

2014 ANNUAL REPORT

DEXUS



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2014 Annual Reporting suite



DEXUS Property Group presents its 2014 Annual Reporting Suite and supporting material for the year ended 30 June 2014:

1. The 2014 DEXUS Annual Report – provides DEXUS's Consolidated Financial Statements, Corporate Governance Statement and Board of Directors information. This document should be read in conjunction with the 2014 DEXUS Annual Review.
2. This 2014 DEXUS Annual Review – an integrated report summarising financial, operational and Corporate Responsibility and Sustainability (CR&S) performance.
3. The 2014 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 2014 DEXUS Annual Report and Annual Review.
4. The 2014 DEXUS Performance Pack – provides the data and detailed information supporting the results outlined in the 2014 DEXUS Annual Review available in the online Annual Reporting Suite.

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 the website at www.dexus.com/crs

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

The online Annual Reporting Suite is available at www.dexus.com

Report scope

The Annual Review covers financial performance at all locations. Environmental data only includes properties under the Group's operational control as defined under the National Greenhouse and Energy Reporting System (NGER Act). All resource performance figures in this report display consumption and GHG emissions on an intensity (per square metre) basis. Absolute consumption and additional information is provided in the Performance Pack available from the online reporting suite at www.dexus.com

Independent assurance

In addition to auditing DEXUS's Financial Statements, PricewaterhouseCoopers (PwC) has provided limited assurance over select data from Australia and New Zealand within the integrated online reporting suite. This covers the 12 months to 30 June 2014 in accordance with reporting criteria (www.dexus.com/crs). The assurance statement, the GRI verification report and associated reporting criteria documents will be available from the online reporting suite in early September 2014.

LETTER FROM THE CHAIR

2014 was a year in which the Group worked towards cementing its position as the leader in Australian office and the wholesale partner of choice. In office we completed the takeover of Commonwealth Property Office Fund and achieved significant leasing success and portfolio rebalancing in a challenging environment. We teamed with new partners Canada Pension Plan Investment Board and the Future Fund in two significant new partnerships. Our capital management is stronger than ever. All of this was achieved through our property expertise, institutional rigour and entrepreneurial spirit.

A year of adding value and delivering performance

2014 was a successful year for DEXUS Property Group. The Group maintained positive momentum across all parts of the business and delivered a solid operational result. Driven by strategic investment decisions and an active and disciplined approach to capital management, DEXUS delivered a 7.6% increase in FFO per security on the prior year to 8.34 cents.

DEXUS continued to achieve results across its property portfolio. The team worked even closer with its customers to drive leasing during the year. New initiatives were implemented to strengthen relationships and improve the customer experience throughout the tenant lifecycle.

Commonwealth Property Office Fund (CPA) transaction

The most significant achievement this year was the successful takeover of CPA which was a transformational transaction for the Group. The team's agility in execution and rigorous approach commenced with the acquisition of a 14.9% interest in CPA in July 2013.

The completion of the CPA transaction in April 2014 increased the scale and quality of the Group's office portfolio and introduced a new capital partner, Canada Pension Plan Investment Board (CPPIB), enhancing our diversity of equity sources.

The expertise of our people was demonstrated through their agility in execution, countering a competing proposal from another party and undertaking a thorough due diligence process which gave DEXUS an understanding of how to extract value from the portfolio and subsequently resulted in CPA investor support. The integration has been managed smoothly and professionally with no surprises.

Economic conditions provide opportunities and challenges

The flow of offshore and local capital seeking quality Australian office and industrial buildings maintained its momentum during the year, providing opportunities for DEXUS to secure two new capital partners with CPPIB and the Future Fund.

While supply tightened in core investment markets, our people were able to identify and execute a number of off-market transactions which enhanced the quality and diversity of our portfolio and satisfied the objectives of our capital partners.

Tenant demand across office and industrial markets remained tempered in 2014. Despite this, a number of indicators in the domestic economy appear to be having a positive impact on business decision making.

Our team generated activity resulting in an increase in office leasing enquiry and achieving solid forward leasing results. The prolonged economic downturn has been challenging for some of our tenants, however we have seen a number of large Australian corporates make decisions relating to their office space requirements and enter into new leases. Our team's deep market relationships and The Group's quality portfolio have ensured a number of high calibre tenants have been retained or secured. Further information on DEXUS's operational performance is available in the 2014 Annual Review at www.dexus.com

Commitment to excellence in corporate governance

The Board aspires to the highest standards of corporate governance and has embedded a set of well-defined policies and processes to enhance corporate performance and protect the interests of key stakeholders. The Board views corporate governance as the foundation for the long term success of the Group and the achievement of our strategy is underpinned by a strong governance platform.

Supporting the launch of the Australian Securities Exchange (ASX) Corporate Governance Principles and Recommendations (Third edition) in March 2014, we made a number of enhancements to our corporate governance approach in advance of the implementation of the guidelines in FY15, including:

- Reinforcing the Group's values and continuing our focus on inclusion and diversity at all levels
- Reviewing the Board Committee structure to provide stronger governance, more guidance to management and a better alignment with strategy
- Reviewing and improving our Non-Executive Director induction program

LETTER FROM THE CHAIR

Along with the Board Committee restructure, we reviewed membership of the committees to ensure that the skills and experience that each of our independent directors bring to the Board are best utilised. Details relating to the new DEXUS Board Committee structure are included in the Corporate Governance Statement on pages 6–18 in this report .

Our 2014 Remuneration Report details management's achievements against key performance indicators over the past year and how this aligns with investor returns. The full remuneration report starts on page 21 in this report.

Annual General Meeting

In October 2013 we held our Annual General Meeting (AGM) in a new format to enhance engagement with investors. The revised format allowed us to cover the formal aspects relating to the resolutions and provided investors the opportunity to discuss any aspect of the business in an informal setting with Directors and members of the Group Management Committee. Post the AGM, investors were given the opportunity to tour our new head office workspace which spans levels 25 and 26 of Australia Square.

Changes to the Board of Directors

Two of our long standing Non-Executive Directors, Stewart Ewen and Barry Brownjohn, retired from the Board at the Group's AGM on 29 October 2013. Stewart Ewen had been a member of the Board since 4 August 2004 and Barry Brownjohn joined the Board on 1 January 2005. Both had significant influence on the evolution of the Group and made considerable contributions to the Board and its committees over the years. I would like to acknowledge and thank Stewart and Barry for their dedication.

As part of our continuing Board renewal process we welcomed Penny Bingham-Hall to the Board on 10 June 2014. Ms Bingham-Hall is an experienced Director and brings to the Board more diversity of thinking from her background in the construction and infrastructure sectors. I am confident that Penny will make a strong contribution to the Board.

At the date of this report, the Board comprised nine Directors, seven of whom are independent.

Corporate responsibility

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

A key focus for the year was further developing our people and enhancing our culture, driven through the relaunch of the Group's values, the investment in leadership programs and the establishment of the Corporate Responsibility, Inclusion and Diversity Committee. Further details relating to the progress in this area can be found in the People and Culture section in the 2014 Annual Review at www.dexus.com

This year we continued to build upon the significant successes that we have achieved in environmental sustainability and, as a result, we have been recognised as a performance leader in global sustainability indices. Outlined in an integrated way throughout the 2014 Annual Review, are our CR&S achievements which include, among others, maintaining the efficiency of the office portfolio and leveraging efficiency upgrades to generate revenue from the sale of Energy Savings Certificates.

Progress on diversity

As an active employer in the real estate sector, we are committed to diversity in our workforce and developing and maintaining an inclusive and collaborative culture. Through our values, policies and behaviours, we believe diversity enables our people to make better informed decisions.

Our diversity commitment includes establishing measurable diversity objectives, and in 2011 we set a gender target of 33% female participation by the Non-Executive Directors and senior management by 2015. At 30 June 2014, I am pleased to report we are at 43% and 26% respectively.

Further information relating to DEXUS Property Group's financial, operational and CR&S performance is available in the 2014 Annual Review at www.dexus.com

2015 priorities

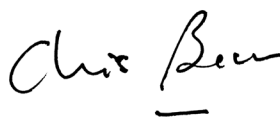
DEXUS Property Group enters 2015 with significant achievements in delivering against its strategy, placing us in a position to deliver strong performance over the long term for our security holders and third party capital partners.

Our main goals for 2015 are concentrated on using our capabilities to deliver value through three drivers:

- Maximising performance in the DEXUS property portfolio
- Driving performance and generating revenue from funds management and property services
- Delivering trading profits from identified opportunities

On behalf of the Board, I thank DEXUS CEO, Darren Steinberg, the Group Management Committee and our people for delivering a strong performance over the year. I am confident that the strength of our people will continue to deliver results in 2015 and beyond.

I also thank all DEXUS security holders for taking the journey with us throughout the CPA transaction and I appreciate their continued support.



Christopher T Beare

Chair

13 August 2014

FIVE YEAR FINANCIAL SUMMARY

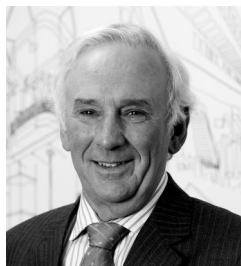
	2010 \$m	2011 \$m	2012 \$m	2013 \$m	2014 \$m
Consolidated Statement of Comprehensive Income					
Profit and loss					
Property revenue	663.1	629.1	535.7	546.6	572.3
Management fees	51.6	50.6	50.3	48.5	58.0
Proceeds from sale of inventory	–	3.3	49.8	24.4	69.3
Property revaluations	–	148.4	43.0	185.9	145.7
Reversal of previous impairment	13.3	–	–	20.5	7.3
Contribution from equity accounted investments	(26.2)	34.1	13.8	37.9	58.3
Net fair value gain of interest bearing liabilities	–	–	–	–	12.3
Other income	10.1	5.5	1.7	1.2	0.2
Total income	711.9	871.0	694.3	865.0	923.4
Property expenses	(169.8)	(151.9)	(133.5)	(134.9)	(141.4)
Cost of sale of inventory	–	(3.4)	(44.0)	(22.9)	(65.3)
Finance costs	(190.7)	(52.7)	(118.0)	(98.6)	(190.0)
Net gain/(loss) on sale of investment properties	(53.3)	7.1	–	(3.7)	(7.7)
Property devaluations and impairments	(209.4)	–	(14.9)	(2.2)	–
Other expenses	(87.1)	(93.7)	(76.4)	(79.5)	(100.7)
Total expenses	(710.3)	(294.6)	(386.8)	(341.8)	(505.1)
Profit before tax	1.6	576.4	307.5	523.2	418.3
Income and withholding tax benefit/(expense)	30.0	(21.3)	18.9	(1.7)	(12.5)
Profit after tax from continuing operations	31.6	555.1	326.4	521.5	405.8
Profit/(loss) from discontinued operations	–	–	(143.5)	(7.0)	0.8
Net profit	31.6	555.1	182.9	514.5	406.6
Other non-controlling interests (including RENTS)	(0.2)	(2.1)	(1.8)	–	–
Net profit to stapled security holders	31.4	553.0	181.1	514.5	406.6
Funds from operations (cents per security)	7.30	7.40	7.65	7.75	8.34
Distributions (cents per security) ¹	5.10	5.18	5.35	6.00	6.26
Consolidated Statement of Financial Position					
Cash and receivables	89.4	109.9	90.0	54.7	125.7
Property assets ²	7,306.6	7,487.1	6,922.7	7,258.4	9,129.4
Other (including derivative financial instruments and intangibles)	475.0	390.7	351.4	439.5	495.8
Total assets	7,871.0	7,987.7	7,364.1	7,752.6	9,750.9
Payables and provisions	281.2	274.3	277.0	275.8	314.5
Interest bearing liabilities	2,240.1	2,215.1	1,940.8	2,167.1	2,931.6
Other (including financial instruments)	343.3	191.4	139.0	118.0	451.5
Total liabilities	2,864.6	2,680.8	2,356.8	2,560.9	3,697.6
Net assets	5,006.4	5,306.9	5,007.3	5,191.7	6,053.3
Minority interest	205.2	204.0	–	–	–
Net assets (after non-controlling interest)	4,801.2	5,102.9	5,007.3	5,191.7	6,053.3
NTA per security (\$)	0.95	1.01	1.00	1.05	1.06
Gearing ratio ³ (%)	29.8	28.4	27.2	29.0	33.7
Consolidated Statement of Changes in Equity					
Total equity at the beginning of the year	5,146.2	5,006.4	5,306.9	5,007.3	5,191.7
Net profit	31.6	555.1	182.9	514.5	406.6
Other comprehensive income/(loss)	(7.0)	(4.9)	41.8	29.7	(4.8)
Issue of additional equity, net of transaction costs	90.3	14.6	–	–	850.4
Buy back of contributed equity, net of transaction costs	–	–	(51.0)	(77.5)	(75.3)
Acquisition of non-controlling interest	–	–	(204.0)	–	–
Distributions provided for or paid	(244.4)	(250.7)	(257.4)	(282.1)	(315.4)
Other transactions with equity holders	–	–	0.1	(0.2)	0.1
Other non-controlling interest movements during the year	(10.3)	(13.6)	(12.0)	–	–
Total equity at the end of the year	5,006.4	5,306.9	5,007.3	5,191.7	6,053.3
Consolidated Statement of Cash Flows					
Net cash inflow from operating activities	340.2	239.3	348.4	193.5	418.3
Net cash inflow/(outflow) from investing activities	90.6	(227.0)	659.6	(84.9)	(1,100.5)
Net cash inflow/(outflow) from financing activities	(444.4)	4.9	(1,019.9)	(155.6)	681.2
Net increase/(decrease) in cash and cash equivalents	(13.6)	17.2	(11.9)	(47.0)	(1.0)
Cash and cash equivalents at the beginning of the year	84.8	64.4	73.7	59.2	14.9
Effects of exchange rate changes on cash and cash equivalents	(6.8)	(7.9)	(2.6)	2.7	0.2
Cash and cash equivalents at the end of the year	64.4	73.7	59.2	14.9	14.1

1. 75.1% of FFO in FY14.

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

3. Includes cash and on a look-through basis.

BOARD OF DIRECTORS



Chris Beare Chair and Non-Executive Director

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

Chris Beare is both the Chair and a Non-Executive Director of DEXUS Funds Management Limited. He is also a member of the Board Nomination, Remuneration & Governance, Board Finance and Board Audit, Risk & Sustainability Committees.

Chris is also the Chair of Flexigroup Limited, an ASX listed company.

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 Non-Executive Director

BComm, FCA, FAICD, FCPA

Elizabeth Alexander is a Non-Executive Director of DEXUS Funds Management Limited, Chair of DEXUS Wholesale Property Limited and a member of the Board Audit, Risk and 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, Deputy Chairman of the Financial Reporting Council and a member of the Takeover Panel. Elizabeth was previously Chair of CSL and Director of Amcor and Boral.



Penny Bingham-Hall Non-Executive Director

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

Penny Bingham-Hall is a Non-Executive Director of DEXUS Funds Management Limited.

Penny has broad industry experience having spent more than 20 years in a variety of senior management roles with Leighton Holdings Limited including Executive General Manager Strategy, responsible for the Group's overall business strategy and Executive General Manager Corporate, responsible for business planning, corporate affairs including investor relations and governance systems.

Penny is a Non-Executive Director of BlueScope Steel Limited, Port Authority of NSW, SCEGGS Darlinghurst Limited and Taronga Conservation Society Australia.

Penny recently retired as a director of Australia Postal Corporation. She also served as the inaugural Chair of Advocacy Services Australia Limited (a not-for-profit organisation promoting the interests of the Australian tourism, transport, infrastructure and related industries) from 2008 to 2011, and is a former Director of The Global Foundation (a member-based organisation promoting high-level thinking within Australia and cooperation between Australia and the world).



John C Conde AO Non-Executive Director

BSc, BE (Hons), MBA

John Conde is a Non-Executive Director of DEXUS Funds Management Limited and 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 and Deputy Chairman of Whitehaven Coal Limited. John is President of the Commonwealth Remuneration Tribunal and Chairman 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) and Destination NSW, 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 Non-Executive Director

BJuris (Hons), LLB (Hons)

Tonia Dwyer is a Non-Executive Director of DEXUS Funds Management Limited and DEXUS Wholesale Property Limited, and a member of the Board Compliance and Board Nomination, Remuneration & Governance Committees.

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. She is currently a Director of Cardno Limited, Metcash Limited and Queensland Treasury Corporation. Tonia is also a member of the Senate of the University of Queensland.

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 Societe Generale 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.



Craig D Mitchell Executive Director Finance and Chief Operating Officer

BComm, MBA (Exec), FCPA, HBS (AMP)

Craig Mitchell is Executive Director Finance and Chief Operating Officer (COO) of DEXUS Property Group and an Executive Director of DEXUS Funds Management Limited.

Craig is responsible for operational and strategic finance, accounting, tax, treasury and IT is responsible for third party funds management and DEXUS's 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 previously held positions with Stockland Group and 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 University, Boston.



Richard Sheppard Non-Executive Director

BEc Hons

Richard Sheppard is a Non-Executive Director of DEXUS Funds Management Limited, the Chair of the Board Audit, Risk & Sustainability Committee and a member of the Board Finance Committee.

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, Chairman of Green State Power Pty Ltd 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, Macquarie Group Foundation and Eraring Energy.



Peter St George Non-Executive Director

CA(SA), MBA

Peter St George is a Non-Executive 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 and London 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 Boart Longyear, Spark Infrastructure Group, its related companies and SFE Corporation Limited.



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 over 25 years experience in the property and funds management industry with an extensive background in office, industrial and retail property investment and development. Darren has a Bachelor of Economics from the University of Western Australia.

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.

CORPORATE GOVERNANCE STATEMENT

ASX Corporate Governance Principles and Recommendations

Principle 1 – Lay solid foundations for management and oversight

Pages 7–8

- 1.1 Companies should establish and disclose the functions reserved for the board and those delegated to senior executives
- 1.2 Companies should disclose the process for evaluating the performance of senior executives

Principle 2 – Structure of the board to add value

Pages 8–12

- 2.1 A majority of the board should be independent directors
- 2.2 The chair should be an independent director
- 2.3 The roles of chair and chief executive officer should not be exercised by the same individual
- 2.4 The board should establish a nomination committee
- 2.5 Companies should disclose the process for evaluating the performance of the board, its committees and individual directors

Principle 3 – Promote ethical and responsible decision making

Pages 12–14

- 3.1 Companies should establish and disclose a code of conduct or a summary of the code
- 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
- 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
- 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

Principle 4 – Safeguard integrity in financial reporting

Pages 14–15

- 4.1 The board should establish an audit committee
- 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
- 4.3 The audit committee should have a formal charter

Principle 5 – Make timely and balanced disclosure

Page 16

- 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

Principle 6 – Respect the rights of shareholders

Pages 16–17

- 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

Principle 7 – Recognise and manage risk

Pages 17–18

- 7.1 Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies
- 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
- 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

Principle 8 – Remunerate fairly and responsibly

Page 18

- 8.1 The board should establish a remuneration committee
- 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
- 8.3 Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives

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

The Board implements a corporate governance framework that applies to all DXFM funds, the DEXUS Wholesale Property Fund, capital partner investments and mandates.

The framework meets the requirements of the ASX Corporate Governance Principles and Recommendations with 2010 Amendments (Second edition), and addresses additional aspects of governance which the Board considers important. Where appropriate, enhancements have been made to the framework to address the requirements outlined in the ASX Corporate Governance Principles and Recommendations (Third Edition).

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.

Further information relating to DEXUS's corporate governance framework, including Board Committee structure, Terms of Reference, key policies and procedures are available at 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 has determined that the governance framework will also meet the highest standards of a publicly listed company. This includes the conduct of the Annual General Meeting, the appointment of Directors by DEXUS security holders and their consideration of its remuneration report.

Board responsibilities

The framework ensures accountability and a balance of authority by defining the respective roles and responsibilities of the Board and executive management (as outlined in the Terms of Reference for the Board and the Group Management Committee). This enables the Board to maintain a focus of strategic guidance while exercising effective oversight.

The Board's responsibilities include:

- Determining strategy, including reviewing and approving DEXUS's business objectives and strategies to achieve them. These objectives inform the setting of performance targets for the Chief Executive Officer and the Group Management Committee members. Performance against these objectives is reviewed 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 significant acquisitions and divestments and major developments
- Ensuring that DEXUS has in place an appropriate Risk Management Framework to support the company's risk policies
- Ensuring that DEXUS's fiduciary and statutory obligations to stakeholders (including third party clients, capital partners and investment mandates) are met

The Board is also directly responsible for appointing and removing the Chief Executive Officer and Company Secretaries, ratifying the appointment of the Executive Director, Finance & Chief Operating Officer and monitoring the performance of the Group Management Committee.

Group Management Committee responsibilities

The Board has appointed a Group Management Committee responsible for achieving DEXUS's goals and objectives, including the prudent financial and risk management of the Group. The Group Management Committee generally meets weekly.

CORPORATE GOVERNANCE STATEMENT

Principle 1 – Lay solid foundations for management and oversight (continued)

Members of the Group Management Committee during 2014 were:

- Chief Executive Officer & Executive Director
- Executive Director Finance & Chief Operating Officer
- Executive General Manager, Investor Relations, Marketing & Communications
- Executive General Manager, Office & Industrial
- Executive General Manager, People & Property Services
- Executive General Manager, Property Services & Chief Operating Officer*
- Executive General Manager, Strategy, Transactions & Research
- General Counsel & Company Secretary

* The Executive General Manager – Property Services & Chief Operating Officer resigned effective 5 June 2014. The functions of this role have been re-allocated across Group Management Committee members.

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 industry issues
- A commitment to its 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 oversee the strategies of DEXUS and make a meaningful contribution to the Board's deliberations.

Size

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

The Board has continued to be refreshed following the retirement of two of its long serving directors, Barry Brownjohn and Stewart Ewen who retired at the 2013 Annual General Meeting (29 October 2013).

During the year, Penny Bingham-Hall was appointed to the Board as a Non-Executive Director. Ms Bingham-Hall has broad industry experience having spent more than 20 years in a variety of senior management roles with Leighton Holdings Limited. Ms Bingham-Hall is a Non-Executive Director of BlueScope Steel Limited, Port Authority of NSW, SCEGGS Darlinghurst Limited and Taronga Conservation Society Australia.

At 30 June 2014, the Board comprised nine members including seven Non-Executive Directors, the Chief Executive Officer and the Executive Director Finance & COO. The DXFM constitution allows for the appointment of up to 10 directors.

The tenure of Non-Executive Directors at 30 June 2014 was:

Name	Independent	0 to 3 years	3 to 6 years	6 to 9 years	9+ years
Chris Beare (Chair)	Yes				9 years & 10 months
Elizabeth Alexander AM	Yes				9 years & 6 months
Penny Bingham-Hall	Yes	1 month			
John Conde AO	Yes		5 years & 2 months		
Tonianne Dwyer	Yes	2 years & 10 months			
Richard Sheppard	Yes	2 years & 6 months			
Peter St George	Yes		5 years & 2 months		

Board independence

Non-Executive Directors must be free of any business or other relationship that could materially interfere with the exercise of their unfettered and independent judgement.

The Board has determined that each Non-Executive Director:

- Is not a substantial security holder of DEXUS, nor otherwise associated with a substantial security holder of DEXUS
- Is not employed, nor within the last three years has been employed, in an executive capacity by DEXUS (there must be a period of at least three years between ceasing such employment and serving on the Board)
- Has not been within the last three years, a principal or an employee of a material professional adviser or a material consultant to DEXUS
- Has not been a material supplier or customer of DEXUS, or otherwise associated with a material supplier or customer
- Has no material contractual relationship with DEXUS (other than as a Director of DEXUS)
- Has not served on the Board for a period which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of DEXUS
- Is free from any interest and any business or other relationship which could, or could reasonably be perceived to, interfere with the Director's ability to act in the best interests of DEXUS, and
- Is free from family ties or cross-directorships that may compromise director independence

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, will stand for election by DEXUS stapled security holders. If a nominated Director fails to receive a majority vote, that Director will cease to be appointed to the Board of DXFM.

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

The Chair is a Non-Executive Director who is responsible for the leadership, efficient organisation and conduct of the Board's functions, and briefing Directors on issues arising relevant to the Board.

The Board determines 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.

Appointment of Directors

The process for selecting and appointing new Directors to the Board can be found at www.dexus.com/corporategovernance

The Induction Program for newly appointed directors is comprehensive and includes familiarisation with specific structures, policies and legal documents including (but not limited to):

- Outline of the Corporate and Committee structure
- Organisational charts providing details of business units
- Terms of reference for the Board and Board Committees
- Minutes of the previous Board and Board Committee meetings
- A copy of the Constitution
- A copy of the business plan
- DEXUS Compliance Management Framework
- DEXUS Risk Management Framework
- Key DEXUS policies including:
 - Directors' Code of Conduct
 - Securities Trading (including inside information)

The newly appointed Non-Executive Director meets with key managers who provide an overview of their areas of responsibility.

Newly appointed Non-Executive Directors are encouraged to attend each of the Board Committee meetings to assist in understanding the DEXUS business model and approach to corporate governance.

CORPORATE GOVERNANCE STATEMENT

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

Background checks of newly appointed Non-Executive Directors are performed including:

- Qualification checks
- Reference checks
- Police and bankruptcy checks
- Checks against ASIC's Banned and Disqualified Persons register
- Checks against the Department of Foreign Affairs & Trade Consolidated List

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 maximise participation, video conferencing facilities are utilised as required.

Directors are expected to attend at least 75% of scheduled meetings a year. For the year to 30 June 2014, there was 100% attendance of Non-Executive Directors 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 Non-Executive Directors to meet without management present. Senior management is available to provide clarification or answer questions Non-Executive Directors may have prior to the Board meeting and attend appropriate parts of Board meeting discussions.

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

- Acquisition of the Commonwealth Property Office Fund and formation of a new capital partnership to effect the acquisition
- Equity buy back
- Continued oversight of capital management
- Remuneration policies
- Re-launching of "DEXUS Values"
- Acquisition and disposal of office properties
- Formation of a new capital partnership to develop Quarrywest Industrial Estate

Membership on other Boards

Directors acknowledge that concurrent service on multiple boards may impact overall performance and their ability to devote adequate time to each board/position. The Board recognises that the time required to fulfil each directorship role varies. The Board has determined that a limit on the total number of directorships held is not appropriate.

Directors will consider the number of directorships they hold to ensure they have sufficient time to attend to the affairs of DEXUS Property Group. Should a Director wish to accept directorships in addition to those already held, the matter is referred to the Chair of the Board for approval.

Access to training and information

Directors receive regular presentations by management and external advisers regarding sector, fund, and industry specific trends.

Non-Executive Directors also attend property tours and are encouraged to pursue professional development opportunities at the Group's expense.

Non-Executive Directors are encouraged to:

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

Performance

The Board Nomination, Remuneration & Governance Committee oversees a three-year Board performance evaluation cycle in which Board and Board 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.

The process for Board performance evaluation can be found at www.dexus.com/corporategovernance

Board support

During 2014, the Board was assisted by a number of Board Committees 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.

The Terms of Reference for the DEXUS Board and the Board Committees are reviewed at least annually and can be found at www.dexus.com/corporategovernance

Non-Executive 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
Board Committees	
Nomination, Remuneration & Governance Committee Audit, Risk & Sustainability Committee Finance Committee Compliance Committee	Oversight and Board support
Management Committees	
Group Management Committee Capital Markets Committee Compliance, Risk, Ethics & Sustainability Committee Continuous Disclosure Committee Corporate Responsibility, Inclusion & Diversity Committee Investment Committee Project Prioritisation Committee	Review and support function

CORPORATE GOVERNANCE STATEMENT

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

New Committee Structure

During 2014, DEXUS undertook a detailed review of its Board Committee structure. The project involved analysis of the current structure against the ASX Corporate Governance Principles & Recommendations (Third Edition) and deemed best practice. The result of the review will be to implement a streamlined Board Committee structure from 1 September 2014 with the following Committees established to assist the Board in its responsibilities:

- Audit Committee
- Risk Committee
- People & Remuneration Committee
- Nomination Committee

Key changes to the previous Board Committee structure are:

- Separating audit and risk into two distinct committees with different Chairs but some common members
- Allocating the responsibilities of the former Board Finance Committee to the new Risk Committee (in part) and to the full Board (in part)
- Distributing the responsibilities of the former Board Compliance Committee to the new Risk Committee (in part), to the full Board (in part) and to the management Compliance, Risk, Ethics & Sustainability Committee
- Making “governance” a full Board responsibility
- Better alignment between the Board and its Committees and the Group Management Committee

Principle 3 – Promote ethical and responsible decision making

Codes of Conduct

To meet statutory and fiduciary obligations (including those relating to the management of third party funds) 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 established an Employee Code of Conduct and a Directors' Code of Conduct. DEXUS's Anti-Bribery policy also addresses the acceptance and granting of gifts and benefits and reinforces the Group's commitment not to donate to political parties
- The Group strongly supports the identification and 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 on an annual basis compliance with key DEXUS policies. In 2014, employees were asked to confirm ongoing compliance with policies addressing:

- Code of Conduct
- Compliance Incidents
- Social Media
- Conflicts of Interest and
- Securities Trading (including inside information)

DEXUS Board and Corporate Policies are available at www.dexus.com/corporategovernance

Insider trading and trading in DEXUS securities

The Group's Securities Trading (including inside information) 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 Non-Executive 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.

Non-Executive Directors and employees are permitted to trade DEXUS securities only in defined trading windows, following the appropriate approvals.

In the event that the Chair, Chief Executive Officer or General Counsel 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 during defined trading windows.

The Securities Trading Policy is available at www.dexus.com/corporategovernance

The Board has determined that a minimum holding of 50,000 securities should be acquired by each Non-Executive Director by 30 June 2015. Newly appointed Non-Executive Directors are required to purchase 50,000 securities within three years of their appointment.

At 30 June 2014, Non-Executive Directors' holdings in DEXUS were as follows:

Name	Securities
Chris Beare	100,000
Elizabeth Alexander	100,000
Penny Bingham-Hall ¹	0
John Conde	100,000
Tonianne Dwyer	100,000
Peter St George	104,000
Richard Sheppard	420,537

¹ Penny Bingham-Hall was appointed to the Board on 10 June 2014

Darren Steinberg (Executive Director) has been awarded the following:

2013	453,417 Performance Rights granted under the Transitional Plan
2014	414,771 Performance Rights granted under the STI Rights Plan (reducing to 207,385 Performance Rights post vesting on 1 July 2014)
	1,128,176 Performance Rights granted under the LTI Rights Plan

On 1 July 2014, Darren Steinberg was issued with 218,774 securities which comprised of:

- 207,386 securities (vesting of 207,386 Performance Rights being 50% of the Performance Rights granted under the 2013 STI Rights Plan) and
- 11,388 securities (being securities with a value equal to the distributions paid on 207,386 securities during the life of the vested Performance Rights)

Craig Mitchell (Executive Director) has been awarded the following:

2013	539,782 Performance Rights granted under the Transitional Plan
2014	177,759 Performance Rights granted under the STI Rights Plan (reducing to 88,879 Performance Rights post vesting on 1 July 2014)
	355,518 Performance Rights granted under the LTI Rights Plan

On 1 July 2014, Craig Mitchell was issued with 93,760 securities which comprised of:

- 88,880 securities (vesting of 88,880 Performance Rights being 50% of the Performance Rights granted under the 2013 STI Rights Plan) and
- 4,880 securities (being securities with a value equal to the distributions paid on 88,880 securities during the life of the vested Performance Rights)

Conflicts of interest and related party dealings

The Group's Conflict of Interest 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 DEXUS client (including DXS)
- 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 business representatives 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 2014, 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.

CORPORATE GOVERNANCE STATEMENT

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

With the acquisition of CPA properties in partnership with Canada Pension Plan Investment Board (CPPIB), several leasing conflicts were identified where prospective tenants showed interest in leasing premises held by DEXUS as well as Australian Office Partnership assets. The conflicts were identified, recorded and managed in accordance with DEXUS policies.

During 2014, the Compliance team facilitated Conflicts of Interest training of DEXUS representatives. Successful completion of all compliance training is compulsory.

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.

During 2014, DEXUS established a Corporate Responsibility, Diversity & Inclusion Committee, chaired by the Chief Executive Officer, to promote and encourage a work environment where diversity is understood and valued.

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.

The DEXUS gender diversity target by 30 June 2015 is that 33% of Non-Executive Directors be women and 33% of senior management roles be held by women.

As at 30 June 2014, DEXUS's workforce profile places women at 48% of total employees and 26% of senior managers. Three of the seven Non-Executive Directors (43%) are women (ahead of the 30 June 2015 target date).

DEXUS's Diversity Principles and Diversity Target are available at www.dexus.com/corporategovernance

Principle 4 – Safeguard integrity in financial reporting

Board Audit, Risk & Sustainability Committee (for the year ended 30 June 2014)

To ensure the accurate 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 Non-Executive Directors with financial expertise and an understanding of the industry in which DEXUS 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, but not less than four times a year, and the external auditor is invited to attend all meetings.

For the 12 months ending 30 June 2014, the members of the Committee were:

- Barry Brownjohn, Chair, Non-Executive Director (resigned on 29 October 2013)
- Elizabeth Alexander AM, Non-Executive Director
- Richard Sheppard, Non-Executive Director (appointed Chair on 29 October 2013)
- Chris Beare, Non-Executive Director (appointed on 29 October 2013)

The following reports are provided to the Committee:

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

PricewaterhouseCoopers (PwC) continues to be appointed 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 2014, fees paid to the external auditor for non-audit services were 36.5% of audit fees (12.3% at 30 June 2013).

PwC was engaged during the period to provide transaction and advisory services throughout the acquisition of the Commonwealth Property Office Fund which resulted in an increase in non-audit services fees. PwC was engaged to utilise its knowledge and expertise of DEXUS's structure and accounting policies.

DEXUS's policy on the selection and appointment of the external auditor is available at www.dexus.com/corporategovernance

Board Compliance Committee (for the year ended 30 June 2014)

The *Corporations Act 2001* does not require DXFM to maintain a Board Compliance Committee as more than half its Directors are external Directors.

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 third party client funds.

The Committee comprises members who are familiar with the requirements of Managed Investment Schemes along with appropriate risk and compliance experience. Committee members are encouraged to obtain independent professional advice where necessary in the satisfaction of their duties at the cost of the Group and independent of management.

At 30 June 2014, 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 Non-Executive 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 5 and details for John Easy are on page 20 in this Annual Report.

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 Limited, a Director of HFA Holdings Limited and Chair of its Audit and Risk Committee and a member of its Remuneration and Nomination Committee. He is the independent Chair of a number of Compliance Committees including Aberdeen Asset Management Limited, Schroder Investment Management Australia Limited and Grant Samuel Fund Services Limited. Andy is also an Independent Member of a number of Compliance Committees including Australian Unity Funds Management Ltd, Fidelity International Investment Management Limited and Alliance Bernstein Investment Management Limited.

If identified, 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 informs 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 support the Board Compliance Committee, the Compliance, Risk, Ethics & Sustainability Committee has been 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 by the General Manager, Compliance, Risk & Governance to the Board Compliance Committee.

The Executive Director Finance & COO also provides quarterly certification to the Board Compliance Committee as to the continued adequacy of financial risk management systems.

CORPORATE GOVERNANCE STATEMENT

Principle 5 – Make timely and balanced disclosure

Continuous disclosure

To ensure continuous disclosure obligations are met, DEXUS has the following processes and procedures in place:

- Ongoing education of managers and Directors ensuring all parties clearly understand the ASX Listing Rule obligations and the consequences of a breach
- Efficient reporting channels capturing potential information requiring disclosure and bringing it to the immediate attention of the Chief Executive Officer or the General Counsel
- An effective monitoring system which helps ensure ongoing compliance

DEXUS has established a Continuous Disclosure Committee to assist in the identification and reporting of material matters to the market in the spirit of legislation and regulations.

Committee members comprise:

- General Counsel & Company Secretary (Chair)
- Chief Executive Officer
- Executive Director Finance & COO
- EGM – Investor Relations, Marketing & Communications
- EGM – Strategy, Transactions & Research

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 Committee is comprised of executives based at DEXUS's corporate head office allowing meetings to be held at short notice.

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.

The Chief Executive Officer and/or General Counsel will immediately notify the Chair of the DXFM Board should any material concern arise regarding continuous disclosure. The Chair will then decide whether the issue should be further referred to the full Board or a nominated board Sub-Committee prior to any market release, if considered appropriate, is made.

The Continuous Disclosure Policy is available at www.dexus.com/corporategovernance

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 readily understandable information
- Increase the opportunities for participation
- Facilitate security holders' rights to appoint Non-Executive 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.

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.

The Communications Policy is available at www.dexus.com/corporategovernance

Principle 7 – Recognise and manage risk

Board Audit, Risk & Sustainability Committee (for the year ended 30 June 2014)

The Board Audit, Risk & Sustainability Committee oversees risk management within DEXUS. The Committee oversees the Group's enterprise risk management practices, as well as Work Health & Safety, 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

Members of the Board Audit, Risk & Sustainability Committee during the year to 30 June 2014 were:

- Barry Brownjohn, Chair, Non-Executive Director (resigned on 29 October 2013)
- Elizabeth Alexander AM, Non-Executive Director
- Richard Sheppard, Non-Executive Director (appointed Chair on 29 October 2013)
- Chris Beare, Non-Executive Director (appointed on 29 October 2013)

While most 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 through to the General Counsel on a day-to-day basis, as well as a Compliance, Risk, Ethics & Sustainability Committee that supports the Board Audit, Risk & Sustainability Committee.

The General Manager, Compliance, Risk & Governance has direct access to the Chief Executive Officer and Non-Executive Directors.

Risks to DEXUS arise from both internal and external factors and include:

- Strategic risks
- Market risks
- Health and safety risks
- Operational risks
- Environmental risks
- Financial risks
- Regulatory risks
- Reputational 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.

CORPORATE GOVERNANCE STATEMENT

Principle 7 – Recognise and manage risk (continued)

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.

During 2014, the Compliance, Risk & Governance team focused on fraud risk including the risk of bribery and corruption. Training has been facilitated to assist employees in identifying possible corrupt behaviour and their responsibilities for reporting such incidents.

One focus of the Risk Committee for 2014/15 will be the formalisation of DEXUS's Risk Appetite Statement with a recommendation to the Board for discussion and approval.

Internal audit

The internal audit program has a three year cycle, the results of which are reported quarterly to the Compliance, Risk, Ethics & Sustainability 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 Non-Executive Directors informed about these trends.

Board Finance Committee (for the year ended 30 June 2014)

The Group is subject to 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 2014 were:

- Peter St George, Chair, Non-Executive Director
- Chris Beare, Non-Executive Director
- Richard Sheppard, Non-Executive Director

Principle 8 – Remunerate fairly and responsibly

Board Nomination, Remuneration & Governance Committee (for the year ended 30 June 2014)

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 Non-Executive Directors:

- John Conde AO, Chair, Non-Executive Director
- Chris Beare, Non-Executive Director
- Tonianne Dwyer, Non-Executive Director (appointed on 4 December 2013)
- Stewart Ewen OAM, Non-Executive Director (resigned on 29 October 2013)

The Chief Executive Officer and Executive General Manager, People & Property Services 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, Non-Executive Directors and employees are set out in the Remuneration Report that forms part of the Directors' Report contained in this report commencing on page 20. There are no schemes for retirement benefits (other than compulsory contributions to superannuation) for Non-Executive Directors.

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2014

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 2014. The consolidated Financial Statements represents DDF and its consolidated entities, DEXUS Property 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	Resigned
Christopher T Beare	4 August 2004	
Elizabeth A Alexander, AM	1 January 2005	
Penny Bingham-Hall	10 June 2014	
Barry R Brownjohn	1 January 2005	29 October 2013
John C Conde, AO	29 April 2009	
Tonianne Dwyer	24 August 2011	
Stewart F Ewen, OAM	4 August 2004	29 October 2013
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 2014 are as follows:

John C Easy B Comm LLB FGIA 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 Robinson 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 Governance Institute of Australia.

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

Scott D Mahony B Bus (Acc) MBA (e-commerce) AGIA

Appointed: 1 April 2014

Scott is the General Manager, Compliance, Risk and Governance and is responsible for the development, implementation and oversight of DEXUS's compliance, property & corporate risk management and corporate governance programs.

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

Scott graduated from Charles Sturt University with a Bachelor of Business (Accountancy), a Graduate Diploma in Business Administration and an MBA. He has completed a Graduate Diploma in Applied Corporate Governance through the Governance Institute of Australia, and is a member of both the Risk Management Institution of Australasia and the Governance Institute of Australia.

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2014

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 18 times during the year. Ten Board meetings were main meetings and eight meetings were held to consider specific business.

Directors	Main meetings held	Main meetings attended	Specific meetings held	Specific meetings attended
Christopher T Beare	10	10	8	8
Elizabeth A Alexander, AM	10	10	8	8
Penny Bingham-Hall ¹	–	–	–	–
Barry R Brownjohn ²	5	5	2	2
John C Conde, AO	10	10	8	8
Tonianne Dwyer	10	10	8	8
Stewart F Ewen, OAM ²	5	5	2	2
Craig D Mitchell	10	10	8	7
W Richard Sheppard	10	10	8	8
Darren J Steinberg	10	10	8	8
Peter B St George	10	10	8	8

1. Appointed 10 June 2014.

2. Resigned 29 October 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	3	3	–	–	5	5	8	7
Elizabeth A Alexander, AM	4	4	–	–	–	–	–	–
Penny Bingham-Hall ¹	–	–	–	–	–	–	–	–
Barry R Brownjohn ²	1	1	–	–	–	–	–	–
John C Conde, AO	–	–	–	–	5	5	–	–
Tonianne Dwyer	–	–	4	4	3	3	–	–
Stewart F Ewen, OAM ²	–	–	–	–	1	1	–	–
W Richard Sheppard	4	4	–	–	–	–	8	8
Peter B St George	–	–	–	–	–	–	8	8

1. Appointed 10 June 2014.

2. Resigned 29 October 2013.

3. Remuneration Report

The Remuneration Report has been prepared in accordance with the Corporations Act and relevant accounting standards. While 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.

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.

The Board notes that the senior management team at DEXUS is small and focused. Consequently, an understanding of the individual roles and accountabilities is relevant in making remuneration judgments compared to other organisations in the sector. In some cases, revised job titles reflect the broader accountabilities.

The principal Key Management Personnel (KMP) remuneration-related features for the year ended 30 June 2014 approved by the Board were:

- No fixed remuneration increase for the CEO, Mr Steinberg
- Fixed remuneration of \$775,000 (+\$25,000) for the Executive Director Finance & Chief Operating Officer, Mr Mitchell, applied when he was Chief Financial Officer
- Modest fixed remuneration increases for other Executives, averaging under 2%
- The establishment of new LTI performance conditions and broader Relative TSR and ROE comparator groups ahead of the 2014 LTI grant
- The Board exercising its discretion to award additional STI amounts to key executives in recognition of outstanding performance during the period (including involvement in the CPA transaction). For one KMP, this resulted in an award exceeding the maximum plan amount (Mr Du Vernet: +20%)
- LTI participation for Mr Steinberg increased from 85% to 100% of fixed remuneration and for Mr Mitchell from 50% to 75%, both subject to revised performance conditions and commencing with the 2014 LTI grant
- Non-Executive Directors base fees remained unchanged for the fourth consecutive year

Remuneration-related decisions effective after 1 July 2014 approved by the Board are:

- Fixed remuneration for the CEO of \$1,500,000 (+\$100,000) effective 1 July 2014. This will be the first fixed remuneration increase for Mr Steinberg since his commencement in March 2012 and has been informed by market remuneration data and independent advice
- Fixed Remuneration for the Executive Director Finance & Chief Operating Officer of \$900,000 (+\$125,000) effective 1 July 2014. Mr Mitchell's increase is based on a peer comparison within the property and financial services industries, noting his increased accountabilities following a reduction in the size of the senior executive team
- The Board Chair's base fee of \$375,000 (+\$25,000) effective 1 July 2014, with Board Member's base fees of \$160,000 (+\$10,000). This will be the first increase in Director's fees since 2010
- Subject to security holder approval at the 2014 Annual General Meeting, an increase to the aggregate Director's fee pool from \$1,750,000 to \$2,200,000. The Director's fee pool has remained unchanged since the 2008 Annual General Meeting
- An increase in the number of securities required to be held by each Director from 50,000 to 100,000. Securities are to be purchased on-market with after tax personal funds and are to be acquired within three years of the 2014 Annual General Meeting. Newly appointed Directors will need to acquire the relevant number of securities within three years of their appointment

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

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2014

3. Remuneration Report (continued)

3.1 Key Management Personnel

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

- Non-Executive Directors
- Executive Directors
- 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 2013	KMP 2014
Christopher T Beare	Chair	✓	✓
Elizabeth A Alexander AM	Director	✓	✓
Penny Bingham-Hall	Director	–	Part-year
Barry R Brownjohn	Director	✓	Part-year
John C Conde AO	Director	✓	✓
Tonianne Dwyer	Director	✓	✓
Stewart F Ewen OAM	Director	✓	Part-year
W Richard Sheppard	Director	✓	✓
Peter B St George	Director	✓	✓

Executive Directors

Executive Director	Position	KMP 2013	KMP 2014
Darren J Steinberg	Executive Director & Chief Executive Officer	✓	✓
Craig D Mitchell	Executive Director Finance & Chief Operating Officer	✓	✓

Executive KMP

Executive KMP	Position	KMP 2013	KMP 2014
Kevin L George	Executive General Manager, Office & Industrial	Part-year	✓
Ross G Du Vernet	Executive General Manager, Strategy, Transactions & Research	✓	✓

3.2 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. The primary accountabilities 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 2014 Committee members were:

Non-Executive Director	Title	2013	2014
John C Conde AO	Committee Chair	✓	✓
Christopher T Beare	Committee Member	✓	✓
Stewart F Ewen OAM	Committee Member	✓	Part-year
Tonianne Dwyer	Committee Member	–	Part-year

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 capabilities are further enhanced through the membership of Mr Beare and Ms Dwyer, each of whom has significant management experience in the property and financial services sectors.

During the year, Mr Ewen ceased to be a Committee member following his resignation as a Director of DXFM effective 29 October 2013. He was replaced by Ms Dwyer.

The Committee operates independently from management, and may at its discretion, appoint external advisers 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 \$9,600 for remuneration recommendations made to the Committee and \$25,600 for other advisory services, including the review of documents, attendance at meetings and general advice. 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 KMP.

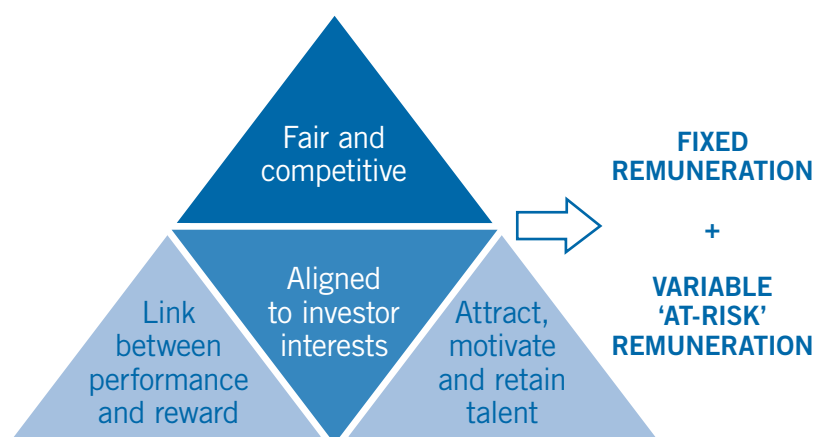
The 2013 Remuneration Report received positive security holder support at the 2013 Annual General Meeting with a vote of 98.6% in favour.

3.3 Executive Remuneration

Context

The Board believes that Executives should be rewarded at levels consistent with the complexity and risks involved in their positions. 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 are:



DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2014

3. Remuneration Report (continued)

3.3 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.

3.4 Remuneration Structure

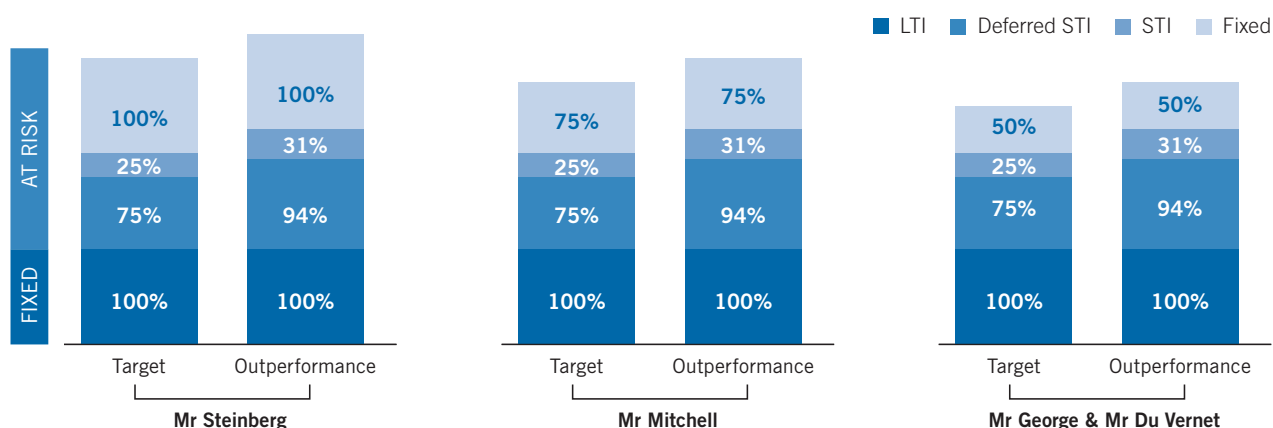
Remuneration mix

The remuneration structure for Executive Directors and Executive KMP (collectively referred to as 'Executives' in this report) comprises fixed remuneration, a short term incentive (STI) and a long term incentive (LTI). The mix between these components varies according to the individual's position and is determined based on the Group's remuneration principles.

The target remuneration mix for Executives during 2014 was:

Executive	Fixed	Target STI	Target Deferred STI	LTI
Darren J Steinberg	34%	25%	8%	33%
Craig D Mitchell	37%	27%	9%	27%
Kevin L George	40%	30%	10%	20%
Ross G Du Vernet	40%	30%	10%	20%

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



STI Plan

Purpose	The STI plan is designed to motivate and reward Executives for their annual contribution to the financial and non-financial performance of the Group.
Participation	At Target, each Executive can earn 100% of fixed remuneration under the STI plan, 25% of which is deferred at further risk, and up to a maximum of 125% of fixed remuneration for Outperformance, 25% of which is deferred in DEXUS securities and is subject to clawback and potential forfeiture.
Performance	<p>The amount each Executive can earn is dependent on how he/she performs against a personalised balanced scorecard of key performance indicators (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 incentive benefit under that category will be zero.</p> <p>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 achieve 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 performance improvement.</p> <p>Aggregate performance below predetermined thresholds would result in no award being made under the STI plan.</p>
Payment	STI payments are made in August, following the sign-off of statutory accounts and announcement of the Group's annual results for the period to which the performance relates.
Deferral	<p>25% of any award under the STI plan is deferred and awarded in the form of performance rights to DEXUS securities.</p> <p>The rights vest ordinarily in two equal tranches, 12 and 24 months after being awarded. However, they are subject to clawback and continued employment, and are based on a deferral period commencing 1 July after the relevant performance period.</p> <p>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.</p>
Distributions	Executives will be entitled to the benefit of distributions paid on the underlying DEXUS securities prior to vesting, through the issue of additional performance rights.
Forfeiture	<p>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.</p> <p>Notwithstanding the above, if an Executive's employment is terminated for reasons such as retirement, redundancy, reorganisation, change in control or other unforeseen circumstances, the Committee may recommend that the Executive should remain in the plan as a 'good leaver', for decision by the Board.</p>
Alignment	<p>The STI plan is aligned to security holder interests in the following ways:</p> <ul style="list-style-type: none"> ▪ As an immediate reward opportunity to attract, motivate and retain talented Executives who can influence the future performance of the Group ▪ Through a 25% mandatory STI deferral for Executives, allowing for future clawback of STI awards as set out in the previous section of this summary table, and also in the event of a material misstatement of the Group's financial position
Oversight	<p>The CEO monitors and assesses performance of Executives as part of the Group's annual performance management cycle. The CEO makes STI recommendations to the Committee, who subsequently make recommendations to the Board for approval.</p> <p>The CEO's own performance is assessed in a similar manner, with the Chair of the Board making recommendations to the Committee for the Board's ultimate approval.</p> <p>The Board retains the right to amend, suspend or cancel the STI plan at any time.</p>

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2014

3. Remuneration Report (continued)

3.4 Remuneration Structure (continued)

LTI Plan

Purpose	The LTI plan is designed to motivate and reward Executives for sustained earnings and security holder returns and is delivered in the form of performance rights to DEXUS securities.
Participation	The CEO receives an LTI grant equal to 100% of his fixed remuneration. The Executive Director Finance & Chief Operating Officer receives an LTI grant equal to 75% of his fixed remuneration and other Executive KMP 50%.
Allocation	Executives receive a grant of performance rights to DEXUS securities which are at risk and subject to performance conditions set by the Board. The number of performance rights granted is based on the Executive's grant value (% 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.
Tranches	Each grant is split into two equal tranches, with a vesting period of three and four years respectively after the grant date.
Performance Conditions	<p>The Board sets the performance conditions for the LTI plan on an annual basis. Consistent with 2013, the four performance conditions for the 2014 LTI plan are:</p> <p>External Performance Conditions (50%)</p> <ul style="list-style-type: none"> ▪ 25% is based on the Group's relative performance against a Total Shareholder Return (Relative TSR) performance hurdle measured against listed peers within the A-REIT sector <p>TSR represents an investor's return, calculated as the percentage difference between the initial amount invested and the final value of DEXUS securities at the end of the relevant period, assuming distributions were reinvested</p> <ul style="list-style-type: none"> ▪ 25% is based on the Group's relative performance against a Return On Equity (Relative ROE) performance hurdle measured against unlisted peers <p>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.</p> <p>Internal Performance Conditions (50%)</p> <ul style="list-style-type: none"> ▪ 25% is based on the Group's performance against a predetermined Funds From Operations (FFO) per security growth hurdle <p>For the purposes of these performance hurdles, FFO is defined as per the definition adopted by the Property Council of Australia</p> <ul style="list-style-type: none"> ▪ 25% is based on the Group's performance against a predetermined Return on Equity (ROE) performance hurdle <p>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.</p>
Vesting	<p>Relative TSR & Relative ROE</p> <p>Vesting under both the Relative TSR and Relative ROE conditions will be on a sliding scale reflecting relative performance against a comparator group of entities.</p> <ul style="list-style-type: none"> ▪ Nil vesting for performance below the median of the comparator group ▪ 50% vesting for performance at the median of the comparator group ▪ Straight line vesting for performance between the 50th and 75th percentile ▪ 100% vesting for performance at or above the 75th percentile <p>The listed and unlisted comparator groups have been reviewed ahead of the 2014 grant. Taking into account feedback from investors and advice from market analysts and remuneration advisors, the comparator groups have been expanded to include all members of the accepted listed and unlisted benchmarks. Specifically:</p> <ul style="list-style-type: none"> ▪ Listed: all members of the S&P/ASX 200's A-REIT Index ▪ Unlisted: all members of the Mercer IPD Core Wholesale Property Fund Index <p>The Board believes this amendment will enhance the operation of the LTI plan by removing any potential sustainability risk or asset class bias that may be inherent in a smaller comparator group. The Board also believes that a broader comparator group aligns to the Group's ambition to be recognised as Australia's leading real estate company and reflects the market in which DEXUS competes for investment capital.</p> <p>The Board reserves the right to review the comparator groups annually, with relative performance monitored by an independent external advisor at 30 June each year.</p>

Vesting (continued)	<p>FFO Growth & ROE</p> <p>Vesting under both the FFO Growth and ROE measures will be on a sliding scale reflecting performance against pre-determined performance conditions set by the Board.</p> <ul style="list-style-type: none"> ▪ Nil vesting for below Target performance ▪ 50% vesting for Target performance ▪ Straight line vesting between Target and Outperformance ▪ 100% vesting for Outperformance <p>Following a review of the Group's strategy and having completed extensive internal forecasting, the Board has set the following internal performance conditions for the 2014 LTI grant:</p> <ul style="list-style-type: none"> ▪ FFO Growth Target of 4%; Outperformance at 6% ▪ ROE Target of 9%; with Outperformance at 10% <p>FFO Growth is the implied compound annual growth rate (CAGR) of the aggregate FFO earnings per security in the three and four year vesting periods. ROE is measured as the per annum average at the conclusion of each vesting period.</p>
Distributions	<p>Executives are not entitled to distributions paid on underlying DEXUS securities prior to performance rights vesting.</p>
Forfeiture	<p>If the pre-determined performance conditions are not met then the performance rights relating to that tranche will be forfeited. There is no re-testing of forfeited rights.</p> <p>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.</p> <p>Notwithstanding the above, if an Executive's employment is terminated for reasons such as retirement, redundancy, reorganisation, change in control or other unforeseen circumstances, the Committee may recommend that the Executive should remain in the plan as a 'good leaver', for decision by the Board.</p>
Alignment	<p>The LTI plan is aligned to security holders interests in the following ways:</p> <ul style="list-style-type: none"> ▪ As a reward to Executive's when the Group's overall performance exceeds specific pre-determined 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 ▪ By aligning the financial interests of Executives to security holders through exposure to DEXUS securities and Group performance ▪ By encouraging and incentivising Executives to make sustainable business decisions within the Board-approved strategy of the Group
Oversight	<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>Executive are prevented from hedging their exposure to unvested DEXUS securities. Trading in DEXUS securities or related products is only permitted with the permission of the CEO.</p> <p>The Group also has Securities Trading (including insider information) policy 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 and held in trust for the Executive pending performance assessment.</p> <p>The Board retains the right to amend, suspend or cancel the LTI plan at any time.</p>

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2014

3. Remuneration Report (continued)

3.5 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:

CEO – Mr Steinberg

	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 in this circumstance.
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', which may result in Mr Steinberg's retaining some or all of his unvested STI and LTI.
Termination by the Group with cause	No notice or severance is payable in this circumstance.
Other contractual provisions and restrictions	Mr Steinberg's Executive Service Agreement includes standard clauses covering intellectual property, confidentiality, moral rights and disclosure obligations.

Executives – Messrs Mitchell, George & 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 in this circumstance.
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', which may result in the Executive retaining some or all of his unvested STI and LTI.
Termination by the Group with cause	No notice or severance is payable in this circumstance.
Other contractual provisions and restrictions	The Executive Service Agreement includes standard clauses covering intellectual property, confidentiality, moral rights and disclosure obligations.

3.6 Performance Pay

Group Performance

FY14 Highlights

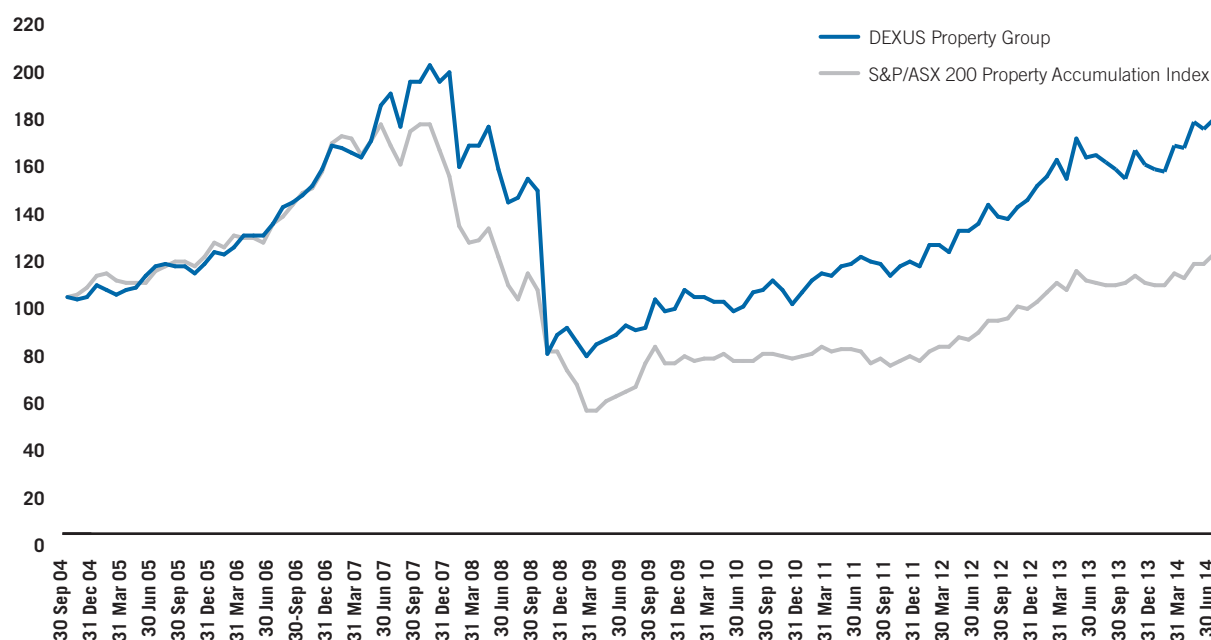
Group	Portfolio	Capital Management	Funds Management	Transactions
Delivered a 7.6% increase in FFO, resulting in a 4.3% increase in distribution per security	Leased 524,597 square metres of space across the Group portfolio	Achieved upgrades to S&P and Moody's credit ratings providing benefits for future funding	Increased third party funds under management by 41% to \$8.7 billion	Successfully completed the \$3.4 billion takeover of CPA ¹
Achieved a 9.9% one-year total security holder return	Achieved 3.1% growth in like-for-like property net operating income across office and industrial portfolios	Secured \$1.7 billion of new funding	Launched new partnerships with a leading global pension fund and a sovereign wealth fund	Involved in \$5.4 billion of transactions across the Group ²

1. Jointly with Canada Pension Plan Investment Board.

2. Including the CPA transaction.

Total Return of DEXUS Securities

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



Total Return Analysis

The table below sets out DEXUS's total security holder return over a one, three and five year time horizon, relative to the S&P/ASX200 Property Accumulation Index:

	1 Year	3 Years	5 years
	(% per annum)	(% per annum)	(% per annum)
Year ended 30 June 2014			
DEXUS (DXS)	9.9%	14.6%	14.8%
S&P/ASX200 Property Accumulation Index	11.1%	15.3%	14.3%
Median – Relative TSR Comparator Group	10.8%	14.5%	16.1%

DEXUS achieved a 14.6% per annum return over a rolling three year basis, underperforming the S&P/ASX200 Property Accumulation Index by 0.7% and equalling the median return for the benchmark peer group.

3.7 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. Each Executive's Balanced Scorecard is agreed based on these indicators.

The Scorecard is divided into five major components – 'Group Financial Performance', 'Business & Portfolio Management', 'Funds Management & Transactions', 'Stakeholder Engagement' and 'People & Culture'. These components are differentially weighted to reflect the influence of each Executive. For each of the components the Executive has objectives and specific initiatives set for that year.

The Scorecards are agreed with the KMP Executive at the beginning of the year, reviewed at the half year and assessed for performance awards at the end of the year.

The table on page 30 which summarises each major category and the difference in weightings applied for each Executive KMP. The final two columns are observations on how the Group performed for the year ended 30 June 2014. The Group Financial Performance is the only component where every Executive scores the same. In the other components each Executive has their own KPIs and the comments in the table are general comments only. There was appreciable variability in the components between Executives.

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2014

3. Remuneration Report (continued)

3.7 Individual Performance Assessment – Balanced Scorecard (continued)

Weightings for each Executive KMP's Balanced Scorecard

Category & Principal KPIs	CEO	EDF & COO	EGM O&I	EGM ST&R	Group Result	Performance Detail
Group Financial Performance Funds From Operation (FFO), Return On Equity (ROE), Development trading profits, like for like property Net Operating Income (NOI) growth	30%	30%	10%	20%	At target	On balance, the Board has determined that Group Financial Performance is at target, due to FFO exceeding targets and market guidance and ROE being primarily impacted by the CPA transaction. This was offset by development trading profits and property NOI growth being lower than target.
Business & Portfolio Management Rent at risk, deliver divisional business plans, debt duration, operating costs, development delivery, leasing transactions	10%	25%	55%	25%	At target	Strong capital management and corporate disciplines have underpinned sound performance across property portfolios. Highlights were increased debt duration, credit upgrades and continued operational delivery in light of the CPA transaction and challenging market conditions.
Funds Management & Transactions Funds investment performance, Funds Under Management (FUM) growth, strategy development, transactions effectiveness	35%	25%	10%	45%	Outperformance	Unlisted funds growth through new and existing partners and fund investment performance exceeding expectations and continuing to outperform benchmarks. CPA strategy development and execution was outstanding.
Stakeholder Engagement Investor engagement and feedback, media and community profile, sustainability, tenant relationships, internal and external service standards	15%	10%	15%	–	Above target	Improved investor feedback has been noted by the Board, with senior Executives engaging positively with investors and new capital partners, while developing existing relationships. Community profile, sustainability focus and tenant survey results are also positive.
People & Culture Leadership effectiveness, employee engagement and culture, talent attraction and retention, succession planning, employee development	10%	10%	10%	10%	Above target	High employee engagement levels and the development of people programs to sustain a high performance oriented culture were noted by the Board. Improvements in recruitment and succession processes, limited turnover and positive attraction of new talent.

STI Awards

Application of the KPIs against the Balanced Scorecards resulted in no Executive achieving the maximum possible STI. However, in recognition of the outstanding performance of Messrs Steinberg, Mitchell and Du Vernet during the period, and in particular for their effort in completing the \$3.4 billion CPA transaction, the Board used its discretion to increase the STI amount awarded to these Executives. The following table summarises the final awards made to each Executive KMP with respect to their performance during the year ended 30 June 2014.

Executive	STI Award (\$)	% of Maximum Possible STI Earned	% of Maximum STI Forfeited	% of STI to be Deferred
Darren J Steinberg	1,750,000	100%	0%	25%
Craig D Mitchell	970,000	100%	0%	25%
Kevin L George	450,000	58%	42%	25%
Ross G Du Vernet	750,000	120%	0%	25%

The effect of the additional STI amounts meant that in the case of Messrs Steinberg and Mitchell, they were awarded 100% of maximum STI under the plan, and in the case of Mr Du Vernet he was awarded an additional 20% over and above the maximum STI under the plan. The Board used its discretion to exceed the plan rules in this instance in recognition of his outstanding contribution to several successful transactions negotiated by the Group during the 2014 financial year.

The Board recommends that security holders support these outcomes as being an appropriate reflection of the success of Messrs Steinberg, Mitchell and Du Vernet leading the development and delivery of the CPA transaction, while ensuring underlying business operations and performance were maintained at a high level.

The Board notes that, in exercising its discretion with respect to these additional STI awards for Executive KMP in the year ended 30 June 2014, 25% of the total STI award is deferred into performance rights to DEXUS securities, and the Board notes also that the full impact on Executive KMP remuneration for the success of the transaction will flow through their participation in the Group's long term incentive program, which is totally aligned to the interests of security holders.

Deferred STI Grants

25% of the value of the STI awarded to each Executive will be deferred as Performance Rights to DEXUS securities, subject to service and clawback conditions, and vesting in two equal tranches after 12 and 24 months.

The table below shows the number of Performance Rights to be granted to Executives under the 2014 Deferred STI 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	386,143	1 July 2015	1 July 2016
Craig D Mitchell	214,034	1 July 2015	1 July 2016
Kevin L George	99,294	1 July 2015	1 July 2016
Ross G Du Vernet	165,490	1 July 2015	1 July 2016

The number of Performance Rights granted to each Executive is based on 25% of the dollar value of STI approved by the Board in its discretion and with reference to the remuneration framework, divided by the Volume Weighted Average Price (VWAP) of DEXUS securities 10 trading days either side of 1 July 2014, which was confirmed as \$1.1330.

DEXUS securities relating to Deferred STI grants are purchased on-market in accordance with ASX Listing Rule 10.15B and are held by the DEXUS Performance Rights Plan Trust until the scheduled vesting date.

LTI Grants

The table below shows the number of Performance Rights to be granted to Executives under the 2014 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	1,235,658	1 July 2017	1 July 2018
Craig D Mitchell	513,019	1 July 2017	1 July 2018
Kevin L George	275,816	1 July 2017	1 July 2018
Ross G Du Vernet	220,653	1 July 2017	1 July 2018

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 DEXUS securities 10 trading days either side of 1 July 2014, which was confirmed as \$1.1330.

DXS securities relating to LTI grants are purchased on-market in accordance with ASX Listing Rule 10.15B and are held by the DEXUS Performance Rights Plan Trust until the scheduled vesting date.

DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2014

3. Remuneration Report (continued)

3.8 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 2014. The STI and DDPP cash payments were received for performance in the 2013 and 2010 financial years respectively.

Executive	Cash Salary \$	Pension & Super Benefits ¹ \$	Other Short Term Benefits ² \$	Earned in Prior Financial Year		Total \$
				STI Cash Payment ³ \$	DDPP Cash Payment ⁴ \$	
Darren J Steinberg	1,382,225	17,775	500,000	1,312,500	–	3,212,500
Craig D Mitchell	751,300	23,700	–	562,500	598,440	1,935,940
Kevin L George	602,425	22,575	170,000	247,500	–	1,042,500
Ross G Du Vernet	482,225	17,775	–	288,750	–	788,750

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

2. Mr Steinberg's sign-on conditions included access to an additional \$500,000 subject to performance in FY13, which he was paid in full.

Mr George received a cash payment of \$170,000 as compensation for foregone remuneration during the year.

In FY14, expenses of \$401,341 were paid in relation to Mr George's relocation, including stamp duty and legal fees. Such expenses are not considered remuneration, but are footnoted here for transparency.

3. Cash payment made in August 2013 with respect to the 2013 STI Plan (i.e. annual performance payment for the prior financial year).

4. Cash payment made in August 2013 with respect to the 2010 DDPP award that vested on 1 July 2013 (i.e. realisation of three year deferred performance payment).

3.9 Executive Remuneration Statutory Accounting Method

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 2014. 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 2014, 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 ¹ \$	Other Short Term Benefits ² \$	Pension & Super Benefits ³ \$	Deferred STI Plan Accrual ⁴ \$	DDPP Plan Accrual ⁵ \$	Transition Plan Accrual ⁶	LTI Plan Accrual ⁷ \$	
Darren J Steinberg	2014	1,382,225	1,312,500	–	17,775	360,799	–	105,000	434,572	3,612,871
	2013	1,383,530	1,312,500	500,000	16,470	182,284	–	105,000	204,200	3,703,984
Craig D Mitchell	2014	751,300	727,500	–	23,700	177,281	47,700	125,000	159,995	2,012,476
	2013	733,530	562,500	–	16,470	78,122	172,790	125,000	64,349	1,752,761
Kevin L George	2014	602,425	337,500	–	22,575	271,020	–	–	110,452	1,343,972
	2013	338,954	247,500	634,383	12,008	219,374	–	–	59,029	1,511,248
Ross G Du Vernet	2014	482,225	562,500	–	17,775	116,960	–	50,000	84,037	1,313,497
	2013	424,305	288,750	–	16,470	40,103	–	50,000	42,899	862,527
Total	2014	3,218,175	2,940,000	–	81,825	926,060	47,700	280,000	789,056	8,282,816
	2013	2,880,319	2,411,250	1,134,383	61,418	519,883	172,790	280,000	370,477	7,830,520

1. FY14 annual cash STI performance award, payable in August 2014.

2. Mr Steinberg's sign-on conditions included access to an additional \$500,000 subject to performance in FY13, which he was paid in full.

Mr George received a cash sign-on payment of \$250,000, a cash payment of \$170,000 as compensation for foregone remuneration and various cash relocation benefits in FY13. In FY14, expenses of \$401,341 were paid in relation to Mr George's relocation, including stamp duty and legal fees. Such expenses are not considered remuneration, but are footnoted here for transparency.

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

4. Reflects the accounting expense accrued during the financial year for Deferred STI awards made with respect to FY13 and FY14 performance. Refer to note 37 of the DEXUS Financial Statements.

Mr George's accrual also includes accounting for Performance Rights detailed later in this report as Special Terms.

5. FY11 DDPP legacy plan only applicable to Mr Mitchell. Reflects the accounting expense accrued during the financial year.

6. FY12 Transitional plan applicable to all Executives, excluding Mr George. Reflects the accounting expense accrued during the financial year.

7. Reflects the accounting expense accrued during the financial year for LTI grants made with respect to FY13 and FY14. Refer to note 37 of the DEXUS Financial Statements.

3.10 Deferred Remuneration Plans

Performance Rights Plan – Unvested Deferred STI

The table below shows the number of unvested performance rights held by Executives as at 30 June 2014 under the Deferred STI plan.

Participant	Award Date	Tranche	Number of Performance Rights	Fair Value \$	Vesting Date
Darren J Steinberg	1 Jul 2013	1	207,386	1.045	1 Jul 2014
		2	207,385	1.045	1 Jul 2015
Craig D Mitchell	1 Jul 2013	1	88,880	1.045	1 Jul 2014
		2	88,879	1.045	1 Jul 2015
Kevin L George	1 Jul 2013	1	39,107	1.045	1 Jul 2014
		2	39,107	1.045	1 Jul 2015
Ross G Du Vernet	1 Jul 2013	1	45,625	1.045	1 Jul 2014
		2	45,625	1.045	1 Jul 2015

Performance Rights Plan – Unvested LTI

The table below shows the number of unvested performance rights held by Executives as at 30 June 2014 under the LTI plan.

Participant	Award Date	Tranche	Number of Performance Rights	Fair Value \$	Vesting Date	Maximum Future Expense \$
Darren J Steinberg	1 Jul 2013	1	564,088	0.820	1 Jul 2016	231,276
		2	564,088	0.785	1 Jul 2017	265,685
Craig D Mitchell	1 Jul 2013	1	177,759	0.820	1 Jul 2016	72,881
		2	177,759	0.785	1 Jul 2017	83,724
Kevin L George	1 Jul 2013	1	163,064	0.820	1 Jul 2016	66,856
		2	163,064	0.785	1 Jul 2017	76,803
Ross G Du Vernet	1 Jul 2013	1	118,506	0.820	1 Jul 2016	48,587
		2	118,506	0.785	1 Jul 2017	55,816

Legacy Plan – Vesting DDPP Awards

The table below shows the value of the vesting DEXUS Deferred Performance Payment (DDPP) award for Mr Mitchell as at 30 June 2014. The DDPP award was part of a legacy plan closed to new participants from 1 July 2012. This will be the last disclosure of DDPP Awards by DEXUS.

Participant	Award Date	Allocation Value \$	Value as at 30 June 2014 \$	Vesting Date
Craig D Mitchell	1 Jul 2011	450,000	625,005	1 Jul 2014

Mr Mitchell is entitled to receive a cash payment relating to the vesting of his 2011 DDPP award. This payment will be made in August 2014.

The vesting DDPP value was determined by calculating the compound total return of both listed DEXUS (50%) and unlisted DWPF (50%) notional securities over a three year vesting period. The DEXUS total return was 45.99% and the Group's unlisted funds and mandates was 31.78%, resulting in a composite 38.89% increase being applied to the original allocation value during the life of the 2011 DDPP plan. The Board chose to exercise its discretion in not applying a performance multiplier (allowable under the DDPP plan rules) to the 2011 tranche.

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

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2014

3. Remuneration Report (continued)

3.10 Deferred Remuneration Plans (continued)

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 2012 Annual General Meeting. The Board granted these once-off Performance Rights to Executives, with respect to performance during the year ended 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

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

Special Terms – Performance Rights for Kevin L George

Upon commencement, Mr George was offered a special grant of Performance Rights to DEXUS 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 clawback conditions, and were purchased on-market. The terms and conditions of this offer mirror those of the Deferred STI plan.

3.11 Non-Executive Directors

Board Fee Structure

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 included:

- 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

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 2014:

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.

As mentioned in the overview section of this report, fees for Non-Executive Directors have been reviewed and increased effective 1 July 2014. The Board Chair's base fee will increase to \$375,000, with Board Members' base fees increasing to \$160,000. This will be the first increase in Director's fees since 2010.

Total fees paid to Non-Executive Directors for the year ended 30 June 2014 remained within the aggregate fee pool of \$1,750,000 per annum approved by security holders at the AGM in October 2008. Subject to security holder approval at the 2014 Annual General Meeting, the aggregate fee pool will be increased to \$2,200,000. The pool has remained unchanged since the 2008 Annual General Meeting.

Minimum Security Holding

Non-Executive Directors are required to hold a minimum of 50,000 DEXUS securities. This requirement was announced in the 2013 Directors' Report with a transitional notice period of three years provided to attain such a holding (three years being effective 1 July 2012 for existing Directors or from the date of commencement for newly appointed Directors).

Such securities are subject to the Group's existing trading and inside information policies. No additional remuneration is provided to Directors to purchase these securities. As at 30 June 2014, all Directors met this requirement, with the exception of Penny Bingham-Hall who was appointed to the Board on 10 June 2014. Details of Directors' holdings are included in the Directors' Report.

As mentioned in the overview section of this report, the minimum security holding requirement will increase to 100,000 securities following the 2014 Annual General Meeting. Given that these holdings are acquired with after tax funds, the minimum requirement is not dissimilar to one year's base Directors' fees.

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 2014.

Executive	Year	Short Term Benefits \$	Post-Employment Benefits \$	Other Long Term Benefits \$	Total \$
Christopher T Beare	2014	332,225	17,775	–	350,000
	2013	333,530	16,470	–	350,000
Elizabeth A Alexander, AM	2014	178,490	16,510	–	195,000
	2013	178,899	16,101	–	195,000
Penny Bingham-Hall ¹	2014	7,921	733	–	8,654
	2013	–	–	–	–
Barry R Brownjohn ²	2014	54,920	5,080	–	60,000
	2013	165,138	14,862	–	180,000
John C Conde, AO	2014	164,760	15,240	–	180,000
	2013	165,138	14,862	–	180,000
Tonianne Dwyer	2014	165,798	15,337	–	181,135
	2013	158,257	14,243	–	172,500
Stewart F Ewen, OAM ³	2014	47,644	7,356	–	55,000
	2013	141,000	24,000	–	165,000
W Richard Sheppard	2014	167,206	15,467	–	182,673
	2013	158,257	14,243	–	172,500
Peter B St George	2014	151,030	13,970	–	165,000
	2013	151,376	13,624	–	165,000
Total	2014	1,269,994	107,468	–	1,377,462
	2013	1,451,595	128,405	–	1,580,000

1. Ms Bingham-Hall was appointed on 10 June 2014.

2. Mr Brownjohn did not stand for re-election at the 2013 AGM and effectively resigned from the Board on 29 October 2013.

3. Mr Ewen did not stand for re-election at the 2013 AGM and effectively resigned from the Board on 29 October 2013.

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2014

4. Directors' relevant interests

The relevant interests of each Director in DEXUS 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
Penny Bingham-Hall ¹	–
John C Conde, AO	100,000
Tonianne Dwyer	100,000
Craig D Mitchell	1,073,059 ²
W Richard Sheppard	420,537
Darren J Steinberg	1,996,364 ²
Peter B St George	104,000

1. Appointed 10 June 2014.

2. Includes interests held directly and through performance rights (refer Note 37).

5. Review of results and operations

Highlights and financial results

The Group's financial performance for the year ended 30 June 2014 is summarised below. To fully understand our results, please refer to the full Financial Statements included in this Financial Report.

DEXUS identified value in Commonwealth Property Office Fund (CPA) in late FY13, progressively acquiring units and then announcing a 14.9% interest in the fund in July 2013. Recognising the benefits and synergies of the properties in the CPA portfolio, DEXUS formed a partnership with Canada Pension Plan Investment Board in October 2013 and, in April 2014, completed an off-market takeover of CPA.

The transaction leveraged DEXUS's core capabilities across many areas of the business and increased the scale of the office portfolio to \$7.7 billion and total office properties under management to \$11.9 billion.

A focus on leasing, capital management initiatives and the takeover of CPA have driven a strong financial result with improved operational performance and solid property revaluations. DEXUS delivered a net profit after tax of \$406.6 million and achieved Funds from Operations¹ (FFO) per security growth of 7.6% to 8.34 cents. Distributions per security grew by 4.3% to 6.26 cents.

INCREASE IN FFO OF

7.6%

ON A PER SECURITY BASIS

DISTRIBUTIONS OF

6.26 cents

PER SECURITY

TOTAL SHAREHOLDER RETURN OF

9.9%

FOR THE 12 MONTHS ENDED 30 JUNE 2014

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, fair value movements of interest bearing liabilities, amortisation of certain tenant incentives, gain/loss on sale of certain assets, straight line rent adjustments, deferred tax expense/benefit, rental guarantees, coupon income and distribution income net of funding costs.

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 2014 \$m	30 June 2013 \$m	Change \$m
Net profit for the year attributable to stapled security holders	406.6	514.5	(107.9)
Add/(less):			
Net fair value gain of investment properties ¹	(165.5)	(220.6)	(55.1)
Net fair value loss of derivatives and interest bearing liabilities	40.6	17.7	(22.9)
Net loss on sale of investment properties ¹	8.3	3.6	(4.7)
CPA transaction costs	76.7	–	(76.7)
Finance break costs attributable to sales transactions	4.5	18.8	14.3
Foreign currency translation reserve transfer on disposal of foreign operations	(0.8)	21.5	22.3
Incentive amortisation and rent straight-line ^{1,2}	22.4	30.5	8.1
Reversal of a previous impairments of management rights	(7.3)	(20.5)	(13.2)
Deferred tax, CPA distribution, coupon income and other	25.1	(0.1)	(25.2)
Funds from Operations (FFO)	410.6	365.4	45.2
Retained earnings³	(95.2)	(83.3)	(11.9)
Distributions	315.4	282.1	33.3
FFO per security (cents)	8.34	7.75	+7.6%
Distribution per security (cents)	6.26	6.00	+4.3%
Net tangible asset backing per security (\$)	1.06	1.05	+0.8%

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

2. Including cash and fit out incentives amortisation.

3. Based on payout ratio of 75.1% in FY14 and 77.4% in FY13. DEXUS's FY14 distribution policy was to distribute 70-80% of FFO, in line with free cash flow.

Net profit after tax was \$406.6 million or 8.26 cents per security, a decrease of \$107.9 million from the prior year (2013: \$514.5 million).

The key drivers of this movement included:

- Core operational earnings, or FFO, increased by \$45.2 million resulting in FFO per security of 8.34 cents, an increase of 7.6%
- Net revaluation gains of investment properties of \$165.5 million, representing a 2.2% uplift across the portfolio, were \$55.1 million lower than the prior year gains
- Net fair value losses of \$40.6 million as a result of mark-to-market losses on derivatives and gains on interest bearing liabilities were \$22.9 million lower than the prior year
- Transaction costs relating to the CPA takeover were \$76.7 million

Refer to Note 34(b) for further details.

The key drivers of the \$45.2 million increase in FFO to \$410.6 million included:

- Office NOI of \$394.9 million, up 27.7% from \$309.2 million in 2013, was underpinned by 3.6% growth in like-for-like NOI together with income from the 21 properties acquired through the CPA transaction which completed in April 2014
- Industrial NOI of \$117.3 million, an increase of 4.5% (2013: \$112.3 million), was underpinned by like-for-like NOI growth of 1.5%
- Finance costs net of interest revenue of \$139.4 million were \$28.2 million higher than the prior year (2013: \$111.2 million) reflecting the funding of the CPA transaction and the on-market securities buy-back. Average cost of debt reduced from 5.9% to 5.4%

5. Review of results and operations (continued)

Strategy

DEXUS Property Group's strategy is to deliver superior risk-adjusted returns for investors from high quality Australian real estate. 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 Property Group has successfully delivered on its revised strategy launched in August 2012, divesting properties in offshore markets where it lacked comparative scale and refocusing and reinvesting back in Australia.

The Group now benefits from a leading market share position in the Australian office market and a sizeable Third Party Funds Management business that has grown by more than 50% over the past two years. This growth combined with a focused business structure has been driven by the evolution of DEXUS's core capabilities.

DEXUS has strengthened and developed its core capabilities in:

- Office, industrial and retail expertise across asset management, leasing and development
- Transactional expertise
- Third party funds management
- Capital & risk management and governance

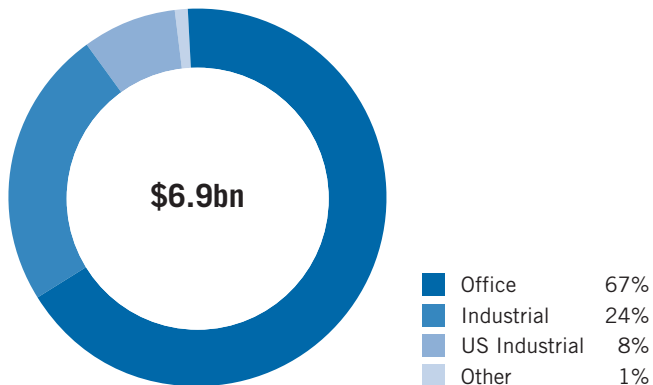
Operations

Portfolio composition

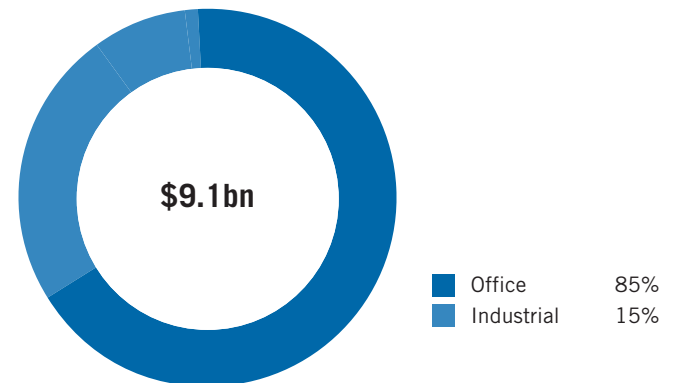
DEXUS has undertaken a period of significant transformation since 2012. Focusing on its objective to be a leading owner and manager in Australian office, DEXUS exited its offshore, non-core properties and redeployed capital into the Australian office market.

As a result of the CPA transaction, DEXUS now owns and manages \$9.1 billion of high quality Australian office and industrial properties located predominantly across the core markets of Sydney, Melbourne, Brisbane and Perth. DEXUS is the largest owner of office buildings in the Sydney CBD, Australia's largest office market and one of the largest listed owners of Australian industrial property.

Total portfolio value at 30 June 2012



Total portfolio value at 30 June 2014



Office portfolio

- Portfolio value \$7.7 billion (2013: \$5.7 billion)
- Like-for-like NOI growth 3.6% (2013: 1.8%)
- Occupancy by income¹ 95.2% (2013: 94.6%)
- Weighted average lease expiry by income¹ 4.9 years (2013: 5.0 years)

DEXUS aims to demonstrate leadership through proactively driving leasing outcomes, delivering the best customer service and building a quality portfolio through access to transactional opportunities.

A continued proactive approach to asset management to drive performance delivered solid operational performance in the office portfolio. Net operating income of \$394.9 million, up 27.7% from \$309.2 million in 2013, was underpinned by 3.6% growth in like-for-like NOI.

The office portfolio delivered a one year total return of 9.2% (2013: 10.6%) driven by underlying rental growth and improved property values.

In FY14, DEXUS leased 174,109 square metres (2013: 156,024 square metres) in 191 transactions on average lease terms of 7.2 years. Tenant incentives averaged across all deals were 18.6% (2013: 12.2%), still well below market.

DEXUS's strong tenant relationships resulted in 59 existing tenants renewing lease terms on average 12.7 months prior to lease expiry, representing a tenant retention rate of 61%. Over 125 new tenants were welcomed to the office portfolio, leasing over 77,000 square metres of space.

Occupancy for the office portfolio by income remained stable at 94.6% following the integration of the CPA portfolio and the weighted average lease duration reduced marginally to 4.7 years.

The combination of leasing success, the weight of capital seeking quality Australian office property and strong tenant covenants contributed to a \$155.3 million uplift in valuations on prior book values across the office portfolio.

With a focus on the selective divestment of non-strategic properties when supported by investment fundamentals, DEXUS completed the sale of two properties including 14 Moore Street in Canberra and 40-50 Talavera Road, Macquarie Park for proceeds of \$51.2 million.

In FY15 DEXUS will continue to proactively manage and drive the performance of its office portfolio while enhancing the value of newly acquired properties.

1. Excluding CPA portfolio.

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2014

5. Review of results and operations (continued)

Industrial portfolio

- Portfolio value \$1.4 billion (2013: \$1.6 billion)
- Like-for-like NOI growth 1.5% (2013: 1.1%)
- Occupancy by area 93.1% (2013: 95.9%)
- Weighted average lease expiry by income 4.0 years (2013: 4.1 years)

Proactively pursuing all operational targets, DEXUS secured solid investor returns achieving an increased portfolio total return in line with through-the-cycle performance targets.

Net operating income for the year of \$117.3 million was underpinned by like-for-like NOI growth of 1.5% and the commencement of rental income following the completion of new industrial facilities at Greystanes, offset by the sale of five properties for a total consideration of \$111.2 million.

DEXUS successfully secured leasing across 139,716 square metres, resulting in portfolio occupancy of 93.0% at 30 June 2014, down 3.1% from the prior year due to the timing of expiries at Quarry at Greystanes, Rosebery, Auburn and Spotless vacating at Gladesville.

Retention of 41% was primarily influenced by intended vacancies, which enable DEXUS to investigate potential change of use to residential and retail in order to maximise investor returns.

Underpinned by investment demand for new quality facilities, capitalisation rates for the DEXUS industrial portfolio tightened from 8.55% at 30 June 2013 to 8.32% at 30 June 2014. This resulted in a modest uplift in valuations of \$10.2 million on prior book values, with well leased industrial assets being the primary contributors.

In favourable market conditions DEXUS sold five secondary, non-core properties for a total consideration of \$111.2 million including Rydalmere, West End Brisbane, Belrose, Blacktown and Silverwater. A 50% interest in one further industrial property was sold into the Australian Industrial Partnership, increasing its number of properties to 19. These transactions improve the overall quality of DEXUS's industrial portfolio.

DEXUS will continue to leverage its industrial capabilities to enhance investor returns through active asset management of the industrial portfolio to deliver attractive income returns.

DEXUS property portfolio metrics

30 June 2014	Office	Industrial	Total
Portfolio value ¹ (\$bn)	7.7	1.4	9.1
Number of properties ¹	53	50	103
Occupancy ² (% by area)	95.7	93.1	94.1
Occupancy ² (% by income)	95.2	93.0	94.7
Tenant retention ² (%)	61	41	n/a
WALE ² (years)	4.9	4.0	4.7
Like-for-like NOI growth ² (%)	3.6	1.5	3.1
Weighted average cap rate ² (%)	6.87	8.32	7.13
Total return ² – 1 year (%)	9.2	9.0	n/a

1. Including CPA portfolio.

2. Excluding CPA portfolio.

Third Party Funds Management

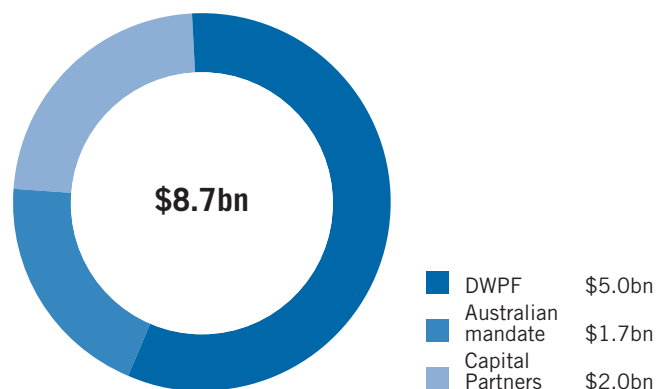
The Third Party Funds Management business represents almost half of DEXUS's \$17.8 billion funds under management and is one of the key drivers of investor returns.

Over the past two years, DEXUS has established partnerships with three major groups and DEXUS Wholesale Property Fund has raised over \$1.3 billion of capital.

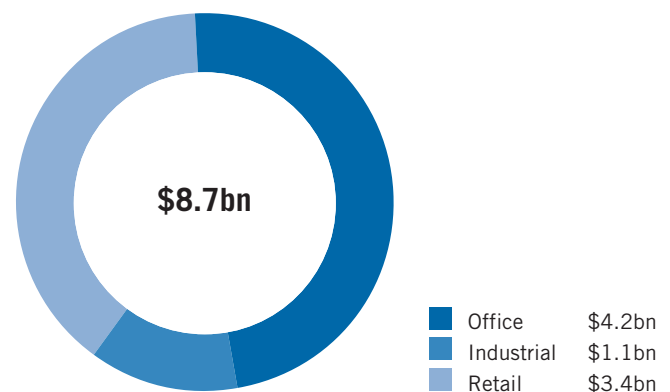
This reflects capital partner support of the Group's transactional capability, strategic asset and development management expertise and best-practice corporate governance principles.

Building on its platform growth following the establishment of the Australian Industrial Partnership in October 2012, DEXUS established two new capital partnerships in FY14. The \$3.4 billion DEXUS Office Partnership with CPPIB and the DEXUS Industrial Partnership with the Future Fund further diversify the Group's long term capital sources.

Third Party asset composition by ownership



Third Party asset composition by sector allocation



Development

DEXUS's development expertise has delivered best-in-class premium office buildings and a significant platform of high quality industrial facilities, improving portfolio quality and enhancing investor returns.

DEXUS allocates up to 15% of funds under management across its listed portfolio to development and value-add activities in order to provide earnings accretion and enhanced total return.

During the year DEXUS completed six new industrial developments at a total cost of \$111.2 million, providing 90,214 square metres of new product to the market and exceeding its 75,000 square metre development target.

Completed developments include:

- Quarry at Greystanes – three facilities offering 47,444 square metres
- DEXUS Industrial Estate, Laverton North – two warehouses providing 30,524 square metres
- Wacol Industrial Estate, South Brisbane – 12,246 square metres

DEXUS secured 41,034 square metres of development leasing including a prelease for 7,900 square metres with Supply Network at the remaining Quarry at Greystanes development, due to commence construction in 2015.

Other key development leases include:

- 480 Queen Street, Brisbane – Secured unconditional agreements with Allens and PricewaterhouseCoopers across a combined 10,514 square metres, increasing the space committed at the building to 62%, well ahead of practical completion expected in February 2016
- Kings Square, Perth – Shell Australia expanded its pre-commitment for an additional 5,487 square metres, increasing its total commitment to 100% of the KS2 office tower and increasing total space committed at the development to 55%
- Quarry at Greystanes – Secured Consortium Group for 15,516 square metres and Supply Network for 7,900 square metres
- Wacol Industrial Estate, South Brisbane – Secured Cotton On for 12,246 square metres
- 57-65 Templar Road, Erskine Park – Secured Icehouse Logistics for 5,372 square metres

DEXUS, with its capital partners, will create core new industrial product, deliver the office development at Kings Square in Perth, progress the development at 5 Martin Place, Sydney and 480 Queen Street, Brisbane, and commence a three year development program at Quarrywest at Greystanes.

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2014

5. Review of results and operations (continued)

Trading

Over the past two years DEXUS has established a robust trading portfolio which will result in DEXUS being able to consistently deliver profits from this area of the business.

DEXUS delivered trading profits of \$4.3 million through efficiently executing the sale of two Queensland industrial properties at Archerfield and Wacol.

In FY14 DEXUS identified a number of properties on balance sheet as alternative use and trading opportunities and will use its capabilities to maximise income at the right time in the cycle, expecting to enhance returns to investors through a trading profit target for FY15 of approximately \$40 million.

Capital management

- Cost of debt 5.4% (2013: 5.9%)
- Duration of debt 5.2 years (2013: 5.4 years)
- Gearing (look-through) 33.7% (2013: 29.0%)
- S&P/Moody's credit rating A-/A3 (2013: BBB+/Baa1)

DEXUS is recognised for its strong governance and institutional rigour. The Group has garnered continued support from debt investors and has strong bank relationships enabling successful execution of capital management activities.

Key FY14 achievements

- Reduced average cost of debt by 50 basis points to 5.4%
- Maintained debt duration above five years
- Maintained a strong balance sheet with gearing at 33.7% within the Group's target gearing range of 30–40%
- Completed over \$1.7 billion of new funding, including \$1.3 billion of acquisition funding for the CPA transaction and US\$200 million in the US private placement market

The Group's Standard & Poor's (S&P) and Moody's credit ratings were upgraded during the year to A- and A3 respectively, recognising the quality of DEXUS's portfolio following an active period of transactional activity, together with consistent performance. DEXUS remains inside all of its debt covenant limits and target ranges.

On market securities buy-back

On 2 July 2013, an on market 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.

During the buy-back period, DEXUS bought back over 73.7 million securities (\$75.3 million) at an average price of \$1.02 per security representing an 8.1% discount to the 30 June 2014 trading price of \$1.11.

Distribution policy and FY15 guidance

Distributions per security for the year were 6.26 cents per security, representing a 4.3% increase from the prior year (2013: 6.00 cents). The payout ratio for the year ended 30 June 2014 was 75% in accordance with DEXUS's FY14 payout policy to distribute 70–80% of FFO, in line with free cash flow.

As foreshadowed 12 months ago, DEXUS will adopt the Property Council of Australia's (PCA) recommended approach for calculating FFO from 1 July 2014.

Barring unforeseen changes to operating conditions, DEXUS's guidance for PCA FFO for the 12 months ending 30 June 2015 is 9.84 cents per security, reflecting 8.5% growth from FY14 PCA FFO of 9.07 cents per security.

DEXUS is targeting a payout in line with free cash flow for FY15 which is expected to deliver a distribution of 6.79 cents per security, reflecting 8.5% growth from FY14.

6. 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
Penny Bingham-Hall	Bluescope Steel Limited	29 March 2011	
John C Conde, AO	Whitehaven Coal Limited	3 May 2007	
	Cooper Energy Limited	25 February 2013	
Tonianne Dwyer	Cardno Limited	25 June 2012	
	Metcash Limited	24 June 2014	
W Richard Sheppard	Echo Entertainment Group	21 November 2012	
Peter B St George	Boart Longyear Limited	21 February 2007	21 May 2013
	First Quantum Minerals Limited ¹	20 October 2003	

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

7. 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.

8. Total value of Trust assets

The total value of the assets of the Group as at 30 June 2014 was \$9,750.9 million (2013: \$7,752.6 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.

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.

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2014

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 2014 were 6.26 cents per security (2013: 6.00 cents per security) as outlined in Note 27 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 2014 are outlined in Note 32 of the Notes to the Financial Statements and form part of this Directors' Report.

14. Interests in DEXUS securities

The movement in securities on issue in the Group during the year and the number of securities on issue as at 30 June 2014 are detailed in Note 25 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 32 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 2014 (2013: 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 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 their 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*.

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 47 and forms part of this Directors' Report.

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2014

18. Corporate governance

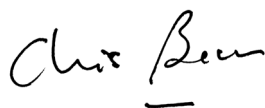
DXFM's Corporate Governance Statement is set out on pages 6 to 18 of this Annual Report.

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. Directors' authorisation

The Directors' Report is made in accordance with a resolution of the Directors. The Financial Statements were authorised for issue by the Directors on 13 August 2014. The Directors have the power to amend and reissue the Financial Statements.



Christopher T Beare

Chair

13 August 2014



Darren J Steinberg

Chief Executive Officer

13 August 2014

AUDITOR'S INDEPENDENCE DECLARATION



Auditor's Independence Declaration

As lead auditor for the audit of DEXUS Diversified Trust for the year ended 30 June 2014, 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 be 'E A Barron', with a long horizontal line extending to the right.

E A Barron
Partner
PricewaterhouseCoopers

Sydney
13 August 2014

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2014

	Note	2014 \$m	2013 \$m
Revenue from ordinary activities			
Property revenue	2	572.3	546.6
Proceeds from sale of inventory		69.3	24.4
Interest revenue		0.2	1.2
Management fee revenue		58.0	48.5
Total revenue from ordinary activities		699.8	620.7
Net fair value gain of investment properties		145.7	185.9
Share of net profit of investments accounted for using the equity method	15	58.3	37.9
Net fair value gain of interest bearing liabilities		12.3	–
Reversal of previous impairment	17	7.3	20.5
Total income		923.4	865.0
Expenses			
Property expenses		(141.4)	(134.9)
Cost of sale of inventory		(65.3)	(22.9)
Finance costs	3	(190.0)	(98.6)
Impairment of inventories		–	(2.2)
Impairment of goodwill	17	(0.1)	(0.1)
Net fair value loss of derivatives		(2.1)	(10.9)
Net loss on sale of investment properties		(7.7)	(3.7)
Impairment of investments accounted for using the equity method	15	(3.3)	(0.1)
Transaction costs		(23.9)	–
Corporate and administration expenses	4	(71.3)	(68.4)
Total expenses		(505.1)	(341.8)
Profit before tax		418.3	523.2
Income tax expense	5(a)	(12.5)	(1.7)
Profit after tax from continuing operations		405.8	521.5
Profit/(loss) from discontinued operations	12	0.8	(7.0)
Net profit for the year		406.6	514.5
Other comprehensive income/(loss):			
Items that may be reclassified to profit or loss:			
Exchange differences on translating foreign operations	26(a)	5.3	8.2
Foreign currency translation reserve transfer on disposal of foreign operations	26(a)	(0.8)	21.5
Changes in the fair value of cash flow hedges	26(a)	(9.3)	–
Total comprehensive income for the year		401.8	544.2
Profit for the year attributable to:			
Unitholders of the parent entity		141.4	102.8
Unitholders of other stapled entities (non-controlling interests)		265.2	411.7
Total profit for the year		406.6	514.5
Total comprehensive income for the year attributable to:			
Unitholders of the parent entity		132.1	148.9
Unitholders of other stapled entities (non-controlling interests)		269.7	395.3
Total comprehensive income for the year		401.8	544.2
		Cents	Cents
Basic and diluted earnings per unit attributable to unitholders of the parent entity			
Earnings per unit – profit from continuing operations	36(a)	2.87	2.02
Earnings per unit – profit from discontinued operations	36(a)	–	0.16
Earnings per unit – total	36(a)	2.87	2.18
Basic and diluted earnings per stapled security attributable to stapled security holders			
Earnings per security – profit from continuing operations	36(b)	8.25	11.06
Earnings per security – profit/(loss) from discontinued operations	36(b)	0.01	(0.15)
Earnings per security – total	36(b)	8.26	10.91

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 2014

	Note	2014 \$m	2013 \$m
Current assets			
Cash and cash equivalents	7	14.1	14.5
Receivables	8	111.6	40.2
Inventories	9	80.3	10.9
Derivative financial instruments	10	8.7	25.4
Other	11	8.1	10.9
		222.8	101.9
Assets classified as held for sale and discontinued operations	12	139.6	8.8
Total current assets		362.4	110.7
Non-current assets			
Investment properties	13	5,926.5	6,085.0
Plant and equipment	14	10.8	8.8
Inventories	9	235.9	242.0
Investments accounted for using the equity method	15	2,813.9	906.8
Derivative financial instruments	10	71.5	114.8
Deferred tax assets	16	35.9	39.4
Intangible assets	17	292.6	243.7
Other	18	1.4	1.4
Total non-current assets		9,388.5	7,641.9
Total assets		9,750.9	7,752.6
Current liabilities			
Payables	19	112.4	95.1
Interest bearing liabilities	20	149.5	-
Provisions	21	197.2	169.5
Derivative financial instruments	10	2.4	1.8
		461.5	266.4
Discontinued operations classified as held for sale	12	-	0.1
Total current liabilities		461.5	266.5
Non-current liabilities			
Interest bearing liabilities	20	2,782.1	2,167.1
Loan from related party	22	338.4	-
Derivative financial instruments	10	85.7	99.4
Deferred tax liabilities	23	21.1	12.1
Provisions	21	4.9	11.2
Other	24	3.9	4.6
Total non-current liabilities		3,236.1	2,294.4
Total liabilities		3,697.6	2,560.9
Net assets		6,053.3	5,191.7
Equity			
Equity attributable to unitholders of the parent entity			
Contributed equity	25	1,833.4	1,577.7
Reserves	26	(9.3)	-
Retained profits	26	193.0	181.2
Parent entity unitholders' interest		2,017.1	1,758.9
Equity attributable to unitholders of other stapled entities			
Contributed equity	25	3,625.7	3,106.3
Reserves	26	41.2	36.6
Retained profits	26	369.3	289.9
Other stapled unitholders' interest		4,036.2	3,432.8
Total equity		6,053.3	5,191.7

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 2014

	Note	Contributed equity \$m	Retained profits \$m
Opening balance as at 1 July 2012		4,761.5	238.7
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		–	–
Other stapled entities (non-controlling interests)		–	–
Total other comprehensive income for the year		–	–
Transactions with owners in their capacity as owners			
Buy-back of contributed equity, net of transaction costs	25	(77.5)	–
Purchase of securities, net of transaction costs	25	–	–
Security-based payments expense	26	–	–
Distributions paid or provided for	27	–	(282.1)
Total transactions with owners in their capacity as owners		(77.5)	(282.1)
Closing balance as at 30 June 2013		4,684.0	471.1
Opening balance as at 1 July 2013		4,684.0	471.1
Profit for the year attributable to:			
Unitholders of the parent entity		–	141.4
Other stapled entities (non-controlling interests)		–	265.2
Profit for the year		–	406.6
Other comprehensive income/(loss) for the year attributable to:			
Unitholders of the parent entity		–	–
Other stapled entities (non-controlling interests)		–	–
Total other comprehensive income/(loss) for the year		–	–
Transactions with owners in their capacity as owners			
Buy-back of contributed equity, net of transaction costs	25	(75.3)	–
Issue of additional equity	24	850.4	–
Purchase of securities, net of transaction costs	26	–	–
Security-based payments expense	26	–	–
Distributions paid or provided for	27	–	(315.4)
Total transactions with owners in their capacity as owners		775.1	(315.4)
Closing balance as at 30 June 2014		5,459.1	562.3

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

Foreign currency translation reserve \$m	Asset revaluation reserve \$m	Cash flow hedge reserve \$m	Security-based payments reserve \$m	Treasury securities reserve \$m	Total equity \$m
(36.0)	42.7	–	0.4	–	5,007.3
–	–	–	–	–	102.8
–	–	–	–	–	411.7
–	–	–	–	–	514.5
46.1	–	–	–	–	46.1
(16.4)	–	–	–	–	(16.4)
29.7	–	–	–	–	29.7
–	–	–	–	–	(77.5)
–	–	–	–	(2.2)	(2.2)
–	–	–	2.0	–	2.0
–	–	–	–	–	(282.1)
–	–	–	2.0	(2.2)	(359.8)
(6.3)	42.7	–	2.4	(2.2)	5,191.7
(6.3)	42.7	–	2.4	(2.2)	5,191.7
–	–	–	–	–	141.4
–	–	–	–	–	265.2
–	–	–	–	–	406.6
–	–	(9.3)	–	–	(9.3)
4.5	–	–	–	–	4.5
4.5	–	(9.3)	–	–	(4.8)
–	–	–	–	–	(75.3)
–	–	–	–	–	850.4
–	–	–	–	(3.1)	(3.1)
–	–	–	3.2	–	3.2
–	–	–	–	–	(315.4)
–	–	–	3.2	(3.1)	459.8
(1.8)	42.7	(9.3)	5.6	(5.3)	6,053.3

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2014

	Note	2014 \$m	2013 \$m
Cash flows from operating activities			
Receipts in the course of operations (inclusive of GST)		703.0	760.0
Payments in the course of operations (inclusive of GST)		(275.6)	(334.8)
Interest received		0.2	1.3
Finance costs paid to financial institutions		(134.6)	(116.1)
Distributions received from investments accounted for using the equity method		79.0	19.7
Income and withholding taxes paid		0.1	(0.2)
Proceeds from sale of property classified as inventory		69.3	24.4
Payments for property classified as inventory		(23.1)	(160.8)
Net cash inflow from operating activities	35(a)	418.3	193.5
Cash flows from investing activities			
Proceeds from sale of investment properties		172.9	303.4
Proceeds from sale of subsidiaries		–	435.9
Payments for capital expenditure on investment properties		(110.0)	(120.7)
Payments for acquisition of investment properties		–	(22.2)
Payments for investments accounted for using the equity method		(1,103.4)	(674.3)
Transaction costs paid		(14.0)	–
Payments for management rights		(42.0)	–
Payments for plant and equipment		(4.0)	(7.0)
Net cash outflow from investing activities		(1,100.5)	(84.9)
Cash flows from financing activities			
Proceeds from borrowings		4,557.8	3,516.3
Repayment of borrowings		(3,848.3)	(3,328.1)
Proceeds from loan with related party		338.4	–
Payments for buy-back of contributed equity		(75.3)	(77.5)
Purchase of securities for security-based payments plans		(3.1)	(2.2)
Distributions paid to security holders		(288.3)	(264.1)
Net cash inflow/(outflow) from financing activities		681.2	(155.6)
Net decrease in cash and cash equivalents			
Cash and cash equivalents at the beginning of the year		14.9	59.2
Effects of exchange rate changes on cash and cash equivalents		0.2	2.7
Cash and cash equivalents at the end of the year	7	14.1	14.9

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

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. The amount of non-controlling interest attributable to stapled security holders is disclosed in the Statement of Financial Position. DDF is a for-profit entity for the purpose of preparing Financial Statements.

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 unstack 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 2014 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 Australian 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(g), 1(l), 1(p), 1(s), 1(t), 1(u), 1(w) and 1(z)).

The Group has unutilised facilities of \$462.3 million (2013: \$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 as at 30 June 2014 of \$99.1 million (2013: \$155.8 million).

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(g), 1(l), 1(p), 1(s), 1(t), 1(u), 1(w) 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.

(b) Principles of consolidation

On 1 July 2013, the Group adopted AASB 10 *Consolidated Financial Statements* and AASB 11 *Joint Arrangements*. The implementation of these new standards has not impacted any of the amounts recognised in the Financial Statements.

(i) Controlled entities

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

The acquisition method of accounting is used to account for the acquisition of controlled entities by the Group. All inter-entity transactions, balances and unrealised gains and losses on transactions between Group entities have been eliminated in full.

(ii) Joint arrangements

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

Joint operations

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

Note 1. Summary of significant accounting policies

(continued)

(b) Principles of consolidation (continued)

(ii) Joint arrangements (continued)

Joint ventures

Investments in joint ventures are accounted for using the equity method. Under this method, the Group's share of the joint ventures' post-acquisition net profits is recognised in the Statement of Comprehensive Income and its share of post-acquisition movements in reserves is recognised in reserves in the Statement of Financial Position. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Distributions and dividends received from joint ventures are recognised in the Statement of Financial Position as a reduction of the carrying amount of the investment.

Where the Group's share of losses in a joint venture equal or exceeds its interest in the joint venture (including any unsecured long term receivables), the Group does not recognise any further losses unless it has incurred obligations or made payments on behalf of the joint venture.

(iii) 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 straight-line 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.

(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 prepare 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. 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

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

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

(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

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.

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 unitholders by cash or reinvestment. Distributions are provided for when they are approved by the Board of Directors and declared.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

Note 1. Summary of significant accounting policies

(continued)

(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. 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.

(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 co-ordinated 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(s)).

(o) Depreciation of plant and equipment

Depreciation is calculated using the straight-line method so as to allocate their cost, net of their residual values, over their expected useful lives as follows:

Furniture and fittings	10–20 years
IT and office equipment	3–5 years

(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.

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

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

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

(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 straight-line 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) 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.

(t) 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 and the acquisition date fair value of any previous equity interest in the acquired entity over the fair value of the identifiable net assets acquired.

The carrying value of the goodwill is tested for impairment annually 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 straight-line method over their estimated remaining useful lives. Management rights with indefinite useful lives are not subject to amortisation and are tested for impairment annually.

(u) 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)
Payables	Financial liability at amortised cost	Amortised cost	Refer Note 1(v)
Interest bearing liabilities	Financial liability at amortised cost	Amortised cost	Refer Note 1(w)
Interest bearing liabilities	Financial liability at fair value	Fair value	Refer Note 1(w)
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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

Note 1. Summary of significant accounting policies

(continued)

(u) Financial assets and liabilities (continued)

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

On 1 July 2013 the Group adopted AASB 13 *Fair Value Measurement*. AASB 13 aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across Australian Accounting Standards. The standard does not extend the use of fair value accounting but provides guidance on how it should be applied where its use is already required or permitted by other Australian Accounting Standards.

As a result of the adoption of AASB 13, the fair value of financial assets and liabilities now includes an adjustment for the credit worthiness of counterparties and the Group. The standard is applied prospectively.

(v) 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.

(w) Interest bearing liabilities

Borrowings are initially recognised at fair value and subsequently measured at amortised cost using the effective interest rate method or at their fair value at the time of acquisition in the case of assumed liabilities in a business combination. Under the effective interest rate method, any transaction fees, costs, discounts and premiums directly related to the borrowings are recognised in profit or loss over the expected life of the borrowings unless there is an effective fair value hedge of the borrowings, in which case a fair value adjustment will be applied based on the mark to market movement in the benchmark component of the borrowings and this movement is recognised in profit or loss. All borrowings with maturities greater than 12 months after reporting date are classified as non-current liabilities.

(x) 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 Financial Statements are presented in Australian dollars.

(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

A foreign operation is located in New Zealand and has a functional currency of NZ dollars which are translated into the presentation currency.

The assets and liabilities of the foreign operation 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.

(y) Hedging activities

On 1 July 2013 the Group adopted hedge accounting for certain foreign currency bonds. At inception the Group formally designates and documents the relationship between the hedge derivative instruments (cross currency interest rate swaps only) and the hedged items (foreign currency bonds only). The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

Fair value hedge

A fair value hedge is a hedge of the exposure to changes in fair value of an asset or liability that is attributable to a particular risk and could affect the Statement of Comprehensive Income. Changes in the fair value of derivatives (hedging instruments) that are designated as fair value hedges are recorded in profit or loss, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk (hedged item).

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to profit or loss over the period to maturity using a recalculated effective interest rate.

Cash flow hedge

A cash flow hedge is a hedge of the exposure to variability in cash flows attributable to a particular risk to a highly probable forecast transaction pertaining to an asset or liability. The effective portion of changes in the fair value of derivatives that are designated as cash flow hedges is recognised in other comprehensive income in equity via the cash flow hedge reserve. Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss. Any gain or loss related to ineffectiveness is recognised in profit or loss immediately.

Hedge accounting is discontinued when the hedging instrument expires, is terminated, is no longer in an effective hedge relationship, is de-designated, or the forecast transaction is no longer expected to occur. The fair value gain or loss of derivatives recorded in equity is recognised in profit or loss over the period that the forecast transaction is recorded in profit or loss. If the forecast transaction is no longer expected to occur, the cumulative gain or loss in equity is recognised in profit or loss immediately.

(z) Employee benefits

(i) Wages, salaries and annual leave

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

(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 match 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 37. Under the Plans, participating employees will be granted a defined number of performance rights which will vest into DEXUS 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) Parent entity financial information

The financial information for the parent entity, DEXUS Diversified Trust, disclosed in Note 28, 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.

(ab) Earnings per unit

Basic earnings per unit are determined by dividing the net profit attributable to unitholders 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.

(ac) 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.

(ad) 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.

(ae) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for the 30 June 2014 reporting period. The Group's assessment of the impact of these new standards and interpretations is set out below:

AASB 9 *Financial Instruments* (effective 1 July 2017).

AASB 9 *Financial Instruments* addresses the classification, measurement and derecognition of financial assets and financial liabilities. It also sets out new rules for hedge accounting. The Group intends to apply the standard from 1 July 2017 and does not expect any significant impacts.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

Note 2. Property revenue

	2014 \$m	2013 \$m
Rent and recoverable outgoings	568.6	564.7
Incentive amortisation	(59.5)	(53.0)
Other revenue	63.2	34.9
Total property revenue	572.3	546.6

Note 3. Finance costs

	2014 \$m	2013 \$m
Interest paid/payable	135.5	99.2
Amount capitalised	(6.1)	(10.7)
Other finance costs	4.8	2.6
Net fair value loss of interest rate swaps	51.3	7.5
Finance costs attributable to sales transactions	4.5	–
Total finance costs	190.0	98.6

The average capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation is 7.00% (2013: 7.00%).

Note 4. Corporate and administration expenses

	Note	2014 \$m	2013 \$m
Audit and taxation fees	6	1.5	1.3
Custodian fees		0.5	0.5
Legal and other professional fees		1.0	0.7
Registry costs and listing fees		0.7	0.5
Occupancy expenses		2.3	2.7
Administration expenses		3.3	3.3
Other staff expenses		1.8	1.7
Depreciation and amortisation		2.3	3.2
Employee benefits expense		54.5	50.9
Other expenses		3.5	3.6
Total corporate and administration expenses		71.3	68.4

Note 5. Income tax

(a) Income tax (expense)/benefit

	Note	2014 \$m	2013 \$m
Current tax (expense)/benefit		(0.5)	2.4
Deferred tax expense		(12.0)	(1.6)
Total income tax (expense)/benefit		(12.5)	0.8
Total income tax (expense)/benefit attributable to:			
Profit from continuing operations		(12.5)	(1.7)
Loss from discontinued operations		–	2.5
Total income tax (expense)/benefit		(12.5)	0.8
Deferred income tax expense included in income tax (expense)/benefit comprises:			
(Decrease)/increase in deferred tax assets	16	(3.5)	2.7
Increase in deferred tax liabilities	23	(8.5)	(4.3)
Total deferred tax expense		(12.0)	(1.6)

Note 5. Income tax (continued)

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

	2014 \$m	2013 \$m
Profit from continuing operations before tax	418.3	523.2
Profit/(loss) from discontinued operations before tax	0.8	(13.9)
Total profit before tax	419.1	509.3
Less amounts not subject to income tax (Note 1(g))	(357.7)	(461.7)
	61.4	47.6
Prima facie tax expense at the Australian tax rate of 30% (2013: 30%)	(18.4)	(14.3)
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Depreciation and amortisation	2.3	0.7
Reversal of previous impairment	2.2	6.2
Movements in the carrying value and tax cost base of properties	0.2	6.0
Accounting loss on sale of assets	(0.1)	0.5
Tax losses brought to account	–	1.2
Reversal of prior year income tax liability	1.0	–
Other timing differences	0.3	0.5
	5.9	15.1
Income tax (expense)/benefit	(12.5)	0.8

Note 6. Audit, taxation and transaction services fees

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

	2014 \$'000	2013 \$'000
Audit fees		
PwC Australia – audit and review of Financial Statements	1,150	1,025
PwC fees paid in relation to outgoing audits ¹	145	125
PwC Australia – regulatory audit and compliance services	211	182
PwC Australia – audit and review of US asset disposals ²	–	226
PwC Australia – audit of DOTA ³	213	–
Audit fees paid to PwC	1,719	1,558
Taxation fees		
Fees paid to PwC Australia	20	119
Fees paid to PwC NZ	13	26
Fees paid to PwC Australia in respect of US asset disposals ²	–	24
Fees paid to PwC Australia in respect of the CPA acquisition ³	200	45
Taxation fees paid to PwC	233	214
Total audit and taxation fees paid to PwC⁴	1,952	1,772
Transaction services fees		
Fees paid to PwC Australia in respect of the CPA acquisition ³	225	–
Total transaction services fees paid to PwC	225	–
Total audit, taxation and transaction services fees paid to PwC	2,177	1,772

1. Fees paid in relation to outgoing audits are included in property expenses in the Statement of Comprehensive Income.
2. Fees paid in relation to US asset disposals are included in profit/(loss) from discontinued operations in the Statement of Comprehensive Income.
3. Fees paid in relation to the Group's investment in DOTA are included in share of net profit from investments accounted for using the equity method in the Statement of Comprehensive Income.
4. After allowing for the impact of the above footnotes, total audit and taxation fees included in other expenses are \$1.4 million (2013: \$1.3 million).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

Note 7. Current assets – cash and cash equivalents

	2014 \$m	2013 \$m
Cash at bank	14.1	11.2
Short term deposits	–	0.4
Cash held in escrow ¹	–	2.9
Total current assets – cash and cash equivalents	14.1	14.5

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	2014 \$m	2013 \$m
Balances as above		14.1	14.5
Discontinued operations	12	–	0.4
Balances per Statement of Cash Flows		14.1	14.9

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.

Note 8. Current assets – receivables

	2014 \$m	2013 \$m
Rent receivable	13.5	10.8
Less: provision for doubtful debts	(0.1)	(0.6)
Total rental receivables	13.4	10.2
Fees receivable	13.9	8.7
GST receivable	0.5	–
Distributions receivable	68.8	2.6
Other receivables	15.0	18.7
Total other receivables	98.2	30.0
Total current assets – receivables	111.6	40.2

Note 9. Inventories

(a) Inventories – land and properties held for resale

	2014 \$m	2013 \$m
Current assets		
Land and properties held for resale	80.3	10.9
Total current assets – inventories	80.3	10.9
Non-current assets		
Land and properties held for resale	235.9	242.0
Total non-current assets – inventories	235.9	242.0
Total assets – inventories	316.2	252.9

Note 9. Inventories (continued)

(b) Reconciliation

	Note	2014 \$m	2013 \$m
Opening balance at the beginning of the year		252.9	97.8
Transfer from investment properties	13	101.4	14.5
Disposals		(65.3)	(22.9)
Impairment		–	(2.2)
Acquisitions and additions		27.2	165.7
Closing balance at the end of the year		316.2	252.9

Disposals

- On 26 July 2013, a land parcel located at Boundary Road, Laverton North, VIC was disposed of for gross proceeds of \$3.3 million
- On 29 January 2014, a land parcel located at Boundary Road, Laverton North, VIC was disposed of for gross proceeds of \$3.5 million
- On 12 March 2014, 57-101 Balham Road, Archerfield, QLD was disposed of for gross proceeds of \$24.5 million
- On 12 March 2014, 36766 Ipswich Road, Wacol, QLD was disposed of for gross proceeds of \$38.0 million

Note 10. Derivative financial instruments

	2014 \$m	2013 \$m
Current assets		
Interest rate swap contracts	2.3	0.8
Cross currency swap contracts	6.4	21.9
Other	–	2.7
Total current assets – derivative financial instruments	8.7	25.4
Non-current assets		
Interest rate swap contracts	22.5	47.4
Cross currency swap contracts	45.1	67.4
Cross currency swap contracts used in hedge accounting	3.9	–
Total non-current assets – derivative financial instruments	71.5	114.8
Current liabilities		
Interest rate swap contracts	2.4	1.8
Total current liabilities – derivative financial instruments	2.4	1.8
Non-current liabilities		
Interest rate swap contracts	79.3	73.0
Cross currency swap contracts used in hedge accounting	6.4	26.4
Total non-current liabilities – derivative financial instruments	85.7	99.4
Net derivative financial instruments	(7.9)	39.0

Refer Note 29 for further discussion regarding derivative financial instruments.

Note 11. Current assets – other

	2014 \$m	2013 \$m
Prepayments	8.1	10.9
Total current assets – other	8.1	10.9

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

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 US industrial portfolio and the majority of the European portfolio were sold in the year ended 30 June 2013 and the final German property sold in August 2014. Therefore the results of the US and European portfolios have been presented within profit/(loss) from discontinued operations in the Statement of Comprehensive Income for the year ended 30 June 2014 and 30 June 2013.

The profit/(loss) from the US and European discontinued operations comprises:

	2014 \$m	2013 \$m
Revenue	–	39.3
Expenses ¹	0.8	(73.0)
Loss before tax	0.8	(33.7)
Tax benefit/(expense)	–	2.4
Profit/(loss) after tax	0.8	(31.3)
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
Gain on measurement to fair value less costs to sell after tax	–	24.3
Profit/(loss) from discontinued operations	0.8	(7.0)

1. Expenses for the year ended 30 June 2014 includes foreign currency translation reserve transfer on disposal of foreign operations of \$0.8 million.

Expenses for the year ended 30 June 2013 includes finance break costs attributable to sales transactions of \$18.8 million and foreign currency translation reserve transfer on disposal of foreign operations of \$21.5 million.

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

	2014 \$m	2013 \$m
Property revenue	–	31.7
Management fee revenue	–	0.4
Property expenses	–	(7.7)
Corporate and administration expenses	–	(3.4)
Foreign exchange gains	–	4.0
Finance costs	–	(18.3)
Incentive amortisation and rent straight-line	–	1.3
Income tax benefit	–	2.4
Other	–	(0.3)
Funds From Operations (FFO)¹	–	10.1
Net fair value gain of investment properties	–	21.9
Net fair value loss of derivatives	–	(2.3)
Finance costs attributable to sales transactions	–	(18.8)
Foreign currency translation reserve transfer on disposal of foreign operations	0.8	(21.5)
Net gain on sale of investment properties	–	0.1
Incentive amortisation and rent straight-line	–	(1.3)
Deferred tax benefit	–	4.5
Other	–	0.3
Profit/(loss) from discontinued operations	0.8	(7.0)

1. Refer note 34(c)(i) for a definition of FFO.

Note 12. Assets classified as held for sale and discontinued operations (continued)

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

	2014 \$m	2013 \$m
Cash and cash equivalents	–	0.2
Receivables	–	0.1
Investment properties	–	524.3
Total assets	–	524.6
Payables	–	5.5
Interest bearing liabilities	–	74.6
Loans to related parties	–	172.7
Other liabilities	–	1.6
Total liabilities	–	254.4
Net assets	–	270.2

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

	2014 \$m	2013 \$m
Net cash flows from operating activities	–	4.3
Net cash flows from investing activities	8.1	465.6
Net cash flows from financing activities	(8.1)	(493.1)
Net decrease in cash generated by discontinued operations	–	(23.2)

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.

	2014 ¹ \$m	2013 ² \$m
Assets classified as held for sale		
Cash and cash equivalents	–	0.4
Receivables	–	0.4
Other	–	0.3
Investment properties	139.6	7.7
Total assets classified as held for sale	139.6	8.8
Liabilities classified as held for sale		
Payables	–	0.1
Total liabilities classified as held for sale	–	0.1

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

2. Includes the remaining European property.

Disposals

- On 13 August 2013, the remaining European industrial property at Wustermark, Berlin was disposed of for gross proceeds of €6.1 million (A\$8.9 million)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

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, Macquarie Park, 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 ¹
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 ²
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

1. Heritage floor space retained following the disposal of 1 Chifley Square, Sydney.

2. Classified as inventory at 30 June 2014.

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

Ownership %	Acquisition date	Independent valuation date	Independent valuation amount \$m	Independent valuer	Book value 30 Jun 2014 \$m	Book value 30 Jun 2013 \$m
100	May 1990	Dec 2012	90.5	(d)	93.2	91.9
50	Oct 1995	Jun 2014	15.3	(c)	15.3	16.3
100	Oct 1996	Dec 2012	187.2	(b)	190.1	187.6
100	Aug 1996	Sep 2013	37.7	(g)	37.9	37.6
100	Jul 2000	Sep 2013	37.0	(a)	39.0	34.6
100	Mar 2004	Dec 2011	24.9	(d)	24.9	24.9
100	May 2010	Jun 2013	23.4	(a)	23.8	23.4
100	Oct 2002	Dec 2011	31.5	(g)	–	29.5
100	Sep 1987	Jun 2014	261.0	(d)	261.0	241.0
100	Nov 1993	Dec 2013	105.0	(a)	106.5	99.0
100	May 1997	Jun 2014	78.5	(f)	78.5	77.2
100	Mar 1999	Jun 2014	34.1	(a)	34.1	30.6
100	Sep 1987	Sep 2013	137.0	(a)	151.1	136.9
100	May 2002	Jun 2013	24.0	(e)	–	24.0
100	Jul 2000	Dec 2011	0.1	(a)	0.1	0.1
100	Nov 1984	Jun 2014	28.1	(a)	28.1	36.1
100	Jun 1998	Jun 2014	30.4	(c)	30.4	29.9
100	Mar 1999	Jun 2014	52.8	(a)	52.8	54.3
100	Sep 1987	Sep 2013	65.0	(a)	65.2	64.0
100	Oct 1984	Mar 2013	400.0	(e)	404.4	401.4
100	Dec 2009	Jun 2012	52.9	(c)	56.2	55.7
100	Sep 1997	Dec 2011	37.5	(g)	35.6	35.4
100	Dec 2002	Jun 2012	42.0	(f)	43.9	42.9
100	Dec 1998	Jun 2012	16.3	(a)	20.1	16.3
100	Dec 1998	Jun 2012	24.0	(a)	–	22.5
100	Sep 1997	Jun 2014	27.5	(e)	27.5	27.6
100	Sep 1997	Dec 2011	41.5	(e)	40.4	40.8
100	Feb 2003	Dec 2013	47.5	(c)	47.4	44.8
100	Apr 1998	Dec 2012	90.5	(a)	–	93.0
100	Sep 1997	Jun 2011	39.3	(g)	–	41.5
100	Jan 2004	Dec 2012	71.4	(f)	69.7	70.7
50	Jul 2002	Jun 2014	9.7	(c)	9.7	9.6
50	Jul 2002	Jun 2014	3.6	(c)	3.6	3.6
50	Jul 2002	Jun 2014	18.6	(c)	18.6	18.7
50	Jul 2002	Jun 2014	6.1	(c)	6.1	6.0
50	Jul 2002	Jun 2014	53.2	(c)	53.2	51.0
100	Dec 2002	Jun 2012	52.3	(e)	54.9	54.5
100	Dec 2002	Jun 2014	24.5	(d)	24.5	29.1
100	Dec 1998	Dec 2010	27.0	(f)	–	28.5
100	Jul 1998	Jun 2012	12.5	(f)	12.4	12.5
100	May 1997	Jun 2011	16.3	(e)	–	15.7
100	Jul 1998	Sep 2012	8.8	(d)	9.3	8.9

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

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

(a) Properties (continued)

11 Talavera Road, Macquarie Park, NSW
131 Mica Road, Carole Park, NSW
DEXUS Industrial Estate, 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
Quarry Greystanes, NSW – WH9
Quarry Greystanes, NSW – Brady
Quarry Greystanes, NSW – Roche ³
Quarry Greystanes, NSW – Blackwoods ³
Quarry Greystanes, NSW – WH10 ³
Boundary Road, Laverton North, VIC – Fastline
27 Distribution Drive, Laverton North, VIC – Toll
28 Distribution Drive, Laverton North, VIC – ACFS
25 Distribution Drive, Laverton North, VIC – Spec 4 ³
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
Lumley Centre, 88 Shortland Street, Auckland ⁴
Total investment properties excluding development properties
Total development properties held as investment property
Total investment properties

3. Classified as development property held as investment property at 30 June 2013.

4. Classified as non-current asset held for sale at 30 June 2014.

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 2014 \$m	Book value 30 Jun 2013 \$m
100	Jun 2002	Mar 2013	145.0	(a)	150.8	146.6
100	Jan 2013	n/a	n/a	n/a	22.8	22.3
100	May 1997	Jun 2012	35.0	(g)	29.1	36.6
100	Jul 1997	Mar 2013	15.4	(b)	15.4	15.4
100	Jun 1997	Sep 2012	20.6	(a)	21.1	20.9
50	Dec 2007	Jun 2014	14.2	(c)	14.2	13.4
50	Dec 2007	Jun 2014	18.1	(c)	18.1	17.0
50	Dec 2007	Jun 2014	23.3	(c)	23.3	21.0
50	Dec 2007	Jun 2014	16.8	(c)	16.8	15.9
50	Dec 2007	Jun 2014	4.6	(c)	4.6	4.4
50	Dec 2007	Jun 2014	14.7	(c)	14.7	13.7
50	Dec 2007	Jun 2014	12.0	(c)	12.0	11.1
50	Dec 2007	Jun 2014	8.0	(c)	8.0	-
50	Dec 2007	Jun 2014	16.2	(c)	16.2	-
50	Dec 2007	Jun 2014	14.6	(c)	14.6	-
50	Jun 2010	Jun 2014	7.6	(c)	7.6	8.0
50	Jun 2010	Jun 2014	6.8	(c)	6.8	6.4
100	Jun 2010	n/a	n/a	n/a	6.4	6.5
50	Jun 2010	Jun 2014	4.8	(c)	4.8	-
100	Dec 1998	Sep 2013	270.0	(f)	276.3	256.7
50	Dec 1998	Dec 2012	670.0	(a)	679.2	671.8
50	Dec 1998	Jun 2012	191.0	(d)	195.6	194.0
100	Dec 1998	Jun 2014	212.0	(a)	212.0	192.8
100	Dec 1998	Sep 2012	146.0	(c)	148.7	147.8
50	Dec 1998	Dec 2013	125.0	(e)	126.2	120.3
100	Jan 2001	Dec 2013	500.0	(f)	500.6	480.2
100	May 2002	Jun 2013	179.0	(c)	178.7	179.0
100	Aug 2000	Dec 2013	460.0	(c)	458.5	425.2
50	Aug 2000	Jun 2014	160.0	(f)	160.0	144.0
100	Aug 2000	Dec 2011	29.5	(a)	57.1	55.1
50	Aug 2000	Jun 2013	305.0	(e)	317.8	305.0
100	Sep 2005	Jun 2013	107.4	n/a	-	107.4
					5,887.5	6,008.1
					39.0	76.9
					5,926.5	6,085.0

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

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

(b) Reconciliation

	Note	Office \$m	Industrial \$m	Development properties \$m	2014 \$m	2013 \$m
Opening balance at the beginning of the year		4,649.9	1,358.0	77.1	6,085.0	6,391.5
Additions		39.5	10.0	22.4	71.9	82.1
Acquisitions		–	–	–	–	22.2
Lease incentives		64.6	10.8	–	75.4	52.0
Amortisation of lease incentives		(49.9)	(7.5)	–	(57.4)	(52.1)
Rent straightlining		6.3	2.1	–	8.4	(0.6)
Disposals		(53.2)	(114.9)	(4.4)	(172.5)	(24.9)
Transfer to non-current assets classified as held for sale		(130.1)	–	(9.5)	(139.6)	(7.2)
Transfer to discontinued operations		–	–	–	–	(559.6)
Transfer to inventories	9	–	(93.4)	(8.0)	(101.4)	(14.5)
Transfer from/(to) development properties		–	38.6	(38.6)	–	–
Net fair value gain of investment properties		135.5	10.2	–	145.7	188.8
Foreign exchange differences		11.0	–	–	11.0	7.3
Closing balance at the end of the year		4,673.6	1,213.9	39.0	5,926.5	6,085.0

Disposals

- On 23 August 2013, 40 Talavera Road, Macquarie Park, NSW was disposed of for gross proceeds of \$28.2 million
- On 22 October 2013, 50% of Quarry Greystanes, NSW – Warehouse 10 was disposed of for gross proceeds of \$4.7 million
- On 28 February 2014, 10 – 16 South Street, Rydalmere, NSW was disposed of for gross proceeds of \$43.3 million
- On 30 May 2014, 30 – 32 Bessemer Street, Blacktown, NSW was disposed of for gross proceeds of \$16.6 million
- On 4 June 2014, 14 Moore Street, Canberra, ACT was disposed of for gross proceeds of \$23.0 million
- On 25 June 2014, a unit located at DEXUS Industrial Estate, Egerton Street, Silverwater, NSW was disposed of for gross proceeds of \$6.1 million
- On 30 June 2014, 2 Minna Close, Belrose, NSW was disposed of for gross proceeds of \$19.5 million
- On 30 June 2014, 25 Donkin Street, Brisbane, QLD was disposed of for gross proceeds of \$25.7 million

(c) Valuation process

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 who are instructed in accordance with all applicable regulatory requirements. Independent valuations of individual investment properties are carried out in accordance with the Constitutions for each trust forming the Group which at a minimum requires each individual property to be independently valued every three years. Each valuation firm and its signatory valuer are appointed on the basis that they are engaged for no more than three consecutive valuations. Independent valuations may be undertaken earlier where the Responsible Entity believes there is potential for a material change in the fair value of the property being the greater of 5% of the asset value, or \$5 million.

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

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

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

(d) Fair value measurement, valuation techniques and inputs

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

Class of property	Fair value hierarchy	Fair value 2014 \$m	Inputs used to measure fair value	Range of unobservable inputs 2014
Office	Level 3	4,673.6	Adopted capitalisation rate	6.05% – 8.50%
			Adopted discount rate	8.09% – 9.50%
			Adopted terminal yield	6.05% – 8.50%
			Current net market rental (per sqm)	\$334 – \$1,065
			10 year average market rental growth	2.10% – 3.87%
Industrial	Level 3	1,213.9	Adopted capitalisation rate	7.13% – 11.00%
			Adopted discount rate	9.00% – 11.50%
			Adopted terminal yield	7.63% – 11.00%
			Current net market rental (per sqm)	\$43 – \$300
			10 year average market rental growth	2.52% – 3.26%
Development properties	Level 3	39.0	Adopted capitalisation rate	7.13%
			Land rate (per sqm)	\$50 – \$418
Total		5,926.5		

(e) Sensitivity information

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

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

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

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

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

(f) Investment properties pledged as security

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

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Note 14. Non-current assets – plant and equipment

	2014 \$m	2013 \$m
Opening balance at the beginning of the year	8.8	4.7
Additions	4.0	7.0
Depreciation charge	(2.0)	(2.9)
Closing balance at the end of the year	10.8	8.8
Cost	26.6	22.6
Accumulated depreciation	(15.8)	(13.8)
Net book value as at the end of the year	10.8	8.8

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(b)).

Information relating to these entities is set out below:

	Ownership interest		2014 \$m	2013 \$m
	2014 %	2013 %		
Bent Street Trust	33.3	33.3	250.2	248.3
DEXUS Creek Street Trust	50.0	50.0	131.8	127.6
DEXUS Martin Place Trust	50.0	50.0	81.5	79.8
Grosvenor Place Holding Trust ¹	50.0	50.0	293.5	289.1
Site 6 Homebush Bay Trust ¹	50.0	50.0	37.5	37.1
Site 7 Homebush Bay Trust ¹	50.0	50.0	50.8	50.3
DEXUS 480 Q Holding Trust	50.0	50.0	82.9	44.5
DEXUS Kings Square Trust	50.0	50.0	88.8	30.1
DEXUS Office Trust Australia	50.0	–	1,777.8	–
DEXUS Industrial Trust Australia	50.0	–	19.1	–
Total non-current assets – investments accounted for using the equity method			2,813.9	906.8

1. Ownership interest is 75% when combined with the interest held by DEXUS Office Trust Australia. These investments are classified as joint ventures and accounted for using the equity method as a result of contractual arrangements requiring unanimous decisions on all relevant matters.

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

The table below provides summarised financial information for the Group's share of joint ventures that are material, as well as other individually immaterial joint ventures.

	DEXUS Office Trust Australia		Grosvenor Place Holding Trust		Bent Street Trust		Other joint ventures		Total	
Summarised Statement of Financial Position	2014 \$m	2013 \$m	2014 \$m	2013 \$m	2014 \$m	2013 \$m	2014 \$m	2013 \$m	2014 \$m	2013 \$m
Current assets										
Cash and cash equivalents	21.7	–	0.4	0.7	0.8	1.4	3.2	2.7	26.1	4.8
Other current assets	6.7	–	0.7	1.9	2.9	0.4	4.4	2.5	14.7	4.8
Total current assets	28.4	–	1.1	2.6	3.7	1.8	7.6	5.2	40.8	9.6
Non-current assets										
Investment properties	1,506.9	–	295.5	289.2	250.3	250.3	505.3	373.3	2,558.0	912.8
Investments accounted for using the equity method	188.2	–	–	–	–	–	–	–	188.2	–
Loan to related party ¹	338.4	–	–	–	–	–	–	–	338.4	–
Total non-current assets	2,033.5	–	295.5	289.2	250.3	250.3	505.3	373.3	3,084.6	912.8
Current liabilities										
Provision for distribution	63.7	–	1.8	1.1	2.3	–	1.0	1.6	68.8	2.7
Other current liabilities	34.7	–	1.3	1.6	1.5	3.8	19.5	7.5	57.0	12.9
Total current liabilities	98.4	–	3.1	2.7	3.8	3.8	20.5	9.1	125.8	15.6
Non-current liabilities										
Borrowings	185.7	–	–	–	–	–	–	–	185.7	–
Total non-current liabilities	185.7	–	–	–	–	–	–	–	185.7	–
Net assets	1,777.8	–	293.5	289.1	250.2	248.3	492.4	369.4	2,813.9	906.8
Reconciliation of carrying amounts:										
Opening balance at the beginning of the year	–	–	289.1	–	248.3	217.0	369.4	–	906.8	217.0
Additions	1,878.7	–	2.4	289.4	3.1	15.9	113.1	369.0	1,997.3	674.3
Share of net (loss)/profit after tax	(9.0)	–	18.2	4.0	13.7	24.4	35.4	9.5	58.3	37.9
Impairment	(3.3)	–	–	(0.9)	–	–	–	0.8	(3.3)	(0.1)
Distributions received/receivable	(88.6)	–	(16.2)	(3.4)	(14.9)	(9.0)	(25.5)	(9.9)	(145.2)	(22.3)
Closing balance at the end of the year	1,777.8	–	293.5	289.1	250.2	248.3	492.4	369.4	2,813.9	906.8

1. Refer to Note 22. Represents the Group's share of proceeds from the sale of four properties by DEXUS Office Trust Australia.

	DEXUS Office Trust Australia		Grosvenor Place Holding Trust		Bent Street Trust		Other joint ventures		Total	
Summarised Statement of Comprehensive Income	2014 \$m	2013 \$m	2014 \$m	2013 \$m	2014 \$m	2013 \$m	2014 \$m	2013 \$m	2014 \$m	2013 \$m
Property revenue	63.7	–	22.6	5.6	17.0	14.5	24.1	12.0	127.4	32.1
Property revaluations	3.0	–	–	–	–	12.9	16.8	–	19.8	12.9
Interest income	0.3	–	–	–	0.1	–	0.1	–	0.5	–
Finance costs	(5.4)	–	–	–	–	–	–	–	(5.4)	–
Other expenses	(70.6)	–	(4.4)	(1.6)	(3.4)	(3.0)	(5.6)	(2.5)	(84.0)	(7.1)
Net (loss)/profit for the year	(9.0)	–	18.2	4.0	13.7	24.4	35.4	9.5	58.3	37.9
Total comprehensive (loss)/income for the year	(9.0)	–	18.2	4.0	13.7	24.4	35.4	9.5	58.3	37.9

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FOR THE YEAR ENDED 30 JUNE 2014

Note 16. Non-current assets – deferred tax assets

	2014 \$m	2013 \$m
The balance comprises temporary differences attributable to:		
Derivative financial instruments	0.1	0.6
Tax losses	25.2	27.5
Employee provisions	9.6	10.7
Other	1.0	0.6
Total non-current assets – deferred tax assets	35.9	39.4
Movements:		
Opening balance at the beginning of the year	39.4	36.7
(Utilisation)/recognition of tax losses	(2.3)	5.2
Movement in deferred tax asset arising from temporary differences	(1.2)	(2.5)
(Charged)/credited to the Statement of Comprehensive Income	(3.5)	2.7
Closing balance at the end of the year	35.9	39.4

Note 17. Non-current assets – intangible assets

	2014 \$m	2013 \$m
Management rights		
Opening balance at the beginning of the year	242.1	221.9
Acquisition of management rights	42.0	–
Amortisation charge	(0.3)	(0.3)
Reversal of previous impairment	7.3	20.5
Closing balance at the end of the year	291.1	242.1
Cost	294.4	252.4
Accumulated amortisation	(3.3)	(3.0)
Accumulated impairment	–	(7.3)
Total management rights	291.1	242.1
Goodwill		
Opening balance at the beginning of the year	1.6	1.7
Impairment	(0.1)	(0.1)
Closing balance at the end of the year	1.5	1.6
Cost	3.0	3.0
Accumulated impairment	(1.5)	(1.4)
Total goodwill	1.5	1.6
Total non-current assets – intangible assets	292.6	243.7

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 \$5.1 million (2013: \$5.4 million)) are measured at cost and amortised using the straight-line method over their estimated remaining useful lives of 18 years.

During the year the Group purchased management rights which entitle it to management fee revenue from DEXUS Office Trust Australia (DOTA). These rights are deemed to have an indefinite life and are held at \$42.0 million (2013: nil). Management rights in relation to other managed funds deemed to have an indefinite life are held at a value of \$244.0 million (2013: \$236.7 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 \$7.3 million (2013: \$20.5 million) in the 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 range between 12.5% – 16.7% (2013: 12.5%) was used incorporating an appropriate risk premium for a management business
- The cash flows have been discounted at 9.5% (2013: 9.5%) based on externally published weighted average cost of capital for an appropriate peer group plus an appropriate premium for risk. A 0.25% (2013: 0.25%) decrease in the discount rate would increase the valuation by \$3.7 million (2013: \$2.7 million)

Note 18. Non-current assets – other

	2014 \$m	2013 \$m
Tenant bonds	1.2	1.2
Other	0.2	0.2
Total non-current assets – other	1.4	1.4

Note 19. Current liabilities – payables

	2014 \$m	2013 \$m
Trade creditors	37.2	34.8
Accruals	15.0	13.7
Accrued capital expenditure	10.7	9.9
Prepaid income	17.9	15.9
GST payable	4.0	1.5
Accrued interest	25.6	17.5
Current tax liabilities	1.3	1.1
Other	0.7	0.7
Total current liabilities – payables	112.4	95.1

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

Note 20. Interest bearing liabilities

	Note	2014 \$m	2013 \$m
Current			
Unsecured			
US senior notes	(b)	94.5	–
Medium term notes	(e)	55.0	–
Total unsecured		149.5	–
Total current liabilities – interest bearing liabilities		149.5	–
Non-current			
Unsecured			
US senior notes	(a), (b)	827.8	409.0
Bank loans	(c)	1,450.7	1,189.6
Commercial paper	(d)	100.0	–
Medium term notes	(e)	418.9	580.0
Total unsecured		2,797.4	2,178.6
Deferred borrowing costs		(15.3)	(11.5)
Total non-current liabilities – interest bearing liabilities		2,782.1	2,167.1
Total interest bearing liabilities		2,931.6	2,167.1

Financing arrangements

Type of facility	Note	Currency	Security	Maturity date	2014 \$m Utilised ¹	2014 \$m Facility limit
US senior notes (144A)	(a)	US\$	Unsecured	Mar-21	264.7	264.7
US senior notes (USPP)	(b)	US\$	Unsecured	Dec-14 to Jul-28	668.8	668.8
Medium term notes	(e)	A\$	Unsecured	Jul-14 to Sep-18	473.9	473.9
Commercial paper	(d)	A\$	Unsecured	Aug-15	100.0	100.0
Multi-option revolving credit facilities	(c)	Multi Currency	Unsecured	Aug-15 to Nov-19	1,450.7	1,950.0
Total					2,958.1	3,457.4
Bank guarantee utilised					37.0	
Unused at balance date					462.3	

1. Includes drawn amounts and excludes fair value adjustments recorded in interest bearing liabilities in relation to effective fair value hedges.

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

(a) US senior notes (144A)

This includes a total of US\$250.0 million (A\$265.4 million) of US senior notes with a maturity of March 2021.

(b) US senior notes (USPP)

This includes a total of US\$630.0 million (A\$668.8 million) of US senior notes with a weighted average maturity of March 2024.

(c) Multi-option revolving credit facilities

This includes 14 facilities maturing between August 2015 and November 2019 with a weighted average maturity of January 2018. A\$37.0 million is utilised as bank guarantees for developments, AFSL requirements and in relation to the sale of the US industrial portfolio.

(d) Commercial paper

This includes a total of A\$100.0 million of commercial paper which is supported by a standby facility of A\$100.0 million with a weighted average maturity of August 2015. The standby facility has same day availability.

(e) Medium term notes

This includes a total of A\$470.0 million of medium term notes with a weighted average maturity of August 2017.

Additional information

The Group has commitments with delayed starts for \$150.0 million of new revolving credit facilities with a weighted average maturity of October 2018.

In addition, the Group has commitments totalling A\$70.0 million that are available for three months out of every six months.

Note 21. Provisions

	2014 \$m	2013 \$m
Current		
Provision for distribution	173.3	146.2
Provision for employee benefits	23.9	23.3
Total current liabilities – provisions	197.2	169.5

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

	2014 \$m	2013 \$m
Provision for distribution		
Opening balance at the beginning of the year	146.2	128.2
Additional provisions	315.4	282.1
Payment of distributions	(288.3)	(264.1)
Closing balance at the end of the year	173.3	146.2

A provision for distribution has been raised for the period ended 30 June 2014. This distribution is to be paid on 29 August 2014.

	2014 \$m	2013 \$m
Non-current		
Provision for employee benefits	4.9	11.2
Total non-current liabilities – provisions	4.9	11.2

Note 22. Non-current liabilities – loan from related party

	2014 \$m	2013 \$m
Non-interest bearing loan from DEXUS Office Trust Australia ¹	338.4	–
Total non-current liabilities – loan from related party	338.4	–

1. Represents the Group's share of proceeds from the sale of four properties by DEXUS Office Trust Australia. Refer to Note 15.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

Note 23. Non-current liabilities – deferred tax liabilities

	2014 \$m	2013 \$m
The balance comprises temporary differences attributable to:		
Derivative financial instruments	2.8	3.3
Intangible assets	2.0	2.1
Investment properties and inventories	16.0	6.5
Other	0.3	0.2
Total non-current liabilities – deferred tax liabilities	21.1	12.1
Movements		
Opening balance at the beginning of the year	12.1	12.4
Temporary differences	8.5	4.3
Foreign currency translation	0.5	–
Charged to the Statement of Comprehensive Income	9.0	4.3
Movements in deferred withholding tax arising from:		
Temporary differences	–	(4.5)
Foreign currency translation	–	(0.1)
Credited to the Statement of Comprehensive Income	–	(4.6)
Closing balance at the end of the year	21.1	12.1

Note 24. Non-current liabilities – other

	2014 \$m	2013 \$m
Tenant bonds and other	3.9	4.6
Total non-current liabilities – other	3.9	4.6

Note 25. Contributed equity

(a) Contributed equity of unitholders of the parent entity

	2014 \$m	2013 \$m
Opening balance at the beginning of the year	1,577.7	1,605.0
Buy-back of contributed equity	(25.5)	(27.3)
Issue of additional equity	281.2	–
Closing balance at the end of the year	1,833.4	1,577.7

(b) Contributed equity of unitholders of other stapled entities

	2014 \$m	2013 \$m
Opening balance at the beginning of the year	3,106.3	3,156.5
Buy-back of contributed equity	(49.8)	(50.2)
Issue of additional equity	569.2	–
Closing balance at the end of the year	3,625.7	3,106.3

(c) Number of securities on issue

	2014 No. of securities	2013 No. of securities
Opening balance at the beginning of the year	4,701,957,390	4,783,817,657
Buy-back of contributed equity	(73,728,964)	(81,860,267)
Issue of additional equity	804,882,384	–
Closing balance at the end of the year	5,433,110,810	4,701,957,390

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 26. Reserves and retained profits

(a) Reserves

	2014 \$m	2013 \$m
Foreign currency translation reserve	(1.8)	(6.3)
Asset revaluation reserve	42.7	42.7
Cash flow hedge reserve	(9.3)	–
Security-based payments reserve	5.6	2.4
Treasury securities reserve	(5.3)	(2.2)
Total reserves	31.9	36.6
Movements:		
Foreign currency translation reserve		
Opening balance at the beginning of the year	(6.3)	(36.0)
Exchange differences on translating foreign operations	5.3	8.2
Foreign currency translation reserve transfer on disposal of foreign operations	(0.8)	21.5
Closing balance at the end of the year	(1.8)	(6.3)
Asset revaluation reserve		
Opening balance at the beginning of the year	42.7	42.7
Closing balance at the end of the year	42.7	42.7
Cash flow hedge reserve		
Opening balance at the beginning of the year	–	–
Changes in the fair value of cash flow hedges	(9.3)	–
Closing balance at the end of the year	(9.3)	–
Security-based payments reserve		
Opening balance at the beginning of the year	2.4	0.4
Security-based payments expense	3.2	2.0
Closing balance at the end of the year	5.6	2.4
Treasury securities reserve		
Opening balance at the beginning of the year	(2.2)	–
Purchase of securities	(3.1)	(2.2)
Closing balance at the end of the year	(5.3)	(2.2)

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Note 26. Reserves and retained profits (continued)

(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.

Cash flow hedge reserve

The cash flow hedge reserve is used to record the effective portion of changes in the fair value of derivatives that are designated as cash flow hedges.

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 37 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 2014, DEXUS held 5,086,949 stapled securities (2013: 2,108,728).

(c) Retained profits

	2014 \$m	2013 \$m
Opening balance at the beginning of the year	471.1	238.7
Net profit attributable to security holders	406.6	514.5
Distributions provided for or paid	(315.4)	(282.1)
Closing balance at the end of the year	562.3	471.1

Note 27. Distributions paid and payable

(a) Distribution to security holders

	2014 \$m	2013 \$m
31 December (paid 28 February 2014)	142.1	135.9
30 June (payable 29 August 2014)	173.3	146.2
	315.4	282.1

(b) Distribution rate

	2014 Cents per security	2013 Cents per security
31 December (paid 28 February 2014)	3.07	2.89
30 June (payable 29 August 2014)	3.19	3.11
Total distributions	6.26	6.00

(c) Franked dividends

The franked portions of the final dividends recommended after 30 June 2014 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 2014.

Franking credits	2014 \$m	2013 \$m
Opening balance at the beginning of the year	16.2	16.2
Franking credits utilised for payment of distribution	(6.4)	–
Closing balance at the end of the year	9.8	16.2

Note 28. Parent entity financial information

(a) Summary financial information

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

	2014 \$m	2013 \$m
Total current assets	61.6	74.2
Total assets	2,944.8	2,182.5
Total current liabilities	136.9	119.5
Total liabilities	925.3	423.4
Equity		
Contributed equity	1,833.4	1,577.7
Reserves	(9.0)	–
Retained profits	195.1	181.4
Total equity	2,019.5	1,759.1
Net profit for the year from continuing operations	141.4	141.5
Net profit for the year from discontinued operations	–	7.5
Net profit for the year	141.4	149.0
Total comprehensive income for the year	132.4	149.0

(b) Guarantees entered into by the parent entity

Refer to Note 30 for details of guarantees entered into by the parent entity.

(c) Contingent liabilities

The parent entity had no contingent liabilities as at 30 June 2014 (2013: 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:

	2014 \$m	2013 \$m
Investment properties	6.5	3.2
Total capital commitments	6.5	3.2

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Note 29. Financial risk management

To ensure the effective and prudent management of the Group's capital and financial risks, the Group has an 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/corporategovernance

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 is detailed below:

Gearing ratio	2014 \$m	2013 \$m
Total interest bearing liabilities ¹	2,919.3	2,134.7
Total tangible assets ²	9,342.2	7,329.3
Gearing ratio³	31.2%	29.1%

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 look-through gearing ratio at 30 June 2014 was 33.7% (2013: 29.0%).

The Group is rated A- by Standard & Poor's (S&P) and A3 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 2014 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 Licence (AFSL). The licence is subject to certain capital requirements including the requirement to maintain liquidity above specified limits. DXFM must also prepare rolling cash projections over at least the next 12 months and demonstrate it will have access to sufficient financial resources to meet its liabilities that are expected to be payable over that period. Cash projections and assumptions are approved, at least quarterly, by the Board of the Responsible Entity.

DWPL, a wholly owned entity, has 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 third party managed funds. 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

Note 29. Financial risk management

2. Financial risk management (continued)

(a) Liquidity risk (continued)

Refinancing risk (continued)

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.

	2014				2013			
	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	111.6	–	–	–	40.6	–	–	–
Payables	112.4	–	–	–	95.2	–	–	–
	(0.8)	–	–	–	(54.6)	–	–	–
Interest bearing liabilities and interest								
Fixed interest rate liabilities and interest	168.3	71.2	667.1	970.7	55.2	148.4	430.8	518.5
Floating interest rate liabilities and interest	114.7	156.6	1,370.5	117.0	69.0	257.9	1,179.8	–
Total interest bearing liabilities and interest¹	283.0	227.8	2,037.6	1,087.7	124.2	406.3	1,610.6	518.5
Derivative financial instruments								
Derivative assets	131.3	31.3	119.8	772.5	53.3	138.6	106.5	681.3
Derivative liabilities	139.6	51.2	167.9	661.9	61.1	134.4	121.6	632.8
Total net derivative financial instruments²	(8.3)	(19.9)	(48.1)	110.6	(7.8)	4.2	(15.1)	48.5

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) 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 30 (contingent liabilities) for financial guarantees.

(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 2014, 62% (2013: 62%) 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.

Derivative contracts require settlement of net interest receivable or payable each 90 or 180 days. The settlement dates coincide with the dates on which the interest is payable on the underlying debt. The contracts are settled on a net basis.

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

	June 2015 \$m	June 2016 \$m	June 2017 \$m	June 2018 \$m	June 2019 \$m	> June 2020 \$m
Fixed rate debt¹						
A\$ fixed rate debt	515.0	515.0	462.5	275.8	84.2	4.6
Interest rate swaps						
A\$ hedged ¹	1,603.3	1,775.4	1,743.8	1,557.1	1,148.3	58.4
Combined fixed debt and swaps (A\$ equivalent)	2,118.3	2,290.4	2,206.3	1,832.9	1,232.5	63.0
Hedge rate (%)	3.96%	4.03%	3.88%	3.98%	4.32%	3.41%

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.

		2014 (+/-) \$m	2013 (+/-) \$m
+/- 0.50% (50 basis points)	A\$	5.0	4.8
+/- 0.50% (50 basis points)	NZ\$	0.6	-
Total A\$ equivalent		5.5	4.8

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.

		2014 (+/-) \$m	2013 (+/-) \$m
+/- 0.50% (50 basis points)	A\$	38.0	14.6
+/- 0.50% (50 basis points)	NZ\$	(0.7)	(1.3)
Total A\$ equivalent		37.3	13.1

(ii) 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 has an investment in New Zealand. As a result, the Group has foreign exchange risk, arising primarily from:

- Translation of an investment in a foreign operation
- Borrowings and cross currency swaps denominated in foreign currencies
- Earnings distributions and other transactions denominated in foreign currencies

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

Note 29. Financial risk management (continued)

2. Financial risk management (continued)

(b) Market risk (continued)

(ii) Foreign exchange risk (continued)

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.

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:

	2014 \$m	2013 \$m
€ assets ¹	–	6.0
€ net borrowings and cross currency swaps ²	–	(4.2)
€ denominated net investment	–	1.8
% hedged	0%	71%
NZ\$ assets ¹	140.0	127.5
NZ\$ net borrowings ²	(125.0)	–
NZ\$ denominated net investment	15.0	127.5
% hedged	89%	0%
Total foreign net investment (A\$ equivalent)	13.9	109.9
Total % hedged	89%	5%

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

2. Net borrowings equals interest bearing liabilities less cash. Where there are 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 currency¹. The cents per currency has been applied to the spot rates prevailing at the end of each reporting period². 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.

		2014 \$m	2013 \$m
+ 8.9 cents (12.5%) (2013: 8.9 cents)	€ (A\$ equivalent)	–	0.3
- 8.9 cents (12.5%) (2013: 8.9 cents)	€ (A\$ equivalent)	–	(0.4)
+ 8.5 cents (9.5%) (2013: 9.5 cents)	NZ\$ (A\$ equivalent)	1.0	8.0
- 8.5 cents (9.5%) (2013: 9.5 cents)	NZ\$ (A\$ equivalent)	(1.2)	(9.4)

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 2014: A\$/€ 0.6906 (2013: 0.7095), A\$/NZ\$ 1.0761 (2013: 1.1871).

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.

		2014 (+/-) \$m	2013 (+/-) \$m
+/- 0.50% (50 basis points) ¹	US\$ (A\$ equivalent)	8.9	8.5
Total A\$ equivalent		8.9	8.5

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

The Statement of Comprehensive Income is sensitive to changes in fair value arising from the impact that changes in short term and long term market rates will have on the AUD/USD basis spread of cross currency swaps used for hedge accounting. The impact of this is offset in other comprehensive income because the currency basis forms part of the margin hedge.

(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 2014, the lowest rating of counterparties the Group is exposed to was A- (Fitch) (2013: A- (Fitch)).

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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

Note 29. Financial risk management (continued)

2. Financial risk management (continued)

(c) Credit risk (continued)

The maximum exposure to credit risk at 30 June 2014 and 30 June 2013 was the carrying amount of financial assets recognised on the Statement of Financial Position.

As at 30 June 2014 and 30 June 2013, 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 2014 is (\$m): 106.4 (0-30 days), 3.1 (31-60 days), 0.6 (61-90 days), 1.5 (91+ days). 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)). 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.

(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 2014 and 30 June 2013, the carrying amounts and fair value of financial assets and liabilities are shown as follows:

	2014 Carrying amount ¹ \$m	2014 Fair value ² \$m	2013 Carrying amount ¹ \$m	2013 Fair value ² \$m
Financial assets				
Cash and cash equivalents	14.1	14.1	14.9	14.9
Loans and receivables (current)	111.6	111.6	40.6	40.6
Derivative assets	80.2	80.2	140.2	140.2
Total financial assets	205.9	205.9	195.7	195.7
Financial liabilities				
Trade payables	112.4	112.4	95.2	95.2
Derivative liabilities	88.1	88.1	101.2	101.2
Interest bearing liabilities				
Fixed interest bearing liabilities	1,402.4	1,491.0	878.9	934.7
Floating interest bearing liabilities	1,555.7	1,555.7	1,299.6	1,299.6
Total financial liabilities	3,158.6	3,247.2	2,374.9	2,430.7

1. Carrying value is equal to the value of the financial instruments on the Statement of Financial Position.

2. Fair value is the price that would be received to transfer the asset or liability in an orderly transaction between market participants at the measurement date. 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 based on a discounted cash flow analysis using observable market inputs (interest rates, exchange rates, and basis) and applying a credit or debit value adjustment based on the current credit worthiness of counterparties and the Group.

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 2014 and 30 June 2013.

2014	Level 1 \$m	Level 2 \$m	Level 3 \$m	Total \$m
Financial assets				
Derivative assets				
Interest rate derivatives	–	24.8	–	24.8
Cross currency swaps	–	55.4	–	55.4
Other	–	–	–	–
	–	80.2	–	80.2
Financial liabilities				
Interest bearing liabilities				
Fixed interest bearing liabilities	–	1,491.0	–	1,491.0
Floating interest bearing liabilities	–	1,555.7	–	1,555.7
	–	3,046.7	–	3,046.7
Derivative liabilities				
Interest rate derivatives	–	81.7	–	81.7
Cross currency swaps	–	6.4	–	6.4
	–	88.1	–	88.1
2013				
Financial assets				
Derivative assets				
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
Financial liabilities				
Interest bearing liabilities				
Fixed interest bearing liabilities	–	934.7	–	934.7
Floating interest bearing liabilities	–	1,299.6	–	1,299.6
	–	2,234.3	–	2,234.3
Derivative liabilities				
Interest rate derivatives	–	74.8	–	74.8
Cross currency swaps	–	26.4	–	26.4
	–	101.2	–	101.2

During the year, there were no transfers between Level 1, Level 2 and Level 3 fair value measurements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

Note 29. Financial risk management (continued)

2. Financial risk management (continued)

(e) Offsetting financial assets and financial liabilities

Financial assets and liabilities are offset and the net amount reported in the balance sheet where the Group currently has a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The Group has also entered into arrangements that do not meet the criteria for offsetting but still allow for the related amounts to be set off in certain circumstances, such as bankruptcy or the termination of a contract.

The following table presents the recognised financial instruments in the Statement of Financial Position as the Group does not apply master netting arrangements. The column 'net amount' shows the impact on the Group's Statement of Financial Position if all set-off rights were exercised at 30 June 2014 and 30 June 2013.

2014	Gross amounts \$m	Gross amounts offset in the Statement of Financial Position \$m	Net amounts presented in the Statement of Financial Position \$m	Amounts subject to master netting arrangements \$m	Financial instrument collateral \$m	Net amount \$m
Financial assets						
Derivative financial instruments	80.2	–	80.2	(24.8)	–	55.4
Total	80.2	–	80.2	(24.8)	–	55.4
Financial liabilities						
Derivative financial instruments	88.1	–	88.1	(24.8)	–	63.3
Total	88.1	–	88.1	(24.8)	–	63.3
2013						
Financial assets						
Derivative financial instruments	140.2	–	140.2	(17.9)	–	122.3
Total	140.2	–	140.2	(17.9)	–	122.3
Financial liabilities						
Derivative financial instruments	101.2	–	101.2	(17.9)	–	83.3
Total	101.2	–	101.2	(17.9)	–	83.3

Master netting arrangements – not currently enforceable

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

Note 30. Contingent liabilities

Details and estimates of maximum amounts of contingent liabilities are as follows:

	2014 \$m	2013 \$m
Bank guarantees by the Group in respect of variations and other financial risks associated with the development of:		
Boundary Road, Laverton North, VIC	0.3	0.5
123 Albert Street, Brisbane, QLD	0.1	0.1
1 Foundation Place, Greystanes, NSW	0.4	0.4
Contingent liabilities in respect of developments	0.8	1.0

DDF together with DIT, DOT and DXO is also a guarantor of A\$1,100.0 million of bank bilateral facilities, A\$850.0 million of syndicated bank debt facilities, A\$470.0 million of medium term notes, US\$630.0 million (A\$668.8 million) of privately placed notes and US\$250.0 million (A\$265.4 million) public 144A senior notes, which have all been negotiated to finance the Group and other entities within DEXUS. 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.

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\$16.1 million) and is expected to remain on issue until September 2014.

The Group has bank guarantees of \$20.2 million held on behalf of DEXUS Funds Management Limited, DEXUS Wholesale Property Limited and DEXUS Wholesale Management Limited to comply with the terms of their Australian Financial Services Licences (AFSL).

The above 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.

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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

Note 31. 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:

	2014 \$m	2013 \$m
Investment properties	58.2	53.6
Inventories	0.8	4.9
Investments accounted for using the equity method	284.8	302.3
Total capital commitments	343.8	360.8

(b) Lease payable commitments

The future minimum lease payments payable by the Group are:

	2014 \$m	2013 \$m
Within one year	3.6	4.5
Later than one year but not later than five years	12.6	12.7
Later than five years	6.5	7.5
Total lease payable commitments	22.7	24.7

Payments made under operating leases are expensed on a straight-line 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.

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:

	2014 \$m	2013 \$m
Within one year	383.4	410.1
Later than one year but not later than five years	992.9	1,001.0
Later than five years	353.4	383.5
Total lease receivable commitments	1,729.7	1,794.6

Note 32. Related parties

Responsible Entity and Investment Manager

DXH is the parent entity of DXFM, the Responsible Entity of DDF, DIT, DOT and DXO and the trustee of DOTA.

DXH is also the parent entity of DWPL, the Responsible Entity for DWPF.

DXH is the Investment Manager of DOTA.

Management fees

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

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

	2014 \$'000	2013 \$'000
Responsible Entity fee income	24,173	21,018
Property management fee income	7,397	7,629
Recovery of administration expenses	5,777	3,377
Aggregate amount receivable at the end of each reporting period (included above)	–	1,827
Property management fees receivable at the end of each reporting period (included above)	817	1,015
Administration expenses receivable at the end of each reporting period (included above)	125	49

Investments accounted for using the equity method

	2014 \$'000	2013 \$'000
Asset management fee income	2,331	–
Property management fee income	2,004	284
Recovery of administration expenses	5,918	180
Property management fees receivable at the end of each reporting period (included above)	497	–
Administration expenses receivable at the end of each reporting period (included above)	63	48

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

Note 32. Related parties (continued)

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^{1,2,5,6}
- E A Alexander, AM, BComm, FCA, FAICD, FCPA^{1,3}
- P Bingham-Hall, BA, FAICD, SF^{1,11}
- B R Brownjohn, BComm^{7,8}
- J C Conde, AO, BSc, BE (Hons), MBA^{1,2}
- T Dwyer, BJuris (Hons), LLB (Hons)^{1,4,9}
- S F Ewen, OAM^{7,10}
- C D Mitchell, BComm, EMBA, FCPA
- W R Sheppard, BEc (Hons)^{1,3,5}
- D J Steinberg, BEc, FRICS, FAPI
- P B St George, CA(SA), MBA^{1,5}

1. Independent Director.
2. Board Nomination, Remuneration & Governance Committee Member.
3. Board Audit, Risk & Sustainability Committee Member.
4. Board Compliance Committee Member.
5. Board Finance Committee Member.
6. Appointed as Board Audit, Risk & Sustainability Committee Member on 29 October 2013.
7. Resigned as Director on 29 October 2013.
8. Resigned as Board Audit, Risk & Sustainability Committee Member on 29 October 2013.
9. Appointed as Board Nomination, Remuneration & Governance Committee Member on 4 December 2013.
10. Resigned as Board Nomination, Remuneration & Governance Committee Member on 29 October 2013.
11. Appointed as Independent Director on 10 June 2014.

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
Ross Du Vernet	Executive General Manager, Strategy, Transactions & Research
Kevin George	Executive General Manager, Office & Industrial

Key Management Personnel compensation

	2014 \$'000	2013 \$'000
Compensation		
Short term employee benefits	7,428	9,220
Post employment benefits	189	229
Other long term benefits	48	1,116
Security-based payments	1,995	1,384
Total	9,660	11,949

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 DEXUS 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 2013	Purchases	Performance rights granted	Other change	Closing balance 30 June 2014
Directors	1,747,199	320,537	2,076,224	(150,000)	3,993,960
Other key management personnel	225,263	–	1,099,195	–	1,324,458
Total	1,972,462	320,537	3,175,419	(150,000)	5,318,418

The DXFM Board has approved a grant of performance rights to DEXUS stapled securities to eligible participants (refer Note 37). 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 2014 and 30 June 2013.

Note 33. Events occurring after reporting date

On 1 July 2014, settlement occurred on the sale of 30 Distribution Drive, Laverton North, VIC.

On 3 July 2014, the Group exchanged contracts for the sale of 154 O-Riordan Street, Mascot, NSW.

On 25 July 2014, the Group exchanged contracts for the sale of 50 Carrington Street, Sydney, NSW.

On 13 August 2014, the Group exchanged contracts for the sale of 5-13 Rosebery Avenue and 25-55 Rothschild Avenue, Rosebery, NSW.

As a result of the above transactions, the Group is expecting to recognise trading profits totalling approximately \$120 million (before tax) in the following two to three financial years.

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

Note 34. 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. DEXUS 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.

Office	This comprises office space with any associated retail space; as well as car parks and office developments in Australia and New Zealand.
Industrial	This comprises domestic industrial properties, industrial estates and industrial developments.
Property management	This comprises property management services for third party clients and owned assets.
Development and trading	This comprises revenue earned and costs incurred by the Group on developments and inventory.
Funds management	This comprises funds management of third party client assets.
DXS asset management	This comprises asset management of assets owned by the Group.
All other segments	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.
Discontinued operations	This comprises industrial properties, industrial estates and industrial developments in the United States, as well as the European industrial portfolio.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014

Note 34. Operating segments (continued)

(b) Segment information provided to the CODM

30 June 2014	Office \$m
Segment performance measures	
Property revenue and property management fees	541.2
Proceeds from sale of inventory	–
Management fee revenue	–
Total operating segment revenue	541.2
Property expenses	(138.7)
Property management salaries	–
Corporate and administration expenses	(7.6)
Cost of sale of inventory	–
Interest revenue	–
Finance costs	–
Incentive amortisation and rent straight-line	23.2
Tax expense	–
Coupon income and net CPA distribution income	7.9
Funds From Operations (FFO)	426.0
Net fair value gain of investment properties	155.3
Net fair value loss of derivatives	–
Finance costs attributable to sales transactions	–
CPA transaction costs	–
Foreign currency translation reserve transfer on disposal of foreign operations	–
Net loss on sale of investment properties	(4.2)
Net fair value gain of interest bearing liabilities	–
Incentive amortisation and rent straight-line	(23.2)
Reversal of impairment of management rights	–
Deferred tax expense	–
Coupon income and net CPA distribution income	(7.9)
Net profit/(loss) attributable to stapled security holders	546.0
Segment asset measures	
Investment properties	4,673.6
Non-current assets held for sale	130.1
Inventories	–
Equity accounted investment properties	2,717.8
Direct property portfolio	7,521.5

	Industrial \$m	Property management \$m	Development and trading \$m	Funds management \$m	All other segments \$m	Eliminations \$m	Total \$m
	146.3	12.8	–	–	–	(0.6)	699.7
	–	–	69.3	–	–	–	69.3
	–	23.3	1.4	32.0	–	–	56.7
	146.3	36.1	70.7	32.0	–	(0.6)	825.7
	(25.8)	–	–	–	–	–	(164.5)
	–	(8.9)	–	–	–	–	(8.9)
	(3.2)	(17.4)	(3.0)	(13.9)	(27.5)	0.6	(72.0)
	–	–	(65.3)	–	–	–	(65.3)
	–	–	–	–	0.7	–	0.7
	–	–	–	–	(140.1)	–	(140.1)
	(1.1)	–	0.3	–	–	–	22.4
	–	–	–	–	(0.5)	–	(0.5)
	–	–	–	–	5.2	–	13.1
	116.2	9.8	2.7	18.1	(162.2)	–	410.6
	10.2	–	–	–	–	–	165.5
	–	–	–	–	(52.9)	–	(52.9)
	–	–	–	–	(4.5)	–	(4.5)
	–	–	–	–	(76.7)	–	(76.7)
	–	–	–	–	0.8	–	0.8
	(4.1)	–	–	–	–	–	(8.3)
	–	–	–	–	12.3	–	12.3
	1.1	–	(0.3)	–	–	–	(22.4)
	–	–	–	–	7.3	–	7.3
	–	–	–	–	(12.0)	–	(12.0)
	–	–	–	–	(5.2)	–	(13.1)
	123.4	9.8	2.4	18.1	(293.1)	–	406.6
	1,252.9	–	–	–	–	–	5,926.5
	9.5	–	–	–	–	–	139.6
	–	–	316.2	–	–	–	316.2
	29.3	–	–	–	–	–	2,747.1
	1,291.7	–	316.2	–	–	–	9,129.4

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

Note 34. Operating segments (continued)

(b) Segment information provided to the CODM (continued)

30 June 2013	Office \$m	Industrial \$m	Property management \$m
Segment performance measures			
Property revenue and property management fees	424.1	142.6	12.3
Proceeds from sale of inventory	–	–	–
Management fee revenue	–	–	19.7
Total operating segment revenue	424.1	142.6	32.0
Property expenses	(106.7)	(25.5)	–
Property management salaries	–	–	(9.8)
Corporate and administration expenses	(8.2)	(4.8)	(15.5)
Cost of sale of inventory	–	–	–
Foreign exchange gains	–	–	–
Interest revenue	–	–	–
Finance costs	–	–	–
Incentive amortisation and rent straight-line	30.4	(1.2)	–
Tax (expense)/benefit	–	–	–
Other	0.8	–	–
Funds From Operations (FFO)	340.4	111.1	6.7
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 straight-line	(30.4)	1.2	–
Reversal of impairment of management rights	–	–	–
Deferred tax (expense)/benefit	–	–	–
Other	(0.8)	–	–
Net profit/(loss) attributable to stapled security holders	499.3	117.2	6.7
Segment asset measures			
Investment properties	4,657.9	1,427.1	–
Non-current assets held for sale	–	–	–
Inventories	–	–	–
Equity accounted investment properties	912.8	–	–
Direct property portfolio	5,570.7	1,427.1	–

Development and trading \$m	Funds 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
25.5	27.7	-	(0.3)	651.6	32.1	683.7
-	-	-	-	(132.2)	(7.7)	(139.9)
-	-	-	-	(9.8)	-	(9.8)
(1.4)	(13.6)	(25.2)	0.3	(68.4)	(3.4)	(71.8)
(22.9)	-	-	-	(22.9)	-	(22.9)
-	-	-	-	-	4.0	4.0
-	-	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
1.2	14.1	(118.2)	-	355.3	10.1	365.4
-	-	-	-	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)
(1.0)	14.1	(114.8)	-	521.5	(7.0)	514.5
-	-	-	-	6,085.0	-	6,085.0
-	-	-	-	-	7.7	7.7
252.9	-	-	-	252.9	-	252.9
-	-	-	-	912.8	-	912.8
252.9	-	-	-	7,250.7	7.7	7,258.4

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

Note 34. 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, fair value movements of interest bearing liabilities, amortisation of certain tenant incentives, gain/loss on sale of certain assets, straight line rent adjustments, deferred tax expense/benefit, rental guarantees, coupon income and distribution income net of funding costs.

(ii) Reconciliation of segment revenue to the Statement of Comprehensive Income

	2014 \$m	2013 \$m
Gross operating segment revenue	825.7	683.7
Revenue from discontinued operations	–	(32.1)
Share of property revenue from joint ventures	(127.4)	(32.1)
Share of management fees charged to joint ventures	1.3	–
Interest revenue	0.2	1.2
Total revenue from ordinary activities	699.8	620.7

(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.

	2014 \$m	2013 \$m
Investment properties	5,926.5	6,085.0
Investment properties classified as held for sale	139.6	7.7
Inventories	316.2	252.9
Investment properties accounted for using the equity method ¹	2,747.1	912.8
Direct property portfolio	9,129.4	7,258.4
Cash and cash equivalents	14.1	14.5
Receivables	111.6	40.2
Intangible assets	292.6	243.7
Derivative financial instruments	80.2	140.2
Deferred tax assets	35.9	39.4
Plant and equipment	10.8	8.8
Prepayments and other assets ²	76.3	6.3
Other assets classified as discontinued operations	–	1.1
Total assets	9,750.9	7,752.6

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 35. Reconciliation of net profit to net cash flows from operating activities

(a) Reconciliation

	2014 \$m	2013 \$m
Net profit for the year	406.6	514.5
Capitalised interest	(6.1)	(10.7)
Depreciation and amortisation	2.3	2.9
Impairment of inventories	–	2.2
Impairment of goodwill	0.1	0.1
Net fair value gain of investment properties	(145.7)	(207.8)
Share of net profit of investments accounted for using the equity method	(58.3)	(37.9)
Net fair value loss of derivatives	2.1	10.9
Net fair value loss of interest rate swaps	50.8	5.7
Net loss on sale of investment properties	7.7	3.6
Net fair value gain of interest bearing liabilities	(12.3)	–
Net foreign exchange gain	–	(4.0)
Foreign currency translation reserve transfer on disposal of foreign operations	(0.8)	21.5
Reversal of previous impairment	(7.3)	(20.5)
Impairment of investments accounted for using the equity method	3.3	0.1
Transaction costs	23.9	–
Provision for doubtful debts	(0.5)	(0.3)
Change in operating assets and liabilities		
Increase in receivables	(70.9)	(9.1)
Decrease/(increase) in prepaid expenses	2.8	(0.2)
Decrease/(increase) in inventories	42.2	(137.9)
Increase in other current assets	(5.6)	–
Decrease in other non-current assets	137.6	51.6
Increase/(decrease) in payables	16.5	(4.9)
Increase/(decrease) in current liabilities	0.6	(0.5)
Increase in other non-current liabilities	16.8	17.2
Decrease/(increase) in deferred tax assets	12.5	(3.0)
Net cash inflow from operating activities	418.3	193.5

(b) Capital expenditure on investment properties

Payments for capital expenditure on investment properties include \$88.6 million (2013: \$67.6 million) of maintenance and incentive capital expenditure.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

Note 36. 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 attributable to unitholders of the parent entity used in calculating basic and diluted earnings per unit

	2014 \$m	2013 \$m
Profit from continuing operations	141.4	95.3
Profit from discontinued operations	–	7.5
Profit attributable to unitholders of the parent entity	141.4	102.8

(b) Net profit attributable to stapled security holders used in calculating basic and diluted earnings per stapled security

	2014 \$m	2013 \$m
Profit from continuing operations	405.8	521.5
Profit/(loss) from discontinued operations	0.8	(7.0)
Profit attributable to stapled security holders	406.6	514.5

(c) Weighted average number of units used as a denominator

	2014 Securities	2013 Securities
Weighted average number of units outstanding used in calculation of basic and diluted earnings per unit	4,921,546,144	4,714,292,865

Note 37. Security-based payments

The DXFM Board has approved a grant of performance rights to DEXUS 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 which convert to DEXUS 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 DEXUS stapled securities using the average closing price of DEXUS securities for the period of 10 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 AASB 2 *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 DEXUS 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 over a four year period ending 30 June 2015. No performance rights were granted in respect of the year ended 30 June 2014 (2013: nil). The fair value of the 2012 performance rights is \$0.9950 per performance right and the total security-based payment expense recognised during the year ended 30 June 2014 was \$457,863 (2013: \$535,605).

(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 DEXUS securities.

50% of the performance rights awards will vest one year after grant and 50% of the awards will vest two years after grant, subject to participants satisfying employment service conditions. In accordance with AASB 2 *Share-based 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 the performance rights is amortised. Consequently, 50% of the fair value of the performance rights is amortised over two years and 50% of the award is amortised over three years.

The number of performance rights granted in respect of the year ended 30 June 2014 was 2,246,686 (2013: 2,073,400) and the fair value of these performance rights is \$1.11 (2013: \$1.07) per performance right. The total security-based payment expense recognised during the year ended 30 June 2014 was \$1,727,708 (2013: \$924,390).

(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 amortised. Consequently, 50% of the fair value of the performance rights is amortised over four years and 50% of the award is amortised over five years.

The number of performance rights granted in respect of the year ended 30 June 2014 was 2,840,247 (2013: 3,317,014). The fair value of these performance rights is \$0.83 (2013: \$0.80) per performance right. The total security-based payment expense recognised during the year ended 30 June 2014 was \$726,312 (2013: \$600,379).

DIRECTORS' DECLARATION

FOR THE YEAR ENDED 30 JUNE 2014

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 48 to 103:

- (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 2014 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; and
- (c) the Group has operated in accordance with the provisions of the Constitution dated 15 August 1984 (as amended) during the year ended 30 June 2014.

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

13 August 2014



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 2014, 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 year's 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. Those 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.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

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INDEPENDENT AUDITOR'S REPORT



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 2014 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*.
- (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 21 to 35 of the directors' report for the year ended 30 June 2014. The directors of the Trust 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 2014 complies with section 300A of the *Corporations Act 2001*.

A handwritten signature in black ink that reads 'PricewaterhouseCoopers'.

PricewaterhouseCoopers

A handwritten signature in black ink, appearing to be 'E A Barron'.

E A Barron
Partner

Sydney
13 August 2014

ADDITIONAL INFORMATION

Top 20 security holders at 31 July 2014

Rank	Name	No. of units	% of issued capital
1	HSBC Custody Nominees (Australia) Limited	1,852,846,308	34.10%
2	National Nominees Limited	1,196,313,654	22.02%
3	J P Morgan Nominees Australia Limited	1,018,899,447	18.75%
4	Citicorp Nominees Pty Limited	361,165,376	6.65%
5	BNP Paribas Nominees Pty Ltd <DRP>	130,809,820	2.41%
6	Citicorp Nominees Pty Limited <Colonial First State Inv A/C>	66,139,027	1.22%
7	AMP Life Limited	50,493,130	0.93%
8	RBC Investor Services Australia Nominees Pty Limited <APN A/C>	36,021,240	0.66%
9	Questor Financial Services Limited <TPS RF A/C>	30,679,007	0.56%
10	Bond Street Custodians Limited <ENH Property Securities A/C>	14,567,794	0.27%
11	HSBC Custody Nominees (Australia) Limited – GSCO Eca	11,927,385	0.22%
12	HSBC Custody Nominees (Australia) Limited – A/C 3	11,649,507	0.21%
13	National Nominees Limited <N A/C>	10,994,441	0.20%
14	HSBC Custody Nominees (Australia) Limited <NT-COMNWLTH Super Corp A/C>	8,257,691	0.15%
15	Share Direct Nominees Pty Ltd <10026 A/C>	7,616,662	0.14%
16	HSBC Custody Nominees (Australia) Limited	7,144,464	0.13%
17	Navigator Australia Ltd <MLC Investment Sett A/C>	6,147,795	0.11%
18	Bond Street Custodians Limited <Property Securities A/C>	6,028,895	0.11%
19	Bond Street Custodians Limited <Pure Indexed Equities A/C>	5,371,147	0.10%
20	DEXUS Funds Management Limited in its Capacity As DEXUS Office Trust Australia	5,063,461	0.09%
Total top 20 security holders		4,838,136,251	89.05%
Balance of register		594,974,559	10.95%
Total securities on issue		5,433,110,810	100.00%

Substantial holders at 31 July 2014

The names of substantial holders, who at 31 July 2014 have notified the Responsible Entity in accordance with Section 671B of the *Corporations Act 2001*, are:

Date	Name	Number of stapled securities	% voting
28 Nov 2011	ING Group	388,416,434	8.03%
17 Jan 2014	The Bank of New York Mellon Corporation on behalf of Newton Investment Management limited	335,701,104	7.25%
24 Mar 2014	Blackrock Group	366,488,530	6.81%
28 Oct 2010	Vanguard Group	291,637,480	6.03%
4 Jul 2013	AMP Limited	237,591,500	5.05%

ADDITIONAL INFORMATION

Class of securities

DEXUS Property Group has one class of stapled security trading on the ASX with security holders holding stapled securities at 31 July 2014.

Spread of securities at 31 July 2014

Range	Securities	%	No. of Holders
100,001 and Over	5,014,128,671	92.29	475
50,001 to 100,000	80,377,850	1.48	1,161
10,001 to 50,000	251,358,645	4.63	11,758
5,001 to 10,000	57,141,797	1.05	7,663
1,001 to 5,000	28,954,630	0.53	9,476
1 to 1,000	1,149,217	0.02	1,901
Total	5,433,110,810	100.00	32,434

At 31 July 2014, the number of security holders holding less than a marketable parcel of 424 Securities (\$500) was 362 and they hold in total 10,241 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 commenced an on-market securities buy-back program on 2 July 2013 for up to 5% of securities. Throughout the year, DEXUS acquired 73.7 million securities for \$75.3 million at an average price of \$1.02 under the buy back program.

Cost base apportionment

For capital gains tax purposes, the cost base apportionment details for DEXUS securities for the 12 months ended 30 June 2014 are:

Date	DEXUS Diversified Trust	DEXUS Industrial Trust	DEXUS Office Trust	DEXUS Operating Trust
1 Jul 2013 to 31 Dec 2013	33.91%	13.90%	49.24%	2.95%
1 Jan 2014 to 30 Jun 2014	33.06%	13.99%	49.83%	3.12%

Historical cost base details are available in the downloads area at www.dexus.com/dxs/tax

INVESTOR INFORMATION

DEXUS is one of the largest real estate groups listed on the Australian Securities Exchange. 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 strong rapport with the investment community through proactive and regular investor engagement initiatives.

DEXUS is committed to delivering high levels of transparency and disclosure by:

- Releasing accurate and relevant information to investors to ensure they can make informed investment decisions
- Providing regular access to senior management through one-on-one meetings, presentations, property tours, conferences, dedicated investor roadshows, conference calls and webcasts.

DEXUS adopts strong corporate governance including a policy that ensures a minimum of two DEXUS representatives participate in any investor or sell-side analyst meeting and that a record of the meeting is maintained on an internal customer relationship management database.

During FY14, DEXUS senior management together with the Investor Relations (IR) team held 300 meetings to discuss the Group's business strategy, and operational and financial performance. DEXUS participated in investor conferences and roadshows in Australia, Singapore, Hong Kong, London, New York and Japan. These conferences and roadshows enabled access to potential new investors and assisted with strengthening existing relationships with long term investors. The IR team arranged tours of DEXUS's properties with investors and sell-side analysts to increase awareness of the quality of the portfolio and DEXUS's active asset management approach.

Twice a year, DEXUS commissions an independent investor perception study 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 Wednesday, 29 October 2014, DEXUS's Annual General Meeting (AGM) will be held at DEXUS's Head Office, Level 25 Australia Square, 264 George Street, Sydney commencing at 2.00pm. Investors are encouraged to attend the AGM in person to meet the Board of Directors and the Executive team. The AGM will be webcast at www.dexus.com for investors who are unable to attend in person.

Distribution payments

DEXUS's FY14 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/update

Unclaimed distribution income

Unpresented cheques or unclaimed distribution income can be claimed by contacting the DEXUS Infoline on +61 1800 819 675. For monies outstanding greater than seven years, please contact the NSW Office of State Revenue on +61 1300 366 016, use their search facility at osr.nsw.gov.au or email 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/update via the investor login facility.

INVESTOR INFORMATION

Investor Communications

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 including:

- **DEXUS's website**

www.dexus.com provides a wide range of information, including a two minute corporate video, ASX announcements, investor information and reports. In 2014, the Group released a suite of capability profiles, strategic case studies and videos all available at www.dexus.com/news

Other investor tools available include:

- **Online enquiry**

easy to complete online enquiry form

- **Investor login**

enables investors to update their details and download statements

- **Subscribe to alerts**

enables investors to receive DEXUS communications immediately after release

- **Create your own property or leasing reports**

select and download information on our property portfolio and space available

- **Events calendar**

notifies investors of key events and reporting dates

- **DEXUS IR App**

provides users access to DEXUS's investor communications and security price – download for free from Apple's App Store or Google Play

- **LinkedIn**

DEXUS now engages with its followers via LinkedIn. To receive DEXUS LinkedIn communications, visit our Investor Centre at www.dexus.com/investors and click on DEXUS on LinkedIn – Follow us.

Making contact

If you have any questions regarding your security holding or wish to update your personal or distribution payment details, please contact the Registry by calling the DEXUS Infoline on **+61 1800 819 675**.

This service is available from 8.30am to 5.30pm (Sydney time) on all business days.

All correspondence should be addressed to:

DEXUS Property Group
C/- Link Market Services Limited
Locked Bag A14
Sydney South NSW 1235

DEXUS is committed to delivering a high level of service to all investors. If you feel DEXUS could improve its service or would like to make a suggestion or a 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

DEXUS Funds Management Limited is a member of the 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.

2015 DISTRIBUTION CALENDAR

Period end	ASX announcement	Ex-distribution date	Record date	Payment date
31 Dec 2014	22 Dec 2014	29 Dec 2014	31 Dec 2014	27 Feb 2015
30 Jun 2015	23 Jun 2015	26 Jun 2015	30 Jun 2015	31 Aug 2015

Please note that these dates are indicative and are subject to change without prior notice. Any changes in our key dates will be published on our website.

2015 REPORTING CALENDAR

2014 Annual General Meeting	29 October 2014
2015 Half year results	18 February 2015
2015 Annual results	12 August 2015
2015 Annual General Meeting	28 October 2015



KEY ASX ANNOUNCEMENTS

Key ASX announcements	
14 August 14	Appendix 4E and Financial Statements at 30 June 2014
14 August 14	2014 Annual Results Release
14 August 14	2014 Annual Results Presentation
14 August 14	2014 Property Synopsis and Debt Summary
13 August 14	Sale of properties to materially increase trading profits
23 July 14	Sale of interest in 201 Kent Street, Sydney
7 July 14	Appendix 3Y – Darren Steinberg
7 July 14	Appendix 3Y Craig Mitchell
24 Jun 14	Distribution reinvestment plan remains suspended
24 Jun 14	June 2014 distribution details
20 Jun 14	Completion of asset sales
19 Jun 14	DEXUS establishes new partnership with the Future Fund
16 Jun 14	Close of unmarketable parcel sales facility
12 Jun 14	Appendix 3X – Penelope Bingham Hall
10 Jun 14	New tenant secured at 480 Queen Street, Brisbane
10 Jun 14	Appointment of Non-Executive Director
26 May 14	Update on asset sales
21 May 14	Shell Australia increases commitment at Kings Square in Perth
21 May 14	Upgraded Moody's credit rating
21 May 14	Appendix 3Y – Darren Steinberg
01 May 14	Appendix 3Y – Craig Mitchell
07 May 14	March 2014 quarter portfolio update
05 May 14	Law firm renews lease at Governor Phillip Tower, Sydney
02 May 14	Unmarketable parcel sales facility
15 Apr 14	DEXUS completes compulsory acquisition and Appendix 3B
14 Apr 14	Change of responsible entity for CPA
11 Apr 14	DEXUS Offer update
01 Apr 14	New tenant secured at 480 Queen Street, Brisbane
31 Mar 14	Upgraded credit rating
20 Mar 14	Distribution schedule, Top 20 security holders and DEXUS Offer update
12 Mar 14	Settlement on sale of industrial properties
03 Mar 14	Intention to commence compulsory acquisition of CPA
03 Mar 14	Compulsory acquisition of remaining CPA units
28 Feb 14	31 December 2013 distribution
28 Feb 14	Notice of variation to extend DEXUS Offer
14 Feb 14	Notice of variation extending offer period
12 Feb 14	Appendix 4D and financial report at 31 December 2013
12 Feb 14	HY14 results release and review
12 Feb 14	HY14 property synopsis spreadsheet
12 Feb 14	HY14 results presentation

KEY ASX ANNOUNCEMENTS

Key ASX announcements	
12 Feb 14	Fourth Supplementary Bidder's Statement
05 Feb 14	Amended Constitutions
31 Jan 14	Third Supplementary Bidder's Statement
30 Jan 14	Notice of status of conditions – DEXUS Offer
29 Jan 14	DEXUS Offer declared unconditional and to be extended
21 Jan 14	Takeover bid for CPA – notice of fulfilment of a defeating condition
16 Jan 14	Independent valuations as at 31 December 2013
10 Jan 14	Second Supplementary Bidder's Statement for DEXUS Offer
07 Jan 14	Notice of despatch of Bidder's Statement for DEXUS Offer
06 Jan 14	Update on DEXUS Offer for CPA
06 Jan 14	Further developments relating to DEXUS Offer for CPA
24 Jan 13	DEXUS Offer for CPA update on proposed bid conditions
20 Jan 13	Significant tenant secured at Governor Macquarie Tower, Sydney
20 Jan 13	Register date for DEXUS Offer bid for CPA
19 Jan 13	DEXUS Offer update and Bidder's Statement
16 Jan 13	Successful pricing of long-dated US Private Placement
13 Jan 13	Facilitation agreement with CBA
11 Jan 13	DEXUS Offer to acquire CPA ASX release and presentation
10 Jan 13	Earnings guidance upgraded to 7% growth for FY14
25 Nov 13	Due diligence investigations on CPA continue
21 Nov 13	Update on Consortium proposal to acquire CPA
19 Nov 13	Response to GPT Group's offer for CPA
11 Nov 13	Recommended proposal to acquire Commonwealth Property Office Fund
31 Oct 13	Appendix 3Z – final director's interest notice – Barry Brownjohn
31 Oct 13	Appendix 3Z – final director's interest notice – Stewart Ewen
29 Oct 13	2013 Annual General Meeting address
29 Oct 13	2013 Annual General Meeting results
22 Oct 13	September 2013 quarter portfolio update
11 Oct 13	Proposal to acquire CPA and presentation
06 Sep 13	Changes to the Board of Directors and notice of AGM
30 Aug 13	30 June 2013 distribution and annual reporting suite
22 Aug 13	Progress on divesting non-strategic properties

DIRECTORY

DEXUS Diversified Trust

ARSN 089 324 541

DEXUS Industrial Trust

ARSN 090 879 137

DEXUS Office Trust

ARSN 090 768 531

DEXUS Operations Trust

ARSN 110 521 223

Responsible Entity

DEXUS Funds Management Limited
ABN 24 060 920 783
AFSL 238163

Directors of the Responsible Entity

Christopher T Beare, Chair
Elizabeth A Alexander AM
Penny Bingham-Hall
John C Conde AO
Tonianne Dwyer
Craig D Mitchell, CFO
W Richard Sheppard
Darren J Steinberg, CEO
Peter B St George

Secretaries of the Responsible Entity

John C Easy
Scott D Mahony

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Chartered Accountants
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Security registry

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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
www.linkmarketservices.com.au

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

For enquiries regarding security holdings, contact the security registry, or access security holding details at www.dexus.com using the Investor login link

Australian Securities Exchange

ASX Code: DXS

IR App

Download the DEXUS IR App to gain instant access to the latest DEXUS stock price, ASX announcements, presentations, reports, webcasts and more.



Property expertise.
Institutional rigour.
Entrepreneurial spirit.