australia
01 Apr 2019	Settlement of acquisition of remaining interest in MLC Centre, Sydney
28 Mar 2019	Media reports regarding 80 Collins Street Melbourne
20 Mar 2019	Appendix 3B
18 Mar 2019	Enhanced Cleansing Notice
13 Mar 2019	Pricing of $425 million exchangeable notes offering
12 Mar 2019	Dexus and DWPF acquire remaining interest in MLC Centre Sydney
28 Feb 2019	31 December 2018 distribution payment
25 Feb 2019	Sale of 11 Talavera Road Macquarie Park
14 Feb 2019	Appendix 3Y - Change of Director's Interest Notice for Darren Steinberg.
06 Feb 2019	HY19 Appendix 4D and Financial Accounts
06 Feb 2019	HY19 Distribution details
06 Feb 2019	HY19 Results presentation
06 Feb 2019	HY19 Results release
06 Feb 2019	HY19 Property Synopsis
06 Feb 2019	Appointment of Company Secretary
21 Dec 2018	New investor secured for existing Dexus Industrial Partnership
14 Dec 2018	Notice of Distribution Appendix 3A
14 Dec 2018	Distribution details for the six months to 31 December 2018
14 Dec 2018	$405 million valuation uplift across Dexus portfolio
10 Dec 2018	Settlement of industrial acquisition
30 Nov 2018	Settlement of seed portfolio for JV with GIC
26 Nov 2018	Dexus establishes JV with GIC for a wholesale unlisted logistics trust
07 Nov 2018	Perth Property Tour
06 Nov 2018	Appendix 3Y - Change of Director's Interest Notice for Darren Steinberg.
31 Oct 2018	Amendment to Constitutions
31 Oct 2018	Settlement of acquisition of 60 Collins Street Melbourne
24 Oct 2018	2018 Annual General Meeting results
24 Oct 2018	2018 Annual General Meeting
24 Oct 2018	September 2018 quarter portfolio update
05 Oct 2018	Dexus extends presence in healthcare sector through strategic investment
02 Oct 2018	Investor roadshow presentation
19 Sep 2018	2018 Notice of Annual General Meeting
19 Sep 2018	Dexus secures prime development site in Melbourne CBD
30 Aug 2018	30 June 2018 distribution payment
21 Aug 2018	Settlement of 32 Flinders Street Melbourne
17 Aug 2018	Appendix 3Y - Change of Director's Interest Notice for Darren Steinberg
15 Aug 2018	Appendix 4E
15 Aug 2018	2018 Final Distribution Details
15 Aug 2018	FY18 Annual Results Release
15 Aug 2018	FY18 Annual Results Presentation
15 Aug 2018	2018 Annual Report
15 Aug 2018	2018 Financial Statements
15 Aug 2018	2018 Property Synopsis
15 Aug 2018	Appendix 4G and Corporate Governance Statement
14 Aug 2018	Replenishing industrial development pipeline in core locations

Directory

Dexus Diversified Trust
ARSN 089 324 541

Dexus Industrial Trust
ARSN 090 879 137

Dexus Office Trust
ARSN 090 768 531

Dexus Operations Trust
ARSN 110 521 223

Responsible Entity
Dexus Funds Management Limited
ABN 24 060 920 783
AFSL 238163

Directors of the Responsible Entity
W Richard Sheppard, Chair
Penny Bingham-Hall
John C Conde AO
Tonianne Dwyer
Mark H Ford
The Hon. Nicola Roxon
Darren J Steinberg, CEO
Peter B St George

Secretaries of the Responsible Entity
Brett Cameron
Scott Mahony

Registered office of the Responsible Entity
Level 25, Australia Square
264 George Street
Sydney NSW 2000

PO Box R1822
Royal Exchange
Sydney NSW 1225

Phone: +61 2 9017 1100
Fax: +61 2 9017 1101

Email: ir@dexus.com
www.dexus.com

Auditors
PricewaterhouseCoopers
Chartered Accountants
201 Sussex Street
Sydney NSW 2000

Investor Enquiries
Registry Infoline: +61 1800 819 675
Investor Relations: +61 2 9017 1330

Email: dexus@linkmarketservices.com.au

www.dexus.com

Security Registry
Link Market Services Limited
Level 12, 680 George Street
Sydney NSW 2000

Locked Bag A14
Sydney South NSW 1235
www.linkmarketservices.com.au

Open Monday to Friday between 8.30am and 5.30pm (Sydney time). For enquiries regarding security holdings, contact the security registry, or access security holding details at www.dexus.com/investor-centre

Australian Securities Exchange
ASX Code: DXS

LinkedIn, Twitter, Facebook
Dexus now engages with its followers via LinkedIn, Twitter and Facebook

IR App
Download the Dexus IR App to gain instant access to the latest Dexus stock price, ASX announcements, presentations, reports, webcasts and more.

About this report
The 2019 Annual Report is a consolidated summary of Dexus's performance for the financial year ended 30 June 2019. This report should be read in conjunction with the reports that comprise the 2019 Annual Reporting Suite available from www.dexus.com/investor-centre

In this report, unless otherwise stated, references to 'Dexus' 'the group', 'we', 'us' and 'our' refer to Dexus comprising the ASX listed entity and the Funds Management business. Any reference in this report to a 'year' relates to the financial year ended 30 June 2019. All dollar figures are expressed in Australian dollars unless otherwise stated.

Dexus referred to the Global Reporting Initiative (GRI) Sustainability Reporting Guidelines to determine the report's boundaries for guidance on identifying and reporting its material issues, management approaches and reporting key performance indicators across stakeholder groups including investors, employees, customers, suppliers and the community.

The 2019 Annual Reporting Suite has been prepared in accordance with the GRI Standards: Core option and nominated indicators have been externally assured. The GRI index is provided with the 2019 Sustainability Performance Pack available from www.dexus.com/investor-centre

Dexus's Funds From Operations (FFO) is in line with Property Council of Australia's definition and comprises net profit/loss after tax attributable to stapled security holders calculated in accordance with Australian Accounting Standards and adjusted for: property revaluations, impairments, derivative and foreign exchange (FX) mark-to-market impacts, fair value movements of interest bearing liabilities, amortisation of tenant incentives, gain/loss on sale of certain assets, straight-line rent adjustments, deferred tax expense/benefit, rental guarantees, coupon income and distribution income net of funding costs.

Report scope
The Annual Report covers financial performance at all locations. Environmental data only includes properties under the Group's operational control as defined under the National Greenhouse and Energy Reporting System (NGER Act). All resource performance figures in this report display consumption and GHG emissions on an intensity (per square metre) basis. Absolute consumption and additional information is provided in the 2019 Sustainability Performance Pack available from www.dexus.com/investor-centre

Independent assurance
In addition to auditing Dexus's Financial Statements, PricewaterhouseCoopers (PwC) has provided limited assurance over select environmental and social data within the integrated online reporting suite covering the 12 months to 30 June 2019. The assurance statement, the GRI verification report and associated reporting criteria documents will be available from the online reporting suite in August 2019.

dexus