

Dexus (ASX: DXS)

ASX release



17 August 2021

2021 Financial Statements

In addition to Dexus's 2021 Annual Report, which includes the Financial Statements for Dexus Diversified Trust, Dexus provides the 2021 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

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

Media

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

About Dexus

Dexus (ASX: DXS) is one of Australia's leading fully integrated real estate groups, managing a high-quality Australian property portfolio valued at \$42.5 billion. We believe that the strength and quality of our relationships will always be central to our success and are deeply committed to working with our customers to provide spaces that engage and inspire. We invest only in Australia, and directly own \$17.5 billion of office, industrial and healthcare properties, and investments. We manage a further \$25.0 billion of office, retail, industrial and healthcare properties for third party clients. The group's \$14.6 billion development pipeline provides the opportunity to grow both portfolios and enhance future returns. Sustainability is integrated across our business, and our sustainability approach is the lens we use to manage emerging ESG risks and opportunities for all our stakeholders. Dexus is a Top 50 entity by market capitalisation listed on the Australian Securities Exchange and is supported by more than 30,000 investors from 23 countries. With over 35 years of expertise in property investment, funds management, asset management and development, we have a proven track record in capital and risk management 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 2021

**Dexus Industrial Trust
Financial Report
30 June 2021**

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At balance date, 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 2021. 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 ¹	29 April 2009
Tonianne Dwyer, BJuris (Hons), LLB (Hons)	24 August 2011
Mark H Ford, Dip. Tech (Commerce), CA, FAICD	1 November 2016
Warwick Negus, BBus (UTS), MCom (UNSW), SF Fin ²	1 February 2021
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 ³	29 April 2009

1. John C Conde retired from the Board of DXFM, effective 2 September 2020.

2. Warwick Negus was appointed to the Board of DXFM, effective 1 February 2021.

3. Peter B St George retired from the Board of DXFM, effective 30 June 2021.

Company Secretaries

The names and details of the Company Secretaries of DXFM as at 30 June 2021 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 24 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, of which one was a special meeting.

	Main meetings held	Main meetings attended	Specific meetings held	Specific meetings attended
W Richard Sheppard	11	11	1	1
Patrick N J Allaway	11	10	1	1
Penny Bingham-Hall	11	11	1	1
John C Conde, AO ¹	2	2	-	-
Tonianne Dwyer	11	11	1	1
Mark H Ford	11	11	1	1
Warwick Negus ²	5	5	1	1
The Hon. Nicola L Roxon	11	11	Recused ³	Recused ³
Darren J Steinberg	11	11	1	1
Peter B St George ⁴	11	11	1	1

1. John C Conde retired from the Board of DXFM, effective 2 September 2020.
2. Warwick Negus was appointed to the Board of DXFM, effective 1 February 2021.
3. Recused from special meeting due to potential conflict.
4. Peter B St George retired from the Board of DXFM, effective 30 June 2021.

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' attendances¹ at Board Committee meetings of which they were a member during the year ended 30 June 2021.

	Board Audit Committee		Board Risk Committee		Board Nomination Committee ³		Board People and Remuneration Committee		Board Environmental, Social and Governance Committee		Joint "Organisational Risk" Session	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended	Held	Attended	Held	Attended
W Richard Sheppard	-	-	-	-	3	3	8	8	-	-	2	2
Patrick N J Allaway ²	4	4	4	3	3	3	-	-	-	-	2	1
Penny Bingham-Hall	-	-	-	-	3	3	8	8	4	4	2	2
John C Conde, AO ³	1	1	-	-	-	-	-	-	-	-	-	-
Tonianne Dwyer	5	5	4	4	3	3	-	-	-	-	2	2
Mark H Ford	5	5	-	-	3	3	-	-	4	4	-	-
Warwick Negus ⁴	-	-	-	-	2	2	-	-	-	-	-	-
The Hon. Nicola L Roxon	-	-	-	-	3	3	8	8	4	4	2	2
Peter B St George ⁵	5	5	4	4	3	2	-	-	-	-	2	2

1. All Non-Executive Directors have a standing invitation to attend any or all Board Committee meetings.
2. Patrick N J Allaway replaced John C Conde as member effective 2 September 2020.
3. John C Conde retired from the Board of DXFM, effective 2 September 2020.
4. Warwick Negus was appointed to the Board of DXFM, effective 1 February 2021, and immediately became a member of the Board Nomination Committee.
5. Peter B St George retired from the Board of DXFM, effective 30 June 2021.

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	100,000
Patrick N J Allaway	20,000
Penny Bingham-Hall	32,773
John C Conde, AO ¹	-
Tonianne Dwyer	22,500
Mark H Ford	10,000
Warwick Negus ²	-
The Hon. Nicola L Roxon ³	21,297
Darren J Steinberg ⁴	990,998
Peter B St George ⁵	30,573

1. John C Conde retired from the Board of DXFM, effective 2 September 2020.
2. Warwick Negus was appointed to the Board of DXFM, effective 1 February 2021.
3. Includes interests held directly and through Non-Executive Director (NED) Plan rights.
4. Includes interests held directly and through performance rights.
5. Peter B St George retired from the Board of DXFM, effective 30 June 2021.

Operating and financial review

The relevant financial information for the Trust for the year ended 30 June 2021 were:

- profit attributable to unitholders was \$80.0 million (2020: \$56.4 million)
- total assets were \$1,006.4 million (2020: \$966.3 million)
- net assets were \$977.5 million (2020: \$934.0 million)

A review of the results, financial position and operations of the Group, of which the Trust forms part thereof, is set out on pages 28 to 41 of the Dexu Annual Report and forms part of this Directors' Report.

Remuneration Report

The Remuneration Report is set out on pages 78 to 105 of the Dexu 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
	Allianz Australia	1 July 2020
	Adobe International Advisory Board	24 March 2021
Penny Bingham-Hall	BlueScope Steel Limited	29 March 2011
	Fortescue Metals Group Ltd	16 November 2016
John C Conde, AO ¹	Whitehaven Coal Limited	3 May 2007
	Cooper Energy Limited	25 February 2013
	Tonianne Dwyer	Metcash Limited ²
Mark H Ford	ALS Limited	1 July 2016
	Oz Minerals Limited	21 March 2017
	Incitec Pivot Limited	20 May 2021
Warwick Negus ⁴	Kiwi Property Group Limited ³	16 May 2011
	Pengana Capital Group Limited (Chairman)	1 June 2017
	Bank of Queensland	22 September 2016
The Hon. Nicola L Roxon	Washington H. Soul Pattison and Company Ltd	1 November 2014
	Lifestyle Communities Limited	1 September 2017
Peter B St George ⁵	First Quantum Minerals Limited ⁶	20 October 2003
Darren J Steinberg	VGI Partners Limited	12 May 2019

1. John C Conde retired from the Board of DXFM, effective 2 September 2020.
2. Tonianne Dwyer retired from the Board of Metcash, effective 28 June 2021.
3. Listed for trading on the New Zealand Stock Exchange.
4. Warwick Negus was appointed to the Board of DXFM, effective 1 February 2021.
5. Peter B St George retired from the Board of DXFM, effective 30 June 2021.
6. Listed for trading on the Toronto Stock Exchange in Canada.

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 2021 was \$1,006.4 million (2020: \$966.3 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

On 23 March 2021, Dexus announced plans to simplify the corporate structure (the "Simplification") from a complex quadruple stapled trust structure to a group comprising two stapled trusts. Dexus Security holders voted in favour of the Simplification at an Extraordinary General Meeting on 22 April 2021. The Simplification was implemented on 6 July 2021 following the receipt of certain determinations in respect of stamp duty payable under the Simplification and the Responsible Entity considering that it is in the best interest of Security holders.

The key advantages to the Simplification include an improved ability and flexibility for Dexus to execute on one of its key strategic initiatives to expand and diversify its funds management business, deliver reporting and administrative efficiencies for both Security holders and Dexus and may potentially result in broader eligibility for CGT rollover relief as a result of any merger and acquisition activity that Dexus subsequently engages in.

Apart from the aforementioned, 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

On 6 July 2021, Dexus implemented the Simplification from a quadruple stapled trust structure (comprised of DDF, DIT, DOT and DXO) to a dual stapled trust structure. This was achieved by "top-hatting" three of the existing trusts (DDF, DIT and DOT) with a newly established trust, Dexus Property Trust (DPT). Effective from this date, the Simplified Group now comprises a unit in each of DXO and DPT, with DXFM appointed as the Responsible Entity for DPT.

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 any lockdowns or border closures since 30 June 2021, 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 operation of the Trust, the results of those operations, or state of the Trust's affairs in future financial periods.

Distributions

Distributions paid or payable by the Trust for the year ended 30 June 2021 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 2021 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 2021 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 9 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' Report (continued)

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 16 August 2021.



W Richard Sheppard

Chair

16 August 2021

Darren J Steinberg

Chief Executive Officer

16 August 2021



Auditor's Independence Declaration

As lead auditor for the audit of Dexus Industrial Trust for the year ended 30 June 2021, 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.

A handwritten signature in black ink, appearing to read 'Matthew Lunn', with a horizontal line underneath.

Matthew Lunn
Partner
PricewaterhouseCoopers

Sydney
16 August 2021

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

Liability limited by a scheme approved under Professional Standards Legislation.

Consolidated Statement of Comprehensive Income



For the year ended 30 June 2021

	Note	2021 \$'000	2020 \$'000
Revenue from ordinary activities			
Property revenue	2	22,452	26,204
Interest revenue		20,655	22,775
Total revenue from ordinary activities		43,107	48,979
Net fair value gain of investment properties		42,616	13,903
Net gain on sale of investment properties		153	26
Total income		85,876	62,908
Expenses			
Property expenses	2	(4,513)	(4,933)
Management fee expense		(943)	(1,043)
Finance costs	3	-	(3)
Management operations, corporate and administration expenses		(411)	(486)
Total expenses		(5,867)	(6,465)
Profit/(loss) for the year		80,009	56,443
Other comprehensive income/(loss):			
Other comprehensive income/(loss)		-	-
Total comprehensive income/(loss) for the year		80,009	56,443
		Cents	Cents
Earnings per unit on profit/(loss) attributable to unitholders of parent entity			
Basic earnings per unit	4	7.38	5.15
Diluted earnings per unit	4	7.19	5.02

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 2021



	Note	2021 \$'000	2020 \$'000
Current assets			
Cash and cash equivalents	10(a)	345	901
Receivables	10(b)	1,603	2,416
Other		832	462
Total current assets		2,780	3,779
Non-current assets			
Investment properties	6(a)	330,026	301,670
Loans with related parties	13	673,580	660,899
Total non-current assets		1,003,606	962,569
Total assets		1,006,386	966,348
Current liabilities			
Payables	10(c)	2,634	3,866
Provisions	10(d)	26,269	28,458
Total current liabilities		28,903	32,324
Total liabilities		28,903	32,324
Net assets		977,483	934,024
Equity			
Contributed equity	9	1,205,074	1,215,790
Retained profits		(227,591)	(281,766)
Total equity		977,483	934,024

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 2021



	Contributed equity \$'000	Retained profits/ (losses) \$'000	Total equity \$'000
Opening balance as at 1 July 2019	1,220,456	(266,862)	953,594
Profit/(loss) for the year	-	56,443	56,443
Total comprehensive income for the year	-	56,443	56,443
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
Opening balance as at 1 July 2020	1,215,790	(281,766)	934,024
Profit/(loss) for the year	-	80,009	80,009
Total comprehensive income for the year	-	80,009	80,009
Transactions with owners in their capacity as unitholders:			
Buy-back of contributed equity, net of transaction costs	(10,716)	-	(10,716)
Distributions paid or provided for	-	(25,834)	(25,834)
Total transactions with owners in their capacity as unitholders	(10,716)	(25,834)	(36,550)
Closing balance as at 30 June 2021	1,205,074	(227,591)	977,483

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 2021



	Note	2021 \$'000	2020 \$'000
Cash flows from operating activities			
Receipts in the course of operations (inclusive of GST)		25,833	29,613
Payments in the course of operations (inclusive of GST)		(7,864)	(13,065)
Interest received		21,298	22,775
Interest received/(paid) on derivatives		-	(3,337)
Net cash inflow/(outflow) from operating activities	12	39,267	35,986
Cash flows from investing activities			
Proceeds from sale of investment properties		13,153	69,505
Payments for capital expenditure on investment properties		(1,122)	(721)
Net cash inflow/(outflow) from investing activities		12,031	68,784
Cash flows from financing activities			
Borrowings provided to related parties		48,587	140,932
Borrowings received from related parties		(61,267)	(137,349)
Payments for buy-back of contributed equity		(10,716)	(4,666)
Distributions paid to security holders		(28,458)	(103,977)
Net cash inflow/(outflow) from financing activities		(51,854)	(105,060)
Net increase/(decrease) in cash and cash equivalents		(556)	(290)
Cash and cash equivalents at the beginning of the year		901	1,191
Cash and cash equivalents at the end of the year		345	901

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.

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. Where required, comparative information has been restated for consistency with the current year's presentation.

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 2021, the Trust had a net current asset deficiency of \$26.1 million (2020: \$28.5 million). This is primarily due to the provision for distribution of \$25.8 million due to be paid in August 2021.

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 \$1,025.9 million. Refer to note 15 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 lockdowns in 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).

The COVID-19 pandemic continued to create unprecedented challenges through unanticipated government imposed lockdowns that varied in their level of impact across Australian cities. Despite this disruption, Australia's economic activity in FY21 has been resilient supported by government stimulus and historically low interest rates, with growing employment numbers, increasing house prices and strong business and consumer confidence.

Across the Dexus industrial portfolio, economic tailwinds from government stimulus are feeding demand from ecommerce, retail, essential services, pharmaceuticals and infrastructure tenants, with all of these sectors requiring more space to accommodate growth. Dexus industrial portfolio occupancy increased to 97.7% (FY20: 95.6%).

Dexus continues to work with small business tenants impacted by lockdowns on rent relief measures.

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.

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Note 10	Working capital	Page 31

Principles of consolidation

These Consolidated Financial Statements incorporate the assets, liabilities and results of all subsidiaries as at 30 June 2021.

(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.

Notes to the Consolidated Financial Statements (continued)

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 2021, 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. 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.

	2021 \$'000	2020 \$'000
Rent and recoverable outgoings	23,720	26,661
Services revenue	739	1,103
Incentive amortisation	(1,232)	(1,869)
Rent straight lining	(1,621)	(990)
Other revenue	846	1,299
Total property revenue	22,452	26,204

Impact of COVID-19 on Property revenue

The rent relief measures outlined in the Australian Government National Code of Conduct (Code of Conduct) concluded during the period as follows:

- NSW – extension until 31 December 2020 from the initial expiry date of 24 October 2020¹
- VIC – extension until 28 March 2021 from the initial expiry date of 29 September 2020
- WA – extension until 28 March 2021 from the initial expiry date of 29 September 2020
- QLD – extension until 31 December 2020 from the initial expiry date of 30 September 2020

1. For retail tenants that had a turnover of less than \$5.0 million in the 2018/2019 year, there was an extension to 28 March 2021.

Dexus continues to work with impacted tenants to finalise rent relief packages in accordance with the Code of Conduct.

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

Note 2 Property revenue and expenses (continued)

Impact of COVID-19 on Property revenue (continued)

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 2021, 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 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.

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 includes rates, taxes and other property outgoings incurred in relation to investment properties. These expenses are recognised in the Consolidated Statement of Comprehensive Income on an accrual basis. If these items are recovered from a tenant by the Trust, they are recorded within Services revenue or recoverable outgoings within Property revenue.

	2021 \$'000	2020 \$'000
Recoverable outgoings and direct recoveries	(3,209)	(3,687)
Other non recoverable property expenses	(1,304)	(1,246)
Total property expenses	(4,513)	(4,933)

Note 3 Finance costs

Finance costs include interest, amortisation or other costs incurred in connection with arrangement of borrowings and realised interest rate swaps.

	2021 \$'000	2020 \$'000
Realised (gain)/loss of interest rate derivatives	-	3
Total finance costs	-	3

Trust performance (continued)

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

	2021	2020
	\$'000	\$'000
Profit attributable to unitholders of the parent entity	80,009	56,443

b) Weighted average number of units used as a denominator

	2021	2020
	No. of units	No. of units
Weighted average number of units outstanding used in calculation of basic earnings per unit	1,084,536,777	1,095,096,969
Effect on exchange of Exchangeable Notes	28,333,333	28,333,333
Weighted average number of units outstanding used in calculation of diluted earnings per unit	1,112,870,110	1,123,430,302

Note 5 Distributions paid and payable

Distributions are recognised when declared.

a) Distribution to unitholders

	2021	2020
	\$'000	\$'000
31 December	-	42,889
30 June (payable 30 August 2021)	25,834	28,458
Total distribution to unitholders	25,834	71,347

b) Distribution rate

	2021	2020
	Cents per unit	Cents per unit
31 December	-	3.91
30 June (payable 30 August 2021)	2.40	2.61
Total distributions	2.40	6.52

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

	2021	2020
	\$'000	\$'000
Opening balance at the beginning of the year	301,670	357,982
Additions	1,287	658
Lease incentives	617	1,419
Amortisation of lease incentives	(1,506)	(2,219)
Rent straightlining	(1,621)	(990)
Disposals	(13,037)	(69,083)
Net fair value gain/(loss) of investment properties	42,616	13,903
Closing balance at the end of the year	330,026	301,670

Disposals

On 1 April 2021, settlement occurred for the disposal of a 24% interest in 250 Forest Road South, Lara VIC for \$13.2 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 2021, 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.

Property portfolio assets (continued)

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	
			2021	2020
Industrial	Level 3	Adopted capitalisation rate	4.50% - 7.75%	5.25% - 7.75%
		Adopted discount rate	5.75% - 8.25%	6.25% - 8.50%
		Adopted terminal yield	4.75% - 8.25%	5.75% - 8.25%
		Current net market rental (per sqm)	\$40 - \$358	\$40 - \$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 continuing 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 2021. 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 to reflect current market uncertainty;
- 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) or where operating hours have been impacted; and
- Capitalisation and discount rates have generally firmed for industrial assets.

In prior reporting periods, some independent valuations obtained by the Trust included significant valuation uncertainty clauses due to the unknown impact of ongoing lockdowns and limited interstate travel may have on the investment property assets in the various markets. These clauses have been removed from most industrial valuations due to the current transaction volumes and market pricing. The Trust considers that the assumptions used in the valuations are materially appropriate for the purposes of determining fair value of investment properties at 30 June 2021.

Property portfolio assets (continued)

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:

	2021	2020
	\$'000	\$'000
A decrease of 25 basis points in the adopted capitalisation rate	15,911	12,603
A increase of 25 basis points in the adopted capitalisation rate	(14,512)	(11,631)
A decrease of 25 basis points in the adopted discount rate	13,369	11,206
A increase of 25 basis points in the adopted discount rate	(12,367)	(10,431)
A decrease of 5% in the net market rental (per sqm)	(16,501)	(15,084)
A increase of 5% in the net market rental (per sqm)	16,501	15,084

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).

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 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 may use 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 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 may enter 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 2021, the Trust was not party to any derivatives contracts.

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.

	2021				2020			
	Between	Between	Between	After five	Within	Between	Between	After five
	one year	one and	two and	years	one year	one and	two and	years
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Payables	(2,634)	-	-	-	(3,866)	-	-	-

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.

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 2021 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 2021 is the carrying amounts of the trade receivables recognised on the Consolidated Statement of Financial Position.

iv) Fair value

As at 30 June 2021, 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.

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.

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.



Note 8 Commitments and contingencies

a) Commitments

Capital commitments

The following amounts represent 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:

	2021 \$'000	2020 \$'000
Investment properties	628	463
Total capital commitments	628	463

Lease receivable commitments

The future minimum lease payments receivable by the Trust are:

	2021 \$'000	2020 \$'000
Within one year	31,973	40,089
Later than one year but not later than five years	80,915	108,660
Later than five years	18,956	35,474
Total lease receivable commitments	131,844	184,223

b) Contingencies

The Trust, together with DXO, DOT and DDF, is a guarantor of A\$5,918.1 million (2020: \$6,248.4 million) of interest bearing liabilities (refer to note 15 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

	2021 No. of units	2020 No. of units
Opening balance at the beginning of the year	1,091,202,163	1,096,857,665
Buy-back of contributed equity	(15,636,917)	(5,655,502)
Closing balance at the end of the year	1,075,565,246	1,091,202,163

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.

On 13 October 2020, Dexus announced an extension of the buy-back for a period of 12 months commencing on 23 October 2020.

During the 12 months to 30 June 2021, Dexus acquired and cancelled 15,636,917 securities representing 1.5% 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 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.

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

	2021 \$'000	2020 \$'000
Rent receivable ¹	172	309
Accrued property income	-	85
Less: provision for expected credit loss	(120)	(175)
Total rental receivables	52	219
Interest receivable	1,454	2,097
Other receivables	97	100
Total other receivables	1,551	2,197
Total receivables	1,603	2,416

1. Rent receivable includes outgoing recoveries.

Capital and financial risk management and working capital (continued)

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 2021 was determined as follows:

	2021	2020
	\$'000	\$'000
30 June 2021		
0-30 days ¹	94	58
31-60 days	-	70
61-90 days	1	24
91+ days	25	23
Total provision for expected credit losses	120	175

1. 0-30 days includes deferred rent receivable but not due.

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 2021 reconcile to the opening loss allowances as follows:

	2021	2020
	\$'000	\$'000
Opening provision for expected credit losses	175	3
Increase in provision recognised in profit or loss during the year	56	175
Unused provision amount reversed during the year	(111)	(3)
Closing provision for expected credit losses	120	175

c) Payables

	2021	2020
	\$'000	\$'000
Trade creditors	1,430	1,570
Accruals	299	1,084
Management fee payable	39	41
Accrued capital expenditure	428	262
Prepaid income	233	694
Other payables	205	215
Total payables	2,634	3,866

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.

	2021	2020
	\$'000	\$'000
Provision for distribution	25,834	28,458
Provision for land tax	435	-
Total current provisions	26,269	28,458

Capital and financial risk management and working capital (continued)

Note 10 Working capital (continued)

d) Provisions (continued)

Movements in the provision for distribution during the financial year are set out below:



	2021	2020
	\$'000	\$'000
Provision for distribution		
Opening balance at the beginning of the year	28,458	61,088
Additional provisions	25,834	71,347
Payment of distributions	(28,458)	(103,977)
Closing balance at the end of the year	25,834	28,458

A provision for distribution has been raised for the period ended 30 June 2021. This distribution is to be paid on 30 August 2021.

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:

	2021	2020
	\$	\$
Audit and review services		
Auditors of the Trust - PwC		
Financial statement audit and review services	232,259	225,495
Audit and review fees paid to PwC	232,259	225,495
Assurance services		
Auditors of the Trust - PwC		
Outgoings audits	4,682	5,437
Regulatory audit and compliance assurance services	4,863	4,721
Sustainability assurance services	11,216	-
Other assurance services	6,480	-
Assurance fees paid to PwC	27,241	10,158
Total audit, review and assurance fees paid to PwC	259,500	235,653
Other services		
Auditors of the Trust - PwC		
Transaction services fees	8,135	-
Other service fees paid to PwC	8,135	-
Total audit, review and assurance and other services fees paid to PwC	267,635	235,653

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:

	2021	2020
	\$'000	\$'000
Net profit/(loss) for the year	80,009	56,443
Amortisation of incentives & straight line income	3,127	3,209
Net fair value (gain)/loss of investment properties	(42,616)	(13,903)
Net (gain)/loss on sale of investment properties	(153)	(26)
Change in operating assets and liabilities		
(Increase)/decrease in receivables	873	(1,027)
(Increase)/decrease in other current assets	65	(316)
(Increase)/decrease in other non-current assets	(1,104)	(4,310)
Increase/(decrease) in payables	(1,614)	(3,121)
Increase/(decrease) in current liabilities	680	(963)
Net cash inflow/(outflow) from operating activities	39,267	35,986

Other disclosures (continued)

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:

	2021	2020
	\$	\$
Responsible entity fees paid and payable	943,252	1,043,000
Property management fees paid and payable to DXPS	502,647	489,319
Development management (DM), Project Delivery Group (PDG), capital expenditure and leasing fee paid and payable	237,124	687,753
Responsible entity fees payable at the end of each reporting year (included above)	236,172	277,663
Property management fees payable at the end of each reporting year (included above)	38,924	41,209
DM, PDG, capital expenditure and leasing fees payable at the end of each reporting year (included above)	24,890	75,158

Entities within DXS

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

	2021	2020
	\$	\$
Interest revenue	20,655,000	22,775,000
Interest bearing loans advanced from entities within DXS	48,587,000	140,932,290
Interest bearing loans advanced to entities within DXS	61,267,000	114,616,499

Key management personnel compensation

	2021	2020
	\$'000	\$'000
Compensation		
Short-term employee benefits	10,604	8,279
Post employment benefits	276	384
Security-based payments	4,583	3,675
Total key management personnel compensation	15,463	12,338

Information regarding individual Directors' and Senior Executives' remuneration is provided in the Remuneration Report on pages 78 to 105 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:

	2021 \$'000	2020 \$'000
Total current assets	30,874	28,105
Total assets	1,003,379	963,394
Total current liabilities – payables	28,331	31,805
Total liabilities	28,331	31,805
Equity		
Contributed equity	1,205,049	1,215,765
Retained profits	(230,001)	(284,176)
Total equity	975,048	931,589
Net profit/(loss) for the year	80,009	8,375
Total comprehensive income/(loss) for the year	80,009	8,375

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 2021 (2020: 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:

	2021 \$'000	2020 \$'000
Investment properties	510	458
Total capital commitments	510	458

d) Going concern

The parent entity is a going concern. The Group has unutilised facilities of \$1,025.9 million (2020: \$1,573.4 million) (refer to note 15 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 2021 of \$26.1 million (2020: \$28.5 million). The deficiency is largely driven by the provision for distribution of \$25.8 million due to be paid in August 2021.

Note 15 Subsequent events

On 6 July 2021, Dexus implemented the Simplification from a quadruple stapled trust structure (comprised of DDF, DIT, DOT and DXO) to a dual stapled trust structure. This was achieved by “top-hatting” three of the existing trusts (DDF, DIT and DOT) with a newly established trust, Dexus Property Trust (DPT). Effective from this date, the Simplified Group now comprises a unit in each of DXO and DPT, with DXFM appointed as the Responsible Entity for DPT.



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 any lockdowns or border closures since 30 June 2021, 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 operation 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 10 to 37:



- (i) comply with Australian Accounting Standards, the *Corporations Act 2001* and other mandatory professional reporting requirements; and
- (ii) give a true and fair view of the Trust's financial position as at 30 June 2021 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 2021.

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

16 August 2021



Independent auditor's report

To the stapled security holders of Dexus Industrial Trust

Report on the audit of the Group financial report

Our opinion

In our opinion:

The accompanying Group 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 2021 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 2021
- 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 significant accounting policies and other explanatory information
- 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 & 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

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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
<ul style="list-style-type: none"> For the purpose of our audit we used overall materiality of \$2.0 million, which represents approximately 5% of the Group's adjusted profit before tax (Funds from Operations or FFO). We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the 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 thresholds. 	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> Amongst other relevant topics, we communicated the following key audit matters to the Board Audit Committee: <ul style="list-style-type: none"> Valuation of investment properties These are further described in the <i>Key audit matters</i> 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
<p>Valuation of investment properties (Refer to Note 6)</p> <p>The Group's investment property portfolio as at 30 June 2021 comprises \$330.0 million of industrial properties directly held in Australia (2020: \$301.7 million).</p> <p>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 the capitalisation rate, discount rate, terminal yield, and net market rental. In light of the continued impact and uncertainty surrounding the Coronavirus (COVID-19) pandemic, significant judgement was exercised by the Group in determining the significant assumptions used to determine fair value.</p> <p>The Group engaged external valuers to assist in the determination of the fair value of investment properties. For certain investment properties, the valuers have included a significant valuation uncertainty clause in their reports. 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 higher level of estimation uncertainty in relation to the valuation of investment properties.</p> <p>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 an independent valuation expert at least once every three years. It has been the Group's practice to have such valuations performed every six months.</p> <p>This was considered a key audit matter given:</p> <ul style="list-style-type: none">• The inherently subjective nature of investment property valuations arising from the use of assumptions in the valuation methodology.• The extent of judgement involved in determining the fair value of investment properties in light of the continued impact	<p>To assess the valuation of investment properties we performed the following procedures amongst others:</p> <ul style="list-style-type: none">• We compared the valuation methodology adopted by the Group with commonly accepted valuation approaches used for investment properties in the industry, and with the Group's stated valuation policy.• We obtained a selection of independent property market reports to develop an understanding of prevailing market conditions to assist us with assessing the expected impact on the Group's investment properties.• We assessed the design and tested the operating effectiveness of certain controls supporting the Group's investment property valuation process, including controls relating to the review and approval of valuations adopted.• We agreed the fair values of all properties to the external or internal valuation models.• For a sample of key data inputs to the valuations, we agreed details to supporting documentation. For example, we compared the rental income used in the investment property valuations to relevant lease agreements.• 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. <p>For those properties which met our selection criteria, we performed procedures to assess</p>



and uncertainty surrounding the COVID-19 pandemic.

- The financial significance of the balance.
- The importance of the valuers' clause referring to valuation uncertainty to users' understanding of the Group financial report, where relevant.

the appropriateness of significant assumptions used in the valuations. These procedures included, amongst others:

- Meeting with the Group's Head of Valuations and discussing the specifics of the selected individual properties including, amongst other things, any new leases signed during the year, lease expiries, incentives, capital expenditure and vacancy rates.
 - Comparing significant assumptions such as the capitalisation rate, discount rate and net market rental used in the valuations to market analysis published by industry experts and recent market transactions.
 - Considering the impact of significant valuation uncertainty clauses, specific other uncertainties and adjustments related to COVID-19 included in independent valuers' reports, where applicable.
 - Testing the mathematical accuracy of the valuation calculations.
- As the Group engaged external experts to assist in the determination of the fair value of certain 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 independent valuation firms to develop an understanding of their processes, judgements and observations, as well as any material valuation uncertainty clauses included in their valuation reports and how they dealt with the uncertainties arising from COVID-19 in their valuations.
 - We assessed the reasonableness 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 consolidated 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 2021 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

A handwritten signature in black ink, appearing to read 'M Lunn', written over a horizontal line.

Matthew Lunn
Partner

Sydney
16 August 2021



**Dexus Office Trust
Financial Report
30 June 2021**

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At balance date, 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 2021. 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 ¹	29 April 2009
Tonianne Dwyer, BJuris (Hons), LLB (Hons)	24 August 2011
Mark H Ford, Dip. Tech (Commerce), CA, FAICD	1 November 2016
Warwick Negus, BBus (UTS), MCom (UNSW), SF Fin ²	1 February 2021
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 ³	29 April 2009

1. John C Conde retired from the Board of DXFM, effective 2 September 2020.
2. Warwick Negus was appointed to the Board of DXFM, effective 1 February 2021.
3. Peter B St George retired from the Board of DXFM, effective 30 June 2021.

Company Secretaries

The names and details of the Company Secretaries of DXFM as at 30 June 2021 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 24 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.

Directors' Report (continued)

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, of which one was a special meeting.

	Main meetings held	Main meetings attended	Specific meetings held	Specific meetings attended
W Richard Sheppard	11	11	1	1
Patrick N J Allaway	11	10	1	1
Penny Bingham-Hall	11	11	1	1
John C Conde, AO ¹	2	2	-	-
Tonianne Dwyer	11	11	1	1
Mark H Ford	11	11	1	1
Warwick Negus ²	5	5	1	1
The Hon. Nicola L Roxon	11	11	Recused ³	Recused ³
Darren J Steinberg	11	11	1	1
Peter B St George ⁴	11	11	1	1

1. John C Conde retired from the Board of DXFM, effective 2 September 2020.
2. Warwick Negus was appointed to the Board of DXFM, effective 1 February 2021.
3. Recused from special meeting due to potential conflict.
4. Peter B St George retired from the Board of DXFM, effective 30 June 2021.

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' attendances¹ at Board Committee meetings of which they were a member during the year ended 30 June 2021.

	Board Audit Committee		Board Risk Committee		Board Nomination Committee ³		Board People and Remuneration Committee		Board Environmental, Social and Governance Committee		Joint "Organisational Risk" Session	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended	Held	Attended	Held	Attended
W Richard Sheppard	-	-	-	-	3	3	8	8	-	-	2	2
Patrick N J Allaway ²	4	4	4	3	3	3	-	-	-	-	2	1
Penny Bingham-Hall	-	-	-	-	3	3	8	8	4	4	2	2
John C Conde, AO ³	1	1	-	-	-	-	-	-	-	-	-	-
Tonianne Dwyer	5	5	4	4	3	3	-	-	-	-	2	2
Mark H Ford	5	5	-	-	3	3	-	-	4	4	-	-
Warwick Negus ⁴	-	-	-	-	2	2	-	-	-	-	-	-
The Hon. Nicola L Roxon	-	-	-	-	3	3	8	8	4	4	2	2
Peter B St George ⁵	5	5	4	4	3	2	-	-	-	-	2	2

1. All Non-Executive Directors have a standing invitation to attend any or all Board Committee meetings.
2. Patrick N J Allaway replaced John C Conde as member effective 2 September 2020.
3. John C Conde retired from the Board of DXFM, effective 2 September 2020.
4. Warwick Negus was appointed to the Board of DXFM, effective 1 February 2021, and immediately became a member of the Board Nomination Committee.
5. Peter B St George retired from the Board of DXFM, effective 30 June 2021.

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	100,000
Patrick N J Allaway	20,000
Penny Bingham-Hall	32,773
John C Conde, AO ¹	-
Tonianne Dwyer	22,500
Mark H Ford	10,000
Warwick Negus ²	-
The Hon. Nicola L Roxon ³	21,297
Darren J Steinberg ⁴	990,998
Peter B St George ⁵	30,573

1. John C Conde retired from the Board of DXFM, effective 2 September 2020.
2. Warwick Negus was appointed to the Board of DXFM, effective 1 February 2021.
3. Includes interests held directly and through Non-Executive Director (NED) Plan rights.
4. Includes interests held directly and through performance rights.
5. Peter B St George retired from the Board of DXFM, effective 30 June 2021.

Operating and financial review

The relevant financial information for the Trust for the year ended 30 June 2021 is as follows:

- profit attributable to unitholders was \$427.5 million (2020: \$546.3 million)
- total assets were \$11,833.3 million (2020: \$11,935.7 million)
- net assets were \$7,363.9 million (2020: \$7,389.3 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 28 to 41 of the Dexus Annual Report and forms part of this Directors' Report.

Remuneration Report

The Remuneration Report is set out on pages 78 to 105 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
	Allianz Australia	1 July 2020
	Adobe International Advisory Board	24 March 2021
Penny Bingham-Hall	BlueScope Steel Limited	29 March 2011
	Fortescue Metals Group Ltd	16 November 2016
John C Conde, AO ¹	Whitehaven Coal Limited	3 May 2007
	Cooper Energy Limited	25 February 2013
Tonianne Dwyer	Metcash Limited ²	24 June 2014
	ALS Limited	1 July 2016
	Oz Minerals Limited	21 March 2017
Mark H Ford	Incitec Pivot Limited	20 May 2021
	Kiwi Property Group Limited ³	16 May 2011
Warwick Negus ⁴	Pengana Capital Group Limited (Chairman)	1 June 2017
	Bank of Queensland	22 September 2016
	Washington H. Soul Pattison and Company Ltd	1 November 2014
The Hon. Nicola L Roxon	Lifestyle Communities Limited	1 September 2017
Peter B St George ⁵	First Quantum Minerals Limited ⁶	20 October 2003
Darren J Steinberg	VGI Partners Limited	12 May 2019

1. John C Conde retired from the Board of DXFM, effective 2 September 2020.
2. Tonianne Dwyer retired from the Board of Metcash, effective 28 June 2021.
3. Listed for trading on the New Zealand Stock Exchange.
4. Warwick Negus was appointed to the Board of DXFM, effective 1 February 2021.
5. Peter B St George retired from the Board of DXFM, effective 30 June 2021.
6. Listed for trading on the Toronto Stock Exchange in Canada.

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 2021 was \$11,833.3 million (2020: \$11,935.7 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

On 23 March 2021, Dexus announced plans to simplify the corporate structure (the "Simplification") from a complex quadruple stapled trust structure to a group comprising two stapled trusts. Dexus Security holders voted in favour of the Simplification at an Extraordinary General Meeting on 22 April 2021. The Simplification was implemented on 6 July 2021 following the receipt of certain determinations in respect of stamp duty payable under the Simplification and the Responsible Entity considering that it is in the best interest of Security holders.

The key advantages to the Simplification include an improved ability and flexibility for Dexus to execute on one of its key strategic initiatives to expand and diversify its funds management business, deliver reporting and administrative efficiencies for both Security holders and Dexus and may potentially result in broader eligibility for CGT rollover relief as a result of any merger and acquisition activity that Dexus subsequently engages in.

Apart from the aforementioned, 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 Group, the results of those operations, or the state of the Group's affairs in future financial years.

Matters subsequent to the end of the financial year

On 6 July 2021, Dexus implemented the Simplification from a quadruple stapled trust structure (comprised of DDF, DIT, DOT and DXO) to a dual stapled trust structure. This was achieved by "top-hatting" three of the existing trusts (DDF, DIT and DOT) with a newly established trust, Dexus Property Trust (DPT). Effective from this date, the Simplified Group now comprises a unit in each of DXO and DPT, with DXFM appointed as the Responsible Entity of DPT.

On 3 August 2021, settlement occurred for the disposal of 60 Miller Street, North Sydney for \$273.0 million excluding transaction costs.

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 any lockdowns or border closures since 31 June 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 operation of the Trust, the results of those operations, or state of the Trust's affairs in future financial period.

Distributions

Distributions paid or payable by the Trust for the year ended 30 June 2021 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 2021 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 2021 are detailed in note 12 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 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 9 and forms part of this Directors' Report.

Corporate governance

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

Rounding of amounts and currency

As the Trust is an entity of the kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, the Directors have chosen to round amounts in this Directors' Report and the accompanying Financial Report to the nearest tenth of a million dollars, unless otherwise indicated. The Trust is an entity to which the Instrument applies. All figures in this Directors' Report and the 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 16 August 2021.



W Richard Sheppard
Chair
16 August 2021

Darren J Steinberg
Chief Executive Officer
16 August 2021



Auditor's Independence Declaration

As lead auditor for the audit of Dexus Office Trust for the year ended 30 June 2021, 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.

A handwritten signature in black ink, appearing to read 'Matthew Lunn', with a horizontal line underneath.

Matthew Lunn
Partner
PricewaterhouseCoopers

Sydney
16 August 2021

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

Liability limited by a scheme approved under Professional Standards Legislation.

Consolidated Statement of Comprehensive Income

For the year ended 30 June 2021



	Note	2021 \$m	2020 \$m
Revenue from ordinary activities			
Property revenue	2	290.5	302.0
Interest revenue		-	0.1
Total revenue from ordinary activities		290.5	302.1
Net fair value gain of investment properties		102.1	242.9
Share of net profit of investments accounted for using the equity method	7	277.1	410.5
Net gain on sale of investment properties		0.1	-
Fair value gain of derivatives		17.7	-
Other income		-	2.0
Total income		687.5	957.5
Expenses			
Property expenses	2	(84.7)	(86.9)
Management fee expense		(11.1)	(12.2)
Finance costs	3	(162.6)	(156.3)
Fair value loss of derivatives		-	(153.9)
Net loss on sale of investment properties		-	(0.4)
Transaction costs		-	(0.1)
Management operations, corporate and administration expenses		(1.6)	(1.4)
Total expenses		(260.0)	(411.2)
Income tax expense		-	-
Profit/(loss) for the year		427.5	546.3
		Cents	Cents
Earnings per unit on profit/(loss) attributable to unitholders of the Trust			
Basic earnings per unit	4	39.42	49.89
Diluted earnings per unit	4	40.85	49.76

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 2021



	Note	2021 \$m	2020 \$m
Current assets			
Cash and cash equivalents	13(a)	17.9	17.2
Receivables	13(b)	43.0	37.9
Non-current assets classified as held for sale	8	272.8	530.0
Other	13(c)	8.9	6.9
Total current assets		342.6	592.0
Non-current assets			
Investment properties	6	4,932.0	5,080.3
Investments accounted for using the equity method	7	6,554.0	6,260.5
Derivative financial instruments	9(c)	4.6	1.3
Other		0.1	1.6
Total non-current assets		11,490.7	11,343.7
Total assets		11,833.3	11,935.7
Current liabilities			
Payables	13(d)	84.0	86.2
Lease liabilities	10	0.4	0.5
Derivative financial instruments	9(c)	4.4	13.4
Provisions	13(e)	60.3	111.3
Total current liabilities		149.1	211.4
Non-current liabilities			
Loans with related parties		4,272.4	4,281.9
Lease liabilities	10	3.7	4.0
Derivative financial instruments	9(c)	44.2	49.1
Total non-current liabilities		4,320.3	4,335.0
Total liabilities		4,469.4	4,546.4
Net assets		7,363.9	7,389.3
Equity			
Contributed equity	12	3,501.6	3,582.3
Retained profits		3,862.3	3,807.0
Total equity		7,363.9	7,389.3

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 2021



	Note	Contributed equity \$m	Retained profits/ (losses) \$m	Total equity \$m
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
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
Opening balance as at 1 July 2020		3,582.3	3,807.0	7,389.3
Profit/(loss) for the year		-	427.5	427.5
Other comprehensive income/(loss) for the year		-	-	-
Total comprehensive income for the year		-	427.5	427.5
Transactions with owners in their capacity as unitholders:				
Buy-back of contributed equity, net of transaction costs	12	(80.7)	-	(80.7)
Distributions paid or provided for	5	-	(372.2)	(372.2)
Total transactions with owners in their capacity as unitholders		(80.7)	(372.2)	(452.9)
Closing balance as at 30 June 2021		3,501.6	3,862.3	7,363.9

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 2021



	Note	2021 \$m	2020 \$m
Cash flows from operating activities			
Receipts in the course of operations (inclusive of GST)		346.8	362.7
Payments in the course of operations (inclusive of GST)		(129.9)	(135.2)
Interest received		-	0.1
Finance costs paid		(155.3)	(155.1)
Distributions received from investments accounted for using the equity method		411.4	259.6
Net cash inflow/(outflow) from operating activities	15	473.0	332.1
Cash flows from investing activities			
Proceeds from sale of investment properties		521.9	71.5
Payments for capital expenditure on investment properties		(43.7)	(127.9)
(Payment for)/proceeds from termination and restructure of derivatives		-	(124.3)
Payments for investments accounted for using the equity method		(434.1)	(261.7)
Payments for acquisition of investment properties		-	(100.7)
Net cash inflow/(outflow) from investing activities		44.1	(543.1)
Cash flows from financing activities			
Borrowings provided to related parties		(1,178.8)	(784.1)
Borrowings received from related parties		1,168.4	1,302.2
Payments for termination and restructure of derivatives		-	(30.8)
Payments of lease liabilities		(0.4)	(0.5)
Payments for buy-back of contributed equity		(80.7)	(38.5)
Distributions paid to unitholders		(424.9)	(233.5)
Net cash inflow/(outflow) from financing activities		(516.4)	214.8
Net increase/(decrease) in cash and cash equivalents		0.7	3.8
Cash and cash equivalents at the beginning of the year		17.2	13.4
Cash and cash equivalents at the end of the year		17.9	17.2

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.

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. Where required, comparative information has been restated for consistency with the current year's presentation.

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 preparation of the Consolidated Financial Statements requires the use of certain critical accounting estimates and management to exercise its judgement in the process of applying the Trust's accounting policies.

The economic impacts resulting from the government imposed lockdowns in 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).

The COVID-19 pandemic continued to create unprecedented challenges through unanticipated government imposed lockdowns that varied in their level of impact across Australian cities. Despite this disruption, Australia's economic activity in the year ended 30 June 2021 has been resilient supported by government stimulus and historically low interest rates, with growing employment numbers, increasing house prices and strong business and consumer confidence.

During the period, Dexus leased 184,029 square metres of office space, in addition to 11,068 square metres of space across office developments which highlights the demand for quality workspace in well located CBD assets. Dexus office portfolio occupancy reduced to 95.2% (FY20: 96.5%).

Retail tenants located at the base of Dexus's office buildings continue to be impacted with lower foot traffic and sales as a result of government imposed lockdowns, and Dexus continues to work with small business tenants impacted by lockdowns on rent relief measures.

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 17
Note 6	Investment properties	Page 21
Note 9	Capital and financial risk management	Page 29
Note 13	Working capital	Page 35

Principles of consolidation

These Consolidated Financial Statements incorporate the assets, liabilities and results of all subsidiaries as at 30 June 2021.



(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 2021, 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. 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 Dexu 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.

	2021	2020
	\$m	\$m
Rent and recoverable outgoings	279.0	280.5
Services revenue	36.6	37.9
Incentive amortisation	(53.8)	(52.4)
Other revenue	28.7	36.0
Total property revenue	290.5	302.0

Impact of COVID-19 on Property revenue

The rent relief measures outlined in the Australian Government National Code of Conduct (Code of Conduct) concluded during the period as follows:

- NSW – extension until 31 December 2020 from the initial expiry date of 24 October 2020¹
- VIC – extension until 28 March 2021 from the initial expiry date of 29 September 2020
- WA – extension until 28 March 2021 from the initial expiry date of 29 September 2020
- QLD – extension until 31 December 2020 from the initial expiry date of 30 September 2020

1. For retail tenants that had a turnover of less than \$5.0 million in the 2018/2019 year, there was an extension to 28 March 2021.

Dexu continues to work with impacted tenants to finalise rent relief packages in accordance with the Code of Conduct.

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

Note 2 Property revenue and expense (continued)



Impact of COVID-19 on Property revenue (continued)

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 2021, 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 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 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.

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 13 *Working capital*.

Property expenses

Property expenses 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.

	2021 \$m	2020 \$m
Recoverable outgoings and direct recoveries	(70.3)	(73.2)
Other non recoverable property expenses	(14.4)	(13.7)
Total property expenses	(84.7)	(86.9)

Trust performance (continued)

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 realised 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.

	2021	2020
	\$m	\$m
Interest paid to related parties	135.1	141.8
Amount capitalised	-	(1.1)
Realised (gain)/loss of interest rate derivatives	22.3	10.8
Finance costs - leases	0.2	0.2
Other finance costs	5.0	4.6
Total finance costs	162.6	156.3

The average capitalisation rate used to determine the amount of finance costs eligible for capitalisation is 3.25% (2020: 4.00%).

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

	2021	2020
	\$m	\$m
Profit attributable to unitholders of the Trust for basic earnings per security	427.5	546.3
Effect on exchange of Exchangeable Notes	27.1	12.7
Profit attributable to unitholders of the Trust for diluted earnings per security	454.6	559.0

b) Weighted average number of units used as a denominator

	2021	2020
	No. of units	No. of units
Weighted average number of units outstanding used in calculation of basic earnings per unit	1,084,536,777	1,095,096,969
Effect on exchange of Exchangeable Notes	28,333,333	28,333,333
Weighted average number of units outstanding used in calculation of diluted earnings per unit	1,112,870,110	1,123,430,302

Note 5 Distributions paid and payable

Distributions are recognised when declared.



a) Distribution to unitholders

	2021	2020
	\$m	\$m
31 December (paid 26 February 2021)	313.6	161.5
30 June (payable 30 August 2021)	58.6	111.3
Total distribution to unitholders	372.2	272.8

b) Distribution rate

	2021	2020
	Cents per unit	Cents per unit
31 December (paid 28 February 2021)	28.74	14.72
30 June (payable 30 August 2021)	5.45	10.20
Total distributions	34.19	24.92

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	2021 \$m	2020 \$m
Opening balance at the beginning of the year		5,080.3	5,221.7
Additions		40.4	119.8
Acquisitions		-	100.7
Lease incentives		27.4	41.4
Amortisation of lease incentives		(56.7)	(58.5)
Rent straightlining		3.0	8.9
Disposals		-	(71.5)
Transfer to non-current assets classified as held for sale	8	(272.8)	(530.0)
Net fair value gain/(loss) of investment properties ¹		110.4	242.9
Ground leases of investment properties ²		-	4.9
Closing balance at the end of the year		4,932.0	5,080.3

1. Excludes the fair value loss recognised on the sale of 45 Clarence Street, Sydney, NSW. At 30 June 2020 this asset was recognised as a part of Non-current assets classified as held for sale.
2. The Trust has applied AASB 16 Leases from 1 July 2019. The leased asset includes ground leases at Waterfront Place, 1 Eagle Street Brisbane QLD. 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.

Property portfolio assets (continued)

Note 6 Investment properties (continued)

a) Reconciliation (continued)

Leased assets

The Trust holds leasehold interests in a number of properties. Leasehold land that meets the definition of investment property under AASB 140 *Investment Property* is measured at fair value and presented within Investment property. The leased asset is measured initially at an amount equal to the corresponding lease liability. Subsequent to initial recognition, the leased asset is recognised at fair value in the Consolidated Statement of Financial Position. Refer to note 10 for details of the *Lease liabilities*.

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 2021, 32 out of 37 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	
			2021	2020
Office ¹	Level 3	Adopted capitalisation rate	4.00% - 6.25%	4.00% - 6.25%
		Adopted discount rate	5.50% - 6.75%	5.75% - 7.50%
		Adopted terminal yield	4.25% - 6.50%	4.25% - 6.63%
		Current net market rental (per sqm)	\$223 - \$1,530	\$228 - \$1,452
Leased asset	Level 3	Adopted discount rate	3.50%	3.50%
		Current net market rental (per sqm)	\$100 - \$161	\$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 continuing 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 2021. 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 to reflect current market uncertainty;
- 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) or where operating hours have been impacted; and
- Capitalisation and discount rates have generally remained relatively stable for office assets.

Some independent valuations obtained by the Trust also include significant valuation uncertainty clauses due to the unknown impact ongoing lockdowns and limited interstate travel may have on the investment property assets in the various markets. Noting the uncertainty, the Trust considers that the assumptions used in the valuations are materially appropriate for the purposes of determining fair value of investment properties at 30 June 2021.

Property portfolio assets (continued)

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:

	2021	2020
	\$m	\$m
A decrease of 25 basis points in the adopted capitalisation rate	622.1	631.0
An increase of 25 basis points in the adopted capitalisation rate	(561.4)	(568.7)
A decrease of 25 basis points in the adopted discount rate	492.3	484.4
An increase of 25 basis points in the adopted discount rate	(453.5)	(446.8)
A decrease of 5% in the net market rental (per sqm)	(575.3)	(575.5)
An increase of 5% in the net market rental (per sqm)	575.3	575.5

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.

Name of entity	Ownership interest		2021 \$m	2020 \$m
	2021 %	2020 %		
Dexus Office Trust Australia (DOTA)	50.0	50.0	2,573.1	2,696.4
Dexus Martin Place Trust	50.0	50.0	986.7	926.5
Dexus 80C Trust	75.0	75.0	1,154.5	830.2
Grosvenor Place Holding Trust ^{1,2}	50.0	50.0	454.6	483.2
Dexus 480 Q Holding Trust	50.0	50.0	385.7	390.1
Bent Street Trust	33.3	33.3	375.6	358.8
Dexus Kings Square Trust	50.0	50.0	251.4	234.5
Dexus Creek Street Trust	50.0	50.0	205.7	199.5
Site 7 Homebush Bay Trust ¹	50.0	50.0	87.4	62.2
Site 6 Homebush Bay Trust ¹	50.0	50.0	43.8	46.1
Dexus Eagle Street Pier Trust	50.0	50.0	35.5	33.0
Total assets - investments accounted for using the equity method³			6,554.0	6,260.5

- 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%. On 18 November 2020, contracts were conditionally exchanged to sell interests in Grosvenor Place.
- 3 The Trust's share of investment properties and assets held for sale in the investments accounted for using the equity method was \$6,574.5 million (2020: \$6,435.3 million). These investments are accounted for using the equity method as a result of contractual arrangements requiring unanimous decisions on all relevant matters.

b) 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. During the year, there were nil impairment losses recorded in relation to investments accounted for under the equity method (2020: nil).

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.

Property portfolio assets (continued)

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	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Summarised Statement of Financial Position										
Current assets										
Cash and cash equivalents	47.2	55.0	4.5	10.6	5.4	9.0	1.3	0.8	5.6	4.0
Other current assets	20.0	82.3	5.2	10.7	48.2	18.5	927.5	3.2	3.0	1.3
Total current assets	67.2	137.3	9.7	21.3	53.6	27.5	928.8	4.0	8.6	5.3
Non-current assets										
Investment properties	4,559.8	4,729.6	1,920.5	1,861.8	1,566.5	1,352.5	-	975.0	775.5	780.0
Investments accounted for using the equity method	585.7	591.6	-	-	-	-	-	-	-	-
Other non-current assets	48.4	48.6	76.0	0.5	-	-	-	-	0.3	0.2
Total non-current assets	5,193.9	5,369.8	1,996.5	1,862.3	1,566.5	1,352.5	-	975.0	775.8	780.2
Current liabilities										
Provision for distribution	33.1	30.2	6.7	2.4	2.8	4.0	16.1	5.9	4.5	0.8
Borrowings	0.1	0.1	-	-	-	234.0	-	-	-	-
Other current liabilities	59.1	61.4	26.1	28.2	78.0	35.1	3.5	6.7	8.6	4.6
Total current liabilities	92.3	91.7	32.8	30.6	80.8	273.1	19.6	12.6	13.1	5.4
Non-current liabilities										
Borrowings	22.6	22.6	-	-	-	-	-	-	-	-
Other non-current liabilities	-	-	-	-	-	-	-	-	-	-
Total non-current liabilities	22.6	22.6	-	-	-	-	-	-	-	-
Net assets	5,146.2	5,392.8	1,973.4	1,853.0	1,539.3	1,106.9	909.2	966.4	771.3	780.1
Reconciliation to carrying amounts:										
Opening balance at the beginning 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
Additions	64.2	387.6	116.1	80.4	436.0	-	-	-	-	5.1
Profit for the year	235.8	389.0	50.4	173.4	52.8	(6.3)	(15.7)	72.5	31.4	42.2
Distributions received/receivable	(546.6)	(220.6)	(46.1)	(54.5)	(56.4)	(51.4)	(41.5)	(45.5)	(40.2)	(40.2)
Closing balance at the end of the year	5,146.2	5,392.8	1,973.4	1,853.0	1,539.3	1,106.9	909.2	966.4	771.3	780.1
Groups Share in \$	2,573.1	2,696.4	986.7	926.5	1,154.5	830.2	454.6	483.2	385.7	390.1
Summarised Statement of Comprehensive Income										
Property revenue	278.3	297.7	82.2	91.5	46.6	28.1	46.3	51.5	49.9	52.5
Property revaluations	50.3	155.6	(3.8)	115.2	29.5	(19.5)	(48.8)	34.5	1.9	9.0
Gain on sale of investment properties	-	-	11.4	-	-	-	-	-	-	-
Interest income	-	0.3	-	0.1	0.1	0.4	-	-	-	-
Share of net profit of investments accounted for using the equity method	16.4	46.2	-	-	-	-	-	-	-	-
Other income	0.7	0.4	0.1	1.0	(0.1)	-	-	-	-	0.1
Property expenses	(92.4)	(90.0)	(28.9)	(24.6)	(14.9)	(7.9)	(13.2)	(13.4)	(16.0)	(15.1)
Finance costs	(1.5)	(5.2)	-	-	-	-	-	-	-	-
Other expenses	(16.0)	(16.0)	(10.6)	(9.8)	(8.4)	(7.4)	-	(0.1)	(4.4)	(4.3)
Net profit/(loss) for the year	235.8	389.0	50.4	173.4	52.8	(6.3)	(15.7)	72.5	31.4	42.2
Total comprehensive income/(loss) for the year	235.8	389.0	50.4	173.4	52.8	(6.3)	(15.7)	72.5	31.4	42.2

Property portfolio assets (continued)

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	
	2021 \$m	2020 \$m	2021 \$m	2020 \$m	2021 \$m	2020 \$m	2021 \$m	2020 \$m	2021 \$m	2020 \$m
Summarised Statement of Financial Position										
Current assets										
Cash and cash equivalents	3.8	3.7	3.5	4.3	3.0	2.2	10.6	3.7	84.9	93.3
Other current assets	2.1	2.0	0.7	0.1	2.0	1.2	2.3	0.2	1,011.0	119.5
Total current assets	5.9	5.7	4.2	4.4	5.0	3.4	12.9	3.9	1,095.9	212.8
Non-current assets										
Investment properties	1,130.0	1,100.0	507.5	477.0	418.0	400.0	342.8	289.3	11,220.6	11,965.2
Investments accounted for using the equity method	-	-	-	-	-	-	-	-	585.7	591.6
Other non-current assets	-	-	-	-	0.2	0.2	-	-	124.9	49.5
Total non-current assets	1,130.0	1,100.0	507.5	477.0	418.2	400.2	342.8	289.3	11,931.2	12,606.3
Current liabilities										
Provision for distribution	4.6	20.2	3.6	4.7	4.7	0.6	1.4	0.6	77.5	69.4
Borrowings	-	-	-	-	-	-	0.5	0.6	0.6	234.7
Other current liabilities	4.5	9.2	5.4	7.7	7.1	4.1	16.4	4.8	208.7	161.8
Total current liabilities	9.1	29.4	9.0	12.4	11.8	4.7	18.3	6.0	286.8	465.9
Non-current liabilities										
Borrowings	-	-	-	-	-	-	-	-	22.6	22.6
Other non-current liabilities	-	-	-	-	-	-	4.3	4.7	4.3	4.7
Total non-current liabilities	-	-	-	-	-	-	4.3	4.7	26.9	27.3
Net assets	1,126.8	1,076.3	502.7	469.0	411.4	398.9	333.1	282.5	12,713.4	12,325.9
Reconciliation to carrying amounts:										
Opening balance at the beginning 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
Additions	20.2	-	-	0.8	6.1	31.1	27.8	17.8	670.4	522.8
Profit for the year	89.4	83.5	60.8	51.7	21.0	29.6	31.9	16.2	557.8	851.8
Distributions received/receivable	(59.1)	(56.8)	(27.1)	(25.3)	(14.6)	(15.4)	(9.1)	(8.1)	(840.7)	(517.8)
Closing balance at the end of the year	1,126.8	1,076.3	502.7	469.0	411.4	398.9	333.1	282.5	12,713.4	12,325.9
Groups Share in \$	375.6	358.8	251.4	234.5	205.7	199.5	166.7	141.3	6,554.0	6,260.5
Summarised Statement of Comprehensive Income										
Property revenue	56.6	54.8	36.4	36.0	22.4	21.9	20.1	18.6	638.8	652.6
Property revaluations	47.4	41.9	38.3	29.4	9.1	17.2	24.1	9.8	148.0	393.1
Gain on sale of investment properties	-	-	-	-	-	-	-	-	11.4	-
Interest income	-	-	-	-	-	-	-	-	0.1	0.8
Share of net profit of investments accounted for using the equity method	-	-	-	-	-	-	-	-	16.4	46.2
Other income	-	0.1	-	-	0.1	-	-	-	0.8	1.6
Property expenses	(14.6)	(13.3)	(11.2)	(11.1)	(8.3)	(7.3)	(11.2)	(11.0)	(210.7)	(193.7)
Finance costs	-	-	-	-	-	-	(0.2)	(0.2)	(1.7)	(5.4)
Other expenses	-	-	(2.7)	(2.6)	(2.3)	(2.2)	(0.9)	(1.0)	(45.3)	(43.4)
Net profit/(loss) for the year	89.4	83.5	60.8	51.7	21.0	29.6	31.9	16.2	557.8	851.8

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.

As at 30 June 2021, the balance relates to 60 Miller Street, North Sydney, NSW.

As at 30 June 2020, the balance related to 45 Clarence Street, Sydney, NSW.



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 Dexu'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 is the Responsible Entity for the managed investment schemes (DDF and DXS) 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 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 2022	June 2023	June 2024	June 2025	June 2026
	\$m	\$m	\$m	\$m	\$m
Interest rate derivatives					
A\$ hedged	1,487.5	1,458.3	1,914.6	1,650.0	235.4
Hedge rate (%)	1.53%	1.51%	1.54%	1.57%	1.80%

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.

	2021 (+/-) \$m	2020 (+/-) \$m
+/- 0.50% (50 basis points)	12.2	15.7
Total A\$ equivalent	12.2	15.7

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

Sensitivity analysis on fair value of interest rate derivatives

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

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

	2021 (+/-) \$m	2020 (+/-) \$m
+/- 0.50% (50 basis points)	28.9	22.8
Total A\$ equivalent	28.9	22.8

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.

	2021				2020			
	Within one year	Between one and two years	Between two and five years	After five years	Within one year	Between one and two years	Between two and five years	After five years
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Payables	(84.0)	-	-	-	(86.2)	-	-	-
Lease liabilities	(0.5)	(0.5)	(1.6)	(2.0)	(0.5)	(0.5)	(1.6)	(2.6)
Total payables and lease liabilities	(84.5)	(0.5)	(1.6)	(2.0)	(86.7)	(0.5)	(1.6)	(2.6)
Loans with related parties and interest	(103.7)	(103.3)	(355.9)	(4,579.9)	(129.9)	(123.4)	(421.0)	(4,665.4)
Total interest bearing liabilities & interest¹	(103.7)	(103.3)	(355.9)	(4,579.9)	(129.9)	(123.4)	(421.0)	(4,665.4)
Derivative financial liabilities								
Cash receipts	0.7	2.3	31.0	-	-	-	1.4	0.1
Cash payments	(8.7)	(2.3)	-	-	(18.5)	(4.8)	(0.6)	-
Total net derivative financial instruments²	(8.0)	-	31.0	-	(18.5)	(4.8)	0.8	0.1

1. Includes estimated interest and fees.

2. For interest rate swaps and options, only the net interest cash flows (not the notional principal) are included. Refer to note 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 2021 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 determined that no significant concentrations of credit risk exists for trade receivables balances. The maximum exposure to credit risk at 30 June 2021 is the carrying amounts of the trade receivables recognised on the Consolidated Statement of Financial Position.

iv) Fair value

As at 30 June 2021, 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

	Note	2021 \$m	2020 \$m
Current			
Lease liabilities - ground leases	(a)	0.4	0.5
Total current liabilities - lease liabilities		0.4	0.5
Non-current			
Lease liabilities - ground leases	(a)	3.7	4.0
Total non-current liabilities - lease liabilities		3.7	4.0
Total liabilities - lease liabilities		4.1	4.5

a) *Lease liabilities – ground leases*

The lease liabilities is the ground lease at Waterfront Place, 1 Eagle Street, Brisbane QLD. 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 capital expenditure on investment properties as well as committed fit-out or cash incentives contracted at the end of each reporting period but not recognised as liabilities payable:

	2021 \$m	2020 \$m
Investment properties	67.3	78.2
Investments accounted for using the equity method	59.2	169.0
Total capital commitments	126.5	247.2

Lease receivable commitments

The future minimum lease payments receivable by the Trust are:

	2021 \$m	2020 \$m
Within one year	265.1	281.8
Later than one year but not later than five years	802.8	846.2
Later than five years	291.0	330.8
Total lease receivable commitments	1,358.9	1,458.8

Note 11 Commitments and contingencies (continued)

b) Contingencies

The Trust, together with DDF, DIT and DXO, is a guarantor of A\$5,918.1 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 unitholders 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

	2021 No. of units	2020 No. of units
Opening balance at the beginning of the year	1,091,202,163	1,096,857,665
Buy-back of contributed equity	(15,636,917)	(5,655,502)
Closing balance at the end of the year	1,075,565,246	1,091,202,163

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.

On 13 October 2020, Dexus announced an extension of the buy-back for a period of 12 months commencing on 23 October 2020.

During the 12 months to 30 June 2021, Dexus acquired and cancelled 15,636,917 securities representing 1.5% 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 and pay their fees outstanding.

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

	2021	2020
	\$m	\$m
Rent receivable ¹	10.3	8.3
Provision for expected credit loss	(7.8)	(4.3)
Accrued property income	0.9	0.2
Total rental receivables	3.4	4.2
Distributions receivable	39.3	33.0
Other receivables	0.3	0.7
Total other receivables	39.6	33.7
Total receivables	43.0	37.9

1. Rent receivable includes outgoing recoveries.

The provision for expected credit losses for rent receivables (which includes outgoing recoveries) as at 30 June 2021 was determined as follows:

	2021	2020
	\$m	\$m
0-30 days ¹	3.6	1.3
31-60 days	0.1	1.5
61-90 days	0.2	1.1
91+ days	3.9	0.4
Total provision for expected credit losses	7.8	4.3

1. 0-30 days includes deferred rent receivable but not due.

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

Capital and financial risk management and working capital (continued)

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	
	2021	2020
	\$m	\$m
Opening provision for expected credit losses	4.3	-
Increase in provision recognised in profit or loss during the year	3.5	4.3
Closing provision for expected credit losses	7.8	4.3

c) Other current assets

	2021	2020
	\$m	\$m
Prepayments	7.2	6.9
Other	1.7	-
Total other current assets	8.9	6.9

d) Payables

	2021	2020
	\$m	\$m
Trade creditors	14.1	20.2
Accruals	2.9	1.9
Accrued capital expenditure	24.8	28.2
Prepaid income	11.6	11.1
Accrued interest	30.6	24.8
Total payables	84.0	86.2

e) 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.

	2021	2020
	\$m	\$m
Provision for distribution	58.6	111.3
Provision for land tax	1.7	-
Total current provisions	60.3	111.3

Movements in the provision for distribution during the financial year are set out below:

	2021	2020
	\$m	\$m
Provision for distribution		
Opening balance at the beginning of the year	111.3	72.0
Additional provisions	372.2	272.8
Payment of distributions	(424.9)	(233.5)
Closing balance at the end of the year	58.6	111.3

A provision for distribution has been raised for the period ended 30 June 2021. This distribution is to be paid on 30 August 2021.

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:

	2021 \$'000	2020 \$'000
Audit and review services		
Auditors of the Trust - PwC		
Financial statement audit and review services	422	300
Audit and review fees paid to PwC	422	300
Assurance services		
Auditors of the Trust - PwC		
Outgoings audits	90	87
Regulatory audit and compliance assurance services	5	5
Sustainability assurance services	85	-
Other assurance services	48	-
Assurance fees paid to PwC	228	92
Total audit, review and assurance fees paid to PwC	650	392
Other services		
Auditors of the Trust - PwC		
Transaction services fees	61	-
Other service fees paid to PwC	61	-
Total audit, review and assurance and other service fees paid to PwC	711	392

Note 15 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:

	2021 \$m	2020 \$m
Net profit/(loss) for the year	427.5	546.3
Capitalised interest	-	(1.1)
Amortisation of incentives and straight lining income	53.7	49.6
Net fair value (gain)/loss of investment properties	(102.1)	(242.9)
Share of net (profit)/loss of investments accounted for using the equity method	(277.1)	(410.5)
Net fair value (gain)/loss of derivatives	(17.7)	153.9
Amortisation of deferred borrowing costs	1.0	0.8
Net (gain)/loss on sale of investment properties	(0.1)	0.4
Distributions from investments accounted for using the equity method	411.4	259.6
Change in operating assets and liabilities		
(Increase)/decrease in receivables	(4.1)	0.5
(Increase)/decrease in prepayments and other current assets	(0.1)	1.7
(Increase)/decrease in other non-current assets	1.5	(3.5)
Increase/(decrease) in payables	6.2	(5.1)
Increase/(decrease) in other current liabilities	(9.0)	8.3
Increase/(decrease) in other non-current liabilities	(18.1)	(25.9)
Net cash inflow/(outflow) from operating activities	473.0	332.1

Other disclosures (continued)

Note 15 Cash flow information (continued)

b) Net debt reconciliation

	2021 Loans with related parties \$m	2020 Loans with related parties \$m
Opening balance	4,281.9	3,752.4
Changes from financing cash flows		
Proceeds from loan with related party	1,168.4	1,302.2
Repayment of loan with related party	(1,178.8)	(784.1)
Non cash changes		
Changes in fair value and other	0.9	11.4
Closing balance	4,272.4	4,281.9

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:

	2021 \$'000	2020 \$'000
Responsible entity fees paid and payable	11,070	12,244
Property management fees paid and payable to DXPS	7,059	7,255
Development management (DM), Project Delivery (PDG), capital expenditure and leasing fee expense	5,550	6,552
Responsible entity fees payable at the end of each reporting year (included above)	871	1,022
Property management fees payable at the end of each reporting year (included above)	580	633
DM, PDG, capital expenditure and leasing fees payable at the end of each reporting year (included above)	337	972
Rent received	4,024	4,379

Other disclosures (continued)

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:

	2021	2020
	\$'000	\$'000
Interest expense	135,074	141,798
Interest bearing loans advanced from entities within DXS	1,168,400	1,302,200
Interest bearing loans advanced to entities within DXS	1,178,800	916,600

Key management personnel compensation

	2021	2020
	\$'000	\$'000
Compensation		
Short-term employee benefits	10,604	8,279
Post employment benefits	276	384
Security-based payments	4,583	3,675
Total key management personnel compensation	15,463	12,338

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:

	2021	2020
	\$m	\$m
Total current assets	2,045.1	2,266.1
Total assets	11,724.7	11,800.6
Total current liabilities	161.4	211.2
Total liabilities	4,481.8	4,546.2
Equity		
Contributed equity	3,501.6	3,582.3
Retained profits	3,741.3	3,672.1
Total equity	7,242.9	7,254.4
Net profit/(loss) for the year	441.4	510.9
Total comprehensive income/(loss) for the year	441.4	510.9

Other disclosures (continued)

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 2021 (2020: 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:

	2021	2020
	\$m	\$m
Investment properties	62.1	71.4
Total capital commitments	62.1	71.4

Note 18 Subsequent events

On 6 July 2021, Dexus implemented the Simplification from a quadruple stapled trust structure (comprised of DDF, DIT, DOT and DXO) to a dual stapled trust structure. This was achieved by “top-hatting” three of the existing trusts (DDF, DIT and DOT) with a newly established trust, Dexus Property Trust (DPT). Effective from this date, the Simplified Group now comprises a unit in each of DXO and DPT, with DXFM appointed as the Responsible Entity of DPT.

On 4 August 2021, settlement occurred for the disposal of 60 Miller Street, North Sydney for \$273.0 million excluding transaction costs.

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 any lockdowns or border closures since 31 June 2021, 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 operation 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 10 to 41:



- (i) comply with Australian Accounting Standards, the *Corporations Act 2001* and other mandatory professional reporting requirements; and
- (ii) give a true and fair view of the Trust's financial position as at 30 June 2021 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 2021.

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

16 August 2021



Independent auditor's report

To the stapled security holders of Dexus Office Trust

Report on the audit of the Group financial report

Our opinion

In our opinion:

The accompanying Group 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 2021 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 2021
- 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 significant accounting policies and other explanatory information
- 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 & 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

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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
<ul style="list-style-type: none"> For the purpose of our audit we used overall materiality of \$18.8 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 thresholds. 	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> Amongst other relevant topics, we communicated the following key audit matters to the Board Audit Committee: <ul style="list-style-type: none"> Valuation of investment properties, including those investment properties in investments accounted for using the equity method Expected Credit Losses (ECL) associated with rental receivables related to property revenue These are further described in the <i>Key audit matters</i> 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
<p>Valuation of investment properties (Refer to Note 6 and 7)</p> <p>The Group's investment property portfolio comprises:</p> <ul style="list-style-type: none">• Directly held properties included in the Consolidated Statement of Financial Position as Investment Properties valued at \$4,932.0 million as at 30 June 2021 (2020: \$5,080.3 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 \$6,574.5 million as at 30 June 2021 (2020: \$6,435.3 million) <p>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 the capitalisation rate, discount rate, terminal yield, and net market rental.</p> <p>In light of the continued impact and uncertainty surrounding the Coronavirus (COVID-19) pandemic, significant judgement was exercised by the Group in determining the significant assumptions used to determine fair value.</p> <p>The Group engaged external valuers to assist in the determination of the fair value of investment properties. For certain investment properties, the valuers have included a significant valuation uncertainty clause in their reports. 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 higher level of estimation uncertainty in relation to the valuation of investment properties.</p> <p>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 an independent valuation expert at least once every three</p>	<p>To assess the valuation of investment properties we performed the following procedures amongst others:</p> <ul style="list-style-type: none">• We compared the valuation methodology adopted by the Group with commonly accepted valuation approaches used for investment properties in the industry, and with the Group's stated valuation policy.• We obtained a selection of independent property market reports to develop an understanding of prevailing market conditions to assist us with assessing the expected impact on the Group's investment properties.• We assessed the design and tested the operating effectiveness of certain controls supporting the Group's investment property valuation process, including controls relating to the review and approval of valuations adopted.• We agreed the fair values of all properties to the external or internal valuation models.• For a sample of key data inputs to the valuations, we agreed details to supporting documentation. For example, we compared the rental income used in the investment property valuations to relevant lease agreements.• 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. <p>For those properties which met our selection criteria, we performed procedures to assess</p>



years. It has been the Group's practice to have such valuations performed every six months.

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 judgement involved in determining the fair value of investment properties in light of the continued impact and uncertainty surrounding the COVID-19 pandemic.
- The financial significance of the balance.
- The importance of the valuers' clause referring to valuation uncertainty to users' understanding of the Group financial report, where relevant.

the appropriateness of significant assumptions used in the valuations. These procedures included, amongst others:

- Meeting with the Group's Head of Valuations and discussing the specifics of the selected individual properties including, amongst other things, any new leases signed during the year, lease expiries, incentives, capital expenditure and vacancy rates.
 - Comparing significant assumptions such as the capitalisation rate, discount rate and net market rental used in the valuations to market analysis published by industry experts and recent market transactions.
 - Considering the impact of significant valuation uncertainty clauses, specific other uncertainties and adjustments related to COVID-19 included in independent valuers' reports, where applicable.
 - Testing the mathematical accuracy of the valuation calculations.
- As the Group engaged external experts to assist in the determination of the fair value of certain 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 independent valuation firms to develop an understanding of their processes, judgements and observations, as well as any material valuation uncertainty clauses included in their valuation reports and how they dealt with the uncertainties arising from COVID-19 in their valuations.
 - We assessed the reasonableness 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 consolidated 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

Expected Credit Losses (ECL) associated with rental receivables related to property revenue (Refer to Notes 2 and 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 response to the COVID-19 pandemic, the Australian Government introduced The Code of Conduct for Commercial Tenancies (the Code) for tenants that suffered financial stress or hardship as defined by their eligibility for the Commonwealth Governments JobKeeper program. All State Governments subsequently legislated a version of the Code with all rent relief measures being concluded during the year ended 30 June 2021.

The Group continues to work with impacted tenants to finalise rent relief measures in accordance with the Code.

Australian Accounting Standards require that the Group recognise provisions for 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 ECL is recognised against the receivable.

We considered this a key audit matter due to the continued uncertainty in the economic environment and the uncertain outcome of continued rent relief negotiations with tenants which have resulted in significant estimation uncertainty when determining the provision for ECL at 30 June 2021.

In order to assess the appropriateness of ECL provisions 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 established by the Group in response to the continued 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 ECL provisions associated with property rental receivables and assessed whether the Group's treatment was in accordance with Australian Accounting Standards.
- For a sample of tenants where the outcome of rental relief negotiations was known, we agreed the amount of relief provided to relevant source documentation such as signed tenant agreements.
- Where the outcome of rental relief negotiations for tenants have not yet concluded 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 as an ECL against the property rental receivable balance. The model was also used to estimate the ECL provision of the remaining property rental receivables balance.

For the population of tenants for which the rent relief has not been agreed, we:

- Assessed whether the Group's significant assumptions used to calculate the expected rent relief were appropriate in light of current and forecast economic conditions.
- Recalculated the rent abatement for a sample of tenants.
- Checked the mathematical accuracy of the calculations within the model.
- Agreed the total relief expected to be provided per the model to the Group financial report.



In testing the Group's ECL provision model 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 ECL model to relevant source documentation.
 - Checked the mathematical accuracy of the calculations within the model.
 - Assessed the methodology applied against generally accepted market practice.
 - Considered the Group's judgements including the appropriateness of forward-looking information incorporated into the ECL model by assessing the forecasts, assumptions and probability weighting applied in multiple economic scenarios.
- We assessed the reasonableness 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 2021 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.

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A handwritten signature in black ink, appearing to read 'M Lunn', written over a horizontal line.

Matthew Lunn
Partner

Sydney
16 August 2021

**Dexus Operations Trust
Financial Report
30 June 2021**

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At balance date, Dexus (DXS) (ASX 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 2021. 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, FAIC ¹	29 April 2009
Tonianne Dwyer, BJuris (Hons), LLB (Hons)	24 August 2011
Mark H Ford, Dip. Tech (Commerce), CA, FAICD	1 November 2016
Warwick Negus, BBus (UTS), MCom (UNSW), SF Fin ²	1 February 2021
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 ³	29 April 2009

1. John C Conde retired from the Board of DXFM, effective 2 September 2020.
2. Warwick Negus was appointed to the Board of DXFM, effective 1 February 2021.
3. Peter B St George retired from the Board of DXFM, effective 30 June 2021.

Company Secretaries

The names and details of the Company Secretaries of DXFM as at 30 June 2021 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 24 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.

	Main meetings held	Main meetings attended	Specific meetings held	Specific meetings attended
W Richard Sheppard	11	11	1	1
Patrick N J Allaway	11	10	1	1
Penny Bingham-Hall	11	11	1	1
John C Conde, AO ¹	2	2	-	-
Tonianne Dwyer	11	11	1	1
Mark H Ford	11	11	1	1
Warwick Negus ²	5	5	1	1
The Hon. Nicola L Roxon	11	11	Recused ³	Recused ³
Darren J Steinberg	11	11	1	1
Peter B St George ⁴	11	11	1	1

1. John C Conde retired from the Board of DXFM, effective 2 September 2020.
2. Warwick Negus was appointed to the Board of DXFM, effective 1 February 2021.
3. Recused from special meeting due to potential conflict.
4. Peter B St George retired from the Board of DXFM, effective 30 June 2021.

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' attendances¹ at Board Committee meetings of which they were a member during the year ended 30 June 2021.

	Board Audit Committee		Board Risk Committee		Board Nomination Committee		Board People and Remuneration Committee		Board Environmental, Social and Governance Committee		Joint "Organisational Risk" Session	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended	Held	Attended	Held	Attended
W Richard Sheppard	-	-	-	-	3	3	8	8	-	-	2	2
Patrick N J Allaway ²	4	4	4	3	3	3	-	-	-	-	2	1
Penny Bingham-Hall	-	-	-	-	3	3	8	8	4	4	2	2
John C Conde, AO ³	1	1	-	-	-	-	-	-	-	-	-	-
Tonianne Dwyer	5	5	4	4	3	3	-	-	-	-	2	2
Mark H Ford	5	5	-	-	3	3	-	-	4	4	-	-
Warwick Negus ⁴	-	-	-	-	2	2	-	-	-	-	-	-
The Hon. Nicola L Roxon	-	-	-	-	3	3	8	8	4	4	2	2
Peter B St George ⁵	5	5	4	4	3	2	-	-	-	-	2	2

1. All Non-Executive Directors have a standing invitation to attend any or all Board Committee meetings.
2. Patrick N J Allaway replaced John C Conde as member, effective 2 September 2020.
3. John C Conde retired from the Board of DXFM, effective 2 September 2020.
4. Warwick Negus was appointed to the Board of DXFM, effective 1 February 2021, and immediately became a member of the Board Nomination Committee.
5. Peter B St George retired from the Board of DXFM, effective 30 June 2021.

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	100,000
Patrick N J Allaway	20,000
Penny Bingham-Hall	32,773
John C Conde, AO ¹	-
Tonianne Dwyer	22,500
Mark H Ford	10,000
Warwick Negus ²	-
The Hon. Nicola L Roxon ³	21,297
Darren J Steinberg ⁴	990,998
Peter B St George ⁵	30,573

1. John C Conde retired from the Board of DXFM, effective 2 September 2020.
2. Warwick Negus was appointed to the Board of DXFM, effective 1 February 2021.
3. Includes interests held directly and through Non-Executive Director (NED) Plan rights.
4. Includes interests held directly and through performance rights (refer note 23).
5. Peter B St George retired from the Board of DXFM, effective 30 June 2021.

Operating and financial review

The relevant results for the Trust for the year ended 30 June 2021 were:

- profit attributable to unitholders was \$93.6 million (2020: \$81.0 million);
- total assets were \$952.1 million (2020: \$1,071.5 million); and
- net assets were \$352.9 million (2020: \$310.0 million).

A review of the results, financial position and operations of the Group, of which the Trust forms part thereof, is set out on pages 28 to 41 of the Dexus Annual Report and forms part of this Directors' Report.

Remuneration Report

The Remuneration Report is set out on pages 78 to 105 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
	Allianz Australia	1 July 2020
	Adobe International Advisory Board	24 March 2021
Penny Bingham-Hall	BlueScope Steel Limited	29 March 2011
	Fortescue Metals Group Ltd	16 November 2016
John C Conde, AO ¹	Whitehaven Coal Limited	3 May 2007
	Cooper Energy Limited	25 February 2013
Tonianne Dwyer	Metcash Limited ²	24 June 2014
	ALS Limited	1 July 2016
	Oz Minerals Limited	21 March 2017
	Incitec Pivot Limited	20 May 2021
Mark H Ford	Kiwi Property Group Limited ³	16 May 2011
Warwick Negus ⁴	Pengana Capital Group Limited (Chairman)	1 June 2017
	Bank of Queensland	22 September 2016
	Washington H. Soul Pattison and Company Ltd	1 November 2014
The Hon. Nicola L Roxon	Lifestyle Communities Limited	1 September 2017
Peter B St George ⁵	First Quantum Minerals Limited ⁶	20 October 2003
Darren J Steinberg	VGI Partners Limited	12 May 2019

1. John C Conde retired from the Board of DXFM, effective 2 September 2020.
2. Tonianne Dwyer retired from the Board of Metcash, effective 28 June 2021.
3. Listed for trading on the New Zealand Stock Exchange.
4. Warwick Negus was appointed to the Board of DXFM, effective 1 February 2021.
5. Peter B St George retired from the Board of DXFM, effective 30 June 2021.
6. Listed for trading on the Toronto Stock Exchange in Canada.

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 2021 was \$952.1 million (2020: \$1,071.5 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

During the financial year, the Trust announced the following significant corporate transactions:

1. On 27 April 2021, Unitholders in both Dexus Wholesale Property Fund ("DWPF") and AMP Capital Diversified Property Fund ("ADPF") approved the merger of the two funds. In support of the merger Dexus agreed to contribute funding to facilitate liquidity for ADPF investors and protect DWPF from value dilution resulting from transaction costs. The impacts of the merger for Dexus include:
 - Dexus Wholesale Property Limited, a wholly owned subsidiary of Dexus, replacing AMP Capital Funds Management Limited as the Responsible Entity of ADPF on 28 April 2021;
 - A commitment to provide circa \$400 million of liquidity to redeeming ADPF Unitholders; and
 - Funding circa \$50 million of transaction costs for both ADPF and DWPF. As at 30 June 2021, DXO has incurred approximately \$15.5 million of transaction costs.
2. On 23 March 2021, Dexus announced plans to simplify the corporate structure (the "Simplification") from a complex quadruple stapled trust structure to a group comprising two stapled trusts. Dexus Security holders voted in favour of the Simplification at an Extraordinary General Meeting on 22 April 2021. The Simplification was implemented on 6 July 2021 following the receipt of certain determinations in respect of stamp duty payable under the Simplification and the Responsible Entity considering that it is in the best interest of Security holders.

The key advantages to the Simplification include an improved ability and flexibility for Dexus to execute on one of its key strategic initiatives to expand and diversify its funds management business, deliver reporting and administrative efficiencies for both Security holders and Dexus and may potentially result in broader eligibility for CGT rollover relief as a result of any merger and acquisition activity that Dexus subsequently engages in.

3. On 11 May 2021, Dexus announced that it had entered into a binding Scheme Implementation Deed ('SID') with APN Property Group ('APN') in relation to a proposal for Dexus to acquire all of the stapled securities in APN (the 'Proposal') for an all-cash consideration of 91.5 cents per security. This will be reduced by the value of any distribution declared from the date of the announcement and prior to 30 September 2021, up to 1.5 cents per security.

On 27 July 2021, Dexus announced the Proposal was approved by APN security holders and implementation of the transaction occurred on the 13 August 2021.

The takeover of APN is underpinned by a strong investment rationale for Dexus which includes:

- Access to a complementary and scalable business with a high-quality team and like-minded investment philosophy;
- Ability to utilise Dexus's market leading funds and property management platform to drive growth and performance for new and existing APN funds;
- Provides Dexus with a range of new growth opportunities via access to new investor groups and products;
- Adds \$2.9 billion of incremental FUM which will be immediately accretive to Adjusted Funds From Operations (AFFO) per security on completion of the transaction in FY22; and
- Potential to realise cost and revenue synergies and achieve margin expansion across the platform.

Apart from the aforementioned, 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

On 6 July 2021, Dexus implemented the Simplification from a quadruple stapled trust structure (comprised of DDF, DIT, DOT and DXO) to a dual stapled trust structure. This was achieved by "top-hatting" three of the existing trusts (DDF, DIT and DOT) with a newly established trust, Dexus Property Trust (DPT). Effective from this date, the Simplified Group now comprises a unit in each of DXO and DPT, with DXFM appointed as the responsible entity of DPT.

On 27 July 2021, APN Property Group security holders approved the Scheme of Arrangement for Dexus to acquire all of the stapled securities in APN for an all cash-consideration of 90 cents per security. On 13 August 2021, the Scheme was implemented. Effective from this date, APN is now a wholly owned subsidiary of Dexus.

On 9 August 2021, settlement occurred for the disposal of 436-484 Victoria Rd, Gladesville for \$55.0 million excluding transaction costs.

On 13 August 2021, Dexus entered into an agreement to sell 22 Business Park Drive, Ravenhall for \$13.5 million excluding transaction costs.

Matters subsequent to the end of the financial year (continued)

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 any lockdowns or border closures since 30 June 2021, 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 operation of the Trust, the results of those operations, or state of the Trust's affairs in future financial periods.

Distributions

Distributions paid or payable by the Trust for the year ended 30 June 2021 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 2021. 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 2021 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; 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 9 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' Report (continued)

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 16 August 2021.



W Richard Sheppard

Chair

16 August 2021

Darren J Steinberg

Chief Executive Officer

16 August 2021



Auditor's Independence Declaration

As lead auditor for the audit of Dexus Operations Trust for the year ended 30 June 2021, 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.

A handwritten signature in black ink, appearing to read 'M Lunn', with a horizontal line underneath.

Matthew Lunn
Partner
PricewaterhouseCoopers

Sydney
16 August 2021

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

Liability limited by a scheme approved under Professional Standards Legislation.

Consolidated Statement of Comprehensive Income

For the year ended 30 June 2021



	Note	2021 \$'000	2020 Restated ¹ \$'000
Revenue from ordinary activities			
Property revenue	3	32,853	40,323
Development revenue	11	316,559	275,818
Distribution revenue		852	818
Interest revenue		21	178
Management fees and other revenue	2	231,166	237,240
Total revenue from ordinary activities		581,451	554,377
Net fair value gain of investment properties	9(a)	18,561	24,677
Reversal of impairment		4,713	-
Total income		604,725	579,054
Expenses			
Property expenses	3	(11,307)	(14,313)
Development costs	11	(245,786)	(226,504)
Finance costs	5	(12,711)	(17,420)
Impairment of management rights	19	-	(2,600)
Impairment of goodwill	19	-	(3,021)
Share of net loss of investments accounted for using the equity method	10	(24)	(2,669)
Loss on other assets at fair value through profit or loss		-	(2,659)
Transaction costs		(8,093)	(915)
Management operations, corporate and administration expenses	4	(191,978)	(191,423)
Total expenses		(469,899)	(461,524)
Profit before tax		134,826	117,530
Income tax expense	6(a)	(41,266)	(36,550)
Profit for the period		93,560	80,980
Other comprehensive income/(loss):			
<i>Items that may be reclassified to profit or loss</i>			
Changes in financial assets at fair value through other comprehensive income	16	3,686	(6,594)
Total comprehensive income for the period		97,246	74,386
		Cents	Cents
Earnings per unit on profit attributable to unitholders of the Trust			
Basic earnings per unit	7	8.63	7.39
Diluted earnings per unit	7	8.41	7.21

1. Restatement to 2020 required to comply with recently issued guidance from the International Financial Reporting Interpretations Committee (IFRIC) regarding the treatment of 'Configuration or Customisation costs in a Cloud Computing Arrangement'. Refer to note 26 for further detail.

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 2021



		2021	2020
	Note	\$'000	Restated ¹ \$'000
Current assets			
Cash and cash equivalents	17(a)	9,946	8,833
Receivables	17(b)	62,713	90,067
Inventories	11	137,175	180,690
Current tax receivable	6(c)	21,279	2,558
Other		8,451	12,619
Total current assets		239,564	294,767
Non-current assets			
Investment properties	9	288,845	252,396
Plant and equipment	18	10,098	12,808
Right-of-use assets		34,256	35,383
Inventories	11	40,989	156,333
Investments accounted for using the equity method	10(a)	16,649	13,424
Intangible assets	19	305,465	291,816
Investment in financial assets at fair value through other comprehensive income	20	16,235	13,962
Investment in financial assets at fair value through profit and loss		-	408
Other		10	184
Total non-current assets		712,547	776,714
Total assets		952,111	1,071,481
Current liabilities			
Payables	17(c)	55,847	55,670
Lease liabilities	13	7,821	9,009
Provisions	17(d)	96,864	82,585
Contract liability	17(e)	7,655	3,025
Other		6,416	150
Total current liabilities		174,603	150,439
Non-current liabilities			
Loans with related parties		263,772	466,745
Lease liabilities	13	30,215	29,494
Deferred tax liabilities	6(f)	92,912	92,538
Provisions	17(d)	13,631	10,438
Unearned revenue related to performance fees		19,318	-
Contract liability	17(e)	4,724	11,709
Other		-	114
Total non-current liabilities		424,572	611,038
Total liabilities		599,175	761,477
Net assets		352,936	310,004
Equity			
Contributed equity	15	107,185	111,571
Reserves	16	43,702	39,944
Retained profits		202,049	158,489
Other stapled unitholders' interest		352,936	310,004
Total equity		352,936	310,004

1. Restatement to 2020 required to comply with recently issued guidance from the International Financial Reporting Interpretations Committee (IFRIC) regarding the treatment of 'Configuration or Customisation costs in a Cloud Computing Arrangement'. Refer to note 26 for further detail.

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 2021



	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	Retained profits/(losses) \$'000	Total equity \$'000
Opening balance as at 1 July 2019		113,394	42,738	(696)	408	3,958	146,319	306,121
Change in accounting policy	26	-	-	-	-	-	(18,810)	(18,810)
Restated opening balance as at 1 July 2019		113,394	42,738	(696)	408	3,958	127,509	287,311
Profit/(loss) for the period		-	-	-	-	-	80,980	80,980
Other comprehensive income/(loss) for the period	20	-	-	-	-	(6,594)	-	(6,594)
Total comprehensive income/(loss) for the period		-	-	-	-	(6,594)	80,980	74,386
Issue of additional equity, net of transaction costs	16	-	-	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)	158,489	310,004
Opening balance as at 1 July 2020		111,571	42,738	(561)	403	(2,636)	187,599	339,114
Change in accounting policy	26	-	-	-	-	-	(29,110)	(29,110)
Restated opening balance as at 1 July 2020		111,571	42,738	(561)	403	(2,636)	158,489	310,004
Profit/(loss) for the period		-	-	-	-	-	93,560	93,560
Other comprehensive income/(loss) for the period	20	-	-	-	-	3,686	-	3,686
Total comprehensive income/(loss) for the period		-	-	-	-	3,686	93,560	97,246
Transactions with owners in their capacity as unitholders:								
Issue of additional equity, net of transaction costs	16	-	-	37	-	-	-	37
Buy-back of contributed equity, net of transaction costs	15	(4,386)	-	-	-	-	-	(4,386)
Security-based payments expense	16	-	-	-	35	-	-	35
Distributions paid or provided for	8	-	-	-	-	-	(50,000)	(50,000)
Total transactions with owners in their capacity as unitholders		(4,386)	-	37	35	-	(50,000)	(54,314)
Closing balance as at 30 June 2021		107,185	42,738	(524)	438	1,050	202,049	352,936

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 2021



	2021	2020
	\$'000	Restated ¹ \$'000
Cash flows from operating activities		
Receipts in the course of operations (inclusive of GST)	281,663	267,383
Payments in the course of operations (inclusive of GST)	(149,157)	(164,821)
Interest received	21	178
Finance costs paid	(14,488)	(16,855)
Distributions received from investments accounted for using the equity method	159	175
Income tax paid	(59,613)	(49,092)
Proceeds from sale of property classified as inventory and development services	367,134	235,366
Payments for property classified as inventory and development services	(86,706)	(87,120)
Net cash inflow/(outflow) from operating activities	339,013	185,214
Cash flows from investing activities		
Payments for capital expenditure on investment properties	(12,715)	(30,069)
Payments for investments in financial assets at fair value through profit and loss	-	(243)
Payments for investments accounted for using the equity method	(3,000)	(16,348)
Payments for acquisition of investment properties	(33,973)	-
Payments for plant and equipment	(670)	(1,841)
Payments for intangibles	(15,663)	(4,069)
Net cash (outflow)/inflow from investing activities	(66,021)	(52,570)
Cash flows from financing activities		
Borrowings provided to related parties	(810,162)	(674,797)
Borrowings received from related parties	607,189	595,177
Payments for buy-back of contributed equity, net of transaction costs	(4,386)	(1,823)
Purchase of securities for security-based payments plans	(7,287)	(9,940)
Payment of lease liabilities	(8,085)	6,869
Distributions received	852	818
Distributions paid to unitholders	(50,000)	(50,000)
Net cash (outflow)/inflow from financing activities	(271,879)	(133,696)
Net increase/(decrease) in cash and cash equivalents	1,113	(1,052)
Cash and cash equivalents at the beginning of the period	8,833	9,885
Cash and cash equivalents at the end of the period	9,946	8,833

1. Restatement to 2020 required to comply with recently issued guidance from the International Financial Reporting Interpretations Committee (IFRIC) regarding the treatment of 'Configuration or Customisation costs in a Cloud Computing Arrangement'. Refer to note 26 for further detail.

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. Where required, comparative information has been restated for consistency with the current year's presentation.

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 2021, the Trust had no investments in foreign operations.

Change in Accounting Policy

On 27 April 2021, the International Financial Reporting Interpretations Committee (IFRIC) issued an addendum regarding the treatment of "*Configuration or Customisation Costs in a Cloud Computing Arrangement*". The focus of the addendum was to clarify how a customer should account for the cost of configuring or customising a supplier's software when it is a "Software as a Service" (SaaS) product. In response to this clarification, the Trust has retrospectively changed its accounting policy for the amount of any SaaS arrangements previously recorded as intangible assets. Refer to note 19 *Intangible assets* and note 26 *Change in accounting policy* for impacts on the Consolidated Financial Statements.

Critical accounting estimates

The preparation of the Consolidated Financial Statements require the use of certain critical accounting estimates and management to exercise its judgement in the process of applying the Trust's accounting policies.

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).

The COVID-19 pandemic continued to create unprecedented challenges through unanticipated government imposed lockdowns that varied in their level of impact across Australian cities. Despite this disruption, Australia's economic activity in the year ended 30 June 2021 has been resilient supported by government stimulus and historically low interest rates, with growing employment numbers, increasing house prices and strong business and consumer confidence.

During the period, Dexus leased 184,029 square metres of office space, in addition to 11,068 square metres of space across office developments which highlights the demand for quality workspace in well located CBD assets. Dexus office portfolio occupancy reduced to 95.2% (FY20: 96.5%).

Basis of preparation (continued)

Critical accounting estimates (continued)

Across the Dexus industrial portfolio, economic tailwinds from government stimulus are feeding demand from ecommerce, retail, essential services, pharmaceuticals and infrastructure tenants, with these sectors requiring more space to accommodate growth. Dexus industrial portfolio occupancy increased to 97.7% (FY20: 95.6%).

Retail tenants located at the base of Dexus's office buildings continue to be impacted with lower foot traffic and sales as a result of government imposed lockdowns, and Dexus continues to work with small business tenants impacted by lockdowns on rent relief measures.

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 3	Property revenue and expenses	Page 19
Note 9	Investment properties	Page 24
Note 11	Inventories	Page 29
Note 12	Capital and financial risk management	Page 31
Note 17	Working capital	Page 38
Note 19	Intangible assets	Page 41
Note 23	Security-based payment	Page 46

Principles of consolidation

These Consolidated Financial Statements incorporate the assets, liabilities and results of all subsidiaries as at 30 June 2021.

(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 Trust has formed a trust to administer the Trust'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 Trust.

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 policy
			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 fees and other 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 fees and other revenue

Management fees are brought to account on an accruals basis.

	2021	2020
	\$'000	\$'000
Investment management & responsible entity fees	122,287	122,010
Rent and lease renewal fees	18,089	22,030
Property management fees	40,901	41,252
Capital works and development fees	31,493	27,278
Other fund fees	546	-
Wages recovery and other fees	17,850	24,670
Total management fees and other revenue	231,166	237,240

Performance fees are for performance obligations fulfilled over time and for which consideration is variable. The fees are determined in accordance with the relevant agreement which stipulates out-performance of a benchmark over a given period. Performance fee revenue is recognised to the extent that it is highly probable that the amount of variable consideration recognised will not be significantly reversed when the uncertainty is resolved. Detailed calculations and an assessment of the risks associated with the recognition of the fee are completed to inform the assessment of the appropriate revenue to recognise. There is unearned revenue of \$19.32 million at 30 June 2021.



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.

	2021	2020
	\$'000	\$'000
Rent and recoverable outgoings	27,362	31,657
Services revenue	3,583	5,737
Incentive amortisation	(3,084)	(3,562)
Other revenue	4,992	6,491
Total property revenue	32,853	40,323

Impact of COVID-19 on Property revenue

The rent relief measures outlined in the Australian Government National Code of Conduct (Code of Conduct) concluded during the period as follows:

- NSW – extension until 31 December 2020 from the initial expiry date of 24 October 2020¹
- VIC – extension until 28 March 2021 from the initial expiry date of 29 September 2020
- WA – extension until 28 March 2021 from the initial expiry date of 29 September 2020
- QLD – extension until 31 December 2020 from the initial expiry date of 30 September 2020

1. For retail tenants that had a turnover of less than \$5.0 million in the 2018/2019 year, there was an extension to 28 March 2021.

Dexus continues to work with impacted tenants to finalise rent relief packages in accordance with the Code of Conduct.

The various rent relief measures have been 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 2021, 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 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.

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*.

Note 3 Property revenue and expenses (continued)

Property expenses

Property expenses includes rates, taxes, expected credit losses on receivables and other property outgoings incurred in relation to investment properties. These expenses are recognised in the Consolidated Statement of Comprehensive Income on an accrual basis. If these items are recovered from a tenant by the Trust, they are recorded within Services revenue or recoverable outgoings within Property revenue.

	2021	2020
	\$'000	\$'000
Recoverable outgoings and direct recoveries	6,686	8,734
Other non recoverable property expenses	4,621	5,579
Total property expenses	11,307	14,313

Note 4 Management operations, corporate and administration expenses

	2021	2020
	\$'000	Restated ¹ \$'000
Audit, taxation, legal and other professional fees	4,856	7,447
Depreciation and amortisation	14,136	14,717
Employee benefits expense and other staff expenses	141,966	131,071
Administration and other expenses	19,869	20,218
Software customisation expenses	11,151	17,970
Total management operations, corporate and administration expenses	191,978	191,423

1. This balance has been restated to comply with recently issued guidance from the International Financial Reporting Interpretations Committee (IFRIC) regarding the treatment of 'Configuration or Customisation costs in a Cloud Computing Arrangement'. Refer to note 26 for further detail.

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.

	2021	2020
	\$'000	\$'000
Interest paid to related parties	12,436	18,396
Amount capitalised	(820)	(2,170)
Finance costs - leases	987	1,069
Other finance costs	108	125
Total finance costs	12,711	17,420

The average capitalisation rate used to determine the amount of finance costs eligible for capitalisation is 3.25% (2020: 4.00%).



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

	2021	2020
	\$'000	Restated ¹ \$'000
Current income tax (expense)/benefit	(40,892)	(25,267)
Deferred income tax (expense)/benefit	(374)	(11,283)
Total income tax expense	(41,266)	(36,550)

Deferred income tax expense included in income tax (expense)/benefit comprises:

(Decrease)/increase in deferred tax assets	9,963	3,253
(Increase)/decrease in deferred tax liabilities	(10,337)	(14,536)
Total deferred tax expense	(374)	(11,283)

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

	2021	2020
	\$'000	Restated ¹ \$'000
Profit before income tax	134,826	117,530
Profit subject to income tax	134,826	117,530

Prima facie tax expense at the Australian tax rate of 30% (2020: 30%)

(40,448)	(35,259)
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Tax effect of amounts which are not deductible/(assessable) in calculating taxable income:

(Non-assessable)/non-deductible items	(818)	(1,291)
Income tax expense	(41,266)	(36,550)

c) Current tax assets/liabilities

	2021	2020
	\$'000	\$'000
Increase/(decrease) in current tax assets	21,279	2,558
(Increase)/decrease in current tax liabilities	-	-
(Increase)/decrease in current tax assets	21,279	2,558

- This balance has been restated to comply with recently issued guidance from the International Financial Reporting Interpretations Committee (IFRIC) regarding the treatment of 'Configuration or Customisation costs in a Cloud Computing Arrangement'. Refer to note 26 for further detail.

Note 6 Taxation (continued)

d) Deferred tax assets

	2021	2020
	\$'000	Restated ¹ \$'000
The balance comprises temporary differences attributable to:		
Employee provisions	19,131	13,849
Software expenditure	13,305	12,476
Other	6,679	2,827
Total non-current assets - deferred tax assets	39,115	29,152

Movements:

Opening balance at the beginning of the year	29,152	25,899
Movement in deferred tax asset arising from temporary differences	9,963	3,253
(Charged)/credited to the Statement of Comprehensive Income	9,963	3,253
Closing balance at the end of the year	39,115	29,152

e) Deferred tax liabilities

	2021	2020
	\$'000	Restated ¹ \$'000
The balance comprises temporary differences attributable to:		
Intangible assets	76,575	72,420
Investment properties	46,488	42,243
Other	8,964	7,027
Total non-current liabilities - deferred tax liabilities	132,027	121,690

Movements

Opening balance at the beginning of the year	121,690	107,154
Movement in deferred tax liability arising from temporary differences	10,337	14,536
Charged/(credited) to the Statement of Comprehensive Income	10,337	14,536
Closing balance at the end of the year	132,027	121,690

f) Net deferred tax liabilities

	2021	2020
	\$'000	Restated ¹ \$'000
Deferred tax assets	39,115	29,152
Deferred tax liabilities	(132,027)	(121,690)
Net deferred tax liabilities	(92,912)	(92,538)

1. This balance has been restated to comply with recently issued guidance from the International Financial Reporting Interpretations Committee (IFRIC) regarding the treatment of 'Configuration or Customisation costs in a Cloud Computing Arrangement'. Refer to note 26 for further detail.



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

	2021	2020
	\$'000	\$'000
Profit attributable to unitholders of the parent entity	93,560	80,980

b) Weighted average number of units used as a denominator

	2021	2020
	No. of units	No. of units
Weighted average number of units outstanding used in calculation of basic earnings per unit	1,084,536,777	1,095,096,969
Effect on exchange of Exchangeable Notes	28,333,333	28,333,333
Weighted average number of units outstanding used in calculation of diluted earnings per unit	1,112,870,110	1,123,430,302

Note 8 Distributions paid and payable

Distributions are recognised when declared.

a) Distribution to unitholders

	2021	2020
	\$'000	\$'000
30 June (payable 30 August 2021)	50,000	-
30 June (paid 28 August 2020)	-	50,000
Total distribution to unitholders	50,000	50,000

b) Distribution rate

	2021	2020
	Cents per unit	Cents per unit
30 June (payable 30 August 2021)	4.65	-
30 June (paid 28 August 2020)	-	4.58
Total distributions	4.65	4.58

c) Franked dividends

	2021	2020
	\$'000	\$'000
Opening balance at the beginning of the year	94,271	66,272
Income tax paid during the year	59,613	49,428
Franking credits utilised for payment of distribution	(21,429)	(21,429)
Closing balance at the end of the year	132,455	94,271

As at 30 June 2021, the Trust had a current tax asset of \$21.4 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 2021	Note	Office \$'000	Industrial \$'000	Total \$'000
Investment properties	9	187,000	101,845	288,845
Equity accounted investments	10	9,235	-	9,235
Inventories	11	-	178,164	178,164
Total		196,235	280,009	476,244

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	2021 \$'000	2020 \$'000
Opening balance at the beginning of the period	173,000	79,396	252,396	193,419
Additions	949	12,056	13,005	32,600
Acquisitions	-	33,973	33,973	-
Lease incentives	1,685	307	1,992	3,349
Amortisation of lease incentives	(1,866)	(599)	(2,465)	(2,040)
Rent straightlining	138	515	653	391
Disposals	-	(36,210)	(36,210)	-
Transfer from inventories	-	6,940	6,940	-
Net fair value gain/(loss) of investment properties	13,094	5,467	18,561	24,677
Closing balance at the end of the period	187,000	101,845	288,845	252,396



Note 9 Investment properties (continued)

Acquisitions

On 11 September 2020, settlement occurred for the acquisition of 141 Anton Road, Hemmant Qld for \$31.8 million excluding acquisition costs.

Disposals

On 1 February 2021, settlement occurred for the disposal of its 51% interest in 47-53 Foundation Drive, Truganina VIC and 380 Doherty's Road, Truganina VIC for gross proceeds of \$36.2 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 2021, all of the 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 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	
			2021	2020
Office ¹	Level 3	Adopted capitalisation rate	5.25%	5.38%
		Adopted discount rate	6.38%	6.63%
		Adopted terminal yield	5.50%	5.63%
		Current net market rental (per sqm)	\$542	\$541
Industrial	Level 3	Adopted capitalisation rate	4.00% - 4.50%	4.75% - 5.25%
		Adopted discount rate	5.75%	6.25% - 6.50%
		Adopted terminal yield	4.35% - 4.75%	5.25% - 5.75%
		Current net market rental (per sqm)	\$77 - \$262	\$77 - \$260

1. Includes office developments and 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 2021. 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 to reflect current market uncertainty;
- 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) or where operating hours have been impacted; and
- Capitalisation and discount rates have generally remained relatively stable for office assets and firmed for industrial assets.

Some independent valuations obtained by the Trust also include significant valuation uncertainty clauses due to the unknown impact ongoing lockdowns and limited interstate travel may have on the investment property assets in the various markets. These clauses have been removed from most industrial valuations due to current transaction volumes and market pricing. Noting the uncertainty, the Trust considers that the assumptions used in the valuations are materially appropriate for the purposes of determining fair value of investment properties at 30 June 2021.

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	
	2021 \$'000	2020 \$'000	2021 \$'000	2020 \$'000
A decrease of 25 basis points in the adopted capitalisation rate	6,457	4,268	9,812	9,428
An increase of 25 basis points in the adopted capitalisation rate	(5,731)	(3,854)	(8,920)	(8,545)
A decrease of 25 basis points in the adopted discount rate	4,629	3,387	8,010	7,568
An increase of 25 basis points in the adopted discount rate	(4,244)	(3,121)	(7,405)	(6,988)
A decrease of 5% in the net market rental (per sqm)	(5,092)	(3,970)	(9,812)	(9,127)
An increase of 5% in the net market rental (per sqm)	5,092	3,970	9,812	9,127

Note 9 Investment properties (continued)

e) Sensitivity information (continued)

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	Ownership interest			
	2021 %	2020 %	2021 \$'000	2020 \$'000
Dexus Walker Street Trust	50.0	50.0	9,235	9,566
Divvy Parking Pty Limited ¹	24.8	16.4	1,021	-
Other ²	29.5	19.9	6,393	3,858
Total assets - investments accounted for using the equity method³			16,649	13,424

- The investment in Divvy Parking Pty Limited was previously classified as a financial asset at fair value through profit and loss. During the current financial year, the Trust increased its ownership interest above 20% resulting in the Group obtaining significant influence over the investment and adopting the equity method of accounting. The principal activity of Divvy Parking Pty Limited is to provide parking software and hardware solutions to landlords which drive increased utilisation of paid parking bays.
- This includes investments in entities where the Trust has an immaterial interest.
- The Trust's share of investment properties in the investments accounted for using the equity method was \$9.2 million (2020:\$9.6 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.

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.

Note 10 Investments accounted for using the equity method

(continued)



c) Summarised financial information for individually material joint ventures and equity accounted investments

The following table provides summarised financial information for the joint ventures and equity accounted investments 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 equity accounted investments and not Dexus' share of those amounts.

	Dexus Walker Street Trust		Other		Total	
	2021 \$'000	2020 \$'000	2021 \$'000	2020 \$'000	2021 \$'000	2020 \$'000
Summarised Statement of Financial Position						
Current assets						
Cash and cash equivalents	489	535	10,643	3,596	11,132	4,131
Other current assets	65	38	984	33	1,049	71
Total current assets	554	573	11,627	3,629	12,181	4,202
Non-current assets						
Investment properties	18,690	19,065	-	-	18,690	19,065
Investments accounted for using the equity method	-	-	253	101	253	101
Loans with related parties	-	-	436	264	436	264
Other non-current assets	20	-	4,117	2	4,137	2
Total non-current assets	18,710	19,065	4,806	367	23,516	19,432
Current liabilities						
Provision for distribution	667	349	-	-	667	349
Other current liabilities	128	158	684	387	812	545
Total current liabilities	795	507	684	387	1,479	894
Non-current liabilities						
Other non-current liabilities	-	-	201	101	201	101
Total non-current liabilities	-	-	201	101	201	101
Net assets	18,469	19,131	15,548	3,508	34,017	22,639
Reconciliation to carrying amounts:						
Opening balance at the beginning of the year	19,131	-	3,508	-	22,639	-
Additions	-	24,485	11,542	4,106	11,542	28,591
Profit for the year	(344)	(5,005)	498	(598)	154	(5,603)
Distributions received/receivable	(318)	(349)	-	-	(318)	(349)
Closing balance at the end of the year¹	18,469	19,131	15,548	3,508	34,017	22,639
Trust's share of net assets	9,235	9,566	4,336	702	13,571	10,268
Notional goodwill	-	-	3,078	3,156	3,078	3,156
Trust's carrying amount	9,235	9,566	7,414	3,858	16,649	13,424
Summarised Statement of Comprehensive Income						
Property revenue	841	754	-	-	841	754
Property revaluations	(645)	(5,354)	-	-	(645)	(5,354)
Interest income	-	3	-	1	-	4
Other income	-	-	2,504	(39)	2,504	(39)
Other expenses	(540)	(408)	(2,006)	(560)	(2,546)	(968)
Net profit/(loss) for the year	(344)	(5,005)	498	(598)	154	(5,603)
Total comprehensive income/(loss) for the year	(344)	(5,005)	498	(598)	154	(5,603)

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.

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

	2021 \$'000	2020 \$'000
Current assets		
Development properties held for sale	137,175	180,690
Total current assets - inventories	137,175	180,690
Non-current assets		
Development properties held for sale	40,989	156,333
Total non-current assets - inventories	40,989	156,333
Total assets - inventories	178,164	337,023

b) Reconciliation

	2021 \$'000	2020 \$'000
Opening balance at the beginning of the period	337,023	460,064
Transfer to investment properties	(6,940)	-
Acquisitions	9,645	-
Disposals	(177,410)	(174,783)
Reversal of impairment ¹	4,713	-
Additions	12,776	51,742
Closing balance at the end of the period	178,164	337,023

1. A reversal of impairment was recorded as there was evidence of an increase in net realisable value.

Property portfolio assets (continued)

Note 11 Inventories (continued)

Acquisitions

On 17 June 2021, settlement occurred for the acquisition of 22 Business Park Drive, Ravenhall VIC for \$9.0 million excluding acquisition costs.

Disposals

On 20 August 2020, settlement occurred for the disposal of a 25% interest in 201 Elizabeth Street, Sydney NSW for gross proceeds of \$157.5 million excluding transaction costs.

On 1 October 2020, settlement occurred for the disposal of a 49% interest in 47-53 Foundation Drive, Truganina VIC and 380 Doherty's Road, Truganina VIC for gross proceeds of \$29.2 million excluding transaction costs.

On 21 December 2020, settlement occurred for the disposal of a 50% interest in 11 Lord Street, Botany NSW (Lakes Business Park South) for gross proceeds of \$48.0 million excluding transaction costs.

Impact of COVID-19 on Inventories

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

Key estimates used to determine the Net Realisable Value (NRV) of inventories have been reviewed and updated in light of COVID-19. No impairment provisions have been recognised.



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

	2021 (+/-) \$'000	2020 (+/-) \$'000
+/- 0.50% (50 basis points)	1,319	2,334
Total A\$ equivalent	1,319	2,334

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.

	2021				2020			
	Within one year	Between one and two years	Between two and five years	After five years	Within one year	Between one and two years	Between two and five years	After five years
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Payables	(55,847)	-	-	-	(55,670)	-	-	-
Lease liabilities	(8,336)	(7,308)	(15,439)	(1,521)	(9,152)	(8,336)	(18,466)	(5,802)
Total payables and lease liabilities	(64,183)	(7,308)	(15,439)	(1,521)	(64,822)	(8,336)	(18,466)	(5,802)
Interest bearing loans with related parties and interest ¹	(7,063)	(7,035)	(24,231)	(311,824)	(15,587)	(14,807)	(50,527)	(559,985)
Total interest bearing liabilities and interest¹	(7,063)	(7,035)	(24,231)	(311,824)	(15,587)	(14,807)	(50,527)	(559,985)

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 Dexu 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 2021 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 2021 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 2021 and 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.

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

Under AASB 16 *Leases*, 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. The weighted rate applied was 2.88%. 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 lease commencement.

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.

Note 13 Lease liabilities (continued)

The following table details information relating to leases where the Trust is a lessee.

		2021 \$'000	2020 \$'000
Current			
Lease liabilities - property leases	(a)	7,821	9,009
Total current liabilities - lease liabilities		7,821	9,009
Non-Current			
Lease liabilities - property leases	(a)	30,215	29,494
Total non-current liabilities - lease liabilities		30,215	29,494
Total - lease liabilities		38,036	38,503

(a) *Lease liabilities – property leases*

Lease liabilities relate to Dexu offices and Dexu 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 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:

	2021 \$'000	2020 \$'000
Investment properties	1,887	3,935
Inventories and development management services	691	62,856
Investments accounted for using the equity method	24	-
Total capital commitments	2,602	66,791

Lease receivable commitments

The future minimum lease payments receivable by the Trust are:

	2021 \$'000	2020 \$'000
Within one year	28,720	34,746
Later than one year but not later than five years	86,694	119,060
Later than five years	44,814	58,092
Total lease receivable commitments	160,228	211,898

Note 14 Commitments and contingencies (continued)

b) Contingencies

DDF, together with DIT, DOT and DXO, is a guarantor of A\$5,918.1 million (2020: A\$6,248.4 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 \$58.1 million (2020: \$55.6 million), comprising \$55.2 million held to comply with the terms of the Australian Financial Services Licences (AFSL) and \$2.9 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

	2021	2020
	No. of units	No. of units
Opening balance at the beginning of the period	1,091,202,163	1,096,857,665
Buy-back of contributed equity	(15,636,917)	(5,655,502)
Closing balance at the end of the period	1,075,565,246	1,091,202,163

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.

On 13 October 2020, Dexus announced an extension of the buy-back for a period of 12 months commencing on 23 October 2020.

During the 12 months to 30 June 2021, Dexus acquired and cancelled 15,636,917 securities representing 1.5% of Dexus securities on issue.

Note 16 Reserves

	2021	2020
	\$'000	\$'000
Asset revaluation reserve	42,738	42,738
Security-based payments reserve	438	403
Treasury securities reserve	(524)	(561)
Financial assets at fair value through other comprehensive income	1,050	(2,636)
Total reserves	43,702	39,944

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	403	408
Security-based payments expense	35	(5)
Closing balance at the end of the year	438	403

Treasury securities reserve

Opening balance at the beginning of the year	(561)	(696)
Issue of securities to employees	37	135
Closing balance at the end of the year	(524)	(561)

Financial assets at fair value through other comprehensive income

Opening balance at the beginning of the period	(2,636)	3,958
Changes in the fair value	3,686	(6,594)
Closing balance at the end of the year	1,050	(2,636)

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), Long Term Incentive Plans (LTI) and Senior Management Retention Awards. 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), Long Term Incentive Plans (LTI) and Senior Management Retention Awards. As at 30 June 2021, DXS held 1,574,324 stapled securities which includes acquisitions of 745,590 and unit vesting of 842,186 (2020: 1,670,920).

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 reclassified 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 pay their fees outstanding.

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

	2021 \$'000	2020 \$'000
Rent receivable ¹	2,503	2,226
Less: provision for expected credit losses	(1,051)	(498)
Total rental receivables	1,452	1,728
Fee receivable	54,843	35,816
Receivables from related entities	4,970	47,109
Other receivables	1,448	5,414
Total other receivables	61,261	88,339
Total receivables	62,713	90,067

1. Rent receivable includes outgoings recoveries.

Note 17 Working capital (continued)

b) Receivables (continued)

The provision for expected credit losses for rent receivables (which includes outgoings recoveries) as at 30 June 2021 was determined as follows:

\$'000			
30 June 2021	Office	Industrial	Total
0-30 days ¹	7	366	373
31-60 days	2	4	6
61-90 days	4	-	4
91+ days	85	583	668
Total provision for expected credit losses	98	953	1,051

1. 0-30 days includes deferred rent receivable but not due.

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:

	2021	2020
	\$'000	\$'000
Opening provision for expected credit losses	498	1
Increase/(decrease) in provision recognised in profit or loss during the year	553	497
Closing provision for expected credit losses	1,051	498

c) Payables

	2021	2020
	\$'000	\$'000
Trade creditors	11,430	24,334
Accruals	16,668	2,106
Accrued capital expenditure	24,034	22,858
GST payable	1,095	1,134
Other payables	2,620	5,238
Total payables	55,847	55,670

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.

	2021 \$'000	2020 \$'000
Provision for distribution	50,000	50,000
Provision for employee benefits	46,864	32,585
Total current provisions	96,864	82,585

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

	2021 \$'000	2020 \$'000
Current provisions		
Opening balance at the beginning of the year	82,585	88,115
Additional provisions	86,464	75,362
Payment of distributions	(50,000)	(50,000)
Payment of employee benefits	(22,185)	(30,892)
Closing balance at the end of the year	96,864	82,585

A provision for distribution has been raised for the period ended 30 June 2021. This distribution is to be paid on 30 August 2021.

e) Rental guarantee

This relates to a rental guarantee which has been accounted for as variable consideration within the scope of AASB 15 *Revenue from Contracts with Customers*. The estimated rental guarantee payment has reduced the transaction price and a liability for this amount has been recognised, reducing the associated development revenue. Any subsequent changes in the rental guarantee liability will be adjusted against the development revenue as appropriate.

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

	2021	2020
	\$'000	\$'000
Opening balance at the beginning of the year	12,808	14,986
Additions	670	1,841
Depreciation charge	(3,380)	(4,019)
Closing balance at the end of the year	10,098	12,808

	2021	2020
	\$'000	\$'000
Cost	38,699	34,367
Accumulated depreciation	(28,601)	(21,559)
Cost - Fully depreciated assets written off	(8,077)	(4,412)
Accumulated depreciation - Fully depreciated assets written off	8,077	4,412
Net book value as at the end of the year	10,098	12,808

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 \$0.4 million (2020: \$0.5 million) are measured at cost and amortised using the straight-line method over their estimated remaining useful life of 8 years. Management rights that are deemed to have an indefinite life are held at a value of \$300.5 million (2020: \$286.0 million).

Costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the trust are recognised as intangible assets. Costs associated with configuration and customisation in a cloud computing arrangement are recognised as an expense when incurred, unless they are paid to the suppliers of the SaaS arrangement to significantly customise the cloud-based software for the Trust, in which case the costs are recorded as a prepayment for services and amortised over the expected renewable term of the arrangement. Refer to note 26 *Change in accounting policy* for further details in relation to the accounting policy adopted. Software is measured at cost and amortised using the straight-line method over its estimated useful life, expected to be three to five years.

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.

Note 19 Intangible assets (continued)

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. 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.

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 8.3%-20.0% (2020: 10.0%–20.0%) was used incorporating an appropriate risk premium for a management business. A terminal capitalisation rate of 8.3% (2020: 10.0%) has been applied to the majority of the management rights.
- Cash flows have been discounted at a pre-tax rate of 10.5% (2020: 12.0%) based on externally published weighted average cost of capital for an appropriate peer group plus an appropriate premium of risk. A 1.0% (2020 1.0%) decrease in the discount rate would increase the valuation by \$30.8 million (2020: \$29.6 million).
- An average growth rate of 3.0% (2020: 3.0%) has been applied to forecast cashflows.

Other disclosures (continued)

Note 19 Intangible assets (continued)

	2021	2020
	\$'000	Restated ¹ \$'000
Management rights		
Opening balance at the beginning of the period	286,498	289,428
Additions ²	14,513	-
Impairment of management rights	-	(2,600)
Amortisation charge	(56)	(330)
Closing balance at the end of the period	300,955	286,498
Cost	308,895	294,382
Accumulated amortisation	(5,340)	(5,284)
Accumulated impairment	(2,600)	(2,600)
Total management rights	300,955	286,498
Goodwill		
Opening balance at the beginning of the period	915	1,013
Additions	-	2,923
Impairment	-	(3,021)
Closing balance at the end of the period	915	915
Cost	5,921	5,921
Accumulated impairment	(5,006)	(5,006)
Total goodwill	915	915
Software		
Opening balance at the beginning of the period	4,403	4,795
Additions	1,150	1,146
Amortisation charge	(1,958)	(1,538)
Closing balance at the end of the period	3,595	4,403
Cost	17,629	16,479
Accumulated amortisation	(14,034)	(12,076)
Cost - Fully amortised assets written off	(9,954)	(7,449)
Accumulated amortisation - Fully amortised assets written off	9,954	7,449
Total software	3,595	4,403
Total non-current intangible assets	305,465	291,816

1. Restatement to 2020 required to comply with recently issued guidance from the International Financial Reporting Interpretations Committee (IFRIC) regarding the treatment of 'Configuration or Customisation costs in a Cloud Computing Arrangement'. Refer to note 26 for further detail.
2. During the year, Dexus incurred costs in connection with Dexus Wholesale Property Limited, a Dexus entity, being appointed as Responsible Entity of Dexus ADPF.



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 reclassified to retained earnings.

Note 21 Audit, taxation and transaction service fees

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

	2021	2020
	\$	\$
Audit and review services		
Auditors of the Trust - PwC		
Financial statement audit and review services	282,224	274,002
Audit fees paid to PwC	282,224	274,002
Assurance Services		
Auditors of the Trust - PwC		
Outgoings audits	5,190	7,426
Regulatory audit and compliance assurance services	96,852	192,664
Sustainability assurance services	3,954	-
Other assurance services	243,904	-
Assurance fees paid to PwC	349,900	200,090
Total audit, review and assurance fees paid to PwC	632,124	474,092
Other services		
Auditors of the Trust - PwC		
Transaction services fees	611,971	-
Other service fees paid to PwC	611,971	-
Total audit, review, assurance and other services fees paid to PwC	1,244,095	474,092



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:

	2021	2020
	\$'000	Restated ¹
		\$'000
Net profit/(loss) for the year	93,560	80,980
Capitalised interest	(820)	(2,170)
Depreciation and amortisation	14,136	14,717
Amortisation of incentives and straight line income	1,812	1,649
Impairment of goodwill and management rights	-	5,621
Net fair value (gain)/loss of investment properties	(18,561)	(24,677)
Share of net (profit)/loss of investments accounted for using the equity method	24	2,669
Share of net (profit)/loss of investments in financial assets through profit and loss	-	2,659
Distribution revenue	(852)	(818)
Change in operating assets and liabilities		
(Increase)/decrease in receivables	25,165	(5,973)
(Increase)/decrease in inventories	158,859	123,041
(Increase)/decrease in other current assets	5,575	(6,086)
(Increase)/decrease in other non-current assets	4,748	(2,424)
Increase/(decrease) in payables	39,460	7,998
Increase/(decrease) in current tax liabilities	(18,721)	(24,074)
Increase/(decrease) in other current liabilities	17,140	(5,399)
Increase/(decrease) in other non-current liabilities	17,114	6,218
Increase/(decrease) in deferred tax liabilities	374	11,283
Net cash inflow/(outflow) from financing activities	339,013	185,214

b) Net debt reconciliation

Reconciliation of net debt movements:

	2021	2020
	Loans with related parties	Loans with related parties
	\$'000	\$'000
Opening balance	466,745	546,365
Changes from financing cash flows		
Proceeds from loan with related party	607,189	595,177
Repayment of loan with related party	(810,162)	(674,797)
Non cash changes		
Changes in fair value and other	-	-
Closing balance	263,772	466,745

Note 23 Security-based payments

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), Long Term Incentive Plans (LTI) and Senior Management Retention Awards, 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), successful delivery of key strategic initiatives identified by the Board, and employment status at vesting, are included in assumptions about the number of performance rights that are expected to vest. When performance rights vest, the Trust will arrange for the allocation and delivery of the appropriate number of securities to the participant.

The fair value of performance rights granted is recognised as an employee benefit expense with a corresponding increase in the security-based payment reserve in equity. The total amount to be expensed is determined by reference to the fair value of the performance rights granted.

Key assumptions: fair value of performance rights granted

Judgement is required in determining the fair value of performance rights granted. In accordance with AASB 2 *Share-based Payment*, fair value is determined independently using Binomial and Monte Carlo pricing models with reference to:

- the expected life of the rights;
- the security price at grant date;
- the expected price volatility of the underlying security;
- the expected distribution yield; and
- the risk free interest rate for the term of the rights and expected total security-holder returns (where applicable).

The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each period, the Trust revises its estimates of the number of performance rights that are expected to vest based on the non-market vesting conditions. The impact of the revised estimates, if any, is recognised in profit or loss with a corresponding adjustment to equity.

a) Deferred Short Term Incentive Plan

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

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

The number of performance rights granted in respect of the year ended 30 June 2021 was 423,514 (2020: 239,769) and the fair value of these performance rights is \$10.65 (2020: \$9.20) per performance right. The total security-based payments expense recognised during the year ended 30 June 2021 was \$2,731,951 (2020: \$1,463,930).

b) Long Term Incentive Plan

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

The number of performance rights granted in respect of the year ended 30 June 2021 was 580,350 (2020: 443,657) and the fair value of these performance rights is \$6.53 (2020: \$8.12) per performance right. The total security-based payments expense recognised during the year ended 30 June 2021 was \$6,850,376 (2020: (-\$736,905)).

Note 23 Security-based payments (continued)

c) Senior Management Retention Awards

CEO Incentive Award

A once-off CEO incentive award was granted to the CEO on 1 June 2020. The award will vest three years after the grant date, subject to the participant satisfying employment service conditions, governance and behavioural standards and performance hurdles. Consequently, the fair value of the performance rights is amortised over three years from the grant date.

The number of performance rights granted in respect of the year ended 30 June 2021 was 356,335 (2020: nil). The grant date fair value of these performance rights is \$8.93 (2020: \$nil) per performance right. The total security-based payments expense related to this award recognised during the year ended 30 June 2021 was \$89,989 (2020: \$nil).

Retention Equity Award

The retention equity award is a once-off award to certain Key Management Personnel which was granted in December 2020. 50% of the once-off retention equity rights will vest three years after the grant date and 50% of the rights will vest four years after the grant date, subject to participants satisfying employment service conditions and governance and behavioural standards. Consequently, 50% of the fair value of the equity rights is amortised over three years and 50% of the rights is amortised over four years from the grant date.

The number of equity rights granted in respect of the year ended 30 June 2021 was 306,960 (2020: nil). The fair value of these equity rights is \$8.20 (2020: \$nil) per equity right. The total security-based payments expense related to this award recognised during the year ended 30 June 2021 was \$444,931 (2020: \$nil).

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, the Responsible Entities of DWPF and Dexus ADPF, DWFL, the Responsible Entity of DHPF, and DWML, the Trustee of Dexus Australian Commercial Trust (DACT).

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

	2021	2020
	\$	\$
Responsible entity & asset management fee income	119,735,589	112,901,125
Property management fee income	40,281,369	38,205,990
Development services revenue (DS), Development management (DM), Project Delivery Group (PDG), capital expenditure and leasing income	132,496,329	162,705,418
Rent paid	5,052,171	5,298,019
Responsible entity fees receivable at the end of each reporting year (included above)	21,296,602	18,664,178
Property management fees receivable at the end of each reporting year (included above)	3,854,762	3,287,022
DS, DM, PDG, capital expenditure, leasing fees and other receivable at the end of each reporting year (included above)	13,932,949	45,847,579

Other disclosures (continued)

Note 24 Related parties (continued)

Key management personnel compensation

	2021	2020
	\$	\$
Compensation		
Short-term employee benefits	10,605,280	8,278,781
Post employment benefits	275,702	384,497
Security-based payments	4,582,583	3,675,493
Total key management personnel compensation	15,463,565	12,338,771

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:

	2021	2020
	\$'000	\$'000
Total current assets	103,730	353,169
Total assets	422,402	702,040
Total current liabilities	64,837	41,821
Total liabilities	239,112	520,260
Equity		
Contributed equity	107,185	111,571
Reserves	542	288
Retained profits	75,563	69,921
Total equity	183,290	181,780
Net profit/(loss) for the year	55,642	71,652
Total comprehensive income/(loss) for the year	55,642	71,652

b) Guarantees entered into by the parent entity

Refer to note 14 for details of guarantees entered into by the parent entity.

c) Contingent liabilities

Refer to note 14 for details of the parent entity's contingent liabilities.

d) Capital commitments

The parent entity had no capital commitments as at 30 June 2021 (2020: nil).



Note 26 Changes in accounting policy

Configuration or Customisation Costs in a Cloud Computing Arrangement (AASB 138 Intangible Assets)

On 27 April 2021, the International Financial Reporting Interpretations Committee (IFRIC) issued an addendum regarding the treatment of “Configuration or Customisation Costs in a Cloud Computing Arrangement”. The addendum clarified how a customer should account for the cost of configuring or customising a supplier’s software when it is a “Software as a Service” (SaaS) product.

The IFRIC concluded that configuration or customisation costs incurred by a customer in relation to application software which the customer has access to but does not own, should be expensed through profit or loss as these costs do not create a resource controlled by the customer which is separate from the software, unless they are paid to the suppliers of the SaaS arrangement to significantly customise the cloud-based software for the group, in which case the costs are recorded as a prepayment for services and amortised over the expected renewable term of the arrangement.

As a consequence, the Trust has retrospectively changed its accounting policy in respect of SaaS arrangements previously recorded as intangible assets, on the basis that these do not meet the recognition criteria in AASB 138 *Intangible Assets*.

The following table summarises the impact of this change in accounting policy on the Consolidated Financial Statements:

	2021 Cumulative \$'000	2020 Cumulative \$'000	1 July 2020 \$'000
Increase/(decrease) of previously recorded balances			
Consolidated Statement of Financial Position			
Intangible assets	(52,737)	(41,586)	(26,872)
Deferred tax liabilities	(15,821)	(12,476)	(8,062)
Net profit/Retained earnings	(36,916)	(29,110)	(18,810)

	2021 \$'000	2020 \$'000
Increase/(decrease) of previously recorded balances		
Consolidated Statement of Comprehensive Income		
Management operations, corporate and administration expenses	11,151	14,714
Profit before tax	(11,151)	(14,714)
Tax expense	(3,345)	(4,414)
Net profit	(7,806)	(10,300)
Earnings per share - basic	(0.72)	(0.94)
Earnings per share - diluted	(0.70)	(0.92)

	2021 \$'000	2020 \$'000
Increase/(decrease) of previously recorded balances		
Consolidated Statement of Cash Flows		
<i>Cash flows from operating activities</i>		
Payments in the course of operations (inclusive of GST)	11,151	17,970
<i>Cash flows from investing activities</i>		
Payments for intangibles	(11,151)	(17,970)

Note 27 Subsequent events

On 6 July 2021, Dexus implemented the Simplification from a quadruple stapled trust structure (comprised of DDF, DIT, DOT and DXO) to a dual stapled trust structure. This was achieved by “top-hatting” three of the existing trusts (DDF, DIT and DOT) with a newly established trust, Dexus Property Trust (DPT). Effective from this date, the Simplified Group now comprises a unit in each of DXO and DPT, with DXFM appointed as the Responsible Entity of DPT.

On 27 July 2021, APN Property Group (APN) security holders approved the Scheme of Arrangement for Dexus to acquire all of the stapled securities in APN for an all cash-consideration of 90 cents per security. On 13 August 2021, the Scheme was implemented. Effective from this date, APN is now a wholly owned subsidiary of Dexus.

On 9 August 2021, settlement occurred for the disposal of 436-484 Victoria Rd, Gladesville for \$55.0 million excluding transaction costs.

On 13 August 2021, Dexus entered into an agreement to sell 22 Business Park Drive, Ravenhall for \$13.5 million excluding transaction costs.

Other disclosures (continued)

Note 27 Subsequent events (continued)

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 any lockdowns or border closures since 30 June 2021, 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 operation 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 11 to 50:



- (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 2021 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 2021.

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

16 August 2021



Independent auditor's report

To the stapled security holders of Dexus Operations Trust

Report on the audit of the Group financial report

Our opinion

In our opinion:

The accompanying Group 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 2021 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 2021
- 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 significant accounting policies and other explanatory information
- 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 & 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

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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
<ul style="list-style-type: none"> For the purpose of our audit we used overall materiality of \$5.0 million, which represents approximately 5% of the Group's adjusted profit before tax (Funds from Operations or FFO). We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the 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 thresholds. 	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> Amongst other relevant topics, we communicated the following key audit matters to the Board Audit Committee: <ul style="list-style-type: none"> Valuation of investment properties, including those investment properties in investments accounted for using the equity method Carrying amount of inventory Expected Credit Losses (ECL) associated with rental receivables related to property revenue These are further described in the <i>Key audit matters</i> 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
<p>Valuation of investment properties (Refer to Notes 9 and 10)</p> <p>The Group's investment property portfolio comprises:</p> <ul style="list-style-type: none">• Directly held properties included in the Consolidated Statement of Financial Position as Investment Properties valued at \$288.8 million as at 30 June 2021 (2020: \$252.4 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 \$9.2 million as at 30 June 2021 (2020: \$9.6 million) <p>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 the capitalisation rate, discount rate, terminal yield, and net market rental.</p> <p>In light of the continued impact and uncertainty surrounding the Coronavirus (COVID-19) pandemic, significant judgement was exercised by the Group in determining the significant assumptions used to determine fair value.</p> <p>The Group engaged external valuers to assist in the determination of the fair value of investment properties. For certain investment properties, the valuers have included a significant valuation uncertainty clause in their reports. 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 higher level of estimation uncertainty in relation to the valuation of investment properties.</p> <p>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 an independent valuation expert at least once every three</p>	<p>To assess the valuation of investment properties we performed the following procedures amongst others:</p> <ul style="list-style-type: none">• We compared the valuation methodology adopted by the Group with commonly accepted valuation approaches used for investment properties in the industry, and with the Group's stated valuation policy.• We obtained a selection of independent property market reports to develop an understanding of prevailing market conditions to assist us with assessing the expected impact on the Group's investment properties.• We assessed the design and tested the operating effectiveness of certain controls supporting the Group's investment property valuation process, including controls relating to the review and approval of valuations adopted.• We agreed the fair values of all properties to the external or internal valuation models.• For a sample of key data inputs to the valuations, we agreed details to supporting documentation. For example, we compared the rental income used in the investment property valuations to relevant lease agreements.• 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. <p>For those properties which met our selection criteria, we performed procedures to assess</p>



years. It has been the Group's practice to have such valuations performed every six months.

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 judgement involved in determining the fair value of investment properties in light of the continued impact and uncertainty surrounding the COVID-19 pandemic.
- The financial significance of the balance.
- The importance of the valuers' clause referring to valuation uncertainty to users' understanding of the Group financial report, where relevant.

the appropriateness of significant assumptions used in the valuations. These procedures included, amongst others:

- Meeting with the Group's Head of Valuations and discussing the specifics of the selected individual properties including, amongst other things, any new leases signed during the year, lease expiries, incentives, capital expenditure and vacancy rates.
 - Comparing significant assumptions such as the capitalisation rate, discount rate and net market rental used in the valuations to market analysis published by industry experts and recent market transactions.
 - Considering the impact of significant valuation uncertainty clauses, specific other uncertainties and adjustments related to COVID-19 included in independent valuers' reports, where applicable.
 - Testing the mathematical accuracy of the valuation calculations.
- As the Group engaged external experts to assist in the determination of the fair value of certain 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 independent valuation firms to develop an understanding of their processes, judgements and observations, as well as any material valuation uncertainty clauses included in their valuation reports and how they dealt with the uncertainties arising from COVID-19 in their valuations.
 - We assessed the reasonableness 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 9 to the consolidated 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 2021 the carrying amount of the Group's inventory was \$178.2 million (2020: \$337.0 million). The Group's inventories are held at the lower of the cost or net realisable value for each inventory asset.

The cost of inventory is calculated using actual acquisition costs, 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:

- Judgements required by the Group 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 exchanged 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 independent valuation experts.
 - We compared the carrying amount of inventory against the Group's estimate of net realisable value as at 30 June 2021 to identify assets with potential impairments.
- We assessed the reasonableness of the Group's disclosures in the Group financial report against the requirements of Australian Accounting Standards.



Key audit matter

How our audit addressed the key audit matter

Expected Credit Losses (ECL) associated with 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 (the Code) for tenants that suffered financial stress or hardship as defined by their eligibility for the Commonwealth Governments JobKeeper program. All State Governments subsequently legislated a version of the Code with all rent relief measures being concluded during the year ended 30 June 2021.

The Group continues to work with impacted tenants to finalise rent relief measures in accordance with the Code.

Australian Accounting Standards require that the Group recognise provisions for 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 ECL is recognised against the receivable.

We considered this a key audit matter due to the continued uncertainty in the economic environment and the uncertain outcome of continued rent relief negotiations with tenants which have resulted in significant estimation uncertainty when determining the provision for ECL at 30 June 2021.

In order to assess the appropriateness of ECL provisions 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 established by the Group in response to the continued 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 ECL provisions associated with property rental receivables and assessed whether the Group's treatment was in accordance with Australian Accounting Standard.
- For a sample of tenants where the outcome of rental relief negotiations was known, we agreed the amount of relief provided to relevant source documentation such as signed tenant agreements.
- Where the outcome of rental relief negotiations for tenants have not yet concluded 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 as an ECL against the property rental receivable balance. The model was also used to estimate the ECL provision of the remaining property rental receivables balance.

For the population of tenants for which the rent relief has not been agreed, we:

- Assessed whether the Group's significant assumptions used to calculate the expected rent relief were appropriate in light of current and forecast economic conditions.
- Recalculated the rent abatement for a sample of tenants.
- Checked the mathematical accuracy of the calculations within the model.
- Agreed the total relief expected to be provided per the model to the Group financial report.

In testing the Group's ECL provision model 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 ECL model to relevant source documentation.
 - Checked the mathematical accuracy of the calculations within the model.
 - Assessed the methodology applied against generally accepted market practice.
 - Considered the Group's judgements including the appropriateness of forward-looking information incorporated into the ECL model by assessing the forecasts, assumptions and probability weighting applied in multiple economic scenarios.
- We assessed the reasonableness 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 2021 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

A handwritten signature in black ink, appearing to read 'Matthew Lunn', written over a horizontal line.

Matthew Lunn
Partner

Sydney
16 August 2021