# DEXUS Property Group (ASX: DXS)

ASX release

30 August 2013

## 30 June 2013 distribution and annual reporting suite

DEXUS Property Group advises that the distribution for the period to 30 June 2013 will be paid to Security holders today. DEXUS provides a copy of the letter to be sent to Security holders accompanying the distribution and tax statements being mailed today.

In addition, DEXUS has released its 2013 Annual reporting suite including the:

- 2013 DEXUS Annual Review
- 2013 DEXUS Annual Report
- 2013 DEXUS Combined Financial Statements

The 2013 printed reports will be mailed to those investors who have requested to receive them on 6 September 2013. In addition, the 2013 Annual reporting suite including the 2013 DEXUS Performance Pack, will be available online at www.dexus.com


For further information please contact:

| **Investor relations** | | **Media relations** | |
|---|---|---|---|
| David Yates | T: +61 2 9017 1424<br>M: 0418 861 047<br>E: david.yates@dexus.com | Louise Murray | T: +61 2 9017 1446<br>M: 0403 260 754<br>E: louise.murray@dexus.com |





DEXUS Funds Management Ltd ABN 24 060 920 783, AFSL 238163, as Responsible Entity for DEXUS Property Group (ASX: DXS)


DEXUS PROPERTY GROUP

30 August 2013

DEXUS Funds Management Limited
ABN: 24 060 920 783
AFSL: 238163
Australia Square Tower
Level 25, 264 George Street
Sydney NSW 2000
PO Box R1822
Royal Exchange NSW 1225
Tel: 02 9017 1100
Fax: 02 9017 1101

Dear Security holder

DEXUS Property Group (DXS or the 'Group') had a successful and busy year delivering a solid operational result and increasing distributions per security for the 12 months to 30 June 2013.

Details relating to the Group's achievements during the year can be found in the 2013 Annual Review and 2013 Annual Report which are available at www.dexus.com/dxs. Printed copies of the reports will be dispatched to security holders that have elected to receive them on 6 September 2013, and will include the Notice of Meeting for the 2013 Annual General Meeting.

Please find enclosed:

- your distribution statement for the six months ended 30 June 2013, and
- your tax statement for the year ended 30 June 2013

**Distribution payment**

Our continued focus on capital helped reduce maintenance capital expenditure for the year ended 30 June 2013, which together with a number of leasing transactions where no tenant incentives were given, enabled us to increase the distribution payout ratio from 75% to 80% for the six months ended 30 June 2013. The increase in the payout ratio resulted in an upgraded distribution of 3.11 cents per security for this period. For the 12 months to 30 June 2013, DXS paid a total of 6.00 cents per security, up 12.1% over the past year.

If you believe you have unpresented distribution income or cheques, please contact DXS's infoline on +61 1800 819 675.

**Annual tax statement**

Please retain the enclosed annual tax statement for your records. It contains important information to assist you in the completion of your annual tax return

**Determining the value of your DXS holding**

The value of your security holding at 30 June 2013 is provided on your distribution statement. Current price information is available from the website at www.dexus.com and is published daily in major Australian metropolitan newspapers.

**Changing your details**

You can access your security holding information online to update your personal details via the investor login facility. Annual report election, email address notifications, Tax File Number and Australian Business Number notifications can be amended via this facility at www.dexus.com/dxs You will require your Holder Identification Number (HIN) or Security Holder Reference Number (SRN) to access your security holding.

Forms to enable changes to your security holding that cannot be performed directly online can be downloaded from Link Market Services website at linkmarketservices.com.au. Alternatively you can contact the DXS infoline +61 1800 819 675 or email registrars@linkmarketservices.com.au

**Investor Relations App**

In an effort to improve the access to information, the DEXUS Investor Relations App (IR App) for iPhone, iPad and Android mobile devices was launched during the year. The IR app provides current and future investors with instant access to the latest stock price, ASX announcements, presentations, reports, webcasts and more. You can download the DEXUS IR app for free at Apple's App Store and at Google Play.

**Receive your communications electronically**

Investors can register their email addresses to keep abreast of the latest DXS news, updates and investor communications. DEXUS is committed to long term integration of sustainable business practices and we believe that everyone benefits from electronic communications through the delivery of prompt information, reduced environmental impacts and associated cost savings.

You can register your email address using the enclosed email collection and online notification form, if you have not done so already.

If you have any questions concerning your security holding, please contact us on the DXS infoline +61 1800 819 675. Thank you for your continued support.

Yours sincerely

David Yates
EGM Investor Relations Marketing & Communications

2013 ANNUAL REVIEW

# DEXUS

## A YEAR OF FOCUS AND DELIVERY

### Inside:

**STRATEGIC PROGRESS**
DEXUS made significant progress on its strategic and operational objectives, delivering solid results for the year

**GROWTH IN THIRD PARTY FUNDS**
DEXUS demonstrated its ability to attract new third party capital partners and invest alongside existing partners

**SIGNIFICANT TRANSACTION ACTIVITY**
The Group was involved in $2.9 billion of transactions including those that have re-shaped the DXS portfolio

DEXUS
PROPERTY GROUP

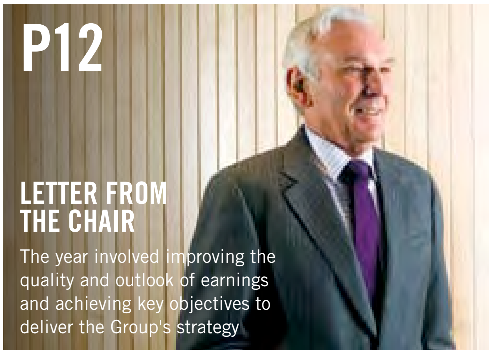
www.dexus.com

2013 ANNUAL REVIEW

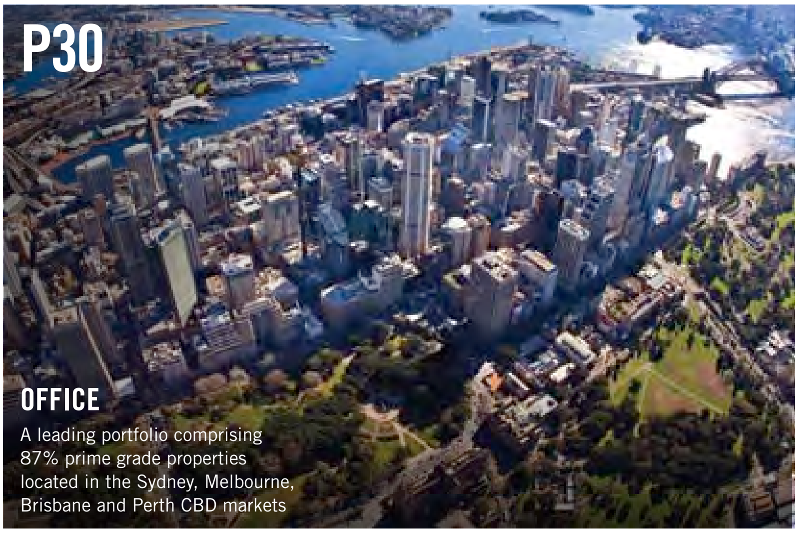
# DEXUS

## A YEAR OF FOCUS AND DELIVERY












## ABOUT THIS REPORT

The 2013 Annual Review is a consolidated summary of DEXUS's strategic and operational performance for the financial year ended 30 June 2013.

DEXUS referred to the GRI Sustainability Reporting Guidelines (version 3.1) to set the report's boundaries in relation to material issues and key performance indicator reporting across stakeholder groups including current and prospective investors, employees, tenants, customers, suppliers and the community.

In this report unless otherwise stated, references to 'DEXUS Property Group', 'DEXUS', 'the Group', 'we', 'us' and 'our' refer to DEXUS Property Group comprising the ASX listed entity and the Third Party Funds Management business. References to 'DXS' relate specifically to the portfolio of properties in the ASX listed entity.

Any reference in this report to a 'year' relates to the financial year ended 30 June 2013.

All $ figures are expressed in Australian dollars unless other stated.

## ABOUT DEXUS PROPERTY GROUP

DEXUS Property Group is one of Australia's leading real estate groups, investing directly in high quality Australian office and industrial properties. With over $13 billion of assets under management, DEXUS also actively manages office, industrial and retail properties located in key Australian markets on behalf of third party capital partners.

DEXUS manages an office portfolio of over 900,000 square metres across Sydney, Melbourne, Brisbane and Perth and is one of the largest institutional owners of office buildings in the Sydney CBD, Australia's largest office market.

DEXUS is a Top 50 entity by market capitalisation listed on the Australian Securities Exchange (ASX) under the stock market trading code 'DXS' and is supported by more than 18,000 investors from 15 countries.

With over 25 years of experience in property investment, development and asset management, DEXUS has a proven track record in capital and risk management, providing service excellence to tenants and delivering superior risk-adjusted returns to investors.


**123** TOTAL PROPERTIES

**$13.4 BILLION** TOTAL VALUE

**3.0 MILLION SQM** TOTAL NLA

**$2.9 BILLION** TOTAL TRANSACTIONS COMPLETED

**629,209 SQM** TOTAL AREA LEASED

**9.5%** GROWTH IN THIRD PARTY FUNDS UNDER MANAGEMENT

**4.7 STARS** AVERAGE NABERS ENERGY RATING ACROSS DXS OFFICE PORTFOLIO

**4.3 YEARS** TOTAL WALE

**95.7%** TOTAL OCCUPANCY

**29.0%** GEARING

**$1.05** NTA ▲ 5.2%

**11.2%** RETURN ON EQUITY

**22.1%** TOTAL SECURITY HOLDER RETURN

**7.75 CENTS** PER SECURITY FFO ▲ 1.3%

**6.0 CENTS** PER SECURITY DISTRIBUTION ▲ 12.1%

# DEXUS GROUP HIGHLIGHTS

# TIMELINE

**JUL 13**

DXS acquires a 14.9% economic interest in Commonwealth Property Office Fund (ASX:CPA)

DWPF acquires a Sydney industrial property

DXS announces an on-market securities buy-back of up to 15% of issued capital

**JUN 13**

DXS increases its payout ratio to 80% for the six months ended 30 June 2013, paying 3.11 cents per security – resulting in a total distribution of 6.0 cents per security for the year

DXS enters into a contract to sell its remaining European property

**MAY 13**

DXS sells five European properties

DXS and DWPF jointly acquire a strategic fund-through office investment comprising three buildings at Kings Square, Perth

DXS successfully prices a US$300 million long-dated US Private Placement

**APR 13**

DXS and DWPF jointly acquire a premium grade strategic fund-through office investment at 480 Queen Street, Brisbane

DEXUS head office moves to Australia Square

DXS sells remaining US industrial property

**FEB 13**

Craig Mitchell, CFO appointed Executive Director of DEXUS Funds Management Limited

DWPF completes $348 million pro-rata offer, being fully subscribed by existing and new investors

**DEC 12**

DXS acquires interests in three Sydney office properties, one jointly with DWPF

DXS sells US west coast portfolio for US$561 million achieving a 13% premium on prior book value

**NOV 12**

DXS acquires a value-add office opportunity at 40 Market Street, Melbourne

DWPF secures new major investor for $290 million

DXS security holders approve new remuneration framework at 2012 AGM

**SEP 12**

DXS maintains DJSI listing for seventh consecutive year

**AUG 12**

DXS announces revised strategy

DXS acquires a value-add office opportunity at 50 Carrington Street, Sydney

DXS and DWPF acquire 12 Creek Street, Brisbane

DXS announces new capital partnership and the formation of the Australian Industrial Partnership

# STRATEGY

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

**DEXUS VISION** To be globally recognised as Australia's leading real estate company

**STRATEGY**

To deliver superior risk-adjusted returns for investors from high quality Australian real estate primarily comprising CBD office buildings

| STRATEGIC OBJECTIVES | OFFICE | CORE CAPABILITIES | CAPITAL PARTNERSHIPS | CAPITAL & RISK MANAGEMENT |
|---|---|---|---|---|
| | Being the leading owner and manager of Australian office | Having the best people, strongest tenant relationships and most efficient systems | Being the wholesale partner of choice in Australian office, industrial and retail | Actively managing capital and risk in a prudent and disciplined manner |

| DEXUS'S PEOPLE WILL BE RECOGNISED FOR | | | |
|---|---|---|---|
| | Property expertise | Institutional rigour | Entrepreneurial spirit |

## A year of focus

In August 2012, DEXUS announced its revised strategy which involved refocusing the business to concentrate on the Australian market where DEXUS held market expertise.

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

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

**OFFICE**

**Being the leading owner and manager of Australian office**

**CORE CAPABILITIES**

**Having the best people, strongest relationships and most efficient systems**

**CAPITAL PARTNERSHIPS**

**Being the wholesale partner of choice in Australian office, industrial and retail**

**CAPITAL & RISK MANAGEMENT**

**Actively managing capital and risk in a prudent and disciplined manner**

DEXUS directly invests in Australian office and industrial properties, and on behalf of its third party partners, invests in Australian office, industrial and retail properties.

## Office

DEXUS invests in the core CBD markets of Sydney, Melbourne, Brisbane and Perth. These markets offer the greatest concentration of premium and A-grade office buildings which attract quality tenants and deliver secure cash flows and have low capital expenditure requirements.

DEXUS also invests in office properties which offer value-add potential through intensive asset management and are able to be repositioned as trading opportunities.

With a strong track record delivering high quality office developments, DEXUS undertakes investments of scale and quality suitable for long term ownership.

## Industrial

Investing in industrial markets provides investors with diversification and higher yields, balancing out the cyclical market fluctuations and supplementing the office portfolio.

DEXUS concentrates its industrial investments in the key metropolitan markets of Sydney, Melbourne and Brisbane, locating its properties close to transport and infrastructure hubs where there is the greatest tenant demand.

DEXUS seeks to buy and develop modern, functional distribution and warehouse facilities which are attractive to quality tenants seeking facilities with higher specifications located close to major transport networks. As with its office investments, DEXUS also undertakes selective, well-located value-add development opportunities with an eye to trade or lease for the longer term.

## A year of delivery

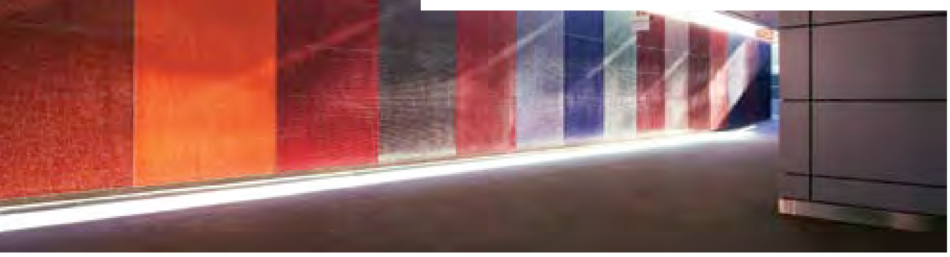
# DEXUS refocused its business to align with its revised strategy and strengthen its platform.

Since announcing its revised strategy in August 2012, DEXUS focused on its execution, beginning with redeploying capital from non-core markets into core Australian office markets. DEXUS has completed this first stage, and in doing so strengthened its platform.

### FY13: Refocusing the business and strengthening the platform

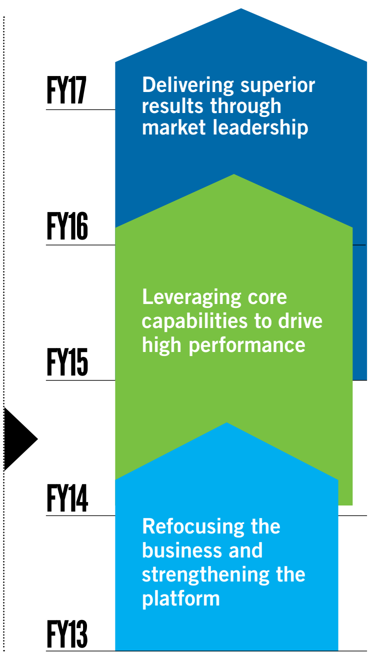
**FY13 Status: ☑ Achieved**

| OFFICE | CORE CAPABILITIES | CAPITAL PARTNERSHIPS | CAPITAL & RISK MANAGEMENT |
|---|---|---|---|
| ☑ Proactively managing and driving performance in the office portfolio<br>☑ Redeploying excess capital into core Australian office markets<br>☑ Enhancing tenant relationships through implementing new systems and practices | ☑ Implementing processes and systems to enhance core property capabilities<br>☑ Embedding a culture of service excellence and high performance<br>☑ Creating operational efficiencies and reducing costs | Growing third party funds management business through:<br>☑ Partnering with third party funds on investment opportunities<br>☑ Developing new capital partnerships | ☑ Reducing the cost and improving access to capital<br>☑ Progressing the exit of non-core offshore markets<br>☑ Progressing the recycling of non-core Australian properties |



## Implementing strategy

DEXUS's strategy will be executed in three phases as outlined below:




## Office

DEXUS made significant progress towards achieving its objective of being the leading owner and manager of Australian office through the sale of offshore properties and reinvestment into the Australian office market.

In August 2012, DEXUS set a timeframe of 12 to 24 months to exit the US and European industrial markets and had achieved this by 30 June 2013, while at the same time reinvesting capital into the Australian office market.

The DEXUS team drove the performance of the office portfolio, focusing on forward leasing and proactive negotiations with tenants, resulting in improvements to the DXS portfolio's lease expiry profile, supporting valuation growth and ensuring the portfolio is well placed to continue to deliver strong results.

## Core capabilities

DEXUS strengthened its platform, making headway on its objective of having the best people, strongest tenant relationships and most efficient systems.

DEXUS dedicated leasing resources to enhancing relationships with tenants and tenant advocates, while at the same time establishing a best in class facilities management platform with CBRE (called FM Plus) and launching new systems to improve efficiency and performance.

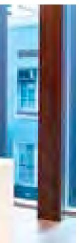
Embedding its focus on high performance DEXUS also underwent a cultural shift, inspiring its people to build on their property expertise, institutional rigour and entrepreneurial spirit through a move to Australia Square and a new way of working.

## Capital partnerships

DEXUS moved towards achieving its objective of being the wholesale partner of choice demonstrated by attracting new investors to its Third Party Funds Management business.

A large proportion of DEXUS's acquisitions were acquired in partnership with DEXUS Wholesale Property Fund (DWPF), demonstrating DEXUS's ability to leverage both access to wholesale capital and support its Third Party investors.

DEXUS attracted a new capital partner through the establishment of the Australian Industrial Partnership with a leading global pension fund in October 2012, growing the partnership with further acquisitions of high quality industrial developments during the year.



## Capital and risk management

DEXUS continued to actively manage its capital and risk in a prudent and disciplined manner, delivering on its capital and risk management objective.

DEXUS's capability in this area played a central role in its ability to swiftly execute transactions during the year. Through active management of its capital, DEXUS was able to improve its access to funding, while reducing the cost and increasing the duration of debt. DEXUS also used its on-market securities buy-back opportunistically to enhance investor returns.

Further detail on the achievement of each of these strategic objectives is contained within the Strategy – Transactions, People and Culture, Office, Industrial, Capital Management and Third Party Funds Management sections of this report.

## FY14: Leveraging core capabilities to drive high performance

As DEXUS enters into its next phase of its strategy execution, FY14 will involve further leveraging DEXUS's core capabilities to drive high performance across the business.

| OFFICE | CORE CAPABILITIES | CAPITAL PARTNERSHIPS | CAPITAL & RISK MANAGEMENT |
|---|---|---|---|
| ■ Proactively managing and driving performance in the office portfolio<br>■ Enhancing the value of newly acquired properties<br>■ Enhancing the tenant experience<br>■ Implementing initiatives that develop tenant loyalty | ■ Implementing key process improvement programs<br>■ Reinforcing a culture of service excellence and high performance<br>■ Leveraging best-in-class industrial capabilities to drive portfolio performance, development and trading opportunities<br>■ Leveraging retail capabilities to drive developments and new opportunities for capital partners | ■ Continuing to support the performance of capital partners<br>■ Leveraging relationships and capabilities into new opportunities through<br>– Seeking further investment opportunities with capital partners<br>– Attracting additional sources of capital for long-term co-investment | ■ Maintaining a competitive cost of funding, improving access and diversifying the sources of capital<br>■ Selectively divesting non-strategic properties when supported by investment fundamentals<br>■ Engaging in transactions that create value for DXS investors |

## Corporate Responsibility & Sustainability (CR&S)

DEXUS creates value for all of its stakeholders by integrating CR&S objectives into every aspect of business operations.

**DEXUS's CR&S framework (below) includes six key stakeholder groups.**

DEXUS has a proud record of achievement over the past 15 years when it comes to developing and implementing leading practices in CR&S. The Group operates on the principle that CR&S is not a stand-alone part of the business but is integrated into every aspect of operations. This way, all of its stakeholders can access the benefits of CR&S.

As a signatory to the United Nations Principles of Responsible Investment (UNPRI) DEXUS has a commitment to invest responsibly and raise awareness of responsible investment with its stakeholders.

In recognition of the UNPRI, DEXUS delivers CR&S benefits, keeping four guiding values at the forefront of its business:

- Investing responsibly, managing assets and consolidating property services
- Achieving positive environmental outcomes through business operations
- Identifying material issues through stakeholder engagement
- Delivering responsible outcomes for the community

The FY13 achievements for each stakeholder group are outlined from page 18, and FY14 commitments are outlined from page 56.

## CR&S framework

## Managing risk

A prudent and robust approach to risk management is an essential part of the ongoing success of DEXUS in a dynamic and challenging industry.

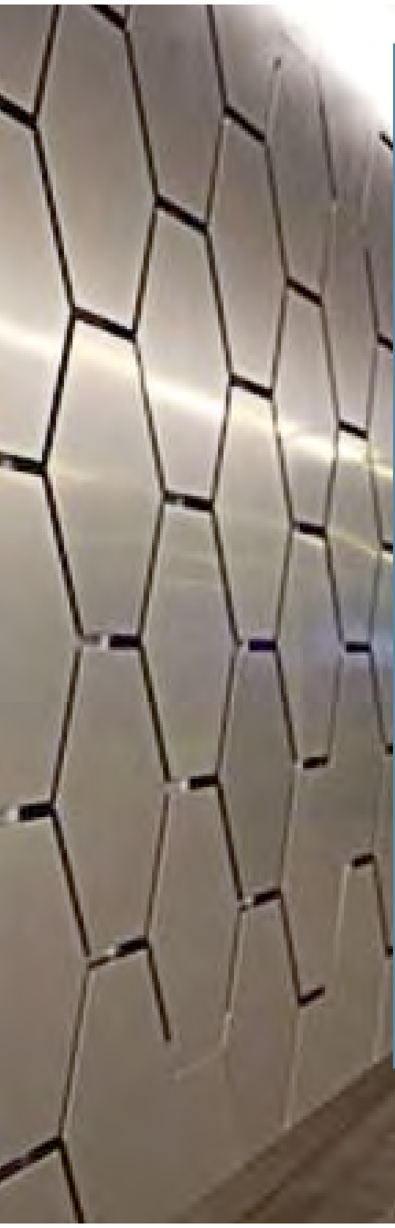
Recognising the importance of active and prudent management of risk, DEXUS identified risk management as one of its key strategic objectives. DEXUS continuously reviews and actively evaluates risk to ensure that it is appropriately managed at Board level through the Board Audit, Risk & Sustainability Committee, together with the Group Management Committee.

Risk reviews are conducted by an experienced team using up-to-date information on market developments, regulatory changes and organisational performance and these are prioritised according to their materiality to DEXUS's business.

DEXUS's strategy of investing for the long-term in high quality properties located in core CBD office markets ensures its portfolio delivers stable returns through property market cycles. The portfolio's concentration of properties in the CBDs of Australia's larger capital cities ensures exposure to a larger number of quality tenants.

DEXUS takes a prudent approach when managing property investment risks, taking into account a potential property's fit with DEXUS's strategy, together with its fundamentals, in order to determine whether the property will deliver stable and superior risk-adjusted returns to investors.

The Corporate Governance section on page 62 contains further information on DEXUS's approach to risk management.



## Delivering on CR&S

FY13 achievements:

- DEXUS maintained its listing as a Sustainability Leader within the real estate sector on the 2012 Global SAM Corporate Sustainability Assessment
- In the IPD Green Building Index, DEXUS outperformed the Green Star Benchmark by 190 basis points and outperformed the NABERS Benchmark by 110 basis points
- DEXUS achieved an A+ performance level rating for its 2012 annual review by the Global Reporting initiative for corporate responsibility
- DEXUS achieved listing on the FTSE4Good Index, improved its company rating from 3.2 to 4.0 (out of 5.0) and achieved a relative super sector rating of 98 out of 100
- DWPF was ranked No.1 Australian Diversified Fund and No.5 globally in the 2012 Global Real Estate Sustainability Benchmark Survey
- 1 Bligh Street was awarded the prestigious International High-Rise Award 2012
- 1 Bligh St awarded No.1 Sustainable Development by Urban Taskforce Australia at the 2013 Development Excellence Awards
- DEXUS's Sydney head office and Melbourne office were certified carbon neutral

**1 Bligh Street, Sydney combines leading sustainability design and technology to create the next generation workspace.**

## DEXUS was actively involved in $2.9 billion of transactions that have re-shaped the composition of the DXS portfolio and supported the strategic objectives of its Third Party Funds Management business.

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

"The exit from offshore markets significantly enhanced the quality of DEXUS's earnings and enables the entire DEXUS Management team to focus on the Australian market, and that focus is central to our strategy."

**DARREN STEINBERG, CHIEF EXECUTIVE OFFICER**

"In terms of acquisitions, activity has been focused in core CBD office markets where our tenant relationships and market knowledge are strongest."

**ROSS DU VERNET, EGM, STRATEGY, TRANSACTIONS & RESEARCH**

"In an environment where there are limited opportunities to acquire quality prime grade properties, DEXUS demonstrated its ability to identify and invest in quality office opportunities across the spectrum."

**DARREN STEINBERG, CHIEF EXECUTIVE OFFICER**

**$2.9 billion**
TOTAL TRANSACTIONS

**73**
PROPERTIES TRANSACTED

**$1.8 billion**
OFFICE PROPERTIES ACQUIRED

**$244 million**
PROPERTIES ACQUIRED BY THE AUSTRALIAN INDUSTRIAL PARTNERSHIP

**SUCCESSFUL EXIT**
FROM US & EUROPEAN MARKETS

**12%**
PREMIUM ACHIEVED ON PRIOR BOOK VALUE ON SALE OF REMAINING US PROPERTIES RESULTING IN NO IMPACT TO FFO

**9.7%**
ESTIMATED BLENDED UNLEVERED IRR ON DXS ACQUISITIONS

**>10%**
BLENDED UNLEVERED IRR ON OFFICE ACQUISITIONS

## Acquisitions

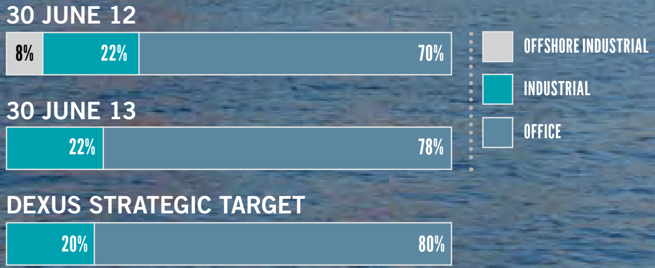
| Location | Property type | DXS Interest | Purchase Price (A$m) |
|---|---|---|---|
| 12 Creek Street, Brisbane | Core office | 50% | 120.8 |
| 50 Carrington Street, Sydney | Value-add office | 100% | 58.5 |
| 40 Market Street, Melbourne | Value-add office | 100% | 46.7 |
| 131 Mica Street, Carole Park | Industrial | 100% | 21.0 |
| Grosvenor Place, 225 George Street, Sydney | Core office | 25% | 271.2 |
| 39 Martin Place, Sydney | Core office | 50% | 71.5 |
| Martin Place Shopping Circle, Sydney | Core office | 50% | 3.4 |
| 2 and 4 Dawn Fraser Avenue, Olympic Park | Core office | 50% | 82.7 |
| Kings Square, Perth | Fund-through office | 50% | 217.4[1] |
| 480 Queen Street, Brisbane | Fund-through office | 50% | 272.0[1] |
| **Total DXS acquisitions** | | | **1,165.2** |
| **Third party acquisitions** | | | **782.2** |
| **Total acquisitions** | | | **1,947.4** |

## Divestments

| | Properties | Sale Price (A$m) |
|---|---|---|
| Office | 2 | 42.1 |
| Australian Industrial Partnership[1,2] | 17 | 192.6 |
| US industrial[3] | 27 | 597.7 |
| European industrial[4] | 6 | 29.9 |
| Industrial properties including land | 6 | 29.0 |
| **Total DXS divestments** | **58** | **891.3** |
| **Third party divestments** | | **64.4** |
| **Total divestments** | | **955.7** |

1. Represents executed total transaction price and not what has been paid or received during FY13.
2. In a long-term capital partnership with DXS, the Australian Industrial Partnership acquired a 50% interest in 17 industrial properties at DEXUS Industrial Estate Laverton, VIC, Quarry at Greystanes, NSW and Altona, VIC.
3. USD/AUD $1.0326.
4. EUR/AUD $0.7559.

## DXS PORTFOLIO COMPOSITION




## DEXUS EARNINGS COMPOSITION

# LETTER FROM THE CHAIR

2013 was a year of focus and delivery for DEXUS. The year involved improving the quality and outlook of earnings and achieving key objectives to deliver the Group's strategy.

## A year of successful delivery on our revised strategy

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

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

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

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

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

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

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

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

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

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

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

## Underlying fundamentals remain challenging

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

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

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

## Board commitment to strong corporate governance

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

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

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

To build on the effectiveness of the Board, we appointed an independent consultant to evaluate the performance of the Board, its Committees and the contribution of each Director. Led by the independent consultant, the Board also assessed my effectiveness as the Chairman. Details relating to the evaluation are included in the corporate governance statement on pages 62 to 67.

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

The full 2013 remuneration report starts on page 19 of the 2013 Annual Report. A summary can be found from page 66 of this Annual Review.

## Enhancement to the Board of Directors

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

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

## Good corporate citizenship

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

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

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

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

## Outlook

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

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

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

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

**Christopher T Beare**
Chair
16 August 2013

# CHIEF EXECUTIVE OFFICER'S REPORT

In refocusing the business and delivering on all of our strategic objectives, we have built a solid foundation to grow our business in 2014 and beyond.

## 2013 KEY PERFORMANCE HIGHLIGHTS

- Delivered net profit to investors of $514.5 million
- Launched our revised strategy to deliver superior risk-adjusted returns for investors from high quality Australian real estate, primarily comprising CBD office buildings
- Fast-tracked our exit from non-core US and European markets
- Reallocated capital and invested in core Australian CBD office markets
- Acquired office repositioning and trading opportunities where we can add value
- Leased 629,209 square metres across the Group
- Delivered six new developments, achieved $1.5 million of trading profits and leased 87,221 square metres of newly developed space
- Improved the cost, duration and diversity of debt through a disciplined and active approach to capital management
- Achieved Funds from Operations (FFO) of $365.4 million or 7.75 cents per security, up 1.3%
- Increased distributions per security by 12.1% to 6.0 cents
- Achieved a 3% valuation uplift of $218.4 million resulting in a 5.2% increase in Net Tangible Assets (NTA) of $1.05 per security
- Further developed the Third Party Funds Management business resulting in growth of 9.5% or $500 million, including establishing a new capital partnership

"We had a successful and busy year delivering a solid operational result and increasing distributions per security."

Looking back at our achievements, 2013 was a year of focus and delivery, operationally across the business and against our revised strategy. Despite the tough operating environment, we are pleased to have been able to deliver a strong net profit after tax for investors of $514.5 million and progress our strategic objectives.

We announced our revised strategy in August 2012 and refocused the business, concentrating on maximising value, improving earnings and investing in our target markets.

We undertook $2.9 billion of transactions, selling non-core offshore properties well ahead of our expected timeframe and reinvesting the funds, together with capital from our third party capital partners, into quality Australian CBD office properties.

We leveraged our core capabilities to drive the office portfolio performance to further our goal of being the leader in office, achieving leasing successes in a challenging market and delivering increased property valuations.

We were able to reposition the business while actively and prudently managing our capital and risk profile which improved the cost, duration and diversity of our debt, creating a solid foundation for further acquisition opportunities.

Our commitment to creating a high performance culture was accelerated by inspiring our people to build on their property expertise, institutional rigour and entrepreneurial spirit through our move to Australia Square. By adopting a new way of working and new systems and processes that improve efficiency, we will continue leverage our core capabilities to drive performance into FY14.

## Delivered on FFO guidance and upgraded distribution

In a year in which we undertook significant transaction activity and reweighted the DXS's portfolio composition, I am pleased that we also delivered on our FFO or earnings guidance of 7.75 cents per security for the 12 months ended 30 June 2013, a 1.3% increase on the prior year.

Our continued focus on capital helped reduce maintenance capital expenditure in FY13, which together with a number of net effective rental leasing transactions (where no tenant incentives were given) enabled us to increase the distribution payout ratio from 75% to 80% for the six months ended 30 June 2013. The increase in the payout ratio resulted in an upgraded distribution of 3.11 cents per security for the six-month period and a total distribution of 6.0 cents per security for the 12 months ended 30 June 2013, up 12.1% over the past year.

## Strong balance sheet maintained

The sale of our US and European industrial properties allowed us to fund new acquisitions and maintain the strength of our balance sheet. Our gearing was 29.0% at 30 June 2013, at the lower end of our target gearing range of 30-40% and we have no debt refinancing requirements until July 2014. The residual gearing capacity positions us well to respond to changes in markets.

In April 2013, we chose not to extend the on-market securities buy-back that commenced in April 2012, following the successful redeployment of US portfolio sale proceeds and subsequent DXS security price performance, completing 64% of the targeted $200 million program.

In July 2013 as a result of share market volatility we reinstated the buy-back program, providing us with the flexibility that, when market conditions permit, we may buy-back up to 5% of DXS securities on issue, with a focus on enhancing returns to investors.

Further details on capital management are provided on pages 42–43.

## Strong security holder returns

Over the 12 months to 30 June 2013, DXS achieved a total security holder return of 22.1%. Over the three and five year periods, DXS outperformed the S&P/ASX 200 Property Accumulation Index.

| As at 30 June 2013 | 1 Year | 3 Years | 5 Years |
|---|---|---|---|
| DEXUS Property Group | 22.1% | 18.4% | 2.6% |
| S&P/ASX 200 Property Accumulation Index | 24.2% | 13.4% | 0.3% |

Source: UBS Securities Australia 2013.

DEXUS targets long-term top quartile performance relative to its comparable peer group. When DXS's total security holder return is compared to its peer group, DXS outperformed four of its five peers for the 12 months to 30 June 2013. The DXS comparable peer group comprises Commonwealth Property Office Fund, CFS Retail Property Trust, GPT Group, Investa Office Fund and Westfield Retail Trust. Commencing in FY14, this peer group will be expanded to include newly listed SCA Property Group, the recently expanded Cromwell Property Group and the restructured and re-branded Federation Centres.

## Return on equity

DEXUS calculates Return on Equity (ROE) by adding the change in NTA per security over the year to the income distribution paid to security holders during the year.

DEXUS delivered a ROE for the 12 months to 30 June 2013 of 11.2% which is ahead of its target of 9-10% per annum through the cycle.

## Significant year of transaction activity

Our involvement in $2.9 billion of transactions across the Group meant that DEXUS was one of the most active players in the Australian market.

One of the most defining attributes of the Group during the year has been the speed and quality of our transaction origination and execution. We were also successful in securing a high proportion of acquisitions off-market, with low levels of competition.

We were disciplined on pricing and able to outmanoeuvre competitors by using our market knowledge, agility and ability to provide vendors with certainty. By leveraging our corporate capabilities, we ensured that we maximised value on each transaction.

Details relating to the transactions undertaken during the year are outlined on pages 10–11.

In the face of challenging leasing conditions, we adopted a proactive approach across our office and industrial portfolios. We leveraged relationships to retain tenants or secure new customers in our quality properties, which resulted in the leasing of over 629,209 square metres of space and a total portfolio occupancy of 95.7% for the year.

The result reflects the dedication and efforts of the DEXUS team driving net operating income across our property portfolios and constantly assessing rent at risk.

Further details on achievements and metrics in the office and industrial portfolios are provided on pages 30–39.

## Development pipeline

We have a strong, established and demonstrated track record in delivering high quality office, industrial and retail product to the Australian market. DXS's current $1.2 billion development book comprises developments underway, uncommitted industrial and office developments, value-add properties for trading and office fund-through investments. Committed developments have a weighted unlevered internal rate of return target of over 9%.

Further details relating to developments are provided on pages 40–41.

> "We were disciplined on pricing and able to outmanoeuvre competitors by using our market knowledge, agility and ability to provide vendors with certainty. By leveraging our corporate capabilities, we ensured that we maximised value on each transaction."

## Proactive approach across our office and industrial portfolios

During the year we remained focused on improving portfolio metrics and reducing vacancies in existing and newly acquired properties combined with forward solving upcoming lease expiries.

## Growth in third party funds

A very active year in our Third Party Funds Management business resulted in growth of 9.5% to $6.1 billion. We were able to demonstrate our ability to attract new third party capital partners and invest alongside existing partners like DWPF.

**Artist's impression of 480 Queen Street, Brisbane (above) which will be become one of the few premium grade office towers in Brisbane CBD.**

We established and grew the Australian Industrial Partnership, demonstrating the importance of our commitment to investing in Australian industrial markets and using our industrial capabilities to deliver increased investor returns.

DWPF outperformed its benchmark and successfully raised over $820 million in equity, in a year in which DXS jointly acquired four office properties alongside DWPF as a capital partner.

Further details relating to the Group's Third Party Funds Management business are provided from page 46. Details relating to DWPF are provided from page 50.

## Significant improvements in environmental performance

Our focus on integrating leading sustainable practice into all aspects of our business operations has delivered significant improvements in environmental performance and resource consumption.

We exceeded our objectives for environmental performance across the DXS office portfolio, achieving an average 4.7 star NABERS Energy rating and exceeding our 4.5 star target. The portfolio also achieved an average NABERS Water rating of 3.5 stars, in line with the target.

**L to R: Kings Square, Perth, WA and 2 Bellevue Circuit, Greystanes, NSW.**

"Our focus on integrating leading sustainable practice into all aspects of our business operations has delivered significant improvements in environmental performance and resource consumption."

Our commitment to energy efficiency delivered positive results in energy consumption in our office and industrial portfolio, achieving real cost savings for our tenants and assisting in tenant retention and property valuations.

1 Bligh Street was awarded the prestigious International High-Rise Award 2012. In line with our shared approach to corporate responsibility, the €50,000 prize money was donated towards the formation of the "1 Bligh Master of Architecture Final Year Prize for Sustainable Commercial Architecture", a scholarship with the University of New South Wales that will promote future sustainable design in Australia.

Beyond our operational and financial performance, we also recognised the importance of playing our part in the wider community. We continued to support the communities we operate in by contributing through fund-raising and in-kind activities.

Further details relating to Corporate Responsibility & Sustainability initiatives are integrated throughout this report.

## Looking ahead

As we enter the new financial year, we are focused on implementing our strategy through leveraging our core capabilities to drive high performance.

We have worked hard to position DEXUS for continued growth in the years ahead. Our portfolio is 95.7% occupied and we have shown our ability to reduce our exposure to leasing risks. We have grown the earnings of our portfolio by acquiring quality properties across the investment spectrum.

We have commenced the repositioning of our value-add properties acquired during the year, applying our property expertise to generate upside through trading opportunities and enhance returns for our investors.

Looking ahead, despite uncertain market conditions, we are confident our team's strong corporate and leasing backgrounds will enable us to continue to drive high performance.

Barring unforeseen changes to operating conditions, our guidance for earnings or FFO for the 12 months ending 30 June 2014 is 8.15 cents per security, a 5.2% increase from FY13, delivering at the top end of our FFO growth target range of 3-5% per annum through the cycle.

We are targeting a FY14 distribution payout ratio of 75% of FFO, in line with free cash flow, delivering an expected 2% increase in distribution to 6.12 cents per security for the 12 months ending 30 June 2014.

I would like to thank the Board for their support and our employees, tenants and suppliers who have helped us deliver this year's results. I look forward to keeping you informed about our performance, new initiatives and strategic progress over the coming year.

**Darren Steinberg**
Chief Executive Officer
16 August 2013

# DELIVERING ON FY13 COMMITMENTS

In the 2012 Annual Review, DEXUS detailed its FY13 commitments based on material issues which have the greatest impact on its stakeholders to ensure outcomes are aligned to the interests of investors, stakeholders and the wider community.

**DEXUS has delivered on the majority of its FY13 commitments and the results relating to each stakeholder group are detailed in the following table.**

## INVESTOR COMMITMENTS

Market leadership, sustainable growth, financial performance and capital management

| COMMITMENT | STATUS | DETAIL ON PROGRESS |
|---|---|---|
| Deliver FFO earnings of 7.75 cents per security, and deliver a payout ratio of 75% of FFO | ✔ | Delivered FFO earnings of 7.75 cents per security. DEXUS delivered a payout ratio of 77.4%, exceeding its commitment of 75% and resulting in a distribution of 6.0 cents for the 12 months 30 June 2013<br>Refer to the CEO report on pages 14–17 |
| Target a return on equity of 9-10% per annum through the cycle | ✔ | Delivered a return on equity of 11.2% exceeding the target of 9-10% per annum through the cycle<br>Refer to the CEO report on pages 14–17 |
| Continue the disposal of non-core properties and reinvest capital into core Australian properties and markets | ✔ | DEXUS exited offshore markets through the sale of its US and European industrial portfolios and reinvested $1.1 billion of capital into the Australian office market acquiring eight properties<br>Refer to Transactions on pages 10–11 |
| Deliver long term top quartile performance relative to our peer group, industry benchmarks and global indices | ✔ | DEXUS outperformed the S&P/A-REIT benchmark over three and five year periods and achieved top quartile performance against its target peer group for the year<br>Refer to the CEO report on pages 14–17 |
| **CAPITAL MANAGEMENT** | | |
| Maintain strong credit rating metrics | ✔ | DEXUS maintained its strong credit ratings with Standard & Poor's BBB+ rating and Moody's Baa1 rating<br>Refer to the Capital Management section on page 42 |
| Maintain debt duration of greater than four years | ✔ | DEXUS increased its debt duration to 5.4 years achieved through the completion of over $1 billion of new funding, including a US$300 million private placement issue of an average duration of 13 years and over $200 million in medium term notes<br>Refer to the Capital Management section on page 42 |
| **OFFICE** | | |
| Actively manage lease expiries and improve portfolio occupancy, with a focus on expiries in Sydney's western corridor | ➜ | DEXUS actively managed its DXS portfolio lease expiry profile, securing 39,676sqm in new leasing and 116,348sqm in renewals up to 11 months in advance of expiry<br>Occupancy was down at 94.4% (2012: 97.1%) as a result of the expiry at 14 Moore Street, Canberra and the addition of $1.1 billion of office acquisitions. On a portfolio like-for-like basis, occupancy was 94.9%<br>Refer to Office section commencing on page 30 |
| Increase office property investments in order to reach a target portfolio composition of 80%-90% of assets over the next 3-5 years | ✔ | DEXUS acquired $1.1 billion of office properties increasing the DXS office portfolio weighting from 67% to 78% in FY13, ahead of its target timeframe<br>Refer to Office section commencing on page 30 |

| COMMITMENT STATUS | |
|---|---|
| ✔ | ACHIEVED |
| ➜ | UNDERWAY |
| ✗ | NOT ACHIEVED |

# INVESTOR COMMITMENTS

Market leadership, sustainable growth, financial performance and capital management

CONTINUED

## INDUSTRIAL

| COMMITMENT | STATUS | DETAIL ON PROGRESS |
|---|---|---|
| Actively manage lease expiries and improve portfolio occupancy | ✔ | DEXUS increased occupancy to 95.9% (2012: 91.7%) through a proactive leasing program which secured more than 300,000sqm of space<br>Refer to Industrial section commencing on page 36 |
| Deliver committed development leasing | ✔ | Completed 81,024sqm of developments in FY13 leasing 79% of those developments<br>Refer to Industrial section commencing on page 36 |
| Grow industrial exposure in third party funds | ✔ | DEXUS created the Australian Industrial Partnership which jointly invests in 18 industrial properties in Sydney and Melbourne valued at $487 million<br>DWPF increased its industrial portfolio exposure by acquiring $42.6 million of industrial properties<br>Refer to the Third Party Funds Management and DWPF sections on pages 46–52 |

## INDUSTRIAL US/EU

| COMMITMENT | STATUS | DETAIL ON PROGRESS |
|---|---|---|
| Maintain leasing focus in portfolio | ✔ | At the time of sale of the west coast portfolio, the portfolio was 97.9% occupied up from 97.1%, an improvement of 0.8% from 30 June 2012 |
| Progress exit strategy for the US and European portfolios | ✔ | DEXUS completed the sale of its US and European industrial portfolios in FY13 realising $628 million, ahead of the targeted timeframe<br>Refer to the Transactions section on pages 10–11 |

## THIRD PARTY FUNDS MANAGEMENT

| COMMITMENT | STATUS | DETAIL ON PROGRESS |
|---|---|---|
| Continue to achieve investment objectives to enhance returns | ✔ | DWPF delivered a one year return of 8.56% exceeding its benchmark by 0.28%<br>Refer to the DWPF section on pages 50–52 |
| Establish new third party capital partnerships | ✔ | DEXUS created the Australian Industrial Partnership with a leading global pension fund, jointly investing in a $487 million industrial portfolio<br>Refer to the Third Party Funds Management and DWPF sections on pages 46–52 |

# TENANT/CUSTOMER COMMITMENTS

Tenant/customer attraction and retention

| COMMITMENT | STATUS | DETAIL ON PROGRESS |
|---|---|---|
| Service excellence charter adopted by office and industrial teams and incorporate service levels into team KPIs | ✔ | DEXUS's Service Excellence Charter was launched in FY13 and the Service Excellence Principles were incorporated into KPI's of the office and industrial team<br>Refer to the People and Culture section on pages 22–25 |
| Improve tenant retention across all portfolios | ✔ | DEXUS increased retention rates across both DXS's office and industrial portfolios during FY13 by 6% and 11% respectively<br>Refer to the Office and Industrial sections on pages 30–39 |
| Increase response rates and improve tenant satisfaction survey scores through targeted engagement | ➔ | DEXUS reviewed its tenant survey process and undertook a customer focused approach to develop the FY13 survey. A global external service provider was appointed and the process involved engaging with tenants to develop a 'customer' survey focused on what tenants wanted, with a customer service focus. The results of the survey were being consolidated at the time of this report<br>Refer to the Office and Industrial sections on pages 30–39 |
| Monitor and report on the take up of DEXUS's green lease schedule by tenants across each portfolio | ✔ | Green lease clauses were included in DEXUS new leases and lease renewals. Take up of the green lease clauses was 75% in FY13 |
| Rollout the Insurance Affinity program for retail tenants providing access to group discounted rates | ✔ | DEXUS committed to the Insurance Affinity Program to DEXUS owned and managed retail tenancies and rolled out the program to tenants in August 2013 |

# SUPPLIER COMMITMENTS

Fairness and efficiency

| COMMITMENT | STATUS | DETAIL ON PROGRESS |
|---|---|---|
| Work with service providers to implement the new DEXUS Service Excellence Charter, Supplier Principles, Sustainable Procurement Policy and Supplier Code of Conduct with KPIs to measure success | ✔ | As part of the new FM Plus contract with CBRE, DEXUS incorporated key performance indicators to ensure compliance with its Service Excellence Charter, Supplier Principles, Sustainable Procurement and Supplier Code of Conduct policies<br>Refer to the People & Culture section on pages 22–25 |
| Create strategic alliances with leading suppliers to achieve economies of scale and enhance value | ✔ | Preferred supplier arrangements are in place for ceiling systems, lighting and carpet supplies, resulting in improved quality, costs and consistency of on–floor works in the office properties. Major national services contracts are continually being reviewed, including current tenders for mechanical, fire services and lift services |

COMMITMENT STATUS

| | |
|---|---|
| ✔ | ACHIEVED |
| ➜ | UNDERWAY |
| ✗ | NOT ACHIEVED |

# EMPLOYEE COMMITMENTS

Board and employee capabilities, remuneration and talent retention

| COMMITMENT | STATUS | DETAIL ON PROGRESS |
|---|---|---|
| Implement a more transparent and market aligned remuneration strategy and compensation and benefits framework for our employees | ✔ | After a comprehensive review of contemporary market practice, a new remuneration structure was implemented in FY13. The new remuneration structure better aligns the interests of Executives and security holders through the introduction of short-term deferred and long term at-risk incentives, with DEXUS Executives and Directors now eligible to own DXS securities<br>Refer to the Corporate Governance section on page 62 and the full Corporate Governance statement in the DEXUS Annual Report |
| Increase accountability and create a stronger link between performance and reward through alignment to Group and individual KPIs | ✔ | The Balanced Scorecard approach to performance management was implemented and adopted by DEXUS's management in FY13<br>Refer to the People and Culture section on pages 22–25 |

# COMMUNITY COMMITMENTS

Community relationships

| COMMITMENT | STATUS | DETAIL ON PROGRESS |
|---|---|---|
| Increase DEXUS's volunteering commitment with at least 75% of employees contributing to one day of community service during the year | ✗ | DEXUS achieved 70% participation of its employees contributing to community service during FY13<br>Refer to the People and Culture section on pages 22–25 |
| Evaluate DEXUS's strategic relationships with, and membership of, industry and environmental bodies to ensure they are aligned with corporate and community goals | ➜ | DEXUS created a matrix of industry strategic relationships and continues to refine its membership status of various bodies to align with its focus on Australian office and commitment to the theme of 'Building and Housing the Community'<br>Refer to the People and Culture section on pages 22–25 |
| Promote and expand community engagement activity in the office and industrial portfolios | ✔ | DEXUS hosted short-term installations or events that support community organisations in its properties and will continue to support community events in its property foyers in FY14 |

# ENVIRONMENTAL COMMITMENTS

Resource efficiency and sustainability

| COMMITMENT | STATUS | DETAIL ON PROGRESS |
|---|---|---|
| Outperform the IPD Green Building Index through responsible capital investment in environmental initiatives and maintain the average 4.5 star NABERS Energy rating across the DXS office portfolio | ✔ | DEXUS achieved a weighted average NABERS Energy rating of 4.7 stars for the DXS office portfolio, exceeding its 4.5 star target<br>DEXUS outperformed both the Green Star and NABERS benchmarks in the IPD Green Building Index<br>Refer to the Office section commencing on page 30 |
| Continue to drive sustainability in our industrial estates, such as Greystanes, through the use of master planning and resource efficiency programs | ✔ | DEXUS continued to embed sustainability practices within its industrial estate master planning and achieved a 4 Star Green Star design rating for 2-6 Basalt Road, Greystanes<br>Refer to Industrial section commencing on page 36 |
| Deliver a 10% energy saving over the next three years across the property portfolio | ➜ | DEXUS is on track to achieve 10% energy savings over a three year period through upgrading the sustainability of its properties<br>Refer to the Office section commencing on page 30 |
| Expand Carbon Neutrality program to other business areas | ✔ | An analysis was conducted relating to the feasibility of expanding Carbon Neutrality to regional offices. During the year, carbon neutrality was achieved in its Melbourne office |

# PEOPLE AND CULTURE

"At DEXUS, we understand the importance of providing the right environment, support and development to encourage our people to deliver the best performance possible."
**Deborah Coakley,** EGM, People and Culture

DEXUS employs more than 235 property professionals across the Group. DEXUS property professionals are located in the key office and industrial investment markets of Sydney, where the majority of employees are located, Melbourne, Brisbane and Perth. DEXUS also employs retail management personnel to manage centres on behalf of DEXUS's Third Party clients in state capitals and regional centres around Australia.

**DEXUS believes leadership is a cornerstone of success for a high performing culture.**

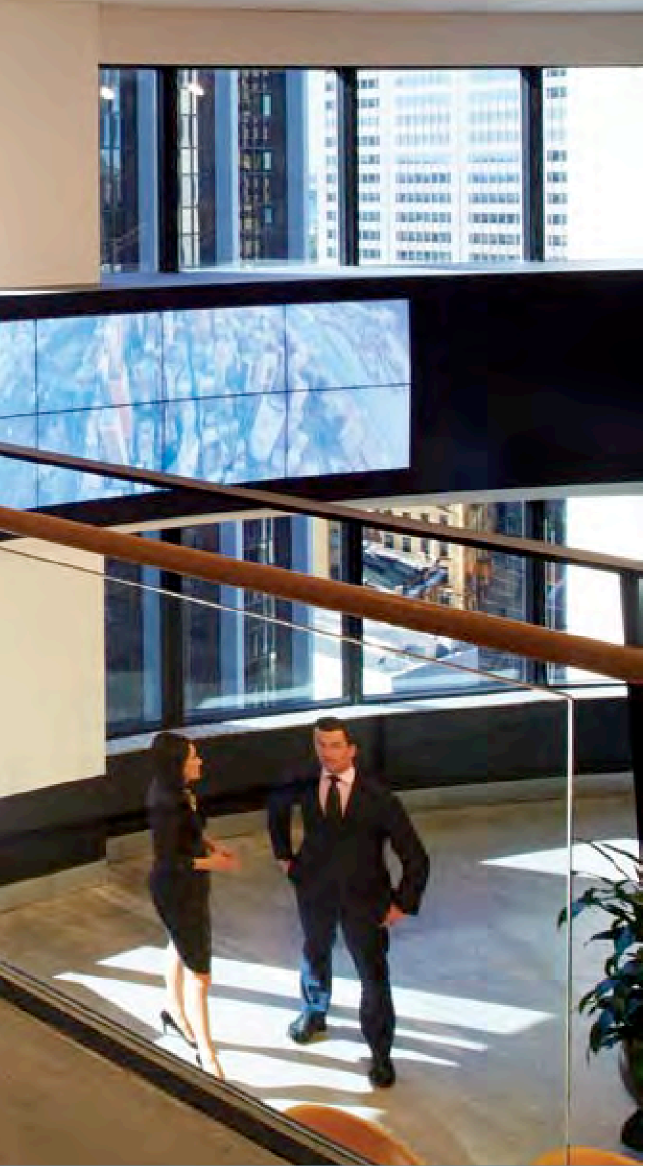
## Delivery of a high performance culture

DEXUS understands the importance of providing the right environment, support and development to encourage collaboration among its people and deliver the best performance possible.

Supporting a culture of high performance, DEXUS has reinforced communication and transparency throughout the organisation to ensure its people are aware of the goals and outcomes required to deliver the Group's revised strategy and progress key objectives.

DEXUS recognises the significance of the performance of its leaders in delivering enhanced value for its shareholders. The rigour applied to the performance review process ensures outcomes are specific and measurable and there is clear accountability.

Over the past year the Group streamlined its annual performance management process to deliver optimum results and value for its stakeholders, taking into account the overall business objectives together with the individual contribution of each senior leader.



The performance of senior leaders is aligned with:

- The financial performance of the business
- The overall business strategy
- The contribution to stakeholder engagement and customer service
- Their leadership role with DEXUS people
- The DEXUS culture

The Balanced Scorecard methodology utilised by DEXUS Executives is cascaded to all senior leaders across the Group and now covers the top 14% of the employee population.

Under this system, contribution and achievement are measured against threshold, stretch and outperformance targets motivating each leader to strive for outperformance with and through their teams.

## The development of DEXUS leaders

Leadership is a cornerstone of success for a high performing culture. To maintain performance momentum, DEXUS identified that the development of its leaders as a priority for the success of the business.

Supporting the strategic objective of high performance, DEXUS launched the Human Synergistics Lifestyles Inventory Tool (LSI Tool), providing the opportunity for leaders to gain awareness of their own leadership style through taking into account feedback from peers and direct reports with tailored guidance for future development.

The LSI Tool will be used in conjunction with the introduction of a leadership development program designed to support the Group's strategic objectives of leadership in office and enhanced core capabilities.

The DEXUS Leadership Program will challenge senior talent to extend leadership capability and drive visible commercial and cultural change, strengthening and positioning the DEXUS management platform for future success. The program contains core content, experiential learning, personal coaching, master class learning and individual development options and will take two years for a participant to complete.

## Service Excellence Charter

Service excellence is viewed as critical to the success of DEXUS as it drives tenant satisfaction and retention. In a review of the Service Excellence Charter, DEXUS made refinements and identified ways to enhance behaviours needed to strengthen its high performance culture and provide better service to its customers.

During the year DEXUS took steps to embed the Service Excellence Charter's guiding principles into the Group's culture and influence performance outcomes through integrating elements of the Charter into the office and industrial team's Key Performance Indicators.

In addition, DEXUS incorporated key performance indicators in its FM Plus partnership with CBRE to ensure implementation of its Service Excellence Charter, Supplier Principles, Sustainable Procurement and Supplier Code of Conduct policies.

## Launch of customer service program

One of DEXUS's key strengths is its ability to relate to its tenants by understanding, appreciating and anticipating their needs and to deliver excellent customer service.

In order to elevate its customer experience, DEXUS introduced specifically designed customer service training to its building managers and the CBRE FM Plus team. The program aims to create a unique point of difference for DEXUS, delivering an enhanced level of service that transforms the client's experience and reinforces a focus on service excellence.

DEXUS's commitment to customer service will also play an important part in the DEXUS Leadership Program forming one of the four pillars that also include learning, development and focus. Customer service, enduring relationships and tenant satisfaction are the cornerstones of DEXUS's service offering, ethos and culture and are integral to building value for tenants and stakeholders.

A mural on the core of the DEXUS head office building highlights the DEXUS story.

## Diversity

DEXUS welcomes employee diversity which contributes to a competitive advantage and enables the organisation to make better, informed decisions that create value for investors. Culture and attitude are key elements in an inclusive approach to diversity and at DEXUS, merit is the key requirement for employee advancement.

Gender diversity in particular is encouraged at all levels of the Group. DEXUS is committed to improving participation for senior executives and senior managers and has set a gender target of 33% female participation at senior management level by 2015.

At 30 June 2013, the representation of women at senior management level was 27%. At Board level, 25% of non-executive directors were women against a 33% target by 2015.

## People development

Training and development opportunities are provided by DEXUS to enhance the skills and knowledge of its people to achieve high performance outcomes. Over the past year, DEXUS increased its focus on development programs and activities that will have the highest impact.

Development activities included a focus on improving DEXUS communications through a dedicated media training program for senior managers. DEXUS also provided study assistance to enhance the qualifications of its property specialists. There are a number of employees completing DEXUS sponsored undergraduate and postgraduate courses, management and vocational qualifications.

Activities have extended to developing the capabilities of DEXUS partner providers, including on-site training of building concierge services and building management teams, in the operation of enhanced building management systems and the delivery of the DEXUS customer service model.

## Community commitment

Combining the Group's desire to see a strong, healthy and economically sustainable society with its property skills and knowledge, DEXUS sees a natural fit with offering philanthropic assistance to organisations that support homeless and displaced individuals.

The theme of 'Building and Housing the Community' provides a broad base for DEXUS to contribute to the well-being of society through its property expertise. Over the past year, DEXUS supported organisations including Barnardos Australia, CREATE Foundation, The Wayside Chapel, The Wesley Mission, The Station and Mission Australia. During the year, DEXUS contributed approximately $777,800 of donations and in-kind support to community organisations and other charities, including the Sydney Children's Hospital.

CASE STUDY

# Leadership in mentoring

The story of Tamara Keenan is of a valued employee who is using her experience to mentor others.

Tamara came to DEXUS via Jobsupport, a Disability Employment Services program which places people into quality jobs in the regular workforce. Faced with limited career options, Tamara signed up with Jobsupport and was placed in the role of Operations Assistant at DEXUS in 2008.

Tamara is one of Jobsupport's success stories, not only because she is in a role which contributes to the value of an organisation, but because she has become a leadership mentor. Tamara provides tours of DEXUS's head office and speaks at dinners in Sydney and Melbourne to raise awareness of Jobsupport and encourage participation.

Tamara has shown that DEXUS's leadership capability extends to all roles within the organisation.

## Group Management Committee (GMC) delivering strategic direction

The DEXUS GMC is the leadership team responsible for delivering the strategic direction of the business. The areas of GMC responsibility are defined in the organisation chart below.

**DARREN STEINBERG**
CHIEF EXECUTIVE OFFICER

| KEVIN GEORGE<br>EGM, OFFICE AND INDUSTRIAL | TANYA COX<br>EGM, PROPERTY SERVICES & COO | CRAIG MITCHEL<br>CHIEF FINANCIAL OFFICER | ROSS DU VERNET<br>EGM, STRATEGY, TRANSACTIONS & RESEARCH | DAVID YATES<br>EGM, IR, MARKETING & COMMUNICATIONS | JOHN EASY<br>GENERAL COUNSEL & COMPANY SECRETARY | DEBORAH COAKLEY<br>EGM, PEOPLE & CULTURE |
|---|---|---|---|---|---|---|
| – OFFICE<br>– INDUSTRIAL<br>– DEVELOPMENT | – PROPERTY SERVICES<br>– SUSTAINABILITY<br>– IT SOLUTIONS<br>– TREASURY OPERATIONS | – FINANCE<br>– THIRD PARTY FUNDS<br>– RETAIL | – STRATEGY<br>– CAPITAL TRANSACTIONS<br>– RESEARCH | – INVESTOR RELATIONS<br>– MARKETING & COMMUNICATIONS<br>– CORPORATE SERVICES | – LEGAL<br>– COMPLIANCE, RISK & GOVERNANCE | – HUMAN RESOURCES<br>– CORPORATE RESPONSIBILITY |

CASE STUDY

# Community development through industry partnership

The families of Barnardos Auburn Family Centre are worthy recipients of DEXUS's commitment to "Building and Housing the Community" through providing housing and property solutions to those in need.

DEXUS has supported Barnardos for many years. Building on its partnership model, it teamed up once again with FDC Construction & Fitout to renovate the Barnardos Auburn Centre's long day care facility.

Barnardos Auburn Centre now has a new reception area with wheelchair and double pram access, renovated childrens' bathrooms, an expanded classroom with improved storage, benefiting the 80 children who use this facility every week.


"We greatly appreciate the valuable donation made by DEXUS and FDC Construction to the Auburn Centre which will help improve the lives of children in our community."

**Mary-Anne Bechara**, Centre Manager
Barnardos Auburn Centre

# A NEW WAY OF WORKING

Understanding the future direction of office space design and its impact of workforce performance, DEXUS moved its head office enabling the creation of a Flexible Work Environment that is designed to support the Group's 'Core Capabilities' strategic objective.

"We have created a high performance workspace for our people that goes to the core of what we stand for and how we are perceived."

**Darren Steinberg**, Chief Executive Officer

Inspired by moving to a new workplace in Sydney's iconic Australia Square in April 2013, DEXUS's people are more engaged than ever. A new way of working, enabled by technology and an optimal fit-out in a DEXUS building, is achieving high performance outcomes through greater flexibility, efficiency and productivity.

Innovation and collaboration are at the heart of the DEXUS workspace. From the moment you step out of the lifts you enter a non-traditional reception area. The area flows upstairs to an area called the 'Dynamic Space', where a multitude of activities occur, from investor presentations to team discussions, functions, client meetings and training.

DEXUS's new workspace has already shown early signs of improved performance. Surveyed just six weeks after DEXUS relocated to Australia Square, DEXUS's people identified a significant improvement in their attitude to their new workplace compared to six months previously. Perceptions on the effectiveness of collaboration and interaction improved by 18%, people felt the effectiveness of meeting spaces had improved by 15% and there was a perceived improvement in productivity.

DEXUS believes that an investment in premises is an investment in people and aims for them to be recognised for their property expertise, institutional rigour and entrepreneurial spirit. The new workspace provides a solid foundation on which its people can further develop their capabilities.

## Fit-out details

- Level 25 and Level 26 Australia Square
- Tenancy net lettable 2,064 square metres
- Designed to accommodate up to 190 employees (currently accommodating 170)

## Interior design

- Internal design showcases raw building elements by exposing the concrete slab floor and removing ceiling tiles to match the floor and raise the ceiling height
- Aesthetic and acoustic variation through alternating the floor surface with exposed concrete slab and carpet
- Low height locker and storage units supplemented by plants soften work areas and open the transparency of the floors
- A mural on the core of both levels highlights the DEXUS story. The simplicity of its black and white design acting as a mirror to the 360 degree window views over the Sydney CBD skyline

## Sustainability initiatives

- Centralised recycling
- Energy efficient T5 task and low voltage LED lighting
- Motion sensor meeting room lighting
- Reduced power load through 100% mobilisation of laptops across the floors
- Tenancy designed to achieve 4.5 star NABERS Energy rating

"We are proud to occupy a building we have ownership in and can now demonstrate to our tenants what is possible by creating a collaborative workspace from the footprint of a conventional office floor in a building that is almost 45 years old."

**Kevin George**, EGM, Office & Industrial

CASE STUDY

# Repositioning of an iconic Sydney property

Through an active repositioning strategy focusing on customer service, DEXUS and its co-owner utilised their asset management capabilities to restore Australia Square as a prestigious property address, reinforcing its status as one of Sydney's iconic buildings.

The potential of Australia Square was identified and an innovative repositioning strategy was developed incorporating strategic capital expenditure and the launch of new customer service initiatives. A targeted marketing campaign was undertaken to shift the perception of Australia Square to a modern iconic property, which assisted in attracting and retaining tenants.

Over the past year, leases covering 17,000 square metres of space have been renewed and new leases covering 6,000 square metres of space have been secured, increasing Australia Square's occupancy from 87% to 92% and weighted average lease expiry from 3.6 to 5.3 years.

A significant result of the successful leasing was a $26.5 million uplift in DEXUS's June 2013 independent valuation on prior book value.

The DEXUS head office tenancy in Australia Square has adopted the latest in workspace evolution within the building and showcases to tenants the flexibility and longevity of a Sydney icon and what is possible in an office workspace.

CASE STUDY

# How Flexible Work Environment benefits DEXUS

DEXUS has created a work environment in tune with the needs of its people that promotes productivity, innovation and choice. The DEXUS workspace aims to foster a high performance culture, emphasising collaboration and flexibility across space that is capable of a variety of different work types.

The Flexible Work Environment (FWE) office configuration reinforces the importance of face-to-face communication, supported by an enhanced technology platform that provides the latest communication solutions for faster decision making.

The FWE office design shares many of the principles of an Activity Based Working (ABW) model, but is not as rigid in its implementation. People have the option of choosing a different workspace depending on their requirements but tend to remain within their neighbourhoods where their team storage and lockers are located.

"I enjoy having the choice of being able to work where and how I want. The collaborative environment is inspiring and encourages a flow of ideas across teams."

**DEXUS Office & Industrial team member**

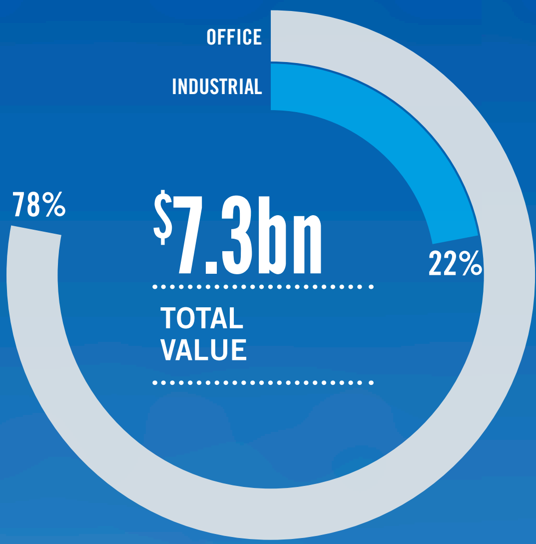
# DXS PORTFOLIO

The DXS portfolio comprises quality Australian office and industrial properties in which DEXUS owns direct investments. DXS owns a total of $7.3 billion of properties concentrated in core markets across Sydney, Melbourne, Brisbane and Perth and is one of the largest institutional owners of office buildings in the Sydney CBD, Australia's largest office market.

## Key metrics

| | FY13 | FY12 | FY11 | FY10 |
|---|---|---|---|---|
| Total value ($bn) | 7.3 | 6.9 | 7.5 | 7.3 |
| Total properties | 84 | 106 | 175 | 179 |
| Net lettable area (sqm) | 1.8m[1] | 2.5m[1] | 4.2m | 4.5m |
| Occupancy by area (%) | 95.3 | 93.4 | 88.7 | 89.9 |
| Occupancy by income (%) | 94.9 | 95.8 | 93.6 | 93.2 |
| Lease duration by income (years) | 4.8 | 4.7 | 5.0 | 5.1 |
| Weighted average capitalisation rate (%) | 7.47 | 7.51[2] | 7.7 | 8.0 |

1. Reduction is due to the sale of the US and European portfolios.
2. 7.68% on a like-for-like basis excluding discontinued operations.





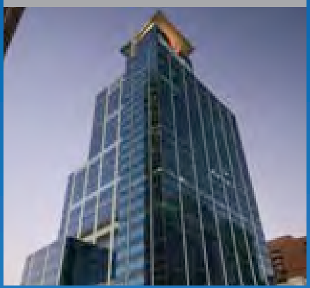

## BRISBANE

3 OFFICE PROPERTIES
$0.6 BILLION
8% OF TOTAL PORTFOLIO

5 INDUSTRIAL PROPERTIES
$0.1 BILLION
1% OF TOTAL PORTFOLIO

## PERTH

2 OFFICE PROPERTIES
$0.5 BILLION
7% OF TOTAL PORTFOLIO




## SYDNEY

21 OFFICE PROPERTIES
$3.7 BILLION
52% OF TOTAL PORTFOLIO

29 INDUSTRIAL PROPERTIES
$0.9 BILLION
12% OF TOTAL PORTFOLIO

## CANBERRA

2 OFFICE PROPERTIES
$0.1 BILLION
1% OF TOTAL PORTFOLIO

## ADELAIDE

1 INDUSTRIAL PROPERTY
<$0.1 BILLION
<1% OF TOTAL PORTFOLIO

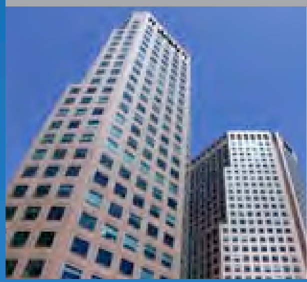
## NEW ZEALAND

1 OFFICE PROPERTY
$0.1 BILLION
2% OF TOTAL PORTFOLIO

## MELBOURNE

7 OFFICE PROPERTIES
$0.7 BILLION
10% OF TOTAL PORTFOLIO

13 INDUSTRIAL PROPERTIES
$0.6 BILLION
7% OF TOTAL PORTFOLIO




# OFFICE

The DXS office portfolio comprises over 87% of prime grade properties located in the Sydney, Melbourne, Brisbane and Perth CBD markets.

**36**
TOTAL PROPERTIES

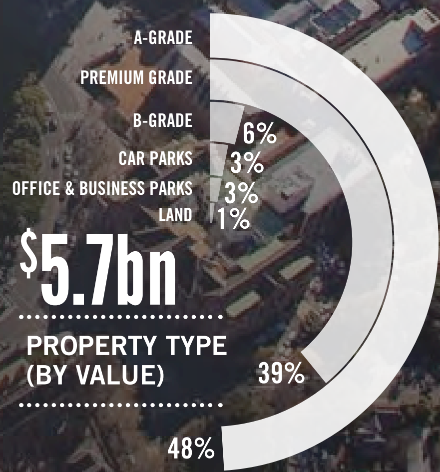
**10.6%**
1 YEAR TOTAL RETURN

**94.4%**
OCCUPANCY BY AREA

**72%**
TENANT RETENTION

## Key portfolio metrics

| | FY13 | FY12 | FY11 | FY10 |
|---|---|---|---|---|
| Portfolio value ($bn) | 5.7 | 4.7 | 4.5 | 4.1 |
| Total properties | 36 | 28 | 28 | 28 |
| Net lettable area (sqm) | 682,207 | 596,111 | 558,000 | 542,400 |
| NOI ($m) | 317.4 | 289.9 | 255.2 | 245.1 |
| Like-for-like income growth (%) | 1.8 | 5.4 | 3.3 | 0.4 |
| Occupancy by area (%) | 94.4 | 97.1 | 96.2 | 95.7 |
| Occupancy by income (%) | 94.6 | 96.8 | 95.3 | 96.2 |
| Lease duration by income (years) | 5.0 | 4.9 | 5.3 | 5.4 |
| Weighted average capitalisation rate (%) | 7.17 | 7.30 | 7.4 | 7.6 |
| 1 year total return (%) | 10.6 | 9.5 | 9.0 | 6.9 |
| Tenant retention (%) | 72 | 66 | 53 | 56 |



DEXUS owns 12 prime office properties located in the Sydney CBD.

## Leadership in office

One of DEXUS's strategic objective is to be the leading owner and manager of Australian office.

DEXUS aims to demonstrate leadership in leasing, tenant relationships and deal-flow. The Group strives to achieve this through proactively driving leasing outcomes, delivering the best customer service and building a quality portfolio through access to deal flow.

Following the announcement of its revised strategy in August 2012, DEXUS exited its offshore, non-core markets and redeployed capital into Australian office markets. In a series of transactions, eight office properties were acquired across the four key markets of Sydney, Melbourne, Brisbane and Perth, increasing DXS's office portfolio value to $5.7 billion (78% of the total DXS portfolio).

The office team concentrated on proactive leasing, delivering solid operational performance, primarily contributing to the $190.7 million uplift in property valuations.

Key portfolio highlights included:

- The acquisition of $1.1 billion of office properties, increasing the DXS portfolio exposure to core Australian CBD markets
- Re-weighted the DXS portfolio composition, increasing office exposure by 11% to 78%, in line with the strategic target of 80%
- Leased 156,024 square metres and increased the WALE to ensure the DXS portfolio is well placed to continue to deliver strong results

"Following the acquisition of an interest in Grosvenor Place in February 2013, DEXUS now owns and manages interests in four of the seven premium grade office properties in the Sydney CBD."

**Kevin George**, EGM, Office & Industrial

## Operational performance

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

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

## Proactive focus on leasing

In anticipation of a soft period of growth the office team focused its resources on leasing activities in the key Australian office markets of Sydney and Melbourne. While office market leasing conditions remain challenging, DEXUS has generated good tenant interest in quality buildings.

The office team leased 16% of the portfolio during the year and significantly reduced 2014 expiries. In the year to 30 June 2013, DEXUS secured leases over 156,024 square metres (2012: 95,013sqm).

This included:

- 72 new leases over 39,676 square metres achieving an average rental increases of 3.3%
- 58 lease renewals over 116,348 square metres, on average 11 months prior to lease expiry

Key leases executed included:

- 383 Kent Street, Sydney – Grant Thornton Australia Limited signed a heads of agreement for a new 10 year lease over 6,300 square metres which includes an expansion of 2,328 square metres of space
- Australia Square, Sydney – Three key lease renewals were secured over 14,000 square metres, including six year lease terms to Ninemsn and Origin Energy and a 13 year lease to HWL Ebsworth

These deals form part of a significant leasing program undertaken at Australia Square where DEXUS and its co-owner have leased 44% of the property through 28 transactions resulting in occupancy improving by 5% to 92%, increasing the average lease duration by 1.7 years to 5.3 years

- 8 Nicholson Street, Melbourne – Victorian State Government renewed for a further five years over 23,529 square metres
- 30 The Bond, Sydney – Lend Lease exercised a five year option, commencing March 2014, over 17,547 square metres

Early leasing progress was also achieved at newly-acquired properties including:

- 50 Carrington Street, Sydney – 82% of total space has now been committed, up from 61% on acquisition in November 2012, following leases to new tenants, CBRE, Drillsearch and Industrie IT over a total 2,334 square metres. WALE has increased by 1.5 years to 3.7 years
- 39 Martin Place, Sydney – 82% of total space has now been committed, up from 75% on acquisition in February 2013, including Breitling signing a six year lease over 186 square metres on the ground floor and level five being fully leased to four tenants. WALE has increased by 0.2 years to 4.2 years
- Grosvenor Place, Sydney – two new seven year leases have been signed over a total of 2,229 square metres at Grosvenor Place including Michael Page, an existing tenant moving from 1 Margaret Street, and Sumitomo

The diversity and scale of the DEXUS office platform combined with a deep customer base gives DEXUS the ability to provide tenant solutions.

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

**DXS office portfolio delivered a one year total return of 10.6%.**

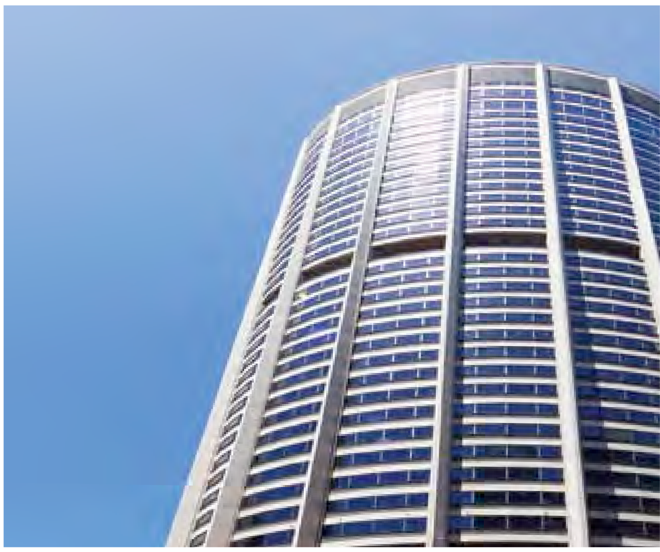
Occupancy is down to 94.4% (2012: 97.1%) largely driven by the inclusion of new office acquisitions and the vacancy at 14 Moore Street, Canberra following the expiry of the Commonwealth Government's lease in May 2013.

FY14 expiries were reduced significantly during the year, from 10.7% in July 2012 to 5.6% in June 2013. With many of these expiries towards the latter half of the coming year, strong like-for-like NOI growth is expected for FY14.

Tenant enquiry and demand in Sydney increased in the second half of the financial year, particularly in spaces of less than 1,000 square metres, delivering positive results in DXS's western core and A-Grade portfolio. However the premium grade office market remains challenging, highlighting DEXUS's strength in ownership of a diverse portfolio.

Leasing activity conducted during the year resulted in a considerable improvement to DXS's near term office lease expiry profile. The improvement demonstrates DEXUS's focus on forward solving leasing risks.

Through FY14 DEXUS will focus on leasing vacancies such as 14 Moore Street, Canberra and the remaining space at Grosvenor Place, Sydney together with future expiries.



## CASE STUDY

# An excellent opportunity to demonstrate DEXUS's property expertise

DEXUS utilised its skills and expertise to acquire and reposition 50 Carrington Street, Sydney making it an attractive trading opportunity.

With DEXUS able to add value through upgrading the building and adopting a proactive leasing approach, 50 Carrington Street provided a cost effective way to access a high quality office building where the cost of acquisition plus repositioning is well below replacement cost.

DEXUS acquired 50 Carrington Street, a well-located B-grade property in one of DEXUS's core markets, in November 2012 and immediately commenced building upgrades and a proactive leasing campaign.

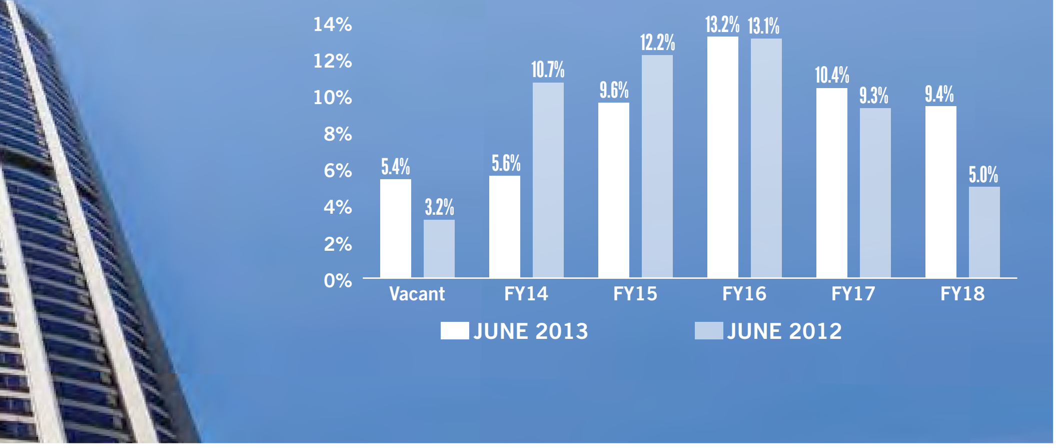
The foyer and lifts were enhanced together with the introduction of sustainability initiatives. These works will increase the property's environmental performance to a 4.5 star NABERS Energy rating providing energy savings equivalent to approximately $61,000 per annum.

DEXUS used its leasing abilities and property management expertise to secure leases for newly refurbished floors, improving occupancy from 61% at acquisition to 82% at 30 June 2013, and adding significant value to the property.

Given market forecasts of rental growth and a tightening of capitalisation rates over the next three years, DEXUS believes active management of 50 Carrington Street will reposition the property into a trading opportunity.

> "The speed and agility of our team to reposition the property, retain existing tenants and commence a strategic leasing campaign to secure new tenants has been the key to 50 Carrington Street's success."
>
> **Kevin George**, EGM, Office & Industrial

OFFICE LEASE EXPIRY PROFILE TO 30 JUNE 2013 (BY INCOME)




## Valuations

A combination of leasing success, the weight of capital seeking quality Australian office property and recent transactional evidence have each contributed to a $191 million or 3.5% increase in valuations on prior book values across the office portfolio. The weighted average capitalisation rate has tightened 13 basis points from 7.30% to 7.17% at 30 June 2013.

Key revaluations included:

- At 30 The Bond, Sydney a $33.8 million or 23.3% increase in value and 13 basis point tightening in the property's capitalisation rate was driven by the exercising of a new five-year option by Lend Lease across 17,547 square metres in March 2013 and an increase in market rents in the western core
- At Australia Square, Sydney strong leasing success and tenant retention contributed to a $26.5 million or 9.5% increase in value and resulted in a 23 basis point tightening in the property's capitalisation rate
- At 123 Albert Street, Brisbane a $28.1 million or 7.5% increase in value was driven by a 25 basis point tightening in the property's capitalisation rate after achieving 100% occupancy during 2012
- At 44 Market Street, Sydney a $20.5 million or 9.3% increase in value and a 25 basis point tightening in the property's capitalisation rate was achieved

Leasing challenges in secondary markets are contributing to a yield spread between prime and secondary properties, or those with significant vacancies. This was evident at 14 Moore Street, Canberra where a $3.9 million valuation decrease and 50 basis point capitalisation rate softening reflected the office vacancy following the expiry of the Commonwealth of Australia's lease.

CASE STUDY

## New FM Plus model focuses on service excellence

DEXUS's unique partnership with CBRE, the largest real estate services firm in the world, has put DEXUS at the forefront of tenant service delivery.

The partnership was established to develop and deliver an innovative, best-in-class property service to tenants in DEXUS office and industrial buildings via an integrated property management model called FM Plus.

Since the new platform was rolled out earlier this year, DEXUS's clients and tenants have benefited from more efficient service delivery supported by market leading IT systems and processes, including a highly accessible quick response mechanism to tenant maintenance issues.

The scale of the management platform, together with process improvements, has reduced operating costs in areas such as procurement and provides further scope for implementing initiatives aimed at attracting and retaining tenants.

The partnership leverages the strengths of both organisations and enables DEXUS to focus on strategic matters and achieve the best possible investment outcomes and returns for investors and stakeholders.

"The new FM Plus model extends beyond systems and processes; it demonstrates a total customer focus and service delivery at all levels, embedding a culture of high performance and service excellence."

**Tanya Cox**, EGM, Property Services and Chief Operating Officer

### Tenant engagement

A focus for DEXUS during the past year was to strengthen engagement with tenants to assist in retention and drive leasing outcomes across the office and industrial portfolios.

DEXUS engaged a global leader in customer audit programs to develop a new approach to the tenant engagement survey that involved consulting with tenants to create the survey questions.

Tenant feedback so far has been positive and encouraging on this new and inclusive engagement approach.

The survey results, due in August 2013, will benchmark DEXUS on a global scale to other companies with a customer service focus.

### Sustainability commitment

Driven by a commitment to leading practice in sustainability, DEXUS has focused on improving the sustainability performance of its buildings and resource consumption.

The DXS office portfolio achieved a 4.7 star NABERS Energy rating and a 3.5 star average NABERS Water rating following the completion of the three year DEXUS NABERS Energy and NABERS Water Rating Improvement Program in 2012. In the IPD Green Building Index, DEXUS outperformed the Green Star benchmark by 190bps and outperformed the NABERS benchmark by 110bps.

DEXUS continued its strong support for Earth Hour across its portfolio this year by switching off non-essential base building power. Through the encouragement of DEXUS property managers, 99% of DXS office tenants participated in Earth Hour in 2013.

DEXUS achieved carbon neutrality at its Melbourne office for the first time and for the third consecutive year at its head office in Sydney. The FY13 commitment was achieved through reducing its carbon emissions and purchasing carbon offsets from projects that deliver environmental, social and biodiversity benefits including credits from Tasmanian forestry projects.

DEXUS's new head office at Australia Square is designed to achieve a 4.5 star NABERS Energy rating and DEXUS aims to achieve this in FY14.

Recognised as the world's most architecturally innovative highrise building, Sydney's first 6 Star Green Star office tower, 1 Bligh Street, was awarded the prestigious International Highrise Award 2012.

### FY14 focus

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

**123 Albert Street Brisbane, (below) Winner of Environmentally Sustainable Development – Built Form.**

CASE STUDY

# DEXUS rewarded through the Energy Savings Scheme

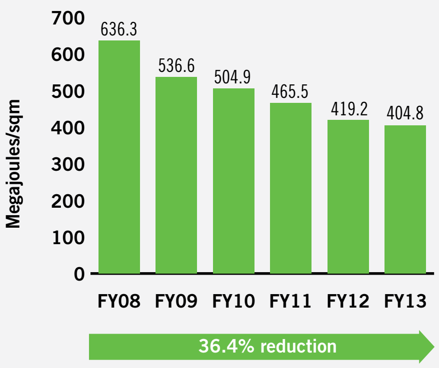
In 2012, DEXUS was accredited as a participant in the NSW Government's Energy Savings Scheme (ESS), enabling it to generate tradable Energy Savings Certificates (ESCs) from energy savings achieved through the DEXUS NABERS Energy and NABERS Water Rating Improvement Program.

The ESCs can be traded, for example to an electricity retailer, enabling the retailer to meet its energy obligations and providing income to DEXUS.

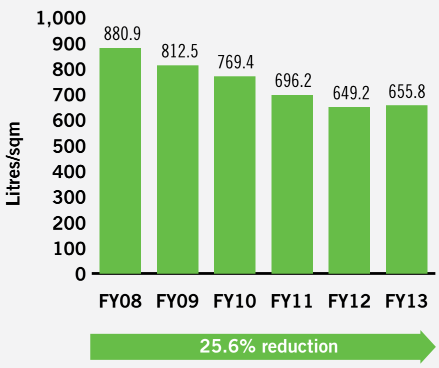
Since joining the scheme, DEXUS generated its first batch of around 9,500 ESCs for the six month period. DEXUS has set an annual target of 25,000 ESCs per annum for the next seven years, with ESCs issued on a calendar year basis.

DEXUS's commitment to sustainability has resulted in reductions in energy consumption and energy cost savings across the DXS office portfolio. While tenants have benefited through decreased outgoings, DEXUS now has the potential to generate additional income through trading ESCs.

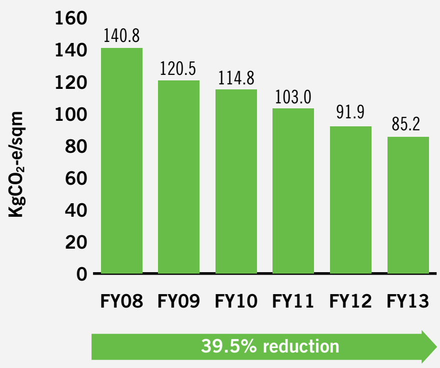
## DXS office energy consumption/ intensity




## DXS office water consumption/ intensity




## DXS office greenhouse gas emission/ intensity





# INDUSTRIAL

DEXUS has a strong track record in using its industrial capabilities to deliver high quality industrial product to the market, targeting the key metropolitan markets of Sydney, Melbourne and Brisbane and ensuring its properties are located close to multi-modal infrastructure and employment hubs.

| 48 | 8.8% | 95.9% | 70% |
|---|---|---|---|
| TOTAL PROPERTIES | 1 YEAR TOTAL RETURN | OCCUPANCY BY AREA | TENANT RETENTION |

## Strong commitment to industrial

The Group owns and manages a significant $2.5 billion industrial platform of 68 properties. This includes the Australian Industrial Partnership which was established with a leading global pension fund in October 2012, strengthening DEXUS's commitment to the Australian industrial sector.

DXS's industrial portfolio is one of the largest listed industrial portfolios in Australia with 48 quality properties located primarily in the key growth markets of Sydney and Melbourne. DEXUS's strategy is to invest in modern functional high quality facilities that deliver superior risk-adjusted returns to investors.

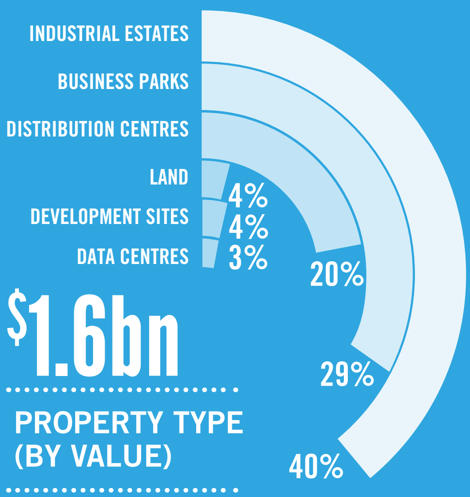
With the portfolio valued at $1.6 billion, DXS's exposure to quality industrial properties is 22% in line with the strategic target of 20%.

## Operational performance

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

NOI for the year was $117.1 million, a decrease of 2.4% (2012: $120.0 million) reflecting the sale of a 50% interest in 17 properties to the Australian Industrial Partnership. Like-for-like NOI growth was 1.1%.

**Industrial facility at Quarry at Greystanes. Developed and leased by DEXUS.**




## Key portfolio metrics

| | FY13 | FY12 | FY11 | FY10 |
|---|---|---|---|---|
| Portfolio value ($bn) | 1.6 | 1.7 | 1.6 | 1.5 |
| Total properties | 48 | 45 | 35 | 34 |
| Net lettable area (sqm) | 1,093,267 | 1,194,309 | 1,125,300 | 1,175,200 |
| NOI ($m) | 117.1 | 120.0 | 116.4 | 109.9 |
| Like-for-like income growth (%) | 1.1 | (1.6) | 1.1 | 1.6 |
| Occupancy by area (%) | 95.9 | 91.7 | 96.2 | 98.4 |
| Occupancy by income (%) | 96.1 | 92.8 | 95.1 | 97.9 |
| Lease duration by income (years) | 4.1 | 4.4 | 4.7 | 4.9 |
| Weighted average capitalisation rate (%) | 8.55 | 8.59 | 8.6 | 8.8 |
| 1 year total return (%) | 8.8 | 8.0 | 9.4 | 7.9 |
| Tenant retention (%) | 70 | 59 | 61 | 80 |


**DEXUS capital transactions team (above)at Quarry at Greystanes. 2-6 Basalt Road, Greystanes (left) achieved a 4 Star Green Star design rating.**

## Proactive focus on leasing

The industrial leasing market remained challenging, however DEXUS experienced some recovery in demand for high quality facilities aligned to major road networks and port infrastructure in all major eastern seaboard core metropolitan markets. The demand was driven mainly from logistic providers, major retailers and some pharmaceutical and healthcare wholesalers.

While demand for business park space remains constrained, with incentives increasing due to high market vacancy in some markets, the DEXUS team was successful in leasing a number of long-term vacancies including space at 1 Garigal Road, Belrose and Unit R at 10-16 South Street, Rydalmere.

Strong leasing activity driven by tenant relationships and property expertise has seen occupancy increase by 4.2% to 95.9%. DEXUS secured 122 lease deals covering 327,432 square metres including 87,221 square metres of development leasing. The impact of the formation of the Australian Industrial Partnership which resulted in the sale of 50% of 17 properties at Quarry at Greystanes, NSW, DEXUS Industrial Estate at Laverton North and Altona, VIC was partly offset through strong leasing results at Gillman, SA and Silverwater, Belrose, Rydalmere and Greystanes, NSW.

## Key lease deals secured included:

- 1 Garigal Road, Belrose – a 10 year lease over 10,605 square metres to a substantial localised medical supply business commencing 1 January 2014
- Pound Road West, Dandenong – Commonwealth Government signed a new seven year lease over 7,607 square metres
- Silverwater industrial estate – a total of 6,349 square metres leased on average terms of 5.5 years, improving occupancy from 66% to 100%
- 10-16 South Street, Rydalmere – leased 18,434 square metres including terms agreed with Payless Shoesource, Deluxe Wood and Renz Australia for a total of 8,360 square metres. This leasing activity resulted in the occupancy for this property increasing to 93.1% and a WALE improving to 4.1 years
- Knoxfield, Altona – Toll Transport extended its lease over 36,123 square metres until July 2015
- Gillman – ACI Glass signed new three year lease over 33,106 square metres through a direct tenant relationship

## Progress on development leasing

Two new developments commenced during the year at Quarry Industrial Estate, Greystanes following the securing of 15 year pre-lease deals to Roche Diagnostics over 10,100 square metres and Blackwoods over 17,815 square metres, leveraging DEXUS's established relationship with the Wesfarmers Group.

Further development leasing undertaken during the year included:

- Quarry Industrial Estate, Greystanes – Wilson and Bradley signed a five-year lease over 3,976 square metres at 3 Basalt Road and, leveraging on DEXUS's long-term relationship with the Wesfarmers Group, Bunnings was secured for a one year term over 12,490 square metres at 2-6 Basalt Road. This leasing activity has resulted in 100% occupancy across all completed developments at Quarry at Greystanes, which comprises over 113,000 square metres
- DEXUS Industrial Estate, Laverton – Toll entered into a seven-year pre-lease for a second facility, directly opposite their initial pre-lease on Distribution Drive. The new warehouse was completed in July 2013 and provides 18,670 square metres

## Valuations

Increasing investor demand for prime quality industrial properties is being offset by the discounting of valuations for secondary properties and those with leasing risk.

This has resulted in DXS's industrial portfolio experiencing a moderate uplift in valuations of $5.8 million on prior book values. Properties with long lease tenures including properties at Greystanes, Laverton North, Matraville and Lara have benefitted most, with improving occupancy and security of cash flows being the drivers for valuation upside.

Capitalisation rates for the DXS industrial portfolio tightened four basis points to 8.55% at 30 June 2013 (2012: 8.59%).

## Sustainability commitment

Delivering on its FY13 environmental commitment to drive sustainability in its industrial estates, DEXUS continued to embed sustainability practices within industrial estate master planning and through resource efficiency programs.

Initiatives such as solar hot water, potable water, rain water for irrigation and toilets use and native landscaping were included in master planning for the DEXUS Industrial Estate at Laverton North, VIC and Quarry at Greystanes, NSW. In November 2012, 2-6 Basalt Road, Greystanes, achieved a 4 Star Green Star design rating.

## FY14 focus

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

### CASE STUDY

## A good buy at the right time

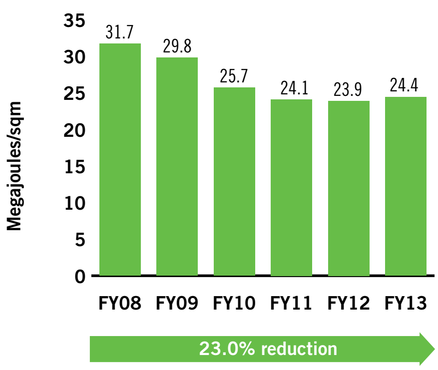
DEXUS proved it was ahead of the market in acquiring 2-4 Military Road, Matraville, which in June 2013 delivered a superior uplift in value.

Purchased at the bottom of the cycle in December 2009 and below replacement cost, Matraville was one of the first major property acquisitions by an Australian real estate investment trust following the GFC.

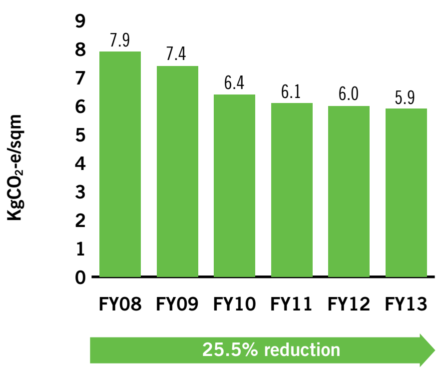
The prime quality industrial facility is well located in Sydney's south, close to the port at Botany with the two separate facilities 100% leased. With WALE on acquisition at 5.7 years and one of the tenant's terms only three years, DEXUS realised the repositioning opportunity and extended the lease for a further five years.

Acquired for $46.1 million with an initial yield of 9.3% and a capitalisation rate of 8.5%, Matraville was valued in June 2013 for $55.7 million. The property has delivered a 12.7% IRR since acquisition and its capitalisation rate is now 8.0%.

### DXS industrial energy consumption/intensity




### DXS industrial greenhouse gas emissions/intensity



# DEVELOPMENTS

| $1.2 billion | 313,944sqm | 9.0% |
|---|---|---|
| CURRENT DXS DEVELOPMENT PIPELINE | DEVELOPMENTS COMPLETED SINCE 2010 | YIELD ON COST FOR DEVELOPMENTS COMPLETED IN FY13 |

DEXUS has a strong and demonstrated track record in development, delivering over $1.3 billion of premium office and industrial product to the Australian market since 2010.

## A year of delivery

DEXUS continued to progress its $1.2 billion development pipeline during FY13, utilising its development capabilities to complete six prime industrial properties across 81,024 square metres costing $107 million. These included industrial developments at Quarry at Greystanes, 57-65 Templar Road, Erskine Park and 163-185 Viking Drive, Wacol.

Over the year, DEXUS leased 87,221 square metres of industrial development space, including achieving 100% occupancy on completed developments at Quarry at Greystanes. Refer to page 39 for more detail on industrial development leasing.

During the year, DXS added $0.5 billion of strategic development fund-through investments in Brisbane and Perth to its development pipeline. Construction is well underway on these four prime office buildings, with the Kings Square, Perth development due for completion in mid-2015 and 480 Queen Street, Brisbane in February 2016.

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

## Development objectives

DEXUS allocates up to 15% of funds under management in the DXS property portfolio to development and value-add activities in order to enhance returns for investors.

DEXUS developments deliver new or repositioned properties which can provide earnings accretion and enhance total returns through:

- Improving portfolio quality and age
- Increasing the lease expiry of existing tenants
- Providing joint venture opportunities with existing and new capital partners
- Generating trading profits through the sale of land, completed developments or repositioned properties

"DEXUS's commitment to completing high quality developments is focused on enhancing investor returns."

**Andrew Whiteside**, Group GM, Developments

## Office and industrial developments

DEXUS draws on its core capabilities to develop quality office and industrial properties, improving the quality and age of its property portfolio and delivering superior investor returns.

Since 2010, DEXUS has developed over $1 billion of premium grade, 6 Star Green Star office buildings in Brisbane and Sydney and $300 million of prime industrial facilities located in core markets across the Eastern Seaboard of Australia.

## Repositioning and trading developments

DEXUS utilises its development and leasing capabilities in repositioning properties to improve capital values and providing trading profits to investors. Refurbishment works can include improvements to tenant facilities and building services that increase tenant appeal and improve NABERS Energy and Water ratings.

During FY13, DEXUS acquired trading opportunities at 50 Carrington Street, Sydney and 40 Market Street, Melbourne. A proactive approach to leasing at these properties will drive improvements in property fundamentals such as occupancy and WALE, creating the opportunity to enhance value and result in trading profits when the property is sold.

## Fund-through investments

Fund-through investments present an opportunity for DEXUS to get involved in the development design process and demonstrate its development expertise. They also allow DEXUS to use its core skills in the office sector through active involvement in the leasing process, improving the tenant covenant beyond already de-risked vacancies.

## Third party development

DEXUS has a $1.2 billion third party development pipeline together with $0.5 billion to be invested in the two fund-through investments acquired in partnership with DXS. This development pipeline is a key contributor to the growth in the third party funds management platform and enhances returns for the DXS investor.

## CASE STUDY

# DEXUS developments deliver returns for investors

Two Premium Grade 6 Star Green Star properties developed by DEXUS have improved in value following strong leasing activity and are delivering an increased total return.

1 Bligh Street, Sydney was opened in August 2011, with Clayton Utz as the anchor tenant, occupying 55% of the building, having pre-committed to its space in 2008. At 30 June 2013, 95% of the property is occupied with a 8.4 year WALE, providing office space for quality tenants including Bloomberg, Oil Search and the Commonwealth Parliamentary Services.

Owned in partnership with DWPF and Cbus Property, 1 Bligh was built at a cost of $679 million, and provides a current yield on cost of 7%. Following a valuation uplift of $39 million in 2013, 1 Bligh has generated an unlevered internal rate of return of 10.1% since construction commenced.

DEXUS's other Premium Grade office development at 123 Albert Street, is located in Brisbane's Golden Triangle. Completed in July 2011, the building was designed to achieve a 5.0 star NABERS Energy rating and incorporates many innovative sustainability features.

Rio Tinto was the first to sign a lease, initially committing to 66% of the property's lettable space and later expanding to occupy 80%. Within 12 months of completion, 123 Albert Street was fully occupied, with Queensland Treasury Corporation and accounting firm Bentleys leasing the majority of the remaining space.

Built for a total cost of $382 million, 123 Albert Street has increased in value by over 4.7% in two years, providing an unlevered internal rate of return of 8.6% since construction commenced.

Both of these properties demonstrate DEXUS's development capability in delivering high quality office properties in core markets as well as the Group's office core capabilities to achieve strong leasing outcomes and deliver superior returns to investors.

## DXS development pipeline

| DXS DEVELOPMENTS | TOTAL EST. COST[1] | EST. COST TO COMPLETE | FY14 | FY15 | FY16+ |
|---|---|---|---|---|---|
| 57-65 Templar Road, Erskine Park | $38m | $5m | $38m | | |
| 163-183 Viking Drive, Wacol | $33m | $4m | $17m $16m | | |
| DEXUS Industrial Estate, Laverton North | $162m | $110m | $26m | $136m | |
| Quarry at Greystanes | $120m | $77m | $69m | $51m | |
| Phillip Street, Parramatta | $120m | $112m | | $120m | |
| 12 Creek Street, Brisbane[2] | $19m | $19m | | $19m | |
| 180 Flinders Street, Melbourne | $230m | $148m | | | $230m |
| 480 Queen Street, Brisbane[2] | $272m | $223m | | $272m | |
| Kings Square, Perth[2] | $217m | $188m | | $217m | |
| **Total DXS pipeline** | **$1,211m** | **$886m** | | | |

| | |
|---|---|
| Developments completed | $55m |
| Developments underway | $111m |
| Development pipeline | $556m |
| Development fund-through | $489m |
| **Total DXS pipeline** | **$1,211m** |

| DXS VALUE-ADD PROPERTIES | ACQUISITION PRICE[3] |
|---|---|
| 50 Carrington Street, Sydney | $59m |
| 40 Market Street, Melbourne | $47m |
| 57-101 Balham Road, Archerfield | $22m |
| 154 O'Riordan Street, Mascot[4] | $14m |
| **Total DXS value add properties** | **$142m** |

## Third Party developments[5]

| | TOTAL EST. COST[1] | APPROX SIZE (SQM) | TOTAL ESTIMATED PROJECT COST FY14 | FY15 | FY16+ |
|---|---|---|---|---|---|
| Industrial | $77m | 74,000 | | $77m | |
| Retail | $1,079m | 171,747 | | $1,079m | |
| **Total third party pipeline** | **$1,156m** | **245,747** | | | |

1. Includes land value
2. DXS share
3. Excludes acquisition costs
4. Transferred to inventory in FY13
5. Excludes fund-through acquisitions

## CASE STUDY

# Quarry at Greystanes

Quarry at Greystanes is an industrial estate located in a prime industrial hub near the M4/M7 interchange in western Sydney. The 47.6 hectare site was part of the 100 year old Prospect Quarry which closed in 2007. DEXUS acquired the site the following year and completed the first pre-leased facility for Solaris Paper in 2010.

DEXUS has completed the development of seven industrial facilities providing 113,440 square metres of new space and has achieved 100% occupancy across all completed developments. These developments delivered an average yield on cost of over 9%.

A further three facilities are currently underway including two pre-leased facilities totalling 27,915 square metres and a 19,480 square metre speculative facility. Total value of the 10 facilities completed or underway is expected to be over $230 million.

There are four remaining land lots for future development, representing the premium locations in the estate.

The Australian Industrial Partnership, which was established in August 2012, acquired a 50% interest in all completed and pre-leased facilities at the Quarry providing DEXUS with the capital for reinvestment into future developments. The partnership includes the ability to participate and to invest with DEXUS in future completed projects at this estate and Laverton Industrial Estate in Melbourne.

The development of the Quarry at Greystanes has enabled DEXUS to showcase its industrial development capabilities through the completion of quality industrial facilities on a pre-lease and speculative basis, while at the same time leveraging relationships to lease the properties.

# CAPITAL MANAGEMENT

DEXUS's active approach to capital management increased its diversity and duration of debt while improving the cost. In a busy year, DEXUS demonstrated its abilities to optimise its debt profile while redeploying proceeds from offshore property sales and securing new debt facilities to fund new acquisitions.

## Key metrics

| | FY13 | FY12 | FY11 | FY10 |
|---|---|---|---|---|
| Cost of debt | 5.9% | 6.1% | 6.6% | 6.6% |
| Duration of debt | 5.4 years | 4.2 years | 4.2 years | 3.2 years |
| Hedged debt | 64% | 73% | 82% | 90% |
| Gearing | 29.0% | 27.2% | 28.4% | 29.8% |
| Headroom (approximately) | $0.3bn | $0.6bn | $0.6bn | $1.2bn |
| S&P/Moody's credit rating | BBB+/Baa1 | BBB+/Baa1 | BBB+/Baa1 | BBB+/Baa1 |

### DEXUS delivers on objectives

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

In the year to 30 June 2013, DEXUS delivered the following:

- Reduced average cost of debt by 0.2% to 5.9%
- Increased debt duration to 5.4 years
- Reduced headroom by 50% to $0.3 billion, improving weighted average cost of debt
- Diversified hedging sources
- Maintained a strong balance sheet with gearing at 29.0%
- No refinancing requirements until July 2014
- Completed over $1 billion of new funding, including $235 million from the Australian Medium Term Note market and US$300 million in the US Private Placement market
- Completed the 2012 buy-back program, buying back over 137 million securities at an average price of $0.9371

"Our balance sheet remains strong with gearing at 29.0% and limited short-term refinancing requirements."

**Craig Mitchell,** Chief Financial Officer

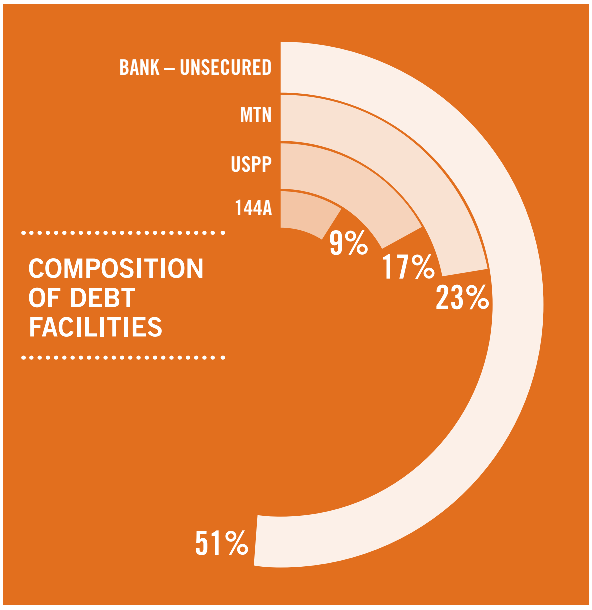
Following an active period of transactional activity, DEXUS remains comfortably inside all its covenant limits and the Group's strong credit ratings of BBB+ rating with Standards & Poor's and Baa1 rating with Moody's, both with stable outlooks, were reaffirmed during the year.

### Debt refinancing initiatives

Over the past year, DEXUS completed over $1 billion of new funding with an average duration of seven years and a margin under 2%, improving debt diversity and increasing average duration of debt to above five years.

Following the sale of the US portfolio DEXUS further restructured its debt book, ensuring it had no debt maturities until July 2014.

### Diversified mix of debt facilities




Despite re-weighting the funding base from low US interest rates to higher Australian interest rates, the weighted average cost of debt was reduced 20 basis points from 6.1% to 5.9% for FY13. As part of DEXUS's commitment to reduce its weighted average cost of debt, the Group's excess headroom was reduced from approximately $0.6 billion to approximately $0.3 billion at 30 June 2013.

Focusing on interest rate hedging, DEXUS established targets to diversify hedging sources with the aim being to reduce sensitivity to interest rate movements.

## Redeployed capital from US sale

DEXUS maintained its commitment to US debt capital markets through the retention of long dated 144A bonds following the sale of the US portfolio. This commitment contributed to the diversification of debt sources and maintaining the duration of debt.

Following the acquisition of interests in three Sydney office properties in December 2012, DEXUS secured new bank debt facilities totalling $445 million with an average duration of approximately four years. The shorter term facilities provide flexibility for DEXUS to issue further capital markets debt in order to maintain diversity and duration into FY14.

## Increase in US Private Placement debt

Building on the flexibility of the shorter term facilities, DEXUS further increased its debt duration and diversification of funding sources by pricing a long-dated US Private Placement (USPP) for US$300 million in May 2013.

## Active in the MTN market

DEXUS was active in the domestic Medium Term Note (MTN) market, refinancing short-dated bank debt with long-dated MTNs and improving the cost, duration and diversity of the debt profile. In the past year, DEXUS raised $235 million from the MTN market including $135 million in taps through responding to reverse enquiry from investors.

## On market securities buy–back

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

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

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

## FY14 focus

In the coming year, DEXUS will maintain its active approach to capital management, optimising cost of funds. DEXUS will focus on utilising the on-market securities buy-back where accretive to investor returns.

"In what is a very pleasing endorsement of our active capital and risk management strategy, the USPP offering was five times oversubscribed from the initial US$125 million offering, resulting in the decision to increase the issuance to US$300 million, supported by 14 investors."

**Craig Mitchell**, Chief Financial Officer

CASE STUDY

## USPP enhances debt diversity and duration

**During the year, DEXUS priced its third issue in the USPP market, improving diversification of funding sources, increasing the average duration of debt, and supporting the Group's strong investment grade credit ratings.**

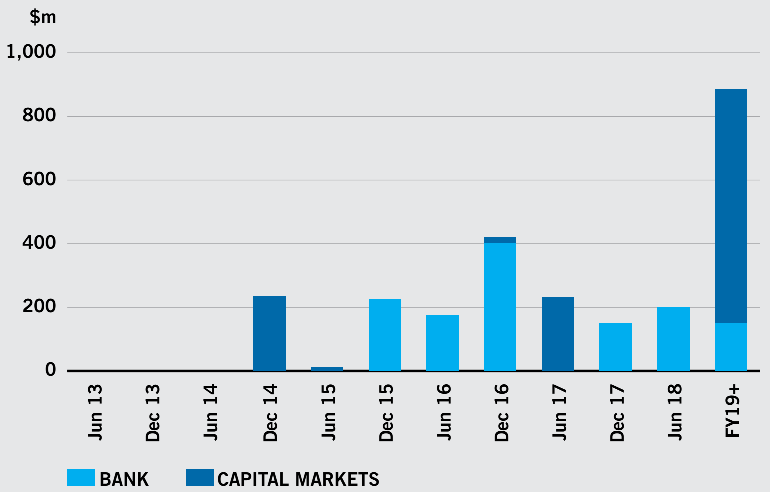
The USPP increased the debt capital markets proportion of DXS's debt to 49% and extended the average duration of debt to greater than five years.

Initiated to refinance the short term three year bridge facility put in place for the acquisition of interests in three Sydney properties in December 2012, the USPP issuance comprised three tranches of notes totalling US$300 million at an average duration of 13 years.

After converting the US dollar amounts into Australian dollars, the issue represented an average margin of 185 basis points over BBSW at the time of pricing.

The issue was settled in July 2013 and therefore had no impact on FY13 cost of debt or earnings guidance.

## Debt maturity profile



# FINANCIAL HIGHLIGHTS

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

DISTRIBUTION OF
**6.0 cents**
PER SECURITY

TOTAL RETURN OF
**11.2%**

## The Group delivered a solid financial performance for the year ended 30 June 2013.

A strong focus on leasing and transactions during the year has driven a solid financial result with improved operational performance and strong property revaluations. Capital management initiatives have underpinned our balance sheet and reduced cost of debt which, together with a focus on cost management, have provided profit and FFO[1] growth.

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.

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.

To fully understand our results, please refer to the full Financial Statements in the 2013 DEXUS Annual Report.

| | 30 June 2013 ($m) | 30 June 2012 ($m) |
|---|---|---|
| Net profit for the year attributable to stapled security holders | 514.5 | 181.1 |
| Net fair value gain of investment properties[2] | (220.6) | (82.8) |
| Impairment of inventories | 2.2 | 14.9 |
| Net fair value loss of derivatives | 17.7 | 97.1 |
| Net loss on sale of investment properties | 3.6 | 32.6 |
| Finance break costs attributable to sales transaction | 18.8 | 44.3 |
| Foreign currency translation reserve transfer on disposal of foreign operations | 21.5 | 41.5 |
| Incentive amortisation and rent straight-line[2,3] | 30.5 | 31.7 |
| RENTS capital distributions | – | (10.2) |
| Deferred tax and other[4] | (22.8) | 17.6 |
| **Funds from Operations (FFO)** | **365.4** | **367.8** |
| **Retained earnings[5]** | **(83.3)** | **(110.4)** |
| **Distributions** | **282.1** | **257.4** |
| FFO per security (cents) | 7.75 | 7.65 |
| Distribution per security (cents) | 6.00 | 5.35 |
| Net tangible asset backing per security ($) | 1.05 | 1.00 |

1. DEXUS's FFO comprises net profit/loss after tax attributable to stapled security holders calculated in accordance with Australian Accounting Standards and adjusted for: property revaluations, impairments, derivative and FX mark to market impacts, amortisation of certain tenant incentives, gain/loss on sale of certain assets, straight line rent adjustments, deferred tax expense/benefit, rental guarantees and coupon income.
2. Including DXS's share of equity accounted investments.
3. Including cash and fit out incentives amortisation.
4. FY13 includes reversal of impairment of management rights of $27.8 million.
5. Based on payout ratio of 77.4%. DXS's current policy is to distribute 70-80% of FFO, in line with free cash flow.
6. Including impairments.
7. 30 June 2012 includes RENTS distributions of 12.0 million (30 June 2013: nil).

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

- Net revaluations[6] from investment properties were $218.4 million, representing a 3.1% increase across the portfolio (2012: $67.9 million)
- Net fair value loss of derivatives of $17.7 million, significantly lower than the prior year (2012: losses of $97.1 million)
- The reversal in FY13 of a prior year impairment of management rights of $20.5 million

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

### Key drivers included:

- Office NOI of $317.4 million, up 9.5% from $289.9 million in 2012, was underpinned by 1.8% growth in like-for-like NOI together with income from properties acquired during the year
- Industrial NOI of $117.1 million, a decrease of 2.4% (2012: $120.0 million) reflecting the sale of a 50% interest in 17 properties to the Australian Industrial Partnership. Like-for-like NOI growth was 1.1%
- Finance costs (net of interest revenue) were $111.2 million, down $21.1 million[7] from the prior year. Average cost of debt reduced from 6.1% to 5.9%
- Operational expenses reduced $11.1 million following the sale of the US portfolio and an internal restructure

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

## Five Year Financial Summary

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

1. 77.4% of FFO in FY13.
2. Property assets include investment properties, non-current assets held for sale, inventories and investment property accounted for using the equity method.
3. Includes cash.

# THIRD PARTY FUNDS MANAGEMENT

Attracting over $2 billion of capital since 2010, DEXUS's Third Party Funds Management business is performing well and is positioned for growth in FY14.

DEXUS partners with like-minded investors who value investment and property management expertise with best practice corporate governance principles. At 30 June 2013, DEXUS's Third Party Funds Management business comprises:

- **DEXUS Wholesale Property Fund (DWPF)**

  Established as a wholesale fund in 1995, DWPF has $4.3 billion of diversified investments in office, industrial and retail property

- **A dedicated Australian property mandate**

  With $1.6 billion under management, the Australian property mandate has diversified investments of scale in office, industrial and retail

- **The Australian Industrial Partnership (AIP)**

  A $0.5 billion industrial joint venture held 50/50 with DXS, the AIP was established in 2012 and has grown to comprise 18 prime industrial properties

## Delivering on strategy

DEXUS places value in the strength of its partnerships, aiming to be the wholesale partner of choice in office, industrial and retail.

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

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

Further information on DWPF's achievements and delivery on strategy is detailed on pages 50-52.

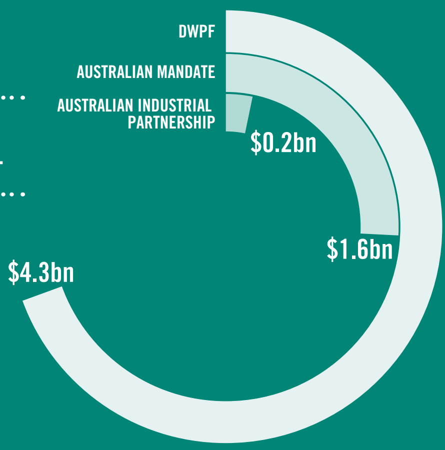
## Improving sustainability

A focus on sustainability is reaping results with an improved average NABERS Energy rating of 4.1 stars for third party office properties (2012: 4.0 stars) and 3.6 stars for DEXUS managed retail properties (2012: 3.0 stars).

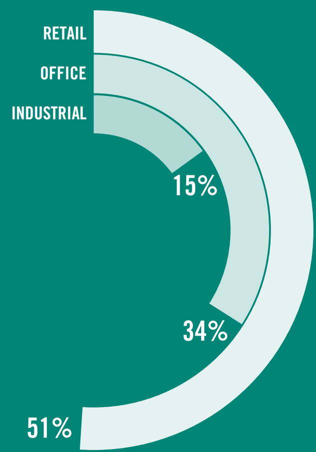
Improvements in sustainability have contributed to cost savings for tenants and reduced environmental impacts, with greenhouse gas emissions decreasing by 7.8% and total energy consumption down by 8.6% over the past 12 months.

**$6.1bn**

**THIRD PARTY FUNDS MANAGEMENT**




**THIRD PARTY FUNDS MANAGEMENT SECTOR ALLOCATION**



DEXUS manages Willows Shopping Centre, Townsville, a sub-regional centre owned by DWPF.


A high quality industrial facility developed by DEXUS.

CASE STUDY

## A leading manager and developer of Australian shopping centres

On behalf of third party partners, DEXUS is involved in the management of 12 retail properties valued at $3.2 billion located along the eastern seaboard of Australia. The Group's retail capability aligns with DEXUS's strategic objective of being the wholesale partner of choice.

DEXUS specialises in managing neighbourhood and sub-regional community based shopping centres within strong trade areas. Partnering with tenants in retail campaigns increases the effectiveness of the marketing and improves retention rates, with total retail portfolio occupancy at 98% (by income) at 30 June 2013.

DEXUS managed retail centres have a strong connection with the community in which they operate. DEXUS works with local communities to create centres that deliver the right mix of retail outlets and services, meeting the needs of the trade area.

On behalf of its capital partners, DEXUS delivers performance through redeveloping centres that have expansion potential with the ability to gain dominance in a centre's trade area. DEXUS has developed around $275 million of retail space over the past five years, with a current retail development pipeline of approximately $1.1 billion across 171,747 square metres.

With over 25 years of experience in retail property management, DEXUS offers a platform of property expertise, institutional rigour and entrepreneurial spirit, with a focus on customer service that maximises returns for its wholesale capital partners.

"Our retail expertise allows us to drive returns on behalf of third party wholesale investors and also enhances our ability to drive performance of the retail outlets located beneath the majority of our office buildings."

**Craig Mitchell**, Chief Financial Officer

CASE STUDY

## Growth in Australian Industrial Partnership

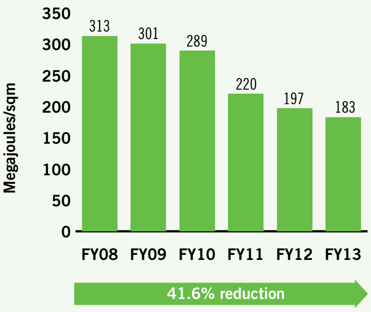
This year DEXUS formed the Australian Industrial Partnership (AIP), a joint venture partnership with one of the world's largest pension funds, leveraging DEXUS's strong track record in industrial development and asset management.

Since its establishment in October 2012, AIP's initial $360 million portfolio of 13 properties has grown to over $487 million with five further acquisitions at The Quarry at Greystanes and the DEXUS Industrial Estate at Laverton North.

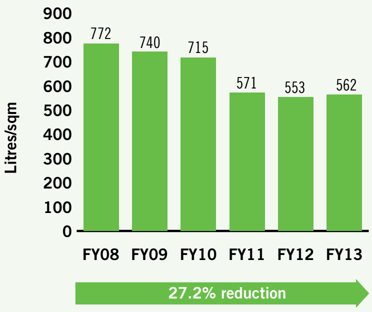
There is potential to significantly enhance the scale of the partnership to a $700-$800 million joint venture through activating the remaining development opportunities.

Securing and growing a new partnership with a like-minded investor enhances DEXUS's reputation as a wholesale partner of choice and strengthens DEXUS's commitment to investing in the Australian industrial sector through leveraging access to third party capital.

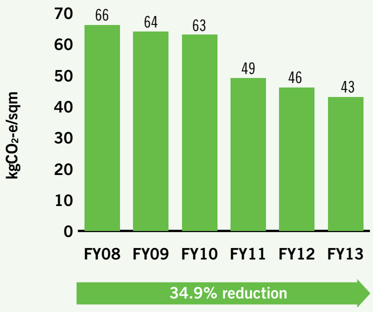
### Third Party energy consumption/ intensity




### Third Party water consumption/ intensity




### Third Party greenhouse gas emission/ intensity



# DEXUS WHOLESALE PROPERTY FUND

In an active year, DWPF achieved outperformance against its benchmark, enhanced the quality of its portfolio through acquisitions and raised over $820 million of equity.

**DWPF's investment objectives are underpinned by:**

- A prime quality property portfolio with $4.3 billion of diversified interests in office, industrial and regional retail properties with a $650 million development pipeline
- An active investment strategy to enhance returns to investors
- Adherence to best practice corporate governance
- A strong track record of top quartile performance

RETAIL
OFFICE
INDUSTRIAL
$4.3bn
12%
41%
47%

DWPF PORTFOLIO (BY VALUE)

## Delivering on strategy

DWPF had a successful 12 month period, continuing to outperform its benchmark and attract investor support. The Fund remained focused on driving performance and delivering on its investment plan, improving portfolio quality through strategic acquisitions and the activation of its development pipeline.

## Attracting strong investor support

During the year, DWPF proved attractive to investors, with over $820[1] million of equity raised, including $348 million from a pro-rata offer and $290 million from a new major investor.

DWPF further diversified its investor base, welcoming six new unitholders to the Fund and bringing the total number of investors to 44.

The pro-rata offer was a capital management initiative focused on improving investor diversification and satisfying liquidity requirements. DWPF was able to pre-empt unitholder demand for liquidity, with the offer fully subscribed by existing and new investors and excess demand for new equity.

This successful equity raising, undertaken in a competitive market, builds on DWPF's track record of attracting over $2 billion of capital since 2010 from domestic and international investors.

## Diversifying the portfolio through property acquisitions

During the year, DWPF moved towards a more balanced portfolio allocation, facilitated through $728 million of strategic office and industrial acquisitions, including partnering with DXS in four office investments.

1. Includes DRP and unitholder liquidity requirements.

DWPF entered the tightly held Perth office market through the joint acquisition of Kings Square with DXS. Along with the other DXS-DWPF joint acquisitions in Brisbane and Sydney, the investment is a strong strategic fit with DWPF's Investment Plan which aims to broaden exposure to core Australian capital CBD markets.

The office acquisitions further consolidate DWPF's position as one of the highest quality unlisted office portfolios in Australia, complementing the Fund's significant development pipeline, predominantly comprised of retail projects.

## Continued strong performance

DWPF has a track record of superior performance through consistent long term benchmark outperformance, and over the last 12 months it maintained this form, continuing to outperform its benchmark over one, three and five year periods.

Artist's impression of Kings Square, Perth.

| Key portfolio statistics | 30 June 2013 | 30 June 2012 |
|---|---|---|
| Total properties | 34 | 30 |
| Portfolio value ($bn) | 4.3 | 3.8 |
| Lease duration by income (years) | 3.8 | 3.9 |
| Occupancy by area (%) | 95.9 | 96.6 |
| Weighted average capitalisation rate (%) | 6.87 | 6.97 |

## Performance (pre fees)

| To 30 June 2013 | One year | Three years | Five years |
|---|---|---|---|
| Fund return | 9.27% | 10.69% | 4.57% |
| **Benchmark to 30 June 2013** | | | |
| Benchmark return[1] | 8.93% | 9.64% | 3.45% |
| Variance | 0.34% | 1.05% | 1.12% |

## Performance (post fees)

| To 30 June 2013 | One year | Three years | Five years |
|---|---|---|---|
| Fund return | 8.56% | 9.92% | 3.83% |
| **Benchmark to 30 June 2013** | | | |
| Benchmark return[2] | 8.28% | 8.96% | 3.18% |
| Variance | 0.28% | 0.96% | 0.65% |

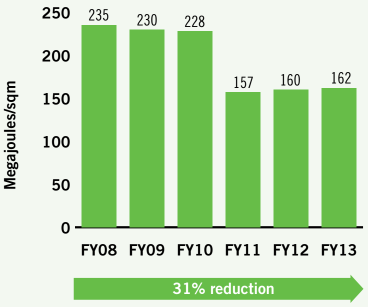
Notes
1. Mercer IPD Pre Fee Gross Asset Weighted Index (Gross returns, Gross Asset weighted).
2. Mercer IPD Australian Pooled Property Fund Index (Net returns, Net Asset weighted).

## Sustainability leader

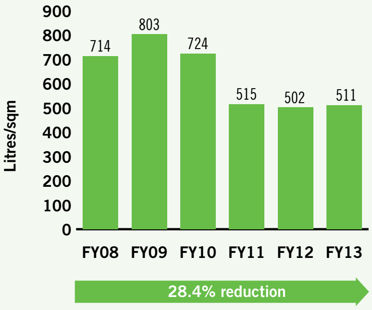
DWPF recognises a property's sustainability performance can underpin long term returns. As part of its commitment to energy efficiency, the Fund is investing in building upgrades to improve the sustainability aspects of its portfolio including at Gateway, Sydney which was awarded a 5.0 star NABERS Energy Rating (with GreenPower) in FY13.

DWPF is one of the world's top ranking performers on sustainability. In a field of 455 global real estate funds, DWPF was ranked No. 5 in the 2012 Global Real Estate Sustainability Benchmark survey and was ranked No. 1 against its peer group of diversified funds in Australia.

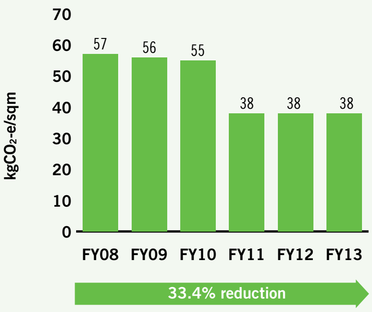
### DWPF energy consumption/intensity




### DWPF water consumption/intensity




### DWPF greenhouse gas emission/ intensity




## Progressing the Fund's substantial development pipeline

The Fund's strong balance sheet enabled DWPF to continue investment in its $650 million development pipeline.

Delivering on its retail strategy of improving portfolio quality and performance through development, DWPF and its partners commenced the $45 million expansion of Westfield West Lakes in Adelaide and the $408 million redevelopment of Westfield Miranda (DWPF's 50% share: $204 million). The Westfield Miranda redevelopment is a transformational project which will firmly position the centre as the leading super regional shopping centre in the southern suburbs of Sydney and enhance its status as one of the strongest performing centres in Australia on a total sales basis.

Also commencing construction was the large scale, prime quality $77 million industrial development at Archerfield Road, Richlands. Richlands is a core industrial market and will prove attractive to tenants seeking proximity to key transport and employment hubs.

## Debt capital management

DWPF's record in debt capital management speaks for itself. The Fund remains the only diversified Australian wholesale fund to be awarded an A or A+ rating with Standard & Poor's. The Fund's A/Stable long term credit rating was also reaffirmed in September 2012.

## FY14 focus

DWPF will continue its active investment strategy over the next three years. The Fund's strategic initiatives include the active development pipeline and fund-through investments which will increase the size of the Fund to approximately $5 billion by FY16.

This larger scale portfolio will provide the Fund with many benefits, including improved access to capital and assets, improved diversification and stability, improved capital liquidity and economies of scale.

"DWPF has successfully raised over $820 million of total equity over the past 12 months and is well positioned to pursue its development pipeline and targeted acquisitions as part of its investment strategy."

**Graham Pearson**, Fund Manager, DWPF

CASE STUDY

## DWPF's success in raising equity

DWPF has a successful track record of securing equity from investors, reflected through its ability to raise in excess of $2 billion of total equity since 2010.

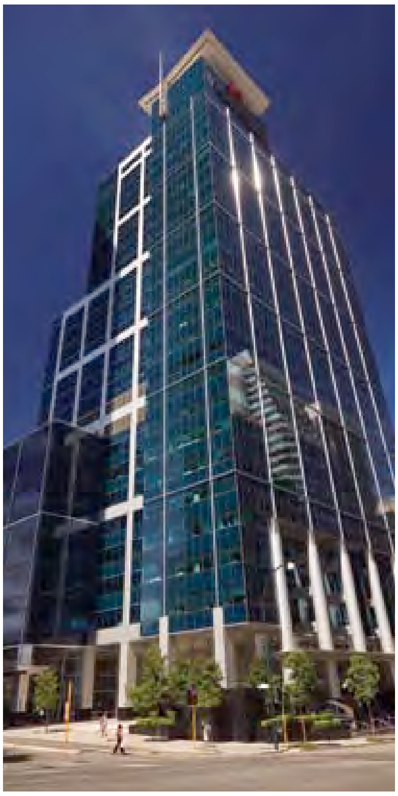
In an effort to ensure DWPF had sufficient capital to support the investment objectives in its Investment Plan, the Fund embarked on a substantial marketing and equity raising program during the year.

DWPF was successful in securing over $820 million of total equity demonstrating the investor demand and strong investor support of the Fund's growth.

The equity raised included securing a new investor, matching liquidity with investor demand for equity, involving a pro-rata offer that was subsequently scaled back and the Fund's Distribution Reinvestment Plan which has a participation rate of approximately 69%.

As a result of the equity raised, DWPF's gearing has reduced to 10.1% at 30 June 2013, which is at the lower end of the Fund's long term target gearing range of 10-20%. This low level of gearing enables DWPF to have sufficient capacity to undertake its substantial development pipeline and fund acquisitions that may arise.

# MARKET OUTLOOK



## Investment climate

The Australian economy is well placed amid an uncertain global environment. It is forecast to grow by 2.5% in FY13 and 2.2% in FY14, with current population growth at 1.8% per annum and an unemployment rate of 5.7%.

As mining investment eases, the economy is transitioning towards reliance on more traditional growth drivers such as exports, non-mining investment and housing.

The soft economic conditions that impacted consumer and business confidence over the past year are expected to continue to FY15, after which stronger growth should benefit leasing inquiry and occupancy levels.

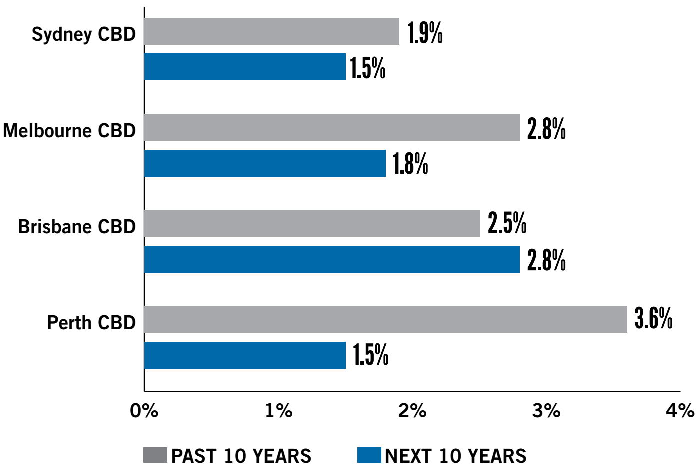
Further easing in monetary policy should stimulate consumption, non-mining investment and confidence from late FY14. The recent depreciation of the Australian dollar will positively impact economic growth, particularly in the eastern states, making Australian export industries more internationally competitive.

## Considerations for investors

There is a risk that the forecast strengthening in non-mining sectors will not coincide with and offset the projected slowing in mining investment. However, the capacity to further ease fiscal or monetary policy is likely to allow authorities to dampen the impact of such an outcome.

**1 Bligh Street, Sydney, NSW (above) and Woodside Plaza, Perth, WA (left).**

## White collar employment growth – past and future




Source: DEXUS Research, Deloitte Access Economics

Australian real estate markets are relatively free of oversupply, giving them capacity to sustain fluctuations in demand. However, in a slower economy some properties will perform better than others, with a flight to quality from tenants taking advantage of competitive leasing conditions.

Over the next year, valuations for well located and leased real estate are expected to be supported by sustained demand from investors attracted to the relatively stable income returns offered by Australian properties.

## Office outlook

Australian office markets are expected to experience cyclically slow tenant demand in the next six to nine months, improving in late FY14.

This improvement hinges on business activity responding to an easing of monetary policy, a lower Australian dollar and the potential for greater political stability after the 2013 Federal election.

The turnaround is likely to come from sectors such as business services, finance, IT, health and education. Demand in Sydney and Melbourne is expected to move ahead of Brisbane and Perth which will be negatively influenced by slowing mining investment.

Vacancy rates in the major CBD office markets remain relatively close to their 20 year average except for Brisbane. In the short term, the average vacancy rate in the four main Australian CBDs, which rose by 2.8 percentage points to 10.5% over the past year, is expected to put some downward pressure on effective rents over the next six months. In the medium term, modest levels of new construction across these markets will help keep vacancy rates relatively stable, with new supply in FY14 estimated to be just one third of the average level of the past five years.

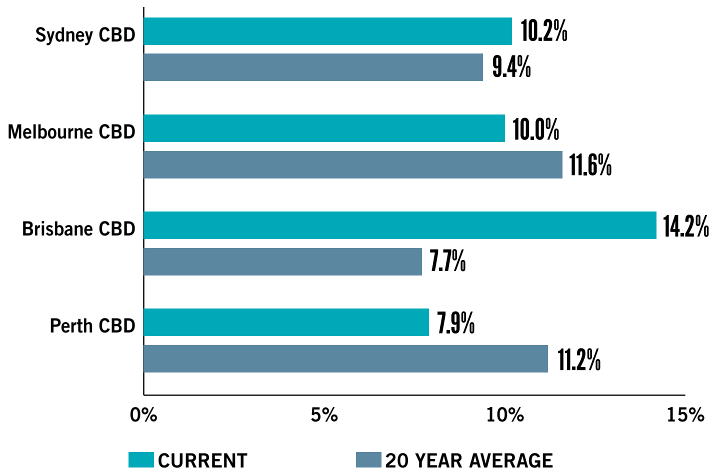
In Sydney, DEXUS's largest office market, demand from larger tenants is subdued, with reasonable enquiry at the smaller end of the market. Demand is forecast to improve prior to completion of new office buildings in the Barangaroo precinct in FY16, with DEXUS's western corridor office properties benefitting from additional infrastructure and amenity created in the area.

In Melbourne, new supply under construction is higher than other capital cities, however Melbourne's diverse tenant base is expected to respond well to stimulus provided by lower interest rates and the dollar.

In Brisbane, tenant demand is expected to remain weak over the next year due to government consolidation and reduced activity within the mining sector with some benefit from a lack of new product in the market in FY14.

**Tenant demand is expected to improve as business confidence and activity responds to easing monetary policy.**

## Office vacancy rates compared to the long-term average




Source: DEXUS Research, Jones Lang LaSalle

In Perth, the short term outlook is clouded by a pause in mining sector activity as major projects transition from the investment to production phase. This transition involves a shift in employment from the engineering services sector to a broader mix of business and financial services. Over the next two years the impact of this transition will be cushioned by a low level of new supply.

## Industrial outlook

Industrial indicators such as merchandise import growth are soft in Victoria, New South Wales and Queensland. Consequently, occupier demand is expected to remain subdued in the short-term, then improve from late FY14 as easing monetary policy encourages retail sales and import growth.

A considerable level of leasing activity is coming from logistics providers who are benefiting from companies outsourcing their supply chains and from major retailers as they continue to consolidate their multiple warehouses.

In Sydney, fundamentals are expected to remain reasonably balanced over the next year with supply levels remaining modest at around the ten year average. The outer western market will continue to benefit from occupiers migrating from inner suburbs.

In Melbourne, construction levels are moderate, but the availability of serviced land is expected to keep pre-committed development quite competitive over the next year.

In Brisbane, occupier demand has softened, however rents appear to be holding steady with incentives at relatively low levels compared to other Eastern Seaboard markets.

## Retail outlook

It is anticipated that a further easing in monetary policy will assist retail turnover growth in FY14 as employment markets and confidence improve.

While retail turnover growth has been stronger in Queensland and Western Australia than the other states in FY13, growth is likely to rebalance in favour of New South Wales and Victoria as adjustment in the mining sector influences sales growth in regional areas dependent on the resource sector.

Over the longer term, rising household incomes are expected to support the retail sector, however the rate of long term turnover growth is likely to remain below the average of the past decade due to cost of living pressures and expansion in online retailing. Furthermore, the fall in the Australian dollar is on balance likely to be positive for retailing. While a falling dollar inflates the cost of imported goods, potentially squeezing margins, it is likely to reduce competition from overseas online retailers.

On average, market rents in shopping centres have eased mildly, although rental performance varies greatly between individual shopping centres.

**Modest new supply levels across the four main CBD office markets will help keep vacancy rates relatively stable in FY14.**

# FY14 COMMITMENTS

DEXUS's vision is to be globally recognised as Australia's leading real estate company. DEXUS remains dedicated to outlining its commitments in order to measure its performance each year.

DEXUS's FY14 commitments are focused on the Group's overarching strategy to deliver superior risk-adjusted returns for its investors from high quality real estate and drive ethical and responsible performance in all areas of its operations. In addition, DEXUS is committed to consistently delivering strong financial performance which enables it to invest in operational initiatives that result in improved sustainable performance.

DEXUS developed its FY14 commitments following the identification of material issues from across the Group, taking into consideration business plans, tenant surveys, materiality workshop results, the DEXUS employee opinion survey, and the GRI Sustainability Reporting Guidelines (version 3.1).

The FY14 commitments are based on material issues which have the greatest impact on its stakeholders to ensure the outcomes delivered are aligned to the interests of stakeholders.

## INVESTOR COMMITMENTS

PURPOSE: Market leadership, sustainable growth, financial performance and capital management

- Deliver FFO earnings of 8.15 cents per security
- Deliver a return on equity of 9-10%
- Deliver long-term top quartile return performance relative to DXS's target peer group, industry benchmarks and global indices

### CAPITAL MANAGEMENT

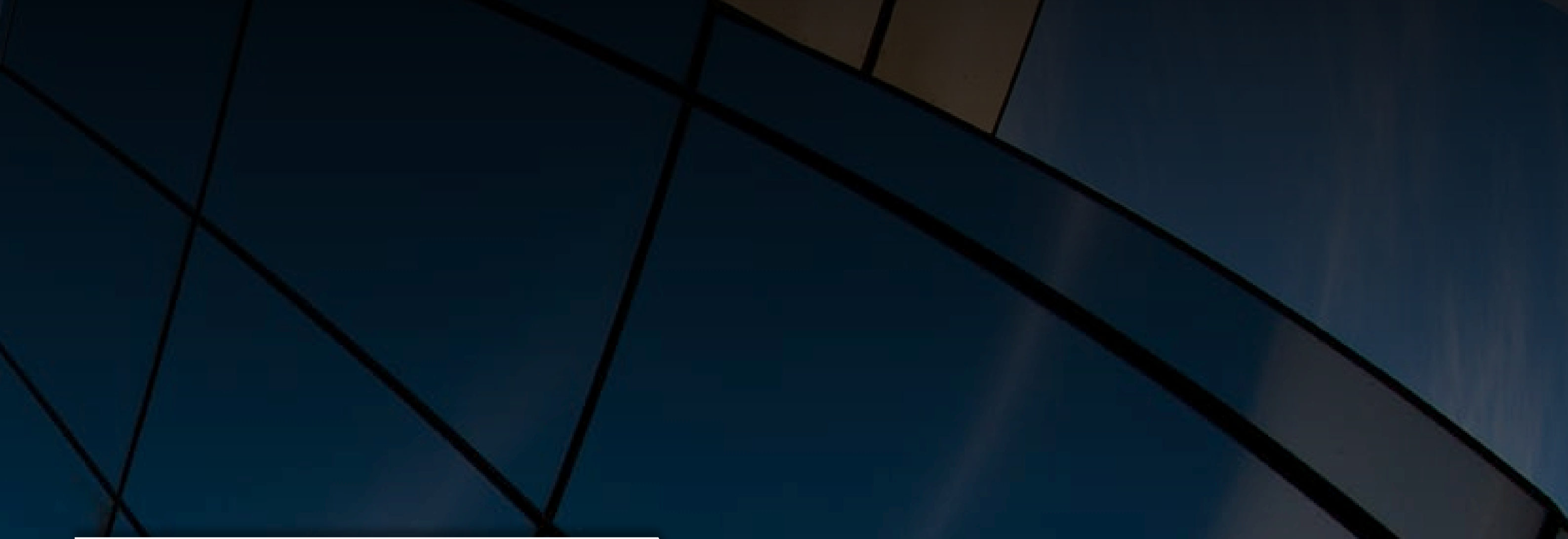
- Maintain strong credit rating metrics
- Optimise cost of funds
- Utilise on-market securities buy-back, where accretive to investor returns

### OFFICE AND INDUSTRIAL

- Deliver like-for-like income growth of circa 4% in the office portfolio
- Reduce the Sydney office portfolio lease expiries in FY15 and FY16 to under 7.5% and 10.0% respectively
- Deliver like-for-like income growth of circa 2% in the industrial portfolio
- Deliver over 75,000sqm of industrial developments and complete over 65,000sqm of industrial development leasing
- Deliver trading profits of circa $4-5 million
- Generate additional income of $1.5 million from alternative income opportunities
- Maintain a focus on selectively divesting non-strategic properties when supported by investment fundamentals

### THIRD PARTY FUNDS MANAGEMENT

- Continue to drive the performance of capital partners
- Seek further investment opportunities with capital partners
- Attract additional sources of capital for long-term co-investment



## TENANT/CUSTOMER COMMITMENTS

PURPOSE: Tenant attraction and retention

- Launch initiatives to enhance the tenant experience
- Implement initiatives that develop tenant loyalty
- Increase total portfolio retention rate from 70% to 75%

## SUPPLIER COMMITMENTS

PURPOSE: Fairness and efficiency

- Conduct tenders in accordance with DEXUS Business Procedures for Procurement and Code of Conduct
- Develop supplier partnerships in line with DEXUS sustainability procurement guidelines and determine levels of enhanced value
- Increase the use of sustainability efficient materials and lighting for all office fit-outs

## COMMUNITY COMMITMENTS

PURPOSE: Community relationships

- Continue commitment to employee volunteering across the community, specifically with organisations committed to the support and care of the homeless
- Conduct a review of DEXUS's relationships and types of support activity in the community in order to refresh and align the corporate responsibility program to the DEXUS culture

## EMPLOYEE COMMITMENTS

PURPOSE: Board and employee capabilities, remuneration and talent retention

- Implement a DEXUS leadership program to enhance the capabilities of leaders in the Group aligned to DEXUS's objective to develop a high performance culture
- Continue to enhance the link between performance and reward through alignment of Group objectives with individual KPIs
- Implement a best-in-class human resources technology model to improve the abilities of individual managers to lead
- Facilitate education and training events for Directors that will satisfy up to 10 Continuing Professional Development points per annum
- Continue to target 33% female participation in DEXUS Board and senior management by 2015

## ENVIRONMENTAL COMMITMENTS

PURPOSE: Resource efficiency and sustainability

- Maintain an average 4.5 star NABERS Energy rating across the DXS office portfolio while reducing consumption of GreenPower
- Continue to deliver energy savings across the total DXS property portfolio in FY14, the second year of a three year program, to deliver a 10% reduction
- Expand waste reporting to the retail portfolio and deliver a reduction in waste to landfill over the next three years across our office and retail portfolio
- Achieve a 4.5 star NABERS Energy rating for DEXUS's new head office at Australia Square
- Create and transact Energy Saving Certificates through participation in the NSW Energy Savings Scheme by continually improving asset performance

# BOARD OF DIRECTORS

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

Stewart Ewen is an Independent Director of DEXUS Funds Management Limited and a member of the Board Nomination, Remuneration & Governance Committee. Stewart has extensive property sector experience and started his property career with the Hooker Corporation in 1966.

### John C Conde AO
**BSc, BE (Hons), MBA**

**Independent Director**

John Conde is an Independent Director of DEXUS Funds Management Limited and is the Chair of the Board Nomination, Remuneration & Governance Committee. John brings to the Board extensive experience across diverse sectors including commerce, industry and government.

### Elizabeth A Alexander AM
**BComm, FCA, FAICD, FCPA**

**Independent Director**

Elizabeth Alexander is an Independent Director of DEXUS Funds Management Limited, Chair of DEXUS Wholesale Property Limited and a member of the Board Audit, Risk & Sustainability Committee. Elizabeth brings to the Board extensive experience in accounting, finance, corporate governance and risk management and was formerly a partner with PricewaterhouseCoopers.

### Richard Sheppard
**BEc Hons**

**Independent Director**

Richard Sheppard is an Independent Director of DEXUS Funds Management Limited and a member of the Board Finance and Board Audit, Risk & Sustainability Committees. Richard brings to the DEXUS Board extensive experience in banking and finance and as a director and Chairman of listed and unlisted property trusts.

### Chris Beare
**BSc, BE (Hons), MBA, PhD, FAICD**

**Chair and Independent Director**

Chris Beare is both the Chair and an Independent Director of DEXUS Funds Management Limited. He is also a member of the Board Nomination, Remuneration & Governance Committee and the Board Finance Committee. Chris has significant experience in international business, technology, strategy, finance and management.

**Darren J Steinberg**
**BEc, FRICS, FAPI**

**Chief Executive Officer and Executive Director**

Darren Steinberg is the CEO of DEXUS Property Group and an Executive Director of DEXUS Funds Management Limited. Darren has overall responsibility for the operations of DEXUS. Darren has more than 25 years' experience in the property and funds management industry.

**Peter B St George**
**CA(SA), MBA**

**Independent Director**

Peter is an Independent Director of DEXUS Funds Management Limited and the Chair of the Board Finance Committee. Peter has more than 20 years' experience in senior corporate advisory and finance roles within NatWest Markets and Hill Samuel & Co in London.

**Tonianne Dwyer**
**BJuris (Hons), LLB (Hons)**

**Independent Director**

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

**Craig D Mitchell**
**BComm, MBA (Exec), FCPA**

**Chief Financial Officer and Executive Director**

Craig is the Group's CFO and an Executive Director of DEXUS Funds Management Limited (appointed 12 February 2013). Craig is responsible for operational and strategic finance, accounting, tax, treasury and third party funds including management of the retail property portfolio. Craig has more than 20 years of financial management and accounting experience, including over 15 years in property.

**Barry R Brownjohn**
**BComm**

**Independent Director**

Barry Brownjohn is an Independent Director of DEXUS Funds Management Limited and is Chair of the Board Audit, Risk & Sustainability Committee. Barry has over 20 years' experience in Australia, Asia and North America in international banking.

# GROUP MANAGEMENT COMMITTEE

**L to R:**
**Ross Du Vernet**
**Tanya Cox**
**David Yates**
**John Easy**
**Deborah Coakley**
**Craig Mitchell**
**Kevin George**
**Darren Steinberg**

## Darren Steinberg

**Chief Executive Officer and Executive Director**

Darren has overall responsibility for the operations of DEXUS. Darren has more than 25 years' experience in the property and funds management industry with an extensive background in office, industrial and retail property investment and development.

## Deborah Coakley

**Executive General Manager, People & Culture**

Deborah is responsible for setting the culture and leadership direction of the organisation, working with the business leaders in the areas of remuneration and reward, engagement and culture, performance and resourcing. Deborah has 18 years' experience in human resources and recruitment including the development of human resources operations from initial concept, implementing improvement changes and processes to existing business units and is an experienced business coach.

## Tanya Cox

**Executive General Manager, Property Services and Chief Operating Officer**

Tanya is responsible for the tenant and client service delivery model and sustainability practices, information technology solutions and company secretarial services for DXS. Tanya has over 25 years' experience in the finance industry, including 10 years' experience in the property industry.

## Ross Du Vernet

**Executive General Manager, Strategy, Transactions & Research**

Ross is responsible for corporate strategic planning and execution, corporate and property transactions and property research across the Group. Ross has more than 10 years' experience in real estate funds management, capital management and mergers and acquisitions in Australia and abroad.

## John Easy

**General Counsel and Company Secretary**

John is responsible for the legal function and compliance, risk and governance systems and practices across the Group, as well as company secretarial services. John's career spans over 25 years with the majority of this time in the property and funds management industry. John has experience in the establishment and public listing of trusts and property portfolio acquisition.

## Kevin George

**Executive General Manager, Office & Industrial**

Kevin is responsible for the performance of property, asset and development management across the Group's office and industrial portfolios. Kevin has over 25 years' real estate experience with extensive knowledge of the Australian office market. Kevin has a strong track record for implementing plans focused on sustainable revenue growth and driving best practice initiatives both in Australia and globally.

## Craig Mitchell

**Chief Financial Officer and Executive Director**

Craig is responsible for the Group's operational and strategic finance, accounting, tax, treasury and third party funds, including the management of the retail property portfolio. Craig has more than 20 years of financial and accounting experience including over 15 years in property.

## David Yates

**Executive General Manager, Investor Relations, Marketing & Communications**

David is responsible for the investor relations, marketing and communications function across the Group combined with managing the relationships and information flow to the investment community. David has more than 14 years' of investor relations and communications experience specifically in the Australian commercial property industry.

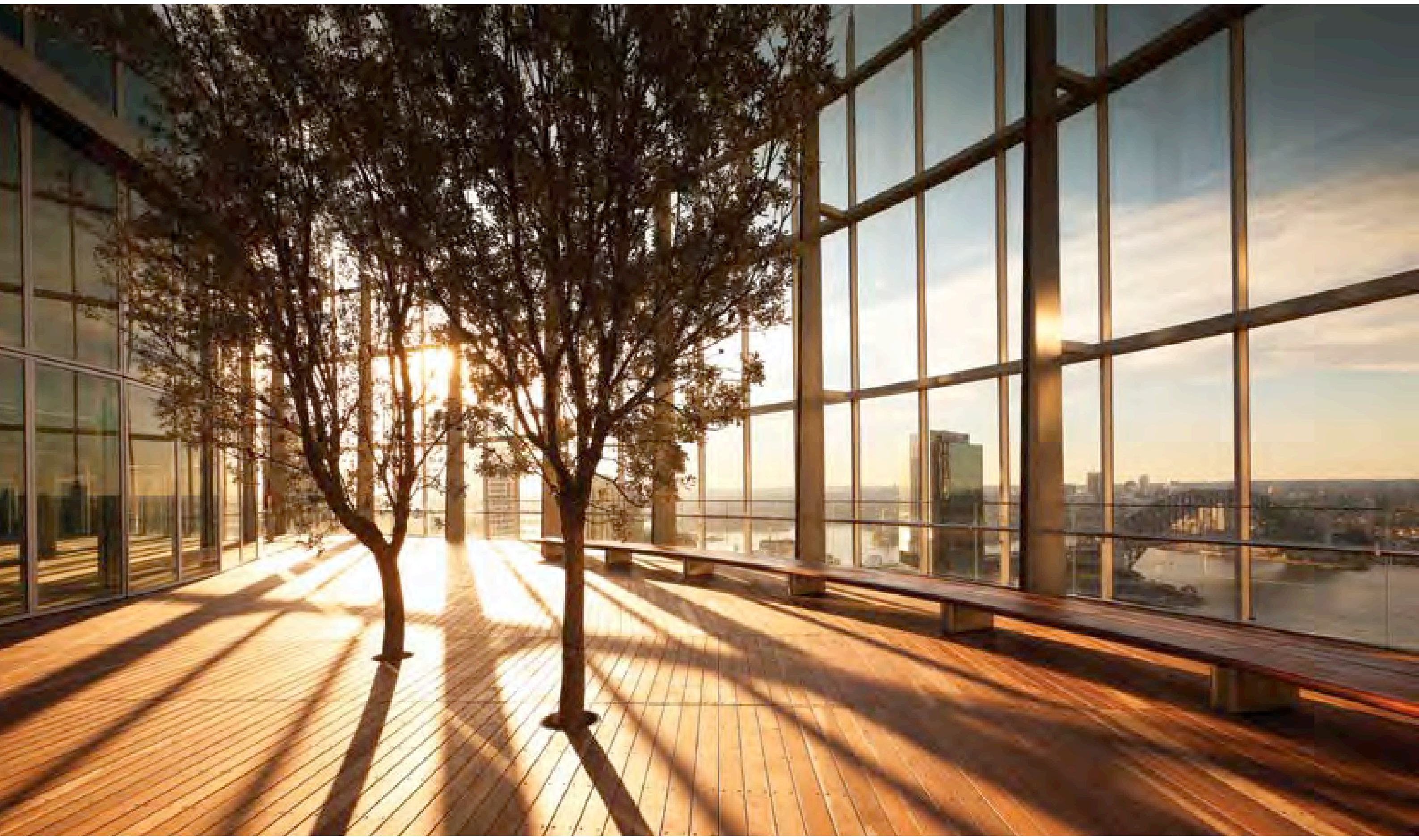
# CORPORATE GOVERNANCE

DEXUS strives to meet the highest ethical, efficiency and governance standards through continually reviewing its processes to deliver enhanced performance and benefits to its stakeholders.

## Leading practice corporate governance

DEXUS believes that good corporate governance benefits not only its investors and the broader community but also its employees. Good corporate governance requires transparency and the right people making the best decisions based on quality information. DEXUS ensures its people are involved in upholding the highest standards of corporate responsibility.

| ASX Corporate Governance Principles and recommendations | Complies | DEXUS Annual Report |
|---|---|---|
| **Principle 1**<br>Lay solid foundations for management and oversight | √ | Page 7 |
| **Principle 2**<br>Structure of the board to add value | √ | Pages 8–11 |
| **Principle 3**<br>Promote ethical and responsible decision making | √ | Pages 11–12 |
| **Principle 4**<br>Safeguard integrity in financial reporting | √ | Pages 13–14 |
| **Principle 5**<br>Make timely and balanced disclosure | √ | Page 14 |
| **Principle 6**<br>Respect the rights of shareholders | √ | Page 15 |
| **Principle 7**<br>Recognise and manage risk | √ | Pages 16–17 |
| **Principle 8**<br>Remunerate fairly and responsibly | √ | Page 17 |



## Board performance

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

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

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

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

## Board and Board committee membership

In February 2013, Craig Mitchell, Chief Financial Officer of DEXUS Property Group was appointed to the Board of Directors. Craig has been with DEXUS for more than five years and has more than 20 years of financial management and accounting experience with more than 15 years specialising in property. Craig's knowledge and experience further strengthens the expertise of the Board. Craig also contributes to the Board Finance and the Board Audit, Risk & Sustainability Committees. The Board now comprises ten directors, eight independent and two executive directors.

## Executive and Board Trading

In 2012, the Board determined that Independent Directors should hold a minimum number of DXS securities to enhance alignment of interests. The Board deemed a minimum holding of 50,000 securities to be acquired by 30 June 2015.

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

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

## Group Management Committee responsibilities

The Group Management Committee (GMC) comprises eight senior executives. Their biographies are provided on pages 60–61 of this Annual Review. The GMC is responsible for achieving DEXUS's objectives, including ensuring the prudent financial and risk management of the Group. In 2013, Kevin George and Deborah Coakley joined DEXUS and the GMC. Kevin joined as Executive General Manager, Office & Industrial and is responsible for the performance of property, asset and development management across the Group's office and industrial portfolios. Deborah is the Executive General Manager, People & Culture and is responsible for setting the culture and leadership direction of the Group. Pat Daniels who was the Executive General Manager, Human Resources retired from DEXUS on 30 June 2013.

## DEXUS Funds Management committees and policies

DEXUS has a number of Board and Management committees that are responsible for the overall corporate governance function of the Group. These committees monitor the performance of their respective parts of the business.

### Board Committees

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

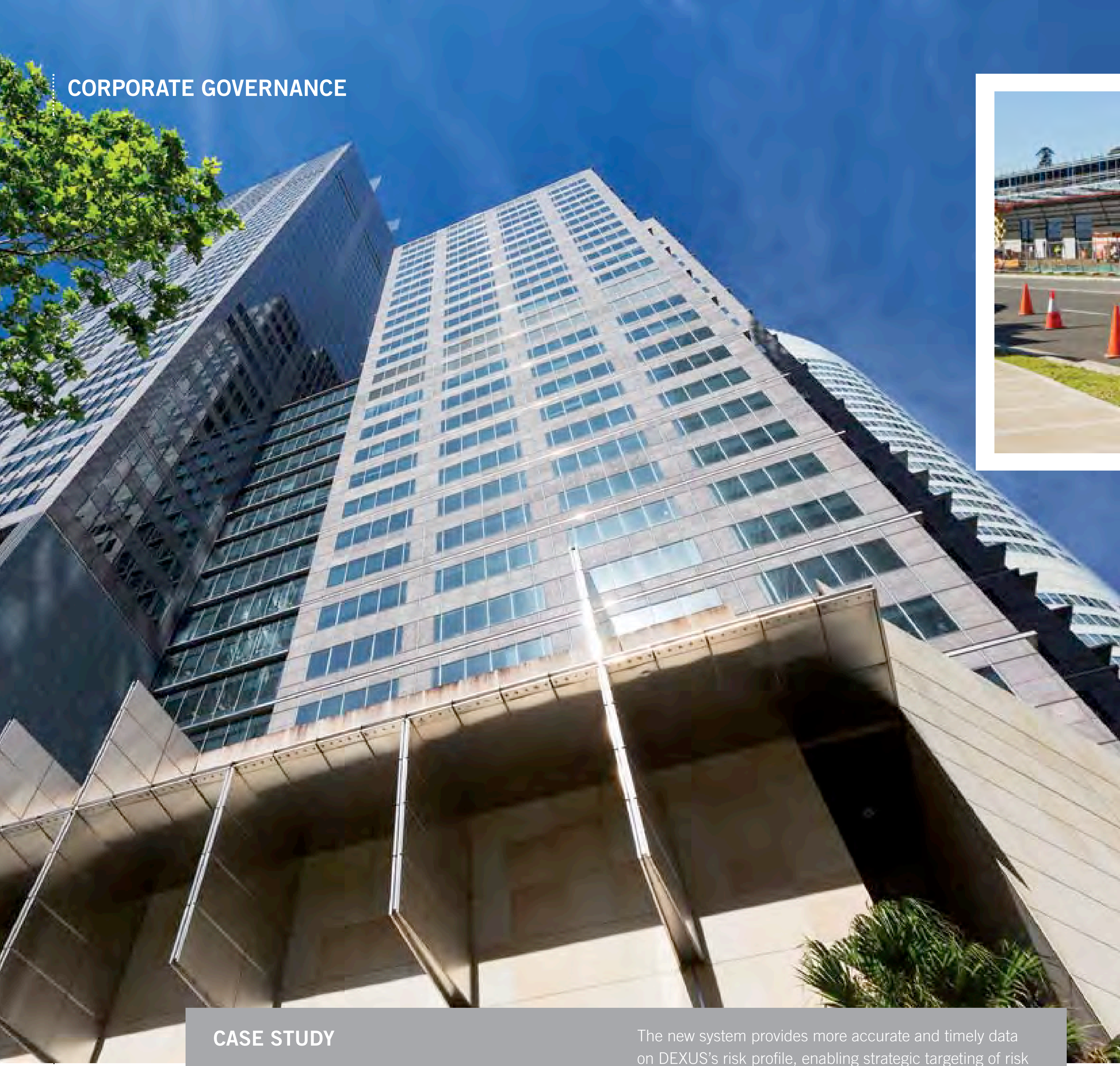
### Management Committees

Group Management Committee
Capital Markets Committee
Compliance, Risk & Ethics Committee
Continuous Disclosure Committee
Investment Committee
Project Steering Committee

### Key risk and governance policies

Selection and appointment of Directors
Performance evaluation
Directors' code of conduct
Diversity policy (including targets)
Employees' code of conduct
Good faith reporting
Securities trading
Communications
Continuous disclosure
Selection and appointment of external auditor
Auditor independence
Risk management
Environmental management
Workplace health and safety
Anti-bribery

DEXUS Board committee terms of reference and governance policies are available at www.dexus.com/corporategovernance



1 Farrer Place is one of Sydney's leading premium grade office buildings.

CASE STUDY

## A new risk management tool benefits property management

DEXUS has revolutionised the way it manages and reports property risk through the development of "Periskope", a new risk management tool.

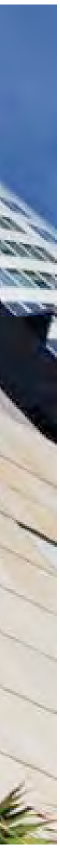
Focusing on its core capability objective of having the most efficient systems, DEXUS developed a new online real time risk platform that benefits DEXUS's building management services utilising iPads and tablets, and assists insurers to accurately underwrite DEXUS's risk.

The new system provides more accurate and timely data on DEXUS's risk profile, enabling strategic targeting of risk initiatives across the property portfolio.

Designed to facilitate works between DEXUS, CBRE and contractors, the system was also introduced to minimise the costs of risk-related works and potentially drive down insurance premiums. Efficiency gains mean that the CBRE FM Plus team spends more time on providing service excellence to tenants.

The system has the capacity to assist DEXUS when investigating investment opportunities by selectively zoning natural hazard areas and in the property divestment process by providing immediately accessible buyer due diligence data.

The first of its kind, Periskope has the potential to be marketed to other property managers.



## Risk management

DEXUS actively reviews and manages the risks faced by its business over the short, medium and long-term, overseen by the Board Audit, Risk & Sustainability Committee.

In 2013, DEXUS's focus was on its Risk Management Framework, reinforcing its approach to risk identification and management.

DEXUS's key risks and how it responds to them are detailed below.

| Key risk | Management strategy |
|---|---|
| Investment | DEXUS's high quality portfolio is maintained and improved through appropriate quality guidelines and a clear and focused investment strategy |
| | Direct property market returns are achieved through an effective portfolio diversification strategy together with conservative use of debt capital |
| | Risk is managed through portfolio diversification, including sector and geographic targets, and by effectively managing the development activity within the portfolio |
| | All investment decisions (over $20 million) are endorsed by the Investment Committee and approved by the Board |
| Leasing | Leasing risk is managed by the Office & Industrial Leadership team and monitored weekly by the Group Management Committee |
| Liquidity | DEXUS has broadened its capital sources to include domestic and international debt capital markets, as well as local and international financial institutions |
| | DEXUS has maintained its debt duration of greater than four years |
| | Liquidity management practices are reviewed quarterly by the Capital Markets Committee and reviewed annually by the Board Finance Committee |
| Health, Safety & Environment | DEXUS has in place comprehensive programs outlining its obligations and expectations in relation to workplace health and safety, and environmental management |
| | These programs are subject to annual external audit and improvement plans are monitored by the Office & Industrial Leadership team and the Compliance, Risk and Governance team |
| | Health, Safety and Environment is also overseen by the Board Audit, Risk & Sustainability Committee |
| Talent | To ensure effective talent management DEXUS undertakes a semi-annual review of employee performance and corresponding development plans |
| | DEXUS reviews annually its remuneration framework and compensation to market |
| | An Employee Opinion Survey is undertaken annually to assess employee engagement and organisation culture and succession plans are in place for all senior executives |
| | Talent management is owned by the Group Management Committee and overseen by the Board Nomination, Remuneration & Governance Committee |
| Regulatory risk | DEXUS has a dedicated team responsible for the identification of legislation and regulations that may affect its operations |
| | Policies are developed and employees trained |
| | Monitoring of compliance with key obligations is undertaken internally and by independent experts |
| | The Compliance, Risk & Ethics Committee monitors these programs and the Board Audit, Risk & Sustainability Committee and the Board Compliance Committee oversees their effectiveness |

## Executive remuneration – actual cash received

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

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

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

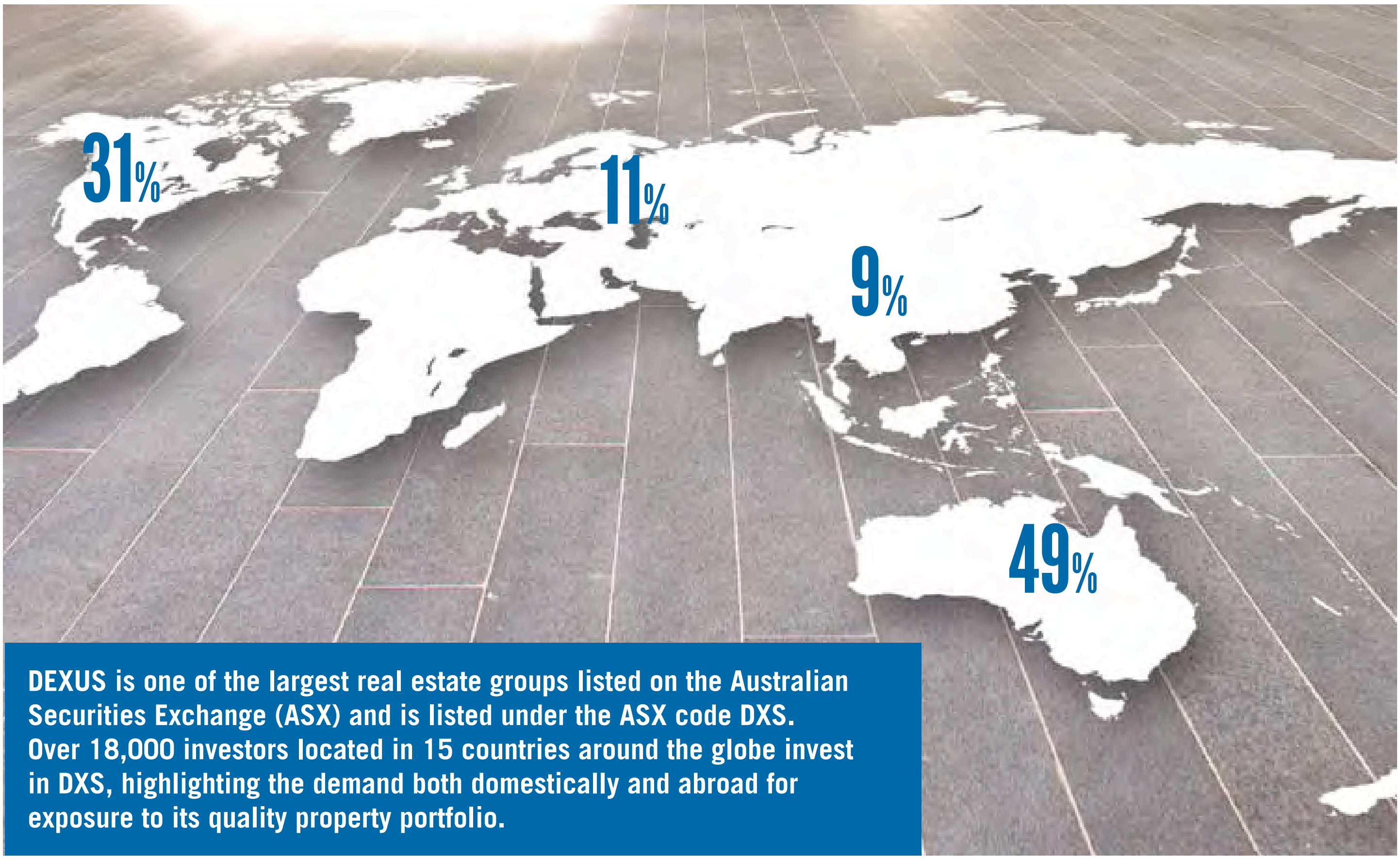
## Non-Executive Director's Statutory Accounting Table

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

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

1. Ms Dwyer was appointed on 24 August 2011.
2. Mr Sheppard was appointed on 1 January 2012.

# INVESTOR RELATIONS




**DEXUS is one of the largest real estate groups listed on the Australian Securities Exchange (ASX) and is listed under the ASX code DXS. Over 18,000 investors located in 15 countries around the globe invest in DXS, highlighting the demand both domestically and abroad for exposure to its quality property portfolio.**

DEXUS's Investor Relations team drives and facilitates communication with existing and potential institutional investors, sell-side analysts and retail investors. The team, alongside DEXUS senior management, maintains a strong rapport with the investment community through proactive and regular investor engagement initiatives.

**DEXUS is committed to ensuring equal access to information for all investors.**

DEXUS strives to ensure high levels of transparency and disclosure by:

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

During FY13, DEXUS hosted a number of investor conferences, property tours and participated in investor roadshows in Singapore, Hong Kong, London and the United States.

DEXUS is committed to ensuring all investors have equal access to information about its investment activities. In line with the Group's commitment to long term integration of sustainable business practices, investor communications are provided via various electronic methods.

A wide range of information including ASX announcements, the annual reporting suite, presentations, corporate governance policies, Board of Directors and Executive team information is available at www.dexus.com

In addition, DEXUS has various communication tools available on its website, including:

**ONLINE ENQUIRY**
www.dexus.com/contact including an online enquiry form

**INVESTOR LOGIN**
www.dexus.com/dxs allowing investors to update their details and choose delivery methods for their communications

**SUBSCRIBE TO ALERTS**
www.dexus.com/media enables investors to receive ASX and media releases as they are released

**CREATE YOUR PROPERTY REPORT**
www.dexus.com/properties enables investors to download individual or Group property information

DEXUS commissions an independent investor perception study twice a year to gather feedback from the institutional investment community. The study involves an independent consultant conducting interviews with institutional investors and sell-side analysts to gauge investor thoughts on a number of attributes and report on the findings. The results help DEXUS's Board and Executive team understand the investment community's perceptions and concerns and assists in the development of DEXUS's communications and enhancing the effectiveness of the Group's Investor Relations efforts.

## Annual General Meeting

On Tuesday, 29 October 2013, DEXUS's Annual General Meeting (AGM) will be held at 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 and 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 payout policy is to distribute between 70%–80% of Funds From Operations (FFO), in line with free cash flow, with the expectation that the average payout ratio will be 75% of FFO. Distributions are paid for the six month period to 31 December and 30 June each year. Distribution statements are available in print and electronic formats and distributions are paid via direct credit into nominated bank accounts or by cheque. To change the method of receiving distributions, please use the investor login facility at www.dexus.com/dxs

## Unclaimed distribution income

If you believe you have unpresented cheques or unclaimed distribution income, please contact the DXS Infoline on 1800 819 675. For monies outstanding greater than seven years, please contact the NSW Office of State Revenue on 1300 366 016, use their search facility at osr.nsw.gov.au 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/dxs via the investor login facility.

## Making contact

If you have any questions regarding your security holding or wish to update your personal or distribution payment details, please contact the Registry by calling the DXS Infoline on 1800 819 675. This service is available from 8.30am to 5.30pm (Sydney time) on all business days. All correspondence should be addressed to:

DEXUS Property Group
C/- Link Market Services Limited
Locked Bag A14
Sydney South NSW 1234

DEXUS is committed to delivering a high level of service to all investors. Should there be some way you feel that DEXUS could improve its service or you want to make a suggestion or complaint, your feedback is appreciated. DEXUS's contact details are:

Investor Relations
DEXUS Property Group
PO Box R1822
Royal Exchange NSW 1225

ir@dexus.com

DEXUS Funds Management Limited is a member of Financial Ombudsman Service (FOS), an independent dispute resolution scheme. If you are not satisfied with the resolution of your complaint by DEXUS, you may refer your complaint to FOS.

CASE STUDY

## DEXUS Investor Relations App for iPhone, iPad and Android


During the year the DEXUS Investor Relations App for iPhone, iPad and Android mobile devices was launched. The IR App allows users to navigate investor relations communications as well as receive a DXS stock quote and other important stock information. The DEXUS IR App provides current and future investors with instant access to the latest stock price, ASX announcements, presentations, reports, webcasts and more. The IR App was launched to help ensure that investors have instant access to corporate and stock information. DEXUS was one of the early adopters of this mobile technology which assists in creating broader awareness of the Group throughout the investment community. The DEXUS IR App is available to download for free at Apple's App Store and at Google Play.

## 2014 reporting calendar

| | |
|---|---|
| 2013 Annual General Meeting | 29 October 2013 |
| 2014 Half year results | 12 February 2014 |
| 2014 Annual results | 14 August 2014 |
| 2014 Annual General Meeting | 29 October 2014 |

## 2014 distribution calendar

| Period end | ASX announcements | Ex-distribution date | Record date | Payment date |
|---|---|---|---|---|
| 31 Dec 2013 | 19 Dec 2013 | 23 Dec 2013 | 31 Dec 2013 | 28 Feb 2014 |
| 30 Jun 2014 | 19 Jun 2014 | 24 Jun 2014 | 30 Jun 2014 | 29 Aug 2014 |

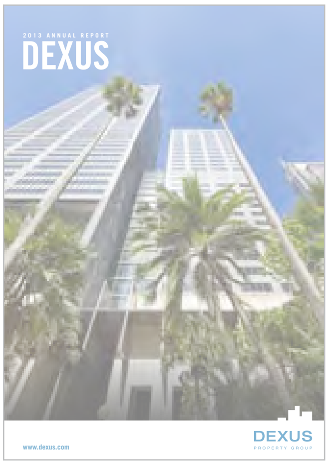
Please note that these dates are indicative and are subject to change without prior notice.
Any changes in our key dates will be published on our website.

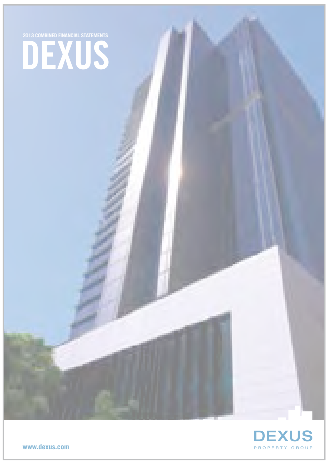
# GLOSSARY

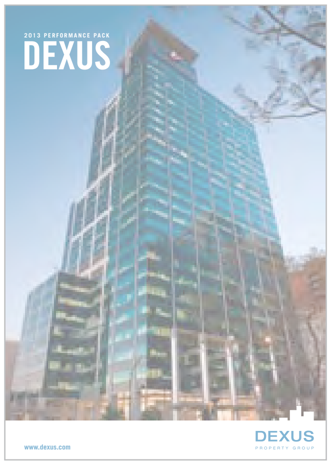
| TERM | MEANING |
|---|---|
| **AGM** | Annual General Meeting |
| **AIFRS** | Australian International Financial Reporting Standards |
| **A-REIT** | Australian Real Estate Investment Trust |
| **ASX** | Australian Securities Exchange Limited |
| **Baa1 rating** | A Moody's credit rating |
| **BBB+ rating** | A Standard & Poor's credit rating |
| **Buy-back** | The repurchase of stock by the company that issued it |
| **Carbon neutral** | Achieving net zero carbon emissions by balancing a measured amount of carbon released with an equivalent amount sequestered or offset |
| **Capitalisation rate** | Cap rate: ratio between the net operating income produced by an asset and its capital cost |
| **CBD** | Central Business District |
| **$CO_2$** | Carbon Dioxide |
| **CPI** | Consumer Price Index |
| **CR&S** | Corporate Responsibility and Sustainability |
| **DEXUS Property Group, DEXUS Group, DEXUS** or **the Group** | DXS and the Third Party Funds Management business |
| **DXS** or **the Trusts** | The four Trusts that comprise DEXUS Property Group stapled security: DEXUS Diversified Trust (DDF), DEXUS Industrial Trust (DIT), DEXUS Office Trust (DOT) and DEXUS Operations Trust (DXO) |
| **DJSI** | Dow Jones Sustainability Indexes: which track the stock performance of the world's leading companies in terms of economic, environmental and social criteria |
| **DRP** | Distribution Reinvestment Plan |
| **Duration of debt** or **debt duration** | The average term to maturity of all amounts drawn down under debt facilities |
| **DWPF** | DEXUS Wholesale Property Fund |
| **DXFM** | DEXUS Funds Management Limited, the Responsible Entity for each of the four Trusts that comprise DEXUS Property Group |
| **EBIT** | Earnings Before Interest and Tax |
| **Effective Rent** | The rental rate of a lease taking into account tenant fit-out incentives, cash incentives and rent free periods |
| **FFO** | Funds from Operations. This term is often used as a measure of real estate operating performance after finance costs and taxes. At DEXUS it 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 market to market impacts, amortisation of certain tenant incentives, gain/loss on sale of certain assets, straight line rent adjustments, deferred tax expense/benefit, rental guarantees and coupon income |
| **FOS** | Financial Ombudsman Service, an independent dispute resolution scheme |
| **FY12/FY13/FY14** | Financial year to 30 June 2012/Financial year to 30 June 2013/Financial year to 30 June 2014 |
| **Green lease** | Clauses inserted into a lease reporting both parties to minimise their impact upon the environment and their use of resources |
| **Green Star** | A comprehensive, national, voluntary environmental rating system that evaluates the environmental design and construction of buildings and communities |
| **Green Star – Office As Built v2** | A rating tool that assesses the delivery of the same environmental design criteria as in Green Star – Office Design v2, but at construction completion |
| **GRI** | Global Reporting Initiative – a non-profit organisation that promotes economic sustainability. It produces standards for sustainability reporting by corporations |
| **Headroom** | The total of all amounts under debt facilities not yet drawn but available to be drawn plus cash |
| **Heads of Agreement** | An agreement between tenant and landlord of the commercial terms and conditions of a lease |
| **Hedged debt** | The amount of drawn debt subject to a contracted fixed or capped interest rate (this includes fixed rate bonds and bank debt not converted by interest rate swaps to floating rate debt) |

| TERM | MEANING |
|---|---|
| **IPD** | Investment Property Databank, a world leader in performance analysis for owners, investors, managers and occupiers of real estate |
| **Intensity** | Graph data is provided on an “intensity per square metre” basis which enables like-for-like comparisons year-on-year, excluding property acquisitions, disposals and developments during the period. Note: all environmental data includes only properties under our operational control as defined under NGERS |
| **Internal rate of return (IRR)** | A rate of return used in capital budgeting to measure and compare the profitability of investments |
| **KPI** | Key Performance Indicators |
| **KMP** | Key Management Personnel |
| **Lease duration** | The remaining term to expiry of a lease |
| **Like-for-like** | A comparison using a consistent group of properties |
| **LTI** | Long term incentive |
| **Megajoule** | A measurement of energy |
| **NABERS** | National Australian Built Environment Rating System |
| **NLA** | Net lettable area |
| **NGERS** | National Greenhouse and Energy Reporting System |
| **NOI** | Net operating income |
| **NTA** | Net tangible assets |
| **Operational control** | A company is deemed to have operational control of premises when it has the authority to introduce and implement operating, health and safety and/or environmental policies |
| **Pre-lease** | To obtain lease commitments in a building or complex prior to it being available for occupancy |
| **Premium/A-grade/B-grade** etc | A quality rating, developed by the Property Council of Australia for office buildings |
| **REIT** | Real Estate Investment Trust |
| **RENTS** | Real-estate perpetual ExchanNgeable sTep-up Securities – DEXUS RENTS Trust (ASX code: DXRPA) |
| **Responsible entity** | An Australian public company holding an Australian Financial Services Licence who holds the dual role of trustee and manager of a managed investment scheme, as prescribed by the Commonwealth Corporations Act (2001) |
| **Sector/(s)** | Property investment sectors, specifically, office, industrial and retail |
| **S&P** | Standard & Poor’s rating agency |
| **Sqm** | Square metres |
| **STI** | Short term incentive |
| **Tenant incentive** | A property industry standard practice. Tenants may be offered incentives by property owners who pay a given amount towards the tenant’s fit-out and/or a rent free period at commencement of the lease |
| **UNPRI** | United Nations Principles for Responsible Investment, a network of international investors working together to put the six Principles for Responsible Investment into practice |
| **WALE** | Weighted Average Lease Expiry. The weighted average lease term remaining to expire across a portfolio, it can be weighted by rental income or square metres |
| **Yield (initial/passing)** | The annualised rents of a property expressed as a percentage of the property value |

# ANNUAL REPORTING SUITE


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

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

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

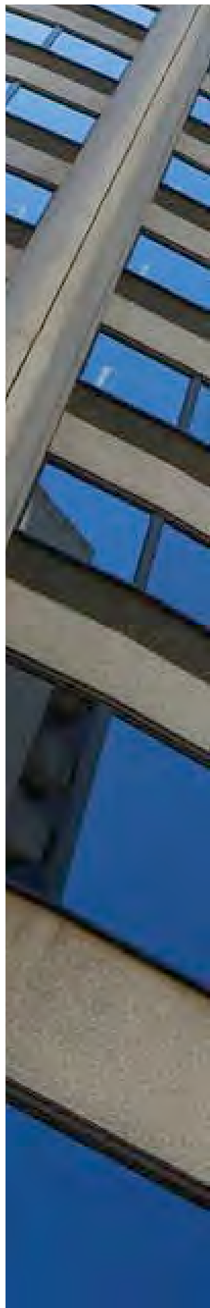
The Annual Reporting Suite is available in hard copy by email request to ir@dexus.com or by calling 1800 819 675. The online Annual Reporting Suite is available at www.dexus.com and will be online from early September 2013.

## Report scope

The Annual Review covers our financial performance at all locations. Environmental data only includes properties under our operational control as defined under the National Greenhouse and Energy Reporting System (NGER Act). All resource graphs 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 in our online reporting suite at www.dexus.com available from early September 2013.

## Independent assurance

In addition to auditing our Financial Statements, PricewaterhouseCoopers (PwC) has provided limited assurance over select data from Australia and New Zealand within our integrated online reporting suite. This covers the 12 months to 30 June 2013 in accordance with our reporting criteria (www.dexus.com/crs). The assurance statement, the GRI verification report and associated reporting criteria documents will be available from our online reporting suite from early September 2013.



**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
Barry R Brownjohn
John C Conde AO
Tonianne Dwyer
Stewart F Ewen OAM
Craig D Mitchell, CFO
W Richard Sheppard
Darren J Steinberg, CEO
Peter B St George

## Secretaries of the Responsible Entity

Tanya L Cox
John C Easy

## Registered office of the Responsible Entity

Level 25, Australia Square
264 George Street
Sydney NSW 2000

PO Box R1822
Royal Exchange
Sydney NSW 1225

Phone: +61 2 9017 1100
Fax: +61 2 9017 1101
Email: ir@dexus.com
www.dexus.com

## Auditors

**PricewaterhouseCoopers**
Chartered Accountants
201 Sussex Street
Sydney NSW 2000

## Investor enquiries

Registry Infoline: 1800 819 675
Investor Relations: +61 2 9017 1330
Email: ir@dexus.com
www.dexus.com

## Security registry

**Link Market Services Limited**
Level 12, 680 George Street
Sydney NSW 2000

Locked Bag A14
Sydney South NSW 1235

Registry Infoline: 1800 819 675
Fax: +61 2 9287 0303
Email: registrars@linkmarketservices.com.au
www.linkmarketservices.com.au

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

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

## Australian Securities Exchange

ASX Code: DXS

## IR App

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

Property expertise.
Institutional rigour.
Entrepreneurial spirit.

www.dexus.com

DEXUS
PROPERTY GROUP

2013 ANNUAL REPORT

# DEXUS

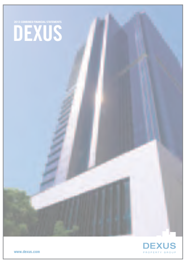
DEXUS PROPERTY GROUP

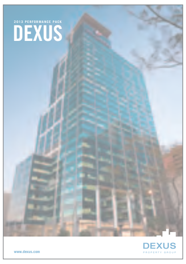
www.dexus.com

# ANNUAL REPORT 2013



## 2013 Annual Reporting suite



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

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

All ASX and media releases, Financial Statements and other information are available on our website: www.dexus.com

# A year of successful delivery on our revised strategy

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

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

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

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

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

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

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

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

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

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

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

## Underlying fundamentals remain challenging

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

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

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

## Board commitment to strong corporate governance

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

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

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

# LETTER FROM THE CHAIR

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

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

## Enhancement to the Board of Directors

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

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

## Good corporate citizenship

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

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

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

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

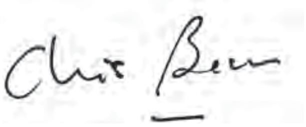
## Outlook

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

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

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

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



**Christopher T Beare**
Chair
16 August 2013

# FIVE YEAR FINANCIAL SUMMARY

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

1. 77.4% of FFO in FY13.
2. Property assets include investment properties, non-current assets held for sale, inventories and investment property accounted for using the equity method.
3. Includes cash.

# BOARD OF DIRECTORS

## Christopher T Beare Chair and Independent Director

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

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

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

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

## Elizabeth A Alexander AM Independent Director

**BComm, FCA, FAICD, FCPA**

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

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

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

## Barry R Brownjohn Independent Director

**BComm**

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

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

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

## John C Conde AO Independent Director

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

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

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

John was previously Chairman of Ausgrid (formerly EnergyAustralia), Director of BHP Billiton and Excel Coal Limited, Managing Director of Broadcast Investment Holdings Pty Limited, Director of Lumley Corporation and President of the National Heart Foundation of Australia.

## Tonianne Dwyer Independent Director

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

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

Tonianne 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. Tonianne is currently a Director of Cardno Limited and Queensland Treasury Corporation.

Tonianne 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, Tonianne was a Director of Investment Banking at Hambros Bank, SG Cowen and Société Générale based in London. Tonianne also held directorships on a number of boards associated with Quintain's funds management business including the Quercus, Quantum and iQ Property Partnerships and the Bristol & Bath Science Park Stakeholder Board.

### Stewart F Ewen OAM Independent Director

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

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

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

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

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

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

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

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

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

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

### Richard Sheppard Independent Director

**BEc Hons**

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

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

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

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

**BEc, FRICS, FAPI**

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

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

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

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

### Peter St George Independent Director

**CA(SA), MBA**

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

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

Peter acted as Chief Executive/Co-Chief Executive Officer of Salomon Smith Barney Australia/NatWest Markets Australia from 1995 to 2001. Peter was previously a Director of Spark Infrastructure Group, its related companies and SFE Corporation Limited.

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

| ASX Corporate Governance Principles and Recommendations | |
|---|---|
| Principle 1 – Lay solid foundations for management and oversight | Page 7 |
| 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 8–10 |
| 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 11–12 |
| 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 13–14 |
| 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 14 |
| 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 | Page 15 |
| 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 16–17 |
| 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 17 |
| 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, DXS). DXFM is also responsible for management of the Group's third party funds and mandates.

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

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

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

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

### Roles and responsibilities

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

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

### Board responsibilities

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

The Board is responsible for:

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

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

### Group Management Committee responsibilities

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

Members of the Group Management Committee for 2013 were:

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

## Principle 2 – Structure the Board to add value

### Board composition

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

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

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

### Size

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

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

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

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

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

### Board independence

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

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

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

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

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

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

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

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

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

## Meetings

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

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

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

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

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

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

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

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

## Access to training and information

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

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

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

Directors, as required, are encouraged to:

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

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

### Performance

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

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

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

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

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

DEXUS's Performance Evaluation Policy is available at www.dexus.com/corporategovernance

### Board support

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

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

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

The Terms of Reference for the DEXUS Board and the Board committees are reviewed at least annually and are available at www.dexus.com/corporategovernance

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

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

## Principle 3 – Promote ethical and responsible decision making

### Codes of Conduct

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

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

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

Other key ethical policies reviewed during 2013 include:

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

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

### Insider trading and trading in DEXUS securities

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

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

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

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

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

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

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

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

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

### Conflicts of interest and related party dealings

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

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

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

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

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

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

### Responsible investment

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

### Diversity

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

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

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

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

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

## Principle 4 – Safeguard integrity in financial reporting

### Board Audit, Risk & Sustainability Committee

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

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

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

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

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

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

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

The following reports are provided to the Committee:

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

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

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

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

### Board Compliance Committee

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

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

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

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

The members of the Board Compliance Committee were:

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

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

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

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

### Board Compliance Committee (continued)

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

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

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

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

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

## Principle 5 – Make timely and balanced disclosure

### Continuous disclosure

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

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

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

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

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

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

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

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

## Principle 6 – Respect the rights of shareholders

### Annual General Meeting

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

Each AGM is designed to:

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

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

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

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

### Stakeholder communication

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

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

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

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

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

## Principle 7 – Recognise and manage risk

### Board Audit, Risk & Sustainability Committee

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

DEXUS's Risk Management Policy is available at www.dexus.com/corporategovernance

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

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

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

### Risk management

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

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

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

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

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

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

## Internal audit

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

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

## Board Finance Committee

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

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

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

# Principle 8 – Remunerate fairly and responsibly

## Board Nomination, Remuneration & Governance Committee

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

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

The Committee comprises three Independent Directors:

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

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

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

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

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

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

# 1 Directors and Secretaries

## 1.1 Directors

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

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

## 1.2 Company Secretaries

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

**Tanya L Cox** MBA MAICD FCSA FCIS
Appointed: 1 October 2004

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

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

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

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

**John C Easy** B Comm LLB FCSA FCIS
Appointed: 1 July 2005

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

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

Prior to joining DEXUS in November 1997, John was employed as a senior associate in the commercial property/funds management practices of law firms Allens Arthur 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 Institute of Chartered Secretaries of Australia.

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

## 2 Attendance of Directors at Board meetings and Board Committee meetings

The number of Directors' meetings held during the year and each Director's attendance at those meetings is set out in the table below. The Directors met nine times during the year. Eight Board meetings were main meetings and one meeting was held to consider specific business.

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

1. Directorship commenced 12 February 2013.

Special meetings are held at a time to enable the maximum number of Directors to attend and are generally held to consider specific items that cannot be held over to the next scheduled main meeting.

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

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

## 3 Remuneration Report

### 3.1 Overview

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

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

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

# 3 Remuneration Report (continued)

## 3.1 Overview (continued)

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

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

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

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

## 3.2 Key Management Personnel

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

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

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

### Non-Executive Directors

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

### Executive Directors

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

### Executive KMP

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

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

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

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

## 3.3 Board Nomination, Remuneration & Governance Committee

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

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

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

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

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

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

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

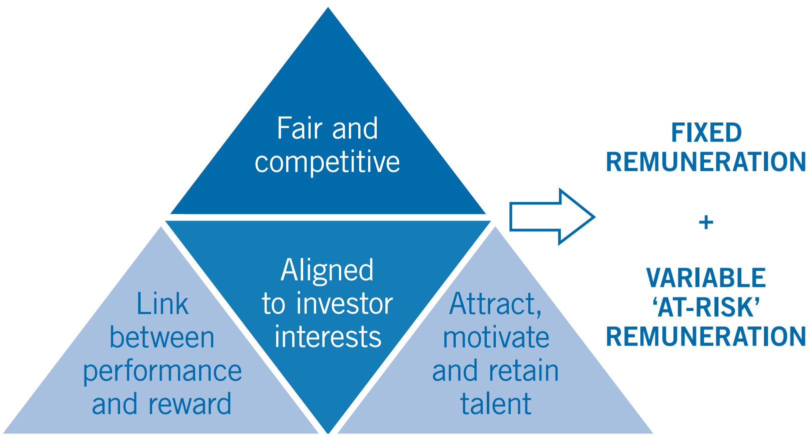
The 2012 Remuneration Report received positive security holder support at the 2012 Annual General Meeting with a vote of 98.3% in favour.

## 3.4 Executive remuneration

**Context**

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

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



## 3 Remuneration Report (continued)

### 3.4 Executive remuneration (continued)

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

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

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

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

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

### 3.5 Remuneration structure

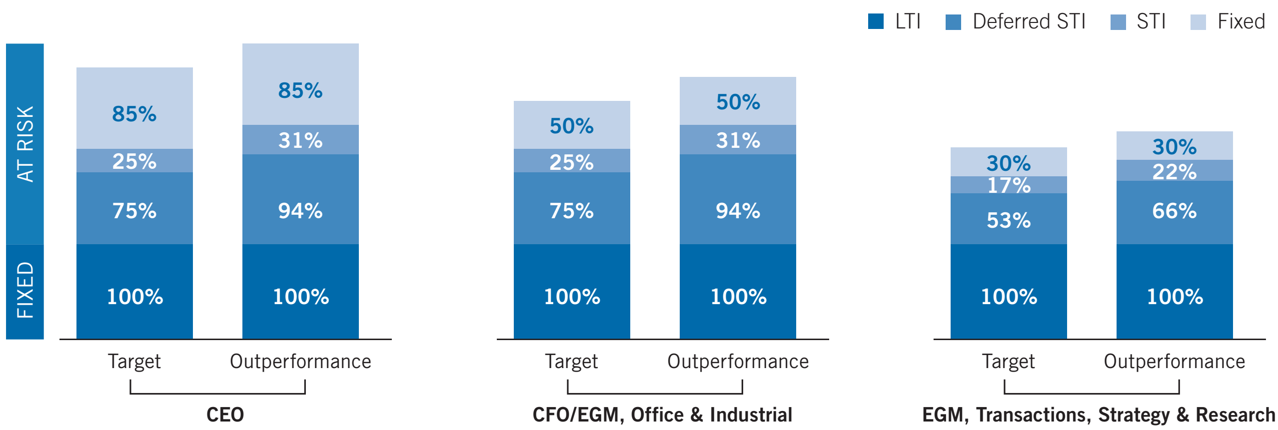
**Remuneration mix**

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

The remuneration mix for Executives during 2013 was:

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

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



## Total remuneration

| | |
|---|---|
| How does the Board determine total remuneration? | The Committee reviews a considerable amount of information from a variety of sources to ensure an appropriate outcome reflecting market practice (incorporating various benchmarks) is achieved. These sources include:<br>■ Publicly available remuneration reports of A-REIT competitors<br>■ Publicly available remuneration reports from ASX listed companies with similar market capitalisation and complexity<br>■ Advice on remuneration levels of privately held property, funds management and private equity owned companies<br>■ Salary survey data from Hart Consulting, Avdiev, Aon Hewitt, FIRG and others as appropriate<br>■ Advice from external advisors appointed by the Committee such as Egan Associates<br>The comparator group of companies and market data considered as part of the above process is significantly larger than the comparator group of companies adopted for assessment of the Group's relative TSR performance under its LTI plan (refer below). Executives are typically recruited from the former group, whereas the Group's performance will be assessed appropriately with respect to the latter. |

## Fixed remuneration

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

## Short-term Incentive (STI) Plan

| | |
|---|---|
| What is the STI plan? | The STI plan provides the Executive with an opportunity to achieve an annual remuneration outcome in addition to fixed remuneration, subject to the achievement of pre-agreed Group, divisional and individual performance objectives which are set out in a personalised balanced scorecard. |
| How much can be earned under the STI plan? | Expressed as a percentage of fixed remuneration, Executives can earn the following incentive payments under the STI plan: |

| | Target | Outperformance |
|---|---|---|
| CEO | 100% | 125% |
| CFO/EGM, Office & Industrial | 100% | 125% |
| EGM, Strategy, Transactions & Research | 70% | 88% |

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

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

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

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

# 3 Remuneration Report (continued)

## 3.5 Remuneration structure (continued)

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

| | |
|---|---|
| How is the allocation of deferred STI determined? | The number of performance rights awarded is based on 25% of the STI value awarded to the Executive divided by the volume weighted average price (VWAP) of securities 10 trading days either side of the first trading day of the new financial year. |
| How are distributions treated during the deferral period? | Executives will be entitled to the benefit of distributions paid on the underlying DXS securities prior to vesting, through the issue of additional performance rights. |
| Can deferred STI be forfeited? | Forfeiture will occur should the Executive's employment terminate within six months of the grant date for any reason, or if the Executive voluntarily resigns or is terminated for cause prior to the vesting date.<br><br>Notwithstanding the above, if an Executive's employment is terminated for reasons such as retirement, redundancy, re-organisation, change in control or other unforeseen circumstances, the Committee will recommend whether the Executive should remain in the plan as a good leaver, for decision by the Board. |
| How is the STI plan aligned to security holder interests? | The STI plan is aligned to security holder interests in the following ways:<br>▪ As an immediate reward opportunity to attract, motivate and retain talented Executives who can influence the future performance of the Group<br>▪ Through a 25% mandatory STI deferral for Executives, allowing for future clawback of STI awards in the event of a material misstatement of the Group's financial position |

### Long-term Incentive (LTI) Plan

| | |
|---|---|
| What is the LTI plan? | The LTI is an incentive grant which rewards Executives for sustained earnings and security holder returns and is delivered in the form of performance rights to DXS securities. |
| How are grants under the LTI plan determined? | Executives receive a grant of performance rights to DXS securities (dependent on their role and responsibilities) under the LTI plan equivalent to the following (expressed as a percentage of Fixed Remuneration): |

| | Grant as a % of fixed remuneration |
|---|---|
| CEO | 85% |
| CFO/EGM, Office & Industrial | 50% |
| EGM, Strategy, Transactions & Research | 30% |

| | |
|---|---|
| How does the LTI plan work? | Performance rights are converted into DXS securities upon achievement of performance conditions set by the Board. Performance against the selected hurdles will be assessed in two equal tranches over two periods, three and four years after the grant date. If the performance conditions are not met over either period, then the respective performance rights will be forfeited. There is no re-testing of forfeited rights. |
| Can an LTI grant be forfeited? | If pre-determined performance hurdles are not met then the relevant part of the grant will not vest and those rights will be forfeited.<br><br>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.<br><br>Notwithstanding the above, if an Executive's employment is terminated for reasons such as retirement, redundancy, re-organisation, change in control or other unforeseen circumstances, the Committee will recommend whether the Executive should remain in the plan as a good leaver, for decision by the Board. |
| What are the performance hurdles? | The Board sets the performance hurdles for the LTI plan on an annual basis. For the 2013 LTI grant, a set of external and internal hurdles has been selected.<br><br>Notably, the Board has clarified the operation of the Relative TSR component of the LTI plan. The previously communicated 50% weighting to Relative TSR will be split into two distinct groups, the first being a standard Relative TSR measurement against listed peers, the second being a Relative ROE measurement against unlisted peers. The Board feels this is a more accurate comparison given the way investors measure the performance of listed and unlisted entities.<br><br>The four performance hurdles for the 2013 LTI plan are:<br><br>**External performance hurdles (50%)**<br>▪ 25% is based on the Group's relative performance against a Total Security holder Return (Relative TSR) performance hurdle measured against a peer group of listed entities within the A-REIT sector<br>– TSR represents an investor's return, calculated as the percentage difference between the initial amount invested and the final value of DXS securities at the end of the relevant period, assuming distributions were reinvested |

| | |
|---|---|
| What are the performance hurdles? (continued) | ■ 25% is based on the Group's relative performance against a Return On Equity (Relative ROE) performance hurdle measured against a peer group of unlisted entities within the A-REIT sector<br>– 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<br><br>**Internal performance hurdles (50%)**<br>■ 25% is based on the Group's performance against a predetermined Funds From Operations (FFO) per security growth hurdle<br>– For the purpose of these performance hurdles, FFO is defined as per the definition adopted by the Property Council of Australia<br>■ 25% is based on the Group's performance against a predetermined Return on Equity performance hurdle<br>– ROE represents the annualised composite rate of return to security holders, calculated as a percentage, comprising the change in net tangible asset value per security together with the distributions paid to security holders per security, divided by the net tangible asset value per security at the beginning on the period |
| How are the performance hurdles measured? | **Relative TSR and Relative ROE**<br>Vesting under both the Relative TSR & Relative ROE measures will be on a sliding scale reflecting relative performance against a comparator group of entities.<br>■ Nil vesting for performance below the median of the comparator group<br>■ 50% vesting for performance at the median of the comparator group<br>■ Straightline vesting for performance between the 50th and 75th percentile<br>■ 100% vesting for performance at or above the 75th percentile<br><br>The listed and unlisted comparator groups have been reviewed and selected by the Board as being appropriate entities within similar asset classes, investment risk/return profiles and market capitalisation/size. The 2013 LTI grant comparator groups are:<br>■ Listed: CPA, IOF, GPT, CFX, WRT, SCP, CMW and FDC<br>■ Unlisted: AWOF, GWOF, APPFC, ICPF, ISPT, ACPP, QPF and APPFR<br><br>The Board reserves the right to review the peer group annually, with relative performance monitored by an independent external advisor at 30 June each year.<br><br>**FFO growth and ROE**<br>Vesting under both the FFO Growth & ROE measures will be on a sliding scale reflecting performance against pre-determined performance hurdles set by the Board.<br>■ Nil vesting for below Target performance<br>■ 50% vesting for Target performance<br>■ Straightline vesting between Target and Outperformance<br>■ 100% vesting for Outperformance |
| What are the absolute LTI hurdles for the 2013 grant? | Having determined the Group's strategy, the Board has adopted the following FFO growth and ROE performance hurdles for the 2013 LTI grant:<br>■ FFO Growth Target of 3% – with outperformance at 5.5%<br>■ ROE Target of 9% – with outperformance at 11%<br><br>These targets are measured as the per annum average over the three and four year grant periods. |
| How is the LTI plan aligned to security holder interests? | Aligned to long-term security holder interests in the following ways:<br>■ As a reward to Executives when the Group's overall performance exceeds specific predetermined earnings and security holder return benchmarks<br>■ 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<br>■ Aligning the financial interests of security holders with Executives through exposure to DXS securities and the Group's performance<br>■ Encouraging and incentivising Executives to make sustainable business decisions within the Board-approved risk appetite and strategy of the Group |

# 3 Remuneration Report (continued)

## 3.5 Remuneration structure (continued)

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

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

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

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

## 3.6 Performance pay

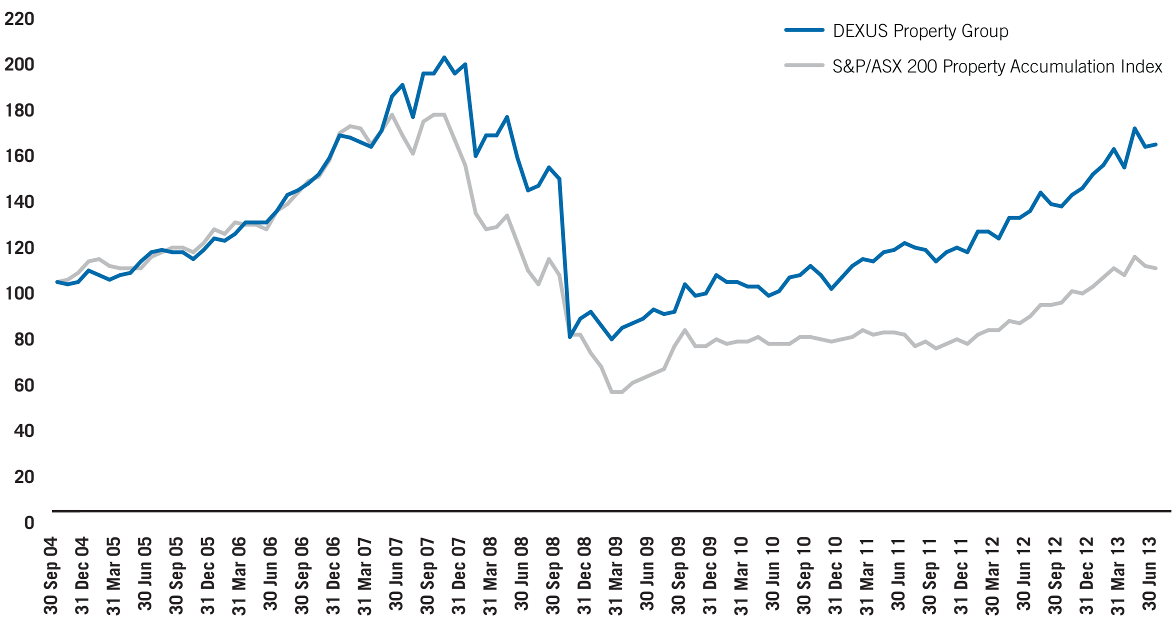
**Group performance**

FY13 highlights

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

### Total Return of DXS securities

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



## Total Return analysis

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

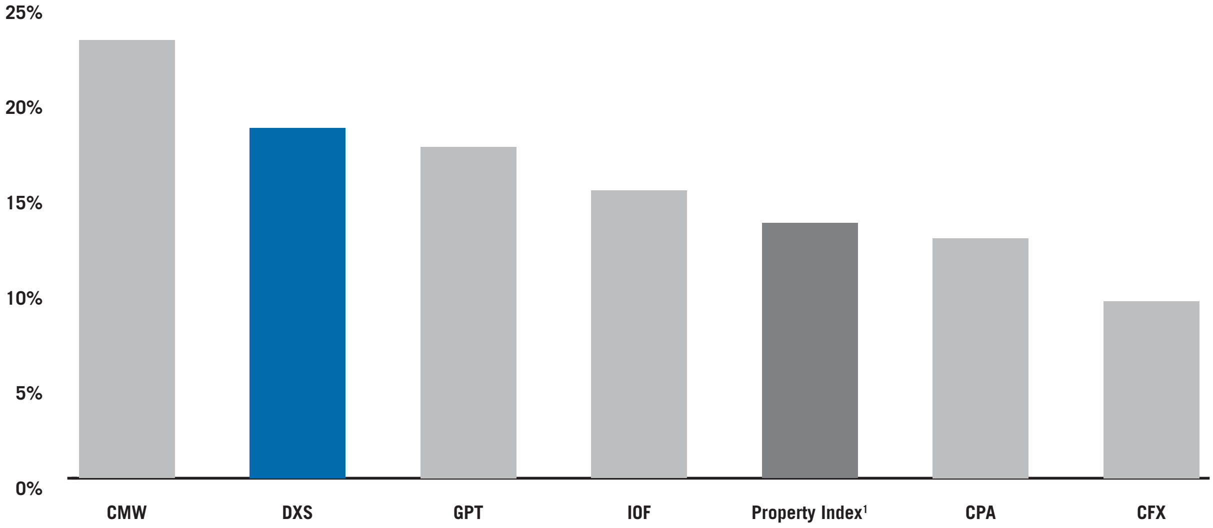
| | 1 Year | 2 Years | 3 Years | 5 years |
|---|---|---|---|---|
| **Year ended 30 June 2013** | **(% per annum)** | **(% per annum)** | **(% per annum)** | **(% per annum)** |
| DEXUS Property Group | 22.1% | 17.0% | 18.4% | 2.6% |
| S&P/ASX200 Property Accumulation Index | 24.2% | 17.4% | 13.4% | 0.3%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

1. Comparator group for 1 year comprises DXS, CFX, CMW, CPA, FDC, GPT, IOF and WRT.
2. Comparator group for 2 years comprises DXS, CFX, CMW, CPA, GPT, IOF and WRT.
3. Comparator group for 3 years comprises DXS, CFX, CMW, CPA, GPT and IOF.

## Three year performance relative to comparator group

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

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

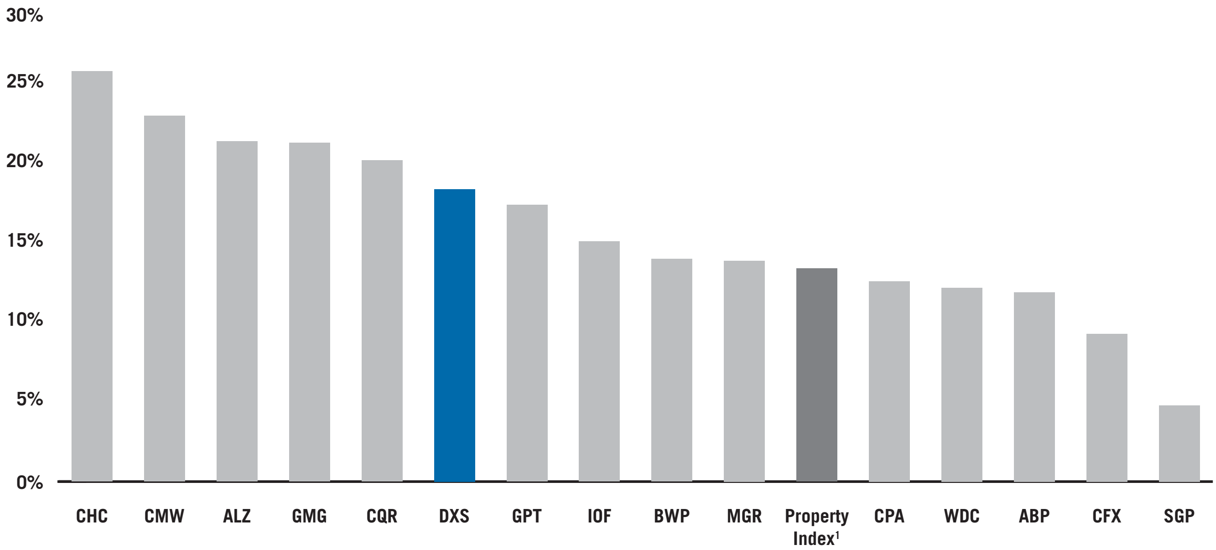



Source: UBS Securities Australia Ltd

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

## Three year performance relative to property index

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




Source: UBS Securities Australia Ltd
1. S&P/ASX 200 A-REIT Index.

# 3 Remuneration Report (continued)

## 3.6 Performance pay (continued)

### Summary

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

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

### Individual performance assessment – Balanced Scorecard

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

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

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

**Principal Elements of Executive Balanced Scorecards**

**Financial Performance**
- DXS total returns (22.1%)
- Funds investment performance
- Funds from operations ($365.4 million)
- Return on equity (11.2%)
- Trading profit ($1.5 million)
- Net operating income growth – like for like (1.6%)

**Business Management and Strategy**
- Delivery of divisional business plans
- Secure rent at risk
- Property portfolio investment performance
- Operating costs
- Capital diversification
- Transaction effectiveness

**Stakeholder Engagement**
- Investor engagement and feedback
- Media and community profile
- Tenant relationships and engagement
- Internal and external service standards

**People and Culture**
- Leadership effectiveness
- Cultural survey results
- Succession planning
- Talent retention and development

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

### Performance pay outcomes

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

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

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

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

### LTI grants

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

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

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

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

## 3.7 Executive remuneration actual cash received

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

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

1. Includes employer contributions to superannuation under the superannuation guarantee legislation and salary sacrifice amounts.
2. Mr George received a sign-on cash payment of $250,000 plus various relocation benefits totalling $214,383.
3. Cash payment made in August 2012 with respect to the 2012 DPP (i.e. annual performance payment for the prior financial year).
4. Cash payment made in August 2012 with respect to the 2009 DDPP award that vested on 1 July 2012 (i.e. realisation of three year deferred performance payment).

# 3 Remuneration Report (continued)

## 3.7 Executive remuneration actual cash received (continued)

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

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

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

## 3.8 Service agreements

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

**Chief Executive Officer**

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

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

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

# 3 Remuneration Report (continued)

## 3.8 Service agreements (continued)

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

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

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

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

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

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

### Legacy Plan – unvested transitional performance rights

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

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

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

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

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

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

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

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

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

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

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

### 3.9 Non-Executive Directors

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

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

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

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

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

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

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

## 3 Remuneration Report (continued)

### 3.9 Non-Executive Directors (continued)

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

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

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

1. Ms Dwyer was appointed on 24 August 2011.
2. Mr Sheppard was appointed 1 January 2012.

## 4 Directors' relevant interests

The relevant interests of each Director in DXS stapled securities as at the date of this Directors' Report are shown below:

| Directors | No. of securities |
|---|---|
| Christopher T Beare | 100,000 |
| Elizabeth A Alexander, AM | 100,000 |
| Barry R Brownjohn | 50,000 |
| John C Conde, AO | 100,000 |
| Tonianne Dwyer | 100,000 |
| Stewart F Ewen, OAM | 100,000 |
| Craig D Mitchell | 539,782[1] |
| W Richard Sheppard | 100,000 |
| Darren J Steinberg | 453,417[1] |
| Peter B St George | 104,000 |

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

## 5 Directors' directorships in other listed entities

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

| Director | Company | Date appointed | Date resigned |
|---|---|---|---|
| Christopher T Beare | Mnemon Group Limited | 6 November 2009 | 27 May 2013 |
| Elizabeth A Alexander, AM | CSL Limited | 12 July 1991 | 19 October 2011 |
| John C Conde, AO | Whitehaven Coal Limited<br>Cooper Energy Limited | 3 May 2007<br>25 February 2013 | |
| Tonianne Dwyer | Cardno Limited | 25 June 2012 | |
| W Richard Sheppard | Echo Entertainment Group | 21 November 2012 | |
| Peter B St George | Boart Longyear Limited<br>First Quantum Minerals Limited[1] | 21 February 2007<br>20 October 2003 | 21 May 2013 |

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

## 6 Principal activities

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

## 7 Total value of Trust assets

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

## 8 Review of results and operations

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

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

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

DISTRIBUTION OF
**6.0 cents**
PER SECURITY

TOTAL RETURN OF
**11.2%**

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

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

## 8 Review of results and operations (continued)

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

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

1. Including DXS's share of equity accounted investments.
2. Including cash and fit out incentives amortisation.
3. Based on payout ratio of 77.4%. DXS's current policy is to distribute 70-80% of FFO, in line with free cash flow.

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

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

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

Key drivers included:

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

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

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

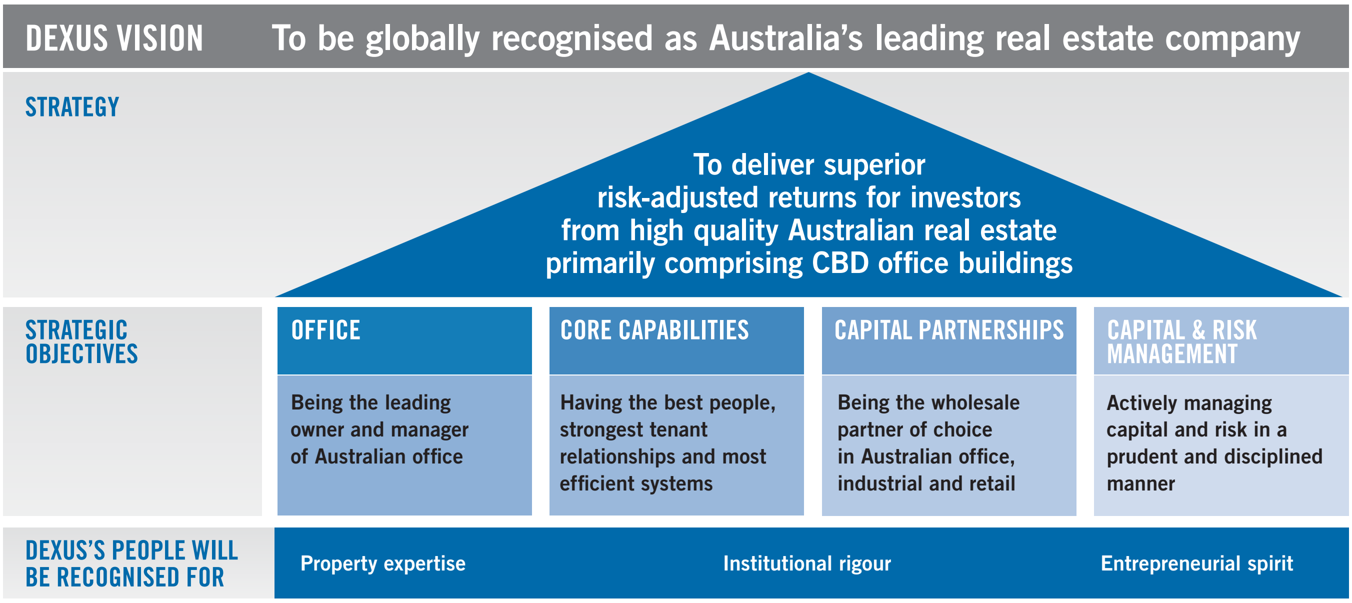
## Strategy

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

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

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

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




## Operations

**Portfolio composition**

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

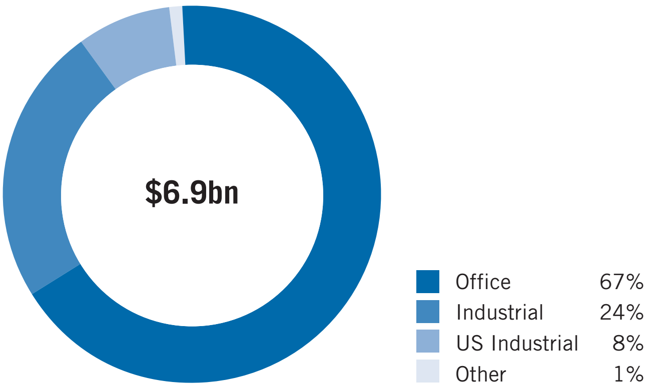
**DXS property portfolio metrics**

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

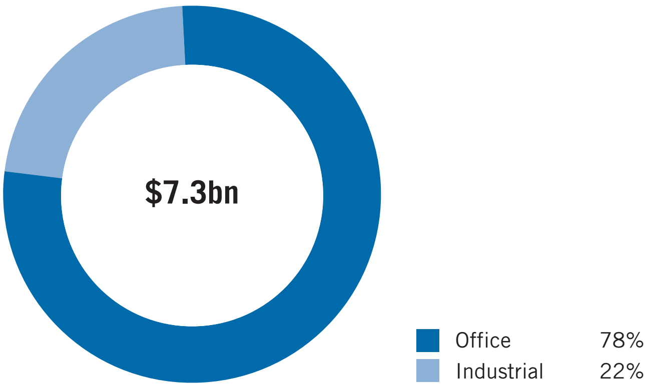
## 8 Review of results and operations (continued)

### Operations (continued)

**30 June 2012**




**30 June 2013**




**Office portfolio**

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

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

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

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

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

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

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

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

**Industrial portfolio**

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

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

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

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

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

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

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

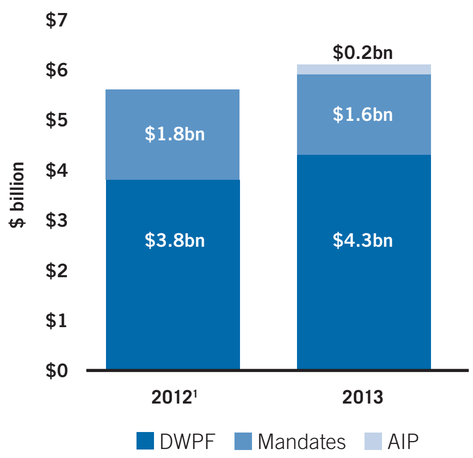
In FY14, DEXUS will continue to focus on proactively managing the industrial portfolio and leveraging its industrial capabilities into developments and new opportunities. DEXUS will continue to deliver on the investment objectives for its capital partners and progress projects in its industrial development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

### Third Party Funds Management

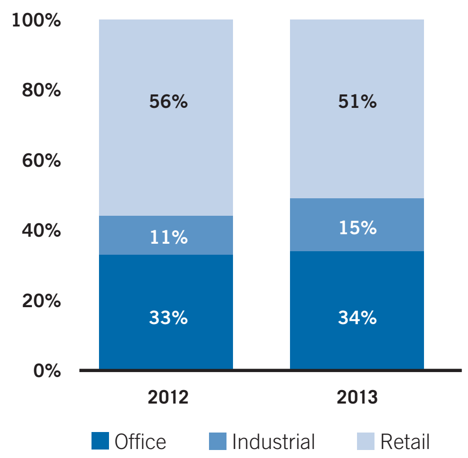
A key objective for DEXUS in FY13 was to grow its Third Party Funds Management business through partnering with wholesale investors on investment opportunities and developing new capital partnerships.

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

**Funds under management**




**Asset diversification**




### Transactions

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

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

DXS transactions included:

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

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

## 8 Review of results and operations (continued)

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

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

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

### Capital management

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

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

Key achievements for FY13 included:

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

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

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

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

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

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

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

## 9 Likely developments and expected results of operations

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

## 10 Significant changes in the state of affairs

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

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

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

## 12 Distributions

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

## 13 DXFM fees

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

## 14 Interests in DXS securities

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

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

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

## 15 Environmental regulation

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

## 16 Indemnification and insurance

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

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

## 17 Audit

### 17.1 Auditor

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

### 17.2 Non-audit services

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

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

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

## 17 Audit (continued)

### 17.2 Non-audit services (continued)

The reasons for the Directors being satisfied are:

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

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

### 17.3 Auditor's Independence Declaration

A copy of the Auditor's Independence Declaration as required under section 307C of the *Corporations Act 2001* is set out on page 43 and forms part of this Directors' Report.

## 18 Corporate governance

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

## 19 Rounding of amounts and currency

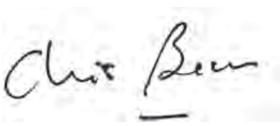
The Group is a registered scheme of the kind referred to in Class Order 98/0100, issued by the Australian Securities & Investments Commission, relating to the rounding off of amounts in this Directors' Report and the Financial Statements. Amounts in this Directors' Report and the Financial Statements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

## 20 Management representation

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

## 21 Directors' authorisation

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



**Christopher T Beare**
Chair
16 August 2013

**Darren J Steinberg**
Chief Executive Officer
16 August 2013

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## Auditor's Independence Declaration

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

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

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

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

E A Barron
Partner
PricewaterhouseCoopers

Sydney
16 August 2013

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*T: +61 2 8266 0000, F: +61 2 8266 9999, www.pwc.com.au*

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2013

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

| | | Cents | Cents |
|---|---|---|---|
| **Basic and diluted earnings per unit attributable to unitholders of the parent entity** | | | |
| Earnings per unit – profit from continuing operations | 35(a) | 2.02 | 2.63 |
| Earnings per unit – profit/(loss) from discontinued operations | 35(a) | 0.16 | (0.94) |
| Earnings per unit – total | 35(a) | 2.18 | 1.69 |
| **Basic and diluted earnings per stapled security attributable to stapled security holders** | | | |
| Earnings per security – profit from continuing operations | 35(b) | 11.06 | 6.71 |
| Earnings per unit – loss from discontinued operations | 35(b) | (0.15) | (2.97) |
| Earnings per unit – total | 35(b) | 10.91 | 3.75 |

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

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2013

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

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2013

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

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

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

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

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

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

## Note 1 Summary of significant accounting policies

### (a) Basis of preparation

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

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

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

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

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

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

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

#### Critical accounting estimates

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

#### Changes to presentation – classification of expenses

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

### (b) Principles of consolidation

#### (i) Controlled entities

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

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

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

#### (ii) Partnerships and joint ventures

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

#### (ii) Employee share trust

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

### (c) Revenue recognition

#### (i) Rent

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

## Note 1 Summary of significant accounting policies (continued)

### (c) Revenue recognition (continued)

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

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

**(iv) Dividends and distribution revenue**
Revenue from dividends and distributions are recognised when declared. Amounts not received at the end of the reporting period are included as a receivable in the Statement of Financial Position.

### (d) Expenses

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

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

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

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

### (e) Derivatives and other financial instruments

**(i) Derivatives**
The Group's activities expose it to a variety of financial risks including foreign exchange risk and interest rate risk. Accordingly, the Group enters into various derivative financial instruments such as interest rate swaps, cross currency swaps and foreign exchange contracts to manage its exposure to certain risks. Written policies and limits are approved by the Board of Directors of the Responsible Entity, in relation to the use of financial instruments to manage financial risks. The Responsible Entity continually reviews the Group's exposures and updates its treasury policies and procedures. The Group does not trade in derivative instruments for speculative purposes. Even though derivative financial instruments are entered into for the purpose of providing the Group with an economic hedge, the Group has elected not to apply hedge accounting under *AASB 139 Financial Instruments: Recognition and Measurement* for interest rate swaps and foreign exchange contracts. Accordingly, derivatives including interest rate swaps, the interest rate component of cross currency swaps and foreign exchange contracts, are measured at fair value with any changes in fair value recognised in the Statement of Comprehensive Income.

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

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

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

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

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

**(iv) Other financial assets**
Loans and other receivables are measured at amortised cost using the effective interest rate method less impairment.

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

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

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

### (g) Taxation

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

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

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

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

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

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

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

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

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

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

## (h) Distributions

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

## (i) Repairs and maintenance

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

## (j) Cash and cash equivalents

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

## (k) Receivables

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

## (l) Inventories

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

Land and properties held for resale are stated at the lower of cost and the net realisable value. Cost is assigned by specific identification and includes the cost of acquisition, and development and holding costs such as borrowing costs, rates and taxes. Holding costs incurred after completion of development are expensed.

## Note 1 Summary of significant accounting policies
(continued)

### (l) Inventories (continued)

**(ii) Net realisable value**

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

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

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use, and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell, except for assets such as deferred tax assets, assets arising from employee benefits, financial assets and investment property that are carried at fair value and contractual rights under insurance contracts, which are specifically exempt from this requirement.

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

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

### (n) Plant and equipment

Plant and equipment is stated at historical cost less depreciation and accumulated impairment. Historical cost includes expenditure that is directly attributable to its acquisition. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the Statement of Comprehensive Income during the reporting period in which they are incurred.

Plant and equipment is tested for impairment whenever events or changes in circumstances indicate that the carrying amounts exceed their recoverable amounts (refer Note 1(t)).

### (o) Depreciation of plant and equipment

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

| | |
|---|---|
| Furniture and fittings | 10-20 years |
| IT and office equipment | 3-5 years |

### (p) Investment properties

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

The basis of valuations of investment properties is fair value being the amounts for which the assets could be exchanged between knowledgeable willing parties in an arm's length transaction, based on current prices in an active market for similar properties in the same location and condition and subject to similar leases. In addition, an appropriate valuation method is used, which may include the discounted cash flow and the capitalisation method. Discount rates and capitalisation rates are determined based on industry expertise and knowledge and, where possible, a direct comparison to third party rates for similar assets in a comparable location. Rental revenue from current leases and assumptions about future leases, as well as any expected operational cash outflows in relation to the property, are also reflected in fair value. In relation to development properties under construction for future use as investment property, where reliably measurable, fair value is determined based on the market value of the property on the assumption it had already been completed at the valuation date less costs still required to complete the project, including an appropriate adjustment for profit and risk.

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

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

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

### (q) Leasing fees

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

### (r) Lease incentives

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

The costs of incentives are recognised as a reduction of rental revenue on a straightline basis from the earlier of the date which the tenant has effective use of the premises or the lease commencement date to the end of the lease term. The carrying amount of the lease incentives is reflected in the fair value of investment properties.

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

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

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

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

## (t) Impairment of assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows, which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

## (u) Intangible assets

### (i) Goodwill

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

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

### (ii) Management rights

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

## (v) Financial assets and liabilities

### (i) Classification

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

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

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

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

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

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

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

## (w) Payables

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

## (x) Interest bearing liabilities

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

## Note 1 Summary of significant accounting policies (continued)

### (y) Foreign currency

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

**(i) Foreign currency transactions**

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

**(ii) Foreign operations**

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

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

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

### (z) Employee benefits

**(i) Wages, salaries and annual leave**

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

**(ii) Long service leave**

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

The provision is calculated using expected future increases in wage and salary rates including related on-costs and expected settlement dates based on turnover history and is discounted using the rates attaching to national government bonds at the end of the reporting period that most closely matches the term of the maturity of the related liabilities. The unwinding of the discount is treated as long service leave expense.

**(iii) Security-based payments**

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

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

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

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

### (aa) Earnings per unit

Basic earnings per unit are determined by dividing the net profit attributable to unit holders of the parent entity by the weighted average number of ordinary units outstanding during the year.

Diluted earnings per unit are adjusted from the basic earnings per unit by taking into account the impact of dilutive potential units.

### (ab) Operating segments

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

### (ac) Rounding of amounts

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

## (ad) Parent entity financial information

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

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

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

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

## (ae) New accounting standards and interpretations

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## Note 2 Property revenue

| | 2013 $m | 2012 $m |
|---|---|---|
| Rent and recoverable outgoings | 564.7 | 558.2 |
| Incentive amortisation | (53.0) | (49.9) |
| Other revenue | 34.9 | 27.4 |
| **Total property revenue** | **546.6** | **535.7** |

## Note 3 Finance costs

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

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

## Note 4 Corporate and administration expenses

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

## Note 5 Income tax

### (a) Income tax benefit

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

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

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

## Note 6 Audit, taxation and transaction services fees

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

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

1. Fees paid in relation to outgoing audits are included in property expenses in the Statement of Comprehensive Income.
2. These services include general compliance work, one off project work and advice.
3. Total audit and taxation fees include $1.2 million (2012: $1.0 million) in relation to the US and European portfolios for general compliance work, one-off project work and advice. These fees are included in loss from discontinued operations in the Statement of Comprehensive Income.
4. After allowing for the impact of footnotes 1 and 3 above, total audit and taxation fees included in other expenses is $1.3 million (2012: $1.2 million).

## Note 7 Current assets – cash and cash equivalents

| | 2013 $m | 2012 $m |
|---|---|---|
| Cash at bank | 11.2 | 20.8 |
| Short-term deposits | 0.4 | 13.7 |
| Cash held in escrow[1] | 2.9 | 24.7 |
| **Total current assets – cash and cash equivalents** | **14.5** | **59.2** |

1. As at 30 June 2013, the Group held US$2.7 million (A$2.9 million) in escrow in relation to the US asset disposal in April 2013. These funds were released from escrow on 25 July 2013.
As at 30 June 2012, the Group held US$25.2 million (A$24.7 million) in escrow in relation to the US asset disposals in June 2012. These funds were released from escrow during the year ended 30 June 2013.

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

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

| | Note | 2013 $m | 2012 $m |
|---|---|---|---|
| Balances as above | | 14.5 | 59.2 |
| Discontinued operations | 12 | 0.4 | – |
| **Balances per Statement of Cash Flows** | | **14.9** | **59.2** |

## Note 8 Current assets – receivables

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

## Note 9 Inventories

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

| | 2013 $m | 2012 $m |
|---|---|---|
| **Current assets** | | |
| Land and properties held for resale | 10.9 | 26.8 |
| **Total current assets – inventories** | **10.9** | **26.8** |
| **Non-current assets** | | |
| Land and properties held for resale | 242.0 | 71.0 |
| **Total non-current assets – inventories** | **242.0** | **71.0** |
| **Total assets – inventories** | **252.9** | **97.8** |

### (b) Reconciliation

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

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

### Acquisitions

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

### Disposals

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

## Note 10 Derivative financial instruments

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

Refer Note 28 for further discussion regarding derivative financial instruments.

## Note 11 Current assets – other

| | 2013 $m | 2012 $m |
|---|---|---|
| Prepayments | 10.9 | 10.7 |
| Other | – | 0.2 |
| **Total current assets – other** | **10.9** | **10.9** |

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

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

The loss from the US and European discontinued operations comprises:

| | 2013 $m | 2012 $m |
|---|---|---|
| Revenue | 39.3 | 152.8 |
| Expenses[1] | (73.0) | (260.9) |
| **Loss before tax** | **(33.7)** | **(108.1)** |
| Tax benefit/(expense) | 2.4 | (35.4) |
| **Loss after tax** | **(31.3)** | **(143.5)** |
| 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** | **–** |
| **Loss from discontinued operations** | **(7.0)** | **(143.5)** |

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

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

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

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

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

| | 2013 $m | 2012 $m |
|---|---|---|
| Cash and cash equivalents | 0.2 | – |
| Receivables | 0.1 | – |
| Investment properties | 524.3 | – |
| **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.

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

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

| | 2013[1] $m | 2012[2] $m |
|---|---|---|
| **Assets classified as held for sale** | | |
| Cash and cash equivalents | 0.4 | – |
| Receivables | 0.4 | – |
| Other | 0.3 | – |
| Investment properties | 7.7 | 212.3 |
| **Total assets classified as held for sale** | **8.8** | **212.3** |
| **Liabilities classified as held for sale** | | |
| Payables | 0.1 | – |
| **Total liabilities classified as held for sale** | **0.1** | **–** |

1. Includes the remaining European property.
2. Includes certain investment properties whose value will be recovered through sale rather than through continuing use.

## Disposals

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

## Note 13 Non-current assets – investment properties

### (a) Properties

| |
|---|
| Kings Park Industrial Estate, Bowmans Road, Marayong, NSW |
| Target Distribution Centre, Lot 1, Tara Avenue, Altona North, VIC |
| Axxess Corporate Park, Mount Waverley, VIC |
| Knoxfield Industrial Estate, 20 Henderson Road, Knoxfield, VIC |
| 12 Frederick Street, St Leonards, NSW |
| 2 Alspec Place, Eastern Creek, NSW |
| 108-120 Silverwater Road, Silverwater, NSW |
| 40 Talavera Road, North Ryde, NSW |
| 44 Market Street, Sydney, NSW |
| 8 Nicholson Street, Melbourne, VIC |
| 130 George Street, Parramatta, NSW |
| Flinders Gate Complex, 172 Flinders Street & 189 Flinders Lane, Melbourne, VIC |
| 383-395 Kent Street, Sydney, NSW |
| 14 Moore Street, Canberra, ACT** |
| Sydney CBD Floor Space[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 |
| 10-16 South Street, Rydalmere, NSW |
| Pound Road West, Dandenong, VIC |
| DEXUS Industrial Estate, Boundary Road, Laverton North, VIC – Visy |
| DEXUS Industrial Estate, Boundary Road, Laverton North, VIC – Wrightson |
| DEXUS Industrial Estate, Boundary Road, Laverton North, VIC – Fosters |
| DEXUS Industrial Estate, Boundary Road, Laverton North, VIC – BestBar |
| 12-18 Distribution Drive, Laverton North, VIC |
| 250 Forest Road, South Lara, VIC |
| 15-23 Whicker Road, Gillman, SA |
| 25 Donkin Street, Brisbane, QLD |
| 52 Holbeche Road, Arndell Park, NSW |
| 30-32 Bessemer Street, Blacktown, NSW |
| 27-29 Liberty Road, Huntingwood, NSW |
| 154 O'Riordan Street, Mascot, NSW |
| 11 Talavera Road, North Ryde, NSW |
| 131 Mica Road, Carole Park, NSW |
| DEXUS Industrial Estate, Egerton Street, Silverwater, NSW |

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

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

### (a) Properties (continued)

| |
|---|
| 89 Egerton Street, Silverwater, NSW |
| 114 Fairbank Road, Clayton, VIC |
| 30 Bellrick Street, Acacia Ridge, QLD |
| Quarry Greystanes, NSW – Solaris |
| Quarry Greystanes, NSW – Symbion |
| Quarry Greystanes, NSW – Fujitsu |
| Quarry Greystanes, NSW – Camerons Transport |
| Quarry Greystanes, NSW – UPS[2] |
| Quarry Greystanes, NSW – WH9[2] |
| Quarry Greystanes, NSW – Brady[2] |
| Boundary Road, Laverton, VIC – Fastline |
| Boundary Road, Laverton, VIC – Toll |
| Boundary Road, Laverton, VIC – ACFS[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 |
| Non-core international properties |
| **Total investment properties excluding development properties** |
| **Total development properties held as investment property** |
| **Total investment properties** |

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

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

(a) Colliers International

(b) Urbis

(c) CB Richard Ellis

(d) Jones Lang LaSalle

(e) Knight Frank

(f) FPD Savills

(g) m3property

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

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

### (a) Properties (continued)

**Valuation basis**

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

**Key valuation assumptions**

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

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

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

### Acquisitions

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

### Disposals

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

### (b) Reconciliation

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

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

### (c) Investment properties pledged as security

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## Note 17 Non-current assets – intangible assets

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

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

### Impairment of management rights

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

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

### Key assumptions:

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

## Note 18 Non-current assets – other

| | 2013 $m | 2012 $m |
|---|---|---|
| Tenant bonds | 1.2 | 0.9 |
| Other | 0.2 | 0.4 |
| **Total non-current assets – other** | **1.4** | **1.3** |

## Note 19 Current liabilities – payables

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

## Note 20 Interest bearing liabilities

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

### Financing arrangements

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

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

### (a) Bank loans – secured

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

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

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

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

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

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

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

### (e) Medium term notes

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

### Additional information

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

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

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

## Note 21 Provisions

| | 2013 $m | 2012 $m |
|---|---|---|
| **Current** | | |
| Provision for distribution | 146.2 | 128.2 |
| Provision for employee benefits | 23.3 | 23.8 |
| **Total current liabilities – provisions** | **169.5** | **152.0** |

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

| | | |
|---|---|---|
| **Provision for distribution** | | |
| Opening balance at the beginning of the year | 128.2 | 125.3 |
| Additional provisions | 282.1 | 257.4 |
| Payment of distributions | (264.1) | (254.5) |
| **Closing balance at the end of the year** | **146.2** | **128.2** |

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

| | | |
|---|---|---|
| **Non-current** | | |
| Provision for employee benefits | 11.2 | 16.5 |
| **Total non-current liabilities – provisions** | **11.2** | **16.5** |

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

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

## Note 23 Non-current liabilities – other

| | 2013 $m | 2012 $m |
|---|---|---|
| Tenant bonds and other | 4.6 | 3.6 |
| **Total non-current liabilities – other** | **4.6** | **3.6** |

## Note 24 Contributed equity

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

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

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

| | | |
|---|---|---|
| Opening balance at the beginning of the year | 3,156.5 | 3,014.7 |
| Capital contributions | – | 175.0 |
| Buy-back of contributed equity | (50.2) | (33.0) |
| Transaction costs | – | (0.2) |
| **Closing balance at the end of the year** | **3,106.3** | **3,156.5** |

### (c) Number of securities on issue

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

### Terms and conditions

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

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

## Note 25 Reserves and retained profits

### (a) Reserves

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

### (b) Nature and purpose of reserves

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

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

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

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

## Note 25 Reserves and retained profits (continued)

### (c) Retained profits

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

## Note 26 Distributions paid and payable

### (a) Distribution to security holders

| | 2013 $m | 2012 $m |
|---|---|---|
| 31 December (paid 28 February 2013) | 135.9 | 129.2 |
| 30 June (payable 30 August 2013) | 146.2 | 128.2 |
| | **282.1** | **257.4** |

### (b) Distribution to other non-controlling interests

| | | |
|---|---|---|
| DEXUS RENTS Trust (paid 18 October 2011) | – | 3.2 |
| DEXUS RENTS Trust (paid 17 January 2012) | – | 3.1 |
| DEXUS RENTS Trust (paid 18 April 2012) | – | 2.9 |
| DEXUS RENTS Trust (paid 29 June 2012) | – | 2.8 |
| | **–** | **12.0** |
| **Total distributions** | **282.1** | **269.4** |

### (c) Distribution rate

| | 2013 Cents per security | 2012 Cents per security |
|---|---|---|
| 31 December (paid 28 February 2013) | 2.89 | 2.67 |
| 30 June (payable 30 August 2013) | 3.11 | 2.68 |
| **Total distributions** | **6.00** | **5.35** |

### (d) Franked dividends

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

| Franking credits | 2013 $m | 2012 $m |
|---|---|---|
| Opening balance at the beginning of the year | 16.2 | 17.2 |
| Franking debits arising during the year on receipt of tax refund at 30% | – | (1.0) |
| **Closing balance at the end of the year** | **16.2** | **16.2** |

## Note 27 Parent entity financial information

### (a) Summary financial information

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

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

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

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

### (c) Contingent liabilities

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

### (d) Capital commitments

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

| | 2013 $m | 2012 $m |
|---|---|---|
| Investment properties | 3.2 | 3.4 |
| **Total capital commitments** | **3.2** | **3.4** |

## Note 28 Financial risk management

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

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

Further information on the Group's governance structure, including terms of reference, is available at www.dexus.com

### (1) Capital risk management

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

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

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

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

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

| Gearing ratio | 2013 $m | 2012 $m |
|---|---|---|
| Total interest bearing liabilities[1] | 2,134.7 | 1,956.0 |
| Total tangible assets[2] | 7,329.3 | 7,025.5 |
| **Gearing ratio[3]** | **29.1%** | **27.8%** |

1. Total interest bearing liabilities excludes deferred borrowing costs and includes the currency impact of cross currency swaps as reported internally to management.
2. Total tangible assets comprise total assets less intangible assets, derivatives and deferred tax balances as reported internally to management.
3. The cash adjusted gearing ratio at 30 June 2013 was 29.0% (2012: 27.2%).

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

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

DXFM is the Responsible Entity for the managed investment schemes that are stapled to form the Group. DXFM has been issued with an Australian Financial Services License (AFSL). The license is subject to certain capital requirements including the requirement to hold minimum net tangible assets and to maintain minimum liquidity. DXFM must also prepare rolling cash projections over at least the next 12 months and demonstrate it will have access to sufficient financial resources to meet its liabilities that are expected to be payable over that period. Cash projections and assumptions are approved, at least quarterly, by the Board of the Responsible Entity.

DWPL, a wholly owned entity, has also been issued with an AFSL as it is the Responsible Entity for DEXUS Wholesale Property Fund (DWPF). DEXUS Wholesale Management Limited (DWML), a wholly owned entity, has been issued with an AFSL as it is the Trustee of Golden Diamond (GD) Trust. These entities are subject to the same capital requirements.

## (2) Financial risk management

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

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

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

### (a) Liquidity risk

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

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

- Short-term liquidity management includes continuously monitoring forecast and actual cash flows
- Medium-term liquidity management includes maintaining a level of committed borrowing facilities above the forecast committed debt requirements (liquidity headroom buffer). Committed debt includes future expenditure that has been approved by the Board or Investment Committee (as required within delegated limits), and may also include projects that have a very high probability of proceeding, taking into consideration risk factors such as the level of regulatory approval, tenant pre-commitments and portfolio considerations
- Long-term liquidity risk is managed through ensuring an adequate spread of maturities of borrowing facilities so that refinancing risk is not concentrated, and ensuring an adequate diversification of funding sources where possible, subject to market conditions

**Refinancing risk**

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

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

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

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

1. Refer to Note 20 (interest bearing liabilities). Excludes deferred borrowing costs but includes estimated fees and interest.
2. The notional maturities on derivatives is only shown for cross currency interest rate swaps (refer foreign exchange rate risk) and forward foreign exchange contracts as they are the only instruments where a principal amount is exchanged. For interest rate swaps, only the net interest cash flows (not the notional principal) are included. For financial assets and liabilities that have floating rate interest cash flows, future cash flows have been calculated using static interest and exchange rates prevailing at the end of each reporting period. Refer to Note 10 (derivative financial instruments) for fair value of derivatives. Refer Note 29 (contingent liabilities) for financial guarantees.

## Note 28 Financial risk management (continued)

### (2) Financial risk management (continued)

**(b) Market risk**

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

(i) Interest rate risk

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

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

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

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

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

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

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

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

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

Sensitivity on interest expense

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

| | | 2013 (+/-) $m | 2012 (+/-) $m |
|---|---|---|---|
| +/– 0.50% (50 basis points) | A$ | 4.8 | 2.6 |
| +/– 0.50% (50 basis points) | US$ | – | 0.8 |
| +/– 0.50% (50 basis points) | € | – | 0.2 |
| **Total A$ equivalent** | | **4.8** | **3.6** |

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

### Sensitivity on fair value of interest rate swaps

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

| | | 2013 (+/–) $m | 2012 (+/–) $m |
|---|---|---|---|
| +/– 0.50% (50 basis points) | A$ | 14.6 | 14.0 |
| +/– 0.50% (50 basis points) | US$ | (1.3) | 0.6 |
| **Total A$ equivalent** | | **13.1** | **14.6** |

### (ii) Equity price risk

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

### Sensitivity analysis on equity price risk

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

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

### (iii) Foreign Exchange Risk

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

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

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

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

### Foreign currency assets and liabilities

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

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

## Note 28 Financial risk management (continued)

### (2) Financial risk management (continued)

**(b) Market risk** (continued)

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

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

1. Assets exclude working capital and cash as reported internally to management.
2. Net borrowings equals interest bearing liabilities less cash. Where there is no interest bearing liabilities, cash is excluded. Cross currency swap amounts comprise the foreign currency denominated leg of the cross currency swaps.

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

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

1. The sensitivity on market rates has been based on the standard deviation of the annual change in the Australian dollar exchange rate per currency since 1984 or commencement.
2. Exchange rates at 30 June 2013: A$/US$ 0.9275 (2012: 1.0191), A$/€ 0.7095 (2012: 0.8092), A$/NZ$ 1.1871 (2012: 1.2771).

### Sensitivity on fair value of cross currency swaps

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

| | | 2013 (+/–) $m | 2012 (+/–) $m |
|---|---|---|---|
| +/– 0.50% (50 basis points) | US$ (A$ equivalent) | 8.5 | – |
| **Total A$ equivalent** | | **8.5** | **–** |

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

### Net foreign currency denominated cash flows

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

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

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

### (c) Credit risk

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

The Group manages this risk by:

- Adopting a process for determining an approved counterparty, with consideration of qualitative factors as well as the counterparty's rating
- Regularly monitoring counterparty exposure within approved credit limits that are based on the lower of a S&P, Moody's and Fitch credit rating. The exposure includes the current market value of in-the-money contracts as well as potential exposure, which is measured with reference to credit conversion factors as per APRA guidelines
- Entering into ISDA Master Agreements once a financial institution counterparty is approved
- Ensuring tenants, together with approved credit limits, are approved and ensuring that leases are undertaken with a large number of tenants
- For some trade receivables, obtaining collateral where necessary in the form of bank guarantees and tenant bonds
- Regularly monitoring loans and receivables on an ongoing basis

A minimum S&P rating of A– (or Moody's or Fitch equivalent) is required to become or remain an approved counterparty. As at 30 June 2013, the lowest rating of counterparties the Group is exposed to was A– (Fitch) (2012: A (S&P)).

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

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

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

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

The credit quality of financial assets that are neither past due nor impaired is consistently monitored to ensure that there are no adverse changes in credit quality.

## Note 28 Financial risk management (continued)

### (2) Financial risk management (continued)

**(d) Fair value of financial instruments**

Fair value interest rate risk is the risk of an adverse change in the net fair (or market) value of an asset or liability due to movements in interest rates.

As at 30 June 2013 and 30 June 2012, the carrying amounts and fair value of financial assets and liabilities are shown as follows:

| | 2013 Carrying amount[1] $m | 2013 Fair value[2] $m | 2012 Carrying amount[1] $m | 2012 Fair value[2] $m |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Cash and cash equivalents | 14.9 | 14.9 | 59.2 | 59.2 |
| Loans and receivables (current) | 40.6 | 40.6 | 30.8 | 30.8 |
| Derivative assets | 140.2 | 140.2 | 78.3 | 78.3 |
| **Total financial assets** | **195.7** | **195.7** | **168.3** | **168.3** |
| **Financial liabilities** | | | | |
| Trade payables | 95.2 | 95.2 | 110.6 | 108.5 |
| Derivative liabilities | 101.2 | 101.2 | 120.9 | 120.9 |
| **Interest bearing liabilities** | | | | |
| Fixed interest bearing liabilities | 878.9 | 934.7 | 673.7 | 743.2 |
| Floating interest bearing liabilities | 1,299.6 | 1,299.6 | 1,282.1 | 1,282.1 |
| **Total financial liabilities** | **2,374.9** | **2,430.7** | **2,187.3** | **2,254.7** |

1. Carrying value is equal to the value of the financial instruments on the Statement of Financial Position.
2. Fair value is the amount for which the financial instrument could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Where there is a difference between the carrying amount and fair value, the difference is not recognised in the Statement of Financial Position.

The fair value of interest bearing liabilities and derivative financial instruments has been determined by discounting the expected future cash flows by the relevant market interest rates. The discount rates applied range from 0.19% to 4.56% for US$ and 2.66% to 5.29% for A$. Refer Note 1(v) for fair value methodology for financial assets and liabilities.

The Group uses methods in the determination and disclosure of the fair value of financial instruments. These methods comprise:

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

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

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

The following tables present the assets and liabilities measured and recognised as at fair value at 30 June 2013 and 30 June 2012.

| 30 June 2013 | Level 1 $m | Level 2 $m | Level 3 $m | 2013 $m |
|---|---|---|---|---|
| **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 |

| 30 June 2012 | Level 1 $m | Level 2 $m | Level 3 $m | 2012 $m |
|---|---|---|---|---|
| **Financial assets** | | | | |
| **Derivative assets** | | | | |
| Interest rate derivatives | – | 75.9 | – | 75.9 |
| Forward exchange contracts | – | 2.3 | – | 2.3 |
| | – | 78.2 | – | 78.2 |
| **Financial liabilities** | | | | |
| **Interest bearing liabilities** | | | | |
| Fixed interest bearing liabilities | – | 743.2 | – | 743.2 |
| Floating interest bearing liabilities | – | 1,282.1 | – | 1,282.1 |
| | – | 2,025.3 | – | 2,025.3 |
| **Derivative liabilities** | | | | |
| Interest rate derivatives | – | 120.7 | – | 120.7 |
| Cross currency swaps | – | 0.1 | – | 0.1 |
| Forward exchange contracts | – | 0.1 | – | 0.1 |
| | – | 120.9 | – | 120.9 |

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

## Note 29 Contingent liabilities

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

| | 2013 $m | 2012 $m |
|---|---|---|
| Bank guarantees by the Group in respect of variations and other financial risks associated with the development of: | | |
| 1 Bligh Street, Sydney, NSW[1] | – | 0.2 |
| Boundary Road, Laverton, VIC | 0.5 | 0.4 |
| 123 Albert Street, Brisbane, QLD | 0.1 | 0.5 |
| 1 Foundation Place, Greystanes, NSW | 0.4 | – |
| **Contingent liabilities in respect of developments** | **1.0** | **1.1** |

1. Bank guarantee held in relation to an equity accounted investment (refer Note 15).

DDF together with DIT, DOT and DXO is also a guarantor of a total of A$1,473.5 million and US$50 million (A$53.9 million) of bank bilateral facilities, a total of A$575.0 million of medium term notes, a total of US$130.0 million (A$140.2 million) of privately placed notes, and a total of US$250.0 million (A$268.8 million) public 144A senior notes, which have all been negotiated to finance the Group and other entities within DXS. The guarantees have been given in support of debt outstanding and drawn against these facilities, and may be called upon in the event that a borrowing entity has not complied with certain requirements such as failure to pay interest or repay a borrowing, whichever is earlier. During the period no guarantees were called.

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

On settlement of the US sales transaction (refer Note 12), a letter of credit was issued in relation to the sale of 25 properties located in the United States. The letter of credit was issued for US$15.2 million (A$16.4 million) and is expected to remain on issue until September 2014.

The Group has bank guarantees of $12.0 million held on behalf of DEXUS Funds Management Limited and DEXUS Wholesale Property Limited to comply with the terms of their Australian Financial Services Licences (AFSL). The bank guarantees are issued in respect of the Group and do not constitute an additional liability to those already existing on the Statements of Financial Position.

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

## Note 30 Commitments

### (a) Capital commitments

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

| | 2013 $m | 2012 $m |
|---|---|---|
| Investment properties | 53.6 | 52.8 |
| Inventories | 4.9 | 10.1 |
| **Total capital commitments** | **58.5** | **62.9** |

### (b) Lease payable commitments

The future minimum lease payments payable by the Group are:

| | 2013 $m | 2012 $m |
|---|---|---|
| Within one year | 3.0 | 3.5 |
| Later than one year but not later than five years | 11.6 | 5.8 |
| Later than five years | – | 6.1 |
| **Total lease payable commitments** | **14.6** | **15.4** |

Payments made under operating leases are expensed on a straightline basis over the term of the lease, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased property.

The Group has a commitment for ground rent payable in respect of a leasehold property included in investment properties and a commitment for its Head Office premise at 264-278 George Street, Sydney and for 343 George Street, Sydney.

No provisions have been recognised in respect of non-cancellable operating leases.

### (c) Lease receivable commitments

The future minimum lease payments receivable by the Group are:

| | 2013 $m | 2012 $m |
|---|---|---|
| Within one year | 410.1 | 512.2 |
| Later than one year but not later than five years | 1,001.0 | 1,491.5 |
| Later than five years | 383.5 | 740.5 |
| **Total lease receivable commitments** | **1,794.6** | **2,744.2** |

## Note 31 Related parties

### Responsible Entity

DXFM is the Responsible Entity of DDF, DIT, DOT and DXO.

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

### Responsible Entity fees

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

### Related party transactions

Responsible Entity fees in relation to Group assets are on a cost recovery basis. All agreements with third party funds are conducted on normal commercial terms and conditions.

## DEXUS Wholesale Property Fund

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Responsible Entity fee income | 21,018 | 19,004 |
| Property management fee income | 7,629 | 7,435 |
| Recovery of administration expenses | 3,377 | 3,141 |
| Aggregate amount receivable at the end of each reporting period (included above) | 1,827 | 1,667 |
| Property management fees receivable at the end of each reporting period (included above) | 1,015 | 710 |
| Administration expenses receivable at the end of each reporting period (included above) | 49 | 143 |

**Investments accounted for using the equity method**

| | | |
|---|---|---|
| Property management fee income | 284 | 704 |
| Recovery of administration expenses | 180 | 265 |
| Property management fees receivable at the end of each reporting period (included above) | – | 43 |
| Administration expenses receivable at the end of each reporting period (included above) | 48 | 3 |

## Directors

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

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

1. Independent Director.
2. Board Audit, Risk & Sustainability Committee Member.
3. Board Compliance Committee Member.
4. Board Nomination, Remuneration & Governance Committee Member.
5. Board Finance Committee Member.
6. Resigned as Board Compliance Committee Member on 1 July 2012.
7. Resigned as Board Finance Committee Member on 1 July 2012.
8. Appointed as Board Finance Committee Member on 1 July 2012.
9. Resigned as Board Audit, Risk & Sustainability Committee Member on 1 July 2012.
10. Appointed as Director on 12 February 2013.

## Other key management personnel

In addition to the Directors listed above, the following persons were deemed by the Board Nomination, Remuneration & Governance Committee to be key management personnel during all or part of the financial year:

| Name | Title |
|---|---|
| Tanya L Cox[1] | Executive General Manager, Property Services and Chief Operating Officer |
| Ross Du Vernet[2] | Executive General Manager, Strategy, Transactions & Research |
| John C Easy[1] | General Counsel |
| Kevin George[3] | Executive General Manager, Office & Industrial |

1. Ceased to be key management personnel on 1 July 2012.
2. Appointed as key management personnel on 1 July 2012.
3. Appointed as key management personnel on 10 December 2012.

## Note 31 Related parties (continued)

### Key management personnel compensation

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| **Compensation** | | |
| Short-term employee benefits | 9,220 | 10,166 |
| Post employment benefits | 229 | 248 |
| Other long-term benefits | 1,116 | 3,116 |
| Termination benefits | – | 2,300 |
| Security-based payments | 1,384 | 330 |
| | **11,949** | **16,160** |

The Group has shown the detailed remuneration disclosures in the Directors' Report. The relevant information can be found in Section 3 of the Directors' Report.

### Equity instrument disclosures relating to key management personnel

The relevant interest in DXS stapled securities held during the financial year by each key management personnel, including their personally related parties, are set out below:

| | Opening balance 1 July 2012 | Purchases | Other[1] | Closing balance 30 June 2013 |
|---|---|---|---|---|
| **Directors** | | | | |
| Christopher T Beare | – | 100,000 | – | 100,000 |
| Elizabeth A Alexander, AM | – | 100,000 | – | 100,000 |
| Barry R Brownjohn | – | 50,000 | – | 50,000 |
| John C Conde, AO | – | 100,000 | – | 100,000 |
| Tonianne Dwyer | – | 100,000 | – | 100,000 |
| Stewart F Ewen, OAM | – | 100,000 | – | 100,000 |
| Craig D Mitchell | – | – | 539,782 | 539,782 |
| W Richard Sheppard | – | 100,000 | – | 100,000 |
| Darren J Steinberg | – | – | 453,417 | 453,417 |
| Peter B St George | – | 104,000 | – | 104,000 |
| **Other key management personnel** | | | | |
| Ross Du Vernet[2] | – | – | 215,913 | 215,913 |
| Kevin George[3] | – | – | – | – |

1. Performance Rights granted under the 2012 Transitional Performance Rights Plan (refer Note 36).
2. Appointed as key management personnel on 1 July 2012.
3. Appointed as key management personnel on 10 December 2012.

The DXFM Board has approved a grant of performance rights to DXS stapled securities to eligible participants (refer Note 36). Details of the number of performance rights issued to each of the key management personnel are set out in Section 3 of the Directors' Report.

There were no loans or other transactions with key management personnel or their related parties during the years ended 30 June 2013 and 30 June 2012.

## Note 32 Events occurring after reporting date

On 25 July 2013, DEXUS Funds Management Limited (DXFM) as Responsible Entity of DEXUS Property Group entered into a forward contract with Deutsche Bank AG (DBA) in relation to units in the Commonwealth Property Office Fund (CPA) which, in accordance with its terms, gives DXFM the ability to acquire and DBA the obligation to deliver, 350,000,000 CPA units (a 14.9% relevant interest in CPA) at a price of $1.1334 per unit.

On 25 July 2013, at the same time as the forward contract was entered into, DXFM also entered into a zero-cost cash-settled collar with DBA over 350,000,000 CPA units.

The zero-cost cash-settled collar is a derivative product under which:

- If the prevailing price of relevant securities falls below a "floor" price ($1.02), DBA will pay DXFM the difference between the prevailing security price and the "floor" price on the settlement date
- If the prevailing price of relevant securities rises above a "ceiling" price ($1.20), DXFM will pay DBA the difference between the prevailing security price and the "ceiling" price on the settlement date
- No party pays a fee to the other for entry into the collar

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

## Note 33 Operating segments

### (a) Description of segments

The Chief Operating Decision Maker (CODM) has been identified as the Board of Directors as they are responsible for the strategic decision making within the Group. DXS management has identified the Group's operating segments based on the sectors analysed within the management reports reviewed by the CODM in order to monitor performance across the Group and to appropriately allocate resources. Refer to the table below for a brief description of the Group's operating segments.

Following a review of internal reporting, the operating segments note has been amended to disclose revenue and expenses on the basis of their function and to provide additional financial metrics. The revised disclosures better reflect the financial information regularly reviewed by the Directors and DXS management in order to assess the performance of the functions of the Group and the allocation of resources.

| | |
|---|---|
| **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 part 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. |

## Note 33 Operating segments (continued)

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

| 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 | – | – | (15.5) |
| Cost of sale of inventory | – | – | – |
| Foreign exchange gains | – | – | – |
| **Net operating EBIT** | **317.4** | **117.1** | **6.7** |
| Interest revenue | – | – | – |
| Finance costs | – | – | – |
| Incentive amortisation and rent straightline | 30.4 | (1.2) | – |
| Tax (expense)/benefit | – | – | – |
| Other | 0.8 | – | – |
| **Funds from Operations (FFO)** | **348.6** | **115.9** | **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 straightline | (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** | **507.5** | **122.0** | **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 | DXS asset management $m | All other segments $m | Eliminations $m | Continuing operations $m | Discontinued operations $m | Total $m |
|---|---|---|---|---|---|---|---|
| | | | | | | | |
| – | – | – | – | (0.3) | 578.7 | 31.7 | 610.4 |
| 24.4 | – | – | – | – | 24.4 | – | 24.4 |
| 1.1 | 27.7 | – | – | – | 48.5 | 0.4 | 48.9 |
| **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) | (13.0) | (25.2) | 0.3 | (68.4) | (3.4) | (71.8) |
| (22.9) | – | – | – | – | (22.9) | – | (22.9) |
| – | – | – | – | – | – | 4.0 | 4.0 |
| **1.2** | **14.1** | **(13.0)** | **(25.2)** | **–** | **418.3** | **25.0** | **443.3** |
| – | – | – | 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** | **(13.0)** | **(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** | **(13.0)** | **(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** |

## Note 33 Operating segments (continued)

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

| 30 June 2012 | Office $m | Industrial $m | Property management $m |
|---|---|---|---|
| **Segment performance measures** | | | |
| Property revenue and property management fees | 385.7 | 147.1 | 11.5 |
| Proceeds from sale of inventory | – | – | – |
| Management fee revenue | – | – | 19.5 |
| **Total operating segment revenue** | **385.7** | **147.1** | **31.0** |
| Property expenses | (95.8) | (27.1) | – |
| Property management salaries | – | – | (12.9) |
| Corporate and administration expenses | – | – | (15.5) |
| Cost of sale of inventory | – | – | – |
| Foreign exchange gains | – | – | – |
| **Net operating EBIT** | **289.9** | **120.0** | **2.6** |
| Interest revenue | – | – | – |
| Finance costs | – | – | – |
| Incentive amortisation and rent straightline | 26.5 | (0.4) | – |
| RENTS cash distributions | – | – | – |
| Tax expense and other | – | – | – |
| **Funds from Operations (FFO)** | **316.4** | **119.6** | **2.6** |
| Net fair value gain/(loss) of investment properties | 93.5 | (43.0) | – |
| Impairment of inventories | – | – | – |
| Net fair value loss of derivatives | – | – | – |
| Net loss on sale of investment properties | – | – | – |
| Finance costs attributable to US sales transaction | – | – | – |
| Foreign currency translation reserve transfer on disposal of foreign operations | – | – | – |
| Incentive amortisation and rent straightline | (26.5) | 0.4 | – |
| RENTS capital distributions | – | – | – |
| Deferred tax benefit/(expense) | – | – | – |
| Other | – | – | – |
| **Net profit/(loss) attributable to stapled security holders** | **383.4** | **77.0** | **2.6** |
| **Segment asset measures** | | | |
| Investment properties | 4,458.4 | 1,373.5 | – |
| Non-current assets held for sale | – | 187.4 | – |
| Inventories | – | – | – |
| Equity accounted investment properties | 221.1 | – | – |
| **Direct property portfolio** | **4,679.5** | **1,560.9** | **–** |

| Development and trading $m | Funds management $m | DXS asset management $m | All other segments $m | Continuing operations $m | Discontinued operations $m | Total $m |
|---|---|---|---|---|---|---|
| | | | | | | |
| – | – | – | – | 544.3 | 117.9 | 662.2 |
| 49.8 | – | – | – | 49.8 | – | 49.8 |
| 2.5 | 28.3 | – | – | 50.3 | 0.4 | 50.7 |
| **52.3** | **28.3** | **–** | **–** | **644.4** | **118.3** | **762.7** |
| – | – | – | – | (122.9) | (34.3) | (157.2) |
| – | – | – | – | (12.9) | – | (12.9) |
| – | (13.0) | (11.8) | (35.5) | (75.8) | (7.1) | (82.9) |
| (44.0) | – | – | – | (44.0) | – | (44.0) |
| – | – | – | – | – | 2.2 | 2.2 |
| **8.3** | **15.3** | **(11.8)** | **(35.5)** | **388.8** | **79.1** | **467.9** |
| – | – | – | 1.7 | 1.7 | – | 1.7 |
| – | – | – | (56.0) | (56.0) | (66.0) | (122.0) |
| – | – | – | – | 26.1 | 5.6 | 31.7 |
| – | – | – | (12.0) | (12.0) | – | (12.0) |
| – | – | – | 1.1 | 1.1 | (0.6) | 0.5 |
| **8.3** | **15.3** | **(11.8)** | **(100.7)** | **349.7** | **18.1** | **367.8** |
| – | – | – | – | 50.5 | 32.3 | 82.8 |
| (14.9) | – | – | – | (14.9) | – | (14.9) |
| – | – | – | (62.0) | (62.0) | (35.1) | (97.1) |
| – | – | – | – | – | (32.6) | (32.6) |
| – | – | – | – | – | (44.3) | (44.3) |
| – | – | – | – | – | (41.5) | (41.5) |
| – | – | – | – | (26.1) | (5.6) | (31.7) |
| – | – | – | 10.2 | 10.2 | – | 10.2 |
| – | – | – | 18.9 | 18.9 | (34.8) | (15.9) |
| – | – | – | (1.7) | (1.7) | – | (1.7) |
| **(6.6)** | **15.3** | **(11.8)** | **(135.3)** | **324.6** | **(143.5)** | **181.1** |
| | | | | | | |
| – | – | – | – | 5,831.9 | 559.6 | 6,391.5 |
| – | – | – | – | 187.4 | 24.9 | 212.3 |
| 97.8 | – | – | – | 97.8 | – | 97.8 |
| – | – | – | – | 221.1 | – | 221.1 |
| **97.8** | **–** | **–** | **–** | **6,338.2** | **584.5** | **6,922.7** |

## Note 33 Operating segments (continued)

### (c) Other segment information

#### (i) Funds From Operations (FFO)

The Board assesses the performance of each operating sector based on FFO. FFO is a global financial measure of real estate operating performance after finance costs and taxes, and is adjusted for certain non-cash items. The Directors consider FFO to be a measure that reflects the underlying performance of the Group. DEXUS's FFO comprises net profit/loss after tax attributable to stapled security holders calculated in accordance with Australian Accounting Standards and adjusted for: property revaluations, impairments, derivative and FX mark to market impacts, amortisation of certain tenant incentives, gain/loss on sale of certain assets, straightline rent adjustments, deferred tax expense/benefit, rental guarantees and coupon income.

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

| | 2013 $m | 2012 $m |
|---|---|---|
| Gross operating segment revenue | 683.7 | 762.7 |
| Revenue from discontinued operations | (32.1) | (118.3) |
| Share of property revenue from associates | (32.1) | (8.6) |
| Interest revenue | 1.2 | 1.7 |
| **Total revenue from ordinary activities** | **620.7** | **637.5** |

#### (iii) Reconciliation of segment assets to the Statement of Financial Position

The amounts provided to the CODM as a measure of segment assets is the direct property portfolio. The direct property portfolio values are allocated based on the operations of the segment and physical location of the asset and are measured in a manner consistent with the Statement of Financial Position. The reconciliation below reconciles the total direct property portfolio balance to total assets in the Statement of Financial Position.

| | 2013 $m | 2012 $m |
|---|---|---|
| Investment properties | 6,085.0 | 6,391.5 |
| Investment properties classified as held for sale | 7.7 | 212.3 |
| Inventories | 252.9 | 97.8 |
| Investment properties accounted for using the equity method[1] | 912.8 | 221.1 |
| **Direct property portfolio** | **7,258.4** | **6,922.7** |
| Cash and cash equivalents | 14.5 | 59.2 |
| Receivables | 40.2 | 30.8 |
| Intangible assets | 243.7 | 223.6 |
| Derivative financial instruments | 140.2 | 78.3 |
| Deferred tax assets | 39.4 | 36.7 |
| Plant and equipment | 8.8 | 4.7 |
| Prepayments and other assets[2] | 6.3 | 8.1 |
| Other assets classified as discontinued operations | 1.1 | – |
| **Total assets** | **7,752.6** | **7,364.1** |

1. This represents the Group's portion of investment properties accounted for using the equity method.
2. Other assets include the Group's share of total net assets of its investments accounted for using the equity method less the Group's share of the investment property value which is included in the direct property portfolio.

## Note 34 Reconciliation of net profit to net cash inflow from operating activities

### (a) Reconciliation

| | 2013 $m | 2012 $m |
|---|---|---|
| Net profit for the year | 514.5 | 182.9 |
| Capitalised interest | (10.7) | (22.5) |
| Depreciation and amortisation | 2.9 | 2.8 |
| Impairment of inventories | 2.2 | 14.8 |
| Impairment of goodwill | 0.1 | 0.6 |
| Net fair value gain of investment properties | (207.8) | (75.2) |
| Share of net profit of investments accounted for using the equity method | (37.9) | (13.8) |
| Net fair value loss of derivatives | 10.9 | 1.6 |
| Net fair value loss of interest rate swaps | 5.7 | 100.5 |
| Net loss on sale of investment properties | 3.6 | 32.6 |
| Net foreign exchange gain | (4.0) | (2.2) |
| Foreign currency translation reserve transfer on disposal of foreign operations | 21.5 | 41.5 |
| Reversal of previous impairment | (20.5) | – |
| Fair value adjustment on acquisition of investments | 0.1 | – |
| Provision for doubtful debts | (0.3) | (2.2) |
| Change in operating assets and liabilities | | |
| (Increase)/decrease in receivables | (9.1) | 7.5 |
| (Increase)/decrease in prepaid expenses | (0.2) | 0.8 |
| Decrease in other non-current assets | 28.9 | 35.0 |
| (Increase)/decrease in inventories | (137.9) | 14.4 |
| Increase in other current assets | – | (4.3) |
| Decrease in other non-current assets | 22.7 | 12.7 |
| Decrease in payables | (4.9) | (7.7) |
| Decrease in current liabilities | (0.5) | (6.5) |
| Increase in other non-current liabilities | 17.2 | 33.1 |
| (Increase)/decrease in deferred tax assets | (3.0) | 13.1 |
| **Net cash inflow from operating activities** | **193.5** | **359.5** |

### (b) Capital expenditure on investment properties

Payments for capital expenditure on investment properties include $67.6 million (2012: $99.8 million) of maintenance and incentive capital expenditure.

## Note 35 Earnings per unit

Earnings per unit are determined by dividing the net profit attributable to unitholders by the weighted average number of ordinary units outstanding during the year. The weighted average number of units has been adjusted for the bonus elements in units issued during the year and comparatives have been appropriately restated.

### (a) Net profit/(loss) attributable to unitholders of the parent entity used in calculating basic and diluted earnings per unit

| | 2013 $m | 2012 $m |
|---|---|---|
| Profit from continuing operations | 95.3 | 127.0 |
| Profit/(loss) from discontinued operations | 7.5 | (45.5) |
| Profit attributable to unitholders of the parent entity | 102.8 | 81.5 |

## Note 35 Earnings per unit (continued)

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

| | 2013 $m | 2012 $m |
|---|---|---|
| Profit from continuing operations | 521.5 | 324.6 |
| Profit/(loss) from discontinued operations | (7.0) | (143.5) |
| Profit attributable to stapled security holders | 514.5 | 181.1 |

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

| | 2013 securities | 2012 securities |
|---|---|---|
| Weighted average number of units outstanding used in calculation of basic and diluted earnings per unit | 4,714,292,865 | 4,834,864,561 |

## Note 36 Security-based payments

The DXFM Board has approved a grant of performance rights to DXS stapled securities to eligible participants. Awards, via the 2012 Transitional Performance Rights Plan, Deferred Short Term Incentive Plan (DSTI) and Long Term Incentive Plan (LTI), will be in the form of performance rights awarded to eligible participants who convert to DXS stapled securities for nil consideration subject to satisfying specific service and performance conditions.

For each Plan, the DXFM Board approves the eligible participants nominated by the Board Nomination, Remuneration & Governance Committee. Each participant will be granted performance rights, based on performance against agreed key performance indicators, as a percentage of their remuneration mix. The dollar value is converted into performance rights to DXS stapled securities using the average closing price of DXS securities for the period of ten days either side of the financial year end to which the award relates. Participants must remain in employment for the vesting period in order for the performance rights to vest.

The fair value of the performance rights is amortised over the vesting period. In accordance with AASB2 *Share-based Payments*, fair value is independently determined using Black-Scholes and Monte Carlo models with the following inputs:

- Grant date
- Expected vesting date
- Security price at grant date
- Expected price volatility (based on historic DXS security price movements)
- Expected life
- Dividend yield
- Risk free interest rate
- Expected total security holder return (for the LTI only)

### (a) 2012 Transitional Performance Rights Plan

Subject to satisfying employment service conditions, the award will vest three years after grant on 1 July 2015. In accordance with AASB 2 *Share-based payments*, the year of employment in which participants became eligible for the 2012 Transitional Performance Rights Plan, the year preceding the grant, is included in the vesting period over which the fair value of the performance rights is expensed. Consequently the fair value of these performance rights is expensed over a four year period ending 30 June 2015. No performance rights were granted in respect of the year ended 30 June 2013 (2012: 1,840,656). The fair value of the 2012 performance rights is $0.995 per performance right and the total security-based payment expense recognised during the year ended 30 June 2013 was $489,477 (2012: $426,250).

### (b) Deferred Short-Term Incentive Plan

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

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

The number of performance rights granted in respect of the year ended 30 June 2013 was 2,073,400 and the fair value of these performance rights is $1.07 per performance right. The total security-based payment expense recognised during the year ended 30 June 2013 was $924,390 (2012: nil).

### (c) Long-Term Incentive Plan

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

The number of performance rights granted in respect of the year ended 30 June 2013 was 3,317,014. The fair value of these performance rights is $0.80 per performance right. The total security-based payment expense recognised during the year ended 30 June 2013 was $600,379 (2012: nil).

# DIRECTORS' DECLARATION
FOR THE YEAR ENDED 30 JUNE 2013

The Directors of DEXUS Funds Management Limited as Responsible Entity of DEXUS Diversified Trust declare that the Financial Statements and Notes set out on pages 44 to 96:

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

(ii) Give a true and fair view of the Group's financial position as at 30 June 2013 and of their performance, as represented by the results of their operations and their cash flows, for the year ended on that date.

In the Directors' opinion:

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

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

(c) The Group has operated in accordance with the provisions of the Constitution dated 15 August 1984 (as amended) during the year ended 30 June 2013

Note 1(a) confirms that the Financial Statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The Directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer required by section 295A of the *Corporations Act 2001*.

This declaration is made in accordance with a resolution of the Directors.

**Christopher T Beare**
Chair
16 August 2013

# Independent auditor's report to the stapled security holders of DEXUS Diversified Trust

## ***Report on the financial report***

We have audited the accompanying financial report of DEXUS Diversified Trust (the Trust or DDF), which comprises the statement of financial position as at 30 June 2013, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for DEXUS Property Group (the Group or the consolidated stapled entity). The consolidated stapled entity, as described in Note 1 to the financial report, comprises the Trust and the entities it controlled at the year-end or from time to time during the financial year.

### *Directors' responsibility for the financial report*

The directors of DEXUS Funds Management Limited (the Responsible Entity) are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

### *Auditor's responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

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

***PricewaterhouseCoopers, ABN 52 780 433 757***
*Darling Park Tower 2, 201 Sussex Street, GPO BOX 2650, SYDNEY NSW 1171*
*DX 77 Sydney, Australia*
*T: +61 2 8266 0000, F: +61 2 8266 9999, www.pwc.com.au*

### *Independence*

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

### *Auditor's opinion*

In our opinion:

(a) the financial report of DEXUS Diversified Trust is in accordance with the *Corporations Act 2001*, including:

   (i) giving a true and fair view of the consolidated stapled entity's financial position as at 30 June 2013 and of its performance for the year ended on that date; and

   (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001;* and

(b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in Note 1.

## ***Report on the Remuneration Report***

We have audited the remuneration report included in pages 19 to 34 of the directors' report for the year ended 30 June 2013. The directors of the Responsible Entity are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

### *Auditor's opinion*

In our opinion, the remuneration report of DEXUS Diversified Trust for the year ended 30 June 2013, complies with section 300A of the *Corporations Act 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers

E A Barron
Partner

Sydney
16 August 2013

## Top 20 security holders as at 16 August 2013

| Rank | Name | No. of units | % of issued capital |
|---|---|---|---|
| 1 | HSBC Custody Nominees (Australia) Limited | 1,663,830,662 | 35.39% |
| 2 | J P Morgan Nominees Australia Limited | 867,767,388 | 18.46% |
| 3 | National Nominees Limited | 675,382,834 | 14.36% |
| 4 | Citicorp Nominees Pty Limited | 357,209,186 | 7.60% |
| 5 | BNP Paribas Nominees Pty Ltd <DRP> | 192,854,959 | 4.10% |
| 6 | JP Morgan Nominees Australia Limited <Cash Income A/C> | 134,359,014 | 2.86% |
| 7 | Citicorp Nominees Pty Limited <Colonial First State Inv A/C> | 97,264,579 | 2.07% |
| 8 | AMP Life Limited | 86,217,365 | 1.83% |
| 9 | Equity Trustees Limited <EQT SGH Property Income Fund > | 32,291,225 | 0.69% |
| 10 | RBC Investor Services Australia Nominees Pty Limited <APN A/C> | 28,465,361 | 0.61% |
| 11 | Questor Financial Services Limited <TPS RF A/C> | 21,727,316 | 0.46% |
| 12 | BNP Paribas Nominees Pty Ltd <Agency Lending DRP A/C> | 21,582,042 | 0.46% |
| 13 | Bond Street Custodians Limited <ENH Property Securities A/C> | 15,491,825 | 0.33% |
| 14 | CS Third Nominees Pty Ltd <NO 1 Account> | 14,181,358 | 0.30% |
| 15 | Share Direct Nominees Pty Ltd <10026 A/C> | 13,523,626 | 0.29% |
| 16 | HSBC Custody Nominees (Australia) Limited <NT-Commonwealth Super Corp A/C> | 8,064,529 | 0.17% |
| 17 | Suncorp Custodian Services Pty Limited <SGALPT> | 7,406,085 | 0.16% |
| 18 | UBS Wealth Management Australia Nominees Pty Ltd | 6,642,608 | 0.14% |
| 19 | Bond Street Custodians Limited <Property Securities A/C> | 6,187,464 | 0.13% |
| 20 | HSBC Custody Nominees (Australia) Limited | 5,681,219 | 0.12% |
| | **Subtotal** | **4,256,130,645** | **90.52%** |
| | **Balance of register** | **445,826,745** | **9.48%** |
| | **Total** | **4,701,957,390** | **100.00%** |

## Substantial holders at 16 August 2013

The names of substantial holders, who at 16 August 2013 have notified the Responsible Entity in accordance with Section 671B of the *Corporations Act 2001*, are:

| Date | Name | Number of stapled securities | % voting |
|---|---|---|---|
| 30 Aug 2012 | CBRE Clarion Securities LLC | 440,873,263 | 9.4% |
| 28 Jan 2011 | ING Group | 388,416,434 | 8.3% |
| 11 Nov 2010 | Vanguard Group | 291,637,480 | 6.2% |
| 17 Dec 2009 | Blackrock Investment Management (inc. BGI) | 275,099,167 | 5.9% |
| 10 Jul 2013 | AMP Limited | 237,591,500 | 5.1% |

## Class of securities

DEXUS Property Group has one class of stapled security trading on the ASX with security holders holding stapled securities at 16 August 2013.

### Spread of securities at 16 August 2013

| Range | Securities | % | No. of Holders |
|---|---|---|---|
| 1100,001 and over | 4,417,347,838 | 93.95 | 361 |
| 50,001 to 100,000 | 58,413,036 | 1.24 | 855 |
| 10,001 to 50,000 | 183,983,472 | 3.91 | 8,531 |
| 5,001 to 10,000 | 31,104,963 | 0.66 | 4,070 |
| 1,001 to 5,000 | 10,543,357 | 0.22 | 3,303 |
| 1 to 1,000 | 564,724 | 0.01 | 1,641 |
| **Total** | **4,701,957,390** | **100.00** | **18,761** |

At 16 August 2013, the number of security holders holding less than a marketable parcel of 488 securities ($500) was 1,059 and they hold in total 117,324 securities.

## Voting rights

At meetings of the security holders of DEXUS Diversified Trust, DEXUS Industrial Trust, DEXUS Office Trust and DEXUS Operations Trust, being the Trusts that comprise DEXUS Property Group, on a show of hands, each security holder of each Trust has one vote. On a poll, each security holder of each Trust has one vote for each dollar of the value of the total interests they have in the Trust.

## Securities restricted or subject to voluntary escrow

There are no stapled securities that are restricted or subject to voluntary escrow.

## On-market buy-back

DEXUS Property Group commenced a $200 million on-market securities buy-back program on 16 April 2012. Throughout the year, DEXUS acquired 137 million securities for $128.5 million at an average price of $0.9371 under the buy-back program.

Following the reinvestment of capital into the Australian markets on the back of improved share market performance, the DEXUS security price performance stabilised and DEXUS chose not to extend the buy-back on 16 April 2013, having completed 64% of the targeted $200 million.

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

## Cost base apportionment

For capital gains tax purposes, the cost base apportionment details for DXS securities for the 12 months ended 30 June 2013 are:

| Date | DEXUS Diversified Trust | DEXUS Industrial Trust | DEXUS Office Trust | DEXUS Operating Trust |
|---|---|---|---|---|
| 1 Jul 2012 to 31 Dec 2012 | 35.17% | 13.32% | 49.01% | 2.50% |
| 1 Jan 2013 to 30 Jun 2013 | 34.67% | 13.67% | 49.15% | 2.51% |

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

DEXUS is one of the largest real estate groups listed on the Australian Securities Exchange (ASX) and is listed under the ASX code DXS. Over 18,000 investors located in 15 countries around the globe invest in DXS, highlighting the demand both domestically and abroad for exposure to its quality property portfolio.

DEXUS's Investor Relations team drives and facilitates communication with existing and potential institutional investors, sell-side analysts and retail investors. The team, alongside DEXUS senior management, maintains a strong rapport with the investment community through proactive and regular investor engagement initiatives.

DEXUS strives to ensure high levels of transparency and disclosure by:

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

During FY13, DEXUS hosted a number of investor conferences, property tours and participated in investor roadshows in Singapore, Hong Kong, London and the United States.

DEXUS is committed to ensuring all investors have equal access to information about its investment activities. In line with the Group's commitment to long-term integration of sustainable business practices, investor communications are provided via various electronic methods. A wide range of information including ASX announcements, the annual reporting suite, presentations, corporate governance policies, Board of Directors and Executive team information is available at www.dexus.com.

In addition, DEXUS has various communication tools available on its website, including:

**ONLINE ENQUIRY**
www.dexus.com/contact
including an online enquiry form

**INVESTOR LOGIN**
www.dexus.com/dxs
allowing investors to update their details and choose delivery methods for their communications

**SUBSCRIBE TO ALERTS**
www.dexus.com/media enables investors to receive ASX and media releases as they are released

**CREATE YOUR PROPERTY REPORT** www.dexus.com/properties enables investors to download individual or Group property information

DEXUS commissions an independent investor perception study twice a year to gather feedback from the institutional investment community. The study involves an independent consultant conducting interviews with institutional investors and sell-side analysts to gauge investor thoughts on a number of attributes and report on the findings. The results help DEXUS's Board and Executive team understand the investment community's perceptions and concerns and assists in the development of DEXUS's communications and enhancing the effectiveness of the Group's Investor Relations efforts.

## Annual General Meeting

On Tuesday, 29 October 2013, DEXUS's Annual General Meeting (AGM) will be held at the DEXUS Head Office, Level 25, Australia Square, 264 George Street, Sydney commencing at 2.00pm. Investors are encouraged to attend the AGM in person and to meet the Board of Directors and the Executive team. The AGM will be webcast at www.dexus.com for investors who are unable to attend in person.

## Distribution payments

DEXUS's payout policy is to distribute between 70%–80% of Funds From Operations (FFO), in line with free cash flow, with the expectation that the average payout ratio will be 75% of FFO. Distributions are paid for the six month period to 31 December and 30 June each year. Distribution statements are available in print and electronic formats and distributions are paid via direct credit into nominated bank accounts or by cheque. To change the method of receiving distributions, please use the investor login facility at www.dexus.com/dxs

## Unclaimed distribution income

If you believe you have unpresented cheques or unclaimed distribution income, please contact the DXS Infoline on 1800 819 675. For monies outstanding greater than seven years, please contact the NSW Office of State Revenue on 1300 366 016, use their search facility at osr.nsw.gov.au 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/dxs via the investor login facility.

## Making contact

If you have any questions regarding your security holding or wish to update your personal or distribution payment details, please contact the Registry by calling the DXS Infoline on 1800 819 675. This service is available from 8.30am to 5.30pm (Sydney time) on all business days. All correspondence should be addressed to:

DEXUS Property Group
C/- Link Market Services Limited
Locked Bag A14
Sydney South NSW 1234

DEXUS is committed to delivering a high level of service to all investors. Should there be some way you feel that DEXUS could improve its service or you want to make a suggestion or complaint, your feedback is appreciated. DEXUS's contact details are:

Investor Relations
DEXUS Property Group
PO Box R1822
Royal Exchange NSW 1225
ir@dexus.com

DEXUS Funds Management Limited is a member of Financial Ombudsman Service (FOS), an independent dispute resolution scheme. If you are not satisfied with the resolution of your complaint by DEXUS, you may refer your complaint to FOS.

## Key ASX announcements

| | |
|---|---|
| **20 Aug 13** | Technical filing – Commonwealth Property Office Fund |
| **19 Aug 13** | Appendix 4E and financial report as at 30 June 2013<br>2013 annual results release<br>2013 annual results presentation<br>2013 portfolio and debt summary |
| **8 Aug 13** | Discontinuation of CMIL (CPA) court proceedings |
| **1 Aug 13** | Response to ASX announcement made by CMIL |
| **25 Jul 13** | Acquisition of investment in CPA<br>Notice of initial substantial holder in CPA |
| **17 Jul 13** | Strong leasing activity across industrial portfolio |
| **2 Jul 13** | Independent valuations as at 30 June 2013 |
| **2 Jul 13** | Appendix 3C on-market securities buy-back |
| **17 Jun 13** | DXS upgraded distribution for the six months to 30 June 2013 |
| **15 May 13** | Sale of five European industrial properties |
| **6 May 13** | DXS and DWPF acquire strategic investment in Perth |
| **2 May 13** | March 2013 quarterly update release<br>March 2013 quarterly update and Sydney office tour |
| **1 May 13** | Successful pricing of long-dated US Private Placement |
| **29 Apr 13** | Change of registered address |
| **26 Apr 13** | DXS and DWPF acquire strategic investment in Brisbane |
| **18 Apr 13** | Settlement on sale of remaining US industrial property |
| **15 Apr 13** | Appendix 3Y – Darren Steinberg |
| **2 Apr 13** | Sale of remaining US industrial property |
| **20 Mar 13** | Appendix 3Y – Elizabeth Alexander |
| **28 Feb 13** | 2013 half year report |
| **28 Feb 13** | Settlement of the acquisition of interests in three Sydney office properties |
| **27 Feb 13** | Appendix 3Y – Tonianne Dwyer |
| **15 Feb 13** | Appendix 3X – Craig Mitchell |
| **14 Feb 13** | Settlement of US industrial portfolio sale<br>Appendix 4D and interim reports as at 31 December 2012<br>2013 half year results release<br>2013 half year results presentation |
| **12 Feb 13** | Craig Mitchell appointed as Executive Director |
| **17 Jan 13** | DXS settles on 40 Market Street, Melbourne |
| **21 Dec 12** | Acquisition of three Sydney office properties |
| **20 Dec 12** | Significant premium achieved on the sale of United States industrial portfolio |
| **20 Dec 12** | Market briefing – US industrial portfolio sale |
| **18 Dec 12** | December 2012 distribution details |
| **30 Nov 12** | DXS settles on 50 Carrington Street, Sydney |
| **29 Nov 12** | Updated on US industrial portfolio |
| **27 Nov 12** | DXS acquires a Melbourne CBD office property |
| **23 Nov 12** | Appendix 3Y – Elizabeth Alexander |
| **21 Nov 12** | Executive appointment – Kevin George |
| **5 Nov 12** | 2012 Annual General Meeting results<br>2012 Annual General Meeting address and presentation |
| **1 Nov 12** | Settlement of 12 Creek Street Brisbane |
| **24 Oct 12** | September 2012 quarterly update and Sydney CBD office tour |
| **3 Oct 12** | Settlement of JV with the Australian Industrial Partnership |
| **27 Sep 12** | 2012 Notice of Annual General Meeting<br>2012 DEXUS Annual Review<br>2012 DEXUS Combined Financial Statements |
| **26 Sep 12** | 2012 Annual Reporting Suite<br>2012 Notice of Annual General Meeting |
| **12 Sep 12** | Appendix 3Y (B Brownjohn) Change of Director's Interest Notice |
| **31 Aug 12** | Appendix 3Y (R Sheppard) Change of Director's Interest Notice |

# DIRECTORY

**DEXUS Diversified Trust**
ARSN 089 324 541

**DEXUS Industrial Trust**
ARSN 090 879 137

**DEXUS Office Trust**
ARSN 090 768 531

**DEXUS Operations Trust**
ARSN 110 521 223

## Responsible Entity

**DEXUS Funds Management Limited**
ABN 24 060 920 783
AFSL 238 163

## Directors of the Responsible Entity

Christopher T Beare, Chair
Elizabeth A Alexander, AM
Barry R Brownjohn
John C Conde, AO
Tonianne Dwyer
Stewart F Ewen, OAM
Craig D Mitchell, CFO
W Richard Sheppard
Darren J Steinberg, CEO
Peter B St George

## Secretaries of the Responsible Entity

Tanya L Cox
John C Easy

## Registered office of the Responsible Entity

Level 25, Australia Square
264 George Street
Sydney NSW 2000

PO Box R1822
Royal Exchange
Sydney NSW 1225

Phone: +61 2 9017 1100
Fax: +61 2 9017 1101
Email: ir@dexus.com
www.dexus.com

## Auditors

**PricewaterhouseCoopers**
Chartered Accountants
201 Sussex Street
Sydney NSW 2000

## Investor enquiries

Registry Infoline: 1800 819 675
Investor Relations: +61 2 9017 1330
Email: ir@dexus.com
www.dexus.com

## Security registry

**Link Market Services Limited**
Level 12, 680 George Street
Sydney NSW 2000

Locked Bag A14
Sydney South NSW 1235

Registry Infoline: 1800 819 675
Fax: +61 2 9287 0303
Email: registrars@linkmarketservices.com.au
www.linkmarketservices.com.au

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

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

## Australian Securities Exchange

ASX Code: DXS

## IR App

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

Available on the App Store
ANDROID APP ON Google play

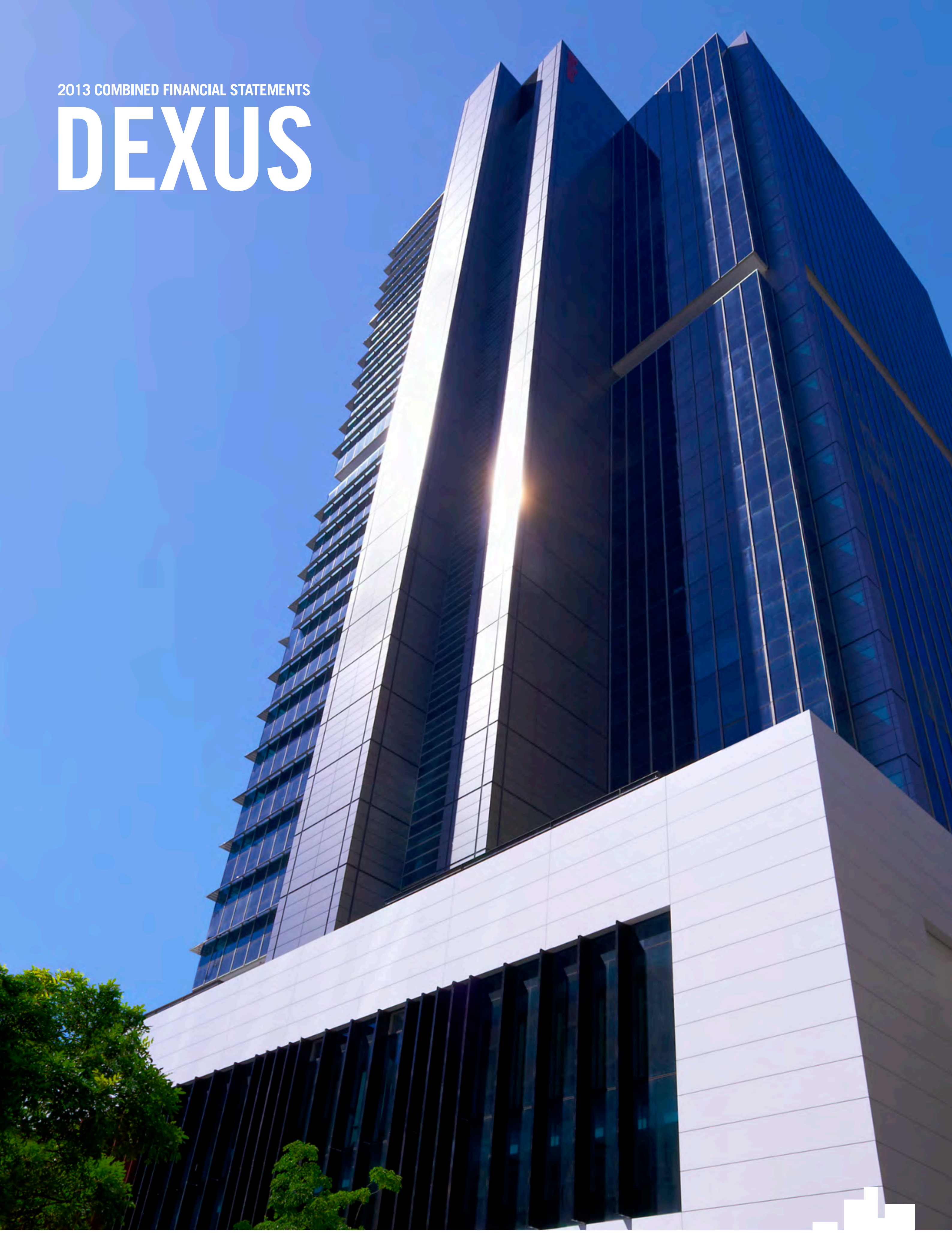
Property expertise.
Institutional rigour.
Entrepreneurial spirit.

www.dexus.com

DEXUS
PROPERTY GROUP

2013 COMBINED FINANCIAL STATEMENTS

# DEXUS



DEXUS PROPERTY GROUP

www.dexus.com

# 2013

# DEXUS Industrial Trust (ARSN 090 879 137)

Financial Report
30 June 2013

## Contents Page



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

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

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

The Directors of DEXUS Funds Management Limited (DXFM) as Responsible Entity of DEXUS Industrial Trust present their Directors' Report together with the consolidated Financial Statements for the year ended 30 June 2013. The consolidated Financial Statements represents DEXUS Industrial Trust and its consolidated entities (DIT or the Trust).

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

## 1 Directors and Secretaries

### 1.1 Directors

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

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

Particulars of the qualifications, experience and special responsibilities of the Directors at the date of this Directors' Report are set out in the Board of Directors section of the DEXUS Property Group Annual Report and form part of this Directors' Report.

### 1.2 Company Secretaries

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

**Tanya L Cox MBA MAICD FCSA FCIS**
Appointed: 1 October 2004

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

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

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

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

## 1 Directors and Secretaries (continued)

### 1.2 Company Secretaries (continued)

**John C Easy B Comm LLB FCSA FCIS**
Appointed: 1 July 2005

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

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

Prior to joining DEXUS in November 1997, John was employed as a senior associate in the commercial property/funds management practices of law firms Allens Arthur 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 Institute of Chartered Secretaries of Australia.

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

## 2 Attendance of Directors at Board meetings and Board Committee meetings

The number of Directors' meetings held during the year and each Director's attendance at those meetings is set out in the table below. The Directors met nine times during the year. Eight Board meetings were main meetings and one meeting was held to consider specific business.

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

1 Directorship commenced 12 February 2013

## 2 Attendance of Directors at Board meetings and Board Committee meetings (continued)

Special meetings are held at a time to enable the maximum number of Directors to attend and are generally held to consider specific items that cannot be held over to the next scheduled main meeting.

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

| | Board Audit, Risk & Sustainability Committee | | Board Compliance Committee | | Board Nomination, Remuneration & Governance Committee | | Board Finance Committee | |
|---|---|---|---|---|---|---|---|---|
| | held | attended | held | attended | held | attended | held | attended |
| Christopher T Beare | - | - | - | - | 6 | 6 | 4 | 4 |
| Elizabeth A Alexander, AM | 4 | 4 | - | - | - | - | - | - |
| Barry R Brownjohn | 4 | 4 | - | - | - | - | - | - |
| John C Conde, AO | - | - | - | - | 6 | 6 | - | - |
| Tonianne Dwyer | - | - | 4 | 4 | - | - | - | - |
| Stewart F Ewen, OAM | - | - | - | - | 6 | 6 | - | - |
| W Richard Sheppard | 4 | 4 | - | - | - | - | 4 | 4 |
| Peter B St George | - | - | - | - | - | - | 4 | 4 |

## 3 Directors' relevant interests

The relevant interests of each Director in DXS stapled securities as at the date of this Directors' Report are shown below:

| Directors | No. of securities |
|---|---|
| Christopher T Beare | 100,000 |
| Elizabeth A Alexander, AM | 100,000 |
| Barry R Brownjohn | 50,000 |
| John C Conde, AO | 100,000 |
| Tonianne Dwyer | 100,000 |
| Stewart F Ewen, OAM | 100,000 |
| Craig D Mitchell | 539,782[1] |
| W Richard Sheppard | 100,000 |
| Darren J Steinberg | 453,417[1] |
| Peter B St George | 104,000 |

1 Performance Rights granted under the 2012 Transitional Performance Rights Plan.

## 4 Directors' directorships in other listed entities

The following table sets out directorships of other listed entities, not including DXFM, held by the Directors at any time in the three years immediately prior to the end of the year, and the period for which each directorship was held:

| Director | Company | Date appointed | Date resigned |
|---|---|---|---|
| Christopher T Beare | Mnemon Group Limited | 6 November 2009 | 27 May 2013 |
| Elizabeth A Alexander, AM | CSL Limited | 12 July 1991 | 19 October 2011 |
| John C Conde, AO | Whitehaven Coal Limited | 3 May 2007 | |
| | Cooper Energy Limited | 25 February 2013 | |
| Tonianne Dwyer | Cardno Limited | 25 June 2012 | |
| W Richard Sheppard | Echo Entertainment Group | 21 November 2012 | |
| Peter B St George | Boart Longyear Limited | 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.

## 5 Principal activities

During the year the principal activity of the Trust was investment in real estate assets. There were no significant changes in the nature of the Trust's activities during the year.

## 6 Review and results of operations

The results for the year ended 30 June 2013 were:

- profit attributable to unitholders was $100.1 million (2012: $52.9 million loss);
- total assets were $1,095.8 million (2012: $1,534.8 million); and
- net assets were $720.2 million (2012: $664.2 million).

A review of the results, financial position and operations of the Group, of which the Trust forms part thereof, is set out in the Operating and Financial Review of the DEXUS Property Group Annual Report and forms part of this Directors' Report. Refer to the Chief Executive Officer's report of the DEXUS Property Group 2013 Annual Review for further information.

## 7 Likely developments and expected results of operations

In the opinion of the Directors, disclosure of any further information regarding business strategies and the future developments or results of the Trust, other than the information already outlined in this Directors' Report or the Financial Statements accompanying this Directors' Report would be unreasonably prejudicial to the Trust.

## 8 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 Trust, the results of those operations, or the state of the Trust's affairs in future financial years.

## 9 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 Trust, the results of those operations, or the state of the Trust's affairs in future financial years.

## 10 Distributions

Distributions paid or payable by the Trust for the year ended 30 June 2013 are outlined in note 24 of the Notes to the Financial Statements and form part of this Directors' Report.

## 11 DXFM's fees and associate interests

Details of fees paid or payable by the Trust to DXFM for the year ended 30 June 2013 are outlined in note 29 of the Notes to the Financial Statements and form part of this Directors' Report.

The number of interests in the Trust held by DXFM or its associates as at the end of the financial year were nil (2012: nil).

## 12 Units on issue

The movement in units on issue in the Trust during the year and the number of units on issue as at 30 June 2013 are detailed in note 22 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 Trust did not have any options on issue as at 30 June 2013 (2012: nil).

## 13 Environmental regulation

DXS 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.

## 14 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 Trust pursuant to the DEXUS Specific Terms of Business agreed for all engagements with PwC, to the extent that the Trust inappropriately uses or discloses a report prepared by PwC. The Auditor, PwC, is not indemnified for the provision of services where such an indemnification is prohibited by the *Corporations Act 2001*.

## 15 Audit

### 15.1 Auditor

PricewaterhouseCoopers continues in office in accordance with section 327 of the *Corporations Act 2001*.

### 15.2 Non-audit services

The Trust may decide to employ the Auditor on assignments, in addition to their statutory audit duties, where the Auditor's expertise and experience with the Trust and/or DXS are important.

Details of the amounts paid or payable to the Auditor, for audit and non-audit services provided during the year, are set out in note 7 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;

## 15 Audit (continued)

### 15.2 Non-audit services (continued)

- acting as trustee, executor or administrator of trust or estate;
- prospectus independent expert reports and being a member of the due diligence committee; and
- 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.

### 15.3 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 7 and forms part of this Directors' Report.

## 16 Corporate governance

DXFM's Corporate Governance Statement is set out in a separate section of the DEXUS Property Group Annual Report and forms part of this Directors' Report.

## 17 Rounding of amounts and currency

The Trust 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 thousand dollars, unless otherwise indicated. All figures in this Directors' Report and the Financial Statements, except where otherwise stated, are expressed in Australian dollars.

## 18 Management representation

The Chief Executive Officer and Chief Financial Officer have reviewed the Trust's financial reporting processes, policies and procedures together with its risk management, internal control and compliance policies and procedures. Following that review, it is their opinion that the Trust's financial records for the financial year have been properly maintained in accordance with the *Corporations Act 2001* and the Financial Statements and their notes comply with the accounting standards and give a true and fair view.

## 19 Directors' authorisation

The Directors' Report is made in accordance with a resolution of the Directors. The Financial Statements were authorised for issue by the Directors on 16 August 2013. The Directors have the power to amend and reissue the Financial Statements.

**Christopher T Beare**
Chair
16 August 2013

**Darren J Steinberg**
Chief Executive Officer
16 August 2013

# Auditor's Independence Declaration

As lead auditor for the audit of DEXUS Industrial Trust for the year ended 30 June 2013, I declare that to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of DEXUS Industrial Trust and the entities it controlled during the period.

E A Barron
Partner
PricewaterhouseCoopers

Sydney
16 August 2013

| | Note | 2013 $'000 | 2012 $'000 |
|---|---|---|---|
| **Revenue from ordinary activities** | | | |
| Property revenue | 2 | **93,625** | 98,626 |
| Interest revenue | 3 | **105** | 303 |
| **Total revenue from ordinary activities** | | **93,730** | 98,929 |
| | | | |
| Net gain on sale of investment properties | | **-** | 553 |
| Other income | | **-** | 8 |
| **Total income** | | **93,730** | 99,490 |
| | | | |
| **Expenses** | | | |
| Property expenses | | **(21,418)** | (22,837) |
| Responsible Entity fees | 29 | **(2,840)** | (3,069) |
| Finance costs | 4 | **(17,258)** | (53,091) |
| Net loss on sale of investment properties | | **(1,376)** | - |
| Net fair value loss of investment properties | | **(5,417)** | (17,081) |
| Other expenses | 6 | **(538)** | (1,485) |
| **Total expenses** | | **(48,847)** | (97,563) |
| **Profit before tax** | | **44,883** | 1,927 |
| | | | |
| **Tax benefit** | | | |
| Income tax benefit | 5(a) | **-** | - |
| **Total tax benefit** | | **-** | - |
| **Profit after tax from continuing operations** | | **44,883** | 1,927 |
| Profit/(loss) from discontinued operations | 10 | **55,207** | (54,810) |
| **Net profit/(loss) for the year** | | **100,090** | (52,883) |
| **Other comprehensive income:** | | | |
| Foreign currency translation reserve transfer on disposal of foreign operations | | **(26,620)** | (10,380) |
| Exchange differences on translating foreign operations | | **2,770** | (6,732) |
| **Total comprehensive income/(loss) for the year** | | **76,240** | (69,995) |

| | Note | Cents | Cents |
|---|---|---|---|
| **Basic and diluted earnings per unit attributable to unitholders of the parent entity** | | | |
| Earnings per unit - profit/(loss) from continuing operations | 33 | **0.96** | (0.08) |
| Earnings per unit - loss from discontinued operations | 33 | **(1.12)** | (1.09) |
| Earnings per unit - total | 33 | **(0.16)** | (1.16) |

*The above Consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying notes.*

| | Note | 2013 $'000 | 2012 $'000 |
|---|---|---|---|
| **Current assets** | | | |
| Cash and cash equivalents | 8 | **2,452** | 11,862 |
| Receivables | 9 | **3,763** | 16,629 |
| Loan with related parties | 11 | **138,948** | 266,021 |
| Derivative financial instruments | 12 | **29** | 1,332 |
| Current tax assets | | **-** | 198 |
| Other | 13 | **1,887** | 2,806 |
| | | **147,079** | 298,848 |
| Discontinued operations and assets classified as held for sale | 10 | **8,741** | 102,264 |
| **Total current assets** | | **155,820** | 401,112 |
| | | | |
| **Non-current assets** | | | |
| Investment properties | 14 | **925,526** | 1,058,533 |
| Investments accounted for using the equity method | 15 | **-** | 65,599 |
| Derivative financial instruments | 12 | **14,341** | 9,386 |
| Other | 16 | **143** | 158 |
| **Total non-current assets** | | **940,010** | 1,133,676 |
| **Total assets** | | **1,095,830** | 1,534,788 |
| | | | |
| **Current liabilities** | | | |
| Payables | 17 | **57,321** | 75,871 |
| Current tax liabilities | | **973** | 973 |
| Provisions | 19 | **10,000** | 10,000 |
| Derivative financial instruments | 12 | **972** | 1,430 |
| | | **69,266** | 88,274 |
| Discontinued operations classified as held for sale | 10 | **80** | - |
| **Total current liabilities** | | **69,346** | 88,274 |
| | | | |
| **Non-current liabilities** | | | |
| Loans with related parties | 11 | **286,473** | 696,367 |
| Interest bearing liabilities | 18 | **-** | 49,404 |
| Derivative financial instruments | 12 | **19,742** | 35,096 |
| Deferred tax liabilities | 21 | **-** | 595 |
| Other | 20 | **111** | 811 |
| **Total non-current liabilities** | | **306,326** | 782,273 |
| **Total liabilities** | | **375,672** | 870,547 |
| **Net assets** | | **720,158** | 664,241 |
| | | | |
| **Equity** | | | |
| Contributed equity | 22 | **1,082,464** | 1,092,787 |
| Reserves | 23 | **680** | 24,530 |
| Accumulated losses | 23 | **(362,986)** | (453,076) |
| **Total equity** | | **720,158** | 664,241 |

*The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.*

## Consolidated Statement of Changes in Equity

For the year ended 30 June 2013

| | Note | Contributed equity $'000 | Accumulated losses $'000 | Foreign currency translation reserve $'000 | Total equity $'000 |
|---|---|---|---|---|---|
| **Opening balance as at 1 July 2011** | | 925,116 | (390,193) | 41,642 | 576,565 |
| Loss after tax for the year | | - | (52,883) | - | (52,883) |
| Other comprehensive loss for the year | | - | - | (17,112) | (17,112) |
| Transactions with owners in their capacity as owners: | | | | | |
| Capital contribution, net of transaction costs | 22 | 174,901 | - | - | 174,901 |
| Buy back of contributed equity | 22 | (7,230) | - | - | (7,230) |
| Distributions paid or provided for | 24 | - | (10,000) | - | (10,000) |
| **Closing balance as at 30 June 2012** | | 1,092,787 | (453,076) | 24,530 | 664,241 |
| | | | | | |
| **Opening balance as at 1 July 2012** | | **1,092,787** | **(453,076)** | **24,530** | **664,241** |
| Profit after tax for the year | | **-** | **100,090** | **-** | **100,090** |
| Other comprehensive loss for the year | | **-** | **-** | **(23,850)** | **(23,850)** |
| Transactions with owners in their capacity as owners: | | | | | |
| Buy back of contributed equity | 22 | **(10,323)** | **-** | **-** | **(10,323)** |
| Distributions paid or provided for | 24 | **-** | **(10,000)** | **-** | **(10,000)** |
| **Closing balance as at 30 June 2013** | | **1,082,464** | **(362,986)** | **680** | **720,158** |

*The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.*

| | Note | 2013 $'000 | 2012 $'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts in the course of operations (inclusive of GST) | | **120,908** | 141,538 |
| Payments in the course of operations (inclusive of GST) | | **(47,218)** | (50,205) |
| Interest received | | **882** | 1,858 |
| Finance costs paid | | **(17,642)** | (20,839) |
| Income and withholding taxes paid | | **154** | (2,000) |
| **Net cash inflow from operating activities** | 32 | **57,084** | 70,352 |
| | | | |
| **Cash flows from investing activities** | | | |
| Proceeds from sale of investment properties | | **111,989** | 188,416 |
| Payments for capital expenditure on investment properties | | **(10,950)** | (20,817) |
| Payments for investment properties | | **(22,321)** | - |
| Payments for investments accounted for using the equity method | | **10,849** | 98,690 |
| Proceeds from sale of subsidiary | | **89,267** | - |
| Proceeds from sale of investments accounted for using the equity method | | **90,609** | - |
| **Net cash inflow from investing activities** | | **269,443** | 266,289 |
| | | | |
| **Cash flows from financing activities** | | | |
| Proceeds from capital contribution | | **-** | 174,979 |
| Capital contribution transaction costs | | **-** | (78) |
| Payments for buy back of contributed equity | | **(10,323)** | (7,230) |
| Borrowings provided by entities within DXS | | **101,211** | 149,381 |
| Borrowings provided to entities within DXS | | **(544,308)** | (619,306) |
| Proceeds from borrowings | | **-** | 29,073 |
| Repayment of borrowings | | **-** | (75,920) |
| Repayment of US REIT loan | | **125,606** | - |
| Distributions paid to unitholders | | **(10,000)** | (12,360) |
| **Net cash outflow from financing activities** | | **(337,814)** | (361,461) |
| | | | |
| **Net decrease in cash and cash equivalents** | | **(11,287)** | (24,820) |
| Cash and cash equivalents at the beginning of the year | | **11,862** | 39,837 |
| Effects of exchange rate changes on cash and cash equivalents | | **2,261** | (3,155) |
| **Cash and cash equivalents at the end of the year** | 8 | **2,836** | 11,862 |

*The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.*

# Note 1

**Summary of significant accounting policies**

## (a) Basis of preparation

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 DXS 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 unstaple the Group if approval is obtained by a special resolution of the stapled security holders.

These general purpose Financial Statements for the year ended 30 June 2013 have been prepared in accordance with the requirements of the Trust’s Constitution, the *Corporations Act 2001*, Australian Accounting Standards and other authoritative pronouncements of the Australia Accounting Standards Board and interpretations. Compliance with Australian Accounting Standards ensures that the Financial Statements and notes also comply with International Financial Reporting Standards (IFRS).

These Financial Statements are prepared on a going concern basis and in accordance with historical cost conventions and have not been adjusted to take account of either changes in the general purchasing power of the dollar or changes in the values of specific assets, except for the valuation of certain non-current assets and financial instruments (refer notes 1(e), 1(m) and 1(r)). The Trust is a for-profit entity for the purpose of preparing Financial Statements.

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 Trust’s accounting policies. Other than the estimations described in notes 1(e), 1(m) and 1(r), 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

(i) Controlled entities

The Financial Statements have been prepared on a consolidated basis. The accounting policies of the subsidiaries are consistent with those of the parent.

Subsidiaries are all entities (including special purpose entities) over which the Trust has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Trust controls another entity.

The Financial Statements incorporate an elimination of inter-entity transactions and balances to present the Financial Statements on a consolidated basis. Net profit and equity in controlled entities, which is attributable to the unitholdings of non-controlling interests, are shown separately in the Statement of Comprehensive Income and Statement of Financial Position respectively. Where control of an entity is obtained during a financial year, its results are included in the Statement of Comprehensive Income from the date on which control is gained. They are deconsolidated from the date that control ceases. The Financial Statements incorporate all the assets, liabilities and results of the parent and its controlled entities.

(ii) Partnerships and joint ventures

Where assets are held in a partnership or joint venture with another entity directly, the Trust’s share of the results and assets of this partnership or joint venture are consolidated into the Statement of Comprehensive Income and Statement of Financial Position of the Trust. Where assets are jointly controlled via ownership of units in single purpose unlisted unit trusts or shares in companies, the Trust applies equity accounting to record the operations of these investments (refer note 1(q)).

# Note 1

**Summary of significant accounting policies** (continued)

### (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) 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.

(iii) 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 Trust.

(ii) Borrowing costs

Borrowing costs include interest, amortisation of discounts or premiums relating to borrowings, amortisation or ancillary costs incurred in connection with arrangement of borrowings and foreign exchange losses net of hedged amounts on borrowings, including trade creditors and lease finance charges. Borrowing costs are expensed as incurred unless they relate to qualifying assets.

Qualifying assets are assets which take more than 12 months to get ready for their intended use or sale. In these circumstances, borrowing costs are capitalised to the cost of the asset during the period of time that is required to complete and prepare the asset for its intended use or sale. Where funds are borrowed generally, borrowing costs are capitalised using a weighted average capitalisation rate.

# Note 1

**Summary of significant accounting policies** (continued)

### (e) Derivatives and other financial instruments

(i) Derivatives

The Trust's activities expose it to a variety of financial risks including foreign exchange risk and interest rate risk. Accordingly, the Trust 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 Trust's exposures and updates its treasury policies and procedures. The Trust does not trade in derivative instruments for speculative purposes. Even though derivative financial instruments are entered into for the purpose of providing the Trust with an economic hedge, the Trust has elected not to apply hedge accounting under AASB 139 *Financial Instruments: Recognition and Measurement* for interest rate swaps and foreign exchange contracts. Accordingly, derivatives including interest rate swaps, the interest rate component of cross currency swaps and foreign exchange contracts are measured at fair value with any changes in fair value recognised in the Statement of Comprehensive Income.

(ii) Debt and equity instruments issued by the Trust

Financial instruments issued by the Trust are classified as either liabilities or as equity in accordance with the substance of the contractual arrangements. Accordingly, ordinary units issued by the Trust are classified as equity.

Interest and distributions are classified as expenses or as distributions of profit consistent with the Statement of Financial Position classification of the related debt or equity instruments.

Transaction costs arising on the issue of equity instruments are recognised directly in equity (net of tax) as a reduction of the proceeds of the equity instruments to which the costs relate. Transaction costs are the costs that are incurred directly in connection with the issue of those equity instruments and which would not have been incurred had those instruments not been issued.

(iii) Financial guarantee contracts

Financial guarantee contracts are recognised as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value and subsequently at the higher of the amount determined in accordance with AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* and the amount initially recognised less cumulative amortisation, where appropriate.

The fair value of financial guarantees is determined as the present value of the difference in the net cash flows between the contractual payments under the debt instrument and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assuming the obligations.

Where guarantees in relation to loans or other payables of subsidiaries or associates are provided for no compensation, the fair values are accounted for as contributions and recognised as part of the cost of the investment.

(iv) Other financial assets

Loans and other receivables are measured at amortised cost using the effective interest rate method less impairment.

### (f) Goods and services tax/value added tax

Revenues, expenses and capital assets are recognised net of any amount of Australian Goods and Services Tax (GST) or French and German Value Added Tax (VAT), except where the amount of GST/VAT incurred is not recoverable. In these circumstances the GST/VAT is recognised as part of the cost of acquisition of the asset or as part of the expense.

Cash flows are included in the Statement of Cash Flows on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from or payable to the Australian Taxation Office is classified as operating cash flows.

# Note 1

**Summary of significant accounting policies** (continued)

### (g) Taxation

Under current Australian income tax legislation, the Trust is not liable for income tax provided it satisfies certain legislative requirements. The Trust may be liable for income tax in jurisdictions where foreign property is held.

Withholding tax payable on distributions received by the Trust from DEXUS Industrial Properties Inc. (US REIT) and DEXUS US Properties Inc. (US W REIT) are recognised as an expense when tax is withheld.

Deferred tax assets or liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability.

Under current Australian income tax legislation, the unitholders will generally be entitled to receive a foreign tax credit for US withholding tax deducted from distributions paid by the US REIT and US W REIT.

DIT France Logistique SAS (DIT France), a wholly owned sub-trust of DIT, is liable for French corporation tax on its taxable income at the rate of 33.33%. In addition, a deferred tax liability or asset and its related deferred tax expense/benefit is recognised on differences between the tax cost base of the French real estate assets and their accounting carrying value at the end of the reporting period, where required.

DEXUS GLOG Trust, a wholly owned Australian sub-trust of DIT, is liable for German corporate income tax on its German taxable income at the rate of 15.82%. In addition, a deferred tax liability or asset and its related deferred tax expense/benefit is recognised on differences between the tax cost base of the German real estate assets and their accounting carrying value at the end of the reporting period, where required.

DEXUS Canada Trust, a wholly owned Australian sub-trust of DIT, is liable for Canadian income tax on its Canadian taxable income at the rate of 42.92%.

### (h) Distributions

In accordance with the Trust's Constitution, the Trust distributes its distributable income to unitholders by cash or reinvestment. Distributions are provided for when they are approved by the Board of Directors and declared.

### (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 Trust 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.

# Note 1

**Summary of significant accounting policies** (continued)

### (l) 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.

### (m) Investment properties

The Trust's investment properties consist of properties held for long-term rental yields and/or capital appreciation and property that is being constructed or developed for future use as investment property. Investment properties are initially recognised at cost including transaction costs. Investment properties are subsequently recognised at fair value in the Financial Statements. Each valuation firm and its signatory valuer are appointed on the basis that they are engaged for no more than three consecutive valuations.

The basis of valuations of investment properties is fair value being the amounts for which the assets could be exchanged between knowledgeable willing parties in an arm's length transaction, based on current prices in an active market for similar properties in the same location and condition and subject to similar leases. In addition, an appropriate valuation method is used, which may include the discounted cash flow and the capitalisation method. Discount rates and capitalisation rates are determined based on industry expertise and knowledge and, where possible, a direct comparison to third party rates for similar assets in a comparable location. Rental revenue from current leases and assumptions about future leases, as well as any expected operational cash outflows in relation to the property, are also reflected in fair value. In relation to development properties under construction for future use as investment property, where reliably measurable, fair value is determined based on the market value of the property on the assumption it had already been completed at the valuation date less costs still required to complete the project, including an appropriate adjustment for profit and risk.

External valuations of the individual investment properties are carried out in accordance with the Trust's Constitution or may be earlier where the Responsible Entity believes there is a potential for a material change in the fair value of the property.

Changes in fair values are recorded in the Statement of Comprehensive Income. The gain or loss on disposal of an investment property is calculated as the difference between the carrying amount of the asset at the date of disposal and the net proceeds from disposal and is included in the Statement of Comprehensive Income in the year of disposal.

Subsequent redevelopment and refurbishment costs (other than repairs and maintenance) are capitalised to the investment property where they result in an enhancement in the future economic benefits of the property.

### (n) Leasing fees

Leasing fees incurred are capitalised and amortised over the lease periods to which they relate.

# Note 1

**Summary of significant accounting policies** (continued)

### (o) 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.

### (p) Investments accounted for using the equity method

Some property investments are held through the ownership of units in single purpose unlisted trusts or shares in unlisted companies where the Trust exerts significant influence but does not have a controlling interest. These investments are considered to be associates and the equity method of accounting is applied in the Financial Statements.

Under this method, the entity's share of the post-acquisition profits of associates is recognised in the Statement of Comprehensive Income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Dividends or distributions receivable from associates are recognised as a reduction in the carrying amount of the investment.

When the Trust's share of losses in an associate equal or exceed its interest in the associate (including any unsecured receivables) the Trust does not recognise any further losses unless it has incurred obligations or made payments on behalf of the associate.

### (q) Impairment of assets

Certain 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 that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

### (r) Financial assets and liabilities

(i) Classification

The Trust has classified its financial assets and liabilities as follows:

| Financial asset/liability | Classification | Valuation basis | Reference |
|---|---|---|---|
| Receivables | Loans and receivables | Amortised cost | Refer note 1(k) |
| Other financial assets | Loans and receivables | Amortised cost | Refer note 1(e) |
| Other financial assets | Fair value through profit or loss | Fair value | Refer note 1(y) |
| Payables | Financial liability at amortised cost | Amortised cost | Refer note 1(s) |
| Interest bearing liabilities | Financial liability at amortised cost | Amortised cost | Refer note 1(t) |
| 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.

# Note 1

**Summary of significant accounting policies** (continued)

**(r) Financial assets and liabilities** (continued)

(ii) Fair value estimation of financial assets and liabilities (continued)

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 Trust 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.

**(s) Payables**

These amounts represent liabilities for amounts owing at the end of the reporting period. The amounts are unsecured and are usually paid within 30 days of recognition.

**(t) Interest bearing liabilities**

Subsequent to initial recognition at fair value, net of transaction costs incurred, interest bearing liabilities are measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the Statement of Comprehensive Income over the period of the borrowings using the effective interest method. Interest bearing liabilities are classified as current liabilities unless the Trust has an unconditional right to defer the liability for at least 12 months after the reporting date.

**(u) 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. The Trust did not have such dilutive potential units during the year.

**(v) Foreign currency**

Items included in the Financial Statements of the Trust are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The Financial Statements are presented in Australian dollars, which is the functional and presentation currency of the Trust.

(i) Foreign currency transactions

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period end exchange rates of financial assets and liabilities denominated in foreign currencies are recognised in the Statement of Comprehensive Income.

(ii) Foreign operations

Foreign operations are located in Germany. These operations have a functional currency of Euros, which are translated into the presentation currency.

The assets and liabilities of the foreign operations are translated at exchange rates prevailing at the end of the 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.

# Note 1

**Summary of significant accounting policies** (continued)

**(v) Foreign currency** (continued)

(ii) Foreign operations (continued)

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 the reporting period.

**(w) Operating 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 DXS, which consists of DIT, DOT, DDF and DXO. Consistent with how the CODM manages the business, the operating segments within DXS are reviewed on a consolidated basis rather than at an individual trust level. Disclosures concerning DXS's operating segments as well as the operating segments' key financial information provided to the CODM are presented in DXS's Financial Statements.

**(x) Rounding of amounts**

The Trust 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 thousand dollars, unless otherwise indicated.

**(y) Parent entity financial information**

The financial information for the parent entity of the Trust is disclosed in note 25 and 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

Interests held by the Trust in controlled entities and associates are measured at fair value through profit and loss to reduce a measurement or recognition inconsistency.

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.

**(z) New accounting standards and interpretations**

Certain new accounting standards and interpretations have been published that are not mandatory for the 30 June 2013 reporting period. Our assessment of the impact of these new standards and interpretations is set out below:

**AASB 2012-3 *Amendments to Australian Accounting Standard - Offsetting Financial Assets and Financial Liabilities* and AASB 2012-2 *Amendments to Australian Accounting Standard - Disclosures - Offsetting Financial Assets and Financial Liabilities* (effective 1 July 2014 and 1 July 2013 respectively).**
In June 2012, the AASB approved amendments to the application guidance in AASB 132 *Financial Instruments: Presentation*, to clarify some of the requirements for offsetting financial assets and financial liabilities in the Financial Statements. These amendments are effective from 1 July 2014. They are unlikely to affect the accounting for any of the Trust"s current offsetting arrangements. The AASB has also introduced more extensive disclosure requirements into AASB 7 which will apply from 1 July 2013. The Trust intends to apply the new rules from 1 July 2013 and does not expect any significant impacts.

**AASB 2012-5 *Amendments to Australian Accounting Standard arising from Annual Improvements 2009-2011 cycle* (effective 1 July 2013).**
In June 2012, the AASB approved a number of amendments to Australian Accounting Standards as a result of the 2009-2011 annual improvements project. The Trust will apply the amendments from 1 July 2013 and does not expect any significant impacts.

**AASB 9 *Financial Instruments*, AASB 2009-11 *Amendments to Australian Accounting Standards arising from AASB 9* , AASB 2010-7 *Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)* and AASB 2012-6 *Amendments to Australian Accounting Standards - Mandatory Effective Date of AASB 9 and Transition Disclosures* (effective 1 July 2015).**
AASB 9 *Financial Instruments* addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard simplifies the classifications of financial assets into those to be carried at amortised cost and those to be carried at fair value. The Trust intends to apply the standards from 1 July 2015 and does not expect any significant impacts.

# Note 1

**Summary of significant accounting policies** (continued)

**(z) New accounting standards and interpretations** (continued)

**AASB 2011-4 *Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements* (effective 1 July 2013)**
In July 2011 the AASB decided to remove the individual KMP disclosure requirements from AASB 124 *Related Party Disclosures*, to achieve consistency with the international equivalent standard and remove a duplication of the requirements with the *Corporations Act 2001*. While this will reduce the disclosures that are currently required in the Notes to the Financial Statements, it will not affect any of the amounts recognised in the Financial Statements. The amendments apply from 1 July 2013 and cannot be adopted early.

**AASB 10 *Consolidated financial statements* (effective 1 July 2013).**
AASB 10 replaces all of the guidance on control and consolidation in AASB 127 *Consolidated and separate financial statements*, and SIC-12 *Consolidation – special purpose entities*. The standard introduces a single definition of control that applies to all entities. It focuses on the need to have both power and rights or exposure to variable returns before control is present. The Trust intends to apply the standard from 1 July 2013 and does not expect any significant impacts.

**AASB 11 *Joint Arrangements* (effective 1 July 2013).**
AASB 11 introduces a principles based approach to accounting for joint arrangements. The focus is no longer on the legal structure of joint arrangements, but rather on how rights and obligations are shared by the parties to the joint arrangement. Based on the assessment of rights and obligations, a joint arrangement will be classified as either a joint operation or joint venture. Joint ventures are accounted for using the equity method, and the choice to proportionately consolidate will no longer be permitted. The Trust intends to apply the standard from 1 July 2013 and does not expect any significant impacts.

**AASB 12 *Disclosure of interests in other entities* (effective 1 July 2013).**
AASB 12 sets out the required disclosures for entities reporting under the two new standards, AASB 10 and AASB 11, and replaces the disclosure requirements currently found in AASB 128. Application of this standard will not affect any of the amounts recognised in the Financial Statements, but may impact some of the Trust's current disclosures. The Trust intends to apply the standard from 1 July 2013 and does not expect any significant impacts.

**AASB 128 *Investments in associates and joint ventures* (effective 1 July 2013).**
Amendments to AASB 128 provide clarification that an entity continues to apply the equity method and does not remeasure its retained interest as part of ownership changes where a joint venture becomes an associate, and vice versa. The Trust intends to apply the standard from 1 July 2013 and does not expect any significant impacts.

**AASB 13 *Fair value measurement* (effective 1 July 2013).**
AASB 13 explains how to measure fair value and aims to enhance fair value disclosures. Application of this standard will not affect any of the amounts recognised in the Financial Statements, but will impact some of the Trust's current disclosures. The Trust intends to apply the standard from 1 July 2013 and does not expect any significant impacts.

## Note 2

### Property revenue

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Rent and recoverable outgoings | 93,772 | 100,729 |
| Incentive amortisation | (6,661) | (6,861) |
| Other revenue | 6,514 | 4,758 |
| **Total property revenue** | 93,625 | 98,626 |

## Note 3

### Interest revenue

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Interest revenue from financial institutions | 105 | 303 |
| **Total interest revenue** | 105 | 303 |

## Note 4

### Finance costs

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Interest paid to related parties | 14,003 | 27,852 |
| Net fair value loss of interest rate swaps | 3,252 | 26,133 |
| Amount capitalised | - | (1,111) |
| Other finance costs | 3 | 216 |
| **Total finance costs** | 17,258 | 53,091 |

# Note 5
## Income tax

### (a) Income tax benefit

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Current tax benefit | **1,757** | 635 |
| Total income tax benefit | **1,757** | 635 |
| | | |
| **Total income tax benefit attributable to:** | | |
| Profit from continuing operations | **-** | - |
| Profit from discontinued operations | **1,757** | 635 |
| Total income tax benefit | **1,757** | 635 |

### (b) Reconciliation of income tax benefit to net profit

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Profit from continuing operations before income tax | **44,883** | 1,927 |
| Profit/(loss) from discontinued operations before income tax | **53,011** | (46,391) |
| Total profit/(loss) before income tax | **97,894** | (44,464) |
| Less amounts not subject to income tax (note 1(g)) | **(109,417)** | 29,964 |
| | **(11,523)** | (14,500) |
| | | |
| Prima facie tax expense at Australian tax rate of 30% (2012: 30%) | **(3,457)** | (4,350) |
| | | |
| **Tax effect of amounts which are not (deductible)/taxable in calculating taxable income:** | | |
| Depreciation and amortisation | **(449)** | (1,113) |
| Revaluation of investment properties | **5,169** | 1,491 |
| Net loss on sale of investment properties | **494** | 4,607 |
| | **5,214** | 4,985 |
| **Income tax benefit** | **1,757** | 635 |

# Note 6
## Other expenses

| | Note | 2013 $'000 | 2012 $'000 |
|---|---|---|---|
| Audit and taxation fees | 7 | **295** | 373 |
| Custodian fees | | **66** | 72 |
| Legal and other professional fees | | **104** | 131 |
| Registry costs and listing fees | | **63** | 93 |
| Other expenses | | **10** | 816 |
| **Total other expenses** | | **538** | 1,485 |

# Note 7

## Audit, taxation and transaction services fees

During the year, the Auditor and its related practices, and non-related audit firms earned the following remuneration:

| | 2013<br>$ | 2012<br>$ |
|---|---|---|
| **Audit fees** | | |
| PwC Australia - audit and review of Financial Statements | **264,689** | 277,353 |
| PwC fees paid in relation to outgoings audit[1] | **31,180** | 25,127 |
| PwC Australia - regulatory audit and compliance services | **7,034** | 6,708 |
| Audit fees paid to PwC | **302,903** | 309,188 |
| Fees paid to non-PwC audit firms | **51,514** | 52,691 |
| **Total audit fees** | **354,417** | 361,879 |
| | | |
| **Taxation fees** | | |
| Fees paid to PwC Australia | **16,667** | 19,080 |
| Taxation fees paid to PwC | **16,667** | 19,080 |
| Fees paid to non-PwC audit firms | **23,333** | 84,071 |
| **Total taxation fees[2]** | **40,000** | 103,151 |
| **Total audit and taxation fees[3,4]** | **394,417** | 465,030 |
| | | |
| **Transaction services fees** | | |
| Fees paid to PwC Australia | **-** | 7,500 |
| **Total transaction services fees[2]** | **-** | 7,500 |
| **Total audit, taxation and transaction services fees** | **394,417** | 472,530 |

1 Fees paid in relation to outgoing audits are included in property expenses in the Statement of Comprehensive Income.

2 These services include general compliance work, one off project work and advice.

3 Total audit and taxation fees includes $67,773 (2012: $74,359) in relation to the US and European portfolios for general compliance work, one off project work and advice. These fees are included in loss from discontinued operations in the Statement of Comprehensive Income.

4 After allowing for the impact of footnotes 1 and 3 above, total audit and taxation fees included in other expenses is $295,464 (2012: $365,544).

# Note 8

**Current assets - cash and cash equivalents**

| | 2013<br>$'000 | 2012<br>$'000 |
|---|---|---|
| Cash at bank | 2,452 | 9,100 |
| Short-term deposits[1] | - | 2,762 |
| **Total current assets - cash and cash equivalents** | 2,452 | 11,862 |

1 As at 30 June 2012, the Trust held US$2.8 million (A$2.8 million) in escrow in relation to the US asset disposals in June 2012.

**Reconciliation to cash at the end of the period**

The above figures are reconciled to cash as shown in the Statement of Cash Flows as follows:

| | 2013<br>$'000 | 2012<br>$'000 |
|---|---|---|
| Balances as above | 2,452 | 11,862 |
| Discontinued operations | 384 | - |
| **Balances per Statement of Cash Flows** | 2,836 | 11,862 |

# Note 9

**Current assets - receivables**

| | 2013<br>$'000 | 2012<br>$'000 |
|---|---|---|
| Rent receivable | 2,218 | 2,311 |
| Less: provision for doubtful debts | (486) | (342) |
| **Total rental receivables** | 1,732 | 1,969 |
| | | |
| Interest receivable from related parties | - | 5 |
| Other receivables | 2,031 | 14,655 |
| **Total other receivables** | 2,031 | 14,660 |
| **Total current assets - receivables** | 3,763 | 16,629 |

# Note 10

### Assets classified as held for sale and discontinued operations

A strategic review was announced to the ASX on 16 August 2012, which resulted in all offshore property being considered non-core. The remaining US industrial portfolio and the majority of the remaining European portfolio were sold in February 2013 and May 2013 respectively. Therefore the results of the US and European portfolios have been presented within loss from discontinued operations in the Statement of Comprehensive Income for the year ended
30 June 2013.

The profit/(loss) from the US and European discontinued operations comprises:

| | Note | 2013 $'000 | 2012 $'000 |
|---|---|---|---|
| Property revenue | | **9,739** | 27,567 |
| Interest revenue | | **772** | 1,533 |
| Share of net profit of associates accounted for using the equity method | | **26,322** | 3,398 |
| Net fair value gain/(loss) of investment properties | | **355** | (3,706) |
| Net foreign exchange (loss)/gain | | **(2,721)** | 872 |
| Net loss on sale of investment properties | | **(1,651)** | (20,941) |
| Property expenses | | **(1,901)** | (3,769) |
| Responsible Entity fees | | **(388)** | (957) |
| Finance gain/(costs) | | **3,825** | (59,037) |
| Net fair value loss of derivatives | | **(1,729)** | (1,017) |
| Other expenses | | **(309)** | (714) |
| **Profit/(loss) before tax** | | **32,314** | (56,772) |
| Income tax benefit | 5(a) | **1,757** | 635 |
| Withholding tax expense | | **-** | (9,054) |
| **Total tax benefit/(expense)** | | **1,757** | (8,419) |
| Foreign currency translation reserve transfer on disposal of foreign operations | | **26,620** | 10,380 |
| **Profit/(loss) after tax** | | **60,691** | (54,810) |
| | | | |
| Loss on measurement to fair value less costs to sell before tax | | **(5,923)** | - |
| Withholding tax benefit | | **439** | - |
| **Loss on measurement to fair value less costs to sell after tax** | | **(5,484)** | - |
| | | | |
| **Profit/(loss) from discontinued operations** | | **55,207** | (54,810) |
| | | | |
| Net cash flows from operating activities | | **(4,827)** | (2,590) |
| Net cash flows from investing activities | | **17,268** | 187,253 |
| Net cash flows from financing activities | | **125,113** | - |
| **Net increase in cash generated by discontinued operations** | | **137,555** | 184,663 |

# Note 10

**Assets classified as held for sale and discontinued operations** (continued)

The carrying amounts of assets and liabilities of the US discontinued operations as at the date of disposal were:

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Cash and cash equivalents | 1,636 | - |
| Receivables | 23 | - |
| Other assets | 72 | - |
| Investment properties | 139,600 | - |
| Investments accounted for using the equity method | 90,533 | - |
| **Total assets** | 231,864 | - |
| Payables | 1,805 | - |
| Interest bearing liabilities | 49,933 | - |
| **Total liabilities** | 51,738 | - |

The table below sets out the discontinued operations classified as held for sale that continue to be owned by the Trust as at balance date. These assets and liabilities are presented as aggregate amounts in the Statement of Financial Position.

| | Discontinued operations[1] 30 Jun 13 $'000 | Total 30 Jun 2012 $'000 |
|---|---|---|
| **Assets classified as held for sale** | | |
| Cash and cash equivalents | 384 | - |
| Receivables | 395 | - |
| Other assets | 263 | - |
| Investment properties | 7,699 | 102,264 |
| **Total assets classified as held for sale** | 8,741 | 102,264 |
| **Liabilities classified as held for sale** | | |
| Payables | 80 | - |
| **Total liabilities classified as  held for sale** | 80 | - |

1 Includes one German property.

**Disposals**

- On 13 July 2012, 114-120 Old Pittwater Road, Brookvale, NSW was disposed of for gross proceeds of $40.5 million.
- On 2 October 2012, 50% of an industrial portfolio consisting of assets at DEXUS Industrial Estate Laverton North VIC was disposed of for gross proceeds of $36.9 million.
- On 15 May 2013, five properties located in France were disposed of for gross proceeds of €16.5 million (A$21.3 million).

# Note 11

**Loans with related parties**

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| **Current assets - loans with related parties** | | |
| Non-interest bearing loans with entities within DXS[1] | **138,948** | 138,948 |
| Interest bearing loans with entities within DXS | **-** | 127,073 |
| **Total current assets - loans with related parties** | **138,948** | 266,021 |
| | | |
| **Non-current liabilities - loans with related parties** | | |
| Interest bearing loans with related parties[2] | **286,473** | 696,367 |
| Interest bearing loans with entities within DXS | **-** | - |
| **Total non-current liabilities - loans with related parties** | **286,473** | 696,367 |

1 Non-interest bearing loans with entities within DXS were created to effect the stapling of the Trust, DDF, DOT and DXO. These loan balances eliminate on consolidation within DXS.
2 Interest bearing loans with DEXUS Finance Pty Limited (DXF). These loan balances eliminate on consolidation within DXS.

# Note 12

**Derivative financial instruments**

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| **Current assets** | | |
| Interest rate swap contracts | **29** | - |
| Forward foreign exchange contracts | **-** | 1,332 |
| **Total current assets - derivative financial instruments** | **29** | 1,332 |
| | | |
| **Non-current assets** | | |
| Interest rate swap contracts | **7,731** | 9,386 |
| Cross currency swap contracts | **6,610** | - |
| **Total non-current assets - derivative financial instruments** | **14,341** | 9,386 |
| | | |
| **Current liabilities** | | |
| Interest rate swap contracts | **972** | 1,381 |
| Forward foreign exchange contracts | **-** | 49 |
| **Total current liabilities - derivative financial instruments** | **972** | 1,430 |
| | | |
| **Non-current liabilities** | | |
| Interest rate swap contracts | **19,742** | 35,038 |
| Cross currency swap contracts | **-** | 58 |
| **Total non-current liabilities - derivative financial instruments** | **19,742** | 35,096 |
| **Net derivative financial instruments** | **(6,344)** | (25,808) |

Refer note 26 for further discussion regarding derivative financial instruments.

# Note 13

**Current assets - other**

| | 2012 $'000 | 2012 $'000 |
|---|---|---|
| Prepayments | **1,887** | 2,806 |
| **Total current assets - other** | **1,887** | 2,806 |

# Note 14

## Non-current assets - investment properties

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Opening balance at the beginning of the year | **1,058,533** | 1,307,485 |
| Additions | **8,472** | 15,259 |
| Acquisitions | **22,248** | - |
| Lease incentives | **6,015** | 9,791 |
| Amortisation of lease incentives | **(6,661)** | (7,297) |
| Net fair value loss of investment properties | **(5,417)** | (21,616) |
| Rent straightlining | **974** | 921 |
| Disposals | **(18,500)** | (172,919) |
| Transfer to non-current assets classified as held for sale | **(140,138)** | (77,375) |
| Foreign exchange differences on foreign currency translation | **-** | 4,284 |
| **Closing balance at the end of the year** | **925,526** | 1,058,533 |

### Key valuation assumptions

Details of key valuation assumptions in relation to investment properties are outlined in note 13 of the DXS Financial Statements.

### Acquisitions

- On 18 January 2013, 131 Mica Street, Carole Park, QLD was acquired for S21.0 million, excluding acquisition costs.

### Disposals

- On 12 November 2012, 89 Egerton Street, Silverwater, NSW was disposed of for gross proceeds of $4.0 million.
- On 28 June 2013, 154 O'Riordan Street, Mascot, NSW was disposed of for gross proceeds of $14.5 million.

# 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).

Information relating to this entity is set out below.

| | | Ownership Interest | | | |
|---|---|---|---|---|---|
| | | **2013** | **2012** | **2013** | 2012 |
| **Name of entity** | **Principal activity** | % | % | **$'000** | $'000 |
| DEXUS Industrial Properties, Inc.[1] | Asset, property and funds management | - | 50.0 | - | 65,599 |
| **Total non-current assets - investments accounted for using the equity method** | | | | - | 65,599 |

1 The remaining 50% of this entity is owned by DDF. As a result, this entity was classed as controlled on a DDF consolidated basis prior to disposal.

DEXUS Industrial Properties, Inc. was formed in the United States.

**Movements in carrying amounts of investments accounted for using the equity method**

| | **2013** | 2012 |
|---|---|---|
| | **$'000** | $'000 |
| Opening balance at the beginning of the year | **65,599** | 162,513 |
| Share of net profit after tax | **26,322** | 3,398 |
| Distributions received/receivable | - | (109,656) |
| Interest sold during the year | **(90,533)** | - |
| Foreign exchange difference on foreign currency translation | **(1,388)** | 9,344 |
| **Closing balance at the end of the year** | - | 65,599 |
| | | |
| **Results attributable to investments accounted for using the equity method** | | |
| Operating profit before income tax | **26,322** | 3,398 |
| **Operating profit after income tax** | **26,322** | 3,398 |
| | **26,322** | 3,398 |
| Accumulated losses at the beginning of the year | **(223,528)** | (226,926) |
| Accumulated losses at the end of the year | **(197,206)** | (223,528) |

**Summary of the performance and financial position of investments accounted for using the equity method**

The Trust's share of aggregate profits, assets and liabilities of investments accounted for using the equity method are:

| | **2013** | 2012 |
|---|---|---|
| | **$'000** | $'000 |
| Profit from ordinary activities after income tax expense | **26,322** | 3,398 |
| Assets | - | 224,732 |
| Liabilities | - | 159,133 |
| Capital commitments | - | 183 |

## Note 16

### Non-current assets - other

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Tenant and other bonds | **143** | 158 |
| **Total non-current assets - other** | **143** | 158 |

## Note 17

### Current liabilities - payables

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Trade creditors | **6,204** | 9,456 |
| Accruals | **3,357** | 2,476 |
| Accrued capital expenditure | **632** | 1,060 |
| Prepaid income | **1,931** | 3,391 |
| Responsible Entity fee payable | **239** | 338 |
| GST payable | **202** | 91 |
| Accrued interest | **2,939** | 3,140 |
| Other payable to related party | **41,817** | 55,919 |
| **Total current liabilities - payables** | **57,321** | 75,871 |

## Note 18

### Interest bearing liabilities

| | Note | 2013 $'000 | 2012 $'000 |
|---|---|---|---|
| **Non-current** | | | |
| Bank loans | (a) | **-** | 50,927 |
| **Total secured** | | **-** | 50,927 |
| Deferred borrowing costs | | **-** | (1,523) |
| **Total non-current liabilities - interest bearing liabilities** | | **-** | 49,404 |
| **Total interest bearing liabilities** | | **-** | 49,404 |

**(a) Bank loans - secured**

Facilities secured by mortgages over investment properties sold as part of the remaining US industrial portfolio were repaid and associated mortgages discharged during the year.

## Note 19

**Current liabilities - provisions**

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Provision for distribution | 10,000 | 10,000 |
| **Total current liabilities - provisions** | 10,000 | 10,000 |

Movements in provision for distribution are set out below:

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Opening balance at the beginning of the year | 10,000 | 12,360 |
| Additional provisions | 10,000 | 10,000 |
| Payments of distributions | (10,000) | (12,360) |
| **Closing balance at the end of the year** | 10,000 | 10,000 |

A provision for distribution has been raised for the period ended 30 June 2013. This distribution is to be paid on 30 August 2013.

## Note 20

**Non-current liabilities - other**

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Tenant bonds | 111 | 811 |
| **Total non-current liabilities - other** | 111 | 811 |

## Note 21

**Non-current liabilities - deferred tax liabilities**

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| **The balance comprises temporary differences attributable to:** | | |
| Investment properties | - | 595 |
| **Total non-current liabilities - deferred tax liabilities** | - | 595 |
| **Movements** | | |
| Opening balance at the beginning of the year | 595 | 595 |
| Charged to the Statement of Comprehensive Income | (595) | - |
| **Closing balance at the end of the year** | - | 595 |

# Note 22
**Contributed equity**

### (a) Contributed equity

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Opening balance at the beginning of the year | 1,092,787 | 925,116 |
| Capital contribution | - | 174,979 |
| Capital contribution transaction costs | - | (78) |
| Buy back of contributed equity | (10,323) | (7,230) |
| **Closing balance at the end of the year** | **1,082,464** | 1,092,787 |

### (b) Number of units on issue

| | 2013 No. of units | 2012 No. of units |
|---|---|---|
| Opening balance at the beginning of the year | 4,783,817,657 | 4,839,024,176 |
| Buy back of contributed equity | (81,860,267) | (55,206,519) |
| **Closing balance at the end of the year** | **4,701,957,390** | 4,783,817,657 |

**Terms and conditions**

Each stapled security ranks equally with all other stapled securities for the purposes of distributions and on termination of the Trust. Each stapled security entitles the holder to vote in accordance with the provisions of the Constitution and the *Corporations Act 2001*.

# Note 23
**Reserves and accumulated losses**

### (a) Reserves

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Foreign currency translation reserve | 680 | 24,530 |
| **Total reserves** | **680** | 24,530 |
| | | |
| **Movements:** | | |
| **Foreign currency translation reserve** | | |
| Opening balance at the beginning of the year | 24,530 | 41,642 |
| Exchange differences on translating foreign operations | 2,770 | (6,732) |
| Foreign currency translation reserve transfer on partial disposal of foreign operations | (26,620) | (10,380) |
| **Closing balance at the end of the year** | **680** | 24,530 |

### (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.

# Note 23
**Reserves and accumulated losses** (continued)

### (c) Accumulated losses

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Opening balance at the beginning of the year | **(453,076)** | (390,193) |
| Net profit/(loss) attributable to unitholders | **100,090** | (52,883) |
| Distributions provided for or paid | **(10,000)** | (10,000) |
| **Closing balance at the end of the year** | **(362,986)** | (453,076) |

# Note 24
**Distributions paid and payable**

### (a) Distribution to unitholders

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| 30 June (payable 30 August 2013) | **10,000** | 10,000 |
| **Total distributions** | **10,000** | 10,000 |

### (b) Distribution rate

| | 2013 Cents per unit | 2012 Cents per unit |
|---|---|---|
| 30 June (payable 30 August 2013) | **0.21** | 0.21 |
| **Total distributions** | **0.21** | 0.21 |

# Note 25
**Parent entity financial information**

### (a) Summary financial information

The individual Financial Statements for the parent entity show the following aggregate amounts:

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Total current assets | **143,779** | 160,106 |
| Total assets | **1,099,935** | 1,524,226 |
| Total current liabilities | **77,711** | 86,664 |
| Total liabilities | **384,022** | 780,332 |
| | | |
| **Equity** | | |
| Contributed equity | **1,082,464** | 1,092,787 |
| Accumulated losses | **(366,551)** | (348,894) |
| **Total equity** | **715,913** | 743,893 |
| | | |
| Net profit/(loss) for the year from continuing operations | **45,159** | (3,679) |
| Net loss for the year from discontinued operations | **(52,817)** | (52,546) |
| Net loss for the year | **(7,657)** | (56,225) |
| **Total comprehensive loss for the year** | **(7,657)** | (56,225) |

# Note 25

**Parent entity financial information** (continued)

## (b) Investments in controlled entities

The parent entity has the following investments:

| | | Ownership Interest | | | |
|---|---|---|---|---|---|
| | | **2013** | 2012 | **2013** | 2012 |
| **Name of entity** | **Principal activity** | **%** | % | **$'000** | $'000 |
| Foundation Macquarie Park Trust | Industrial property investment | **100.0** | 100.0 | **91,195** | 96,159 |
| DEXUS PID Trust | Industrial property investment | **100.0** | 100.0 | **162,822** | 161,958 |
| DIT Subtrust No. 1 | Industrial property investment | **100.0** | - | **736** | - |
| DIT Luxemburg 1 SARL | Investment trust | **100.0** | 100.0 | **-** | - |
| DEXUS GLOG Trust | Industrial property investment | **100.0** | 100.0 | **-** | - |
| DEXUS US Whirlpool Trust | Industrial property investment | **100.0** | 100.0 | **-** | 71,469 |
| DEXUS Canada Trust | Industrial property investment | **100.0** | 100.0 | **-** | 20,412 |
| **Total investments in controlled entities** | | | | **254,753** | 349,998 |

## (c) Guarantees entered into by the parent entity

Refer to note 27 for details of guarantees entered into by the parent entity.

## (d) Contingent liabilities

The parent entity had no contingent liabilities as at 30 June 2013 (2012: nil).

## (e) Capital commitments

The following amounts represent capital commitments of the parent entity for investment properties contracted at the end of the reporting period but not recognised as liabilities payable.

| | **2013** | 2012 |
|---|---|---|
| | **$'000** | $'000 |
| Investment properties | **47** | 1,551 |
| **Total capital commitments** | **47** | 1,551 |

# Note 26

## Financial risk management

To ensure the effective and prudent management of the Trust's capital and financial risks, the Trust (as part of DXS) has a well established framework consisting of a Board Finance Committee and a Capital Markets Committee. The Board Finance Committee is accountable to and primarily acts as an advisory body to the DXFM Board and includes three Directors of the DXFM Board. Its responsibilities include reviewing and recommending financial risk management policies and funding strategies for approval.

The Capital Markets Committee is a management committee that is accountable to both the Board Finance Committee and the Group Management Committee. It convenes at least quarterly and conducts a review of financial risk management exposures including liquidity, funding strategies and hedging. It is also responsible for the development of financial risk management policies and funding strategies for recommendation to the Board Finance Committee, and the approval of treasury transactions within delegated limits and powers.

Further information on the DXS governance structure, including terms of reference, is available at www.dexus.com

### (1) Capital risk management

The Trust manages its capital to ensure that entities within the Trust will be able to continue as a going concern while maximising the return to owners through the optimisation of the debt and equity balance.

The capital structure of the Trust consists of debt (see note 18), cash and cash equivalents, and equity attributable to unitholders. 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 unitholders' equity;
- potential impacts on DXS's credit rating; and
- other market factors and circumstances.

To minimise the potential impacts of foreign exchange risk on the Trust's capital structure, the Trust's policy is to hedge the majority of its foreign asset and liability exposures. Consequently the size 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 gearing ratio at 30 June 2013 was 25.9% (as detailed below).

| Gearing ratio | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Total interest bearing liabilities[1] | **279,894** | 747,352 |
| Total tangible assets[2] | **1,082,218** | 1,524,070 |
| **Gearing ratio[3]** | **25.9%** | 49.0% |

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 derivatives and deferred tax balances as reported internally to management.
3 Gearing is managed centrally for DXS. The gearing ratio as disclosed in the DEXUS Property Group Financial Statements 2013 is 29.1% (2012: 27.8%) (refer note 28 of the DXS Financial Statements).

The Trust is not rated by ratings agencies, however, DXS is rated BBB+ by Standard and Poor's and Baa1 by Moody's. The Trust considers potential impacts upon the rating when assessing the strategy and activities of the Trust and regards those impacts as an important consideration in its management of the Trust's capital structure.

# Note 26

**Financial risk management** (continued)

### (1) Capital risk management (continued)

The Trust is required to comply with certain financial covenants in respect of its interest-bearing liabilities. During 2013 and 2012 reporting periods, the Trust was in compliance with all of its financial covenants.

The Responsible Entity for the Trust (DXFM) has been issued with an Australian Financial Services Licence (AFSL). The licence is subject to certain capital requirements including the requirement to hold minimum net tangible assets and to maintain minimum liquidity. DXFM must also prepare rolling cash projections over at least the next 12 months and demonstrate it will have access to sufficient financial resources to meet its liabilities that are expected to be payable over that period. Cash projections and assumptions are approved, at least quarterly, by the Board of the Responsible Entity.

### (2) Financial risk management

The Trust'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. Financial risk management is not managed at the individual trust level, but holistically as part of DXS. DXS's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Trust.

Accordingly, the Trust 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 Trust does not trade in derivative instruments for speculative purposes. The Trust uses different methods to measure the different types of risks to which it is exposed, including monitoring the current and forecast levels of exposure, and conducting sensitivity analysis.

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 Trust'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 Trust's exposures and (at least annually) updates its treasury policies and procedures.

### (a) Liquidity risk

Liquidity risk is the risk that the Trust will not have sufficient available funds to meet financial obligations in an orderly manner when they fall due or at an acceptable cost.

The Trust 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; and
- 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.

# Note 26

**Financial risk management** (continued)

## (2) Financial risk management (continued)

### (a) Liquidity risk (continued)

**Refinancing risk**

A key liquidity risk is the Trust's ability to refinance its current debt facilities. As the Trust'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 Trust's key risk management strategy for margin price risk on refinancing is to spread the maturities of debt facilities over different time periods to reduce the volume of facilities to be refinanced and the exposure to market conditions in any one period.

An analysis of the contractual maturities of the Trust's interest bearing liabilities and derivative financial instruments is shown in the table below. The amounts in the table represent undiscounted cash flows.

| | 2013 | | | | 2012 | | | |
|---|---|---|---|---|---|---|---|---|
| | Expiring within one year | Expiring between one and two years | Expiring between two and five years | Expiring after five years | Expiring within one year | Expiring between one and two years | Expiring between two and five years | Expiring after five years |
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| Receivables | 3,763 | - | - | - | 16,629 | - | - | - |
| Payables | 57,321 | - | - | - | 75,871 | - | - | - |
| | (53,558) | - | - | - | (59,242) | - | - | - |
| **Loans with related parties and interest[1]** | 15,555 | 15,555 | 333,139 | - | 35,929 | 35,929 | 107,787 | 751,318 |
| **Interest bearing liabilities and interest** | | | | | | | | |
| Floating interest bearing liabilities and interest | - | - | - | - | 1,049 | 1,049 | 3,148 | 51,436 |
| **Total interest bearing liabilities and interest[2]** | - | - | - | - | 1,049 | 1,049 | 3,148 | 51,436 |
| **Derivative financial instruments** | | | | | | | | |
| Derivative assets | 3,119 | 50,054 | 23,741 | - | 5,022 | 3,211 | 3,551 | - |
| Derivative liabilities | 7,791 | 51,082 | 30,826 | 7,040 | 10,766 | 5,861 | 18,468 | 10,913 |
| **Total net derivative financial instruments[3]** | (4,672) | (1,028) | (7,085) | (7,040) | (5,744) | (2,650) | (14,917) | (10,913) |

1 Includes estimated interest.
2 Refer to note 18 (interest bearing liabilities). Excludes deferred borrowing costs, but includes estimated fees and interest.
3 The notional maturities on derivatives is only shown for cross currency interest rate swaps (refer foreign exchange rate risk) and forward foreign exchange contracts as they are the only instruments where a principal amount is exchanged. For interest rate swaps, only the net interest cash flows (not the notional principal) are included. For financial assets and liabilities that have floating rate interest cash flows, future cash flows have been calculated using static interest and exchange rates prevailing at the end of each reporting period. Refer to note 12 (derivative financial instruments) for fair value of derivatives. Refer note 27 (contingent liabilities) for financial guarantees.

# Note 26

**Financial risk management** (continued)

## (2) Financial risk management (continued)

### (b) Market risk

Market risk is the risk that the fair value or future cash flows of the Trust's financial instruments will fluctuate because of changes in market prices. The market risks that the Trust 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 Trust arises from interest bearing financial assets and liabilities that the Trust holds. Borrowings issued at variable rates expose the Trust to cash flow interest rate risk. Borrowings issued at fixed rates expose the Trust to fair value interest rate risk.

The primary objective of the Trust's risk management policy for interest rate risk is to minimise the effects of interest rate movements on the Trust's portfolio of financial assets and liabilities and financial performance. The policy sets out the minimum and maximum hedging amounts for the Trust, 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 Trust's cash flows is managed within the parameters defined by the Group Treasury Policy.

The Trust holds borrowings in multiple currencies with both fixed and floating rate exposures and is exposed to interest rate risk related to each particular currency.

The net notional amount of fixed rate debt and interest rate swaps in place in each year and the weighted average effective hedge rate per currency is set out below.

| | June 2014 $'000 | June 2015 $'000 | June 2016 $'000 | June 2017 $'000 | June 2018 $'000 | > June 2019 $'000 |
|---|---|---|---|---|---|---|
| **Interest rate swaps** | | | | | | |
| A$ hedged[1] | 220,000 | 220,000 | 261,667 | 220,000 | 150,833 | 70,000 |
| A$ hedge rate (%)[2] | 4.36% | 4.47% | 4.83% | 4.75% | 5.62% | 6.07% |

1 Amounts do not include fixed rate debt that has been swapped to floating rate debt through cross-currency swaps.
2 The above hedge rates do not include margins payable on borrowings.

**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 Trust's floating rate debt and derivative cash flows. Net interest expense is only sensitive to movements in market rates to the extent that floating rate debt is not hedged.

| | | **2013 (+/-) $'000** | 2012 (+/-) $'000 |
|---|---|---|---|
| +/- 0.50% (50 basis points) | A$ | **237** - | 234 |
| +/- 0.50% (50 basis points) | US$ | **-** | 1,100 |
| +/- 0.50% (50 basis points) | € | **27** | - |
| **Total A$ equivalent** | | **275** | 846 |

The increase or decrease in interest expense is proportional to the increase or decrease in interest rates.

# Note 26

**Financial risk management** (continued)

**(2) Financial risk management** (continued)

**(b) Market risk** (continued)

(i) Interest rate risk (continued)

**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 Trust with an economic hedge, the Trust has elected not to apply hedge accounting to its interest rate derivatives. Accordingly, gains or losses arising from changes in the fair value are reflected in the Statement of Comprehensive Income.

| | | **2013** | 2012 |
|---|---|---|---|
| | | **(+/-) $'000** | (+/-) $'000 |
| +/- 0.50% (50 basis points) | A$ | **4,993** | 7,084 |
| +/- 0.50% (50 basis points) | US$ | **(672)** | 368 |
| **Total A$ equivalent** | | **4,268** | 7,446 |

(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 Trust's functional currency will have an adverse effect on the Trust.

The Trust operates internationally with an investment in North America, France and Germany. As a result of these activities, the Trust has foreign exchange risk, arising primarily from:

- translation of investments in foreign operations;
- borrowings and cross currency swaps denominated in foreign currencies; and
- earnings distributions and other transactions denominated in foreign currencies.

The objective of the Trust's foreign exchange risk management policy is to ensure that movements in exchange rates have minimal adverse impact on the Trust'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 Trust'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 equity and net tangible assets.

Where Australian dollar borrowings are used to fund the foreign currency investment, the Trust may transact cross currency swaps for the purpose of providing an alternate source of foreign currency funding while maintaining the natural hedge. In these instances the Trust 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 Trust transacts cross currency swaps for the purpose of ensuring the Trust 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.

# Note 26

**Financial risk management** (continued)

**(2) Financial risk management** (continued)

**(b) Market risk** (continued)

(ii) Foreign exchange risk (continued)

The Trust's net foreign currency exposures for net investments in foreign operations and hedging instruments are as follows:

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| US$ assets[1] | - | 188,873 |
| US$ net borrowings and cross currency swaps[2] | 90 | (239,447) |
| **$US denominated net investment** | **90** | (50,574) |
| **% hedged** | **0%** | 127% |
| € assets[1] | **6,000** | 36,650 |
| € net borrowings and cross currency swaps[2] | **(4,248)** | (32,613) |
| **€ denominated net investment** | **1,752** | 4,037 |
| **% hedged** | **71%** | 89% |
| **Total foreign net investment (A$ equivalent)** | **2,567** | (44,637) |
| **Total % hedged[3]** | **71%** | 119% |

1 Assets exclude working capital and cash as reported internally to management.

2 Net borrowings equals interest bearing liabilities less cash. Cross currency swap amounts comprise the foreign currency denominated leg of the cross currency interest swaps.

3 Hedging for investments in foreign operations is managed centrally for DXS. The total % hedge as disclosed in the DXS Financial Statements 2012 is 7% (refer note 28 of the DXS Financial Statements).

**Sensitivity on equity (foreign currency translation reserve)**

The table below shows the impact on the foreign currency translation reserve for changes in the translated value of foreign currency assets and liabilities for an increase and decrease in foreign exchange rates per currency. The increase and decrease in cents per currency has been based on the historical movements of the Australian dollar relative to each currency[1]. The cents per currency has been applied to the spot rates prevailing at the end of each reporting period[2]. The impact on the foreign currency translation reserve arises as the translation of the Trust's foreign currency assets and liabilities are recorded (in Australian dollars) directly in the foreign currency translation reserve.

| | | 2013 $'000 | 2012 $'000 |
|---|---|---|---|
| + 11.8 cents (12.8%) | US$ (A$ Equivalent) | **11** | (5,696) |
| - 11.8 cents (12.8%) | US$ (A$ Equivalent) | **(14)** | 7,394 |
| + 8.9 cents (12.5%) | € (A$ Equivalent) | **274** | 563 |
| - 8.9 cents (12.5%) | € (A$ Equivalent) | **(353)** | (727) |

1 The sensitivity on market rates has been based on the standard deviation of the annual change in the Australian dollar exchange rate per currency since 1984 or commencement.

2 Exchange rates at 30 June 2013: A$/US$ 0.9275 (2012: 1.0191), A$/€ 0.7095 (2012: 0.8092).

# Note 26

**Financial risk management** (continued)

**(2) Financial risk management** (continued)

**(b) Market risk** (continued)

(ii) Foreign exchange risk (continued)

**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 point increase and decrease in market rates[1]. The sensitivity on the fair value arises from the impact that changes in short-term and long-term market rates will have on the interest rate mark-to-market valuation of the cross currency swaps. The Trust has elected not to apply hedge accounting to its cross currency swaps. Accordingly, gains or losses arising from changes in the fair value are reflected in the Statement of Comprehensive Income.

| | | **2013** | 2012 |
|---|---|---|---|
| | | **(+/-) $'000** | (+/-) $'000 |
| + 0.50% (50 basis point) | US$ (A$ Equivalent) | **655** | - |
| **Total A$ equivalent** | | **655** | - |

1 The above analysis does not include sensitivity to movements in BILLS LIBOR.

**Net foreign currency denominated cash flows**

Foreign exchange risk exists in relation to net cash flows and transactions with foreign operations that are denominated in foreign currencies. This risk is managed through the use of forward foreign exchange contracts (after taking into account the natural hedging through foreign denominated interest expense).

Forward foreign exchange contracts outstanding at 30 June 2013 and 30 June 2012 are as follows:

| | **2013** | **2013** | **2013** | 2012 | 2012 | 2012 |
|---|---|---|---|---|---|---|
| | **To pay US$'000** | **To receive A$'000** | **Weighted average exchange rate** | To pay US$'000 | To receive A$'000 | Weighted average exchange rate |
| 1 year or less | - | - | - | - | 1,316 | - |

# Note 26

**Financial risk management** (continued)

**(2) Financial risk management** (continued)

**(c) Credit risk**

Credit risk is the risk of loss to the Trust in the event of non-performance by the Trust's financial instrument counterparties. Credit risk arises from cash and cash equivalents, loans and receivables, and derivative financial instruments. The Trust has exposure to credit risk on all financial assets.

The Trust manages this risk by:

- adopting a process for determining an approved counterparty, with consideration of qualitative factors as well as the counterparty's 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; and
- regularly monitoring loans and receivables on an ongoing basis.

A minimum S&P rating of A– (or Moody's or Fitch equivalent) is required to become or remain an approved counterparty. As at 30 June 2013, the lowest rating of counterparties the Trust is exposed to was A- (Fitch) (2012: A (S&P)).

Financial instrument transactions are spread among a number of approved financial institutions within specified credit limits to minimise the Trust's exposure to any one counterparty. As a result, there is no significant concentration of credit risk for financial instruments.

The maximum exposure to credit risk at 30 June 2013 and 30 June 2012 is the carrying amount of financial assets recognised on the Statement of Financial Position.

As at 30 June 2013 and 30 June 2012, there were no significant concentrations of credit risk for trade receivables. Trade receivable balances and the credit quality of trade debtors are consistently monitored on an ongoing basis.

The ageing analysis of loans and receivables net of provisions at 30 June 2013 is ($'000): 3,659 (0-30 days), (121) (31-60 days), (35) (61-90 days), 260 (91+ days). The ageing analysis of loans and receivables net of provisions at 30 June 2012 is ($'000): 16,218 (0-30 days), 81 (31-60 days), 35 (61-90 days), 295 (91+ days). Amounts over 31 days are past due, however, no receivables are impaired.

The credit quality of financial assets that are neither past due nor impaired is consistently monitored to ensure that there are no adverse changes in credit quality.

# Note 26

**Financial risk management** (continued)

## (2) Financial risk management (continued)

### (d) Fair value of financial instruments

Fair value interest rate risk is the risk of an adverse change in the net fair (or market) value of an asset or liability due to movements in interest rates.

As at 30 June 2013 and 30 June 2012, the carrying amounts and fair value of financial assets and liabilities are shown as follows:

| | **2013 Carrying amount[1] $'000** | **2013 Fair value[2] $'000** | 2012 Carrying amount[1] $'000 | 2012 Fair value[2] $'000 |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Cash and cash equivalents | **2,836** | **2,836** | 11,862 | 11,862 |
| Loans and receivables (current) | **4,158** | **4,158** | 16,629 | 16,629 |
| Derivative assets | **14,370** | **14,370** | 10,718 | 10,718 |
| Loans with related parties | **138,948** | **138,948** | 266,021 | 266,021 |
| **Total financial assets** | **160,312** | **160,312** | 305,230 | 305,230 |
| **Financial liabilities** | | | | |
| Trade payables | **58,159** | **58,159** | 75,871 | 75,871 |
| Derivative liabilities | **20,714** | **20,714** | 36,526 | 36,526 |
| Interest bearing liabilities | **-** | **-** | 50,927 | 50,927 |
| Loans with related parties | **286,473** | **286,473** | 696,367 | 696,367 |
| **Total financial liabilities** | **365,346** | **365,346** | 859,691 | 859,691 |

1 Carrying value is equal to the value of the financial instruments on the Statement of Financial Position.

2 Fair value is the amount for which the financial instrument could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Where there is a difference between the carrying amount and fair value the difference is not recognised in the Statement of Financial Position.

The fair value of interest bearing liabilities and derivative financial instruments has been determined by discounting the expected future cash flows by the relevant market interest rates. The discount rates applied range from 0.19% to 4.56% for US$ and 2.66% to 5.29% for A$. Refer note 1(r) for fair value methodology for financial assets and liabilities.

**Determination of fair value**

The Trust 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.

# Note 26

**Financial risk management** (continued)

**(2) Financial risk management** (continued)

**(d) Fair value of financial instruments** (continued)

The following tables present the assets and liabilities measured and recognised as at fair value at 30 June 2013 and 30 June 2012.

| | **Level 1 $'000** | **Level 2 $'000** | **Level 3 $'000** | **2013 $'000** |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Derivative assets | | | | |
| Interest rate derivatives | - | **7,760** | - | **7,760** |
| Cross currency swaps | - | **6,610** | - | **6,610** |
| | - | **14,370** | - | **14,370** |
| **Financial liabilities** | | | | |
| Derivative liabilities | | | | |
| Interest rate derivatives | - | **20,715** | - | **20,715** |
| | - | **20,715** | - | **20,715** |

| | Level 1 $'000 | Level 2 $'000 | Level 3 $'000 | 2012 $'000 |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Derivative assets | | | | |
| Interest rate derivatives | - | 9,386 | - | 9,386 |
| Forward exchange contracts | - | 1,332 | - | 1,332 |
| | - | 10,718 | - | 10,718 |
| **Financial liabilities** | | | | |
| Interest bearing liabilities | | | | |
| Floating interest bearing liabilities | - | 50,927 | - | 50,927 |
| | - | 50,927 | - | 50,927 |
| Derivative liabilities | | | | |
| Interest rate derivatives | - | 36,419 | - | 36,419 |
| Cross currency swaps | - | 58 | - | 58 |
| Forward exchange contracts | - | 49 | - | 49 |
| | - | 36,526 | - | 36,526 |

During the year, there were no transfers between Level 1, Level 2 and Level 3 fair value measurements.

# Note 27

**Contingent liabilities**

The Trust together with DDF, DXO and DOT is a guarantor of a total of A$1,473.5 million and US$50.0 million (A$53.9 million) of bank bilateral facilities, a total of A$575.0 million of medium term notes, a total of US$130.0 million (A$140.2 million) of privately placed notes, and a total of US$250.0 million (A$268.8 million) public 144A senior notes, which have all been negotiated to finance the Trust and other entities within DXS. The guarantees have been given in support of debt outstanding and drawn against these facilities, and may be called upon in the event that a borrowing entity has not complied with certain requirements such as failure to pay interest or repay a borrowing, whichever is earlier. During the period no guarantees were called.

The guarantees are issued in respect of the Trust and do not constitute an additional liability to those already existing in interest bearing liabilities on the Statement of Financial Position.

On settlement of the US sales transaction (refer note 10), a letter of credit was issued in relation to the sale of a number of properties located in the United States. The letter of credit was issued for US$15.2 million (A$16.4 million) and is expected to remain on issue until September 2014.

The Directors of the Responsible Entity are not aware of any other contingent liabilities in relation to the Trust, other than those disclosed in the Financial Statements, which should be brought to the attention of unitholders as at the date of completion of this report.

# Note 28

**Commitments**

## (a) Capital commitments

The following amounts represent capital expenditure on investment properties contracted at the end of each reporting period but not recognised as liabilities payable:

| | **2013** | 2012 |
|---|---|---|
| | **$'000** | $'000 |
| Investment properties | **614** | 1,996 |
| **Total capital commitments** | **614** | 1,996 |

## (b) Lease receivable commitments

The future minimum lease payments receivable by the Trust are:

| | **2013** | 2012 |
|---|---|---|
| | **$'000** | $'000 |
| Within one year | **66,830** | 83,970 |
| Later than one year but not later than five years | **155,837** | 247,903 |
| Later than five years | **78,652** | 93,166 |
| **Total lease receivable commitments** | **301,319** | 425,039 |

# Note 29
## Related parties

### Responsible Entity

DXFM is the Responsible Entity of the Trust.

### Responsible Entity fees

Under the terms of the Trust's Constitution, the Responsible Entity is entitled to receive fees in relation to the management of the Trust. DXFM's parent entity, DEXUS Holdings Pty Limited (DXH), is entitled to be reimbursed for administration expenses incurred on behalf of the Trust. DEXUS Property Services Pty Limited (DXPS), a wholly owned subsidiary of DXH, is entitled to property management fees from the Trust.

### Related party transactions

Responsible Entity fees in relation to the Trust assets are on a cost recovery basis.

### DEXUS Funds Management Limited and its related entities

There were a number of transactions and balances between the Trust and the Responsible Entity and its related entities, as detailed below:

| | **2013** | 2012 |
|---|---|---|
| | **$** | $ |
| Responsible Entity fees paid and payable | **3,084,569** | 4,025,546 |
| Property management fees paid and payable to DXPS | **2,530,596** | 2,496,534 |
| Administration expenses paid and payable to DXH | **3,204,412** | 3,739,108 |
| Responsible Entity fees payable at the end of each reporting period (included above) | **239,461** | 337,570 |
| Property management fees payable at the end of each reporting period (included above) | **661,659** | 239,773 |
| Administration expenses payable at the end of each reporting period (included above) | **62,913** | 4,312 |
| Sale of 154 O'Riordan Street, Mascot, NSW to DXO | **14,500,000** | - |

### Entities within DXS

Aggregate amounts included in the determination of profit that resulted from transactions with each class of other related parties:

| | **2013** | 2012 |
|---|---|---|
| | **$** | $ |
| Interest revenue | **770,797** | 1,528,584 |
| Interest expense | **26,617,268** | 58,470,680 |
| Interest bearing loans advanced to entities within DXS | **544,308,000** | 619,306,260 |
| Interest bearing loans advanced from entities within DXS | **101,211,000** | 149,380,336 |

# Note 29

**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 [1,4,5] |
| E A Alexander, AM, BComm, FCA, FAICD, FCPA [1,2] |
| B R Brownjohn, BComm [1,2,7] |
| J C Conde, AO, BSc, BE (Hons), MBA [1,4,6] |
| T Dwyer, BJuris (Hons), LLB (Hons) [1,3] |
| S F Ewen, OAM [1,4] |
| Craig D Mitchell, BComm, EMBA, FCPA [10] |
| W R Sheppard, BEc (Hons) [1,2,8] |
| D J Steinberg, BEc, FRICS, FAPI |
| P B St George, CA(SA), MBA [1,5,9] |

1 Independent Director
2 Board Audit, Risk & Sustainability Committee Member
3 Board Compliance Committee Member
4 Board Nomination, Remuneration & Governance Committee Member
5 Board Finance Committee Member
6 Resigned as Board Compliance Committee Member on 1 July 2012
7 Resigned as Board Finance Committee Member on 1 July 2012
8 Appointed as Board Finance Committee Member on 1 July 2012
9 Resigned as Board Audit, Risk & Sustainability Committee Member on 1 July 2012
10 Appointed as Director on 12 February 2013

No Directors held an interest in the Trust for the years ended 30 June 2013 and 30 June 2012.

### Other key management personnel

In addition to the Directors listed above, the following persons were deemed by the Board Nomination and Remuneration & Governance Committee to be key management personnel during all or part of the financial year:

| Name | Title |
|---|---|
| Tanya L Cox[1] | Executive General Manager, Property Services and Chief Operating Officer |
| Ross Du Vernet[2] | Executive General Manager, Strategy, Transactions & Research |
| John C Easy[1] | General Counsel |
| Kevin George[3] | Executive General Manager, Office & Industrial |

1 Ceased to be key management personnel on 1 July 2012.
2 Appointed as key management personnel on 1 July 2012.
3 Appointed as key management personnel on 10 December 2012.

### Key management personnel compensation

| | **2013** | 2012 |
|---|---|---|
| | **$** | $ |
| **Compensation** | | |
| Short-term employee benefits | **9,219,857** | 10,166,375 |
| Post employment benefits | **229,763** | 247,967 |
| Other long-term benefits | **1,116,082** | 3,115,681 |
| Termination benefits | **-** | 2,300,000 |
| Security-based payments | **1,383,669** | 330,000 |
| | **11,949,371** | 16,160,023 |

# Note 29

**Related parties** (continued)

### Equity instrument disclosures relating to key management personnel

The number of DXS stapled securities held during the financial year by each key management personnel, including their personally related parties, are set out below:

| | Opening balance 1 July 2012 | Purchases | Other[1] | Closing balance 30 June 2013 |
|---|---|---|---|---|
| **Directors** | | | | |
| Christopher T Beare | - | 100,000 | - | 100,000 |
| Elizabeth A Alexander, AM | - | 100,000 | - | 100,000 |
| Barry R Brownjohn | - | 50,000 | - | 50,000 |
| John C Conde, AO | - | 100,000 | - | 100,000 |
| Tonianne Dwyer | - | 100,000 | - | 100,000 |
| Stewart F Ewen, OAM | - | 100,000 | - | 100,000 |
| Craig D Mitchell | - | - | 539,782 | 539,782 |
| W Richard Sheppard | - | 100,000 | - | 100,000 |
| Darren J Steinberg | - | - | 453,417 | 453,417 |
| Peter B St George | - | 104,000 | - | 104,000 |
| **Other key management personnel** | | | | |
| Ross Du Vernet[2] | - | - | 215,913 | 215,913 |
| Kevin George[3] | - | - | - | - |

1 Performance Rights granted under the 2012 Transitional Performance Rights Plan (refer note 36 of the DEXUS Property Group Annual Report).
2 Appointed as key management personnel on 1 July 2012.
3 Appointed as key management personnel on 10 December 2012.

The DXFM Board has approved a grant of performance rights to DXS stapled securities to eligible participants (refer note 36 of the DEXUS Property Group Annual Report). Details of the number of performance rights issued to each of the key management personnel are set out in the Remuneration Report.

There were no loans or other transactions with key management personnel or their related parties during the years ended 30 June 2013 and 30 June 2012.

# Note 29

**Related parties** (continued)

## Remuneration Report

### 1. Overview

The Board has pleasure in presenting the Remuneration Report for the DEXUS Property Group (Group). As with prior years, the Remuneration Report has been prepared in accordance with the Corporations Act and relevant accounting standards. Whilst the Group is not statutorily required to prepare such a report, the Board continues to believe that the disclosure of the Group's remuneration practices is in the best interests of all security holders.

Effective 1 July 2012, the Group implemented its new remuneration framework, which includes a new Short-term Incentive (STI) and Long-term Incentive (LTI) plan. The operation of these plans received security holder approval at the Group's Annual General Meeting on 5 November 2012.

The Board believes that the Group's remuneration framework encourages Executives to perform in the best interests of security holders. Short term financial and operational objectives are approved annually by the Board for each Executive, promoting alignment between investor returns and the rewards an Executive can receive under the STI plan. In addition, the Board has determined a set of financial performance hurdles within the LTI plan which provide the Executive with a performance and retention incentive which is strongly linked to security holder returns over the longer-term.

The main Executive remuneration actions for the year ending 30 June 2013 were:

- The implementation of the new remuneration framework effective 1 July 2012
- No fixed remuneration increases for Executives
- The closure of the DEXUS Performance Payment (DPP) and DEXUS Deferred Performance Payment (DDPP) plans
- The Board exercised its discretion to not apply a performance multiplier to vesting legacy DDPP plan outcomes
- Performance pay outcomes for Executives approved by the Board reflect the Group's strong financial and operational results
- Non-Executive Directors base fees remain unchanged since 1 July 2010

Effective 1 July 2013, the Board have approved an average fixed remuneration increase of 2% for Executives and 3% for other employees, noting that that the fixed remuneration for the Chief Executive Officer will remain unchanged.

This Remuneration Report has been prepared in accordance with AASB 124 *Related Party Disclosures* and section 300A of the *Corporations Act 2001* for the year ended 30 June 2013. The information provided in this Report has been audited in accordance with the provisions of section 308 (3C) of the *Corporations Act 2001*.

### 2. Key Management Personnel

In this report, Key Management Personnel (KMP) are those individuals having the authority and responsibility for planning, directing and controlling the activities of the Group, either directly or indirectly. They comprise:

- Non-Executive Directors
- Executive Directors (Chief Executive Officer & Chief Financial Officer)
- Key Executives considered KMP under the *Corporations Act 2001* (Executive KMP)

Below are the individuals determined to be KMP of the Group, classified between Non-Executive Directors, Executive Directors and Executive KMP:

## Non-Executive Directors

| Non-Executive Director | Title | KMP 2012 | KMP 2013 |
|---|---|---|---|
| Christopher T Beare | Chair | ✓ | ✓ |
| Elizabeth A Alexander AM | Director | ✓ | ✓ |
| Barry R Brownjohn | Director | ✓ | ✓ |
| John C Conde AO | Director | ✓ | ✓ |
| Tonianne Dwyer | Director | ✓ | ✓ |
| Stewart F Ewen OAM | Director | ✓ | ✓ |
| W Richard Sheppard | Director | ✓ | ✓ |
| Peter B St George | Director | ✓ | ✓ |

## Executive Directors

| Executive Directors | Position | KMP 2012 | KMP 2013 |
|---|---|---|---|
| Darren J Steinberg | Chief Executive Officer | Part-Year | ✓ |
| Craig D Mitchell | Chief Financial Officer | ✓ | ✓ |

## Executive KMP

| Executive KMP | Position | KMP 2012 | KMP 2013 |
|---|---|---|---|
| Kevin L George | Executive General Manager, Office & Industrial | N/A | Part-Year |
| Ross G Du Vernet | Executive General Manager, Transactions, Strategy & Research | No | ✓ |

## Group Management Committee Members - Previously Included as Executive KMP

| Former Executive KMP | Position | KMP 2012 | KMP 2013 |
|---|---|---|---|
| Tanya L Cox | Executive General Manager, Property Services & Chief Operating Officer | ✓ | No |
| John C Easy | General Counsel & Company Secretary | ✓ | No |

Ms Cox and Mr Easy continue as Group Management Committee members. The current organisation structure and membership of internal committees have led to a change in those considered by the Board to be Executive KMP for the 2013 year. The Board has indicated that the composition of Executive KMP may change from year to year in line with the strategic and operational focus of the Group.

### 3. Board Nomination, Remuneration & Governance Committee

The objectives of the Committee are to assist the Board in fulfilling its responsibilities by overseeing all aspects of Non-Executive Director and Executive remuneration, as well as Board nomination and performance evaluation. Primarily, the responsibilities of the Committee are to review and recommend to the Board:

- Board and CEO succession plans
- performance evaluation procedures for the Board, its committees and individual Directors
- the nomination, appointment, re-election and removal of Directors
- the Group's approach to remuneration, including design and operation of employee incentive plans
- Executive performance and remuneration outcomes
- Non-Executive Directors' fees

The Committee comprises three independent Non-Executive Directors. For the year ended 30 June 2013 Committee members were:

| Non-Executive Director | Title | 2012 | 2013 |
|---|---|---|---|
| John C Conde AO | Committee Chair | ✓ | ✓ |
| Christopher T Beare | Committee Member | ✓ | ✓ |
| Stewart F Ewen OAM | Committee Member | ✓ | ✓ |

Mr Conde continued in his role as Committee Chair, drawing upon his extensive experience from a diverse range of appointments, including his role as President of the Commonwealth Remuneration Tribunal. The Committee's experience is further enhanced through the membership of Mr Beare and Mr Ewen, each of whom has significant management experience in the property and financial services sectors.

The Committee operates independently from management, and may at its discretion appoint external advisors or instruct management to compile information for its consideration. The CEO attends certain Committee meetings by invitation, where management input is required. The CEO is not present during any discussions related to his own remuneration arrangements.

During the year the Committee appointed Egan Associates to provide remuneration advisory services. Egan Associates were paid a total of $12,705 for remuneration recommendations made to the Committee and $39,097 for other advisory services. The Committee is satisfied the advice received from Egan Associates is free from undue influence from the KMP to whom the remuneration recommendations relate. Egan Associates also confirmed in writing that the remuneration recommendations were made free from undue influence by the relevant KMP.

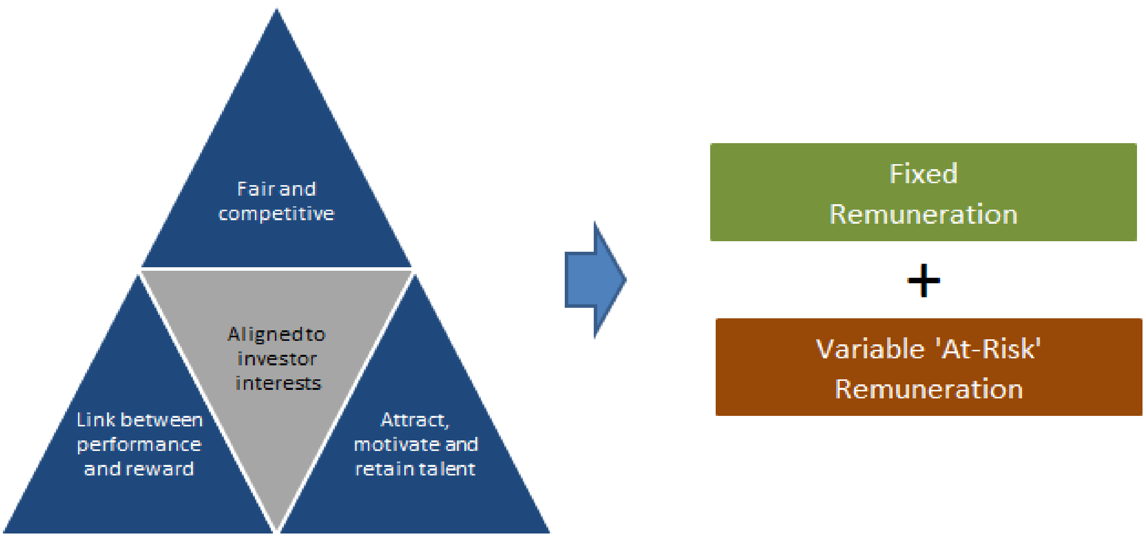
The 2012 Remuneration Report received positive security holder support at the 2012 Annual General Meeting with a vote of 98.3% in favour.

## 4. Executive Remuneration

### Context

The Board believes that Executives should be rewarded at levels consistent with the complexity and risks involved in their position. Incentive awards should be scaled according to the relative performance of the Group, as well as business unit performance and individual effectiveness.

The Group's remuneration principles and target remuneration structure is:



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.

### 5. Remuneration Structure

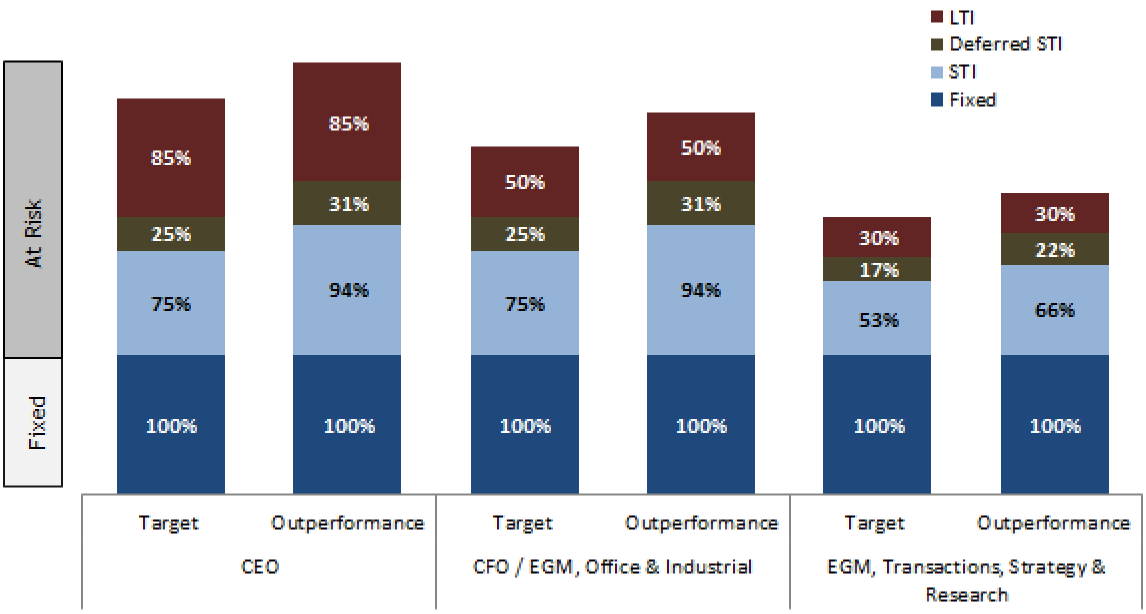
#### Remuneration Mix

The remuneration structure for Executives comprises fixed remuneration, a short term incentive and a long term incentive. The mix between these components varies according to the individual's position and is determined based on the Group's remuneration principles detailed above.

The remuneration mix for Executives during 2013 was:

| Executive | Fixed | Target STI | Target Deferred STI | LTI |
|---|---|---|---|---|
| Darren J Steinberg | 35% | 26% | 9% | 30% |
| Craig D Mitchell | 40% | 30% | 10% | 20% |
| Kevin L George | 40% | 30% | 10% | 20% |
| Ross G Du Vernet | 50% | 26% | 9% | 15% |

The chart below shows the remuneration structure for Executives expressed as a percentage of Fixed Remuneration at both target and outperformance (stretch) levels.




## Total Remuneration

| | |
|---|---|
| How does the Board determine total remuneration? | The Committee reviews a considerable amount of information from a variety of sources to ensure an appropriate outcome reflecting market practice (incorporating various benchmarks) is achieved. These sources include:<br>▪ Publicly available remuneration reports of A-REIT competitors<br>▪ Publicly available remuneration reports from ASX listed companies with similar market capitalisation and complexity<br>▪ Advice on remuneration levels of privately held property, funds management and private equity owned companies<br>▪ Salary survey data from Hart Consulting, Avdiev, Aon Hewitt, FIRG and others as appropriate<br>▪ Advice from external advisors appointed by the Committee such as Egan Associates<br>The comparator group of companies and market data considered as part of the above process is significantly larger than the comparator group of companies adopted for assessment of the Group's relative TSR performance under its LTI plan (refer below). Executives are typically recruited from the former group, whereas the Group's performance will be assessed appropriately with respect to the latter. |

## Fixed Remuneration

| | |
|---|---|
| What is Fixed Remuneration? | Fixed remuneration is the regular pay (base salary and statutory superannuation contributions) an Executive receives in relation to his/her role. It reflects the complexity of the role, as well as the skills and competencies required to fulfil it, and is determined having regard to a variety of information sources to ensure the quantum is fair and competitive. |
| How is Fixed Remuneration determined? | The Board sets fixed remuneration around the median level of comparable companies after making adjustments for the different risk profiles of those companies (refer to Total Remuneration above). Group and individual performance is considered during the annual remuneration review process. |

## Short-term Incentive (STI) Plan

| | |
|---|---|
| What is the STI plan? | The STI plan provides the Executive with an opportunity to achieve an annual remuneration outcome in addition to fixed remuneration, subject to the achievement of pre-agreed Group, divisional and individual performance objectives which are set out in a personalised balanced scorecard. |

<table>
<tr>
<td>How much can be earned under the STI plan?</td>
<td>
Expressed as a percentage of fixed remuneration, Executives can earn the following incentive payments under the STI plan:
<table>
<tr><th></th><th>Target</th><th>Outperformance</th></tr>
<tr><td>CEO</td><td>100%</td><td>125%</td></tr>
<tr><td>CFO / EGM, Office & Industrial</td><td>100%</td><td>125%</td></tr>
<tr><td>EGM, Strategy, Transactions & Research</td><td>70%</td><td>88%</td></tr>
</table>
Aggregate performance below predetermined thresholds would result in no award being made under the STI plan.
The amount each Executive can earn is dependent on how he/she performs against a balanced scorecard of KPIs that is set at the beginning of each year. The balanced scorecard is arranged in categories and each category is weighted differently depending on the specific accountabilities of each Executive. If an Executive does not meet Threshold performance in a category, the score for that category will be zero.
KPIs at the Target level are set with an element of stretch against Threshold performance, which ensures that it is difficult for an Executive to score 100% in any category. Following the same theme, KPIs at the Outperformance level have a significant amount of stretch, and would require exceptional outcomes to be achieved. KPIs at both the Target and Outperformance levels incorporate year-on-year growth.
</td>
</tr>
<tr>
<td>When is the STI paid?</td>
<td>August of the financial year immediately following the performance period, following the sign-off of statutory accounts and announcement of Group’s annual results.</td>
</tr>
<tr>
<td>How does the deferral component operate?</td>
<td>
25% of any award under the STI plan will be deferred and awarded in the form of performance rights to DXS securities.
The rights will vest in two equal tranches, 12 and 24 months after being awarded. They are subject to clawback and continued employment, and are based on a deferral period commencing 1 July after the relevant performance period.
</td>
</tr>
<tr>
<td>How is the allocation of deferred STI determined?</td>
<td>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.</td>
</tr>
<tr>
<td>How are distributions treated during the deferral period?</td>
<td>Executives will be entitled to the benefit of distributions paid on the underlying DXS securities prior to vesting, through the issue of additional performance rights.</td>
</tr>
<tr>
<td>Can deferred STI be forfeited?</td>
<td>
Forfeiture will occur should the Executive’s employment terminate within 6 months of the grant date for any reason, or if the Executive voluntarily resigns or is terminated for cause prior to the vesting date.
Notwithstanding the above, if an Executive’s employment is terminated for reasons such as retirement, redundancy, reorganisation, change in control or other unforeseen circumstances, the Committee will recommend whether the Executive should remain in the plan as a good leaver, for decision by the Board.
</td>
</tr>
<tr>
<td>How is the STI plan aligned to security holder interests?</td>
<td>
The STI plan is aligned to security holder interests in the following ways:
<ul>
<li>as an immediate reward opportunity to attract, motivate and retain talented Executives who can influence the future performance of the Group</li>
<li>through a 25% mandatory STI deferral for Executives, allowing for future clawback of STI awards in the event of a material misstatement of the Group’s financial position</li>
</ul>
</td>
</tr>
</table>

## Long-term Incentive (LTI) Plan

| | |
|---|---|
| What is the LTI plan? | The LTI is an incentive grant which rewards Executives for sustained earnings and security holder returns and is delivered in the form of performance rights to DXS securities. |
| How are grants under the LTI plan determined? | Executives receive a grant of performance rights to DXS securities (dependent on their role and responsibilities) under the LTI plan equivalent to the following (expressed as a percentage of Fixed Remuneration): |

| | Grant as a % of fixed remuneration |
|---|---|
| CEO | 85% |
| CFO / EGM, Office & Industrial | 50% |
| EGM, Strategy, Transactions & Research | 30% |

| | |
|---|---|
| How does the LTI plan work? | Performance rights are converted into DXS securities upon achievement of performance conditions set by the Board. Performance against the selected hurdles will be assessed in two equal tranches over two periods, 3 and 4 years after the grant date. If the performance conditions are not met over either period, then the respective performance rights will be forfeited. There is no re-testing of forfeited rights. |
| Can an LTI grant be forfeited? | If ore-determined performance hurdles are not met then the relevant part of the grant will not vest and those rights will be forfeited.<br><br>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.<br><br>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 will recommend whether the Executive should remain in the plan as a good leaver, for decision by the Board. |
| What are the performance hurdles? | The Board sets the performance hurdles for the LTI plan on an annual basis. For the 2013 LTI grant, a set of external and internal hurdles has been selected.<br><br>Notably, the Board has clarified the operation of the Relative TSR component of the LTI plan. The previously communicated 50% weighting to Relative TSR will be split into two distinct groups, the first being a standard Relative TSR measurement against listed peers, the second being a Relative ROE measurement against unlisted peers. The Board feels this is a more accurate comparison given the way investors measure the performance of listed and unlisted entities.<br><br>The 4 performance hurdles for the 2013 LTI plan are:<br><br>External Performance Hurdles (50%)<br><br>▪ 25% is based on the Group's relative performance against a Total Security holder Return (Relative TSR) performance hurdle measured against a peer group of listed entities within the A-REIT sector<br>– TSR represents an investor's return, calculated as the percentage difference between the initial amount invested and the final value of DXS securities at the end of the relevant period, assuming distributions were reinvested.<br><br>▪ 25% is based on the Group's relative performance against a Return On Equity (Relative ROE) performance hurdle measured against a peer group of unlisted entities within the A-REIT sector<br>– ROE represents the annualised composite rate of return to security holders, calculated as a percentage, comprising the change in net tangible asset value per security together with the distributions paid to security holders per security, divided by the net tangible asset value per security at the beginning on the period. |

<table>
<tr><td>What are the performance hurdles?<br><br>(continued)</td><td><u>Internal Performance Hurdles (50%)</u><ul><li>25% is based on the Group's performance against a predetermined Funds From Operations (FFO) per security growth hurdle<br><br>For the purposed of these performance hurdles, FFO is defined as per the definition adopted by the Property Council of Australia.</li><li>25% is based on the Group's performance against a predetermined Return on Equity performance hurdle</li><li>ROE represents the annualised composite rate of return to security holders, calculated as a percentage, comprising the change in net tangible asset value per security together with the distributions paid to security holders per security, divided by the net tangible asset value per security at the beginning on the period.</li></ul></td></tr>
<tr><td>How are the performance hurdles measured?</td><td><u>Relative TSR & Relative ROE</u><br><br>Vesting under both the Relative TSR & Relative ROE measures will be on a sliding scale reflecting relative performance against a comparator group of entities.<ul><li>Nil vesting for performance below the median of the comparator group</li><li>50% vesting for performance at the median of the comparator group</li><li>Straight line vesting for performance between the 50th and 75th percentile</li><li>100% vesting for performance at or above the 75th percentile</li></ul>The listed and unlisted comparator groups have been reviewed and selected by the Board as being appropriate entities within similar asset classes, investment risk/return profiles and market capitalisation/size. The 2013 LTI grant comparator groups are<ul><li>Listed: CPA, IOF, GPT, CFX, WRT, SCP, CMW and FDC</li><li>Unlisted: AWOF, GWOF, APPFC, ICPF, ISPT, ACPP, QPF and APPFR</li></ul>The Board reserves the right to review the peer group annually, with relative performance monitored by an independent external advisor at 30 June each year.<br><br><u>FFO Growth & ROE</u><br><br>Vesting under both the FFO Growth & ROE measures will be on a sliding scale reflecting performance against predetermined performance hurdles set by the Board<ul><li>Nil vesting for below Target performance</li><li>50% vesting for Target performance</li><li>Straight line vesting between Target and Outperformance</li><li>100% vesting for Outperformance</li></ul></td></tr>
<tr><td>What are the absolute LTI hurdles for the 2013 grant??</td><td>Having determined the Group's strategy, the Board have adopted the following FFO Growth and ROE performance hurdles for the 2013 LTI grant:<ul><li>FFO Growth Target of 3% - with Outperformance at 5.5%</li><li>ROE Target of 9% - with Outperformance at 11%</li></ul>These targets are measured as the per annum average over the three and four year grant periods.</td></tr>
<tr><td>How is the LTI plan aligned to security holder interests?</td><td>Aligned to long-term security holder interests in the following ways:<ul><li>As a reward to Executives when the Group's overall performance exceeds specific predetermined earnings and security holder return benchmarks</li><li>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</li><li>Aligning the financial interests of security holders with Executives through exposure to DXS securities and the Group's performance</li><li>Encouraging and incentivising Executives to make sustainable business decisions within the Board-approved risk appetite and strategy of the Group</li></ul></td></tr>
</table>

| | |
|---|---|
| What policies and procedures exist to support the integrity of the LTI plan? | 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.<br><br>Executives are prevented from hedging their exposure to unvested DXS securities. Trading in DXS securities or related products is only permitted with the permission of the CEO.<br><br>The Group also has Conflict of Interest and Insider Trading policies in place to support the integrity of the LTI plan, which extends to family members and associates of the Executive.<br><br>The Board has appointed Link Market Services as Trustee and Administrators of the DEXUS Performance Rights Plan Trust, which is the vehicle into which unvested units are purchased on-market and held in trust for the Executive pending performance assessment. |
| How is the allocation of performance rights determined? | The number of performance rights granted is based on the grant value to the Executive (% of fixed remuneration) divided by the volume weighted average price (VWAP) of securities 10 trading days either side of the first trading day of the new financial year. |
| How are distributions treated prior to vesting? | Executives will not be entitled to distributions paid on the underlying DXS securities prior to the performance rights vesting. |

The operation of all incentive plans is at the discretion of the Board which retains the right to discontinue, suspend or amend the operation of such plans.

For both the STI and LTI plans, where incentive grants involve DXS securities, it is the Board's current position that DXS securities be acquired on-market and not through the issue of new securities.

### 6. Performance Pay

### Group Performance

**FY13 Highlights**

| Group | Portfolio | Capital Management | Funds Management | Transactions |
|---|---|---|---|---|
| 12.1% increase in distribution per security | Leased 629,209 square metres of space across the total portfolio | Raised $300 million of US Private Placement Notes | Increased funds under management by 9.5%, including $820 million of new equity for DWPF | Achieved a 12% premium on prior book value for the sale of the remaining US portfolio |
| Achieved a 22.1% one-year total security holder return | Achieved 1.6% growth in like for like property net operating income | Actively managed the diversity of debt achieving a duration greater than 5 years | Launched new $235 million partnership with a leading global pension fund | Involved in $2.9 billion of transactions across the Group |

Total Return of DXS Securities

The chart below illustrates DXS's performance against the S&P/ASX200 Property Accumulation index since listing in 2004.


**Total Return Analysis**

The table below sets out DXS's total security holder return over a one, two, three and five year time horizon, relative to the S&P/ASX200 Property Accumulation Index and the median of the Relative TSR comparator group under the new LTI plan:

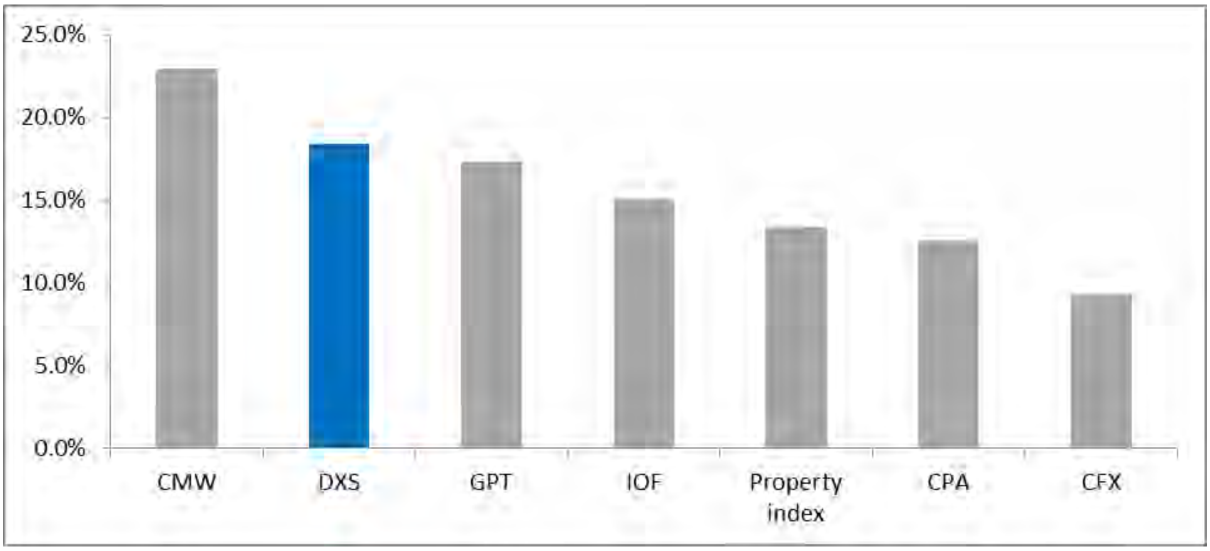
| | 1 Year | 2 Years | 3 Years | 5 years |
|---|---|---|---|---|
| Year Ended 30 June 2013 | (% per annum) | (% per annum) | (% per annum) | (% per annum) |
| DEXUS Property Group | 22.1% | 17.0% | 18.4% | 2.6% |
| S&P/ASX200 Property Accumulation Index | 24.2% | 17.4% | 13.4% | 0.3% |
| Median - Relative TSR Comparator Group | 18.8%[1] | 15.2%[2] | 16.2%[3] | n/a |

1. Comparator Group for 1 year comprises DXS, CFX, CMW, CPA, FDC, GPT, IOF and WRT.
2. Comparator Group for 2 years comprises DXS, CFX, CMW, CPA, GPT, IOF and WRT.
3. Comparator Group for 3 years comprises DXS, CFX, CMW, CPA, GPT and IOF.

**Three Year Performance Relative to Comparator Group**

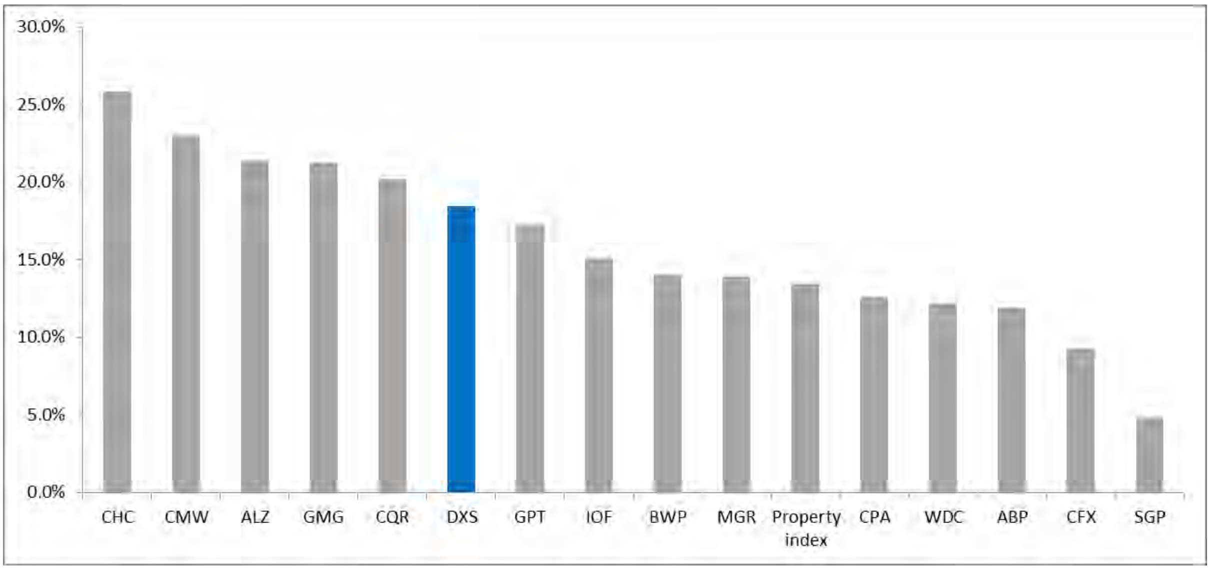
The chart below illustrates DXS's three year performance relative to the comparator group specified for LTI purposes. SCA Property Group, Westfield Retail Trust & Federation Centres have been omitted as these entities were not formed for the comparison period.

The three year performance of the S&P/ASX 200 Property Accumulation index is also included for reference.




**Three Year Performance Relative to Property Index**

The chart below illustrates DXS's performance against the broader property sector over the past three financial years.



**Summary**

DXS continues to outperform the S&P/ASX200 Property Accumulation index and has exceeded this benchmark on a rolling three year basis.

Whilst the Directors recognise that improvement is always possible, they consider that the Group's business model, which aims to deliver consistent returns with relatively moderate risk, has been central to DXS's consistent relative outperformance, and that its approach to Executive remuneration, with a focus on consistent outperformance of objectives, is aligned with and supports the superior execution of the Group's strategic plans.

### Individual Performance Assessment - Balanced Scorecard

Prior to the commencement of each financial year, the Board approves the Group's strategic and operational objectives which are then translated into a series of weighted financial and non-financial Key Performance Indicators (KPIs) for management. KPIs are assembled to form each Executive's Balanced Scorecard.

The Balanced Scorecard is divided into four components - Financial Performance, Business Management & Strategy, Stakeholder Engagement and People & Culture. These components are weighted differently for each Executive. For each of the components the Executive has objectives and specific initiatives set for that year. These Scorecards are agreed with the Executive at the beginning of the year, reviewed at half year and assessed for performance awards at the end of the year.

Below is a table which summarises the principal elements within Executive Balanced Scorecards for the year ending 30 June 2013 (the numbers in brackets represents what was actually achieved during the year, not the actual KPIs set):

| Principal Elements of Executive Balanced Scorecards | |
|---|---|
| **Financial Performance**<br>• DXS total returns (22.1%)<br>• Funds investment performance<br>• Funds from operations ($365.4 million)<br>• Return on equity (11.2%)<br>• Trading profit ($1.5 million)<br>• Net operating income growth - like for like (1.6%) | **Business Management & Strategy**<br>• Delivery of divisional business plans<br>• Secure rent at risk<br>• Property portfolio investment performance<br>• Operating costs<br>• Capital diversification<br>• Transaction effectiveness |
| **Stakeholder Engagement**<br>• Investor engagement and feedback<br>• Media and community profile<br>• Tenant relationships and engagement<br>• Internal and external service standards | **People & Culture**<br>• Leadership effectiveness<br>• Cultural survey results<br>• Succession planning<br>• Talent retention and development |

| | Balanced Scorecard Weighting | | | |
|---|---|---|---|---|
| | Financial KPIs | | Non-Financial KPIs | |
| **Executive** | **Financial Performance** | **Business Management & Strategy** | **Stakeholder Engagement** | **People & Culture** |
| Darren J Steinberg | 40% | 30% | 20% | 10% |
| Craig D Mitchell | 40% | 40% | 10% | 10% |
| Kevin L George | 30% | 40% | 15% | 15% |
| Ross G Du Vernet | 30% | 50% | 10% | 10% |

## Performance Pay Outcomes

Following an assessment of each Executive's Balanced Scorecard, the Board has determined that the following remuneration outcomes are appropriate with respect to each Executive's performance during the year ending 30 June 2013.

| Executive | STI Award | % of Maximum Possible STI Earned | % of Maximum STI Forfeited | % of STI to be Deferred |
|---|---|---|---|---|
| Darren J Steinberg | 1,750,000 | 100% | 0% | 25% |
| Craig D Mitchell | 750,000 | 80% | 20% | 25% |
| Kevin L George | 330,000 | 72% | 28% | 25% |
| Ross G Du Vernet | 385,000 | 100% | 0% | 25% |

In addition to the STI award shown above, Mr Steinberg was eligible for a once-off payment of $500,000 as part of previously communicated sign-on conditions. This amount was subject to satisfactory performance as determined by the Board, and being payable in August 2013 is disclosed in the Statutory Reporting table under Other Short-Term Benefits.

25% of the value of the STI awarded to each Executive will be deferred into DXS securities, subject to service and clawback conditions, and vesting in two equal tranches after 12 and 24 months.

## LTI Grants

The table below shows the number of Performance Rights to be granted to Executives under the 2013 LTI plan (details of which are provided earlier in this report).

| Executive | Number of Performance Rights | 1st Vesting Date 50% | 2nd Vesting Date 50% |
|---|---|---|---|
| Darren J Steinberg | 1,128,176 | 1 July 2016 | 1 July 2017 |
| Craig D Mitchell | 355,518 | 1 July 2016 | 1 July 2017 |
| Kevin L George | 326,128 | 1 July 2016 | 1 July 2017 |
| Ross G Du Vernet | 237,012 | 1 July 2016 | 1 July 2017 |

The number of Performance Rights granted to each Executive is based on the dollar value of LTI approved by the Board in its discretion and with reference to the remuneration framework, divided by the Volume Weighted Average Price (VWAP) of DXS securities ten trading days either side of 30 June 2013, which was confirmed as $1.0548

The LTI grants for Mr Steinberg and Mr Mitchell as Executive Directors are subject to security holder approval at the 2013 Annual General Meeting.

## 7. Executive Remuneration Actual Cash Received

In line with best-practice recommendations, the amounts shown in the table below provide a summary of actual remuneration received during the year ended 30 June 2013. The DPP and DDPP cash payments were received for performance in the 2012 and 2009 financial years respectively.

| | | | | | Earned in Prior Financial Year | | |
|---|---|---|---|---|---|---|---|
| **Executive** | **Cash Salary** | **Pension & Super Benefits 1** | **Other Short Term Benefits 2** | **Termination Benefits** | **DPP Cash Payment 3** | **DDPP Cash Payment 4** | **Total** |
| Darren J Steinberg | 1,383,530 | 16,470 | - | - | 360,000 | - | 1,760,000 |
| Craig D Mitchell | 733,530 | 16,470 | - | - | 500,000 | 636,272 | 1,886,272 |
| Kevin L George | 341,354 | 9,608 | 464,383 | - | - | - | 815,345 |
| Ross G Du Vernet | 424,305 | 16,470 | - | - | 350,000 | - | 790,775 |

1 Includes employer contributions to superannuation under the superannuation guarantee legislation and salary sacrifice amounts
2 Mr George received a sign-on cash payment of $250,000 plus various relocation benefits totalling $214,383
3 Cash payment made in August 2012 with respect to the 2012 DPP (i.e. annual performance payment for the prior financial year)
4 Cash payment made in August 2012 with respect to the 2009 DDPP award that vested on 1 July 2012 (i.e. realisation of 3 year deferred performance payment)

The amounts shown in this table are prepared in accordance with AASB 124 *Related Party Disclosures* and do not represent actual cash payments received by Executives for the year ended 30 June 2013. Amounts shown under Long Term Benefits reflect the accounting expenses recorded during the year with respect to prior year deferred remuneration and awards that have or are yet to vest. For performance payments and awards made with respect to the year ended 30 June 2013, refer to the Performance Pay Outcomes section of this report.

| | | Short Term Benefits | | | Post-Employment Benefits | | Share Based & Long Term Benefits | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Executive | Year | Cash Salary | STI Cash Award [1] | Other Short Term Benefits [2] | Pension & Super Benefits [3] | Termination Benefits | Deferred STI Plan Accrual [4] | DDPP Plan Accrual [5] | Transition Plan Accrual [6] | LTI Plan Accrual [7] | Total |
| Darren J Steinberg | 2013 | 1,383,530 | 1,312,500 | 500,000 | 16,470 | - | 182,284 | - | 105,000 | 204,200 | 3,703,984 |
| | 2012 | 461,409 | 360,000 | 1,500,000 | 5,258 | - | - | - | 105,000 | - | 2,431,667 |
| Craig D Mitchell | 2013 | 733,530 | 562,500 | - | 16,470 | - | 78,122 | 172,790 | 125,000 | 64,349 | 1,752,761 |
| | 2012 | 734,225 | 500,000 | - | 15,775 | - | | 328,664 | 125,000 | - | 1,703,664 |
| Kevin L George [8] | 2013 | 338,954 | 247,500 | 634,383 | 12,008 | - | 219,374 | - | - | 59,029 | 1,511,248 |
| | 2012 | - | - | - | - | - | - | - | - | - | - |
| Ross G Du Vernet [8] | 2013 | 424,305 | 288,750 | - | 16,470 | - | 40,103 | | 50,000 | 42,899 | 862,527 |
| | 2012 | - | - | - | - | - | - | - | - | - | - |
| Sub-Total | 2013 | 2,880,319 | 2,411,250 | 1,134,383 | 61,418 | - | 519,883 | 172,790 | 280,000 | 370,477 | 7,830,520 |
| | 2012 | 1,195,634 | 860,000 | 1,500,000 | 21,033 | - | - | 328,664 | 230,000 | - | 4,135,331 |
| *Former KMP* | | | | | | | | | | | |
| Tanya L Cox | 2013 | 433,530 | 201,000 | - | 16,470 | - | 27,916 | 75,408 | 50,000 | 23,166 | 827,490 |
| | 2012 | 434,225 | 200,000 | - | 15,775 | - | - | 149,140 | 50,000 | - | 849,140 |
| John C Easy | 2013 | 426,530 | 281,250 | - | 23,470 | - | 39,061 | 76,234 | 50,000 | 23,166 | 919,711 |
| | 2012 | 427,225 | 200,000 | - | 22,775 | - | - | 158,013 | 50,000 | - | 858,013 |
| Other former KMP [9] | 2013 | - | - | - | - | - | - | 791,650 | - | - | 791,650 |
| | 2012 | 1,879,415 | 1,175,000 | 923,834 | 31,550 | 2,300,000 | - | 2,479,864 | - | - | 8,789,663 |
| Total | 2013 | 3,740,379 | 2,893,500 | 1,134,383 | 101,358 | - | 586,860 | 1,116,082 | 380,000 | 416,809 | 10,369,371 |
| | 2012 | 3,936,499 | 2,435,000 | 2,423,834 | 91,133 | 2,300,000 | - | 3,115,681 | 330,000 | - | 14,632,147 |

1 FY13 annual cash STI performance award, payable in August 2013.
2 Mr Steinberg's sign-on conditions included access to an additional $500,000 subject to performance in FY13.
Mr George received a cash sign-on payment of $250,000, a cash payment of $170,000 as compensation for foregone remuneration and various relocation benefits.
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 performance. Refer to note 36 of the DXS Financial Statements.
Mr George's accrual also includes accounting for Performance Rights detailed later in this report as Special Terms.
5 FY10 and FY11 DDPP legacy plan only applicable to Mr Mitchell and former KMP Ms Cox and Mr Easy. Reflects the accounting expense accrued during the financial year.
6 FY13 Transition plan applicable to all KMP and former KMP, 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. Refer to note 36 of the DXS Financial Statements.
8 Mr Du Vernet joined the Group on 7 May 2012 and was appointed KMP with effect 1 July 2013. No prior year remuneration is disclosed on that basis.
Mr George joined the Group on 10 December 2012 and was appointed KMP with effect 10 December 2012. No prior year remuneration is disclosed on that basis.
9 Other former KMP includes Mr Hoog Antink and Mr Say and are disclosed for completeness. Refer to the 2012 Remuneration Report for more detail.

## 8. Service Agreements

Executive service agreements detail the individual terms and conditions of employment applying to the CEO and Executives of the Group. The quantum and structure of remuneration arrangements are detailed elsewhere in this report, with the termination scenarios and other key employment terms detailed below:

### Chief Executive Officer

| | Terms |
|---|---|
| Employment agreement | An ongoing Executive Service Agreement. |
| Termination by the CEO | Termination by Mr Steinberg requires a 6 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.<br>All unvested STI and LTI awards are forfeited under this scenario. |
| Termination by the Group without cause | If the Group terminates Mr Steinberg without cause, Mr Steinberg is entitled to a payment of 12 months Fixed Remuneration. The Board may (in its absolute discretion) also approve a pro-rata STI or LTI award based on part-year performance.<br>Depending on the circumstances, the Board has the ability to treat Mr Steinberg as a 'good leaver' under this scenario, which may result in Mr Steinberg retaining some or all of his unvested STI and LTI. |
| Termination by the Group with cause | No notice or severance is payable under this scenario. |
| Other contractual provisions and restrictions | Mr Steinberg's Executive Service Agreement includes standard clauses covering intellectual property, confidentiality, moral rights and disclosure obligations. |

### Executives - Messrs Mitchell, George & Du Vernet

| | Terms |
|---|---|
| Employment agreement | An ongoing Executive Service Agreement. |
| Termination by the Executive | Termination by the Executive requires a 3 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.<br>All unvested STI and LTI awards are forfeited under this scenario. |
| Termination by the Group without cause | If the Group terminates the Executive without cause, the Executive is entitled to a combined notice and severance payment of 12 months Fixed Remuneration. The Board may (in its absolute discretion) also approve a pro-rata STI or LTI award based on part-year performance.<br>Depending on the circumstances, the Board has the ability to treat the Executive as a 'good leaver' under this scenario, which may result in the Executive retaining some or all of their unvested STI and LTI. |
| Termination by the Group with cause | No notice or severance is payable under this scenario. |
| Other contractual provisions and restrictions | The Executive Service Agreement includes standard clauses covering intellectual property, confidentiality, moral rights and disclosure obligations. |

## Legacy Plan - Unvested and Vesting DDPP Awards

The table below shows the value of unvested and vesting DEXUS Deferred Performance Payment (DDPP) awards for Executives and Former Executive KMP as at 30 June 2013. The DDPP awards are part of a legacy plan closed to new participants from 1 July 2012.

| Participant | Award Date | Allocation Value | Value as at 30 June 2013 | Vesting DDPP as at 1 July 2013 | Vesting Date |
|---|---|---|---|---|---|
| Craig D Mitchell | 1 Jul 2011 | 450,000 | 577,305 | - | 1 Jul 2014 |
| | 1 Jul 2010 | 400,000 | 598,440 | 598,440 | 1 Jul 2013 |
| *Former KMP* | | | | | |
| Tanya L Cox | 1 Jul 2011 | 190,000 | 243,751 | - | 1 Jul 2014 |
| | 1 Jul 2010 | 180,000 | 269,298 | 269,298 | 1 Jul 2013 |
| John C Easy | 1 Jul 2011 | 185,000 | 237,337 | - | 1 Jul 2014 |
| | 1 Jul 2010 | 188,000 | 281,267 | 281,267 | 1 Jul 2013 |

Mr Mitchell and former KMP Ms Cox and Mr Easy are entitled to receive a cash payment relating to the vesting of their 2010 DDPP awards. This payment will be made in August 2013.

The vesting DDPP value was determined by calculating the compound total return of both listed DXS (50%) and unlisted DWPF (50%) notional securities over a 3-year vesting period. The DXS total return was 65.8% and the Group's unlisted Funds and Mandates was 33.4%, resulting in a composite 49.6% increase being applied to the original allocation value during the life of the 2010 DDPP plan. The Board chose to exercise its discretion in not applying a performance multiplier (allowable under the DDPP plan rules) to the 2010 tranche, and has indicated it intends to follow the same approach upon vesting of the 2011 tranche.

For more information on the DDPP legacy plan, refer to the 2012 Annual Report.

## Legacy Plan - Unvested Transitional Performance Rights

The table below shows the number of unvested performance rights held by Executives under the Transitional Performance Rights plan, which received security holder approval at the Annual General Meeting on 5 November 2012. The Board granted these once-off Performance Rights to Executives, with respect to performance during the year ending 30 June 2012, as a transitional measure towards the adoption of the Group's new remuneration framework which came into effect 1 July 2012.

| Participant | Award Date | Number of Performance Rights | Vesting Date |
|---|---|---|---|
| Darren J Steinberg | 1 Jul 2012 | 453,417 | 1 Jul 2015 |
| Craig D Mitchell | 1 Jul 2012 | 539,782 | 1 Jul 2015 |
| Ross G Du Vernet | 1 Jul 2012 | 215,913 | 1 Jul 2015 |
| *Former KMP* | | | |
| Tanya L Cox | 1 Jul 2012 | 215,913 | 1 Jul 2015 |
| John C Easy | 1 Jul 2012 | 215,913 | 1 Jul 2015 |

At the Board's instruction, Performance Rights are to be purchased on-market and the plan is subject to both service and clawback conditions. For more information on the Transitional Performance Rights plan, refer to the 2012 Annual Report.

## Special Terms - Performance Rights & Relocation Package for Kevin L George

Upon commencement, Mr George was offered a special grant of Performance Rights to DXS securities as compensation for foregone remuneration at his previous employer and to immediately align his interests with those of his KMP peers and security holders.

| Participant | Award Date | Number of Performance Rights | Vesting Date |
|---|---|---|---|
| Kevin L George | 10 Dec 2012 | 366,591 | 1 Aug 2014 |

The Performance Rights granted to Mr George are subject to both service and clawback conditions, and are to be purchased on-market. The terms and conditions of this offer mirror those of the Deferred STI plan.

In addition to the grant of Performance Rights, Mr George received a commencement and relocation package (disclosed in the Statutory Accounting table as 'Other Short-Term Benefits') which included the following:

- $250,000 as a cash sign-on payment
- $170,000 as a cash payment to be made in August 2013 as compensation for part-year incentive forfeiture at Mr George's previous employer
- $186,916 as a once-off relocation and family disturbance payment
- $27,467 in expense reimbursements relating to Mr George and his family's relocation from Melbourne to Sydney – including flights, temporary accommodation, removalists, transit insurance, connection of utilities and other service fees

Mr George is also entitled to future reimbursement of reasonable expenses (i.e. stamp duty, agent fees etc.) relating to the purchase of a family home in Sydney. This benefit has not yet been exercised by Mr George and expires on 10 December 2014.

All expense benefits relating to Mr George's relocation are subject to a 100% clawback clause should Mr George voluntarily resign within 2 years of his commencement date.

### 9. Non-Executive Directors

Non-Executive Directors' fees are reviewed annually by the Committee to ensure they reflect the responsibilities of directors and are market competitive. The Committee reviews information from a variety of sources to inform their recommendation regarding Non-Executive Directors fees to the Board. Information considered 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

Total fees paid to Non-Executive Directors remain within the aggregate fee pool of $1,750,000 per annum approved by security holders at the AGM in October 2008. The Board has reviewed base fees for Non-Executive Directors and has elected not to approve an increase at this time. This will be the fourth consecutive year at the current rate.

In 2012, the Board (as noted in the Directors' Report) determined that it would be appropriate for Non-Executive Directors (existing and new) to hold DXS securities. A minimum target of 50,000 securities is to be acquired in each Director's first three year term (effective from 1 July 2012). Such securities would be subject to the Group's existing trading and insider information policies. No additional remuneration is provided to Directors to purchase these securities. All Directors have subsequently used their own resources to purchase at least the minimum target in the first year of the three year term. Details of Directors' holdings are included in the Directors' Report.

Other than the Chair who receives a single fee, Non-Executive Directors receive a base fee plus additional fees for membership of Board Committees. The table below outlines the Board fee structure (inclusive of statutory superannuation contributions) for the year ended 30 June 2013:

| Committee | Chair | Member |
|---|---|---|
| Director's Base Fee (DXFM) | $350,000* | $150,000 |
| Board Audit, Risk & Sustainability | $30,000 | $15,000 |
| Board Compliance | $15,000 | $7,500 |
| Board Finance | $15,000 | $7,500 |
| Board Nomination, Remuneration & Governance | $30,000 | $15,000 |
| DWPL Board | $30,000 | $15,000 |

* The Chairman receives a single fee for his entire engagement, including service on Committees of the Board

## Non-Executive Director's Statutory Accounting Table

The amounts shown in this table are prepared in accordance with AASB 124 *Related Party Disclosures*. The table is a summary of the actual cash and benefits received by each Non-Executive Director for the year ended 30 June 2013.

| Non-Executive Director | Year | Short Term Benefits | Post Employment Benefits | Other Long Term Benefits | Total |
|---|---|---|---|---|---|
| Christopher T Beare | 2013 | 333,530 | 16,470 | - | 350,000 |
| | 2012 | 334,225 | 15,775 | - | 350,000 |
| Elizabeth A Alexander AM | 2013 | 178,899 | 16,101 | - | 195,000 |
| | 2012 | 170,539 | 24,461 | - | 195,000 |
| Barry R Brownjohn | 2013 | 165,138 | 14,862 | - | 180,000 |
| | 2012 | 172,018 | 15,482 | - | 187,500 |
| John C Conde AO | 2013 | 165,138 | 14,862 | - | 180,000 |
| | 2012 | 158,257 | 14,243 | - | 172,500 |
| Tonianne Dwyer [1] | 2013 | 158,257 | 14,243 | - | 172,500 |
| | 2012 | 132,225 | 11,900 | - | 144,125 |
| Stewart F Ewen OAM | 2013 | 141,000 | 24,000 | - | 165,000 |
| | 2012 | 109,052 | 48,448 | - | 157,500 |
| W Richard Sheppard [2] | 2013 | 158,257 | 14,243 | - | 172,500 |
| | 2012 | 74,541 | 6,709 | - | 81,250 |
| Peter B St George | 2013 | 151,376 | 13,624 | - | 165,000 |
| | 2012 | 165,138 | 14,862 | - | 180,000 |
| Total | 2013 | 1,451,595 | 128,405 | - | 1,580,000 |
| | 2012 | 1,315,995 | 151,880 | - | 1,467,875 |

1 Ms Dwyer was appointed on 24 August 2011
2 Mr Sheppard was appointed 1 January 2012

# Note 30

**Events occurring after reporting date**

Since the end of the year, the Directors are not aware of any matter or circumstance not otherwise dealt with in their Directors' Report or the 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 31

**Operating segments**

The Chief Operating Decision Maker (CODM) has been identified as the Board of Directors as they are responsible for the strategic decision making within the Group. DXS management has identified the DXS's operating segments based on the sectors analysed within the management reports reviewed by the CODM in order to monitor performance across the Group and to appropriately allocate resources. Refer to the table below for a brief description of the Group's operating segments.

Following a review of internal reporting, the operating segments note has been amended to disclose revenue and expenses on the basis of their function and to provide additional financial metrics. The revised disclosures better reflect the financial information regularly reviewed by the Directors and DXS management in order to assess the performance of the functions of the Group and allocation of resources.

| | |
|---|---|
| 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. |

Consistent with how the CODM manages the business, the operating segments within DXS are reviewed on a consolidated basis and are not monitored at an individual trust level. The results of the individual trusts are not limited to any one of the segments described above.

Disclosures concerning DXS's operating segments, as well as the operating segments' key financial information provided to the CODM, are presented in the DEXUS Property Group Annual Report (refer note 33 in the DEXUS Property Group Financial Statements).

## Note 32

**Reconciliation of net profit/(loss) to net cash inflow from operating activities**

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Net profit/(loss) | 100,090 | (52,883) |
| Capitalised interest | - | (1,111) |
| Net fair value loss of investment properties | 575 | 20,787 |
| Share of net profit of associates accounted for using the equity method | (26,322) | (3,398) |
| Net fair value loss of derivatives | 1,729 | 1,017 |
| Net loss on sale of investment properties | 3,027 | 20,388 |
| Net foreign exchange loss/(gain) | 2,721 | (872) |
| Foreign currency translation reserve transfer on disposal of foreign operations | (26,620) | (10,380) |
| Change in operating assets and liabilities | | |
| Decrease in receivables | 105 | 81 |
| Decrease/(increase) in prepaid expenses | 919 | (214) |
| Decrease in deferred withholding tax assets | - | 6,061 |
| Decrease in other non-current assets | 2,592 | 2,182 |
| (Decrease)/increase in payables | (17,712) | 27,333 |
| Increase in other non-current liabilities | 15,980 | 66,344 |
| Decrease in current tax liabilities | - | (4,983) |
| **Net cash inflow from operating activities** | 57,084 | 70,352 |

## Note 33

**Earnings per unit**

Earnings per unit are determined by dividing the net profit attributable to unitholders by the weighted average number of ordinary units outstanding during the year. The weighted average number of units has been adjusted for the bonus elements in units issued during the year and comparatives have been appropriately restated.

**(a) Net profit/(loss) attributable to unitholders of the parent entity used in calculating basic and diluted earnings per unit**

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Profit/(loss) from continuing operations | 45,159 | (3,679) |
| Loss from discontinued operations | (52,817) | (52,546) |
| **Loss attributable to unitholders of the parent entity** | (7,657) | (56,225) |

**(b) Weighted average number of units used as a denominator**

| | 2013 units | 2012 units |
|---|---|---|
| Weighted average number of units outstanding used in calculation of basic and diluted earnings per unit | 4,714,292,865 | 4,834,864,561 |

The Directors of DEXUS Funds Management Limited as Responsible Entity for DEXUS Industrial Trust declare that the Financial Statements and notes set out on pages 8 to 69:

(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 consolidated entity's financial position as at 30 June 2013 and of their performance, as represented by the results of their operations and their cash flows, for the year ended on that date.

In the Directors' opinion:

(a) the Financial Statements and notes are in accordance with the *Corporations Act 2001*;

(b) there are reasonable grounds to believe that the Trust and its consolidated entities will be able to pay their debts as and when they become due and payable; and

(c) the Trust has operated in accordance with the provisions of the Constitution dated 1 August 1997 (as amended) during the year ended 30 June 2013.

Note 1(a) confirms that the Financial Statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The Directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer required by section 295A of the *Corporations Act 2001*.

This declaration is made in accordance with a resolution of the Directors.

**Christopher T Beare**
Chair
16 August 2013

# Independent auditor's report to the unit holders of DEXUS Industrial Trust

## *Report on the financial report*

We have audited the accompanying financial report of DEXUS Industrial Trust (the Trust), which comprises the statement of financial position as at 30 June 2013, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for the DEXUS Industrial Trust Group (the consolidated entity). The consolidated entity comprises the Trust and the entities it controlled at the year-end or from time to time during the financial year.

### *Directors' responsibility for the financial report*

The directors of DEXUS Funds Management Limited (the Responsible Entity) are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

### *Auditor's responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

Our procedures include reading the other information in the Directors' Report to determine whether it contains any material inconsistencies with the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### *Independence*

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

***PricewaterhouseCoopers, ABN 52 780 433 757***
*Darling Park Tower 2, 201 Sussex Street, GPO BOX 2650, SYDNEY NSW 1171*
*DX 77 Sydney, Australia*
*T: +61 2 8266 0000, F: +61 2 8266 9999, www.pwc.com.au*

*Auditor's opinion*

In our opinion:

(a) the financial report of DEXUS Industrial Trust is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2013 and of its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001;* and

(b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in Note 1.

PricewaterhouseCoopers

PricewaterhouseCoopers

E A Barron
Partner

Sydney
16 August 2013

# DEXUS Office Trust

(ARSN 090 768 531)

Financial Report
30 June 2013

DEXUS
PROPERTY GROUP

## Contents **Page**



DEXUS Property Group (DXS) (ASX Code: DXS) consists of DEXUS Diversified Trust (DDF) (ARSN 089 324 541), DEXUS Industrial Trust (DIT), DEXUS Office Trust (DOT) and DEXUS Operations Trust (DXO), collectively known as DXS or the Group.

Under Australian Accounting Standards, DDF has been deemed the parent entity for accounting purposes. Therefore the DDF consolidated Financial Statements include all entities forming part of DXS. The DDF consolidated Financial Statements are presented in separate Financial Statements.

All ASX and media releases, Financial Statements and other information are available on our website: www.dexus.com

The Directors of DEXUS Funds Management Limited (DXFM) as Responsible Entity of DEXUS Office Trust present their Directors' Report together with the consolidated Financial Statements for the year ended 30 June 2013. The consolidated Financial Statements represents DEXUS Office Trust and its consolidated entities (DOT or the Trust).

The Trust together with DEXUS Diversified Trust (DDF), DEXUS Industrial Trust (DIT) and DEXUS Operations Trust (DXO) form the DEXUS Property Group (DXS or the Group) stapled security.

# 1 Directors and Secretaries

## 1.1 Directors

The following persons were Directors of DXFM at all times during the year and to the date of this Directors' Report, unless otherwise stated:

| Directors | Appointed |
|---|---|
| Christopher T Beare | 4 August 2004 |
| Elizabeth A Alexander, AM | 1 January 2005 |
| Barry R Brownjohn | 1 January 2005 |
| John C Conde, AO | 29 April 2009 |
| Tonianne Dwyer | 24 August 2011 |
| Stewart F Ewen, OAM | 4 August 2004 |
| Craig D Mitchell | 12 February 2013 |
| W Richard Sheppard | 1 January 2012 |
| Darren J Steinberg | 1 March 2012 |
| Peter B St George | 29 April 2009 |

Particulars of the qualifications, experience and special responsibilities of the Directors at the date of this Directors' Report are set out in the Board of Directors section of the DEXUS Property Group Annual Report and form part of this Directors' Report.

## 1.2 Company Secretaries

The names and details of the Company Secretaries of DXFM as at 30 June 2013 are as follows:

**Tanya L Cox MBA MAICD FCSA FCIS**
Appointed: 1 October 2004

Tanya is the Executive General Manager, Property Services and Chief Operating Officer of DEXUS Property Group and is responsible for the tenant and client service delivery model, sustainability practices, information technology solutions and company secretarial services across the Group.

Tanya has over 25 years' experience in the finance industry. Prior to joining DEXUS in July 2003, Tanya held various general management positions over the previous 15 years, including Director and Chief Operating Officer of NM Rothschild & Sons (Australia) Ltd and General Manager, Finance, Operations and IT for Bank of New Zealand (Australia). Tanya is a Director of Low Carbon Australia Limited, Australian Athletes With a Disability Limited and a number of not-for-profit organisations.

Tanya is a member of the Australian Institute of Company Directors and a fellow of the Institute of Chartered Secretaries of Australia.

Tanya has an MBA from the Australian Graduate School of Management, a Diploma in Applied Corporate Governance and was a finalist in the 2005 NSW Telstra Business Woman of the year awards.

**John C Easy B Comm LLB FCSA FCIS**
Appointed: 1 July 2005

John is the General Counsel and Company Secretary of all DEXUS Group companies and is responsible for the legal function and compliance, risk and governance systems and practices across the Group.

# 1 Directors and Secretaries (continued)

## 1.2 Company Secretaries (continued)

**John C Easy B Comm LLB FCSA FCIS** (continued)

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 Institute of Chartered Secretaries of Australia.

John is a member of the Board Compliance Committee and Chair of the Continuous Disclosure Committee.

# 2 Attendance of Directors at Board meetings and Board Committee meetings

The number of Directors' meetings held during the year and each Director's attendance at those meetings is set out in the table below. The Directors met nine times during the year. Eight Board meetings were main meetings, one meeting was held to consider specific business.

| | Main meetings held | Main meetings attended | Specific meetings held | Specific meetings attended |
|---|---|---|---|---|
| Christopher T Beare | 8 | 8 | 1 | 1 |
| Elizabeth A Alexander, AM | 8 | 8 | 1 | 1 |
| Barry R Brownjohn | 8 | 8 | 1 | 1 |
| John C Conde, AO | 8 | 8 | 1 | 1 |
| Tonianne Dwyer | 8 | 8 | 1 | 1 |
| Stewart F Ewen, OAM | 8 | 8 | 1 | 1 |
| Craig D Mitchell[1] | 3 | 3 | - | - |
| W Richard Sheppard | 8 | 8 | 1 | 1 |
| Darren J Steinberg | 8 | 8 | 1 | 1 |
| Peter B St George | 8 | 8 | 1 | 1 |

1 Directorship commenced 12 February 2013.

Special meetings are held at a time to enable the maximum number of Directors to attend and are generally held to consider specific items that cannot be held over to the next scheduled main meeting.

The table below sets out the number of Board Committee meetings held during the year for the Committees in place at the end of the year and each Director's attendance at those meetings.

| | Board Audit, Risk & Sustainability Committee | | Board Compliance Committee | | Board Nomination, Remuneration & Governance Committee | | Board Finance Committee | |
|---|---|---|---|---|---|---|---|---|
| | held | attended | held | attended | held | attended | held | attended |
| Christopher T Beare | - | - | - | - | 6 | 6 | 4 | 4 |
| Elizabeth A Alexander, AM | 4 | 4 | - | - | - | - | - | - |
| Barry R Brownjohn | 4 | 4 | - | - | - | - | - | - |
| John C Conde, AO | - | - | - | - | 6 | 6 | - | - |
| Tonianne Dwyer | - | - | 4 | 4 | - | - | - | - |
| Stewart F Ewen, OAM | - | - | - | - | 6 | 6 | - | - |
| W Richard Sheppard | 4 | 4 | - | - | - | - | 4 | 4 |
| Peter B St George | - | - | - | - | - | - | 4 | 4 |

## 3 Directors' interests

The relevant interests of each Director in DXS stapled securities as at the date of this Directors' Report are shown below:

| Directors | No. of securities |
|---|---|
| Christopher T Beare | 100,000 |
| Elizabeth A Alexander, AM | 100,000 |
| Barry R Brownjohn | 50,000 |
| John C Conde, AO | 100,000 |
| Tonianne Dwyer | 100,000 |
| Stewart F Ewen, OAM | 100,000 |
| Craig D Mitchell | 539,782[1] |
| W Richard Sheppard | 100,000 |
| Darren J Steinberg | 453,417[1] |
| Peter B St George | 104,000 |

1 Performance Rights granted under the 2012 Transitional Performance Rights Plan.

## 4 Directors' directorships in other listed entities

The following table sets out directorships of other listed entities, not including DXFM, held by the Directors at any time in the three years immediately prior to the end of the year, and the period for which each directorship was held:

| Director | Company | Date appointed | Date resigned |
|---|---|---|---|
| Christopher T Beare | Mnemon Group Limited | 6 November 2009 | 27 May 2013 |
| Elizabeth A Alexander, AM | CSL Limited | 12 July 1991 | 19 October 2011 |
| John C Conde, AO | Whitehaven Coal Limited | 3 May 2007 | |
| | Cooper Energy Limited | 25 February 2013 | |
| Tonianne Dwyer | Cardno Limited | 25 June 2012 | |
| W Richard Sheppard | Echo Entertainment Group | 21 November 2012 | |
| Peter B St George | Boart Longyear Limited | 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.

## 5 Principal activities

During the year the principal activity of the Trust was investment in real estate assets. There were no significant changes in the nature of the Trust's activities during the year.

## 6 Review of results and operations

The results for the year ended 30 June 2013 were:

- profit attributable to unitholders was $287.0 million (2012: $196.3 million);
- total assets were $4,216.6 million (2012: $3,368.4 million); and
- net assets were $2,554.9 million (2012: $2,451.1 million).

A review of the results, financial position and operations of the Group, of which the Trust forms part thereof, is set out in the Operating and Financial Review of the DEXUS Property Group Annual Report and forms part of this Directors' Report.

## 7 Likely developments and expected results of operations

In the opinion of the Directors, disclosure of any further information regarding business strategies and the future developments or results of the Trust, other than the information already outlined in this Directors' Report or the Financial Statements accompanying this Directors' Report would be unreasonably prejudicial to the Trust.

## 8 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 Trust, the results of those operations, or the state of the Trust's affairs in future financial years.

## 9 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 Trust, the results of those operations, or the state of the Trust's affairs in future financial years.

## 10 Distributions

Distributions paid or payable by the Trust for the year ended 30 June 2013 are outlined in note 22 of the Notes to the Financial Statements and form part of this Directors' Report.

## 11 DXFM fees

Details of fees paid or payable by the Trust to DXFM for the year ended 30 June 2013 are outlined in note 27 of the Notes to the Financial Statements and form part of this Directors' Report.

## 12 Units on issue

The movement in units on issue in the Trust during the year and the number of units on issue as at 30 June 2013 are detailed in note 20 of the Notes to the Financial Statements and form part of this Directors' Report.

Details of the number of interests in the Trust held by DXFM or its associates as at the end of the financial year are outlined in note 27 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 Trust did not have any options on issue as at 30 June 2013 (2012: nil).

## 13 Environmental regulation

DXS 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.

## 14 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 Trust pursuant to the DEXUS Specific Terms of Business agreed for all engagements with PwC, to the extent that the Trust inappropriately uses or discloses a report prepared by PwC. The Auditor, PwC, is not indemnified for the provision of services where such an indemnification is prohibited by the *Corporations Act 2001*.

## 15 Audit

### 15.1 Auditor

PricewaterhouseCoopers continues in office in accordance with section 327 of the *Corporations Act 2001*.

### 15.2 Non-audit services

The Trust may decide to employ the Auditor on assignments, in addition to their statutory audit duties, where the Auditor's expertise and experience with the Trust and/or DXS are important.

Details of the amounts paid or payable to the Auditor, for audit and non-audit services provided during the year are set out in note 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; and
  - 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.

### 15.3 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 7 and forms part of this Directors' Report.

## 16 Corporate governance

DXFM's Corporate Governance Statement is set out in a separate section of the DEXUS Property Group Annual Report and forms part of this Directors' Report.

## 17 Rounding of amounts and currency

The Trust 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 thousand dollars, unless otherwise indicated. All figures in this Directors' Report and the Financial Statements, except where otherwise stated, are expressed in Australian dollars.

## 18 Management representation

The Chief Executive Officer and Chief Financial Officer have reviewed the Trust's financial reporting processes, policies and procedures together with its risk management and internal control and compliance policies and procedures. Following that review, it is their opinion that the Trust's financial records for the financial year have been properly maintained in accordance with the *Corporations Act 2001* and the Financial Statements and their notes comply with the accounting standards and give a true and fair view.

## 19 Directors' authorisation

The Directors' Report is made in accordance with a resolution of the Directors. The Financial Statements were authorised for issue by the Directors on 16 August 2013. The Directors have the power to amend and reissue the Financial Statements.

**Christopher T Beare**
Chair
16 August 2013

**Darren J Steinberg**
Chief Executive Officer
16 August 2013

# Auditor's Independence Declaration

As lead auditor for the audit of DEXUS Office Trust for the year ended 30 June 2013, I declare that to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of DEXUS Office Trust and the entities it controlled during the period.

E A Barron
Partner
PricewaterhouseCoopers

Sydney
16 August 2013

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*Darling Park Tower 2, 201 Sussex Street, GPO BOX 2650, SYDNEY NSW 1171*
*T: +61 2 8266 0000, F: +61 2 8266 9999, www.pwc.com.au*

| | Note | 2013 $'000 | 2012 $'000 |
|---|---|---|---|
| **Revenue from ordinary activities** | | | |
| Property revenue | 2 | **270,260** | 270,253 |
| Interest revenue | 3 | **320** | 389 |
| **Total revenue from ordinary activities** | | **270,580** | 270,642 |
| | | | |
| Net fair value gain of investment properties | | **131,301** | 67,158 |
| Share of net profit of investments accounted for using the equity method | 14 | **37,905** | 13,784 |
| Net fair value gain of derivatives | | **2,683** | - |
| Net foreign exchange gain | | **6** | 18 |
| **Total income** | | **442,475** | 351,602 |
| | | | |
| **Expenses** | | | |
| Property expenses | | **(73,481)** | (70,765) |
| Responsible Entity fees | 27 | **(11,230)** | (9,861) |
| Finance costs | 4 | **(63,172)** | (71,390) |
| Net loss on sale of investment properties | | **(547)** | - |
| Fair value adjustment on acquisition of investments | 14 | **(164)** | - |
| Other expenses | 5 | **(1,303)** | (1,482) |
| **Total expenses** | | **(149,897)** | (153,498) |
| **Profit before tax** | | **292,578** | 198,104 |
| Income tax expense | 7 | **(5,599)** | - |
| **Proft after tax** | | **286,979** | 198,104 |
| | | | |
| **Other comprehensive income:** | | | |
| Items that may be reclassified to profit or loss: | | | |
| Exchange differences on translating foreign operations | | **7,512** | 1,306 |
| **Total comprehensive income for the year** | | **294,491** | 199,410 |
| | | | |
| **Profit for the year attributable to:** | | | |
| Unitholders of DEXUS Office Trust | | **286,979** | 196,293 |
| Non-controlling interests | | **-** | 1,811 |
| **Total profit for the year** | | **286,979** | 198,104 |
| | | | |
| **Total comprehensive income for the year attributable to:** | | | |
| Unitholders of DEXUS Office Trust | | **294,491** | 197,599 |
| Non-controlling interests | | **-** | 1,811 |
| **Total comprehensive income for the year** | | **294,491** | 199,410 |

| **Earnings per unit** | | Cents | Cents |
|---|---|---|---|
| Basic earnings per unit on profit attributable to unitholders of the parent entity | 31 | **0.62** | 0.39 |
| Diluted earnings per unit on profit attributable to unitholders of the parent entity | 31 | **0.62** | 0.39 |

*The above Consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying notes.*

| | Note | 2013 $'000 | 2012 $'000 |
|---|---|---|---|
| **Current assets** | | | |
| Cash and cash equivalents | 8 | **5,007** | 3,091 |
| Receivables | 9 | **11,883** | 6,502 |
| Derivative financial instruments | 11 | **3,468** | 1,284 |
| Other | 12 | **3,708** | 2,961 |
| **Total current assets** | | **24,066** | 13,838 |
| | | | |
| **Non-current assets** | | | |
| Investment properties | 13 | **3,279,378** | 3,132,600 |
| Derivative financial instruments | 11 | **5,483** | 4,124 |
| Investments accounted for using the equity method | 14 | **906,768** | 217,043 |
| Other | 15 | **894** | 779 |
| **Total non-current assets** | | **4,192,523** | 3,354,546 |
| **Total assets** | | **4,216,589** | 3,368,384 |
| | | | |
| **Current liabilities** | | | |
| Payables | 16 | **39,170** | 41,854 |
| Loans with related parties | 10 | **55,684** | 55,684 |
| Provisions | 17 | **78,547** | 67,672 |
| Derivative financial instruments | 11 | **770** | 1,288 |
| **Total current liabilities** | | **174,171** | 166,498 |
| | | | |
| **Non-current liabilities** | | | |
| Loans with related parties | 10 | **1,441,551** | 693,109 |
| Derivative financial instruments | 11 | **39,759** | 57,088 |
| Deferred tax liabilities | 18 | **5,599** | - |
| Other | 19 | **574** | 545 |
| **Total non-current liabilities** | | **1,487,483** | 750,742 |
| **Total liabilities** | | **1,661,654** | 917,240 |
| **Net assets** | | **2,554,935** | 2,451,144 |
| | | | |
| **Equity** | | | |
| Contributed equity | 20 | **1,825,984** | 1,863,965 |
| Reserves | 21 | **(6,997)** | (14,509) |
| Retained profits | 21 | **735,948** | 601,688 |
| **Total equity** | | **2,554,935** | 2,451,144 |

*The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.*

## Consolidated Statement of Changes in Equity

For the year ended 30 June 2013

| | Note | Contributed equity $'000 | Retained profits $'000 | Foreign currency translation reserve $'000 | Unitholder equity $'000 | Non-controlling interests $'000 | Total equity $'000 |
|---|---|---|---|---|---|---|---|
| **Opening balance as at 1 July 2011** | | 2,063,214 | 556,723 | (15,815) | 2,604,122 | 204,028 | 2,808,150 |
| Profit after tax for the year | | - | 196,293 | - | 196,293 | 1,811 | 198,104 |
| Other comprehensive income for the year | | - | - | 1,306 | 1,306 | - | 1,306 |
| Transactions with owners in their capacity as owners: | | | | | | | |
| Buy-back of contributed equity, net of transaction costs | 20 | (24,191) | - | - | (24,191) | - | (24,191) |
| Capital payment, net of transaction costs | 20 | (175,058) | - | - | (175,058) | - | (175,058) |
| Acquisition of non-controlling interest | | - | - | - | - | (204,000) | (204,000) |
| Distributions paid or provided for | 22 | - | (141,152) | - | (141,152) | (12,015) | (153,167) |
| Transfer to retained profits | | - | (10,176) | - | (10,176) | 10,176 | - |
| **Closing balance as at 30 June 2012** | | 1,863,965 | 601,688 | (14,509) | 2,451,144 | - | 2,451,144 |
| | | | | | | | |
| **Opening balance as at 1 July 2012** | | **1,863,965** | **601,688** | **(14,509)** | **2,451,144** | **-** | **2,451,144** |
| Profit after tax for the year | | **-** | **286,979** | **-** | **286,979** | **-** | **286,979** |
| Other comprehensive income for the year | | **-** | **-** | **7,512** | **7,512** | **-** | **7,512** |
| Transactions with owners in their capacity as owners: | | | | | | | |
| Buy-back of contributed equity, net of transaction costs | 20 | **(37,981)** | **-** | **-** | **(37,981)** | **-** | **(37,981)** |
| Distributions paid or provided for | 22 | **-** | **(152,719)** | **-** | **(152,719)** | **-** | **(152,719)** |
| **Closing balance as at 30 June 2013** | | **1,825,984** | **735,948** | **(6,997)** | **2,554,935** | **-** | **2,554,935** |

*The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.*

| | Note | 2013 $'000 | 2012 $'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts in the course of operations (inclusive of GST) | | **318,170** | 318,870 |
| Payments in the course of operations (inclusive of GST) | | **(114,501)** | (109,824) |
| Interest received | | **320** | 389 |
| Finance costs paid to financial institutions | | **(11,480)** | (8,180) |
| Distributions received from investments accounted for using the equity method | | **19,686** | 7,539 |
| **Net cash inflow from operating activities** | 30 | **212,195** | 208,794 |
| | | | |
| **Cash flows from investing activities** | | | |
| Payments for capital expenditure on investment properties | | **(52,314)** | (52,240) |
| Proceeds from the sale of investment properties | | **13,629** | - |
| Payments for investments accounted for using the equity method | | **(674,290)** | (8,565) |
| **Net cash outflow from investing activities** | | **(712,975)** | (60,805) |
| | | | |
| **Cash flows from financing activities** | | | |
| Borrowings provided to entities within DXS | | **(268,682)** | (192,117) |
| Borrowings provided by entities within DXS | | **951,175** | 846,162 |
| Repayment of borrowings | | **-** | (250,000) |
| Capital payment | | **-** | (174,979) |
| Capital payment transaction costs | | **-** | (79) |
| Acquisition of non-controlling interest | | **-** | (204,000) |
| Payments for buy-back of contributed equity | | **(37,981)** | (24,191) |
| Distributions paid to unitholders | | **(141,844)** | (138,219) |
| Distributions paid to non-controlling interests | | **-** | (15,157) |
| **Net cash inflow/(outflow) from financing activities** | | **502,668** | (152,580) |
| | | | |
| **Net increase/(decrease) in cash and cash equivalents** | | **1,888** | (4,591) |
| Cash and cash equivalents at the beginning of the year | | **3,091** | 7,671 |
| Effects of exchange rate changes on cash and cash equivalents | | **28** | 11 |
| **Cash and cash equivalents at the end of the year** | 8 | **5,007** | 3,091 |

*The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.*

# Note 1

## Summary of significant accounting policies

### (a) Basis of preparation

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 the Australian Accounting Standards.

DEXUS Funds Management Limited (DXFM) as Responsible Entity for DDF, DIT, DOT and DXO may only unstaple the Group if approval is obtained by a special resolution of the stapled security holders.

These general purpose Financial Statements for the year ended 30 June 2013 have been prepared in accordance with the requirements of the Trust's Constitution, the *Corporations Act 2001*, Australian Accounting Standards and other authoritative pronouncements of the Australia Accounting Standards Board and interpretations. Compliance with Australian Accounting Standards ensures that the Financial Statements and notes also comply with International Financial Reporting Standards (IFRS).

These Financial Statements are prepared on a going concern basis and in accordance with historical cost conventions and have not been adjusted to take account of either changes in the general purchasing power of the dollar or changes in the values of specific assets, except for the valuation of certain non-current assets and financial instruments (refer notes 1(e), 1(l) and 1(q)). The Trust is a for-profit entity for the purpose of preparing Financial Statements.

As at 30 June 2013, the Trust had a net current asset deficiency of $150.1 million (2012: $152.7 million). The DXS Group has in place both external and internal funding arrangements to support the cashflow requirements of the Trust. The Trust is a going concern and the Financial Statements have been prepared on that basis. Gearing is managed centrally for DXS. The gearing ratio as disclosed in the DXS Financial Statements for the year ended 30 June 2013 is 29.1% (refer note 28 of the DXS Financial Statements).

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 Trust's accounting policies. Other than the estimations described in notes 1(e), 1(l) and 1(q), 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

(i) Controlled entities

The Financial Statements have been prepared on a consolidated basis. The accounting policies of the subsidiaries are consistent with those of the parent.

Subsidiaries are all entities (including special purpose entities) over which the Trust has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Trust controls another entity.

The Financial Statements incorporate an elimination of inter-entity transactions and balances to present the Financial Statements on a consolidated basis. Net profit and equity in controlled entities, which is attributable to the unitholdings of non-controlling interests, are shown separately in the Statement of Comprehensive Income and Statement of Financial Position respectively. Where control of an entity is obtained during a financial year, its results are included in the Statement of Comprehensive Income from the date on which control is gained. They are deconsolidated from the date that control ceases. The Financial Statements incorporate all the assets, liabilities and results of the parent and its controlled entities.

# Note 1

**Summary of significant accounting policies** (continued)

**(b) Principles of consolidation** (continued)

(ii) Partnerships and joint ventures

Where assets are held in a partnership or joint venture with another entity directly, the Trust's share of the results and assets of this partnership or joint venture are consolidated into the Statement of Comprehensive Income and Statement of Financial Position of the Trust. Where assets are jointly controlled via ownership of units in single purpose unlisted unit trusts or shares in companies, the Trust applies equity accounting to record the operations of these investments (refer note 1(o)).

**(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) 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.

(iii) 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 Trust.

(ii) Borrowing costs

Borrowing costs include interest, amortisation of discounts or premiums relating to borrowings, amortisation or ancillary costs incurred in connection with arrangement of borrowings and foreign exchange losses net of hedged amounts on borrowings, including trade creditors and lease finance charges. Borrowing costs are expensed as incurred unless they relate to qualifying assets.

Qualifying assets are assets which take more than 12 months to get ready for their intended use or sale. In these circumstances, borrowing costs are capitalised to the cost of the asset during the period of time that is required to complete and prepare the asset for its intended use or sale. Where funds are borrowed generally, borrowing costs are capitalised using a weighted average capitalisation rate.

# Note 1

**Summary of significant accounting policies** (continued)

### (e) Derivatives and other financial instruments

(i) Derivatives

The Trust's activities expose it to a variety of financial risks including foreign exchange risk and interest rate risk. Accordingly, the Trust enters into various derivative financial instruments such as interest rate 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 Trust's exposures and updates its treasury policies and procedures. The Trust does not trade in derivative instruments for speculative purposes. Even though derivative financial instruments are entered into for the purpose of providing the Trust with an economic hedge, the Trust has elected not to apply hedge accounting under AASB 139 *Financial Instruments: Recognition and Measurement*. Accordingly, derivatives including interest rate 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 Trust

Financial instruments issued by the Trust are classified as either liabilities or as equity in accordance with the substance of the contractual arrangements. Accordingly, ordinary units issued by the Trust 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 the amount of 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 which is recoverable from or payable to the Australian Taxation Office is classified as cash flows from operating activities.

# Note 1

**Summary of significant accounting policies** (continued)

### (g) Taxation

Under current Australian income tax legislation, the Trust is not liable for income tax provided it satisfies certain legislative requirements. The Trust may be liable for income tax in jurisdictions where foreign property is held (i.e. New Zealand).

DOT NZ Sub-Trust No. 1, a wholly owned Australian sub-trust of the Trust, 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 the end of the reporting period, where required.

### (h) Distributions

In accordance with the Trust's Constitution, the Trust distributes its distributable income to unitholders by cash or reinvestment. Distributions are provided for when they are approved by the Board of Directors and declared.

### (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 Trust 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) Investment properties

The Trust's investment properties consist of properties held for long-term rental yields and/or capital appreciation and property that is being constructed or developed for future use as investment property. Investment properties are initially recognised at cost including transaction costs. Investment properties are subsequently recognised at fair value in the Financial Statements. Each valuation firm and its signatory valuer are appointed on the basis that they are engaged for no more than three consecutive valuations.

# Note 1

**Summary of significant accounting policies** (continued)

### (l) Investment properties (continued)

The basis of valuations of investment properties is fair value being the amounts for which the assets could be exchanged between knowledgeable willing parties in an arm's length transaction, based on current prices in an active market for similar properties in the same location and condition and subject to similar leases. In addition, an appropriate valuation method is used, which may include the discounted cashflow and the capitalisation method. Discount rates and capitalisation rates are determined based on industry expertise and knowledge and, where possible, a direct comparison to third party rates for similar assets in a comparable location. Rental revenue from current leases and assumptions about future leases, as well as any expected operational cash outflows in relation to the property, are also reflected in fair value. In relation to development properties under construction for future use as investment property, where reliably measurable, fair value is determined based on the market value of the property on the assumption it had already been completed at the valuation date less costs still required to complete the project, including an appropriate adjustment for profit and risk.

External valuations of the individual investment properties are carried out in accordance with the Trust's Constitution or may be earlier where the Responsible Entity believes there is a potential for a material change in the fair value of the property.

Changes in fair values are recorded in the Statement of Comprehensive Income. The gain or loss on disposal of an investment property is calculated as the difference between the carrying amount of the asset at the date of disposal and the net proceeds from disposal and is included in the Statement of Comprehensive Income in the year of disposal.

Subsequent redevelopment and refurbishment costs (other than repairs and maintenance) are capitalised to the investment property where they result in an enhancement in the future economic benefits of the property.

### (m) Leasing fees

Leasing fees incurred are capitalised and amortised over the lease periods to which they relate.

### (n) 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.

### (o) Investments accounted for using the equity method

Some property investments are held through the ownership of units in single purpose unlisted trusts or shares in unlisted companies where the Trust exerts significant influence but does not have a controlling interest. These investments are considered to be associates and the equity method of accounting is applied in the Financial Statements.

Under this method, the entity's share of the post-acquisition profits of associates is recognised in the Statement of Comprehensive Income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Dividends or distributions receivable from associates are recognised as a reduction in the carrying amount of the investment.

When the Trust's share of losses in an associate equal or exceed its interest in the associate (including any unsecured receivables) the Trust does not recognise any further losses unless it has incurred obligations or made payments on behalf of the associate.

# Note 1

**Summary of significant accounting policies** (continued)

### (p) Impairment of assets

Certain 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 that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

### (q) Financial assets and liabilities

(i) Classification

The Trust has classified its financial assets and liabilities as follows:

| Financial asset/liability | Classification | Valuation basis | Reference |
|---|---|---|---|
| Receivables | Loans and receivables | Amortised cost | Refer note 1(k) |
| Other financial assets | Loans and receivables | Amortised cost | Refer note 1(e) |
| Other financial assets | Fair value through profit or loss | Fair value | Refer note 1(x) |
| Payables | Financial liability at amortised cost | Amortised cost | Refer note 1(r) |
| Interest bearing liabilities | Financial liability at amortised cost | Amortised cost | Refer note 1(s) |
| 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 Trust 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 is 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.

### (r) Payables

These amounts represent liabilities for amounts owing at the end of the reporting period. The amounts are unsecured and are usually paid within 30 days of recognition.

### (s) Interest bearing liabilities

Subsequent to initial recognition at fair value, net of transaction costs incurred, interest bearing liabilities are measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the Statement of Comprehensive Income over the period of the borrowings using the effective interest method. Interest bearing liabilities are classified as current liabilities unless the Trust has an unconditional right to defer the liability for at least 12 months after the reporting date.

# Note 1

**Summary of significant accounting policies** (continued)

### (t) 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. The Trust did not have such dilutive potential units during the year.

### (u) Foreign currency

Items included in the Financial Statement of the Trust are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The Financial Statements are presented in Australian dollars, which is the functional and presentation currency of the Trust.

(i) Foreign currency transactions

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period end exchange rates of financial assets and liabilities denominated in foreign currencies are recognised in the Statement of Comprehensive Income.

(ii) Foreign operations

Foreign operations are located in New Zealand. These operations have a functional currency of NZ dollars, which is translated into the presentation currency.

The assets and liabilities of the foreign operations are translated at exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising are recognised in the foreign currency translation reserve and recognised in profit or loss on disposal or partial disposal of the foreign operation.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at exchange rates prevailing at the end of each reporting period.

### (v) Operating 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 DXS, which consists of DDF, DOT, DIT and DXO. Consistent with how the CODM manages the business, the operating segments within DXS are reviewed on a consolidated basis rather than at an individual trust level. Disclosures concerning DXS's operating segments as well as the operating segments' key financial information provided to CODM are presented in DXS's Financial Statements.

### (w) Rounding of amounts

The Trust 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 thousand dollars, or in certain cases, the nearest dollar.

### (x) Parent entity financial information

The financial information for the parent entity of the Trust is disclosed in note 23 and 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

Investments in subsidiaries, associates and joint ventures are measured at fair value through profit and loss to reduce a measurement inconsistency. 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.

# Note 1

**Summary of significant accounting policies** (continued)

### (y) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for the 30 June 2013 reporting period. Our assessment of the impact of these new standards and interpretations is set out below:

**AASB 2012-3 *Amendments to Australian Accounting Standard - Offsetting Financial Assets and Financial Liabilities* and AASB 2012-2 Amendments to Australian Accounting Standard - *Disclosures - Offsetting Financial Assets and Financial Liabilities* (effective 1 July 2014 and 1 July 2013 respectively).**

In June 2012, the AASB approved amendments to the application guidance in AASB 132 *Financial Instruments: Presentation*, to clarify some of the requirements for offsetting financial assets and financial liabilities in the Financial Statements. These amendments are effective from 1 July 2014. They are unlikely to affect the accounting for any of the Trust's current offsetting arrangements. The AASB has also introduced more extensive disclosure requirements into AASB 7 which will apply from 1 July 2013. The Trust intends to apply the new rules from 1 July 2013 and does not expect any significant impacts.

**AASB 2012-5 *Amendments to Australian Accounting Standard arising from Annual Improvements 2009-2011 cycle* (effective 1 July 2013).**

In June 2012, the AASB approved a number of amendments to Australian Accounting Standards as a result of the 2009-2011 annual improvements project. The Trust will apply the amendments from 1 July 2013 and does not expect any significant impacts.

**AASB 9 *Financial Instruments*, AASB 2009-11 *Amendments to Australian Accounting Standards arising from AASB 9*, AASB 2010-7 *Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)* and AASB 2012-6 *Amendments to Australian Accounting Standards - Mandatory Effective Date of AASB 9 and Transition Disclosures* (effective 1 July 2015).**

AASB 9 *Financial Instruments* addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard simplifies the classifications of financial assets into those to be carried at amortised cost and those to be carried at fair value. The Trust intends to apply the standards from 1 July 2015 and does not expect any significant impacts.

**AASB 2011-4 *Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements* (effective 1 July 2013)**

In July 2011 the AASB decided to remove the individual KMP disclosure requirements from AASB 124 *Related Party Disclosures*, to achieve consistency with the international equivalent standard and remove a duplication of the requirements with the *Corporations Act 2001*. While this will reduce the disclosures that are currently required in the Notes to the Financial Statements, it will not affect any of the amounts recognised in the Financial Statements. The amendments apply from 1 July 2013 and cannot be adopted early.

**AASB 10 *Consolidated financial statements* (effective 1 July 2013).**

AASB 10 replaces all of the guidance on control and consolidation in AASB 127 *Consolidated and separate financial statements*, and SIC-12 *Consolidation – special purpose entities*. The standard introduces a single definition of control that applies to all entities. It focuses on the need to have both power and rights or exposure to variable returns before control is present. The Trust intends to apply the standard from 1 July 2013 and does not expect any significant impacts.

# Note 1

**Summary of significant accounting policies** (continued)

**(y) New accounting standards and interpretations** (continued)

**AASB 11 *Joint Arrangements* (effective 1 July 2013).**
AASB 11 introduces a principles based approach to accounting for joint arrangements. The focus is no longer on the legal structure of joint arrangements, but rather on how rights and obligations are shared by the parties to the joint arrangement. Based on the assessment of rights and obligations, a joint arrangement will be classified as either a joint operation or joint venture. Joint ventures are accounted for using the equity method, and the choice to proportionately consolidate will no longer be permitted. The Trust intends to apply the standard from 1 July 2013 and does not expect any significant impacts.

**AASB 12 *Disclosure of interests in other entities* (effective 1 July 2013).**
AASB 12 sets out the required disclosures for entities reporting under the two new standards, AASB 10 and AASB 11, and replaces the disclosure requirements currently found in AASB 128. Application of this standard will not affect any of the amounts recognised in the Financial Statements, but may impact some of the Trust's current disclosures. The Trust intends to apply the standard from 1 July 2013 and does not expect any significant impacts.

**AASB 128 *Investments in associates and joint ventures* (effective 1 July 2013).**
Amendments to AASB 128 provide clarification that an entity continues to apply the equity method and does not remeasure its retained interest as part of ownership changes where a joint venture becomes an associate, and vice versa. The Trust intends to apply the standard from 1 July 2013 and does not expect any significant impacts.

**AASB 13 *Fair value measurement* (effective 1 July 2013).**
AASB 13 explains how to measure fair value and aims to enhance fair value disclosures. Application of this standard will not affect any of the amounts recognised in the Financial Statements, but will impact some of the Trust's current disclosures. The Trust intends to apply the standard from 1 July 2013 and does not expect any significant impacts.

## Note 2
**Property revenue**

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Rent and recoverable outgoings | **289,443** | 288,367 |
| Incentive amortisation | **(30,535)** | (29,216) |
| Other revenue | **11,352** | 11,102 |
| **Total property revenue** | **270,260** | 270,253 |

## Note 3
**Interest revenue**

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Interest revenue from financial institutions | **320** | 389 |
| **Total interest revenue** | **320** | 389 |

## Note 4
**Finance costs**

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Interest paid/payable | **-** | 3,835 |
| Interest paid to related parties | **70,076** | 27,859 |
| Amount capitalised | **-** | (1,264) |
| Other finance costs | **1** | 308 |
| Net fair value (gain)/loss of interest rate swaps | **(6,905)** | 40,652 |
| **Total finance costs** | **63,172** | 71,390 |

The average capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation is 7.00% (2012: 7.70%).

## Note 5
**Other expenses**

| | Note | 2013 $'000 | 2012 $'000 |
|---|---|---|---|
| Audit and taxation fees | 6 | **314** | 291 |
| Custodian fees | | **259** | 227 |
| Legal and other professional fees | | **287** | 313 |
| Registry costs and listing fees | | **229** | 346 |
| Other expenses | | **214** | 305 |
| **Total other expenses** | | **1,303** | 1,482 |

# Note 6

## Audit, taxation and transaction services fees

During the year, the Auditor and its related practices earned the following remuneration:

| | 2013<br>$ | 2012<br>$ |
|---|---|---|
| **Audit fees** | | |
| PwC Australia - audit and review of Financial Statements | **246,238** | 253,612 |
| PwC fees paid in relation to outgoings audit[1] | **50,570** | 36,581 |
| PwC Australia - regulatory audit and compliance services | **3,517** | 6,164 |
| Audit fees paid to PwC | **300,325** | 296,357 |
| **Total audit fees** | **300,325** | 296,357 |
| **Taxation fees** | | |
| Fees paid to PwC Australia | **38,167** | 14,325 |
| Fees paid to PwC NZ | **26,442** | 17,068 |
| Taxation fees paid to PwC | **64,609** | 31,393 |
| **Total taxation fees**[2] | **64,609** | 31,393 |
| **Total audit and taxation fees**[1] | **364,934** | 327,750 |
| **Transaction services fees** | | |
| Fees paid to PwC Australia | **-** | 7,500 |
| **Total transaction services fees**[2] | **-** | 7,500 |
| **Total audit, taxation and transaction services fees** | **364,934** | 335,250 |

1 Fees paid in relation to outgoing audits are included in property expenses in the Statement of Comprehensive Income. Therefore total audit and taxation fees included in other expenses are $314,364 (2012: $291,169).

2 These services include general compliance work, one off project work and advice.

# Note 7

## Income Tax

### (a) Income tax expense

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Deferred tax expense | 5,599 | - |
| **Total income tax expense** | 5,599 | - |
| | | |
| Deferred income tax expense attributable to: | | |
| Increase in deferred tax liabilities | 5,599 | - |
| **Total deferred tax expense** | 5,599 | - |

### (b) Reconciliation of income tax expense to net profit

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Profit before tax | 292,578 | - |
| Less amounts not subject to income tax | (279,211) | - |
| | 13,367 | - |
| | | |
| Prima facie tax expense at the New Zealand tax rate of 28% (2012: 28%) | 3,743 | - |
| | | |
| **Tax effects of amounts which are not deductible/(taxable) in calculating taxable income:** | | |
| Depreciation and amortisation | (401) | - |
| Movements in the carrying value and tax cost base of properties | 5,599 | - |
| Non-deductible interest expense | 48 | - |
| Tax losses brought to account | (1,154) | - |
| Other temporary differences | (2,236) | - |
| | 1,856 | - |
| Income tax expense | 5,599 | - |

# Note 8

## Current assets - cash and cash equivalents

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Cash at bank | 5,007 | 3,091 |
| **Total current assets - cash and cash equivalents** | 5,007 | 3,091 |

# Note 9

## Current assets - receivables

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Rent receivable | 1,993 | 1,813 |
| Less: provision for doubtful debts | (55) | - |
| **Total rental receivables** | 1,938 | 1,813 |
| Distributions receivable | 2,620 | - |
| Other receivables | 7,325 | 4,689 |
| **Total other receivables** | 9,945 | 4,689 |
| **Total current assets - receivables** | 11,883 | 6,502 |

# Note 10

## Loans with related parties

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| **Current liabilities - loans with related parties** | | |
| Non-interest bearing loans with entities within DXS[1] | 55,684 | 55,684 |
| **Total current liabilities - loans with related parties** | 55,684 | 55,684 |
| **Non-current liabilities - loans with related parties** | | |
| Interest bearing loans with related parties[2] | 1,441,551 | 693,109 |
| **Total non-current liabilities - loans with related parties** | 1,441,551 | 693,109 |

1 Non-interest bearing loans with entities within DXS were created to effect the stapling of the Trust, DIT, DDF and DXO. These loan balances eliminate on consolidation within DXS.

2 Interest bearing loans with DEXUS Finance Pty Limited (DXF). These loan balances eliminate on consolidation within DXS.

## Note 11

### Derivative financial instruments

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| **Current assets** | | |
| Interest rate swap contracts | **785** | 1,284 |
| Other | **2,683** | - |
| **Total current assets - derivative financial instruments** | **3,468** | 1,284 |
| | | |
| **Non-current assets** | | |
| Interest rate swap contracts | **5,483** | 4,124 |
| **Total non-current assets - derivative financial instruments** | **5,483** | 4,124 |
| | | |
| **Current liabilities** | | |
| Interest rate swap contracts | **770** | 1,288 |
| **Total current liabilities - derivative financial instruments** | **770** | 1,288 |
| | | |
| **Non-current liabilities** | | |
| Interest rate swap contracts | **39,759** | 57,088 |
| **Total non-current liabilities - derivative financial instruments** | **39,759** | 57,088 |
| **Net derivative financial instruments** | **(31,578)** | (52,968) |

Refer note 24 for further discussion regarding derivative financial instruments.

## Note 12

### Current assets - other

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Prepayments | **3,708** | 2,961 |
| **Total current assets - other** | **3,708** | 2,961 |

## Note 13

### Non-current assets - investment properties

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Opening balance at the beginning of the year | **3,132,600** | 3,026,959 |
| Additions | **21,471** | 44,088 |
| Disposals | **(14,176)** | - |
| Lease incentives | **35,605** | 22,595 |
| Amortisation of lease incentives | **(30,735)** | (29,216) |
| Net fair value gain of investment properties | **131,301** | 67,158 |
| Rent straightlining | **(3,999)** | (338) |
| Foreign exchange differences on foreign currency translation | **7,311** | 1,354 |
| **Closing balance at the end of the year** | **3,279,378** | 3,132,600 |

**Key valuation assumptions**

Details of key valuation assumptions in relation to investment properties are outlined in note 13 of the DXS Financial Statements.

# Note 14

## 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).

Information relating to these entities is set out below:

| | Ownership Interest | | | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| **Name of entity** | **%** | % | **$'000** | $'000 |
| Bent Street Trust | **33.3** | 33.3 | **248,291** | 217,043 |
| DEXUS Creek Street Trust | **50.0** | - | **127,620** | - |
| DEXUS Martin Place Trust | **50.0** | - | **79,787** | - |
| Grosvenor Place Holding Trust | **50.0** | - | **289,086** | - |
| Site 6 Homebush Bay Trust | **50.0** | - | **37,093** | - |
| Site 7 Homebush Bay Trust | **50.0** | - | **50,266** | - |
| DEXUS 480 Q Holding Trust | **50.0** | - | **44,502** | - |
| DEXUS Kings Square Trust | **50.0** | - | **30,123** | - |
| **Total non-current assets - investments accounted for using the equity method** | | | **906,768** | 217,043 |

The above entities were formed in Australia and their principal activity is office property investment.

### Movements in carrying amounts of investments accounted for using the equity method

| | **2013** | 2012 |
|---|---|---|
| | **$'000** | $'000 |
| Opening balance at the beginning of the year | **217,043** | 200,356 |
| Additions | **674,290** | 9,829 |
| Share of net profit after tax[1] | **37,905** | 13,784 |
| Fair value adjustment on acquisition | **(164)** | - |
| Distributions received/receivable | **(22,306)** | (6,926) |
| **Closing balance at the end of the year** | **906,768** | 217,043 |

1 Share of net profit after tax includes a fair value gain of investment properties of $12.9 million (2012: $7.5 million).

### Summary of the performance and financial position of investments accounted for using the equity method

The Trust's share of aggregate revenue, profit, assets, liabilities and capital commitments of investments accounted for using the equity method are:

| | **2013** | 2012 |
|---|---|---|
| | **$'000** | $'000 |
| Revenue | **32,178** | 8,562 |
| Net profit after tax | **37,905** | 13,784 |
| Assets | **922,451** | 221,170 |
| Liabilities | **15,683** | 4,127 |
| Capital commitments | **302,274** | 12,447 |

# Note 15

## Non-current assets - other

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Tenant bonds | 660 | 546 |
| Other | 234 | 233 |
| **Total non-current assets - other** | **894** | 779 |

# Note 16

## Current liabilities - payables

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Trade creditors | 10,836 | 13,711 |
| Accruals | 5,947 | 2,696 |
| Accrued capital expenditure | 5,990 | 12,969 |
| Prepaid income | 7,797 | 8,149 |
| Responsible Entity fee payable | 1,029 | 827 |
| GST payable | 831 | 641 |
| Accrued interest | 6,740 | 2,861 |
| **Total current liabilities - payables** | **39,170** | 41,854 |

# Note 17

## Current liabilities - provisions

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Provision for distribution | 78,547 | 67,672 |
| **Total current liabilities - provisions** | **78,547** | 67,672 |

Movements in provision for distribution are set out below:

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Opening balance at the beginning of the year | 67,672 | 64,739 |
| Additional provisions | 152,719 | 141,152 |
| Payments of distributions | (141,844) | (138,219) |
| **Closing balance at the end of the year** | **78,547** | 67,672 |

A provision for distribution has been raised for the period ended 30 June 2013. This distribution is to be paid on 30 August 2013.

## Note 18

**Non-current liabilities - deferred tax liabilities**

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| **The balance comprises temporary differences attributable to:** | | |
| Investment properties | **5,599** | - |
| **Total non-current liabilities - deferred tax liabilities** | **5,599** | - |
| | | |
| **Movements** | | |
| Temporary differences | **5,599** | - |
| Charged to the Statement of Comprehensive Income | **5,599** | - |
| **Closing balance at the end of the year** | **5,599** | - |

## Note 19

**Non-current liabilities - other**

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Tenant bonds | **574** | 545 |
| **Total non-current liabilities - other** | **574** | 545 |

## Note 20

**Contributed equity**

### (a) Contributed equity

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Opening balance at the beginning of the year | **1,863,965** | 2,063,214 |
| Capital payment | **-** | (174,979) |
| Capital payment transaction costs | **-** | (79) |
| Buy-back of contributed equity | **(37,981)** | (24,191) |
| **Closing balance at the end of the year** | **1,825,984** | 1,863,965 |

### (b) Number of units on issue

| | 2013 No. of units | 2012 No. of units |
|---|---|---|
| Opening balance at the beginning of the year | **4,783,817,657** | 4,839,024,176 |
| Buy-back of contributed equity | **(81,860,267)** | (55,206,519) |
| **Closing balance at the end of the year** | **4,701,957,390** | 4,783,817,657 |

**Terms and conditions**

Each stapled security ranks equally with all other stapled securities for the purposes of distributions and on termination of the Trust. Each stapled security entitles the holder to vote in accordance with the provisions of the Constitution and the *Corporations Act 2001*.

# Note 21

## Reserves and retained profits

### (a) Reserves

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Foreign currency translation reserve | **(6,997)** | (14,509) |
| **Total reserves** | **(6,997)** | (14,509) |
| | | |
| **Movements:** | | |
| **Foreign currency translation reserve** | | |
| Opening balance at the beginning of the year | **(14,509)** | (15,815) |
| Exchange differences on translating foreign operations | **7,512** | 1,306 |
| **Closing balance at the end of the year** | **(6,997)** | (14,509) |

### (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.

### (c) Retained profits

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Opening balance at the beginning of the year | **601,688** | 556,723 |
| Net profit attributable to unitholders | **286,979** | 196,293 |
| Transfer of capital reserve of non-controlling interests | **-** | (10,176) |
| Distributions provided for or paid | **(152,719)** | (141,152) |
| **Closing balance at the end of the year** | **735,948** | 601,688 |

# Note 22

## Distributions paid and payable

### (a) Distribution to unitholders

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| 31 December (paid 29 February 2013) | **74,172** | 73,481 |
| 30 June (payable 30 August 2013) | **78,547** | 67,671 |
| | **152,719** | 141,152 |

### (b) Distribution to non-controlling interests

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| DEXUS RENTS Trust (paid 18 October 2011) | - | 3,223 |
| DEXUS RENTS Trust (paid 17 January 2012) | - | 3,101 |
| DEXUS RENTS Trust (paid 18 April 2012) | - | 2,897 |
| DEXUS RENTS Trust (paid 29 June 2012) | - | 2,794 |
| | - | 12,015 |
| **Total distributions** | **148,532** | 153,167 |

### (c) Distribution rate

| | 2013 Cents per unit | 2012 Cents per unit |
|---|---|---|
| 31 December (paid 29 February 2013) | **1.58** | 1.54 |
| 30 June (payable 30 August 2013) | **1.58** | 1.41 |
| **Total distributions** | **3.16** | 2.95 |

# Note 23

## Parent entity financial information

### (a) Summary financial information

The individual Financial Statements for the parent entity show the following aggregate amounts:

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Total current assets | **633,022** | 599,599 |
| Total assets | **4,185,551** | 3,332,618 |
| Total current liabilities | **165,075** | 151,634 |
| Total liabilities | **1,652,558** | 903,417 |
| | | |
| **Equity** | | |
| Contributed equity | **1,825,984** | 1,863,965 |
| Retained profits | **707,009** | 565,236 |
| **Total equity** | **2,532,993** | 2,429,201 |
| | | |
| Net profit for the year | **294,492** | 187,422 |
| **Total comprehensive income for the year** | **294,492** | 187,422 |

### (b) Investments in controlled entities

The parent entity has the following investments:

| | | Ownership Interest | | | |
|---|---|---|---|---|---|
| | | 2013 | 2012 | 2013 | 2012 |
| **Name of entity** | **Principal activity** | % | % | $'000 | $'000 |
| DOT Commercial Trust | Office property investment | **100.0** | 100.0 | **615,067** | 576,816 |
| DOT NZ Sub-Trust No 1 | Office property investment | **100.0** | 100.0 | **30,207** | 18,856 |
| DOT NZ Sub-Trust No 2 | Office property investment | **100.0** | 100.0 | **55** | 55 |
| **Total investments in controlled entities** | | | | **645,329** | 595,727 |

### (c) Guarantees entered into by the parent entity

Refer to note 25 for details of guarantees entered into by the parent entity.

### (d) Contingent liabilities

The parent entity had no contingent liabilities as at 30 June 2013 (2012: nil).

### (e) Capital commitments

The following amounts represent capital expenditure of the parent entity on investment properties contracted at the end of the reporting period but not recognised as liabilities payable:

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Investment properties | **12,289** | 13,175 |
| **Total capital commitments** | **12,289** | 13,175 |

# Note 24

## Financial risk management

To ensure the effective and prudent management of the Trust's capital and financial risks, the Trust (as part of DXS) has a well established framework consisting of a Board Finance Committee and a Capital Markets Committee. The Board Finance Committee is accountable to and primarily acts as an advisory body to the DXFM Board and includes three Directors of the DXFM Board. Its responsibilities include reviewing and recommending financial risk management policies and funding strategies for approval.

The Capital Markets Committee is a management committee that is accountable to both the Board Finance Committee and the Group Management Committee. It convenes at least quarterly and conducts a review of financial risk management exposures including liquidity, funding strategies and hedging. It is also responsible for the development of financial risk management policies and funding strategies for recommendation to the Board Finance Committee, and the approval of treasury transactions within delegated limits and powers.

Further information on the DXS governance structure, including terms of reference, is available at www.dexus.com

### (1) Capital risk management

The Trust manages its capital to ensure that entities within the Trust will be able to continue as a going concern while maximising the return to owners through the optimisation of the debt and equity balance.

The capital structure of the Trust consists of debt (see note 10), cash and cash equivalents, and equity attributable to unitholders. 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 unitholders equity;
- potential impacts on DXS's credit rating; and
- other market factors and circumstances.

The gearing ratio at 30 June 2013 was 34.3% (as detailed below).

| Gearing ratio | **2013** **$'000** | 2012 $'000 |
|---|---|---|
| Total interest bearing liabilities[1] | **1,441,551** | 693,109 |
| Total tangible assets[2] | **4,207,638** | 3,368,384 |
| **Gearing ratio[3]** | **34.3%** | 20.6% |

1 Total interest bearing liabilities excludes deferred borrowing costs.
2 Total tangible assets comprise total tangible assets less derivatives and deferred tax balances as reported internally to management.
3 Gearing is managed centrally for DXS. The gearing ratio as disclosed in the DEXUS Property Group Financial Statements 2013 is 29.1% (2012: 27.8%) (refer note 28 of the DXS Financial Statements).

The Trust is not rated by ratings agencies, however, DXS has been rated BBB+ by Standard and Poor's (S&P) and Baa1 by Moody's. The Trust considers potential impacts upon the rating when assessing the strategy and activities of the Trust and regards those impacts as an important consideration in its management of the Trust's capital structure.

The Trust is required to comply with certain financial covenants in respect of its interest bearing liabilities. During the 2013 and 2012 reporting periods, the Trust was in compliance with all of its financial covenants.

The Responsible Entity for the Trust (DXFM) has been issued with an Australian Financial Services Licence (AFSL). The licence is subject to certain capital requirements including the requirement to hold minimum net tangible assets and to maintain minimum liquidity. DXFM must also prepare rolling cash projections over at least the next twelve months and demonstrate it will have access to sufficient financial resources to meet its liabilities that are expected to be payable over that period. Cash projections and assumptions are approved, at least quarterly, by the Board of the Responsible Entity.

# Note 24

**Financial risk management** (continued)

### (2) Financial risk management

The Trust'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. Financial risk management is not managed at the individual trust level, but holistically as part of DXS. DXS's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Trust.

Accordingly, the Trust enters into various derivative financial instruments such as interest rate swaps and foreign exchange contracts to manage its exposure to certain risks. The Trust does not trade in derivative instruments for speculative purposes. The Trust uses different methods to measure the different types of risks to which it is exposed, including monitoring the current and forecast levels of exposure, and conducting sensitivity analysis.

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 Trust'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 Trust's exposures and (at least annually) updates its treasury policies and procedures.

### (a) Liquidity risk

Liquidity risk is the risk that the Trust will not have sufficient available funds to meet financial obligations in an orderly manner when they fall due or at an acceptable cost.

The Trust 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; and
- 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 Trust's ability to refinance its current debt facilities. As the Trust'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 Trust's key risk management strategy for margin price risk on refinancing is to spread the maturities of debt facilities over different time periods to reduce the volume of facilities to be refinanced and the exposure to market conditions in any one period.

# Note 24

**Financial risk management** (continued)

**(2) Financial risk management** (continued)

**(a) Liquidity risk** (continued)

**Refinancing risk** (continued)

An analysis of the contractual maturities of the Trust's interest bearing liabilities and derivative financial instruments is shown in the table below. The amounts in the table represent undiscounted cash flows.

| | 2013 | | | | 2012 | | | |
|---|---|---|---|---|---|---|---|---|
| | Expiring within one year $'000 | Expiring between one and two years $'000 | Expiring between two and five years $'000 | Expiring after five years $'000 | Expiring within one year $'000 | Expiring between one and two years $'000 | Expiring between two and five years $'000 | Expiring after five years $'000 |
| Receivables | 11,883 | - | - | - | 6,502 | - | - | - |
| Payables | 39,170 | - | - | - | 41,854 | - | - | - |
| | (27,287) | - | - | - | (35,352) | - | - | - |
| **Loans with related parties and interest**[1] | 81,159 | 81,159 | 1,685,029 | - | 46,785 | 46,785 | 140,355 | 739,894 |
| **Derivative financial instruments** | | | | | | | | |
| Derivative assets | 1,154 | 770 | 802 | - | 3,407 | 299 | - | - |
| Derivative liabilities | 16,623 | 12,793 | 20,332 | 10 | 16,668 | 14,354 | 23,417 | 1,575 |
| **Total net derivative financial instruments**[2] | (15,469) | (12,023) | (19,530) | (10) | (13,261) | (14,055) | (23,417) | (1,575) |

1 Includes estimated interest.

2 The notional maturities on derivatives are only shown for forward foreign exchange contracts as they are the only instruments where a principal amount is exchanged. For interest rate swaps, only the net interest cash flows (not the notional principal) are included. For financial assets and liabilities that have floating rate interest cash flows, future cash flows have been calculated using static interest and exchange rates prevailing at the end of each reporting period. Refer to note 11 (derivative financial instruments) for fair value of derivatives. Refer note 25 (contingent liabilities) for financial guarantees.

**(b) Market risk**

Market risk is the risk that the fair value or future cash flows of the Trust's financial instruments will fluctuate because of changes in market prices. The market risks that the Trust 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 Trust arises from interest bearing financial assets and liabilities that the Trust holds. Borrowings issued at variable rates expose the Trust to cash flow interest rate risk. Borrowings issued at fixed rates expose the Trust to fair value interest rate risk.

The primary objective of the Trust's risk management policy for interest rate risk is to minimise the effects of interest rate movements on the Trust's portfolio of financial assets and liabilities and financial performance. The policy sets out the minimum and maximum hedging amounts for the Trust, which is managed on a portfolio basis.

# Note 24

**Financial risk management** (continued)

**(2) Financial risk management** (continued)

**(b) Market risk** (continued)

(i) Interest rate risk (continued)

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 Trust's cash flows is managed within the parameters defined by the Group Treasury Policy.

The net notional amount of fixed rate debt and interest rate swaps in place in each year and the weighted average effective hedge rate is set out below.

| | June 2014 | June 2015 | June 2016 | June 2017 | June 2018 | > June 2019 |
|---|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| **Interest rate swaps** | | | | | | |
| A$ hedged[1] | 674,167 | 685,417 | 640,000 | 423,750 | 176,667 | - |
| A$ hedge rate (%)[2] | 4.52% | 4.00% | 3.93% | 4.26% | 3.97% | 0.00% |

1 Average amounts for the period. Hedged amounts above do not include potential hedges that are cancellable at the counterparty's option.

2 The above hedge rates do not include margins payable on borrowings.

### 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 Trust's floating rate debt and derivative cash flows. Net interest expense is only sensitive to movements in market rates to the extent that floating rate debt is not hedged.

| | | 2013 | 2012 |
|---|---|---|---|
| | | (+/-) $'000 | (+/-) $'000 |
| +/- 0.50% (50 basis points) | $A | **5,058** | 516 |

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 Trust with an economic hedge, the Trust has elected not to apply hedge accounting to its interest rate derivatives. Accordingly, gains or losses arising from changes in the fair value are reflected in the Statement of Comprehensive Income.

| | | 2013 | 2012 |
|---|---|---|---|
| | | (+/-) $'000 | (+/-) $'000 |
| +/- 0.50% (50 basis points) | $A | **11,040** | 5,150 |

# Note 24

**Financial risk management** (continued)

**(2) Financial risk management** (continued)

**(b) Market risk** (continued)

(ii) Equity price risk

Equity price risk is the risk that the fair value of financial investments fluctuates due to changes in the underlying unit price. The Trust's equity price risk arises from a derivative financial instrument, with any resultant fair value movements recognised in profit and loss.

**Sensitivity analysis on equity price risk**

The following sensitivity analysis shows the effect on the Statement of Comprehensive Income if the market price of the underlying equity securities/units at balance date had been 10% higher/lower with all other variables held constant.

| | | **2013** | 2012 |
|---|---|---|---|
| | | **(+/-) $'000** | (+/-) $'000 |
| +/- 0.10% | $A | **7,929** | - |

(iii) Foreign exchange risk

Foreign exchange risk is the risk that movements in exchange rates used to convert foreign currency revenues, expenses, assets, or liabilities to the Trust's functional currency will have an adverse effect on the Trust.

The Trust operates internationally with investments in New Zealand. As a result of these activities, the Trust has foreign exchange risk, arising primarily from:

- translation of investments in foreign operations; and
- earnings distributions and other transactions denominated in foreign currencies.

**Foreign currency assets and liabilities**

The Trust's net foreign currency exposures for net investments in foreign operations are as follows:

| | **2013** | 2012 |
|---|---|---|
| | **$'000** | $'000 |
| NZ$ net assets[1] | **127,500** | 123,253 |
| **NZ$ denominated net investment** | **127,500** | 123,253 |
| **% hedged** | **0%** | 0% |
| Total foreign investment (A$) | **107,405** | 96,510 |
| Total % hedged | **0%** | **0%** |

1 Assets exclude working capital and cash as reported internally to management.

**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 for an increase and decrease in foreign exchange rates. The increase and decrease in cents has been based on the historical movements of the Australian dollar relative to the New Zealand dollar[1]. The increase and decrease has been applied to the spot rate prevailing at the end of each reporting period[2]. The impact on the foreign currency translation reserve arises as the translation of the Trust's foreign currency assets are recorded (in Australian Dollars) directly in the foreign currency translation reserve.

| | | **2013** | 2012 |
|---|---|---|---|
| | | **(+/-) $'000** | (+/-) $'000 |
| + 9.5 cents (8.0%) (2012: 10.6 cents) | NZ$ (A$ Equivalent) | **7,991** | 7,374 |
| - 9.5 cents (8.0%) (2012: 10.6 cents) | NZ$ (A$ Equivalent) | **(9,388)** | (8,704) |

1 The sensitivity on market rates has been based on the standard deviation of the annual change in the Australian dollar exchange rate per currency since 1984 or commencement.

2 Exchange rates at 30 June 2013: AUD/NZD 1.1871 (2012: 1.2771).

# Note 24

**Financial risk management** (continued)

**(2) Financial risk management** (continued)

**(c) Credit risk**

Credit risk is the risk of loss to the Trust in the event of non-performance by the Trust's financial instrument counterparties. Credit risk arises from cash and cash equivalents, loans and receivables, and derivative financial instruments. The Trust has exposure to credit risk on all financial assets.

The Trust manages this risk by:

- adopting a process for determining an approved counterparty, with consideration of qualitative factors as well as the counterparty's 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; and
- regularly monitoring loans and receivables on an ongoing basis.

A minimum S&P rating of A– (or Moody's or Fitch equivalent) is required to become or remain an approved counterparty. As at 30 June 2013, the lowest rating of counterparties the Trust is exposed to was A- (Fitch) (2012: A (S&P)).

Financial instrument transactions are spread among a number of approved financial institutions within specified credit limits to minimise the Trust's exposure to any one counterparty. As a result, there is no significant concentration of credit risk for financial instruments.

The maximum exposure to credit risk at 30 June 2013 and 30 June 2012 is the carrying amount of financial assets recognised on the Statement of Financial Position.

As at 30 June 2013 and 30 June 2012, there were no significant concentrations of credit risk for trade receivables. Trade receivable balances and the credit quality of trade debtors are consistently monitored on an ongoing basis.

The ageing analysis of loans and receivables net of provisions at 30 June 2013 is ($'000): 11,286 (0-30 days), 366 (31-60 days), 231 (61-90 days), 0 (91+ days). The ageing analysis of loans and receivables net of provisions at 30 June 2012 is ($'000): 5,835 (0-30 days), 419 (31-60 days), 64 (61-90 days), 184 (91+ days). Amounts over 31 days are past due, however, no receivables are impaired.

The credit quality of financial assets that are neither past due nor impaired is consistently monitored to ensure that there are no adverse changes in credit quality.

# Note 24

**Financial risk management** (continued)

**(2) Financial risk management** (continued)

**(d) Fair value of financial instruments**

Fair value interest rate risk is the risk of an adverse change in the net fair (or market) value of an asset or liability due to movements in interest rates.

At 30 June 2013 and 30 June 2012, the carrying amounts and fair value of financial assets and liabilities are shown as follows:

| | 2013 Carrying amount[1] $'000 | 2013 Fair value[2] $'000 | 2012 Carrying amount[1] $'000 | 2012 Fair value[2] $'000 |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Cash and cash equivalents | **5,007** | **5,007** | 3,091 | 3,091 |
| Loans and receivables (current) | **11,883** | **11,883** | 6,502 | 6,502 |
| Derivative assets | **8,951** | **8,951** | 5,408 | 5,408 |
| **Total financial assets** | **25,841** | **25,841** | 15,001 | 15,001 |
| **Financial liabilities** | | | | |
| Trade payables | **39,170** | **39,170** | 41,854 | 41,854 |
| Derivative liabilities | **40,529** | **40,529** | 58,376 | 58,376 |
| Non-interest bearing loans with the entities within DXS | **55,684** | **55,684** | 55,684 | 55,684 |
| **Interest bearing liabilities** | | | | |
| Interest bearing loans with related parties | **1,441,551** | **1,441,551** | 693,109 | 693,109 |
| **Total financial liabilities** | **1,576,934** | **1,576,934** | 849,023 | 849,023 |

1 Carrying value is equal to the value of the financial instruments in the Statement of Financial Position.

2 Fair value is the amount for which the financial instrument could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Where there is a difference between the carrying amount and fair value, the difference is not recognised in the Statement of Financial Position.

The fair value of fixed rate interest bearing liabilities has been determined by discounting the expected future cash flows by the relevant market rates. The discount rates applied range from 2.97% to 6.75% for A$. Refer note 1(q) for fair value methodology for financial assets and liabilities.

# Note 24

**Financial risk management** (continued)

**(2) Financial risk management** (continued)

**(d) Fair value of financial instruments** (continued)

**Determination of fair value**

The Trust uses methods in the determination and disclosure of the fair value of financial instruments. These methods comprise:

**Level 1:** the fair value is calculated using quoted prices in active markets.
**Level 2:** the fair value is determined using inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
**Level 3:** the fair value is estimated using inputs for the asset or liability that are not based on observable data.

The following tables present the assets and liabilities measured and recognised as at fair value at 30 June 2013 and 30 June 2012.

| | **Level 1 $'000** | **Level 2 $'000** | **Level 3 $'000** | **2013 $'000** |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Derivative assets | | | | |
| Interest rate derivatives | **-** | **6,268** | **-** | **6,268** |
| Other | **2,683** | **-** | **-** | **2,683** |
| | **2,683** | **6,268** | **-** | **8,951** |
| **Financial liabilities** | | | | |
| Derivative liabilities | | | | |
| Interest rate derivatives | **-** | **40,529** | **-** | **40,529** |
| | **-** | **40,529** | **-** | **40,529** |

| | Level 1 $'000 | Level 2 $'000 | Level 3 $'000 | 2012 $'000 |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Derivative assets | | | | |
| Interest rate derivatives | - | 5,408 | - | 5,408 |
| | - | 5,408 | - | 5,408 |
| **Financial liabilities** | | | | |
| Derivative liabilities | | | | |
| Interest rate derivatives | - | 58,376 | - | 58,376 |
| | - | 58,376 | - | 58,376 |

During the year, there were no transfers between Level 1, Level 2 and Level 3 fair value measurements.

# Note 25

## Contingent liabilities

Details and estimates of maximum amounts of contingent liabilities are as follows:

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Bank guarantees by the Trust in respect of variations and other financial risks associated with the development of: | | |
| Bligh Street, Sydney, NSW[1] | - | 250 |
| **Contingent liabilities in respect of developments** | **-** | 250 |

1 Bank guarantee held in relation to an equity accounted investment. (Refer note 14).

The Trust together with DDF, DIT and DXO is also a guarantor of a total of A$1,473.5 million and US$50.0 million (A$53.9 million) of bank bilateral facilities, a total of A$575.0 million of medium term notes, a total of US$130.0 million (A$140.2 million) of privately placed notes, and a total of US$250.0 million (A$268.8 million) public 144A senior notes, which have all been negotiated to finance the Trust and other entities within DXS. The guarantees have been given in support of debt outstanding and drawn against these facilities, and may be called upon in the event that a borrowing entity has not complied with certain requirements such as failure to pay interest or repay a borrowing, whichever is earlier. During the period no guarantees were called.

The guarantees are issued in respect of the Trust 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 Trust, other than those disclosed in the Financial Statements, which should be brought to the attention of unitholders as at the date of completion of this report.

# Note 26

## Commitments

### (a) Capital commitments

The following amounts represent capital expenditure on investment properties contracted at the end of each reporting period but not recognised as liabilities payable:

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Investment properties | **19,847** | 16,422 |
| **Total capital commitments** | **19,847** | 16,422 |

### (b) Lease receivable commitments

The future minimum lease payments receivable by the Trust are:

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Within one year | **221,792** | 279,218 |
| Later than one year but not later than five years | **554,459** | 806,490 |
| Later than five years | **248,971** | 370,275 |
| **Total lease receivable commitments** | **1,025,222** | 1,455,983 |

# Note 27

**Related parties**

**Responsible Entity**

DXFM is the Responsible Entity of the Trust.

**Responsible Entity fees**

Under the terms of the Trust's Constitution, the Responsible Entity is entitled to receive fees in relation to the management of the Trust. DXFM's parent entity, DXH, is entitled to be reimbursed for administration expenses incurred on behalf of the Trust. DEXUS Property Services Pty Limited (DXPS), a wholly owned subsidiary of DXH, is entitled to property management fees from the Trust.

**Related party transactions**

Responsible Entity fees in relation to the Trust assets are on a cost recovery basis. The Trust is entitled to receive rent from DXPS on one component of an investment property owned by the Trust. The agreement is conducted on normal commercial terms and conditions.

**DEXUS Funds Management Limited and its related entities**

There were a number of transactions and balances between the Trust and the Responsible Entity and its related entities, as detailed below:

| | **2013** | 2012 |
|---|---|---|
| | **$** | $ |
| Responsible Entity fees paid and payable | **11,229,765** | 9,860,933 |
| Property management fees paid and payable to DXPS | **7,757,188** | 8,210,494 |
| Administration expenses paid and payable to DXH | **10,362,695** | 6,099,606 |
| Responsible Entity fees payable at the end of each reporting period (included above) | **1,029,348** | 827,033 |
| Property management fees payable at the end of each reporting period (included above) | **1,242,274** | 890,933 |
| Administration expenses payable at the end of each reporting period (included above) | **1,042,715** | 78,969 |
| Rent received from DXPS | **3,150,041** | 3,150,041 |

**Entities within DXS**

Aggregate amounts included in the determination of profit that resulted from transactions with each class of other related parties:

| | **2013** | 2012 |
|---|---|---|
| | **$** | $ |
| Interest expense | **70,076,436** | 27,858,645 |
| Interest bearing loans advanced to entities within DXS | **951,175,101** | 846,161,956 |
| Interest bearing loans advanced from entities within DXS | **268,681,673** | 192,116,918 |

# Note 27

**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 [1,4,5] |
| E A Alexander, AM, BComm, FCA, FAICD, FCPA [1,2] |
| B R Brownjohn, BComm [1,2,7] |
| J C Conde, AO, BSc, BE (Hons), MBA [1,4,6] |
| T Dwyer, BJuris (Hons), LLB (Hons) [1,3] |
| S F Ewen, OAM [1,4] |
| C D Mitchell, BComm, EMBA, FCPA [10] |
| W R Sheppard, BEc (Hons) [1,2,8] |
| D J Steinberg, BEc, FRICS, FAPI |
| P B St George, CA(SA), MBA [1,5,9] |

1 Independent Director
2 Board Audit, Risk & Sustainability Committee Member
3 Board Compliance Committee Member
4 Board Nomination, Remuneration & Governance Committee Member
5 Board Finance Committee Member
6 Resigned as Board Compliance Committee Member on 1 July 2012
7 Resigned as Board Finance Committee Member on 1 July 2012
8 Appointed as Board Finance Committee Member on 1 July 2012
9 Resigned as Board Audit, Risk & Sustainability Committee Member on 1 July 2012
10 Appointed as Director on 12 February 2013

### Other key management personnel

In addition to the Directors listed above, the following persons were deemed by the Board Nomination, Remuneration & Governance Committee to be key management personnel during all or part of the financial year:

| Name | Title |
|---|---|
| Tanya L Cox[1] | Executive General Manager, Property Services and Chief Operating Officer |
| Ross Du Vernet[2] | Executive General Manager, Strategy, Transactions & Research |
| John C Easy[1] | General Counsel |
| Kevin George[3] | Executive General Manager, Office & Industrial |

1 Ceased to be key management personnel on 1 July 2012.
2 Appointed as key management personnel on 1 July 2012.
3 Appointed as key management personnel on 10 December 2012.

### Key management personnel compensation

| | **2013 $'000** | 2012 $'000 |
|---|---|---|
| **Compensation** | | |
| Short-term employee benefits | **9,220** | 10,166 |
| Post employment benefits | **230** | 248 |
| Other long-term benefits | **1,116** | 3,116 |
| Termination benefits | **-** | 2,300 |
| Security-based payments | **1,384** | 330 |
| | **11,950** | 16,160 |

# Note 27

**Related parties** (continued)

**Equity instrument disclosures relating to key management personnel**

The number of DXS stapled securities held during the financial year by each key management personnel, including their personally related parties, are set out below:

| | Opening balance 1 July 2012 | Purchases | Other[1] | Closing balance 30 June 2013 |
|---|---|---|---|---|
| **Directors** | | | | |
| Christopher T Beare | - | 100,000 | - | 100,000 |
| Elizabeth A Alexander, AM | - | 100,000 | - | 100,000 |
| Barry R Brownjohn | - | 50,000 | - | 50,000 |
| John C Conde, AO | - | 100,000 | - | 100,000 |
| Tonianne Dwyer | - | 100,000 | - | 100,000 |
| Stewart F Ewen, OAM | - | 100,000 | - | 100,000 |
| Craig D Mitchell | - | - | 539,782 | 539,782 |
| W Richard Sheppard | - | 100,000 | - | 100,000 |
| Darren J Steinberg | - | - | 453,417 | 453,417 |
| Peter B St George | - | 104,000 | - | 104,000 |
| **Other key management personnel** | | | | |
| Ross Du Vernet[2] | - | - | 215,913 | 215,913 |
| Kevin George[3] | - | - | - | - |

1 Performance Rights granted under the 2012 Transitional Performance Rights Plan (refer note 36 of the DEXUS Property Group Annual Report).

2 Appointed as key management personnel on 1 July 2012.

3 Appointed as key management personnel on 10 December 2012.

The DXFM Board has approved a grant of performance rights to DXS stapled securities to eligible participants (refer note 36 of the DEXUS Property Group Annual Report). Details of the number of performance rights issued to each of the key management personnel are set out in the Remuneration Report.

There were no loans or other transactions with key management personnel or their related parties during the years ended 30 June 2013 and 30 June 2012.

# Note 27

**Related parties** (continued)

## Remuneration Report

### 1. Overview

The Board has pleasure in presenting the Remuneration Report for the DEXUS Property Group (Group). As with prior years, the Remuneration Report has been prepared in accordance with the Corporations Act and relevant accounting standards. Whilst the Group is not statutorily required to prepare such a report, the Board continues to believe that the disclosure of the Group's remuneration practices is in the best interests of all security holders.

Effective 1 July 2012, the Group implemented its new remuneration framework, which includes a new Short-term Incentive (STI) and Long-term Incentive (LTI) plan. The operation of these plans received security holder approval at the Group's Annual General Meeting on 5 November 2012.

The Board believes that the Group's remuneration framework encourages Executives to perform in the best interests of security holders. Short term financial and operational objectives are approved annually by the Board for each Executive, promoting alignment between investor returns and the rewards an Executive can receive under the STI plan. In addition, the Board has determined a set of financial performance hurdles within the LTI plan which provide the Executive with a performance and retention incentive which is strongly linked to security holder returns over the longer-term.

The main Executive remuneration actions for the year ending 30 June 2013 were:

- The implementation of the new remuneration framework effective 1 July 2012
- No fixed remuneration increases for Executives
- The closure of the DEXUS Performance Payment (DPP) and DEXUS Deferred Performance Payment (DDPP) plans
- The Board exercised its discretion to not apply a performance multiplier to vesting legacy DDPP plan outcomes
- Performance pay outcomes for Executives approved by the Board reflect the Group's strong financial and operational results
- Non-Executive Directors base fees remain unchanged since 1 July 2010

Effective 1 July 2013, the Board have approved an average fixed remuneration increase of 2% for Executives and 3% for other employees, noting that that the fixed remuneration for the Chief Executive Officer will remain unchanged.

This Remuneration Report has been prepared in accordance with AASB 124 *Related Party Disclosures* and section 300A of the *Corporations Act 2001* for the year ended 30 June 2013. The information provided in this Report has been audited in accordance with the provisions of section 308 (3C) of the *Corporations Act 2001*.

### 2. Key Management Personnel

In this report, Key Management Personnel (KMP) are those individuals having the authority and responsibility for planning, directing and controlling the activities of the Group, either directly or indirectly. They comprise:

- Non-Executive Directors
- Executive Directors (Chief Executive Officer & Chief Financial Officer)
- Key Executives considered KMP under the *Corporations Act 2001* (Executive KMP)

Below are the individuals determined to be KMP of the Group, classified between Non-Executive Directors, Executive Directors and Executive KMP:

### Non-Executive Directors

| Non-Executive Director | Title | KMP 2012 | KMP 2013 |
|---|---|---|---|
| Christopher T Beare | Chair | ✓ | ✓ |
| Elizabeth A Alexander AM | Director | ✓ | ✓ |
| Barry R Brownjohn | Director | ✓ | ✓ |
| John C Conde AO | Director | ✓ | ✓ |
| Tonianne Dwyer | Director | ✓ | ✓ |
| Stewart F Ewen OAM | Director | ✓ | ✓ |
| W Richard Sheppard | Director | ✓ | ✓ |
| Peter B St George | Director | ✓ | ✓ |

### Executive Directors

| Executive Directors | Position | KMP 2012 | KMP 2013 |
|---|---|---|---|
| Darren J Steinberg | Chief Executive Officer | Part-Year | ✓ |
| Craig D Mitchell | Chief Financial Officer | ✓ | ✓ |

### Executive KMP

| Executive KMP | Position | KMP 2012 | KMP 2013 |
|---|---|---|---|
| Kevin L George | Executive General Manager, Office & Industrial | N/A | Part-Year |
| Ross G Du Vernet | Executive General Manager, Transactions, Strategy & Research | No | ✓ |

### Group Management Committee Members - Previously Included as Executive KMP

| Former Executive KMP | Position | KMP 2012 | KMP 2013 |
|---|---|---|---|
| Tanya L Cox | Executive General Manager, Property Services & Chief Operating Officer | ✓ | No |
| John C Easy | General Counsel & Company Secretary | ✓ | No |

Ms Cox and Mr Easy continue as Group Management Committee members. The current organisation structure and membership of internal committees have led to a change in those considered by the Board to be Executive KMP for the 2013 year. The Board has indicated that the composition of Executive KMP may change from year to year in line with the strategic and operational focus of the Group.

**3. Board Nomination, Remuneration & Governance Committee**

The objectives of the Committee are to assist the Board in fulfilling its responsibilities by overseeing all aspects of Non-Executive Director and Executive remuneration, as well as Board nomination and performance evaluation. Primarily, the responsibilities of the Committee are to review and recommend to the Board:

- Board and CEO succession plans
- performance evaluation procedures for the Board, its committees and individual Directors
- the nomination, appointment, re-election and removal of Directors
- the Group's approach to remuneration, including design and operation of employee incentive plans
- Executive performance and remuneration outcomes
- Non-Executive Directors' fees

The Committee comprises three independent Non-Executive Directors. For the year ended 30 June 2013 Committee members were:

| Non-Executive Director | Title | 2012 | 2013 |
|---|---|---|---|
| John C Conde AO | Committee Chair | ✓ | ✓ |
| Christopher T Beare | Committee Member | ✓ | ✓ |
| Stewart F Ewen OAM | Committee Member | ✓ | ✓ |

Mr Conde continued in his role as Committee Chair, drawing upon his extensive experience from a diverse range of appointments, including his role as President of the Commonwealth Remuneration Tribunal. The Committee's experience is further enhanced through the membership of Mr Beare and Mr Ewen, each of whom has significant management experience in the property and financial services sectors.

The Committee operates independently from management, and may at its discretion appoint external advisors or instruct management to compile information for its consideration. The CEO attends certain Committee meetings by invitation, where management input is required. The CEO is not present during any discussions related to his own remuneration arrangements.

During the year the Committee appointed Egan Associates to provide remuneration advisory services. Egan Associates were paid a total of $12,705 for remuneration recommendations made to the Committee and $39,097 for other advisory services. The Committee is satisfied the advice received from Egan Associates is free from undue influence from the KMP to whom the remuneration recommendations relate. Egan Associates also confirmed in writing that the remuneration recommendations were made free from undue influence by the relevant KMP.

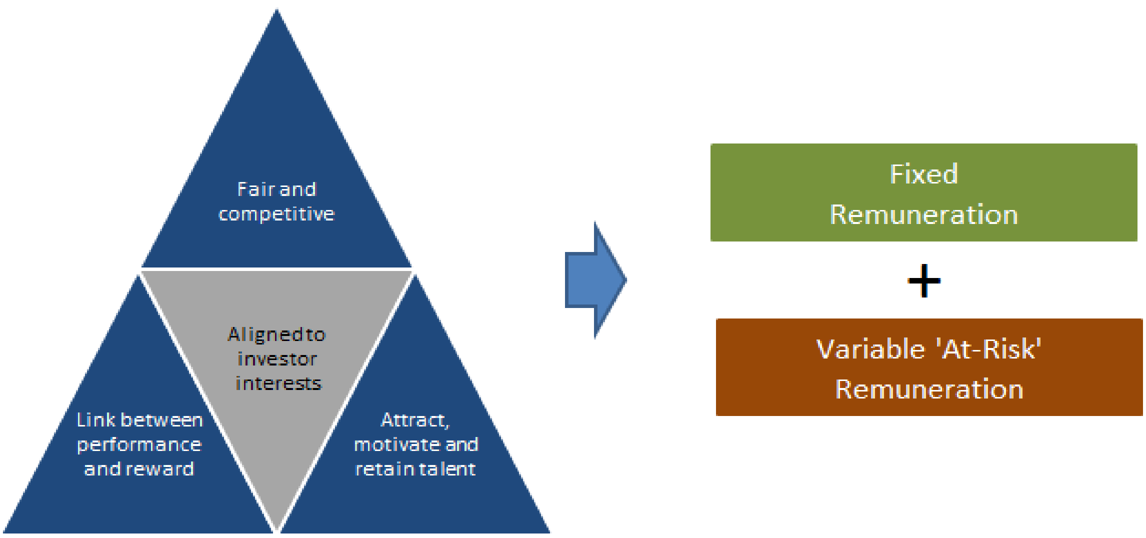
The 2012 Remuneration Report received positive security holder support at the 2012 Annual General Meeting with a vote of 98.3% in favour.

## 4. Executive Remuneration

### Context

The Board believes that Executives should be rewarded at levels consistent with the complexity and risks involved in their position. Incentive awards should be scaled according to the relative performance of the Group, as well as business unit performance and individual effectiveness.

The Group's remuneration principles and target remuneration structure is:



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.

## 5. Remuneration Structure

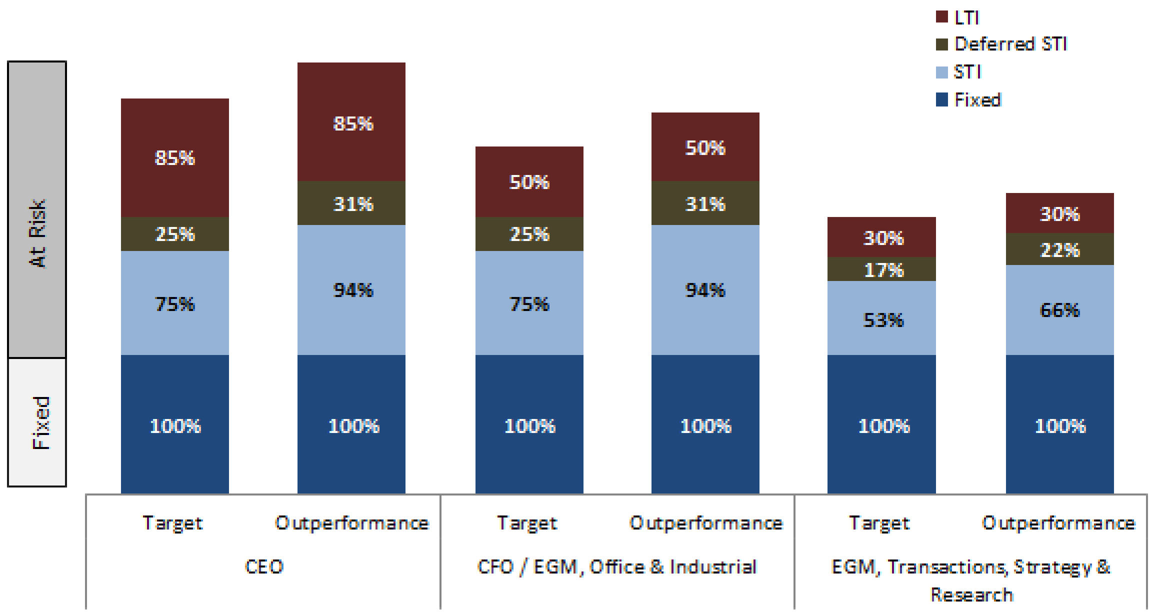
### Remuneration Mix

The remuneration structure for Executives comprises fixed remuneration, a short term incentive and a long term incentive. The mix between these components varies according to the individual's position and is determined based on the Group's remuneration principles detailed above.

The remuneration mix for Executives during 2013 was:

| Executive | Fixed | Target STI | Target Deferred STI | LTI |
|---|---|---|---|---|
| Darren J Steinberg | 35% | 26% | 9% | 30% |
| Craig D Mitchell | 40% | 30% | 10% | 20% |
| Kevin L George | 40% | 30% | 10% | 20% |
| Ross G Du Vernet | 50% | 26% | 9% | 15% |

The chart below shows the remuneration structure for Executives expressed as a percentage of Fixed Remuneration at both target and outperformance (stretch) levels.




## Total Remuneration

| | |
|---|---|
| How does the Board determine total remuneration? | The Committee reviews a considerable amount of information from a variety of sources to ensure an appropriate outcome reflecting market practice (incorporating various benchmarks) is achieved. These sources include:<br>▪ Publicly available remuneration reports of A-REIT competitors<br>▪ Publicly available remuneration reports from ASX listed companies with similar market capitalisation and complexity<br>▪ Advice on remuneration levels of privately held property, funds management and private equity owned companies<br>▪ Salary survey data from Hart Consulting, Avdiev, Aon Hewitt, FIRG and others as appropriate<br>▪ Advice from external advisors appointed by the Committee such as Egan Associates<br>The comparator group of companies and market data considered as part of the above process is significantly larger than the comparator group of companies adopted for assessment of the Group's relative TSR performance under its LTI plan (refer below). Executives are typically recruited from the former group, whereas the Group's performance will be assessed appropriately with respect to the latter. |

## Fixed Remuneration

| | |
|---|---|
| What is Fixed Remuneration? | Fixed remuneration is the regular pay (base salary and statutory superannuation contributions) an Executive receives in relation to his/her role. It reflects the complexity of the role, as well as the skills and competencies required to fulfil it, and is determined having regard to a variety of information sources to ensure the quantum is fair and competitive. |
| How is Fixed Remuneration determined? | The Board sets fixed remuneration around the median level of comparable companies after making adjustments for the different risk profiles of those companies (refer to Total Remuneration above). Group and individual performance is considered during the annual remuneration review process. |

## Short-term Incentive (STI) Plan

| | |
|---|---|
| What is the STI plan? | The STI plan provides the Executive with an opportunity to achieve an annual remuneration outcome in addition to fixed remuneration, subject to the achievement of pre-agreed Group, divisional and individual performance objectives which are set out in a personalised balanced scorecard. |

<table>
<tr><td>How much can be earned under the STI plan?</td><td>Expressed as a percentage of fixed remuneration, Executives can earn the following incentive payments under the STI plan:<br><br>

| | Target | Outperformance |
|---|---|---|
| CEO | 100% | 125% |
| CFO / EGM, Office & Industrial | 100% | 125% |
| EGM, Strategy, Transactions & Research | 70% | 88% |

<br>Aggregate performance below predetermined thresholds would result in no award being made under the STI plan.<br><br>The amount each Executive can earn is dependent on how he/she performs against a balanced scorecard of KPIs that is set at the beginning of each year. The balanced scorecard is arranged in categories and each category is weighted differently depending on the specific accountabilities of each Executive. If an Executive does not meet Threshold performance in a category, the score for that category will be zero.<br><br>KPIs at the Target level are set with an element of stretch against Threshold performance, which ensures that it is difficult for an Executive to score 100% in any category. Following the same theme, KPIs at the Outperformance level have a significant amount of stretch, and would require exceptional outcomes to be achieved. KPIs at both the Target and Outperformance levels incorporate year-on-year growth.</td></tr>
<tr><td>When is the STI paid?</td><td>August of the financial year immediately following the performance period, following the sign-off of statutory accounts and announcement of Group's annual results.</td></tr>
<tr><td>How does the deferral component operate?</td><td>25% of any award under the STI plan will be deferred and awarded in the form of performance rights to DXS securities.<br><br>The rights will vest in two equal tranches, 12 and 24 months after being awarded. They are subject to clawback and continued employment, and are based on a deferral period commencing 1 July after the relevant performance period.</td></tr>
<tr><td>How is the allocation of deferred STI determined?</td><td>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.</td></tr>
<tr><td>How are distributions treated during the deferral period?</td><td>Executives will be entitled to the benefit of distributions paid on the underlying DXS securities prior to vesting, through the issue of additional performance rights.</td></tr>
<tr><td>Can deferred STI be forfeited?</td><td>Forfeiture will occur should the Executive's employment terminate within 6 months of the grant date for any reason, or if the Executive voluntarily resigns or is terminated for cause prior to the vesting date.<br><br>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 will recommend whether the Executive should remain in the plan as a good leaver, for decision by the Board.</td></tr>
<tr><td>How is the STI plan aligned to security holder interests?</td><td>The STI plan is aligned to security holder interests in the following ways:<br>▪ as an immediate reward opportunity to attract, motivate and retain talented Executives who can influence the future performance of the Group<br>▪ through a 25% mandatory STI deferral for Executives, allowing for future clawback of STI awards in the event of a material misstatement of the Group's financial position</td></tr>
</table>

## Long-term Incentive (LTI) Plan

| | |
|---|---|
| What is the LTI plan? | The LTI is an incentive grant which rewards Executives for sustained earnings and security holder returns and is delivered in the form of performance rights to DXS securities. |
| How are grants under the LTI plan determined? | Executives receive a grant of performance rights to DXS securities (dependent on their role and responsibilities) under the LTI plan equivalent to the following (expressed as a percentage of Fixed Remuneration): |

| | Grant as a % of fixed remuneration |
|---|---|
| CEO | 85% |
| CFO / EGM, Office & Industrial | 50% |
| EGM, Strategy, Transactions & Research | 30% |

| | |
|---|---|
| How does the LTI plan work? | Performance rights are converted into DXS securities upon achievement of performance conditions set by the Board. Performance against the selected hurdles will be assessed in two equal tranches over two periods, 3 and 4 years after the grant date. If the performance conditions are not met over either period, then the respective performance rights will be forfeited. There is no re-testing of forfeited rights. |
| Can an LTI grant be forfeited? | If ore-determined performance hurdles are not met then the relevant part of the grant will not vest and those rights will be forfeited.<br><br>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.<br><br>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 will recommend whether the Executive should remain in the plan as a good leaver, for decision by the Board. |
| What are the performance hurdles? | The Board sets the performance hurdles for the LTI plan on an annual basis. For the 2013 LTI grant, a set of external and internal hurdles has been selected.<br><br>Notably, the Board has clarified the operation of the Relative TSR component of the LTI plan. The previously communicated 50% weighting to Relative TSR will be split into two distinct groups, the first being a standard Relative TSR measurement against listed peers, the second being a Relative ROE measurement against unlisted peers. The Board feels this is a more accurate comparison given the way investors measure the performance of listed and unlisted entities.<br><br>The 4 performance hurdles for the 2013 LTI plan are:<br><br><u>External Performance Hurdles (50%)</u><br><br>▪ 25% is based on the Group's relative performance against a Total Security holder Return (Relative TSR) performance hurdle measured against a peer group of listed entities within the A-REIT sector<br>– TSR represents an investor's return, calculated as the percentage difference between the initial amount invested and the final value of DXS securities at the end of the relevant period, assuming distributions were reinvested.<br><br>▪ 25% is based on the Group's relative performance against a Return On Equity (Relative ROE) performance hurdle measured against a peer group of unlisted entities within the A-REIT sector<br>– ROE represents the annualised composite rate of return to security holders, calculated as a percentage, comprising the change in net tangible asset value per security together with the distributions paid to security holders per security, divided by the net tangible asset value per security at the beginning on the period. |

| | |
|---|---|
| What are the performance hurdles?<br><br>(continued) | <u>Internal Performance Hurdles (50%)</u><br><br>▪ 25% is based on the Group's performance against a predetermined Funds From Operations (FFO) per security growth hurdle<br><br>For the purposed of these performance hurdles, FFO is defined as per the definition adopted by the Property Council of Australia.<br><br>▪ 25% is based on the Group's performance against a predetermined Return on Equity performance hurdle<br><br>▪ ROE represents the annualised composite rate of return to security holders, calculated as a percentage, comprising the change in net tangible asset value per security together with the distributions paid to security holders per security, divided by the net tangible asset value per security at the beginning on the period. |
| How are the performance hurdles measured? | <u>Relative TSR & Relative ROE</u><br><br>Vesting under both the Relative TSR & Relative ROE measures will be on a sliding scale reflecting relative performance against a comparator group of entities.<br><br>▪ Nil vesting for performance below the median of the comparator group<br>▪ 50% vesting for performance at the median of the comparator group<br>▪ Straight line vesting for performance between the 50th and 75th percentile<br>▪ 100% vesting for performance at or above the 75th percentile<br><br>The listed and unlisted comparator groups have been reviewed and selected by the Board as being appropriate entities within similar asset classes, investment risk/return profiles and market capitalisation/size. The 2013 LTI grant comparator groups are<br><br>▪ Listed: CPA, IOF, GPT, CFX, WRT, SCP, CMW and FDC<br>▪ Unlisted: AWOF, GWOF, APPFC, ICPF, ISPT, ACPP, QPF and APPFR<br><br>The Board reserves the right to review the peer group annually, with relative performance monitored by an independent external advisor at 30 June each year.<br><br><u>FFO Growth & ROE</u><br><br>Vesting under both the FFO Growth & ROE measures will be on a sliding scale reflecting performance against predetermined performance hurdles set by the Board<br><br>▪ Nil vesting for below Target performance<br>▪ 50% vesting for Target performance<br>▪ Straight line vesting between Target and Outperformance<br>▪ 100% vesting for Outperformance |
| What are the absolute LTI hurdles for the 2013 grant?? | Having determined the Group's strategy, the Board have adopted the following FFO Growth and ROE performance hurdles for the 2013 LTI grant:<br><br>▪ FFO Growth Target of 3% - with Outperformance at 5.5%<br>▪ ROE Target of 9% - with Outperformance at 11%<br><br>These targets are measured as the per annum average over the three and four year grant periods. |
| How is the LTI plan aligned to security holder interests? | Aligned to long-term security holder interests in the following ways:<br><br>▪ As a reward to Executives when the Group's overall performance exceeds specific predetermined earnings and security holder return benchmarks<br>▪ 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<br>▪ Aligning the financial interests of security holders with Executives through exposure to DXS securities and the Group's performance<br>▪ Encouraging and incentivising Executives to make sustainable business decisions within the Board-approved risk appetite and strategy of the Group |

| | |
|---|---|
| What policies and procedures exist to support the integrity of the LTI plan? | 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.<br>Executives are prevented from hedging their exposure to unvested DXS securities. Trading in DXS securities or related products is only permitted with the permission of the CEO.<br>The Group also has Conflict of Interest and Insider Trading policies in place to support the integrity of the LTI plan, which extends to family members and associates of the Executive.<br>The Board has appointed Link Market Services as Trustee and Administrators of the DEXUS Performance Rights Plan Trust, which is the vehicle into which unvested units are purchased on-market and held in trust for the Executive pending performance assessment. |
| How is the allocation of performance rights determined? | The number of performance rights granted is based on the grant value to the Executive (% of fixed remuneration) divided by the volume weighted average price (VWAP) of securities 10 trading days either side of the first trading day of the new financial year. |
| How are distributions treated prior to vesting? | Executives will not be entitled to distributions paid on the underlying DXS securities prior to the performance rights vesting. |

The operation of all incentive plans is at the discretion of the Board which retains the right to discontinue, suspend or amend the operation of such plans.

For both the STI and LTI plans, where incentive grants involve DXS securities, it is the Board's current position that DXS securities be acquired on-market and not through the issue of new securities.

### 6. Performance Pay

### Group Performance

**FY13 Highlights**

| Group | Portfolio | Capital Management | Funds Management | Transactions |
|---|---|---|---|---|
| 12.1% increase in distribution per security | Leased 629,209 square metres of space across the total portfolio | Raised $300 million of US Private Placement Notes | Increased funds under management by 9.5%, including $820 million of new equity for DWPF | Achieved a 12% premium on prior book value for the sale of the remaining US portfolio |
| Achieved a 22.1% one-year total security holder return | Achieved 1.6% growth in like for like property net operating income | Actively managed the diversity of debt achieving a duration greater than 5 years | Launched new $235 million partnership with a leading global pension fund | Involved in $2.9 billion of transactions across the Group |

Total Return of DXS Securities

The chart below illustrates DXS's performance against the S&P/ASX200 Property Accumulation index since listing in 2004.


**Total Return Analysis**

The table below sets out DXS's total security holder return over a one, two, three and five year time horizon, relative to the S&P/ASX200 Property Accumulation Index and the median of the Relative TSR comparator group under the new LTI plan:

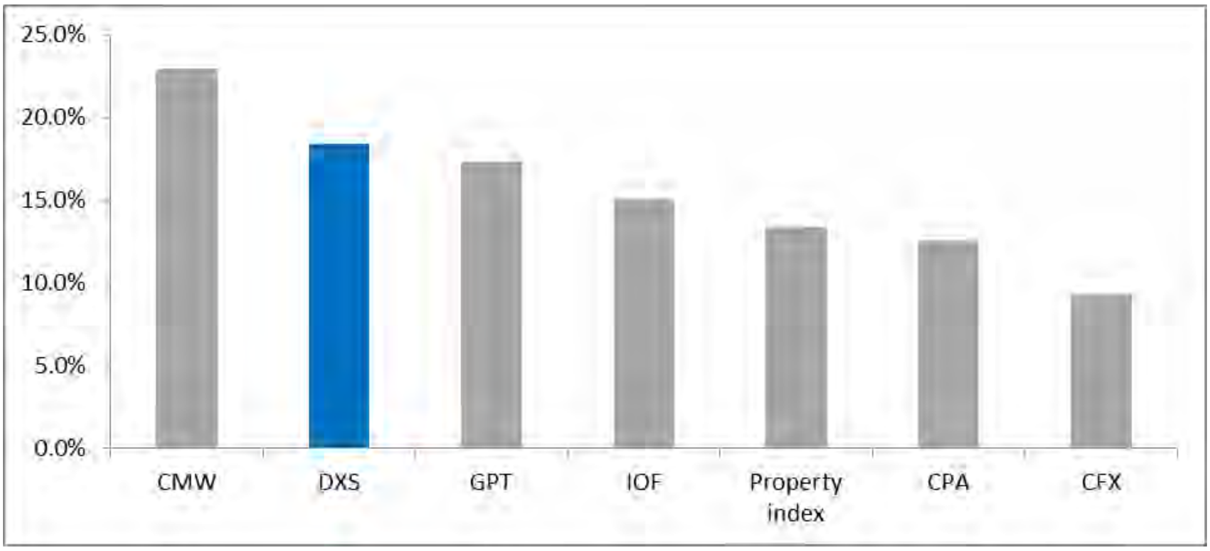
| | 1 Year | 2 Years | 3 Years | 5 years |
|---|---|---|---|---|
| Year Ended 30 June 2013 | (% per annum) | (% per annum) | (% per annum) | (% per annum) |
| DEXUS Property Group | 22.1% | 17.0% | 18.4% | 2.6% |
| S&P/ASX200 Property Accumulation Index | 24.2% | 17.4% | 13.4% | 0.3% |
| Median - Relative TSR Comparator Group | 18.8%[1] | 15.2%[2] | 16.2%[3] | n/a |

1. Comparator Group for 1 year comprises DXS, CFX, CMW, CPA, FDC, GPT, IOF and WRT.
2. Comparator Group for 2 years comprises DXS, CFX, CMW, CPA, GPT, IOF and WRT.
3. Comparator Group for 3 years comprises DXS, CFX, CMW, CPA, GPT and IOF.

**Three Year Performance Relative to Comparator Group**

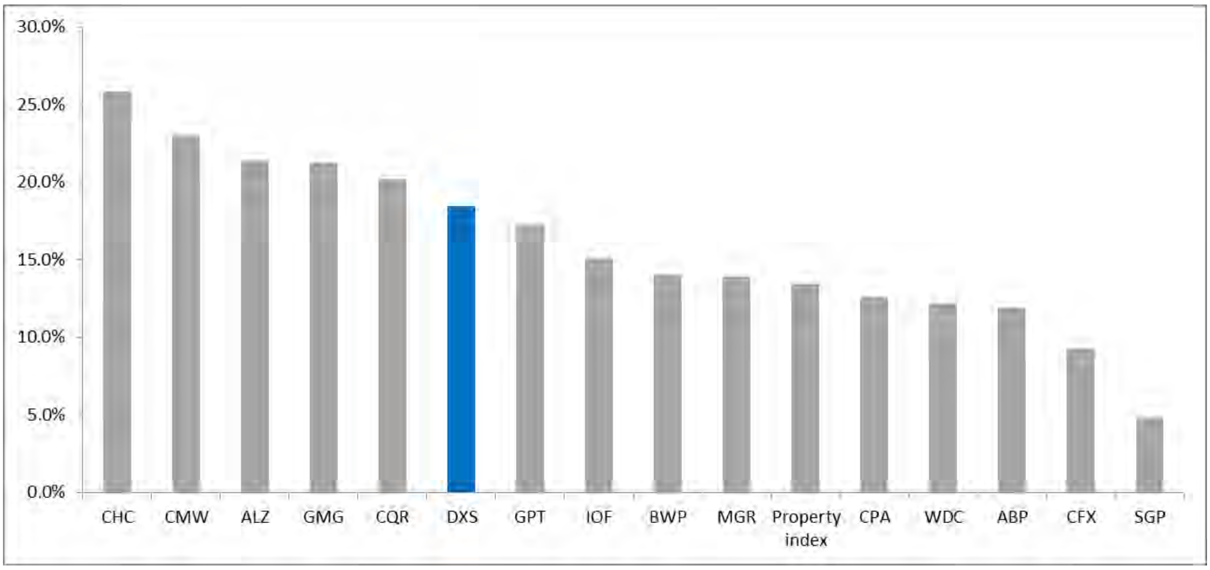
The chart below illustrates DXS's three year performance relative to the comparator group specified for LTI purposes. SCA Property Group, Westfield Retail Trust & Federation Centres have been omitted as these entities were not formed for the comparison period.

The three year performance of the S&P/ASX 200 Property Accumulation index is also included for reference.




**Three Year Performance Relative to Property Index**

The chart below illustrates DXS's performance against the broader property sector over the past three financial years.



**Summary**

DXS continues to outperform the S&P/ASX200 Property Accumulation index and has exceeded this benchmark on a rolling three year basis.

Whilst the Directors recognise that improvement is always possible, they consider that the Group's business model, which aims to deliver consistent returns with relatively moderate risk, has been central to DXS's consistent relative outperformance, and that its approach to Executive remuneration, with a focus on consistent outperformance of objectives, is aligned with and supports the superior execution of the Group's strategic plans.

### Individual Performance Assessment - Balanced Scorecard

Prior to the commencement of each financial year, the Board approves the Group's strategic and operational objectives which are then translated into a series of weighted financial and non-financial Key Performance Indicators (KPIs) for management. KPIs are assembled to form each Executive's Balanced Scorecard.

The Balanced Scorecard is divided into four components - Financial Performance, Business Management & Strategy, Stakeholder Engagement and People & Culture. These components are weighted differently for each Executive. For each of the components the Executive has objectives and specific initiatives set for that year. These Scorecards are agreed with the Executive at the beginning of the year, reviewed at half year and assessed for performance awards at the end of the year.

Below is a table which summarises the principal elements within Executive Balanced Scorecards for the year ending 30 June 2013 (the numbers in brackets represents what was actually achieved during the year, not the actual KPIs set):

| Principal Elements of Executive Balanced Scorecards | |
|---|---|
| **Financial Performance**<br>• DXS total returns (22.1%)<br>• Funds investment performance<br>• Funds from operations ($365.4 million)<br>• Return on equity (11.2%)<br>• Trading profit ($1.5 million)<br>• Net operating income growth - like for like (1.6%) | **Business Management & Strategy**<br>• Delivery of divisional business plans<br>• Secure rent at risk<br>• Property portfolio investment performance<br>• Operating costs<br>• Capital diversification<br>• Transaction effectiveness |
| **Stakeholder Engagement**<br>• Investor engagement and feedback<br>• Media and community profile<br>• Tenant relationships and engagement<br>• Internal and external service standards | **People & Culture**<br>• Leadership effectiveness<br>• Cultural survey results<br>• Succession planning<br>• Talent retention and development |

| | Balanced Scorecard Weighting | | | |
|---|---|---|---|---|
| | Financial KPIs | | Non-Financial KPIs | |
| Executive | Financial Performance | Business Management & Strategy | Stakeholder Engagement | People & Culture |
| Darren J Steinberg | 40% | 30% | 20% | 10% |
| Craig D Mitchell | 40% | 40% | 10% | 10% |
| Kevin L George | 30% | 40% | 15% | 15% |
| Ross G Du Vernet | 30% | 50% | 10% | 10% |

### Performance Pay Outcomes

Following an assessment of each Executive's Balanced Scorecard, the Board has determined that the following remuneration outcomes are appropriate with respect to each Executive's performance during the year ending 30 June 2013.

| Executive | STI Award | % of Maximum Possible STI Earned | % of Maximum STI Forfeited | % of STI to be Deferred |
|---|---|---|---|---|
| Darren J Steinberg | 1,750,000 | 100% | 0% | 25% |
| Craig D Mitchell | 750,000 | 80% | 20% | 25% |
| Kevin L George | 330,000 | 72% | 28% | 25% |
| Ross G Du Vernet | 385,000 | 100% | 0% | 25% |

In addition to the STI award shown above, Mr Steinberg was eligible for a once-off payment of $500,000 as part of previously communicated sign-on conditions. This amount was subject to satisfactory performance as determined by the Board, and being payable in August 2013 is disclosed in the Statutory Reporting table under Other Short-Term Benefits.

25% of the value of the STI awarded to each Executive will be deferred into DXS securities, subject to service and clawback conditions, and vesting in two equal tranches after 12 and 24 months.

### LTI Grants

The table below shows the number of Performance Rights to be granted to Executives under the 2013 LTI plan (details of which are provided earlier in this report).

| Executive | Number of Performance Rights | 1st Vesting Date 50% | 2nd Vesting Date 50% |
|---|---|---|---|
| Darren J Steinberg | 1,128,176 | 1 July 2016 | 1 July 2017 |
| Craig D Mitchell | 355,518 | 1 July 2016 | 1 July 2017 |
| Kevin L George | 326,128 | 1 July 2016 | 1 July 2017 |
| Ross G Du Vernet | 237,012 | 1 July 2016 | 1 July 2017 |

The number of Performance Rights granted to each Executive is based on the dollar value of LTI approved by the Board in its discretion and with reference to the remuneration framework, divided by the Volume Weighted Average Price (VWAP) of DXS securities ten trading days either side of 30 June 2013, which was confirmed as $1.0548

The LTI grants for Mr Steinberg and Mr Mitchell as Executive Directors are subject to security holder approval at the 2013 Annual General Meeting.

## 7. Executive Remuneration Actual Cash Received

In line with best-practice recommendations, the amounts shown in the table below provide a summary of actual remuneration received during the year ended 30 June 2013. The DPP and DDPP cash payments were received for performance in the 2012 and 2009 financial years respectively.

| | | | | | Earned in Prior Financial Year | | |
|---|---|---|---|---|---|---|---|
| Executive | Cash Salary | Pension & Super Benefits 1 | Other Short Term Benefits 2 | Termination Benefits | DPP Cash Payment 3 | DDPP Cash Payment 4 | Total |
| Darren J Steinberg | 1,383,530 | 16,470 | - | - | 360,000 | - | 1,760,000 |
| Craig D Mitchell | 733,530 | 16,470 | - | - | 500,000 | 636,272 | 1,886,272 |
| Kevin L George | 341,354 | 9,608 | 464,383 | - | - | - | 815,345 |
| Ross G Du Vernet | 424,305 | 16,470 | - | - | 350,000 | - | 790,775 |

1 Includes employer contributions to superannuation under the superannuation guarantee legislation and salary sacrifice amounts
2 Mr George received a sign-on cash payment of $250,000 plus various relocation benefits totalling $214,383
3 Cash payment made in August 2012 with respect to the 2012 DPP (i.e. annual performance payment for the prior financial year)
4 Cash payment made in August 2012 with respect to the 2009 DDPP award that vested on 1 July 2012 (i.e. realisation of 3 year deferred performance payment)

The amounts shown in this table are prepared in accordance with AASB 124 *Related Party Disclosures* and do not represent actual cash payments received by Executives for the year ended 30 June 2013. Amounts shown under Long Term Benefits reflect the accounting expenses recorded during the year with respect to prior year deferred remuneration and awards that have or are yet to vest. For performance payments and awards made with respect to the year ended 30 June 2013, refer to the Performance Pay Outcomes section of this report.

| | | Short Term Benefits | | | Post-Employment Benefits | | Share Based & Long Term Benefits | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Executive | Year | Cash Salary | STI Cash Award 1 | Other Short Term Benefits 2 | Pension & Super Benefits 3 | Termination Benefits | Deferred STI Plan Accrual 4 | DDPP Plan Accrual 5 | Transition Plan Accrual 6 | LTI Plan Accrual 7 | Total |
| Darren J Steinberg | 2013 | 1,383,530 | 1,312,500 | 500,000 | 16,470 | - | 182,284 | - | 105,000 | 204,200 | 3,703,984 |
| | 2012 | 461,409 | 360,000 | 1,500,000 | 5,258 | - | - | - | 105,000 | - | 2,431,667 |
| Craig D Mitchell | 2013 | 733,530 | 562,500 | - | 16,470 | - | 78,122 | 172,790 | 125,000 | 64,349 | 1,752,761 |
| | 2012 | 734,225 | 500,000 | - | 15,775 | - | | 328,664 | 125,000 | - | 1,703,664 |
| Kevin L George 8 | 2013 | 338,954 | 247,500 | 634,383 | 12,008 | - | 219,374 | - | - | 59,029 | 1,511,248 |
| | 2012 | - | - | - | - | - | - | - | - | - | - |
| Ross G Du Vernet 8 | 2013 | 424,305 | 288,750 | - | 16,470 | - | 40,103 | | 50,000 | 42,899 | 862,527 |
| | 2012 | - | - | - | - | - | - | - | - | - | - |
| Sub-Total | 2013 | 2,880,319 | 2,411,250 | 1,134,383 | 61,418 | - | 519,883 | 172,790 | 280,000 | 370,477 | 7,830,520 |
| | 2012 | 1,195,634 | 860,000 | 1,500,000 | 21,033 | - | - | 328,664 | 230,000 | - | 4,135,331 |
| *Former KMP* | | | | | | | | | | | |
| Tanya L Cox | 2013 | 433,530 | 201,000 | - | 16,470 | - | 27,916 | 75,408 | 50,000 | 23,166 | 827,490 |
| | 2012 | 434,225 | 200,000 | - | 15,775 | - | - | 149,140 | 50,000 | - | 849,140 |
| John C Easy | 2013 | 426,530 | 281,250 | - | 23,470 | - | 39,061 | 76,234 | 50,000 | 23,166 | 919,711 |
| | 2012 | 427,225 | 200,000 | - | 22,775 | - | - | 158,013 | 50,000 | - | 858,013 |
| Other former KMP 9 | 2013 | - | - | - | - | - | - | 791,650 | - | - | 791,650 |
| | 2012 | 1,879,415 | 1,175,000 | 923,834 | 31,550 | 2,300,000 | - | 2,479,864 | - | - | 8,789,663 |
| Total | 2013 | 3,740,379 | 2,893,500 | 1,134,383 | 101,358 | - | 586,860 | 1,116,082 | 380,000 | 416,809 | 10,369,371 |
| | 2012 | 3,936,499 | 2,435,000 | 2,423,834 | 91,133 | 2,300,000 | - | 3,115,681 | 330,000 | - | 14,632,147 |

1 FY13 annual cash STI performance award, payable in August 2013.
2 Mr Steinberg's sign-on conditions included access to an additional $500,000 subject to performance in FY13.
Mr George received a cash sign-on payment of $250,000, a cash payment of $170,000 as compensation for foregone remuneration and various relocation benefits.
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 performance. Refer to note 36 of the DXS Financial Statements.
Mr George's accrual also includes accounting for Performance Rights detailed later in this report as Special Terms.
5 FY10 and FY11 DDPP legacy plan only applicable to Mr Mitchell and former KMP Ms Cox and Mr Easy. Reflects the accounting expense accrued during the financial year.
6 FY13 Transition plan applicable to all KMP and former KMP, 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. Refer to note 36 of the DXS Financial Statements.
8 Mr Du Vernet joined the Group on 7 May 2012 and was appointed KMP with effect 1 July 2013. No prior year remuneration is disclosed on that basis.
Mr George joined the Group on 10 December 2012 and was appointed KMP with effect 10 December 2012. No prior year remuneration is disclosed on that basis.
9 Other former KMP includes Mr Hoog Antink and Mr Say and are disclosed for completeness. Refer to the 2012 Remuneration Report for more detail.

## 8. Service Agreements

Executive service agreements detail the individual terms and conditions of employment applying to the CEO and Executives of the Group. The quantum and structure of remuneration arrangements are detailed elsewhere in this report, with the termination scenarios and other key employment terms detailed below:

### Chief Executive Officer

| | Terms |
|---|---|
| Employment agreement | An ongoing Executive Service Agreement. |
| Termination by the CEO | Termination by Mr Steinberg requires a 6 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.<br>All unvested STI and LTI awards are forfeited under this scenario. |
| Termination by the Group without cause | If the Group terminates Mr Steinberg without cause, Mr Steinberg is entitled to a payment of 12 months Fixed Remuneration. The Board may (in its absolute discretion) also approve a pro-rata STI or LTI award based on part-year performance.<br>Depending on the circumstances, the Board has the ability to treat Mr Steinberg as a 'good leaver' under this scenario, which may result in Mr Steinberg retaining some or all of his unvested STI and LTI. |
| Termination by the Group with cause | No notice or severance is payable under this scenario. |
| Other contractual provisions and restrictions | Mr Steinberg's Executive Service Agreement includes standard clauses covering intellectual property, confidentiality, moral rights and disclosure obligations. |

### Executives - Messrs Mitchell, George & Du Vernet

| | Terms |
|---|---|
| Employment agreement | An ongoing Executive Service Agreement. |
| Termination by the Executive | Termination by the Executive requires a 3 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.<br>All unvested STI and LTI awards are forfeited under this scenario. |
| Termination by the Group without cause | If the Group terminates the Executive without cause, the Executive is entitled to a combined notice and severance payment of 12 months Fixed Remuneration. The Board may (in its absolute discretion) also approve a pro-rata STI or LTI award based on part-year performance.<br>Depending on the circumstances, the Board has the ability to treat the Executive as a 'good leaver' under this scenario, which may result in the Executive retaining some or all of their unvested STI and LTI. |
| Termination by the Group with cause | No notice or severance is payable under this scenario. |
| Other contractual provisions and restrictions | The Executive Service Agreement includes standard clauses covering intellectual property, confidentiality, moral rights and disclosure obligations. |

### Legacy Plan - Unvested and Vesting DDPP Awards

The table below shows the value of unvested and vesting DEXUS Deferred Performance Payment (DDPP) awards for Executives and Former Executive KMP as at 30 June 2013. The DDPP awards are part of a legacy plan closed to new participants from 1 July 2012.

| Participant | Award Date | Allocation Value | Value as at 30 June 2013 | Vesting DDPP as at 1 July 2013 | Vesting Date |
|---|---|---|---|---|---|
| Craig D Mitchell | 1 Jul 2011 | 450,000 | 577,305 | - | 1 Jul 2014 |
| | 1 Jul 2010 | 400,000 | 598,440 | 598,440 | 1 Jul 2013 |
| *Former KMP* | | | | | |
| Tanya L Cox | 1 Jul 2011 | 190,000 | 243,751 | - | 1 Jul 2014 |
| | 1 Jul 2010 | 180,000 | 269,298 | 269,298 | 1 Jul 2013 |
| John C Easy | 1 Jul 2011 | 185,000 | 237,337 | - | 1 Jul 2014 |
| | 1 Jul 2010 | 188,000 | 281,267 | 281,267 | 1 Jul 2013 |

Mr Mitchell and former KMP Ms Cox and Mr Easy are entitled to receive a cash payment relating to the vesting of their 2010 DDPP awards. This payment will be made in August 2013.

The vesting DDPP value was determined by calculating the compound total return of both listed DXS (50%) and unlisted DWPF (50%) notional securities over a 3-year vesting period. The DXS total return was 65.8% and the Group's unlisted Funds and Mandates was 33.4%, resulting in a composite 49.6% increase being applied to the original allocation value during the life of the 2010 DDPP plan. The Board chose to exercise its discretion in not applying a performance multiplier (allowable under the DDPP plan rules) to the 2010 tranche, and has indicated it intends to follow the same approach upon vesting of the 2011 tranche.

For more information on the DDPP legacy plan, refer to the 2012 Annual Report.

### Legacy Plan - Unvested Transitional Performance Rights

The table below shows the number of unvested performance rights held by Executives under the Transitional Performance Rights plan, which received security holder approval at the Annual General Meeting on 5 November 2012. The Board granted these once-off Performance Rights to Executives, with respect to performance during the year ending 30 June 2012, as a transitional measure towards the adoption of the Group's new remuneration framework which came into effect 1 July 2012.

| Participant | Award Date | Number of Performance Rights | Vesting Date |
|---|---|---|---|
| Darren J Steinberg | 1 Jul 2012 | 453,417 | 1 Jul 2015 |
| Craig D Mitchell | 1 Jul 2012 | 539,782 | 1 Jul 2015 |
| Ross G Du Vernet | 1 Jul 2012 | 215,913 | 1 Jul 2015 |
| *Former KMP* | | | |
| Tanya L Cox | 1 Jul 2012 | 215,913 | 1 Jul 2015 |
| John C Easy | 1 Jul 2012 | 215,913 | 1 Jul 2015 |

At the Board's instruction, Performance Rights are to be purchased on-market and the plan is subject to both service and clawback conditions. For more information on the Transitional Performance Rights plan, refer to the 2012 Annual Report.

### Special Terms - Performance Rights & Relocation Package for Kevin L George

Upon commencement, Mr George was offered a special grant of Performance Rights to DXS securities as compensation for foregone remuneration at his previous employer and to immediately align his interests with those of his KMP peers and security holders.

| Participant | Award Date | Number of Performance Rights | Vesting Date |
|---|---|---|---|
| Kevin L George | 10 Dec 2012 | 366,591 | 1 Aug 2014 |

The Performance Rights granted to Mr George are subject to both service and clawback conditions, and are to be purchased on-market. The terms and conditions of this offer mirror those of the Deferred STI plan.

In addition to the grant of Performance Rights, Mr George received a commencement and relocation package (disclosed in the Statutory Accounting table as 'Other Short-Term Benefits') which included the following:

- $250,000 as a cash sign-on payment
- $170,000 as a cash payment to be made in August 2013 as compensation for part-year incentive forfeiture at Mr George's previous employer
- $186,916 as a once-off relocation and family disturbance payment
- $27,467 in expense reimbursements relating to Mr George and his family's relocation from Melbourne to Sydney – including flights, temporary accommodation, removalists, transit insurance, connection of utilities and other service fees

Mr George is also entitled to future reimbursement of reasonable expenses (i.e. stamp duty, agent fees etc.) relating to the purchase of a family home in Sydney. This benefit has not yet been exercised by Mr George and expires on 10 December 2014.

All expense benefits relating to Mr George's relocation are subject to a 100% clawback clause should Mr George voluntarily resign within 2 years of his commencement date.

### 9. Non-Executive Directors

Non-Executive Directors' fees are reviewed annually by the Committee to ensure they reflect the responsibilities of directors and are market competitive. The Committee reviews information from a variety of sources to inform their recommendation regarding Non-Executive Directors fees to the Board. Information considered 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

Total fees paid to Non-Executive Directors remain within the aggregate fee pool of $1,750,000 per annum approved by security holders at the AGM in October 2008. The Board has reviewed base fees for Non-Executive Directors and has elected not to approve an increase at this time. This will be the fourth consecutive year at the current rate.

In 2012, the Board (as noted in the Directors' Report) determined that it would be appropriate for Non-Executive Directors (existing and new) to hold DXS securities. A minimum target of 50,000 securities is to be acquired in each Director's first three year term (effective from 1 July 2012). Such securities would be subject to the Group's existing trading and insider information policies. No additional remuneration is provided to Directors to purchase these securities. All Directors have subsequently used their own resources to purchase at least the minimum target in the first year of the three year term. Details of Directors' holdings are included in the Directors' Report.

Other than the Chair who receives a single fee, Non-Executive Directors receive a base fee plus additional fees for membership of Board Committees. The table below outlines the Board fee structure (inclusive of statutory superannuation contributions) for the year ended 30 June 2013:

| Committee | Chair | Member |
|---|---|---|
| Director's Base Fee (DXFM) | $350,000* | $150,000 |
| Board Audit, Risk & Sustainability | $30,000 | $15,000 |
| Board Compliance | $15,000 | $7,500 |
| Board Finance | $15,000 | $7,500 |
| Board Nomination, Remuneration & Governance | $30,000 | $15,000 |
| DWPL Board | $30,000 | $15,000 |

* The Chairman receives a single fee for his entire engagement, including service on Committees of the Board

## Non-Executive Director's Statutory Accounting Table

The amounts shown in this table are prepared in accordance with AASB 124 *Related Party Disclosures*. The table is a summary of the actual cash and benefits received by each Non-Executive Director for the year ended 30 June 2013.

| Non-Executive Director | Year | Short Term Benefits | Post Employment Benefits | Other Long Term Benefits | Total |
|---|---|---|---|---|---|
| Christopher T Beare | 2013 | 333,530 | 16,470 | - | 350,000 |
| | 2012 | 334,225 | 15,775 | - | 350,000 |
| Elizabeth A Alexander AM | 2013 | 178,899 | 16,101 | - | 195,000 |
| | 2012 | 170,539 | 24,461 | - | 195,000 |
| Barry R Brownjohn | 2013 | 165,138 | 14,862 | - | 180,000 |
| | 2012 | 172,018 | 15,482 | - | 187,500 |
| John C Conde AO | 2013 | 165,138 | 14,862 | - | 180,000 |
| | 2012 | 158,257 | 14,243 | - | 172,500 |
| Tonianne Dwyer 1 | 2013 | 158,257 | 14,243 | - | 172,500 |
| | 2012 | 132,225 | 11,900 | - | 144,125 |
| Stewart F Ewen OAM | 2013 | 141,000 | 24,000 | - | 165,000 |
| | 2012 | 109,052 | 48,448 | - | 157,500 |
| W Richard Sheppard 2 | 2013 | 158,257 | 14,243 | - | 172,500 |
| | 2012 | 74,541 | 6,709 | - | 81,250 |
| Peter B St George | 2013 | 151,376 | 13,624 | - | 165,000 |
| | 2012 | 165,138 | 14,862 | - | 180,000 |
| Total | 2013 | 1,451,595 | 128,405 | - | 1,580,000 |
| | 2012 | 1,315,995 | 151,880 | - | 1,467,875 |

1 Ms Dwyer was appointed on 24 August 2011
2 Mr Sheppard was appointed 1 January 2012

# Note 28

**Operating segments**

The Chief Operating Decision Maker (CODM) has been identified as the Board of Directors as they are responsible for the strategic decision making within the Group. DXS management has identified DXS's operating segments based on the sectors analysed within the management reports reviewed by the CODM in order to monitor performance across the Group and to appropriately allocate resources. Refer to the table below for a brief description of the Group's operating segments.

Following a review of internal reporting, the operating segments note has been amended to disclose revenue and expenses on the basis of their function and to provide additional financial metrics. The revised disclosures better reflect the financial information regularly reviewed by the Directors and DXS management in order to assess the performance of the functions of the Group and allocation of resources.

| | |
|---|---|
| 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. |

Consistent with how the CODM manages the business, the operating segments within DXS are reviewed on a consolidated basis and are not monitored at an individual trust level. The results of the individual trusts are not limited to any one of the segments described above.

Disclosures concerning DXS's operating segments, as well as the operating segments' key financial information provided to the CODM, are presented in the DEXUS Property Group Annual Report (refer note 33 in the DEXUS Property Group Financial Statements).

## Note 29

### Events occurring after reporting date

On 25 July 2013, DEXUS Funds Management Limited (DXFM) as Responsible Entity of DEXUS Property Group entered into a forward contract with Deutsche Bank AG (DBA) in relation to units in the Commonwealth Property Office Fund (CPA) which, in accordance with its terms, gives DXFM the ability to acquire and DBA the obligation to deliver, 350,000,000 CPA units (a 14.9% relevant interest in CPA) at a price of $1.1334 per unit.

On 25 July 2013, at the same time as the forward contract was entered into, DXFM also entered into a zero-cost cash-settled collar with DBA over 350,000,000 CPA units.

The zero-cost cash-settled collar is a derivative product under which:

- If the prevailing price of relevant securities falls below a “floor” price ($1.02), DBA will pay DXFM the difference between the prevailing security price and the “floor” price on the settlement date;
- If the prevailing price of relevant securities rises above a “ceiling” price ($1.20), DXFM will pay the DBA the difference between the prevailing security price and the “ceiling” price on the settlement date; and
- No party pays a fee to the other for entry into the collar.

Since the end of the year, other than the matter disclosed above, the Directors are not aware of any matter or circumstance not otherwise dealt with in their Directors' Report or the Financial Statements that has significantly or may significantly affect the operations of the Trust, the results of those operations, or state of the Trust’s affairs in future financial periods.

## Note 30

### Reconciliation of net profit to net cash inflow from operating activities

| | **2013** | 2012 |
|---|---|---|
| | **$'000** | $'000 |
| Net profit for the year after tax | **286,979** | 198,104 |
| Capitalised interest | **-** | (1,264) |
| Net fair value gain of investment properties | **(131,301)** | (67,158) |
| Share of net profit of associates accounted for using the equity method | **(37,905)** | (13,784) |
| Net fair value loss/(gain) of derivatives | **(9,974)** | 39,416 |
| Net foreign exchange gain | **166** | (59) |
| Change in operating assets and liabilities | | |
| Increase in receivables | **(5,382)** | (1,110) |
| (Increase)/decrease in other current assets | **(1,173)** | 35 |
| Decrease in other non-current assets - investments | **23,000** | 21,158 |
| Decrease in other non-current assets | **22,191** | 7,222 |
| Inrease/(decrease) in payables | **1,050** | (1,666) |
| Increase in deferred tax liabilities | **5,599** | - |
| Increase in other non-current liabilities | **58,945** | 27,900 |
| **Net cash inflow from operating activities** | **212,195** | 208,794 |

# Note 31

## 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.

| | **2013 cents** | 2012 cents |
|---|---|---|
| Basic earnings per unit on profit attributable to unitholders of the parent entity | **0.62** | 0.39 |
| Diluted earnings per unit on profit attributable to unitholders of the parent entity | **0.62** | 0.39 |

### (a) Reconciliation of earnings used in calculating earnings per unit

| | **2013 \$'000** | 2012 \$'000 |
|---|---|---|
| Net profit for the year of the parent entity | **294,492** | 187,422 |
| **Net profit attributable to the unitholders of the Trust used in calculating basic and diluted earnings per unit** | **294,492** | 187,422 |

### (b) Weighted average number of units used as a denominator

| | **2013 units** | 2012 units |
|---|---|---|
| Weighted average number of units outstanding used in calculation of basic and diluted earnings per unit | **4,714,292,865** | 4,834,864,561 |

The Directors of DEXUS Funds Management Limited as Responsible Entity for DEXUS Office Trust (the Trust) declare that the Financial Statements and notes set out on pages 8 to 65:

(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 consolidated entity's financial position as at 30 June 2013 and of their performance, as represented by the results of their operations and their cash flows, for the year ended on that date.

In the Directors' opinion:

(a) the Financial Statements and notes are in accordance with the *Corporations Act 2001*;

(b) there are reasonable grounds to believe that the Trust and its consolidated entities will be able to pay their debts as and when they become due and payable; and

(c) the Trust has operated in accordance with the provisions of the Constitution dated 17 June 1998 (as amended) during the year ended 30 June 2013.

Note 1(a) confirms that the Financial Statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The Directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer required by section 295A of the *Corporations Act 2001*.

This declaration is made in accordance with a resolution of the Directors.

**Christopher T Beare**
Chair
16 August 2013

# Independent auditor's report to the unit holders of DEXUS Office Trust

## *Report on the financial report*

We have audited the accompanying financial report of DEXUS Office Trust (the Trust), which comprises the statement of financial position as at 30 June 2013, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for DEXUS Office Trust Group (the consolidated entity). The consolidated entity comprises the Trust and the entities it controlled at the year-end or from time to time during the financial year.

### *Directors' responsibility for the financial report*

The directors of DEXUS Funds Management Limited (the Responsible Entity) are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

### *Auditor's responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

Our procedures include reading the other information in the Directors' Report to determine whether it contains any material inconsistencies with the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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*DX 77 Sydney, Australia*
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### *Independence*

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

### *Auditor's opinion*

In our opinion:

(a) the financial report of DEXUS Office Trust is in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2013 and of its performance for the year ended on that date; and
- (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001;* and

(b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in Note 1.

PricewaterhouseCoopers

PricewaterhouseCoopers

E A Barron
Partner

Sydney
16 August 2013

# 2013

## DEXUS Operations Trust
## (ARSN 110 521 223)

Financial Report
30 June 2013

DEXUS PROPERTY GROUP

## Contents                                                                Page



DEXUS Property Group (DXS) (ASX Code: DXS) consists of DEXUS Diversified Trust (DDF), DEXUS Industrial Trust (DIT), DEXUS Office Trust (DOT) and DEXUS Operations Trust (DXO), collectively known as DXS or the Group.

Under Australian Accounting Standards, DDF has been deemed the parent entity for accounting purposes. Therefore the DDF consolidated Financial Statements include all entities forming part of DXS. The DDF consolidated Financial Statements are presented in separate Financial Statements.

All ASX and media releases, Financial Statements and other information are available on our website: www.dexus.com

The Directors of DEXUS Funds Management Limited (DXFM) as Responsible Entity of DEXUS Operations Trust present their Directors' Report together with the consolidated Financial Statements for the year ended 30 June 2013. The consolidated Financial Statements represents DEXUS Operations Trust and its consolidated entities (DXO or the Trust).

The Trust together with DEXUS Diversified Trust (DDF), DEXUS Industrial Trust (DIT) and DEXUS Office Trust (DOT) form the DEXUS Property Group (DXS or the Group) stapled security.

## 1 Directors and Secretaries

### 1.1 Directors

The following persons were Directors of DXFM at all times during the year and to the date of this Directors' Report, unless otherwise stated:

| Directors | Appointed |
|---|---|
| Christopher T Beare | 4 August 2004 |
| Elizabeth A Alexander, AM | 1 January 2005 |
| Barry R Brownjohn | 1 January 2005 |
| John C Conde, AO | 29 April 2009 |
| Tonianne Dwyer | 24 August 2011 |
| Stewart F Ewen, OAM | 4 August 2004 |
| Craig D Mitchell | 12 February 2013 |
| W Richard Sheppard | 1 January 2012 |
| Darren J Steinberg | 1 March 2012 |
| Peter B St George | 29 April 2009 |

Particulars of the qualifications, experience and special responsibilities of the Directors at the date of this Directors' Report are set out in the Board of Directors section of the DEXUS Property Group Annual Report and form part of this Directors' Report.

### 1.2 Company Secretaries

The names and details of the Company Secretaries of DXFM as at 30 June 2013 are as follows:

**Tanya L Cox MBA MAICD FCSA FCIS**
Appointed: 1 October 2004

Tanya is the Executive General Manager, Property Services and Chief Operating Officer of DEXUS Property Group and is responsible for the tenant and client service delivery model, sustainability practices, information technology solutions and company secretarial services across the Group.

Tanya has over 25 years' experience in the finance industry. Prior to joining DEXUS in July 2003, Tanya held various general management positions over the previous 15 years, including Director and Chief Operating Officer of NM Rothschild & Sons (Australia) Ltd and General Manager, Finance, Operations and IT for Bank of New Zealand (Australia). Tanya is a Director of Low Carbon Australia Limited, Australian Athletes With a Disability Limited and a number of not-for-profit organisations.

Tanya is a member of the Australian Institute of Company Directors and a fellow of the Institute of Chartered Secretaries of Australia.

Tanya has an MBA from the Australian Graduate School of Management, a Diploma in Applied Corporate Governance and was a finalist in the 2005 NSW Telstra Business Woman of the year awards.

# 1 Directors and Secretaries (continued)

## 1.2 Company Secretaries (continued)

**John C Easy B Comm LLB FCSA FCIS**
Appointed: 1 July 2005

John is the General Counsel and Company Secretary of all DEXUS Group companies and is responsible for the legal function and compliance, risk and governance systems and practices across the Group.

During his time with the Group, John has been involved in the establishment and public listing of Deutsche Office Trust, the acquisition of the Paladin and AXA property portfolios, and subsequent stapling and creation of DEXUS Property Group.

Prior to joining DEXUS in November 1997, John was employed as a senior associate in the commercial property/funds management practices of law firms Allens Arthur 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 Institute of Chartered Secretaries of Australia.

John is a member of the Board Compliance Committee and Chair of the Continuous Disclosure Committee.

# 2 Attendance of Directors at Board meetings and Board Committee meetings

The number of Directors' meetings held during the year and each Director's attendance at those meetings is set out in the table below. The Directors met nine times during the year. Eight Board meetings were main meetings, one meeting was held to consider specific business.

| | Main meetings held | Main meetings attended | Specific meetings held | Specific meetings attended |
|---|---|---|---|---|
| Christopher T Beare | 8 | 8 | 1 | 1 |
| Elizabeth A Alexander, AM | 8 | 8 | 1 | 1 |
| Barry R Brownjohn | 8 | 8 | 1 | 1 |
| John C Conde, AO | 8 | 8 | 1 | 1 |
| Tonianne Dwyer | 8 | 8 | 1 | 1 |
| Stewart F Ewen, OAM | 8 | 8 | 1 | 1 |
| Craig D Mitchell[1] | 3 | 3 | - | - |
| W Richard Sheppard | 8 | 8 | 1 | 1 |
| Darren J Steinberg | 8 | 8 | 1 | 1 |
| Peter B St George | 8 | 8 | 1 | 1 |

1 Directorship commenced 12 February 2013

Special meetings are held at a time to enable the maximum number of Directors to attend and are generally held to consider specific items that cannot be held over to the next scheduled main meeting.

## 2 Attendance of Directors at Board meetings and Board Committee meetings (continued)

The table below sets out the number of Board Committee meetings held during the year for the Committees in place at the end of the year and each Director's attendance at those meetings.

| | Board Audit, Risk & Sustainability Committee | | Board Compliance Committee | | Board Nomination, Remuneration & Governance Committee | | Board Finance Committee | |
|---|---|---|---|---|---|---|---|---|
| | held | attended | held | attended | held | attended | held | attended |
| Christopher T Beare | - | - | - | - | 6 | 6 | 4 | 4 |
| Elizabeth A Alexander, AM | 4 | 4 | - | - | - | - | - | - |
| Barry R Brownjohn | 4 | 4 | - | - | - | - | - | - |
| John C Conde, AO | - | - | - | - | 6 | 6 | - | - |
| Tonianne Dwyer | - | - | 4 | 4 | - | - | - | - |
| Stewart F Ewen, OAM | - | - | - | - | 6 | 6 | - | - |
| W Richard Sheppard | 4 | 4 | - | - | - | - | 4 | 4 |
| Peter B St George | - | - | - | - | - | - | 4 | 4 |

## 3 Directors' relevant interests

The relevant interests of each Director in DXS stapled securities as at the date of this Directors' Report are shown below:

| Directors | No. of securities |
|---|---|
| Christopher T Beare | 100,000 |
| Elizabeth A Alexander, AM | 100,000 |
| Barry R Brownjohn | 50,000 |
| John C Conde, AO | 100,000 |
| Tonianne Dwyer | 100,000 |
| Stewart F Ewen, OAM | 100,000 |
| Craig D Mitchell | 539,782[1] |
| W Richard Sheppard | 100,000 |
| Darren J Steinberg | 453,417[1] |
| Peter B St George | 104,000 |

1 Performance Rights granted under the 2012 Transitional Performance Rights Plan.

## 4 Directors' directorships in other listed entities

The following table sets out directorships of other listed entities, not including DXFM, held by the Directors at any time in the three years immediately prior to the end of the year, and the period for which each directorship was held:

| Director | Company | Date appointed | Date resigned |
|---|---|---|---|
| Christopher T Beare | Mnemon Group Limited | 6 November 2009 | 27 May 2013 |
| Elizabeth A Alexander, AM | CSL Limited | 12 July 1991 | 19 October 2011 |
| John C Conde, AO | Whitehaven Coal Limited | 3 May 2007 | |
| | Cooper Energy Limited | 25 February 2013 | |
| Tonianne Dwyer | Cardno Limited | 25 June 2012 | |
| W Richard Sheppard | Echo Entertainment Group | 21 November 2012 | |
| Peter B St George | Boart Longyear Limited | 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.

## 5 Principal activities

During the year the principal activity of the Trust was to be a trading trust. There were no significant changes in the nature of the Trust's activities during the year.

## 6 Review of results and operations

The results for the year ended 30 June 2013 were:

- profit attributable to unitholders was $30.6 million (2012: $29.2 million loss);
- total assets were $759.9 million (2012: $631.5 million); and
- net assets were $151.4 million (2012: $122.7 million).

A review of the results, financial position and operations of the Group, of which the Trust forms part thereof, is set out in the Operating and Financial Review of the DEXUS Property Group Annual Report and forms part of this Directors' Report. Refer to the Chief Executive Officers report of the DEXUS Property Group 2013 Annual Review for further information.

## 7 Likely developments and expected results of operations

In the opinion of the Directors, disclosure of any further information regarding business strategies and the future developments or results of the Trust, other than the information already outlined in this Directors' Report or the Financial Statements accompanying this Directors' Report would be unreasonably prejudicial to the Trust.

## 8 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 Trust, the results of those operations, or the state of the Trust's affairs in future financial years.

## 9 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 Trust, the results of those operations, or the state of the Trust's affairs in future financial years.

## 10 Distributions

Distributions paid or payable by the Trust for the year ended 30 June 2013 were nil (2012: nil).

## 11 DXFM's fees and associate interests

Details of fees paid or payable by the Trust to DXFM for the year ended 30 June 2013 are outlined in note 32 of the Notes to the Financial Statements and form part of this Directors' Report.

The number of interests in the Trust held by DXFM or its associates as at the end of the financial year were nil (2012: nil).

## 12 Interests in DXS securities

The movement in securities on issue in the Trust during the year and the number of securities on issue as at 30 June 2013 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 Trust 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 Trust did not have any options on issue as at 30 June 2013 (2012: nil).

## 13 Environmental regulation

DXS 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.

## 14 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 Trust pursuant to the DEXUS Specific Terms of Business agreed for all engagements with PwC, to the extent that the Trust inappropriately uses or discloses a report prepared by PwC. The Auditor, PwC, is not indemnified for the provision of services where such an indemnification is prohibited by the *Corporations Act 2001*.

## 15 Audit

### 15.1 Auditor

PricewaterhouseCoopers continues in office in accordance with section 327 of the *Corporations Act 2001*.

### 15.2 Non-audit services

The Trust may decide to employ the Auditor on assignments, in addition to their statutory audit duties, where the Auditor's expertise and experience with the Trust and/or DXS are important.

Details of the amounts paid or payable to the Auditor, for audit and non-audit services provided during the year, are set out in note 7 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; and
  - 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.

### 15.3 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 8 and forms part of this Directors' Report.

## 16 Corporate governance

DXFM's Corporate Governance Statement is set out in a separate section of the DEXUS Property Group Annual Report and forms part of this Directors' Report.

## 17 Rounding of amounts and currency

The Trust 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 thousand dollars, unless otherwise indicated. All figures in this Directors' Report and the Financial Statements, except where otherwise stated, are expressed in Australian dollars.

## 18 Management representation

The Chief Executive Officer and Chief Financial Officer have reviewed the Trust's financial reporting processes, policies and procedures together with its risk management and internal control and compliance policies and procedures. Following that review, it is their opinion that the Trust's financial records for the financial year have been properly maintained in accordance with the *Corporations Act 2001* and the Financial Statements and their notes comply with the accounting standards and give a true and fair view.

## 19 Directors' authorisation

The Directors' Report is made in accordance with a resolution of the Directors. The Financial Statements were authorised for issue by the Directors on 16 August 2013. The Directors have the power to amend and reissue the Financial Statements.

**Christopher T Beare**
Chair
16 August 2013

**Darren J Steinberg**
Chief Executive Officer
16 August 2013

# Auditor's Independence Declaration

As lead auditor for the audit of DEXUS Operations Trust for the year ended 30 June 2013, I declare that to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of DEXUS Operations Trust and the entities it controlled during the period.

E A Barron
Partner
PricewaterhouseCoopers

Sydney
16 August 2013

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| | Note | 2013 $'000 | 2012 $'000 |
|---|---|---|---|
| **Revenue from ordinary activities** | | | |
| Management fee revenue | 2 | **81,480** | 83,314 |
| Property revenue | 3 | **25,402** | 16,236 |
| Proceeds from sale of inventory | | **24,422** | 49,847 |
| Interest revenue | | **612** | 868 |
| **Total revenue from ordinary activities** | | **131,916** | 150,265 |
| Reversal of previous impairment | 17 | **20,494** | - |
| Net fair value gain of investment properties | | **3,926** | - |
| Distribution Income | | **64** | - |
| Other income | | **166** | 33 |
| **Total income** | | **156,566** | 150,298 |
| | | | |
| **Expenses** | | | |
| Property expenses | 3 | **(7,009)** | (5,023) |
| Cost of sale of inventory | | **(23,924)** | (43,998) |
| Finance costs | 4 | **(17,800)** | (22,022) |
| Net loss on sale of investment properties | | **(876)** | - |
| Net fair value loss of investment properties | | **-** | (27,318) |
| Impairment of inventories | | **(1,209)** | (14,846) |
| Depreciation and amortisation | | **(3,234)** | (2,483) |
| Impairment of goodwill | | **(99)** | (625) |
| Employee benefits expense | | **(62,274)** | (71,493) |
| Other expenses | 6 | **(11,735)** | (13,420) |
| **Total expenses** | | **(128,160)** | (201,228) |
| **Profit/(loss) before tax** | | **28,406** | (50,930) |
| **Tax benefit** | | | |
| Income tax benefit | 5(a) | **3,383** | 21,777 |
| **Total tax benefit** | | **3,383** | 21,777 |
| **Profit/(loss) after tax from continuing operations** | | **31,789** | (29,153) |
| Loss from discontinued operations | 8 | **(1,141)** | - |
| **Net profit/(loss) for the year** | | **30,648** | (29,153) |
| **Other comprehensive income net of tax:** | | | |
| Items that may be reclassified to profit or loss: | | | |
| Exchange differences on translating foreign operations | 26 | **3** | - |
| Foreign currency translation reserve transfer on disposal of foreign operations | 26 | **(3)** | - |
| Changes in fair value of available-for-sale financial assets | 26 | **(13)** | - |
| **Total comprehensive profit/(loss) for the year** | | **30,635** | (29,153) |

| **Earnings per unit** | | Cents | Cents |
|---|---|---|---|
| **Basic and diluted earnings per unit attributable to unitholders of the parent entity** | | | |
| Earnings per unit - profit/(loss) from continuing operations | 36 | **0.23** | (0.00) |
| Earnings per unit - profit from discontinued operations | 36 | **0.00** | - |
| Earnings per unit - total | 36 | **0.23** | (0.00) |

*The above Consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying notes.*

| | Note | 2013 $'000 | 2012 $'000 |
|---|---|---|---|
| **Current assets** | | | |
| Cash and cash equivalents | 9 | **4,748** | 13,082 |
| Receivables | 10 | **30,416** | 19,823 |
| Non-current assets classified as held for sale | 11 | **-** | 93,700 |
| Inventories | 15 | **10,853** | 26,841 |
| Other | 12 | **1,467** | 759 |
| **Total current assets** | | **47,484** | 154,205 |
| | | | |
| **Non-current assets** | | | |
| Investment properties | 13 | **176,279** | 141,151 |
| Plant and equipment | 14 | **8,781** | 4,678 |
| Inventories | 15 | **242,057** | 70,990 |
| Deferred tax assets | 16 | **39,414** | 36,729 |
| Intangible assets | 17 | **243,707** | 223,641 |
| Available-for-sale financial assets | 18 | **2,200** | - |
| Other | 19 | **7** | 66 |
| **Total non-current assets** | | **712,445** | 477,255 |
| **Total assets** | | **759,929** | 631,460 |
| | | | |
| **Current liabilities** | | | |
| Payables | 20 | **12,754** | 11,065 |
| Loans with related parties | 21 | **48,932** | 48,932 |
| Provisions | 22 | **22,834** | 22,324 |
| Other | | **719** | - |
| **Total current liabilities** | | **85,239** | 82,321 |
| | | | |
| **Non-current liabilities** | | | |
| Loans with related parties | 21 | **500,369** | 402,409 |
| Provisions | 22 | **13,639** | 16,351 |
| Derivative financial instruments | 23 | **2,442** | 3,772 |
| Deferred tax liabilities | 24 | **3,215** | 3,913 |
| Other | | **3,639** | - |
| **Total non-current liabilities** | | **523,304** | 426,445 |
| **Total liabilities** | | **608,543** | 508,766 |
| **Net assets/(liabilities)** | | **151,386** | 122,694 |
| | | | |
| **Equity** | | | |
| Contributed equity | 25 | **197,775** | 199,712 |
| Reserves | 26 | **42,732** | 42,751 |
| Accumulated losses | 26 | **(89,121)** | (119,769) |
| **Total equity** | | **151,386** | 122,694 |

*The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.*

| | Note | Contributed equity $'000 | Asset revaluation reserve $'000 | Foreign currency translation reserve $'000 | Treasury securities reserve $'000 | Security-based payments reserve $'000 | Available-for-sale financial assets $'000 | Accumulated losses $'000 | Total equity $'000 |
|---|---|---|---|---|---|---|---|---|---|
| **Opening balance as at 1 July 2011** | | 26,335 | 42,738 | - | - | - | - | (90,616) | (21,543) |
| Net loss for the year | | - | - | - | - | - | - | (29,153) | (29,153) |
| Other comprehensive income for the year | 26 | - | - | - | - | - | - | - | - |
| Transactions with owners in their capacity as owners: | | | | | | | | | |
| Capital contribution, net of transaction costs | 25 | 174,901 | - | - | - | - | - | - | 174,901 |
| Buy back of contributed equity, net of transaction costs | 25 | (1,524) | - | - | - | - | - | - | (1,524) |
| Purchase of securities, net of transaction costs | 26 | - | - | - | - | - | - | - | - |
| Security-based payments expense | 26 | - | - | | | 13 | | - | 13 |
| **Closing balance as at 30 June 2012** | | 199,712 | 42,738 | - | - | 13 | - | (119,769) | 122,694 |
| **Opening balance as at 1 July 2012** | | **199,712** | **42,738** | **-** | **-** | **13** | **-** | **(119,769)** | **122,694** |
| Net profit for the year | | **-** | **-** | **-** | **-** | **-** | **-** | **30,648** | **30,648** |
| Other comprehensive income for the year | 26 | **-** | **-** | **-** | **-** | **-** | **13** | **-** | **13** |
| Transactions with owners in their capacity as owners: | | | | | | | | | |
| Capital contribution, net of transaction costs | 25 | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| Buy back of contributed equity, net of transaction costs | 25 | **(1,937)** | **-** | **-** | **-** | **-** | **-** | **-** | **(1,937)** |
| Purchase of securities, net of transaction costs | 26 | **-** | **-** | **-** | **(56)** | **-** | **-** | **-** | **(56)** |
| Security-based payments expense | 26 | **-** | **-** | **-** | **-** | **24** | **-** | **-** | **24** |
| **Closing balance as at 30 June 2013** | | **197,775** | **42,738** | **-** | **(56)** | **37** | **13** | **(89,121)** | **151,386** |

*The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.*

| | Note | 2013 $'000 | 2012 $'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts in the course of operations (inclusive of GST) | | **109,716** | 109,573 |
| Payments in the course of operations (inclusive of GST) | | **(97,180)** | (97,515) |
| Proceeds from sale of property classified as inventory | | **24,422** | 53,206 |
| Payments for property classified as inventory | | **(175,340)** | (44,925) |
| Interest received | | **683** | 870 |
| Finance costs paid | | **(1,639)** | (1,790) |
| Income tax received | | **-** | 1,015 |
| **Net cash (outflow)/inflow from operating activities** | 35 | **(139,338)** | 20,434 |
| | | | |
| **Cash flows from investing activities** | | | |
| Proceeds from sale of investment properties | | **163,070** | - |
| Payments for acquisition of investment properties | | **(58,114)** | - |
| Payments for capital expenditure on investment properties | | **(37,324)** | (50,760) |
| Acquisition of subsidiaries net of cash acquired | | **5,238** | - |
| Payments for plant and equipment | | **(7,008)** | (2,820) |
| **Net cash inflow/(outflow) from investing activities** | | **65,862** | (53,580) |
| | | | |
| **Cash flows from financing activities** | | | |
| Borrowings provided to entities within DXS | | **(271,203)** | (336,858) |
| Borrowings provided by entities within DXS | | **340,525** | 196,480 |
| Purchase of securities for security-based payments plans | | **(2,243)** | - |
| Proceeds from capital contribution | | **-** | 174,979 |
| Capital contribution transaction costs | | **-** | (78) |
| Payments for buy back of contributed equity | | **(1,937)** | (1,524) |
| **Net cash inflow from financing activities** | | **65,142** | 32,999 |
| | | | |
| **Net decrease in cash and cash equivalents** | | **(8,334)** | (147) |
| Cash and cash equivalents at the beginning of the year | | **13,082** | 13,229 |
| **Cash and cash equivalents at the end of the year** | 9 | **4,748** | 13,082 |

*The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.*

# Note 1

**Summary of significant accounting policies**

## (a) Basis of preparation

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 DXS continues as a separate legal entity in its own right under the *Corporations Act 2001* and is therefore required to comply with reporting and disclosure requirements under the *Corporations Act 2001* and Australian Accounting Standards.

DEXUS Funds Management Limited (DXFM) as Responsible Entity for DDF, DIT, DOT and DXO may only unstaple the Group if approval is obtained by a special resolution of the stapled security holders.

These general purpose Financial Statements for the year ended 30 June 2013 have been prepared in accordance with the requirements of the Trust's Constitutions, the *Corporations Act 2001*, Australian Accounting Standards and other authoritative pronouncements of the Australia Accounting Standards Board and interpretations. Compliance with Australian Accounting Standards ensures that the Financial Statements and notes also comply with International Financial Reporting Standards (IFRS).

These Financial Statements are prepared on a going concern basis and in accordance with historical cost conventions and have not been adjusted to take account of either changes in the general purchasing power of the dollar or changes in the values of specific assets, except for the valuation of certain non-current assets and financial instruments (refer notes 1(e), 1(p), 1(t), 1(u), 1(v) and 1(z)). DXO is a for-profit entity for the purpose of preparing Financial Statements.

As at 30 June 2013, the Trust had a current net asset deficiency of $37.8 million (2012: $71.9 million current net assets). The DXS Group has in place both external and internal funding arrangements to support the cashflow requirements of the Trust. The Trust is a going concern and the Financial Statements have been prepared on that basis.

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 Trust's accounting policies. Other than the estimations described in notes 1(e), 1(l), 1(p), 1(t), 1(u), 1(v) and 1(z), no key assumptions concerning the future or other estimation of uncertainty at the end of each reporting period have a significant risk of causing material adjustments to the Financial Statements in the next annual reporting period.

## (b) Principles of consolidation

(i) Controlled entities

The Financial Statements have been prepared on a consolidated basis. The accounting policies of the subsidiaries are consistent with those of the parent.

Subsidiaries are all entities (including special purpose entities) over which the Trust has power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Trust controls another entity.

The Financial Statements incorporate an elimination of inter-entity transactions and balances to present the Financial Statements on a consolidated basis. Where control of an entity is obtained during a financial year, its results are included in the Statement of Comprehensive Income from the date on which control is gained. They are deconsolidated from the date that control ceases. The Financial Statements incorporate all the assets, liabilities and results of the parent and its controlled entities.

# Note 1

**Summary of significant accounting policies** (continued)

**(b) Principles of consolidation** (continued)

(ii) Partnerships and joint ventures

Where assets are held in a partnership or joint venture with another entity directly, the Trust's share of the results and assets of this partnership or joint venture are consolidated into the Statement of Comprehensive Income and Statement of Financial Position of the Trust. Where assets are jointly controlled via ownership of units in single purpose unlisted unit trusts or shares in companies, the Trust applies equity accounting to record the operations of these investments.

(iii) Employee share trust

DXO has formed a trust to administer its securities-based employee benefits. The employee share trust is consolidated as the substance of the relationship is that the trust is controlled by DXO.

**(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. Where rental revenue is recovered net of associated property expenses, the net amount is brought to account. 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 Trust.

(ii) Borrowing costs

Borrowing costs include interest, amortisation of discounts or premiums relating to borrowings, amortisation or ancillary costs incurred in connection with arrangement of borrowings and foreign exchange losses net of hedged amounts on borrowings, including trade creditors and lease finance charges. Borrowing costs are expensed as incurred unless they relate to qualifying assets.

Qualifying assets are assets which take more than 12 months to get ready for their intended use or sale. In these circumstances, borrowing costs are capitalised to the cost of the asset during the period of time that is required to complete and prepare the asset for its intended use or sale. Where funds are borrowed generally, borrowing costs are capitalised using a weighted average capitalisation rate.

# Note 1

**Summary of significant accounting policies** (continued)

### (e) Derivatives and other financial instruments

(i) Derivatives

The Trust's activities expose it to a variety of financial risks including interest rate risk. Accordingly, the Trust enters into derivative financial instruments such as interest rate swaps 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 Trust's exposures and updates its treasury policies and procedures. The Trust does not trade in derivative instruments for speculative purposes. Even though derivative financial instruments are entered into for the purpose of providing the Trust with an economic hedge, the Trust has elected not to apply hedge accounting under AASB 139 *Financial Instruments: Recognition and Measurement*. Accordingly, derivatives including interest rate swaps 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 Trust

Financial instruments issued by the Trust are classified as either liabilities or as equity in accordance with the substance of the contractual arrangements. Accordingly, ordinary units issued by the Trust 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 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.

# Note 1

**Summary of significant accounting policies** (continued)

### (g) Taxation

The Trust is liable for income tax as follows:

- 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; and
- 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.

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 Trust distributes its distributable income to unitholders by cash or reinvestment. Distributions are provided for when they are approved by the Board of Directors and declared.

### (i) Repairs and maintenance

Plant is required to be overhauled on a regular basis and is managed as part of an ongoing major cyclical maintenance program. The costs of this maintenance are charged as expenses as incurred, except where they relate to the replacement of a component of an asset, in which case the replaced component will be derecognised and the replacement costs capitalised in accordance with note 1(n). Other routine operating maintenance, repair costs and minor renewals are also charged as expenses as incurred.

### (j) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with financial institutions and other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

# Note 1

**Summary of significant accounting policies** (continued)

### (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 Trust 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 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 the 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)).

# Note 1

**Summary of significant accounting policies** (continued)

### (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 Trust's investment properties consist of properties held for long-term rental yields and/or capital appreciation and property that is being constructed or developed for future use as investment property. Investment properties are initially recognised at cost including transaction costs. Investment properties are subsequently recognised at fair value in the Financial Statements. Each valuation firm and its signatory valuer are appointed on the basis that they are engaged for no more than three consecutive valuations.

The basis of valuations of investment properties is fair value being the amounts for which the assets could be exchanged between knowledgeable willing parties in an arm's length transaction, based on current prices in an active market for similar properties in the same location and condition and subject to similar leases. In addition, an appropriate valuation method is used, which may include the discounted cashflow and the capitalisation method. Discount rates and capitalisation rates are determined based on industry expertise and knowledge and, where possible, a direct comparison to third party rates for similar assets in a comparable location. Rental revenue from current leases and assumptions about future leases, as well as any expected operational cash outflows in relation to the property, are also reflected in fair value. In relation to development properties under construction for future use as investment property, where reliably measurable, fair value is determined based on the market value of the property on the assumption it had already been completed at the valuation date less costs still required to complete the project, including an appropriate adjustment for profit and risk.

External valuations of the individual investment properties are carried out in accordance with the Trust's Constitution or may be earlier where the Responsible Entity believes there is a potential for a material change in the fair value of the property.

Changes in fair values are recorded in the Statement of Comprehensive Income. The gain or loss on disposal of an investment property is calculated as the difference between the carrying amount of the asset at the date of disposal and the net proceeds from disposal and is included in the Statement of Comprehensive Income in the year of disposal.

Subsequent redevelopment and refurbishment costs (other than repairs and maintenance) are capitalised to the investment property where they result in an enhancement in the future economic benefits of the property.

### (q) Leasing fees

Leasing fees incurred are capitalised and amortised over the lease periods to which they relate.

### (r) Lease incentives

Prospective lessees may be offered incentives as an inducement to enter into operating leases. These incentives may take various forms including cash payments, rent free periods, or a contribution to certain lessee costs such as fit-out costs or relocation costs.

The costs of incentives are recognised as a reduction of rental revenue on a 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.

# Note 1

**Summary of significant accounting policies** (continued)

### (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 over the fair value of the identifiable net assets acquired.

The carrying value of the goodwill is tested for impairment at the end of each reporting period with any decrement in value taken to the Statement of Comprehensive Income as an expense.

(ii) Management rights

Management rights represent the asset management rights owned by the Trust 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 of 20 years. Management rights with indefinite useful lives are not subject to amortisation and are tested for impairment annually.

### (u) Available-for-sale financial assets

Available-for-sale financial assets comprise DXS securities acquired on-market in order to fulfil the future requirements of the security-based payments plans (refer note 1(z)). They are included in non-current assets except for those securities that will be used to fulfil security based payment plans that vest within 12 months, which are classified as current assets. Changes in fair value are recognised in other comprehensive income net of tax in reserves. Amounts are reclassified to profit or loss when the associated assets are sold, transferred or impaired.

# Note 1

**Summary of significant accounting policies** (continued)

### (v) Financial assets and liabilities

(i) Classification

The Trust has classified its financial assets and liabilities as follows:

| Financial asset/liability | Classification | Valuation basis | Reference |
|---|---|---|---|
| Receivables | Loans and receivables | Amortised cost | Refer note 1(k) |
| Other financial assets | Loans and receivables | Amortised cost | Refer note 1(e) |
| Other financial assets | Available-for-sale | Fair value | Refer note 1(u) |
| Payables | Financial liability at amortised cost | Amortised cost | Refer note 1(w) |
| Interest bearing liabilities | Financial liability at amortised cost | Amortised cost | Refer note 1(x) |
| Derivatives | Fair value through profit or loss | Fair value | Refer note 1(e) |

Financial assets and liabilities are classified in accordance with the purpose for which they were acquired.

(ii) Fair value estimation of financial assets and liabilities

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement and for disclosure purposes.

The fair value of financial instruments traded in active markets (such as publicly traded derivatives) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Trust 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 is calculated as the present value of the estimated future cash flows and the fair value of interest rate option contracts is calculated as the present value of the estimated future cash flows taking into account the time value and implied volatility of the underlying instrument.

### (w) Payables

These amounts represent liabilities for amounts owing at the end of the reporting period. The amounts are unsecured and are usually paid within 30 days of recognition.

### (x) Interest bearing liabilities

Subsequent to initial recognition at fair value, net of transaction costs incurred, interest bearing liabilities are measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the Statement of Comprehensive Income over the period of the borrowings using the effective interest method. Interest bearing liabilities are classified as current liabilities unless the Trust has an unconditional right to defer the liability for at least 12 months after the reporting date.

### (y) Foreign currency

Items included in the Financial Statements of the Trust are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The Financial Statements are presented in Australian dollars, which is the functional and presentation currency of the Trust.

# Note 1

**Summary of significant accounting policies** (continued)

### (z) Employee benefits

(i) Wages, salaries and annual leave

Liabilities for employee benefits for wages, salaries and annual leave represent present obligations resulting from employees' services provided to the end of the reporting period, calculated at undiscounted amounts based on remuneration wage and salary rates that the Trust expects to pay at the end of the reporting period including related on-costs, such as workers compensation, insurance and payroll tax.

(ii) Long service leave

The provision for employee benefits for long service leave represents the present value of the estimated future cash outflows, to be made resulting from employees' services provided to the end of the reporting period.

The provision is calculated using expected future increases in wage and salary rates, including related on-costs and expected settlement dates based on turnover history and is discounted using the rates attaching to national government bonds at the end of the reporting period that most closely matches the term of the maturity of the related liabilities. The unwinding of the discount is treated as long service leave expense.

(iii) Security-based payments

Security-based employee benefits will be provided to eligible participants via the DEXUS Transitional Performance Rights Plan, the Deferred Short Term Incentive Plan (DSTI) and the Long Term Incentive Plan (LTI). Information relating to these 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 DXS stapled securities at no cost, if certain vesting conditions are satisfied.

The fair value of performance rights granted is recognised as an employee benefit expense with a corresponding increase in the provision for employee benefits and 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 and the risk free interest rate for the term of the rights and expected total security-holder returns (where applicable). The amount recorded in the security-based payments reserve is DXO's share of the security based payment which is deemed to be equity settled in accordance with AASB 2 *Share-based Payments*. The amount is calculated based on DXO's proportionate share of the Group's net asset value, with the remainder of the security-based payment recorded as a provision for employee benefits.

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 Trust revises its estimates of the number of performance rights that are expected to vest based on the non-market vesting conditions. The impact of the revised estimates, if any, is recognised in profit or loss with a corresponding adjustment to the security-based payments reserve and provision for employee benefits. The fair value of the provision is reassessed each reporting period.

When performance rights vest, DXO will arrange for the allocation and delivery of the appropriate number of securities to the participant.

### (aa) Earnings per unit

Basic earnings per unit are determined by dividing the net profit attributable to 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.

# Note 1

**Summary of significant accounting policies** (continued)

### (ab) Operating 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 DXS, which consists of DDF, DOT, DIT and DXO. Consistent with how the CODM manages the business, the operating segments within DXS are reviewed on a consolidated basis rather than at an individual trust level. Disclosures concerning DXS's operating segments as well as the operating segments' key financial information provided to CODM are presented in DXS's Financial Statements.

### (ac) Rounding of amounts

The Trust 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 thousand dollars, or in certain cases, the nearest dollar.

### (ad) Parent entity financial information

The financial information for the parent entity of the Trust is disclosed in note 28 and 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

Investments in subsidiaries, associates and joint venture entities are accounted for at cost in the parent entity's Statement of Financial Position. 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.

### (ae) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for the 30 June 2013 reporting period. Our assessment of the impact of these new standards and interpretations is set out below:

**AASB 2012-3 *Amendments to Australian Accounting Standard - Offsetting Financial Assets and Financial Liabilities* and AASB 2012-2 *Amendments to Australian Accounting Standard - Disclosures - Offsetting Financial Assets and Financial Liabilities* (effective 1 July 2014 and 1 July 2013 respectively).**

In June 2012, the AASB approved amendments to the application guidance in AASB 132 *Financial Instruments: Presentation*, to clarify some of the requirements for offsetting financial assets and financial liabilities in the Financial Statements. These amendments are effective from 1 July 2014. They are unlikely to affect the accounting for any of the Trust's current offsetting arrangements. The AASB has also introduced more extensive disclosure requirements into AASB 7 which will apply from 1 July 2013. The Trust intends to apply the new rules from 1 July 2013 and does not expect any significant impacts.

**AASB 2012-5 *Amendments to Australian Accounting Standard arising from Annual Improvements 2009-2011 cycle* (effective 1 July 2013).**

In June 2012, the AASB approved a number of amendments to Australian Accounting Standards as a result of the 2009-2011 annual improvements project. The Trust will apply the amendments from 1 July 2013 and does not expect any significant impacts.

**AASB 9 *Financial Instruments*, AASB 2009-11 *Amendments to Australian Accounting Standards arising from AASB 9* , AASB 2010-7 *Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)* and AASB 2012-6 *Amendments to Australian Accounting Standards - Mandatory Effective Date of AASB 9 and Transition Disclosures* (effective 1 July 2015).**

AASB 9 *Financial Instruments* addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard simplifies the classifications of financial assets into those to be carried at amortised cost and those to be carried at fair value. The Trust intends to apply the standards from 1 July 2015 and does not expect any significant impacts.

# Note 1

**Summary of significant accounting policies** (continued)

**(ae) New accounting standards and interpretations** (continued)

**AASB 2011-4 *Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements* (effective 1 July 2013)**
In July 2011 the AASB decided to remove the individual KMP disclosure requirements from AASB 124 *Related Party Disclosures*, to achieve consistency with the international equivalent standard and remove a duplication of the requirements with the *Corporations Act 2001*. While this will reduce the disclosures that are currently required in the Notes to the Financial Statements, it will not affect any of the amounts recognised in the Financial Statements. The amendments apply from 1 July 2013 and cannot be adopted early.

**AASB 10 *Consolidated financial statements* (effective 1 July 2013).**
AASB 10 replaces all of the guidance on control and consolidation in AASB 127 *Consolidated and separate financial statements*, and SIC-12 *Consolidation – special purpose entities*. The standard introduces a single definition of control that applies to all entities. It focuses on the need to have both power and rights or exposure to variable returns before control is present. The Trust intends to apply the standard from 1 July 2013 and does not expect any significant impacts.

**AASB 11 *Joint Arrangements* (effective 1 July 2013).**
AASB 11 introduces a principles based approach to accounting for joint arrangements. The focus is no longer on the legal structure of joint arrangements, but rather on how rights and obligations are shared by the parties to the joint arrangement. Based on the assessment of rights and obligations, a joint arrangement will be classified as either a joint operation or joint venture. Joint ventures are accounted for using the equity method, and the choice to proportionately consolidate will no longer be permitted. The Trust intends to apply the standard from 1 July 2013 and does not expect any significant impacts.

**AASB 12 *Disclosure of interests in other entities* (effective 1 July 2013).**
AASB 12 sets out the required disclosures for entities reporting under the two new standards, AASB 10 and AASB 11, and replaces the disclosure requirements currently found in AASB 128. Application of this standard will not affect any of the amounts recognised in the Financial Statements, but may impact some of the Trust's current disclosures. The Trust intends to apply the standard from 1 July 2013 and does not expect any significant impacts.

**AASB 128 *Investments in associates and joint ventures* (effective 1 July 2013).**
Amendments to AASB 128 provide clarification that an entity continues to apply the equity method and does not remeasure its retained interest as part of ownership changes where a joint venture becomes an associate, and vice versa. The Trust intends to apply the standard from 1 July 2013 and does not expect any significant impacts.

**AASB 13 *Fair value measurement* (effective 1 July 2013).**
AASB 13 explains how to measure fair value and aims to enhance fair value disclosures. Application of this standard will not affect any of the amounts recognised in the Financial Statements, but will impact some of the Trust's current disclosures. The Trust intends to apply the standard from 1 July 2013 and does not expect any significant impacts.

## Note 2

**Management fee revenue**

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Responsible Entity fees | **40,694** | 38,178 |
| Asset management fees | **6,369** | 9,480 |
| Property management fees | **25,888** | 23,832 |
| Capital works and development fees | **1,740** | 3,888 |
| Wages recovery and other fees | **6,789** | 7,936 |
| **Total management fee revenue** | **81,480** | 83,314 |

## Note 3

**Property revenue and property expenses**

Property revenue includes $20.4 million (2012: $8.9 million) and property expenses includes $6.2 million (2012: $0.7 million) related to investment properties owned by the Trust. The balance of the property revenue and expenses relates to property held as inventory and one component of an investment property owned by DOT for which DEXUS Property Services Pty Limited (DXPS), a wholly owned subsidiary of the Trust, has a contractual agreement to earn income.

## Note 4

**Finance costs**

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Interest paid to related parties | **28,015** | 35,583 |
| Amount capitalised | **(10,525)** | (15,763) |
| Net fair value loss of interest rate swaps | **285** | 2,184 |
| Other finance costs | **25** | 18 |
| **Total finance costs** | **17,800** | 22,022 |

The average capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation is 7.00% (2012: 7.70%).

# Note 5
**Income tax**

## (a) Income tax benefit

| | | 2013 $'000 | 2012 $'000 |
|---|---|---|---|
| Current tax expense | | **(48)** | - |
| Deferred tax benefit | | **3,383** | 21,777 |
| **Total income tax benefit** | | **3,335** | 21,777 |
| | | | |
| **Total income tax benefit attributable to:** | | | |
| Profit from continuing operations | | **3,383** | 21,777 |
| Loss from discontinued operations | | **(48)** | - |
| **Total income tax benefit** | | **3,335** | 21,777 |
| | | | |
| **Deferred income tax benefit included in income tax benefit comprises:** | | | |
| Increase in deferred tax assets | 16 | **2,685** | 8,677 |
| Decrease in deferred tax liabilities | 24 | **698** | 13,100 |
| **Total deferred tax benefit** | | **3,383** | 21,777 |

## (b) Reconciliation of income tax benefit to net profit

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Profit/(loss) from continuing operations before income tax | **28,406** | (50,930) |
| Loss from discontinued operations before income tax | **(1,093)** | - |
| **Total profit/(loss) before income tax** | **27,313** | (50,930) |
| | | |
| Prima facie tax (expense)/benefit at the Australian tax rate of 30% (2012: 30%) | **(8,194)** | 15,279 |
| | | |
| **Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:** | | |
| Depreciation and amortisation | **682** | (208) |
| Reversal of previous impairment | **6,148** | - |
| Sundry items | **(1,682)** | 114 |
| Movements in the carrying value and tax cost base of properties | **6,458** | 6,592 |
| Loss on sale of assets | **(29)** | - |
| | **11,577** | 6,498 |
| **Income tax benefit** | **3,383** | 21,777 |

# Note 6

**Other expenses**

| | Note | 2013 $'000 | 2012 $'000 |
|---|---|---|---|
| Audit and other fees | 7 | **346** | 351 |
| Custodian fees | | **33** | 29 |
| Legal and other professional fees | | **2,185** | 2,319 |
| Registry costs and listing fees | | **7** | 32 |
| Occupancy expenses | | **3,074** | 2,937 |
| Administration expenses | | **1,690** | 3,039 |
| Other staff expenses | | **2,306** | 2,489 |
| Other expenses | | **2,094** | 2,224 |
| **Total other expenses** | | **11,735** | 13,420 |

# Note 7

**Audit, taxation and transaction services fees**

During the year, the Auditor and its related practices, and non-related audit firms earned the following remuneration:

| | 2013 $ | 2012 $ |
|---|---|---|
| **Audit fees** | | |
| PwC Australia - audit and review of Financial Statements | **178,079** | 173,280 |
| PwC Australia - fees paid in relation to outgoings audit[1] | **10,552** | 5,026 |
| PwC Australia - regulatory audit and compliance services | **168,184** | 160,699 |
| **Total audit fees** | **356,815** | 339,005 |
| | | |
| **Taxation fees** | | |
| Fees paid to PwC Australia | **-** | 17,075 |
| **Total taxation fees[2]** | **-** | 17,075 |
| **Total audit and taxation fees[1]** | **356,815** | 356,080 |
| | | |
| **Transaction services fees** | | |
| Fees paid to PwC Australia | **-** | 87,500 |
| **Total transaction services fees[2]** | **-** | 87,500 |
| **Total audit, taxation and transaction services fees** | **356,815** | 443,580 |

1 Fees paid in relation to outgoing audits are included in property expenses in the Statement of Comprehensive Income. Therefore total audit and taxation fees included in other expenses are $346,263 (2012: $351,054).

2 These services include general compliance work, one off project work and advice.

# Note 8

**Discontinued Operations**

A strategic review was announced to the ASX on 16 August 2012, which resulted in all offshore property being considered non-core. One property, 3550 Tyburn Street & 3332-3424 North San Fernando Road, Los Angeles (Glendale) was excluded from the sales process in order to ensure that the property was sold at fair value. Glendale was acquired by DXO on 20 December 2012 as part of the process to exclude the property from the portfolio sale. Glendale was subsequently sold on 18 April 2013.

The table below sets out the financial performance and cash flow information for discontinued operations.

| | 2013<br>$'000 | 2012<br>$'000 |
|---|---|---|
| Property revenue | 1,936 | - |
| Management fee revenue | 646 | - |
| Net fair value gain of investments | 3,929 | - |
| Net foreign exchange loss | (149) | - |
| Property expenses | (542) | - |
| Employee benefits expense | (3,406) | - |
| Finance costs | (273) | - |
| Other expenses | (458) | - |
| **Loss before tax** | 1,683 | - |
| Income tax expense | (48) | - |
| **Total tax expense** | (48) | - |
| **Loss after tax** | 1,635 | - |
| | | |
| Loss on measurement to fair value less costs to sell before tax | (3,487) | - |
| Net gain on sale of investment properties | 714 | - |
| **Loss on measurement to fair value less costs to sell after tax** | (2,773) | - |
| | | |
| Foreign currency translation reserve transfer on disposal of foreign operations | (3) | |
| **Loss from discontinued operations** | (1,141) | - |
| | | |
| Net cash flows from operating activities | (894) | - |
| Net cash flows from investing activities | (2,206) | - |
| Net cash flows from financing activities | 3,100 | - |
| **Net increase in cash generated by discontinued operations** | - | - |

# Note 9

**Current assets - cash and cash equivalents**

| | 2013<br>$'000 | 2012<br>$'000 |
|---|---|---|
| Cash at bank | 1,792 | 3,082 |
| Short-term deposits | - | 10,000 |
| Cash held in escrow[1] | 2,956 | - |
| **Total current assets - cash and cash equivalents** | 4,748 | 13,082 |

1 As at 30 June 2013, the Trust held US$2.7 million (A$3.0 million) in escrow in relation to the US asset disposal in April 2013. These funds were released from escrow on 25 July 2013.

# Note 10

**Current assets - receivables**

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Rent Receivable | **372** | 1,812 |
| Less: provision for doubtful debts | **-** | - |
| **Total rental receivables** | **372** | 1,812 |
| | | |
| Fee receivable | **13,131** | 12,843 |
| GST receivable | **373** | 589 |
| Receivables from related entities | **14,841** | 4,480 |
| Interest receivable | **-** | 70 |
| Distribution receivable | **64** | - |
| Other receivables | **1,635** | 29 |
| **Total current assets - receivables** | **30,416** | 19,823 |

# Note 11

**Non-current assets classified as held for sale**

**(a) Non-current assets held for sale**

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Investment properties held for sale | **-** | 93,700 |
| **Total non-current assets classified as held for sale** | **-** | 93,700 |

**(b) Reconciliation**

| | Note | 2013 $'000 | 2012 $'000 |
|---|---|---|---|
| Opening balance at the beginning of the year | | **93,700** | - |
| Transfer from investment properties | 13 | **7,202** | 93,700 |
| Disposals | | **(101,996)** | - |
| Net fair value loss of investment properties | | **(2,929)** | - |
| Acquisitions, additions and other | | **4,023** | - |
| **Closing balance at the end of the year** | | **-** | 93,700 |

**Disposals**

- On 2 October 2012, 50% of an industrial portfolio consisting of assets at DEXUS Industrial Estate Laverton North VIC, Altona North VIC and Quarry Greystanes NSW was disposed of for gross proceeds of $57.7 million.
- On 1 February 2013, 50% of Quarry Greystanes, NSW – Camerons Transport was disposed of for gross proceeds of $14.9 million.
- On 20 February 2013, 50% of Quarry Greystanes, NSW – Promak was disposed of for gross proceeds of $16.4 million.
- On 21 June 2013, 50% of Quarry Greystanes, NSW – Warehouse 9 was disposed of for gross proceeds of $12.7 million.

## Note 12

**Current assets - other**

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Prepayments | **1,467** | 759 |
| **Total current assets - other** | **1,467** | 759 |

## Note 13

**Non-current assets - investment properties**

| | Note | 2013 $'000 | 2012 $'000 |
|---|---|---|---|
| Opening balance at the beginning of the year | | **141,151** | 192,306 |
| Additions | | **39,712** | 60,782 |
| Lease incentives | | **1,881** | 895 |
| Amortisation of lease incentives | | **(647)** | (254) |
| Rent straightlining | | **1,290** | 1,405 |
| Disposals | | **(6,761)** | - |
| Transfer to non-current assets classified as held for sale | 11 | **(7,202)** | (93,700) |
| Transfer from inventories | 15 | **-** | 7,035 |
| Net fair value gain/(loss) of investment properties | | **6,855** | (27,318) |
| **Closing balance at the end of the year** | | **176,279** | 141,151 |

**Key Valuation Assumptions**

Details of key valuation assumptions in relation to investment properties are outlined in note 13 of the DXS Financial Statements.

## Note 14

**Non-current assets - plant and equipment**

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Opening balance at the beginning of the year | **4,678** | 3,922 |
| Additions | **7,008** | 2,821 |
| Depreciation charge | **(2,905)** | (2,065) |
| **Closing balance at the end of the year** | **8,781** | 4,678 |

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Cost | **22,626** | 15,618 |
| Accumulated depreciation | **(13,845)** | (10,940) |
| **Net book value as at the end of the year** | **8,781** | 4,678 |

Plant and equipment comprises IT and office equipment.

# Note 15

**Inventories**

## (a) Land and properties held for resale

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| **Current assets** | | |
| Land and properties held for resale | **10,853** | 26,841 |
| **Total current assets - inventories** | **10,853** | 26,841 |
| | | |
| **Non-current assets** | | |
| Land and properties held for resale | **242,057** | 70,990 |
| **Total non-current assets - inventories** | **242,057** | 70,990 |
| **Total assets - inventories** | **252,910** | 97,831 |

## (b) Reconciliation

| | Note | 2013 $'000 | 2012 $'000 |
|---|---|---|---|
| Opening balance at the beginning of the year | | **97,831** | 112,238 |
| Transfer to investment properties | 13 | **-** | (7,035) |
| Disposals | | **(23,924)** | (43,998) |
| Impairment | | **(1,209)** | (14,846) |
| Acquisitions, additions and other | | **180,212** | 51,472 |
| **Closing balance at the end of the year** | | **252,910** | 97,831 |

**Acquisitions**

- On 30 November 2012, 50 Carrington Street, Sydney, NSW was acquired for $58.5 million, excluding acquisition costs.
- On 17 January 2013, 40 Market Street, Melbourne, VIC was acquired for $46.7 million, excluding acquisition costs.
- On 27 June 2013, DEXUS Projects Pty Limited, a wholly owned subsidiary of DXO, purchased 154 O'Riorden Street, Mascot, NSW from DEXUS PID Trust, a wholly owned subsidiary of DIT, for $14.5 million.

**Disposals**

- During the year ended 30 June 2013, six lots located at Boundary Road, Laverton, VIC were disposed of for gross proceeds of $24.4 million.

# Note 16

**Non-current assets - deferred tax assets**

| | 2013 | 2012 |
|---|---|---|
| | $'000 | $'000 |
| **The balance comprises temporary differences attributable to:** | | |
| Derivative financial instruments | **650** | 1,048 |
| Employee provisions | **10,671** | 12,229 |
| Incentives | **-** | 363 |
| Other | **598** | 825 |
| **Deferred tax asset arising from temporary differences** | **11,919** | 14,465 |
| Deferred tax arising on tax losses | **27,495** | 22,264 |
| **Total non-current assets - deferred tax assets** | **39,414** | 36,729 |
| | | |
| **Movements** | | |
| Opening balance at the beginning of the year | **36,729** | 28,052 |
| Recognition of tax losses | **5,231** | 8,399 |
| Movement in deferred tax asset arising from temporary differences | **(2,546)** | 278 |
| Credited to the Statement of Comprehensive Income | **2,685** | 8,677 |
| **Closing balance at the end of the year** | **39,414** | 36,729 |

# Note 17

**Non-current assets - intangible assets**

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| **Management rights** | | |
| Opening balance at the beginning of the year | **221,935** | 222,353 |
| Reversal of previous impairment | **20,494** | - |
| Amortisation charge | **(329)** | (418) |
| **Closing balance at the end of the year** | **242,100** | 221,935 |
| | | |
| Cost | **252,382** | 252,382 |
| Accumulated amortisation | **(2,973)** | (2,644) |
| Accumulated impairment | **(7,309)** | (27,803) |
| **Total management rights** | **242,100** | 221,935 |
| | | |
| **Goodwill** | | |
| Opening balance at the beginning of the year | **1,706** | 2,331 |
| Impairment | **(99)** | (625) |
| **Closing balance at the end of the year** | **1,607** | 1,706 |
| | | |
| Cost | **2,998** | 2,998 |
| Accumulated impairment | **(1,391)** | (1,292) |
| **Total goodwill** | **1,607** | 1,706 |
| **Total non-current assets - intangible assets** | **243,707** | 223,641 |

Management rights represent the asset management rights owned by DXH, 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 (held at a value of $5,356,996 (2012: $5,686,657)) are measured at cost and amortised using the straight-line method over their estimated remaining useful lives of 20 years. Management rights that are deemed to have an indefinite life are held at a value of $236,743,004 (2012: $216,248,492).

**Impairment of management rights**

During the current year, management carried out a review of the recoverable amount of its management rights. As part of this process, the estimated fair value of assets under management, which are used to derive the future expected management fee income, have been adjusted to better reflect current market conditions and committed developments. This has resulted in the recognition of a reversal of previous impairments of $20.5 million (2012: nil) through the Consolidated Statement of Comprehensive Income.

The value in use has been determined using Board approved long-term forecasts in a five year discounted cash flow model. Forecasts were based on projected returns of the business in light of current market conditions. The performance in year five has been used as a terminal value.

Key assumptions:

- A terminal capitalisation rate of 12.5% (2012: 12.5%) was used incorporating an appropriate risk premium for a management business.
- The cash flows have been discounted at 9.5% (2012: 9.3%) based on externally published weighted average cost of capital for an appropriate peer group plus an appropriate premium for risk. A 0.25% (2012: 0.25%) decrease in the discount rate would increase the valuation by $2.7 million (2012: $2.4 million).

## Note 18

**Non-current assets - available-for-sale financial assets**

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| DXS securities | 2,200 | - |
| **Total available-for-sale financial assets** | 2,200 | - |

## Note 19

**Non-current assets - other**

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Tenant and other bonds | 5 | 5 |
| Other | 2 | 61 |
| **Total non-current assets - other** | 7 | 66 |

## Note 20

**Current liabilities - payables**

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Trade creditors | 3,887 | 1,938 |
| Accruals | 4,150 | 2,629 |
| Accrued capital expenditure | 759 | 972 |
| Employee related expenses | 2,292 | 3,242 |
| Payable to related parties | 1,666 | 2,284 |
| **Total current liabilities - payables** | 12,754 | 11,065 |

## Note 21

**Loans with related parties**

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| **Current liabilities - loan with related parties** | | |
| Non-interest bearing loans with entities within DXS[1] | 48,932 | 48,932 |
| **Total current liabilities - loan with related parties** | 48,932 | 48,932 |
| | | |
| **Non-current liabilities - loan with related parties** | | |
| Interest bearing loans with related parties[2] | 500,369 | 402,409 |
| **Total non-current liabilities - loan with related parties** | 500,369 | 402,409 |

1 Non-interest bearing loans with entities within DXS were created to effect the stapling of the Trust, DIT, DOT and DDF. These loan balances eliminate on consolidation within DXS.

2 Interest bearing loans with DEXUS Finance Pty Limited (DXF). These loan balances eliminate on consolidation within DXS.

## Note 22

**Provisions**

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| **Current** | | |
| Provision for employee benefits | **22,834** | 22,324 |
| **Total current liabilities - provisions** | **22,834** | 22,324 |

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| **Non-current** | | |
| Provision for employee benefits | **13,639** | 16,351 |
| **Total non-current liabilities - provisions** | **13,639** | 16,351 |

## Note 23

**Non-current liabilities - derivative financial instruments**

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Interest rate swap contracts | **2,442** | 3,772 |
| **Total non-current liabilities - derivative financial instruments** | **2,442** | 3,772 |

Refer note 29 for further discussion regarding derivative financial instruments.

## Note 24

**Non-current liabilities - deferred tax liabilities**

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| **The balance comprises temporary differences attributable to:** | | |
| Goodwill | **2,107** | 2,205 |
| Inventories | **932** | 1,626 |
| Other | **176** | 82 |
| **Total non-current liabilities - deferred tax liabilities** | **3,215** | 3,913 |
| | | |
| **Movements** | | |
| Opening balance at the beginning of the year | **3,913** | 17,013 |
| Credited to the Statement of Comprehensive Income | **(698)** | (13,100) |
| **Closing balance at the end of the year** | **3,215** | 3,913 |

# Note 25

**Contributed equity**

## (a) Contributed equity

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Opening balance at the beginning of the year | **199,712** | 26,335 |
| Capital contribution | **-** | 174,979 |
| Capital contribution transaction costs | **-** | (78) |
| Buy back of contributed equity | **(1,937)** | (1,524) |
| **Closing balance at the end of the year** | **197,775** | 199,712 |

## (b) Number of units on issue

| | 2013 No. of units | 2012 No. of units |
|---|---|---|
| Opening balance at the beginning of the year | **4,783,817,657** | 4,839,024,176 |
| Buy back of contributed equity | **(81,860,267)** | (55,206,519) |
| **Closing balance at the end of the year** | **4,701,957,390** | 4,783,817,657 |

### Terms and conditions

Each stapled security ranks equally with all other stapled securities for the purposes of distributions and on termination of the Trust. Each stapled security entitles the holder to vote in accordance with the provisions of the Constitution and the *Corporations Act 2001*.

# Note 26

## Reserves and accumulated losses

### (a) Reserves

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Asset revaluation reserve | **42,738** | 42,738 |
| Foreign currency translation reserve | **-** | - |
| Security-based payments reserve | **37** | 13 |
| Treasury securities reserve | **(56)** | - |
| Available-for-sale financial assets | **13** | - |
| **Total reserves** | **42,732** | 42,751 |
| | | |
| **Movements:** | | |
| **Asset revaluation reserve** | | |
| Opening balance at the beginning of the year | **42,738** | 42,738 |
| **Closing balance at the end of the year** | **42,738** | 42,738 |
| | | |
| **Foreign currency translation reserve** | | |
| Opening balance at the beginning of the year | **-** | - |
| Exchange differences on translating foreign operations | **(3)** | - |
| Transfer on disposal of foreign operations | **3** | |
| **Closing balance at the end of the year** | **-** | - |
| | | |
| **Security-based payments reserve** | | |
| Opening balance at the beginning of the year | **13** | - |
| Security-based payments expense | **24** | 13 |
| **Closing balance at the end of the year** | **37** | 13 |
| | | |
| **Treasury securities reserve** | | |
| Opening balance at the beginning of the year | **-** | - |
| Purchase of securities | **(56)** | - |
| **Closing balance at the end of the year** | **(56)** | - |
| | | |
| **Available-for-sale financial assets** | | |
| Opening balance at the beginning of the year | **-** | - |
| Fair value gain of securities | **13** | - |
| **Closing balance at the end of the year** | **13** | - |

### (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.

# Note 26

**Reserves and retained profits** (continued)

**(b) Nature and purpose of reserves** (continued)

### 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 32 for further details.

### Treasury securities reserve

The treasury securities reserve is used to record the acquisition of securities purchased to fulfil the obligations of the 2012 Transitional Performance Rights Plan, the Deferred Short Term Incentive Plan (DSTI) and the Long Term Incentive Plan (LTI). As at 30 June 2013, the Trust held 2,108,728 stapled securities (2012: nil).

### Available-for-sale financial assets

Changes in the fair value arising on valuation of investments, classified as available-for-sale financial assets, are recognised in other comprehensive income, as described in note 1(u) and accumulated in a separate reserve within equity. Amounts are reclassified to profit or loss when the associated assets are sold, transferred or impaired.

**(c) Accumulated losses**

| | 2013<br>$'000 | 2012<br>$'000 |
|---|---|---|
| Opening balance at the beginning of the year | **(119,769)** | (90,616) |
| Net profit/(loss) attributable to unitholders | **30,648** | (29,153) |
| **Closing balance at the end of the year** | **(89,121)** | (119,769) |

# Note 27

**Distributions paid and payable**

There were no distributions paid or payable by the Trust for the year ended 30 June 2013 (2012: nil).

### Franked dividends

The franked portions of the final dividends recommended after 30 June 2013 will be franked out of existing franking credits or out of franking credits arising from the payment of income tax in the year ended 30 June 2013.

| Franking credits | 2013<br>$'000 | 2012<br>$'000 |
|---|---|---|
| Opening balance at the beginning of the year | **16,181** | 17,196 |
| Franking debits arising during the year on receipt of tax refund at 30% | **-** | (1,015) |
| **Closing balance at the end of the year** | **16,181** | 16,181 |

# Note 28

## Parent entity financial information

### (a) Summary financial information

The individual Financial Statements for the parent entity show the following aggregate amounts:

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Total current assets | **54,831** | 153,089 |
| Total assets | **339,180** | 403,014 |
| Total current liabilities | **52,272** | 51,724 |
| Total liabilities | **222,764** | 295,463 |
| | | |
| **Equity** | | |
| Contributed equity | **197,775** | 199,712 |
| Retained profits | **(81,359)** | (92,161) |
| **Total equity** | **116,416** | 107,551 |
| | | |
| Net profit/(loss) for the year from continuing operations | **10,768** | (11) |
| Net profit/(loss) for the year from discontinued operations | **34** | - |
| Net profit/(loss) for the year | **10,802** | (11) |
| **Total comprehensive loss for the year** | **10,802** | (11) |

### (b) Investments in controlled entities

The parent entity has the following investments:

| | | Ownership Interest | | | |
|---|---|---|---|---|---|
| | | **2013** | 2012 | **2013** | 2012 |
| **Name of entity** | **Principal activity** | **%** | % | **$'000** | $'000 |
| Barrack Street Trust | Office property investment | **100.0** | 100.0 | **99** | 99 |
| DEXUS Holdings Pty Limited | Management services | **100.0** | 100.0 | **98,652** | 98,652 |
| DEXUS Projects Pty Limited | Industrial property development | **100.0** | 100.0 | **-** | - |
| DEXUS Office Projects Pty Limited | Office property development | **100.0** | 100.0 | **-** | - |
| DXO Subtrust No. 1 | Holding Company | **100.0** | 100.0 | **-** | - |
| DEXUS US Holdings Pty Limited | Industrial property investment | **100.0** | - | **-** | - |
| **Total non-current assets - investments in controlled entities** | | | | **98,751** | 98,751 |

### (c) Guarantees

Refer to note 30 for details of guarantees entered into by the parent entity.

### (d) Contingent liabilities

The parent entity had no contingent liabilities as at 30 June 2013 (2012: nil).

### (e) Capital commitments

The following amounts represent capital commitments of the parent entity for investment properties contracted at the end of the reporting period but are not recognised as liabilities payable.

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Investment properties | **33,772** | 30,647 |
| **Total capital commitments** | **33,772** | 30,647 |

# Note 29

## Financial risk management

To ensure the effective and prudent management of the Trust's capital and financial risks, the Trust (as part of DXS) has a well established framework consisting of a Board Finance Committee and a Capital Markets Committee. The Board Finance Committee is accountable to and primarily acts as an advisory body to the DXFM Board and includes three Directors of the DXFM Board. Its responsibilities include reviewing and recommending financial risk management policies and funding strategies for approval.

The Capital Markets Committee is a management committee that is accountable to both the Board Finance Committee and the Group Management Committee. It convenes at least quarterly and conducts a review of financial risk management exposures including liquidity, funding strategies and hedging. It is also responsible for the development of financial risk management policies and funding strategies for recommendation to the Board Finance Committee, and the approval of treasury transactions within delegated limits and powers.

Further information on the DXS governance structure, including terms of reference, is available at www.dexus.com

### (1) Capital risk management

The Trust manages its capital to ensure that entities within the Trust will be able to continue as a going concern while maximising the return to owners through the optimisation of the debt and equity balance.

The capital structure of the Trust consists of debt (see note 21), cash and cash equivalents, and equity attributable to unitholders. 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 unitholders' equity;
- potential impacts on DXS's credit rating; and
- other market factors and circumstances.

The gearing ratio at 30 June 2013 was 104.9% (as detailed below).

| Gearing ratio | 2013<br>$'000 | 2012<br>$'000 |
|---|---|---|
| Interest bearing liabilities [1] | **500,369** | 402,409 |
| Total tangible assets [2] | **476,808** | 371,090 |
| **Gearing ratio [3]** | **104.9%** | 108.4% |

1 Total interest bearing liabilities excludes deferred borrowing costs.
2 Total tangible assets comprise total assets less intangible assets, derivatives and deferred tax balances as reported internally to management.
3 Gearing is managed centrally for DXS. The gearing ratio as disclosed in the DEXUS Property Group Financial Statements 2013 is 29.1% (2012: 27.8%)(refer note 28 of the DXS Financial Statements).

The Trust is not rated by ratings agencies, however, DXS is rated BBB+ by Standard and Poor's and Baa1 by Moody's. The Trust considers potential impacts upon the rating when assessing the strategy and activities of the Trust and regards those impacts as an important consideration in its management of the Trust's capital structure.

The Trust is required to comply with certain financial covenants in respect of its interest-bearing liabilities. During 2013 and 2012 reporting periods, the Trust was in compliance with all of its financial covenants.

The Responsible Entity for the Trust, DXFM (a wholly owned entity) has been issued with an Australian Financial Services Licence (AFSL). The licence is subject to certain capital requirements including the requirement to hold minimum net tangible assets and to maintain minimum liquidity. DXFM must also prepare rolling cash projections over at least the next 12 months and demonstrate it will have access to sufficient financial resources to meet its liabilities that are expected to be payable over that period. Cash projections and assumptions are approved, at least quarterly, by the Board of the Responsible Entity.

DEXUS Wholesale Property Limited (DWPL), a wholly owned entity, has also been issued with an AFSL as it is the Responsible Entity for DEXUS Wholesale Property Fund. DEXUS Wholesale Management Limited (DWML), a wholly owned entity, has also been issued with an AFSL as it is the Trustee of the Golden Diamond (GD) Trust. These entities are subject to the same requirements.

# Note 29

**Financial risk management** (continued)

### (2) Financial risk management

The Trust's activities expose it to a variety of financial risks: credit risk, market risk (interest rate and equity price risks), and liquidity risk. Financial risk management is not managed at the individual trust level, but holistically as part of DXS. DXS's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Trust.

Accordingly, the Trust enters into various derivative financial instruments such as interest rate swaps to manage its exposure to certain risks. The Trust does not trade in derivative instruments for speculative purposes. The Trust uses different methods to measure the different types of risks to which it is exposed, including monitoring the current and forecast levels of exposure, and conducting sensitivity analysis.

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 Trust'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 Trust's exposures and (at least annually) updates its treasury policies and procedures.

### (a) Liquidity risk

Liquidity risk is the risk that the Trust will not have sufficient available funds to meet financial obligations in an orderly manner when they fall due or at an acceptable cost.

The Trust 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; and
- 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 Trust's ability to refinance its current debt facilities. As the Trust's debt facilities mature, they are usually required to be refinanced by extending the facility or replacing the facility 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 Trust's key risk management strategy for margin price risk on refinancing is to spread the maturities of debt facilities over different time periods to reduce the volume of facilities to be refinanced and the exposure to market conditions in any one period.

An analysis of the contractual maturities of the Trust's interest bearing liabilities and derivative financial instruments is shown in the table below. The amounts in the table represent undiscounted cash flows.

# Note 29

**Financial risk management** (continued)

## (2) Financial risk management (continued)

### (a) Liquidity risk (continued)

| | 2013 | | | | 2012 | | | |
|---|---|---|---|---|---|---|---|---|
| | Expiring within one year $'000 | Expiring between one and two years $'000 | Expiring between two and five years $'000 | Expiring after five years $'000 | Expiring within one year $'000 | Expiring between one and two years $'000 | Expiring between two and five years $'000 | Expiring after five years $'000 |
| Receivables | 30,416 | - | - | - | 19,823 | - | - | - |
| Payables | 12,754 | - | - | - | 11,065 | - | - | - |
| | 17,662 | | | | 8,758 | | | |
| Interest bearing loans with related parties and interest[1] | 30,964 | 28,004 | 581,426 | - | 27,163 | 27,163 | 81,488 | 429,572 |
| Derivative financial instruments | | | | | | | | |
| Derivative assets | 1,941 | 48 | - | - | - | - | - | - |
| Derivative liabilities | - | 92 | 14 | - | 1,461 | 1,305 | 29 | - |
| Total net derivative financial instruments[2] | 1,941 | (44) | (14) | - | (1,461) | (1,305) | (29) | - |

1 Includes estimated interest.
2 For interest rate swaps, only the net interest cash flows (not the notional principal) are included. For derivative assets and liabilities that have floating 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 23 (derivative financial instruments) for fair value of derivatives. Refer to 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 Trust's financial instruments will fluctuate because of changes in market prices. The market risks that the Trust 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 Trust arises from interest bearing financial assets and liabilities that the Trust holds. Borrowings issued at variable rates expose the Trust to cash flow interest rate risk. Borrowings issued at fixed rates expose the Trust to fair value interest rate risk.

The primary objective of the Trust's risk management policy for interest rate risk is to minimise the effects of interest rate movements on the Trust's portfolio of financial assets and liabilities and financial performance. The policy sets out the minimum and maximum hedging amounts for the Trust, 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 Trust's cash flows is managed within the parameters defined by the Group Treasury Policy.

# Note 29

**Financial risk management** (continued)

**(2) Financial risk management** (continued)

**(b) Market risk** (continued)

(i) Interest rate risk (continued)

The net notional amount of fixed rate debt and interest rate swaps in place in each year and the weighted average effective hedge rate is set out in the table below.

| | June 2014 | June 2015 | June 2016 | > June 2017 | June 2018 | > June 2019 |
|---|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| **Interest rate swaps** | | | | | | |
| A$ hedged [1] | 50,000 | 27,500 | 2,500 | - | - | - |
| A$ hedge rate (%) [2] | 6.75% | 2.90% | 0.27% | 0.00% | 0.00% | 0.00% |

1 Amounts do not include fixed rate debt that has been swapped to floating rate debt through cross-currency swaps.
2 The above hedge rates do not include margins payable on borrowings.

**Sensitivity on interest expense**

The table below shows the impact on unhedged net interest expense (excluding non-cash items) of a 50 basis point 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 Trust's floating rate debt and derivative cash flows. Net interest expense is only sensitive to movements in markets rates to the extent that floating rate debt is not hedged.

| | | **2013** | 2012 |
|---|---|---|---|
| | | **(+/-) $'000** | (+/-) $'000 |
| + / - 0.50% (50 basis points) | A$ | **2,252** | 1,762 |

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 Trust with an economic hedge, the Trust has elected not to apply hedge accounting to its interest rate derivatives. Accordingly, gains or losses arising from changes in the fair value are reflected in the Statement of Comprehensive Income.

| | | **2013** | 2012 |
|---|---|---|---|
| | | **(+/-) $'000** | (+/-) $'000 |
| + / - 0.50% (50 basis points) | A$ | **393** | 491 |

# Note 29

**Financial risk management** (continued)

**(2) Financial risk management** (continued)

**(b) Market risk** (continued)

(ii) Equity price risk

Equity price risk is the risk that the fair value of investments in listed entities fluctuates due to changes in the underlying unit price. The Trust's equity price risk arises from investments in DXS securities purchased in order to fulfil the future requirements of the security-based payments plans. These investments are classified as available-for-sale assets, with any resultant fair value movement recognised in other comprehensive income.

**Sensitivity analysis on equity price risk**

The following sensitivity analysis shows the effect on the Statement of Comprehensive Income if the market price of the underlying equity securities/units at balance date had been 10% higher/lower with all other variables held constant.

| | | **2013** **(+/-) $'000** | 2012 (+/-) $'000 |
|---|---|---|---|
| + / - 10% | A$ | **220** | - |

**(c) Credit risk**

Credit risk is the risk of loss to the Trust in the event of non-performance by the Trust's financial instrument counterparties. Credit risk arises from cash and cash equivalents, loans and receivables, and derivative financial instruments. The Trust has exposure to credit risk on all financial assets.

The Trust manages this risk by:

- adopting a process for determining an approved counterparty, with consideration of qualitative factors as well as the counterparty's 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; and
- regularly monitoring loans and receivables on an ongoing basis.

A minimum S&P rating of A– (or Moody's or Fitch equivalent) is required to become or remain an approved counterparty. As at 30 June 2013, the lowest rating of counterparties that the Trust is exposed to was A- (Fitch) (2012: A (S&P)).

Financial instrument transactions are spread among a number of approved financial institutions within specified credit limits to minimise the Trust's exposure to any one counterparty. As a result, there is no significant concentration of credit risk for financial instruments.

The maximum exposure to credit risk at 30 June 2013 and 30 June 2012 is the carrying amount of financial assets recognised on the Statement of Financial Position.

As at 30 June 2013 and 30 June 2012, there were no significant concentrations of credit risk for trade receivables. Trade receivable balances and the credit quality of trade debtors are consistently monitored on an ongoing basis.

# Note 29

**Financial risk management** (continued)

### (2) Financial risk management (continued)

### (c) Credit risk (continued)

The ageing analysis of loans and receivables net of provisions at 30 June 2013 is ($'000): 25,548 (0-30 days), 2,352 (31-60 days), 1,693 (61-90 days), 1,823 (91+ days). The ageing analysis of loans and receivables net of provisions at 30 June 2012 is ($'000): 14,604 (0-30 days), 1,621 (31-60 days), 1,537 (61-90 days), 2,061 (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 2013 and 30 June 2012, the carrying amounts and fair value of financial assets and liabilities are shown as follows:

| | **2013 Carrying amount** [1] **$'000** | **2013 Fair value** [2] **$'000** | 2012 Carrying amount [1] $'000 | 2012 Fair value [2] $'000 |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Cash and cash equivalents | **4,748** | **4,748** | 13,082 | 13,082 |
| Receivables | **30,416** | **30,416** | 19,823 | 19,823 |
| Available-for-sale financial assets | **2,200** | **2,200** | - | |
| **Total financial assets** | **37,364** | **37,364** | 32,905 | 32,905 |
| **Financial liabilities** | | | | |
| Trade payables | **12,754** | **12,754** | 11,065 | 11,065 |
| Derivative liabilities | **2,442** | **2,442** | 3,772 | 3,772 |
| Non-interest bearing loans with entities within DXS | **48,932** | **48,932** | 48,932 | 48,932 |
| **Interest bearing liabilities** | | | | |
| Interest bearing loans with related parties | **500,369** | **500,369** | 402,409 | 402,409 |
| **Total financial liabilities** | **564,497** | **564,497** | 466,178 | 466,178 |

1 Carrying value is equal to the value of the financial instruments on the Statement of Financial Position.

2 Fair value is the amount for which the financial instrument could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Where there is a difference between the carrying amount and fair value the difference is not recognised in the Statement of Financial Position.

The fair value of fixed rate interest bearing liabilities has been determined by discounting the expected future cash flows by the relevant market rates. The discount rates applied range from 2.66% to 5.29% for A$. Refer note 1(v) for fair value methodology for financial assets and liabilities.

# Note 29

**Financial risk management (continued)**

**(2) Financial risk management** (continued)

**(d) Fair value of financial instruments** (continued)

**Determination of fair value**

The Trust 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 table presents the assets and liabilities measured and recognised as at fair value 30 June 2013 and 30 June 2012.

| | Level 1 $'000 | Level 2 $'000 | Level 3 $'000 | 2013 $'000 |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Available-for-sale financial assets | 2,200 | - | - | 2,200 |
| **Financial liabilities** | | | | |
| Derivative Liabilities | | | | |
| Interest rate derivatives | - | 2,442 | - | 2,442 |

| | Level 1 $'000 | Level 2 $'000 | Level 3 $'000 | 2012 $'000 |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Available-for-sale financial assets | - | - | - | - |
| **Financial liabilities** | | | | |
| Derivative Liabilities | | | | |
| Interest rate derivatives | - | 3,772 | - | 3,772 |

During the year, there were no transfers between Level 1, Level 2 and Level 3 fair value measurements.

# Note 30

**Contingent liabilities**

Details and estimates of maximum amounts of contingent liabilities are as follows:

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Bank guarantees by the Trust in respect of variations and other financial risks associated with the development of: | | |
| Boundary Road, Laverton VIC - Stage 2 | **532** | 368 |
| Quarry, Greystanes NSW | **413** | - |
| **Contingent liabilities in respect of developments** | **532** | 368 |

The Trust together with DDF, DIT and DOT is also a guarantor of a total of A$1,473.5 million and US$50 million (A$53.9 million) of bank bilateral facilities, a total of A$575.0 million of medium term notes, a total of US$130.0 million (A$140.2 million) of privately placed notes, and a total of US$250.0 million (A$268.8 million) public 144A senior notes, which have all been negotiated to finance the Trust and other entities within DXS. The guarantees have been given in support of debt outstanding and drawn against these facilities, and may be called upon in the event that a borrowing entity has not complied with certain requirements such as failure to pay interest or repay a borrowing, whichever is earlier. During the period no guarantees were called.

The guarantees are issued in respect of the Trust and do not constitute an additional liability to those already existing in interest bearing liabilities on the Statement of Financial Position.

The Trust has bank guarantees of $12.0 million held on behalf of DEXUS Funds Management Limited and DEXUS Wholesale Property Limited to comply with the terms of their Australian Financial Services Licences (AFSL). The bank guarantees are issued in respect of the Trust and do not constitute an additional liability to those already existing on the Statements of Financial Position.

The Directors of the Responsible Entity are not aware of any other contingent liabilities in relation to the Trust, other than those disclosed in the Financial Statements, which should be brought to the attention of unitholders as at the day of completion of this report.

# 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.

| | 2013<br>$'000 | 2012<br>$'000 |
|---|---|---|
| Investment properties | **29,876** | 30,647 |
| Inventories | **4,930** | 10,126 |
| **Total capital commitments** | **34,806** | 40,773 |

### (b) Lease payable commitments

The future minimum lease payments payable are:

| | 2013<br>$'000 | 2012<br>$'000 |
|---|---|---|
| Within one year | **4,153** | 3,008 |
| Later than one year but not later than five years | **11,564** | 3,918 |
| Greater than five years | **1,990** | - |
| **Total lease payable commitments** | **17,707** | 6,926 |

Payments made under operating leases are expensed on a straight-line basis over the term if the lease, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased property.

The Trust has a commitment for ground rent payable in respect of a leasehold property included in investment properties and a commitment for its Head Office premise at 264-278 George Street, Sydney and for 343 George Street, Sydney.

No provisions have been recognised in respect of non-cancellable operating leases.

### (c) Lease receivable commitments

The future minimum lease payments receivable by the Trust are:

| | 2013<br>$'000 | 2012<br>$'000 |
|---|---|---|
| Within one year | **19,760** | 11,854 |
| Later than one year but not later than five years | **61,769** | 50,620 |
| Later than five years | **30,565** | 79,209 |
| **Total lease receivable commitments** | **112,094** | 141,683 |

# Note 32

## Related parties

### Responsible Entity

DXFM is the Responsible Entity of DDF, DIT, DOT and DXO.

DXH is the parent entity of DWPL, the Responsible Entity for DEXUS Wholesale Property Fund (DWPF).

### Responsible Entity fees

Under the terms of the Trust's Constitutions, the Responsible Entities are entitled to receive fees in relation to the management of the Trust. DXFM's parent entity, DXH, is entitled to be reimbursed for administration expenses incurred on behalf of the Trust. DEXUS Property Services Pty Limited (DXPS), a wholly owned subsidiary of DXH, is entitled to property management fees from the Trust.

### Related party transactions

Responsible entity fees in relation to DXS assets are on a cost recovery basis. DXPS has a contractual agreement to pay rent on one component of an investment property owned by DEXUS Office Trust (DOT). The agreement is conducted on normal commercial terms and conditions. Agreements with third party funds are conducted under normal commercial terms and conditions.

### DEXUS Funds Management Limited and its related entities

There were a number of transactions and balances between the Trust and the Responsible Entity and its related entities as detailed below:

| | **2013** | 2012 |
|---|---:|---:|
| | **$** | $ |
| **Transactions with DEXUS Diversified Trust** | | |
| Responsible Entity fee revenue | **5,162,470** | 5,487,594 |
| Property management fee revenue | **4,459,208** | 4,330,685 |
| Recovery of administration expenses | **3,769,142** | 3,915,031 |
| Aggregate amount receivable at the end of each reporting period (included above) | **935,104** | 1,079,398 |
| **Transactions with DEXUS Industrial Trust** | | |
| Responsible Entity fee revenue | **3,084,569** | 4,025,546 |
| Property management fee revenue | **2,530,596** | 2,496,534 |
| Recovery of administration expenses | **3,204,412** | 3,739,108 |
| Purchase of investment properties | **14,500,000** | - |
| Aggregate amount receivable at the end of each reporting period (included above) | **964,033** | 581,655 |
| **Transactions with DEXUS Office Trust** | | |
| Responsible Entity fee revenue | **11,229,765** | 9,860,933 |
| Property management fee revenue | **7,757,188** | 8,210,494 |
| Recovery of administration expenses | **10,362,695** | 6,099,606 |
| Aggregate amount receivable at the end of each reporting period (included above) | **3,594,546** | 1,796,935 |
| Rent paid to Southgate Trust | **4,263,654** | 3,150,041 |

# Note 32

**Related parties** (continued)

| | 2013 $ | 2012 $ |
|---|---|---|
| **Transactions with DEXUS Finance Pty Limited** | | |
| Management fee revenue | **897,198** | 888,297 |
| Recovery of administration expenses | **762,459** | 84,804 |
| Aggregate amount receivable at the end of each reporting period (included above) | **232,806** | 223,092 |
| Interest bearing loan payable at the end of each reporting period | **500,368,753** | 402,409,437 |
| **Transactions with DEXUS Wholesale Property Fund** | | |
| Responsible Entity fee revenue | **21,017,944** | 19,003,659 |
| Property management fee revenue | **7,629,028** | 7,435,393 |
| Recovery of administration expenses | **3,377,099** | 3,141,448 |
| Aggregate amount receivable at the end of each reporting period (included above) | **2,891,504** | 2,519,300 |
| **Bent Street Trust** | | |
| Property management fee revenue | **850,960** | 2,112,131 |
| Recovery of administration expenses | **541,179** | 796,137 |
| Aggregate amount receivable at the end of each reporting period (included above) | **143,340** | 138,206 |
| **Transactions with Kent Street Joint Venture** | | |
| Responsible Entity fee revenue | **565,875** | 547,500 |
| Property management fee revenue | **366,813** | 436,201 |
| Recovery of administration expenses | **239,326** | 301,674 |
| Aggregate amount receivable at the end of each reporting period (included above) | **183,975** | 314,952 |

**Entities within DXS**

Aggregate amounts included in the determination of profit that resulted from transactions with each class of other related parties:

| | 2013 $ | 2012 $ |
|---|---|---|
| Interest expense | **28,015,050** | 35,583,270 |
| Interest bearing loans advanced to entities within DXS | **271,202,386** | 336,858,348 |
| Interest bearing loans advanced from entities within DXS | **340,524,537** | 196,480,439 |

# 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 [1,4,5] |
| E A Alexander, AM, BComm, FCA, FAICD, FCPA [1,2] |
| B R Brownjohn, BComm [1,2,7] |
| J C Conde, AO, BSc, BE (Hons), MBA [1,4,6] |
| T Dwyer, BJuris (Hons), LLB (Hons) [1,3] |
| S F Ewen, OAM [1,4] |
| Craig D Mitchell, BComm, EMBA, FCPA [10] |
| W R Sheppard, BEc (Hons) [1,2,8] |
| D J Steinberg, BEc, FRICS, FAPI |
| P B St George, CA(SA), MBA [1,5,9] |

1 Independent Director
2 Board Audit, Risk & Sustainability Committee Member
3 Board Compliance Committee Member
4 Board Nomination, Remuneration & Governance Committee Member
5 Board Finance Committee Member
6 Resigned as Board Compliance Committee Member on 1 July 2012
7 Resigned as Board Finance Committee Member on 1 July 2012
8 Appointed as Board Finance Committee Member on 1 July 2012
9 Resigned as Board Audit, Risk & Sustainability Committee Member on 1 July 2012
10 Appointed as Director on 12 February 2013

### Other key management personnel

In addition to the Directors listed above, the following persons were deemed by the Board Nomination, Remuneration & Governance Committee to be key management personnel during all or part of the financial year:

| Name | Title |
|---|---|
| Tanya L Cox[1] | Executive General Manager, Property Services and Chief Operating Officer |
| Ross Du Vernet[2] | Executive General Manager, Strategy, Transactions & Research |
| John C Easy[1] | General Counsel |
| Kevin George[3] | Executive General Manager, Office & Industrial |

1 Ceased to be key management personnel on 1 July 2012.
2 Appointed as key management personnel on 1 July 2012.
3 Appointed as key management personnel on 10 December 2012.

### Key management personnel compensation

| | 2013<br>$ | 2012<br>$ |
|---|---|---|
| **Compensation** | | |
| Short-term employee benefits | **9,219,857** | 10,166,375 |
| Post employment benefits | **229,763** | 247,967 |
| Other long-term benefits | **1,116,082** | 3,115,681 |
| Termination benefits | - | 2,300,000 |
| Security-based payments | **1,383,669** | 330,000 |
| | **11,949,371** | 16,160,023 |

# Note 32

**Related parties** (continued)

### Equity instrument disclosures relating to key management personnel

The number of DXS stapled securities held during the financial year by each key management personnel, including their personally related parties, are set out below:

| | Opening balance 1 July 2012 | Purchases | Other[1] | Closing balance 30 June 2013 |
|---|---|---|---|---|
| **Directors** | | | | |
| Christopher T Beare | - | 100,000 | - | 100,000 |
| Elizabeth A Alexander, AM | - | 100,000 | - | 100,000 |
| Barry R Brownjohn | - | 50,000 | - | 50,000 |
| John C Conde, AO | - | 100,000 | - | 100,000 |
| Tonianne Dwyer | - | 100,000 | - | 100,000 |
| Stewart F Ewen, OAM | - | 100,000 | - | 100,000 |
| Craig D Mitchell | - | - | 539,782 | 539,782 |
| W Richard Sheppard | - | 100,000 | - | 100,000 |
| Darren J Steinberg | - | - | 453,417 | 453,417 |
| Peter B St George | - | 104,000 | - | 104,000 |
| **Other key management personnel** | | | | |
| Ross Du Vernet[2] | - | - | 215,913 | 215,913 |
| Kevin George[3] | - | - | - | - |

1 Performance Rights granted under the 2012 Transitional Performance Rights Plan (refer note 37).
2 Appointed as key management personnel on 1 July 2012.
3 Appointed as key management personnel on 10 December 2012.

The DXFM Board has approved a grant of performance rights to DXS stapled securities to eligible participants (refer note 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 2013 and 30 June 2012.

# Note 32

**Related parties** (continued)

## Remuneration Report

### 1. Overview

The Board has pleasure in presenting the Remuneration Report for the DEXUS Property Group (Group). As with prior years, the Remuneration Report has been prepared in accordance with the Corporations Act and relevant accounting standards. Whilst the Group is not statutorily required to prepare such a report, the Board continues to believe that the disclosure of the Group's remuneration practices is in the best interests of all security holders.

Effective 1 July 2012, the Group implemented its new remuneration framework, which includes a new Short-term Incentive (STI) and Long-term Incentive (LTI) plan. The operation of these plans received security holder approval at the Group's Annual General Meeting on 5 November 2012.

The Board believes that the Group's remuneration framework encourages Executives to perform in the best interests of security holders. Short term financial and operational objectives are approved annually by the Board for each Executive, promoting alignment between investor returns and the rewards an Executive can receive under the STI plan. In addition, the Board has determined a set of financial performance hurdles within the LTI plan which provide the Executive with a performance and retention incentive which is strongly linked to security holder returns over the longer-term.

The main Executive remuneration actions for the year ending 30 June 2013 were:

- The implementation of the new remuneration framework effective 1 July 2012
- No fixed remuneration increases for Executives
- The closure of the DEXUS Performance Payment (DPP) and DEXUS Deferred Performance Payment (DDPP) plans
- The Board exercised its discretion to not apply a performance multiplier to vesting legacy DDPP plan outcomes
- Performance pay outcomes for Executives approved by the Board reflect the Group's strong financial and operational results
- Non-Executive Directors base fees remain unchanged since 1 July 2010

Effective 1 July 2013, the Board have approved an average fixed remuneration increase of 2% for Executives and 3% for other employees, noting that that the fixed remuneration for the Chief Executive Officer will remain unchanged.

This Remuneration Report has been prepared in accordance with AASB 124 *Related Party Disclosures* and section 300A of the *Corporations Act 2001* for the year ended 30 June 2013. The information provided in this Report has been audited in accordance with the provisions of section 308 (3C) of the *Corporations Act 2001*.

### 2. Key Management Personnel

In this report, Key Management Personnel (KMP) are those individuals having the authority and responsibility for planning, directing and controlling the activities of the Group, either directly or indirectly. They comprise:

- Non-Executive Directors
- Executive Directors (Chief Executive Officer & Chief Financial Officer)
- Key Executives considered KMP under the *Corporations Act 2001* (Executive KMP)

Below are the individuals determined to be KMP of the Group, classified between Non-Executive Directors, Executive Directors and Executive KMP:

## Non-Executive Directors

| Non-Executive Director | Title | KMP 2012 | KMP 2013 |
|---|---|---|---|
| Christopher T Beare | Chair | ✓ | ✓ |
| Elizabeth A Alexander AM | Director | ✓ | ✓ |
| Barry R Brownjohn | Director | ✓ | ✓ |
| John C Conde AO | Director | ✓ | ✓ |
| Tonianne Dwyer | Director | ✓ | ✓ |
| Stewart F Ewen OAM | Director | ✓ | ✓ |
| W Richard Sheppard | Director | ✓ | ✓ |
| Peter B St George | Director | ✓ | ✓ |

## Executive Directors

| Executive Directors | Position | KMP 2012 | KMP 2013 |
|---|---|---|---|
| Darren J Steinberg | Chief Executive Officer | Part-Year | ✓ |
| Craig D Mitchell | Chief Financial Officer | ✓ | ✓ |

## Executive KMP

| Executive KMP | Position | KMP 2012 | KMP 2013 |
|---|---|---|---|
| Kevin L George | Executive General Manager, Office & Industrial | N/A | Part-Year |
| Ross G Du Vernet | Executive General Manager, Transactions, Strategy & Research | No | ✓ |

## Group Management Committee Members - Previously Included as Executive KMP

| Former Executive KMP | Position | KMP 2012 | KMP 2013 |
|---|---|---|---|
| Tanya L Cox | Executive General Manager, Property Services & Chief Operating Officer | ✓ | No |
| John C Easy | General Counsel & Company Secretary | ✓ | No |

Ms Cox and Mr Easy continue as Group Management Committee members. The current organisation structure and membership of internal committees have led to a change in those considered by the Board to be Executive KMP for the 2013 year. The Board has indicated that the composition of Executive KMP may change from year to year in line with the strategic and operational focus of the Group.

### 3. Board Nomination, Remuneration & Governance Committee

The objectives of the Committee are to assist the Board in fulfilling its responsibilities by overseeing all aspects of Non-Executive Director and Executive remuneration, as well as Board nomination and performance evaluation. Primarily, the responsibilities of the Committee are to review and recommend to the Board:

- Board and CEO succession plans
- performance evaluation procedures for the Board, its committees and individual Directors
- the nomination, appointment, re-election and removal of Directors
- the Group's approach to remuneration, including design and operation of employee incentive plans
- Executive performance and remuneration outcomes
- Non-Executive Directors' fees

The Committee comprises three independent Non-Executive Directors. For the year ended 30 June 2013 Committee members were:

| Non-Executive Director | Title | 2012 | 2013 |
|---|---|---|---|
| John C Conde AO | Committee Chair | ✓ | ✓ |
| Christopher T Beare | Committee Member | ✓ | ✓ |
| Stewart F Ewen OAM | Committee Member | ✓ | ✓ |

Mr Conde continued in his role as Committee Chair, drawing upon his extensive experience from a diverse range of appointments, including his role as President of the Commonwealth Remuneration Tribunal. The Committee's experience is further enhanced through the membership of Mr Beare and Mr Ewen, each of whom has significant management experience in the property and financial services sectors.

The Committee operates independently from management, and may at its discretion appoint external advisors or instruct management to compile information for its consideration. The CEO attends certain Committee meetings by invitation, where management input is required. The CEO is not present during any discussions related to his own remuneration arrangements.

During the year the Committee appointed Egan Associates to provide remuneration advisory services. Egan Associates were paid a total of $12,705 for remuneration recommendations made to the Committee and $39,097 for other advisory services. The Committee is satisfied the advice received from Egan Associates is free from undue influence from the KMP to whom the remuneration recommendations relate. Egan Associates also confirmed in writing that the remuneration recommendations were made free from undue influence by the relevant KMP.

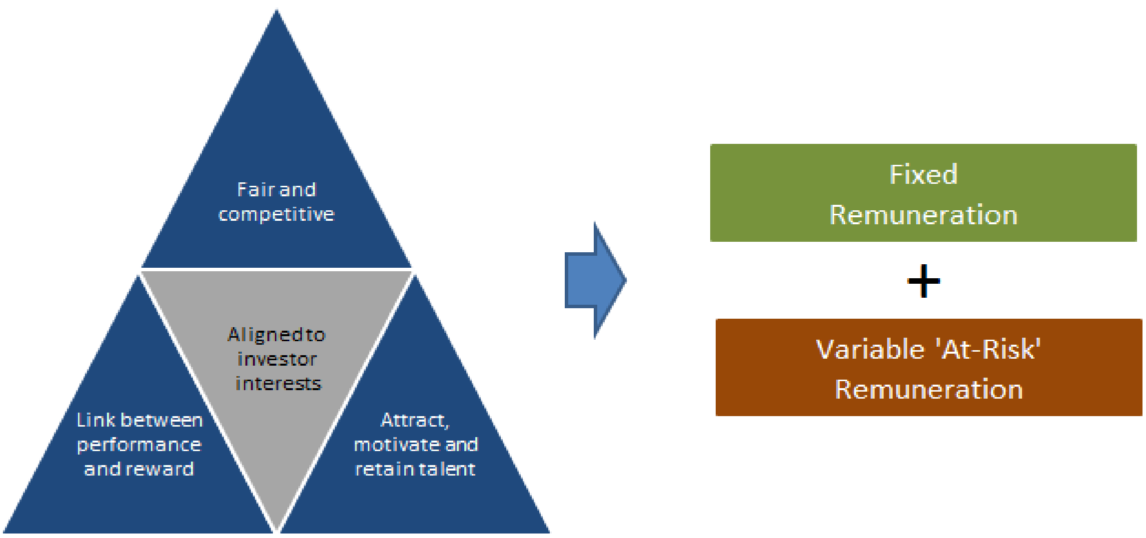
The 2012 Remuneration Report received positive security holder support at the 2012 Annual General Meeting with a vote of 98.3% in favour.

## 4. Executive Remuneration

### Context

The Board believes that Executives should be rewarded at levels consistent with the complexity and risks involved in their position. Incentive awards should be scaled according to the relative performance of the Group, as well as business unit performance and individual effectiveness.

The Group's remuneration principles and target remuneration structure is:



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.

## 5. Remuneration Structure

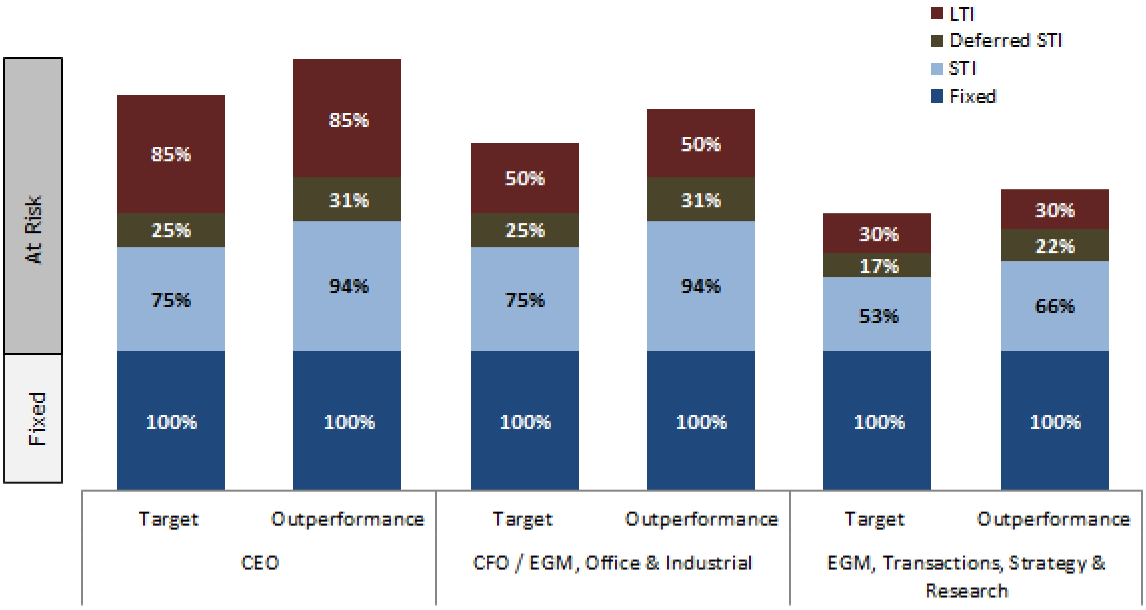
### Remuneration Mix

The remuneration structure for Executives comprises fixed remuneration, a short term incentive and a long term incentive. The mix between these components varies according to the individual's position and is determined based on the Group's remuneration principles detailed above.

The remuneration mix for Executives during 2013 was:

| Executive | Fixed | Target STI | Target Deferred STI | LTI |
|---|---|---|---|---|
| Darren J Steinberg | 35% | 26% | 9% | 30% |
| Craig D Mitchell | 40% | 30% | 10% | 20% |
| Kevin L George | 40% | 30% | 10% | 20% |
| Ross G Du Vernet | 50% | 26% | 9% | 15% |

The chart below shows the remuneration structure for Executives expressed as a percentage of Fixed Remuneration at both target and outperformance (stretch) levels.




## Total Remuneration

| | |
|---|---|
| How does the Board determine total remuneration? | The Committee reviews a considerable amount of information from a variety of sources to ensure an appropriate outcome reflecting market practice (incorporating various benchmarks) is achieved. These sources include:<br>▪ Publicly available remuneration reports of A-REIT competitors<br>▪ Publicly available remuneration reports from ASX listed companies with similar market capitalisation and complexity<br>▪ Advice on remuneration levels of privately held property, funds management and private equity owned companies<br>▪ Salary survey data from Hart Consulting, Avdiev, Aon Hewitt, FIRG and others as appropriate<br>▪ Advice from external advisors appointed by the Committee such as Egan Associates<br>The comparator group of companies and market data considered as part of the above process is significantly larger than the comparator group of companies adopted for assessment of the Group's relative TSR performance under its LTI plan (refer below). Executives are typically recruited from the former group, whereas the Group's performance will be assessed appropriately with respect to the latter. |

## Fixed Remuneration

| | |
|---|---|
| What is Fixed Remuneration? | Fixed remuneration is the regular pay (base salary and statutory superannuation contributions) an Executive receives in relation to his/her role. It reflects the complexity of the role, as well as the skills and competencies required to fulfil it, and is determined having regard to a variety of information sources to ensure the quantum is fair and competitive. |
| How is Fixed Remuneration determined? | The Board sets fixed remuneration around the median level of comparable companies after making adjustments for the different risk profiles of those companies (refer to Total Remuneration above). Group and individual performance is considered during the annual remuneration review process. |

## Short-term Incentive (STI) Plan

| | |
|---|---|
| What is the STI plan? | The STI plan provides the Executive with an opportunity to achieve an annual remuneration outcome in addition to fixed remuneration, subject to the achievement of pre-agreed Group, divisional and individual performance objectives which are set out in a personalised balanced scorecard. |

<table>
<tr><td>How much can be earned under the STI plan?</td><td>
Expressed as a percentage of fixed remuneration, Executives can earn the following incentive payments under the STI plan:
<table>
<tr><th></th><th>Target</th><th>Outperformance</th></tr>
<tr><td>CEO</td><td>100%</td><td>125%</td></tr>
<tr><td>CFO / EGM, Office & Industrial</td><td>100%</td><td>125%</td></tr>
<tr><td>EGM, Strategy, Transactions & Research</td><td>70%</td><td>88%</td></tr>
</table>
Aggregate performance below predetermined thresholds would result in no award being made under the STI plan.
The amount each Executive can earn is dependent on how he/she performs against a balanced scorecard of KPIs that is set at the beginning of each year. The balanced scorecard is arranged in categories and each category is weighted differently depending on the specific accountabilities of each Executive. If an Executive does not meet Threshold performance in a category, the score for that category will be zero.
KPIs at the Target level are set with an element of stretch against Threshold performance, which ensures that it is difficult for an Executive to score 100% in any category. Following the same theme, KPIs at the Outperformance level have a significant amount of stretch, and would require exceptional outcomes to be achieved. KPIs at both the Target and Outperformance levels incorporate year-on-year growth.
</td></tr>
<tr><td>When is the STI paid?</td><td>August of the financial year immediately following the performance period, following the sign-off of statutory accounts and announcement of Group’s annual results.</td></tr>
<tr><td>How does the deferral component operate?</td><td>
25% of any award under the STI plan will be deferred and awarded in the form of performance rights to DXS securities.
The rights will vest in two equal tranches, 12 and 24 months after being awarded. They are subject to clawback and continued employment, and are based on a deferral period commencing 1 July after the relevant performance period.
</td></tr>
<tr><td>How is the allocation of deferred STI determined?</td><td>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.</td></tr>
<tr><td>How are distributions treated during the deferral period?</td><td>Executives will be entitled to the benefit of distributions paid on the underlying DXS securities prior to vesting, through the issue of additional performance rights.</td></tr>
<tr><td>Can deferred STI be forfeited?</td><td>
Forfeiture will occur should the Executive’s employment terminate within 6 months of the grant date for any reason, or if the Executive voluntarily resigns or is terminated for cause prior to the vesting date.
Notwithstanding the above, if an Executive’s employment is terminated for reasons such as retirement, redundancy, reorganisation, change in control or other unforeseen circumstances, the Committee will recommend whether the Executive should remain in the plan as a good leaver, for decision by the Board.
</td></tr>
<tr><td>How is the STI plan aligned to security holder interests?</td><td>
The STI plan is aligned to security holder interests in the following ways:
<ul>
<li>as an immediate reward opportunity to attract, motivate and retain talented Executives who can influence the future performance of the Group</li>
<li>through a 25% mandatory STI deferral for Executives, allowing for future clawback of STI awards in the event of a material misstatement of the Group’s financial position</li>
</ul>
</td></tr>
</table>

## Long-term Incentive (LTI) Plan

<table>
<tr><td>What is the LTI plan?</td><td>The LTI is an incentive grant which rewards Executives for sustained earnings and security holder returns and is delivered in the form of performance rights to DXS securities.</td></tr>
<tr><td>How are grants under the LTI plan determined?</td><td>Executives receive a grant of performance rights to DXS securities (dependent on their role and responsibilities) under the LTI plan equivalent to the following (expressed as a percentage of Fixed Remuneration):<br><table><tr><th></th><th>Grant as a % of fixed remuneration</th></tr><tr><td>CEO</td><td>85%</td></tr><tr><td>CFO / EGM, Office & Industrial</td><td>50%</td></tr><tr><td>EGM, Strategy, Transactions & Research</td><td>30%</td></tr></table></td></tr>
<tr><td>How does the LTI plan work?</td><td>Performance rights are converted into DXS securities upon achievement of performance conditions set by the Board. Performance against the selected hurdles will be assessed in two equal tranches over two periods, 3 and 4 years after the grant date. If the performance conditions are not met over either period, then the respective performance rights will be forfeited. There is no re-testing of forfeited rights.</td></tr>
<tr><td>Can an LTI grant be forfeited?</td><td>If ore-determined performance hurdles are not met then the relevant part of the grant will not vest and those rights will be forfeited.<br><br>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.<br><br>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 will recommend whether the Executive should remain in the plan as a good leaver, for decision by the Board.</td></tr>
<tr><td>What are the performance hurdles?</td><td>The Board sets the performance hurdles for the LTI plan on an annual basis. For the 2013 LTI grant, a set of external and internal hurdles has been selected.<br><br>Notably, the Board has clarified the operation of the Relative TSR component of the LTI plan. The previously communicated 50% weighting to Relative TSR will be split into two distinct groups, the first being a standard Relative TSR measurement against listed peers, the second being a Relative ROE measurement against unlisted peers. The Board feels this is a more accurate comparison given the way investors measure the performance of listed and unlisted entities.<br><br>The 4 performance hurdles for the 2013 LTI plan are:<br><br><u>External Performance Hurdles (50%)</u><br><br>▪ 25% is based on the Group's relative performance against a Total Security holder Return (Relative TSR) performance hurdle measured against a peer group of listed entities within the A-REIT sector<br>– TSR represents an investor's return, calculated as the percentage difference between the initial amount invested and the final value of DXS securities at the end of the relevant period, assuming distributions were reinvested.<br><br>▪ 25% is based on the Group's relative performance against a Return On Equity (Relative ROE) performance hurdle measured against a peer group of unlisted entities within the A-REIT sector<br>– ROE represents the annualised composite rate of return to security holders, calculated as a percentage, comprising the change in net tangible asset value per security together with the distributions paid to security holders per security, divided by the net tangible asset value per security at the beginning on the period.</td></tr>
</table>

| | |
|---|---|
| What are the performance hurdles?<br><br>(continued) | Internal Performance Hurdles (50%)<br>▪ 25% is based on the Group's performance against a predetermined Funds From Operations (FFO) per security growth hurdle<br>For the purposed of these performance hurdles, FFO is defined as per the definition adopted by the Property Council of Australia.<br>▪ 25% is based on the Group's performance against a predetermined Return on Equity performance hurdle<br>▪ ROE represents the annualised composite rate of return to security holders, calculated as a percentage, comprising the change in net tangible asset value per security together with the distributions paid to security holders per security, divided by the net tangible asset value per security at the beginning on the period. |
| How are the performance hurdles measured? | Relative TSR & Relative ROE<br>Vesting under both the Relative TSR & Relative ROE measures will be on a sliding scale reflecting relative performance against a comparator group of entities.<br>▪ Nil vesting for performance below the median of the comparator group<br>▪ 50% vesting for performance at the median of the comparator group<br>▪ Straight line vesting for performance between the 50th and 75th percentile<br>▪ 100% vesting for performance at or above the 75th percentile<br>The listed and unlisted comparator groups have been reviewed and selected by the Board as being appropriate entities within similar asset classes, investment risk/return profiles and market capitalisation/size. The 2013 LTI grant comparator groups are<br>▪ Listed: CPA, IOF, GPT, CFX, WRT, SCP, CMW and FDC<br>▪ Unlisted: AWOF, GWOF, APPFC, ICPF, ISPT, ACPP, QPF and APPFR<br>The Board reserves the right to review the peer group annually, with relative performance monitored by an independent external advisor at 30 June each year.<br>FFO Growth & ROE<br>Vesting under both the FFO Growth & ROE measures will be on a sliding scale reflecting performance against predetermined performance hurdles set by the Board<br>▪ Nil vesting for below Target performance<br>▪ 50% vesting for Target performance<br>▪ Straight line vesting between Target and Outperformance<br>▪ 100% vesting for Outperformance |
| What are the absolute LTI hurdles for the 2013 grant?? | Having determined the Group's strategy, the Board have adopted the following FFO Growth and ROE performance hurdles for the 2013 LTI grant:<br>▪ FFO Growth Target of 3% - with Outperformance at 5.5%<br>▪ ROE Target of 9% - with Outperformance at 11%<br>These targets are measured as the per annum average over the three and four year grant periods. |
| How is the LTI plan aligned to security holder interests? | Aligned to long-term security holder interests in the following ways:<br>▪ As a reward to Executives when the Group's overall performance exceeds specific predetermined earnings and security holder return benchmarks<br>▪ 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<br>▪ Aligning the financial interests of security holders with Executives through exposure to DXS securities and the Group's performance<br>▪ Encouraging and incentivising Executives to make sustainable business decisions within the Board-approved risk appetite and strategy of the Group |

| | |
|---|---|
| What policies and procedures exist to support the integrity of the LTI plan? | 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.<br>Executives are prevented from hedging their exposure to unvested DXS securities. Trading in DXS securities or related products is only permitted with the permission of the CEO.<br>The Group also has Conflict of Interest and Insider Trading policies in place to support the integrity of the LTI plan, which extends to family members and associates of the Executive.<br>The Board has appointed Link Market Services as Trustee and Administrators of the DEXUS Performance Rights Plan Trust, which is the vehicle into which unvested units are purchased on-market and held in trust for the Executive pending performance assessment. |
| How is the allocation of performance rights determined? | The number of performance rights granted is based on the grant value to the Executive (% of fixed remuneration) divided by the volume weighted average price (VWAP) of securities 10 trading days either side of the first trading day of the new financial year. |
| How are distributions treated prior to vesting? | Executives will not be entitled to distributions paid on the underlying DXS securities prior to the performance rights vesting. |

The operation of all incentive plans is at the discretion of the Board which retains the right to discontinue, suspend or amend the operation of such plans.

For both the STI and LTI plans, where incentive grants involve DXS securities, it is the Board's current position that DXS securities be acquired on-market and not through the issue of new securities.

## 6. Performance Pay

### Group Performance

**FY13 Highlights**

| Group | Portfolio | Capital Management | Funds Management | Transactions |
|---|---|---|---|---|
| 12.1% increase in distribution per security | Leased 629,209 square metres of space across the total portfolio | Raised $300 million of US Private Placement Notes | Increased funds under management by 9.5%, including $820 million of new equity for DWPF | Achieved a 12% premium on prior book value for the sale of the remaining US portfolio |
| Achieved a 22.1% one-year total security holder return | Achieved 1.6% growth in like for like property net operating income | Actively managed the diversity of debt achieving a duration greater than 5 years | Launched new $235 million partnership with a leading global pension fund | Involved in $2.9 billion of transactions across the Group |

Total Return of DXS Securities

The chart below illustrates DXS's performance against the S&P/ASX200 Property Accumulation index since listing in 2004.


**Total Return Analysis**

The table below sets out DXS's total security holder return over a one, two, three and five year time horizon, relative to the S&P/ASX200 Property Accumulation Index and the median of the Relative TSR comparator group under the new LTI plan:

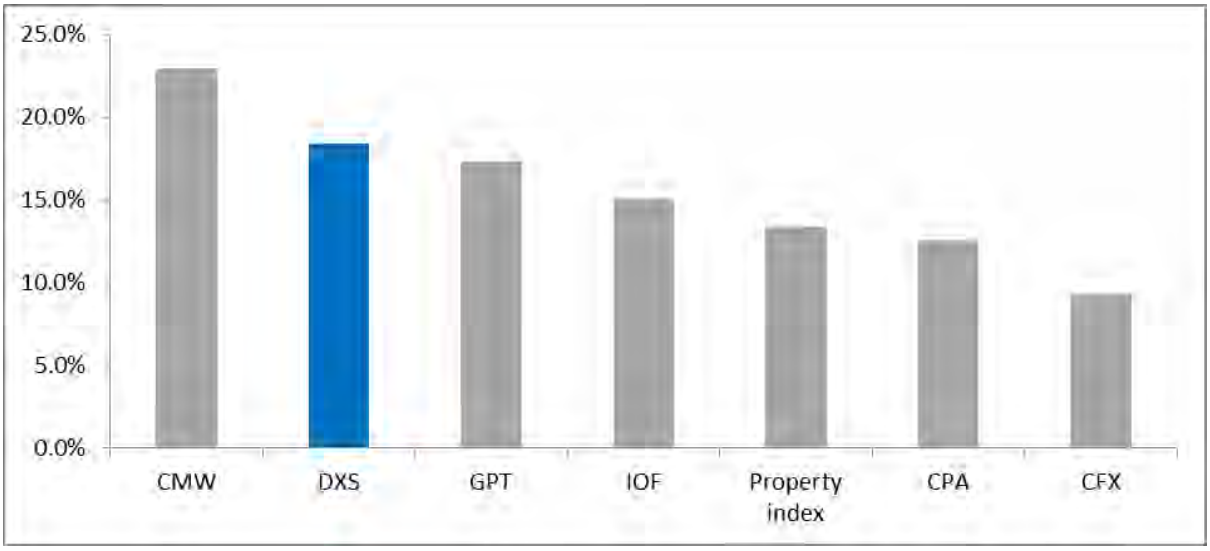
| | 1 Year | 2 Years | 3 Years | 5 years |
|---|---|---|---|---|
| Year Ended 30 June 2013 | (% per annum) | (% per annum) | (% per annum) | (% per annum) |
| DEXUS Property Group | 22.1% | 17.0% | 18.4% | 2.6% |
| S&P/ASX200 Property Accumulation Index | 24.2% | 17.4% | 13.4% | 0.3% |
| Median - Relative TSR Comparator Group | 18.8%[1] | 15.2%[2] | 16.2%[3] | n/a |

1. Comparator Group for 1 year comprises DXS, CFX, CMW, CPA, FDC, GPT, IOF and WRT.
2. Comparator Group for 2 years comprises DXS, CFX, CMW, CPA, GPT, IOF and WRT.
3. Comparator Group for 3 years comprises DXS, CFX, CMW, CPA, GPT and IOF.

## Three Year Performance Relative to Comparator Group

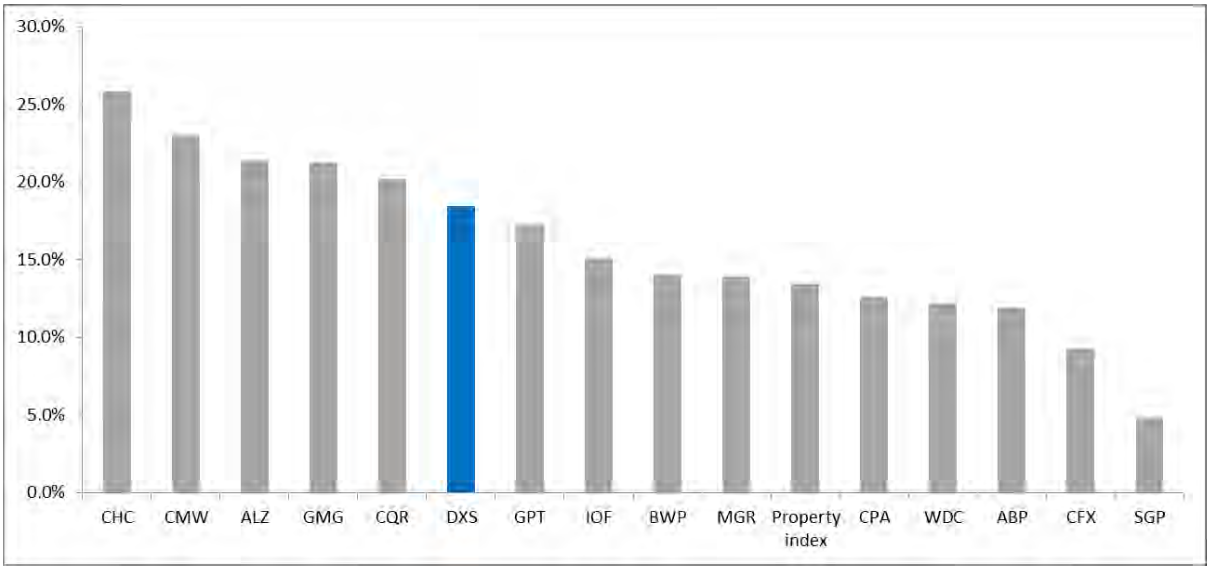
The chart below illustrates DXS's three year performance relative to the comparator group specified for LTI purposes. SCA Property Group, Westfield Retail Trust & Federation Centres have been omitted as these entities were not formed for the comparison period.

The three year performance of the S&P/ASX 200 Property Accumulation index is also included for reference.




## Three Year Performance Relative to Property Index

The chart below illustrates DXS's performance against the broader property sector over the past three financial years.



**Summary**

DXS continues to outperform the S&P/ASX200 Property Accumulation index and has exceeded this benchmark on a rolling three year basis.

Whilst the Directors recognise that improvement is always possible, they consider that the Group's business model, which aims to deliver consistent returns with relatively moderate risk, has been central to DXS's consistent relative outperformance, and that its approach to Executive remuneration, with a focus on consistent outperformance of objectives, is aligned with and supports the superior execution of the Group's strategic plans.

### Individual Performance Assessment - Balanced Scorecard

Prior to the commencement of each financial year, the Board approves the Group's strategic and operational objectives which are then translated into a series of weighted financial and non-financial Key Performance Indicators (KPIs) for management. KPIs are assembled to form each Executive's Balanced Scorecard.

The Balanced Scorecard is divided into four components - Financial Performance, Business Management & Strategy, Stakeholder Engagement and People & Culture. These components are weighted differently for each Executive. For each of the components the Executive has objectives and specific initiatives set for that year. These Scorecards are agreed with the Executive at the beginning of the year, reviewed at half year and assessed for performance awards at the end of the year.

Below is a table which summarises the principal elements within Executive Balanced Scorecards for the year ending 30 June 2013 (the numbers in brackets represents what was actually achieved during the year, not the actual KPIs set):

| Principal Elements of Executive Balanced Scorecards | |
|---|---|
| **Financial Performance**<br>• DXS total returns (22.1%)<br>• Funds investment performance<br>• Funds from operations ($365.4 million)<br>• Return on equity (11.2%)<br>• Trading profit ($1.5 million)<br>• Net operating income growth - like for like (1.6%) | **Business Management & Strategy**<br>• Delivery of divisional business plans<br>• Secure rent at risk<br>• Property portfolio investment performance<br>• Operating costs<br>• Capital diversification<br>• Transaction effectiveness |
| **Stakeholder Engagement**<br>• Investor engagement and feedback<br>• Media and community profile<br>• Tenant relationships and engagement<br>• Internal and external service standards | **People & Culture**<br>• Leadership effectiveness<br>• Cultural survey results<br>• Succession planning<br>• Talent retention and development |

| | Balanced Scorecard Weighting | | | |
|---|---|---|---|---|
| | Financial KPIs | | Non-Financial KPIs | |
| Executive | Financial Performance | Business Management & Strategy | Stakeholder Engagement | People & Culture |
| Darren J Steinberg | 40% | 30% | 20% | 10% |
| Craig D Mitchell | 40% | 40% | 10% | 10% |
| Kevin L George | 30% | 40% | 15% | 15% |
| Ross G Du Vernet | 30% | 50% | 10% | 10% |

## Performance Pay Outcomes

Following an assessment of each Executive's Balanced Scorecard, the Board has determined that the following remuneration outcomes are appropriate with respect to each Executive's performance during the year ending 30 June 2013.

| Executive | STI Award | % of Maximum Possible STI Earned | % of Maximum STI Forfeited | % of STI to be Deferred |
|---|---|---|---|---|
| Darren J Steinberg | 1,750,000 | 100% | 0% | 25% |
| Craig D Mitchell | 750,000 | 80% | 20% | 25% |
| Kevin L George | 330,000 | 72% | 28% | 25% |
| Ross G Du Vernet | 385,000 | 100% | 0% | 25% |

In addition to the STI award shown above, Mr Steinberg was eligible for a once-off payment of $500,000 as part of previously communicated sign-on conditions. This amount was subject to satisfactory performance as determined by the Board, and being payable in August 2013 is disclosed in the Statutory Reporting table under Other Short-Term Benefits.

25% of the value of the STI awarded to each Executive will be deferred into DXS securities, subject to service and clawback conditions, and vesting in two equal tranches after 12 and 24 months.

## LTI Grants

The table below shows the number of Performance Rights to be granted to Executives under the 2013 LTI plan (details of which are provided earlier in this report).

| Executive | Number of Performance Rights | 1st Vesting Date 50% | 2nd Vesting Date 50% |
|---|---|---|---|
| Darren J Steinberg | 1,128,176 | 1 July 2016 | 1 July 2017 |
| Craig D Mitchell | 355,518 | 1 July 2016 | 1 July 2017 |
| Kevin L George | 326,128 | 1 July 2016 | 1 July 2017 |
| Ross G Du Vernet | 237,012 | 1 July 2016 | 1 July 2017 |

The number of Performance Rights granted to each Executive is based on the dollar value of LTI approved by the Board in its discretion and with reference to the remuneration framework, divided by the Volume Weighted Average Price (VWAP) of DXS securities ten trading days either side of 30 June 2013, which was confirmed as $1.0548

The LTI grants for Mr Steinberg and Mr Mitchell as Executive Directors are subject to security holder approval at the 2013 Annual General Meeting.

## 7. Executive Remuneration Actual Cash Received

In line with best-practice recommendations, the amounts shown in the table below provide a summary of actual remuneration received during the year ended 30 June 2013. The DPP and DDPP cash payments were received for performance in the 2012 and 2009 financial years respectively.

| | | | | | Earned in Prior Financial Year | | |
|---|---|---|---|---|---|---|---|
| Executive | Cash Salary | Pension & Super Benefits [1] | Other Short Term Benefits [2] | Termination Benefits | DPP Cash Payment [3] | DDPP Cash Payment [4] | Total |
| Darren J Steinberg | 1,383,530 | 16,470 | - | - | 360,000 | - | 1,760,000 |
| Craig D Mitchell | 733,530 | 16,470 | - | - | 500,000 | 636,272 | 1,886,272 |
| Kevin L George | 338,954 | 12,008 | 464,383 | - | - | - | 815,345 |
| Ross G Du Vernet | 424,305 | 16,470 | - | - | 350,000 | - | 790,775 |

1 Includes employer contributions to superannuation under the superannuation guarantee legislation and salary sacrifice amounts
2 Mr George received a sign-on cash payment of $250,000 plus various relocation benefits totalling $214,383
3 Cash payment made in August 2012 with respect to the 2012 DPP (i.e. annual performance payment for the prior financial year)
4 Cash payment made in August 2012 with respect to the 2009 DDPP award that vested on 1 July 2012 (i.e. realisation of 3 year deferred performance payment)

The amounts shown in this table are prepared in accordance with AASB 124 *Related Party Disclosures* and do not represent actual cash payments received by Executives for the year ended 30 June 2013. Amounts shown under Long Term Benefits reflect the accounting expenses recorded during the year with respect to prior year deferred remuneration and awards that have or are yet to vest. For performance payments and awards made with respect to the year ended 30 June 2013, refer to the Performance Pay Outcomes section of this report.

| | | Short Term Benefits | | | Post-Employment Benefits | | Share Based & Long Term Benefits | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Executive | Year | Cash Salary | STI Cash Award [1] | Other Short Term Benefits [2] | Pension & Super Benefits [3] | Termination Benefits | Deferred STI Plan Accrual [4] | DDPP Plan Accrual [5] | Transition Plan Accrual [6] | LTI Plan Accrual [7] | Total |
| Darren J Steinberg | 2013 | 1,383,530 | 1,312,500 | 500,000 | 16,470 | - | 182,284 | - | 105,000 | 204,200 | 3,703,984 |
| | 2012 | 461,409 | 360,000 | 1,500,000 | 5,258 | - | - | - | 105,000 | - | 2,431,667 |
| Craig D Mitchell | 2013 | 733,530 | 562,500 | - | 16,470 | - | 78,122 | 172,790 | 125,000 | 64,349 | 1,752,761 |
| | 2012 | 734,225 | 500,000 | - | 15,775 | - | | 328,664 | 125,000 | - | 1,703,664 |
| Kevin L George [8] | 2013 | 338,954 | 247,500 | 634,383 | 12,008 | - | 219,374 | - | - | 59,029 | 1,511,248 |
| | 2012 | - | - | - | - | - | - | - | - | - | - |
| Ross G Du Vernet [8] | 2013 | 424,305 | 288,750 | - | 16,470 | - | 40,103 | | 50,000 | 42,899 | 862,527 |
| | 2012 | - | - | - | - | - | - | - | - | - | - |
| Sub-Total | 2013 | 2,880,319 | 2,411,250 | 1,134,383 | 61,418 | - | 519,883 | 172,790 | 280,000 | 370,477 | 7,830,520 |
| | 2012 | 1,195,634 | 860,000 | 1,500,000 | 21,033 | - | - | 328,664 | 230,000 | - | 4,135,331 |
| *Former KMP* | | | | | | | | | | | |
| Tanya L Cox | 2013 | 433,530 | 201,000 | - | 16,470 | - | 27,916 | 75,408 | 50,000 | 23,166 | 827,490 |
| | 2012 | 434,225 | 200,000 | - | 15,775 | - | - | 149,140 | 50,000 | - | 849,140 |
| John C Easy | 2013 | 426,530 | 281,250 | - | 23,470 | - | 39,061 | 76,234 | 50,000 | 23,166 | 919,711 |
| | 2012 | 427,225 | 200,000 | - | 22,775 | - | - | 158,013 | 50,000 | - | 858,013 |
| Other former KMP [9] | 2013 | - | - | - | - | - | - | 791,650 | - | - | 791,650 |
| | 2012 | 1,879,415 | 1,175,000 | 923,834 | 31,550 | 2,300,000 | - | 2,479,864 | - | - | 8,789,663 |
| Total | 2013 | 3,740,379 | 2,893,500 | 1,134,383 | 101,358 | - | 586,860 | 1,116,082 | 380,000 | 416,809 | 10,369,371 |
| | 2012 | 3,936,499 | 2,435,000 | 2,423,834 | 91,133 | 2,300,000 | - | 3,115,681 | 330,000 | - | 14,632,147 |

1 FY13 annual cash STI performance award, payable in August 2013.
2 Mr Steinberg's sign-on conditions included access to an additional $500,000 subject to performance in FY13.
Mr George received a cash sign-on payment of $250,000, a cash payment of $170,000 as compensation for foregone remuneration and various relocation benefits.
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 performance. Refer to note 36 of the DXS Financial Statements.
Mr George's accrual also includes accounting for Performance Rights detailed later in this report as Special Terms.
5 FY10 and FY11 DDPP legacy plan only applicable to Mr Mitchell and former KMP Ms Cox and Mr Easy. Reflects the accounting expense accrued during the financial year.
6 FY13 Transition plan applicable to all KMP and former KMP, 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. Refer to note 36 of the DXS Financial Statements.
8 Mr Du Vernet joined the Group on 7 May 2012 and was appointed KMP with effect 1 July 2013. No prior year remuneration is disclosed on that basis.
Mr George joined the Group on 10 December 2012 and was appointed KMP with effect 10 December 2012. No prior year remuneration is disclosed on that basis.
9 Other former KMP includes Mr Hoog Antink and Mr Say and are disclosed for completeness. Refer to the 2012 Remuneration Report for more detail.

## 8. Service Agreements

Executive service agreements detail the individual terms and conditions of employment applying to the CEO and Executives of the Group. The quantum and structure of remuneration arrangements are detailed elsewhere in this report, with the termination scenarios and other key employment terms detailed below:

### Chief Executive Officer

| | Terms |
|---|---|
| Employment agreement | An ongoing Executive Service Agreement. |
| Termination by the CEO | Termination by Mr Steinberg requires a 6 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.<br>All unvested STI and LTI awards are forfeited under this scenario. |
| Termination by the Group without cause | If the Group terminates Mr Steinberg without cause, Mr Steinberg is entitled to a payment of 12 months Fixed Remuneration. The Board may (in its absolute discretion) also approve a pro-rata STI or LTI award based on part-year performance.<br>Depending on the circumstances, the Board has the ability to treat Mr Steinberg as a 'good leaver' under this scenario, which may result in Mr Steinberg retaining some or all of his unvested STI and LTI. |
| Termination by the Group with cause | No notice or severance is payable under this scenario. |
| Other contractual provisions and restrictions | Mr Steinberg's Executive Service Agreement includes standard clauses covering intellectual property, confidentiality, moral rights and disclosure obligations. |

### Executives - Messrs Mitchell, George & Du Vernet

| | Terms |
|---|---|
| Employment agreement | An ongoing Executive Service Agreement. |
| Termination by the Executive | Termination by the Executive requires a 3 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.<br>All unvested STI and LTI awards are forfeited under this scenario. |
| Termination by the Group without cause | If the Group terminates the Executive without cause, the Executive is entitled to a combined notice and severance payment of 12 months Fixed Remuneration. The Board may (in its absolute discretion) also approve a pro-rata STI or LTI award based on part-year performance.<br>Depending on the circumstances, the Board has the ability to treat the Executive as a 'good leaver' under this scenario, which may result in the Executive retaining some or all of their unvested STI and LTI. |
| Termination by the Group with cause | No notice or severance is payable under this scenario. |
| Other contractual provisions and restrictions | The Executive Service Agreement includes standard clauses covering intellectual property, confidentiality, moral rights and disclosure obligations. |

## Legacy Plan - Unvested and Vesting DDPP Awards

The table below shows the value of unvested and vesting DEXUS Deferred Performance Payment (DDPP) awards for Executives and Former Executive KMP as at 30 June 2013. The DDPP awards are part of a legacy plan closed to new participants from 1 July 2012.

| Participant | Award Date | Allocation Value | Value as at 30 June 2013 | Vesting DDPP as at 1 July 2013 | Vesting Date |
|---|---|---|---|---|---|
| Craig D Mitchell | 1 Jul 2011 | 450,000 | 577,305 | - | 1 Jul 2014 |
| | 1 Jul 2010 | 400,000 | 598,440 | 598,440 | 1 Jul 2013 |
| *Former KMP* | | | | | |
| Tanya L Cox | 1 Jul 2011 | 190,000 | 243,751 | - | 1 Jul 2014 |
| | 1 Jul 2010 | 180,000 | 269,298 | 269,298 | 1 Jul 2013 |
| John C Easy | 1 Jul 2011 | 185,000 | 237,337 | - | 1 Jul 2014 |
| | 1 Jul 2010 | 188,000 | 281,267 | 281,267 | 1 Jul 2013 |

Mr Mitchell and former KMP Ms Cox and Mr Easy are entitled to receive a cash payment relating to the vesting of their 2010 DDPP awards. This payment will be made in August 2013.

The vesting DDPP value was determined by calculating the compound total return of both listed DXS (50%) and unlisted DWPF (50%) notional securities over a 3-year vesting period. The DXS total return was 65.8% and the Group's unlisted Funds and Mandates was 33.4%, resulting in a composite 49.6% increase being applied to the original allocation value during the life of the 2010 DDPP plan. The Board chose to exercise its discretion in not applying a performance multiplier (allowable under the DDPP plan rules) to the 2010 tranche, and has indicated it intends to follow the same approach upon vesting of the 2011 tranche.

For more information on the DDPP legacy plan, refer to the 2012 Annual Report.

## Legacy Plan - Unvested Transitional Performance Rights

The table below shows the number of unvested performance rights held by Executives under the Transitional Performance Rights plan, which received security holder approval at the Annual General Meeting on 5 November 2012. The Board granted these once-off Performance Rights to Executives, with respect to performance during the year ending 30 June 2012, as a transitional measure towards the adoption of the Group's new remuneration framework which came into effect 1 July 2012.

| Participant | Award Date | Number of Performance Rights | Vesting Date |
|---|---|---|---|
| Darren J Steinberg | 1 Jul 2012 | 453,417 | 1 Jul 2015 |
| Craig D Mitchell | 1 Jul 2012 | 539,782 | 1 Jul 2015 |
| Ross G Du Vernet | 1 Jul 2012 | 215,913 | 1 Jul 2015 |
| *Former KMP* | | | |
| Tanya L Cox | 1 Jul 2012 | 215,913 | 1 Jul 2015 |
| John C Easy | 1 Jul 2012 | 215,913 | 1 Jul 2015 |

At the Board's instruction, Performance Rights are to be purchased on-market and the plan is subject to both service and clawback conditions. For more information on the Transitional Performance Rights plan, refer to the 2012 Annual Report.

## Special Terms - Performance Rights & Relocation Package for Kevin L George

Upon commencement, Mr George was offered a special grant of Performance Rights to DXS securities as compensation for foregone remuneration at his previous employer and to immediately align his interests with those of his KMP peers and security holders.

| Participant | Award Date | Number of Performance Rights | Vesting Date |
|---|---|---|---|
| Kevin L George | 10 Dec 2012 | 366,591 | 1 Aug 2014 |

The Performance Rights granted to Mr George are subject to both service and clawback conditions, and are to be purchased on-market. The terms and conditions of this offer mirror those of the Deferred STI plan.

In addition to the grant of Performance Rights, Mr George received a commencement and relocation package (disclosed in the Statutory Accounting table as 'Other Short-Term Benefits') which included the following:

- $250,000 as a cash sign-on payment
- $170,000 as a cash payment to be made in August 2013 as compensation for part-year incentive forfeiture at Mr George's previous employer
- $186,916 as a once-off relocation and family disturbance payment
- $27,467 in expense reimbursements relating to Mr George and his family's relocation from Melbourne to Sydney – including flights, temporary accommodation, removalists, transit insurance, connection of utilities and other service fees

Mr George is also entitled to future reimbursement of reasonable expenses (i.e. stamp duty, agent fees etc.) relating to the purchase of a family home in Sydney. This benefit has not yet been exercised by Mr George and expires on 10 December 2014.

All expense benefits relating to Mr George's relocation are subject to a 100% clawback clause should Mr George voluntarily resign within 2 years of his commencement date.

### 9. Non-Executive Directors

Non-Executive Directors' fees are reviewed annually by the Committee to ensure they reflect the responsibilities of directors and are market competitive. The Committee reviews information from a variety of sources to inform their recommendation regarding Non-Executive Directors fees to the Board. Information considered 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

Total fees paid to Non-Executive Directors remain within the aggregate fee pool of $1,750,000 per annum approved by security holders at the AGM in October 2008. The Board has reviewed base fees for Non-Executive Directors and has elected not to approve an increase at this time. This will be the fourth consecutive year at the current rate.

In 2012, the Board (as noted in the Directors' Report) determined that it would be appropriate for Non-Executive Directors (existing and new) to hold DXS securities. A minimum target of 50,000 securities is to be acquired in each Director's first three year term (effective from 1 July 2012). Such securities would be subject to the Group's existing trading and insider information policies. No additional remuneration is provided to Directors to purchase these securities. All Directors have subsequently used their own resources to purchase at least the minimum target in the first year of the three year term. Details of Directors' holdings are included in the Directors' Report.

Other than the Chair who receives a single fee, Non-Executive Directors receive a base fee plus additional fees for membership of Board Committees. The table below outlines the Board fee structure (inclusive of statutory superannuation contributions) for the year ended 30 June 2013:

| Committee | Chair | Member |
|---|---|---|
| Director's Base Fee (DXFM) | $350,000* | $150,000 |
| Board Audit, Risk & Sustainability | $30,000 | $15,000 |
| Board Compliance | $15,000 | $7,500 |
| Board Finance | $15,000 | $7,500 |
| Board Nomination, Remuneration & Governance | $30,000 | $15,000 |
| DWPL Board | $30,000 | $15,000 |

* The Chairman receives a single fee for his entire engagement, including service on Committees of the Board

## Non-Executive Director's Statutory Accounting Table

The amounts shown in this table are prepared in accordance with AASB 124 *Related Party Disclosures*. The table is a summary of the actual cash and benefits received by each Non-Executive Director for the year ended 30 June 2013.

| Non-Executive Director | Year | Short Term Benefits | Post Employment Benefits | Other Long Term Benefits | Total |
|---|---|---|---|---|---|
| Christopher T Beare | 2013 | 333,530 | 16,470 | - | 350,000 |
| | 2012 | 334,225 | 15,775 | - | 350,000 |
| Elizabeth A Alexander AM | 2013 | 178,899 | 16,101 | - | 195,000 |
| | 2012 | 170,539 | 24,461 | - | 195,000 |
| Barry R Brownjohn | 2013 | 165,138 | 14,862 | - | 180,000 |
| | 2012 | 172,018 | 15,482 | - | 187,500 |
| John C Conde AO | 2013 | 165,138 | 14,862 | - | 180,000 |
| | 2012 | 158,257 | 14,243 | - | 172,500 |
| Tonianne Dwyer [1] | 2013 | 158,257 | 14,243 | - | 172,500 |
| | 2012 | 132,225 | 11,900 | - | 144,125 |
| Stewart F Ewen OAM | 2013 | 141,000 | 24,000 | - | 165,000 |
| | 2012 | 109,052 | 48,448 | - | 157,500 |
| W Richard Sheppard [2] | 2013 | 158,257 | 14,243 | - | 172,500 |
| | 2012 | 74,541 | 6,709 | - | 81,250 |
| Peter B St George | 2013 | 151,376 | 13,624 | - | 165,000 |
| | 2012 | 165,138 | 14,862 | - | 180,000 |
| Total | 2013 | 1,451,595 | 128,405 | - | 1,580,000 |
| | 2012 | 1,315,995 | 151,880 | - | 1,467,875 |

1 Ms Dwyer was appointed on 24 August 2011
2 Mr Sheppard was appointed 1 January 2012

# Note 33

**Events occurring after the reporting date**

Since the end of the year, the Directors are not aware of any matter or circumstance not otherwise dealt with in their Directors' Report or the Financial Statements that has significantly or may significantly affect the operations of the Trust, the results of those operations, or state of the Trust's affairs in future financial periods.

# Note 34

**Operating segments**

The Chief Operating Decision Maker (CODM) has been identified as the Board of Directors as they are responsible for the strategic decision making within the Group. DXS management has identified the Group's operating segments based on the sectors analysed within the management reports reviewed by the CODM in order to monitor performance across the Group and to appropriately allocate resources. Refer to the table below for a brief description of the Group's operating segments.

Following a review of internal reporting, the operating segments note has been amended to disclose revenue and expenses on the basis of their function and to provide additional financial metrics. The revised disclosures better reflect the financial information regularly reviewed by the Directors and DXS management in order to assess the performance of the functions of the Group and the allocation of resources.

| | |
|---|---|
| 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 part 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. |

Consistent with how the CODM manages the business, the operating segments within DXS are reviewed on a consolidated basis and are not monitored at an individual trust level. The results of the individual trusts are not limited to any one of the segments described above.

Disclosures concerning DXS's operating segments as well as the operating segments' key financial information provided to the CODM, are presented in the DEXUS Property Group Annual Report (refer note 33 in the DEXUS Property Group Financial Statements).

# Note 35

**Reconciliation of net loss to net cash (outflow)/ inflow from operating activities**

| | 2013<br>$'000 | 2012<br>$'000 |
|---|---|---|
| Net profit/(loss) | **30,648** | (29,153) |
| Capitalised interest | **(10,525)** | (15,763) |
| Depreciation and amortisation | **3,234** | 2,483 |
| Reversal of previous impairment | **(20,494)** | - |
| Impairment of goodwill | **99** | 625 |
| Net loss on sale of investment properties | **876** | - |
| Net fair value gain of derivatives | **(285)** | (2,184) |
| Lease incentives | **(1,695)** | (2,046) |
| Net fair value (gain)/loss of investment properties | **(3,926)** | 27,318 |
| Change in operating assets and liabilities | | |
| (Increase)/decrease in receivables | **(10,593)** | 6,261 |
| (Increase)/decrease in inventories | **(155,079)** | 13,114 |
| Increase in other current assets | **(649)** | (298) |
| Decrease in current tax assets | **-** | 1,015 |
| Increase in deferred tax assets | **(2,685)** | (8,677) |
| Increase in payables | **2,307** | 2,721 |
| Increase in current liabilities | **1,229** | 446 |
| Increase in other non-current liabilities | **28,898** | 37,670 |
| Decrease in deferred tax liabilities | **(698)** | (13,100) |
| **Net cash (outflow)/inflow from operating activities** | **(139,338)** | 20,434 |

# 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/(loss) attributable to unitholders of the parent entity used in calculating basic and diluted earnings per unit

| | 2013<br>$'000 | 2012<br>$'000 |
|---|---|---|
| Profit/(loss) from continuing operations | 10,768 | (11) |
| Profit from discontinued operations | 34 | - |
| Profit/(loss) attirbutable to unitholders of the parent entity | 10,768 | (11) |

### (b) Weighted average number of units used as a denominator

| | 2013<br>units | 2012<br>units |
|---|---|---|
| Weighted average number of units outstanding used in calculation of basic and diluted earnings per unit | 4,714,292,865 | 4,834,864,561 |

# Note 37

## Security-based payments

The DXFM Board has approved a grant of performance rights to DXS stapled securities to eligible participants. Awards, via the 2012 Transitional Performance Rights Plan, Deferred Short Term Incentive Plan (DSTI) and Long Term Incentive Plan (LTI), will be in the form of performance rights awarded to eligible participants which convert to DXS stapled securities for nil consideration subject to satisfying specific service and performance conditions.

For each Plan, the DXFM Board approves the eligible participants nominated by the Board Nomination, Remuneration & Governance Committee. Each participant will be granted performance rights, based on performance against agreed key performance indicators, as a percentage of their remuneration mix. The dollar value is converted into performance rights to DXS stapled securities using the average closing price of DXS securities for the period of ten days either side of the financial year end to which the award relates. Participants must remain in employment for the vesting period in order for the performance rights to vest.

The fair value of the performance rights is amortised over the vesting period. In accordance with AASB2 *Share-based Payments*, fair value is independently determined using Black-Scholes and Monte Carlo models with the following inputs:

- Grant date
- Expected vesting date
- Security price at grant date
- Expected price volatility (based on historic DXS security price movements)
- Expected life
- Dividend yield
- Risk free interest rate
- Expected total security holder return (for the LTI only)

### (a) 2012 Transitional Performance Rights Plan

Subject to satisfying employment service conditions, the award will vest over a four year period ending 30 June 2015. No performance rights were granted in respect of the year ended 30 June 2013 (2012: 1,840,656). The fair value of the 2012 performance rights is $0.9950 per performance right and the total security-based payment expense recognised during the year ended 30 June 2013 was $535,605 (2012: $426,250).

### (b) Deferred Short Term Incentive Plan (DSTI)

25% of any award under the Short Term Incentive Plan (STI) for certain participants will be deferred and awarded in the form of performance rights to DXS securities.

50% of the performance rights awards will vest one year after grant and 50% of the awards will vest two years after grant, subject to participants satisfying employment service conditions. In accordance with AASB 2 *Share-based 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 2013 was 2,073,400 and the fair value of these performance rights is $1.07 per performance right. The total security-based payment expense recognised during the year ended 30 June 2013 was $924,390 (2012: nil).

### (c) Long Term Incentive Plan (LTI)

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 2013 was 3,317,014. The fair value of these performance rights is $0.80 per performance right. The total security-based payment expense recognised during the year ended 30 June 2013 was $600,379 (2012: nil).

The Directors of DEXUS Funds Management Limited as Responsible Entity for DEXUS Operations Trust (the Trust) declare that the Financial Statements and notes set out on pages 9 to 74:

(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 consolidated entity's financial position as at 30 June 2013 and of their performance, as represented by the results of their operations and their cash flows, for the year ended on that date.

In the Directors' opinion:

(a) the Financial Statements and notes are in accordance with the *Corporations Act 2001*;

(b) there are reasonable grounds to believe that the Trust and its consolidated entities will be able to pay their debts as and when they become due and payable; and

(c) the Trust has operated in accordance with the provisions of the Constitution dated 11 August 2004 (as amended) during the year ended 30 June 2013.

Note 1(a) confirms that the Financial Statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The Directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer required by section 295A of the *Corporations Act 2001*.

This declaration is made in accordance with a resolution of the Directors.

**Christopher T Beare**
Chair
16 August 2013

# Independent auditor's report to the unit holders of DEXUS Operations Trust

## *Report on the financial report*

We have audited the accompanying financial report of DEXUS Operations Trust (the Trust), which comprises the statement of financial position as at 30 June 2013, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for the DEXUS Operations Trust Group (the consolidated entity). The consolidated entity comprises the Trust and the entities it controlled at the year-end or from time to time during the financial year.

### *Directors' responsibility for the financial report*

The directors of DEXUS Funds Management Limited (the Responsible Entity) are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

### *Auditor's responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

Our procedures include reading the other information in the Directors' Report to determine whether it contains any material inconsistencies with the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

***PricewaterhouseCoopers, ABN 52 780 433 757***
*Darling Park Tower 2, 201 Sussex Street, GPO BOX 2650, SYDNEY NSW 1171*
*DX 77 Sydney, Australia*
*T: +61 2 8266 0000, F: +61 2 8266 9999, www.pwc.com.au*

### *Independence*

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

### *Auditor's opinion*

In our opinion:

(a) the financial report of DEXUS Operations Trust is in accordance with the *Corporations Act 2001*, including:

  (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2013 and of its performance for the year ended on that date; and

  (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001;* and

(b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in Note 1.

PricewaterhouseCoopers

PricewaterhouseCoopers

E A Barron
Partner

Sydney
16 August 2013