Dexus (ASX: DXS)

ASX release

19 August 2020

2020 Financial Statements

In addition to Dexus's 2020 Annual Report, which includes the Financial Statements for Dexus Diversified Trust, Dexus provides the 2020 Financial Statements for Dexus Industrial Trust, Dexus Office Trust and Dexus Operations Trust.

Authorised by the Board of Dexus Funds Management Limited

For further information please contact:

Investors
Jessica Johns
Senior Manager, Investor Relations
+61 2 9017 1368
+61 427 706 994
jessica.johns@dexus.com

Media
Louise Murray
Senior Manager, Corporate Communications
+61 2 9017 1446
+61 403 260 754
louise.murray@dexus.com

About Dexus

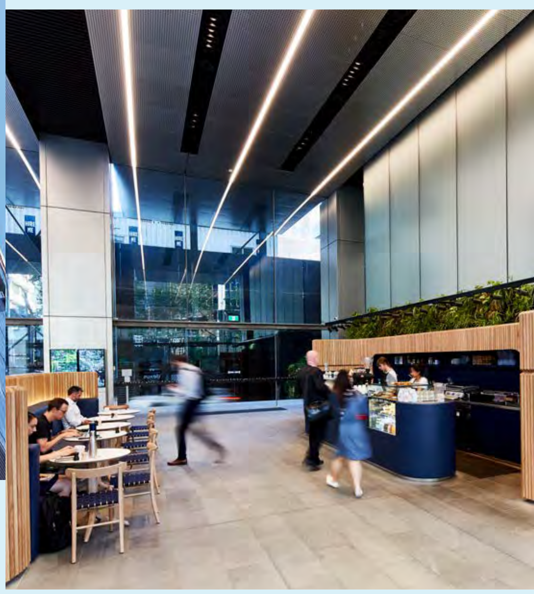
Dexus is one of Australia's leading real estate groups, managing a high-quality Australian property portfolio valued at $32.0 billion. We believe that the strength and quality of our relationships is central to our success and are deeply committed to working with our customers to provide spaces that engage and inspire. We invest only in Australia and directly own $16.5 billion of properties, with a further $15.5 billion of properties managed on behalf of third-party clients. The group's $10.6 billion development pipeline provides the opportunity to grow both portfolios and enhance future returns. With 1.8 million square metres of office workspace across 51 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 29,000 investors from 21 countries. With over 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

Dexus Funds Management Ltd ABN 24 060 920 783, AFSL 238163, as Responsible Entity for Dexus (ASX: DXS)
Level 25, 264 George Street, Sydney NSW 2000

dexus

Financial Statements 2020

Positioning for the recovery



The Financial Statements for Dexus Industrial Trust, Dexus Office Trust and Dexus Operations Trust.

Dexus Industrial Trust
Financial Report
30 June 2020

ARSN: 090 879 137

Contents

dexus

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

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

Directors' Report

The Directors of Dexus Funds Management Limited (DXFM) as Responsible Entity of Dexus Industrial Trust (DIT or the Trust) present their Directors' Report together with the Consolidated Financial Statements for the year ended 30 June 2020. The Consolidated Financial Statements represents DIT and its consolidated entities.

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

Directors and Secretaries

Directors

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

Directors	Appointed
W Richard Sheppard, BEc (Hons), FAICD	1 January 2012
Patrick N J Allaway, BA/LLB	1 February 2020
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 H 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 2020 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 23 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. Nine board meetings were main meetings and three meetings were held to consider specific business.

	Main meetings held	Main meetings attended	Specific meetings held	Specific meetings attended
W Richard Sheppard	9	9	3	3
Patrick N J Allaway	5	5	2	2
Penny Bingham-Hall	9	9	3	3
John C Conde, AO	9	9	3	3
Tonianne Dwyer	9	9	3	3
Mark H Ford	9	9	3	2
The Hon. Nicola L Roxon	9	9	3	3
Darren J Steinberg	9	9	3	3
Peter B St George	9	9	3	3

1. Patrick Allaway commenced his directorship on 1 February 2020.

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 2020.

	Board Audit Committee		Board Risk Committee		Board Nomination Committee[3]		Board People and Remuneration Committee		Board Environmental, Social and Governance Committee [4]		Joint "Organisational Risk" Session	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended	Held	Attended	Held	Attended
W Richard Sheppard	-	-	-	-	3	3	7	7	-	-	2	2
Patrick N J Allaway[1]	-	-	-	-	1	1	-	-	-	-	1	1
Penny Bingham-Hall[2]	-	-	1	1	3	3	7	7	3	3	2	2
John C Conde, AO	4	4	-	-	3	3	-	-	-	-	2	2
Tonianne Dwyer	4	4	4	4	3	3	-	-	-	-	2	2
Mark H Ford	4	4	4	4	3	3	-	-	3	3	2	2
The Hon. Nicola L Roxon[2]	-	-	1	1	3	3	7	7	3	3	2	2
Peter B St George	4	4	4	4	3	3	-	-	-	-	2	2

1. Patrick Allaway commenced his directorship on 1 February 2020 and effective immediately became a member of the Board Nomination Committee.
2. Penny Bingham-Hall and Nicola L Roxon ceased membership on the Board Risk Committee effective 1 September 2019.
3. All Non-Executive Directors (NEDs) became members of the Board Nomination Committee effective 1 September 2019.
4. Board Environmental, Social & Governance (ESG) Committee was established, effective 1 September 2019.

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 2020.

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	88,019
Patrick N J Allaway	20,000
Penny Bingham-Hall	32,773
John C Conde, AO	17,906
Tonianne Dwyer	16,667
Mark H Ford	10,000
The Hon. Nicola L Roxon[1]	9,737
Darren J Steinberg[2]	1,525,395
Peter B St George	18,573

1. Includes interests held directly and through Non-Executive Director (NED) Plan rights.
2. Includes interests held directly and through performance rights.

Operating and financial review

The relevant financial information for the Trust for the year ended 30 June 2020 were:
- profit attributable to unitholders was $56.4 million (2019: $76.1 million)
- total assets were $966.3 million (2019: $1,025.5 million)
- net assets were $934.0 million (2019: $953.6 million)

A review of the results, financial position and operations of the Group, of which the Trust forms part thereof, is set out on pages 26 to 35 of the Dexus Annual Report and forms part of this Directors' Report.

Renumeration Report

The Remuneration Report is set out on pages 62 to 86 of the Dexus Annual Report and forms part of this Directors' Report.

Directors' directorships in other listed entities

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

Director	Company	Date Appointed
W Richard Sheppard	Star Entertainment Group	21 November 2012
Patrick N J Allaway	Bank of Queensland	1 May 2019
	Nine Entertainment Co. Holdings Limited	7 December 2018
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 H Ford	Kiwi Property Group Limited[2]	16 May 2011
Darren J Steinberg	VGI Partners Limited	12 May 2019

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

Principal activities

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

Total value of Trust assets

The total value of the assets of the Trust as at 30 June 2020 was $966.3 million (2019: $1,025.5 million). Details of the basis of this valuation are outlined in the Notes to the Consolidated Financial Statements and form part of this Directors' Report.

Likely developments and expected results of operations

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

Significant changes in the state of affairs

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

Matters subsequent to the end of the financial year

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

Distributions

Distributions paid or payable by the Trust for the year ended 30 June 2020 are outlined in note 5 of the Notes to the Consolidated Financial Statements and form part of this Directors' Report.

DXFM fees

Details of fees paid or payable by the Trust for the year ended 30 June 2020 are outlined in note 13 of the Notes to the Consolidated Financial Statements and form part of this Directors' Report.

Units on Issue

The movement in units on issue in the Trust during the year and the number of units on issue as at 30 June 2020 are detailed in note 9 of the Notes to the Consolidated Financial Statements and form part of this Directors' Report.

Environmental regulation

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

Indemnification and insurance

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

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

Audit

Auditor

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

Non-audit services

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

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

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

The reasons for the Directors being satisfied are:

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

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

Auditor's Independence Declaration

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

Corporate governance

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

Rounding of amounts and currency

As the Trust is an entity of the kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, the Directors have chosen to round amounts in this Directors' Report and the accompanying Financial Report to the nearest thousand dollars, unless otherwise indicated. The Trust is an entity to which the Instrument applies. All figures in this Directors' Report and the Consolidated 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 Consolidated Financial Statements were authorised for issue by the Directors on 18 August 2020.

W Richard Sheppard
Chair
18 August 2020

Darren J Steinberg
Chief Executive Officer
18 August 2020

Auditor's Independence Declaration

As lead auditor for the audit of Dexus Industrial Trust for the year ended 30 June 2020, I declare that to the best of my knowledge and belief, there have been:

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

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

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

Matthew Lunn
Partner
PricewaterhouseCoopers

Sydney
18 August 2020

PricewaterhouseCoopers, ABN 52 780 433 757
One International Towers Sydney, Watermans Quay, Barangaroo, GPO BOX 2650, SYDNEY NSW 2001
T: +61 2 8266 0000, F: +61 2 8266 9999, www.pwc.com.au
Level 11, 1PSQ, 169 Macquarie Street, Parramatta NSW 2150, PO Box 1155 Parramatta NSW 2124
T: +61 2 9659 2476, F: +61 2 8266 9999, www.pwc.com.au

Consolidated Statement of Comprehensive Income

For the year ended 30 June 2020

	Note	2020 $'000	2019 $'000
Revenue from ordinary activities			
Property revenue	2	**26,204**	54,313
Interest revenue		**22,775**	14,364
Total revenue from ordinary activities		**48,979**	68,677
Net fair value gain of investment properties		**13,903**	19,437
Net gain on sale of investment properties		**26**	2,149
Total income		**62,908**	90,263
Expenses			
Property expenses	2	**(4,933)**	(10,681)
Management fee expense		**(1,043)**	(1,921)
Finance costs	3	**(3)**	(683)
Transaction costs		**-**	(360)
Management operations, corporate and administration expenses		**(486)**	(563)
Total expenses		**(6,465)**	(14,208)
Profit/(loss) for the year		**56,443**	76,055
Other comprehensive income/(loss):			
Other comprehensive income/(loss)		**-**	-
Total comprehensive income/(loss) for the year		**56,443**	76,055

		Cents	Cents
Earnings per unit on profit/(loss) attributable to unitholders of parent entity			
Basic earnings per unit	4	**5.15**	7.39
Diluted earnings per unit	4	**5.02**	7.34

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

Consolidated Statement of Financial Position

As at 30 June 2020

	Note	2020 $'000	2019 $'000
Current assets			
Cash and cash equivalents	10(a)	**901**	1,191
Receivables	10(b)	**2,416**	1,658
Derivative financial instruments	7(c)	**-**	22
Other		**462**	123
Total current assets		**3,779**	2,994
Non-current assets			
Investment properties	6(a)	**301,670**	357,982
Loans with related parties	13	**660,899**	664,550
Total non-current assets		**962,569**	1,022,532
Total assets		**966,348**	1,025,526
Current liabilities			
Payables	10(c)	**3,866**	7,487
Derivative financial instruments	7(c)	**-**	3,357
Provisions	10(d)	**28,458**	61,088
Total current liabilities		**32,324**	71,932
Total liabilities		**32,324**	71,932
Net assets		**934,024**	953,594
Equity			
Equity attributable to unitholders of the Trust (parent entity)			
Contributed equity	9	**1,215,790**	1,220,456
Retained profits		**(281,766)**	(266,862)
Total equity		**934,024**	953,594

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 2020

	Contributed equity $'000	Retained profits/ (losses) $'000	Total equity $'000
Opening balance as at 1 July 2018	1,139,628	(196,230)	943,398
Change in accounting policy	-	(188)	(188)
Restated opening balance as at 1 July 2019	1,139,628	(196,418)	943,210
Profit/(loss) for the year	-	76,055	76,055
Other comprehensive income/(loss) for the year	-	-	-
Total comprehensive income for the year	-	76,055	76,055
Transactions with owners in their capacity as unitholders:			
Issue of additional equity, net of transaction costs	80,828	-	80,828
Distributions paid or provided for	-	(146,499)	(146,499)
Total transactions with owners in their capacity as unitholders	80,828	(146,499)	(65,671)
Closing balance as at 30 June 2019	1,220,456	(266,862)	953,594
Opening balance as at 1 July 2019	**1,220,456**	**(266,862)**	**953,594**
Profit/(loss) for the year	**-**	**56,443**	**56,443**
Other comprehensive income/(loss) for the year	**-**	**-**	**-**
Total comprehensive income for the year	**-**	**56,443**	**56,443**
Transactions with owners in their capacity as unitholders:			
Buy-back of contributed equity, net of transaction costs	**(4,666)**	**-**	**(4,666)**
Distributions paid or provided for	**-**	**(71,347)**	**(71,347)**
Total transactions with owners in their capacity as unitholders	**(4,666)**	**(71,347)**	**(76,013)**
Closing balance as at 30 June 2020	**1,215,790**	**(281,766)**	**934,024**

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 2020

	Note	2020 $'000	2019 $'000
Cash flows from operating activities			
Receipts in the course of operations (inclusive of GST)		**29,613**	62,191
Payments in the course of operations (inclusive of GST)		**(13,065)**	(16,882)
Interest received		**42**	70
Interest received/(paid) on derivatives		**(3,337)**	(6,742)
Finance costs		**-**	(1)
Net cash inflow/(outflow) from operating activities	12	**13,252**	38,636
Cash flows from investing activities			
Proceeds from sale of investment properties		**69,505**	442,963
Payments for capital expenditure on investment properties		**(721)**	(12,235)
Payments for acquisition of investment properties		**-**	(27,843)
Net cash inflow/(outflow) from investing activities		**68,784**	402,885
Cash flows from financing activities			
Borrowings provided to related parties		**140,932**	(522,105)
Borrowings received from related parties		**(114,616)**	101,370
Payments for buy-back of contributed equity		**(4,666)**	-
Proceeds from issue of additional equity, net of transaction costs		**-**	80,828
Distributions paid to security holders		**(103,977)**	(101,386)
Net cash inflow/(outflow) from financing activities		**(82,327)**	(441,293)
Net increase/(decrease) in cash and cash equivalents		**(291)**	228
Cash and cash equivalents at the beginning of the year		**1,191**	963
Cash and cash equivalents at the end of the year		**901**	1,191

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

Notes to the Consolidated Financial Statements

In this section

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

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

Basis of preparation

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

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

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

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

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

Working capital deficiency

As at 30 June 2020, the Trust had a net current asset deficiency of $28.6 million (2019: $68.9 million). This is primarily due to the provision for distribution of $28.4 million due to be paid in August 2020.

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

The Group has in place both external and internal funding arrangements to support the cash flow requirements of the Trust, including undrawn facilities of $1,573.4 million. Refer to note 14 of the Group's Consolidated Financial Statements located in the Dexus Annual Report.

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

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

Basis of preparation (continued)

Critical accounting estimates

The economic impacts resulting from the Government imposed restrictions in a response to the COVID-19 pandemic, have the potential to impact various financial statement line items including: Investment properties, Property revenue and expenses, and Receivables (included within Working capital).

Dexus was performing well leading into the crisis with high occupancy and significant leasing success in office, however uncertainty exists as a result of a range of different factors, including:

- The outlook for the Australian economy and overall economic activity which could lead to modifications of leases and impact rental income;
- Temporary closures and insolvencies of businesses that could impact the recoverability of debts; and
- Sentiment for the property industry and underlying demand for investment in property.

Industries have been impacted by varying degrees as a result of the pandemic. The impact on office tenants varies, with generally a lesser impact on tenants in industries such as professional services, healthcare, telecommunications and technology, compared with those in entertainment, leisure, travel, tourism, education and training.

Industrial tenants are showing to be more resilient, especially in the case of essential services such as medical equipment, pharmaceutical supplies and online retailers who in some cases have experienced growth.

In the process of applying the Trust's accounting policies, management has made a number of judgements and applied estimates in relation to COVID-19 related uncertainties. The judgements and estimates which are material to the financial report are discussed in the following notes.

Note 2	Property revenue and expenses	Page 16
Note 6	Investment properties	Page 20
Note 7	Capital and financial risk management	Page 24
Note 10	Working capital	Page 32

Principles of consolidation

These Consolidated Financial Statements incorporate the assets, liabilities and results of all subsidiaries as at 30 June 2020.

(a) Controlled entities

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

(b) Joint arrangements

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

Joint operations

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

Foreign currency

The Consolidated 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 Consolidated Statement of Comprehensive Income.

As at 30 June 2020, the Trust had no investments in foreign operations.

Goods and services tax

Revenues, expenses and capital assets are recognised net of any amount of Australian Goods and Services Tax (GST), except where the amount of GST incurred is not recoverable. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of the expense. Cash flows are included in the Consolidated 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.

Notes to the Consolidated Financial Statements

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

The notes are organised into the following sections:

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

Trust performance

In this section

This section explains the results and performance of the Trust.

It provides additional information about those individual line items in the Consolidated Financial Statements that the Directors consider most relevant in the context of the operations of the Trust, including: results by operating segment, property revenue and expenses, finance costs, earnings per unit and distributions paid and payable.

Note 1 Operating segments

Description of segments

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

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

Disclosures concerning DXS's operating segments are presented in the Group's Consolidated Financial Statements located in the Dexus Annual Report.

Note 2 Property revenue and expenses

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

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

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

	2020 $'000	2019 $'000
Rent and recoverable outgoings	**26,661**	44,237
Services revenue	**1,103**	5,953
Incentive amortisation	**(1,869)**	(4,411)
Other revenue	**309**	8,534
Total property revenue	**26,204**	54,313

COVID-19 rent relief

In April 2020, the Australian Government introduced a National Code of Conduct (Code of Conduct) and set of principles which applies to commercial tenancies (including retail, office and industrial) for small and medium enterprise customers (SMEs) with turnover of less than $50 million experiencing financial stress or hardship as a result of the COVID-19 pandemic as defined by their eligibility for the Commonwealth Government's JobKeeper Program. The Code of Conduct has been implemented on a State by State basis through specific legislation.

The objective of the Code of Conduct and the State based legislation is to ensure the landlord and tenant share, in a proportionate, measured manner the financial risk and cash flow impact during the COVID-19 period. The legislation applies for the prescribed period as defined under the regulations for each State (which is approximately 6 months to September 2020 in all States other than Tasmania and ACT). The JobKeeper Program has been extended to 28 March 2021 however the extension of the JobKeeper payment does not automatically extend legislation associated with the Code of Conduct. Changes to legislation in each State will be monitored to understand if any extensions are enacted and whether the Code of Conduct will apply to this extended period.

Note 2 Property revenue and expenses (continued)

COVID-19 rent relief (continued)

Dexus is working with impacted tenants who meet the criteria to implement the requirements under the legislation and provide relief packages. While there is no one size fits all approach, Dexus' immediate priority is to support SMEs who have been significantly impacted by the coronavirus pandemic and is progressing discussions with these customers on various forms of rent relief.

For tenants eligible under the Code of Conduct and State based legislation, rent relief comprises a proportionate reduction in rent payable in the form of waivers and deferrals of up to 100% of the amount ordinarily payable, on a case-by-case basis, based on the reduction in the tenant's turnover during the COVID-19 pandemic period. Rental waivers must generally constitute at least 50% of the rent relief offered. The repayment period for rent deferrals differs across States. In New South Wales, there is no mandatory minimum repayment period for deferred rent. In Victoria and Western Australia, the deferral is repayable over the balance of the lease term and 24 months, whichever is the greater (unless otherwise agreed). In Queensland, the deferral is repayable over a period of 2-3 years.

Rent relief may take a different form for those tenants that are ineligible under the Code of Conduct and the State based legislation. Dexus continues to work with its tenants to understand whether they are eligible for rental relief under the Code of Conduct and the State based legislation.

The various rent relief measures are accounted for as follows in line with ASIC guidance '20-157MR Focuses for financial reporting under COVID-19 conditions' published on 7 July 2020.

When a rent waiver agreement is made between the landlord and tenant:

- rent waived that relates to future occupancy is spread over the remaining lease term and recognised on a straight-line basis; and
- rent waived that relates to past occupancy is expensed immediately, except to the extent there exists a pre-existing provision for expected credit losses relating to unpaid rent.

Property revenue has been recognised for occupancy up to the date of a waiver agreement. Where there was no agreement at 30 June 2020, a provision for expected credit losses per AASB 9 *Financial Instruments* has been recognised against any receivable for unpaid rent for past occupancy.

The provision for expected credit losses is recognised with a corresponding expense in Property expenses. The provision covers the difference between contractual cash flows that are due and cash flows expected to be received. Accordingly, the provision includes both that part of the rent receivable that is likely to be waived and any additional amount relating to credit risk associated with the financial condition of the tenant. Refer to note 10 *Working capital* for the amount of the provision for expected credit losses recognised at the reporting date.

In the circumstance where the tenant has fully paid rent for the period of occupancy up to the reporting date, there is no rent receivable against which to make a provision. Where it is expected that some of the rent already paid by the tenant will be waived, there is no basis to recognise a liability at the reporting date. Based on management's best estimate at the reporting date, $0.9m of rent income recognised in the year ended 30 June 2020 is expected to be waived in the year ended 30 June 2021 once formal rent relief agreements have been signed.

Rent deferrals, where in substance the deferral is a delay in the timing of payments, have no impact on property revenue recognition. A separate assessment of the recoverability of rent receivable is performed in accordance with the policy outlined in note 10 *Working capital*.

Property Expenses

Property expenses of $4.9 million (2019: $10.7 million) includes rates, taxes and other property outgoings incurred in relation to investment properties. If these items are recovered from a tenant by the Trust, they are recorded within Services revenue or recoverable outgoings within Property revenue.

Note 3 Finance costs

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

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

	2020	2019
	$'000	$'000
Net fair value (gain)/loss of interest rate swaps	**3**	713
Amount capitalised	**-**	(31)
Other finance costs	**-**	1
Total finance costs	**3**	683

Note 4 Earnings per unit

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

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

	2020 $'000	2019 $'000
Profit attributable to unitholders of the parent entity	56,443	76,055

b) Weighted average number of units used as a denominator

	2020 No. of units	2019 No. of units
Weighted average number of units outstanding used in calculation of basic earnings per unit	1,095,096,969	1,028,577,220
Effect on exchange of Exchangeable Notes	28,333,333	8,046,239
Weighted average number of units outstanding used in calculation of diluted earnings per unit	1,123,430,302	1,036,623,459

Note 5 Distributions paid and payable

Distributions are recognised when declared.

a) Distribution to unitholders

	2020 $'000	2019 $'000
31 December (paid 28 February 2020)	42,889	85,411
30 June (payable 28 August 2020)	28,458	61,088
Total distribution to unitholders	71,347	146,499

b) Distribution rate

	2020 Cents per unit	2019 Cents per unit
31 December (paid 28 February 2020)	3.91	8.40
30 June (payable 28 August 2020)	2.61	5.57
Total distributions	6.52	13.97

Property portfolio assets

In this section

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

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

Note 6 Investment properties

The Trust's investment properties consist of properties held for long-term rental yields and/or capital appreciation and property that is being constructed or developed for future use as investment property. Investment properties are initially recognised at cost including transaction costs. Investment properties are subsequently 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 Consolidated Statement of Comprehensive Income. The gain or loss on disposal of an investment property is calculated as the difference between the carrying amount of the asset at the date of disposal and the net proceeds from disposal and is included in the Consolidated Statement of Comprehensive Income in the year of disposal.

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

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

a) Reconciliation

	2020 $'000	2019 $'000
Opening balance at the beginning of the year	**357,982**	744,150
Additions	**658**	6,439
Acquisitions	**-**	27,843
Lease incentives	**1,419**	5,754
Amortisation of lease incentives	**(2,219)**	(5,220)
Rent straightlining	**(990)**	392
Disposals	**(69,083)**	(440,813)
Net fair value gain/(loss) of investment properties	**13,903**	19,437
Closing balance at the end of the year	**301,670**	357,982

Disposals

On 1 April 2020, settlement occurred for the disposal of a further 24% interest in the Dexus Australia Logistics Trust (DALT) core portfolio assets in connection with the exercise of second tranche rights by GIC on 23 December 2019 for $69.7 million excluding transaction costs.

Note 6 Investment properties (continued)

b) Valuations process

It is the policy of the Trust to perform independent valuations for each individual property at least once every three years by a member of the Australian Property Institute of Valuers. It has been the Trust's practice to have such valuations performed every six months. Each valuation firm and its signatory valuer are appointed on the basis that they are engaged for no more than three years except for 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 2020, all investment properties were independently externally valued.

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

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

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

Note 6 Investment properties (continued)

c) Fair value measurement, valuation techniques and inputs

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

Class of property	Fair value hierarchy	Inputs used to measure fair value	Range of unobservable inputs 2020	2019
Industrial	Level 3	Adopted capitalisation rate	**5.25% - 7.75%**	5.75% - 8.25%
		Adopted discount rate	**6.25% - 8.50%**	6.75% - 8.00%
		Adopted terminal yield	**5.75% - 8.25%**	6.00% - 8.75%
		Current net market rental (per sqm)	**$40 - $338**	$38 - $338

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.

d) Impact of COVID-19 on fair value of investment properties

There is a significant level of uncertainty regarding the ultimate impact of COVID-19 on the Trust's investment property valuations. As a result, the independent valuations incorporate a range of assumptions used in determining appropriate fair values for investment properties as at 30 June 2020. The assumptions that have had the greatest impact on the valuations are listed below:

- Valuers have adjusted market rental growth, downtime and incentive assumptions within their discounted cashflow (DCF) method of valuing and have generally had more regard to this valuation methodology when determining the adopted value;
- Some valuers have incorporated an allowance for the uncertainty in relation to the payment of rent with regards to the Government's Code of Conduct where the tenant pool comprises small to medium enterprises (SMEs); and
- Capitalisation and discount rates have generally firmed over the 12 months to June with the firming largely being seen in the first six months prior to the impact of COVID-19. Transactional evidence post COVID-19, while limited, suggest capitalisation and discount rates have not yet been impacted.

The independent valuations obtained by the Trust also include significant valuation uncertainty clauses due to the unknown impacts to the property industry. Noting the uncertainty, the Trust considers that the assumptions used in the valuations are appropriate for the purposes of determining fair value of investment properties at 30 June 2020.

Note 6 Investment properties (continued)

e) Sensitivity information

Significant movement in any one of the inputs listed in the table above may result in a change in the fair value of the Trust's investment properties as shown below.

The estimated impact of a change in certain significant unobservable inputs would result in a change in the fair value as follows:

	2020	2019
	$'000	$'000
A decrease of 25 basis points in the adopted capitalisation rate	**12,603**	13,898
A increase of 25 basis points in the adopted capitalisation rate	**(11,631)**	(12,974)
A decrease of 25 basis points in the adopted discount rate	**11,206**	12,705
A increase of 25 basis points in the adopted discount rate	**(10,431)**	(11,863)
A decrease of 5% in the net market rental (per sqm)	**(15,084)**	(17,899)
A increase of 5% in the net market rental (per sqm)	**15,084**	17,899

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.

Capital and financial risk management and working capital

In this section

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

Note 7 *Capital and financial risk management* outlines how the Trust manages its exposure to a variety of financial risks (interest rate risk, liquidity risk and credit risk) and details the various derivative financial instruments entered into by the Trust.

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

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

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

Note 7 Capital and financial risk management

Capital and financial risk management is carried out through a centralised treasury function which is governed by a Board approved Treasury Policy. The Group has an established governance structure which consists of the Group Management Committee and Capital Markets Committee.

The Board has appointed a Group Management Committee responsible for achieving Dexus's goals and objectives, including the prudent financial and risk management of the Group. A Capital Markets Committee has been established to advise the Group Management Committee.

The Capital Markets Committee is a management committee that is accountable to the Board. It convenes at least quarterly and conducts a review of financial risk management exposures including liquidity, funding strategies and hedging. It is also responsible for the development of financial risk management policies and funding strategies for recommendation to the Board, and the approval of treasury transactions within delegated limits and powers.

a) Capital risk management

The Trust manages its capital to ensure that entities within the Trust will be able to continue as a going concern while maximising the return to owners through the optimisation of the debt and equity balance.

The capital structure of the Trust consists of debt, cash and cash equivalents and equity attributable to security holders. The Trust continuously monitors its capital structure and it is managed in consideration of the following factors:

- the cost of capital and the financial risks associated with each class of capital;
- gearing levels and other debt covenants;
- potential impacts on net tangible assets and security holders' equity;
- potential impacts on the Group's credit rating; and
- other market factors.

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

DXFM 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.

Note 7 Capital and financial risk management (continued)

b) Financial risk management

The Trust's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Trust. The Trust's principal financial instruments, other than derivatives, comprise cash and related party loan receivables. The main purpose of financial instruments is to manage liquidity and hedge the Trust's exposure to financial risks namely:

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

The Trust uses derivatives to reduce the Trust's exposure to fluctuations in interest rates. These derivatives create an obligation or a right that effectively transfers one or more of the risks associated with an underlying financial instrument, asset or obligation. Derivative financial instruments that the Trust may use to hedge its risks include:

- interest rate swaps and interest rate options (together interest rate derivatives); and
- other derivative contracts.

The Trust does not trade in interest rate related derivative instruments for speculative purposes. The Trust uses different methods to measure the different types of risks to which it is exposed, including monitoring the current and forecast levels of exposure and conducting sensitivity analysis.

i) Market risk

Interest rate risk

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

The Trust's risk management policy for interest rate risk seeks to minimise the effects of interest rate movements on its asset and liability portfolio through active management of the exposures. The policy prescribes minimum and maximum hedging amounts for the Group, which is managed on a portfolio basis.

The Trust primarily enters into interest rate derivatives to manage the associated interest rate risk. The derivative contracts are recorded at fair value in the Consolidated Statement of Financial Position, using standard valuation techniques with market inputs.

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.

At 30 June 2020, the trust was not party to any derivatives contracts.

Note 7 Capital and financial risk management (continued)

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

Interest rate risk (continued)

Sensitivity analysis on fair value of interest rate derivatives

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

The fair value of interest rate derivatives is calculated as the present value of estimated future cash flows on the instruments. Although interest rate derivatives are transacted for the purpose of providing the Trust with an economic hedge, the Trust has elected not to apply hedge accounting to these instruments. Accordingly, gains or losses arising from changes in the fair value are reflected in the profit or loss.

	2020 **(+/-) $'000**	2019 (+/-) $'000
+/- 0.50% (50 basis points)	-	155
Total A$ equivalent	-	155

Note 7 Capital and financial risk management (continued)

b) Financial risk management (continued)

ii) Liquidity risk

Liquidity risk is associated with ensuring that there are sufficient funds available to meet the Trust's financial commitments as and when they fall due and planning for any unforeseen events which may curtail cash flows. The Trust identifies and manages liquidity risk across the following categories:

- short-term liquidity management covering the month ahead on a rolling basis with continuous monitoring of forecast and actual cash flows;
- medium-term liquidity management of liquid assets, working capital and standby facilities to cover Trust cash requirements over the next 1-24 month period. The Trust maintains a level of committed borrowing facilities above the forecast committed debt requirements (liquidity headroom buffer). Committed debt includes future expenditure that has been approved by the Board or Investment Committee (as required within delegated limits); and
- long-term liquidity management through ensuring an adequate spread of maturities of borrowing facilities so that refinancing risk is not concentrated in certain time periods and ensuring an adequate diversification of funding sources where possible, subject to market conditions.

Refinancing risk

Refinancing risk is the risk that the Trust:

- will be unable to refinance its debt facilities as they mature; and/or
- will only be able to refinance its debt facilities at unfavourable interest rates and credit market conditions (margin price risk).

The Group's key risk management strategy for margin price risk on refinancing is to spread the maturities of debt facilities over different time periods to reduce the volume of facilities to be refinanced and the exposure to market conditions in any one period. An analysis of the contractual maturities of the Trust's interest-bearing liabilities and derivative financial instruments is shown in the table below. The amounts in the table represent undiscounted cash flows.

	2020				2019			
	Within one year $'000	**Between one and two years $'000**	**Between two and five years $'000**	**After five years $'000**	Within one year $'000	Between one and two years $'000	Between two and five years $'000	After five years $'000
Payables	**(3,866)**	**-**	**-**	**-**	(7,487)	-	-	-
Derivative financial instruments								
Derivative liabilities	**-**	**-**	**-**	**-**	(2,008)	-	-	-
Total interest bearing liabilities & interest[1]	**-**	**-**	**-**	**-**	(2,008)	-	-	-

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

Note 7 Capital and financial risk management (continued)

b) Financial risk management (continued)

iii) Credit risk

Credit risk is the risk that the counterparty will not fulfil its obligations under the terms of a financial instrument and will cause financial loss to the Trust. The Trust has exposure to credit risk on all financial assets included in the Trust's Consolidated Statement of Financial Position.

The Trust manages this risk by:
- adopting a process for determining an approved counterparty, with consideration of qualitative factors as well as
- the counterparty's credit rating;
- regularly monitoring counterparty exposure within approved credit limits that are based on the lower of a S&P, Moody's and Fitch credit rating. The exposure includes the current market value of in-the-money contracts and the potential exposure, which is measured with reference to credit conversion factors as per APRA guidelines;
- entering into International Swaps and Derivatives Association (ISDA) Master Agreements once a financial institution counterparty is approved;
- for some trade receivables, obtaining collateral where necessary in the form of bank guarantees and tenant bonds; and
- regularly monitoring loans and receivables on an ongoing basis.

A minimum S&P rating of A– (or Moody's or Fitch equivalent) is required to become or remain an approved counterparty unless otherwise approved by the Dexus Board.

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

The Trust has a policy that sets limits as to the amount of credit exposure to each financial institution. New derivatives and cash transactions are limited to financial institutions that meet minimum credit rating criteria in accordance with the Trust's policy requirements.

Financial instrument transactions are spread among a number of approved financial institutions within specified credit limits to minimise the Trust's exposure to any one counterparty. As a result, there is no significant concentration of credit risk for financial instruments. The maximum exposure to credit risk at 30 June 2020 is the carrying amounts of financial assets recognised on the Consolidated Statement of Financial Position.

The Trust is exposed to credit risk on trade receivable balances. The Trust has a policy to continuously assess and monitor the credit quality of trade debtors on an ongoing basis. Given the historical profile and exposure of the trade receivables, it has been determined that no significant concentrations of credit risk exists for trade receivables balances. The maximum exposure to credit risk at 30 June 2020 is the carrying amounts of the trade receivables recognised on the Consolidated Statement of Financial Position.

iv) Fair value

As at 30 June 2020, the carrying amounts of financial assets and liabilities are held at fair value.

The Trust uses the following methods in the determination and disclosure of the fair value of financial instruments:

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

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

Level 3: The fair value is estimated using inputs for the asset or liability that are not based on observable data.

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

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

Key assumptions: fair value of derivatives

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

Note 7 Capital and financial risk management (continued)

b) Financial risk management (continued)

v) Offsetting financial assets and financial liabilities

Financial assets and liabilities are offset and the net amount reported in the Consolidated Statement of Financial Position where there is a legally enforceable right to set-off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously. No financial assets and liabilities are currently held under netting arrangements.

Master Netting arrangements – not currently enforceable

Agreements with derivative counterparties are based on an ISDA Master Agreement. Under the terms of these arrangements, where certain credit events occur (such as default), the net position owing/receivable to a single counterparty in the same currency will be taken as owing and all the relevant arrangements terminated. As the Trust does not presently have a legally enforceable right of set-off, these amounts have not been offset in the Consolidated Statement of Financial Position.

c) Derivative financial instruments

A derivative is a type of financial instrument typically used to manage risk. A derivative's value changes over time in response to an underlying benchmark, such as 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.

Written policies and limits are approved by the Board of Directors of the Responsible Entity, in relation to the use of financial instruments to manage financial risks. The Responsible Entity regularly reviews the Trust's exposures and updates its treasury policies and procedures. The Trust does not trade in interest rate derivative instruments for speculative purposes.

	2020 $'000	2019 $'000
Current assets		
Interest rate derivative contracts	-	22
Total current assets - derivative financial instruments	-	22
Current liabilities		
Interest rate derivative contracts	-	3,357
Total current liabilities - derivative financial instruments	-	3,357
Net derivative financial instruments	-	(3,335)

Note 8 Commitments and contingencies

a) Commitments

Capital commitments

The following amounts represent remaining capital expenditure on investment properties and inventories, as well as committed fit-out and cash incentives contracted at the end of each reporting period but not recognised as liabilities payable:

	2020	2019
	$'000	$'000
Investment properties	**463**	754
Total capital commitments	**463**	754

Lease receivable commitments

The future minimum lease payments receivable by the Trust are:

	2020	2019
	$'000	$'000
Within one year	**40,089**	39,878
Later than one year but not later than five years	**122,323**	155,154
Later than five years	**21,811**	35,168
Total lease receivable commitments	**184,223**	230,200

b) Contingencies

The Trust, together with DXO, DOT and DDF, is a guarantor of A$6,248.4 million (2019: $5,004 million) of interest bearing liabilities (refer to note 14 of the Group's Consolidated Financial Statements located in the Dexus Annual Report). The guarantees have been given in support of debt outstanding and drawn against these facilities, and may be called upon in the event that a borrowing entity has not complied with certain requirements such as failure to pay interest or repay a borrowing, whichever is earlier. During the period no guarantees were called.

The Directors of the Responsible Entity are not aware of any other contingent liabilities in relation to the Trust, other than those disclosed in the Consolidated Financial Statements, which should be brought to the attention of unitholders as at the date of completion of this report.

Note 9 Contributed equity

Number of units on issue

	2020 No. of units	2019 No. of units
Opening balance at the beginning of the year	**1,096,857,665**	1,017,196,877
Issue of additional equity	**-**	79,660,788
Buy-back of contributed equity	**(5,655,502)**	-
Closing balance at the end of the year	**1,091,202,163**	1,096,857,665

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

Each stapled security entitles the holder to vote in accordance with the provisions of the Constitutions and the *Corporations Act 2001*.

Transaction costs arising on the buy-back 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 buy-back of those equity instruments and which would not have been incurred had those instruments not been bought back.

On 23 October 2019, Dexus announced plans to initiate an on-market securities buy-back of up to 5% of Dexus securities on issue over the next 12 months, as part of its active approach to capital management.

During the period to 30 June 2020, Dexus acquired and cancelled 5,655,502 securities representing 0.52% of Dexus securities on issue.

Note 10 Working capital

a) Cash and cash equivalents

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

b) Receivables

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

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method, less provision for expected credit losses. 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 expected credit losses is recognised for expected credit losses on trade and other receivables. The provision for expected credit losses 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.

The calculation of expected credit losses relating to rent and other receivables requires significant judgement to assess the future uncertainty of tenants' ability to pay their debts. Expected credit losses have been estimated using a provision matrix that has been developed with reference to the Trust's historical credit loss experience, general economic conditions and forecasts, assumptions around rent relief that may be provided to tenants and tenant risk factors such as size, industry exposure and the Trust's understanding of the ability of tenants to pay their debts. Accordingly, expected credit losses includes both that part of the rent receivable that is likely to be waived and any additional amount relating to credit risk associated with the financial condition of the tenant.

For any provisions for expected credit losses, the corresponding expense has been recorded in the Consolidated Statement of Comprehensive Income within Property expenses.

	2020 $'000	2019 $'000
Rent receivable[1]	**309**	74
Accrued property income	**85**	-
Less: provision for doubtful debts	**(175)**	(3)
Total rental receivables	**219**	71
Interest receivable	**2,097**	1,501
Other receivables	**100**	86
Total other receivables	**2,197**	1,587
Total receivables	**2,416**	1,658

1. Rent receivable includes outgoings recoveries.

Note 10 Working capital (continued)

b) Receivables (continued)

The provision for expected credit losses for rent receivables (which includes outgoings recoveries) as at 30 June 2020 was determined as follows:

30 June 2020	$'000
0-30 days	58
31-60 days	71
61-90 days	24
91+ days	23
Total provision for expected credit losses	**175**

The provision for expected credit losses for distribution receivable and other receivables that has been recorded is minimal.

The provision for expected credit losses for rent receivables as at 30 June 2020 reconcile to the opening loss allowances as follows:

	2020 $'000	2019 $'000
Opening provision for expected credit losses	3	-
Increase in provision recognised in profit or loss during the year	175	3
Unused provision amount reversed during the year	(3)	-
Closing provision for expected credit losses	175	3

c) Payables

	2020 $'000	2019 $'000
Trade creditors	1,570	749
Accruals	1,084	2,276
Management fee payable	41	631
Accrued capital expenditure	262	2,777
Prepaid income	694	876
Other payables	215	178
Total payables	3,866	7,487

d) Provisions

A provision is recognised when a current obligation exists as a result of a past event and it is probable that a future outflow of cash or other benefit will be required to settle the obligation.

In accordance with the Trust's Constitution, the Trust distributes its distributable income to unitholders by cash or reinvestment. Distributions are provided for when they are approved by the Board of Directors and declared.

	2020 $'000	2019 $'000
Provision for distribution	28,458	61,088
Total current provisions	28,458	61,088

Note 10 Working capital (continued)

d) Provisions (continued)

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

	2020 $'000	2019 $'000
Provision for distribution		
Opening balance at the beginning of the year	**61,088**	15,975
Additional provisions	**71,347**	146,499
Payment of distributions	**(103,977)**	(101,386)
Closing balance at the end of the year	**28,458**	61,088

A provision for distribution has been raised for the period ended 30 June 2020. This distribution is to be paid on 28 August 2020.

Other disclosures

In this section

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

Note 11 Audit, taxation and transaction service fees

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

	2020 $	2019 $
Audit fees		
PwC Australia - audit and review of Financial Statements	**225,495**	218,927
PwC fees paid in relation to outgoings audits	**5,437**	7,854
PwC Australia - regulatory audit and compliance services	**4,721**	4,584
Audit fees paid to PwC	**235,653**	231,365

Note 12 Cash flow information

Reconciliation of cash flows from operating activities

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

	2020 $'000	2019 $'000
Net profit/(loss) for the year	**56,443**	76,055
Capitalised interest	**-**	(31)
Amortisation of incentives & straight line income	**3,209**	4,828
Net fair value (gain)/loss of investment properties	**(13,902)**	(19,437)
Net (gain)/loss on sale of investment properties	**(26)**	(2,149)
Transaction costs	**-**	360
Change in operating assets and liabilities		
(Increase)/decrease in receivables	**(1,029)**	3,260
(Increase)/decrease in other current assets	**(316)**	(121)
(Increase)/decrease in other non-current assets	**(27,043)**	(17,219)
Increase/(decrease) in payables	**(3,121)**	(723)
Increase/(decrease) in current liabilities	**(963)**	2,446
Increase/(decrease) in other non-current liabilities	**-**	(8,633)
Net cash inflow/(outflow) from operating activities	**13,252**	38,636

Note 13 Related parties

Responsible Entity

DXFM is the Responsibility Entity of the Trust.

Management Fees

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

Related party transactions

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

Transactions with related parties

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

	2020	2019
	$	$
Responsible Entity fees paid and payable	**1,043,000**	1,920,826
Property management fees paid and payable to DXPS	**489,319**	1,263,477
Development management (DM), Project Delivery Group (PDG), capital expenditure and leasing fee paid and payable	**687,753**	1,332,817
Responsible Entity fees payable at the end of each reporting year (included above)	**75,420**	631,088
Property management fees payable at the end of each reporting year (included above)	**41,209**	56,919
DM, PDG, capital expenditure and leasing fees payable at the end of each reporting year (included above)	**75,158**	175,039

Dexus Finance

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

	2020	2019
	$	$
Interest revenue	**22,775,000**	14,293,494
Interest bearing loans advanced from Dexus Finance	**140,932,290**	314,449,092
Interest bearing loans advanced to Dexus Finance	**114,616,499**	748,908,984

Loans with related parties

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

Key management personnel compensation

	2020	2019
	$'000	$'000
Compensation		
Short-term employee benefits	**8,279**	9,933
Post employment benefits	**384**	318
Security-based payments	**3,675**	5,918
Total key management personnel compensation	**12,338**	16,169

Information regarding individual Directors' and Senior Executives' remuneration is provided in the Remuneration Report on pages 62 to 86 of the Dexus Annual Report.

There have been no other transactions with key management personnel during the year.

Note 14 Parent entity disclosures

The financial information for the parent entity of Dexus Industrial Trust has been prepared on the same basis as the Consolidated Financial Statements except as set out below.

Distributions received from associates are recognised in the parent entity's Consolidated 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.

Summary financial information

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

	2020 $'000	2019 $'000
Total current assets	**28,105**	159,226
Total assets	**963,394**	1,068,687
Total current liabilities – payables	**31,805**	69,432
Total liabilities	**31,805**	69,432
Equity		
Contributed equity	**1,215,765**	1,220,456
Retained profits	**(284,176)**	(221,201)
Total equity	**931,589**	999,255
Net profit/(loss) for the year	**8,375**	128,039
Total comprehensive income/(loss) for the year	**8,375**	128,039

a) Guarantees entered into by the parent entity

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

b) Contingent liabilities

The parent entity had no contingent liabilities as at 30 June 2020 (2019: nil).

c) 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:

	2020 $'000	2019 $'000
Investment properties	**458**	502
Total capital commitments	**458**	502

d) Going concern

The parent entity is a going concern. The Group has unutilised facilities of $1,573.4 million (2019: $921.0 million) (refer to note 14 of the Group's Consolidated Financial Statements located in the Dexus Annual Report) and sufficient working capital and cash flows in order to fund all requirements arising from the net current asset deficiency of the parent entity as at 30 June 2020 of $28.5 million (2019: nil). The deficiency is largely driven by the provision for distribution of $28.5 million due to be paid in August 2020.

Note 15 Changes in accounting policies

AASB 16 *Leases*

AASB 16 Leases (AASB 16) is effective for annual reporting periods beginning on or after 1 January 2019. AASB 16 was adopted by the Trust on 1 July 2019.

Impact on transition

Impact on Trust as a lessor

The Trust leases its investment property and has classified these leases as operating leases. The accounting polices applicable to the Trust as a lessor are not different from those under AASB 117 Leases. However, the Trust has applied AASB 15 Revenue from Contracts with Customers to allocate consideration in the contract between lease and non-lease components.

The adoption of the new AASB 16 standard has no impact on the financial reporting of the Trust from a lessor perspective and therefore no adjustment is required to this effect.

Impact on Trust as a lessee

The Trust does not lease any assets as a lessee. The adoption of the new AASB 16 standard has no impact on the financial reporting of the Trust from a lessee perspective and therefore no adjustment is required to this effect.

Note 16 Subsequent events

Rent relief that is expected to be given as a rent waiver for the period April to June 2020 to tenants that are not in arrears as at 30 June 2020 is estimated to total $0.9 million.

There remains significant uncertainty regarding how the COVID-19 pandemic will evolve, including the duration of the pandemic, the severity of the downturn and the speed of economic recovery. In accordance with AASB 110 *Events after the Reporting Date*, the Trust considered whether events after the reporting period confirmed conditions that existed before the reporting date, e.g. bankruptcy of customers. Consideration was given to the macro-economic impact of lockdowns implemented in Victoria in the beginning of July 2020, and the closure of the border between Victoria and New South Wales on 7 July 2020, and the Group concluded that the amounts recognised in the consolidated financial statements and the disclosures therein are appropriate. The economic environment is subject to rapid change and updated facts and circumstances continue to be closely monitored by the Trust.

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 Consolidated Financial Statements that has significantly or may significantly affect the operations of the Trust, the results of those operations, or state of the Trust's affairs in future financial periods.

Directors' Declaration

The Directors of Dexus Funds Management Limited as Responsible Entity of Dexus Industrial Trust declare that the Consolidated Financial Statements and notes set out on pages 9 to 38:

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

(ii) give a true and fair view of the Trust's financial position as at 30 June 2020 and of its performance, as represented by the results of its operations and its cash flows, for the year ended on that date.

In the Directors' opinion:

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

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

(c) the Trust has operated in accordance with the provisions of the Constitution dated 15 August 1984 (as amended) during the year ended 30 June 2020.

The Consolidated 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

18 August 2020

Independent auditor's report

To the stapled security holders of Dexus Industrial Trust

Report on the audit of the financial report

Our opinion

In our opinion:

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

(a) giving a true and fair view of the Group's financial position as at 30 June 2020 and of its financial performance for the year then ended

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

What we have audited

The Group financial report comprises:

- the Consolidated Statement of Financial Position as at 30 June 2020
- the Consolidated Statement of Comprehensive Income for the year then ended
- the Consolidated Statement of Changes in Equity for the year then ended
- the Consolidated Statement of Cash Flows for the year then ended
- the Notes to the Consolidated Financial Statements, which include a summary of significant accounting policies
- the Directors' Declaration.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Group 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 (including Independence Standards)* (the Code) that are relevant to our audit of the Group financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

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

Our audit approach

An audit is designed to provide reasonable assurance about whether the Group 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 Group 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 Group financial report as a whole, taking into account the geographic and management structure of the Group, its accounting processes and controls and the industry in which it operates.

Materiality	*Audit scope*	*Key audit matters*
• For the purpose of our audit we used overall materiality of $2.2 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 Group financial report as a whole. • We chose FFO because, in our view, it is the key performance measure of the Group. An explanation of what is included in FFO is outlined in Note 1, Operating segments of the Dexus Annual Report. • We utilised a 5% threshold based on our professional judgement, noting it is within the range of commonly acceptable profit related thresholds.	• The Group is a consolidated entity with operations in Australia. The scope of our audit included the Trust and its controlled entities. • Our audit focused on where the Group made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events.	• Amongst other relevant topics, we communicated the following key audit matter to the Board Audit Committee: – Valuation of investment properties. • This is further described in the *Key audit matters* section of our report.

Key audit matters

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

Key audit matter	*How our audit addressed the key audit matter*
Valuation of investment properties *(Refer to notes 2 and 6)* The Group's investment property portfolio as at 30 June 2020 comprises \$301.7 million (2019: \$357.9 million) of industrial properties directly held in Australia. Investment properties are carried at fair value at reporting date using the Group's policy as described in note 6. The valuation of investment properties is dependent on assumptions and inputs including tenant information, property age and location, expected future rental income, and prevailing market conditions. Amongst others, the capitalisation rate, discount rate, terminal yield, and net market rental are key in establishing fair value. Given the rapidly developing nature of the Coronavirus (COVID-19) pandemic and the uncertainty as to the economic impacts arising from the Government imposed restrictions, significant judgment was exercised by the Group in determining fair value. Specifically, this included judgments around the impact of COVID-19 on significant assumptions, including capitalisation rates, discount rates, the provision of rent relief to certain tenants, and overall future rental growth rates. In addition, the slowdown in activity in the property market has reduced the availability of observable market data such as comparable sales and capitalisation rates. At each reporting period the Group determines the fair value of its investment property portfolio having regard to the Group's valuation policy which requires all properties to be externally valued by valuation experts at least once every three years. It has been the Group's practice to have such valuations performed every six months.	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 read recent external property market reports to develop an understanding of the prevailing market conditions in which the Group invests. • For a sample of leases, we compared the rental income used in the investment property valuations to the tenancy schedules and lease agreements. • We assessed the reasonableness of the Group's leasing and rental relief assumptions on a sample basis, and agreed these assumptions to the Group's valuation models, where applicable. • We performed a risk-based assessment over the investment property portfolio to determine those properties at greater risk of being carried at amounts other than fair value. Our risk-based selection criteria included qualitative and quantitative measures and were informed by our knowledge of each property, asset class and our understanding of the current market conditions. For those properties which met our selection criteria, we performed procedures to assess the reasonableness of key assumptions used in the valuations. These procedures included, 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 signed during the year, lease expiries, capital expenditure and vacancy rates.

Key audit matter	*How our audit addressed the key audit matter*
The external valuers engaged by the Group have included a significant valuation uncertainty clause in their report. This clause highlights that less certainty, and consequently a higher degree of caution, should be attached to the valuation as a result of the COVID-19 pandemic. This represents a significant estimation uncertainty in relation to the valuation of investment properties. This was considered a key audit matter given: • the inherently subjective nature of investment property valuations arising from the use of assumptions in the valuation methodology • the extent of judgment involved in considering the impact of the COVID-19 pandemic • the financial significance of the balances • the importance of the valuation uncertainty, to users' understanding of the Group financial report.	– Compared key assumptions such as the capitalisation rate, discount rate and net market rental used in the valuations to market analysis published by industry experts, recent market transactions, other market data points. – Considered the impact of material valuation uncertainty clauses, specific other uncertainties and adjustments related to COVID-19 included in external valuers' reports. – Tested the mathematical accuracy of the valuation calculations. • As the Group engaged external experts to assist in the determination of the fair value of investment properties, we considered the independence, experience and competency of the Group's external experts as well as the results of their procedures. • We met with a sample of independent valuation firms to develop an understanding of their processes, judgments and observations, as well as any significant valuation uncertainty clauses included in their valuation reports and how they dealt with the uncertainties arising from COVID-19 on their valuations. • We assessed the appropriateness of the Group's disclosures in the Group financial report against the requirements of Australian Accounting Standards. In particular, we considered the adequacy of the disclosures made in note 6 to the financial statements which explain that there is significant estimation uncertainty in relation to the valuation of investment properties.

Other information

The Directors of Dexus Funds Management Limited as Responsible Entity of the Trust (the Directors) are responsible for the other information. The other information comprises the information included in the annual report for the year ended 30 June 2020, but does not include the Group financial report and our auditor's report thereon.

Our opinion on the Group 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 Group financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Group 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 Group financial report

The Directors are responsible for the preparation of the Group 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 Group financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the Group 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 Group financial report

Our objectives are to obtain reasonable assurance about whether the Group 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 Group financial report.

A further description of our responsibilities for the audit of the Group financial report is located at the Auditing and Assurance Standards Board website at:
https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.pdf. This description forms part of our auditor's report.

PricewaterhouseCoopers

PricewaterhouseCoopers

Matthew Lunn
Partner

Sydney
18 August 2020

Dexus Office Trust
Financial Report
30 June 2020

ARSN: 090 768 531

Contents

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

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

Directors' Report

The Directors of Dexus Funds Management Limited (DXFM) as Responsible Entity of Dexus Office Trust (DOT or the Trust) present their Directors' Report together with the Consolidated Financial Statements for the year ended 30 June 2020. The Consolidated Financial Statements represents Dexus Office Trust and its consolidated entities.

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

Directors and Secretaries

Directors

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

Directors	Appointed
W Richard Sheppard, BEc (Hons), FAICD	1 January 2012
Patrick N J Allaway, BA/LLB	1 February 2020
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 H 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 2020 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 23 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. Nine board meetings were main meetings and three meetings were held to consider specific business.

	Main meetings held	Main meetings attended	Specific meetings held	Specific meetings attended
W Richard Sheppard	9	9	3	3
Patrick N J Allaway[1]	5	5	2	2
Penny Bingham-Hall	9	9	3	3
John C Conde, AO	9	9	3	3
Tonianne Dwyer	9	9	3	3
Mark H Ford	9	9	3	2
The Hon. Nicola L Roxon	9	9	3	3
Darren J Steinberg	9	9	3	3
Peter B St George	9	9	3	3

1. Patrick Allaway commenced his directorship on 1 February 2020.

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 2020.

	Board Audit Committee		Board Risk Committee		Board Nomination Committee[3]		Board People and Remuneration Committee		Board Environmental, Social and Governance Committee [4]		Joint "Organisational Risk" Session	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended	Held	Attended	Held	Attended
W Richard Sheppard	-	-	-	-	3	3	7	7	-	-	2	2
Patrick N J Allaway[1]	-	-	-	-	1	1	-	-	-	-	1	1
Penny Bingham-Hall[2]	-	-	1	1	3	3	7	7	3	3	2	2
John C Conde, AO	4	4	-	-	3	3	-	-	-	-	2	2
Tonianne Dwyer	4	4	4	4	3	3	-	-	-	-	2	2
Mark H Ford	4	4	4	4	3	3	-	-	3	3	2	2
The Hon. Nicola L Roxon[2]	-	-	1	1	3	3	7	7	3	3	2	2
Peter B St George	4	4	4	4	3	3	-	-	-	-	2	2

1. Patrick Allaway commenced his directorship on 1 February 2020 and effective immediately became a member of the Board Nomination Committee.
2. Penny Bingham-Hall and Nicola L Roxon ceased membership of the Board Risk Committee effective 1 September 2019.
3. All Non-Executive Directors (NEDs) became members of the Board Nomination Committee effective 1 September 2019.
4. Board Environmental, Social & Governance (ESG) Committee was established, effective 1 September 2019.

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 2020.

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	88,019
Patrick N J Allaway	20,000
Penny Bingham-Hall	32,773
John C Conde, AO	17,906
Tonianne Dwyer	16,667
Mark H Ford	10,000
The Hon. Nicola L Roxon[1]	9,737
Darren J Steinberg[2]	1,525,395
Peter B St George	18,573

1. Includes interests held directly and through Non-Executive Director (NED) Plan rights.
2. Includes interests held directly and through performance rights.

Operating and financial review

The relevant financial information for the Trust for the year ended 30 June 2020 is as follows:
- profit attributable to security holders was $546.3 million (2019: $781.0 million)
- total assets were $11,935.7 million (2019: $11,138.4 million)
- net assets were $7,389.3 million (2019: $7,154.3 million)

Information on the operations and financial position of the Group and its business strategies and prospects, of which the Trust forms part thereof, is set out on pages 26 to 35 of the Dexus Annual Report and forms part of this Directors' Report.

Remuneration Report

The Remuneration Report is set out on pages 62 to 86 of the Dexus Annual Report and forms part of this Directors' Report.

Directors' directorships in other listed entities

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

Director	Company	Date Appointed
W Richard Sheppard	Star Entertainment Group	21 November 2012
Patrick N J Allaway	Bank of Queensland	1 May 2019
	Nine Entertainment Co. Holdings Limited	7 December 2018
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 H Ford	Kiwi Property Group Limited[2]	16 May 2011
Darren J Steinberg	VGI Partners Limited	12 May 2019

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

Principal activities

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

Total value of Trust assets

The total value of the assets of the Trust as at 30 June 2020 was $11,935.7 million (2019: $11,138.4 million). Details of the basis of this valuation are outlined in the Notes to the Consolidated Financial Statements and form part of this Directors' Report.

Likely developments and expected results of operations

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

Significant changes in the state of affairs

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

Matters subsequent to the end of the financial year

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

Distributions

Distributions paid or payable by the Trust for the year ended 30 June 2020 are outlined in note 5 of the Notes to the Consolidated Financial Statements and form part of this Director's Report.

DXFM fees

Details of fees paid or payable by the Trust for the year ended 30 June 2020 are outlined in note 16 of the Notes to the Consolidated Financial Statements and form part of this Directors' Report.

Units on Issue

The movement in units on issue in the Trust during the year and the number of units on issue as at 30 June 2020 are detailed in note 12 of the Notes to the Consolidated Financial Statements and form part of this Directors' Report.

Environmental regulation

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

Indemnification and insurance

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

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

Audit

Auditor

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

Non-audit services

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

Details of the amounts paid or payable to the Auditor for audit and non-audit services provided during the year are set out in note 14 of the Notes to the Consolidated 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; and
- 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 44 and forms part of this Directors' Report.

Corporate governance

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

Rounding of amounts and currency

As the Trust is an entity of the kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, the Directors have chosen to round amounts in this Directors' Report and the accompanying Consolidated Financial Report to the nearest tenth of a million dollars, unless otherwise indicated. The Trust is an entity to which the Instrument applies. All figures in this Directors' Report and the Consolidated 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 Consolidated Financial Statements were authorised for issue by the Directors on 18 August 2020.

W Richard Sheppard	**Darren J Steinberg**
Chair	Chief Executive Officer
18 August 2020	18 August 2020

pwc

Auditor's Independence Declaration

As lead auditor for the audit of Dexus Office Trust for the year ended 30 June 2020, I declare that to the best of my knowledge and belief, there have been:

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

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

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

Matthew Lunn
Partner
PricewaterhouseCoopers

Sydney
18 August 2020

PricewaterhouseCoopers, ABN 52 780 433 757
One International Towers Sydney, Watermans Quay, Barangaroo, GPO BOX 2650, SYDNEY NSW 2001
T: +61 2 8266 0000, F: +61 2 8266 9999, www.pwc.com.au
Level 11, 1PSQ, 169 Macquarie Street, Parramatta NSW 2150, PO Box 1155 Parramatta NSW 2124
T: +61 2 9659 2476, F: +61 2 8266 9999, www.pwc.com.au

Consolidated Statement of Comprehensive Income

For the year ended 30 June 2020

	Note	2020 $m	2019 $m
Revenue from ordinary activities			
Property revenue	2	**302.0**	291.2
Interest revenue		**0.1**	0.2
Total revenue from ordinary activities		**302.1**	291.4
Net fair value gain of investment properties		**242.9**	299.4
Share of net profit of investments accounted for using the equity method	7	**410.5**	425.1
Fair value gain of derivatives		**-**	20.8
Other income		**2.0**	-
Total income		**957.5**	1,036.7
Expenses			
Property expenses	2	**(86.9)**	(79.2)
Management fee expense		**(12.2)**	(14.4)
Finance costs	3	**(183.9)**	(157.5)
Fair value loss of derivatives		**(126.3)**	-
Net loss on sale of investment properties		**(0.4)**	(3.5)
Transaction costs		**(0.1)**	-
Management operations, corporate and administration expenses		**(1.4)**	(1.1)
Total expenses		**(411.2)**	(255.7)
Income tax expense		**-**	-
Profit/(loss) for the year		**546.3**	781.0
Other comprehensive income/(loss):			
Items that may be reclassified to profit or loss			
Other comprehensive income/(loss)		**-**	-
Total comprehensive income/(loss) for the year		**546.3**	781.0

		Cents	Cents
Earnings per unit on profit/(loss) attributable to unitholders of the Trust			
Basic earnings per unit	4	**49.89**	75.93
Diluted earnings per unit	4	**49.76**	74.13

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 2020

	Note	2020 $m	2019 $m
Current assets			
Cash and cash equivalents	13(a)	**17.2**	13.4
Receivables	13(b)	**37.9**	38.0
Non-current assets classified as held for sale	8	**530.0**	-
Other	13(c)	**6.9**	10.2
Total current assets		**592.0**	61.6
Non-current assets			
Investment properties	6	**5,080.3**	5,221.7
Investments accounted for using the equity method	7	**6,260.5**	5,851.0
Derivative financial instruments	9(c)	**1.3**	2.5
Other		**1.6**	1.6
Total non-current assets		**11,343.7**	11,076.8
Total assets		**11,935.7**	11,138.4
Current liabilities			
Payables	13(d)	**86.2**	90.6
Lease liabilities	10	**0.5**	-
Derivative financial instruments	9(c)	**13.4**	5.2
Provisions	13(e)	**111.3**	72.0
Total current liabilities		**211.4**	167.8
Non-current liabilities			
Loans with related parties		**4,281.9**	3,752.4
Lease liabilities	10	**4.0**	-
Derivative financial instruments	9(c)	**49.1**	63.8
Other		**-**	0.1
Total non-current liabilities		**4,335.0**	3,816.3
Total liabilities		**4,546.4**	3,984.1
Net assets		**7,389.3**	7,154.3
Equity			
Contributed equity	12	**3,582.3**	3,620.8
Retained profits		**3,807.0**	3,533.5
Total equity		**7,389.3**	7,154.3

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 2020

	Note	Contributed equity $m	Retained profits/ (losses) $m	Total equity $m
Opening balance as at 1 July 2018		3,050.8	2,935.6	5,986.4
Profit/(loss) for the year		-	781.0	781.0
Total comprehensive income for the year		-	781.0	781.0
Transactions with owners in their capacity as unitholders:				
Issue of additional equity, net of transaction costs	12	570.0	-	570.0
Distributions paid or provided for	5	-	(183.1)	(183.1)
Total transactions with owners in their capacity as unitholders		570.0	(183.1)	386.9
Closing balance as at 30 June 2019		3,620.8	3,533.5	7,154.3
Opening balance as at 1 July 2019		**3,620.8**	**3,533.5**	**7,154.3**
Profit/(loss) for the year		**-**	**546.3**	**546.3**
Other comprehensive income/(loss) for the year		**-**	**-**	**-**
Total comprehensive income for the year		**-**	**546.3**	**546.3**
Transactions with owners in their capacity as unitholders:				
Buy-back of contributed equity, net of transaction costs	12	**(38.5)**	**-**	**(38.5)**
Distributions paid or provided for	5	**-**	**(272.8)**	**(272.8)**
Total transactions with owners in their capacity as unitholders		**(38.5)**	**(272.8)**	**(311.3)**
Closing balance as at 30 June 2020		**3,582.3**	**3,807.0**	**7,389.3**

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 2020

	Note	2020 $m	2019 $m
Cash flows from operating activities			
Receipts in the course of operations (inclusive of GST)		**362.7**	324.3
Payments in the course of operations (inclusive of GST)		**(135.2)**	(105.0)
Interest received		**0.1**	0.2
Finance costs paid to financial institutions		**(22.7)**	(5.5)
Distributions received from investments accounted for using the equity method		**259.6**	216.5
Net cash inflow/(outflow) from operating activities	15	**464.5**	430.5
Proceeds from sale of investment properties		**71.5**	241.6
Payments for capital expenditure on investment properties		**(127.9)**	(184.4)
(Payment for)/proceeds from termination and restructure of derivatives		**(124.3)**	27.2
Payments for investments accounted for using the equity method		**(261.7)**	(1,432.3)
Payments for acquisition of investment properties		**(100.7)**	(169.2)
Net cash inflow/(outflow) from investing activities		**(543.1)**	(1,517.1)
Cash flows from financing activities			
Borrowings provided to related parties		**(916.5)**	(3,215.3)
Borrowings received from related parties		**1,302.2**	3,999.2
Payments for termination and restructure of derivatives		**(30.8)**	-
Payments of lease liabilities		**(0.5)**	-
Payments for buy-back of contributed equity		**(38.5)**	-
Proceeds from issue of additional equity, net of transaction costs		**-**	569.9
Distributions paid to security holders		**(233.5)**	(261.0)
Net cash inflow/(outflow) from financing activities		**82.4**	1,092.8
Net increase/(decrease) in cash and cash equivalents		**3.8**	6.2
Cash and cash equivalents at the beginning of the year		**13.4**	7.2
Cash and cash equivalents at the end of the year		**17.2**	13.4

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

Notes to the Consolidated Financial Statements

In this section

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

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

Basis of preparation

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

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

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

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

Critical accounting estimates

The economic impacts resulting from the Government imposed restrictions in a response to the COVID-19 pandemic, have the potential to impact various financial statement line items including: Investment properties, Property revenue and expenses, and Receivables (included within Working capital).

Dexus was performing well leading into the crisis with high occupancy and significant leasing success in office, however uncertainty exists as a result of a range of different factors, including:

- The outlook for the Australian economy and overall economic activity which could lead to modifications of leases and impact rental income;
- Temporary closures and insolvencies of businesses that could impact the recoverability of debts; and
- Sentiment for the property industry and underlying demand for investment in property.

In the current environment, office leasing enquiry levels have fallen, and inspection rates have slowed however occupancy has remained high. Lead indicators point to a period of uncertainty in the Australian office market, with demand across the major CBD markets likely to be patchy in the short term. In times of uncertainty, high quality and well leased assets can be expected to hold their value better than lower quality assets due to their appeal to both occupants and purchasers as well as their relative scarcity.

Retail tenants, with the exception of essential services, have been significantly impacted by decreased foot traffic, reduced operating hours or in some cases complete closure of stores. The Trust however has limited exposure to retail tenants.

In the process of applying the Trust's accounting policies, management has made a number of judgements and applied estimates in relation to COVID-19 related uncertainties. The judgements and estimates which are material to the financial report are discussed in the following notes.

Note 2	Property revenue and expenses	Page 16
Note 6	Investment properties	Page 20
Note 9	Capital and financial risk management	Page 28
Note 13	Working capital	Page 34

Principles of consolidation

These Consolidated Financial Statements incorporate the assets, liabilities and results of all subsidiaries as at 30 June 2020.

(a) Controlled entities

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

(b) Joint arrangements

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

Joint operations

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

Joint ventures

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

Foreign currency

The Consolidated 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 Consolidated Statement of Comprehensive Income.

As at 30 June 2020, the Trust had no investments in foreign operations.

Goods and services tax

Revenues, expenses and capital assets are recognised net of any amount of Australian Goods and Services Tax (GST), except where the amount of GST incurred is not recoverable. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of the expense. Cash flows are included in the Consolidated 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.

Notes to the Consolidated Financial Statements

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

The notes are organised into the following sections:

Trust performance	**Property portfolio assets**	**Capital and financial risk management and working capital**	**Other disclosures**
1. Operating segments	6. Investment properties	9. Capital and financial risk management	14. Audit, taxation and transaction service fees
2. Property revenue and expenses	7. Investments accounted for using the equity method	10. Lease liabilities	15. Cash flow information
3. Finance costs	8. Non-current assets classified as held for sale	11. Commitments and contingencies	16. Related parties
4. Earnings per unit		12. Contributed equity	17. Parent entity disclosures
5. Distributions paid and payable		13. Working capital	18. Changes in accounting policies
			19. Subsequent events

Trust performance

In this section

This section explains the results and performance of the Trust.

It provides additional information about those individual line items in the Consolidated Financial Statements that the Directors consider most relevant in the context of the operations of the Trust, including: results by operating segment, property revenue and expenses, finance costs, earnings per unit and distributions paid and payable.

Note 1 Operating segments

Description of segments

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

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

Disclosures concerning DXS's operating segments are presented in the Group's Consolidated Financial Statements located in the Dexus Financial Report.

Note 2 Property revenue and expenses

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

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

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

	2020	2019
	$m	$m
Rent and recoverable outgoings	**275.4**	247.7
Services revenue	**43.0**	40.8
Incentive amortisation	**(52.4)**	(38.9)
Other revenue	**36.0**	41.6
Total property revenue	**302.0**	291.2

COVID-19 rent relief

In April 2020, the Australian Government introduced a National Code of Conduct (Code of Conduct) and set of principles which applies to commercial tenancies (including retail, office and industrial) for small and medium enterprise customers (SMEs) with turnover of less than $50 million experiencing financial stress or hardship as a result of the COVID-19 pandemic as defined by their eligibility for the Commonwealth Government's JobKeeper Program. The Code of Conduct has been implemented on a State by State basis through specific legislation.

The objective of the Code of Conduct and the State based legislation is to ensure the landlord and tenant share, in a proportionate, measured manner the financial risk and cash flow impact during the COVID-19 period. The legislation applies for the prescribed period as defined under the regulations for each State (which is approximately 6 months to September 2020 in all States other than Tasmania and ACT). The JobKeeper Program has been extended to 28 March 2021 however the extension of the JobKeeper payment does not automatically extend legislation associated with the Code of Conduct. Changes to legislation in each State will be monitored to understand if any extensions are enacted and whether the Code of Conduct will apply to this extended period.

Note 2 Property revenue and expense (continued)

COVID-19 rent relief (continued)

Dexus is working with impacted tenants who meet the criteria to implement the requirements under the legislation and provide relief packages. While there is no one size fits all approach, Dexus' immediate priority is to support SMEs who have been significantly impacted by the coronavirus pandemic and is progressing discussions with these customers on various forms of rent relief.

For tenants eligible under the Code of Conduct and State based legislation, rent relief comprises a proportionate reduction in rent payable in the form of waivers and deferrals of up to 100% of the amount ordinarily payable, on a case-by-case basis, based on the reduction in the tenant's turnover during the COVID-19 pandemic period. Rental waivers must generally constitute at least 50% of the rent relief offered. The repayment period for rent deferrals differs across States. In New South Wales, there is no mandatory minimum repayment period for deferred rent. In Victoria and Western Australia, the deferral is repayable over the balance of the lease term and 24 months, whichever is the greater (unless otherwise agreed). In Queensland, the deferral is repayable over a period of 2-3 years.

Rent relief may take a different form for those tenants that are ineligible under the Code of Conduct and the State based legislation. Dexus continues to work with its tenants to understand whether they are eligible for rental relief under the Code of Conduct and the State based legislation.

The various rent relief measures are accounted for as follows in line with the ASIC guidance '20-157MR Focuses for financial reporting under COVID-19 conditions' published on 7 July 2020.

When a rent waiver agreement is made between the landlord and tenant:

- rent waived that relates to future occupancy is spread over the remaining lease term and recognised on a straight-line basis; and
- rent waived that relates to past occupancy is expensed immediately, except to the extent there exists a pre-existing provision for expected credit losses relating to unpaid rent.

Property revenue has been recognised for occupancy up to the date of a waiver agreement. Where there was no agreement at 30 June 2020, a provision for expected credit losses per AASB 9 *Financial Instruments* has been recognised against any receivable for unpaid rent for past occupancy.

The provision for expected credit losses is recognised with a corresponding expense in Property expenses. The provision covers the difference between contractual cash flows that are due and cash flows expected to be received. Accordingly, the provision includes both that part of the rent receivable that is likely to be waived and any additional amount relating to credit risk associated with the financial condition of the tenant. Refer to note 13 *Working capital* for the amount of expected credit losses provision recognised at the reporting date.

In the circumstance where the tenant has fully paid rent for the period of occupancy up to balance date, there is no rent receivable against which to make a provision. Where it is expected that some of the rent already paid by the tenant will be waived, there is no basis to recognise a liability at balance date. Based on management's best estimate at the reporting date $3.7 million of rent income recognised in the year ended 30 June 2020 is expected to be waived in the year ended 30 June 2021 once formal rent relief agreements have been signed.

Rent deferrals, where in substance the deferral is a delayed timing of payments have no impact on property revenue recognition. A separate assessment of the recoverability of rent receivable is performed in accordance with the policy outlined in note 13 *Working capital*.

Property expenses

Property expenses of $86.9 million (2019: $79.2 million) includes rates, taxes and other property outgoings incurred in relation to investment properties. If these items are recovered from a tenant by the Trust, they are recorded within Services revenue or recoverable outgoings within Property revenue.

Note 3 Finance costs

Finance costs include interest, amortisation or other costs incurred in connection with arrangement of borrowings, finance costs on lease liabilities 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.

	2020	2019
	$m	$m
Interest paid to related parties	**141.8**	136.9
Amount capitalised	**(1.1)**	(15.4)
Net fair value (gain)/loss of interest rate derivatives and exchangeable note	**38.4**	29.9
Finance costs - leases[1]	**0.2**	-
Other finance costs	**4.6**	6.1
Total finance costs	**183.9**	157.5

1. The Trust adopted AASB 16 *Leases* on 1 July 2019. Interest on the lease liability is a component of finance costs. Refer to note 18 *Changes in accounting policies* for further information.

The average capitalisation rate used to determine the amount of finance costs eligible for capitalisation is 4.00% (2019: 5.25%).

Note 4 Earnings per unit

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

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

	2020	2019
	$m	$m
Profit attributable to unitholders of the Trust for basic earnings per security	**546.3**	781.0
Effect on exchange of Exchangeable Notes	**12.7**	(12.6)
Profit attributable to unitholders of the Trust for diluted earnings per security	**559.0**	768.4

b) Weighted average number of units used as a denominator

	2020	2019
	No. of units	No. of units
Weighted average number of units outstanding used in calculation of basic earnings per unit	**1,095,096,969**	1,028,577,220
Effect on exchange of Exchangeable Notes	**28,333,333**	8,046,239
Weighted average number of units outstanding used in calculation of diluted earnings per unit	**1,123,430,302**	1,036,623,459

Note 5 Distributions paid and payable

Distributions are recognised when declared.

a) Distribution to unitholders

	2020 $m	2019 $m
31 December (paid 28 February 2020)	**161.5**	111.1
30 June (payable 28 August 2020)	**111.3**	72.0
Total distribution to unitholders	**272.8**	183.1

b) Distribution rate

	2020 Cents per unit	2019 Cents per unit
31 December (paid 28 February 2020)	**14.72**	10.92
30 June (payable 28 August 2020)	**10.20**	6.56
Total distributions	**24.92**	17.48

Property portfolio assets

In this section

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

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

Note 6 Investment properties

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

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

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

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

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

a) Reconciliation

	Note	**2020 $m**	2019 $m
Opening balance at the beginning of the year		**5,221.7**	4,810.5
Additions		**119.8**	192.1
Acquisitions		**100.7**	169.2
Lease incentives		**41.4**	31.2
Amortisation of lease incentives		**(58.5)**	(44.2)
Rent straightlining		**8.9**	8.0
Disposals		**(71.5)**	(244.5)
Transfer to non-current assets classified as held for sale	8	**(530.0)**	-
Net fair value gain/(loss) of investment properties		**242.9**	299.4
Ground leases of investment properties[1]		**4.9**	-
Closing balance at the end of the year		**5,080.3**	5,221.7

1. The Trust has applied AASB 16 *Leases* from 1 July 2019. The leased asset includes a ground lease at Waterfront Place, 1 Eagle Street Brisbane QLD (50% interest owned by the Trust). Under AASB 16 *Leases,* lease liabilities need to be separately disclosed in the Consolidated Statement of Financial Position. The investment property carrying values are grossed up to ensure that the amount net of the corresponding lease liabilities relating to the ground lease portion equals the fair value of the investment properties.

Note 6 Investment properties (continued)

a) Reconciliation (continued)

Acquisitions

On 30 July 2019, settlement occurred for the acquisition of 52 Collins Street, Melbourne, VIC for $70.0 million excluding acquisition costs.

During the year, settlement occurred for the acquisition of various other investment properties totalling $25.3 million excluding acquisition costs.

Disposals

On 28 February 2020, settlement occurred for the disposal of Garema Court, 14-180 City Walk, Canberra, ACT for $71.5 million excluding transaction costs.

b) Valuations process

It is the policy of the Trust to perform independent valuations for each individual property at least once every three years by a member of the Australian Property Institute of Valuers. It has been the Trust's practice to have such valuations performed every six months. Each valuation firm and its signatory valuer are appointed on the basis that they are engaged for no more than three years except for 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 2020, 58 out of 64 investment properties were independently externally valued.

The Trust’s policy requires investment properties 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 the internal valuations present a more reliable estimate of fair value the internal valuation is adopted as book value. Internal valuations are performed by the Trust’s internal valuers who hold recognised relevant professional qualifications and have previous experience as property valuers from major real estate valuation firms.

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

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

c) Fair value measurement, valuation techniques and inputs

The following table represents the level of the fair value hierarchy and the associated unobservable inputs utilised in the fair value measurement for each class of investment property including investment property held within investments accounted for using the equity method.

Class of property	Fair value hierarchy	Inputs used to measure fair value	Range of unobservable inputs 2020	2019
Office[1]	Level 3	Adopted capitalisation rate	**4.00% - 6.25%**	4.50 - 7.00%
		Adopted discount rate	**5.75% - 7.50%**	6.00% - 7.50%
		Adopted terminal yield	**4.25% - 6.63%**	4.75 - 7.50%
		Current net market rental (per sqm)	**$228 - $1,452**	$383 - $1,398
Leased asset	Level 3	Adopted discount rate	**3.50%**	-
		Current net market rental (per sqm)	**$100 - $161**	-

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

Note 6 Investment properties (continued)

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

Key estimates: inputs used to measure fair value of investment properties

Judgement is required in determining the following key assumptions:

- **Adopted capitalisation rate**: The rate at which net market rental revenue is capitalised to determine the value of a property. The rate is determined with regard to market evidence and the prior external valuation.
- **Adopted discount rate**: The rate of return used to convert cash flows, payable or receivable in the future, into present value. It reflects the opportunity cost of capital, that is, the rate of return the cash can earn if put to other uses having similar risk. The rate is determined with regard to market evidence and the prior external valuation.
- **Adopted terminal yield**: The capitalisation rate used to convert the future net market rental revenue into an indication of the anticipated value of the property at the end of the holding period when carrying out a discounted cash flow calculation. The rate is determined with regard to market evidence and the prior external valuation.
- **Net market rental (per sqm):** The net market rent is the estimated amount for which a property should lease between a lessor and a lessee on appropriate lease terms in an arm's length transaction.

d) Impact of COVID-19 on fair value of investment properties

There is a significant level of uncertainty regarding the ultimate impact of COVID-19 on the Trust's investment property valuations. As a result, the independent valuations incorporate a range of assumptions used in determining appropriate fair values for investment properties at 30 June 2020. The assumptions that have the most significant impact on the valuations are listed below:

- Valuers have adjusted market rental growth, downtime and incentive assumptions within their discounted cashflow method of valuing and have generally had more regard to this valuation methodology when determining the adopted value;
- Some valuers have incorporated an allowance for the uncertainty in relation to the payment of rent with regards to the Government's Code of Conduct where the tenant pool comprises small to medium enterprises; and
- Capitalisation and discount rates have generally firmed over the 12 months to June 2020 with the firming largely being seen in the first six months prior to the impact of COVID-19. Transactional evidence post COVID-19, while limited, suggests capitalisation and discount rates have not yet been impacted.

The independent valuations obtained by the Trust also include significant valuation uncertainty clauses due to the unknown impacts to the property industry. Noting the uncertainty, the Trust considers that that the assumptions used in the valuations are appropriate for the purposes of determining fair value of investment properties at 30 June 2020.

Note 6 Investment properties (continued)

e) Sensitivity information

Significant movement in any one of the inputs listed in the table above may result in a change in the fair value of the Trust's investment properties, including investment properties within investments accounted for using the equity method, as shown below.

The estimated impact of a change in certain significant unobservable inputs would result in a change in the fair value as follows:

	2020	2019
	$m	$m
A decrease of 25 basis points in the adopted capitalisation rate	**631.0**	575.5
An increase of 25 basis points in the adopted capitalisation rate	**(568.7)**	(521.8)
A decrease of 25 basis points in the adopted discount rate	**484.4**	444.4
An increase of 25 basis points in the adopted discount rate	**(446.8)**	(411.7)
A decrease of 5% in the net market rental (per sqm)	**(575.5)**	(559.4)
An increase of 5% in the net market rental (per sqm)	**575.5**	559.4

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.

Note 7 Investments accounted for using the equity method

a) Interest in joint ventures

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

	Ownership interest			
	2020	2019	**2020**	2019
Name of entity	**%**	%	**$m**	$m
Dexus Office Trust Australia (DOTA)	**50.0**	50.0	**2,696.4**	2,418.4
Dexus Martin Place Trust	**50.0**	50.0	**926.5**	826.9
Dexus 80C Trust	**75.0**	75.0	**830.2**	873.4
Grosvenor Place Holding Trust[1,2]	**50.0**	50.0	**483.2**	469.7
Dexus 480 Q Holding Trust	**50.0**	50.0	**390.1**	386.5
Bent Street Trust	**33.3**	33.3	**358.8**	349.5
Dexus Kings Square Trust	**50.0**	50.0	**234.5**	220.9
Dexus Creek Street Trust	**50.0**	50.0	**199.5**	176.8
Site 7 Homebush Bay Trust[1]	**50.0**	50.0	**62.2**	54.4
Site 6 Homebush Bay Trust[1]	**50.0**	50.0	**46.1**	43.1
Dexus Eagle Street Pier Trust	**50.0**	50.0	**33.0**	31.4
Total assets - investments accounted for using the equity method[3]			**6,260.5**	5,851.0

1 These entities are 50% owned by DOTA. The Trust's economic interest is therefore 75% when combined with the interest held by DOTA.
2 Grosvenor Place Holding Trust owns 50% of Grosvenor Place, 225 George Street, Sydney, NSW. The Trust's economic interest in this property is therefore 37.5%.
3 The Trust's share of investment properties in the investments accounted for using the equity method was $6,435.3 million (2019: $5,966.4 million). These investments are accounted for using the equity method as a result of contractual arrangements requiring unanimous decisions on all relevant matters.

b) Impact of COVID-19 on Investments accounted for using the equity method

The carrying values of the above investments accounted for using the equity method have been tested for impairment under AASB 136 *Impairment of Assets* to take into consideration the impact of COVID-19.

The main risk to the value of the investments accounted for using the equity method is the fair value of the underlying investment properties. Note 6 gives further explanation of the approach taken to measure the fair value of investment properties in light of COVID-19. Any fair value movements are recorded within share of net profit of investments accounted for using the equity method in the Consolidated Statement of Comprehensive Income. There were no impairment losses recorded in relation to investments accounted for under the equity method.

c) Summarised financial information for joint ventures

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

.

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

d) Summarised financial information for individually material joint ventures

	Dexus Office Trust Australia		Dexus Martin Place Trust		Dexus 80C Trust		Grosvenor Place Holding Trust		Dexus 480Q Holding Trust	
	2020	2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019
Summarised Statement of Financial Position	**$m**	$m	**$m**	$m	**$m**	$m	**$m**	$m	**$m**	$m
Current assets										
Cash and cash equivalents	**55.0**	14.6	**10.6**	8.3	**9.0**	2.9	**0.8**	2.2	**4.0**	1.0
Other current assets	**82.3**	110.6	**10.7**	24.0	**18.5**	35.0	**3.2**	3.0	**1.3**	7.9
Total current assets	**137.3**	125.2	**21.3**	32.3	**27.5**	37.9	**4.0**	5.2	**5.3**	8.9
Non-current assets										
Investment properties	**4,729.6**	4,346.3	**1,861.8**	1,644.0	**1,352.5**	1,211.6	**975.0**	937.5	**780.0**	781.0
Investments accounted for using the equity method	**591.6**	566.8	**-**	-	**-**	-	**-**	-	**-**	-
Other non-current assets	**48.6**	44.5	**0.5**	0.2	**-**	-	**-**	0.1	**0.2**	0.2
Total non-current assets	**5,369.8**	4,957.6	**1,862.3**	1,644.2	**1,352.5**	1,211.6	**975.0**	937.6	**780.2**	781.2
Current liabilities										
Provision for distribution	**30.2**	22.2	**2.4**	-	**4.0**	7.6	**5.9**	-	**0.8**	-
Borrowings	**0.1**	149.3	**-**	-	**234.0**	-	**-**	-	**-**	-
Other current liabilities	**61.4**	51.9	**28.2**	22.8	**35.1**	27.8	**6.7**	3.4	**4.6**	17.1
Total current liabilities	**91.7**	223.4	**30.6**	22.8	**273.1**	35.4	**12.6**	3.4	**5.4**	17.1
Non-current liabilities										
Borrowings	**22.6**	22.6	**-**	-	**-**	49.5	**-**	-	**-**	-
Other non-current liabilities	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-
Total non-current liabilities	**22.6**	22.6	**-**	-	**-**	49.5	**-**	-	**-**	-
Net assets	**5,392.8**	4,836.8	**1,853.0**	1,653.7	**1,106.9**	1,164.6	**966.4**	939.4	**780.1**	773.0
Reconciliation to carrying amounts:										
Opening balance at the beginning of the year	**4,836.8**	4,344.3	**1,653.7**	753.7	**1,164.6**	-	**939.4**	904.6	**773.0**	761.0
Additions	**387.6**	199.9	**80.4**	870.6	**-**	1,169.2	**-**	5.1	**5.1**	2.9
Profit for the year	**389.0**	508.5	**173.4**	66.0	**(6.3)**	3.0	**72.5**	76.8	**42.2**	38.3
Distributions received/receivable	**(220.6)**	(215.9)	**(54.5)**	(36.6)	**(51.4)**	(7.6)	**(45.5)**	(47.1)	**(40.2)**	(29.2)
Closing balance at the end of the year	**5,392.8**	4,836.8	**1,853.0**	1,653.7	**1,106.9**	1,164.6	**966.4**	939.4	**780.1**	773.0
Groups Share in $	**2,696.4**	2,418.4	**926.5**	826.9	**830.2**	873.4	**483.2**	469.7	**390.1**	386.5
Summarised Statement of Comprehensive Income										
Property revenue	**297.7**	279.3	**91.5**	56.0	**28.1**	3.5	**51.5**	52.8	**52.5**	65.7
Property revaluations	**155.6**	276.1	**115.2**	27.6	**(19.5)**	1.2	**34.5**	36.4	**9.0**	14.3
Gain on sale of investment properties	**-**	2.7	**-**	-	**-**	-	**-**	-	**-**	-
Interest Income	**0.3**	0.7	**0.1**	0.2	**0.4**	-	**-**	0.1	**-**	0.8
Share of net profit of investments accounted for using the equity method	**46.2**	56.1	**-**	-	**-**	-	**-**	-	**-**	-
Other Income	**0.4**	0.1	**1.0**	-	**-**	-	**-**	-	**0.1**	(0.1)
Property expenses	**(90.0)**	(82.5)	**(24.6)**	(12.6)	**(7.9)**	(1.1)	**(13.4)**	(12.5)	**(15.1)**	(38.0)
Finance Costs	**(5.2)**	(9.9)	**-**	-	**-**	-	**-**	-	**-**	-
Other expenses	**(16.0)**	(14.1)	**(9.8)**	(5.2)	**(7.4)**	(0.6)	**(0.1)**	-	**(4.3)**	(4.4)
Net profit/(loss) for the year	**389.0**	508.5	**173.4**	66.0	**(6.3)**	3.0	**72.5**	76.8	**42.2**	38.3
Total comprehensive income/(loss) for the year	**389.0**	508.5	**173.4**	66.0	**(6.3)**	3.0	**72.5**	76.8	**42.2**	38.3

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

d) Summarised financial information for individually material joint ventures (continued)

	Bent Street Trust		Dexus Kings Square Trust		Dexus Creek Street Trust		Other[1]		Total	
	2020	2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019
Summarised Statement of Financial Position	**$m**	$m	**$m**	$m	**$m**	$m	**$m**	$m	**$m**	$m
Current assets										
Cash and cash equivalents	**3.7**	2.1	**4.3**	0.9	**2.2**	1.0	**3.7**	2.1	**93.3**	35.1
Other current assets	**2.0**	1.9	**0.1**	14.4	**1.2**	1.1	**0.2**	1.2	**119.5**	199.1
Total current assets	**5.7**	4.0	**4.4**	15.3	**3.4**	2.1	**3.9**	3.3	**212.8**	234.2
Non-current assets										
Investment properties	**1,100.0**	1,070.0	**477.0**	449.0	**400.0**	362.0	**289.3**	255.8	**11,965.2**	11,057.2
Investments accounted for using the equity method	**-**	-	**-**	-	**-**	-	**-**	-	**591.6**	566.8
Other non-current assets	**-**	-	**-**	-	**0.2**	0.2	**-**	-	**49.5**	45.2
Total non-current assets	**1,100.0**	1,070.0	**477.0**	449.0	**400.2**	362.2	**289.3**	255.8	**12,606.3**	11,669.2
Current liabilities										
Provision for distribution	**20.2**	16.4	**4.7**	15.7	**0.6**	-	**0.6**	-	**69.4**	61.9
Borrowings	**-**	-	**-**	-	**-**	-	**0.6**	-	**234.7**	149.3
Other current liabilities	**9.2**	8.0	**7.7**	6.8	**4.1**	10.7	**4.8**	2.5	**161.8**	151.0
Total current liabilities	**29.4**	24.4	**12.4**	22.5	**4.7**	10.7	**6.0**	2.5	**465.9**	362.2
Non-current liabilities										
Borrowings	**-**	-	**-**	-	**-**	-	**-**	-	**22.6**	72.1
Other non-current liabilities	**-**	-	**-**	-	**-**	-	**4.7**	-	**4.7**	-
Total non-current liabilities	**-**	-	**-**	-	**-**	-	**4.7**	-	**27.3**	72.1
Net assets	**1,076.3**	1,049.6	**469.0**	441.8	**398.9**	353.6	**282.5**	256.6	**12,325.9**	11,469.1
Reconciliation to carrying amounts:										
Opening balance at the beginning of the year	**1,049.6**	1,034.1	**441.8**	432.6	**353.6**	323.5	**256.6**	227.4	**11,469.1**	8,781.2
Additions	**-**	**-**	**0.8**	6.8	**31.1**	22.1	**17.8**	3.8	**522.8**	2,280.4
Profit for the year	**83.5**	73.1	**51.7**	51.3	**29.6**	22.9	**16.2**	33.5	**851.8**	873.4
Distributions received/receivable	**(56.8)**	(57.6)	**(25.3)**	(48.9)	**(15.4)**	(14.9)	**(8.1)**	(8.1)	**(517.8)**	(465.9)
Closing balance at the end of the year	**1,076.3**	1,049.6	**469.0**	441.8	**398.9**	353.6	**282.5**	256.6	**12,325.9**	11,469.1
Groups Share in $	**358.8**	349.5	**234.5**	220.9	**199.5**	176.8	**141.3**	128.9	**6,260.5**	5,851.0
Summarised Statement of Comprehensive Income										
Property revenue	**54.8**	52.5	**36.0**	42.4	**21.9**	21.5	**18.6**	15.9	**652.6**	589.6
Property revaluations	**41.9**	33.6	**29.4**	21.1	**17.2**	10.1	**9.8**	27.8	**393.1**	448.2
Gain on sale of investment properties	**-**	-	**-**	-	**-**	-	**-**	-	**-**	2.7
Interest Income	**-**	0.1	**-**	0.2	**-**	-	**-**	-	**0.8**	2.1
Share of net profit of investments accounted for using the equity method	**-**	-	**-**	-	**-**	-	**-**	-	**46.2**	56.1
Other Income	**0.1**	-	**-**	-	**-**	0.1	**-**	0.1	**1.6**	0.2
Property expenses	**(13.3)**	(13.1)	**(11.1)**	(10.3)	**(7.3)**	(6.9)	**(10.9)**	(9.4)	**(193.6)**	(186.4)
Finance Costs	**-**	-	**-**	-	**-**	-	**(0.2)**	-	**(5.4)**	(9.9)
Other expenses	**-**	-	**(2.6)**	(2.5)	**(2.2)**	(1.9)	**(1.0)**	(0.9)	**(43.4)**	(29.6)
Net profit/(loss) for the year	**83.5**	73.1	**51.7**	50.9	**29.6**	22.9	**16.3**	33.5	**851.9**	873.0

1. The Trust also has interests in a number of individually immaterial joint ventures that are accounted for using the equity method.

Note 8 Non-current assets classified as held for sale

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

Non-current assets classified as held for sale are presented separately from the other assets in the Consolidated Statement of Financial Position. Non-current assets classified as held for sale relate to investment properties measured at fair value.

At 30 June 2020 the balance relates to 45 Clarence Street, Sydney. At 30 June 2019, there were no assets classified as held for sale.

Capital and financial risk management and working capital

In this section

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

Note 9 *Capital and financial risk management* outlines how the Trust manages its exposure to a variety of financial risks (interest rate risk, foreign currency risk, liquidity risk and credit risk) and details the various derivative financial instruments entered into by the Trust.

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

- Debt: *Lease liabilities* in note 10 and *Commitments and contingencies* in note 11; and
- Equity: *Contributed equity* in note 12.

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

Note 9 Capital and financial risk management

Capital and financial risk management is carried out through a centralised treasury function which is governed by a Board approved Treasury Policy. The DXS Group has an established governance structure which consists of the DXS Group Management Committee and Capital Markets Committee.

The Board has appointed a DXS Group Management Committee responsible for achieving Dexus's goals and objectives, including the prudent financial and risk management of the DXS Group. A Capital Markets Committee has been established to advise the DXS Group Management Committee.

The Capital Markets Committee is a management committee that is accountable to the Board. It convenes at least quarterly and conducts a review of financial risk management exposures including liquidity, funding strategies and hedging. It is also responsible for the development of financial risk management policies and funding strategies for recommendation to the Board, and the approval of treasury transactions within delegated limits and powers.

a) Capital risk management

The Trust manages its capital to ensure that entities within the Trust will be able to continue as a going concern while maximising the return to owners through the optimisation of the debt and equity balance.

The capital structure of the Trust consists of debt, cash and cash equivalents and equity attributable to security holders. The Trust continuously monitors its capital structure and it is managed in consideration of the following factors:

- the cost of capital and the financial risks associated with each class of capital;
- gearing levels and other debt covenants;
- potential impacts on net tangible assets and security holders' equity;
- potential impacts on the DXS Group's credit rating; and
- other market factors.

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

DXFM, the Responsible Entity for the Trust, has been issued with an Australian Financial Services Licence (AFSL). The licence is subject to certain capital requirements including the requirement to maintain liquidity above specified limits. DXFM must also prepare rolling cash projections over at least the next 12 months and demonstrate it will have access to sufficient financial resources to meet its liabilities that are expected to be payable over that period. Cash projections and assumptions are approved, at least quarterly, by the Board of the Responsible Entity.

Note 9 Capital and financial risk management (continued)

b) Financial risk management

The Trust's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Trust. The Trust's principal financial instruments, other than derivatives, comprise cash and related party loans. The main purpose of financial instruments is to manage liquidity and hedge the Trust's exposure to financial risks namely:

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

The Trust uses derivatives to reduce the Trust's exposure to fluctuations in interest rates. These derivatives create an obligation or a right that effectively transfers one or more of the risks associated with an underlying financial instrument, asset or obligation. Derivative financial instruments that the Trust may use to hedge its risks include:

- interest rate swaps and interest rate options (together interest rate derivative); and
- other derivative contracts.

The Trust does not trade in interest rate derivative instruments for speculative purposes. The Trust uses different methods to measure the different types of risks to which it is exposed, including monitoring the current and forecast levels of exposure and conducting sensitivity analysis.

i) Market risk

Interest rate risk

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

The Trust's risk management policy for interest rate risk seeks to minimise the effects of interest rate movements on its asset and liability portfolio through active management of the exposures. The policy prescribes minimum and maximum hedging amounts for the Trust, which is managed on a portfolio basis.

The Trust primarily enters into interest rate derivatives to manage the associated interest rate risk. The derivative contracts are recorded at fair value in the Consolidated Statement of Financial Position, using standard valuation techniques with market inputs.

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 2021 $m	June 2022 $m	June 2023 $m	June 2024 $m	June 2025 $m
Interest rate derivatives					
A$ hedged	1,656.7	1,291.7	1,108.3	958.3	675.0
Hedge rate (%)	1.79%	1.61%	1.63%	1.75%	1.84%

Note 9 Capital and financial risk management (continued)

b) Financial risk management (continued)

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

Interest rate risk (continued)

Sensitivity analysis on interest expense

The table below shows the impact on the Trust's net interest expense of a 50 basis point movement in market interest rates. The sensitivity on cash flow arises due to the impact that a change in interest rates will have on the Trust's floating rate debt and derivative cash flows on average during the financial year. Net interest expense is only sensitive to movements in market rates to the extent that floating rate debt is not hedged.

	2020 (+/-) $m	2019 (+/-) $m
+/- 0.50% (50 basis points)	**15.7**	13.8
Total A$ equivalent	**15.7**	13.8

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

Sensitivity analysis on fair value of interest rate derivatives

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

The fair value of interest rate derivatives is calculated as the present value of estimated future cash flows on the instruments. Although interest rate derivatives are transacted for the purpose of providing the Trust with an economic hedge, the Trust has elected not to apply hedge accounting to these instruments. Accordingly, gains or losses arising from changes in the fair value are reflected in the profit or loss.

	2020 (+/-) $m	2019 (+/-) $m
+/- 0.50% (50 basis points)	**22.8**	24.9
Total A$ equivalent	**22.8**	24.9

ii) Liquidity risk

Liquidity risk is associated with ensuring that there are sufficient funds available to meet the Trust's financial commitments as and when they fall due and planning for any unforeseen events which may curtail cash flows. The Trust identifies and manages liquidity risk across the following categories:

- short-term liquidity management covering the month ahead on a rolling basis with continuous monitoring of forecast and actual cash flows;
- medium-term liquidity management of liquid assets, working capital and standby facilities to cover Trust cash requirements over the next 1-24 month period. The Trust maintains a level of committed borrowing facilities above the forecast committed debt requirements (liquidity headroom buffer). Committed debt includes future expenditure that has been approved by the Board or Investment Committee (as required within delegated limits); and
- long-term liquidity management through ensuring an adequate spread of maturities of borrowing facilities so that refinancing risk is not concentrated in certain time periods, and ensuring an adequate diversification of funding sources where possible, subject to market conditions.

Note 9 Capital and financial risk management (continued)

b) Financial risk management (continued)

ii) Liquidity risk (continued)

Refinancing risk

Refinancing risk is the risk that the Trust:

- will be unable to refinance its debt facilities as they mature; and/or
- will only be able to refinance its debt facilities at unfavourable interest rates and credit market conditions (margin price risk).

The Trust's key risk management strategy for margin price risk on refinancing is to spread the maturities of debt facilities over different time periods to reduce the volume of facilities to be refinanced and the exposure to market conditions in any one period. An analysis of the contractual maturities of the Trust's interest bearing liabilities and derivative financial instruments is shown in the table below. The amounts in the table represent undiscounted cash flows.

	2020				2019			
	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	**(86.2)**	**-**	**-**	**-**	(90.6)	-	-	-
Lease liabilities	**(0.5)**	**(0.5)**	**(1.6)**	**(2.6)**	-	-	-	-
Total payables and lease liabilities	**(86.7)**	**(0.5)**	**(1.6)**	**(2.6)**	(90.6)	-	-	-
Loans with related parties and interest	**(129.9)**	**(123.4)**	**(421.0)**	**(4,665.4)**	(121.4)	(120.4)	(407.1)	(4,246.1)
Total interest bearing liabilities & interest[1]	**(129.9)**	**(123.4)**	**(421.0)**	**(4,665.4)**	(121.4)	(120.4)	(407.1)	(4,246.1)
Derivative financial liabilities								
Cash receipts	**-**	**-**	**1.4**	**0.1**	-	-	0.5	3.2
Cash payments	**(18.5)**	**(4.8)**	**(0.6)**	**-**	(10.1)	(9.1)	(11.1)	-
Total net derivative financial instruments[2]	**(18.5)**	**(4.8)**	**0.8**	**0.1**	(10.1)	(9.1)	(10.6)	3.2

1. Includes estimated interest and fees.
2. For interest rate swaps and options, only the net interest cash flows (not the notional principal) are included. Refer to note 9(c) for fair value of derivatives and refer to note 11(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 Trust. The Trust has exposure to credit risk on all financial assets included in the Trust's Consolidated Statement of Financial Position.

The Trust manages this risk by:

- adopting a process for determining an approved counterparty, with consideration of qualitative factors as well as the counterparty's credit rating;
- regularly monitoring counterparty exposure within approved credit limits that are based on the lower of a S&P, Moody's and Fitch credit rating. The exposure includes the current market value of in-the-money contracts and the potential exposure, which is measured with reference to credit conversion factors as per APRA guidelines;
- entering into International Swaps and Derivatives Association (ISDA) Master Agreements once a financial institution counterparty is approved;
- for some trade receivables, obtaining collateral where necessary in the form of bank guarantees and tenant bonds; and
- regularly monitoring loans and receivables on an ongoing basis.

A minimum S&P rating of A– (or Moody's or Fitch equivalent) is required to become or remain an approved counterparty unless otherwise approved by the Dexus Board.

The Trust is exposed to credit risk on cash balances and on derivative financial instruments with financial institutions. The Trust has a policy that sets limits as to the amount of credit exposure to each financial institution. New derivatives and cash transactions are limited to financial institutions that meet minimum credit rating criteria in accordance with the Trust's policy requirements.

Financial instrument transactions are spread among a number of approved financial institutions within specified credit limits to minimise the Trust's exposure to any one counterparty. As a result, there is no significant concentration of credit risk for financial instruments. The maximum exposure to credit risk at 30 June 2020 is the carrying amounts of financial assets recognised on the Consolidated Statement of Financial Position.

Note 9 Capital and financial risk management (continued)

b) Financial risk management (continued)

iii) Credit Risk (continued)

The Trust is exposed to credit risk on trade receivable balances. The Trust has a policy to continuously assess and monitor the credit quality of trade debtors on an ongoing basis. Given the historical profile and exposure of the trade receivables, it has been is determined that no significant concentrations of credit risk exists for trade receivables balances. The maximum exposure to credit risk at 30 June 2020 is the carrying amounts of the trade receivables recognised on the Consolidated Statement of Financial Position.

iv) Fair value

As at 30 June 2020, the carrying amounts of financial assets and liabilities are held at fair value.
The Trust uses the following methods in the determination and disclosure of the fair value of financial instruments:

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

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

Level 3: The fair value is estimated using inputs for the asset or liability that are not based on observable data.

All derivative financial instruments and investments in equity instruments (where the trust neither controls nor has significant influence) were measured at Level 2 for the periods presented in this report. During the year, there were no transfers between Level 1, 2 and 3 fair value measurements.

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

Key assumptions: fair value of derivatives

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

v) Offsetting financial assets and financial liabilities

Financial assets and liabilities are offset and the net amount reported in the Consolidated Statement of Financial Position where there is a legally enforceable right to set-off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously. No financial assets and liabilities are currently held under netting arrangements.

Master Netting arrangements – not currently enforceable

Agreements with derivative counterparties are based on an ISDA Master Agreement. Under the terms of these arrangements, where certain credit events occur (such as default), the net position owing/receivable to a single counterparty in the same currency will be taken as owing and all the relevant arrangements terminated. As the Trust does not presently have a legally enforceable right of set-off, these amounts have not been offset in the Consolidated Statement of Financial Position.

c) Derivative financial instruments

A derivative is a type of financial instrument typically used to manage risk. A derivative's value changes over time in response to an underlying benchmark, including interest rates or exchange rates, or asset values, and is entered into for a fixed period. A hedge is where a derivative is used to manage an underlying exposure.

Written policies and limits are approved by the Board of Directors of the Responsible Entity, in relation to the use of financial instruments to manage financial risks. The Responsible Entity regularly reviews the Trust's exposures and updates its treasury policies and procedures. The Trust does not trade in interest rate related derivative instruments for speculative purposes.

The Trust usually uses the following types of derivatives as part of its financial and business strategy:

1. Interest rate derivative contracts – the Trust uses interest rate derivative contracts to manage the risk of movements in variable interest rates on the Trust's Australian dollar denominated borrowing; and
2. Other derivative contracts – equity linked derivatives that are used from time to time and expose the Trust to movements in the fair value of listed equities included within the Australian REIT index as part of its strategy of investing in Australian property assets.

Derivatives are measured at fair value with any changes in fair value recognised either in the Statement of Comprehensive Income, or directly in equity where hedge accounted.

Note 10 Lease liabilities

The Trust has applied AASB 16 *Leases* from 1 July 2019. Refer to note 18 *Changes in accounting policies* for further information. The following table details information relating to leases where the Trust is a lessee.

	Note	2020 $m	2019 $m
Current			
Lease liabilities - ground leases	(a)	**0.5**	-
Total current liabilities - lease liabilities		**0.5**	-
Non-current			
Lease liabilities - ground leases	(a)	**4.0**	-
Total non-current liaibilities - lease liabilities		**4.0**	-
Total liabilities - lease liabilities		**4.5**	-

a) *Lease liabilities – ground leases*

The lease liabilities is the ground lease at Waterfront Place, 1 Eagle Street, Brisbane. Refer to note 6 *Investment properties* where the corresponding leased asset is included in the total value of investment properties.

Note 11 Commitments and contingencies

a) Commitments

Capital commitments

The following amounts represent remaining capital expenditure on investment properties and inventories as well as committed fit-out or cash incentives contracted at the end of each reporting period but not recognised as liabilities payable:

	2020 $m	2019 $m
Investment properties	**78.2**	59.9
Investments accounted for using the equity method	**169.0**	272.0
Total capital commitments	**247.2**	331.9

Lease receivable commitments

The future minimum lease payments receivable by the Trust are:

	2020 $m	2019 $m
Within one year	**281.8**	289.1
Later than one year but not later than five years	**968.4**	1,076.4
Later than five years	**208.6**	280.2
Total lease receivable commitments	**1,458.8**	1,645.7

Note 11 Commitments and contingencies (continued)

b) Contingencies

The Trust, together with DDF, DIT and DXO, is a guarantor of A$6,248.4 million of interest bearing liabilities (refer note 15 of the Dexus Financial Report). The guarantees have been given in support of debt outstanding and drawn against these facilities and may be called upon in the event that a borrowing entity has not complied with certain requirements such as failure to pay interest or repay a borrowing, whichever is earlier. During the period no guarantees were called.

The above guarantees are issued in respect of the Trust and do not constitute an additional liability to those already existing in interest bearing liabilities on the Consolidated Statement of Financial Position.

The Directors of the Responsible Entity are not aware of any other contingent liabilities in relation to the Trust, other than those disclosed in the Consolidated 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.

Note 12 Contributed equity

Number of units on issue

	2020 No. of units	2019 No. of units
Opening balance at the beginning of the year	**1,096,857,665**	1,017,196,877
Issue of additional equity	**-**	79,660,788
Buy-back of contributed equity	**(5,655,502)**	-
Closing balance at the end of the year	**1,091,202,163**	1,096,857,665

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

Each stapled security entitles the holder to vote in accordance with the provisions of the Constitutions and the *Corporations Act 2001*.

Transaction costs arising on the buy-back 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 buy-back of those equity instruments and which would not have been incurred had those instruments not been bought back.

On 23 October 2019, Dexus announced plans to initiate an on-market securities buy-back of up to 5% of Dexus securities on issue over the next 12 months, as part of its active approach to capital management.

During the period to 30 June 2020, Dexus acquired and cancelled 5,655,502 securities representing 0.52% of Dexus securities on issue.

Note 13 Working capital

a) Cash and cash equivalents

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

b) Receivables

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

Note 13 Working capital (continued)

b) Receivables (continued)

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 expected credit losses. Trade receivables are required to be settled within 30 days and are assessed on an ongoing basis for impairment. Receivables which are known to be uncollectable are written off by reducing the carrying amount directly.

The provision for expected credit losses 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.

The calculation of expected credit losses relating to rent and other receivables requires significant judgement to assess the future uncertainty of tenants' ability to pay their debts. Expected credit losses have been estimated using a provision matrix that has been developed with reference to the Trust's historical credit loss experience, general economic conditions and forecasts, assumptions around rent relief that may be provided to tenants and tenant risk factors such as size, industry exposure and the Trust's understanding of the ability of tenants to pay their debts. Accordingly, expected credit losses include both that part of the rent receivable that is likely to be waived and any additional amount relating to credit risk associated with the financial condition of the tenant.

In relation to distributions, an assessment has been performed taking into consideration the ability of the funds and mandates managed by the Trust to cash settle their distributions.

For any provisions for expected credit losses, the corresponding expense has been recorded in the Consolidated Statement of Comprehensive Income within Property expenses.

	2020 $m	2019 $m
Rent receivable[1]	**8.3**	1.5
Provision for expected credit loss	**(4.3)**	-
Accrued property income	**0.2**	1.1
Total rental receivables	**4.2**	2.6
Distributions receivable	**33.0**	29.8
Other receivables	**0.7**	5.6
Total other receivables	**33.7**	35.4
Total receivables	**37.9**	38.0

1. Rent receivable includes outgoings recoveries.

The provision for expected credit losses for rent receivables (which includes outgoings recoveries) as at 30 June 2020 was determined as follows:

	$m
30 June 2020	
0-30 Days	**1.3**
31-60 days	**1.5**
61-90 days	**1.1**
91+ days	**0.4**
Total provision for expected credit losses	**4.3**

The provision for expected credit losses for distributions receivable and other receivables that has been recorded is minimal.

Note 13 Working capital (continued)

b) Receivables (continued)

The provision for expected credit losses for rent receivables as at the reporting date reconciles to the opening loss allowances as follows:

	Trade receivables	
	2020	2019
	$m	$m
Opening provision for expected credit losses	**-**	-
Increase in provision recognised in profit or loss during the year	**4.3**	-
Closing provision for expected credit losses	**4.3**	-

c) Other current assets

	2020	2019
	$m	$m
Prepayments	**6.9**	6.7
Other	**-**	3.5
Total other current assets	**6.9**	10.2

d) Payables

	2020	2019
	$m	$m
Trade creditors	**20.2**	19.8
Accruals	**1.9**	2.5
Accrued capital expenditure	**28.2**	46.6
Prepaid income	**11.1**	7.8
Accrued interest	**24.8**	13.9
Total payables	**86.2**	90.6

e) Provisions

A provision is recognised when an obligation exists as a result of a past event and it is probable that a future outflow of cash or other benefit will be required to settle the obligation.

In accordance with the Trust's Constitution, the Trust distributes its distributable income to security holders by cash or reinvestment. Distributions are provided for when they are approved by the Board of Directors and declared.

	2020	2019
	$m	$m
Provision for distribution	**111.3**	72.0
Total current provisions	**111.3**	72.0

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

	2020	2019
	$m	$m
Provision for distribution		
Opening balance at the beginning of the year	**72.0**	149.9
Additional provisions	**272.8**	183.1
Payment of distributions	**(233.5)**	(261.0)
Closing balance at the end of the year	**111.3**	72.0

A provision for distribution has been raised for the period ended 30 June 2020. This distribution is to be paid on 28 August 2020.

Other disclosures

In this section

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

Note 14 Audit, taxation and transaction service fees

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

	2020 $'000	2019 $'000
Audit fees		
PwC Australia - audit and review of Financial Statements	**300**	391
PwC Australia - outgoings audits	**87**	59
PwC Australia - regulatory audit and compliance services	**5**	5
Audit fees paid to PwC	**392**	455

Note 15 Cash flow information

a) Reconciliation of cash flows from operating activities

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

	2020 $m	2019 $m
Net profit/(loss) for the year	**546.3**	781.0
Capitalised interest	**(1.1)**	(15.4)
Amortisation of incentives and straight lining income	**49.6**	36.2
Net fair value (gain)/loss of investment properties	**(242.9)**	(299.4)
Share of net (profit)/loss of investments accounted for using the equity method	**(410.5)**	(425.1)
Net fair value (gain)/loss of derivatives	**126.3**	-
Net fair value (gain)/loss of interest rate swaps	**27.6**	30.3
Amortisation of deferred borrowing costs	**0.8**	-
Net (gain)/loss on sale of investment properties	**0.4**	3.5
Distributions from investments accounted for using the equity method	**259.6**	216.4
Change in operating assets and liabilities		
(Increase)/decrease in receivables	**0.5**	9.6
(Increase)/decrease in prepayments and other current assets	**1.7**	2.1
(Increase)/decrease in other non-current assets	**(3.5)**	(5.8)
Increase/(decrease) in payables	**(5.1)**	(12.8)
Increase/(decrease) in other current liabilities	**8.3**	0.5
Increase/(decrease) in other non-current liabilities	**106.5**	109.4
Net cash inflow/(outflow) from operating activities	**464.5**	430.5

Note 15 Cash flow information (continued)

b) Net debt reconciliation

	2020 Loans with related parties $m	2019 Loans with related parties $m
Opening balance	**3,752.4**	2,867.0
Changes from financing cash flows		
Proceeds from loan with related party	**1,302.2**	3,999.2
Repayment of loan with related party	**(916.5)**	(3,221.3)
Non cash changes		
Intercompany interest capitalised to loan	**141.8**	137.5
Changes in fair value and other	**2.0**	(30.0)
Closing balance	**4,281.9**	3,752.4

Note 16 Related parties

Responsible Entity

DXFM is the Responsible Entity of the Trust.

Management Fees

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

Related party transactions

Transactions between the Trust 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

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

	2020 $'000	2019 $'000
Responsible Entity fees paid and payable	**12,244**	14,365
Property management fees paid and payable to DXPS	**7,255**	6,611
Development management (DM), Project Delivery (PDG), capital expenditure and leasing fee expense	**6,552**	6,952
Responsible Entity fees payable at the end of each reporting year (included above)	**1,022**	1,012
Property management fees payable at the end of each reporting year (included above)	**633**	1,119
DM, PDG, capital expenditure and leasing fees payable at the end of each reporting year (included above)	**972**	4,914
Rent received	**4,379**	3,012

Note 16 Related parties (continued)

Entities within DXS

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

	2020 $'000	2019 $'000
Interest expense	**141,798**	138,912
Interest bearing loans advanced from entities within DXS	**1,302,200**	3,999,200
Interest bearing loans advanced to entities within DXS	**916,500**	3,215,300

Key management personnel compensation

	2020 $'000	2019 $'000
Compensation		
Short-term employee benefits	**8,279**	9,933
Post employment benefits	**384**	318
Security-based payments	**3,675**	5,918
Total key management personnel compensation	**12,338**	16,169

Note 17 Parent entity disclosures

The financial information for the parent entity of Dexus Office Trust has been prepared on the same basis as the Consolidated Financial Statements except as set out below.

Distributions received from associates are recognised in the parent entity's Statement of Comprehensive Income, rather than being deducted from the carrying amount of these investments.

Interests held by the parent entity in controlled entities are measured at fair value through profit and loss to reduce a measurement or recognition inconsistency.

a) Summary financial information

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

	2020 $m	2019 $m
Total current assets	**2,266.1**	1,036.0
Total assets	**11,800.6**	10,522.3
Total current liabilities	**211.2**	160.8
Total liabilities	**4,546.2**	3,977.1
Equity		
Contributed equity	**3,582.3**	3,620.8
Retained profits	**3,672.1**	2,924.4
Total equity	**7,254.4**	6,545.2
Net profit/(loss) for the year	**510.9**	351.9
Total comprehensive income/(loss) for the year	**510.9**	351.9

Note 17 Parent entity disclosures (continued)

b) Guarantees entered into by the parent entity

Refer to note 11 for details of guarantees entered into by the parent entity.

c) Contingent liabilities

The parent entity had no contingent liabilities as at 30 June 2020 (2019: nil).

d) Capital commitments

The following amounts represent capital expenditure of the parent entity on investment properties contracted at the end of the reporting period but not recognised as liabilities payable:

	2020	2019
	$m	$m
Investment properties	**71.4**	14.1
Total capital commitments	**71.4**	14.1

Note 18 Changes in accounting policies

AASB 16 Leases

AASB 16 *Leases* (AASB 16) is effective for annual reporting periods beginning on or after 1 January 2019. AASB 16 was adopted by the Trust on 1 July 2019. The Trust has adopted AASB 16 retrospectively upon implementation of this standard, however comparatives have not been restated as permitted under the specific transition provisions in the standard. The right-of-use asset has been measured at an amount equal to the lease liability, adjusted for any prepaid or accrued lease payments relating to that lease recognised in the Consolidated Statement of Financial Position immediately before the date of initial application. The changes and considerations are detailed below.

Under AASB 16, as a Lessee, the Trust recognises a right-of-use asset and lease liability on the Consolidated Statements of Financial Position for all material leases. Right-of-use assets that meet the definition of investment property under AASB 140 *Investment Property* are measured at fair value and presented within Investment property (see section on Ground Leases below).

The lease liability is initially measured at the present value of the lease payments, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Trust's incremental borrowing rate. Generally, the Trust uses its incremental borrowing rate as the discount rate. Variable lease payments that depend on an index or rate are included in the lease liability, measured using the index or rate as at the date of transition.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payments made. The liability is remeasured when there is a change in future lease payments arising from a change in index or rate or changes in the assessment of whether an extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised. Interest costs and variable lease payments not included in the initial measurement of the lease liability are recognised in the Consolidated Statement of Comprehensive Income in the period to which they relate.

The Trust has applied judgement to determine the lease term for contracts which include renewal and termination options. The Trust's assessment considered the facts and circumstances that create an economic incentive to exercise a renewal option or not to exercise a termination option.

The Trust's leases are all ground leases.

Note 18 Changes in accounting policies (continued)

Ground Leases

On transition to AASB 16 on 1 July 2019, a lease liability in relation to leasehold arrangements of investment properties is required to be separately disclosed in the Consolidated Statement of Financial Position. To ensure this treatment does not result in an inaccurate net position, the carrying value of investment properties has been adjusted (grossed up) so that the net of these two balances equal the fair value of the investment properties. The Trust has recorded any ground leases with a peppercorn rent at their nominal amount. As at 30 June 2020, $4.5 million of lease liabilities and $4.5 million of right-of-use assets within investment property in relation to ground leases have been recognised in the Consolidated Statement of Financial Position.

Practical expedients

On transition to AASB 16, the Trust elected to apply the practical expedient to grandfather the assessment of contracts entered into before the transition date which qualified as leases. The Trust has therefore only applied the principles of AASB 16 to leases which were either previously identified as leases under AASB 117 *Leases* and Interpretation 4 *Determining Whether an Arrangement Contains a Lease* or new contracts entered into on or after 1 July 2019 which meets the revised lease definition as per AASB 16.

The Trust has also applied the practical expedients to use a single discount rate to the portfolio of property leases where they have reasonably similar characteristics.

Impact on transition

Impact on Trust as a lessor

The Trust leases its investment property and has classified these leases as operating leases. The accounting polices applicable to the Trust as a lessor are not different from those under AASB 117 *Leases.* However, the Trust has applied AASB 15 *Revenue from Contracts with Customers* to allocate consideration in the contract between lease and non-lease components.

The adoption of the new AASB 16 standard has no impact on the financial reporting of the Trust from a lessor perspective and therefore no adjustment is required to this effect.

Impact on Trust as a lessee

On transition to AASB 16, the Trust recognised $4.9 million of Investment Property and $4.9 million of lease liabilities in the Consolidated Statement of Financial Position.

In measuring lease liabilities for leases that were classified as operating leases, the Trust discounted lease payments using its incremental borrowing rate at 1 July 2019. The weighted average rate applied was 3.51%.

The difference between the operating lease commitments disclosed at 30 June 2019 discounted using the incremental borrowing rate at 1 July 2019 and the liabilities recognised at 1 July 2019 reflects:

- Adjustments as a result of different treatment of extension and termination options;
- Recognition exemption for leases of low value assets; and
- Recognition exemption for leases with less than 12 months.

Within the Consolidated Statement of Comprehensive Income, the Trust has separately recognised interest expense, instead of an operating lease expense. During the year ended 30 June 2020, the Trust recognised $0.4 million of fair value losses and $0.2 million of interest.

Note 19 Subsequent events

Rent relief that is expected to be given as a rent waiver for the period April to June 2020 to tenants that are not in arrears as at 30 June 2020 is estimated to total $7.7 million. This includes waivers for investment properties and investment properties held within investments accounted for using the equity method.

There remains significant uncertainty regarding how the COVID-19 pandemic will evolve, including the duration of the pandemic, the severity of the downturn and the speed of economic recovery. In accordance with AASB 110 *Events after the Reporting Date*, the Trust considered whether events after the reporting period confirmed conditions that existed before the reporting date, e.g. bankruptcy of customers. Consideration was given to the macro-economic impact of lockdowns implemented in Victoria in the beginning of July 2020, and the closure of the border between Victoria and New South Wales on 7 July 2020, and the Trust concluded that the amounts recognised in the consolidated financial statements and the disclosures therein are appropriate. The economic environment is subject to rapid change and updated facts and circumstances continue to be closely monitored by the Trust.

Other than the above, since the end of the year, the Directors are not aware of any matter or circumstance not otherwise dealt with in their Directors' Report or the Consolidated Financial Statements that has significantly or may significantly affect the operations of the Trust, the results of those operations, or state of the Trust's affairs in future financial periods.

Directors' Declaration

The Directors of Dexus Funds Management Limited as Responsible Entity of Dexus Office Trust declare that the Consolidated Financial Statements and notes set out on pages 9 to 42:

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

(ii) give a true and fair view of the Trust's financial position as at 30 June 2020 and of its performance, as represented by the results of its operations and its cash flows, for the year ended on that date.

In the Directors' opinion:

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

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

(c) the Trust has operated in accordance with the provisions of the Constitution dated 15 August 1984 (as amended) during the year ended 30 June 2020.

The Consolidated 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

18 August 2020

Independent auditor's report

To the stapled security holders of Dexus Office Trust

Report on the audit of the financial report

Our opinion

In our opinion:

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

(a) giving a true and fair view of the Group's financial position as at 30 June 2020 and of its financial performance for the year then ended

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

What we have audited

The Group financial report comprises:

- the Consolidated Statement of Financial Position as at 30 June 2020
- the Consolidated Statement of Comprehensive Income for the year then ended
- the Consolidated Statement of Changes in Equity for the year then ended
- the Consolidated Statement of Cash Flows for the year then ended
- the Notes to the Consolidated Financial Statements, which include a summary of significant accounting policies
- the Directors' Declaration.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Group 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 (including Independence Standards)* (the Code) that are relevant to our audit of the Group financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

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

Our audit approach

An audit is designed to provide reasonable assurance about whether the Group 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 Group 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 Group 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 $19.5 million, which represents approximately 5% of the Group's adjusted profit before tax (Funds from Operations or FFO). • We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the Group financial report as a whole. • We chose FFO because, in our view, it is the key performance measure of the Group. An explanation of what is included in FFO is outlined in Note 1, Operating segments of the Dexus Annual Report. • We utilised a 5% threshold based on our professional judgement, noting it is within the range of commonly acceptable profit related thresholds.	• The Group is a consolidated entity with operations in Australia. The scope of our audit included the Trust and its controlled entities. • Our audit focused on where the Group made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events.	• 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 using the equity method – Impairment of property rental receivables related to property revenue. • These are further described in the *Key audit matters* section of our report.

pwc

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the Group financial report for the current period. The key audit matters were addressed in the context of our audit of the Group 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 using the equity method *(Refer to notes 2, 6 and 7)* The Group's investment property portfolio comprises: • Directly held properties included in the Consolidated Statement of Financial Position as Investment Properties valued at $5,080.3 million as at 30 June 2020 (2019: $5,221.7 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 $6,435.3 million as at 30 June 2020 (2019: $5,966.4 million). Investment properties are carried at fair value at reporting date using the Group's policy as described in note 6. The valuation of investment properties is dependent on assumptions and inputs including tenant information, property age and location, expected future rental income, and prevailing market conditions. Amongst others, the capitalisation rate, discount rate, terminal yield, and net market rental are key in establishing fair value. Given the rapidly developing nature of the Coronavirus (COVID-19) pandemic and the uncertainty as to the economic impacts arising from the Government imposed restrictions, significant judgment was exercised by the Group in determining fair value. Specifically, this included judgments around the impact of COVID-19 on significant forward-looking assumptions, including capitalisation rates, discount rates, the provision of rent relief to certain tenants, and overall future rental growth rates. In addition, the slowdown in activity in the property market has reduced the availability of observable market data such as comparable sales and capitalisation rates.	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 read recent external property market reports to develop an understanding of the prevailing market conditions in which the Group invests. • For a sample of leases, we compared the rental income used in the investment property valuations to the tenancy schedules and lease agreements. • We assessed the reasonableness of the Group's leasing and rental relief assumptions on a sample basis, and agreed these assumptions to the Group's valuation models, where applicable. • We performed a risk-based assessment over the investment property portfolio to determine those properties at greater risk of being carried at amounts other than fair value. Our risk-based selection criteria included qualitative and quantitative measures and were informed by our knowledge of each property, asset class and our understanding of the current market conditions. For those properties which met our selection criteria, we performed procedures to assess the reasonableness of key assumptions used in the valuations. These procedures included, 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 signed during the year, lease expiries, capital expenditure and vacancy rates.

Key audit matter	*How our audit addressed the key audit matter*
At each reporting period the Group determines the fair value of its investment property portfolio having regard to the Group's valuation policy which requires all properties to be externally valued by valuation experts at least once every three years. It has been the Group's practice to have such valuations performed every six months. The external valuers engaged by the Group have included a significant valuation uncertainty clause in their report. This clause highlights that less certainty, and consequently a higher degree of caution, should be attached to the valuation as a result of the COVID-19 pandemic. This represents a significant estimation uncertainty in relation to the valuation of investment properties. This was considered a key audit matter given: • the inherently subjective nature of investment property valuations arising from the use of assumptions in the valuation methodology • the extent of judgment involved in considering the impact of the COVID-19 pandemic • the financial significance of the balances • the importance of the valuation uncertainty to users' understanding of the Group financial report.	– Compared key assumptions such as capitalisation rate, discount rate and net market rental used in the valuations to market analysis published by industry experts, recent market transactions, other market data points. – Considered the impact of significant valuation uncertainty clauses, specific other uncertainties and adjustments related to COVID-19 included in external valuers' reports. – Tested the mathematical accuracy of the valuation calculations. • As the Group engaged external experts to assist in the determination of the fair value of investment properties, we considered the independence, experience and competency of the Group's external experts as well as the results of their procedures. • We met with a selection of external valuation firms to develop an understanding of their processes, judgments and observations, as well as any significant valuation uncertainty clauses included in their valuation reports and how they dealt with the uncertainties arising from COVID-19 on their valuations. • We assessed the appropriateness of the Group's disclosures in the Group financial report against the requirements of Australian Accounting Standards. In particular, we considered the adequacy of the disclosures made in note 6 to the financial statements which explain that there is significant estimation uncertainty in relation to the valuation of investment properties.
Impairment of property rental receivables related to property revenue *(Refer to note 2 and note 13)* The Group's main revenue stream is property revenue which is derived from holding investment properties and earning rental yields over time. Property revenue is recognised on a straight-line basis over the terms of the underlying leases, with receivables being recorded for property rental revenue recognised but not yet received.	In order to assess the appropriateness of impairments for expected credit losses associated with property rental receivables, we performed the following procedures amongst others: • We performed inquiries of management to understand and evaluate key processes and controls established by the Group in response to the administration of rent relief to tenants during the COVID-19 period. • We obtained the Group's accounting papers outlining the impact of COVID-19 on the impairment of property rental receivables and assessed whether the Group's treatment was in accordance with AASB 9.

Key audit matter	How our audit addressed the key audit matter
In response to the COVID-19 pandemic, the Australian Government introduced The Code of Conduct for Commercial Tenancies for tenants that are suffering from financial stress or hardship as defined by their eligibility for the Commonwealth Governments JobKeeper program (SME tenants). The objective of the legislation is to ensure tenants and landlords negotiate amendments to lease terms in good faith to aid the management of cashflow for SME tenants and landlords on a proportionate basis. AASB 9 *Financial Instruments* (AASB 9) requires the Group to recognise expected credit losses for all financial assets held at amortised cost, including property rental receivables and to reduce the gross carrying amount of a financial asset when the Group does not have a reasonable expectation of recovering a property rental receivable or portion thereof. Where the Group has recorded property rental receivables but is expecting to provide rent relief to the tenants to whom the receivables relate, a provision for expected credit losses is recognised against the receivable. Significant judgment is required in estimating the amount of rent relief expected to be provided by the Group. Given the extent of judgment involved in determining the Group's future expected credit losses, we considered this to be a key audit matter.	• We obtained the model developed by the Group that estimated the amount that the Group did not have a reasonable expectation of recovering from tenants and thus was provided against the property rental receivable balance. The model was also used to estimate the expected credit loss provision of the remaining property rental receivables balance. We performed the following audit procedures, amongst others, on a sample basis: – Agreed a sample of data such as tenant property rental amounts used as inputs to the model to relevant source documentation. – Checked the mathematical accuracy of the calculations. – Assessed the methodology applied against generally accepted market practice. – Considered the Group's judgments including the reasonableness of forward-looking information incorporated into the ECL model by assessing the forecasts, assumptions and probability weighting applied in multiple economic scenarios. – Agreed the total relief expected to be provided to tenants to Board documents. • We assessed the appropriateness of the Group's disclosures in the Group financial report against the requirements of Australian Accounting Standards.

Other information

The Directors of Dexus Funds Management Limited as Responsible Entity of the Trust (the Directors) are responsible for the other information. The other information comprises the information included in the annual report for the year ended 30 June 2020, but does not include the Group financial report and our auditor's report thereon.

Our opinion on the Group 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 Group financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Group 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 Group financial report

The Directors are responsible for the preparation of the Group 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 Group financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the Group 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 intends 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 Group financial report

Our objectives are to obtain reasonable assurance about whether the Group 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 Group financial report.

A further description of our responsibilities for the audit of the Group financial report is located at the Auditing and Assurance Standards Board website at: https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.pdf. This description forms part of our auditor's report.

PricewaterhouseCoopers

PricewaterhouseCoopers

Matthew Lunn
Partner

Sydney
18 August 2020

Dexus Operations Trust
Financial Report
30 June 2020

ARSN: 110 521 223

Contents

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

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

Directors' Report

The Directors of Dexus Funds Management Limited (DXFM) as Responsible Entity of Dexus Operations Trust (DXO or the Trust) present their Directors' Report together with the Consolidated Financial Statements for the year ended 30 June 2020. The Consolidated Financial Statements represents DXO and its consolidated entities.

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

Directors and Secretaries

Directors

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

Directors	Appointed
W Richard Sheppard, BEc (Hons), FAICD	1 January 2012
Patrick N J Allaway, BA/LLB	1 February 2020
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 H 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 2020 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 23 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. Nine board meetings were main meetings and three meetings were held to consider specific business.

	Main meetings held	Main meetings attended	Specific meetings held	Specific meetings attended
W Richard Sheppard	9	9	3	3
Patrick N J Allaway[1]	5	5	2	2
Penny Bingham-Hall	9	9	3	3
John C Conde, AO	9	9	3	3
Tonianne Dwyer	9	9	3	3
Mark H Ford	9	9	3	2
The Hon. Nicola L Roxon	9	9	3	3
Darren J Steinberg	9	9	3	3
Peter B St George	9	9	3	3

1. Patrick Allaway commenced his directorship on 1 February 2020.

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 2020.

	Board Audit Committee		Board Risk Committee		Board Nomination Committee[3]		Board People and Remuneration Committee		Board Environmental, Social and Governance Committee [4]		Joint "Organisational Risk" Session	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended	Held	Attended	Held	Attended
W Richard Sheppard	-	-	-	-	3	3	7	7	-	-	2	2
Patrick N J Allaway[1]	-	-	-	-	1	1	-	-	-	-	1	1
Penny Bingham-Hall[2]	-	-	1	1	3	3	7	7	3	3	2	2
John C Conde, AO	4	4	-	-	3	3	-	-	-	-	2	2
Tonianne Dwyer	4	4	4	4	3	3	-	-	-	-	2	2
Mark H Ford	4	4	4	4	3	3	-	-	3	3	2	2
The Hon. Nicola L Roxon[2]	-	-	1	1	3	3	7	7	3	3	2	2
Peter B St George	4	4	4	4	3	3	-	-	-	-	2	2

1. Patrick Allaway commenced his directorship on 1 February 2020 and effective immediately became a member of the Board Nomination Committee.
2. Penny Bingham-Hall and Nicola L Roxon ceased membership of the Board Risk Committee effective 1 September 2019.
3. All Non-Executive Directors (NEDs) became members of the Board Nomination Committee effective 1 September 2019.
4. Board Environmental, Social & Governance (ESG) Committee was established, effective 1 September 2019.

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 2020.

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	88,019
Patrick N J Allaway	20,000
Penny Bingham-Hall	32,773
John C Conde, AO	17,906
Tonianne Dwyer	16,667
Mark H Ford	10,000
The Hon. Nicola L Roxon[1]	9,737
Darren J Steinberg[2]	1,525,395
Peter B St George	18,573

1. Includes interests held directly and through Non-Executive Director (NED) Plan rights.
2. Includes interests held directly and through performance rights (refer note 23).

Operating and financial review

The relevant results for the Trust for the year ended 30 June 2020 were:
- profit attributable to unitholders was $91.3 million (2019: $102.2 million);
- total assets were $1,113.1 million (2019: $1,113.5 million); and
- net assets were $339.1 million (2019: $306.1 million).

A review of the results, financial position and operations of the Group, of which the Trust forms part thereof, is set out on pages 26 to 35 of the Dexus Annual Report and forms part of this Directors' Report.

Remuneration Report

The Remuneration Report is set out on pages 62 to 86 of the Dexus Annual Report and forms part of this Directors' Report.

Directors' directorships in other listed entities

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

Director	Company	Date Appointed
W Richard Sheppard	Star Entertainment Group	21 November 2012
Patrick N J Allaway	Bank of Queensland	1 May 2019
	Nine Entertainment Co. Holdings Limited	7 December 2018
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 H Ford	Kiwi Property Group Limited[2]	16 May 2011
Darren J Steinberg	VGI Partners Limited	12 May 2019

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

Principal activities

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

Total value of Trust assets

The total value of the assets of the Trust as at 30 June 2020 was $1,113.1 million (2019: $1,113.5 million). Details of the basis of this valuation are outlined in the Notes to the Consolidated Financial Statements and form part of this Directors' Report.

Likely developments and expected results of operations

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

Significant changes in the state of affairs

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

Matters subsequent to the end of the financial year

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

Distributions

Distributions paid or payable by the Trust for the year ended 30 June 2020 are outlined in note 8 of the Notes to the Consolidated Financial Statements and form part of this Directors' report.

DXFM fees

Details of fees paid or payable by the Trust to DXFM are eliminated on consolidation for the year ended 30 June 2020. Details are outlined in note 24 of the Notes to the Consolidated Financial Statements and form part of this Directors' Report.

Units on Issue

The movement in units on issue in the Trust during the year and the number of units on issue as at 30 June 2020 are detailed in note 15 of the Notes to the Consolidated Financial Statements and form part of this Directors' Report.

Environmental regulation

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

Indemnification and insurance

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

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

Audit

Auditor

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

Non-audit services

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

Details of the amounts paid or payable to the Auditor for audit and non-audit services provided during the year are set out in note 21 of the Notes to the Consolidated Financial Statements.

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

The reasons for the Directors being satisfied are:

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

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

Auditor's Independence Declaration

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

Corporate governance

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

Rounding of amounts and currency

As the Trust is an entity of the kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, the Directors have chosen to round amounts in this Directors' Report and the accompanying Financial Report to the nearest thousand dollars, unless otherwise indicated. The Trust is an entity to which the Instrument applies. All figures in this Directors' Report and the Consolidated 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 Consolidated Financial Statements were authorised for issue by the Directors on 18 August 2020.

W Richard Sheppard
Chair
18 August 2020

Darren J Steinberg
Chief Executive Officer
18 August 2020

pwc

Auditor's Independence Declaration

As lead auditor for the audit of Dexus Operations Trust for the year ended 30 June 2020, I declare that to the best of my knowledge and belief, there have been:

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

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

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

Matthew Lunn
Partner
PricewaterhouseCoopers

Sydney
18 August 2020

PricewaterhouseCoopers, ABN 52 780 433 757
One International Towers Sydney, Watermans Quay, Barangaroo, GPO BOX 2650, SYDNEY NSW 2001
T: +61 2 8266 0000, F: +61 2 8266 9999, www.pwc.com.au
Level 11, 1PSQ, 169 Macquarie Street, Parramatta NSW 2150, PO Box 1155 Parramatta NSW 2124
T: +61 2 9659 2476, F: +61 2 8266 9999, www.pwc.com.au

Consolidated Statement of Comprehensive Income

For the year ended 30 June 2020

	Note	2020 $'000	2019 $'000
Revenue from ordinary activities			
Property revenue	3	**40,323**	31,856
Development revenue		**275,818**	96,910
Distribution revenue		**818**	828
Interest revenue		**178**	123
Management fees and other revenue	2	**237,240**	200,169
Total revenue from ordinary activities		**554,377**	329,886
Net fair value gain of investment properties	9(a)	**24,677**	52,080
Net gain on sale of investment properties		**-**	382
Other income		**-**	145
Total income		**579,054**	382,493
Expenses			
Property expenses	3	**(14,313)**	(10,723)
Development costs	11	**(226,504)**	(47,360)
Finance costs	5	**(17,420)**	(14,879)
Impairment of management rights	19	**(2,600)**	-
Impairment of goodwill	19	**(3,021)**	(99)
Share of net loss of investments accounted for using the equity method	10	**(2,669)**	(820)
Loss on other assets at fair value		**(2,659)**	-
Transaction costs		**(915)**	-
Management operations, corporate and administration expenses	4	**(176,709)**	(163,685)
Total expenses		**(446,810)**	(237,566)
Profit/(loss) before tax		**132,244**	144,927
Income tax expense	6(a)	**(40,964)**	(42,717)
Profit/(loss) for the year		**91,280**	102,210
Other comprehensive income/(loss):			
Items that may be reclassified to profit or loss			
Changes in financial assets at fair value through other comprehensive income	16	**(6,594)**	2,828
Total comprehensive income/(loss) for the year		**84,686**	105,038
		Cents	Cents
Earnings per unit on profit/(loss) attributable to unitholders of the Trust (parent entity)			
Basic earnings per unit	7	**8.34**	9.94
Diluted earnings per unit	7	**8.13**	9.86

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 2020

	Note	2020 $'000	2019 $'000
Current assets			
Cash and cash equivalents	17(a)	**8,833**	9,885
Receivables	17(b)	**90,067**	83,592
Inventories	11	**180,690**	170,385
Current tax assets	6(c)	**2,558**	-
Other		**12,619**	6,533
Total current assets		**294,767**	270,395
Non-current assets			
Investment properties	9	**252,396**	193,419
Plant and equipment	18	**13,446**	14,986
Right-of-use assets	26	**35,383**	-
Inventories	11	**156,333**	289,679
Investments accounted for using the equity method	10(a)	**13,424**	304
Intangible assets	19	**332,764**	322,108
Investment in financial assets at fair value through other comprehensive income	20	**13,962**	19,648
Investment in financial assets at fair value through profit and loss		**408**	2,825
Other		**184**	105
Total non-current assets		**818,300**	843,074
Total assets		**1,113,067**	1,113,469
Current liabilities			
Payables	17(c)	**55,670**	40,773
Lease liabilities	13	**9,009**	-
Current tax liabilities	6(c)	**-**	21,516
Provisions	17(d)	**82,585**	88,115
Other		**3,175**	153
Total current liabilities		**150,439**	150,557
Non-current liabilities			
Loans with related parties		**466,745**	546,365
Lease liabilities	13	**29,494**	-
Deferred tax liabilities	6(e)	**105,014**	89,317
Provisions	17(d)	**10,438**	18,039
Other		**11,823**	3,070
Total non-current liabilities		**623,514**	656,791
Total liabilities		**773,953**	807,348
Net assets		**339,114**	306,121
Equity			
Contributed equity	15	**111,571**	113,394
Reserves	16	**39,944**	46,408
Retained profits		**187,599**	146,319
Other stapled unitholders' interest		**339,114**	306,121
Total equity		**339,114**	306,121

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 2020

	Note	Contributed equity $'000	Asset revaluation reserve $'000	Treasury securities reserve $'000	Security-based payments reserve $'000	Investment in financial assets at fair value through other comprehensive income $'000	Available-for-sale financial assets $'000	Retained profits/ (losses) $'000	Total equity $'000
Opening balance as at 1 July 2018		86,700	42,738	(542)	311	-	1,130	94,109	224,446
Change in accounting policy		-	-	-	-	1,130	(1,130)	(1)	(1)
Restated opening balance as at 1 July 2018		86,700	42,738	(542)	311	1,130	-	94,108	224,445
Profit/(loss) for the year		-	-	-	-	-		102,210	102,210
Other comprehensive income/(loss) for the year		-	-	-	-	2,828	-	-	2,828
Total comprehensive income for the year		-	-	-	-	2,828	-	102,210	105,038
Issue of additional equity, net of transaction costs		26,694	-	(154)	-	-	-	-	26,540
Security-based payments expense	16	-	-	-	97	-	-	-	97
Distributions paid or provided for	8	-	-	-	-	-	-	(50,000)	(50,000)
Total transactions with owners in their capacity as unitholders		26,694	-	(154)	97	-	-	(50,000)	(23,363)
Closing balance as at 30 June 2019		113,394	42,738	(696)	408	3,958	-	146,319	306,120
Opening balance as at 1 July 2019		113,394	42,738	(696)	408	3,958	-	146,319	306,121
Profit/(loss) for the year		-	-	-	-	-	-	91,280	91,280
Other comprehensive income/(loss) for the year		-	-	-	-	(6,594)	-	-	(6,594)
Total comprehensive income for the year		-	-	-	-	(6,594)	-	91,280	84,686
Issue of additional equity, net of transaction costs	15	-	-	135	-	-	-	-	135
Buy-back of contributed equity, net of transaction costs	15	(1,823)	-	-	-	-	-	-	(1,823)
Security-based payments expense	16	-	-	-	(5)	-	-	-	(5)
Distributions paid or provided for	8	-	-	-	-	-	-	(50,000)	(50,000)
Total transactions with owners in their capacity as unitholders		(1,823)	-	135	(5)	-	-	(50,000)	(51,693)
Closing balance as at 30 June 2020		111,571	42,738	(561)	403	(2,636)	-	187,599	339,114

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 2020

	Note	2020 $'000	2019 $'000
Cash flows from operating activities			
Receipts in the course of operations (inclusive of GST)		**267,383**	203,366
Payments in the course of operations (inclusive of GST)		**(149,038)**	(155,244)
Interest received		**178**	123
Finance costs paid		**(16,855)**	(15,052)
Distributions received from investments accounted for using the equity method		**175**	-
Income tax paid		**(49,092)**	(30,802)
Proceeds from sale of property classified as inventory and development services		**235,366**	89,075
Payments for acquisition of inventory		**-**	(241,633)
Payments for property classified as inventory and development services		**(87,120)**	(53,382)
Net cash inflow/(outflow) from operating activities	22	**200,997**	(203,549)
Cash flows from investing activities			
Proceeds from sale of investment properties		**-**	201,977
Payments for capital expenditure on investment properties		**(30,069)**	(7,308)
Payments for investments in financial assets at fair value through profit and loss		**(243)**	-
Payments for investments accounted for using the equity method		**(16,348)**	(831)
Payments for plant and equipment		**(2,479)**	(2,885)
Payments for intangibles		**(19,214)**	(13,924)
Net cash inflow/(outflow) from investing activities		**(68,353)**	177,029
Cash flows from financing activities			
Borrowings provided to related parties		**(674,797)**	(319,357)
Borrowings received from related parties		**595,177**	382,536
Payments for buy-back of contributed equity, net of transaction costs		**(1,823)**	-
Proceeds from issue of additional equity, net of transaction costs		**-**	26,540
Purchase of securities for security-based payments plans		**(9,940)**	(9,237)
Payment of lease liabilities		**6,869**	-
Distributions received		**818**	828
Distributions paid to unitholders		**(50,000)**	(50,000)
Net cash inflow/(outflow) from financing activities		**(133,696)**	31,310
Net increase/(decrease) in cash and cash equivalents		**(1,052)**	4,790
Cash and cash equivalents at the beginning of the year		**9,885**	5,095
Cash and cash equivalents at the end of the year		**8,833**	9,885

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

Notes to the Consolidated Financial Statements

In this section

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

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

Basis of preparation

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

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

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

The Consolidated 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, investment in financial assets at fair value through other comprehensive income, investment in financial assets at fair value through profit and loss and other financial liabilities which are stated at their fair value.

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

The Consolidated Financial Statements are presented in Australian dollars.

As at 30 June 2020, the Trust had no investments in foreign operations.

Critical accounting estimates

The economic impacts resulting from the Government imposed restrictions in a response to the COVID-19 pandemic, have the potential to impact various financial statement line items including: Investment properties, Property revenue and expenses, and Receivables (included within Working capital).

Dexus was performing well leading into the crisis with high occupancy and significant leasing successes in office, however uncertainty exists as a result of a range of different factors, including:

- The outlook for the Australian economy and overall economic activity which could lead to modifications of leases and impact rental income;
- Temporary closures and insolvencies of businesses that could impact the recoverability of debts;
- Sentiment for the property industry and underlying demand for investment in property.

Industries have been impacted by varying degrees as a result of the pandemic. The impact on office tenants varies, with generally a lesser impact on tenants in industries such as professional services, healthcare, telecommunications and technology, compared with those in entertainment, leisure, travel, tourism, education and training.

In the current environment, office leasing enquiry levels have fallen, and inspection rates have slowed however occupancy has remained high. Lead indicators point to a period of uncertainty in the Australian office market, with demand across the major CBD markets likely to be patchy in the short term. In times of uncertainty, high quality and well leased assets can be expected to hold their value better than lower quality assets due to their appeal to both occupants and purchasers as well as their relative scarcity.

Industrial tenants are showing to be more resilient, especially in the case of essential services such as medical equipment, pharmaceutical supplies and online retailers who in some cases have experienced growth.

Basis of preparation (continued)

Critical accounting estimates (continued)

In the process of applying the Trust's accounting policies, management has made a number of judgements and applied estimates in relation to COVID-19 related uncertainties. Judgements and estimates which are material to the financial report are discussed in the following notes:

Note 3	Property revenue and expenses	Page 16
Note 9	Investment properties	Page 22
Note 11	Inventories	Page 28
Note 12	Capital and financial risk management	Page 30
Note 17	Working capital	Page 37
Note 19	Intangible assets	Page 40
Note 23	Security-based payment	Page 44

Principles of consolidation

These Consolidated Financial Statements incorporate the assets, liabilities and results of all subsidiaries as at 30 June 2020.

(a) Controlled entities

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

(b) Joint arrangements

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

Joint operations

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

Joint ventures

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

(c) Employee share trust

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

Goods and services tax

Revenues, expenses and capital assets are recognised net of any amount of Australian Goods and Services Tax (GST), except where the amount of GST incurred is not recoverable. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of the expense. Cash flows are included in the Consolidated 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.

Notes to the Consolidated Financial Statements

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

The notes are organised into the following sections:

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

Trust performance

In this section

This section explains the results and performance of the Trust.

It provides additional information about those individual line items in the Consolidated Financial Statements that the Directors consider most relevant in the context of the operations of the Trust, including: results by operating segment, management fee revenue, property revenue and expenses, management operations, corporate and administration expenses, finance costs, taxation, earnings per unit and distributions paid and payable.

Note 1 Operating segments

Description of segments

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

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

Disclosures concerning DXS's operating segments are presented in the Group's Consolidated Financial Statements included within the Dexus Financial Report.

Note 2 Management fee revenue

Management fees are brought to account on an accruals basis.

	2020	2019
	$'000	$'000
Investment management & responsible entity fees	**122,010**	105,223
Rent and lease renewal fees	**22,030**	16,046
Property management fees	**41,252**	39,415
Capital works and development fees	**27,278**	19,150
Wages recovery and other fees	**24,670**	20,335
Total management fee revenue	**237,240**	200,169

Note 3 Property revenue and expenses

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

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

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

	2020	2019
	$'000	$'000
Rent and recoverable outgoings	**31,657**	24,125
Services revenue	**5,737**	4,067
Incentive amortisation	**(3,562)**	(3,238)
Other revenue	**6,491**	6,902
Total property revenue	**40,323**	31,856

COVID-19 rent relief

In April 2020, the Australian Government introduced a National Code of Conduct (Code of Conduct) and set of principles which applies to commercial tenancies (including retail, office and industrial) for small and medium enterprise customers (SMEs) with turnover of less than $50 million experiencing financial stress or hardship as a result of the COVID-19 pandemic as defined by their eligibility for the Commonwealth Government's JobKeeper Program. The Code of Conduct has been implemented on a State by State basis through specific legislation.

The objective of the Code of Conduct and the State based legislation is to ensure the landlord and tenant share, in a proportionate, measured manner the financial risk and cash flow impact during the COVID-19 period. The legislation applies for the prescribed period as defined under the regulations for each State (which is approximately 6 months to September 2020 in all States other than Tasmania and ACT). The JobKeeper Program has been extended to 28 March 2021 however the extension of the JobKeeper payment does not automatically extend legislation associated with the Code of Conduct. Changes to legislation in each State will be monitored to understand if any extensions are enacted and whether the Code of Conduct will apply to this extended period.

Dexus is working with impacted tenants who meet the criteria to implement the requirements under the legislation and provide relief packages. While there is no one size fits all approach, Dexus' immediate priority is to support SMEs who have been significantly impacted by the coronavirus pandemic and is progressing discussions with these customers on various forms of rent relief.

For tenants eligible under the Code of Conduct and State based legislation, rent relief comprises a proportionate reduction in rent payable in the form of waivers and deferrals of up to 100% of the amount ordinarily payable, on a case-by-case basis, based on the reduction in the tenant's turnover during the COVID-19 pandemic period. Rental waivers must generally constitute at least 50% of the rent relief offered. The repayment period for rent deferrals differs across States. In New South Wales, there is no mandatory minimum repayment period for deferred rent. In Victoria and Western Australia, the deferral is repayable over the balance of the lease term and 24 months, whichever is the greater (unless otherwise agreed). In Queensland, the deferral is repayable over a period of 2-3 years.

Rent relief may take a different form for those tenants that are ineligible under the Code of Conduct and the State based legislation. Dexus continues to work with its tenants to understand whether they are eligible for rental relief under the Code of Conduct and the State based legislation.

The various rent relief measures are accounted for as follows in line with ASIC guidance '20-157MR Focuses for financial reporting under COVID-19 conditions' published on 7 July 2020.

When a rent waiver agreement is made between the landlord and tenant:

- rent waived that relates to future occupancy is spread over the remaining lease term and recognised on a straight-line basis;
- rent waived that relates to past occupancy is expensed immediately, except to the extent there exists a pre-existing provision for expected credit losses relating to unpaid rent.

Note 3 Property revenue and expenses (continued)

COVID-19 rent relief (continued)

Property revenue has been recognised for occupancy up to the date of a waiver agreement. Where there was no agreement at 30 June 2020, a provision for expected credit losses per AASB 9 *Financial Instruments* has been recognised against any receivable for unpaid rent for past occupancy.

The provision for expected credit losses is recognised with a corresponding expense in Property expenses. The provision covers the difference between contractual cash flows that are due and cash flows expected to be received. Accordingly, the provision includes both that part of the rent receivable that is likely to be waived and any additional amount relating to credit risk associated with the financial condition of the tenant. Refer to note 17 *Working capital* for the amount of the provision for expected credit losses recognised at the reporting date.

In the circumstance where the tenant has fully paid rent for the period of occupancy up to the reporting date, there is no rent receivable against which to make a provision. Where it is expected that some of the rent already paid by the tenant will be waived, there is no basis to recognise a liability at the reporting date. Based on management's best estimate at the reporting date, $0.6m of rent income recognised in the year ended 30 June 2020 is expected to be waived in the year ended 30 June 2021 once formal rent relief agreements have been signed.

Rent deferrals, where in substance the deferral is a delay in the timing of payments, have no impact on property revenue recognition. A separate assessment of the recoverability of rent receivable is performed in accordance with the policy outlined in note 17 *Working capital*.

Property expenses

Property expenses of $10.7 million (2019: $10.7 million) includes rates, taxes and other property outgoings incurred in relation to investment properties. If these items are recovered from a tenant by the Trust, they are recorded within Services revenue or recoverable outgoings within Property revenue.

Note 4 Management operations, corporate and administration expenses

	2020 $'000	2019 $'000
Audit, taxation, legal and other professional fees	**7,447**	4,703
Depreciation and amortisation	**17,973**	10,290
Employee benefits expense and other staff expenses	**131,071**	125,325
Administration and other expenses	**20,218**	23,367
Total management operations, corporate and administration expenses	**176,709**	163,685

Note 5 Finance costs

Finance costs include interest, amortisation or other costs incurred in connection with arrangement of borrowings and finance costs on lease liabilities. 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.

	2020	2019
	$'000	$'000
Interest paid to related parties	**18,396**	17,107
Amount capitalised	**(2,170)**	(2,400)
Finance costs - leases[1]	**1,069**	-
Other finance costs	**125**	172
Total finance costs	**17,420**	14,879

1. The Trust adopted AASB 16 *Leases* on 1 July 2019. Interest on the lease liability is a component of finance costs. Refer to note 26 *Changes in accounting policies* for further information.

The average capitalisation rate used to determine the amount of finance costs eligible for capitalisation is 4.00% (2019: 5.25%).

Note 6 Taxation

DXO is liable for income tax and has formed a tax consolidated group with its wholly owned and controlled Australian entities. As a consequence, these entities are taxed as a single entity.

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

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

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

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

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

a) Income tax (expense)/benefit

	2020	2019
	$'000	$'000
Current income tax (expense)/benefit	**(25,267)**	(47,140)
Deferred income tax (expense)/benefit	**(15,697)**	4,423
Total income tax expense	**(40,964)**	(42,717)
Deferred income tax expense included in income tax (expense)/benefit comprises:		
Increase/(decrease) in deferred tax assets	**(1,161)**	2,428
Decrease/(increase) in deferred tax liabilities	**(14,536)**	1,995
Total deferred tax expense	**(15,697)**	4,423

Note 6 Taxation (continued)

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

	2020 $'000	2019 $'000
Profit before income tax	**132,244**	144,927
Profit subject to income tax	**132,244**	144,927
Prima facie tax expense at the Australian tax rate of 30% (2019: 30%)	**(39,673)**	(43,478)
Tax effect of amounts which are not deductible/(assessable) in calculating taxable income:		
Other timing differences	**(1,291)**	761
Income tax expense	**(40,964)**	(42,717)

c) Current tax assets/liabilities

	2020 $'000	2019 $'000
Increase/(decrease) in current tax assets	**2,558**	-
(Increase)/decrease in current tax liabilities	**-**	(21,516)
Total current tax assets/(liabilities)	**2,558**	(21,516)

d) Deferred tax assets

	2020 $'000	2019 $'000
The balance comprises temporary differences attributable to:		
Employee provisions	**13,849**	15,882
Other	**2,827**	1,955
Total non-current assets - deferred tax assets	**16,676**	17,837
Movements:		
Opening balance at the beginning of the year	**17,837**	15,409
Movement in deferred tax asset arising from temporary differences	**(1,161)**	2,428
(Charged)/credited to the Statement of Comprehensive Income	**(1,161)**	2,428
Closing balance at the end of the year	**16,676**	17,837

Note 6 Taxation (continued)

e) Deferred tax liabilities

	2020 $'000	2019 $'000
The balance comprises temporary differences attributable to:		
Intangible assets	**72,420**	74,812
Investment properties	**42,243**	31,503
Other	**7,027**	839
Total non-current liabilities - deferred tax liabilities	**121,690**	107,154
Movements		
Opening balance at the beginning of the year	**107,154**	109,149
Movement in deferred tax liability arising from temporary differences	**14,536**	(1,995)
Charged/(credited) to the Statement of Comprehensive Income	**14,536**	(1,995)
Closing balance at the end of the year	**121,690**	107,154

Net deferred tax liabilities

	2020 $'000	2019 $'000
Deferred tax assets	**16,676**	17,837
Deferred tax liabilities	**(121,690)**	(107,154)
Net deferred tax liabilities	**(105,014)**	(89,317)

Note 7 Earnings per unit

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

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

	2020 $'000	2019 $'000
Profit attributable to unitholders of the parent entity	**91,280**	102,210

b) Weighted average number of units used as a denominator

	2020 No. of units	2019 No. of units
Weighted average number of units outstanding used in calculation of basic earnings per unit	**1,095,096,969**	1,028,577,220
Effect on exchange of Exchangeable Notes	**28,333,333**	8,046,239
Weighted average number of units outstanding used in calculation of diluted earnings per unit	**1,123,430,302**	1,036,623,459

Note 8 Distributions paid and payable

Distributions are recognised when declared.

a) Distribution to unitholders

	2020	2019
	$'000	$'000
30 June (payable 28 August 2020)	**50,000**	-
30 June (paid 29 August 2019)	**-**	50,000
Total distribution to unitholders	**50,000**	50,000

b) Distribution rate

	2020	2019
	Cents per unit	Cents per unit
30 June (payable 28 August 2020)	**4.58**	-
30 June (paid 29 August 2019)	**-**	4.56
Total distributions	**4.58**	4.56

c) Franked dividends

	2020	2019
	$'000	$'000
Opening balance at the beginning of the year	**66,272**	56,899
Income tax paid during the year	**49,092**	30,802
Franking credits utilised for payment of distribution	**(21,429)**	(21,429)
Closing balance at the end of the year	**93,935**	66,272

As at 30 June 2020, the Trust had a current tax asset of $2.6 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 2020	Note	Office $'000	Industrial $'000	Total $'000
Investment properties	9	173,000	79,396	**252,396**
Equity accounted investments	10	9,566	-	**9,566**
Inventories	11	121,953	215,070	**337,023**
Total		**304,519**	**294,466**	**598,985**

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

- *Investment properties*: relates to investment properties, both stabilised and under development.
- *Investments accounted for using the equity method*: provides summarised financial information on the joint ventures and investments with significant influence. The Trust's interests in its joint venture property portfolio assets are held through investments in trusts.
- *Inventories*: relates to the Trust's ownership of industrial and office assets or land held for repositioning, development and sale.

Note 9 Investment properties

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

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

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

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

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

a) Reconciliation

	Office $'000	Industrial $'000	2020 $'000	2019 $'000
Opening balance at the beginning of the year	**166,002**	**27,417**	**193,419**	222,058
Additions	**1,115**	**31,485**	**32,600**	11,794
Lease incentives	**2,900**	**449**	**3,349**	3,325
Amortisation of lease incentives	**(1,848)**	**(192)**	**(2,040)**	(2,095)
Rent straightlining	**296**	**95**	**391**	831
Disposals	**-**	**-**	**-**	(198,831)
Transfer from inventories	**-**	**-**	**-**	104,257
Net fair value gain/(loss) of investment properties	**4,535**	**20,142**	**24,677**	52,080
Closing balance at the end of the year	**173,000**	**79,396**	**252,396**	193,419

Note 9 Investment properties (continued)

b) Valuations process

It is the policy of the Trust to perform independent valuations for each individual property at least once every three years by a member of the Australian Property Institute of Valuers. It has been the Trust's practice to have such valuations performed every six months. Each valuation firm and its signatory valuer are appointed on the basis that they are engaged for no more than three years except for 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 2020, 3 of the 8 investment properties were independently externally valued.

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

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

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

c) Fair value measurement, valuation techniques and inputs

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

Class of property	Fair value hierarchy	Inputs used to measure fair value	Range of unobservable inputs 2020	2019
Office[1]	Level 3	Adopted capitalisation rate	**5.38%**	5.25% - 5.50%
		Adopted discount rate	**6.63%**	6.50% - 6.75%
		Adopted terminal yield	**5.63%**	5.75%
		Current net market rental (per sqm)	**$541**	$526 - $794
Industrial	Level 3	Adopted capitalisation rate	**4.75% - 5.25%**	5.00% - 5.75%
		Adopted discount rate	**6.25% - 6.50%**	6.50% - 7.00%
		Adopted terminal yield	**5.25% - 5.75%**	5.75% - 6.25%
		Current net market rental (per sqm)	**$77 - $260**	$78 - $238

1. Excludes car parks, retail and other.

Note 9 Investment properties (continued)

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

Key estimates: inputs used to measure fair value of investment properties

Judgement is required in determining the following key assumptions:

- **Adopted capitalisation rate**: The rate at which net market rental revenue is capitalised to determine the value of a property. The rate is determined with regard to market evidence and the prior external valuation.
- **Adopted discount rate**: The rate of return used to convert cash flows, payable or receivable in the future, into present value. It reflects the opportunity cost of capital, that is, the rate of return the cash can earn if put to other uses having similar risk. The rate is determined with regard to market evidence and the prior external valuation.
- **Adopted terminal yield**: The capitalisation rate used to convert the future net market rental revenue into an indication of the anticipated value of the property at the end of the holding period when carrying out a discounted cash flow calculation. The rate is determined with regard to market evidence and the prior external valuation.
- **Net market rental (per sqm)**: The net market rent is the estimated amount for which a property should lease between a lessor and a lessee on appropriate lease terms in an arm's length transaction.

d) Impact of COVID-19 on fair value of investment properties

There is a significant level of uncertainty regarding the ultimate impact of COVID-19 on the Trust's investment property valuations. As a result, the independent valuations incorporate a range of assumptions used in determining appropriate fair values for investment properties as at 30 June 2020. The assumptions that have had the greatest impact on the valuations are listed below:

- Valuers have adjusted market rental growth, downtime and incentive assumptions within their discounted cashflow (DCF) method of valuing and have generally had more regard to this valuation methodology when determining the adopted value;
- Some valuers have incorporated an allowance for the uncertainty in relation to the payment of rent with regards to the Government's Code of Conduct where the tenant pool comprises small to medium enterprises (SMEs); and,
- Capitalisation and discount rates have generally firmed over the 12 months to June with the firming largely being seen in the first six months prior to the impact of COVID-19. Office and industrial transactional evidence post COVID-19, while limited, suggests capitalisation and discount rates have not yet been impacted.

The independent valuations obtained by the Trust also include significant valuation uncertainty clauses due to the unknown impacts to the property industry. Noting the uncertainty, the Trust considers that the assumptions used in the valuations are appropriate for the purposes of determining fair value of investment properties at 30 June 2020.

Note 9 Investment properties (continued)

e) Sensitivity information

Significant movement in any one of the inputs listed in the table above may result in a change in the fair value of the Trust's investment properties as shown below.

The estimated impact of a change in the certain significant unobservable inputs would result in a change in the fair value as follows:

	Industrial		Office	
	2020	2019	**2020**	2019
	$'000	$'000	**$'000**	$'000
A decrease of 25 basis points in the adopted capitalisation rate	**4,268**	1,276	**9,428**	7,905
An increase of 25 basis points in the adopted capitalisation rate	**(3,854)**	(1,168)	**(8,545)**	(7,217)
A decrease of 25 basis points in the adopted discount rate	**3,387**	1,053	**7,568**	6,385
An increase of 25 basis points in the adopted discount rate	**(3,121)**	(978)	**(6,988)**	(5,929)
A decrease of 5% in the net market rental (per sqm)	**(3,970)**	(1,371)	**(9,127)**	(8,300)
An increase of 5% in the net market rental (per sqm)	**3,970**	1,371	**9,127**	8,300

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

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

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

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

Note 10 Investments accounted for using the equity method

a) Interest in joint ventures

Investments are accounted for in the Consolidated Financial Statements using the equity method of accounting (refer to the 'Principles of Consolidation' section). The proportion of ownership interest and the carrying amount of Dexus' interest in these entities is set out below.

Name of entity	2020 %	2019 %	2020 $'000	2019 $'000
AHP Investment Management Pty Limited[1]	**0.0**	50.0	**-**	304
Dexus Walker Street Trust[2]	**50.0**	50.0	**9,566**	-
Other[3]	**19.9**	-	**3,858**	-
Total assets - investments accounted for using the equity method[4]			**13,424**	304

1. On 16 September 2019, the Trust acquired the remaining 50.0% of AHP Investment Management Pty Limited. From that date the investment is consolidated for financial reporting purposes.
2. Dexus Walker Street Trust was formed in Australia on 14 June 2019 and its principal activity is property investment in Australia.
3. This includes investments in entities where the Trust has an immaterial interest.
4. The Trust's share of investment properties in the investments accounted for using the equity method was $9.6 million (2019: nil). These investments are accounted for using the equity method as a result of contractual arrangements requiring unanimous decisions on all relevant matters.

b) Impact of COVID-19 on Investments accounted for using the equity method

The carrying values of the above investments accounted for using the equity method have been tested for impairment under AASB 136 *Impairment of Assets* to take into consideration the impact of COVID-19.

Where the joint ventures' principal activity is property investment in Australia, the main risk to the value of the investments accounted for using the equity method is the fair value of the underlying investment properties. Note 9 gives further explanation of the approach taken to measure the fair value of investment properties in light of COVID-19. Any fair value movements are recorded within share of net profit of investments accounted for using the equity method in the Consolidated Statement of Comprehensive Income. There were no impairment losses recorded in relation to investments accounted for under the equity method.

c) Summarised financial information for individually material joint ventures

The following table provides summarised financial information for the joint ventures which, in the opinion of the directors, are material to the Trust. The information disclosed reflects the amounts presented in the Financial Statements of the relevant joint ventures and not Dexus' share of those amounts.

Note 10 Investments accounted for using the equity method (continued)

c) Summarised financial information for individually material joint ventures (continued)

	Dexus Walker Street Trust		AHP Investment Management Pty Ltd		Other		Total	
	2020	2019	2020	2019	2020	2019	2020	2019
Summarised Statement of Financial Position	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000
Current assets								
Cash and cash equivalents	**535**	-	**-**	899	**3,596**	-	**4,131**	899
Other current assets	**38**	-	**-**	318	**33**	-	**71**	318
Total current assets	**573**	-	**-**	1,217	**3,629**	-	**4,202**	1,217
Non-current assets								
Investment properties	**19,065**	-	**-**	-	**-**	-	**19,065**	-
Investments accounted for using the equity method	**-**	-	**-**	-	**101**	-	**101**	-
Loans with related parties	**-**	-	**-**	-	**264**	-	**264**	-
Other non-current assets	**-**	-	**-**	-	**2**	-	**2**	-
Total non-current assets	**19,065**	-	**-**	-	**367**	-	**19,432**	-
Current liabilities								
Provision for distribution	**349**	-	**-**	-	**-**	-	**349**	-
Other current liabilities	**158**	-	**-**	985	**387**	-	**545**	985
Total current liabilities	**507**	-	**-**	985	**387**	-	**894**	985
Non-current liabilities								
Other non-current liabilities	**-**	-	**-**	-	**101**	-	**101**	-
Total non-current liabilities	**-**	-	**-**	-	**101**		**101**	-
Net assets	**19,131**	-	**-**	232	**3,508**	-	**22,639**	232
Reconciliation to carrying amounts:								
Opening balance at the beginning of the year	**-**	-	**-**	589	**-**	-	**-**	589
Additions	**24,485**	-	**-**	1,658	**4,106**	-	**28,591**	1,658
Profit for the year	**(5,005)**	-	**-**	(2,015)	**(598)**	-	**(5,603)**	(2,015)
Distributions received/receivable	**(349)**	-	**-**	-	**-**	-	**(349)**	-
Closing balance at the end of the year[1]	**19,131**	-	**-**	232	**3,508**	-	**22,639**	232
Trust's share of net assets	**9,566**	-	**-**	116	**702**	-	**10,268**	116
Elimination of downstream transactions	**-**	-	**-**	188	**-**	-	**-**	188
Notional goodwill	**-**	-	**-**	-	**3,156**	-	**3,156**	-
Trust's carrying amount	**9,566**	-	**-**	304	**3,858**	-	**13,424**	304
Summarised Statement of Comprehensive Income								
Property revenue	**754**	-	-	-	**-**	-	**754**	-
Property revaluations	**(5,354)**	-	-	-	**-**	-	**(5,354)**	-
Interest income	**3**	-	-	12	**1**	-	**4**	12
Other income	**-**	-	-	1,891	**(39)**	-	**(39)**	1,891
Income tax expense	**-**	-	-	(376)	**-**	-	**-**	(376)
Other expenses	**(408)**	-	-	(3,171)	**(560)**	-	**(968)**	(3,171)
Net profit/(loss) for the year	**(5,005)**	-	-	(1,644)	**(598)**	-	**(5,603)**	(1,644)

1. The closing balance at the end of the year for ‘other’ immaterial joint ventures will not equal net assets due to notional goodwill.

Note 11 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.

An assessment of whether the project result is impacted as a result of COVID-19 has been performed. There has been minimal impact to development services revenue and expenses as a result of any project delays, changes in assessments related to future sales prices or changes in costs expected to be incurred to complete projects.

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 updated in light of COVID-19. No impairment provisions have been recognised.

a) Development properties held for sale

	2020	2019
	$'000	$'000
Current assets		
Development properties held for sale	**180,690**	170,385
Total current assets - inventories	**180,690**	170,385
Non-current assets		
Development properties held for sale	**156,333**	289,679
Total non-current assets - inventories	**156,333**	289,679
Total assets - inventories	**337,023**	460,064

b) Reconciliation

	2020	2019
	$'000	$'000
Opening balance at the beginning of the year	**460,064**	306,399
Transfer to investment properties	**-**	(104,257)
Disposals	**(174,783)**	(40,266)
Acquisitions and additions	**51,742**	298,188
Closing balance at the end of the year	**337,023**	460,064

Note 11 Inventories (continued)

Disposals

On 16 September 2019, settlement occurred for the disposal of North Shore Health Hub stage 1 for gross proceeds of $52.7 million excluding transaction costs.

On 12 November 2019, settlement occurred for the disposal of a 25% interest (of which the Trust originally held a 50% interest) in 201 Elizabeth Street, Sydney NSW for gross proceeds of $157.5 million excluding transaction costs.

Capital and financial risk management and working capital

In this section

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

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

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

- Debt: *Lease 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 Consolidated Statement of Financial Position.

Note 12 Capital and financial risk management

Capital and financial risk management is carried out through a centralised treasury function which is governed by a Board approved Treasury Policy. The Trust (as part of DXS) has an established governance structure which consists of the Group Management Committee and Capital Markets Committee.

The Board has appointed a Group Management Committee responsible for achieving Dexus's goals and objectives, including the prudent financial and risk management of the Group. A Capital Markets Committee has been established to advise the Group Management Committee.

The Capital Markets Committee is a management committee that is accountable to the Board. It convenes at least quarterly and conducts a review of financial risk management exposures including liquidity, funding strategies and hedging. It is also responsible for the development of financial risk management policies and funding strategies for recommendation to the Board, and the approval of treasury transactions within delegated limits and powers.

a) Capital risk management

The Trust manages its capital to ensure that entities within the Trust will be able to continue as a going concern while maximising the return to owners through the optimisation of the debt and equity balance.

The capital structure of the Trust consists of debt, cash and cash equivalents and equity attributable to security holders. The Trust continuously monitors its capital structure and it is managed in consideration of the following factors:

- the cost of capital and the financial risks associated with each class of capital;
- gearing levels and other debt covenants;
- potential impacts on net tangible assets and security holders' equity;
- potential impacts on the Group's credit rating; and
- other market factors.

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

DXFM is the Responsible Entity for the Trust. DXFM has been issued with an Australian Financial Services Licence (AFSL). The licence is subject to certain capital requirements including the requirement to maintain liquidity above specified limits. DXFM must also prepare rolling cash projections over at least the next 12 months and demonstrate it will have access to sufficient financial resources to meet its liabilities that are expected to be payable over that period. Cash projections and assumptions are approved, at least quarterly, by the Board of the Responsible Entity.

DWPL, a wholly owned entity, has been issued with an AFSL as it is the Responsible Entity for Dexus Wholesale Property Fund (DWPF). Dexus Wholesale Management Limited (DWML), a wholly owned entity, has been issued with an AFSL as it is the trustee of third party managed funds. Dexus Wholesale Funds Limited (DWFL), a wholly owned entity, has been issued with an AFSL as it is the Responsible Entity for 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.

Note 12 Capital and financial risk management (continued)

b) Financial risk management

The Trust's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Trust. The Trust's principal financial instruments, other than derivatives, comprise cash, bank loans and capital markets issuance. The main purpose of financial instruments is to manage liquidity and hedge the Trust's exposure to financial risks namely:

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

i) Market risk

Interest rate risk

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

The Trust's risk management policy for interest rate risk seeks to minimise the effects of interest rate movements on its asset and liability portfolio through active management of the exposures. The policy prescribes minimum and maximum hedging amounts for the Trust, which is managed on a portfolio basis.

Sensitivity analysis on interest expense

The table below shows the impact on the Trust's net interest expense of a 50 basis point movement in market interest rates. The sensitivity on cash flow arises due to the impact that a change in interest rates will have on the Trust's floating rate debt on average during the financial year.

	2020 (+/-) $'000	2019 (+/-) $'000
+/- 0.50% (50 basis points)	**2,334**	2,732
Total A$ equivalent	**2,334**	2,732

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

ii) Liquidity risk

Liquidity risk is associated with ensuring that there are sufficient funds available to meet the Trust's financial commitments as and when they fall due and planning for any unforeseen events which may curtail cash flows. The Trust identifies and manages liquidity risk across the following categories:

- short-term liquidity management covering the month ahead on a rolling basis with continuous monitoring of forecast and actual cash flows;
- medium-term liquidity management of liquid assets, working capital and standby facilities to cover Trust cash requirements over the next 1-24 month period. The Trust maintains a level of committed borrowing facilities above the forecast committed debt requirements (liquidity headroom buffer). Committed debt includes future expenditure that has been approved by the Board or Investment Committee (as required within delegated limits); and
- long-term liquidity management through ensuring an adequate spread of maturities of borrowing facilities so that refinancing risk is not concentrated in certain time periods, and ensuring an adequate diversification of funding sources where possible, subject to market conditions.

Refinancing risk

Refinancing risk is the risk that the Trust:

- will be unable to refinance its debt facilities as they mature; and/or
- will only be able to refinance its debt facilities at unfavourable interest rates and credit market conditions (margin price risk).

Note 12 Capital and financial risk management (continued)

b) Financial risk management (continued)

ii) Liquidity risk (continued)

Refinancing risk (continued)

The Trust's key risk management strategy for margin price risk on refinancing is to spread the maturities of debt facilities over different time periods to reduce the volume of facilities to be refinanced and the exposure to market conditions in any one period. An analysis of the contractual maturities of the Trust's interest bearing liabilities and derivative financial instruments is shown in the table below. The amounts in the table represent undiscounted cash flows.

	2020				2019			
	Within one year $'000	**Between one and two years $'000**	**Between two and five years $'000**	**After five years $'000**	Within one year $'000	Between one and two years $'000	Between two and five years $'000	After five years $'000
Payables	(55,670)	-	-	-	(40,773)	-	-	-
Lease liabilities	(9,152)	(8,336)	(18,466)	(5,802)	-	-	-	-
Total payables and lease liabilities	(64,822)	(8,336)	(18,466)	(5,802)	(40,773)	-	-	-
Interest bearing loans with related parties and interest	(15,587)	(14,807)	(50,527)	(559,985)	(19,757)	(19,602)	(66,269)	(691,118)
Total interest bearing liabilities and interest[1]	(15,587)	(14,807)	(50,527)	(559,985)	(19,757)	(19,602)	(66,269)	(691,118)

1. Includes estimated interest.

iii) Credit risk

Credit risk is the risk that the counterparty will not fulfil its obligations under the terms of a financial instrument and will cause financial loss to the Trust. The Trust has exposure to credit risk on all financial assets included in the Trust's Consolidated Statement of Financial Position.

The Trust manages this risk by:

- adopting a process for determining an approved counterparty, with consideration of qualitative factors as well as the counterparty's credit rating;
- regularly monitoring counterparty exposure within approved credit limits that are based on the lower of 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 Trust is exposed to credit risk on cash balances and on derivative financial instruments with financial institutions. The Trust has a policy that sets limits as to the amount of credit exposure to each financial institution. New derivatives and cash transactions are limited to financial institutions that meet minimum credit rating criteria in accordance with the Trust's policy requirements.

Financial instrument transactions are spread among a number of approved financial institutions within specified credit limits to minimise the Trust's exposure to any one counterparty. As a result, there is no significant concentration of credit risk for financial instruments. The maximum exposure to credit risk at 30 June 2020 is the carrying amounts of financial assets recognised on the Consolidated Statement of Financial Position.

The Trust is exposed to credit risk on trade receivable balances. The Trust has a policy to continuously assess and monitor the credit quality of trade debtors on an ongoing basis. The maximum exposure to credit risk at 30 June 2020 is the carrying amounts of the trade receivables recognised on the Consolidated Statement of Financial Position.

Note 12 Capital and financial risk management (continued)

b) Financial risk management (continued)

iv) Fair value

As at 30 June 2020 and 30 June 2019, the carrying amounts of financial assets and liabilities are held at fair value. The Trust uses the following methods in the determination and disclosure of the fair value of financial instruments:

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

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

Level 3: The fair value is estimated using inputs for the asset or liability that are not based on observable data.

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

v) Offsetting financial assets and financial liabilities

Financial assets and liabilities are offset, and the net amount reported in the Consolidated Statement of Financial Position where there is a legally enforceable right to set-off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously. No financial assets and liabilities are currently held under netting arrangements.

Note 13 Lease liabilities

The Trust has applied AASB 16 *Leases* from 1 July 2019. Refer to note 26 *Changes in accounting policies* for further information. The following table details information relating to leases where the Trust is a lessee.

	2020	2019
	$'000	$'000
Current		
Lease liabilities - property leases	**9,009**	-
Total current liabilities - lease liabilities	**9,009**	-
Non-current		
Lease liabilities - property leases	**29,494**	-
Total non-current liabilities - lease liabilities	**29,494**	-
Total liabilities - lease liabilities	**38,503**	-

Lease liabilities – property leases

Lease liabilities relating to property leases predominantly relate to Dexus offices and Dexus Place property leases. Refer to the Consolidated Statement of Financial Position for disclosure of the corresponding right-of-use asset.

Note 14 Commitments and contingencies

a) Commitments

Capital commitments

The following amounts represent remaining capital expenditure on investment properties and inventories as well as committed fit-out or cash incentives contracted at the end of each reporting period but not recognised as liabilities payable:

	2020 **$'000**	2019 $'000
Investment properties	**3,935**	9,018
Inventories and development management services	**62,856**	108,051
Total capital commitments	**66,791**	117,069

Lease receivable commitments

The future minimum lease payments receivable by the Trust are:

	2020 **$'000**	2019 $'000
Within one year	**34,746**	20,497
Later than one year but not later than five years	**139,151**	134,687
Later than five years	**38,001**	99,912
Total lease receivable commitments	**211,898**	255,096

b) Contingencies

DDF, together with DIT, DOT and DXO, is a guarantor of A$6,248.4 million (2019: A$5,004 million) of interest bearing liabilities. The guarantees have been given in support of debt outstanding and drawn against these facilities and may be called upon in the event that a borrowing entity has not complied with certain requirements such as failure to pay interest or repay a borrowing, whichever is earlier. During the period no guarantees were called.

The Trust has bank guarantees of $55.6 million (2019: $69.0 million), comprising $50.2 million held to comply with the terms of the Australian Financial Services Licences (AFSL) and $5.4 million largely in respect of developments.

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

The Directors of the Responsible Entity are not aware of any other contingent liabilities in relation to the Trust, other than those disclosed in the Consolidated 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.

Note 15 Contributed equity

Number of units on issue

	2020 No. of units	2019 No. of units
Opening balance at the beginning of the year	**1,096,857,665**	1,017,196,877
Issue of additional equity	**-**	79,660,788
Buy-back of contributed equity	**(5,655,502)**	-
Closing balance at the end of the year	**1,091,202,163**	1,096,857,665

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

Each stapled security entitles the holder to vote in accordance with the provisions of the Constitutions and the *Corporations Act 2001*.

Transaction costs arising on the buy-back 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 buy-back of those equity instruments and which would not have been incurred had those instruments not been bought back.

On 23 October 2019, Dexus announced plans to initiate an on-market securities buy-back of up to 5% of Dexus securities on issue over the next 12 months, as part of its active approach to capital management.

During the period to 30 June 2020, Dexus acquired and cancelled 5,655,502 securities representing 0.52% of Dexus securities on issue.

Note 16 Reserves

	2020 $'000	2019 $'000
Asset revaluation reserve	**42,738**	42,738
Security-based payments reserve	**403**	408
Treasury securities reserve	**(561)**	(696)
Financial assets at fair value through other comprehensive income	**(2,636)**	3,958
Total reserves	**39,944**	46,408
Movements:		
Asset revaluation reserve		
Opening balance at the beginning of the year	**42,738**	42,738
Closing balance at the end of the year	**42,738**	42,738
Security-based payments reserve		
Opening balance at the beginning of the year	**408**	311
Security-based payments expense	**(5)**	97
Closing balance at the end of the year	**403**	408
Treasury securities reserve		
Opening balance at the beginning of the year	**(696)**	(542)
Issue of securities to employees	**135**	(154)
Closing balance at the end of the period	**(561)**	(696)
Financial assets at fair value through other comprehensive income		
Opening balance at the beginning of the period	**3,958**	1,130
Changes in the fair value	**(6,594)**	2,828
Closing balance at the end of the period	**(2,636)**	3,958

Nature and purpose of reserves

Asset revaluation reserve

The asset revaluation reserve is used to record the fair value adjustment arising on a business combination.

Security-based payment reserve

The security-based payment reserve is used to recognise the fair value of performance rights to be issued under the Deferred Short Term Incentive Plans (DSTI) and the Long Term Incentive Plans (LTI). Refer to note 23 for further details.

Treasury securities reserve

The treasury securities reserve is used to record the issue 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 2020, DXS held 1,670,920 stapled securities which includes acquisitions of 817,412 and unit vesting of 815,794 (2019: 1,580,175).

Financial assets at fair value through other comprehensive income

Changes in the fair value arising on valuation of investments, classified as fair value through other comprehensive income, are recognised in other comprehensive income and accumulated in a separate reserve within equity. On disposal of these equity investments, any related balance within Financial assets at fair value through other comprehensive income reserve is reclassed to retained earnings.

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 accrual basis. Dividends and distributions are recognised when declared and, if not received at the end of the reporting period, reflected in the Consolidated Statement of Financial Position as a receivable.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method, less provision for expected credit losses. 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 expected credit losses is recognised for expected credit losses on trade and other receivables. The provision for expected credit losses 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.

The calculation of expected credit losses relating to rent and other receivables requires significant judgement to assess the future uncertainty of tenants' ability to pay their debts. Expected credit losses have been estimated using a provision matrix that has been developed with reference to the Trust's historical credit loss experience, general economic conditions and forecasts, assumptions around rent relief that may be provided to tenants and tenant risk factors such as size, industry exposure and the Trust's understanding of the ability of tenants to pay their debts. Accordingly, expected credit losses include both the part of the rent receivable that is likely to be waived and an additional amount relating to credit risk associated with the financial condition of the tenant.

In relation to distributions and fees receivables, an assessment has been performed taking into consideration the ability of the funds and mandates managed by the Trust to cash settle their distributions and repay their fee receivables.

For any provisions for expected credit losses, the corresponding expense has been recorded in the Consolidated Statement of Comprehensive Income within Property expenses.

	2020	2019
	$'000	$'000
Rent receivable[1]	**2,226**	1,248
Less: provision for expected credit losses	**(498)**	(1)
Total rental receivables	**1,728**	1,247
Fee receivable	**35,816**	55,454
Receivables from related entities	**47,109**	21,639
Other receivables	**5,414**	5,252
Total other receivables	**88,339**	82,345
Total receivables	**90,067**	83,592

1. Rent receivable includes outgoings recoveries.

Note 17 Working capital (continued)

The provision for expected credit losses for rent receivables (which includes outgoings recoveries) as at 30 June 2020 was determined as follows:

$'000	Sector		
30 June 2020	**Office**	**Industrial**	**Total**
0-30 days	17	144	161
31-60 days	18	88	106
61-90 days	5	95	100
91+ days	76	55	131
Total provision for expected credit losses	**116**	**382**	**498**

The provision for expected credit losses for distributions receivable, fees receivable and other receivables that has been recorded is minimal.

The provision for expected credit losses for rent receivables as at the reporting date reconciles to the opening loss allowances as follows:

	2020	2019
	$'000	$'000
Opening provision for expected credit losses	**1**	-
Increase in provision recognised in profit or loss during the year	**497**	1
Closing provision for expected credit losses	**498**	1

c) Payables

	2020	2019
	$'000	$'000
Trade creditors	**24,334**	19,229
Accruals	**2,106**	2,166
Accrued capital expenditure	**22,858**	12,282
GST payable	**1,134**	3,085
Other payables	**5,238**	4,011
Total payables	**55,670**	40,773

Note 17 Working capital (continued)

d) Provisions

A provision is recognised when an obligation exists as a result of a past event and it is probable that a future outflow of cash or other benefit will be required to settle the obligation.

In accordance with the Trust's Constitution, the Trust distributes its distributable income to unitholders by cash or reinvestment. Distributions are provided for when they are approved by the Board of Directors and declared.

Provision for employee benefits relates to the liabilities for wages, salaries, annual leave and long service leave.

Liabilities for employee benefits for wages, salaries and annual leave expected to be settled within 12 months represent present obligations resulting from employees' services provided to the end of the reporting period. They are measured based on remuneration wage and salary rates that the Trust expects to pay at the end of the reporting period including related on-costs, such as workers compensation, insurance and payroll tax.

The provision for employee benefits for long service leave represents the present value of the estimated future cash outflows, to be made resulting from employees' services provided to the end of the reporting period.

The provision is calculated using expected future increases in wage and salary rates including related on-costs and expected settlement dates based on turnover history and is discounted using the Australian Corporate Bond Index rates at the end of the reporting period that most closely matches the term of the maturity of the related liabilities. The provision for employee benefits also includes the employee incentives schemes which are shown separately in note 23.

	2020 $'000	2019 $'000
Provision for distribution	**50,000**	50,000
Provision for employee benefits	**32,585**	38,115
Total current provisions	**82,585**	88,115

Non-current provisions relate to employee benefits.

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

	2020 $'000	2019 $'000
Provision for distribution		
Opening balance at the beginning of the year	**50,000**	50,000
Additional provisions	**50,000**	50,000
Payment of distributions	**(50,000)**	(50,000)
Closing balance at the end of the year	**50,000**	50,000

A provision for distribution has been raised for the period ended 30 June 2020. This distribution is to be paid on 28 August 2020.

Other disclosures

In this section

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

Note 18 Plant and equipment

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

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

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

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

	2020 $'000	2019 $'000
Opening balance at the beginning of the year	**14,986**	16,035
Additions	**2,479**	2,885
Depreciation charge	**(4,019)**	(3,934)
Closing balance at the end of the year	**13,446**	14,986

	2020 $'000	2019 $'000
Cost	**32,481**	30,002
Accumulated depreciation	**(19,035)**	(15,016)
Cost - Fully depreciated assets written off	**(1,891)**	(1,891)
Accumulated depreciation - Fully depreciated assets written off	**1,891**	1,891
Net book value as at the end of the year	**13,446**	14,986

Note 19 Intangible assets

Management rights represent the asset management rights owned by Dexus Holdings Pty Limited, a wholly owned subsidiary of DXO, which entitles it to management fee revenue from both finite life trusts and indefinite life trusts. Those rights that are deemed to have a finite useful life held at a value of $0.5 million (2019: $3.3 million) are measured at cost and amortised using the straight-line method over their estimated remaining useful life of 9 years. Management rights that are deemed to have an indefinite life are held at a value of $286.0 million (2019: $286.0 million).

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

Note 19 Intangible assets (continued)

	2020 $'000	2019 $'000
Management rights		
Opening balance at the beginning of the year	**289,428**	289,758
Impairment of management rights	**(2,600)**	-
Amortisation charge	**(330)**	(330)
Closing balance at the end of the year	**286,498**	289,428
Cost	**294,382**	294,382
Accumulated amortisation	**(5,284)**	(4,954)
Accumulated impairment	**(2,600)**	-
Total management rights	**286,498**	289,428
Goodwill		
Opening balance at the beginning of the year	**1,013**	1,112
Additions	**2,923**	-
Impairment	**(3,021)**	(99)
Closing balance at the end of the year	**915**	1,013
Cost	**5,921**	2,998
Accumulated impairment	**(5,006)**	(1,985)
Total goodwill	**915**	1,013
Software		
Opening balance at the beginning of the year	**31,667**	23,769
Additions	**19,214**	13,924
Amortisation charge	**(5,530)**	(6,026)
Closing balance at the end of the year	**45,351**	31,667
Cost	**67,836**	48,622
Accumulated amortisation	**(22,485)**	(16,955)
Cost - Fully amortised assets written off	**(7,449)**	(7,122)
Accumulated amortisation - Fully amortised assets written off	**7,449**	7,122
Total software	**45,351**	31,667
Total non-current intangible assets	**332,764**	322,108

Goodwill represents the excess of the cost of an acquisition over the fair value of the Trust's share of the net identifiable assets of the acquired subsidiary at the date of acquisition.

Goodwill and management rights with an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. An impairment loss is recognised in the Consolidated 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, including an assessment of the impacts of COVID-19. On 4 March 2020, it was announced that Dexus will cease the management of the Australian Mandate portfolio managed on behalf of the NSW State Treasury Corporation from 30 June 2020. As a result, the carrying value of the management rights related to the Australian Mandate have been written down to nil.

Cash flow forecasts related to the remaining management rights have been updated to reflect the impact of COVID-19, and have not lead to a reduction in carrying amounts. The Directors and management have considered the key assumptions adopted and have not identified impairments of those carrying amounts.

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.

Note 19 Intangible assets (continued)

Key assumptions: value in use of management rights

Judgement is required in determining the following key assumptions used to calculate the value in use:

- Terminal capitalisation rate range of between 10.0%-20.0% (2019: 10.0%–20.0%) was used incorporating an appropriate risk premium for a management business.
- Cash flows have been discounted at 9.0% (2019: 9.0%) based on externally published weighted average cost of capital for an appropriate peer group plus an appropriate premium of risk. A 1% (2019 1.0%) decrease in the discount rate would increase the valuation by $25.8 million (2019: $24.0 million).
- An average growth rate of 3% (2019: 3%) has been applied to forecast cashflows

Note 20 Investment in financial assets at fair value through other comprehensive income

Investment in financial assets through other comprehensive income comprise DXS securities acquired on-market in order to fulfil the future requirements of the security-based payment plans which the Group has irrevocably elected at initial recognition to recognise in this category.

Changes in fair value arising on valuation of investments are recognised in other comprehensive income net of tax, in a separate reserve in equity. On disposal of these equity investments, any related balance within Financial assets at fair value through other comprehensive income reserve is reclassed to retained earnings.

Note 21 Audit, taxation and transaction service fees

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

	2020 **$**	2019 $
Audit fees		
PwC Australia - audit and review of Financial Statements	**274,002**	268,132
PwC Australia - outgoings audits	**7,426**	5,150
PwC Australia - regulatory audit and compliance services	**192,664**	176,636
Audit fees paid to PwC	**474,092**	449,918
Taxation fees		
Fees paid to PwC Australia - other	**-**	30,000
Taxation fees paid to PwC	**-**	30,000
Total audit, taxation and transaction services fees paid to PwC	**474,092**	479,918

Note 22 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:

	2020 $'000	2019 $'000
Net profit/(loss) for the year	**91,280**	102,210
Capitalised interest	**(2,170)**	16,743
Depreciation and amortisation	**17,973**	10,290
Amortisation of incentives and straight line income	**1,649**	1,264
Impairment of goodwill and management rights	**5,621**	99
Net fair value (gain)/loss of investment properties	**(24,677)**	(52,080)
Share of net (profit)/loss of investments accounted for using the equity method	**2,669**	820
Share of net (profit)/loss of investments in financial assets through profit and loss	**2,659**	-
Net (gain)/loss on sale of investment properties	**-**	(382)
Provision for doubtful debts	**497**	1
Distribution revenue	**(818)**	(828)
(Increase)/decrease in receivables	**(6,470)**	(51,087)
(Increase)/decrease in inventories	**123,041**	(132,811)
(Increase)/decrease in other current assets	**(6,086)**	(2,683)
(Increase)/decrease in other non-current assets	**(2,424)**	(122,167)
Increase/(decrease) in payables	**7,998**	2,222
Increase/(decrease) in current tax liabilities	**(24,074)**	16,338
Increase/(decrease) in other current liabilities	**(5,399)**	6,145
Increase/(decrease) in other non-current liabilities	**4,031**	6,780
(Increase)/decrease in deferred tax liabilities	**15,697**	(4,423)
Net cash inflow/(outflow) from operating activities	**200,997**	(203,549)

b) Net debt reconciliation

Reconciliation of net debt movements:

	2020 Loans with related parties $'000	2019 Loans with related parties $'000
Opening balance	**546,365**	464,921
Changes from financing cash flows		
Proceeds from loan with related party	**576,936**	382,536
Repayment of loan with related party	**(674,797)**	(319,357)
Non cash changes		
Intercompany interest capitalised to loan	**18,241**	18,265
Closing balance	**466,745**	546,365

Note 23 Security-based payment

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

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

The fair value of performance rights granted is recognised as an employee benefit expense with a corresponding increase in the security-based payment reserve in equity. The total amount to be expensed is determined by reference to the fair value of the performance rights granted.

Key assumptions: fair value of performance rights granted

Judgement is required in determining the fair value of performance rights granted. In accordance with AASB 2 *Share-based Payment*, fair value is determined independently using Binomial and Monte Carlo pricing models with reference to:

- the expected life of the rights;
- the security price at grant date;
- the expected price volatility of the underlying security;
- the expected distribution yield; and
- the risk free interest rate for the term of the rights and expected total security-holder returns (where applicable).

The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each period, the Trust revises its estimates of the number of performance rights that are expected to vest based on the non-market vesting conditions. The impact of the revised estimates, if any, is recognised in profit or loss with a corresponding adjustment to equity.

a) Deferred Short Term Incentive Plan

The number of performance rights granted in respect of the year ended 30 June 2020 was 239,769 (2019: 410,171) and the fair value of these performance rights is $9.20 (2019: $12.98) per performance right. The total security-based payment expense recognised during the year ended 30 June 2020 was $1,463,930 (2019: $5,015,005).

b) Long Term Incentive Plan

The number of performance rights granted in respect of the year ended 30 June 2020 was 443,657 (2019: 594,094). The weighted average fair value of these performance rights at grant date is $8.12 (2019: $11.75) per performance right. The total security-based payment expense recognised during the year ended 30 June 2020 was (-$736,905) (2019: $8,213,769).

Note 24 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 Dexus Office Trust Australia (DOTA) and the investment manager of DOTA and Dexus Industrial Trust Australia (DITA).

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

Management Fees

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

The Trust received Responsible Entity and other management fees from the unlisted property funds managed by DXS during the financial year.

Related party transactions

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

Transactions with related parties

	2020 **$**	2019 $
Responsible Entity and management fee income	**112,901,125**	105,222,525
Property management fee income	**38,205,990**	39,415,369
Development services revenue (DS), Development management (DM), Project Delivery Group (PDG), capital expenditure and leasing fee income	**162,705,418**	32,700,683
Rent paid	**5,298,019**	2,987,689
Responsible Entity fees receivable at the end of each reporting year (included above)	**18,664,178**	20,923,130
Property management fees receivable at the end of each reporting year (included above)	**2,471,477**	9,504,632
DS, DM, PDG, capital expenditure, leasing fees and other receivable at the end of each reporting year (included above)	**45,847,579**	17,049,444

Key management personnel compensation

	2020 **$**	2019 $
Compensation		
Short-term employee benefits	**8,278,781**	9,933,107
Post employment benefits	**384,497**	317,902
Security-based payments	**3,675,493**	5,917,609
Total key management personnel compensation	**12,338,771**	16,168,618

Note 25 Parent entity disclosures

The financial information for the parent entity of Dexus Operations Trust has been prepared on the same basis as the Consolidated Financial Statements except as set out below.

Distributions received from associates are recognised in the parent entity's Statement of Comprehensive Income, rather than being deducted from the carrying amount of these investments.

Interests held by the parent entity in controlled entities are measured at fair value through profit and loss to reduce a measurement or recognition inconsistency.

a) Summary financial information

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

	2020 $'000	2019 $'000
Total current assets	**443,997**	576,031
Total assets	**792,868**	894,868
Total current liabilities – payables	**42,838**	92,779
Total liabilities	**521,277**	643,238
Equity		
Contributed equity	**111,571**	113,394
Reserves	**288**	157
Retained profits	**159,732**	138,079
Total equity	**271,591**	251,630
Net profit/(loss) for the year	**71,652**	121,910
Total comprehensive income/(loss) for the year	**71,652**	121,910

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 parent entity had no capital commitments as at 30 June 2020 (2019: nil)

Note 26 Changes in accounting policies

AASB 16 Leases

AASB 16 *Leases* (AASB 16) is effective for annual reporting periods beginning on or after 1 January 2019. AASB 16 was adopted by the Trust on 1 July 2019. The Trust has adopted AASB 16 retrospectively upon implementation of this standard, however comparatives have not been restated as permitted under the specific transition provisions in the standard. The right-of-use asset has been measured at an amount equal to the lease liability, adjusted for any prepaid or accrued lease payments relating to that lease recognised in the Consolidated Statement of Financial Position immediately before the date of initial application. The changes and considerations are detailed below.

Under AASB 16, as a Lessee, the Trust recognises a right-of-use asset and lease liability on the Consolidated Statement of Financial Position for all material leases.

In relation to leases of low value assets, such as IT equipment, small items of office furniture or short term leases with a term of 12 months or less, the Trust has elected not to recognise right-of-use assets and lease liabilities. The Trust recognises the lease payments associated with these leases as an expense in the Consolidated Statement of Comprehensive Income on a straight-line basis over the lease term.

The Trust recognises a right-of-use asset and lease liability on the lease commencement date. The right-of-use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses, adjusted for any remeasurements of the lease liability. The cost of the right-of-use asset includes:

- the amount of initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs; and
- makegood costs.

Right-of-use assets are depreciated on a straight-line basis from the commencement date of the lease to the earlier of the end of the useful life of the asset or the end of the lease term, unless they meet the definition of an investment property.

The Trust tests all right-of-use assets for impairment where there is an indicator that the asset may be impaired. If an impairment exists, the carrying amount of the asset is written down to its recoverable amount as per the requirements of AASB 136 *Impairment of Assets*.

The lease liability is initially measured at the present value of the lease payments, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Trust's incremental borrowing rate. Generally, the Trust uses its incremental borrowing rate as the discount rate. Variable lease payments that depend on an index or rate are included in the lease liability, measured using the index or rate as at the date of transition.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payments made. The liability is remeasured when there is a change in future lease payments arising from a change in index or rate or changes in the assessment of whether an extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised. Interest costs and variable lease payments not included in the initial measurement of the lease liability are recognised in the Consolidated Statement of Comprehensive Income in the period to which they relate.

The Trust has applied judgement to determine the lease term for contracts which include renewal and termination options. The Trust's assessment considered the facts and circumstances that create an economic incentive to exercise a renewal option or not to exercise a termination option.

The Trust's right-of-use assets are all property leases.

Note 26 Changes in accounting policies (continued)

AASB 16 Leases *(continued)*

Practical expedients

On transition to AASB 16, the Trust elected to apply the practical expedient to grandfather the assessment of contracts entered into before the transition date which qualified as leases. The Trust has therefore only applied the principles of AASB 16 to leases which were either previously identified as leases under AASB 117 *Leases* and Interpretation 4 *Determining Whether an Arrangement Contains a Lease* or new contracts entered into on or after 1 July 2019 which meets the revised lease definition as per AASB 16.

Impact on transition

Impact on Trust as a lessor

The Trust leases its investment property and has classified these leases as operating leases. The accounting polices applicable to the Trust as a lessor are not different from those under AASB 117 *Leases*. However, the Trust has applied AASB 15 *Revenue from Contracts with Customers* to allocate consideration in the contract between lease and non-lease components.

The adoption of the new AASB 16 standard has no impact on the financial reporting of the Trust from a lessor perspective and therefore no adjustment is required to this effect.

Impact on Trust as a lessee

On transition to AASB 16, the Trust recognised $44.8 million of right-of-use assets and $46.5 million of lease liabilities in the Consolidated Statement of Financial Position.

In measuring lease liabilities for leases that were classified as operating leases, the Trust discounted lease payments using its incremental borrowing rate at 1 July 2019. The weighted average rate applied was 2.88%.

The difference between the operating lease commitments disclosed at 30 June 2019 discounted using the incremental borrowing rate as 1 July 2019 and the balance of the lease liabilities recognised at 1 July 2019 reflects:

- Adjustments as a result of different treatment of extension and termination options;
- Recognition exemption for leases of low value assets; and
- Recognition exemption for leases with less than 12 months.

Within the Consolidated Statement of Comprehensive Income, the Trust has separately recognised a depreciation expense and interest expense, instead of an operating lease expense. During the year ended 30 June 2020, the Trust recognised $8.1 million of depreciation charges and $1.1 million of interest.

Note 27 Subsequent events

On 30 July 2020, Dexus exercised its put option in relation to the sale of its remaining 25% interest in 201 Elizabeth Street, Sydney for $157.5 million excluding disposal costs. Settlement is expected to occur in August 2020.

On 30 July 2020, Dexus entered into agreement to sell the following assets to DALT at a price of $269.4 million excluding disposal costs:

- 47-53 Foundation Drive, Truganina VIC (tranche 1)
- 380 Doherty's Road, Truganina VIC (tranche 1)
- 7 Custom Place, Truganina VIC (tranche 2)
- 9 Custom Place, Truganina VIC (tranche 2)
- 58 Foundation Road, Truganina VIC (tranche 2)
- 11 Lord Street, Botany NSW (Lakes Business Park South) (50% in tranche 1 and 50% in tranche 2)

Dexus has exchanged contracts to sell the first tranche of the portfolio in October 2020 and entered into put and call option arrangements to sell the second tranche in mid-2021.

Note 27 Subsequent events (continued)

Rent relief that is expected to be given as a rent waiver for the period April to June 2020 to tenants that are not in arrears as at 30 June 2020 is estimated to total $0.6 million. This includes waivers for investment properties and investments properties held within investments accounted for using the equity method.

There remains significant uncertainty regarding how the COVID-19 pandemic will evolve, including the duration of the pandemic, the severity of the downturn and the speed of economic recovery. In accordance with AASB 110 Events after the Reporting Date, the Trust considered whether events after the reporting period confirmed conditions that existed before the reporting date, e.g. bankruptcy of customers. Consideration was given to the macro-economic impact of lockdowns implemented in Victoria in the beginning of July 2020, and the closure of the border between Victoria and New South Wales on 7 July 2020, and the Trust concluded that the amounts recognised in the Consolidated Financial Statements and the disclosures therein are appropriate. The economic environment is subject to rapid change and updated facts and circumstances continue to be closely monitored by the Trust.

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 Consolidated Financial Statements that has significantly or may significantly affect the operations of the Trust, the results of those operations, or state of the Trust's affairs in future financial periods.

Directors' Declaration

The Directors of Dexus Funds Management Limited as Responsible Entity of Dexus Operations Trust declare that the Consolidated Financial Statements and notes set out on pages 8 to 49:

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

(ii) give a true and fair view of the Trust's financial position as at 30 June 2020 and of its performance, as represented by the results of its operations and cash flows, for the year ended on that date.

In the Directors' opinion:

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

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

(c) the Trust has operated in accordance with the provisions of the Constitution dated 15 August 1984 (as amended) during the year ended 30 June 2020.

The Consolidated 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

18 August 2020

Independent auditor's report

To the stapled security holders of Dexus Operations Trust

Report on the audit of the financial report

Our opinion

In our opinion:

The accompanying financial report of Dexus Operations Trust (the 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 2020 and of its financial performance for the year then ended

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

What we have audited

The Group financial report comprises:

- the Consolidated Statement of Financial Position as at 30 June 2020
- the Consolidated Statement of Comprehensive Income for the year then ended
- the Consolidated Statement of Changes in Equity for the year then ended
- the Consolidated Statement of Cash Flows for the year then ended
- the Notes to the Consolidated Financial Statements, which include a summary of significant accounting policies
- the Directors' Declaration.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Group 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 (including Independence Standards)* (the Code) that are relevant to our audit of the Group financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

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

Our audit approach

An audit is designed to provide reasonable assurance about whether the Group 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 Group 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 Group 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 $5.3 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 Group financial report as a whole. • We chose FFO because, in our view, it is the key performance measure of the Group. An explanation of what is included in FFO is outlined in Note 1, Operating segments of the Dexus Annual Report. • We utilised a 5% threshold based on our professional judgement, noting it is within the range of commonly acceptable profit related thresholds.	• The Group is a consolidated entity with operations in Australia. The scope of our audit included the Trust and its controlled entities. • Our audit focused on where the Group made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events.	• Amongst other relevant topics, we communicated the following key audit matters to the Audit and Risk Committee: – Valuation of investment properties, including those investment properties in investments accounted for using the equity method – Carrying amount of inventory – Impairment of property rental receivables related to property revenue. • These are further described in the *Key audit matters* section of our report.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the Group financial report for the current period. The key audit matters were addressed in the context of our audit of the Group 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 property, including those investment properties in investments accounted for using the equity method *(Refer to notes 3, 9 and 10)* The Group's investment property portfolio comprises: • Directly held properties included in the Consolidated Statement of Financial Position as Investment Properties valued at \$252.4 million as at 30 June 2020 (2019: \$193.4 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 \$9.6 million as at 30 June 2020 (2019: nil). Investment properties are carried at fair value at reporting date using the Group's policy as described in note 9. The valuation of investment properties is dependent on assumptions and inputs including tenant information, property age and location, expected future rental income, and prevailing market conditions. Amongst others, the capitalisation rate, discount rate, terminal yield, and net market rental are key in establishing fair value. Given the rapidly developing nature of the Coronavirus (COVID-19) pandemic and the uncertainty as to the economic impacts arising from the Government imposed restrictions, significant judgment was exercised by the Group in determining fair value.	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 read recent external property market reports to develop an understanding of the prevailing market conditions in which the Group invests. • For a sample of leases, we compared the rental income used in the investment property valuations to the tenancy schedules and lease agreements. • We assessed the reasonableness of the Group's leasing and rental relief assumptions on a sample basis, and agreed these assumptions to the Group's valuation models, where applicable. • We performed a risk-based assessment over the investment property portfolio to determine those properties at greater risk of being carried at amounts other than fair value. Our risk-based selection criteria included qualitative and quantitative measures and were informed by our knowledge of each property, asset class and our understanding of the current market conditions. For those properties which met our selection criteria, we performed procedures to assess the reasonableness of key assumptions used in the valuations. These procedures included, 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 signed during the year, lease expiries, capital expenditure and vacancy rates.

Key audit matter	How our audit addressed the key audit matter
Specifically, this included judgments around the impact of COVID-19 on significant assumptions, including capitalisation rates, discount rates, the provision of rent relief to certain tenants, and overall future rental growth rates. In addition, the slowdown in activity in the property market has reduced the availability of observable market data such as comparable sales and capitalisation rates. At each reporting period the Group determines the fair value of its investment property portfolio having regard to the Group's valuation policy which requires all properties to be externally valued by valuation experts at least once every three years. It has been the Group's practice to have such valuations performed every six months. The external valuers engaged by the Group have included a significant valuation uncertainty clause in their report. This clause highlights that less certainty, and consequently a higher degree of caution, should be attached to the valuation as a result of the COVID-19 pandemic. This represents a significant estimation uncertainty in relation to the valuation of investment properties. This was considered a key audit matter given: • the inherently subjective nature of investment property valuations arising from the use of assumptions in the valuation methodology • the extent of judgment involved in considering the impact of the COVID-19 pandemic • the financial significance of the balances • the importance of the valuation uncertainty to users' understanding of the Group financial report.	– Compared key assumptions such as capitalisation rate, discount rate and net market rental used in the valuations to market analysis published by industry experts, recent market transactions, other market data points. – Considered the impact of material valuation uncertainty clauses, specific other uncertainties and adjustments related to COVID-19 included in external valuers' reports. – Tested the mathematical accuracy of the valuation calculations. • As the Group engaged external experts to assist in the determination of the fair value of investment properties, we considered the independence, experience and competency of the Group's external experts as well as the results of their procedures. • We met with a selection of external valuation firms to develop an understanding of their processes, judgments and observations, as well as any significant valuation uncertainty clauses included in their valuation reports and how they dealt with the uncertainties arising from COVID-19 on their valuations. We assessed the appropriateness of the Group's disclosures in the Group financial report against the requirements of Australian Accounting Standards. In particular, we considered the adequacy of the disclosures made in note 8 to the financial statements which explain that there is significant estimation uncertainty in relation to the valuation of investment properties.

Key audit matter	How our audit addressed the key audit matter
Carrying amount of inventory *(Refer to note 11)* The Group develops a portfolio of office and industrial sites for future sale, which are classified as inventory. At 30 June 2020 the carrying amount of the Group's inventory was $337.0 million (2019: $460.0 million). The Group's inventories are held at the lower of the cost or net realisable value. The cost of inventory is calculated using actual acquisition costs, subsequent construction and 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 using the equity method* to determine the estimated future selling price, or using an agreed sales price where an agreement has been signed, and adjusting for the estimated cost to complete and transaction costs. We considered the carrying amount of inventory to be a key audit matter given the: • Judgments required in determining the future fair value of properties being developed for sale • 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: • We tested that a sample of acquisition costs and costs capitalised to inventory were in accordance with the Group's policy/methodology and the requirements of Australian Accounting Standards. • Where the Group had executed a contract to sell the underlying inventory asset, we checked that the agreed sales price, net of selling costs, exceeded the carrying amount. • For all other inventory assets, we performed net realisable value testing as follows: – Discussed with the Group, amongst other things, 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 or previous impairments, including the impact of COVID-19 and how it has been reflected in the net realisable value. – We compared estimated sales prices to market sales data for comparable properties in similar locations. This included comparing 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 valuation experts. – Compared the carrying amount of inventory against the Group's estimate of net realisable value as at 30 June 2020. • We assessed the appropriateness of the Group's disclosures in the Group financial report against the requirements of Australian Accounting Standards.

pwc

Key audit matter	*How our audit addressed the key audit matter*
Impairment of property rental receivables related to property revenue *(Refer to notes 3 and 17)* The Group's main revenue stream is property revenue which is derived from holding investment properties and earning rental yields over time. Property revenue is recognised on a straight-line basis over the terms of the underlying leases, with receivables being recorded for property rental revenue recognised but not yet received. In response to the COVID-19 pandemic, the Australian Government introduced *The Code of Conduct for Commercial Tenancies* for tenants that are suffering from financial stress or hardship as defined by their eligibility for the Commonwealth Governments JobKeeper program (SME tenants). The objective of the legislation is to ensure tenants and landlords negotiate amendments to lease terms in good faith to aid the management of cashflow for SME tenants and landlords on a proportionate basis. AASB 9 *Financial Instruments* (AASB 9) requires the Group to recognise expected credit losses (ECL) for all financial assets held at amortised cost, including property rental receivables and to reduce the gross carrying amount of a financial asset when the Group does not have a reasonable expectation of recovering a property rental receivable or portion thereof. Where the Group has recorded property rental receivables but is expecting to provide rent relief to the tenants to whom the receivables relate, a provision for expected credit losses is recognised against the receivable. Significant judgment is required in estimating the amount of rent relief expected to be provided by the Group. Given the extent of judgment involved in determining the Group's future expected credit losses, we considered this to be a key audit matter.	In order to assess the appropriateness impairments for expected credit losses associated with property rental receivables, we performed the following procedures amongst others: • We performed inquiries of management to develop an understanding of the key processes and controls established by the Group in response to the administration of rent relief to tenants during the COVID-19 period. • We obtained the Group's accounting papers outlining the impact of COVID-19 on the impairment of property rental receivables and assessed whether the Group's treatment was in accordance with AASB 9. • We obtained the model developed by the Group that estimated the amount that the Group did not have a reasonable expectation of recovering from tenants and thus was provided against the property rental receivable balance. The model was also used to estimate the ECL provision of the remaining property rental receivables balance. We performed the following audit procedures, amongst others, on a sample basis: - Agreed a sample of data such as tenant property rental amounts used as inputs to the model to relevant source documentation. - Checked the mathematical accuracy of the calculations. - Assessed the methodology applied against generally accepted market practice. - Considered the Group's judgments including the reasonableness of forward-looking information incorporated into the ECL model by assessing the forecasts, assumptions and probability weighting applied in multiple economic scenarios. - Agreed the total relief expected to be provided to tenants to Board documents. • We assessed the appropriateness of the Group's disclosures in the Group financial report against the requirements of Australian Accounting Standards.

Other information

The Directors of Dexus Funds Management Limited as Responsible Entity of the Trust (the Directors) are responsible for the other information. The other information comprises the information included in the annual report for the year ended 30 June 2020, but does not include the Group financial report and our auditor's report thereon.

Our opinion on the Group 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 Group financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Group 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 Group financial report

The Directors are responsible for the preparation of the Group 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 Group financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the Group 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 Group financial report

Our objectives are to obtain reasonable assurance about whether the Group 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 Group financial report.

A further description of our responsibilities for the audit of the Group financial report is located at the Auditing and Assurance Standards Board website at:
https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.pdf. This description forms part of our auditor's report.

PricewaterhouseCoopers

PricewaterhouseCoopers

Matthew Lunn
Partner

Sydney
18 August 2020