

2013 ANNUAL REPORT

# DEXUS



## ANNUAL REPORT 2013

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### 2013 Annual Reporting suite



DEXUS Property Group presents its 2013 Annual Reporting Suite and supporting material for the year ended 30 June 2013:

1. The 2013 DEXUS Annual Review – an integrated report summarising our financial, operational and Corporate Responsibility and Sustainability (CR&S) performance.
2. This 2013 DEXUS Annual Report – provides DXS's Consolidated Financial Statements, Corporate Governance Statement and Board of Directors information. This document should be read in conjunction with the 2013 DEXUS Annual Review.
3. The 2013 DEXUS Combined Financial Statements – the Financial Statements of DEXUS Industrial Trust, DEXUS Office Trust and DEXUS Operations Trust. This document should be read in conjunction with the 2013 DEXUS Annual Report and Annual Review.
4. The 2013 DEXUS Performance Pack – provides the data and detailed information supporting the results outlined in the 2013 DEXUS Annual Review and will be available in our online Annual Reporting Suite from early September 2013.

In these reports, DEXUS demonstrates how it manages its financial and non-financial performance in line with its strategy. Further CR&S information can be found on our website at [www.dexus.com/crs](http://www.dexus.com/crs).

The Annual Reporting Suite is available in hard copy by email request to [ir@dexus.com](mailto:ir@dexus.com) or by calling 1800 819 675. The online Annual Reporting Suite is available at [www.dexus.com](http://www.dexus.com) and will be online from early September 2013.

DEXUS Property Group (DXS) (ASX Code: DXS) consists of DEXUS Diversified Trust (DDF) (ARSN 089 324 541), DEXUS Industrial Trust (DIT) (ARSN 090 879 137), DEXUS Office Trust (DOT) (ARSN 090 768 531) and DEXUS Operations Trust (DXO) (ARSN 110 521 223), collectively known as DXS or the Group.

Under Australian Accounting Standards, DDF has been deemed the parent entity for accounting purposes. Therefore the DDF consolidated Financial Statements include all entities forming part of DXS.

All ASX and media releases, Financial Statements and other information are available on our website: [www.dexus.com](http://www.dexus.com)

### A year of successful delivery on our revised strategy

Despite the uncertainty in global markets we had a successful and busy year delivering a solid operational result, meeting our earnings guidance and achieving an improved distribution per security.

Following the announcement of our revised strategy in August 2012, we remained focused on delivering risk-adjusted returns for our investors, maintaining our agility to execute a number of strategic and operational initiatives.

The year involved the sale of properties in offshore markets and reinvestment into the Australian office market, which was completed without impacting earnings. Our transactional activity strengthened the DEXUS platform and increased the composition of the listed DXS portfolio towards Australian office.

We engaged in a total of \$2.9 billion of transactions across the Group, including jointly acquiring four properties with DEXUS Wholesale Property Fund.

The most significant achievement was the sale of our entire US portfolio for US\$617 million across three transactions achieving a 12% premium to prior book value. Equally successful was the reinvestment of \$1.1 billion into Australian office markets, which included acquiring:

- a 50% interest in 12 Creek Street, Brisbane
- a 100% interest in 50 Carrington Street, Sydney
- a 25% interest in Grosvenor Place, Sydney
- a 50% interest in 39 Martin Place, Sydney
- a 50% interest in 2-4 Dawn Fraser Avenue, Sydney Olympic Park
- a 100% interest in 40 Market Street, Melbourne
- a 50% interest in fund-through investments at 480 Queen Street, Brisbane and Kings Square, Perth

The major benefit of these acquisitions has been the enhancement to investor returns through the improvement in the quality of our earnings.

Our full exit from US and European markets has enabled us to fully dedicate our resources to our core Australian CBD office markets and enhance the performance of the total portfolio, progressing our objective of being the leading owner and manager of Australian office.

On 25 July 2013, we announced that we had acquired a 14.9% economic interest in the ASX listed Commonwealth Property Office Fund (CPA). We consider this to be a good investment at a discount to CPA's Net Tangible Asset backing, and one which will benefit DEXUS security holders in the long-term.

On the capital management front, we actively managed our capital and risk, repaying the majority of US debt associated with the US portfolio and securing US\$300 million of long-term US Private Placement notes. We utilised the on-market securities buy-back on an opportunistic basis when it enhanced investor returns.

We continued to carefully manage operating cash flow with the objective of fully funding distributions from free cash flow. This was reflected in the increase to the Group's distribution payout ratio for the six months to 30 June 2013 from 75% to 80% of FFO, following a reduction in capital expenditure over the period. This increase in the payout ratio resulted in an upgraded distribution of 6.0 cents per security and an average payout of 77.4% for the year.

#### Underlying fundamentals remain challenging

Continued volatility in global markets, together with economic uncertainty in Europe and China, impacted business confidence during 2013. With many of our tenants being global subsidiaries or having a global focus, the impact of this uncertainty further dampened tenant demand.

In a market affected by global and domestic factors, our team faced challenging leasing conditions. During FY13 we concentrated our efforts on proactive leasing and have positioned the portfolio for solid growth in FY14, underpinned by strong like-for-like office income growth.

Although the underlying fundamentals remain challenging, Australia continues to be an attractive investment destination for pension and sovereign wealth funds. Our view is the weight of capital seeking quality Australian office and industrial buildings will contribute to a further tightening of capitalisation rates in buildings with strong fundamentals over the next 12 to 18 months. Recent transactional evidence supports this view.

#### Board commitment to strong corporate governance

The Board chooses to be at the forefront of best practice corporate governance and believes that a strong corporate governance platform underpins the achievement of its strategic objectives.

Over the past year we focused on our commitment to transparency and continuous disclosure, investigating ways to enhance transparency, improve processes and work more actively to keep our investors fully informed.

In an effort to gain a better understanding of and respond to our institutional investor views on corporate governance, CEO remuneration and other areas of interest, the Board commenced an institutional investor engagement program during the year, which has proven to be an informative and valuable initiative.

## LETTER FROM THE CHAIR

To build on the effectiveness of the Board, we appointed an independent consultant to evaluate the performance of the Board, its Committees and the contribution of each Director. Led by the independent consultant, the Board also assessed my effectiveness as the Chairman. Details relating to the evaluation are included in the corporate governance statement on pages 6 to 17.

Our 2012 remuneration report and the revised executive remuneration framework were overwhelmingly supported by investors at the Annual General Meeting held in November 2012. The revised remuneration framework, which aligns to the Group's revised strategy, enables and encourages DEXUS Independent Directors and DEXUS Executives to hold DXS securities. The full 2013 remuneration report starts on page 19.

### Enhancement to the Board of Directors

DEXUS's Chief Financial Officer, Craig Mitchell, was appointed to the Board on 12 February 2013. Craig has been with DEXUS for more than five years and has over 20 years' financial management and accounting experience, with more than 15 of those years specialising in property. Craig's knowledge and experience has further strengthened the expertise of the Board.

At the date of this report, the Board comprised ten Directors, eight of whom are independent.

### Good corporate citizenship

Embedded in our Corporate Responsibility and Sustainability (CR&S) framework is our commitment to maintaining the highest standards of governance and business ethics.

We deliver this through our service excellence approach to tenants and capital partners, the development of our people, our supplier partnerships and engagement within our communities.

We take account of our obligations under the UNPRI in our investment decision making, delivering good corporate citizenship.

This year we have continued to build on the significant successes that we have achieved in sustainability and have outlined these in an integrated way throughout this report. They include improvements in our NABERS Energy ratings across our office portfolio to an average of 4.7 stars, maintaining our focus on corporate responsibility and achieving a carbon neutral accreditation for our head office for the third consecutive year.

### Outlook

Our strategic achievements and the Group's performance in FY13 is testament to the strength of our people, and on behalf of the Board of Directors I thank them for their hard work and commitment during the year.

Despite the near-term uncertainty, we believe the medium to long-term market outlook remains promising on the back of low interest rates, and improvement in business sentiment. The prospect of an improved economy is expected to have a positive impact on tenant demand from late-2014 and the Group is well-positioned to capture the sustained recovery in Australian property markets.

DEXUS enters FY14 with a clear vision and strategy. The combination of this clear strategy, the team's focus on driving performance and the quality of our properties provides a solid foundation for delivering superior returns for investors.

On behalf of the Board, I would like to thank you for your continued support and look forward to reporting on the Group's progress over the next year.



**Christopher T Beare**

Chair  
16 August 2013

## FIVE YEAR FINANCIAL SUMMARY

	2009 \$m	2010 \$m	2011 \$m	2012 \$m	2013 \$m
<b>Consolidated Statement of Comprehensive Income</b>					
<b>Profit and loss</b>					
Property revenue	708.5	663.1	629.1	535.7	546.6
Management fees	63.7	51.6	50.6	50.3	48.5
Proceeds from sale of inventory	–	–	3.3	49.8	24.4
Property revaluations	–	–	148.4	43.0	185.9
Reversal of previous impairment	–	13.3	–	–	20.5
Contribution from equity accounted investments	–	(26.2)	34.1	13.8	37.9
Other income	5.7	10.1	5.5	1.7	1.2
<b>Total income</b>	<b>777.9</b>	<b>711.9</b>	<b>871.0</b>	<b>694.3</b>	<b>865.0</b>
Property expenses	(174.5)	(169.8)	(151.9)	(133.5)	(134.9)
Cost of sale of inventory	–	–	(3.4)	(44.0)	(22.9)
Finance costs	(384.2)	(190.7)	(52.7)	(118.0)	(98.6)
Net gain/(loss) on sale of investment properties	(1.9)	(53.3)	7.1	–	(3.7)
Property devaluations and impairments	(1,685.7)	(209.4)	–	(14.9)	(2.2)
Other expenses	(107.2)	(87.1)	(93.7)	(76.4)	(79.5)
<b>Total expenses</b>	<b>(2,353.5)</b>	<b>(710.3)</b>	<b>(294.6)</b>	<b>(386.8)</b>	<b>(341.8)</b>
Profit/(loss) before tax	(1,575.6)	1.6	576.4	307.5	523.2
Income and withholding tax benefit/(expense)	120.2	30.0	(21.3)	18.9	(1.7)
<b>Profit/(loss) after tax from continuing operations</b>	<b>(1,455.4)</b>	<b>31.6</b>	<b>555.1</b>	<b>326.4</b>	<b>521.5</b>
Loss from discontinued operations	–	–	–	(143.5)	(7.0)
<b>Net profit/(loss)</b>	<b>(1,455.4)</b>	<b>31.6</b>	<b>555.1</b>	<b>182.9</b>	<b>514.5</b>
Other non-controlling interests (including RENTS)	(3.7)	(0.2)	(2.1)	(1.8)	–
<b>Net profit/(loss) to stapled security holders</b>	<b>(1,459.1)</b>	<b>31.4</b>	<b>553.0</b>	<b>181.1</b>	<b>514.5</b>
<b>Operating EBIT</b>	<b>514.5</b>	<b>461.3</b>	<b>437.2</b>	<b>467.9</b>	<b>443.3</b>
Funds from operations (cents per security)	10.43	7.30	7.40	7.65	7.75
Distributions (cents per security)	7.30	5.10	5.18	5.35	6.00 <sup>1</sup>
<b>Consolidated Statement of Financial Position</b>					
Cash and receivables	120.7	89.4	109.9	90.0	44.7
Property assets <sup>2</sup>	7,735.9	7,306.6	7,487.1	6,922.7	7,258.4
Other (including derivative financial instruments and intangibles)	494.5	475.0	390.7	351.4	449.5
<b>Total assets</b>	<b>8,351.1</b>	<b>7,871.0</b>	<b>7,987.7</b>	<b>7,364.1</b>	<b>7,752.6</b>
Payables and provisions	289.6	281.2	274.3	277.0	275.8
Interest bearing liabilities	2,509.0	2,240.1	2,215.1	1,940.8	2,167.1
Other (including financial instruments)	406.3	343.3	191.4	139.0	118.0
<b>Total liabilities</b>	<b>3,204.9</b>	<b>2,864.6</b>	<b>2,680.8</b>	<b>2,356.8</b>	<b>2,560.9</b>
Net assets	5,146.2	5,006.4	5,306.9	5,007.3	5,191.7
Minority interest	206.8	205.2	204.0	–	–
<b>Net assets (after non-controlling interest)</b>	<b>4,939.4</b>	<b>4,801.2</b>	<b>5,102.9</b>	<b>5,007.3</b>	<b>5,191.7</b>
NTA per security (\$)	1.01	0.95	1.01	1.00	1.05
Gearing ratio <sup>3</sup> (%)	31.2	29.8	28.4	27.2	29.0
<b>Consolidated Statement of Changes in Equity</b>					
Total equity at the beginning of the year	5,835.1	5,146.2	5,006.4	5,306.9	5,007.3
Net profit/(loss)	(1,455.4)	31.6	555.1	182.9	514.5
Other comprehensive income/(loss)	(53.5)	(7.0)	(4.9)	41.8	29.7
Contributions of equity, net of transaction costs	1,129.9	90.3	14.6	–	–
Buy back of contributed equity, net of transaction costs	–	–	–	(51.0)	(77.5)
Acquisition of non-controlling interest	–	–	–	(204.0)	–
Distributions provided for or paid	(296.6)	(244.4)	(250.7)	(257.4)	(282.1)
Other transactions with equity holders	–	–	–	0.1	(0.2)
Other non-controlling interest movements during the year	(13.3)	(10.3)	(13.6)	(12.0)	–
<b>Total equity at the end of the year</b>	<b>5,146.2</b>	<b>5,006.4</b>	<b>5,306.9</b>	<b>5,007.3</b>	<b>5,191.7</b>
<b>Consolidated Statement of Cash Flows</b>					
Net cash inflow from operating activities	359.6	340.2	239.3	348.4	193.5
Net cash inflow/(outflow) from investing activities	(212.5)	90.6	(227.0)	659.6	(84.9)
Net cash inflow/(outflow) from financing activities	(170.2)	(444.4)	4.9	(1,019.9)	(155.6)
Net increase/(decrease) in cash and cash equivalents	(23.1)	(13.6)	17.2	(11.9)	(47.0)
Cash and cash equivalents at the beginning of the year	99.2	84.8	64.4	73.7	59.2
Effects of exchange rate changes on cash and cash equivalents	8.7	(6.8)	(7.9)	(2.6)	2.7
<b>Cash and cash equivalents at the end of the year</b>	<b>84.8</b>	<b>64.4</b>	<b>73.7</b>	<b>59.2</b>	<b>14.9</b>

1. 77.4% of FFO in FY13.

2. Property assets include investment properties, non-current assets held for sale, inventories and investment property accounted for using the equity method.

3. Includes cash.



### **Christopher T Beare** Chair and Independent Director

**BSc, BE (Hons), MBA, PhD, FAICD**

Chris Beare is both the Chair and an Independent Director of DEXUS Funds Management Limited. Chris is also a member of the Board Nomination, Remuneration & Governance Committee and the Board Finance Committee.

Chris has significant experience in international business, technology, strategy, finance and management.

Previously Chris was Executive Director of the Melbourne based Advent Management venture capital firm prior to joining investment bank Hambros Australia in 1991. Chris became Head of Corporate Finance in 1994 and joint Chief Executive in 1995, until Hambros was acquired by Société Générale in 1998. Chris remained a Director of SG Australia until 2002. From 1998 onwards, Chris helped form Radiata, a technology start-up in Sydney and Silicon Valley, and as Chair and Chief Executive Officer, Chris steered it to a successful sale to Cisco Systems in 2001 and continued part-time for four years as Director Business Development for Cisco. Chris has previously been a director of a number of companies in the finance, infrastructure and technology sectors.



### **Elizabeth A Alexander AM** Independent Director

**BComm, FCA, FAICD, FCPA**

Elizabeth Alexander is an Independent Director of DEXUS Funds Management Limited, Chair of DEXUS Wholesale Property Limited and a member of the Board Audit, Risk & Sustainability Committee.

Elizabeth brings to the Board extensive experience in accounting, finance, corporate governance and risk management and was formerly a partner with PricewaterhouseCoopers. Elizabeth is currently the Chair of Medibank and the Chancellor of the University of Melbourne.

Elizabeth's previous appointments include National Chair of the Australian Institute of Company Directors, National President of the Australian Society of Certified Practising Accountants and Deputy Chairman of the Financial Reporting Council. Elizabeth was previously Chairman of CSL and a Director of Amcor and Boral.



### **Barry R Brownjohn** Independent Director

**BComm**

Barry Brownjohn is an Independent Director of DEXUS Funds Management Limited and is Chair of the Board Audit, Risk & Sustainability Committee.

Barry has over 20 years' experience in Australia, Asia and North America in international banking. Barry is an Independent Director of Citigroup Australia Pty Limited and a Director of Bakers Delight Holdings Pty Limited. He also serves as a member on the Board of Governors of the Heart Research Institute.

Barry previously held positions with the Bank of America including heading global risk management for the capital markets business, the Asia capital markets business and was the Australasian CEO between 1991 and 1996. Following his career with Bank of America, Barry has been active in advising companies in Australia and overseas on strategic expansion and capital raising strategies. Barry has also held numerous industry positions including Chairing the International Banks and Securities Association in Australia and the Asia Pacific Managed Futures Association.



### **John C Conde AO** Independent Director

**BSc, BE (Hons), MBA**

John Conde is an Independent Director of DEXUS Funds Management Limited, and is the Chair of the Board Nomination, Remuneration & Governance Committee.

John brings to the Board extensive experience across diverse sectors including commerce, industry and government. John is the Chairman of Bupa Australia Holdings Pty Limited, Cooper Energy Limited, Sydney Symphony Limited, Destination NSW and Deputy Chairman of Whitehaven Coal Limited. John is President of the Commonwealth Remuneration Tribunal and a Director of the McGrath Foundation Limited. John is also Chairman of the Australian Olympic Committee (NSW) Fundraising Committee and a Director of the AFC Asian Cup Australia 2015.

John was previously Chairman of Ausgrid (formerly EnergyAustralia), 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.



### **Tonia Dwyer** Independent Director

**BJuris (Hons), LLB (Hons)**

Tonia Dwyer is an Independent Director of DEXUS Funds Management Limited and DEXUS Wholesale Property Limited, and a member of the Board Compliance Committee.

Tonia brings to the Board significant experience as a company director and executive working in listed property, funds management and corporate strategy across a variety of international markets. Tonia is currently a Director of Cardno Limited and Queensland Treasury Corporation.

Tonia was a Director from 2006 until 2010 of Quintain Estates and Development – a listed United Kingdom property company comprising funds management, investment and urban regeneration and was Head of Funds Management from 2003. Prior to joining Quintain, Tonia was a Director of Investment Banking at Hambros Bank, SG Cowen and Société Générale based in London. Tonia also held directorships on a number of boards associated with Quintain's funds management business including the Quercus, Quantum and iQ Property Partnerships and the Bristol & Bath Science Park Stakeholder Board.



### **Stewart F Ewen OAM Independent Director**

Stewart Ewen is an Independent Director of DEXUS Funds Management Limited and a member of the Board Nomination, Remuneration & Governance Committee.

Stewart has extensive property sector experience and started his property career with the Hooker Corporation in 1966. In 1983, Stewart established Byvan Limited which, by 2000, managed \$8 billion in shopping centres in Australia, Asia and North America. In 2000, Stewart sold his interest in Byvan to the Savills Group. In 1990, he started NavyB Pty Ltd, which has completed in excess of \$600 million of major residential and commercial property projects in Australia and New Zealand. Stewart was previously Managing Director of Enacon Ltd, a Director of the Abigroup and Chairman of Tuscan Pty Ltd, which developed and operated the Sydney University Village.

Stewart was also a Director of CapitaCommercial Trust Management Limited in Singapore from 2004 to 2008. Stewart was previously President of the Property Council of NSW, member of the NSW Heritage Council and Chair of the Cure Cancer Australia Foundation.



### **Craig D Mitchell Chief Financial Officer and Executive Director**

**BComm, MBA (Exec), FCPA, Advanced Management Program – Harvard Business School 2011**

Craig is the Chief Financial Officer and an Executive Director of DEXUS Funds Management Limited.

Craig is responsible for operational and strategic finance, accounting, tax, treasury and third party funds management including management of the DEXUS retail property portfolio.

Craig has more than 20 years of financial management and accounting experience, with over 15 years specialising in the property industry.

Craig was previously the General Manager, Finance of the Commercial, Industrial, Capital Partners and Third Party funds divisions at Stockland Group. Prior to this Craig worked in a number of senior finance roles at Westfield.

Craig has a Masters of Business Administration (Executive) from the Australian Graduate School of Management, a Bachelor of Commerce and is a Fellow of CPA Australia. He has also completed the Advanced Management Program at Harvard Business School, Boston.



### **Richard Sheppard Independent Director**

**BEc Hons**

Richard Sheppard is an Independent Director of DEXUS Funds Management Limited and a member of the Board Finance and Board Audit, Risk & Sustainability Committees.

Richard brings to the DEXUS Board extensive experience in banking and finance and as a director and Chairman of listed and unlisted property trusts. Richard is Treasurer of the Bradman Foundation and a Director of the Sydney Cricket Club. He is also the Chairman of Green State Power Pty Ltd and the Macquarie Group Foundation, and a Director of Echo Entertainment Group.

He was Managing Director and Chief Executive Officer of Macquarie Bank Limited and Deputy Managing Director of Macquarie Group Limited from 2007 until late 2011. Following seven years at the Reserve Bank of Australia, Richard joined Macquarie Group's predecessor, Hill Samuel Australia in 1975, initially working in Corporate Finance. He became Head of the Corporate Banking Group in 1988 and headed a number of the Bank's major operating Groups, including the Financial Services Group and the Corporate Affairs Group. He was a member of the Group Executive Committee since 1986 and Deputy Managing Director since 1996. Richard was also Chairman of the Australian Government's Financial Sector Advisory Council from 2009 to 2011.



### **Darren J Steinberg Chief Executive Officer and Executive Director**

**BEc, FRICS, FAPI**

Darren Steinberg is the CEO of DEXUS Property Group and an Executive Director of DEXUS Funds Management Limited.

Darren has more than 25 years' experience in the property and funds management industry. Darren is the National President of the Property Council of Australia, a Fellow of the Royal Institution of Chartered Surveyors and the Australian Property Institute and a member of the Australian Institute of Company Directors.

Prior to joining DEXUS in March 2012, Darren was Managing Director Property for Colonial First State Global Asset Management. He has also held senior property roles with Stockland, Westfield, Lend Lease and Jones Lang Wootton.

Darren has a Bachelor of Economics from the University of Western Australia.



### **Peter St George Independent Director**

**CA(SA), MBA**

Peter is an Independent Director of DEXUS Funds Management Limited and the Chair of the Board Finance Committee.

Peter has more than 20 years' experience in senior corporate advisory and finance roles within NatWest Markets and Hill Samuel & Co in London. Peter is currently a Director of First Quantum Minerals Limited (listed on the Toronto Stock Exchange).

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 Spark Infrastructure Group, its related companies and SFE Corporation Limited.

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

ASX Corporate Governance Principles and Recommendations	
<p><b>Principle 1 – Lay solid foundations for management and oversight</b></p> <p>1.1 Companies should establish and disclose the functions reserved for the board and those delegated to senior executives</p> <p>1.2 Companies should disclose the process for evaluating the performance of senior executives</p>	Page 7
<p><b>Principle 2 – Structure of the board to add value</b></p> <p>2.1 A majority of the board should be independent directors</p> <p>2.2 The chair should be an independent director</p> <p>2.3 The roles of chair and chief executive officer should not be exercised by the same individual</p> <p>2.4 The board should establish a nomination committee</p> <p>2.5 Companies should disclose the process for evaluating the performance of the board, its committees and individual directors</p>	Pages 8–10
<p><b>Principle 3 – Promote ethical and responsible decision making</b></p> <p>3.1 Companies should establish and disclose a code of conduct or a summary of the code</p> <p>3.2 Companies should establish and disclose a policy concerning diversity or a summary of that policy. The policy should include requirements for the board to establish measurable objectives for achieving gender diversity. The board should assess annually both the objectives and progress in achieving them</p> <p>3.3 Companies should disclose in each annual report the measurable objectives for achieving gender diversity in accordance with the diversity policy and progress towards achieving them</p> <p>3.4 Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the board</p>	Pages 11–12
<p><b>Principle 4 – Safeguard integrity in financial reporting</b></p> <p>4.1 The board should establish an audit committee</p> <p>4.2 The audit committee should be structured so that it consists only of non-executive directors, with a majority of independent directors, is chaired by an independent chair who is not chair of the board and has at least three members</p> <p>4.3 The audit committee should have a formal charter</p>	Pages 13–14
<p><b>Principle 5 – Make timely and balanced disclosure</b></p> <p>5.1 Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for compliance and disclosure of those policies or a summary of those policies</p>	Page 14
<p><b>Principle 6 – Respect the rights of shareholders</b></p> <p>6.1 Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy</p>	Page 15
<p><b>Principle 7 – Recognise and manage risk</b></p> <p>7.1 Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies</p> <p>7.2 The board should require management to design and implement the risk management and internal control systems to manage the company’s material business risks and report on whether those risks are being managed effectively. The board should disclose that management has reported as to the effectiveness of the company’s management of its material business risks</p> <p>7.3 The board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks</p>	Pages 16–17
<p><b>Principle 8 – Remunerate fairly and responsibly</b></p> <p>8.1 The board should establish a remuneration committee</p> <p>8.2 The remuneration committee should be structured so that it consists of a majority of independent directors, is chaired by an independent chair and has at least three members</p> <p>8.3 Companies should clearly distinguish the structure of non-executive directors’ remuneration from that of executive directors and senior executives</p>	Page 17



DEXUS Funds Management Limited (DXFM) is the Responsible Entity of each of the four Trusts that comprise DEXUS Property Group (DEXUS, DXS). DXFM is also responsible for management of the Group's third party funds and mandates.

The Board implements a corporate governance framework that applies to all DXFM funds, the DEXUS Wholesale Property Fund and mandates. The framework is designed to support the strategic objectives of the Group by defining accountability and creating control systems to mitigate the risks inherent in day-to-day operations.

The framework meets the requirements of the ASX Corporate Governance Principles and Recommendations with 2010 Amendments (2nd edition), and addresses additional aspects of governance that the Board considers important.

Further information relating to DEXUS's corporate governance framework, including committee structure, Terms of Reference, key policies and procedures and a reconciliation of the ASX Principles against its governance framework is available at [www.dexus.com/corporategovernance](http://www.dexus.com/corporategovernance)

## Principle 1 – Lay solid foundations for management and oversight

### Roles and responsibilities

As DEXUS comprises four real estate investment trusts, its corporate governance practices satisfy the requirements relevant to unit trusts.

The Board determined that the governance framework will meet the highest standards of a publicly listed company. This includes the conduct of the Annual General Meeting, the appointment of Independent Directors by DEXUS security holders and disclosure of its remuneration report.

### Board responsibilities

The framework ensures accountability and a balance of authority by clearly defining the roles and responsibilities of the Board and executive management. This enables the Board to provide strategic guidance while exercising effective oversight.

The Board is responsible for:

- Reviewing and approving DEXUS's business objectives and strategies to achieve them. These objectives form performance targets for the Chief Executive Officer and the Group Management Committee members. Performance against these objectives is reviewed semi-annually by the Board Nomination, Remuneration & Governance Committee and is a primary input to the remuneration review of Group Management Committee members
- Approving the annual business plan
- Approving acquisitions, divestments and major developments
- Ensuring that DEXUS's fiduciary and statutory obligations to stakeholders are met

The Board is also directly responsible for appointing and removing the Chief Executive Officer and Company Secretary, ratifying the appointment of the Chief Financial Officer and monitoring the performance of the Group Management Committee.

### Group Management Committee responsibilities

The Board appoints a Group Management Committee responsible for achieving DEXUS's goals and objectives, including ensuring the prudent financial and risk management of the Group. Throughout the year the Group Management Committee generally met weekly.

Members of the Group Management Committee for 2013 were:

- Chief Executive Officer (and Executive Director)
- Chief Financial Officer (and Executive Director)
- Executive General Manager – Investor Relations, Marketing & Communications
- Executive General Manager – Office & Industrial (appointed 10 December 2012)
- Executive General Manager – People & Culture (previously Human Resources)
- Executive General Manager – Property Services & Chief Operating Officer
- Executive General Manager – Strategy, Transactions & Research
- General Counsel

## Principle 2 – Structure the Board to add value

### Board composition

The composition of the Board reflects the duties and responsibilities it discharges and is determined by relevant experience and general qualifications including:

- The ability and competence to make appropriate business decisions
- An entrepreneurial talent for contributing to the creation of investor value
- Relevant experience in the property, investment and financial services sectors
- High ethical standards
- Exposure to emerging issues
- A commitment to the fiduciary and statutory obligations to further the interests of all investors and achieve the Group's objectives

The incumbent Directors bring a range of skills and experience to the Board in the areas of strategy, property investment, funds management, capital markets, corporate governance and financial and risk management. Their expertise enables them to relate to the strategies of DEXUS and make a meaningful contribution to the Board's deliberations.

### Size

DEXUS has determined that the optimal size of the Board should be small enough to be able to act nimbly, but large enough to ensure a diverse range of views is provided on any issue.

During the year Craig Mitchell, the Chief Financial Officer, was appointed to the Board as an Executive Director. Craig has been with DEXUS for more than five years and has more than 20 years of financial management and accounting experience, with more than 15 of those years specialising in property.

At 30 June 2013, the Board comprised 10 members including eight Independent Directors, the Chief Executive Officer and the Chief Financial Officer. The DXFM constitution allows for the appointment of up to 10 Directors.

The tenure of Independent Directors at 30 June, 2013 was:

Name	0 to 3 years	3 to 6 years	6 to 9 years
Chris Beare (Chair)			8 years 10 months
Elizabeth Alexander AM			8 years 6 months
Barry Brownjohn			8 years 6 months
John Conde AO		4 years 2 months	
Tonianne Dwyer	1 year 10 months		
Stewart Ewen OAM			8 years 10 months
Richard Sheppard	1 year 6 months		
Peter St George		4 years 2 months	

### Board independence

Independent Directors are independent of management and must be free of any business or other relationship that could materially interfere with the exercise of his or her unfettered and independent judgement.

To be independent, a Director must not have, in the previous three years:

- Been retained as a professional adviser to DEXUS either directly or indirectly, or as determined by the Board
- Been a significant customer of DEXUS or supplier to DEXUS (as determined by the Chair)
- Held a significant financial interest in DEXUS either directly or indirectly (as determined by the Chair)
- Held a senior executive position at DEXUS

The Board regularly assesses the independence of its Directors, in light of interests disclosed to it.

While Directors of the Responsible Entity are not technically subject to the approval of security holders, the Board has determined that all Directors, other than the Chief Executive Officer and Chief Financial Officer, will stand for election by DEXUS stapled security holders. If a nominated Director fails to receive a majority vote that Director will not be appointed to the Board of DXFM.

DXFM Directors, other than the Chief Executive Officer and Chief Financial Officer, will hold office for three years following his or her first appointment (or, if appointed by the Board between DXS Annual General Meetings, from the date of the Annual General Meeting immediately succeeding the initial appointment).

Independent Directors are not expected to hold office for more than 10 years or be nominated for more than three consecutive terms, whichever is the longer. The Chair is an Independent Director who is responsible for leadership, the efficient organisation and conduct of the Board's functions and briefing Directors on issues arising relevant to the Board.

The Board defines the responsibilities and performance requirements of the Chief Executive Officer and performance is monitored by the Chair. Biographies outlining the skills and experience of each Director are set out on pages 4–5 of this Annual Report.

The procedure for selecting and appointing new Directors to the Board can be found at [www.dexus.com/corporategovernance](http://www.dexus.com/corporategovernance)

## Meetings

The Board generally meets monthly between February and November, with additional meetings held throughout the year as required.

Board meetings are normally held at the registered office of DEXUS, although some meetings may be held “offsite” to allow Directors to visit DEXUS owned and managed properties. To enable participation, video conferencing facilities are utilised as required.

Directors are expected to attend at least 75% of meetings a year. For the year to 30 June 2013, there was 100% attendance at all Board meetings.

Agenda items for Board meetings are set by the Chair in conjunction with the Chief Executive Officer and Company Secretary and include (but are not limited to):

- Chief Executive Officer's report
- Company Secretary's report
- Minutes of Board Committee meetings
- Reports on asset acquisitions, disposals and developments
- Management presentations
- Other business where Directors can raise any topical matters

Each Board meeting includes time for Independent Directors to meet without the Chief Executive Officer, Chief Financial Officer and other executives present. Senior management is available to provide clarification or answer questions Directors may have prior to the Board meeting, or to attend the Board meeting if requested by the Directors.

Some of the key decisions made by the Board during the year include the:

- Sale of the remainder of DEXUS's US assets
- Sale of the majority of DEXUS's European assets
- Entering into fund-through development agreements for two office developments in Brisbane and Perth
- Acquisition of office properties in Sydney and Melbourne
- Issuance of a US Private Placement
- Settlement of a new capital partnership to acquire a 50% in select industrial properties
- Decision to relocate DEXUS's head office to Australia Square

## Access to training and information

To ensure that each new Director is able to meet his or her responsibilities effectively, newly appointed Directors receive a briefing by DEXUS management on business strategy and operations.

New Directors receive an information pack which addresses the corporate governance framework, committee structures and their Terms of Reference, governing documents, and background reports.

In addition, Directors receive regular presentations by management and external advisers regarding sector, fund, and industry specific trends. Directors also attend property tours and are encouraged to pursue professional development opportunities at the Group's expense.

Directors, as required, are encouraged to:

- Seek independent professional advice, at the Group's expense
- Seek additional information from management
- Directly access senior DEXUS executives

**Principle 2 – Structure the Board to add value** (continued)

**Performance**

The Board Nomination, Remuneration & Governance Committee oversees a two-year Board performance evaluation program in which Board and committee performance is evaluated in the first year and individual Director performance in the next. Every third year, an independent consultant is engaged to facilitate the Board performance review applicable to that year.

During the year, an independent consultant was engaged to facilitate a review of the Board and Board committees addressing:

- The role of the Board
- Board interaction with management
- Board composition and the contribution of each director
- Board meeting effectiveness and interaction
- Effectiveness of sub committees

The review concluded that DEXUS has a “very strong and capable Board” and made several recommendations for incremental improvement that included:

- Investigating opportunities to optimise the Board’s contribution to DEXUS’s future growth
- Develop a more formal board renewal and transition process
- Consider changes to business performance monitoring and reporting in relation to strategy execution

DEXUS’s Performance Evaluation Policy is available at [www.dexus.com/corporategovernance](http://www.dexus.com/corporategovernance)

**Board support**

The Board has a number of committees to assist it in the fulfilment of its responsibilities including:

- Board Audit, Risk & Sustainability Committee
- Board Compliance Committee
- Board Finance Committee
- Board Nomination, Remuneration & Governance Committee

Board committee membership and responsibilities are revised regularly to ensure maximum effectiveness. Board committees are generally supported by specific management committees.

The Terms of Reference for the DEXUS Board and the Board committees are reviewed at least annually and are available at [www.dexus.com/corporategovernance](http://www.dexus.com/corporategovernance)

Independent Directors have a standing invitation to attend any or all Board committee meetings. Each Board Committee meeting has a standing agenda item to identify improvements to reporting or processes that would benefit the Committee, as well as any items that require immediate reference to the Board or a regulator (where applicable).

Board	Responsibility
<b>Board Committees</b>	<b>Oversight and Board support</b>
Nomination, Remuneration & Governance Committee Audit, Risk & Sustainability Committee Finance Committee Compliance Committee	
<b>Management Committees</b>	<b>Review and support function</b>
Group Management Committee Capital Markets Committee Compliance, Risk & Ethics Committee Continuous Disclosure Committee Project Steering Committee Investment Committee	

## Principle 3 – Promote ethical and responsible decision making

### Codes of Conduct

To meet statutory and fiduciary obligations of each investor group and to maintain confidence in its integrity, the Board implements a series of clearly articulated compliance policies and procedures to which all employees must adhere:

- The Board considers it important that all employees meet the highest ethical and professional standards and has consequently established an Employee Code of Conduct and a Directors' Code of Conduct, both of which are approved by the Board Compliance Committee. DEXUS's Anti-Bribery policy addresses the acceptance and granting of appropriate gifts and benefits and reinforces the Group's commitment not to donate to political parties
- The Group strongly supports the disclosure of corrupt conduct, illegality or substantial waste of company assets under its Good Faith Reporting Policy. Employees who make such disclosures are protected from any detrimental action or reprisal and an independent external disclosure management service provider has been appointed to ensure anonymity for those reporting incidents

All employees are required to confirm compliance with key DEXUS policies annually. In 2013, employees were asked to confirm ongoing compliance with policies regarding Code of Conduct, Conflicts of Interest and Securities Trading and Inside Information.

Other key ethical policies reviewed during 2013 include:

- The Competition & Consumer Act Policy ensuring DEXUS's operations acknowledge and promote competition and fair trading
- DEXUS's Acquisition Rotation Policy ensuring fair and equitable allocation of property acquisitions between DEXUS Property Group and its mandated clients

To further support DEXUS's approach to ethical behaviour and responsible decision making, the Internal Compliance, Internal Risk and Internal Audit Committees were amalgamated in 2013 to form DEXUS's Compliance, Risk & Ethics Committee. The Committee's focus has been extended to address oversight of ethical policies and processes as well as a forum to discuss the promotion of ethical behaviour within the Group. All DEXUS Board and Corporate Policies are available at [www.dexus.com/corporategovernance](http://www.dexus.com/corporategovernance)

### Insider trading and trading in DEXUS securities

The Group's Securities Trading Policy applies to Directors and employees who wish to invest in DEXUS securities for themselves or on behalf of an associate.

The policy requires any Director who wishes to trade in DEXUS securities, to obtain written approval from the Chair and Company Secretary. Employees wishing to trade in DEXUS securities must obtain written approval from the Chief Executive Officer and General Manager, Compliance, Risk & Governance before entering into a transaction. DEXUS Directors and employees are only permitted to trade DEXUS securities in defined trading windows, following the appropriate approvals.

In the event that the Chair or Chief Executive Officer considers that there is the potential that inside information may be held or that a significant conflict of interest may arise, trading will not be permitted, even in defined trading windows.

The Securities Trading Policy is available at [www.dexus.com/corporategovernance](http://www.dexus.com/corporategovernance)

The Board determines that a minimum holding of 50,000 securities should be acquired by each Independent Director by 30 June 2015. Newly appointed Independent Directors will be required to purchase 50,000 securities within their first three year term.

At 30 June 2013, Independent Directors' holdings in DXS were:

Chris Beare	100,000
Elizabeth Alexander	100,000
Barry Brownjohn	50,000
John Conde	100,000
Tonianne Dwyer	100,000
Stewart Ewen	100,000
Peter St George	104,000
Richard Sheppard	100,000

Under the DEXUS Transitional Plan, Darren Steinberg (Executive Director) was awarded 453,417 Performance Rights under the DEXUS Transitional Plan and Craig Mitchell (Executive Director) was awarded 539,782 Performance Rights under the DEXUS Transitional Plan during the 2013 financial year.

### Principle 3 – Promote ethical and responsible decision making (continued)

#### Conflicts of interest and related party dealings

The Group's Conflict of Interest and Related Party policies address the management of conflicts of interest and related party transactions which may arise:

- When allocating property transactions, where a new property acquisition opportunity meets the mandate of more than one client
- When negotiating leases, where a prospective tenant is interested in more than one property owned by different DEXUS clients
- When executing transactions between DEXUS clients

Where a conflict of interest is identified, the Compliance, Risk & Governance team liaises with the parties concerned to ensure effective and timely management of the conflict. Where information barriers are put in place, the team monitors compliance with the relevant policies.

On a monthly basis, the General Counsel reports to the Board on related party transactions and the General Manager, Compliance, Risk & Governance reports conflicts of interest to the Board Compliance Committee each quarter.

During the 12 months ending 30 June 2013, DEXUS managed several related party transactions where DEXUS and DEXUS Wholesale Property Fund jointly acquired properties. The interests of each party were represented by dedicated teams and co-owner agreements were executed.

DEXUS moved its head office to Australia Square in April 2013, a property jointly owned by DEXUS and The GPT Group. Teams were established to represent the interests of DEXUS as joint owner and DEXUS as tenant. Information barriers remained in place throughout negotiations.

#### Responsible investment

DEXUS's Environmental Management Policy aims to minimise the overall environmental impact of its operations, both in the development of new properties and the management of existing properties. As a signatory to the United Nations Principles of Responsible Investment (UNPRI), DEXUS incorporates these principles into its investment decisions.

#### Diversity

DEXUS comprises a socially and culturally diverse workplace and has created a culture that is tolerant, flexible and adaptive to the changing needs of its industry. DEXUS is committed to diversity and promotes a work environment conducive to the merit-based appointment of qualified employees, senior management and Directors. Where professional intermediaries are used to identify or assess candidates, they are made aware of DEXUS's commitment to diversity.

DEXUS currently publishes annual statistics on the diversity profile of its Board and senior management, including a breakdown of the type and seniority of roles undertaken by women. DEXUS acknowledges and fulfils its obligations under relevant employment legislation.

As at 30 June 2013, DEXUS's workforce profile places women at 51% of total staff and 22% of senior managers. Two of eight (25%) non-executive directors are women.

The DEXUS gender diversity target by 30 June 2015 is that 33% of non-executive directors are to be female and 33% of senior management roles are to be held by women.

DEXUS's Diversity Principles and Diversity Target are available at [www.dexus.com/corporategovernance](http://www.dexus.com/corporategovernance)

## Principle 4 – Safeguard integrity in financial reporting

### Board Audit, Risk & Sustainability Committee

To ensure the factual presentation of each Trust's financial position, DXFM has in place a structure of review and authorisation, where the Board Audit, Risk & Sustainability Committee reviews (among other matters):

- Financial statements of each entity
- Independence and competence of the external auditor
- Semi-annual management representations to the Committee, affirming the veracity of each entity's Financial Statements

The Committee's Terms of Reference require that all members are Independent Directors with financial expertise and an understanding of the industry in which the Group operates. The Committee:

- Has access to management
- Has unrestricted access to external auditors without management present
- Has the opportunity to seek explanations and additional information as it sees fit
- May also obtain independent professional advice in the satisfaction of its duties at the cost of the Group and independent of management

The Committee meets as frequently as required to undertake its role effectively, not less than four times a year, and the external auditor is invited to attend all meetings.

For the 12 months ending 30 June 2013, the members of the Committee were:

- Barry Brownjohn, Chair, Independent Director
- Elizabeth Alexander AM, Independent Director
- Richard Sheppard, Independent Director

The following reports are provided to the Committee:

- The Chief Executive Officer and the Chief Financial Officer make representations on a semi-annual basis on the veracity of the Financial Statements and financial risk management systems
- The Compliance, Risk & Ethics Committee completes a Fraud Risk questionnaire semi-annually to advise of any instances of actual or perceived fraud during the period

PricewaterhouseCoopers continues its appointment as statutory auditor of DXFM and its related trusts and entities.

In order to ensure the independence of the statutory auditor, the Committee has responsibility for approving the engagement of the auditor for any non-audit service greater than \$100,000. At 30 June 2013, fees paid to the external auditor for non-audit services were 12.3% of audit fees (15.3% at 30 June 2012).

DEXUS's policy on the selection and appointment of the external auditor is available at [www.dexus.com/corporategovernance](http://www.dexus.com/corporategovernance)

### Board Compliance Committee

The *Corporations Act 2001* does not require DXFM to maintain a Board Compliance Committee as more than half its Directors are external Directors. DEXUS has determined that a Board Compliance Committee provides additional control, oversight and independence of the compliance function.

The Board Compliance Committee reviews compliance matters and monitors DXFM compliance with the requirements of its Australian Financial Services Licence and of the *Corporations Act 2001* as it relates to Managed Investment Schemes. The scope of the Committee includes all Trusts and the Group's investment mandates.

The Committee only includes members who are familiar with the requirements of Managed Investment Schemes and have risk and compliance experience. Committee members are encouraged to obtain independent professional advice in the satisfaction of their duties at the cost of the Group and independent of management. During the 12 months ending 30 June 2013 no member of the Board Compliance Committee sought independent professional advice.

At 30 June 2013, the Committee comprised three members, two external members (who satisfy the requirements of section 601JB(2) of the *Corporations Act 2001*) and one executive of the Group.

The members of the Board Compliance Committee were:

- Andy Esteban, Chair, external member
- Tonianne Dwyer, external member (and Independent Director)
- John Easy, executive member

The Compliance Plan Auditor is invited to each Board Compliance Committee meeting.

The skills, experience and qualifications of Tonianne Dwyer are detailed on page 4 and details for John Easy are on page 18 in this Annual Report.

### Principle 4 – Safeguard integrity in financial reporting (continued)

#### Board Compliance Committee (continued)

Andy Esteban holds a Bachelor of Business majoring in Accounting. Andy is a CPA and a member of the Australian Institute of Company Directors. Andy has over 30 years' experience in the financial services industry, 21 years of which were with Perpetual Trustees. In December 1999 he established FP Esteban and Associates, specialising in implementing and monitoring risk management and compliance frameworks in the financial services industry. He has provided consulting services to organisations including UBS Global Asset Management in Australia, Hong Kong, Singapore, Taiwan and China. Andy is Chair of Certitude Global Investments Ltd, a Director of HFA Holdings Ltd and Chair of its Audit and Risk Committee and a member of its Remuneration and Nomination Committee; Chair of the Compliance Committees of Aberdeen Asset Management Ltd, Deutsche Asset Management Australia Ltd, Mosaic Advisers and Grant Samuel; and an Independent Member of the Compliance Committee of Australian Unity Funds Management Ltd, Celsius Investment Management Limited, Schroder Investment Management Australia Ltd, Fidelity International Investment Management Limited and Alliance Bernstein.

The Committee reports breaches of the *Corporations Act 2001* or of the provisions contained in any Trust's Constitution or Compliance Plans to the DXFM Board, and reports to ASIC in accordance with legislative requirements.

In accordance with DEXUS's Good Faith Reporting Policy, employees have access to Board Compliance Committee members to raise any concerns regarding unethical business practices. To enable the Board Compliance Committee to fulfil its obligations effectively, the Compliance, Risk & Ethics Committee was established to monitor the effectiveness of the Group's internal compliance and control systems.

Furthermore, the Chief Executive Officer makes a quarterly representation to the General Manager, Compliance, Risk & Governance, regarding compliance with policies and procedures. Any significant exceptions are reported to the Board Compliance Committee.

The Chief Financial Officer also provides quarterly certification to the Board Compliance Committee as to the continued adequacy of financial risk management systems.

### Principle 5 – Make timely and balanced disclosure

#### Continuous disclosure

DXFM's Continuous Disclosure Committee ensures timely and accurate continuous disclosure of all material matters that impact the Group. Committee members comprise:

- Chief Executive Officer
- Chief Financial Officer
- EGM – Investor Relations, Marketing & Communications
- EGM – Strategy, Transactions & Research
- General Counsel & Company Secretary

The Committee meets on a regular basis to consider whether any disclosure obligation is likely to arise as a result of the activities being undertaken by the Group. The Continuous Disclosure Committee ensures:

- Investors continue to have equal and timely access to material information, including the financial status, performance, ownership and governance of the Trusts
- Announcements are factual and presented in a clear and balanced way

Management is required to provide a quarterly attestation to the Compliance, Risk & Governance team that there have been no issues within their area of responsibility that would be subject to continuous disclosure requirements.

Compliance with the Continuous Disclosure Policy is subject to ongoing monitoring, the results of which are reported to the Board Compliance Committee. The policy is available at [www.dexus.com/corporategovernance](http://www.dexus.com/corporategovernance)

Following the release of ASX Guidance Note 8 – Continuous Disclosure, the Board considered its current practice and approved various changes to more closely reflect the revised Guidelines including:

- Enhancement to the Committee's Terms of Reference
- Enhancement of the Continuous Disclosure Policy including clarification of the type of event that would require disclosure
- Confirmation of issues that would require reference to the Board (or delegate) to determine and approve disclosure
- Explanation of the process to be followed when assessing market rumours and the existence of false markets



## Principle 6 – Respect the rights of shareholders

### Annual General Meeting

The Board conducts an Annual General Meeting (AGM) increasing the number of opportunities it has to interact with DEXUS security holders.

Each AGM is designed to:

- Supplement effective communication with security holders
- Provide them with ready access to balanced and understandable information
- Increase the opportunities for participation
- Facilitate security holders' rights to appoint Directors to the Board of DXFM

The Group's policy is that all Directors attend the AGM.

The external auditor of the Trusts attends each AGM and is available to answer investor questions regarding the conduct of the audits of the Trusts' financial records and their Compliance Plans, as well as the preparation and content of the Auditor's Report.

DEXUS engages an independent service provider, Link Market Services, to conduct any security holder vote required at the AGM. To facilitate participation, the AGM can be accessed via webcast for those security holders unable to attend the meeting.

### Stakeholder communication

In addition to conducting an AGM, the Group has an investor relations and communications strategy that promotes an informed market and encourages participation with investors. This strategy includes use of the Group's website to enable access to DEXUS announcements, annual and half year reports, presentations, and analyst support material available at [www.dexus.com/dxs](http://www.dexus.com/dxs)

The website also provides historical distribution and tax information and other Trust related information. Analyst briefings are undertaken on a quarterly basis and enquiries received from investors are addressed in a timely manner in accordance with DEXUS's policy on the handling of enquiries and complaints.

In addition, institutional investors are invited to meet with Independent Directors twice a year (outside of the AGM) to discuss corporate governance or other areas of interest. Information provided at these meetings is subject to DEXUS's Continuous Disclosure Policy.

In 2013, DEXUS launched an Investor Relations app to help in ensuring investors have instant access to corporate and stock information on iPhone, iPad and Android mobile devices.

The Communications Policy is available at [www.dexus.com/corporategovernance](http://www.dexus.com/corporategovernance)

### Principle 7 – Recognise and manage risk

#### Board Audit, Risk & Sustainability Committee

The Board Audit, Risk & Sustainability Committee oversees risk management within DEXUS. The Committee oversees the Group's enterprise risk management practices, as well as environmental management, sustainability initiatives and internal audit practices. It also oversees the effectiveness of the Group's Risk Management Framework.

DEXUS's Risk Management Policy is available at [www.dexus.com/corporategovernance](http://www.dexus.com/corporategovernance)

Members of the Board Audit, Risk & Sustainability Committee during the year to 30 June 2013 were:

- Barry Brownjohn, Chair, Independent Director
- Elizabeth Alexander AM, Independent Director
- Richard Sheppard, Independent Director

While some risks are identified, managed and monitored internally, DEXUS has appointed independent experts to undertake monitoring of health and safety, environmental risks and other risks where expert knowledge is essential to ensure DEXUS has in place best practice processes and procedures. The Committee is empowered to engage consultants, advisers or other experts independent of management.

#### Risk management

The management of risk is an important aspect of DEXUS's activities, and the Group has a segregated risk function reporting to the General Counsel on a day-to-day basis, as well as a Compliance, Risk & Ethics Committee that has an independent reporting line to the Board Audit, Risk & Sustainability Committee. The General Manager, Compliance, Risk & Governance has direct access to the Chief Executive Officer and Independent Directors.

Risks to DEXUS come from numerous sources, driven by both internal and external factors and include:

- Strategic risks
- Market risks
- Health and safety risks
- Operational risks
- Environmental risks
- Financial risks
- Regulatory risks
- Fraud risks

The Compliance, Risk & Governance team promotes an effective risk and compliance culture by providing advice, drafting and updating relevant risk and compliance policies and procedures, conducting training and monitoring and reporting adherence to key policies and procedures. Frameworks have been developed and implemented in accordance with ISO 31000:2009 (Risk Management) and AS 3806:2006 (Compliance Programs).

The functions of the Compliance, Risk & Governance team include risk and compliance management, corporate governance and internal audit. The ongoing effectiveness of the risk management and internal control systems is reported by the General Manager, Compliance, Risk & Governance to the Board Audit, Risk & Sustainability Committee and Board Compliance Committee.

DEXUS's internal control procedures are also subject to annual independent verification as part of the GS007 (Audit Implications of the Use of Service Organisations for Investment Management Services) audit.

## Internal audit

The internal audit program has a three year cycle, the results of which are reported quarterly to the Compliance, Risk & Ethics Committee and to the Board Audit, Risk & Sustainability Committee.

DEXUS adopts a co-sourcing internal audit model. The appointment of an external firm as co-source service provider has the advantage of ensuring DXFM is informed of broader industry trends and experience. A partner from the internal audit co-source service provider is invited to the Committee meeting to keep Directors informed about these trends.

## Board Finance Committee

The Group is subject to significant financial risk, including interest rate and foreign exchange exposures. The Board Finance Committee is responsible for the effective management of these exposures. The Committee reviews and recommends financial risk management policies, hedging and funding strategies, forward looking financial management processes and periodic market guidance for consideration by the Board. To support the Committee's deliberations, a management committee, the Capital Markets Committee has been established.

Members of the Board Finance Committee during the year to 30 June 2013 were:

- Peter St George, Chair, Independent Director
- Chris Beare, Independent Director
- Richard Sheppard, Independent Director (appointed 1 July 2012)

## Principle 8 – Remunerate fairly and responsibly

### Board Nomination, Remuneration & Governance Committee

The Board Nomination, Remuneration & Governance Committee oversees all aspects of:

- Director and Executive remuneration
- Board renewal
- Director, Chief Executive Officer, and management succession planning
- Board and committee performance evaluation
- Director nominations

The Committee comprises three Independent Directors:

- John Conde AO, Chair, Independent Director
- Chris Beare, Independent Director
- Stewart Ewen OAM, Independent Director

The Chief Executive Officer and Executive General Manager, People & Culture attend the Board Nomination, Remuneration & Governance Committee meeting by invitation.

It is the practice of the Board Nomination, Remuneration & Governance Committee to meet without executives, and non-committee members are not in attendance when their own performance or remuneration is discussed.

Details of the Group's remuneration framework for Executives, Independent Directors and employees are set out in the Remuneration Report that forms part of the Directors' Report contained in this report commencing on page 19. There are no schemes for retirement benefits (other than compulsory contributions to superannuation) for Independent Directors.

## DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2013

The Directors of DEXUS Funds Management Limited (DXFM) as Responsible Entity of DEXUS Diversified Trust (DDF or the Trust) present their Directors' Report together with the consolidated Financial Statements for the year ended 30 June 2013. The consolidated Financial Statements represent DDF and its consolidated entities, DEXUS Property Group (DXS or the Group).

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

### 1 Directors and Secretaries

#### 1.1 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
Christopher T Beare	4 August 2004
Elizabeth A Alexander, AM	1 January 2005
Barry R Brownjohn	1 January 2005
John C Conde, AO	29 April 2009
Tonianne Dwyer	24 August 2011
Stewart F Ewen, OAM	4 August 2004
Craig D Mitchell	12 February 2013
W Richard Sheppard	1 January 2012
Darren J Steinberg	1 March 2012
Peter B St George	29 April 2009

#### 1.2 Company Secretaries

The names and details of the Company Secretaries of DXFM as at 30 June 2013 are as follows:

**Tanya L Cox** MBA MAICD FCSA FCIS

Appointed: 1 October 2004

Tanya is the Executive General Manager, Property Services and Chief Operating Officer of DEXUS Property Group and is responsible for the tenant and client service delivery model, sustainability practices, information technology solutions and company secretarial services across the Group.

Tanya has over 25 years' experience in the finance industry. Prior to joining DEXUS in July 2003, Tanya held various general management positions over the previous 15 years, including Director and Chief Operating Officer of NM Rothschild & Sons (Australia) Ltd and General Manager, Finance, Operations and IT for Bank of New Zealand (Australia). Tanya is a Director of Low Carbon Australia Limited, Australian Athletes With a Disability Limited and a number of not-for-profit organisations.

Tanya is a member of the Australian Institute of Company Directors and a fellow of the Institute of Chartered Secretaries of Australia.

Tanya has an MBA from the Australian Graduate School of Management, a Diploma in Applied Corporate Governance and was a finalist in the 2005 NSW Telstra Business Woman of the year awards.

**John C Easy** B Comm LLB FCSA FCIS

Appointed: 1 July 2005

John is the General Counsel and Company Secretary of all DEXUS Group companies and is responsible for the legal function and compliance, risk and governance systems and practices across the Group.

During his time with the Group, John has been involved in the establishment and public listing of Deutsche Office Trust, the acquisition of the Paladin and AXA property portfolios, and subsequent stapling and creation of DEXUS Property Group.

Prior to joining DEXUS in November 1997, John was employed as a senior associate in the commercial property/funds management practices of law firms Allens Arthur Robison and Gilbert & Tobin. John graduated from the University of New South Wales with Bachelor of Laws and Bachelor of Commerce (Major in Economics) degrees. John is a Fellow Member of the Institute of Chartered Secretaries of Australia.

John is a member of the Board Compliance Committee and Chair of the Continuous Disclosure Committee.

## 2 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 nine times during the year. Eight Board meetings were main meetings and one meeting was held to consider specific business.

Directors	Main meetings held	Main meetings attended	Specific meetings held	Specific meetings attended
Christopher T Beare	8	8	1	1
Elizabeth A Alexander, AM	8	8	1	1
Barry R Brownjohn	8	8	1	1
John C Conde, AO	8	8	1	1
Tonianne Dwyer	8	8	1	1
Stewart F Ewen, OAM	8	8	1	1
Craig D Mitchell <sup>1</sup>	3	3	–	–
W Richard Sheppard	8	8	1	1
Darren J Steinberg	8	8	1	1
Peter B St George	8	8	1	1

1. Directorship commenced 12 February 2013.

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 sets out the number of Board Committee meetings held during the year for the Committees in place at the end of the year and each Director's attendance at those meetings.

	Board Audit, Risk & Sustainability Committee		Board Compliance Committee		Board Nomination, Remuneration & Governance Committee		Board Finance Committee	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended
Christopher T Beare	–	–	–	–	6	6	4	4
Elizabeth A Alexander, AM	4	4	–	–	–	–	–	–
Barry R Brownjohn	4	4	–	–	–	–	–	–
John C Conde, AO	–	–	–	–	6	6	–	–
Tonianne Dwyer	–	–	4	4	–	–	–	–
Stewart F Ewen, OAM	–	–	–	–	6	6	–	–
W Richard Sheppard	4	4	–	–	–	–	4	4
Peter B St George	–	–	–	–	–	–	4	4

## 3 Remuneration Report

### 3.1 Overview

The Board has pleasure in presenting the Remuneration Report for the DEXUS Property Group (Group). As with prior years, the Remuneration Report has been prepared in accordance with the Corporations Act and relevant accounting standards. Whilst the Group is not statutorily required to prepare such a report, the Board continues to believe that the disclosure of the Group's remuneration practices is in the best interests of all security holders.

Effective 1 July 2012, the Group implemented its new remuneration framework, which includes a new Short-term Incentive (STI) and Long-term Incentive (LTI) plan. The operation of these plans received security holder approval at the Group's Annual General Meeting on 5 November 2012.

The Board believes that the Group's remuneration framework encourages Executives to perform in the best interests of security holders. Short term financial and operational objectives are approved annually by the Board for each Executive, promoting alignment between investor returns and the rewards an Executive can receive under the STI plan. In addition, the Board has determined a set of financial performance hurdles within the LTI plan which provide the Executive with a performance and retention incentive which is strongly linked to security holder returns over the longer-term.

### 3 Remuneration Report (continued)

#### 3.1 Overview (continued)

The main Executive remuneration actions for the year ending 30 June 2013 were:

- The implementation of the new remuneration framework effective 1 July 2012
- No fixed remuneration increases for Executives
- The closure of the DEXUS Performance Payment (DPP) and DEXUS Deferred Performance Payment (DDPP) plans
- The Board exercised its discretion to not apply a performance multiplier to vesting legacy DDPP plan outcomes
- Performance pay outcomes for Executives approved by the Board reflect the Group's strong financial and operational results
- Non-Executive Directors base fees remain unchanged since 1 July 2010

Effective 1 July 2013, the Board has approved an average fixed remuneration increase of 2% for Executives and 3% for other employees, noting that that the fixed remuneration for the Chief Executive Officer will remain unchanged.

This Remuneration Report has been prepared in accordance with AASB 124 *Related Party Disclosures* and section 300A of the *Corporations Act 2001* for the year ended 30 June 2013. The information provided in this Report has been audited in accordance with the provisions of section 308 (3C) of the *Corporations Act 2001*.

#### 3.2 Key Management Personnel

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

- Non-Executive Directors
- Executive Directors (Chief Executive Officer & Chief Financial Officer)
- Key Executives considered KMP under the *Corporations Act 2001* (Executive KMP)

Below are the individuals determined to be KMP of the Group, classified between Non-Executive Directors, Executive Directors and Executive KMP:

##### Non-Executive Directors

Non-Executive Director	Title	KMP 2012	KMP 2013
Christopher T Beare	Chair	✓	✓
Elizabeth A Alexander, AM	Director	✓	✓
Barry R Brownjohn	Director	✓	✓
John C Conde, AO	Director	✓	✓
Tonianne Dwyer	Director	✓	✓
Stewart F Ewen, OAM	Director	✓	✓
W Richard Sheppard	Director	✓	✓
Peter B St George	Director	✓	✓

##### Executive Directors

Executive Director	Position	KMP 2012	KMP 2013
Darren J Steinberg	Chief Executive Officer	Part-Year	✓
Craig D Mitchell	Chief Financial Officer	✓	✓

##### Executive KMP

Executive KMP	Position	KMP 2012	KMP 2013
Kevin L George	Executive General Manager, Office & Industrial	N/A	Part-Year
Ross G Du Vernet	Executive General Manager, Transactions, Strategy & Research	No	✓

##### Group Management Committee members – previously included as Executive KMP

Former Executive KMP	Position	KMP 2012	KMP 2013
Tanya L Cox	Executive General Manager, Property Services & Chief Operating Officer	✓	No
John C Easy	General Counsel & Company Secretary	✓	No

Ms Cox and Mr Easy continue as Group Management Committee members. The current organisation structure and membership of internal committees have led to a change in those considered by the Board to be Executive KMP for the 2013 year. The Board has indicated that the composition of Executive KMP may change from year to year in line with the strategic and operational focus of the Group.

### 3.3 Board Nomination, Remuneration & Governance Committee

The objectives of the Committee are to assist the Board in fulfilling its responsibilities by overseeing all aspects of Non-Executive Director and Executive remuneration, as well as Board nomination and performance evaluation. Primarily, the responsibilities of the Committee are to review and recommend to the Board:

- Board and CEO succession plans
- Performance evaluation procedures for the Board, its committees and individual Directors
- The nomination, appointment, re-election and removal of Directors
- The Group's approach to remuneration, including design and operation of employee incentive plans
- Executive performance and remuneration outcomes
- Non-Executive Directors' fees

The Committee comprises three independent Non-Executive Directors. For the year ended 30 June 2013 Committee members were:

Non-Executive Director	Title	2012	2013
John C Conde, AO	Committee Chair	✓	✓
Christopher T Beare	Committee Member	✓	✓
Stewart F Ewen, OAM	Committee Member	✓	✓

Mr Conde continued in his role as Committee Chair, drawing upon his extensive experience from a diverse range of appointments, including his role as President of the Commonwealth Remuneration Tribunal. The Committee's experience is further enhanced through the membership of Mr Beare and Mr Ewen, each of whom has significant management experience in the property and financial services sectors.

The Committee operates independently from management, and may at its discretion appoint external advisors or instruct management to compile information for its consideration. The CEO attends certain Committee meetings by invitation, where management input is required. The CEO is not present during any discussions related to his own remuneration arrangements.

During the year the Committee appointed Egan Associates to provide remuneration advisory services. Egan Associates was paid a total of \$12,705 for remuneration recommendations made to the Committee and \$39,097 for other advisory services. The Committee is satisfied the advice received from Egan Associates is free from undue influence from the KMP to whom the remuneration recommendations relate. Egan Associates also confirmed in writing that the remuneration recommendations were made free from undue influence by the relevant KMP.

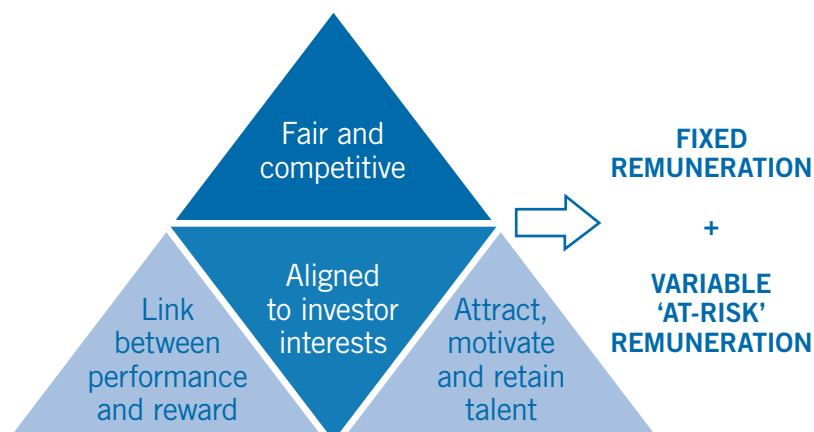
The 2012 Remuneration Report received positive security holder support at the 2012 Annual General Meeting with a vote of 98.3% in favour.

### 3.4 Executive remuneration

#### Context

The Board believes that Executives should be rewarded at levels consistent with the complexity and risks involved in their position. Incentive awards should be scaled according to the relative performance of the Group, as well as business unit performance and individual effectiveness.

The Group's remuneration principles and target remuneration structure is:



### 3 Remuneration Report (continued)

#### 3.4 Executive remuneration (continued)

The Group requires, and needs to retain, an Executive team with significant experience in:

- The office, industrial and retail property sectors
- Property management, including securing new tenancies under contemporary lease arrangements, asset valuation and related financial structuring and property development in its widest context
- Capital markets, funds management, fund raising, joint venture negotiations and the provision of advice and support to independent investment partners
- Treasury, tax and compliance

In this context the Committee reviews trends in employee reward structures and strategies embraced across these sectors, including:

- Comparable international funds and asset managers which have an active presence in Australia
- ASX listed entities
- Boutique property asset managers and consultants
- Where relevant, information from private equity and hedge funds will be considered.

At the Executive level, the Committee reviews feedback from remuneration advisers, proxy advisers and institutional investors, and considers stakeholder interests at each stage of the remuneration review process.

#### 3.5 Remuneration structure

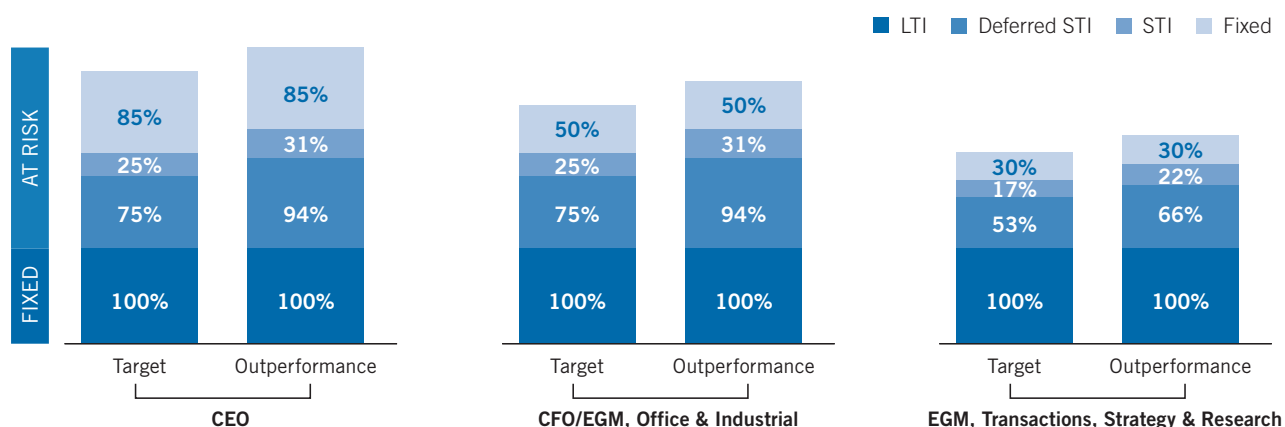
##### Remuneration mix

The remuneration structure for Executives comprises fixed remuneration, a short-term incentive and a long-term incentive. The mix between these components varies according to the individual's position and is determined based on the Group's remuneration principles detailed above.

The remuneration mix for Executives during 2013 was:

Executive	Fixed	Target STI	Target Deferred STI	LTI
Darren J Steinberg	35%	26%	9%	30%
Craig D Mitchell	40%	30%	10%	20%
Kevin L George	40%	30%	10%	20%
Ross G Du Vernet	50%	26%	9%	15%

The chart below shows the remuneration structure for Executives expressed as a percentage of fixed remuneration at both target and outperformance (stretch) levels.





## Total remuneration

How does the Board determine total remuneration?	<p>The Committee reviews a considerable amount of information from a variety of sources to ensure an appropriate outcome reflecting market practice (incorporating various benchmarks) is achieved. These sources include:</p> <ul style="list-style-type: none"> <li>▪ Publicly available remuneration reports of A-REIT competitors</li> <li>▪ Publicly available remuneration reports from ASX listed companies with similar market capitalisation and complexity</li> <li>▪ Advice on remuneration levels of privately held property, funds management and private equity owned companies</li> <li>▪ Salary survey data from Hart Consulting, Avdiev, Aon Hewitt, FIRG and others as appropriate</li> <li>▪ Advice from external advisors appointed by the Committee such as Egan Associates</li> </ul> <p>The comparator group of companies and market data considered as part of the above process is significantly larger than the comparator group of companies adopted for assessment of the Group's relative TSR performance under its LTI plan (refer below). Executives are typically recruited from the former group, whereas the Group's performance will be assessed appropriately with respect to the latter.</p>
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## Fixed remuneration

What is Fixed Remuneration?	Fixed remuneration is the regular pay (base salary and statutory superannuation contributions) an Executive receives in relation to his/her role. It reflects the complexity of the role, as well as the skills and competencies required to fulfil it, and is determined having regard to a variety of information sources to ensure the quantum is fair and competitive.
How is Fixed Remuneration determined?	The Board sets fixed remuneration around the median level of comparable companies after making adjustments for the different risk profiles of those companies (refer to Total remuneration above). Group and individual performance is considered during the annual remuneration review process.

## Short-term Incentive (STI) Plan

What is the STI plan?	The STI plan provides the Executive with an opportunity to achieve an annual remuneration outcome in addition to fixed remuneration, subject to the achievement of pre-agreed Group, divisional and individual performance objectives which are set out in a personalised balanced scorecard.
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How much can be earned under the STI plan?	Expressed as a percentage of fixed remuneration, Executives can earn the following incentive payments under the STI plan:
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	Target	Outperformance
CEO	100%	125%
CFO/EGM, Office & Industrial	100%	125%
EGM, Strategy, Transactions & Research	70%	88%

Aggregate performance below pre-determined thresholds would result in no award being made under the STI plan.

The amount each Executive can earn is dependent on how he/she performs against a balanced scorecard of KPIs that is set at the beginning of each year. The balanced scorecard is arranged in categories and each category is weighted differently depending on the specific accountabilities of each Executive. If an Executive does not meet Threshold performance in a category, the score for that category will be zero.

KPIs at the target level are set with an element of stretch against threshold performance, which ensures that it is difficult for an Executive to score 100% in any category. Following the same theme, KPIs at the outperformance level have a significant amount of stretch, and would require exceptional outcomes to be achieved. KPIs at both the Target and Outperformance levels incorporate year-on-year growth.

When is the STI paid?	August of the financial year immediately following the performance period, following the sign-off of statutory accounts and announcement of Group's annual results.
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How does the deferral component operate?	25% of any award under the STI plan will be deferred and awarded in the form of performance rights to DXS securities.
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The rights will vest in two equal tranches, 12 and 24 months after being awarded. They are subject to claw-back and continued employment, and are based on a deferral period commencing 1 July after the relevant performance period.

**3 Remuneration Report** (continued)

**3.5 Remuneration structure** (continued)

**Short-term Incentive (STI) Plan** (continued)

How is the allocation of deferred STI determined?	The number of performance rights awarded is based on 25% of the STI value awarded to the Executive divided by the volume weighted average price (VWAP) of securities 10 trading days either side of the first trading day of the new financial year.
How are distributions treated during the deferral period?	Executives will be entitled to the benefit of distributions paid on the underlying DXS securities prior to vesting, through the issue of additional performance rights.
Can deferred STI be forfeited?	Forfeiture will occur should the Executive's employment terminate within six months of the grant date for any reason, or if the Executive voluntarily resigns or is terminated for cause prior to the vesting date.  Notwithstanding the above, if an Executive's employment is terminated for reasons such as retirement, redundancy, re-organisation, change in control or other unforeseen circumstances, the Committee will recommend whether the Executive should remain in the plan as a good leaver, for decision by the Board.
How is the STI plan aligned to security holder interests?	The STI plan is aligned to security holder interests in the following ways: <ul style="list-style-type: none"> <li>■ As an immediate reward opportunity to attract, motivate and retain talented Executives who can influence the future performance of the Group</li> <li>■ Through a 25% mandatory STI deferral for Executives, allowing for future clawback of STI awards in the event of a material misstatement of the Group's financial position</li> </ul>

**Long-term Incentive (LTI) Plan**

What is the LTI plan?	The LTI is an incentive grant which rewards Executives for sustained earnings and security holder returns and is delivered in the form of performance rights to DXS securities.								
How are grants under the LTI plan determined?	Executives receive a grant of performance rights to DXS securities (dependent on their role and responsibilities) under the LTI plan equivalent to the following (expressed as a percentage of Fixed Remuneration): <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th colspan="2" style="text-align: center;">Grant as a % of fixed remuneration</th> </tr> </thead> <tbody> <tr> <td>CEO</td> <td style="text-align: right;">85%</td> </tr> <tr> <td>CFO/EGM, Office &amp; Industrial</td> <td style="text-align: right;">50%</td> </tr> <tr> <td>EGM, Strategy, Transactions &amp; Research</td> <td style="text-align: right;">30%</td> </tr> </tbody> </table>	Grant as a % of fixed remuneration		CEO	85%	CFO/EGM, Office & Industrial	50%	EGM, Strategy, Transactions & Research	30%
Grant as a % of fixed remuneration									
CEO	85%								
CFO/EGM, Office & Industrial	50%								
EGM, Strategy, Transactions & Research	30%								
How does the LTI plan work?	Performance rights are converted into DXS securities upon achievement of performance conditions set by the Board. Performance against the selected hurdles will be assessed in two equal tranches over two periods, three and four years after the grant date. If the performance conditions are not met over either period, then the respective performance rights will be forfeited. There is no re-testing of forfeited rights.								
Can an LTI grant be forfeited?	If pre-determined performance hurdles are not met then the relevant part of the grant will not vest and those rights will be forfeited.  Additionally, forfeiture will occur should the Executive's employment terminate within 12 months of the grant date for any reason, or if the Executive voluntarily resigns or is terminated for cause prior to the vesting date.  Notwithstanding the above, if an Executive's employment is terminated for reasons such as retirement, redundancy, re-organisation, change in control or other unforeseen circumstances, the Committee will recommend whether the Executive should remain in the plan as a good leaver, for decision by the Board.								
What are the performance hurdles?	The Board sets the performance hurdles for the LTI plan on an annual basis. For the 2013 LTI grant, a set of external and internal hurdles has been selected.  Notably, the Board has clarified the operation of the Relative TSR component of the LTI plan. The previously communicated 50% weighting to Relative TSR will be split into two distinct groups, the first being a standard Relative TSR measurement against listed peers, the second being a Relative ROE measurement against unlisted peers. The Board feels this is a more accurate comparison given the way investors measure the performance of listed and unlisted entities.  The four performance hurdles for the 2013 LTI plan are:  <b>External performance hurdles (50%)</b> <ul style="list-style-type: none"> <li>■ 25% is based on the Group's relative performance against a Total Security holder Return (Relative TSR) performance hurdle measured against a peer group of listed entities within the A-REIT sector <ul style="list-style-type: none"> <li>– TSR represents an investor's return, calculated as the percentage difference between the initial amount invested and the final value of DXS securities at the end of the relevant period, assuming distributions were reinvested</li> </ul> </li> </ul>								

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What are the performance hurdles?  
(continued)

- 25% is based on the Group's relative performance against a Return On Equity (Relative ROE) performance hurdle measured against a peer group of unlisted entities within the A-REIT sector
  - ROE represents the annualised composite rate of return to security holders, calculated as a percentage, comprising the change in net tangible asset value per security together with the distributions paid to security holders per security, divided by the net tangible asset value per security at the beginning of the period

**Internal performance hurdles (50%)**

- 25% is based on the Group's performance against a predetermined Funds From Operations (FFO) per security growth hurdle
  - For the purpose of these performance hurdles, FFO is defined as per the definition adopted by the Property Council of Australia
- 25% is based on the Group's performance against a predetermined Return on Equity performance hurdle
  - ROE represents the annualised composite rate of return to security holders, calculated as a percentage, comprising the change in net tangible asset value per security together with the distributions paid to security holders per security, divided by the net tangible asset value per security at the beginning on the period

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How are the performance hurdles measured?

**Relative TSR and Relative ROE**

Vesting under both the Relative TSR & Relative ROE measures will be on a sliding scale reflecting relative performance against a comparator group of entities.

- Nil vesting for performance below the median of the comparator group
- 50% vesting for performance at the median of the comparator group
- Straightline vesting for performance between the 50th and 75th percentile
- 100% vesting for performance at or above the 75th percentile

The listed and unlisted comparator groups have been reviewed and selected by the Board as being appropriate entities within similar asset classes, investment risk/return profiles and market capitalisation/size. The 2013 LTI grant comparator groups are:

- Listed: CPA, IOF, GPT, CFX, WRT, SCP, CMW and FDC
- Unlisted: AWOFF, GWOFF, APPFC, ICPF, ISPT, ACPF, QPF and APPFR

The Board reserves the right to review the peer group annually, with relative performance monitored by an independent external advisor at 30 June each year.

**FFO growth and ROE**

Vesting under both the FFO Growth & ROE measures will be on a sliding scale reflecting performance against pre-determined performance hurdles set by the Board.

- Nil vesting for below Target performance
- 50% vesting for Target performance
- Straightline vesting between Target and Outperformance
- 100% vesting for Outperformance

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What are the absolute LTI hurdles for the 2013 grant?

Having determined the Group's strategy, the Board has adopted the following FFO growth and ROE performance hurdles for the 2013 LTI grant:

- FFO Growth Target of 3% – with outperformance at 5.5%
- ROE Target of 9% – with outperformance at 11%

These targets are measured as the per annum average over the three and four year grant periods.

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How is the LTI plan aligned to security holder interests?

Aligned to long-term security holder interests in the following ways:

- As a reward to Executives when the Group's overall performance exceeds specific predetermined earnings and security holder return benchmarks
  - As a reward mechanism which encourages Executive retention and at the same time allows for future clawback of LTI grants for financial underperformance, deliberate misrepresentation or fraud
  - Aligning the financial interests of security holders with Executives through exposure to DXS securities and the Group's performance
  - Encouraging and incentivising Executives to make sustainable business decisions within the Board-approved risk appetite and strategy of the Group
-

**3 Remuneration Report** (continued)

**3.5 Remuneration structure** (continued)

**Long-term Incentive (LTI) Plan** (continued)

What policies and procedures exist to support the integrity of the LTI plan?	<p>The administration of the LTI plan is supported by the LTI plan guidelines which provide Executives with the rules of the plan and guidance as to how it is to be administered.</p> <p>Executives are prevented from hedging their exposure to unvested DXS securities. Trading in DXS securities or related products is only permitted with the permission of the CEO.</p> <p>The Group also has Conflict of Interest and Insider Trading policies in place to support the integrity of the LTI plan, which extends to family members and associates of the Executive.</p> <p>The Board has appointed Link Market Services as Trustee and Administrators of the DEXUS Performance Rights Plan Trust, which is the vehicle into which unvested units are purchased on-market and held in trust for the Executive pending performance assessment.</p>
How is the allocation of performance rights determined?	The number of performance rights granted is based on the grant value to the Executive (% of fixed remuneration) divided by the volume weighted average price (VWAP) of securities 10 trading days either side of the first trading day of the new financial year.
How are distributions treated prior to vesting?	Executives will not be entitled to distributions paid on the underlying DXS securities prior to the performance rights vesting.

The operation of all incentive plans is at the discretion of the Board which retains the right to discontinue, suspend or amend the operation of such plans.

For both the STI and LTI plans, where incentive grants involve DXS securities, it is the Board's current position that DXS securities be acquired on-market and not through the issue of new securities.

**3.6 Performance pay**

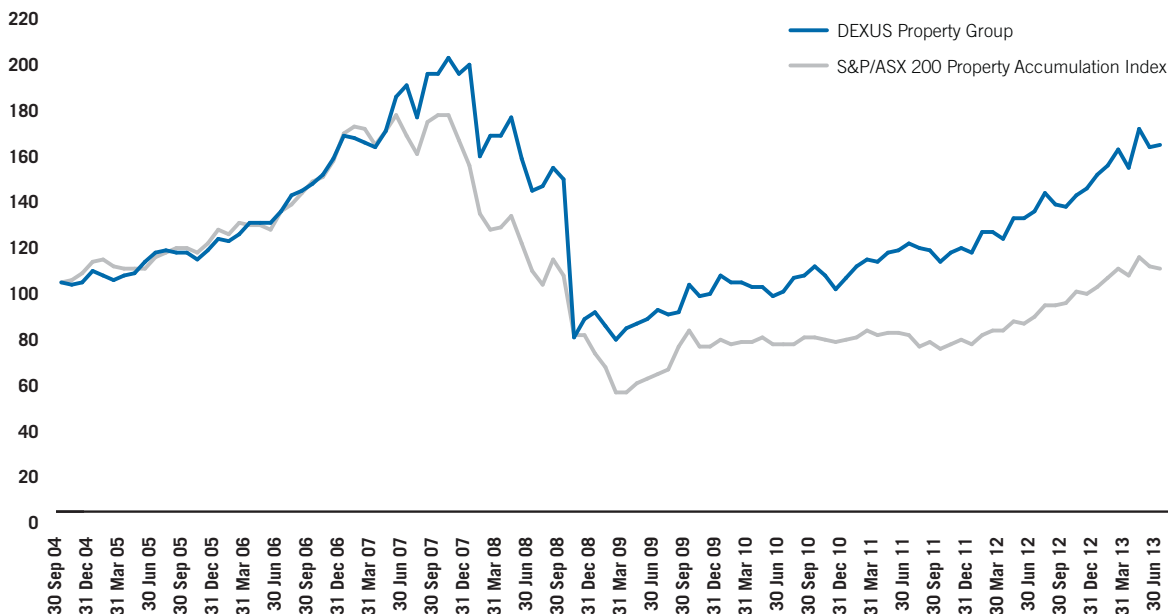
**Group performance**

FY13 highlights

Group	Portfolio	Capital Management	Funds Management	Transactions
12.1% increase in distribution per security	Leased 629,209 square metres of space across the total portfolio	Raised \$300 million of US Private Placement Notes	Increased funds under management by 9.5%, including over \$820 million of new equity for DWPF	Achieved a 12% premium on prior book value for the sale of the remaining US portfolio
Achieved a 22.1% one-year total security holder return	Achieved 1.6% growth in like for like property net operating income	Actively managed the diversity of debt achieving a duration greater than five years	Launched new \$235 million partnership with a leading global pension fund	Involved in \$2.9 billion of transactions across the Group

**Total Return of DXS securities**

The chart below illustrates DXS's performance against the S&P/ASX200 Property Accumulation Index since listing in 2004.



## Total Return analysis

The table below sets out DXS's total security holder return over a one, two, three and five year time horizon, relative to the S&P/ASX200 Property Accumulation Index and the median of the Relative TSR comparator group under the new LTI plan:

	1 Year	2 Years	3 Years	5 years
Year ended 30 June 2013	(% per annum)	(% per annum)	(% per annum)	(% per annum)
DEXUS Property Group	22.1%	17.0%	18.4%	2.6%
S&P/ASX200 Property Accumulation Index	24.2%	17.4%	13.4%	0.3%
Median – Relative TSR Comparator Group	18.8% <sup>1</sup>	15.2% <sup>2</sup>	16.2% <sup>3</sup>	n/a

1. Comparator group for 1 year comprises DXS, CFX, CMW, CPA, FDC, GPT, IOF and WRT.

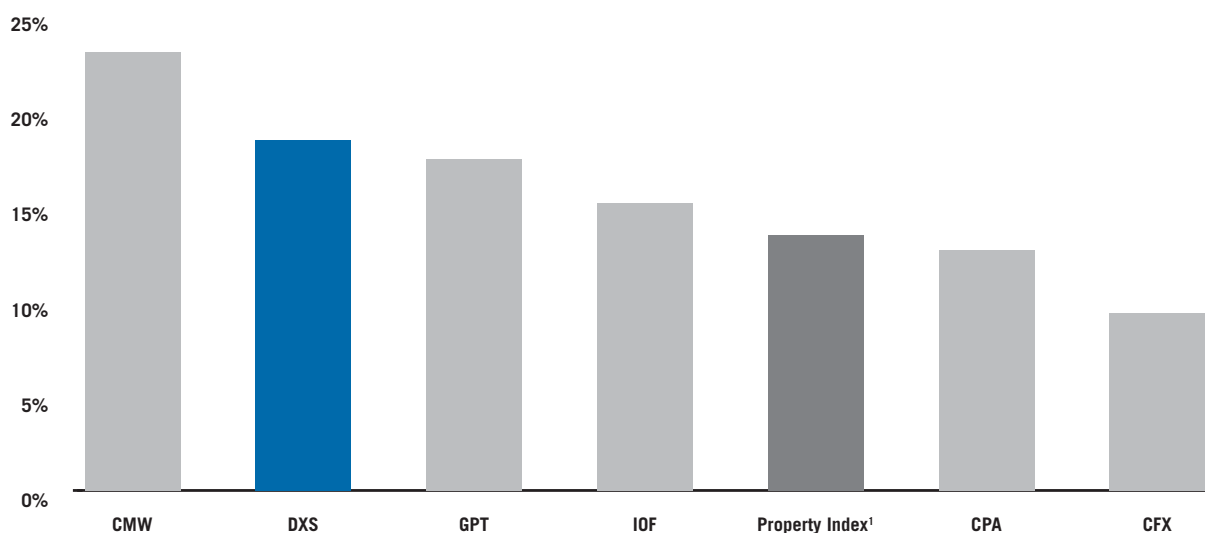
2. Comparator group for 2 years comprises DXS, CFX, CMW, CPA, GPT, IOF and WRT.

3. Comparator group for 3 years comprises DXS, CFX, CMW, CPA, GPT and IOF.

## Three year performance relative to comparator group

The chart below illustrates DXS's three year performance relative to the comparator group specified for LTI purposes. SCA Property Group, Westfield Retail Trust and Federation Centres have been omitted as these entities were not formed for the comparison period.

The three year performance of the S&P/ASX 200 Property Accumulation Index is also included for reference.

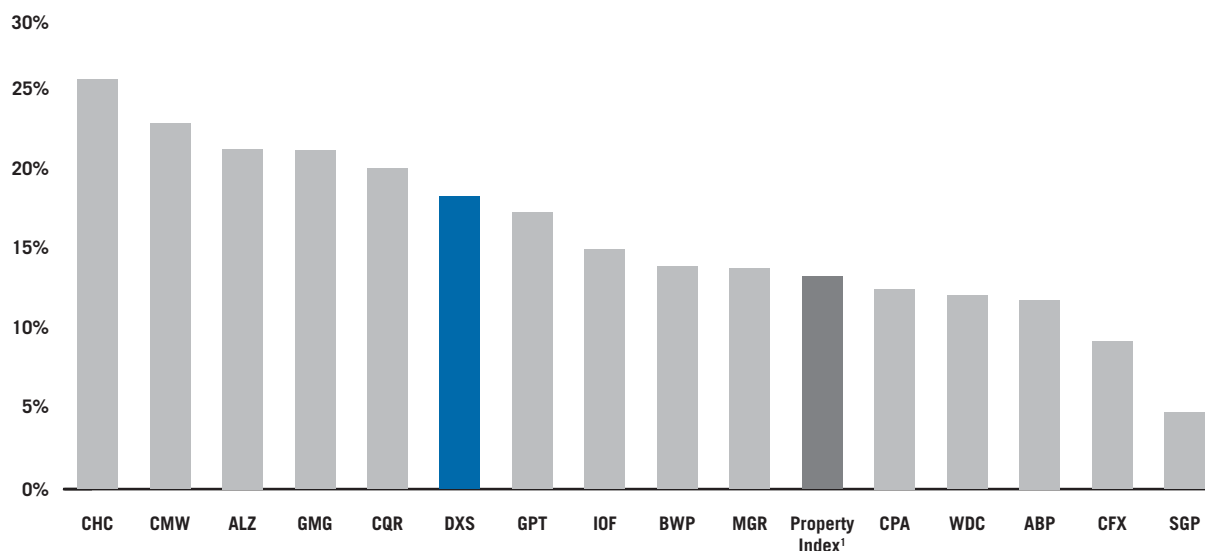


Source: UBS Securities Australia Ltd

1. S&P/ASX 200 A-REIT Index.

## Three year performance relative to property index

The chart below illustrates DXS's performance against the broader property sector over the past three financial years.



Source: UBS Securities Australia Ltd

1. S&P/ASX 200 A-REIT Index.

### 3 Remuneration Report (continued)

#### 3.6 Performance pay (continued)

##### Summary

DXS continues to outperform the S&P/ASX200 Property Accumulation Index and has exceeded this benchmark on a rolling three year basis.

Whilst the Directors recognise that improvement is always possible, they consider that the Group's business model, which aims to deliver consistent returns with relatively moderate risk, has been central to DXS's consistent relative outperformance, and that its approach to Executive remuneration, with a focus on consistent outperformance of objectives, is aligned with and supports the superior execution of the Group's strategic plans.

##### Individual performance assessment – Balanced Scorecard

Prior to the commencement of each financial year, the Board approves the Group's strategic and operational objectives which are then translated into a series of weighted financial and non-financial Key Performance Indicators (KPIs) for management. KPIs are assembled to form each Executive's Balanced Scorecard.

The Balanced Scorecard is divided into four components – Financial Performance, Business Management and Strategy, Stakeholder Engagement and People and Culture. These components are weighted differently for each Executive. For each of the components the Executive has objectives and specific initiatives set for that year. These Scorecards are agreed with the Executive at the beginning of the year, reviewed at half year and assessed for performance awards at the end of the year.

Below is a table which summarises the principal elements within Executive Balanced Scorecards for the year ending 30 June 2013 (the numbers in brackets represents what was actually achieved during the year, not the actual KPIs set):

##### Principal Elements of Executive Balanced Scorecards

Financial Performance	Business Management and Strategy
<ul style="list-style-type: none"> <li>▪ DXS total returns (22.1%)</li> <li>▪ Funds investment performance</li> <li>▪ Funds from operations (\$365.4 million)</li> <li>▪ Return on equity (11.2%)</li> <li>▪ Trading profit (\$1.5 million)</li> <li>▪ Net operating income growth – like for like (1.6%)</li> </ul>	<ul style="list-style-type: none"> <li>▪ Delivery of divisional business plans</li> <li>▪ Secure rent at risk</li> <li>▪ Property portfolio investment performance</li> <li>▪ Operating costs</li> <li>▪ Capital diversification</li> <li>▪ Transaction effectiveness</li> </ul>
Stakeholder Engagement	People and Culture
<ul style="list-style-type: none"> <li>▪ Investor engagement and feedback</li> <li>▪ Media and community profile</li> <li>▪ Tenant relationships and engagement</li> <li>▪ Internal and external service standards</li> </ul>	<ul style="list-style-type: none"> <li>▪ Leadership effectiveness</li> <li>▪ Cultural survey results</li> <li>▪ Succession planning</li> <li>▪ Talent retention and development</li> </ul>

##### Balanced Scorecard Weighting

Executive	Financial KPIs		Non-Financial KPIs	
	Financial Performance	Business Management and Strategy	Stakeholder Engagement	People and Culture
Darren J Steinberg	40%	30%	20%	10%
Craig D Mitchell	40%	40%	10%	10%
Kevin L George	30%	40%	15%	15%
Ross G Du Vernet	30%	50%	10%	10%

## Performance pay outcomes

Following an assessment of each Executive's Balanced Scorecard, the Board has determined that the following remuneration outcomes are appropriate with respect to each Executive's performance during the year ending 30 June 2013.

Executive	STI Award	% of Maximum Possible STI Earned	% of Maximum STI Forfeited	% of STI
Darren J Steinberg	1,750,000	100%	0%	25%
Craig D Mitchell	750,000	80%	20%	25%
Kevin L George	330,000	72%	28%	25%
Ross G Du Vernet	385,000	100%	0%	25%

In addition to the STI award shown above, Mr Steinberg was eligible for a once-off payment of \$500,000 as part of previously communicated sign-on conditions. This amount was subject to satisfactory performance as determined by the Board, and being payable in August 2013 is disclosed in the Statutory Reporting table under Other Short-Term Benefits.

25% of the value of the STI awarded to each Executive will be deferred into DXS securities, subject to service and claw-back conditions, and vesting in two equal tranches after 12 and 24 months.

## LTI grants

The table below shows the number of performance rights to be granted to Executives under the 2013 LTI plan (details of which are provided earlier in this report).

Executive	Number of Performance Rights	1st Vesting Date 50%	2nd Vesting Date 50%
Darren J Steinberg	1,128,176	1 July 2016	1 July 2017
Craig D Mitchell	355,518	1 July 2016	1 July 2017
Kevin L George	326,128	1 July 2016	1 July 2017
Ross G Du Vernet	237,012	1 July 2016	1 July 2017

The number of performance rights granted to each Executive is based on the dollar value of LTI approved by the Board in its discretion and with reference to the remuneration framework, divided by the Volume Weighted Average Price (VWAP) of DXS securities 10 trading days either side of 30 June 2013, which was confirmed as \$1.0548.

The LTI grants for Mr Steinberg and Mr Mitchell as Executive Directors are subject to security holder approval at the 2013 Annual General Meeting.

### 3.7 Executive remuneration actual cash received

In line with best-practice recommendations, the amounts shown in the table below provide a summary of actual remuneration received during the year ended 30 June 2013. The DPP and DDPP cash payments were received for performance in the 2012 and 2009 financial years respectively.

Executive	Cash Salary	Pension & Super Benefits <sup>1</sup>	Other Short-Term Benefits <sup>2</sup>	Termination Benefits	Earned in Prior Financial Year		Total
					DPP Cash Payment <sup>3</sup>	DDPP Cash Payment <sup>4</sup>	
Darren J Steinberg	1,383,530	16,470	–	–	360,000	–	1,760,000
Craig D Mitchell	733,530	16,470	–	–	500,000	636,272	1,886,272
Kevin L George	338,954	12,008	464,383	–	–	–	815,345
Ross G Du Vernet	424,305	16,470	–	–	350,000	–	790,775

1. Includes employer contributions to superannuation under the superannuation guarantee legislation and salary sacrifice amounts.

2. Mr George received a sign-on cash payment of \$250,000 plus various relocation benefits totalling \$214,383.

3. Cash payment made in August 2012 with respect to the 2012 DPP (i.e. annual performance payment for the prior financial year).

4. Cash payment made in August 2012 with respect to the 2009 DDPP award that vested on 1 July 2012 (i.e. realisation of three year deferred performance payment).

### 3 Remuneration Report (continued)

#### 3.7 Executive remuneration actual cash received (continued)

The amounts shown in this table are prepared in accordance with AASB 124 *Related Party Disclosures* and do not represent actual cash payments received by Executives for the year ended 30 June 2013. Amounts shown under Long Term Benefits reflect the accounting expenses recorded during the year with respect to prior year deferred remuneration and awards that have or are yet to vest. For performance payments and awards made with respect to the year ended 30 June 2013, refer to the Performance Pay Outcomes section of this report.

Executive	Year	Short-Term Benefits			Post-Employment Benefits		Share Based & Long-Term Benefits				Total
		Cash Salary	STI Cash Award <sup>1</sup>	Other Short-Term Benefits <sup>2</sup>	Pension & Super Benefits <sup>3</sup>	Termination Benefits	Deferred STI Plan Accrual <sup>4</sup>	DDPP Plan Accrual <sup>5</sup>	Transition Plan Accrual <sup>6</sup>	LTI Plan Accrual <sup>7</sup>	
Darren J Steinberg	2013	1,383,530	1,312,500	500,000	16,470	–	182,284	–	105,000	204,200	3,703,984
	2012	461,409	360,000	1,500,000	5,258	–	–	–	105,000	–	2,431,667
Craig D Mitchell	2013	733,530	562,500	–	16,470	–	78,122	172,790	125,000	64,349	1,752,761
	2012	734,225	500,000	–	15,775	–	–	328,664	125,000	–	1,703,664
Kevin L George <sup>8</sup>	2013	338,954	247,500	634,383	12,008	–	219,374	–	–	59,029	1,511,248
	2012	–	–	–	–	–	–	–	–	–	–
Ross G Du Vernet <sup>8</sup>	2013	424,305	288,750	–	16,470	–	40,103	–	50,000	42,899	862,527
	2012	–	–	–	–	–	–	–	–	–	–
Sub Total	2013	2,880,319	2,411,250	1,134,383	61,418	–	519,883	172,790	280,000	370,477	7,830,520
	2012	1,195,634	860,000	1,500,000	21,033	–	–	328,664	230,000	–	4,135,331
<b>Former KMP</b>											
Tanya L Cox	2013	433,530	201,000	–	16,470	–	27,916	75,408	50,000	23,166	827,490
	2012	434,225	200,000	–	15,775	–	–	149,140	50,000	–	849,140
John C Easy	2013	426,530	281,250	–	23,470	–	39,061	76,234	50,000	23,166	919,711
	2012	427,225	200,000	–	22,775	–	–	158,013	50,000	–	858,013
Other former KMPs <sup>9</sup>	2013	–	–	–	–	–	–	791,650	–	–	791,650
	2012	1,879,415	1,175,000	923,834	31,550	2,300,000	–	2,479,864	–	–	8,789,663
<b>Total</b>	<b>2013</b>	<b>3,740,379</b>	<b>2,893,500</b>	<b>1,134,383</b>	<b>101,358</b>	<b>–</b>	<b>586,860</b>	<b>1,116,082</b>	<b>380,000</b>	<b>416,809</b>	<b>10,369,371</b>
	<b>2012</b>	<b>3,936,499</b>	<b>2,435,000</b>	<b>2,423,834</b>	<b>91,133</b>	<b>2,300,000</b>	<b>–</b>	<b>3,115,681</b>	<b>330,000</b>	<b>–</b>	<b>14,632,147</b>

- FY13 annual cash STI performance award, payable in August 2013.
- Mr Steinberg's sign-on conditions included access to an additional \$500,000 subject to performance in FY13.  
Mr George received a cash sign-on payment of \$250,000, a cash payment of \$170,000 as compensation for foregone remuneration and various relocation benefits.
- Includes employer contributions to superannuation under the superannuation guarantee legislation and salary sacrifice amounts.
- Reflects the accounting expense accrued during the financial year for Deferred STI awards made with respect to FY13 performance. Refer to Note 36 of the DXS Financial Statements.  
Mr George's accrual also includes accounting for Performance Rights detailed later in this report as Special Terms.
- FY10 and FY11 DDPP legacy plan only applicable to Mr Mitchell and former KMP Ms Cox and Mr Easy. Reflects the accounting expense accrued during the financial year.
- FY13 Transition plan applicable to all KMP and former KMP, excluding Mr George. Reflects the accounting expense accrued during the financial year.
- Reflects the accounting expense accrued during the financial year for LTI grants made with respect to FY13. Refer to Note 36 of the DXS Financial Statements.
- Mr Du Vernet joined the Group on 7 May 2012 and was appointed KMP with effect 1 July 2013. No prior year remuneration is disclosed on that basis.  
Mr George joined the Group on 10 December 2012 and was appointed KMP with effect 10 December 2012. No prior year remuneration is disclosed on that basis.
- Other former KMPs, Mr Hoog Antink and Mr Say are disclosed for completeness. Refer to the 2012 Remuneration Report for more detail.



### 3.8 Service agreements

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

#### Chief Executive Officer

	Terms
Employment agreement	An ongoing Executive Service Agreement.
Termination by the CEO	Termination by Mr Steinberg requires a six month notice period. The Group may choose to place Mr Steinberg on "leave" or make a payment in lieu of notice at the Board's discretion.  All unvested STI and LTI awards are forfeited under this scenario.
Termination by the Group without cause	If the Group terminates Mr Steinberg without cause, Mr Steinberg is entitled to a payment of 12 months Fixed Remuneration. The Board may (in its absolute discretion) also approve a pro-rata STI or LTI award based on part-year performance.  Depending on the circumstances, the Board has the ability to treat Mr Steinberg as a "good leaver" under this scenario, which may result in Mr Steinberg retaining some or all of his unvested STI and LTI.
Termination by the Group with cause	No notice or severance is payable under this scenario.
Other contractual provisions and restrictions	Mr Steinberg's Executive Service Agreement includes standard clauses covering intellectual property, confidentiality, moral rights and disclosure obligations.

#### Executives – Mitchell, George and Du Vernet

	Terms
Employment agreement	An ongoing Executive Service Agreement.
Termination by the Executive	Termination by the Executive requires a three month notice period. The Group may choose to place the Executive on "leave" or make a payment in lieu of notice at the Board's discretion.  All unvested STI and LTI awards are forfeited under this scenario.
Termination by the Group without cause	If the Group terminates the Executive without cause, the Executive is entitled to a combined notice and severance payment of 12 months Fixed Remuneration. The Board may (in its absolute discretion) also approve a pro-rata STI or LTI award based on part-year performance.  Depending on the circumstances, the Board has the ability to treat the Executive as a "good leaver" under this scenario, which may result in the Executive retaining some or all of their unvested STI and LTI.
Termination by the Group with cause	No notice or severance is payable under this scenario.
Other contractual provisions and restrictions	The Executive Service Agreement includes standard clauses covering intellectual property, confidentiality, moral rights and disclosure obligations.

### 3 Remuneration Report (continued)

#### 3.8 Service agreements (continued)

##### Legacy Plan – unvested and vesting DDPP awards

The table below shows the value of unvested and vesting DEXUS Deferred Performance Payment (DDPP) awards for Executives and Former Executive KMP as at 30 June 2013. The DDPP awards are part of a legacy plan closed to new participants from 1 July 2012.

Participant	Award Date	Allocation Value	Value as at 30 June 2013	Vesting DDPP as at 1 July 2013	Vesting Date
Craig D Mitchell	1 Jul 2011	450,000	577,305	–	1 Jul 2014
	1 Jul 2010	400,000	598,440	598,440	1 Jul 2013
<b>Former KMP</b>					
Tanya L Cox	1 Jul 2011	190,000	243,751	–	1 Jul 2014
	1 Jul 2010	180,000	269,298	269,298	1 Jul 2013
John C Easy	1 Jul 2011	185,000	237,337	–	1 Jul 2014
	1 Jul 2010	188,000	281,267	281,267	1 Jul 2013

Mr Mitchell and former KMP Ms Cox and Mr Easy are entitled to receive a cash payment relating to the vesting of their 2010 DDPP awards. This payment will be made in August 2013.

The vesting DDPP value was determined by calculating the compound total return of both listed DXS (50%) and unlisted DWPF (50%) notional securities over a three-year vesting period. The DXS total return was 65.8% and the Group's unlisted Funds and Mandates was 33.4%, resulting in a composite 49.6% increase being applied to the original allocation value during the life of the 2010 DDPP plan. The Board chose to exercise its discretion in not applying a performance multiplier (allowable under the DDPP plan rules) to the 2010 tranche, and has indicated it intends to follow the same approach upon vesting of the 2011 tranche.

For more information on the DDPP legacy plan, refer to the 2012 Annual Report.

##### Legacy Plan – unvested transitional performance rights

The table below shows the number of unvested performance rights held by Executives under the transitional performance rights plan, which received security holder approval at the Annual General Meeting on 5 November 2012. The Board granted these once-off performance rights to Executives, with respect to performance during the year ending 30 June 2012, as a transitional measure towards the adoption of the Group's new remuneration framework which came into effect 1 July 2012.

Participant	Award Date	Number of Performance Rights	Vesting Date
Darren J Steinberg	1 Jul 2012	453,417	1 Jul 2015
Craig D Mitchell	1 Jul 2012	539,782	1 Jul 2015
Ross G Du Vernet	1 Jul 2012	215,913	1 Jul 2015
<b>Former KMP</b>			
Tanya L Cox	1 Jul 2012	215,913	1 Jul 2015
John C Easy	1 Jul 2012	215,913	1 Jul 2015

At the Board's instruction, Performance Rights are to be purchased on-market and the plan is subject to both service and claw-back conditions. For more information on the Transitional Performance Rights plan, refer to the 2012 Annual Report.

### Special terms – performance rights and relocation package for Kevin L George

Upon commencement, Mr George was offered a special grant of performance rights to DXS securities as compensation for foregone remuneration at his previous employer and to immediately align his interests with those of his KMP peers and security holders.

Participant	Award Date	Number of Performance Rights	Vesting Date
Kevin L George	10 Dec 2012	366,591	1 Aug 2014

The performance rights granted to Mr George are subject to both service and claw-back conditions, and are to be purchased on-market. The terms and conditions of this offer mirror those of the Deferred STI plan.

In addition to the grant of performance rights, Mr George received a commencement and relocation package (disclosed in the Statutory Accounting table as 'Other Short-Term Benefits') which included the following:

- \$250,000 as a cash sign-on payment
- \$170,000 as a cash payment to be made in August 2013 as compensation for part-year incentive forfeiture at Mr George's previous employer
- \$186,916 as a once-off relocation and family disturbance payment
- \$27,467 in expense reimbursements relating to Mr George and his family's relocation from Melbourne to Sydney – including flights, temporary accommodation, removalists, transit insurance, connection of utilities and other service fees

Mr George is also entitled to future reimbursement of reasonable expenses (i.e. stamp duty, agent fees etc.) relating to the purchase of a family home in Sydney. This benefit has not yet been exercised by Mr George and expires on 10 December 2014.

All expense benefits relating to Mr George's relocation are subject to a 100% claw-back clause should Mr George voluntarily resign within two years of his commencement date.

### 3.9 Non-Executive Directors

Non-Executive Directors' fees are reviewed annually by the Committee to ensure they reflect the responsibilities of directors and are market competitive. The Committee reviews information from a variety of sources to inform their recommendation regarding Non-Executive Directors' fees to the Board. Information considered includes:

- Publicly available remuneration reports from ASX listed companies with similar market capitalisation and complexity
- Publicly available remuneration reports from A-REIT competitors
- Information supplied by external remuneration advisors, including Egan Associates

Total fees paid to Non-Executive Directors remain within the aggregate fee pool of \$1,750,000 per annum approved by security holders at the AGM in October 2008. The Board has reviewed base fees for Non-Executive Directors and has elected not to approve an increase at this time. This will be the fourth consecutive year at the current rate.

In 2012, the Board (as noted in the Directors' Report) determined that it would be appropriate for Non-Executive Directors (existing and new) to hold DXS securities. A minimum target of 50,000 securities is to be acquired in each Director's first three year term (effective from 1 July 2012). Such securities would be subject to the Group's existing trading and insider information policies. No additional remuneration is provided to Directors to purchase these securities. All Directors have subsequently used their own resources to purchase at least the minimum target in the first year of the three year term. Details of Directors' holdings are included in the Directors' Report.

Other than the Chair who receives a single fee, Non-Executive Directors receive a base fee plus additional fees for membership of Board Committees. The table below outlines the Board fee structure (inclusive of statutory superannuation contributions) for the year ended 30 June 2013:

Committee	Chair	Member
Director's base fee (DXFM)	\$350,000*	\$150,000
Board Audit, Risk & Sustainability	\$30,000	\$15,000
Board Compliance	\$15,000	\$7,500
Board Finance	\$15,000	\$7,500
Board Nomination, Remuneration & Governance	\$30,000	\$15,000
DWPL Board	\$30,000	\$15,000

\* The Chairman receives a single fee for his entire engagement, including service on Committees of the Board.

### 3 Remuneration Report (continued)

#### 3.9 Non-Executive Directors (continued)

##### Non-Executive Directors' Statutory Accounting Table

The amounts shown in this table are prepared in accordance with AASB 124 *Related Party Disclosures*. The table is a summary of the actual cash and benefits received by each Non-Executive Director for the year ended 30 June 2013.

Executive	Year	Short-Term Benefits	Post-Employment Benefits	Other Long-Term Benefits	Total
Christopher T Beare	2013	333,530	16,470	–	350,000
	2012	334,225	15,775	–	350,000
Elizabeth A Alexander, AM	2013	178,899	16,101	–	195,000
	2012	170,539	24,461	–	195,000
Barry R Brownjohn	2013	165,138	14,862	–	180,000
	2012	172,018	15,482	–	187,500
John C Conde, AO	2013	165,138	14,862	–	180,000
	2012	158,257	14,243	–	172,500
Tonianne Dwyer <sup>1</sup>	2013	158,257	14,243	–	172,500
	2012	132,225	11,900	–	144,125
Stewart F Ewen, OAM	2013	141,000	24,000	–	165,000
	2012	109,052	48,448	–	157,500
W Richard Sheppard <sup>2</sup>	2013	158,257	14,243	–	172,500
	2012	74,541	6,709	–	81,250
Peter B St George	2013	151,376	13,624	–	165,000
	2012	165,138	14,862	–	180,000
<b>Total</b>	<b>2013</b>	<b>1,451,595</b>	<b>128,405</b>	<b>–</b>	<b>1,580,000</b>
	<b>2012</b>	<b>1,315,995</b>	<b>151,880</b>	<b>–</b>	<b>1,467,875</b>

1. Ms Dwyer was appointed on 24 August 2011.

2. Mr Sheppard was appointed 1 January 2012.

### 4 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
Christopher T Beare	100,000
Elizabeth A Alexander, AM	100,000
Barry R Brownjohn	50,000
John C Conde, AO	100,000
Tonianne Dwyer	100,000
Stewart F Ewen, OAM	100,000
Craig D Mitchell	539,782 <sup>1</sup>
W Richard Sheppard	100,000
Darren J Steinberg	453,417 <sup>1</sup>
Peter B St George	104,000

1. Performance Rights granted under the 2012 Transitional Performance Rights Plan (refer Note 36).

## 5 Directors' directorships in other listed entities

The following table sets out directorships of other listed entities, 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	Date resigned
Christopher T Beare	Mnemon Group Limited	6 November 2009	27 May 2013
Elizabeth A Alexander, AM	CSL Limited	12 July 1991	19 October 2011
John C Conde, AO	Whitehaven Coal Limited Cooper Energy Limited	3 May 2007 25 February 2013	
Tonianne Dwyer	Cardno Limited	25 June 2012	
W Richard Sheppard	Echo Entertainment Group	21 November 2012	
Peter B St George	Boart Longyear Limited First Quantum Minerals Limited <sup>1</sup>	21 February 2007 20 October 2003	21 May 2013

1. Listed for trading on the Toronto Stock Exchange in Canada and the London Stock Exchange in the United Kingdom.

## 6 Principal activities

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

## 7 Total value of Trust assets

The total value of the assets of the Group as at 30 June 2013 was \$7,752.6 million (2012: \$7,364.1 million). Details of the basis of this valuation are outlined in Note 1 of the Notes to the Financial Statements and form part of this Directors' Report.

## 8 Review of results and operations

The Group's financial performance for the year ended 30 June 2013 is summarised below. To fully understand our results, please refer to the full Financial Statements included in this Annual Report.

A strong focus on leasing and transactions during the year has driven a solid financial result with improved operational performance and strong property revaluations. Capital management initiatives have underpinned our balance sheet and reduced cost of debt which, together with a focus on cost management, has provided profit and Funds from Operations<sup>1</sup> (FFO) growth.

.....  
**INCREASE IN NTA OF**  
**5.2 cents**  
**PER SECURITY**  
 .....

.....  
**DISTRIBUTION OF**  
**6.0 cents**  
**PER SECURITY**  
 .....

.....  
**TOTAL RETURN OF**  
**11.2%**  
 .....

In accordance with Australian Accounting Standards, net profit includes a number of non-cash adjustments including fair value movements in asset and liability values. FFO is a global financial measure of real estate operating performance after finance costs and taxes, and is adjusted for certain non-cash items.

1. DEXUS's FFO comprises net profit/loss after tax attributable to stapled security holders calculated in accordance with Australian Accounting Standards and adjusted for: property revaluations, impairments, derivative and FX mark to market impacts, amortisation of certain tenant incentives, gain/loss on sale of certain assets, straightline rent adjustments, deferred tax expense/benefit, rental guarantees and coupon income.

## 8 Review of results and operations (continued)

The Directors consider FFO to be a measure that reflects the underlying performance of the Group. The following table reconciles between profit attributable to stapled security holders, FFO and distributions paid to stapled security holders.

	30 June 2013 \$m	30 June 2012 \$m
Net profit for the year attributable to stapled security holders	514.5	181.1
Net fair value gain of investment properties <sup>1</sup>	(220.6)	(82.8)
Impairment of inventories	2.2	14.9
Net fair value loss of derivatives	17.7	97.1
Net loss on sale of investment properties	3.6	32.6
Finance break costs attributable to sales transactions	18.8	44.3
Foreign currency translation reserve transfer on disposal of foreign operations	21.5	41.5
Incentive amortisation and rent straightline <sup>1,2</sup>	30.5	31.7
RENTS capital distributions	–	(10.2)
Deferred tax and other	(22.8)	17.6
<b>Funds From Operations (FFO)</b>	<b>365.4</b>	<b>367.8</b>
<b>Retained earnings<sup>3</sup></b>	<b>(83.3)</b>	<b>(110.4)</b>
<b>Distributions</b>	<b>282.1</b>	<b>257.4</b>
FFO per security (cents)	7.75	7.65
Distribution per security (cents)	6.00	5.35
Net tangible asset backing per security (\$)	1.05	1.00

1. Including DXS's share of equity accounted investments.

2. Including cash and fit out incentives amortisation.

3. Based on payout ratio of 77.4%. DXS's current policy is to distribute 70-80% of FFO, in line with free cash flow.

Net profit after tax was \$514.5 million or 10.9 cents per security, an increase of \$333.4 million from the prior year (2012: \$181.1 million). The key drivers of this increase included:

- Net revaluation gains from investment properties were \$218.4 million, representing a 3.1% increase across the portfolio (2012: \$67.9 million)
- Net fair value loss from derivatives of \$17.7 million, which was significantly lower than the prior year (2012: losses of \$97.1 million)
- The reversal in FY13 of a prior year impairment of management rights of \$20.5 million

Operationally, FFO decreased 0.7% to \$365.4 million (2012: 367.8 million) including the impact of the sale of non-core offshore properties. FFO per security increased 1.3% to 7.75 cents (2012: 7.65 cents).

Key drivers included:

- Office net operating income (NOI) of \$317.4 million, up 9.5% from \$289.9 million in 2012, was underpinned by 1.8% growth in like-for-like NOI together with income from properties acquired during the year
- Industrial NOI of \$117.1 million, a decrease of 2.4% (2012: \$120.0 million) reflected the sale of a 50% interest in 18 properties to the Australian Industrial Partnership (AIP). Like-for-like NOI growth was 1.1%
- Finance costs (net of interest revenue) were \$111.2 million, down \$21.1 million<sup>1</sup> from the prior year. Average cost of debt reduced from 6.1% to 5.9%
- Operational expenses reduced \$11.1 million following the sale of the US portfolio and an internal restructure

Distributions per security for the year were 6.0 cents per security, presenting a 12.1% increase from the prior year (2012: 5.35 cents). The payout ratio for the year to 30 June 2013 was 77.4% in accordance with DEXUS's payout policy to distribute 70-80% of FFO, in line with free cash flow.

1. 30 June 2012 includes RENTS distributions of \$12.0 million (30 June 2013: nil).

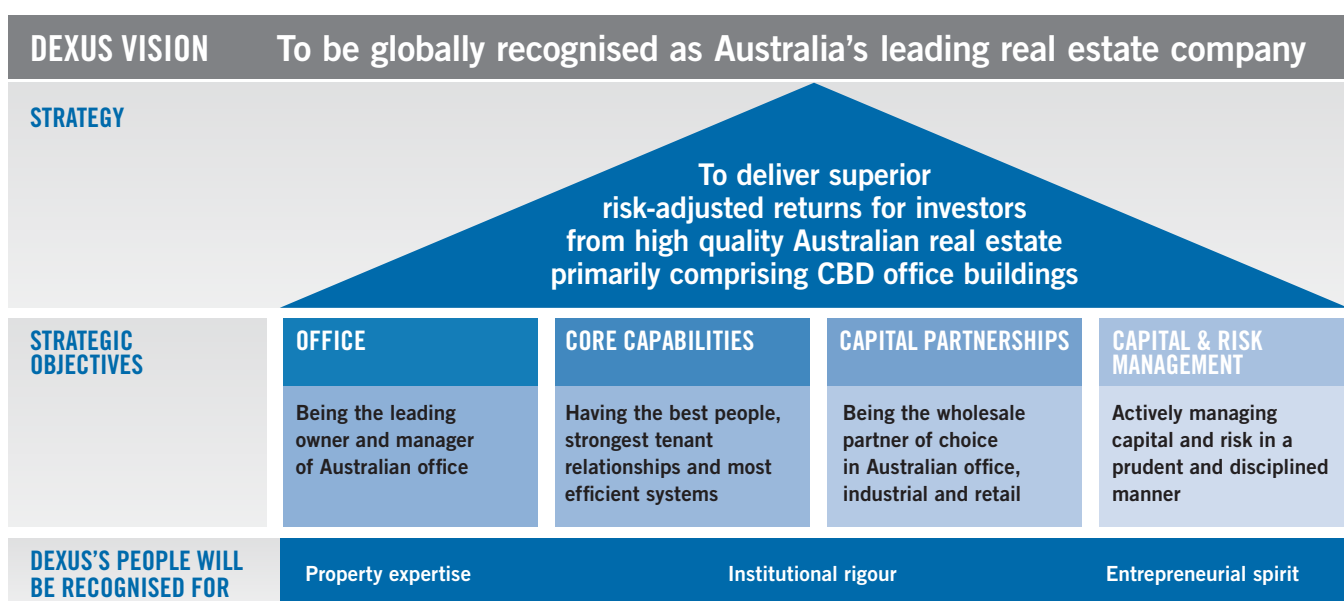
## Strategy

DEXUS aims to achieve its vision to be globally recognised as Australia's leading real estate company by delivering on its clearly defined and communicated strategy.

DEXUS identified four strategic objectives that would guide it towards achieving its strategy of delivering superior risk-adjusted returns for its investors from high quality Australian real estate.

The objectives focus on leadership in office, core capabilities, capital partnerships and capital and risk management. These are areas in which DEXUS considered it had established strength and capability, and on which it had the ability to develop.

DEXUS directly invests in Australian office and industrial properties, and on behalf of its third party partners, invests in Australian office, industrial and retail properties. With a strong track record delivering high quality developments, DEXUS undertakes investments of scale and quality suitable for long term ownership. DEXUS also invests in properties which offer value-add potential through intensive asset management and are able to be repositioned as trading opportunities.



## Operations

### Portfolio composition

Following the announcement of its revised strategy in August 2012, DEXUS immediately commenced a period of significant transformation. Focusing on its objective to be a leading owner and manager in Australian office, DEXUS exited its offshore, non-core properties and redeployed capital into the Australian office market. In a series of transactions, eight office properties with a total value of \$1.1 billion were acquired across the four key markets of Sydney, Melbourne, Brisbane and Perth, increasing DEXUS's office portfolio weighting to 78%. The total value of investment property at 30 June 2013 was \$7.3 billion.

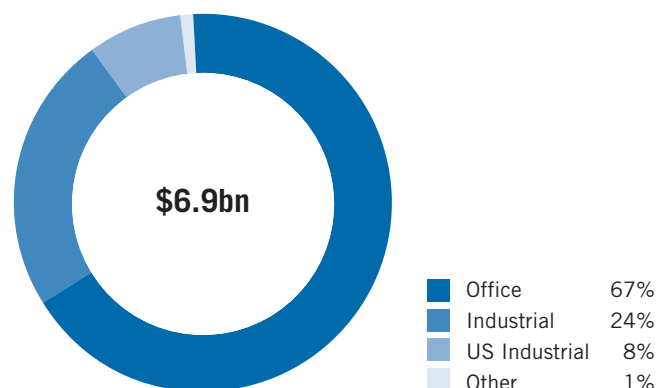
### DXS property portfolio metrics

30 June 2013	Office	Industrial	Total
Portfolio value (\$bn)	5.7	1.6	7.3
Number of properties	36	48	84
Occupancy (% by area)	94.4	95.9	95.3
Occupancy (% by income)	94.6	96.1	94.9
Tenant retention (%)	72	70	71
WALE (years)	5.0	4.1	4.8
Like-for-like NOI growth (%)	1.8	1.1	1.6
Weighted average cap rate %	7.17	8.55	7.47
<b>Total return – 1 year (%)</b>	<b>10.6</b>	<b>8.8</b>	<b>10.2</b>

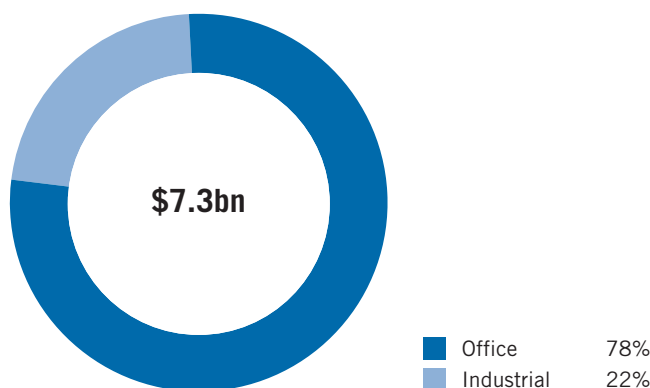
## 8 Review of results and operations (continued)

Operations (continued)

30 June 2012



30 June 2013



### Office portfolio

- Portfolio value \$5.7 billion (2012: \$4.7 billion)
- Like-for-like NOI growth 1.8% (2012: 5.4%)
- Occupancy by area 94.4% (2012: 97.1%)
- Weighted average lease expiry by income 5.0 years (2012: 4.9 years)

A continued dedication and focus on retention and proactive negotiations with tenants delivered solid operational performance for DEXUS's office portfolio. NOI of \$317.4 million, up 9.5% from \$289.9 million in 2012, was underpinned by 1.8% growth in like-for-like NOI together with income from properties acquired.

The office portfolio delivered a one year total return of 10.6% (2012: 9.5%) driven by underlying rental growth and improved property values.

Occupancy decreased to 94.4% (2012: 97.1%) primarily as a result of inclusion of new office acquisitions and the impact of vacancy at 14 Moore Street, Canberra following the expiry of the Commonwealth Government's lease in May 2013.

The weighted average lease duration improved marginally to 5.0 years and, as a result of DEXUS's proactive tenant engagement and relationships, tenant retention increased by 6% to 72%. Tenant incentives averaged 12.2% (2012: 17.3%) across all deals.

DEXUS's proactive leasing approach achieved a strong result, with the Office team leasing 156,024 square metres, representing over 18% of the portfolio during the year. This also significantly reduced FY14 expiries from 10.7% at 30 June 2012 to 5.6% at 30 June 2013. With many of these expiries towards the latter half of the coming year, strong like-for-like growth is expected for FY14.

Leasing successes, the weight of capital seeking quality Australian office property and recent transactional evidence contributed to a \$190.7 million or 3.5% uplift in valuations on prior book values across the DXS office portfolio. The weighted average capitalisation rate of the DXS office portfolio has tightened 13 basis points from 7.30% at 30 June 2012 to 7.17% at 30 June 2013.

In FY14, DEXUS will continue to drive the performance of the office portfolio while enhancing the value of newly acquired properties. DEXUS will focus on reducing lease expiries and strengthening tenant relationships by launching initiatives to enhance the tenant experience and develop tenant loyalty.

### Industrial portfolio

- Portfolio value \$1.6 billion (2012: \$1.7 billion)
- Like-for-like NOI growth 1.1% (2012: -1.6%)
- Occupancy by area 95.9% (2012: 91.7%)
- Weighted average lease expiry by income 4.1 years (2012: 4.4 years)

The results achieved in the DXS industrial portfolio during the year reflect the importance of strong tenant relationships in driving increased retention and significantly improving occupancy levels. Through pursuing all operational targets, DEXUS secured strong investor returns achieving a portfolio total return of 8.8% (2012: 8.0%).



NOI for the year was \$117.1 million, a decrease of 2.4% (2012: \$120.0 million) reflecting the sale of a 50% interest in 18 properties to the AIP. Like-for-like NOI growth was 1.1%.

Strong leasing activity driven by tenant relationships and a proactive approach resulted in occupancy increasing by 4.2% to 95.9%. DEXUS secured 122 lease deals covering 327,432 square metres including 87,221 square metres of development leasing.

The impact of the formation of the AIP which involved the sale of 50% of the properties at Quarry at Greystanes, NSW, DEXUS Industrial Estate at Laverton North and Altona, Vic was partly offset by strong leasing results at Gillman, Silverwater, Belrose, Rydalmere and Greystanes.

Increasing investor demand for prime quality industrial properties is being offset by the discounting of valuations for secondary properties and those with leasing risk. This is evident in DXS's industrial portfolio which achieved a moderate uplift in valuations of \$5.8 million or 0.4% on prior book values. Properties with long lease tenures including at Greystanes, Laverton North, Matraville and Lara have benefitted most, with improving occupancy and security of cash flows being the key drivers for valuation upside.

The weighted average capitalisation for the DXS industrial portfolio rates tightened four basis points from 8.59% at 30 June 2012 to 8.55% at 30 June 2013.

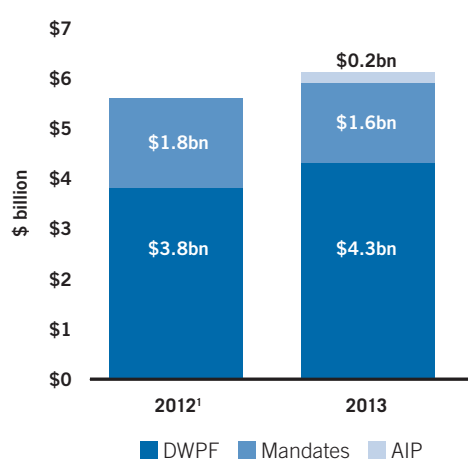
In FY14, DEXUS will continue to focus on proactively managing the industrial portfolio and leveraging its industrial capabilities into developments and new opportunities. DEXUS will continue to deliver on the investment objectives for its capital partners and progress projects in its industrial development pipeline to deliver trading profits and enhance investor returns.

### Third Party Funds Management

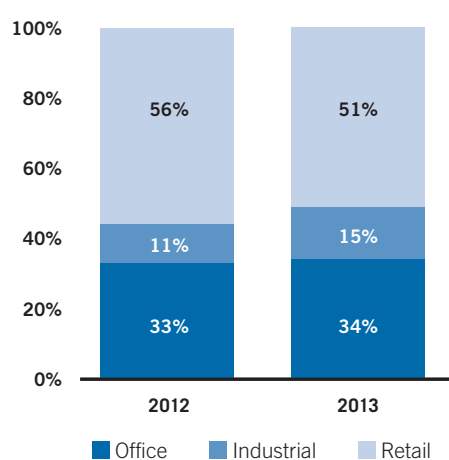
A key objective for DEXUS in FY13 was to grow its Third Party Funds Management business through partnering with wholesale investors on investment opportunities and developing new capital partnerships.

Over the year, DEXUS achieved this objective, growing funds under management by 9.5% from \$5.6 billion at 30 June 2012 to \$6.1 billion at 30 June 2013. DEXUS demonstrated its ability to further diversify its capital sources, through establishing and growing a new capital partnership, the AIP, and partnering with DWPF to further invest in Australian office markets.

#### Funds under management



#### Asset diversification



### Transactions

Since the announcement of its revised strategy in August 2012, DEXUS was actively involved in \$2.9 billion of transactions that have re-shaped the composition of the DXS portfolio and supported the growth of existing and new capital partners in its Third Party Funds Management business.

DEXUS achieved its objective of fully exiting from the US industrial market and investing in quality office product through acquiring core and value-add opportunities as well as acquiring property on a development fund-through basis.

DXS transactions included:

- The sale of 27 remaining US properties in three separate transactions for total proceeds of US\$617.2 million
- The acquisition of six core office properties in Sydney, Melbourne and Brisbane for a total price of \$654.8 million
- The acquisition of two office developments in Brisbane and Perth on a fund-through basis with an expected final cost of \$489.4 million
- The sale of a 50% interest in 18 industrial properties to the AIP

1. Mandates for 2012 include a \$0.2bn US mandate.

## 8 Review of results and operations (continued)

### Development

DEXUS continued to progress its \$1.2 billion development pipeline during FY13, utilising its development capabilities to complete six prime industrial properties across 81,024 square metres valued at \$106.9 million. These included industrial developments at Quarry at Greystanes, 57-65 Templar Road, Erskine Park and 163-185 Viking Drive, Wacol.

Over the year, DEXUS leased 87,221 square metres of industrial development space, including achieving 100% occupancy on completed developments at Quarry at Greystanes.

Over \$111 million of industrial developments have commenced across Sydney, Melbourne and Brisbane that will deliver 90,139 square metres of new product during FY14. DEXUS will also continue to drive the leasing and repositioning of value-add properties at 50 Carrington Street, Sydney, 40 Market Street, Melbourne and at 57-101 Balham Road, Archerfield.

### Capital management

- Cost of debt 5.9% (2012: 6.1%)
- Duration of debt 5.4 years (2012: 4.2 years)
- Gearing 29.0% (2012: 27.2%)
- Headroom \$0.3bn (2012: \$0.6bn)
- S&P/Moody's credit rating BBB+/Baa1 (2012: BBB+/Baa1)

In the past year, DEXUS focused on meeting its strategic objective of actively managing its capital and risk in a prudent and disciplined manner, achieving its FY13 commitments of maintaining a strong credit rating, a strong diversity of debt and maintaining debt duration over four years.

Key achievements for FY13 included:

- Completed over \$1 billion of new funding with an average duration of seven years and a margin under 2%, including \$235 million from the Australian Medium Term Note market and US\$300 million in the US Private Placement market
- Reduced average cost of debt by 0.2% to 5.9%
- Increased debt duration to 5.4 years

Following an active period of transactional activity, DEXUS remains comfortably inside all its covenant limits and the Group's strong credit ratings of BBB+ rating with Standards & Poor's and Baa1 rating with Moody's. DEXUS's balance sheet remains strong with gearing at 29.0% and limited short-term refinancing requirements.

### On-market securities buy-back

Having launched an on-market \$200 million securities buy-back program in April 2012, DEXUS used proceeds from the sale of the US central portfolio in FY13 to acquire 137 million securities for \$128.5 million at an average price of \$0.9371.

Following the reinvestment of capital into Australian markets on the back of improved share market performance, the DEXUS security price performance stabilised and DEXUS chose not to extend the buy-back, having completed 64% of the targeted \$200 million.

Post balance date on 2 July 2013, a buy-back of up to 5% of securities was reinstated as a result of share market volatility, providing the flexibility for DEXUS to acquire securities on-market with a focus on enhancing value and returns to investors.

### Distribution policy

The Group's distribution policy is to distribute between 70% and 80% of FFO, in line with free cash flow, with the expectation that over time the average payout ratio will be around 75% of FFO.

Following a reduction in capital expenditure over the six months to 30 June 2013, the payout ratio for this period was increased from 75% to 80% of FFO. This resulted in an upgraded distribution of 6.0 cents per security and an average payout of 77.4% for the year ended 30 June 2013.

## 9 Likely developments and expected results of operations

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

## 10 Significant changes in the state of affairs

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

## 11 Matters subsequent to the end of the financial year

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

## 12 Distributions

Distributions paid or payable by the Group for the year ended 30 June 2013 were 6.00 cents per security (2012: 5.35 cents per security) as outlined in Note 26 of the Notes to the Financial Statements.

## 13 DXFM fees

Details of fees paid or payable by the Group to DXFM for the year ended 30 June 2013 are outlined in Note 31 of the Notes to the Financial Statements and form part of this Directors' Report.

## 14 Interests in DXS securities

The movement in securities on issue in the Group during the year and the number of securities on issue as at 30 June 2013 are detailed in Note 24 of the Notes to the Financial Statements and form part of this Directors' Report.

Details of the number of interests in the Group held by DXFM or its associates as at the end of the financial year are outlined in Note 31 of the Notes to the Financial Statements and form part of this Directors' Report.

With the exception of performance rights which are discussed in detail in the Remuneration Report, the Group did not have any options on issue as at 30 June 2013 (2012: nil).

## 15 Environmental regulation

The Group's senior management, through its Board Audit, Risk & Sustainability Committee, oversee 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.

## 16 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 DXH.

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

## 17 Audit

### 17.1 Auditor

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

### 17.2 Non-audit services

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

Details of the amounts paid or payable to the Auditor, for audit and non-audit services provided during the year, are set out in Note 6 of the Notes to the Financial Statements.

The Board Audit, Risk & Sustainability 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*.

**17 Audit** (continued)**17.2 Non-audit services** (continued)

The reasons for the Directors being satisfied are:

- A Charter of Audit Independence provides guidelines under which the Auditor may be engaged to provide non-audit services without impairing the Auditor's objectivity or independence.
- The Charter states that the Auditor will not provide services where the Auditor may be required to review or audit its own work, including:
  - the preparation of tax provisions, accounting records and financial statements
  - the design, implementation and operation of information technology systems
  - the design and implementation of internal accounting and risk management controls
  - conducting valuation, actuarial or legal services
  - consultancy services that include direct involvement in management decision making functions
  - investment banking, borrowing, dealing or advisory services
  - acting as trustee, executor or administrator of trust or estate
  - prospectus independent expert reports and being a member of the due diligence committee
  - providing internal audit services
- The Board Audit, Risk & Sustainability Committee regularly reviews the performance and independence of the Auditor and whether the independence of this function has been maintained having regard to the provision of non-audit services. The Auditor has provided a written declaration to the Board regarding its independence at each reporting period and Board Audit, Risk & Sustainability Committee approval is required before the engagement of the Auditor to perform any non-audit service for a fee in excess of \$100,000.

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

**17.3 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 43 and forms part of this Directors' Report.

**18 Corporate governance**

DXFM's Corporate Governance Statement is set out in a separate section of this Financial Report and forms part of this Directors' Report.

**19 Rounding of amounts and currency**

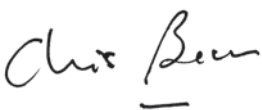
The Group is a registered scheme of the kind referred to in Class Order 98/0100, issued by the Australian Securities & Investments Commission, relating to the rounding off of amounts in this Directors' Report and the Financial Statements. Amounts in this Directors' Report and the Financial Statements have been rounded off in accordance with that Class Order to the nearest tenth of a million dollars, unless otherwise indicated. All figures in this Directors' Report and the Financial Statements, except where otherwise stated, are expressed in Australian dollars.

**20 Management representation**

The Chief Executive Officer and Chief Financial Officer have reviewed the Group's financial reporting processes, policies and procedures together with its risk management, internal control and compliance policies and procedures. Following that review, it is their opinion that the Group's financial records for the financial year have been properly maintained in accordance with the *Corporations Act 2001* and the Financial Statements and their notes comply with the accounting standards and give a true and fair view.

**21 Directors' authorisation**

The Directors' Report is made in accordance with a resolution of the Directors. The Financial Statements were authorised for issue by the Directors on 16 August 2013. The Directors have the power to amend and reissue the Financial Statements.



**Christopher T Beare**  
Chair

16 August 2013



**Darren J Steinberg**  
Chief Executive Officer

16 August 2013



### Auditor's Independence Declaration

As lead auditor for the audit of DEXUS Diversified Trust for the year ended 30 June 2013, I declare that to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

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

A handwritten signature in black ink, appearing to read 'E A Barron', with a circular mark around the first part of the signature.

E A Barron  
Partner  
PricewaterhouseCoopers

Sydney  
16 August 2013

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**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
FOR THE YEAR ENDED 30 JUNE 2013

	Note	2013 \$m	2012 \$m
<b>Revenue from ordinary activities</b>			
Property revenue	2	546.6	535.7
Proceeds from sale of inventory		24.4	49.8
Interest revenue		1.2	1.7
Management fee revenue		48.5	50.3
<b>Total revenue from ordinary activities</b>		<b>620.7</b>	<b>637.5</b>
Net fair value gain of investment properties		185.9	43.0
Share of net profit of investments accounted for using the equity method	15	37.9	13.8
Reversal of previous impairment	17	20.5	–
<b>Total income</b>		<b>865.0</b>	<b>694.3</b>
<b>Expenses</b>			
Property expenses		(134.9)	(133.5)
Cost of sale of inventory		(22.9)	(44.0)
Finance costs	3	(98.6)	(118.0)
Impairment of inventories		(2.2)	(14.9)
Impairment of goodwill		(0.1)	(0.6)
Net fair value loss of derivatives		(10.9)	–
Net loss on sale of investment properties		(3.7)	–
Fair value adjustment on acquisition of investments		(0.1)	–
Corporate and administration expenses	4	(68.4)	(75.8)
<b>Total expenses</b>		<b>(341.8)</b>	<b>(386.8)</b>
<b>Profit before tax</b>		<b>523.2</b>	<b>307.5</b>
<b>Tax (expense)/benefit</b>			
Income tax (expense)/benefit	5(a)	(1.7)	18.9
<b>Total tax (expense)/benefit</b>		<b>(1.7)</b>	<b>18.9</b>
<b>Profit after tax from continuing operations</b>		<b>521.5</b>	<b>326.4</b>
Loss from discontinued operations	12	(7.0)	(143.5)
<b>Net profit for the year</b>		<b>514.5</b>	<b>182.9</b>
<b>Other comprehensive income:</b>			
Items that may be reclassified to profit or loss:			
Exchange differences on translating foreign operations	25(a)	8.2	0.3
Foreign currency translation reserve transfer on disposal of foreign operations	25(a)	21.5	41.5
<b>Total comprehensive income for the year</b>		<b>544.2</b>	<b>224.7</b>
<b>Profit for the year attributable to:</b>			
Unitholders of the parent entity		102.8	81.5
Unitholders of other stapled entities (non-controlling interests)		411.7	99.6
<b>Stapled security holders</b>		<b>514.5</b>	<b>181.1</b>
Other non-controlling interest		–	1.8
<b>Total profit for the year</b>		<b>514.5</b>	<b>182.9</b>
<b>Total comprehensive income for the year attributable to:</b>			
Unitholders of the parent entity		148.9	139.1
Unitholders of other stapled entities (non-controlling interests)		395.3	83.8
<b>Stapled security holders</b>		<b>544.2</b>	<b>222.9</b>
Other non-controlling interest		–	1.8
<b>Total comprehensive income for the year</b>		<b>544.2</b>	<b>224.7</b>
		<b>Cents</b>	<b>Cents</b>
<b>Basic and diluted earnings per unit attributable to unitholders of the parent entity</b>			
Earnings per unit – profit from continuing operations	35(a)	2.02	2.63
Earnings per unit – profit/(loss) from discontinued operations	35(a)	0.16	(0.94)
Earnings per unit – total	35(a)	2.18	1.69
<b>Basic and diluted earnings per stapled security attributable to stapled security holders</b>			
Earnings per security – profit from continuing operations	35(b)	11.06	6.71
Earnings per unit – loss from discontinued operations	35(b)	(0.15)	(2.97)
Earnings per unit – total	35(b)	10.91	3.75

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 2013

	Note	2013 \$m	2012 \$m
<b>Current assets</b>			
Cash and cash equivalents	7	14.5	59.2
Receivables	8	40.2	30.8
Inventories	9	10.9	26.8
Derivative financial instruments	10	25.4	3.6
Other	11	10.9	10.9
		101.9	131.3
Discontinued operations and assets classified as held for sale	12	8.8	212.3
<b>Total current assets</b>		<b>110.7</b>	<b>343.6</b>
<b>Non-current assets</b>			
Investment properties	13	6,085.0	6,391.5
Plant and equipment	14	8.8	4.7
Inventories	9	242.0	71.0
Investments accounted for using the equity method	15	906.8	217.0
Derivative financial instruments	10	114.8	74.7
Deferred tax assets	16	39.4	36.7
Intangible assets	17	243.7	223.6
Other	18	1.4	1.3
<b>Total non-current assets</b>		<b>7,641.9</b>	<b>7,020.5</b>
<b>Total assets</b>		<b>7,752.6</b>	<b>7,364.1</b>
<b>Current liabilities</b>			
Payables	19	95.1	110.6
Provisions	21	169.5	152.0
Derivative financial instruments	10	1.8	8.2
		266.4	270.8
Discontinued operations classified as held for sale	12	0.1	–
<b>Total current liabilities</b>		<b>266.5</b>	<b>270.8</b>
<b>Non-current liabilities</b>			
Interest bearing liabilities	20	2,167.1	1,940.8
Derivative financial instruments	10	99.4	112.7
Deferred tax liabilities	22	12.1	12.4
Provisions	21	11.2	16.5
Other	23	4.6	3.6
<b>Total non-current liabilities</b>		<b>2,294.4</b>	<b>2,086.0</b>
<b>Total liabilities</b>		<b>2,560.9</b>	<b>2,356.8</b>
<b>Net assets</b>		<b>5,191.7</b>	<b>5,007.3</b>
<b>Equity</b>			
Equity attributable to unitholders of the parent entity			
Contributed equity	24	1,577.7	1,605.0
Reserves	25	–	(46.1)
Retained profits	25	181.2	197.4
<b>Parent entity unitholders' interest</b>		<b>1,758.9</b>	<b>1,756.3</b>
<b>Equity attributable to unitholders of other stapled entities</b>			
Contributed equity	24	3,106.3	3,156.5
Reserves	25	36.6	53.2
Retained profits	25	289.9	41.3
<b>Other stapled unitholders' interest</b>		<b>3,432.8</b>	<b>3,251.0</b>
<b>Total equity</b>		<b>5,191.7</b>	<b>5,007.3</b>

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 2013

	Note	Stapled security holders equity		
		Contributed equity \$m	Retained profits \$m	Foreign currency translation reserve \$m
<b>Opening balance as at 1 July 2011</b>		<b>4,812.8</b>	<b>325.2</b>	<b>(77.8)</b>
Profit for the year attributable to:				
Unitholders of the parent entity		–	81.5	–
Other stapled entities (non-controlling interests)		–	99.6	–
Other non-controlling interest		–	–	–
Profit for the year		–	181.1	–
Other comprehensive income/(loss) for the year attributable to:				
Unitholders of the parent entity		–	–	57.6
Other stapled entities (non-controlling interests)		–	–	(15.8)
Total other comprehensive income for the year		–	–	41.8
Transactions with owners in their capacity as owners				
Buy-back of contributed equity, net of transaction costs	24	(51.0)	–	–
Capital payments and contributions, net of transaction costs	24	(0.3)	–	–
Acquisition of non-controlling interest		–	–	–
Security-based payments expense	25	–	–	–
Distributions paid or provided for	26	–	(257.4)	–
Total transactions with owners in their capacity as owners		(51.3)	(257.4)	–
Transfer (from)/to retained profits		–	(10.2)	–
<b>Closing balance as at 30 June 2012</b>		<b>4,761.5</b>	<b>238.7</b>	<b>(36.0)</b>
<b>Opening balance as at 1 July 2012</b>		<b>4,761.5</b>	<b>238.7</b>	<b>(36.0)</b>
Profit for the year attributable to:				
Unitholders of the parent entity		–	102.8	–
Other stapled entities (non-controlling interests)		–	411.7	–
Profit for the year		–	514.5	–
Other comprehensive income/(loss) for the year attributable to:				
Unitholders of the parent entity		–	–	46.1
Other stapled entities (non-controlling interests)		–	–	(16.4)
Total other comprehensive income for the year		–	–	29.7
Transactions with owners in their capacity as owners				
Buy-back of contributed equity, net of transaction costs	24	(77.5)	–	–
Purchase of securities, net of transaction costs	25	–	–	–
Security-based payments expense	25	–	–	–
Distributions paid or provided for	26	–	(282.1)	–
Total transactions with owners in their capacity as owners		(77.5)	(282.1)	–
<b>Closing balance as at 30 June 2013</b>		<b>4,684.0</b>	<b>471.1</b>	<b>(6.3)</b>

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



Stapled security holders equity						
Asset revaluation reserve \$m	Security-based payments reserve \$m	Treasury securities reserve \$m	Stapled security holders' equity \$m	Other non-controlling interest \$m	Total equity \$m	
42.7	–	–	5,102.9	204.0	5,306.9	
–	–	–	81.5	–	81.5	
–	–	–	99.6	–	99.6	
–	–	–	–	1.8	1.8	
–	–	–	181.1	1.8	182.9	
–	–	–	57.6	–	57.6	
–	–	–	(15.8)	–	(15.8)	
–	–	–	41.8	–	41.8	
–	–	–	(51.0)	–	(51.0)	
–	–	–	(0.3)	–	(0.3)	
–	–	–	–	(204.0)	(204.0)	
–	0.4	–	0.4	–	0.4	
–	–	–	(257.4)	(12.0)	(269.4)	
–	0.4	–	(308.3)	(216.0)	(524.3)	
–	–	–	(10.2)	10.2	–	
42.7	0.4	–	5,007.3	–	5,007.3	
42.7	0.4	–	5,007.3	–	5,007.3	
–	–	–	102.8	–	102.8	
–	–	–	411.7	–	411.7	
–	–	–	514.5	–	514.5	
–	–	–	46.1	–	46.1	
–	–	–	(16.4)	–	(16.4)	
–	–	–	29.7	–	29.7	
–	–	–	(77.5)	–	(77.5)	
–	–	(2.2)	(2.2)	–	(2.2)	
–	2.0	–	2.0	–	2.0	
–	–	–	(282.1)	–	(282.1)	
–	2.0	(2.2)	(359.8)	–	(359.8)	
42.7	2.4	(2.2)	5,191.7	–	5,191.7	

**CONSOLIDATED STATEMENT OF CASH FLOWS**  
FOR THE YEAR ENDED 30 JUNE 2013

	Note	2013 \$m	2012 \$m
<b>Cash flows from operating activities</b>			
Receipts in the course of operations (inclusive of GST)		760.0	854.5
Payments in the course of operations (inclusive of GST)		(334.8)	(365.0)
Interest received		1.3	1.9
Finance costs paid to financial institutions		(116.1)	(146.6)
Distributions received from investments accounted for using the equity method		19.7	7.5
Income and withholding taxes paid		(0.2)	(1.1)
Proceeds from sale of property classified as inventory		24.4	53.2
Payments for property classified as inventory		(160.8)	(44.9)
<b>Net cash inflow from operating activities</b>	34(a)	<b>193.5</b>	<b>359.5</b>
<b>Cash flows from investing activities</b>			
Proceeds from sale of investment properties		303.4	883.6
Proceeds from sale of subsidiaries		435.9	–
Payments for capital expenditure on investment properties		(120.7)	(177.6)
Payments for acquisition of investment properties		(22.2)	(34.7)
Payments for investments accounted for using the equity method		(674.3)	(8.6)
Payments for plant and equipment		(7.0)	(3.1)
<b>Net cash (outflow)/inflow from investing activities</b>		<b>(84.9)</b>	<b>659.6</b>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		3,516.3	2,628.2
Repayment of borrowings		(3,328.1)	(3,134.2)
Payments for buy-back of contributed equity		(77.5)	(51.0)
Purchase of securities for security-based payments plans		(2.2)	–
Capital contribution and capital payment transaction costs		–	(0.3)
Acquisition of non-controlling interest		–	(204.0)
Distributions paid to security holders		(264.1)	(254.5)
Distributions paid to other non-controlling interests		–	(15.2)
<b>Net cash outflow from financing activities</b>		<b>(155.6)</b>	<b>(1,031.0)</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(47.0)</b>	<b>(11.9)</b>
Cash and cash equivalents at the beginning of the year		59.2	73.7
Effects of exchange rate changes on cash and cash equivalents		2.7	(2.6)
<b>Cash and cash equivalents at the end of the year</b>	7	<b>14.9</b>	<b>59.2</b>

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

## Note 1 Summary of significant accounting policies

### (a) Basis of preparation

In accordance with Australian Accounting Standards, the entities within the Group must be consolidated. The parent entity and deemed acquirer of DIT, DOT and DXO is DDF. These Financial Statements represent the consolidated results of DDF, which comprises DDF and its controlled entities, DIT and its controlled entities, DOT and its controlled entities, and DXO and its controlled entities. Equity attributable to other trusts stapled to DDF is a form of non-controlling interest and represents the equity of DIT, DOT and DXO. Other non-controlling interests represent the equity attributable to parties external to the Group. DDF is a for-profit entity for the purpose of preparing Financial Statements.

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

DEXUS Funds Management Limited (DXFM) as Responsible Entity for DDF, DIT, DOT and DXO may only un-staple the Group if approval is obtained by a special resolution of the stapled security holders.

These general purpose Financial Statements for the year ended 30 June 2013 have been prepared in accordance with the requirements of the Constitution of the entities within the Group, the *Corporations Act 2001*, Australian Accounting Standards and other authoritative pronouncements of the Australia Accounting Standards Board and interpretations. Compliance with Australian Accounting Standards ensures that the Financial Statements and notes also comply with International Financial Reporting Standards (IFRS).

These Financial Statements are prepared on a going concern basis and in accordance with historical cost conventions and have not been adjusted to take account of either changes in the general purchasing power of the dollar or changes in the values of specific assets, except for the valuation of certain non-current assets and financial instruments (refer Notes 1(e), 1(l), 1(n), 1(p), 1(u), 1(v), and 1(z)).

The Group has unutilised facilities of \$305.9 million (refer Note 20) and sufficient working capital and cash flows in order to fund all requirements arising from the net current asset deficiency of \$155.8 million as at 30 June 2013.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, unless otherwise stated.

### Critical accounting estimates

The preparation of Financial Statements requires the use of certain critical accounting estimates and management to exercise its judgement in the process of applying the Group's accounting policies. Other than the estimations described in Notes 1(e), 1(l), 1(n), 1(p), 1(u), 1(v) and 1(z), no key assumptions concerning the future or other estimation of uncertainty at the end of each reporting period have a significant risk of causing material adjustments to the Financial Statements in the next annual reporting period.

### Changes to presentation – classification of expenses

Following a review of internal reporting, the Consolidated Statement of Comprehensive Income and the operating segments note (refer Note 33) have been amended to disclose revenue and expenses on the basis of their function. The revised disclosures, which include additional financial metrics within the operating segments note, better reflects the financial information regularly reviewed by the Directors and DXS management in order to assess the performance of the functions of the Group and the allocation of resources.

### (b) Principles of consolidation

#### (i) Controlled entities

The Financial Statements have been prepared on a consolidated basis in recognition of the fact that while the securities issued by the Group are stapled into one trading security and cannot be traded separately, the Financial Statements must be presented on a consolidated basis. The parent entity and deemed acquirer of the Group is DDF. The accounting policies of the subsidiaries are consistent with those of the parent.

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

The Financial Statements incorporate an elimination of inter-entity transactions and balances to present the Financial Statements on a consolidated basis. Net profit and equity in controlled entities, which is attributable to the unit holdings of non-controlling interests, are shown separately in the Statement of Comprehensive Income and Statement of Financial Position respectively. Where control of an entity is obtained during a financial year, its results are included in the Statement of Comprehensive Income from the date on which control is gained. They are deconsolidated from the date that control ceases. The Financial Statements incorporate all the assets, liabilities and results of the parent and its controlled entities.

#### (ii) Partnerships and joint ventures

Where assets are held in a partnership or joint venture with another entity directly, the Group's share of the results and assets of this partnership or joint venture are consolidated into the Statement of Comprehensive Income and Statement of Financial Position of the Group. Where assets are jointly controlled via ownership of units in single purpose unlisted unit trusts or shares in companies, the Group applies equity accounting to record the operations of these investments (refer Note 1(s)).

#### (ii) Employee share trust

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

### (c) Revenue recognition

#### (i) Rent

Rental revenue is brought to account on a straightline basis over the lease term for leases with fixed rent review clauses. In all other circumstances rental revenue is brought to account on an accruals basis. If not received at the end of the reporting period, rental revenue is reflected in the Statement of Financial Position as a receivable. Recoverability of receivables is reviewed on an ongoing basis. Debts which are known to be not collectable are written off.

## Note 1 Summary of significant accounting policies

(continued)

### (c) Revenue recognition (continued)

#### (ii) Management fee revenue

Management fees are brought to account on an accruals basis, and if not received at the end of the reporting period, are reflected in the Statement of Financial Position as a receivable.

#### (iii) Interest revenue

Interest revenue is brought to account on an accruals basis using the effective interest rate method and, if not received at the end of the reporting period, is reflected in the Statement of Financial Position as a receivable.

#### (iv) Dividends and distribution revenue

Revenue from dividends and distributions are recognised when declared. Amounts not received at the end of the reporting period are included as a receivable in the Statement of Financial Position.

### (d) Expenses

Expenses are brought to account on an accruals basis and, if not paid at the end of the reporting period, are reflected in the Statement of Financial Position as a payable.

#### (i) Property expenses

Property expenses include rates, taxes and other property outgoings incurred in relation to investment properties where such expenses are the responsibility of the Group.

#### (ii) Borrowing costs

Borrowing costs include interest, amortisation of discounts or premiums relating to borrowings, amortisation or ancillary costs incurred in connection with arrangement of borrowings and foreign exchange losses net of hedged amounts on borrowings, including trade creditors and lease finance charges. Borrowing costs are expensed as incurred unless they relate to qualifying assets.

Qualifying assets are assets which take more than 12 months to get ready for their intended use or sale. In these circumstances, borrowing costs are capitalised to the cost of the asset during the period of time that is required to complete and prepare the asset for its intended use or sale. Where funds are borrowed generally, borrowing costs are capitalised using a weighted average capitalisation rate.

### (e) Derivatives and other financial instruments

#### (i) Derivatives

The Group's activities expose it to a variety of financial risks including foreign exchange risk and interest rate risk. Accordingly, the Group enters into various derivative financial instruments such as interest rate swaps, cross currency swaps and foreign exchange contracts to manage its exposure to certain risks. 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 continually reviews the Group's exposures and updates its treasury policies and procedures. The Group does not trade in derivative instruments for speculative purposes. Even though derivative financial instruments are entered into for the purpose of providing the Group with an economic hedge, the Group has elected not to apply hedge accounting under *AASB 139 Financial Instruments: Recognition and*

*Measurement* for interest rate swaps and foreign exchange contracts. Accordingly, derivatives including interest rate swaps, the interest rate component of cross currency swaps and foreign exchange contracts, are measured at fair value with any changes in fair value recognised in the Statement of Comprehensive Income.

#### (ii) Debt and equity instruments issued by the Group

Financial instruments issued by the Group are classified as either liabilities or as equity in accordance with the substance of the contractual arrangements. Accordingly, ordinary units issued by DDF, DIT, DOT and DXO are classified as equity.

Interest and distributions are classified as expenses or as distributions of profit consistent with the Statement of Financial Position classification of the related debt or equity instruments.

Transaction costs arising on the issue of equity instruments are recognised directly in equity (net of tax) as a reduction of the proceeds of the equity instruments to which the costs relate. Transaction costs are the costs that are incurred directly in connection with the issue of those equity instruments and which would not have been incurred had those instruments not been issued.

#### (iii) Financial guarantee contracts

Financial guarantee contracts are recognised as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value and subsequently at the higher of the amount determined in accordance with *AASB 137 Provisions, Contingent Liabilities and Contingent Assets* and the amount initially recognised less cumulative amortisation, where appropriate.

The fair value of financial guarantees is determined as the present value of the difference in the net cash flows between the contractual payments under the debt instrument and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assuming the obligations. Where guarantees in relation to loans or other payables of subsidiaries or associates are provided for no compensation, the fair values are accounted for as contributions and recognised as part of the cost of the investment.

#### (iv) Other financial assets

Loans and other receivables are measured at amortised cost using the effective interest rate method less impairment.

### (f) Goods and services tax/value added tax

Revenues, expenses and capital assets are recognised net of any amount of Australian and New Zealand Goods and Services Tax (GST) or French and German Value Added Tax (VAT), except where the amount of GST/VAT incurred is not recoverable. In these circumstances the GST/VAT is recognised as part of the cost of acquisition of the asset or as part of the expense.

Cash flows are included in the Statement of Cash Flows on a gross basis. The GST component of cash flows arising from investing and financing activities that is recoverable from or payable to the Australian Taxation Office is classified as cash flows from operating activities.

### (g) Taxation

Under current Australian income tax legislation, DDF, DIT and DOT are not liable for income tax provided they satisfy certain legislative requirements. The Group may be liable for income tax in jurisdictions where foreign property is held.

DXO is liable for income tax and applies the following policy in determining the tax expense, assets and liabilities:

- The income tax expense for the year is the tax payable on the current year's taxable income based on the notional income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses
- Deferred tax assets and liabilities are recognised for temporary differences arising from differences between the carrying amount of assets and liabilities and the corresponding tax base of those items based on the tax rates enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax assets or liabilities. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability (where they do not arise as a result of a business combination and did not affect either accounting profit/loss or taxable profit/loss)
- Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses
- Deferred tax assets and liabilities are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future
- 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 this case, the tax is also recognised in other comprehensive income or directly in equity, respectively

Withholding tax payable on distributions received by the Group from DEXUS Industrial Properties Inc. (US REIT) and DEXUS US Properties Inc. (US W REIT) are recognised as an expense when tax is withheld.

Deferred tax assets or liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability.

Under current Australian income tax legislation, the security holders will generally be entitled to receive a foreign tax credit for US withholding tax deducted from distributions paid by the US REIT and US W REIT.

DIT France Logistique SAS (DIT France), a wholly owned sub-trust of DIT, is liable for French corporation tax on its taxable income at the rate of 33.33%. In addition, a deferred tax liability or asset and its related deferred tax expense/benefit is recognised on differences between the tax cost base of the French real estate assets and their accounting carrying value at end of the reporting period, where required.

DEXUS GLOG Trust, a wholly owned Australian sub-trust of DIT, is liable for German corporate income tax on its German taxable income at the rate of 15.82%. In addition, a deferred tax liability or asset and its related deferred tax expense/benefit is recognised on differences between the tax cost base of the German real estate assets and their accounting carrying value at end of the reporting period, where required.

DOT NZ Sub-Trust No. 1, a wholly owned Australian sub-trust of DOT, is liable for New Zealand corporate tax on its New Zealand taxable income at the rate of 28%. In addition, a deferred tax liability or asset and its related deferred tax expense/benefit is recognised on differences between the tax cost base of the New Zealand real estate asset and the accounting carrying value at end of the reporting period, where required.

DXO and its wholly owned controlled Australian entities have formed a tax consolidated group. As a consequence, these entities are taxed as a single entity.

#### (h) Distributions

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

#### (i) Repairs and maintenance

Plant is required to be overhauled on a regular basis and is managed as part of an ongoing major cyclical maintenance program. The costs of this maintenance are charged as expenses as incurred, except where they relate to the replacement of a component of an asset, in which case the replaced component will be derecognised and the replacement costs capitalised in accordance with Note 1(n). Other routine operating maintenance, repair costs and minor renewals are also charged as expenses as incurred.

#### (j) 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.

#### (k) Receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method, which is based on the invoiced amount less provision for doubtful debts. Trade receivables are required to be settled within 30 days and are assessed on an ongoing basis for impairment. Receivables which are known to be uncollectable are written off by reducing the carrying amount directly. A provision for doubtful debts is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The provision for doubtful debts is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted as the effect of discounting is immaterial.

#### (l) Inventories

##### (i) Land and properties held for resale

Land and properties held for resale are stated at the lower of cost and the 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.

## Note 1 Summary of significant accounting policies

(continued)

### (l) Inventories (continued)

#### (ii) Net realisable value

Net realisable value is determined using the estimated selling price in the ordinary course of business. Costs to bring inventories to their finished condition, including marketing and selling expenses, are estimated and deducted to establish net realisable value.

### (m) Non-current assets held for sale and discontinued operations

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. They are measured at the lower of their carrying amount and fair value less costs to sell, except for assets such as deferred tax assets, assets arising from employee benefits, financial assets and investment property that are carried at fair value and contractual rights under insurance contracts, which are specifically exempt from this requirement.

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single coordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately in the income statement.

Non-current assets classified as held for sale and the assets of a discontinued operation are presented separately from the other assets in the balance sheet. The liabilities of a discontinued operation are presented separately from other liabilities in the balance sheet.

### (n) 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 Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the 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 (refer Note 1(t)).

### (o) Depreciation of plant and equipment

Depreciation is calculated using the straightline 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

### (p) Investment properties

The Group's investment properties consist of properties held for long-term rental yields and/or capital appreciation and property that is being constructed or developed for future use as investment property. Investment properties are initially recognised at cost including transaction costs. Investment properties are subsequently recognised at fair value in the Financial Statements. Each valuation firm and its signatory valuer are appointed on the basis that they are engaged for no more than three consecutive valuations.

The basis of valuations of investment properties is fair value being the amounts for which the assets could be exchanged between knowledgeable willing parties in an arm's length transaction, based on current prices in an active market for similar properties in the same location and condition and subject to similar leases. In addition, an appropriate valuation method is used, which may include the discounted cash flow and the capitalisation method. Discount rates and capitalisation 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 reflected in 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 less costs still required to complete the project, including an appropriate adjustment for profit and risk.

External valuations of the individual investment properties are carried out in accordance with the Constitutions for each trust forming the Group or may be earlier where the Responsible Entity believes there is a potential for a material change in the fair value of the property.

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

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

### (q) Leasing fees

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

### (r) Lease incentives

Prospective lessees may be offered incentives as an inducement to enter into operating leases. These incentives may take various forms including cash payments, rent free periods, or a contribution to certain lessee costs such as fit-out costs or relocation costs.

The costs of incentives are recognised as a reduction of rental revenue on a straightline basis from the earlier of the date which the tenant has effective use of the premises or 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.

### (s) Investments accounted for using the equity method

Some property investments are held through the ownership of units in single purpose unlisted trusts or shares in unlisted companies where the Group exerts significant influence but does not have a controlling interest. These investments are considered to be associates and the equity method of accounting is applied in the Financial Statements.

Under this method, the entity's share of the post-acquisition profits of associates is recognised in the Statement of Comprehensive Income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Dividends or distributions receivable from associates are recognised as a reduction in the carrying amount of the investment.

When the Group's share of losses in an associate equal or exceed its interest in the associate (including any unsecured receivables) the Group does not recognise any further losses unless it has incurred obligations or made payments on behalf of the associate.

### (t) Impairment of assets

Goodwill and intangible assets that have 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. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised 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). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

### (u) Intangible assets

#### (i) Goodwill

Goodwill is recognised as at the acquisition date and is measured as the excess of the aggregate of the fair value of consideration transferred and the non-controlling interest's proportionate share of the acquiree's identifiable net assets over the fair value of the identifiable net assets acquired.

The carrying value of the goodwill is tested for impairment at the end of each reporting period with any decrement in value taken to the Statement of Comprehensive Income as an expense.

#### (ii) Management rights

Management rights represent the asset management rights owned by the Group which entitle it to management fee revenue from both finite and indefinite life trusts. Those rights that are deemed to have a finite useful life are measured at cost and amortised using the straightline method over their estimated remaining useful lives. Management rights with indefinite useful lives are not subject to amortisation and are tested for impairment annually.

### (v) Financial assets and liabilities

#### (i) Classification

The Group has classified its financial assets and liabilities as follows:

Financial asset/ liability	Classification	Valuation basis	Reference
Receivables	Loans and receivables	Amortised cost	Refer Note 1(k)
Other financial assets	Loans and receivables	Amortised cost	Refer Note 1(e)
Payables	Financial liability at amortised cost	Amortised cost	Refer Note 1(w)
Interest bearing liabilities	Financial liability at amortised cost	Amortised cost	Refer Note 1(x)
Derivatives	Fair value through profit or loss	Fair value	Refer Note 1(e)

Financial assets and liabilities are classified in accordance with the purpose for which they were acquired.

#### (ii) Fair value estimation of financial assets and liabilities

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement and for disclosure purposes.

The fair value of financial instruments traded in active markets (such as publicly traded derivatives) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Group is the current bid price. The appropriate quoted market price for financial liabilities is the current ask price.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques including dealer quotes for similar instruments and discounted cash flows. In particular, the fair value of interest rate swaps and cross currency swaps are calculated as the present value of the estimated future cash flows, the fair value of forward exchange rate contracts is determined using forward exchange market rates at the end of the reporting period, and the fair value of interest rate option contracts is calculated as the present value of the estimated future cash flows taking into account the time value and implied volatility of the underlying instrument.

#### (w) Payables

These amounts represent liabilities for amounts owing at end of the reporting period. The amounts are unsecured and are usually paid within 30 days of recognition.

#### (x) Interest bearing liabilities

Subsequent to initial recognition at fair value, net of transaction costs incurred, interest bearing liabilities are measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the Statement of Comprehensive Income over the period of the borrowings using the effective interest method. Interest bearing liabilities are classified as current liabilities unless the Group has an unconditional right to defer the liability for at least 12 months after the reporting date.

**Note 1 Summary of significant accounting policies**

(continued)

**(y) Foreign currency**

Items included in the Financial Statements of the Group are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The Financial Statements are presented in Australian dollars, which is the functional and presentation currency of the Group.

**(i) Foreign currency transactions**

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

**(ii) Foreign operations**

Foreign operations are located in New Zealand and Germany. These operations have a functional currency of NZ dollars and Euros respectively, which are translated into the presentation currency.

The assets and liabilities of the foreign operations are translated at exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising are recognised in the foreign currency translation reserve and recognised in profit or loss on disposal or partial disposal of the foreign operation.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at exchange rates prevailing at the end of each reporting period.

**(z) Employee benefits****(i) Wages, salaries and annual leave**

Liabilities for employee benefits for wages, salaries and annual leave represent present obligations resulting from employees' services provided to the end of the reporting period, calculated at undiscounted amounts based on remuneration wage and salary rates that the Group expects to pay at the end of the reporting period including related on-costs, such as workers compensation, insurance and payroll tax.

**(ii) Long service leave**

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 rates attaching to national government bonds at the end of the reporting period that most closely matches the term of the maturity of the related liabilities. The unwinding of the discount is treated as long service leave expense.

**(iii) Security-based payments**

Security-based employee benefits will be provided to eligible participants via the 2012 Transitional Performance Rights Plan, the Deferred Short Term Incentive Plan (DSTI) and the Long Term Incentive Plan (LTI). Information relating to the Plans is set out in Note 36. Under the Plans, participating employees will be granted a defined number of performance rights which will vest into DXS stapled securities at no cost, if certain vesting conditions are satisfied.

The fair value of performance rights granted is recognised as an employee benefit expense with a corresponding increase in the security-based payments reserve in equity. The total amount to be expensed is determined by reference to the fair value of the performance rights granted. Fair value is determined independently using Black-Scholes and Monte Carlo pricing models with reference to the expected life of the rights, security price at grant date, expected price volatility of the underlying security, expected distribution yield, the risk free interest rate for the term of the rights and expected total security-holder returns (where applicable).

Non-market vesting conditions, including Funds from Operations (FFO), Return on Equity (ROE) and employment status at vesting, are included in assumptions about the number of performance rights that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each period, the Group revises its estimates of the number of performance rights that are expected to vest based on the non-market vesting conditions. The impact of the revised estimates, if any, is recognised in profit or loss with a corresponding adjustment to equity.

When performance rights vest, the Group will arrange for the allocation and delivery of the appropriate number of securities to the participant.

**(aa) Earnings per unit**

Basic earnings per unit are determined by dividing the net profit attributable to unit holders of the parent entity 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.

**(ab) Operating segments**

Operating segments are reported in a manner that is consistent with the internal reporting provided to the Chief Operating Decision Maker (CODM). The CODM has been identified as the Board of Directors as they are responsible for the strategic decision making within the Group.

**(ac) Rounding of amounts**

The Group is the kind referred to in Class Order 98/0100, issued by the Australian Securities & Investments Commission, relating to the rounding off of amounts in the Financial Statements. Amounts in the Financial Statements have been rounded off in accordance with that Class Order to the nearest tenth of a million dollars, unless otherwise indicated.



#### (ad) Parent entity financial information

The financial information for the parent entity, DEXUS Diversified Trust, disclosed in Note 27, has been prepared on the same basis as the consolidated Financial Statements except as set out below:

#### (i) Investment in subsidiaries, associates and joint venture entities

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.

#### (ae) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for the 30 June 2013 reporting period. Our assessment of the impact of these new standards and interpretations is set out below:

#### **AASB 2012-3 Amendments to Australian Accounting Standard – Offsetting Financial Assets and Financial Liabilities and AASB 2012-2 Amendments to Australian Accounting Standard – Disclosures – Offsetting Financial Assets and Financial Liabilities (effective 1 July 2014 and 1 July 2013 respectively)**

In June 2012, the AASB approved amendments to the application guidance in AASB 132 *Financial Instruments: Presentation*, to clarify some of the requirements for offsetting financial assets and financial liabilities in the Financial Statements. These amendments are effective from 1 July 2014. They are unlikely to affect the accounting for any of the Group's current offsetting arrangements. The AASB has also introduced more extensive disclosure requirements into AASB 7 which will apply from 1 July 2013. The Group intends to apply the new rules from 1 July 2013 and does not expect any significant impacts.

#### **AASB 2012-5 Amendments to Australian Accounting Standard arising from Annual Improvements 2009-2011 cycle (effective 1 July 2013)**

In June 2012, the AASB approved a number of amendments to Australian Accounting Standards as a result of the 2009-2011 annual improvements project. The Group will apply the amendments from 1 July 2013 and does not expect any significant impacts.

#### **AASB 9 Financial Instruments, AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9, AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) and AASB 2012-6 Amendments to Australian Accounting Standards – Mandatory Effective Date of AASB 9 and Transition Disclosures (effective 1 July 2015)**

AASB 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard simplifies the classifications of financial assets into those to be carried at amortised cost and those to be carried at fair value. The Group intends to apply the standards from 1 July 2015 and does not expect any significant impacts.

#### **AASB 2011-4 Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements (effective 1 July 2013)**

In July 2011, the AASB decided to remove the individual KMP disclosure requirements from AASB 124 *Related Party Disclosures*, to achieve consistency with the international equivalent standard and remove a duplication of the requirements with the *Corporations Act 2001*. While this will reduce the disclosures that are currently required in the Notes to the Financial Statements, it will not affect any of the amounts recognised in the Financial Statements. The amendments apply from 1 July 2013 and cannot be adopted early.

#### **AASB 10 Consolidated financial statements (effective 1 July 2013)**

AASB 10 replaces all of the guidance on control and consolidation in AASB 127 *Consolidated and separate financial statements*, and SIC-12 *Consolidation – special purpose entities*. The standard introduces a single definition of control that applies to all entities. It focuses on the need to have both power and rights or exposure to variable returns before control is present. The Group intends to apply the standard from 1 July 2013 and does not expect any significant impacts.

#### **AASB 11 Joint Arrangements (effective 1 July 2013)**

AASB 11 introduces a principles based approach to accounting for joint arrangements. The focus is no longer on the legal structure of joint arrangements, but rather on how rights and obligations are shared by the parties to the joint arrangement. Based on the assessment of rights and obligations, a joint arrangement will be classified as either a joint operation or joint venture. Joint ventures are accounted for using the equity method, and the choice to proportionately consolidate will no longer be permitted. The Group intends to apply the standard from 1 July 2013 and does not expect any significant impacts.

#### **AASB 12 Disclosure of interests in other entities (effective 1 July 2013)**

AASB 12 sets out the required disclosures for entities reporting under the two new standards, AASB 10 and AASB 11, and replaces the disclosure requirements currently found in AASB 128. Application of this standard will not affect any of the amounts recognised in the Financial Statements, but will impact some of the Group's current disclosures. The Group intends to apply the standard from 1 July 2013 and does not expect any significant impacts.

#### **AASB 128 Investments in associates and joint ventures (effective 1 July 2013)**

Amendments to AASB 128 provide clarification that an entity continues to apply the equity method and does not remeasure its retained interest as part of ownership changes where a joint venture becomes an associate, and vice versa. The Group intends to apply the standard from 1 July 2013 and does not expect any significant impacts.

#### **AASB 13 Fair value measurement (effective 1 July 2013)**

AASB 13 explains how to measure fair value and aims to enhance fair value disclosures. Application of this standard will not affect any of the amounts recognised in the Financial Statements, but will impact some of the Group's current disclosures. The Group intends to apply the standard from 1 July 2013 and does not expect any significant impacts.

## Note 2 Property revenue

	2013 \$m	2012 \$m
Rent and recoverable outgoings	564.7	558.2
Incentive amortisation	(53.0)	(49.9)
Other revenue	34.9	27.4
<b>Total property revenue</b>	<b>546.6</b>	<b>535.7</b>

## Note 3 Finance costs

	2013 \$m	2012 \$m
Interest paid/payable	99.2	76.2
Amount capitalised	(10.7)	(22.5)
Other finance costs	2.6	2.1
Net fair value loss of interest rate swaps	7.5	62.2
<b>Total finance costs</b>	<b>98.6</b>	<b>118.0</b>

The average capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation is 7.00% (2012: 7.70%).

## Note 4 Corporate and administration expenses

	Note	2013 \$m	2012 \$m
Audit and taxation fees	6	1.3	1.2
Custodian fees		0.5	0.4
Legal and other professional fees		0.7	1.6
Registry costs and listing fees		0.5	0.7
Occupancy expenses		2.7	2.7
Administration expenses		3.3	3.0
Other staff expenses		1.7	1.8
Depreciation and amortisation		3.2	2.5
Employee benefits expense		50.9	57.5
Other expenses		3.6	4.4
<b>Total corporate and administration expenses</b>		<b>68.4</b>	<b>75.8</b>

## Note 5 Income tax

### (a) Income tax benefit

	Note	2013 \$m	2012 \$m
Current tax benefit		2.4	1.1
Deferred tax benefit		(1.6)	19.0
<b>Total income tax benefit</b>		<b>0.8</b>	<b>20.1</b>
<b>Total income tax benefit attributable to:</b>			
Profit from continuing operations		(1.7)	18.9
Loss from discontinued operations		2.5	1.2
<b>Total income tax benefit</b>		<b>0.8</b>	<b>20.1</b>
<b>Deferred income tax benefit included in income tax benefit comprises:</b>			
Increase in deferred tax assets	16	2.7	8.6
Decrease in deferred tax liabilities	22	(4.3)	10.4
<b>Total deferred tax benefit</b>		<b>(1.6)</b>	<b>19.0</b>

### (b) Reconciliation of income tax benefit to net profit

	2013 \$m	2012 \$m
Profit from continuing operations before tax	523.2	307.5
Loss from discontinued operations before tax	(13.9)	(108.1)
Total profit before tax	509.3	199.4
Less amounts not subject to income tax (Note 1(g))	(461.7)	(261.5)
	47.6	(62.1)
Prima facie tax (expense)/benefit at the Australian tax rate of 30% (2012: 30%)	(14.3)	18.6
<b>Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:</b>		
Depreciation and amortisation	0.7	0.9
Reversal of previous impairment	6.2	-
Movements in the carrying value and tax cost base of properties	6.0	5.1
Net loss/(gain) on sale of investment properties	0.5	(4.6)
Tax losses brought to account	1.2	-
Sundry items	0.5	0.1
	15.1	1.5
<b>Income tax benefit</b>	<b>0.8</b>	<b>20.1</b>

## Note 6 Audit, taxation and transaction services fees

During the year, the Auditor and its related practices, and non-related audit firms earned the following remuneration:

	2013 \$'000	2012 \$'000
<b>Audit fees</b>		
PwC Australia – audit and review of Financial Statements	1,025	1,221
PwC fees paid in relation to outgoing audits <sup>1</sup>	125	103
PwC Australia – regulatory audit and compliance services	182	177
PwC Australia – audit and review of US asset disposals	226	115
Audit fees paid to PwC	1,558	1,616
Fees paid to non-PwC audit firms	52	52
<b>Total audit fees</b>	<b>1,610</b>	<b>1,668</b>
<b>Taxation fees</b>		
Fees paid to PwC Australia	164	70
Fees paid to PwC NZ	26	17
Fees paid to PwC Australia in respect of US asset disposals	24	45
Taxation fees paid to PwC	214	132
Fees paid to non-PwC audit firms	821	498
<b>Total taxation fees<sup>2</sup></b>	<b>1,035</b>	<b>630</b>
<b>Total audit and taxation fees<sup>3,4</sup></b>	<b>2,645</b>	<b>2,298</b>
<b>Transaction services fees</b>		
Fees paid to PwC Australia	–	110
<b>Total transaction services fees<sup>2</sup></b>	<b>–</b>	<b>110</b>
<b>Total audit, taxation and transaction services fees</b>	<b>2,645</b>	<b>2,408</b>

1. Fees paid in relation to outgoing audits are included in property expenses in the Statement of Comprehensive Income.

2. These services include general compliance work, one off project work and advice.

3. Total audit and taxation fees include \$1.2 million (2012: \$1.0 million) in relation to the US and European portfolios for general compliance work, one-off project work and advice. These fees are included in loss from discontinued operations in the Statement of Comprehensive Income.

4. After allowing for the impact of footnotes 1 and 3 above, total audit and taxation fees included in other expenses is \$1.3 million (2012: \$1.2 million).

## Note 7 Current assets – cash and cash equivalents

	2013 \$m	2012 \$m
Cash at bank	11.2	20.8
Short-term deposits	0.4	13.7
Cash held in escrow <sup>1</sup>	2.9	24.7
<b>Total current assets – cash and cash equivalents</b>	<b>14.5</b>	<b>59.2</b>

1. As at 30 June 2013, the Group held US\$2.7 million (A\$2.9 million) in escrow in relation to the US asset disposal in April 2013. These funds were released from escrow on 25 July 2013.

As at 30 June 2012, the Group held US\$25.2 million (A\$24.7 million) in escrow in relation to the US asset disposals in June 2012. These funds were released from escrow during the year ended 30 June 2013.

### Reconciliation to cash at the end of the year

The above figures are reconciled to cash as shown in the Statement of Cash Flows as follows:

	Note	2013 \$m	2012 \$m
Balances as above		14.5	59.2
Discontinued operations	12	0.4	–
<b>Balances per Statement of Cash Flows</b>		<b>14.9</b>	<b>59.2</b>

## Note 8 Current assets – receivables

	2013 \$m	2012 \$m
Rent receivable	10.8	7.4
Less: provision for doubtful debts	(0.6)	(0.9)
<b>Total rental receivables</b>	<b>10.2</b>	<b>6.5</b>
Fees receivable	8.7	9.9
Interest receivable	–	0.1
Distributions receivable	2.6	–
Other receivables	18.7	14.3
<b>Total other receivables</b>	<b>30.0</b>	<b>24.3</b>
<b>Total current assets – receivables</b>	<b>40.2</b>	<b>30.8</b>

## Note 9 Inventories

### (a) Land and properties held for resale

	2013 \$m	2012 \$m
<b>Current assets</b>		
Land and properties held for resale	10.9	26.8
<b>Total current assets – inventories</b>	<b>10.9</b>	<b>26.8</b>
<b>Non-current assets</b>		
Land and properties held for resale	242.0	71.0
<b>Total non-current assets – inventories</b>	<b>242.0</b>	<b>71.0</b>
<b>Total assets – inventories</b>	<b>252.9</b>	<b>97.8</b>

### (b) Reconciliation

	Note	2013 \$m	2012 \$m
Opening balance at the beginning of the year		97.8	112.2
Transfer from/(to) investment properties <sup>1</sup>	13	14.5	(7.0)
Disposals		(22.9)	(44.0)
Impairment		(2.2)	(14.9)
Acquisitions, additions and other		165.7	51.5
<b>Closing balance at the end of the year</b>		<b>252.9</b>	<b>97.8</b>

1. During the year ended 30 June 2013, \$14.5 million of developable investment property was transferred to inventory with an intention to sell.

### Acquisitions

- On 30 November 2012, 50 Carrington Street, Sydney, NSW was acquired for \$58.5 million, excluding acquisition costs
- On 17 January 2013, 40 Market Street, Melbourne, VIC was acquired for \$46.7 million, excluding acquisition costs

### Disposals

- During the year ended 30 June 2013, six lots located at Boundary Road, Laverton, VIC were disposed of for gross proceeds of \$24.4 million

## Note 10 Derivative financial instruments

	2013 \$m	2012 \$m
<b>Current assets</b>		
Interest rate swap contracts	0.8	1.3
Cross currency swap contracts	21.9	–
Forward foreign exchange contracts	–	2.3
Other	2.7	–
<b>Total current assets – derivative financial instruments</b>	<b>25.4</b>	<b>3.6</b>
<b>Non-current assets</b>		
Interest rate swap contracts	47.4	74.7
Cross currency swap contracts	67.4	–
<b>Total non-current assets – derivative financial instruments</b>	<b>114.8</b>	<b>74.7</b>
<b>Current liabilities</b>		
Interest rate swap contracts	1.8	8.1
Forward foreign exchange contracts	–	0.1
<b>Total current liabilities – derivative financial instruments</b>	<b>1.8</b>	<b>8.2</b>
<b>Non-current liabilities</b>		
Interest rate swap contracts	73.0	112.6
Cross currency swap contracts	26.4	0.1
<b>Total non-current liabilities – derivative financial instruments</b>	<b>99.4</b>	<b>112.7</b>
<b>Net derivative financial instruments</b>	<b>39.0</b>	<b>(42.6)</b>

Refer Note 28 for further discussion regarding derivative financial instruments.

## Note 11 Current assets – other

	2013 \$m	2012 \$m
Prepayments	10.9	10.7
Other	–	0.2
<b>Total current assets – other</b>	<b>10.9</b>	<b>10.9</b>

## Note 12 Assets classified as held for sale and discontinued operations

A strategic review was announced to the ASX on 16 August 2012, which resulted in all offshore property being considered non-core. The remaining US industrial portfolio and the majority of the remaining European portfolio were sold in February 2013 and May 2013 respectively. Therefore the results of the US and European portfolios have been presented within loss from discontinued operations in the Statement of Comprehensive Income for the year ended 30 June 2013.

The loss from the US and European discontinued operations comprises:

	2013 \$m	2012 \$m
Revenue	39.3	152.8
Expenses <sup>1</sup>	(73.0)	(260.9)
<b>Loss before tax</b>	<b>(33.7)</b>	<b>(108.1)</b>
Tax benefit/(expense)	2.4	(35.4)
<b>Loss after tax</b>	<b>(31.3)</b>	<b>(143.5)</b>
Gain on measurement to fair value less costs to sell before tax	18.7	–
Gain on sale of investment properties	1.1	–
Withholding tax benefit	4.5	–
<b>Gain on measurement to fair value less costs to sell after tax</b>	<b>24.3</b>	<b>–</b>
<b>Loss from discontinued operations</b>	<b>(7.0)</b>	<b>(143.5)</b>

1. Includes finance break costs attributable to sales transactions of \$18.8 million (2012: \$44.3 million) and foreign currency translation reserve transfer on disposal of foreign operations of \$21.5 million (2012: \$41.5 million).

The table below sets out additional information detailing the financial performance for discontinued operations.

	2013 \$m	2012 \$m
Property revenue	31.7	117.9
Management fee revenue	0.4	0.4
Property expenses	(7.7)	(34.3)
Corporate and administration expenses	(3.4)	(7.1)
Foreign exchange gains	4.0	2.2
Finance costs	(18.3)	(66.0)
Incentive amortisation and rent straightline	1.3	5.6
Income tax benefit/(expense)	2.4	(0.6)
Other	(0.3)	–
Funds From Operations (FFO) <sup>1</sup>	10.1	18.1
Net fair value gain of investment properties	21.9	32.3
Net fair value loss of derivatives	(2.3)	(35.1)
Finance costs attributable to sales transactions	(18.8)	(44.3)
Foreign currency translation reserve transfer on disposal of foreign operations	(21.5)	(41.5)
Net gain/(loss) on sale of investment properties	0.1	(32.6)
Incentive amortisation and rent straightline	(1.3)	(5.6)
Deferred tax benefit/(expense)	4.5	(34.8)
Other	0.3	–
<b>Loss from discontinued operations</b>	<b>(7.0)</b>	<b>(143.5)</b>

1. Refer Note 33(c)(i) for a definition of FFO.



The carrying amounts of assets and liabilities of discontinued operations as at the date of disposal were:

	2013 \$m	2012 \$m
Cash and cash equivalents	0.2	–
Receivables	0.1	–
Investment properties	524.3	–
<b>Total assets</b>	<b>524.6</b>	<b>–</b>
Payables	5.5	–
Interest bearing liabilities	74.6	–
Loans to related parties	172.7	–
Other liabilities	1.6	–
<b>Total liabilities</b>	<b>254.4</b>	<b>–</b>
<b>Net assets</b>	<b>270.2</b>	<b>–</b>

The table below sets out the cash flow information for discontinued operations.

	2013 \$m	2012 \$m
Net cash flows from operating activities	4.3	23.0
Net cash flows from investing activities	465.6	819.0
Net cash flows from financing activities	(493.1)	(799.3)
<b>Net (decrease)/increase in cash generated by discontinued operations</b>	<b>(23.2)</b>	<b>42.7</b>

The table below sets out the assets classified as held for sale and discontinued operations that continue to be owned by the Group as at balance date. These assets and liabilities are presented as aggregate amounts in the Statement of Financial Position.

	2013 <sup>1</sup> \$m	2012 <sup>2</sup> \$m
<b>Assets classified as held for sale</b>		
Cash and cash equivalents	0.4	–
Receivables	0.4	–
Other	0.3	–
Investment properties	7.7	212.3
<b>Total assets classified as held for sale</b>	<b>8.8</b>	<b>212.3</b>
<b>Liabilities classified as held for sale</b>		
Payables	0.1	–
<b>Total liabilities classified as held for sale</b>	<b>0.1</b>	<b>–</b>

1. Includes the remaining European property.

2. Includes certain investment properties whose value will be recovered through sale rather than through continuing use.

## Disposals

- On 13 July 2012, 114-120 Old Pittwater Road, Brookvale, NSW was disposed of for gross proceeds of \$40.5 million
- On 2 October 2012, 50% of an industrial portfolio consisting of assets at DEXUS Industrial Estate Laverton North VIC, Altona North VIC and Quarry Greystanes NSW was disposed of for gross proceeds of \$110.8 million
- On 1 February 2013, 50% of Quarry Greystanes, NSW – Camerons Transport was disposed of for gross proceeds of \$14.9 million
- On 20 February 2013, Quarry Greystanes, NSW – Promak was disposed of for gross proceeds of \$16.4 million
- On 15 May 2013, five properties located in France were disposed of for gross proceeds of €16.5 million (A\$21.3 million)
- On 21 June 2013, 50% of Quarry Greystanes, NSW – Warehouse 9 was disposed of for gross proceeds of \$12.5 million

**Note 13 Non-current assets – investment properties**

(a) Properties

Kings Park Industrial Estate, Bowmans Road, Marayong, NSW
Target Distribution Centre, Lot 1, Tara Avenue, Altona North, VIC
Axxess Corporate Park, Mount Waverley, VIC
Knoxfield Industrial Estate, 20 Henderson Road, Knoxfield, VIC
12 Frederick Street, St Leonards, NSW
2 Alspec Place, Eastern Creek, NSW
108-120 Silverwater Road, Silverwater, NSW
40 Talavera Road, North Ryde, NSW
44 Market Street, Sydney, NSW
8 Nicholson Street, Melbourne, VIC
130 George Street, Parramatta, NSW
Flinders Gate Complex, 172 Flinders Street & 189 Flinders Lane, Melbourne, VIC
383-395 Kent Street, Sydney, NSW
14 Moore Street, Canberra, ACT**
Sydney CBD Floor Space <sup>1</sup>
34-60 Little Collins Street, Melbourne, VIC**
32-44 Flinders Street, Melbourne, VIC
Flinders Gate Carpark, 172-189 Flinders Street, Melbourne, VIC
383-395 Kent Street Car Park, Sydney, NSW
123 Albert St, Brisbane, QLD
2-4 Military Rd, Matraville, NSW
79-99 St Hilliers Road, Auburn, NSW
3 Brookhollow Avenue, Baulkham Hills, NSW
1 Garigal Road, Belrose, NSW
2 Minna Close, Belrose, NSW
145-151 Arthur Street, Flemington, NSW
436-484 Victoria Road, Gladesville, NSW
1 Foundation Place, Greystanes, NSW
5-15 Roseberry Avenue & 25-55 Rothschild Avenue, Rosebery, NSW
10-16 South Street, Rydalmere, NSW
Pound Road West, Dandenong, VIC
DEXUS Industrial Estate, Boundary Road, Laverton North, VIC – Visy
DEXUS Industrial Estate, Boundary Road, Laverton North, VIC – Wrightson
DEXUS Industrial Estate, Boundary Road, Laverton North, VIC – Fosters
DEXUS Industrial Estate, Boundary Road, Laverton North, VIC – BestBar
12-18 Distribution Drive, Laverton North, VIC
250 Forest Road, South Lara, VIC
15-23 Whicker Road, Gillman, SA
25 Donkin Street, Brisbane, QLD
52 Holbeche Road, Arndell Park, NSW
30-32 Bessemer Street, Blacktown, NSW
27-29 Liberty Road, Huntingwood, NSW
154 O’Riordan Street, Mascot, NSW
11 Talavera Road, North Ryde, NSW
131 Mica Road, Carole Park, NSW
DEXUS Industrial Estate, Egerton Street, Silverwater, NSW

Ownership %	Acquisition date	Independent valuation date	Independent valuation amount \$m	Independent valuer	Book value 30 Jun 2013 \$m	Book value 30 Jun 2012 \$m
100	May 1990	Dec 2012	90.5	(d)	91.9	89.0
50	Oct 1995	Jun 2013	16.3	(c)	16.3	16.3
100	Oct 1996	Dec 2012	187.2	(b)	187.6	182.8
100	Aug 1996	Jun 2011	37.6	(g)	37.6	37.7
100	Jul 2000	Jun 2011	33.5	(a)	34.6	33.9
100	Mar 2004	Dec 2011	24.9	(d)	24.9	24.9
100	May 2010	Jun 2013	23.4	(a)	23.4	24.3
100	Oct 2002	Dec 2011	31.5	(g)	29.5	29.0
100	Sep 1987	Jun 2013	241.0	(d)	241.0	217.7
100	Nov 1993	Jun 2012	93.5	(a)	99.0	93.5
100	May 1997	Dec 2010	77.0	(f)	77.2	77.2
100	Mar 1999	Jun 2011	28.5	(e)	30.6	28.1
100	Sep 1987	Dec 2011	133.0	(a)	136.9	134.0
100	May 2002	Jun 2013	24.0	(e)	24.0	27.6
100	Jul 2000	Dec 2011	0.1	(a)	0.1	0.1
100	Nov 1984	Jun 2011	39.2	(c)	36.1	39.3
100	Jun 1998	Jun 2011	29.5	(e)	29.9	29.9
100	Mar 1999	Jun 2011	54.0	(e)	54.3	54.0
100	Sep 1987	Dec 2011	64.0	(a)	64.0	64.0
100	Oct 1984	Mar 2013	400.0	(e)	401.4	375.5
100	Dec 2009	Jun 2012	52.9	(c)	55.7	52.9
100	Sep 1997	Dec 2011	37.5	(g)	35.4	37.5
100	Dec 2002	Jun 2012	42.0	(f)	42.9	42.0
100	Dec 1998	Jun 2012	16.3	(a)	16.3	16.3
100	Dec 1998	Jun 2012	24.0	(a)	22.5	24.0
100	Sep 1997	Jun 2011	28.0	(f)	27.6	28.5
100	Sep 1997	Dec 2011	41.5	(e)	40.8	41.7
100	Feb 2003	Dec 2012	44.8	(c)	44.8	43.3
100	Apr 1998	Dec 2012	90.5	(a)	93.0	90.8
100	Sep 1997	Jun 2011	39.3	(g)	41.5	40.7
100	Jan 2004	Dec 2012	71.4	(f)	70.7	74.5
50	Jul 2002	Jun 2013	9.6	(c)	9.6	9.5
50	Jul 2002	Jun 2013	3.6	(c)	3.6	3.5
50	Jul 2002	Jun 2013	18.7	(c)	18.7	18.0
50	Jul 2002	Jun 2013	6.0	(c)	6.0	5.9
50	Jul 2002	Jun 2013	51.0	(c)	51.0	50.4
100	Dec 2002	Jun 2012	52.3	(e)	54.5	52.3
100	Dec 2002	Sep 2012	28.8	(c)	29.1	27.3
100	Dec 1998	Dec 2010	27.0	(f)	28.5	29.4
100	Jul 1998	Jun 2012	12.5	(f)	12.5	12.5
100	May 1997	Jun 2011	16.3	(e)	15.7	15.6
100	Jul 1998	Sep 2012	8.8	(d)	8.9	8.0
100	Jun 1997	n/a	n/a	n/a	-	14.3
100	Jun 2002	Mar 2013	145.0	(a)	146.6	147.9
100	Jan 2013	n/a	n/a	n/a	22.3	-
100	May 1997	Jun 2012	35.0	(g)	36.6	35.0

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

### Note 13 Non-current assets – investment properties (continued)

#### (a) Properties (continued)

89 Egerton Street, Silverwater, NSW
114 Fairbank Road, Clayton, VIC
30 Bellrick Street, Acacia Ridge, QLD
Quarry Greystanes, NSW – Solaris
Quarry Greystanes, NSW – Symbion
Quarry Greystanes, NSW – Fujitsu
Quarry Greystanes, NSW – Camerons Transport
Quarry Greystanes, NSW – UPS <sup>2</sup>
Quarry Greystanes, NSW – WH9 <sup>2</sup>
Quarry Greystanes, NSW – Brady <sup>2</sup>
Boundary Road, Laverton, VIC – Fastline
Boundary Road, Laverton, VIC – Toll
Boundary Road, Laverton, VIC – ACFS <sup>3</sup>
45 Clarence Street, Sydney, NSW
Governor Phillip Tower & Governor Macquarie Tower, 1 Farrer Place, Sydney, NSW
309-321 Kent Street, Sydney, NSW
1 Margaret Street, Sydney, NSW
Victoria Cross 60 Miller Street, North Sydney, NSW
The Zenith, 821-843 Pacific Highway, Chatswood, NSW
Woodside Plaza, 240 St Georges Terrace, Perth, WA
30 The Bond, 30-34 Hickson Road, Sydney, NSW
Southgate Complex, 3 Southgate Avenue, Southbank, VIC
201-217 Elizabeth Street, Sydney, NSW
Garema Court, 140-180 City Walk, Civic, ACT**
Australia Square Complex, 264-278 George Street, Sydney, NSW
Non-core international properties
<b>Total investment properties excluding development properties</b>
<b>Total development properties held as investment property</b>
<b>Total investment properties</b>

1. Heritage floor space retained following the disposal of 1 Chifley Square, Sydney.
2. Classified as development property held as investment property at 30 June 2012.
3. 50% classified as inventory at 30 June 2013.

The title to all properties is freehold, with the exception of the properties marked \*\* which are leasehold.

- (a) Colliers International
- (b) Urbis
- (c) CB Richard Ellis
- (d) Jones Lang LaSalle
- (e) Knight Frank
- (f) FPD Savills
- (g) m3property

Ownership %	Acquisition date	Independent valuation date	Independent valuation amount \$m	Independent valuer	Book value 30 Jun 2013 \$m	Book value 30 Jun 2012 \$m
100	May 1997	Jun 2012	4.0	(g)	–	4.0
100	Jul 1997	Mar 2013	15.4	(b)	15.4	15.2
100	Jun 1997	Sep 2012	20.6	(a)	20.9	20.3
50	Dec 2007	Jun 2013	13.4	(c)	13.4	12.6
50	Dec 2007	Jun 2013	17.0	(c)	17.0	16.1
50	Dec 2007	Jun 2013	21.0	(c)	21.0	20.0
50	Dec 2007	Jun 2013	15.9	(c)	15.9	14.9
50	Dec 2007	Jun 2013	4.4	(c)	4.4	–
50	Dec 2007	Jun 2013	13.7	(c)	13.7	–
50	Dec 2007	Jun 2013	11.1	(c)	11.1	–
50	Jun 2010	Jun 2013	8.0	(c)	8.0	7.0
50	Jun 2010	Jun 2013	6.4	(c)	6.4	5.4
100	Jun 2010	n/a	n/a	n/a	6.5	5.9
100	Dec 1998	Jun 2011	247.5	(f)	256.7	250.3
50	Dec 1998	Dec 2012	670.0	(a)	671.8	651.1
50	Dec 1998	Jun 2012	191.0	(d)	194.0	191.0
100	Dec 1998	Sep 2012	186.0	(d)	192.8	175.3
100	Dec 1998	Sep 2012	146.0	(c)	147.8	141.1
50	Dec 1998	Mar 2013	120.0	(e)	120.3	117.3
100	Jan 2001	Jun 2012	460.0	(f)	480.2	460.0
100	May 2002	Jun 2013	179.0	(c)	179.0	146.5
100	Aug 2000	Jun 2012	418.4	(c)	425.2	418.4
50	Aug 2000	Jun 2011	144.0	(d)	144.0	148.1
100	Aug 2000	Dec 2011	29.5	(a)	55.1	48.8
50	Aug 2000	Jun 2013	305.0	(e)	305.0	271.5
n/a	n/a	n/a	n/a	n/a	107.4	656.1
					<b>6,008.1</b>	<b>6,297.5</b>
					<b>76.9</b>	<b>94.0</b>
					<b>6,085.0</b>	<b>6,391.5</b>

**Note 13 Non-current assets – investment properties** (continued)

(a) Properties (continued)

**Valuation basis**

The basis of valuation of investment properties is fair value, being the amounts for which the assets could be exchanged between knowledgeable willing parties in an arm's length transaction, based on current prices in an active market for similar properties in the same location and condition and subject to similar leases. In relation to development properties under construction for future use as investment property, fair value is determined based on the market value of the property on the assumption it had already been completed at the valuation date less costs still required to complete the project, including an appropriate adjustment for profit and risk. Properties independently valued in the last 12 months were based on independent assessments by a member of the Australian Property Institute or the New Zealand Institute of Valuers.

**Key valuation assumptions**

The below table illustrates the key valuation assumptions used in the determination of the investment properties fair value.

	Australian office	Australian industrial
<b>2013</b>		
Weighted average capitalisation rate (%)	7.17	8.55
Weighted average lease expiry by income (years)	5.0	4.1
Occupancy by income (%)	94.6	96.1
<b>2012</b>		
Weighted average capitalisation rate (%)	7.30	8.59
Weighted average lease expiry by income (years)	4.9	4.4
Occupancy by income (%)	96.8	92.8

Ten year discounted cash flows and capitalisation valuation methods are used together with active market evidence. In addition to the key assumptions set out in the table above, assumed portfolio downtime ranges from six to 12 months and tenant retention ranges from 50% to 75%.

**Acquisitions**

- On 18 January 2013, 131 Mica Street, Carole Park, QLD was acquired for S21.0 million, excluding acquisition costs

**Disposals**

- On 12 November 2012, 89 Egerton Street, Silverwater, NSW was disposed of for gross proceeds of \$4.0 million
- On 21 November 2012, 1777 S Vintage Avenue, Ontario was disposed of for gross proceeds of US\$18.2 million (A\$17.6 million)
- On 14 February 2013, a portfolio of 25 US industrial properties were disposed of as part of an entity sale for gross proceeds of US\$542.8 million (A\$526.0 million)
- On 1 March 2013, 144 Wicks Road, Macquarie Park, NSW was disposed of for gross proceeds of \$13.9 million
- On 27 March 2013, 50% of Quarry Greystanes, NSW – Blackwoods was disposed of for gross proceeds of \$4.8 million
- On 27 March 2013, 50% of Quarry Greystanes, NSW – Roche was disposed of for gross proceeds of \$2.4 million
- On 18 April 2013, 3550 Tyburn Street & 3332-3424 North San Fernando Road, Los Angeles was disposed of for gross proceeds of US\$56.2 million (A\$54.1 million)

## (b) Reconciliation

	Note	2013 \$m	2012 \$m
Opening balance at the beginning of the year		6,391.5	7,105.9
Additions		82.1	160.7
Acquisitions		22.2	35.2
Lease incentives		52.0	62.8
Amortisation of lease incentives		(52.1)	(62.7)
Rent straightlining		(0.6)	4.4
Disposals		(24.9)	(881.1)
Transfer to non-current assets classified as held for sale		(7.2)	(187.4)
Transfer to discontinued operations		(559.6)	–
Transfer (to)/from inventories <sup>1</sup>	9	(14.5)	7.0
Net fair value gain of investment properties		188.8	73.7
Foreign exchange differences on foreign currency translation		7.3	73.0
<b>Closing balance at the end of the year</b>		<b>6,085.0</b>	<b>6,391.5</b>

1. During the year ended 30 June 2013, \$14.5 million of developable investment property was transferred to inventory with an intention to sell.

## (c) Investment properties pledged as security

Refer to Note 20 for information on investment properties pledged as security.

## Note 14 Non-current assets – plant and equipment

	2013 \$m	2012 \$m
Opening balance at the beginning of the year	4.7	3.9
Additions	7.0	3.1
Depreciation charge	(2.9)	(2.3)
<b>Closing balance at the end of the year</b>	<b>8.8</b>	<b>4.7</b>
Cost	22.6	15.6
Accumulated depreciation	(13.8)	(10.9)
<b>Net book value as at the end of the year</b>	<b>8.8</b>	<b>4.7</b>

## Note 15 Non-current assets – investments accounted for using the equity method

Investments are accounted for in the Financial Statements using the equity method of accounting (refer Note 1(s)). Information relating to these entities is set out below:

Name of entity	Ownership interest			
	2013 %	2012 %	2013 \$m	2012 \$m
Bent Street Trust	33.3	33.3	248.3	217.0
DEXUS Creek Street Trust	50.0	–	127.6	–
DEXUS Martin Place Trust	50.0	–	79.8	–
Grosvenor Place Holding Trust	50.0	–	289.1	–
Site 6 Homebush Bay Trust	50.0	–	37.1	–
Site 7 Homebush Bay Trust	50.0	–	50.3	–
DEXUS 480 Q Holding Trust	50.0	–	44.5	–
DEXUS Kings Square Trust	50.0	–	30.1	–
<b>Total non-current assets – investments accounted for using the equity method</b>			<b>906.8</b>	<b>217.0</b>

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

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

### Note 15 Non-current assets – investments accounted for using the equity method (continued)

Movements in carrying amounts of investments accounted for using the equity method

	2013 \$m	2012 \$m
Opening balance at the beginning of the year	217.0	200.4
Additions	674.3	9.7
Share of net profit after tax <sup>1</sup>	37.9	13.8
Fair value adjustment on acquisition of investments	(0.1)	–
Distributions received/receivable	(22.3)	(6.9)
<b>Closing balance at the end of the year</b>	<b>906.8</b>	<b>217.0</b>

1. Share of net profit after tax includes a fair value gain of investment properties of \$12.9 million (2012: \$7.5 million).

### Summary of the performance and financial position of investments accounted for using the equity method

The Group's share of aggregate revenue, profit, assets, liabilities and capital commitments of investments accounted for using the equity method are:

	2013 \$m	2012 \$m
Revenue	32.2	8.6
Net profit after tax	37.9	13.8
Assets	922.5	221.2
Liabilities	15.7	4.1
Capital commitments	302.3	12.4

### Note 16 Non-current assets – deferred tax assets

	2013 \$m	2012 \$m
<b>The balance comprises temporary differences attributable to:</b>		
Derivative financial instruments	0.6	1.0
Tax losses	27.5	22.3
Employee provisions	10.7	12.2
Other	0.6	1.2
<b>Total non-current assets – deferred tax assets</b>	<b>39.4</b>	<b>36.7</b>
<b>Movements</b>		
Opening balance at the beginning of the year	36.7	55.6
Recognition of tax losses	5.2	8.4
Temporary differences	(2.5)	0.2
Credited to the Statement of Comprehensive Income	2.7	8.6
<b>Movements in deferred withholding tax arising from:</b>		
Temporary differences	–	(28.6)
Foreign currency translation	–	1.1
Charged to the Statement of Comprehensive Income	–	(27.5)
<b>Closing balance at the end of the year</b>	<b>39.4</b>	<b>36.7</b>



## Note 17 Non-current assets – intangible assets

	2013 \$m	2012 \$m
<b>Management rights</b>		
Opening balance at the beginning of the year	221.9	222.3
Amortisation charge	(0.3)	(0.4)
Reversal of previous impairment	20.5	–
<b>Closing balance at the end of the year</b>	<b>242.1</b>	<b>221.9</b>
Cost	252.4	252.4
Accumulated amortisation	(3.0)	(2.7)
Accumulated impairment	(7.3)	(27.8)
<b>Total management rights</b>	<b>242.1</b>	<b>221.9</b>
<b>Goodwill</b>		
Opening balance at the beginning of the year	1.7	2.3
Impairment	(0.1)	(0.6)
<b>Closing balance at the end of the year</b>	<b>1.6</b>	<b>1.7</b>
Cost	3.0	3.0
Accumulated impairment	(1.4)	(1.3)
<b>Total goodwill</b>	<b>1.6</b>	<b>1.7</b>
<b>Total non-current assets – intangible assets</b>	<b>243.7</b>	<b>223.6</b>

Management rights represent the asset management rights owned by DEXUS Holdings Pty Limited, a wholly owned subsidiary of DXO, which entitle it to management fee revenue from both finite life trusts and indefinite life trusts. Those rights that are deemed to have a finite useful life (held at a value of \$5.4 million (2012: \$5.7 million)) are measured at cost and amortised using the straightline method over their estimated remaining useful lives of 19 years. Management rights that are deemed to have an indefinite life are held at a value of \$236.7 million (2012: \$216.2 million).

### Impairment of management rights

During the current year, management carried out a review of the recoverable amount of its management rights. As part of this process, the estimated fair-value of assets under management, which are used to derive the future expected management fee income, have been adjusted to better reflect current market conditions and committed developments. This has resulted in the recognition of a reversal of previous impairments of \$20.5 million (2012: nil) in the Consolidated Statement of Comprehensive Income.

The value in use has been determined using Board approved long-term forecasts in a five year discounted cash flow model. Forecasts were based on projected returns of the business in light of current market conditions. The performance in year five has been used as a terminal value.

### Key assumptions:

- A terminal capitalisation rate of 12.5% (2012: 12.5%) was used incorporating an appropriate risk premium for a management business
- The cash flows have been discounted at 9.5% (2012: 9.3%) based on externally published weighted average cost of capital for an appropriate peer group plus an appropriate premium for risk. A 0.25% (2012: 0.25%) decrease in the discount rate would increase the valuation by \$2.7 million (2012: \$2.4 million)

## Note 18 Non-current assets – other

	2013 \$m	2012 \$m
Tenant bonds	1.2	0.9
Other	0.2	0.4
<b>Total non-current assets – other</b>	<b>1.4</b>	<b>1.3</b>

## Note 19 Current liabilities – payables

	2013 \$m	2012 \$m
Trade creditors	34.8	39.0
Accruals	13.7	17.5
Accrued capital expenditure	9.9	20.5
Prepaid income	15.9	16.2
GST payable	1.5	0.9
Accrued interest	17.5	14.4
Current tax liabilities	1.1	2.1
Other	0.7	–
<b>Total current liabilities – payables</b>	<b>95.1</b>	<b>110.6</b>

## Note 20 Interest bearing liabilities

	Note	2013 \$m	2012 \$m
<b>Non-current</b>			
<b>Secured</b>			
Bank loans	(a)	–	75.5
<b>Total secured</b>		<b>–</b>	<b>75.5</b>
<b>Unsecured</b>			
US senior notes	(b), (c)	409.0	493.7
Bank loans	(d)	1,189.6	1,046.6
Medium term notes	(e)	580.0	340.0
<b>Total unsecured</b>		<b>2,178.6</b>	<b>1,880.3</b>
Deferred borrowing costs		(11.5)	(15.0)
<b>Total non-current liabilities – interest bearing liabilities</b>		<b>2,167.1</b>	<b>1,940.8</b>
<b>Total interest bearing liabilities</b>		<b>2,167.1</b>	<b>1,940.8</b>

## Financing arrangements

Type of Facility	Note	Currency	Security	Maturity Date	2013 \$m Utilised	2013 \$m Facility Limit
US senior notes (144A)	(b)	US\$	Unsecured	Mar 21	268.8	268.8
US senior notes (USPP)	(c)	US\$	Unsecured	Dec 14 to Mar 17	140.2	140.2
Medium term notes	(e)	A\$	Unsecured	Jul 14 to Sep 18	580.0	580.0
Multi-option revolving credit facilities	(d)	Multi Currency	Unsecured	Jan 15 to Feb 18	1,189.6	1,527.4
<b>Total</b>					<b>2,178.6</b>	<b>2,516.4</b>
Bank guarantee utilised					31.9	
Unused at balance date					305.9	

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

### (a) Bank loans – secured

Facilities secured by mortgages over investment properties sold as part of the remaining US industrial portfolio were repaid and associated mortgages discharged during the year.

### (b) US senior notes (144A)

This includes a total of US\$250.0 million (A\$268.8 million) of US senior notes with a maturity of March 2021.

### (c) US senior notes (USPP)

This includes a total of US\$130.0 million (A\$140.2 million) of US senior notes with a weighted average maturity of September 2015.

#### (d) Multi-option revolving credit facilities

This includes 16 facilities maturing between January 2015 and February 2018 with a weighted average maturity of October 2016. The total facility limit comprises A\$1,473.5 million and US\$50.0 million (A\$53.9 million). A\$31.9 million is utilised as bank guarantees for developments, AFSL requirements and in relation to the sale of the US industrial portfolio.

#### (e) Medium term notes

This includes a total of \$580.0 million of medium term notes with a weighted average maturity of January 2016.

#### Additional information

The Group has a commitment with a delayed start for US\$300.0 million (A\$323.5 million) of US senior notes with a weighted average maturity of September 2026.

Following the end of the year, the Group extended the maturity date of an existing \$150.0 million bank facility from March 2017 to January 2019.

The Group has entered into new revolving credit facilities totalling \$120.0 million and a \$100.0 million same day funding facility, each maturing in August 2015.

### Note 21 Provisions

	2013 \$m	2012 \$m
<b>Current</b>		
Provision for distribution	146.2	128.2
Provision for employee benefits	23.3	23.8
<b>Total current liabilities – provisions</b>	<b>169.5</b>	<b>152.0</b>

Movements in each class of provision during the financial year, other than employee benefits, are set out below:

	2013	2012
<b>Provision for distribution</b>		
Opening balance at the beginning of the year	128.2	125.3
Additional provisions	282.1	257.4
Payment of distributions	(264.1)	(254.5)
<b>Closing balance at the end of the year</b>	<b>146.2</b>	<b>128.2</b>

A provision for distribution has been raised for the period ended 30 June 2013. This distribution is to be paid on 30 August 2013.

	2013	2012
<b>Non-current</b>		
Provision for employee benefits	11.2	16.5
<b>Total non-current liabilities – provisions</b>	<b>11.2</b>	<b>16.5</b>

### Note 22 Non-current liabilities – deferred tax liabilities

	2013 \$m	2012 \$m
<b>The balance comprises temporary differences attributable to:</b>		
Derivative financial instruments	3.3	3.8
Goodwill	2.1	2.2
Investment properties and inventories	6.5	5.9
Other	0.2	0.5
<b>Total non-current liabilities – deferred tax liabilities</b>	<b>12.1</b>	<b>12.4</b>
<b>Movements</b>		
Opening balance at the beginning of the year	12.4	18.2
Temporary differences	4.3	(10.4)
Credited to the Statement of Comprehensive Income	4.3	(10.4)
<b>Movements in deferred withholding tax arising from:</b>		
Temporary differences	(4.5)	5.5
Foreign currency translation	(0.1)	(0.9)
Charged to the Statement of Comprehensive Income	(4.6)	4.6
Closing balance at the end of the year	12.1	12.4

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FOR THE YEAR ENDED 30 JUNE 2013

### Note 23 Non-current liabilities – other

	2013 \$m	2012 \$m
Tenant bonds and other	4.6	3.6
<b>Total non-current liabilities – other</b>	<b>4.6</b>	<b>3.6</b>

### Note 24 Contributed equity

#### (a) Contributed equity of unitholders of the parent entity

	2013 \$m	2012 \$m
Opening balance at the beginning of the year	1,605.0	1,798.1
Capital payments	–	(175.0)
Buy-back of contributed equity	(27.3)	(18.0)
Transaction costs	–	(0.1)
<b>Closing balance at the end of the year</b>	<b>1,577.7</b>	<b>1,605.0</b>

#### (b) Contributed equity of unitholders of other stapled entities

	2013 \$m	2012 \$m
Opening balance at the beginning of the year	3,156.5	3,014.7
Capital contributions	–	175.0
Buy-back of contributed equity	(50.2)	(33.0)
Transaction costs	–	(0.2)
<b>Closing balance at the end of the year</b>	<b>3,106.3</b>	<b>3,156.5</b>

#### (c) Number of securities on issue

	2013 No. of securities	2012 No. of securities
Opening balance at the beginning of the year	4,783,817,657	4,839,024,176
Buy-back of contributed equity	(81,860,267)	(55,206,519)
<b>Closing balance at the end of the year</b>	<b>4,701,957,390</b>	<b>4,783,817,657</b>

#### Terms and conditions

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

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

## Note 25 Reserves and retained profits

### (a) Reserves

	2013 \$m	2012 \$m
Foreign currency translation reserve	(6.3)	(36.0)
Asset revaluation reserve	42.7	42.7
Security-based payments reserve	2.4	0.4
Treasury securities reserve	(2.2)	–
<b>Total reserves</b>	<b>36.6</b>	<b>7.1</b>
<b>Movements:</b>		
<b>Foreign currency translation reserve</b>		
Opening balance at the beginning of the year	(36.0)	(77.8)
Exchange differences on translating foreign operations	8.2	0.3
Foreign currency translation reserve transfer on disposal of foreign operations	21.5	41.5
<b>Closing balance at the end of the year</b>	<b>(6.3)</b>	<b>(36.0)</b>
<b>Asset revaluation reserve</b>		
Opening balance at the beginning of the year	42.7	42.7
<b>Closing balance at the end of the year</b>	<b>42.7</b>	<b>42.7</b>
<b>Security-based payments reserve</b>		
Opening balance at the beginning of the year	0.4	–
Security-based payments expense	2.0	0.4
<b>Closing balance at the end of the year</b>	<b>2.4</b>	<b>0.4</b>
<b>Treasury securities reserve</b>		
Opening balance at the beginning of the year	–	–
Purchase of securities	(2.2)	–
<b>Closing balance at the end of the year</b>	<b>(2.2)</b>	<b>–</b>

### (b) Nature and purpose of reserves

#### Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign operations.

#### Asset revaluation reserve

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

#### Security-based payments reserve

The security-based payments reserve is used to recognise the fair value of performance rights to be issued under the 2012 Transitional Performance Rights Plan, the Deferred Short-Term Incentive Plan (DSTI) and the Long-Term Incentive Plan (LTI). Refer to Note 36 for further details.

#### Treasury securities reserve

The treasury securities reserve is used to record the acquisition of securities purchased to fulfill the obligations of the 2012 Transitional Performance Rights Plan, the Deferred Short-Term Incentive Plan (DSTI) and the Long-Term Incentive Plan (LTI). As at 30 June 2013, DXS held 2,108,728 stapled securities (2012: nil).

**Note 25 Reserves and retained profits** (continued)

(c) Retained profits

	2013 \$m	2012 \$m
Opening balance at the beginning of the year	238.7	325.2
Net profit attributable to security holders	514.5	181.1
Transfer of capital reserve of other non-controlling interests	–	(10.2)
Distributions provided for or paid	(282.1)	(257.4)
<b>Closing balance at the end of the year</b>	<b>471.1</b>	<b>238.7</b>

**Note 26 Distributions paid and payable**

(a) Distribution to security holders

	2013 \$m	2012 \$m
31 December (paid 28 February 2013)	135.9	129.2
30 June (payable 30 August 2013)	146.2	128.2
	<b>282.1</b>	<b>257.4</b>

(b) Distribution to other non-controlling interests

DEXUS RENTS Trust (paid 18 October 2011)	–	3.2
DEXUS RENTS Trust (paid 17 January 2012)	–	3.1
DEXUS RENTS Trust (paid 18 April 2012)	–	2.9
DEXUS RENTS Trust (paid 29 June 2012)	–	2.8
	–	<b>12.0</b>
<b>Total distributions</b>	<b>282.1</b>	<b>269.4</b>

(c) Distribution rate

	2013 Cents per security	2012 Cents per security
31 December (paid 28 February 2013)	2.89	2.67
30 June (payable 30 August 2013)	3.11	2.68
<b>Total distributions</b>	<b>6.00</b>	<b>5.35</b>

(d) Franked dividends

The franked portions of the final dividends recommended after 30 June 2013 will be franked out of existing franking credits or out of franking credits arising from the payment of income tax in the year ended 30 June 2013.

	2013 \$m	2012 \$m
<b>Franking credits</b>		
Opening balance at the beginning of the year	16.2	17.2
Franking debits arising during the year on receipt of tax refund at 30%	–	(1.0)
<b>Closing balance at the end of the year</b>	<b>16.2</b>	<b>16.2</b>

## Note 27 Parent entity financial information

### (a) Summary financial information

The individual financial statements for the parent entity show the following aggregate amounts:

	2013 \$m	2012 \$m
Total current assets	74.2	220.7
Total assets	2,182.5	2,255.8
Total current liabilities	119.5	116.1
Total liabilities	423.4	499.0
<b>Equity</b>		
Contributed equity	1,577.7	1,605.0
Retained profits	181.4	151.8
<b>Total equity</b>	<b>1,759.1</b>	<b>1,756.8</b>
Net profit for the year from continuing operations	141.5	184.6
Net profit/(loss) for the year from discontinued operations	7.5	(45.5)
Net profit for the year	149.0	139.1
<b>Total comprehensive income for the year</b>	<b>149.0</b>	<b>139.1</b>

### (b) Guarantees entered into by the parent entity

Refer to Note 29 for details of guarantees entered into by the parent entity.

### (c) Contingent liabilities

The parent entity had no contingent liabilities as at 30 June 2013 (2012: 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:

	2013 \$m	2012 \$m
Investment properties	3.2	3.4
<b>Total capital commitments</b>	<b>3.2</b>	<b>3.4</b>

## Note 28 Financial risk management

To ensure the effective and prudent management of the Group's capital and financial risks, the Group has a well-established framework consisting of a Board Finance Committee and a Capital Markets Committee. The Board Finance Committee is accountable to and primarily acts as an advisory body to the DXFM Board and includes three Directors of the DXFM Board. Its responsibilities include reviewing and recommending financial risk management policies and funding strategies for approval.

The Capital Markets Committee is a management committee that is accountable to both the Board Finance Committee and the Group Management Committee. 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 Finance Committee, and the approval of treasury transactions within delegated limits and powers.

Further information on the Group's governance structure, including terms of reference, is available at [www.dexus.com](http://www.dexus.com)

### (1) Capital risk management

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

The capital structure of the Group consists of debt (see Note 20), cash and cash equivalents, and equity attributable to security holders. The capital structure is monitored and managed in consideration of a range of factors including:

- The cost of capital and the financial risks associated with each class of capital
- Gearing levels and other covenants
- Potential impacts on net tangible assets and security holders' equity
- Potential impacts on the Group's credit rating
- Other market factors and circumstances

To minimise the potential impacts of foreign exchange risk on the Group's capital structure, the Group's policy is to hedge the majority of its foreign asset and liability exposures. Consequently the magnitude of the assets and liabilities on the Statement of Financial Position (translated into Australian dollars) and gearing ratios will rise and fall as exchange rates fluctuate. This policy ensures that net tangible assets are not materially affected by currency movements (refer foreign exchange risk below).

The Group has a stated target gearing level of 30% to 40%. The gearing ratio calculated in accordance with our covenant requirements at 30 June 2013 was 29.1% (as detailed below).

	2013 \$m	2012 \$m
Gearing ratio		
Total interest bearing liabilities <sup>1</sup>	2,134.7	1,956.0
Total tangible assets <sup>2</sup>	7,329.3	7,025.5
<b>Gearing ratio<sup>3</sup></b>	<b>29.1%</b>	<b>27.8%</b>

1. Total interest bearing liabilities excludes deferred borrowing costs and includes the currency impact of cross currency swaps as reported internally to management.

2. Total tangible assets comprise total assets less intangible assets, derivatives and deferred tax balances as reported internally to management.

3. The cash adjusted gearing ratio at 30 June 2013 was 29.0% (2012: 27.2%).

The Group is rated BBB+ by Standard and Poor's (S&P) and Baa1 by Moody's. The Group considers potential impacts upon the rating when assessing the strategy and activities of the Group and regards those impacts as an important consideration in its management of the Group's capital structure.

The Group is required to comply with certain financial covenants in respect of its interest bearing liabilities. During the 2013 and 2012 reporting periods, the Group was in compliance with all of its financial covenants.

DXFM is the Responsible Entity for the managed investment schemes that are stapled to form the Group. DXFM has been issued with an Australian Financial Services License (AFSL). The license is subject to certain capital requirements including the requirement to hold minimum net tangible assets and to maintain minimum liquidity. 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 also been issued with an AFSL as it is the Responsible Entity for DEXUS Wholesale Property Fund (DWPF). DEXUS Wholesale Management Limited (DWML), a wholly owned entity, has been issued with an AFSL as it is the Trustee of Golden Diamond (GD) Trust. These entities are subject to the same capital requirements.



## (2) Financial risk management

The Group's activities expose it to a variety of financial risks: credit risk, market risk (including currency risk, interest rate risk and price risk), and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group.

Accordingly, the Group enters into various derivative financial instruments such as interest rate swaps, cross currency interest rate swaps, and foreign exchange contracts to manage its exposure to certain risks. The Group does not trade in derivative instruments for speculative purposes. The Group uses different methods to measure the different types of risks to which it is exposed, including monitoring the current and forecast levels of exposure, and conducting sensitivity analysis.

Risk management is implemented by a centralised treasury department (Group Treasury) whose members act under written policies that are endorsed by the Board Finance Committee and approved by the Board of Directors of the Responsible Entity. Group Treasury identifies, evaluates and hedges financial risks in close cooperation with the Group's business units. The treasury policies approved by the Board of Directors cover overall treasury risk management, as well as policies and limits covering specific areas such as liquidity risk, interest rate risk, foreign exchange risk, credit risk and the use of derivatives and other financial instruments. In conjunction with its advisers, the Responsible Entity continually reviews the Group's exposures and (at least annually) updates its treasury policies and procedures.

### (a) Liquidity risk

Liquidity risk is the risk that the Group will not have sufficient available funds to meet financial obligations in an orderly manner when they fall due or at an acceptable cost.

The Group identifies and manages liquidity risk across short-term, medium-term, and long-term categories:

- Short-term liquidity management includes continuously monitoring forecast and actual cash flows
- Medium-term liquidity management includes maintaining 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 may also include projects that have a very high probability of proceeding, taking into consideration risk factors such as the level of regulatory approval, tenant pre-commitments and portfolio considerations
- Long-term liquidity risk is managed through ensuring an adequate spread of maturities of borrowing facilities so that refinancing risk is not concentrated, and ensuring an adequate diversification of funding sources where possible, subject to market conditions

### Refinancing risk

A key liquidity risk is the Group's ability to refinance its current debt facilities. As the Group's debt facilities mature, they are usually required to be refinanced by extending the facilities or replacing the facilities with an alternative form of capital.

The refinancing of existing facilities may also result in margin price risk, whereby market conditions may result in an unfavourable change in credit margins on the refinanced facilities. The Group's key risk management strategy for margin price risk on refinancing is to spread the maturities of debt facilities over different time periods to reduce the volume of facilities to be refinanced and the exposure to market conditions in any one period.

An analysis of the contractual maturities of the Group's interest bearing liabilities and derivative financial instruments is shown in the table below. The amounts in the table represent undiscounted cash flows.

	2013				2012			
	Expiring within one year \$m	Expiring between one and two years \$m	Expiring between two and five years \$m	Expiring after five years \$m	Expiring within one year \$m	Expiring between one and two years \$m	Expiring between two and five years \$m	Expiring after five years \$m
Receivables	40.6	–	–	–	30.8	–	–	–
Payables	95.2	–	–	–	110.6	–	–	–
	(54.6)	–	–	–	(79.8)	–	–	–
<b>Interest bearing liabilities and interest</b>								
Fixed interest rate liabilities and interest	55.2	148.4	430.8	518.5	45.2	45.2	525.2	295.4
Floating interest rate liabilities and interest	69.0	257.9	1,179.8	–	71.2	163.8	1,142.4	151.9
<b>Total interest bearing liabilities and interest<sup>1</sup></b>	<b>124.2</b>	<b>406.3</b>	<b>1,610.6</b>	<b>518.5</b>	<b>116.4</b>	<b>209.0</b>	<b>1,667.6</b>	<b>447.3</b>
<b>Derivative financial instruments</b>								
Derivative assets	53.3	138.6	106.5	681.3	35.2	22.5	18.6	–
Derivative liabilities	61.1	134.4	121.6	632.8	37.3	29.1	49.7	14.0
<b>Total net derivative financial instruments<sup>2</sup></b>	<b>(7.8)</b>	<b>4.2</b>	<b>(15.1)</b>	<b>48.5</b>	<b>(2.1)</b>	<b>(6.6)</b>	<b>(31.1)</b>	<b>(14.0)</b>

1. Refer to Note 20 (interest bearing liabilities). Excludes deferred borrowing costs but includes estimated fees and interest.

2. The notional maturities on derivatives is only shown for cross currency interest rate swaps (refer foreign exchange rate risk) and forward foreign exchange contracts as they are the only instruments where a principal amount is exchanged. For interest rate swaps, only the net interest cash flows (not the notional principal) are included. For financial assets and liabilities that have floating rate interest cash flows, future cash flows have been calculated using static interest and exchange rates prevailing at the end of each reporting period. Refer to Note 10 (derivative financial instruments) for fair value of derivatives. Refer Note 29 (contingent liabilities) for financial guarantees.

**Note 28 Financial risk management** (continued)

(2) Financial risk management (continued)

**(b) Market risk**

Market risk is the risk that the fair value or future cash flows of the Group's financial instruments will fluctuate because of changes in market prices. The market risks that the Group is exposed to are detailed further below.

**(i) Interest rate risk**

Interest rate risk is the risk that fluctuating interest rates will cause an adverse impact on interest payable (or receivable), or an adverse change on the capital value (present market value) of long-term fixed rate instruments.

Interest rate risk for the Group arises from interest bearing financial assets and liabilities that the Group holds. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk.

The primary objective of the Group's risk management policy for interest rate risk is to minimise the effects of interest rate movements on the Group's portfolio of financial assets and liabilities and financial performance. The policy sets out the minimum and maximum hedging amounts for the Group, which is managed on a portfolio basis.

Cash flow interest rate risk on borrowings is managed through the use of interest rate swaps, whereby a floating interest rate exposure is converted to a fixed interest rate exposure. Fair value interest rate risk on borrowings is also managed through the use of interest rate swaps, whereby a fixed interest exposure is converted to a floating interest rate exposure. The mix of fixed and floating rate exposures is monitored regularly to ensure that the interest rate exposure on the Group's cash flows is managed within the parameters defined by the Group Treasury Policy.

As at 30 June 2013, 62% (2012: 67%) of the financial assets and liabilities of the Group had an effective fixed interest rate.

The Group holds borrowings in multiple currencies with both fixed and floating rate exposures and is exposed to interest rate risk related to each particular currency.

The net notional amount of fixed rate debt and interest rate swaps in place in each year and the weighted average effective hedge rate per currency is set out below.

	June 2014 \$m	June 2015 \$m	June 2016 \$m	June 2017 \$m	June 2018 \$m	> June 2019 \$m
<b>Fixed rate debt<sup>1</sup></b>						
A\$ fixed rate debt	465.0	465.0	465.0	408.3	205.0	11.4
<b>Interest rate swaps</b>						
A\$ hedged <sup>1</sup>	899.2	927.9	872.5	565.0	327.5	70.0
<b>Combined fixed debt and swaps (A\$ equivalent)</b>	<b>1,364.2</b>	<b>1,392.9</b>	<b>1,337.5</b>	<b>973.3</b>	<b>532.5</b>	<b>81.4</b>
<b>Hedge rate (%)</b>	<b>3.94%</b>	<b>3.99%</b>	<b>4.12%</b>	<b>4.21%</b>	<b>4.32%</b>	<b>5.68%</b>

1. Amounts do not include fixed rate debt that has been swapped to floating rate debt through cross currency swaps.

**Sensitivity on interest expense**

The table below shows the impact on unhedged net interest expense (excluding non-cash items) of a 50 basis points increase or decrease in short-term and long-term market interest rates. The sensitivity on cash flow arises due to the impact that a change in interest rates will have on the Group's floating rate debt and derivative cash flows. Net interest expense is only sensitive to movements in market rates to the extent that floating rate debt is not hedged.

		2013 (+/-) \$m	2012 (+/-) \$m
+/- 0.50% (50 basis points)	A\$	4.8	2.6
+/- 0.50% (50 basis points)	US\$	-	0.8
+/- 0.50% (50 basis points)	€	-	0.2
<b>Total A\$ equivalent</b>		<b>4.8</b>	<b>3.6</b>

The increase or decrease in interest expense is proportional to the increase or decrease in interest rates.

### Sensitivity on fair value of interest rate swaps

The table below shows the impact on the Statement of Comprehensive Income for changes in the fair value of interest rate swaps for a 50 basis points increase and decrease in short-term and long-term market interest rates. The sensitivity on the fair value arises from the impact that changes in market rates will have on the mark-to-market valuation of the interest rate swaps. The fair value of interest rate swaps is calculated as the present value of estimated future cash flows on the instruments. Cash flows are discounted using the forward price curve of interest rates at the end of the reporting period. Although interest rate swaps are transacted for the purpose of providing the Group with an economic hedge, the Group has elected not to apply hedge accounting to its interest rate derivatives. Accordingly, gains or losses arising from changes in the fair value are reflected in the Statement of Comprehensive Income.

		2013 (+/-) \$m	2012 (+/-) \$m
+/- 0.50% (50 basis points)	A\$	14.6	14.0
+/- 0.50% (50 basis points)	US\$	(1.3)	0.6
<b>Total A\$ equivalent</b>		<b>13.1</b>	<b>14.6</b>

### (ii) Equity price risk

Equity price risk is the risk that the fair value of financial investments fluctuates due to changes in the underlying unit price. The Group's equity price risk arises from a derivative financial instrument, with any resultant fair value movements recognised in profit and loss.

### Sensitivity analysis on equity price risk

The following sensitivity analysis shows the effect on the Statement of Comprehensive Income if the market price of the underlying equity securities/units at balance date had been 10% higher/lower with all other variables held constant.

		2013 (+/-) \$m	2012 (+/-) \$m
+/- 0.10%	A\$	7.9	-

### (iii) Foreign Exchange Risk

Foreign exchange risk is the risk that movements in exchange rates used to convert foreign currency revenues, expenses, assets, or liabilities to the Group's functional currency will have an adverse effect on the Group.

The Group operates internationally with investments in New Zealand and Germany. As a result of these activities, the Group has foreign exchange risk, arising primarily from:

- Translation of investments in foreign operations
- Borrowings and cross currency swaps denominated in foreign currencies
- Earnings distributions and other transactions denominated in foreign currencies

The objective of the Group's foreign exchange risk management policy is to ensure that movements in exchange rates have minimal adverse impact on the Group's foreign currency assets and liabilities, and net foreign currency cash flows as outlined below.

### Foreign currency assets and liabilities

Exposure to foreign exchange risk is minimised by predominantly matching the currency of the Group's debt with the currency of its investment to form a natural hedge against movements in exchange rates. This policy reduces the risk that movements in foreign exchange rates will have an adverse impact on security holder's equity and net tangible assets.

Where Australian dollar borrowings are used to fund the foreign currency investment, the Group may transact cross currency swaps for the purpose of providing an alternate source of foreign currency funding whilst maintaining the natural hedge. In these instances the Group has committed foreign currency borrowing capacity in place that can replace the foreign currency amounts that are due under the cross currency swaps.

**Note 28 Financial risk management** (continued)

(2) Financial risk management (continued)

(b) Market risk (continued)

(iii) Foreign Exchange Risk (continued)

Where foreign currency borrowings are used to fund Australian investments, the Group transacts cross currency swaps for the purpose of ensuring the Group has access to funding in multiple jurisdictions whilst reducing the risk that movements in foreign exchange rates will have an adverse impact on security holder's equity and net tangible assets. The Group's net foreign currency exposures for net investments in foreign operations and hedging instruments are as follows:

	2013 \$m	2012 \$m
US\$ assets <sup>1</sup>	–	549.6
US\$ net borrowings and cross currency swaps <sup>2</sup>	–	(523.7)
<b>US\$ denominated net investment</b>	<b>–</b>	<b>25.9</b>
<b>% hedged</b>	<b>0%</b>	<b>95%</b>
€ assets <sup>1</sup>	6.0	36.6
€ net borrowings and cross currency swaps <sup>2</sup>	(4.2)	(32.6)
<b>€ denominated net investment</b>	<b>1.8</b>	<b>4.0</b>
<b>% hedged</b>	<b>71%</b>	<b>89%</b>
NZ\$ assets <sup>1</sup>	127.5	123.3
<b>NZ\$ denominated net investment</b>	<b>127.5</b>	<b>123.3</b>
<b>% hedged</b>	<b>0%</b>	<b>0%</b>
Total foreign net investment (A\$ equivalent)	109.9	126.9
<b>Total % hedged</b>	<b>5%</b>	<b>81%</b>

1. Assets exclude working capital and cash as reported internally to management.

2. Net borrowings equals interest bearing liabilities less cash. Where there is no interest bearing liabilities, cash is excluded. Cross currency swap amounts comprise the foreign currency denominated leg of the cross currency swaps.

Sensitivity on equity (foreign currency translation reserve)

The table below shows the impact on the foreign currency translation reserve for changes in the translated value of foreign currency assets and liabilities for an increase and decrease in foreign exchange rates per currency. The increase and decrease in cents per currency has been based on the historical movements of the Australian dollar relative to each currency<sup>1</sup>. The cents per currency has been applied to the spot rates prevailing at the end of each reporting period<sup>2</sup>. The impact on the foreign currency translation reserve arises as prior to the disposal of the operations, the translation of the Group's foreign currency assets and liabilities are recorded (in Australian dollars) directly in the foreign currency translation reserve.

		2013 \$m	2012 \$m
+ 11.8 cents (12.8%) (2012: 13.2 cents)	US\$ (A\$ equivalent)	–	2.9
– 11.8 cents (12.8%) (2012: 13.2 cents)	US\$ (A\$ equivalent)	–	(3.8)
+ 8.9 cents (12.5%) (2012: 10.3 cents)	€ (A\$ equivalent)	0.3	0.6
– 8.9 cents (12.5%) (2012: 10.3 cents)	€ (A\$ equivalent)	(0.4)	(0.7)
+ 9.5 cents (8.0%) (2012: 10.6 cents)	NZ\$ (A\$ equivalent)	8.0	7.4
– 9.5 cents (8.0%) (2012: 10.6 cents)	NZ\$ (A\$ equivalent)	(9.4)	(8.7)

1. The sensitivity on market rates has been based on the standard deviation of the annual change in the Australian dollar exchange rate per currency since 1984 or commencement.

2. Exchange rates at 30 June 2013: A\$/US\$ 0.9275 (2012: 1.0191), A\$/€ 0.7095 (2012: 0.8092), A\$/NZ\$ 1.1871 (2012: 1.2771).

### Sensitivity on fair value of cross currency swaps

The table below shows the impact on the Statement of Comprehensive Income for changes in the fair value of cross currency swaps for a 50 basis points increase and decrease in market rates. The sensitivity on the fair value arises from the impact that changes in short-term and long-term market rates will have on the interest rate mark-to-market valuation of the cross currency swaps. The Group has elected not to apply hedge accounting to its cross currency swaps. Accordingly, gains or losses arising from changes in the fair value are reflected in the Statement of Comprehensive Income.

		2013 (+/-) \$m	2012 (+/-) \$m
+/- 0.50% (50 basis points)	US\$ (A\$ equivalent)	8.5	-
<b>Total A\$ equivalent</b>		<b>8.5</b>	<b>-</b>

1. The above analysis does not include sensitivity to movements in BILLIS LIBOR.

### Net foreign currency denominated cash flows

Foreign exchange risk exists in relation to net cash flows and transactions with foreign operations that are denominated in foreign currencies. This risk is managed through the use of forward foreign exchange contracts (after taking into account the natural hedging through foreign denominated interest expense).

Forward foreign exchange contracts outstanding at 30 June 2013 and 30 June 2012 are as follows:

	2013 To pay US\$ US\$m	2013 To receive A\$m	2013 Weighted average exchange rate	2012 To pay US\$m	2012 To receive A\$m	2012 Weighted average exchange rate
1 year or less	-	-	-	-	2.3	-

### (c) Credit risk

Credit risk is the risk of loss to the Group in the event of non-performance by the Group's financial instrument counterparties. Credit risk arises from cash and cash equivalents, loans and receivables, and derivative financial instruments. The Group has exposure to credit risk on all financial assets.

The Group manages this risk by:

- Adopting a process for determining an approved counterparty, with consideration of qualitative factors as well as the counterparty's 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 as well as potential exposure, which is measured with reference to credit conversion factors as per APRA guidelines
- Entering into ISDA Master Agreements once a financial institution counterparty is approved
- Ensuring tenants, together with approved credit limits, are approved and ensuring that leases are undertaken with a large number of tenants
- For some trade receivables, obtaining collateral where necessary in the form of bank guarantees and tenant bonds
- 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. As at 30 June 2013, the lowest rating of counterparties the Group is exposed to was A- (Fitch) (2012: A (S&P)).

Financial instrument transactions are spread among a number of approved financial institutions within specified credit limits to minimise the Group's exposure to any one counterparty. As a result, there is no significant concentration of credit risk for financial instruments.

The maximum exposure to credit risk at 30 June 2013 and 30 June 2012 was the carrying amount of financial assets recognised on the Statement of Financial Position.

As at 30 June 2013 and 30 June 2012, there were no significant concentrations of credit risk for trade receivables. Trade receivable balances and the credit quality of trade debtors are consistently monitored on an ongoing basis.

The ageing analysis of loans and receivables net of provisions at 30 June 2013 is (\$m): 34.6 (0-30 days), 2.3 (31-60 days), 1.7 (61-90 days), 2.0 (91+ days). The ageing analysis of loans and receivables net of provisions at 30 June 2012 is (\$m): 29.2 (0-30 days), 0.7 (31-60 days), 0.2 (61-90 days), 0.7 (91+ days)). Amounts over 31 days are past due, however, no receivables are impaired.

The credit quality of financial assets that are neither past due nor impaired is consistently monitored to ensure that there are no adverse changes in credit quality.

**Note 28 Financial risk management** (continued)

(2) Financial risk management (continued)

**(d) Fair value of financial instruments**

Fair value interest rate risk is the risk of an adverse change in the net fair (or market) value of an asset or liability due to movements in interest rates.

As at 30 June 2013 and 30 June 2012, the carrying amounts and fair value of financial assets and liabilities are shown as follows:

	2013 Carrying amount <sup>1</sup> \$m	2013 Fair value <sup>2</sup> \$m	2012 Carrying amount <sup>1</sup> \$m	2012 Fair value <sup>2</sup> \$m
<b>Financial assets</b>				
Cash and cash equivalents	14.9	14.9	59.2	59.2
Loans and receivables (current)	40.6	40.6	30.8	30.8
Derivative assets	140.2	140.2	78.3	78.3
<b>Total financial assets</b>	<b>195.7</b>	<b>195.7</b>	<b>168.3</b>	<b>168.3</b>
<b>Financial liabilities</b>				
Trade payables	95.2	95.2	110.6	108.5
Derivative liabilities	101.2	101.2	120.9	120.9
<b>Interest bearing liabilities</b>				
Fixed interest bearing liabilities	878.9	934.7	673.7	743.2
Floating interest bearing liabilities	1,299.6	1,299.6	1,282.1	1,282.1
<b>Total financial liabilities</b>	<b>2,374.9</b>	<b>2,430.7</b>	<b>2,187.3</b>	<b>2,254.7</b>

1. Carrying value is equal to the value of the financial instruments on the Statement of Financial Position.

2. Fair value is the amount for which the financial instrument could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Where there is a difference between the carrying amount and fair value, the difference is not recognised in the Statement of Financial Position.

The fair value of interest bearing liabilities and derivative financial instruments has been determined by discounting the expected future cash flows by the relevant market interest rates. The discount rates applied range from 0.19% to 4.56% for US\$ and 2.66% to 5.29% for A\$. Refer Note 1(v) for fair value methodology for financial assets and liabilities.

The Group uses methods in the determination and disclosure of the fair value of financial instruments. These methods comprise:

**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.

The following tables present the assets and liabilities measured and recognised as at fair value at 30 June 2013 and 30 June 2012.

30 June 2013	Level 1 \$m	Level 2 \$m	Level 3 \$m	2013 \$m
<b>Financial assets</b>				
<b>Derivative assets</b>				
Interest rate derivatives	–	48.2	–	48.2
Cross currency swaps	–	89.3	–	89.3
Other	2.7	–	–	2.7
	2.7	137.5	–	140.2
<b>Financial liabilities</b>				
<b>Interest bearing liabilities</b>				
Fixed interest bearing liabilities	–	934.7	–	934.7
Floating interest bearing liabilities	–	1,299.6	–	1,299.6
	–	2,234.3	–	2,234.3
<b>Derivative liabilities</b>				
Interest rate derivatives	–	74.8	–	74.8
Cross currency swaps	–	26.4	–	26.4
	–	101.2	–	101.2

30 June 2012	Level 1 \$m	Level 2 \$m	Level 3 \$m	2012 \$m
<b>Financial assets</b>				
<b>Derivative assets</b>				
Interest rate derivatives	–	75.9	–	75.9
Forward exchange contracts	–	2.3	–	2.3
	–	78.2	–	78.2
<b>Financial liabilities</b>				
<b>Interest bearing liabilities</b>				
Fixed interest bearing liabilities	–	743.2	–	743.2
Floating interest bearing liabilities	–	1,282.1	–	1,282.1
	–	2,025.3	–	2,025.3
<b>Derivative liabilities</b>				
Interest rate derivatives	–	120.7	–	120.7
Cross currency swaps	–	0.1	–	0.1
Forward exchange contracts	–	0.1	–	0.1
	–	120.9	–	120.9

During the year, there were no transfers between Level 1, Level 2 and Level 3 fair value measurements.

## Note 29 Contingent liabilities

Details and estimates of maximum amounts of contingent liabilities are as follows:

	2013 \$m	2012 \$m
Bank guarantees by the Group in respect of variations and other financial risks associated with the development of:		
1 Bligh Street, Sydney, NSW <sup>1</sup>	–	0.2
Boundary Road, Laverton, VIC	0.5	0.4
123 Albert Street, Brisbane, QLD	0.1	0.5
1 Foundation Place, Greystanes, NSW	0.4	–
<b>Contingent liabilities in respect of developments</b>	<b>1.0</b>	<b>1.1</b>

1. Bank guarantee held in relation to an equity accounted investment (refer Note 15).

DDF together with DIT, DOT and DXO is also a guarantor of a total of A\$1,473.5 million and US\$50 million (A\$53.9 million) of bank bilateral facilities, a total of A\$575.0 million of medium term notes, a total of US\$130.0 million (A\$140.2 million) of privately placed notes, and a total of US\$250.0 million (A\$268.8 million) public 144A senior notes, which have all been negotiated to finance the Group and other entities within DXS. 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 guarantees are issued in respect of the Group and do not constitute an additional liability to those already existing in interest bearing liabilities on the Statement of Financial Position.

On settlement of the US sales transaction (refer Note 12), a letter of credit was issued in relation to the sale of 25 properties located in the United States. The letter of credit was issued for US\$15.2 million (A\$16.4 million) and is expected to remain on issue until September 2014.

The Group has bank guarantees of \$12.0 million held on behalf of DEXUS Funds Management Limited and DEXUS Wholesale Property Limited to comply with the terms of their Australian Financial Services Licences (AFSL). The bank guarantees are issued in respect of the Group and do not constitute an additional liability to those already existing on the Statements of Financial Position.

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

## Note 30 Commitments

### (a) Capital commitments

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

	2013 \$m	2012 \$m
Investment properties	53.6	52.8
Inventories	4.9	10.1
<b>Total capital commitments</b>	<b>58.5</b>	<b>62.9</b>

### (b) Lease payable commitments

The future minimum lease payments payable by the Group are:

	2013 \$m	2012 \$m
Within one year	3.0	3.5
Later than one year but not later than five years	11.6	5.8
Later than five years	–	6.1
<b>Total lease payable commitments</b>	<b>14.6</b>	<b>15.4</b>

Payments made under operating leases are expensed on a straightline basis over the term of the lease, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased property.

The Group has a commitment for ground rent payable in respect of a leasehold property included in investment properties and a commitment for its Head Office premise at 264-278 George Street, Sydney and for 343 George Street, Sydney.

No provisions have been recognised in respect of non-cancellable operating leases.

### (c) Lease receivable commitments

The future minimum lease payments receivable by the Group are:

	2013 \$m	2012 \$m
Within one year	410.1	512.2
Later than one year but not later than five years	1,001.0	1,491.5
Later than five years	383.5	740.5
<b>Total lease receivable commitments</b>	<b>1,794.6</b>	<b>2,744.2</b>

## Note 31 Related parties

### Responsible Entity

DXFM is the Responsible Entity of DDF, DIT, DOT and DXO.

DXH is the parent entity of DWPL, the Responsible Entity for DWPF.

### Responsible Entity fees

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

### Related party transactions

Responsible Entity fees in relation to Group assets are on a cost recovery basis. All agreements with third party funds are conducted on normal commercial terms and conditions.



## DEXUS Wholesale Property Fund

	2013 \$'000	2012 \$'000
Responsible Entity fee income	21,018	19,004
Property management fee income	7,629	7,435
Recovery of administration expenses	3,377	3,141
Aggregate amount receivable at the end of each reporting period (included above)	1,827	1,667
Property management fees receivable at the end of each reporting period (included above)	1,015	710
Administration expenses receivable at the end of each reporting period (included above)	49	143

### Investments accounted for using the equity method

Property management fee income	284	704
Recovery of administration expenses	180	265
Property management fees receivable at the end of each reporting period (included above)	–	43
Administration expenses receivable at the end of each reporting period (included above)	48	3

## Directors

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

- C T Beare, BSc, BE (Hons), MBA, PhD, FAICD<sup>1,4,5</sup>
- E A Alexander, AM, BComm, FCA, FAICD, FCPA<sup>1,2</sup>
- B R Brownjohn, BComm<sup>1,2,7</sup>
- J C Conde, AO, BSc, BE (Hons), MBA<sup>1,4,6</sup>
- T Dwyer, BJuris (Hons), LLB (Hons)<sup>1,3</sup>
- S F Ewen, OAM<sup>1,4</sup>
- Craig D Mitchell, BComm, EMBA, FCPA<sup>10</sup>
- W R Sheppard, BEc (Hons)<sup>1,2,8</sup>
- D J Steinberg, BEc, FRICS, FAPI
- P B St George, CA(SA), MBA<sup>1,5,9</sup>

1. Independent Director.
2. Board Audit, Risk & Sustainability Committee Member.
3. Board Compliance Committee Member.
4. Board Nomination, Remuneration & Governance Committee Member.
5. Board Finance Committee Member.
6. Resigned as Board Compliance Committee Member on 1 July 2012.
7. Resigned as Board Finance Committee Member on 1 July 2012.
8. Appointed as Board Finance Committee Member on 1 July 2012.
9. Resigned as Board Audit, Risk & Sustainability Committee Member on 1 July 2012.
10. Appointed as Director on 12 February 2013.

## Other key management personnel

In addition to the Directors listed above, the following persons were deemed by the Board Nomination, Remuneration & Governance Committee to be key management personnel during all or part of the financial year:

Name	Title
Tanya L Cox <sup>1</sup>	Executive General Manager, Property Services and Chief Operating Officer
Ross Du Vernet <sup>2</sup>	Executive General Manager, Strategy, Transactions & Research
John C Easy <sup>1</sup>	General Counsel
Kevin George <sup>3</sup>	Executive General Manager, Office & Industrial

1. Ceased to be key management personnel on 1 July 2012.
2. Appointed as key management personnel on 1 July 2012.
3. Appointed as key management personnel on 10 December 2012.

**Note 31 Related parties** (continued)

Key management personnel compensation

	2013 \$'000	2012 \$'000
<b>Compensation</b>		
Short-term employee benefits	9,220	10,166
Post employment benefits	229	248
Other long-term benefits	1,116	3,116
Termination benefits	–	2,300
Security-based payments	1,384	330
	<b>11,949</b>	<b>16,160</b>

The Group has shown the detailed remuneration disclosures in the Directors' Report. The relevant information can be found in Section 3 of the Directors' Report.

Equity instrument disclosures relating to key management personnel

The relevant interest in DXS stapled securities held during the financial year by each key management personnel, including their personally related parties, are set out below:

	Opening balance 1 July 2012	Purchases	Other <sup>1</sup>	Closing balance 30 June 2013
<b>Directors</b>				
Christopher T Beare	–	100,000	–	100,000
Elizabeth A Alexander, AM	–	100,000	–	100,000
Barry R Brownjohn	–	50,000	–	50,000
John C Conde, AO	–	100,000	–	100,000
Tonianne Dwyer	–	100,000	–	100,000
Stewart F Ewen, OAM	–	100,000	–	100,000
Craig D Mitchell	–	–	539,782	539,782
W Richard Sheppard	–	100,000	–	100,000
Darren J Steinberg	–	–	453,417	453,417
Peter B St George	–	104,000	–	104,000
<b>Other key management personnel</b>				
Ross Du Vernet <sup>2</sup>	–	–	215,913	215,913
Kevin George <sup>3</sup>	–	–	–	–

1. Performance Rights granted under the 2012 Transitional Performance Rights Plan (refer Note 36).

2. Appointed as key management personnel on 1 July 2012.

3. Appointed as key management personnel on 10 December 2012.

The DXFM Board has approved a grant of performance rights to DXS stapled securities to eligible participants (refer Note 36). Details of the number of performance rights issued to each of the key management personnel are set out in Section 3 of the Directors' Report.

There were no loans or other transactions with key management personnel or their related parties during the years ended 30 June 2013 and 30 June 2012.

## Note 32 Events occurring after reporting date

On 25 July 2013, DEXUS Funds Management Limited (DXFM) as Responsible Entity of DEXUS Property Group entered into a forward contract with Deutsche Bank AG (DBA) in relation to units in the Commonwealth Property Office Fund (CPA) which, in accordance with its terms, gives DXFM the ability to acquire and DBA the obligation to deliver, 350,000,000 CPA units (a 14.9% relevant interest in CPA) at a price of \$1.1334 per unit.

On 25 July 2013, at the same time as the forward contract was entered into, DXFM also entered into a zero-cost cash-settled collar with DBA over 350,000,000 CPA units.

The zero-cost cash-settled collar is a derivative product under which:

- If the prevailing price of relevant securities falls below a “floor” price (\$1.02), DBA will pay DXFM the difference between the prevailing security price and the “floor” price on the settlement date
- If the prevailing price of relevant securities rises above a “ceiling” price (\$1.20), DXFM will pay DBA the difference between the prevailing security price and the “ceiling” price on the settlement date
- No party pays a fee to the other for entry into the collar

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

## Note 33 Operating segments

### (a) Description of segments

The Chief Operating Decision Maker (CODM) has been identified as the Board of Directors as they are responsible for the strategic decision making within the Group. DXS management has identified the Group's operating segments based on the sectors analysed within the management reports reviewed by the CODM in order to monitor performance across the Group and to appropriately allocate resources. Refer to the table below for a brief description of the Group's operating segments.

Following a review of internal reporting, the operating segments note has been amended to disclose revenue and expenses on the basis of their function and to provide additional financial metrics. The revised disclosures better reflect the financial information regularly reviewed by the Directors and DXS management in order to assess the performance of the functions of the Group and the allocation of resources.

<b>Office</b>	This comprises office space with any associated retail space; as well as car parks and office developments in Australia and New Zealand.
<b>Industrial</b>	This comprises domestic industrial properties, industrial estates and industrial developments.
<b>Property management</b>	This comprises property management services for third part clients and owned assets.
<b>Development and trading</b>	This comprises revenue earned and costs incurred by the Group on developments and inventory.
<b>Funds management</b>	This comprises funds management of third party client assets.
<b>DXS asset management</b>	This comprises asset management of assets owned by the Group.
<b>All other segments</b>	This comprises corporate expenses associated with maintaining and operating the Group. This segment also includes the treasury function of the Group which is managed through a centralised treasury department.
<b>Discontinued operations</b>	This comprises industrial properties, industrial estates and industrial developments in the United States, as well as the European industrial portfolio.

**Note 33 Operating segments** (continued)

(b) Segment information provided to the CODM

30 June 2013	Office \$m	Industrial \$m	Property management \$m
<b>Segment performance measures</b>			
Property revenue and property management fees	424.1	142.6	12.3
Proceeds from sale of inventory	–	–	–
Management fee revenue	–	–	19.7
<b>Total operating segment revenue</b>	<b>424.1</b>	<b>142.6</b>	<b>32.0</b>
Property expenses	(106.7)	(25.5)	–
Property management salaries	–	–	(9.8)
Corporate and administration expenses	–	–	(15.5)
Cost of sale of inventory	–	–	–
Foreign exchange gains	–	–	–
<b>Net operating EBIT</b>	<b>317.4</b>	<b>117.1</b>	<b>6.7</b>
Interest revenue	–	–	–
Finance costs	–	–	–
Incentive amortisation and rent straightline	30.4	(1.2)	–
Tax (expense)/benefit	–	–	–
Other	0.8	–	–
<b>Funds from Operations (FFO)</b>	<b>348.6</b>	<b>115.9</b>	<b>6.7</b>
Net fair value gain of investment properties	190.7	8.0	–
Impairment of inventories	–	–	–
Net fair value loss of derivatives	–	–	–
Finance costs attributable to sales transactions	–	–	–
Foreign currency translation reserve transfer on disposal of foreign operations	–	–	–
Net loss on sale of investment properties	(0.6)	(3.1)	–
Incentive amortisation and rent straightline	(30.4)	1.2	–
Reversal of impairment of management rights	–	–	–
Deferred tax (expense)/benefit	–	–	–
Other	(0.8)	–	–
<b>Net profit/(loss) attributable to stapled security holders</b>	<b>507.5</b>	<b>122.0</b>	<b>6.7</b>
<b>Segment asset measures</b>			
Investment properties	4,657.9	1,427.1	–
Non-current assets held for sale	–	–	–
Inventories	–	–	–
Equity accounted investment properties	912.8	–	–
<b>Direct property portfolio</b>	<b>5,570.7</b>	<b>1,427.1</b>	<b>–</b>

Development and trading \$m	Funds management \$m	DXS asset management \$m	All other segments \$m	Eliminations \$m	Continuing operations \$m	Discontinued operations \$m	Total \$m
-	-	-	-	(0.3)	578.7	31.7	610.4
24.4	-	-	-	-	24.4	-	24.4
1.1	27.7	-	-	-	48.5	0.4	48.9
<b>25.5</b>	<b>27.7</b>	-	-	<b>(0.3)</b>	<b>651.6</b>	<b>32.1</b>	<b>683.7</b>
-	-	-	-	-	(132.2)	(7.7)	(139.9)
-	-	-	-	-	(9.8)	-	(9.8)
(1.4)	(13.6)	(13.0)	(25.2)	0.3	(68.4)	(3.4)	(71.8)
(22.9)	-	-	-	-	(22.9)	-	(22.9)
-	-	-	-	-	-	4.0	4.0
<b>1.2</b>	<b>14.1</b>	<b>(13.0)</b>	<b>(25.2)</b>	-	<b>418.3</b>	<b>25.0</b>	<b>443.3</b>
-	-	-	1.2	-	1.2	-	1.2
-	-	-	(94.1)	-	(94.1)	(18.3)	(112.4)
-	-	-	-	-	29.2	1.3	30.5
-	-	-	(0.1)	-	(0.1)	2.4	2.3
-	-	-	-	-	0.8	(0.3)	0.5
<b>1.2</b>	<b>14.1</b>	<b>(13.0)</b>	<b>(118.2)</b>	-	<b>355.3</b>	<b>10.1</b>	<b>365.4</b>
-	-	-	-	-	198.7	21.9	220.6
(2.2)	-	-	-	-	(2.2)	-	(2.2)
-	-	-	(15.4)	-	(15.4)	(2.3)	(17.7)
-	-	-	-	-	-	(18.8)	(18.8)
-	-	-	-	-	-	(21.5)	(21.5)
-	-	-	-	-	(3.7)	0.1	(3.6)
-	-	-	-	-	(29.2)	(1.3)	(30.5)
-	-	-	20.5	-	20.5	-	20.5
-	-	-	(1.6)	-	(1.6)	4.5	2.9
-	-	-	(0.1)	-	(0.9)	0.3	(0.6)
<b>(1.0)</b>	<b>14.1</b>	<b>(13.0)</b>	<b>(114.8)</b>	-	<b>521.5</b>	<b>(7.0)</b>	<b>514.5</b>
-	-	-	-	-	6,085.0	-	6,085.0
-	-	-	-	-	-	7.7	7.7
252.9	-	-	-	-	252.9	-	252.9
-	-	-	-	-	912.8	-	912.8
<b>252.9</b>	-	-	-	-	<b>7,250.7</b>	<b>7.7</b>	<b>7,258.4</b>

**Note 33 Operating segments** (continued)

(b) Segment information provided to the CODM (continued)

30 June 2012	Office \$m	Industrial \$m	Property management \$m
<b>Segment performance measures</b>			
Property revenue and property management fees	385.7	147.1	11.5
Proceeds from sale of inventory	–	–	–
Management fee revenue	–	–	19.5
<b>Total operating segment revenue</b>	<b>385.7</b>	<b>147.1</b>	<b>31.0</b>
Property expenses	(95.8)	(27.1)	–
Property management salaries	–	–	(12.9)
Corporate and administration expenses	–	–	(15.5)
Cost of sale of inventory	–	–	–
Foreign exchange gains	–	–	–
<b>Net operating EBIT</b>	<b>289.9</b>	<b>120.0</b>	<b>2.6</b>
Interest revenue	–	–	–
Finance costs	–	–	–
Incentive amortisation and rent straightline	26.5	(0.4)	–
RENTS cash distributions	–	–	–
Tax expense and other	–	–	–
<b>Funds from Operations (FFO)</b>	<b>316.4</b>	<b>119.6</b>	<b>2.6</b>
Net fair value gain/(loss) of investment properties	93.5	(43.0)	–
Impairment of inventories	–	–	–
Net fair value loss of derivatives	–	–	–
Net loss on sale of investment properties	–	–	–
Finance costs attributable to US sales transaction	–	–	–
Foreign currency translation reserve transfer on disposal of foreign operations	–	–	–
Incentive amortisation and rent straightline	(26.5)	0.4	–
RENTS capital distributions	–	–	–
Deferred tax benefit/(expense)	–	–	–
Other	–	–	–
<b>Net profit/(loss) attributable to stapled security holders</b>	<b>383.4</b>	<b>77.0</b>	<b>2.6</b>
<b>Segment asset measures</b>			
Investment properties	4,458.4	1,373.5	–
Non-current assets held for sale	–	187.4	–
Inventories	–	–	–
Equity accounted investment properties	221.1	–	–
<b>Direct property portfolio</b>	<b>4,679.5</b>	<b>1,560.9</b>	<b>–</b>

Development and trading \$m	Funds management \$m	DXS asset management \$m	All other segments \$m	Continuing operations \$m	Discontinued operations \$m	Total \$m
-	-	-	-	544.3	117.9	662.2
49.8	-	-	-	49.8	-	49.8
2.5	28.3	-	-	50.3	0.4	50.7
<b>52.3</b>	<b>28.3</b>	-	-	<b>644.4</b>	<b>118.3</b>	<b>762.7</b>
-	-	-	-	(122.9)	(34.3)	(157.2)
-	-	-	-	(12.9)	-	(12.9)
-	(13.0)	(11.8)	(35.5)	(75.8)	(7.1)	(82.9)
(44.0)	-	-	-	(44.0)	-	(44.0)
-	-	-	-	-	2.2	2.2
<b>8.3</b>	<b>15.3</b>	<b>(11.8)</b>	<b>(35.5)</b>	<b>388.8</b>	<b>79.1</b>	<b>467.9</b>
-	-	-	1.7	1.7	-	1.7
-	-	-	(56.0)	(56.0)	(66.0)	(122.0)
-	-	-	-	26.1	5.6	31.7
-	-	-	(12.0)	(12.0)	-	(12.0)
-	-	-	1.1	1.1	(0.6)	0.5
<b>8.3</b>	<b>15.3</b>	<b>(11.8)</b>	<b>(100.7)</b>	<b>349.7</b>	<b>18.1</b>	<b>367.8</b>
-	-	-	-	50.5	32.3	82.8
(14.9)	-	-	-	(14.9)	-	(14.9)
-	-	-	(62.0)	(62.0)	(35.1)	(97.1)
-	-	-	-	-	(32.6)	(32.6)
-	-	-	-	-	(44.3)	(44.3)
-	-	-	-	-	(41.5)	(41.5)
-	-	-	-	(26.1)	(5.6)	(31.7)
-	-	-	10.2	10.2	-	10.2
-	-	-	18.9	18.9	(34.8)	(15.9)
-	-	-	(1.7)	(1.7)	-	(1.7)
<b>(6.6)</b>	<b>15.3</b>	<b>(11.8)</b>	<b>(135.3)</b>	<b>324.6</b>	<b>(143.5)</b>	<b>181.1</b>
-	-	-	-	5,831.9	559.6	6,391.5
-	-	-	-	187.4	24.9	212.3
97.8	-	-	-	97.8	-	97.8
-	-	-	-	221.1	-	221.1
<b>97.8</b>	-	-	-	<b>6,338.2</b>	<b>584.5</b>	<b>6,922.7</b>

**Note 33 Operating segments** (continued)

(c) Other segment information

(i) Funds From Operations (FFO)

The Board assesses the performance of each operating sector based on FFO. FFO is a global financial measure of real estate operating performance after finance costs and taxes, and is adjusted for certain non-cash items. The Directors consider FFO to be a measure that reflects the underlying performance of the Group. DEXUS's FFO comprises net profit/loss after tax attributable to stapled security holders calculated in accordance with Australian Accounting Standards and adjusted for: property revaluations, impairments, derivative and FX mark to market impacts, amortisation of certain tenant incentives, gain/loss on sale of certain assets, straightline rent adjustments, deferred tax expense/benefit, rental guarantees and coupon income.

(ii) Reconciliation of segment revenue to the Statement of Comprehensive Income

	2013 \$m	2012 \$m
Gross operating segment revenue	683.7	762.7
Revenue from discontinued operations	(32.1)	(118.3)
Share of property revenue from associates	(32.1)	(8.6)
Interest revenue	1.2	1.7
<b>Total revenue from ordinary activities</b>	<b>620.7</b>	<b>637.5</b>

(iii) Reconciliation of segment assets to the Statement of Financial Position

The amounts provided to the CODM as a measure of segment assets is the direct property portfolio. The direct property portfolio values are allocated based on the operations of the segment and physical location of the asset and are measured in a manner consistent with the Statement of Financial Position. The reconciliation below reconciles the total direct property portfolio balance to total assets in the Statement of Financial Position.

	2013 \$m	2012 \$m
Investment properties	6,085.0	6,391.5
Investment properties classified as held for sale	7.7	212.3
Inventories	252.9	97.8
Investment properties accounted for using the equity method <sup>1</sup>	912.8	221.1
<b>Direct property portfolio</b>	<b>7,258.4</b>	<b>6,922.7</b>
Cash and cash equivalents	14.5	59.2
Receivables	40.2	30.8
Intangible assets	243.7	223.6
Derivative financial instruments	140.2	78.3
Deferred tax assets	39.4	36.7
Plant and equipment	8.8	4.7
Prepayments and other assets <sup>2</sup>	6.3	8.1
Other assets classified as discontinued operations	1.1	–
<b>Total assets</b>	<b>7,752.6</b>	<b>7,364.1</b>

1. This represents the Group's portion of investment properties accounted for using the equity method.

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



## Note 34 Reconciliation of net profit to net cash inflow from operating activities

### (a) Reconciliation

	2013 \$m	2012 \$m
Net profit for the year	514.5	182.9
Capitalised interest	(10.7)	(22.5)
Depreciation and amortisation	2.9	2.8
Impairment of inventories	2.2	14.8
Impairment of goodwill	0.1	0.6
Net fair value gain of investment properties	(207.8)	(75.2)
Share of net profit of investments accounted for using the equity method	(37.9)	(13.8)
Net fair value loss of derivatives	10.9	1.6
Net fair value loss of interest rate swaps	5.7	100.5
Net loss on sale of investment properties	3.6	32.6
Net foreign exchange gain	(4.0)	(2.2)
Foreign currency translation reserve transfer on disposal of foreign operations	21.5	41.5
Reversal of previous impairment	(20.5)	–
Fair value adjustment on acquisition of investments	0.1	–
Provision for doubtful debts	(0.3)	(2.2)
Change in operating assets and liabilities		
(Increase)/decrease in receivables	(9.1)	7.5
(Increase)/decrease in prepaid expenses	(0.2)	0.8
Decrease in other non-current assets	28.9	35.0
(Increase)/decrease in inventories	(137.9)	14.4
Increase in other current assets	–	(4.3)
Decrease in other non-current assets	22.7	12.7
Decrease in payables	(4.9)	(7.7)
Decrease in current liabilities	(0.5)	(6.5)
Increase in other non-current liabilities	17.2	33.1
(Increase)/decrease in deferred tax assets	(3.0)	13.1
<b>Net cash inflow from operating activities</b>	<b>193.5</b>	<b>359.5</b>

### (b) Capital expenditure on investment properties

Payments for capital expenditure on investment properties include \$67.6 million (2012: \$99.8 million) of maintenance and incentive capital expenditure.

## Note 35 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. The weighted average number of units has been adjusted for the bonus elements in units issued during the year and comparatives have been appropriately restated.

### (a) Net profit/(loss) attributable to unitholders of the parent entity used in calculating basic and diluted earnings per unit

	2013 \$m	2012 \$m
Profit from continuing operations	95.3	127.0
Profit/(loss) from discontinued operations	7.5	(45.5)
Profit attributable to unitholders of the parent entity	102.8	81.5

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

### Note 35 Earnings per unit (continued)

(b) Net profit/(loss) attributable to stapled security holders used in calculating basic and diluted earnings per stapled security

	2013 \$m	2012 \$m
Profit from continuing operations	521.5	324.6
Profit/(loss) from discontinued operations	(7.0)	(143.5)
Profit attributable to stapled security holders	514.5	181.1

(c) Weighted average number of units used as a denominator

	2013 securities	2012 securities
Weighted average number of units outstanding used in calculation of basic and diluted earnings per unit	4,714,292,865	4,834,864,561

### Note 36 Security-based payments

The DXFM Board has approved a grant of performance rights to DXS stapled securities to eligible participants. Awards, via the 2012 Transitional Performance Rights Plan, Deferred Short Term Incentive Plan (DSTI) and Long Term Incentive Plan (LTI), will be in the form of performance rights awarded to eligible participants who convert to DXS stapled securities for nil consideration subject to satisfying specific service and performance conditions.

For each Plan, the DXFM Board approves the eligible participants nominated by the Board Nomination, Remuneration & Governance Committee. Each participant will be granted performance rights, based on performance against agreed key performance indicators, as a percentage of their remuneration mix. The dollar value is converted into performance rights to DXS stapled securities using the average closing price of DXS securities for the period of ten days either side of the financial year end to which the award relates. 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 amortised over the vesting period. In accordance with AASB2 *Share-based Payments*, fair value is independently determined using Black-Scholes and Monte Carlo models with the following inputs:

- Grant date
- Expected vesting date
- Security price at grant date
- Expected price volatility (based on historic DXS security price movements)
- Expected life
- Dividend yield
- Risk free interest rate
- Expected total security holder return (for the LTI only)

#### (a) 2012 Transitional Performance Rights Plan

Subject to satisfying employment service conditions, the award will vest three years after grant on 1 July 2015. In accordance with AASB 2 *Share-based payments*, the year of employment in which participants became eligible for the 2012 Transitional Performance Rights Plan, the year preceding the grant, is included in the vesting period over which the fair value of the performance rights is expensed. Consequently

the fair value of these performance rights is expensed over a four year period ending 30 June 2015. No performance rights were granted in respect of the year ended 30 June 2013 (2012: 1,840,656). The fair value of the 2012 performance rights is \$0.995 per performance right and the total security-based payment expense recognised during the year ended 30 June 2013 was \$489,477 (2012: \$426,250).

#### (b) 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 those 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 Payments*, 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 those performance rights is expensed. Consequently, 50% of the fair value of those performance rights is expensed over two years and 50% of the award is expensed over three years.

The number of performance rights granted in respect of the year ended 30 June 2013 was 2,073,400 and the fair value of these performance rights is \$1.07 per performance right. The total security-based payment expense recognised during the year ended 30 June 2013 was \$924,390 (2012: nil).

#### (c) 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 Payments*, 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 expensed. Consequently, 50% of these fair value of the performance rights is expensed over four years and 50% of the award is expensed over five years.

The number of performance rights granted in respect of the year ended 30 June 2013 was 3,317,014. The fair value of these performance rights is \$0.80 per performance right. The total security-based payment expense recognised during the year ended 30 June 2013 was \$600,379 (2012: nil).

**DIRECTORS' DECLARATION**  
FOR THE YEAR ENDED 30 JUNE 2013

The Directors of DEXUS Funds Management Limited as Responsible Entity of DEXUS Diversified Trust declare that the Financial Statements and Notes set out on pages 44 to 96:

- (i) Comply with Australian Accounting Standards, the *Corporations Act 2001* and other mandatory professional reporting requirements; and
- (ii) Give a true and fair view of the Group's financial position as at 30 June 2013 and of their performance, as represented by the results of their operations and their cash flows, for the year ended on that date.

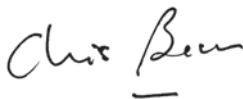
In the Directors' opinion:

- (a) The Financial Statements and notes are in accordance with the *Corporations Act 2001*
- (b) There are reasonable grounds to believe that the Group and its consolidated entities will be able to pay their debts as and when they become due and payable
- (c) The Group has operated in accordance with the provisions of the Constitution dated 15 August 1984 (as amended) during the year ended 30 June 2013

Note 1(a) confirms that the Financial Statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The Directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer required by section 295A of the *Corporations Act 2001*.

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



**Christopher T Beare**

Chair

16 August 2013



## Independent auditor's report to the stapled security holders of DEXUS Diversified Trust

### *Report on the financial report*

We have audited the accompanying financial report of DEXUS Diversified Trust (the Trust or DDF), which comprises the statement of financial position as at 30 June 2013, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for DEXUS Property Group (the Group or the consolidated stapled entity). The consolidated stapled entity, as described in Note 1 to the financial report, comprises the Trust and the entities it controlled at the year-end or from time to time during the financial year.

### *Directors' responsibility for the financial report*

The directors of DEXUS Funds Management Limited (the Responsible Entity) are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

### *Auditor's responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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**PricewaterhouseCoopers, ABN 52 780 433 757**  
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 DX 77 Sydney, Australia  
 T: +61 2 8266 0000, F: +61 2 8266 9999, [www.pwc.com.au](http://www.pwc.com.au)

Liability limited by a scheme approved under Professional Standards Legislation.



### *Independence*

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

### *Auditor's opinion*

In our opinion:

- (a) the financial report of DEXUS Diversified Trust is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the consolidated stapled entity's financial position as at 30 June 2013 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in Note 1.

### ***Report on the Remuneration Report***

We have audited the remuneration report included in pages 19 to 34 of the directors' report for the year ended 30 June 2013. The directors of the Responsible Entity are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

### *Auditor's opinion*

In our opinion, the remuneration report of DEXUS Diversified Trust for the year ended 30 June 2013, complies with section 300A of the *Corporations Act 2001*.

PricewaterhouseCoopers

E A Barron  
Partner

Sydney  
16 August 2013

## ADDITIONAL INFORMATION

### Top 20 security holders as at 16 August 2013

Rank	Name	No. of units	% of issued capital
1	HSBC Custody Nominees (Australia) Limited	1,663,830,662	35.39%
2	J P Morgan Nominees Australia Limited	867,767,388	18.46%
3	National Nominees Limited	675,382,834	14.36%
4	Citicorp Nominees Pty Limited	357,209,186	7.60%
5	BNP Paribas Nominees Pty Ltd <DRP>	192,854,959	4.10%
6	JP Morgan Nominees Australia Limited <Cash Income A/C>	134,359,014	2.86%
7	Citicorp Nominees Pty Limited <Colonial First State Inv A/C>	97,264,579	2.07%
8	AMP Life Limited	86,217,365	1.83%
9	Equity Trustees Limited <EQT SGH Property Income Fund >	32,291,225	0.69%
10	RBC Investor Services Australia Nominees Pty Limited <APN A/C>	28,465,361	0.61%
11	Questor Financial Services Limited <TPS RF A/C>	21,727,316	0.46%
12	BNP Paribas Nominees Pty Ltd <Agency Lending DRP A/C>	21,582,042	0.46%
13	Bond Street Custodians Limited <ENH Property Securities A/C>	15,491,825	0.33%
14	CS Third Nominees Pty Ltd <NO 1 Account>	14,181,358	0.30%
15	Share Direct Nominees Pty Ltd <10026 A/C>	13,523,626	0.29%
16	HSBC Custody Nominees (Australia) Limited <NT-Commonwealth Super Corp A/C>	8,064,529	0.17%
17	Suncorp Custodian Services Pty Limited <SGALPT>	7,406,085	0.16%
18	UBS Wealth Management Australia Nominees Pty Ltd	6,642,608	0.14%
19	Bond Street Custodians Limited <Property Securities A/C>	6,187,464	0.13%
20	HSBC Custody Nominees (Australia) Limited	5,681,219	0.12%
	<b>Subtotal</b>	<b>4,256,130,645</b>	<b>90.52%</b>
	<b>Balance of register</b>	<b>445,826,745</b>	<b>9.48%</b>
	<b>Total</b>	<b>4,701,957,390</b>	<b>100.00%</b>

### Substantial holders at 16 August 2013

The names of substantial holders, who at 16 August 2013 have notified the Responsible Entity in accordance with Section 671B of the *Corporations Act 2001*, are:

Date	Name	Number of stapled securities	% voting
30 Aug 2012	CBRE Clarion Securities LLC	440,873,263	9.4%
28 Jan 2011	ING Group	388,416,434	8.3%
11 Nov 2010	Vanguard Group	291,637,480	6.2%
17 Dec 2009	Blackrock Investment Management (inc. BGI)	275,099,167	5.9%
10 Jul 2013	AMP Limited	237,591,500	5.1%

## Class of securities

DEXUS Property Group has one class of stapled security trading on the ASX with security holders holding stapled securities at 16 August 2013.

### Spread of securities at 16 August 2013

Range	Securities	%	No. of Holders
1100,001 and over	4,417,347,838	93.95	361
50,001 to 100,000	58,413,036	1.24	855
10,001 to 50,000	183,983,472	3.91	8,531
5,001 to 10,000	31,104,963	0.66	4,070
1,001 to 5,000	10,543,357	0.22	3,303
1 to 1,000	564,724	0.01	1,641
<b>Total</b>	<b>4,701,957,390</b>	<b>100.00</b>	<b>18,761</b>

At 16 August 2013, the number of security holders holding less than a marketable parcel of 488 securities (\$500) was 1,059 and they hold in total 117,324 securities.

## Voting rights

At meetings of the security holders of DEXUS Diversified Trust, DEXUS Industrial Trust, DEXUS Office Trust and DEXUS Operations Trust, being the Trusts that comprise DEXUS Property Group, on a show of hands, each security holder of each Trust has one vote. On a poll, each security holder of each Trust has one vote for each dollar of the value of the total interests they have in the Trust.

## Securities restricted or subject to voluntary escrow

There are no stapled securities that are restricted or subject to voluntary escrow.

## On-market buy-back

DEXUS Property Group commenced a \$200 million on-market securities buy-back program on 16 April 2012. Throughout the year, DEXUS acquired 137 million securities for \$128.5 million at an average price of \$0.9371 under the buy-back program.

Following the reinvestment of capital into the Australian markets on the back of improved share market performance, the DEXUS security price performance stabilised and DEXUS chose not to extend the buy-back on 16 April 2013, having completed 64% of the targeted \$200 million.

Post balance date on 2 July 2013, a buy-back program of up to 5% of securities was reinstated as a result of share market volatility, providing the flexibility for DEXUS to acquire securities on-market, with a focus of enhancing value and returns to investors.

## Cost base apportionment

For capital gains tax purposes, the cost base apportionment details for DXS securities for the 12 months ended 30 June 2013 are:

Date	DEXUS Diversified Trust	DEXUS Industrial Trust	DEXUS Office Trust	DEXUS Operating Trust
1 Jul 2012 to 31 Dec 2012	35.17%	13.32%	49.01%	2.50%
1 Jan 2013 to 30 Jun 2013	34.67%	13.67%	49.15%	2.51%

Historical cost base details are available in the downloads area at [www.dexus.com/dxs/tax](http://www.dexus.com/dxs/tax)

DEXUS is one of the largest real estate groups listed on the Australian Securities Exchange (ASX) and is listed under the ASX code DXS. Over 18,000 investors located in 15 countries around the globe invest in DXS, highlighting the demand both domestically and abroad for exposure to its quality property portfolio.

DEXUS's Investor Relations team drives and facilitates communication with existing and potential institutional investors, sell-side analysts and retail investors. The team, alongside DEXUS senior management, maintains a strong rapport with the investment community through proactive and regular investor engagement initiatives.

DEXUS strives to ensure high levels of transparency and disclosure by:

- Releasing accurate and relevant information to investors to ensure they can make informed investment decisions
- Providing regular access to senior management through one-on-one presentations, meetings, site tours, conferences, dedicated investor road shows, conference calls and webcasts

During FY13, DEXUS hosted a number of investor conferences, property tours and participated in investor roadshows in Singapore, Hong Kong, London and the United States.

DEXUS is committed to ensuring all investors have equal access to information about its investment activities. In line with the Group's commitment to long-term integration of sustainable business practices, investor communications are provided via various electronic methods. A wide range of information including ASX announcements, the annual reporting suite, presentations, corporate governance policies, Board of Directors and Executive team information is available at [www.dexus.com](http://www.dexus.com).

In addition, DEXUS has various communication tools available on its website, including:

### ONLINE ENQUIRY

[www.dexus.com/contact](http://www.dexus.com/contact)  
including an online enquiry form

### INVESTOR LOGIN

[www.dexus.com/dxs](http://www.dexus.com/dxs)  
allowing investors to update their details and choose delivery methods for their communications

### SUBSCRIBE TO ALERTS

[www.dexus.com/media](http://www.dexus.com/media) enables investors to receive ASX and media releases as they are released

**CREATE YOUR PROPERTY REPORT** [www.dexus.com/properties](http://www.dexus.com/properties) enables investors to download individual or Group property information

DEXUS commissions an independent investor perception study twice a year to gather feedback from the institutional investment community. The study involves an independent consultant conducting interviews with institutional investors and sell-side analysts to gauge investor thoughts on a number of attributes and report on the findings. The results help DEXUS's Board and Executive team understand the investment community's perceptions and concerns and assists in the development of DEXUS's communications and enhancing the effectiveness of the Group's Investor Relations efforts.

## Annual General Meeting

On Tuesday, 29 October 2013, DEXUS's Annual General Meeting (AGM) will be held at the DEXUS Head Office, Level 25, Australia Square, 264 George Street, Sydney commencing at 2.00pm. Investors are encouraged to attend the AGM in person and to meet the Board of Directors and the Executive team. The AGM will be webcast at [www.dexus.com](http://www.dexus.com) for investors who are unable to attend in person.

## Distribution payments

DEXUS's payout policy is to distribute between 70%–80% of Funds From Operations (FFO), in line with free cash flow, with the expectation that the average payout ratio will be 75% of FFO. Distributions are paid for the six month period to 31 December and 30 June each year. Distribution statements are available in print and electronic formats and distributions are paid via direct credit into nominated bank accounts or by cheque. To change the method of receiving distributions, please use the investor login facility at [www.dexus.com/dxs](http://www.dexus.com/dxs)

## Unclaimed distribution income

If you believe you have unrepresented cheques or unclaimed distribution income, please contact the DXS Infoline on 1800 819 675. For monies outstanding greater than seven years, please contact the NSW Office of State Revenue on 1300 366 016, use their search facility at [osr.nsw.gov.au](http://osr.nsw.gov.au) or email [unclaimedmoney@osr.nsw.gov.au](mailto:unclaimedmoney@osr.nsw.gov.au).

## Annual taxation statements

An annual taxation statement is sent to investors in August each year. The statement summarises distributions provided during the financial year and includes information required to complete your tax return. Annual taxation statements are also available online at [www.dexus.com/dxs](http://www.dexus.com/dxs) via the investor login facility.

## Making contact

If you have any questions regarding your security holding or wish to update your personal or distribution payment details, please contact the Registry by calling the DXS Infoline on 1800 819 675. This service is available from 8.30am to 5.30pm (Sydney time) on all business days. All correspondence should be addressed to:

DEXUS Property Group  
C/- Link Market Services Limited  
Locked Bag A14  
Sydney South NSW 1234

DEXUS is committed to delivering a high level of service to all investors. Should there be some way you feel that DEXUS could improve its service or you want to make a suggestion or complaint, your feedback is appreciated. DEXUS's contact details are:

Investor Relations  
DEXUS Property Group  
PO Box R1822  
Royal Exchange NSW 1225  
[ir@dexus.com](mailto:ir@dexus.com)

DEXUS Funds Management Limited is a member of Financial Ombudsman Service (FOS), an independent dispute resolution scheme. If you are not satisfied with the resolution of your complaint by DEXUS, you may refer your complaint to FOS.



## Key ASX announcements

<b>20 Aug 13</b>	Technical filing – Commonwealth Property Office Fund
<b>19 Aug 13</b>	Appendix 4E and financial report as at 30 June 2013 2013 annual results release 2013 annual results presentation 2013 portfolio and debt summary
<b>8 Aug 13</b>	Discontinuation of CMIL (CPA) court proceedings
<b>1 Aug 13</b>	Response to ASX announcement made by CMIL
<b>25 Jul 13</b>	Acquisition of investment in CPA Notice of initial substantial holder in CPA
<b>17 Jul 13</b>	Strong leasing activity across industrial portfolio
<b>2 Jul 13</b>	Independent valuations as at 30 June 2013
<b>2 Jul 13</b>	Appendix 3C on-market securities buy-back
<b>17 Jun 13</b>	DXS upgraded distribution for the six months to 30 June 2013
<b>15 May 13</b>	Sale of five European industrial properties
<b>6 May 13</b>	DXS and DWPF acquire strategic investment in Perth
<b>2 May 13</b>	March 2013 quarterly update release March 2013 quarterly update and Sydney office tour
<b>1 May 13</b>	Successful pricing of long-dated US Private Placement
<b>29 Apr 13</b>	Change of registered address
<b>26 Apr 13</b>	DXS and DWPF acquire strategic investment in Brisbane
<b>18 Apr 13</b>	Settlement on sale of remaining US industrial property
<b>15 Apr 13</b>	Appendix 3Y – Darren Steinberg
<b>2 Apr 13</b>	Sale of remaining US industrial property
<b>20 Mar 13</b>	Appendix 3Y – Elizabeth Alexander
<b>28 Feb 13</b>	2013 half year report
<b>28 Feb 13</b>	Settlement of the acquisition of interests in three Sydney office properties
<b>27 Feb 13</b>	Appendix 3Y – Toniianne Dwyer
<b>15 Feb 13</b>	Appendix 3X – Craig Mitchell
<b>14 Feb 13</b>	Settlement of US industrial portfolio sale Appendix 4D and interim reports as at 31 December 2012 2013 half year results release 2013 half year results presentation
<b>12 Feb 13</b>	Craig Mitchell appointed as Executive Director
<b>17 Jan 13</b>	DXS settles on 40 Market Street, Melbourne
<b>21 Dec 12</b>	Acquisition of three Sydney office properties
<b>20 Dec 12</b>	Significant premium achieved on the sale of United States industrial portfolio
<b>20 Dec 12</b>	Market briefing – US industrial portfolio sale
<b>18 Dec 12</b>	December 2012 distribution details
<b>30 Nov 12</b>	DXS settles on 50 Carrington Street, Sydney
<b>29 Nov 12</b>	Updated on US industrial portfolio
<b>27 Nov 12</b>	DXS acquires a Melbourne CBD office property
<b>23 Nov 12</b>	Appendix 3Y – Elizabeth Alexander
<b>21 Nov 12</b>	Executive appointment – Kevin George
<b>5 Nov 12</b>	2012 Annual General Meeting results 2012 Annual General Meeting address and presentation
<b>1 Nov 12</b>	Settlement of 12 Creek Street Brisbane
<b>24 Oct 12</b>	September 2012 quarterly update and Sydney CBD office tour
<b>3 Oct 12</b>	Settlement of JV with the Australian Industrial Partnership
<b>27 Sep 12</b>	2012 Notice of Annual General Meeting 2012 DEXUS Annual Review 2012 DEXUS Combined Financial Statements
<b>26 Sep 12</b>	2012 Annual Reporting Suite 2012 Notice of Annual General Meeting
<b>12 Sep 12</b>	Appendix 3Y (B Brownjohn) Change of Director's Interest Notice
<b>31 Aug 12</b>	Appendix 3Y (R Sheppard) Change of Director's Interest Notice

## 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 238 163

### Directors of the Responsible Entity

Christopher T Beare, Chair

Elizabeth A Alexander, AM

Barry R Brownjohn

John C Conde, AO

Tonianne Dwyer

Stewart F Ewen, OAM

Craig D Mitchell, CFO

W Richard Sheppard

Darren J Steinberg, CEO

Peter B St George

### Secretaries of the Responsible Entity

Tanya L Cox

John C Easy

### Registered office of the Responsible Entity

Level 25, Australia Square

264 George Street

Sydney NSW 2000

PO Box R1822

Royal Exchange

Sydney NSW 1225

Phone: +61 2 9017 1100

Fax: +61 2 9017 1101

Email: [ir@dexus.com](mailto:ir@dexus.com)

[www.dexus.com](http://www.dexus.com)

### Auditors

#### **PricewaterhouseCoopers**

Chartered Accountants

201 Sussex Street

Sydney NSW 2000

### Investor enquiries

Registry Infoline: 1800 819 675

Investor Relations: +61 2 9017 1330

Email: [ir@dexus.com](mailto:ir@dexus.com)

[www.dexus.com](http://www.dexus.com)

### Security registry

#### **Link Market Services Limited**

Level 12, 680 George Street

Sydney NSW 2000

Locked Bag A14

Sydney South NSW 1235

Registry Infoline: 1800 819 675

Fax: +61 2 9287 0303

Email: [registrars@linkmarketservices.com.au](mailto:registrars@linkmarketservices.com.au)

[www.linkmarketservices.com.au](http://www.linkmarketservices.com.au)

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

For enquiries regarding your holding you can contact the security registry, or access your holding details at [www.dexus.com](http://www.dexus.com) using the Investor login link.

### Australian Securities Exchange

ASX Code: DXS

### IR App

Download the DEXUS IR App to your preferred mobile device to gain instant access to the latest DXS stock price, ASX announcements, presentations, reports, webcasts and more.





Property expertise.  
Institutional rigour.  
Entrepreneurial spirit.