

Notice of Annual General Meeting 2017

Notice is hereby given by Dexus Funds Management Limited, as responsible entity of each of the four trusts that comprise Dexus, that the 2017 Annual General Meeting of Security holders will be held at:

Venue

Dexus
Level 25, Australia Square
264 George Street
Sydney NSW 2000

Date

Tuesday, 24 October 2017

Time

Registration – 1.30pm
Commencing – 2.00pm

In accordance with section 252S(1) of the Corporations Act 2001 (Cth), Dexus Funds Management Limited appoints Richard Sheppard to act as Chair.

Business of the Meeting

A. To present the Financial Report:

To present the Directors' Report, Financial Statements and Independent Auditor's Report for the financial year ended 30 June 2017.

B. Resolutions:

1. Adoption of the Remuneration Report

To consider and if thought fit pass the following Resolution as an ordinary resolution: "That the Remuneration Report for the financial year ended 30 June 2017 be adopted."

2. Approval of Independent Directors

2.1 Approval of an Independent Director – John Conde

To consider and if thought fit pass the following Resolution as an ordinary resolution:

"That the continuing appointment of John Conde as a Director of Dexus Funds Management Limited be approved (by ratification)"

2.2 Approval of an Independent Director – Peter St George

To consider and if thought fit pass the following Resolution as an ordinary resolution:

"That the continuing appointment of Peter St George as a Director of Dexus Funds Management Limited be approved (by ratification)"

2.3 Approval of an Independent Director – Mark Ford

To consider and if thought fit pass the following Resolution as an ordinary resolution:

"That the initial appointment of Mark Ford as a Director of Dexus Funds Management Limited be approved (by ratification)"

2.4 Approval of an Independent Director – Nicola Roxon

To consider and if thought fit pass the following Resolution as an ordinary resolution:

"That the initial appointment of Nicola Roxon as a Director of Dexus Funds Management Limited be approved (by ratification)"

3. Capital Reallocation Proposal

To consider and if thought fit pass the following Resolution as an ordinary resolution:

"That the Capital Reallocation Proposal described in Section 3 of the Explanatory Memorandum to the 2017 Notice of Meeting be approved for all purposes."

4. Ratification of placement

To consider and if thought fit pass the following Resolution as an ordinary resolution:

"That, for the purposes of ASX Listing Rule 7.4, the issue of 49,019,608 stapled securities, each comprising a unit in each of Dexus Diversified Trust, Dexus Industrial Trust, Dexus Office Trust and Dexus Operations Trust, to certain institutional and sophisticated investors at \$10.20 per Security on 27 June 2017 as described in the Explanatory Memorandum to the 2017 Notice of Annual General Meeting be ratified for all purposes."

5. Approval of an increase in the remuneration pool for Non-Executive Directors

To consider and if thought fit pass the following Resolution as an ordinary resolution:

"That the increase in the remuneration pool for the Non-Executive Directors of Dexus Funds Management Limited and its holding company Dexus Holdings Pty Limited as set out in the Explanatory Memorandum to the 2017 Notice of Annual General Meeting be approved for all purposes."

Information on each of the Resolutions is set out in the accompanying Explanatory Memorandum. You should also read the Procedural Notes which form part of this 2017 Notice of Annual General Meeting.

By Order of the Board



Brett Cameron
Company Secretary

Dexus Funds Management Limited

19 September 2017



Procedural notes

Dexus is the collective name of the four Trusts, and one unit in each of the Trusts together comprises one Security. As each Trust is a separate entity each is required to conduct a separate meeting.

Richard Sheppard, as Chair of the meetings, has determined that because the Resolutions to be proposed at each of the four meetings and the persons eligible to vote on the Resolutions are the same, each of the four meetings will be conducted concurrently so that, from an administrative and attendee point of view, the conduct of the meetings will be as if they were one single meeting.

Quorum

The quorum necessary for this Meeting is 10 Security holders present in person or by proxy. If a quorum is not present within 30 minutes after the scheduled time for the Meeting, the Meeting will be adjourned as the Chair directs.

Voting in person

If you wish to vote in person, you should attend the Meeting on Tuesday, 24 October 2017. Registration commences at 1.30pm with the Meeting to commence at 2.00pm at Dexus, Level 25, Australia Square, 264 George Street, Sydney NSW 2000.

A corporation that is a Security holder may appoint a person to act as its representative and vote at the Meeting. The appointment must comply with section 253B of the Corporations Act. The representative should bring to the Meeting evidence of his or her appointment including any authority under which it is signed and a "Certificate of Appointment of Corporate Representative". A form of the certification may be obtained from the Group's Security Registry.

If your Securities are jointly held, only one of the joint holders is entitled to vote. If both joint holders are present at the Meeting, only the vote of the person named first in the register counts. In the case of joint holders the Proxy Form may be signed by any one holder.

Voting by proxy

If you are unable to attend the Meeting in person you may appoint a proxy to attend the Meeting in your place. The proxy does not need to be a Security holder. If you are entitled to cast two or more votes, then you may appoint two proxies and may specify the proportion or number of votes each proxy is appointed to exercise. If no proportion or number is specified each proxy may exercise half of your votes.

To appoint a proxy please complete the accompanying Proxy Form and return it to the Security Registry, Link Market Services Limited or alternatively you can lodge your Proxy vote online at linkmarketservices.com.au following the instructions provided on the website.

You will need your Holder Identification Number (HIN) or Security Reference Number (SRN) to lodge your Proxy vote online. Proxy Forms and online Proxy votes should be received by 2.00pm Sunday, 22 October 2017 in accordance with the instructions set out on the Proxy Form. Return your Proxy Form or vote by:

- Lodging it online at linkmarketservices.com.au in accordance with the instructions provided on the website, or
- Posting it in the reply paid envelope provided to Dexus C/- Link Market Services Limited, Locked Bag A14 Sydney South NSW 1235, or
- Hand delivering it to Link Market Services Limited, 1A Homebush Bay Drive, Rhodes NSW 2138 or Level 12, 680 George Street, Sydney NSW 2000, or
- Faxing it to +61 2 9287 0309

Voting entitlement

Subject to the following, all Security holders appearing on the register of Securities of Dexus as at 7.00pm (AEDST) on Sunday, 22 October 2017 will be entitled to attend and vote at the Meeting.

Majority required

All Resolutions are ordinary resolutions. Each of the Resolutions will be passed if at least 50% of the votes cast by Security holders entitled to vote on the Resolution are cast in favour of the Resolution.

Poll

All Resolutions will be decided on a poll. On a poll, each Security holder has one vote for each whole \$1.00 of Security value (Security value is measured by reference to the last sale price for Securities on the ASX on the last day of trading immediately prior to the Meeting being Monday, 23 October 2017).

Voting exclusion statement

In accordance with section 253E of the Corporations Act, the Responsible Entity and its associates are not entitled to vote their interest on any Resolution if they have an interest in the Resolution other than as a member.

Certain persons are not entitled to vote on Resolutions 1, 4 or 5.

Refer to Sections 1, 4 and 5 of the Explanatory Memorandum for further information.

How the Chair will vote undirected proxies

In accordance with the instructions on your Proxy Form, if the Chair is your proxy and you do not direct the Chair how to vote, you will be taken to have directed the Chair to vote as the Chair sees fit on all Resolutions including Resolutions 1 and 5 notwithstanding that the Resolution is connected with the remuneration of members of Dexus's Key Management Personnel (KMP), details of whose remuneration are included in the Remuneration Report. The Chair intends to vote undirected proxies in favour of all Resolutions. Dexus asks all Security holders who submit proxies to direct their proxy on how to vote on each Resolution.

Enquiries

If you have any questions about the Resolutions, attending the Meeting, how to vote on the Resolutions or completing the Proxy Form, please contact the Dexus Infoline on 1800 819 675 Monday to Friday between 8.30am and 5.30pm (AEDST) or consult your financial or other professional advisor.

Explanatory Memorandum

Introduction

This Explanatory Memorandum is intended to provide Security holders with information to assess the merits of the Resolutions contained in the accompanying 2017 Notice of Annual General Meeting. Defined terms have the meaning attributed to them in the glossary. All monetary amounts (unless otherwise stated) are expressed in Australian dollars.

1. Adoption of the Remuneration Report

The purpose of Resolution 1 is to adopt the Remuneration Report for the financial year ended 30 June 2017. The Remuneration Report is in the 2017 Dexu Annual Report starting on page 32.

Under the Corporations Act, a listed company is required at its Annual General Meeting to put to its shareholders a resolution to approve its Remuneration Report. Consistent with its corporate governance framework, the Board of DXFM has determined that Dexu will be subject to this obligation even though it is a listed stapled group comprising real estate investment trusts. The vote on Resolution 1 is advisory only and does not bind the Directors or DXFM. However, if at least 25% of the votes cast on Resolution 1 are voted against the adoption of the 2017 Remuneration Report at the Meeting (first negative vote) then:

- If comments are made on the Remuneration Report at the Meeting, then Dexu's 2018 Remuneration Report will include an explanation of the DXFM Board's proposed action in response to those comments or, if no action is proposed, the DXFM Board's reasons for this, and
- If, at the 2018 Annual General Meeting, at least 25% of the votes cast on the resolution for adoption of the 2018 Remuneration Report are voted against (second negative vote), Dexu will put to Security holders at the 2018 Annual General Meeting a resolution proposing that an Extraordinary General Meeting (EGM) be called to consider the election of Directors of DXFM (Spill Resolution). If the Spill Resolution is passed (i.e. more than 50% of the votes cast are in favour of it), Dexu will call an EGM within 90 days of the 2018 Annual General Meeting and all of the DXFM Directors (other than the Chief Executive Officer) will cease to hold office following that EGM, unless they are re-elected at the EGM.

During the meeting, there will be an opportunity for Security holders to comment upon, and ask questions about the Remuneration Report.

Voting Exclusions

Consistent with Dexu's corporate governance framework, a vote must not be cast (in any capacity) on Resolution 1 by or on behalf of a member of Dexu's KMP and their closely related parties.

However, a vote may be cast on Resolution 1 by a KMP or its closely related parties if:

- The vote is cast as a proxy and the proxy appointment is in writing and specifies how the proxy is to vote on Resolution 1, and
- The vote is not cast on behalf of a KMP or a closely related party of a KMP

Resolution 1 will be decided by poll. Resolution 1 must be decided by at least 50% of votes cast at the Meeting by Security holders entitled to vote on the Resolution.

Recommendation

The Board unanimously recommends that Security holders vote in favour of Resolution 1 to adopt the Remuneration Report.

2. Approval of Independent Directors

At 30 June 2017, the Board of DXFM comprised eight members. All Directors are independent except for Dexu's Chief Executive Officer, Darren Steinberg. On 1 September 2017, Nicola Roxon was appointed as a director on the Board of DXFM, bringing the total number of directors on the Board to nine.

In accordance with the corporate governance framework adopted by Dexu, the Directors have determined that the continuing appointment of each Director other than the CEO will be approved (by ratification) by Security holders at the Annual General Meeting immediately succeeding their initial appointment, and thereafter at least every three years, with at least one Director seeking approval at each Annual General Meeting. If an individual Director's appointment or continued appointment as a Director fails to be approved by a majority vote of Security holders at the required Annual General Meeting then that Director will thereafter cease to hold the office of Director of DXFM.

2.1 Approval of an Independent Director – John Conde

John Conde is an Independent Director of Dexu Funds Management Limited, Chair of the Board People & Remuneration Committee and a member of the Board Nomination Committee.

He is the Chairman of Bupa Australia Holdings Pty Limited, Cooper Energy Limited and the McGrath Foundation. John is President of the Commonwealth Remuneration Tribunal and Deputy Chairman of Whitehaven Coal Limited.

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

2.2 Approval of an Independent Director – Peter St George

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

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

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

2.3 Approval of an Independent Director – Mark Ford

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

Mark is Chair of Cbus Property Pty Limited and Kiwi Property Group, and Non-Executive Director of the manager for China Commercial Trust. Mark also sits on the Investment Committee of Cbus Superannuation Fund and is a Director of Prime Property Fund Asia.

Mark has extensive property industry experience and has been involved in Real Estate Funds Management for over 25 years. Mark was previously Managing Director, Head of DB Real Estate Australia, where he managed more than \$10 billion in property funds and sat on the Global Executive Committee for Deutsche Bank Real Estate and RREEF.



Mark was also a Director in the Property Investment Banking division of Macquarie and was involved in listing the previous Macquarie Office Fund. Mark's previous directorships include Comrealty Limited, Property Council of Australia, Deutsche Asset Management Australia and he was also Chair of South East Asia Property Company. Mark previously held senior roles with Price Waterhouse and Macquarie Bank.

2.4 Approval of an Independent Director – Nicola Roxon

Nicola Roxon is an Independent Director of Dexus Funds Management Limited.

Nicola is Independent Chairman of Cancer Council Australia and the Accounting Professional and Ethical Standards Board, and Non-Executive director of Bupa, Australia and New Zealand and Lifestyle Communities Limited. Nicola is Chair and Adjunct Professor of Sir Zelman Cowen Centre, Victoria University and is a Patron for the BreastWest Foundation.

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

Resolutions 2.1, 2.2, 2.3 and 2.4 will be decided by poll. The Resolutions must be decided by at least 50% of the votes cast at the Meeting by Security holders entitled to vote on each Resolution.

Recommendation

The Board (other than the Directors abstaining) recommends that Security holders approve the continued appointment (by ratification) of John Conde, Peter St George, Mark Ford and Nicola Roxon as Independent Directors of DXFM and vote in favour of Resolutions 2.1, 2.2, 2.3 and 2.4.

Each Director whose continued appointment is being voted upon has abstained from making a recommendation on their continued appointment.

3. Capital Reallocation Proposal

This Section of the Explanatory Memorandum sets out information regarding Resolution 3 which relates to a proposed reallocation of capital within the stapled Trusts comprising Dexus (Capital Reallocation Proposal), which you should read in its entirety.

3.1 Overview

3.1.1 Rationale of the Capital Reallocation Proposal

Dexus comprises four stapled registered managed investment schemes being DDF, DOT, DIT and DXO each of which has its own separate capital structure.

The Group is currently well capitalised with gearing at 30 June 2017 at 22.1%¹, well below its target range of 30-40%. However, the Responsible Entity believes that DIT and DXO are capitalised in excess of their needs while DOT requires further capital to support its activities and to reduce its gearing to more appropriate levels.

The Capital Reallocation Proposal seeks to address this imbalance through:

- A return of capital by DIT and DXO, and
- The compulsory application of those amounts as a capital contribution to DOT

Security holders will not receive, or be required to contribute, any cash as part of the Capital Reallocation Proposal.

The Capital Reallocation Proposal is subject to approval by Security holders. It is also subject to the Responsible Entity forming the view, at the relevant time it is considering implementing the Capital Reallocation Proposal, that it would be in the best interests of Security holders to proceed.

3.1.2 Background

The capital requirements of each of DDF, DOT, DIT and DXO change over time as a result of:

- Acquisitions and disposals
- Operating income and losses
- Distributions to Security holders, and
- Changes in the value of the trusts' assets

At Dexus's Annual General Meeting in 2011, Security holders approved an amendment to the constitutions of the Trusts to enable capital reallocation proposals to be implemented if approved by an ordinary resolution. In 2011, Security holders also approved a capital reallocation to DIT and DXO from DDF and DOT which was implemented in December 2011 (the 2011 Reallocation). The 2011 Reallocation was conducted in response to excessive gearing in DIT and DXO at that time, primarily as a result of the global financial crisis.

Since the 2011 Reallocation, DOT has acquired approximately \$3.1 billion of assets with the effect that its current gearing is at a level that may limit its ability to undertake further acquisitions and redevelopments. The Group's investment plans involve continuing to consider and explore acquisition and redevelopment opportunities. A significant proportion of this is expected to occur in DOT. The Capital Reallocation Proposal will allow DOT to reduce its gearing level which, in turn, will provide DOT with a platform to implement the Group's plans.

At the same time, DIT and DXO have undertaken substantial asset sales and are currently capitalised well in excess of requirements.

The current net asset allocation among the Trusts can be seen in the first column of Figure 1 on page 5 which shows the proportion of the Group's \$8.8 billion of net assets as at 30 June 2017 held by the four Trusts.

The pro forma impact of the Capital Reallocation Proposal can be seen in the third column of Figure 1 on page 5 which shows the pro forma allocation at 30 June 2017 of the Group's net asset value (assuming the Capital Reallocation Proposal had been implemented on that date).

1. Excluding any transactions completed after 30 June 2017.

Explanatory Memorandum continued

Figure 1: Dexu – pro forma consolidated net asset allocation¹ as at 30 June 2017

	Current consolidated net asset position as at 30 June 2017 \$m	Capital reallocation \$m	Proforma consolidated net asset allocation after the Proposal \$m
DIT	1,067.2	(175.0)	892.2
DXO	359.4	(175.0)	184.4
DOT	4,851.0	350.0	5,201.0
DDF	2,560.6	-	2,560.6
DXS Group ²	8,824.5	-	8,824.5

1. Figures rounded to one decimal place.

2. Represents the consolidated results of Dexu (including DDF and its controlled entities). The DXS Group figures are not the sum of DDF, DOT, DIT and DXO as a result of consolidation adjustments and intra-group eliminations.

3.1.3 Implementation steps

The Capital Reallocation Proposal will proceed under the constitutions of each of DOT, DIT and DXO. Pursuant to those constitutions, the Capital Reallocation Proposal can be implemented if Security holders approve it as an ordinary resolution.

The steps required to implement the Capital Reallocation Proposal are as follows:

STEP 1 – Security holders approve the Capital Reallocation Proposal

STEP 2 – The Responsible Entity of DIT and DXO makes a capital payment of 17.21 cents per unit from each of DIT and DXO respectively, totalling approximately 34.42 cents per Security (or approximately \$175 million of capital from DIT and approximately \$175 million of capital from DXO).

STEP 3 – The Responsible Entity makes a contribution of 34.42 cents per unit to the existing DOT units (being approximately \$350 million to DOT).

If these steps are fully implemented:

- Each Security holder will continue to hold the same number of Securities
- Security holders will not be required to take any further action apart from updating their own records to reflect the change
- There will be no change in Dexu's net asset value per Security
- The Securities will continue to be quoted on ASX on the same basis

A timetable for the implementation of the Capital Reallocation Proposal will be announced on the ASX and Dexu's website if the Responsible Entity determines to proceed to implementation.

3.2 Resolutions

Under Resolution 3, Security holders will be asked to approve, as an ordinary resolution, the Capital Reallocation Proposal described in this Explanatory Memorandum.

Resolution 3 will be decided by poll. Resolution 3 must be passed by at least 50% of votes cast at the Meeting by or on behalf of Security holders entitled to vote on the Resolution.

3.3 Taxation implications

3.3.1 General

Set out below is a summary of the general Australian tax implications of the Capital Reallocation Proposal for Security holders that hold their Securities on capital account. These comments are of a general nature only and do not constitute tax advice and should not be relied upon as such. Security holders should obtain independent advice as to the taxation consequences to them of the Capital Reallocation Proposal.

The summary does not apply to Security holders that have made an election for Taxation of Financial Arrangements (known as "TOFA") purposes that affects the recognition of income in respect of Securities.

Given that there will be no capital distribution from, or capital allocation to, DDF as part of the Capital Reallocation Proposal, this summary does not deal with DDF units.

3.3.2 Income

The capital payment by DIT and DXO should not be included in a Security holder's assessable income as ordinary income.

3.3.3 Cost base – DIT and DXO units

Under the Capital Reallocation Proposal, a Security holder's cost base for each of their DIT and DXO units will be reduced by the lesser of that cost base and the amount of the capital payment attributed to DIT and DXO, respectively.

To the extent that the capital payment amount exceeds a Security holder's cost base for a DIT or DXO unit, the Security holder will make a capital gain equal to that excess. This capital gain will be disregarded if the Security holder is a non-resident and the DIT or DXO unit is not taxable Australian property. Where an Australian resident Security holder has held the relevant unit for at least 12 months, the capital gain would be reduced by 50% (for individuals and trusts) or 33.33% (for complying superannuation funds).

A company is not eligible to reduce its capital gain arising from the capital payment. A non-resident individual Security holder is not eligible to reduce its capital gain arising from the capital payment unless it acquired the DIT or DXO unit before 8 May 2012.

Generally, a Security holder's cost base in a DIT unit will be a proportion of the cost of acquisition of the Security in which it is included, reduced by tax deferred distributions by DIT in respect of that unit. Similarly, a Security holder's cost base in a DXO unit will be a proportion of the cost of acquisition of the Security in which it is included.

The proportion of the overall cost of a Security allocated to a DIT unit or a DXO unit should be based on a reasonable methodology such as the net asset value weighting of each entity at the time of acquisition. Details of historical issue prices and net asset value weightings are set out on Dexu's website at www.dexu.com/costbase

Based on an analysis of the historical trading price of Securities, the 2011 Reallocation and previous tax deferred distributions, the Responsible Entity considers that only a small percentage of Securities on issue, if any, could give rise to a capital gain as a result of the Capital Reallocation Proposal. However, all Security holders will have their cost bases in their DIT units and DXO units reduced.



The reduction in the cost base of a Security holder's DIT units may cause Security holders to make a capital gain on their DIT units as a result of future tax deferred distributions by DIT at a slightly earlier time than would have occurred, but for the Capital Reallocation Proposal.

3.3.4 Cost base – DOT units

A Security holder's cost base for their DOT units should be increased by the capital contribution. Because no new units will be issued by DOT, this will be an adjustment to the cost base of the existing units.

For Security holders that do not make a capital gain, the sum of the decreases in the cost base of their DIT and DXO units should be equal to the sum of the increases in the cost base of their DOT units. Accordingly, the overall cost base of each Security should remain the same.

For Security holders that do make a capital gain, the overall cost base of each Security should increase by the amount of the gross capital gain (i.e. before the application of the CGT discount, if available). That is, a future capital gain on disposal of a Security that would otherwise have been realised would be reduced by the amount of the capital gain resulting from the Capital Reallocation Proposal.

3.3.5 Acquisition date

The Capital Reallocation Proposal will not affect the date of acquisition of a Security holder's Securities for tax purposes.

3.3.6 Class ruling

The Responsible Entity has sought advice as to the tax treatment of the Capital Reallocation Proposal. That advice indicates that the impact of the Capital Reallocation Proposal for Security holders is as set out in this Section 3.3.

However, in order to remove any doubt, the Responsible Entity has applied to the Australian Taxation Office (ATO) for a class ruling for the benefit of Security holders to confirm the following key taxation consequences:

- The capital payment by DIT and DXO will not be included in a Security holder's assessable income
- A Security holder's cost base for each of their DIT and DXO units will be reduced by the lesser of that cost base and the amount of the capital payment attributed to each DIT and DXO unit, respectively
- A Security holder's cost base for their DOT units should be increased by the equity contribution attributed to each DOT unit and
- To the extent that the capital payment exceeds a Security holder's cost base for each of their DIT and/or DXO units, the Security holder will make a capital gain equal to that excess. However, this capital gain will be disregarded if the Security holder is a non-resident and the DIT or DXO unit is not taxable Australian property

Although we expect that the ATO will confirm the key taxation consequences are in accordance with Section 3.3, it is possible that the ATO may take a different view. If so, the Responsible Entity may determine to not proceed with the Capital Reallocation Proposal.

If Resolution 3 is passed, the Responsible Entity will update Security holders, on the ASX and Dexus's website, of the progress of the class ruling as well as any decision to proceed with the Capital Reallocation Proposal. A copy of the class ruling will be made available on the Dexus website once it is issued. Information regarding cost base adjustments referred to in 3.3.3 and 3.3.4 will be provided in the Dexus Attribution Managed Investment Trust Member Annual Statement to assist Security holders to maintain their tax records.

3.4 Financial information illustrating the Capital Reallocation Proposal

3.4.1 Introduction

The financial information below comprises the pro forma Consolidated Statement of Financial Position for each of the DDF, DIT, DOT, DXO and the consolidated Group as at 30 June 2017.

The financial information in respect to each of DDF, DIT, DOT, DXO and the Group has been compiled from the audited 30 June 2017 Financial Statements. The financial information has been subject to a number of pro forma adjustments to represent the impact of the Capital Reallocation Proposal had it occurred on 30 June 2017. Financial information for the Group has been included to illustrate the impact of the Capital Reallocation Proposal on the consolidated Group after elimination of the inter entity transactions and balances arising as a result of the Capital Reallocation Proposal.

The financial information for the Trusts and the Group has been prepared in accordance with the measurement and recognition criteria of Australian Accounting Standards and Dexus accounting policies. It is presented in abbreviated form and does not include the disclosures and notes required in an annual financial report prepared in accordance with Australian Accounting Standards and the Corporations Act 2001.

Explanatory Memorandum continued

3.4.2 Discussion and analysis

The key outcomes of the Capital Reallocation Proposal are shown in the table below. In summary:

- The Group's net assets will not change on implementation of the Capital Reallocation Proposal because the consolidated net assets of DIT and DXO will each reduce by approximately \$175 million and the consolidated net assets of DOT will increase by approximately \$350 million
- Gearing for the Group will not change (gearing for DOT will reduce, DXO gearing will increase and DIT lending will decrease)

	DIT \$m	DXO \$m	DOT \$m	DDF \$m	DXS Group ¹ \$m
Prior to capital reallocation					
Total assets	1,113.1	772.2	7,911.7	4,079.0	12,270.1
Total liabilities	(45.8)	(412.8)	(3,060.7)	(1,518.4)	(3,445.6)
Consolidated net assets	1,067.2	359.4	4,851.0	2,560.6	8,824.5
Gearing – look-through basis	0.0%	36.9%	35.4%	32.1%	22.1%
Gearing – including intangible assets ²	0.0%	22.1%	35.4%	32.1%	21.5%
Capital reallocation	(175.0)	(175.0)	350.0	-	-
Post capital reallocation					
Total assets	938.1	772.2	7,911.7	4,079.0	12,270.1
Total liabilities	(45.8)	(587.8)	(2,710.7)	(1,518.4)	(3,445.6)
Consolidated net assets	892.2	184.4	5,201.0	2,560.6	8,824.5
Gearing – look-through basis	0.0%	74.9%	31.0%	32.1%	22.1%
Gearing – including intangible assets ²	0.0%	44.8%	31.0%	32.1%	21.5%

1. Represents the consolidated results of Dexu (including DDF and its controlled entities). The DXS Group figures are not the sum of DDF, DOT, DIT and DXO as a result of consolidation adjustments and intra-group eliminations.

2. Gearing is adjusted to include the impact of intangible assets reported in DXO and DXS Group. Gearing on a look-through basis excludes the impact of intangible assets.

As a result of the Capital Reallocation Proposal and its impact on debt in each Trust there will be:

- An increase in finance costs per annum in DXO and a reduction in interest income in DIT (for the year ended 30 June 2017, this would have equated to \$7.2 million for each on a pro forma basis)
- A corresponding reduction in finance costs per annum in DOT and a reduction in interest income in DIT (for the year ended 30 June 2017, this would have equated to \$14.7 million for each on a pro forma basis)

The finance costs impact arising from the Capital Reallocation Proposal will reduce profit after tax reported by DXO and increase profit after tax reported by the Group. For the year ended 30 June 2017, this would have been a reduction/increase of \$2.2 million (being 30% of \$7.2 million) on a pro forma basis, which represents 0.2% of Group profit after tax.

The increased finance costs arising from the Capital Reallocation Proposal will impact the Group's current income tax liability which will increase DXO and the Group's funds from operations.

3.4.3 Assumptions

The key assumptions upon which the pro forma financial information above is based are:

- DIT and DXO reduce their capital by approximately \$175 million each, with the funding provided through intra-group loans
- DOT will increase its capital by approximately \$350 million and utilise the funds to repay intra-group loans

Recommendation

The Board believe that Resolution 3 is in the best interests of Security holders and recommend that you vote in favour of it.

The Responsible Entity will only proceed with the Capital Reallocation Proposal if Resolution 3 is passed and if it forms the view, at the relevant time that it would be in the best interests of Security holders to proceed. The factors the Responsible Entity may take into account in making that decision will include the status of the class ruling application at that time (see Section 3.3.6).

At this stage, the Responsible Entity wishes to retain flexibility as to the timing of implementation of the Capital Reallocation Proposal and so has neither set a date for implementing the Proposal nor a fixed timeframe in which it is required to do so.

4. Ratification of placement

On 21 June 2017, Dexus announced an equity raising that comprised an Institutional Placement and Security Purchase Plan (SPP) raising over \$500 million. The proceeds from this equity raising allowed Dexus to pursue compelling acquisition opportunities while maintaining low gearing.

Under the Institutional Placement, completed on 22 June 2017, 49,019,608 Securities were issued to certain institutional and sophisticated investors at \$10.20 per Security raising \$500 million. Participants in this raising comprised a mix of new and existing wholesale institutional investors in Dexus. The new Securities were issued on the same terms as the existing Securities on issue.

Under ASX Listing Rule 71, Dexus is not permitted to issue more than 15% of its issued capital in any 12 month period unless the issue is approved by Security holders or an exemption applies to the issue. Dexus advises that an exemption applies for the SPP, however, the Institutional Placement is excluded under that exemption.

Under ASX Listing Rule 74 issues of Securities made without Security holder approval may be treated as having been made with Security holder approval if the issue did not breach the listing rules and is subsequently approved by Security holders. An issue so approved is then not counted towards the calculation of the use of the 15% limit under the ASX Listing Rule 71.

The Institutional Placement undertaken on 22 June 2017 reduced Dexus's capacity to issue Securities without Security holder approval or an exemption from ASX Listing Rule applying. Accordingly, Security holders are being requested to ratify the issue of Securities as described above under ASX Listing Rule 74. This will ensure that Dexus has the maximum flexibility to raise capital going forward. Dexus has no current plan to raise capital (although it may do so in the future).

Voting exclusions

Dexus will disregard any votes cast by any person who participated in the Institutional Placement to which the resolution relates or who holds Securities for the benefit of a person who obtained those Securities by way of the Institutional Placement or by an associate of such a person.

However, Dexus need not disregard a vote if:

- It is cast by a person referred to above as proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form or
- It is cast by the Chair of the Meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides

Resolution 4 will be decided by a poll. As an ordinary resolution, the resolution will be passed if at least 50% of the votes cast in person or by proxy at the Meeting by members who are entitled to vote on the resolution are voted in favour of the resolution.

Recommendation

The Board unanimously recommends that Security holders ratify the placement and issue of Securities as described above and vote in favour of Resolution 4.

5. Approval of an increase in the remuneration pool for Non-Executive Directors

Resolution 5 seeks approval by Security holders to an increase in the remuneration pool for Non-Executive Directors of DXFM and its holding company Dexus Holdings Pty Limited from a maximum of \$2.20 million per annum to a maximum of \$2.50 million per annum.

The Non-Executive Directors' remuneration pool was last increased following the approval of Security holders at the 2014 Annual General Meeting held on 29 October 2014. The remuneration of Non-Executive Directors is recommended by the Board People & Remuneration Committee and is set by the Board. There are no changes proposed to Non-Executive Directors' base or committee fees.

The remuneration framework under which the Board People & Remuneration Committee operates is outlined in the Remuneration Report that commences on page 32 in the 2017 Dexus Annual Report.

The Board People & Remuneration Committee reviewed the size of the remuneration pool and recommended that Security holder approval be sought for an increase in the pool to \$2.50 million. The proposed increase will provide the capacity to continue Board renewal activities.

Voting exclusions

Consistent with Dexus's corporate governance framework, a vote must not be cast on Resolution 5 by a member of Dexus's KMP or a closely related party, acting as proxy, if the appointment does not specify the way the proxy is to vote on Resolution 5. However, this voting exclusion does not apply if the member of Dexus's KMP is the Chair of the Meeting acting as proxy and their appointment expressly authorises the Chair of the Meeting to exercise the proxy even though the Resolution is connected directly or indirectly with the remuneration of a member of the KMP of the Group. As required by the ASX Listing Rules, the Group will disregard any votes cast on Resolution 5 by any Director of DXFM and any associate of a Director of DXFM. However, the Group need not disregard a vote if:

- It is cast by a person referred to above as proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form or
- It is cast by the Chair of the Meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides

Resolution 5 will be decided by poll. Resolution 5 must be decided by at least 50% of the votes cast at the Meeting by Security holders entitled to vote on the Resolution.

Recommendation

Given their personal interest in the subject matter of this Resolution, the Board makes no recommendation to Security holders on Resolution 5.

Glossary

ASX	means ASX Limited or the market operated by ASX Limited, as applicable
Board	means the Board of Directors of DXFM being the responsible entity of the Trusts
Corporations Act	means the Corporations Act 2001 (Cth)
Dexus or the Trusts or the Group	means DDF, DIT, DOT and DXO and their controlled entities
DDF	means Dexus Diversified Trust (ARSN 089 324 541)
DIT	means Dexus Industrial Trust (ARSN 090 879 137)
DOT	means Dexus Office Trust (ARSN 090 768 531)
DXFM	means Dexus Funds Management Limited (ABN 24 060 920 783)
DXO	means Dexus Operations Trust (ARSN 110 521 223)
Meeting	means the meetings of the Security holders of the units in each of the four Trusts to be held concurrently and in conjunction with each other on the date set out in the Notice of Annual General Meeting
Notice of Annual General Meeting	means the Notice of Annual General Meeting dated 19 September 2017
Responsible Entity	means Dexus Funds Management Limited (ABN 24 060 920 783) as the responsible entity of each of the four Trusts
Resolution	means a resolution contained in the Notice of Annual General Meeting
Security or Securities	means a stapled Security of Dexus each consisting of one unit in each of the four Trusts that comprise Dexus (ASX: DXS)
Security holders	means the holders of Securities
KMP	means Key Management Personnel as described in Section 3 of the 2017 Remuneration Report

Directory

Dexus Diversified Trust
ARSN 089 324 541
Dexus Industrial Trust
ARSN 090 879 137
Dexus Office Trust
ARSN 090 768 531
Dexus Operations Trust
ARSN 110 521 223

Responsible Entity

Dexus Funds Management Limited
ABN 24 060 920 783
AFSL 238163

Registered office of Responsible Entity

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264 George Street
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Fax: +61 2 9017 1101
Email: ir@dexus.com
Website: www.dexus.com

Directors of the Responsible Entity

W Richard Sheppard, Chair
Elizabeth A Alexander AM
Penny Bingham-Hall
John C Conde AO
Tonianne Dwyer
Mark H Ford
Nicola L Roxon
Darren J Steinberg, CEO
Peter B St George

Secretaries of the Responsible Entity

Brett Cameron
Rachel Caralis

Auditors

PricewaterhouseCoopers
Chartered Accountants
201 Sussex Street
Sydney NSW 2000

Investor Enquiries

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www.dexus.com

Security Registry

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Sydney South NSW 1235

Infoline: +61 1800 819 675
Fax: +61 2 9287 0309
Email: dexus@linkmarketservices.com.au
Website: linkmarketservices.com.au

Monday to Friday between 8.30am and 5.30pm (Sydney time).

For enquiries regarding your holding please contact the Security Registry, or access your Security holding at www.dexus.com/update

Australian Securities Exchange

ASX Code: DXS

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