# DEXUS Property Group (ASX: DXS) Appendix 4E

Results for announcement to the market

**DEXUS Property Group**
**ARSN 089 324 541**

**Financial reporting for the year ended 30 June 2014**

| **DEXUS Diversified Trust** | **Note 1** | | | |
|---|---|---|---|---|
| | | **30 June 2014 $m** | **30 June 2013 $m** | **% Change** |
| Revenue from ordinary activities | | 699.8 | 652.8 | 7.2% |
| Net profit attributable to security holders after tax | | 406.6 | 514.5 | -21.0% |
| Funds from operations (FFO)[1] | | 410.6 | 365.4 | 12.4% |
| Distribution to security holders | | 315.4 | 282.1 | 11.8% |
| | | **CPS** | **CPS** | |
| **Funds from operations per security** | | **8.34** | **7.75** | **7.6%** |
| **Distributions per security for the period ending** | | | | |
| 31 December | | 3.07 | 2.89 | 6.2% |
| 30 June | | 3.19 | 3.11 | 2.6% |
| **Total distributions** | **Note 2** | **6.26** | **6.00** | **4.3%** |
| Payout ratio (distributions as a % of FFO) | | 75.1% | 77.4% | |
| Basic and diluted earnings per security[2] | | 8.26 | 10.91 | |
| **Franked distribution amount per security** | | | | |
| 31 December | | - | - | |
| 30 June | | 0.28 | - | |
| | | **$m** | **$m** | |
| Total assets | | 9,750.9 | 7,752.6 | 25.8% |
| Total borrowings | | 2,931.6 | 2,167.1 | 35.3% |
| Security holders equity | | 6,053.3 | 5,191.7 | 16.6% |
| Market capitalisation | | 6,030.8 | 5,031.1 | 19.9% |
| | | **$ per unit** | **$ per unit** | |
| Net tangible assets | | 1.06 | 1.05 | 1.0% |
| Securities price | | 1.11 | 1.07 | 3.7% |
| Securities on issue ('000) | | 5,433,111 | 4,701,957 | |
| Record date | | 30 June 2014 | 28 June 2013 | |
| Payment date | | 29 Aug 2014 | 30 Aug 2013 | |

1. FFO is often used as a measure of real estate operating performance after finance costs and taxes. DXS's FFO comprises profit/loss after tax attributable to stapled security holders measured under Australian Accounting Standards and adjusted for: property revaluations, impairments, derivative and FX mark to market impacts, fair value movements of interest bearing liabilities, amortisation of certain tenant incentives, gain/loss on sale of certain assets, straight line rent adjustments, deferred tax expense/benefit, rental guarantees, coupon income and distribution income net of funding costs.
2. This calculation is based on the consolidated profit attributable to stapled security holders of the Group.

DEXUS PROPERTY GROUP

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Results for announcement to the market

**Results commentary**

Refer to the attached ASX release for a commentary on the results of DEXUS Property Group.

**Details of joint ventures and associates**

| | Ownership Interest | | Share of net profit after tax | |
|---|---|---|---|---|
| | 30 June 2014 | 30 June 2013 | 12 months ended 30 June 2014 | 12 months ended 30 June 2013 |
| **Name of entity** | **%** | **%** | **$m** | **$m** |
| Bent Street Trust | **33.3** | 33.3 | **13.7** | 24.4 |
| DEXUS Creek Street Trust | **50.0** | 50.0 | **7.3** | 5.8 |
| DEXUS Martin Place Trust | **50.0** | 50.0 | **5.1** | 1.6 |
| Grosvenor Place Holding Trust | **50.0** | 50.0 | **18.2** | 4.0 |
| Site 6 Homebush Bay Trust | **50.0** | 50.0 | **2.7** | 0.9 |
| Site 7 Homebush Bay Trust | **50.0** | 50.0 | **3.7** | 1.2 |
| DEXUS 480 Q Holding Trust | **50.0** | 50.0 | **3.3** | - |
| DEXUS Kings Square Trust | **50.0** | 50.0 | **13.5** | - |
| DEXUS Office Trust Australia | **50.0** | - | **(9.0)** | - |
| DEXUS Industrial Trust Australia | **50.0** | - | **(0.2)** | - |

**Distribution Reinvestment Plan (DRP)**

As announced on 13 December 2010, the DRP has been suspended until further notice. As a consequence, the DRP will not operate for this distribution payment.

**Notes**

1. For the purposes of statutory reporting, the stapled entity, known as DXS, must be accounted for as a consolidated group. Accordingly, one of the stapled entities must be the "deemed acquirer" of all other entities in the group. DEXUS Diversified Trust has been chosen as the deemed acquirer of the balance of the DXS stapled entities, comprising DEXUS Industrial Trust, DEXUS Office Trust and DEXUS Operations Trust.

2. The distribution for the period 1 July 2013 to 30 June 2014 is the aggregate of the distributions from DEXUS Diversified Trust, DEXUS Office Trust and DEXUS Operations Trust (DEXUS Industrial Trust did not pay a distribution during the period). The Annual Tax Statement issued as at 30 June 2014, will provide details of the components of DXS's distributions.

3. The distribution includes foreign sourced income of $0.00018 per security.



DEXUS PROPERTY GROUP

# DEXUS Property Group

**(ARSN 089 324 541)**

Financial Report
30 June 2014

DEXUS
PROPERTY GROUP

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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), 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.

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 Diversified Trust (DDF or the Trust) present their Directors' Report together with the consolidated Financial Statements for the year ended 30 June 2014. The consolidated Financial Statements represents DDF and its consolidated entities, DEXUS Property Group (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 | Resigned |
|---|---|---|
| Christopher T Beare | 4 August 2004 | |
| Elizabeth A Alexander, AM | 1 January 2005 | |
| Penny Bingham-Hall | 10 June 2014 | |
| Barry R Brownjohn | 1 January 2005 | 29 October 2013 |
| John C Conde, AO | 29 April 2009 | |
| Tonianne Dwyer | 24 August 2011 | |
| Stewart F Ewen, OAM | 4 August 2004 | 29 October 2013 |
| Craig D Mitchell | 12 February 2013 | |
| W Richard Sheppard | 1 January 2012 | |
| Darren J Steinberg | 1 March 2012 | |
| Peter B St George | 29 April 2009 | |

## 1.2 Company Secretaries

The names and details of the Company Secretaries of DXFM as at 30 June 2014 are as follows:

**John C Easy B Comm LLB FGIA FCIS**
Appointed: 1 July 2005

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

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

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

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

**Scott D Mahony B Bus (Acc) MBA (e-commerce) AGIA**
Appointed: 1 April 2014

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

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

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

## 2 Attendance of Directors at Board meetings and Board Committee meetings

The number of Directors' meetings held during the year and each Director's attendance at those meetings is set out in the table below. The Directors met 18 times during the year. Ten Board meetings were main meetings and eight meetings were held to consider specific business.

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

1 Appointed 10 June 2014.
2 Resigned 29 October 2013.

Special meetings are held at a time to enable the maximum number of Directors to attend and are generally held to consider specific items that cannot be held over to the next scheduled main meeting.

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

| | Board Audit, Risk & Sustainability Committee | | Board Compliance Committee | | Board Nomination, Remuneration & Governance Committee | | Board Finance Committee | |
|---|---|---|---|---|---|---|---|---|
| | held | attended | held | attended | held | attended | held | attended |
| Christopher T Beare | 3 | 3 | - | - | 5 | 5 | 8 | 7 |
| Elizabeth A Alexander, AM | 4 | 4 | - | - | - | - | - | - |
| Penny Bingham-Hall[1] | - | - | - | - | - | - | - | - |
| Barry R Brownjohn[2] | 1 | 1 | - | - | - | - | - | - |
| John C Conde, AO | - | - | - | - | 5 | 5 | - | - |
| Tonianne Dwyer | - | - | 4 | 4 | 3 | 3 | - | - |
| Stewart F Ewen, OAM[2] | - | - | - | - | 1 | 1 | - | - |
| W Richard Sheppard | 4 | 4 | - | - | - | - | 8 | 8 |
| Peter B St George | - | - | - | - | - | - | 8 | 8 |

1 Appointed 10 June 2014.
2 Resigned 29 October 2013.

## 3 Remuneration report

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

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

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

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

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

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

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

- An increase in the number of securities required to be held by each Director from 50,000 to 100,000. Securities are to be purchased on-market with after tax personal funds and are to be acquired within three years of the 2014 Annual General Meeting. Newly appointed Directors will need to acquire the relevant number of securities within three years of their appointment

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

### 3.1 Key Management Personnel

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

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

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

## Non-Executive Directors

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

## Executive Directors

| Executive Directors | Position | KMP 2013 | KMP 2014 |
|---|---|---|---|
| Darren J Steinberg | Executive Director and Chief Executive Officer | ✓ | ✓ |
| Craig D Mitchell | Executive Director Finance and Chief Operating Officer | ✓ | ✓ |

## Executive KMP

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

### 3.2 Board Nomination, Remuneration & Governance Committee

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

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

The Committee comprises three independent Non-Executive Directors. For the year ended 30 June 2014 Committee members were:

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

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

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

The Committee operates independently from management, and may at its discretion appoint external 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 $9,600 for remuneration recommendations made to the Committee and $25,600 for other advisory services, including the review of documents, attendance at meetings and general advice. The Committee is satisfied the advice received from Egan Associates is free from undue influence from the KMP to whom the remuneration recommendations relate. Egan Associates also confirmed in writing that the remuneration recommendations were made free from undue influence by KMP.

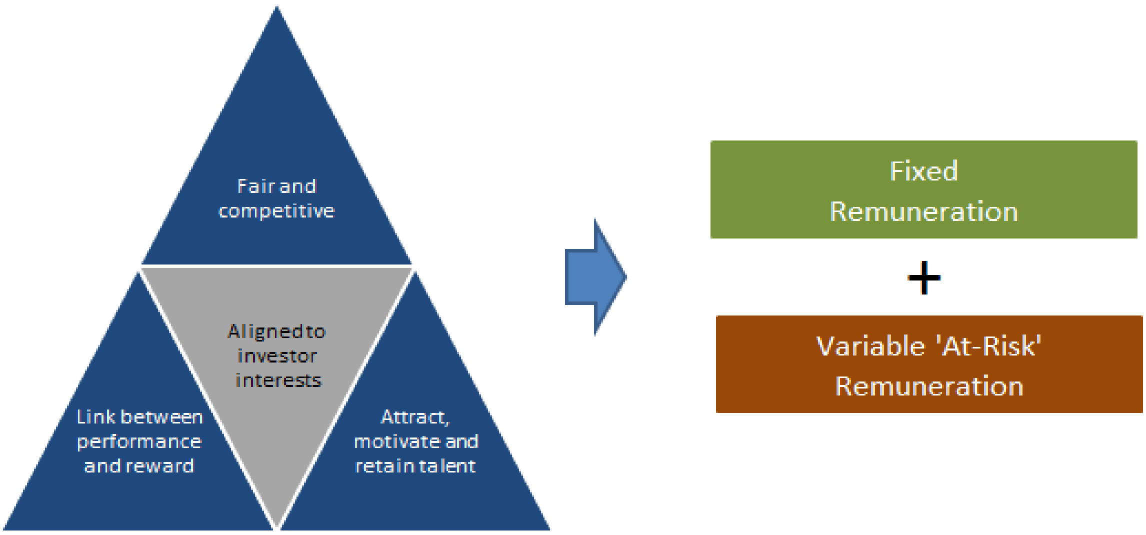
The 2013 Remuneration Report received positive security holder support at the 2013 Annual General Meeting with a vote of 98.6% in favour.

### 3.3 Executive Remuneration

#### Context

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

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




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

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

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

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

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

### 3.4 Remuneration Structure

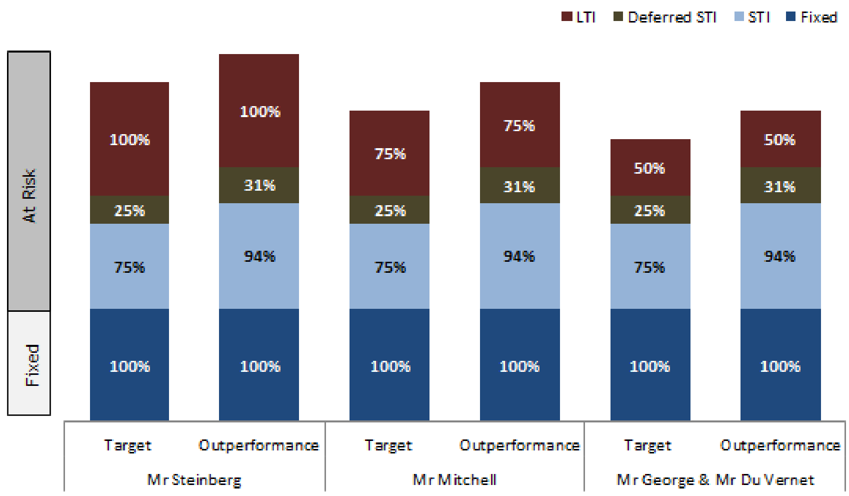
#### Remuneration Mix

The remuneration structure for Executive Directors and Executive KMP (collectively referred to as 'Executives' in this report) comprises fixed remuneration, a short term incentive 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.

The target remuneration mix for Executives during 2014 was:

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

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



## STI Plan

| | |
|---|---|
| Purpose | The STI plan is designed to motivate and reward Executives for their annual contribution to the financial and non-financial performance of the Group. |
| Participation | At Target, each Executive can earn 100% of fixed remuneration under the STI plan, 25% of which is deferred at further risk, and up to a maximum of 125% of fixed remuneration for Outperformance, 25% of which is deferred in DEXUS securities and is subject to clawback and potential forfeiture. |
| Performance | The amount each Executive can earn is dependent on how he/she performs against a personalised balanced scorecard of key performance indicators (KPIs) that is set at the beginning of each year. The balanced scorecard is arranged in categories and each category is weighted differently depending on the specific accountabilities of each Executive. If an Executive does not meet Threshold performance in a category, the incentive benefit under that category will be zero.<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 achieve 100% in any category. Following the same theme, KPIs at the Outperformance level have a significant amount of stretch, and would require exceptional outcomes to be achieved. KPIs at both the Target and Outperformance levels incorporate year-on-year performance improvement.<br><br>Aggregate performance below predetermined thresholds would result in no award being made under the STI plan. |
| Payment | STI payments are made in August, following the sign-off of statutory accounts and announcement of Group's annual results for the period to which the performance relates. |
| Deferral | 25% of any award under the STI plan is deferred and awarded in the form of performance rights to DXS securities.<br><br>The rights vest ordinarily in two equal tranches, 12 and 24 months after being awarded. However, they are subject to clawback and continued employment, and are based on a deferral period commencing 1 July after the relevant performance period.<br><br>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. |
| Distributions | 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. |
| Forfeiture | 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 may recommend that the Executive should remain in the plan as a 'good leaver', for decision by the Board. |
| Alignment | 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 as set out in the previous section of this summary table, and also in the event of a material misstatement of the Group's financial position |
| Oversight | The CEO monitors and assesses performance of Executives as part of the Group's annual performance management cycle. The CEO makes STI recommendations to the Committee, who subsequently make recommendations to the Board for approval.<br><br>The CEO's own performance is assessed in a similar manner, with the Chair of the Board making recommendations to the Committee for the Board's ultimate approval.<br><br>The Board retains the right to amend, suspend or cancel the STI plan at any time. |

## LTI Plan

| | |
|---|---|
| Purpose | The LTI plan is designed to motivate and reward Executives for sustained earnings and security holder returns and is delivered in the form of performance rights to DXS securities. |
| Participation | The CEO receives an LTI grant equal to 100% of his fixed remuneration. The Executive Director Finance & Chief Operating Officer receives an LTI grant equal to 75% of his fixed remuneration and other Executive KMP 50%. |
| Allocation | Executives receive a grant of performance rights to DXS securities which are at risk and subject to performance conditions set by the Board. The number of performance rights granted is based on the Executive's grant value (% of fixed remuneration) divided by the volume weighted average price (VWAP) of securities ten trading days either side of the first trading day of the new financial year. |
| Tranches | Each grant is split into two equal tranches, with a vesting period of three and four years respectively after the grant date. |
| Performance Conditions | The Board sets the performance conditions for the LTI plan on an annual basis. Consistent with 2013, the four performance conditions for the 2014 LTI plan are:<br><br><u>External Performance Conditions (50%)</u><br><br>▪ 25% is based on the Group's relative performance against a Total Shareholder Return (Relative TSR) performance hurdle measured against listed peers within the A-REIT sector<br><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 unlisted peers<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.<br><br><u>Internal Performance Conditions (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 purposes 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 (ROE) 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. |

| | |
|---|---|
| Vesting | <u>Relative TSR & Relative ROE</u><br>▪ Vesting under both the Relative TSR & Relative ROE conditions 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 $50^{th}$ and $75^{th}$ percentile<br>▪ 100% vesting for performance at or above the $75^{th}$ percentile<br>- The listed and unlisted comparator groups have been reviewed ahead of the 2014 grant. Taking into account feedback from investors and advice from market analysts and remuneration advisors, the comparator groups have been expanded to include all members of the accepted listed and unlisted benchmarks. Specifically:<br>▪ Listed: all members of the S&P/ASX 200's A-REIT Index<br>▪ Unlisted: all members of the Mercer IPD Core Wholesale Property Fund Index<br>The Board believes this amendment will enhance the operation of the LTI plan by removing any potential sustainability risk or asset class bias that may be inherent in a smaller comparator group. The Board also believes that a broader comparator group aligns to the Group's ambition to be recognised as Australia's leading real estate company and reflects the market in which DEXUS competes for investment capital.<br>The Board reserves the right to review the comparator groups annually, with relative performance monitored by an independent external advisor at 30 June each year.<br><u>FFO Growth & ROE</u><br>Vesting under both the FFO Growth & ROE measures will be on a sliding scale reflecting performance against predetermined performance conditions 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<br>Following a review of the Group's strategy and having completed extensive internal forecasting, the Board has set the following internal performance conditions for the 2014 LTI grant:<br>▪ FFO Growth: Target of 4%; Outperformance at 6%<br>▪ ROE: Target of 9%; Outperformance at 10%<br>FFO Growth is the implied compound annual growth rate (CAGR) of the aggregate FFO earnings per security in the three and four year vesting periods. ROE is measured as the per annum average at the conclusion of each vesting period. |
| Distributions | Executives are not entitled to distributions paid on underlying DXS securities prior to performance rights vesting. |

| | |
|---|---|
| Forfeiture | If the pre-determined performance conditions are not met then the performance rights relating to that tranche will be forfeited. There is no re-testing of forfeited rights.<br><br>Additionally, forfeiture will occur should the Executive's employment terminate within 12months 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 may recommend that the Executive should remain in the plan as a 'good leaver', for decision by the Board. |
| Alignment | The LTI plan is aligned to security holders interests in the following ways:<br><br>▪ As a reward to Executive's when the Group's overall performance exceeds specific pre-determined earnings and security holder return benchmarks<br><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><br>▪ By aligning the financial interests of Executives to security holders through exposure to DXS securities and Group performance<br><br>▪ By encouraging and incentivising Executives to make sustainable business decisions within the Board-approved strategy of the Group |
| Oversight | 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>Executive 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 and held in trust for the Executive pending performance assessment.<br><br>The Board retains the right to amend, suspend or cancel the LTI plan at any time. |

### 3.5 Service Agreements

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

#### CEO - Mr Steinberg

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

#### Executives - Messrs Mitchell, George & Du Vernet

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

## 3.6 Performance Pay

### Group Performance

FY14 Highlights

| Group | Portfolio | Capital Management | Funds Management | Transactions |
|---|---|---|---|---|
| Delivered a 7.6% increase in FFO, resulting in a 4.3% increase in distribution per security | Leased 524,597 square metres of space across the total portfolio | Achieved upgrades to S&P and Moody's credit ratings providing benefits for future funding | Increased third party funds under management by 41% to $8.7 billion | Successfully completed the $3.4 billion takeover of CPA[1] |
| Achieved a 9.9% one-year total security holder return | Achieved 3.1% growth in like-for-like property net operating income across office and industrial portfolios | Secured $1.7 billion of new funding | Launched new partnerships with a leading global pension fund and a sovereign wealth fund | Involved in $4.0 billion of transactions across the Group[2] |

1. Jointly with Canada Pension Plan Investment Board
2. Including the CPA transaction

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, three and five year time horizon, relative to the S&P/ASX200 Property Accumulation Index:

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

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

### 3.7 Individual Performance Assessment - Balanced Scorecard

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

The Scorecard is divided into five major components – 'Group Financial Performance', 'Business & Portfolio Management', 'Funds Management & Transactions', 'Stakeholder Engagement' and 'People & Culture'. These components are differentially weighted to reflect the influence of each Executive. For each of the components the Executive has objectives and specific initiatives set for that year. The Scorecards are agreed with the KMP Executive at the beginning of the year, reviewed at the half year and assessed for performance awards at the end of the year.

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

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

## STI Awards

Application of the KPIs against the Balanced Scorecards resulted in no executive achieving the maximum possible STI. However, in recognition of the outstanding performance of Messrs Steinberg, Mitchell and Du Vernet during the period, and in particular for their effort in completing the $3.5billion CPA transaction, the Board used its discretion to increase the STI amount awarded to these executives. The following table summarises the final awards made to each Executive KMP with respect to their performance during the year ended 30 June 2014.

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

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

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

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

## Deferred STI Grants

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

The table below shows the number of Performance Rights to be granted to Executives under the 2014 Deferred STI plan (details of which are provided earlier in this report).

| Executive | Number of Performance Rights (#) | 1st Vesting Date 50% | 2nd Vesting Date 50% |
|---|---|---|---|
| Darren J Steinberg | 386,143 | 1 July 2015 | 1 July 2016 |
| Craig D Mitchell | 214,034 | 1 July 2015 | 1 July 2016 |
| Kevin L George | 99,294 | 1 July 2015 | 1 July 2016 |
| Ross G Du Vernet | 165,490 | 1 July 2015 | 1 July 2016 |

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

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

## LTI Grants

The table below shows the number of Performance Rights to be granted to Executives under the 2014 LTI plan (details of which are provided earlier in this report).

| Executive | Number of Performance Rights (#) | 1st Vesting Date 50% | 2nd Vesting Date 50% |
|---|---|---|---|
| Darren J Steinberg | 1,235,658 | 1 July 2017 | 1 July 2018 |
| Craig D Mitchell | 513,019 | 1 July 2017 | 1 July 2018 |
| Kevin L George | 275,816 | 1 July 2017 | 1 July 2018 |
| Ross G Du Vernet | 220,653 | 1 July 2017 | 1 July 2018 |

The number of performance rights granted to each Executive is based on the dollar value of LTI approved by the Board in its discretion and with reference to the remuneration framework, divided by the Volume Weighted Average Price (VWAP) of DXS securities ten trading days either side of 1 July 2014, which was confirmed as $1.1330.

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

### 3.8 Executive Remuneration Actual Cash Received

In line with best-practice recommendations, the amounts shown in the table below provide a summary of actual remuneration received during the year ended 30 June 2014. The STI and DDPP cash payments were received for performance in the 2013 and 2010 financial years respectively.

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

1 Includes employer contributions to superannuation under the superannuation guarantee legislation and salary sacrifice amounts
2 Mr Steinberg's sign-on conditions included access to an additional $500,000 subject to performance in FY13, which he was paid in full.
Mr George received a cash payment of $170,000 as compensation for foregone remuneration during the year.
In FY14, expenses of $401,341 were paid in relation to Mr George's relocation, including stamp duty and legal fees. Such expenses are not considered remuneration, but are footnoted here for transparency.
3 Cash payment made in August 2013 with respect to the 2013 STI Plan (i.e. annual performance payment for the prior financial year)
4 Cash payment made in August 2013 with respect to the 2010 DDPP award that vested on 1 July 2013 (i.e. realisation of 3 year deferred performance payment)

### 3.9 Executive Remuneration Statutory Accounting Method

The amounts shown in this table are prepared in accordance with *AASB 124 Related Party Disclosures* and do not represent actual cash payments received by Executives for the year ended 30 June 2014. Amounts shown under Long Term Benefits reflect the accounting expenses recorded during the year with respect to prior year deferred remuneration and awards that have or are yet to vest. For performance payments and awards made with respect to the year ended 30 June 2014, refer to the Performance Pay Outcomes section of this report.

| | | Short Term Benefits | | | Post-Employment Benefits | Share Based & Long Term Benefits | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Executive | Year | Cash Salary ($) | STI Cash Award [1] ($) | Other Short Term Benefits [2] ($) | Pension & Super Benefits [3] ($) | Deferred STI Plan Accrual [4] ($) | DDPP Plan Accrual [5] ($) | Transition Plan Accrual [6] ($) | LTI Plan Accrual [7] ($) | Total ($) |
| Darren J Steinberg | 2014 | 1,382,225 | 1,312,500 | - | 17,775 | 360,799 | - | 105,000 | 434,573 | 3,612,871 |
| | 2013 | 1,383,530 | 1,312,500 | 500,000 | 16,470 | 182,284 | - | 105,000 | 204,200 | 3,703,984 |
| Craig D Mitchell | 2014 | 751,300 | 727,500 | - | 23,700 | 177,281 | 47,700 | 125,000 | 159,995 | 2,012,476 |
| | 2013 | 733,530 | 562,500 | - | 16,470 | 78,122 | 172,790 | 125,000 | 64,349 | 1,752,761 |
| Kevin L George | 2014 | 602,425 | 337,500 | - | 22,575 | 271,020 | - | - | 110,452 | 1,343,972 |
| | 2013 | 338,954 | 247,500 | 634,383 | 12,008 | 219,374 | - | - | 59,029 | 1,511,248 |
| Ross G Du Vernet | 2014 | 482,225 | 562,500 | - | 17,775 | 116,960 | - | 50,000 | 84,037 | 1,313,497 |
| | 2013 | 424,305 | 288,750 | - | 16,470 | 40,103 | - | 50,000 | 42,899 | 862,527 |
| Total | 2014 | 3,218,175 | 2,940,000 | - | 81,824 | 926,060 | 47,700 | 280,000 | 789,056 | 8,282,816 |
| | 2013 | 2,880,319 | 2,411,250 | 1,134,383 | 61,418 | 519,883 | 172,790 | 280,000 | 370,477 | 7,830,520 |

1 FY14 annual cash STI performance award, payable in August 2014.
2 Mr Steinberg's sign-on conditions included access to an additional $500,000 subject to performance in FY13, which he was paid in full.
Mr George received a cash sign-on payment of $250,000, a cash payment of $170,000 as compensation for foregone remuneration and various cash relocation benefits in FY13.
In FY14, expenses of $401,341 were paid in relation to Mr George's relocation, including stamp duty and legal fees. Such expenses are not considered remuneration, but are footnoted here for transparency.
3 Includes employer contributions to superannuation under the superannuation guarantee legislation and salary sacrifice amounts.
4 Reflects the accounting expense accrued during the financial year for Deferred STI awards made with respect to FY13 and FY14 performance. Refer to note 37 of the DXS Financial Statements.
Mr George's accrual also includes accounting for Performance Rights detailed later in this report as Special Terms.
5 FY11 DDPP legacy plan only applicable to Mr Mitchell. Reflects the accounting expense accrued during the financial year.
6 FY12 Transitional plan applicable to all Executives, excluding Mr George. Reflects the accounting expense accrued during the financial year.
7 Reflects the accounting expense accrued during the financial year for LTI grants made with respect to FY13 and FY14. Refer to note 37 of the DXS Financial Statements.

## 3.10 Deferred Remuneration Plans

### Performance Rights Plan - Unvested Deferred STI

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

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

### Performance Rights Plan - Unvested LTI

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

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

## Legacy Plan - Vesting DDPP Awards

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

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

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

The vesting DDPP value was determined by calculating the compound total return of both listed DXS (50%) and unlisted DWPF (50%) notional securities over a 3-year vesting period. The DXS total return was 45.99% and the Group's unlisted Funds and Mandates was 31.78%, resulting in a composite 38.89% increase being applied to the original allocation value during the life of the 2011 DDPP plan. The Board chose to exercise its discretion in not applying a performance multiplier (allowable under the DDPP plan rules) to the 2011 tranche.

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

## Legacy Plan - Unvested Transitional Performance Rights

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

| Participant | Award Date | Number of Performance Rights (#) | Vesting Date |
|---|---|---|---|
| Darren J Steinberg | 1 Jul 2012 | 453,417 | 1 Jul 2015 |
| Craig D Mitchell | 1 Jul 2012 | 539,782 | 1 Jul 2015 |
| Ross G Du Vernet | 1 Jul 2012 | 215,913 | 1 Jul 2015 |

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

## Special Terms - Performance Rights & 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 were purchased on-market. The terms and conditions of this offer mirror those of the Deferred STI plan.

### 3.11 Non-Executive Directors

#### Board Fee Structure

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

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

Other than the Chair who receives a single fee, Non-Executive Directors receive a base fee plus additional fees for membership of Board Committees. The table below outlines the Board fee structure (inclusive of statutory superannuation contributions) for the year ended 30 June 2014:

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

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

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

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

#### Minimum Security Holding

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

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

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

## Non-Executive Directors' Statutory Accounting Table

The amounts shown in this table are prepared in accordance with AASB 124 Related Party Disclosures. The table is a summary of the actual cash and benefits received by each Non-Executive Director for the year ended 30 June 2014.

| Non-Executive Director | Year | Short Term Benefits\ ($) | Post Employment Benefits ($) | Other Long Term Benefits ($) | Total ($) |
|---|---|---|---|---|---|
| Christopher T Beare | 2014 | 332,225 | 17,775 | - | 350,000 |
| | 2013 | 333,530 | 16,470 | - | 350,000 |
| Elizabeth A Alexander AM | 2014 | 178,490 | 16,510 | - | 195,000 |
| | 2013 | 178,899 | 16,101 | - | 195,000 |
| Penelope Bingham-Hall [1] | 2014 | 7,921 | 733 | - | 8,654 |
| | 2013 | - | - | - | - |
| Barry R Brownjohn [2] | 2014 | 54,920 | 5,080 | - | 60,000 |
| | 2013 | 165,138 | 14,862 | - | 180,000 |
| John C Conde AO | 2014 | 164,760 | 15,240 | - | 180,000 |
| | 2013 | 165,138 | 14,862 | - | 180,000 |
| Tonianne Dwyer | 2014 | 165,798 | 15,336 | - | 181,135 |
| | 2013 | 158,257 | 14,243 | - | 172,500 |
| Stewart F Ewen OAM [3] | 2014 | 47,644 | 7,356 | - | 55,000 |
| | 2013 | 141,000 | 24,000 | - | 165,000 |
| W Richard Sheppard | 2014 | 167,206 | 15,467 | - | 182,673 |
| | 2013 | 158,257 | 14,243 | - | 172,500 |
| Peter B St George | 2014 | 151,030 | 13,970 | - | 165,000 |
| | 2013 | 151,376 | 13,624 | - | 165,000 |
| Total | 2014 | 1,269,994 | 107,287 | - | 1,377,461 |
| | 2013 | 1,451,595 | 128,405 | - | 1,580,000 |

1 Ms Bingham-Hall was appointed on 10 June 2014
2 Mr Brownjohn did not stand for re-election at the 2013 AGM and effectively stood down from the Board on 29 October 2013
3 Mr Ewen did not stand for re-election at the 2013 AGM and effectively stood down from the Board on 29 October 2013

## 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 |
| Penny Bingham-Hall[1] | - |
| John C Conde, AO | 100,000 |
| Tonianne Dwyer | 100,000 |
| Craig D Mitchell | 1,073,059[2] |
| W Richard Sheppard | 420,537 |
| Darren J Steinberg | 1,996,364[2] |
| Peter B St George | 104,000 |

1 Appointed 10 June 2014.
2 Includes interests held directly and through performance rights (refer note 37).

## 5 Review of results and operations

### Highlights and financial results

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

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

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

A focus on leasing, capital management initiatives and the takeover of CPA have driven a strong financial result with improved operational performance and solid property revaluations. DEXUS delivered a net profit after tax of $406.6 million and achieved Funds from Operations[1] (FFO) per security growth of 7.6%. Distributions per security grew by 4.3% to 6.26 cents.

| Increase in FFO of | Distributions of | Total shareholder return of |
|---|---|---|
| **7.6%** | **6.26 cents** | **9.9%** |
| on a per security basis | per security | for the 12 months ended 30 June 2014 |

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

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.

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

## 5 Review of results and operations (continued)

### Highlights and financial results (continued)

| | 30 June 2014 ($m) | 30 June 2013 ($m) | Change ($m) |
|---|---|---|---|
| Net profit for the year attributable to stapled security holders | 406.6 | 514.5 | (107.9) |
| Add/(less): | | | |
| Net fair value gain of investment properties[1] | (165.5) | (220.6) | (55.1) |
| Net fair value loss of derivatives and interest bearing liabilities | 40.6 | 17.7 | (22.9) |
| Net loss on sale of investment properties[1] | 8.3 | 3.6 | (4.7) |
| CPA transaction costs | 76.7 | - | (76.7) |
| Finance break costs attributable to sales transactions | 4.5 | 18.8 | 14.3 |
| Foreign currency translation reserve transfer on disposal of foreign operations | (0.8) | 21.5 | 22.3 |
| Incentive amortisation and rent straight-line[1,2] | 22.4 | 30.5 | 8.1 |
| Reversal of a previous impairments of management rights | (7.3) | (20.5) | (13.2) |
| Deferred tax, CPA distribution, coupon income and other | 25.1 | (0.1) | (25.2) |
| **Funds from Operations (FFO)** | **410.6** | **365.4** | **45.2** |
| **Retained earnings[3]** | **(95.2)** | **(83.3)** | **(11.9)** |
| **Distributions** | **315.4** | **282.1** | **33.3** |
| FFO per security (cents) | 8.34 | 7.75 | +7.6% |
| Distribution per security (cents) | 6.26 | 6.00 | +4.3% |
| Net tangible asset backing per security ($) | 1.06 | 1.05 | +0.8% |

1 Including DXS's share of equity accounted investments.

2 Including cash and fit out incentives amortisation.

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

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

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

Refer to note 34(b) for further details

## 5 Review of results and operations (continued)

### Highlights and financial results (continued)

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

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

### Strategy

DEXUS's strategy is to deliver superior risk-adjusted returns for investors from high quality Australian real estate. DEXUS aims to achieve its vision to be globally recognised as Australia's leading real estate company by delivering on its clearly defined and communicated strategy.


DEXUS has successfully delivered on its revised strategy launched in August 2012, divesting properties in offshore markets where it lacked comparative scale and refocusing and reinvesting back in Australia.

DEXUS benefits from a leading market share position in the Australian office market and a sizeable third party funds management business that has grown by more than 60% over the past two years. This growth combined with a focused business structure has been driven by the evolution of DEXUS's core capabilities.

DEXUS has strengthened and developed its core capabilities in:

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

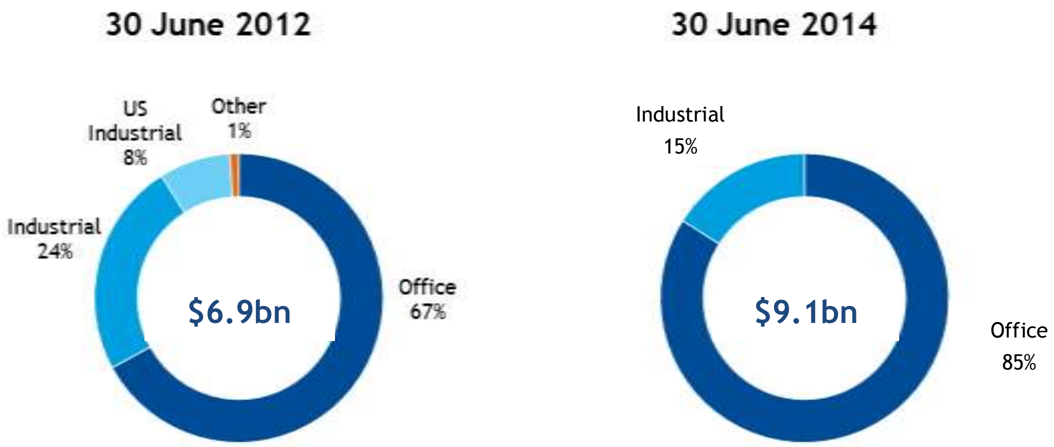
## 5 Review of results and operations (continued)

### Operations

**Portfolio composition**

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

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




**Office portfolio**

- Portfolio value $7.7 billion (2013: $5.7 billion)
- Like-for-like NOI growth 3.6% (2013: 1.8%)
- Occupancy by income[1] 95.2% (2013: 94.6%)
- Weighted average lease expiry by income[1] 4.9 years (2013: 5.0 years)

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

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

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

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

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

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

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

1 Excluding CPA portfolio.

## 5 Review of results and operations (continued)

### Operations (continued)

**Office portfolio** (continued)

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

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

**Industrial portfolio**

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

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

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

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

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

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

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

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

**DEXUS property portfolio metrics**

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

1 Including CPA portfolio.

2 Excluding CPA portfolio.

## 5 Review of results and operations (continued)

### Operations (continued)

**Third Party Funds Management**

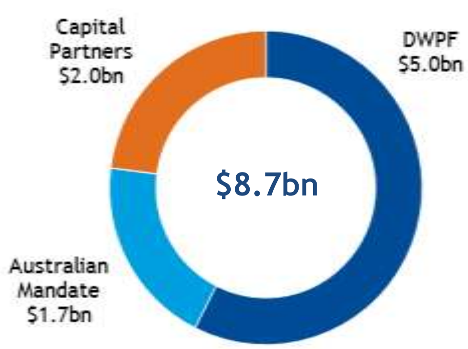
The Third Party Funds Management business represents almost half of DEXUS's $17.8 billion funds under management and is one of the key drivers of investor returns.

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

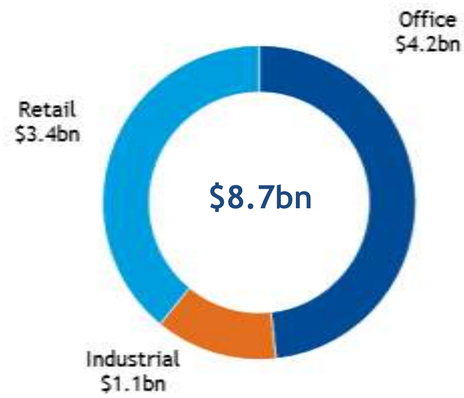
This reflects capital partner support of the Group's transactional capability, strategic asset and development management expertise and best-practice corporate governance principles.

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

**Ownership**




**Sector allocation**




**Development**

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

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

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

Completed developments include:

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

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

## 5 Review of results and operations (continued)

### Operations (continued)

**Development**

Other key development leases include:

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

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

**Trading**

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

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

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

### Capital management

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

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

Key FY14 achievements

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

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

## 5 Review of results and operations (continued)

### Capital management (continued)

**On market securities buy-back**

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

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

### Distribution policy and FY15 guidance

Distributions per security for the year were 6.26 cents per security, presenting a 4.3% increase from the prior year (2013: 6.0 cents). The payout ratio for the year ended 30 June 2014 was 75%, in accordance with DEXUS's FY14 payout policy to distribute 70-80% of FFO, in line with free cash flow.

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

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

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

## 6 Directors' directorships in other listed entities

The following table sets out directorships of other listed entities, not including DXFM, held by the Directors at any time in the three years immediately prior to the end of the year, and the period for which each directorship was held:

| Director | Company | Date appointed | Date resigned |
|---|---|---|---|
| Christopher T Beare | Mnemon Group Limited | 6 November 2009 | 27 May 2013 |
| Elizabeth A Alexander, AM | CSL Limited | 12 July 1991 | 19 October 2011 |
| Penny Bingham-Hall | Bluescope Steel Limited | 29 March 2011 | |
| John C Conde, AO | Whitehaven Coal Limited | 3 May 2007 | |
| | Cooper Energy Limited | 25 February 2013 | |
| Tonianne Dwyer | Cardno Limited | 25 June 2012 | |
| | Metcash Limited | 24 June 2014 | |
| W Richard Sheppard | Echo Entertainment Group | 21 November 2012 | |
| Peter B St George | Boart Longyear Limited | 21 February 2007 | 21 May 2013 |
| | First Quantum Minerals Limited[1] | 20 October 2003 | |

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

## 7 Principal activities

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

## 8 Total value of Trust assets

The total value of the assets of the Group as at 30 June 2014 was $9,750.9 million (2013: $7,752.6 million). Details of the basis of this valuation are outlined in note 1 of the Notes to the Financial Statements and form part of this Directors' Report.

## 9 Likely developments and expected results of operations

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

## 10 Significant changes in the state of affairs

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

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

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

## 12 Distributions

Distributions paid or payable by the Group for the year ended 30 June 2014 were 6.26 cents per security (2013: 6.00 cents per security) as outlined in note 27 of the Notes to the Financial Statements.

## 13 DXFM fees

Details of fees paid or payable by the Group to DXFM for the year ended 30 June 2014 are outlined in note 32 of the Notes to the Financial Statements and form part of this Directors' Report.

## 14 Interests in 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 2014 are detailed in note 25 of the Notes to the Financial Statements and form part of this Directors' Report.

Details of the number of interests in the Group held by DXFM or its associates as at the end of the financial year are outlined in note 32 of the Notes to the Financial Statements and form part of this Directors' Report.

With the exception of performance rights which are discussed in detail in the Remuneration Report, the Group did not have any options on issue as at 30 June 2014 (2013: nil).

## 15 Environmental regulation

The Group's senior management, through its Board Audit, Risk & Sustainability Committee, oversee the policies, procedures and systems that have been implemented to ensure the adequacy of its environmental risk management practices. It is the opinion of this Committee that adequate systems are in place for the management of its environmental responsibilities and compliance with its various licence requirements and regulations. Further, the Committee is not aware of any material breaches of these requirements.

## 16 Indemnification and insurance

The insurance premium for a policy of insurance indemnifying Directors, officers and others (as defined in the relevant policy of insurance) is paid by DXH.

PricewaterhouseCoopers (PwC or the Auditor), is indemnified out of the assets of the Group pursuant to the DEXUS Specific Terms of Business agreed for all engagements with PwC, to the extent that the Group inappropriately uses or discloses a report prepared by PwC. The Auditor, 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 their statutory audit duties, where the Auditor's expertise and experience with the Group are important.

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

The Board Audit, Risk & Sustainability Committee is satisfied that the provision of non-audit services provided during the year by the Auditor (or by another person or firm on the Auditor's behalf) is compatible with the standard of independence for auditors imposed by the *Corporations Act 2001*.

The reasons for the Directors being satisfied are:

- a Charter of Audit Independence provides guidelines under which the Auditor may be engaged to provide non-audit services without impairing the Auditor's objectivity or independence.
- the Charter states that the Auditor will not provide services where the Auditor may be required to review or audit its own work, including:
  - the preparation of tax provisions, accounting records and financial statements;
  - the design, implementation and operation of information technology systems;
  - the design and implementation of internal accounting and risk management controls;
  - conducting valuation, actuarial or legal services;
  - consultancy services that include direct involvement in management decision making functions;
  - investment banking, borrowing, dealing or advisory services;
  - acting as trustee, executor or administrator of trust or estate;
  - prospectus independent expert reports and being a member of the due diligence committee; 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.

### 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 33 and forms part of this Directors' Report.

## 18 Corporate governance

DXFM's Corporate Governance Statement is set out in a separate section of the DEXUS Property Group Annual Report.

## 19 Rounding of amounts and currency

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

## 20 Directors' authorisation

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

**Christopher T Beare**
Chair
13 August 2014

**Darren J Steinberg**
Chief Executive Officer
13 August 2014

# Auditor's Independence Declaration

As lead auditor for the audit of DEXUS Diversified Trust for the year ended 30 June 2014, I declare that to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

b) no contraventions of any applicable code of professional conduct in relation to the audit.

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

E A Barron
Partner
PricewaterhouseCoopers

Sydney
13 August 2014

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## Consolidated Statement of Comprehensive Income

For the year ended 30 June 2014

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

| | | Cents | Cents |
|---|---|---|---|
| **Basic and diluted earnings per unit attributable to unitholders of the parent entity** | | | |
| Earnings per unit - profit from continuing operations | 36(a) | **2.87** | 2.02 |
| Earnings per unit - profit from discontinued operations | 36(a) | **-** | 0.16 |
| Earnings per unit - total | 36(a) | **2.87** | 2.18 |
| **Basic and diluted earnings per stapled security attributable to stapled security holders** | | | |
| Earnings per security - profit from continuing operations | 36(b) | **8.25** | 11.06 |
| Earnings per security - profit/(loss) from discontinued operations | 36(b) | **0.01** | (0.15) |
| Earnings per security - total | 36(b) | **8.26** | 10.91 |

*The above Consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying notes.*

## Consolidated Statement of Financial Position

As at 30 June 2014

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

*The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.*

| | Note | Contributed equity $m | Retained profits $m | Foreign currency translation reserve $m | Asset revaluation reserve $m | Cash flow hedge reserve $m | Security-based payments reserve $m | Treasury securities reserve $m | Total equity $m |
|---|---|---|---|---|---|---|---|---|---|
| **Opening balance as at 1 July 2012** | | 4,761.5 | 238.7 | (36.0) | 42.7 | - | 0.4 | - | 5,007.3 |
| Profit for the year attributable to: | | | | | | | | | |
| Unitholders of the parent entity | | - | 102.8 | - | - | - | - | - | 102.8 |
| Other stapled entities (non-controlling interests) | | - | 411.7 | - | - | - | - | - | 411.7 |
| Profit for the year | | - | 514.5 | - | - | - | - | - | 514.5 |
| | | | | | | | | | |
| Other comprehensive income/(loss) for the year attributable to: | | | | | | | | | |
| Unitholders of the parent entity | | - | - | 46.1 | - | - | - | - | 46.1 |
| Other stapled entities (non-controlling interests) | | - | - | (16.4) | - | - | - | - | (16.4) |
| Total other comprehensive income for the year | | - | - | 29.7 | - | - | - | - | 29.7 |
| | | | | | | | | | |
| Transactions with owners in their capacity as owners | | | | | | | | | |
| Buy-back of contributed equity, net of transaction costs | 25 | (77.5) | - | - | - | - | - | - | (77.5) |
| Purchase of securities, net of transaction costs | 25 | - | - | - | - | - | - | (2.2) | (2.2) |
| Security-based payments expense | 26 | - | - | - | - | - | 2.0 | - | 2.0 |
| Distributions paid or provided for | 27 | - | (282.1) | - | - | - | - | - | (282.1) |
| Total transactions with owners in their capacity as owners | | (77.5) | (282.1) | - | - | - | 2.0 | (2.2) | (359.8) |
| | | | | | | | | | |
| **Closing balance as at 30 June 2013** | | 4,684.0 | 471.1 | (6.3) | 42.7 | - | 2.4 | (2.2) | 5,191.7 |

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

| | Note | Contributed equity $m | Retained profits $m | Foreign currency translation reserve $m | Asset revaluation reserve $m | Cash flow hedge reserve $m | Security-based payments reserve $m | Treasury securities reserve $m | Total equity $m |
|---|---|---|---|---|---|---|---|---|---|
| **Opening balance as at 1 July 2013** | | **4,684.0** | **471.1** | **(6.3)** | **42.7** | **-** | **2.4** | **(2.2)** | **5,191.7** |
| Profit for the year attributable to: | | | | | | | | | |
| Unitholders of the parent entity | | - | 141.4 | - | - | - | - | - | 141.4 |
| Other stapled entities (non-controlling interests) | | - | 265.2 | - | - | - | - | - | 265.2 |
| Profit for the year | | - | 406.6 | - | - | - | - | - | 406.6 |
| Other comprehensive income/(loss) for the year attributable to: | | | | | | | | | |
| Unitholders of the parent entity | | - | - | - | - | (9.3) | - | - | (9.3) |
| Other stapled entities (non-controlling interests) | | - | - | 4.5 | - | - | - | - | 4.5 |
| Total other comprehensive income/(loss) for the year | | - | - | 4.5 | - | (9.3) | - | - | (4.8) |
| Transactions with owners in their capacity as owners | | | | | | | | | |
| Buy-back of contributed equity, net of transaction costs | 25 | (75.3) | - | - | - | - | - | - | (75.3) |
| Issue of additional equity | 24 | 850.4 | - | - | - | - | - | - | 850.4 |
| Purchase of securities, net of transaction costs | 26 | - | - | - | - | - | - | (3.1) | (3.1) |
| Security-based payments expense | 26 | - | - | - | - | - | 3.2 | - | 3.2 |
| Distributions paid or provided for | 27 | - | (315.4) | - | - | - | - | - | (315.4) |
| Total transactions with owners in their capacity as owners | | 775.1 | (315.4) | - | - | - | 3.2 | (3.1) | 459.8 |
| **Closing balance as at 30 June 2014** | | **5,459.1** | **562.3** | **(1.8)** | **42.7** | **(9.3)** | **5.6** | **(5.3)** | **6,053.3** |

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

| | Note | 2014 $m | 2013 $m |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts in the course of operations (inclusive of GST) | | **703.0** | 760.0 |
| Payments in the course of operations (inclusive of GST) | | **(275.6)** | (334.8) |
| Interest received | | **0.2** | 1.3 |
| Finance costs paid to financial institutions | | **(134.6)** | (116.1) |
| Distributions received from investments accounted for using the equity method | | **79.0** | 19.7 |
| Income and withholding taxes paid | | **0.1** | (0.2) |
| Proceeds from sale of property classified as inventory | | **69.3** | 24.4 |
| Payments for property classified as inventory | | **(23.1)** | (160.8) |
| **Net cash inflow from operating activities** | 35(a) | **418.3** | 193.5 |
| | | | |
| **Cash flows from investing activities** | | | |
| Proceeds from sale of investment properties | | **172.9** | 303.4 |
| Proceeds from sale of subsidiaries | | **-** | 435.9 |
| Payments for capital expenditure on investment properties | | **(110.0)** | (120.7) |
| Payments for acquisition of investment properties | | **-** | (22.2) |
| Payments for investments accounted for using the equity method | | **(1,103.4)** | (674.3) |
| Transaction costs paid | | **(14.0)** | - |
| Payments for management rights | | **(42.0)** | - |
| Payments for plant and equipment | | **(4.0)** | (7.0) |
| **Net cash outflow from investing activities** | | **(1,100.5)** | (84.9) |
| | | | |
| **Cash flows from financing activities** | | | |
| Proceeds from borrowings | | **4,557.8** | 3,516.3 |
| Repayment of borrowings | | **(3,848.3)** | (3,328.1) |
| Proceeds from loan with related party | | **338.4** | - |
| Payments for buy-back of contributed equity | | **(75.3)** | (77.5) |
| Purchase of securities for security-based payments plans | | **(3.1)** | (2.2) |
| Distributions paid to security holders | | **(288.3)** | (264.1) |
| **Net cash inflow/(outflow) from financing activities** | | **681.2** | (155.6) |
| | | | |
| **Net decrease in cash and cash equivalents** | | **(1.0)** | (47.0) |
| Cash and cash equivalents at the beginning of the year | | **14.9** | 59.2 |
| Effects of exchange rate changes on cash and cash equivalents | | **0.2** | 2.7 |
| **Cash and cash equivalents at the end of the year** | 7 | **14.1** | 14.9 |

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

# Note 1

**Summary of significant accounting policies**

### (a) Basis of preparation

In accordance with Australian Accounting Standards, the entities within the Group must be consolidated. The parent entity and deemed acquirer of DIT, DOT and DXO is DDF. These Financial Statements represent the consolidated results of DDF, which comprises DDF and its controlled entities, DIT and its controlled entities, DOT and its controlled entities, and DXO and its controlled entities.

Equity attributable to other trusts stapled to DDF is a form of non-controlling interest and represents the equity of DIT, DOT and DXO. The amount of non-controlling interest attributable to stapled security holders is disclosed in the Statement of Financial Position. DDF is a for-profit entity for the purpose of preparing Financial Statements.

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

DEXUS Funds Management Limited (DXFM) as Responsible Entity for DDF, DIT, DOT and DXO may only 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 2014 have been prepared in accordance with the requirements of the Constitution of the entities within the Group, the *Corporations Act 2001*, Australian Accounting Standards and other authoritative pronouncements of the 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(g), 1(l), 1(p), 1(s), 1(t), 1(u), 1(w) and 1(z)).

The Group has unutilised facilities of $462.3 million (2013: $305.9 million) (refer note 20) and sufficient working capital and cash flows in order to fund all requirements arising from the net current asset deficiency as at 30 June 2014 of $99.1 million (2013: $155.8 million).

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

**Critical accounting estimates**

The preparation of Financial Statements requires the use of certain critical accounting estimates and management to exercise its judgement in the process of applying the Group’s accounting policies. Other than the estimations described in notes 1(e), 1(g), 1(l), 1(p), 1(s), 1(t), 1(u), 1(w) and 1(z), no key assumptions concerning the future or other estimation of uncertainty at the end of each reporting period have a significant risk of causing material adjustments to the Financial Statements in the next annual reporting period.

# Note 1

**Summary of significant accounting policies** (continued)

## (b) Principles of consolidation

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

(i) Controlled entities

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

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

(ii) Joint arrangements

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

*Joint operations*

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

*Joint ventures*

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

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

(iii) Employee share trust

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

## (c) Revenue recognition

(i) Rent

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

(ii) Management fee revenue

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

# Note 1

**Summary of significant accounting policies** (continued)

### (c) Revenue recognition (continued)

(iii) Interest revenue

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

(iv) Dividends and distribution revenue

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

### (d) Expenses

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

(i) Property expenses

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

(ii) Borrowing costs

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

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

### (e) Derivatives and other financial instruments

(i) Derivatives

The Group's activities expose it to a variety of financial risks including foreign exchange risk and interest rate risk. Accordingly, the Group enters into various derivative financial instruments such as interest rate swaps, cross currency swaps and foreign exchange contracts to manage its exposure to certain risks. Written policies and limits are approved by the Board of Directors of the Responsible Entity, in relation to the use of financial instruments to manage financial risks. The Responsible Entity continually reviews the Group's exposures and updates its treasury policies and procedures. The Group does not trade in derivative instruments for speculative purposes. Derivatives including interest rate swaps, the interest rate component of cross currency swaps and foreign exchange contracts, are measured at fair value with any changes in fair value recognised in the Statement of Comprehensive Income.

(ii) Debt and equity instruments issued by the Group

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

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

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

# Note 1

**Summary of significant accounting policies** (continued)

## (e) Derivatives and other financial instruments (continued)

(iii) Financial guarantee contracts

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

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

(iv) Other financial assets

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

## (f) Goods and services tax

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

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

## (g) Taxation

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

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

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

## Note 1

**Summary of significant accounting policies** (continued)

### (g) Taxation (continued)

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

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

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

### (h) Distributions

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

### (i) Repairs and maintenance

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

### (j) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with financial institutions and other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

### (k) Receivables

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

# Note 1

**Summary of significant accounting policies** (continued)

### (l) Inventories

(i) Land and properties held for resale

Land and properties held for resale are stated at the lower of cost and the net realisable value. Cost is assigned by specific identification and includes the cost of acquisition, and development and holding costs such as borrowing costs, rates and taxes. Holding costs incurred after completion of development are expensed.

(ii) Net realisable value

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

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

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use, and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell, except for assets such as deferred tax assets, assets arising from employee benefits, financial assets and investment property that are carried at fair value and contractual rights under insurance contracts, which are specifically exempt from this requirement.

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

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

### (n) Plant and equipment

Plant and equipment is stated at historical cost less depreciation and accumulated impairment. Historical cost includes expenditure that is directly attributable to its acquisition. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the Statement of Comprehensive Income during the reporting period in which they are incurred.

Plant and equipment is tested for impairment whenever events or changes in circumstances indicate that the carrying amounts exceed their recoverable amounts (refer note 1(s)).

### (o) Depreciation of plant and equipment

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

| | |
|---|---|
| Furniture and fittings | 10-20 years |
| IT and office equipment | 3-5 years |

# Note 1

**Summary of significant accounting policies** (continued)

### (p) Investment properties

The Group's investment properties consist of properties held for long-term rental yields and/or capital appreciation and property that is being constructed or developed for future use as investment property. Investment properties are initially recognised at cost including transaction costs. Investment properties are subsequently recognised at fair value in the Financial Statements.

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

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

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

### (q) Leasing fees

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

### (r) Lease incentives

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

The costs of incentives are recognised as a reduction of rental revenue on a straight-line basis from the earlier of the date which the tenant has effective use of the premises or the lease commencement date to the end of the lease term. The carrying amount of the lease incentives is reflected in the fair value of investment properties.

### (s) Impairment of assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows, which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

### (t) Intangible assets

(i) Goodwill

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

The carrying value of the goodwill is tested for impairment annually with any decrement in value taken to the Statement of Comprehensive Income as an expense.

# Note 1

**Summary of significant accounting policies** (continued)

**(t) Intangible assets** (continued)

(ii) Management rights

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

**(u) Financial assets and liabilities**

(i) Classification

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

| Financial asset/liability | Classification | Valuation basis | Reference |
|---|---|---|---|
| Receivables | Loans and receivables | Amortised cost | Refer note 1(k) |
| Payables | Financial liability at amortised cost | Amortised cost | Refer note 1(v) |
| Interest bearing liabilities | Financial liability at amortised cost | Amortised cost | Refer note 1(w) |
| Interest bearing liabilities | Financial liability at fair value | Fair value | Refer note 1(w) |
| Derivatives | Fair value through profit or loss | Fair value | Refer note 1(e) |

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

(ii) Fair value estimation of financial assets and liabilities

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

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

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

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

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

**(v) Payables**

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

# Note 1

**Summary of significant accounting policies** (continued)

### (w) Interest bearing liabilities

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

### (x) Foreign currency

Items included in the Financial Statements of the Group are measured using the currency of the primary economic environment in which the entity operates. The Financial Statements are presented in Australian dollars.

(i) Foreign currency transactions

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

(ii) Foreign operations

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

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

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

### (y) Hedging activities

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

*Fair value hedge*

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

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

# Note 1

**Summary of significant accounting policies** (continued)

**(y) Hedging activities** (continued)

*Cash flow hedge*

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

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

**(z) Employee benefits**

(i) Wages, salaries and annual leave

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

(ii) Long service leave

The provision for employee benefits for long service leave represents the present value of the estimated future cash outflows, to be made resulting from employees' services provided to the end of the reporting period.

The provision is calculated using expected future increases in wage and salary rates including related on-costs and expected settlement dates based on turnover history and is discounted using the rates attaching to national government bonds at the end of the reporting period that most closely 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 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 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.

# Note 1

**Summary of significant accounting policies** (continued)

### (aa) Parent entity financial information

The financial information for the parent entity, DEXUS Diversified Trust, disclosed in note 28, has been prepared on the same basis as the consolidated Financial Statements except as set out below:

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

Distributions received from associates are recognised in the parent entity's Statement of Comprehensive Income, rather than being deducted from the carrying amount of these investments.

Interests held by the parent entity in controlled entities are measured at fair value through profit and loss to reduce a measurement or recognition inconsistency.

### (ab) Earnings per unit

Basic earnings per unit are determined by dividing the net profit attributable to unitholders of the parent entity by the weighted average number of ordinary units outstanding during the year.

Diluted earnings per unit are adjusted from the basic earnings per unit by taking into account the impact of dilutive potential units.

### (ac) Operating segments

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

### (ad) Rounding of amounts

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

### (ae) New accounting standards and interpretations

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

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

# Note 2

## Property revenue

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

# Note 3

## Finance costs

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

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

# Note 4

## Corporate and administration expenses

| | | **2014** | 2013 |
|---|---|---|---|
| | **Note** | **$m** | $m |
| Audit and taxation fees | 6 | **1.4** | 1.3 |
| Custodian fees | | **0.5** | 0.5 |
| Legal and other professional fees | | **1.0** | 0.7 |
| Registry costs and listing fees | | **0.7** | 0.5 |
| Occupancy expenses | | **2.3** | 2.7 |
| Administration expenses | | **3.3** | 3.3 |
| Other staff expenses | | **1.8** | 1.7 |
| Depreciation and amortisation | | **2.3** | 3.2 |
| Employee benefits expense | | **54.5** | 50.9 |
| Other expenses | | **3.5** | 3.6 |
| **Total corporate and administration expenses** | | **71.3** | 68.4 |

# Note 5
## Income tax

### (a) Income tax (expense)/benefit

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

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

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

# Note 6

## Audit, taxation and transaction services fees

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

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| **Audit fees** | | |
| PwC Australia - audit and review of Financial Statements | **1,150** | 1,025 |
| PwC fees paid in relation to outgoings audits[1] | **145** | 125 |
| PwC Australia - regulatory audit and compliance services | **211** | 182 |
| PwC Australia - audit and review of US asset disposals[2] | **-** | 226 |
| PwC Australia - audit of DOTA[3] | **213** | - |
| **Audit fees paid to PwC** | **1,719** | 1,558 |
| **Taxation fees** | | |
| Fees paid to PwC Australia | **20** | 119 |
| Fees paid to PwC NZ | **13** | 26 |
| Fees paid to PwC Australia in respect of US asset disposals[2] | **-** | 24 |
| Fees paid to PwC Australia in respect of the CPA acquisition[3] | **200** | 45 |
| **Taxation fees paid to PwC** | **233** | 214 |
| **Total audit and taxation fees paid to PwC[4]** | **1,952** | 1,772 |
| **Transaction services fees** | | |
| Fees paid to PwC Australia in respect of the CPA acquisition[3] | **225** | - |
| **Total transaction services fees paid to PwC** | **225** | - |
| **Total audit, taxation and transaction services fees paid to PwC** | **2,177** | 1,772 |

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

# Note 7

## Current assets - cash and cash equivalents

| | 2014 $m | 2013 $m |
|---|---|---|
| Cash at bank | **14.1** | 11.2 |
| Short-term deposits | **-** | 0.4 |
| Cash held in escrow[1] | **-** | 2.9 |
| **Total current assets - cash and cash equivalents** | **14.1** | 14.5 |

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.

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

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

| | Note | 2014 $m | 2013 $m |
|---|---|---|---|
| Balances as above | | **14.1** | 14.5 |
| Discontinued operations | 12 | **-** | 0.4 |
| **Balances per Statement of Cash Flows** | | **14.1** | 14.9 |

# Note 8

## Current assets - receivables

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

# Note 9

## Inventories

### (a) Inventories - land and properties held for resale

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

### (b) Reconciliation

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

### Disposals

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

# Note 10

## Derivative financial instruments

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

Refer note 29 for further discussion regarding derivative financial instruments.

# Note 11

## Current assets - other

| | 2014 $m | 2013 $m |
|---|---|---|
| Prepayments | **8.1** | 10.9 |
| **Total current assets - other** | **8.1** | 10.9 |

# Note 12

## Assets classified as held for sale and discontinued operations

A strategic review was announced to the ASX on 16 August 2012, which resulted in all offshore property being considered non-core. The US industrial portfolio and the majority of the European portfolio were sold in the year ended 30 June 2013 and the final German property sold in August 2014. Therefore the results of the US and European portfolios have been presented within profit/(loss) from discontinued operations in the Statement of Comprehensive Income for the year ended 30 June 2014 and 30 June 2013.

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

| | **2014** | 2013 |
|---|---|---|
| | **$m** | $m |
| Revenue | - | 39.3 |
| Expenses[1] | **0.8** | (73.0) |
| **Loss before tax** | **0.8** | (33.7) |
| Tax benefit/(expense) | - | 2.4 |
| **Profit/(loss) after tax** | **0.8** | (31.3) |
| | | |
| Gain on measurement to fair value less costs to sell before tax | - | 18.7 |
| Gain on sale of investment properties | - | 1.1 |
| Withholding tax benefit | - | 4.5 |
| **Gain on measurement to fair value less costs to sell after tax** | - | 24.3 |
| **Profit/(loss) from discontinued operations** | **0.8** | (7.0) |

1 Expenses for the year ended 30 June 2014 includes foreign currency translation reserve transfer on disposal of foreign operations of $0.8 million.
Expenses for the year ended 30 June 2013 includes finance break costs attributable to sales transactions of $18.8 million and foreign currency translation reserve transfer on disposal of foreign operations of $21.5 million.

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

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

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

# Note 12

**Assets classified as held for sale and discontinued operations** (continued)

The carrying amount of the US industrial portfolio as at the date of disposal was:

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

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

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

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

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

1 Includes certain investment properties whose value will be recovered through sale rather than through continuing use.
2 Includes the remaining European property.

## Disposals

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

# Note 13

## Non-current assets – investment properties

| (a) Properties | Ownership | Acquisition date | Independent valuation date | Independent valuation amount | Independent valuer | Book value 30 Jun 2014 | Book value 30 Jun 2013 |
|---|---|---|---|---|---|---|---|
| | % | | | $m | | $m | $m |
| Kings Park Industrial Estate, Bowmans Road, Marayong, NSW | 100 | May 1990 | Dec 2012 | 90.5 | (d) | **93.2** | 91.9 |
| Target Distribution Centre, Lot 1, Tara Avenue, Altona North, VIC | 50 | Oct 1995 | Jun 2014 | 15.3 | (c) | **15.3** | 16.3 |
| Axxess Corporate Park, Mount Waverley, VIC | 100 | Oct 1996 | Dec 2012 | 187.2 | (b) | **190.1** | 187.6 |
| Knoxfield Industrial Estate, 20 Henderson Road, Knoxfield, VIC | 100 | Aug 1996 | Sep 2013 | 37.7 | (g) | **37.9** | 37.6 |
| 12 Frederick Street, St Leonards, NSW | 100 | Jul 2000 | Sep 2013 | 37.0 | (a) | **39.0** | 34.6 |
| 2 Alspec Place, Eastern Creek, NSW | 100 | Mar 2004 | Dec 2011 | 24.9 | (d) | **24.9** | 24.9 |
| 108-120 Silverwater Road, Silverwater, NSW | 100 | May 2010 | Jun 2013 | 23.4 | (a) | **23.8** | 23.4 |
| 40 Talavera Road, Macquarie Park, NSW | 100 | Oct 2002 | Dec 2011 | 31.5 | (g) | **-** | 29.5 |
| 44 Market Street, Sydney, NSW | 100 | Sep 1987 | Jun 2014 | 261.0 | (d) | **261.0** | 241.0 |
| 8 Nicholson Street, Melbourne, VIC | 100 | Nov 1993 | Dec 2013 | 105.0 | (a) | **106.5** | 99.0 |
| 130 George Street, Parramatta, NSW | 100 | May 1997 | Jun 2014 | 78.5 | (f) | **78.5** | 77.2 |
| Flinders Gate Complex, 172 Flinders Street & 189 Flinders Lane, Melbourne, VIC | 100 | Mar 1999 | Jun 2014 | 34.1 | (a) | **34.1** | 30.6 |
| 383-395 Kent Street, Sydney, NSW | 100 | Sep 1987 | Sep 2013 | 137.0 | (a) | **151.1** | 136.9 |
| 14 Moore Street, Canberra, ACT** | 100 | May 2002 | Jun 2013 | 24.0 | (e) | **-** | 24.0 |
| Sydney CBD Floor Space[1] | 100 | Jul 2000 | Dec 2011 | 0.1 | (a) | **0.1** | 0.1 |
| 34-60 Little Collins Street, Melbourne, VIC** | 100 | Nov 1984 | Jun 2014 | 28.1 | (a) | **28.1** | 36.1 |
| 32-44 Flinders Street, Melbourne, VIC | 100 | Jun 1998 | Jun 2014 | 30.4 | (c) | **30.4** | 29.9 |
| Flinders Gate Carpark, 172-189 Flinders Street, Melbourne, VIC | 100 | Mar 1999 | Jun 2014 | 52.8 | (a) | **52.8** | 54.3 |
| 383-395 Kent Street Car Park, Sydney, NSW | 100 | Sep 1987 | Sep 2013 | 65.0 | (a) | **65.2** | 64.0 |
| 123 Albert St, Brisbane, QLD | 100 | Oct 1984 | Mar 2013 | 400.0 | (e) | **404.4** | 401.4 |
| 2 - 4 Military Rd, Matraville, NSW | 100 | Dec 2009 | Jun 2012 | 52.9 | (c) | **56.2** | 55.7 |
| 79-99 St Hilliers Road, Auburn, NSW | 100 | Sep 1997 | Dec 2011 | 37.5 | (g) | **35.6** | 35.4 |
| 3 Brookhollow Avenue, Baulkham Hills, NSW | 100 | Dec 2002 | Jun 2012 | 42.0 | (f) | **43.9** | 42.9 |
| 1 Garigal Road, Belrose, NSW | 100 | Dec 1998 | Jun 2012 | 16.3 | (a) | **20.1** | 16.3 |
| 2 Minna Close, Belrose, NSW | 100 | Dec 1998 | Jun 2012 | 24.0 | (a) | **-** | 22.5 |
| 145 - 151 Arthur Street, Flemington, NSW | 100 | Sep 1997 | Jun 2014 | 27.5 | (e) | **27.5** | 27.6 |
| 436 - 484 Victoria Road, Gladesville, NSW | 100 | Sep 1997 | Dec 2011 | 41.5 | (e) | **40.4** | 40.8 |
| 1 Foundation Place, Greystanes, NSW | 100 | Feb 2003 | Dec 2013 | 47.5 | (c) | **47.4** | 44.8 |
| 5 - 15 Roseberry Avenue & 25 - 55 Rothschild Avenue, Rosebery, NSW[2] | 100 | Apr 1998 | Dec 2012 | 90.5 | (a) | **-** | 93.0 |

1 Heritage floor space retained following the disposal of 1 Chifley Square, Sydney.
2 Classified as inventory at 30 June 2014.
The title to all properties is freehold, with the exception of the properties marked ** which are leasehold.

# Note 13

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

| (a) Properties (continued) | Ownership | Acquisition date | Independent valuation date | Independent valuation amount | Independent valuer | Book value 30 Jun 2014 | Book value 30 Jun 2013 |
|---|---|---|---|---|---|---|---|
| | % | | | $m | | $m | $m |
| 10 - 16 South Street, Rydalmere, NSW | 100 | Sep 1997 | Jun 2011 | 39.3 | (g) | **-** | 41.5 |
| Pound Road West, Dandenong, VIC | 100 | Jan 2004 | Dec 2012 | 71.4 | (f) | **69.7** | 70.7 |
| DEXUS Industrial Estate, Boundary Road, Laverton North, VIC - Visy | 50 | Jul 2002 | Jun 2014 | 9.7 | (c) | **9.7** | 9.6 |
| DEXUS Industrial Estate, Boundary Road, Laverton North, VIC - Wrightson | 50 | Jul 2002 | Jun 2014 | 3.6 | (c) | **3.6** | 3.6 |
| DEXUS Industrial Estate, Boundary Road, Laverton North, VIC - Fosters | 50 | Jul 2002 | Jun 2014 | 18.6 | (c) | **18.6** | 18.7 |
| DEXUS Industrial Estate, Boundary Road, Laverton North, VIC - BestBar | 50 | Jul 2002 | Jun 2014 | 6.1 | (c) | **6.1** | 6.0 |
| 12-18 Distribution Drive, Laverton North, VIC | 50 | Jul 2002 | Jun 2014 | 53.2 | (c) | **53.2** | 51.0 |
| 250 Forest Road, South Lara, VIC | 100 | Dec 2002 | Jun 2012 | 52.3 | (e) | **54.9** | 54.5 |
| 15 - 23 Whicker Road, Gillman, SA | 100 | Dec 2002 | Jun 2014 | 24.5 | (d) | **24.5** | 29.1 |
| 25 Donkin Street, Brisbane, QLD | 100 | Dec 1998 | Dec 2010 | 27.0 | (f) | **-** | 28.5 |
| 52 Holbeche Road, Arndell Park, NSW | 100 | Jul 1998 | Jun 2012 | 12.5 | (f) | **12.4** | 12.5 |
| 30 - 32 Bessemer Street, Blacktown, NSW | 100 | May 1997 | Jun 2011 | 16.3 | (e) | **-** | 15.7 |
| 27 - 29 Liberty Road, Huntingwood, NSW | 100 | Jul 1998 | Sep 2012 | 8.8 | (d) | **9.3** | 8.9 |
| 11 Talavera Road, Macquarie Park, NSW | 100 | Jun 2002 | Mar 2013 | 145.0 | (a) | **150.8** | 146.6 |
| 131 Mica Road, Carole Park, NSW | 100 | Jan 2013 | n/a | n/a | n/a | **22.8** | 22.3 |
| DEXUS Industrial Estate, Egerton Street, Silverwater, NSW | 100 | May 1997 | Jun 2012 | 35.0 | (g) | **29.1** | 36.6 |
| 114 Fairbank Road, Clayton, VIC | 100 | Jul 1997 | Mar 2013 | 15.4 | (b) | **15.4** | 15.4 |
| 30 Bellrick Street, Acacia Ridge, QLD | 100 | Jun 1997 | Sep 2012 | 20.6 | (a) | **21.1** | 20.9 |
| Quarry Greystanes, NSW - Solaris | 50 | Dec 2007 | Jun 2014 | 14.2 | (c) | **14.2** | 13.4 |
| Quarry Greystanes, NSW - Symbion | 50 | Dec 2007 | Jun 2014 | 18.1 | (c) | **18.1** | 17.0 |
| Quarry Greystanes, NSW - Fujitsu | 50 | Dec 2007 | Jun 2014 | 23.3 | (c) | **23.3** | 21.0 |
| Quarry Greystanes, NSW - Camerons Transport | 50 | Dec 2007 | Jun 2014 | 16.8 | (c) | **16.8** | 15.9 |
| Quarry Greystanes, NSW - UPS | 50 | Dec 2007 | Jun 2014 | 4.6 | (c) | **4.6** | 4.4 |
| Quarry Greystanes, NSW - WH9 | 50 | Dec 2007 | Jun 2014 | 14.7 | (c) | **14.7** | 13.7 |
| Quarry Greystanes, NSW - Brady | 50 | Dec 2007 | Jun 2014 | 12.0 | (c) | **12.0** | 11.1 |
| Quarry Greystanes, NSW - Roche[1] | 50 | Dec 2007 | Jun 2014 | 8.0 | (c) | **8.0** | - |
| Quarry Greystanes, NSW - Blackwoods[1] | 50 | Dec 2007 | Jun 2014 | 16.2 | (c) | **16.2** | - |
| Quarry Greystanes, NSW - WH10[1] | 50 | Dec 2007 | Jun 2014 | 14.6 | (c) | **14.6** | - |
| Boundary Road, Laverton, VIC - Fastline | 50 | Jun 2010 | Jun 2014 | 7.6 | (c) | **7.6** | 8.0 |

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

# Note 13

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

| (a) Properties (continued) | Ownership | Acquisition date | Independent valuation date | Independent valuation amount | Independent valuer | Book value 30 Jun 2014 | Book value 30 Jun 2013 |
|---|---|---|---|---|---|---|---|
| | % | | | $m | | $m | $m |
| 27 Distribution Drive, Laverton – Toll | 50 | Jun 2010 | Jun 2014 | 6.8 | (c) | **6.8** | 6.4 |
| 28 Distribution Drive, Laverton – ACFS | 100 | Jun 2010 | n/a | n/a | n/a | **6.4** | 6.5 |
| 25 Distribution Drive, Laverton - Spec 4[1] | 50 | Jun 2010 | Jun 2014 | 4.8 | (c) | **4.8** | - |
| 45 Clarence Street, Sydney, NSW | 100 | Dec 1998 | Sep 2013 | 270.0 | (f) | **276.3** | 256.7 |
| Governor Phillip Tower & Governor Macquarie Tower, 1 Farrer Place, Sydney, NSW | 50 | Dec 1998 | Dec 2012 | 670.0 | (a) | **679.2** | 671.8 |
| 309-321 Kent Street, Sydney, NSW | 50 | Dec 1998 | Jun 2012 | 191.0 | (d) | **195.6** | 194.0 |
| 1 Margaret Street, Sydney, NSW | 100 | Dec 1998 | Jun 2014 | 212.0 | (a) | **212.0** | 192.8 |
| Victoria Cross 60 Miller Street, North Sydney, NSW | 100 | Dec 1998 | Sep 2012 | 146.0 | (c) | **148.7** | 147.8 |
| The Zenith, 821-843 Pacific Highway, Chatswood, NSW | 50 | Dec 1998 | Dec 2013 | 125.0 | (e) | **126.2** | 120.3 |
| Woodside Plaza, 240 St Georges Terrace, Perth, WA | 100 | Jan 2001 | Dec 2013 | 500.0 | (f) | **500.6** | 480.2 |
| 30 The Bond, 30-34 Hickson Road, Sydney, NSW | 100 | May 2002 | Jun 2013 | 179.0 | (c) | **178.7** | 179.0 |
| Southgate Complex, 3 Southgate Avenue, Southbank, VIC | 100 | Aug 2000 | Dec 2013 | 460.0 | (c) | **458.5** | 425.2 |
| 201-217 Elizabeth Street, Sydney, NSW | 50 | Aug 2000 | Jun 2014 | 160.0 | (f) | **160.0** | 144.0 |
| Garema Court, 140-180 City Walk, Civic, ACT ** | 100 | Aug 2000 | Dec 2011 | 29.5 | (a) | **57.1** | 55.1 |
| Australia Square Complex, 264-278 George Street, Sydney, NSW | 50 | Aug 2000 | Jun 2013 | 305.0 | (e) | **317.8** | 305.0 |
| Lumley Centre, 88 Shortland Street, Auckland[2] | 100 | Sep 2005 | Jun 2013 | 107.4 | n/a | **-** | 107.4 |
| **Total investment properties excluding development properties** | | | | | | **5,887.5** | 6,008.1 |
| **Total development properties held as investment property** | | | | | | **39.0** | 76.9 |
| **Total investment properties** | | | | | | **5,926.5** | 6,085.0 |

1 Classified as development property held as investment property at 30 June 2013.
2 Classified as non-current asset held for sale at 30 June 2014.
The title to all properties is freehold, with the exception of the properties marked ** which are leasehold.

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

# Note 13

**Non-current assets - investment properties** (continued)

## (b) Reconciliation

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

### Disposals

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

## (c) Valuation process

Properties independently valued in the last 12 months were based on independent assessments by a member of the Australian Property Institute or the New Zealand Institute of Valuers who are instructed in accordance with all applicable regulatory requirements. Independent valuations of individual investment properties are carried out in accordance with the Constitutions for each trust forming the Group which at a minimum requires each individual property to be independently valued every three years. Each valuation firm and its signatory valuer are appointed on the basis that they are engaged for no more than three consecutive valuations. Independent valuations may be undertaken earlier where the Responsible Entity believes there is potential for a material change in the fair value of the property being the greater of 5% of the asset value, or $5 million.

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

# Note 13

**Non-current assets - investment properties** (continued)

### (c) Valuation process (continued)

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

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

### (d) Fair value measurement, valuation techniques and inputs

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

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

### (e) Sensitivity information

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

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

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

# Note 13

**Non-current assets - investment properties** (continued)

### (e) Sensitivity information (continued)

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

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

### (f) Investment properties pledged as security

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

# Note 14

**Non-current assets - plant and equipment**

| | **2014** **$m** | 2013 $m |
|---|---|---|
| Opening balance at the beginning of the year | **8.8** | 4.7 |
| Additions | **4.0** | 7.0 |
| Depreciation charge | **(2.0)** | (2.9) |
| **Closing balance at the end of the year** | **10.8** | 8.8 |

| | **2014** **$m** | 2013 $m |
|---|---|---|
| Cost | **26.6** | 22.6 |
| Accumulated depreciation | **(15.8)** | (13.8) |
| **Net book value as at the end of the year** | **10.8** | 8.8 |

# Note 15

**Non-current assets - investments accounted for using the equity method**

Investments are accounted for in the Financial Statements using the equity method of accounting (refer note 1(b)).

Information relating to these entities is set out below:

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

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

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

# Note 15

**Non-current assets - investments accounted for using the equity method** (continued)

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

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

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

# Note 15

**Non-current assets - investments accounted for using the equity method** (continued)

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

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

# Note 16

**Non-current assets - deferred tax assets**

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

# Note 17

**Non-current assets - intangible assets**

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

Management rights represent the asset management rights owned by DEXUS Holdings Pty Limited, a wholly owned subsidiary of DXO, which entitle it to management fee revenue from both finite life trusts and indefinite life trusts. Those rights that are deemed to have a finite useful life (held at a value of $5.1 million (2013: $5.4 million)) are measured at cost and amortised using the straight-line method over their estimated remaining useful lives of 18 years.

During the year the Group purchased management rights which entitle it to management fee revenue from DEXUS Office Trust Australia (DOTA). These rights are deemed to have an indefinite life and are held at $42.0 million (2013: nil). Management rights in relation to other managed funds deemed to have an indefinite life are held at a value of $244.0 million (2013: $236.7 million).

### Impairment of management rights

During the current year, management carried out a review of the recoverable amount of its management rights. As part of this process, the estimated fair value of assets under management, which are used to derive the future expected management fee income, have been adjusted to better reflect current market conditions and committed developments. This has resulted in the recognition of a reversal of previous impairments of $7.3 million (2013: $20.5 million) in the Statement of Comprehensive Income.

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

Key assumptions:

- A terminal capitalisation rate range between 12.5% - 16.7% (2013: 12.5%) was used incorporating an appropriate risk premium for a management business.
- The cash flows have been discounted at 9.5% (2013: 9.5%) based on externally published weighted average cost of capital for an appropriate peer group plus an appropriate premium for risk. A 0.25% (2013: 0.25%) decrease in the discount rate would increase the valuation by $3.7 million (2013: $2.7 million).

# Note 18

**Non-current assets - other**

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

# Note 19

**Current liabilities - payables**

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

# Note 20

**Interest bearing liabilities**

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

# Note 20

**Interest bearing liabilities** (continued)

**Financing arrangements**

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

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

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

**(a) US senior notes (144A)**

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

**(b) US senior notes (USPP)**

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

**(c) Multi-option revolving credit facilities**

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

**(d) Commercial paper**

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

**(e) Medium term notes**

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

**Additional information**

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

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

# Note 21

## Provisions

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

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

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

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

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

# Note 22

## Non-current liabilities - loan from related party

| | 2014 $m | 2013 $m |
|---|---|---|
| Non-interest bearing loan from DEXUS Office Trust Australia[1] | **338.4** | - |
| **Total non-current liabilities - loan from related party** | **338.4** | - |

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

# Note 23

## Non-current liabilities - deferred tax liabilities

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

# Note 24

## Non-current liabilities - other

| | 2014 $m | 2013 $m |
|---|---|---|
| Tenant bonds and other | **3.9** | 4.6 |
| **Total non-current liabilities - other** | **3.9** | 4.6 |

# Note 25

## Contributed equity

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

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

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

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

### (c) Number of securities on issue

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

**Terms and conditions**

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

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

# Note 26

## Reserves and retained profits

### (a) Reserves

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

### (b) Nature and purpose of reserves

#### Foreign currency translation reserve

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

#### Asset revaluation reserve

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

#### Cash flow hedge reserve

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

# 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 37 for further details.

### Treasury securities reserve

The treasury securities reserve is used to record the acquisition of securities purchased to fulfill the obligations of the 2012 Transitional Performance Rights Plan, the Deferred Short Term Incentive Plan (DSTI) and the Long Term Incentive Plan (LTI). As at 30 June 2014, DXS held 5,086,949 stapled securities (2013: 2,108,728).

## (c) Retained profits

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

# Note 27

**Distributions paid and payable**

## (a) Distribution to security holders

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

## (b) Distribution rate

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

## (c) Franked dividends

The franked portions of the final dividends recommended after 30 June 2014 will be franked out of existing franking credits or out of franking credits arising from the payment of income tax in the year ended 30 June 2014.

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

# Note 28

**Parent entity financial information**

## (a) Summary financial information

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

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

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

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

## (c) Contingent liabilities

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

## (d) Capital commitments

The following amounts represent capital expenditure of the parent entity on investment properties contracted at the end of the reporting period but not recognised as liabilities payable:

| | 2014 $m | 2013 $m |
|---|---|---|
| Investment properties | 6.5 | 3.2 |
| **Total capital commitments** | 6.5 | 3.2 |

# Note 29

## Financial risk management

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

The Capital Markets Committee is a management committee that is accountable to both the Board Finance Committee and the Group Management Committee. It convenes at least quarterly and conducts a review of financial risk management exposures including liquidity, funding strategies and hedging. It is also responsible for the development of financial risk management policies and funding strategies for recommendation to the Board Finance Committee, and the approval of treasury transactions within delegated limits and powers.

Further information on the Group's governance structure, including terms of reference, is available at www.dexus.com

### (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; and
- other market factors and circumstances.

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

The Group has a stated target gearing level of 30% to 40%. The gearing ratio calculated in accordance with our covenant requirements is detailed below:

| Gearing ratio | **2014 $m** | 2013 $m |
|---|---|---|
| Total interest bearing liabilities[1] | **2,919.3** | 2,134.7 |
| Total tangible assets[2] | **9,342.2** | 7,329.3 |
| **Gearing ratio[3]** | **31.2%** | 29.1% |

1 Total interest bearing liabilities excludes deferred borrowing costs and includes the currency impact of cross currency swaps as reported internally to management.
2 Total tangible assets comprise total assets less intangible assets, derivatives and deferred tax balances as reported internally to management.
3 The cash adjusted look-through gearing ratio at 30 June 2014 was 33.7% (2013: 29.0%).

The Group is rated A- by Standard and Poor's (S&P) and A3 by Moody's. The Group considers potential impacts upon the rating when assessing the strategy and activities of the Group and regards those impacts as an important consideration in its management of the Group's capital structure.

The Group is required to comply with certain financial covenants in respect of its interest bearing liabilities. During the 2013 and 2014 reporting periods, the Group was in compliance with all of its financial covenants.

# Note 29

**Financial risk management** (continued)

### (1) Capital risk management (continued)

DXFM is the Responsible Entity for the managed investment schemes that are stapled to form the Group. DXFM has been issued with an Australian Financial Services Licence (AFSL). The licence is subject to certain capital requirements including the requirement to maintain liquidity above specified limits. DXFM must also prepare rolling cash projections over at least the next 12 months and demonstrate it will have access to sufficient financial resources to meet its liabilities that are expected to be payable over that period. Cash projections and assumptions are approved, at least quarterly, by the Board of the Responsible Entity.

DWPL, a wholly owned entity, has also been issued with an AFSL as it is the Responsible Entity for DEXUS Wholesale Property Fund (DWPF). DEXUS Wholesale Management Limited (DWML), a wholly owned entity, has been issued with an AFSL as it is the trustee of third party managed funds. These entities are subject to the same capital requirements.

### (2) Financial risk management

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

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

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

#### (a) Liquidity risk

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

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

- short-term liquidity management includes continuously monitoring forecast and actual cash flows;
- medium-term liquidity management includes maintaining a level of committed borrowing facilities above the forecast committed debt requirements (liquidity headroom buffer). Committed debt includes future expenditure that has been approved by the Board or Investment Committee (as required within delegated limits), and may also include projects that have a very high probability of proceeding, taking into consideration risk factors such as the level of regulatory approval, tenant pre-commitments and portfolio considerations; 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 29

**Financial risk management** (continued)

## (2) Financial risk management (continued)

## (a) Liquidity risk (continued)

### 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.

| | 2014 | | | | 2013 | | | |
|---|---|---|---|---|---|---|---|---|
| | Expiring within one year $m | Expiring between one and two years $m | Expiring between two and five years $m | Expiring after five years $m | Expiring within one year $m | Expiring between one and two years $m | Expiring between two and five years $m | Expiring after five years $m |
| Receivables | 111.6 | - | - | - | 40.6 | - | - | - |
| Payables | 112.4 | - | - | - | 95.2 | - | - | - |
| | (0.8) | - | - | - | (54.6) | - | - | - |
| **Interest bearing liabilities and interest** | | | | | | | | |
| Fixed interest rate liabilities and interest | 168.3 | 71.2 | 667.1 | 970.7 | 55.2 | 148.4 | 430.8 | 518.5 |
| Floating interest rate liabilities and interest | 114.7 | 156.6 | 1,370.5 | 117.0 | 69.0 | 257.9 | 1,179.8 | - |
| **Total interest bearing liabilities and interest[1]** | 283.0 | 227.8 | 2,037.6 | 1,087.7 | 124.2 | 406.3 | 1,610.6 | 518.5 |
| **Derivative financial instruments** | | | | | | | | |
| Derivative assets | 131.3 | 31.3 | 119.8 | 772.5 | 53.3 | 138.6 | 106.5 | 681.3 |
| Derivative liabilities | 139.6 | 51.2 | 167.9 | 661.9 | 61.1 | 134.4 | 121.6 | 632.8 |
| **Total net derivative financial instruments[2]** | (8.3) | (19.9) | (48.1) | 110.6 | (7.8) | 4.2 | (15.1) | 48.5 |

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

2 The notional maturities on derivatives is only shown for cross currency interest rate swaps (refer foreign exchange rate risk) as they are the only instruments where a principal amount is exchanged. For interest rate swaps, only the net interest cash flows (not the notional principal) are included. For financial assets and liabilities that have floating rate interest cash flows, future cash flows have been calculated using static interest and exchange rates prevailing at the end of each reporting period. Refer to note 10 (derivative financial instruments) for fair value of derivatives. Refer note 30 (contingent liabilities) for financial guarantees.

# Note 29

**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 2014, 62% (2013: 62%) of the financial assets and liabilities of the Group had an effective fixed interest rate.

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

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

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

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

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

## Note 29

**Financial risk management** (continued)

**(2) Financial risk management** (continued)

**(b) Market risk** (continued)

(i) Interest rate risk (continued)

**Sensitivity on interest expense**

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

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

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

**Sensitivity on fair value of interest rate swaps**

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

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

(ii) Foreign exchange risk

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

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

- translation of an investment in a foreign operation;
- borrowings and cross currency swaps denominated in foreign currencies; and
- 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.

# Note 29

**Financial risk management** (continued)

**(2) Financial risk management** (continued)

**(b) Market risk** (continued)

(ii) Foreign exchange risk (continued)

**Foreign currency assets and liabilities**

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

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

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

| | **2014** <br> **$m** | 2013 <br> $m |
|---|---|---|
| € assets[1] | - | 6.0 |
| € net borrowings and cross currency swaps[2] | - | (4.2) |
| **€ denominated net investment** | **-** | 1.8 |
| **% hedged** | **0%** | 71% |
| NZ$ assets[1] | **140.0** | 127.5 |
| NZ$ net borrowings[2] | **(125.0)** | - |
| **NZ$ denominated net investment** | **15.0** | 127.5 |
| **% hedged** | **89%** | 0% |
| **Total foreign net investment (A$ equivalent)** | **13.9** | 109.9 |
| **Total % hedged** | **89%** | 5% |

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

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

# Note 29

**Financial risk management** (continued)

**(2) Financial risk management** (continued)

**(b) Market risk** (continued)

(ii) Foreign exchange risk (continued)

### 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.

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

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

2 Exchange rates at 30 June 2014: A$/€ 0.6906 (2013: 0.7095), A$/NZ$ 1.0761 (2013: 1.1871).

### Sensitivity on fair value of cross currency swaps

The table below shows the impact on the Statement of Comprehensive Income for changes in the fair value of cross currency swaps for a 50 basis points increase and decrease in market rates. The sensitivity on the fair value arises from the impact that changes in short-term and long-term market rates will have on the interest rate mark-to-market valuation of the cross currency swaps.

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

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

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

# Note 29

**Financial risk management** (continued)

## (2) Financial risk management (continued)

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

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

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

As at 30 June 2014 and 30 June 2013, there were no significant concentrations of credit risk for trade receivables. Trade receivable balances and the credit quality of trade debtors are consistently monitored on an ongoing basis.

The ageing analysis of loans and receivables net of provisions at 30 June 2014 is ($m): 106.4 (0-30 days), 3.1 (31-60 days), 0.6 (61-90 days), 1.5 (91+ days). The ageing analysis of loans and receivables net of provisions at 30 June 2013 is ($m): 34.6 (0-30 days), 2.3 (31-60 days), 1.7 (61-90 days), 2.0 (91+ days)). Amounts over 31 days are past due, however, no receivables are impaired.

The credit quality of financial assets that are neither past due nor impaired is consistently monitored to ensure that there are no adverse changes in credit quality.

# Note 29

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

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

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

2 Fair value is the price that would be received to transfer the asset or liability in an orderly transaction between market participants at the measurement date. Where there is a difference between the carrying amount and fair value, the difference is not recognised in the Statement of Financial Position.

The fair value of interest bearing liabilities and derivative financial instruments has been determined based on a discounted cash flow analysis using observable market inputs (interest rates, exchange rates, and basis) and applying a credit or debit value adjustment based on the current credit worthiness of counterparties and the Group.

# Note 29

**Financial risk management** (continued)

## (2) Financial risk management (continued)

### (d) Fair value of financial instruments (continued)

The Group uses methods in the determination and disclosure of the fair value of financial instruments. These methods comprise:

**Level 1:** the fair value is calculated using quoted prices in active markets.

**Level 2:** the fair value is determined using inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

**Level 3:** the fair value is estimated using inputs for the asset or liability that are not based on observable data.

The following tables present the assets and liabilities measured and recognised as at fair value at 30 June 2014 and 30 June 2013.

| 2014 | Level 1 $m | Level 2 $m | Level 3 $m | Total $m |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Derivative assets | | | | |
| Interest rate derivatives | - | 24.8 | - | 24.8 |
| Cross currency swaps | - | 55.4 | - | 55.4 |
| Other | - | - | - | - |
| | - | 80.2 | - | 80.2 |
| **Financial liabilities** | | | | |
| Interest bearing liabilities | | | | |
| Fixed interest bearing liabilities | - | 1,491.0 | - | 1,491.0 |
| Floating interest bearing liabilities | - | 1,555.7 | - | 1,555.7 |
| | - | 3,046.7 | - | 3,046.7 |
| Derivative liabilities | | | | |
| Interest rate derivatives | - | 81.7 | - | 81.7 |
| Cross currency swaps | - | 6.4 | - | 6.4 |
| | - | 88.1 | - | 88.1 |

| 2013 | Level 1 $m | Level 2 $m | Level 3 $m | Total $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 |

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

# Note 29

**Financial risk management** (continued)

## (2) Financial risk management (continued)

### (e) Offsetting financial assets and financial liabilities

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

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

| 2014 | Gross amounts $m | Gross amounts offset in the statement of financial position $m | Net amounts presented in the statement of financial position $m | Amounts subject to master netting arrangements $m | Financial instrument collateral $m | Net amount $m |
|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | |
| Derivative financial instruments | 80.2 | - | 80.2 | (24.8) | - | 55.4 |
| **Total** | 80.2 | - | 80.2 | (24.8) | - | 55.4 |
| **Financial liabilities** | | | | | | |
| Derivative financial instruments | 88.1 | - | 88.1 | (24.8) | - | 63.3 |
| **Total** | 88.1 | - | 88.1 | (24.8) | - | 63.3 |

| 2013 | Gross amounts $m | Gross amounts offset in the statement of financial position $m | Net amounts presented in the statement of financial position $m | Amounts subject to master netting arrangements $m | Financial instrument collateral $m | Net amount $m |
|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | |
| Derivative financial instruments | 140.2 | - | 140.2 | (17.9) | - | 122.3 |
| **Total** | 140.2 | - | 140.2 | (17.9) | - | 122.3 |
| **Financial liabilities** | | | | | | |
| Derivative financial instruments | 101.2 | - | 101.2 | (17.9) | - | 83.3 |
| **Total** | 101.2 | - | 101.2 | (17.9) | - | 83.3 |

#### Master netting arrangements - not currently enforceable

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

# Note 30

**Contingent liabilities**

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

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

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

On settlement of the US sales transaction (refer note 12), a letter of credit was issued in relation to the sale of 25 properties located in the United States. The letter of credit was issued for US$15.2 million (A$16.1 million) and is expected to remain on issue until September 2014.

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

The above guarantees are issued in respect of the Group and do not constitute an additional liability to those already existing in interest bearing liabilities on the Statement of Financial Position.

The Directors of the Responsible Entity are not aware of any other contingent liabilities in relation to the Group, other than those disclosed in the Financial Statements, which should be brought to the attention of security holders as at the date of completion of this report.

# Note 31
## Commitments

### (a) Capital commitments

The following amounts represent capital expenditure on investment properties and inventories contracted at the end of each reporting period but not recognised as liabilities payable:

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

### (b) Lease payable commitments

The future minimum lease payments payable by the Group are:

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

Payments made under operating leases are expensed on a straight-line basis over the term of the lease, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased property.

No provisions have been recognised in respect of non-cancellable operating leases.

### (c) Lease receivable commitments

The future minimum lease payments receivable by the Group are:

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

# Note 32

## Related parties

### Responsible Entity and Investment Manager

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

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

DXH is the Investment Manager of DOTA.

### Management fees

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

### Related party transactions

Responsible Entity fees in relation to Group assets are on a cost recovery basis. All agreements with third party funds are conducted on normal commercial terms and conditions.

### DEXUS Wholesale Property Fund

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

### Investments accounted for using the equity method

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

# Note 32

**Related parties** (continued)

### Directors

The following persons were Directors of DXFM at all times during the year and to the date of this report, unless otherwise stated:

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

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

### Other key management personnel

In addition to the Directors listed above, the following persons were deemed by the Board Nomination, Remuneration & Governance Committee to be key management personnel during all or part of the financial year:

| Name | Title |
|---|---|
| Ross Du Vernet | Executive General Manager, Strategy, Transactions & Research |
| Kevin George | Executive General Manager, Office & Industrial |

### Key management personnel compensation

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

The Group has shown the detailed remuneration disclosures in the Directors' Report. The relevant information can be found in section 3 of the Directors' Report.

# Note 32

**Related parties** (continued)

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

The DXFM Board has approved a grant of performance rights to 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 2014 and 30 June 2013.

# Note 33

**Events occurring after reporting date**

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

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

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

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

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

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

# Note 34
**Operating segments**

### (a) Description of segments

The Chief Operating Decision Maker (CODM) has been identified as the Board of Directors as they are responsible for the strategic decision making within the Group. 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.

| | |
|---|---|
| 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. |

# Note 34

**Operating segments** (continued)

## (b) Segment information provided to the CODM

| 30 June 2014 | Office $m | Industrial $m | Property management $m | Development and trading $m | Funds management $m | All other segments $m | Eliminations $m | Total $m |
|---|---|---|---|---|---|---|---|---|
| **Segment performance measures** | | | | | | | | |
| Property revenue and property management fees | 541.2 | 146.3 | 12.8 | - | - | - | (0.6) | **699.7** |
| Proceeds from sale of inventory | - | - | - | 69.3 | - | - | - | **69.3** |
| Management fee revenue | - | - | 23.3 | 1.4 | 32.0 | - | - | **56.7** |
| **Total operating segment revenue** | **541.2** | **146.3** | **36.1** | **70.7** | **32.0** | **-** | **(0.6)** | **825.7** |
| Property expenses | (138.7) | (25.8) | - | - | - | - | - | **(164.5)** |
| Property management salaries | - | - | (8.9) | - | - | - | - | **(8.9)** |
| Corporate and administration expenses | (7.6) | (3.2) | (17.4) | (3.0) | (13.9) | (27.5) | 0.6 | **(72.0)** |
| Cost of sale of inventory | - | - | - | (65.3) | - | - | - | **(65.3)** |
| Interest revenue | - | - | - | - | - | 0.7 | - | **0.7** |
| Finance costs | - | - | - | - | - | (140.1) | - | **(140.1)** |
| Incentive amortisation and rent straight-line | 23.2 | (1.1) | - | 0.3 | - | - | - | **22.4** |
| Tax expense | - | - | - | - | - | (0.5) | - | **(0.5)** |
| Coupon income and net CPA distribution income | 7.9 | - | - | - | - | 5.2 | - | **13.1** |
| **Funds From Operations (FFO)** | **426.0** | **116.2** | **9.8** | **2.7** | **18.1** | **(162.2)** | **-** | **410.6** |
| Net fair value gain of investment properties | 155.3 | 10.2 | - | - | - | - | - | **165.5** |
| Net fair value loss of derivatives | - | - | - | - | - | (52.9) | - | **(52.9)** |
| Finance costs attributable to sales transactions | - | - | - | - | - | (4.5) | - | **(4.5)** |
| CPA transaction costs | - | - | - | - | - | (76.7) | - | **(76.7)** |
| Foreign currency translation reserve transfer on disposal of foreign operations | - | - | - | - | - | 0.8 | - | **0.8** |
| Net loss on sale of investment properties | (4.2) | (4.1) | - | - | - | - | - | **(8.3)** |
| Net fair value gain of interest bearing liabilities | - | - | - | - | - | 12.3 | - | **12.3** |
| Incentive amortisation and rent straight-line | (23.2) | 1.1 | - | (0.3) | - | - | - | **(22.4)** |
| Reversal of impairment of management rights | - | - | - | - | - | 7.3 | - | **7.3** |
| Deferred tax expense | - | - | - | - | - | (12.0) | - | **(12.0)** |
| Coupon income and net CPA distribution income | (7.9) | - | - | - | - | (5.2) | - | **(13.1)** |
| **Net profit/(loss) attributable to stapled security holders** | **546.0** | **123.4** | **9.8** | **2.4** | **18.1** | **(293.1)** | **-** | **406.6** |
| **Segment asset measures** | | | | | | | | |
| Investment properties | 4,673.6 | 1,252.9 | - | - | - | - | - | **5,926.5** |
| Non-current assets held for sale | 130.1 | 9.5 | - | - | - | - | - | **139.6** |
| Inventories | - | - | - | 316.2 | - | - | - | **316.2** |
| Equity accounted investment properties | 2,717.8 | 29.3 | - | - | - | - | - | **2,747.1** |
| **Direct property portfolio** | **7,521.5** | **1,291.7** | **-** | **316.2** | **-** | **-** | **-** | **9,129.4** |

# Note 34

**Operating segments** (continued)

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

| 30 June 2013 | Office $m | Industrial $m | Property management $m | Development and trading $m | Funds management $m | All other segments $m | Eliminations $m | Continuing operations $m | Discontinued operations $m | Total $m |
|---|---|---|---|---|---|---|---|---|---|---|
| **Segment performance measures** | | | | | | | | | | |
| Property revenue and property management fees | 424.1 | 142.6 | 12.3 | - | - | - | (0.3) | **578.7** | **31.7** | **610.4** |
| Proceeds from sale of inventory | - | - | - | 24.4 | - | - | - | **24.4** | **-** | **24.4** |
| Management fee revenue | - | - | 19.7 | 1.1 | 27.7 | - | - | **48.5** | **0.4** | **48.9** |
| **Total operating segment revenue** | **424.1** | **142.6** | **32.0** | **25.5** | **27.7** | **-** | **(0.3)** | **651.6** | **32.1** | **683.7** |
| Property expenses | (106.7) | (25.5) | - | - | - | - | - | **(132.2)** | **(7.7)** | **(139.9)** |
| Property management salaries | - | - | (9.8) | - | - | - | - | **(9.8)** | **-** | **(9.8)** |
| Corporate and administration expenses | (8.2) | (4.8) | (15.5) | (1.4) | (13.6) | (25.2) | 0.3 | **(68.4)** | **(3.4)** | **(71.8)** |
| Cost of sale of inventory | - | - | - | (22.9) | - | - | - | **(22.9)** | **-** | **(22.9)** |
| Foreign exchange gains | - | - | - | - | - | - | - | **-** | **4.0** | **4.0** |
| Interest revenue | - | - | - | - | - | 1.2 | - | **1.2** | **-** | **1.2** |
| Finance costs | - | - | - | - | - | (94.1) | - | **(94.1)** | **(18.3)** | **(112.4)** |
| Incentive amortisation and rent straight-line | 30.4 | (1.2) | - | - | - | - | - | **29.2** | **1.3** | **30.5** |
| Tax (expense)/benefit | - | - | - | - | - | (0.1) | - | **(0.1)** | **2.4** | **2.3** |
| Other | 0.8 | - | - | - | - | - | - | **0.8** | **(0.3)** | **0.5** |
| **Funds From Operations (FFO)** | **340.4** | **111.1** | **6.7** | **1.2** | **14.1** | **(118.2)** | **-** | **355.3** | **10.1** | **365.4** |
| Net fair value gain of investment properties | 190.7 | 8.0 | - | - | - | - | - | **198.7** | **21.9** | **220.6** |
| Impairment of inventories | - | - | - | (2.2) | - | - | - | **(2.2)** | **-** | **(2.2)** |
| Net fair value loss of derivatives | - | - | - | - | - | (15.4) | - | **(15.4)** | **(2.3)** | **(17.7)** |
| Finance costs attributable to sales transactions | - | - | - | - | - | - | - | **-** | **(18.8)** | **(18.8)** |
| Foreign currency translation reserve transfer on disposal of foreign operations | - | - | - | - | - | - | - | **-** | **(21.5)** | **(21.5)** |
| Net loss on sale of investment properties | (0.6) | (3.1) | - | - | - | - | - | **(3.7)** | **0.1** | **(3.6)** |
| Incentive amortisation and rent straight-line | (30.4) | 1.2 | - | - | - | - | - | **(29.2)** | **(1.3)** | **(30.5)** |
| Reversal of impairment of management rights | - | - | - | - | - | 20.5 | - | **20.5** | **-** | **20.5** |
| Deferred tax (expense)/benefit | - | - | - | - | - | (1.6) | - | **(1.6)** | **4.5** | **2.9** |
| Other | (0.8) | - | - | - | - | (0.1) | - | **(0.9)** | **0.3** | **(0.6)** |
| **Net profit/(loss) attributable to stapled security holders** | **499.3** | **117.2** | **6.7** | **(1.0)** | **14.1** | **(114.8)** | **-** | **521.5** | **(7.0)** | **514.5** |
| **Segment asset measures** | | | | | | | | | | |
| Investment properties | 4,657.9 | 1,427.1 | - | - | - | - | - | **6,085.0** | **-** | **6,085.0** |
| Non-current assets held for sale | - | - | - | - | - | - | - | **-** | **7.7** | **7.7** |
| Inventories | - | - | - | 252.9 | - | - | - | **252.9** | **-** | **252.9** |
| Equity accounted investment properties | 912.8 | - | - | - | - | - | - | **912.8** | **-** | **912.8** |
| **Direct property portfolio** | **5,570.7** | **1,427.1** | **-** | **252.9** | **-** | **-** | **-** | **7,250.7** | **7.7** | **7,258.4** |

# Note 34

**Operating segments** (continued)

## (c) Other segment information

### (i) Funds From Operations (FFO)

The Board assesses the performance of each operating sector based on FFO. FFO is a global financial measure of real estate operating performance after finance costs and taxes, and is adjusted for certain non-cash items. The Directors consider FFO to be a measure that reflects the underlying performance of the Group. DEXUS's FFO comprises net profit/loss after tax attributable to stapled security holders calculated in accordance with Australian Accounting Standards and adjusted for: property revaluations, impairments, derivative and FX mark-to-market impacts, fair value movements of interest bearing liabilities, amortisation of certain tenant incentives, gain/loss on sale of certain assets, straight line rent adjustments, deferred tax expense/benefit, rental guarantees, coupon income and distribution income net of funding costs.

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

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

### (iii) Reconciliation of segment assets to the Statement of Financial Position

The amounts provided to the CODM as a measure of segment assets is the direct property portfolio. The direct property portfolio values are allocated based on the operations of the segment and physical location of the asset and are measured in a manner consistent with the Statement of Financial Position. The reconciliation below reconciles the total direct property portfolio balance to total assets in the Statement of Financial Position.

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

1 This represents the Group's portion of investment properties accounted for using the equity method.

2 Other assets include the Group's share of total net assets of its investments accounted for using the equity method less the Group's share of the investment property value which is included in the direct property portfolio.

# Note 35

## Reconciliation of net profit to net cash flows from operating activities

### (a) Reconciliation

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

### (b) Capital expenditure on investment properties

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

# Note 36

## Earnings per unit

Earnings per unit are determined by dividing the net profit attributable to unitholders by the weighted average number of ordinary units outstanding during the year. The weighted average number of units has been adjusted for the bonus elements in units issued during the year and comparatives have been appropriately restated.

### (a) Net profit attributable to unitholders of the parent entity used in calculating basic and diluted earnings per unit

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

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

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

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

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

# Note 37

**Security-based payments**

The DXFM Board has approved a grant of performance rights to 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 2014 (2013: nil). The fair value of the 2012 performance rights is $0.9950 per performance right and the total security-based payment expense recognised during the year ended 30 June 2014 was $457,863 (2013: $535,605).

**(b) Deferred Short Term Incentive Plan**

25% of any award under the Short Term Incentive Plan (STI) for certain participants will be deferred and awarded in the form of performance rights to 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 2014 was 2,246,686 (2013: 2,073,400) and the fair value of these performance rights is $1.11 (2013: $1.07) per performance right. The total security-based payment expense recognised during the year ended 30 June 2014 was $1,727,708 (2013: $924,390).

**(c) Long Term Incentive Plan**

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

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

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 34 to 98:

(i) comply with Australian Accounting Standards, the *Corporations Act 2001* and other mandatory professional reporting requirements; and

(ii) give a true and fair view of the Group's financial position as at 30 June 2014 and of their performance, as represented by the results of their operations and their cash flows, for the year ended on that date.

In the Directors' opinion:

(a) the Financial Statements and notes are in accordance with the *Corporations Act 2001*;

(b) there are reasonable grounds to believe that the Group and its consolidated entities will be able to pay their debts as and when they become due and payable; and

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

Note 1(a) confirms that the Financial Statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The Directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer required by section 295A of the *Corporations Act 2001*.

This declaration is made in accordance with a resolution of the Directors.

**Christopher T Beare**
Chair
13 August 2014

# Independent auditor's report to the stapled security holders of DEXUS Diversified Trust

## *Report on the financial report*

We have audited the accompanying financial report of DEXUS Diversified Trust (the Trust or DDF), which comprises the statement of financial position as at 30 June 2014, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for DEXUS Property Group (the Group or the consolidated stapled entity). The consolidated stapled entity, as described in Note 1 to the financial report, comprises the Trust and the entities it controlled at year's end or from time to time during the financial year.

### *Directors' responsibility for the financial report*

The directors of DEXUS Funds Management Limited (the Responsible Entity) are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

### *Auditor's responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

### *Independence*

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

*Auditor's opinion*

In our opinion:

(a) the financial report of DEXUS Diversified Trust is in accordance with the *Corporations Act 2001,* including:

(i) giving a true and fair view of the consolidated stapled entity's financial position as at 30 June 2014 and of its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.

(b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in Note 1.

## *Report on the Remuneration Report*

We have audited the remuneration report included in pages 3 to 21 of the directors' report for the year ended 30 June 2014. The directors of the Trust are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

*Auditor's opinion*

In our opinion, the remuneration report of DEXUS Diversified Trust for the year ended 30 June 2014 complies with section 300A of the *Corporations Act 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers

E A Barron
Partner

Sydney
13 August 2014

# DEXUS Industrial Trust

(ARSN 090 879 137)

Financial Report
30 June 2014

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 Industrial Trust present their Directors' Report together with the consolidated Financial Statements for the year ended 30 June 2014. 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 | Resigned |
|---|---|---|
| Christopher T Beare | 4 August 2004 | |
| Elizabeth A Alexander, AM | 1 January 2005 | |
| Penny Bingham-Hall | 10 June 2014 | |
| Barry R Brownjohn | 1 January 2005 | 29 October 2013 |
| John C Conde, AO | 29 April 2009 | |
| Tonianne Dwyer | 24 August 2011 | |
| Stewart F Ewen, OAM | 4 August 2004 | 29 October 2013 |
| Craig D Mitchell | 12 February 2013 | |
| W Richard Sheppard | 1 January 2012 | |
| Darren J Steinberg | 1 March 2012 | |
| Peter B St George | 29 April 2009 | |

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 2014 are as follows:

**John C Easy B Comm LLB FGIA FCIS**
Appointed: 1 July 2005

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

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

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

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

# 1 Directors and Secretaries (continued)

## 1.2 Company Secretaries (continued)

**Scott D Mahony B Bus(Acc) MBA(e-commerce) AGIA**
Appointed: 1 April 2014

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

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

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

# 2 Attendance of Directors at Board meetings and Board Committee meetings

The number of Directors' meetings held during the year and each Director's attendance at those meetings is set out in the table below. The Directors met 18 times during the year. Ten Board meetings were main meetings and eight meetings were held to consider specific business.

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

1 Appointed 10 June 2014.
2 Resigned 29 October 2013.

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

1 Appointed 10 June 2014.
2 Resigned 29 October 2013.

## 3 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 |
| Penny Bingham-Hall[1] | - |
| John C Conde, AO | 100,000 |
| Tonianne Dwyer | 100,000 |
| Craig D Mitchell | 1,073,059[2] |
| W Richard Sheppard | 420,537 |
| Darren J Steinberg | 1,996,364[2] |
| Peter B St George | 104,000 |

1 Appointed 10 June 2014.
2 Includes interests held directly and through performance rights (refer note 28).

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

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

## 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 2014 were:

- profit attributable to unitholders was $40.0 million (2013: $100.1 million profit);
- total assets were $944.3 million (2013: $1,095.8 million); and
- net assets were $868.0 million (2013: $720.2 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 2014 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

There was no distribution paid or payable by the Trust for the year ended 30 June 2014, this is outlined in note 23 of the Notes to the Financial Statements and form part of this Directors' Report.

## 11 DXFM's fees

Details of fees paid or payable by the Trust to DXFM for the year ended 30 June 2014 are outlined in note 28 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 2014 are detailed in note 21 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 28 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 2014 (2013: 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;

## 15 Audit (continued)

### 15.2 Non-audit services (continued)

- 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.

## 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 Directors' authorisation

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

**Christopher T Beare**
Chair
13 August 2014

**Darren J Steinberg**
Chief Executive Officer
13 August 2014

# Auditor’s Independence Declaration

As lead auditor for the audit of DEXUS Industrial Trust for the year ended 30 June 2014, I declare that to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

b) no contraventions of any applicable code of professional conduct in relation to the audit.

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

E A Barron
Partner
PricewaterhouseCoopers

Sydney
13 August 2014

***PricewaterhouseCoopers, ABN 52 780 433 757***
*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 | 2014 $'000 | 2013 $'000 |
|---|---|---|---|
| **Revenue from ordinary activities** | | | |
| Property revenue | 2 | **87,069** | 93,625 |
| Interest revenue | 3 | **19** | 105 |
| **Total revenue from ordinary activities** | | **87,088** | 93,730 |
| | | | |
| Net foreign exchange gain | | **596** | - |
| Other income | | **26** | - |
| **Total income** | | **87,710** | 93,730 |
| | | | |
| **Expenses** | | | |
| Property expenses | | **(19,529)** | (21,418) |
| Responsible Entity fees | 28 | **(2,567)** | (2,840) |
| Finance costs | 4 | **(20,731)** | (17,258) |
| Net fair value loss of derivatives | | **(252)** | - |
| Net loss on sale of investment properties | | **(4,892)** | (1,376) |
| Net fair value loss of investment properties | | **(683)** | (5,417) |
| Other expenses | 6 | **(813)** | (538) |
| **Total expenses** | | **(49,467)** | (48,847) |
| **Profit before tax** | | **38,243** | 44,883 |
| | | | |
| **Tax benefit** | | | |
| Income tax benefit | 5(a) | **973** | - |
| **Total tax benefit** | | **973** | - |
| **Profit after tax from continuing operations** | | **39,216** | 44,883 |
| Profit from discontinued operations | 10 | **812** | 55,207 |
| **Net profit for the year** | | **40,028** | 100,090 |
| **Other comprehensive income:** | | | |
| Foreign currency translation reserve transfer on disposal of foreign operations | | **(812)** | (26,620) |
| Exchange differences on translating foreign operations | | **132** | 2,770 |
| **Total comprehensive income for the year** | | **39,348** | 76,240 |

| | Note | Cents | Cents |
|---|---|---|---|
| **Basic and diluted earnings per unit attributable to unitholders of the parent entity** | | | |
| Earnings per unit - profit from continuing operations | 32 | **0.84** | 0.96 |
| Earnings per unit - loss from discontinued operations | 32 | **-** | (1.12) |
| Earnings per unit - total | 32 | **0.84** | (0.16) |

*The above Consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying notes.*

| | Note | 2014 $'000 | 2013 $'000 |
|---|---|---|---|
| **Current assets** | | | |
| Cash and cash equivalents | 8 | **2,197** | 2,452 |
| Receivables | 9 | **5,758** | 3,763 |
| Loan with related parties | 11 | **138,948** | 138,948 |
| Derivative financial instruments | 12 | **4,375** | 29 |
| Other | 13 | **1,095** | 1,887 |
| | | **152,373** | 147,079 |
| Discontinued operations and assets classified as held for sale | | **-** | 8,741 |
| **Total current assets** | | **152,373** | 155,820 |
| | | | |
| **Non-current assets** | | | |
| Investment properties | 14 | **726,391** | 925,526 |
| Loans with related parties | 11 | **59,962** | - |
| Derivative financial instruments | 12 | **5,566** | 14,341 |
| Other | 16 | **-** | 143 |
| **Total non-current assets** | | **791,919** | 940,010 |
| **Total assets** | | **944,292** | 1,095,830 |
| | | | |
| **Current liabilities** | | | |
| Payables | 17 | **54,679** | 57,321 |
| Current tax liabilities | | **-** | 973 |
| Provisions | 18 | **-** | 10,000 |
| Derivative financial instruments | 12 | **-** | 972 |
| | | **54,679** | 69,266 |
| Discontinued operations classified as held for sale | | **-** | 80 |
| **Total current liabilities** | | **54,679** | 69,346 |
| | | | |
| **Non-current liabilities** | | | |
| Loans with related parties | 11 | **-** | 286,473 |
| Derivative financial instruments | 12 | **21,401** | 19,742 |
| Other | 19 | **201** | 111 |
| **Total non-current liabilities** | | **21,602** | 306,326 |
| **Total liabilities** | | **76,281** | 375,672 |
| **Net assets** | | **868,011** | 720,158 |
| | | | |
| **Equity** | | | |
| Contributed equity | 21 | **1,190,969** | 1,082,464 |
| Reserves | 22 | **-** | 680 |
| Accumulated losses | 22 | **(322,958)** | (362,986) |
| **Total equity** | | **868,011** | 720,158 |

*The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.*

| | Note | Contributed equity $'000 | Accumulated losses $'000 | Foreign currency translation reserve $'000 | Total equity $'000 |
|---|---|---|---|---|---|
| **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: | | | | | |
| Capital contribution, net of transaction costs | | - | - | - | - |
| Buy-back of contributed equity | 21 | (10,323) | - | - | (10,323) |
| Distributions paid or provided for | 23 | - | (10,000) | - | (10,000) |
| **Closing balance as at 30 June 2013** | | 1,082,464 | (362,986) | 680 | 720,158 |
| | | | | | |
| **Opening balance as at 1 July 2013** | | **1,082,464** | **(362,986)** | **680** | **720,158** |
| Profit after tax for the year | | **-** | **40,028** | **-** | **40,028** |
| Other comprehensive loss for the year | | **-** | **-** | **(680)** | **(680)** |
| Transactions with owners in their capacity as owners: | | | | | |
| Buy-back of contributed equity | 21 | **(10,464)** | **-** | **-** | **(10,464)** |
| Issue of additional equity | 21 | **118,969** | **-** | **-** | **118,969** |
| Distributions paid or provided for | 23 | **-** | **-** | **-** | **-** |
| **Closing balance as at 30 June 2014** | | **1,190,969** | **(322,958)** | **-** | **868,011** |

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

| | Note | 2014 $'000 | 2013 $'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts in the course of operations (inclusive of GST) | | **98,192** | 120,908 |
| Payments in the course of operations (inclusive of GST) | | **(31,791)** | (47,218) |
| Interest received | | **19** | 882 |
| Finance costs paid | | **(8,739)** | (17,642) |
| Income and withholding taxes received | | **276** | 154 |
| **Net cash inflow from operating activities** | 31 | **57,957** | 57,084 |
| | | | |
| **Cash flows from investing activities** | | | |
| Proceeds from sale of investment properties | | **210,263** | 111,989 |
| Payments for capital expenditure on investment properties | | **(11,648)** | (10,950) |
| Payments for investment properties | | **-** | (22,321) |
| Proceeds from investments accounted for using the equity method | | **-** | 10,849 |
| 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** | | **198,615** | 269,443 |
| | | | |
| **Cash flows from financing activities** | | | |
| Payments for buy-back of contributed equity | | **(10,464)** | (10,323) |
| Proceeds from issue of additional equity | | **118,969** | - |
| Borrowings provided by entities within DXS | | **65,954** | 101,211 |
| Borrowings provided to entities within DXS | | **(421,693)** | (544,308) |
| Repayment of US REIT loan | | **-** | 125,606 |
| Distributions paid to unitholders | | **(10,000)** | (10,000) |
| **Net cash outflow from financing activities** | | **(257,234)** | (337,814) |
| | | | |
| **Net decrease in cash and cash equivalents** | | **(662)** | (11,287) |
| Cash and cash equivalents at the beginning of the year | | **2,836** | 11,862 |
| Effects of exchange rate changes on cash and cash equivalents | | **23** | 2,261 |
| **Cash and cash equivalents at the end of the year** | 8 | **2,197** | 2,836 |

*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 2014 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(q)). 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(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

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

(i) Controlled entities

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

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

(ii) Joint arrangements

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

*Joint operations*

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

# Note 1

**Summary of significant accounting policies** (continued)

## (b) Principles of consolidation (continued)

(ii) Joint arrangements (continued)

*Joint ventures*

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

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

## (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 prepare for their intended use or sale. In these circumstances, borrowing costs are capitalised to the cost of the asset during the period of time that is required to complete and prepare the asset for its intended use or sale. Where funds are borrowed generally, borrowing costs are capitalised using a weighted average capitalisation rate.

# 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. 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

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

Cash flows are included in the 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.

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.

### (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) 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.

# Note 1

**Summary of significant accounting policies** (continued)

### (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.

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

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

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

### (n) Leasing fees

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

### (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) 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.

# Note 1

**Summary of significant accounting policies** (continued)

### (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 | 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 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.

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

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

# Note 1

**Summary of significant accounting policies** (continued)

### (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.

### (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 Statements of the Trust are measured using the currency of the primary economic environment in which the entity operates. The Financial Statements are presented in Australian dollars.

(i) Foreign currency transactions

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

(ii) Foreign operations

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.

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.

# Note 1

**Summary of significant accounting policies** (continued)

### (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 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.

### (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, unless otherwise indicated.

### (x) Parent entity financial information

The financial information for the parent entity of the Trust is disclosed in note 24 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

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 Trust in controlled entities are measured at fair value through profit and loss to reduce a measurement or recognition inconsistency.

### (y) New accounting standards and interpretations

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

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

# Note 2

**Property revenue**

| | 2014<br>$'000 | 2013<br>$'000 |
|---|---|---|
| Rent and recoverable outgoings | 86,406 | 93,772 |
| Incentive amortisation | (7,050) | (6,661) |
| Other revenue | 7,713 | 6,514 |
| **Total property revenue** | **87,069** | 93,625 |

# Note 3

**Interest revenue**

| | 2014<br>$'000 | 2013<br>$'000 |
|---|---|---|
| Interest revenue from financial institutions | 19 | 105 |
| **Total interest revenue** | **19** | 105 |

# Note 4

**Finance costs**

| | 2014<br>$'000 | 2013<br>$'000 |
|---|---|---|
| Interest paid/payable | 1,684 | - |
| Interest paid to related parties | 11,287 | 14,003 |
| Net fair value loss of interest rate swaps | 6,900 | 3,252 |
| Other finance costs | 860 | 3 |
| **Total finance costs** | **20,731** | 17,258 |

# Note 5
## Income tax

### (a) Income tax benefit

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| Current tax benefit | **973** | 1,757 |
| Total income tax benefit | **973** | 1,757 |
| | | |
| **Total income tax benefit attributable to:** | | |
| Profit from continuing operations | **973** | - |
| Profit from discontinued operations | **-** | 1,757 |
| Total income tax benefit | **973** | 1,757 |

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

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| Profit from continuing operations before income tax | **38,243** | 44,883 |
| Profit from discontinued operations before income tax | **-** | 53,011 |
| Total profit before income tax | **38,243** | 97,894 |
| Less amounts not subject to income tax (note 1(g)) | **(38,243)** | (109,417) |
| | **-** | (11,523) |
| | | |
| Prima facie tax benefit at Australian tax rate of 30% (2013: 30%) | **-** | (3,457) |
| | | |
| **Tax effect of amounts which are not (deductible)/taxable in calculating taxable income:** | | |
| Depreciation and amortisation | **-** | (449) |
| Revaluation of investment properties | **-** | 5,169 |
| Net loss on sale of investment properties | **-** | 494 |
| Reversal of prior year income tax liability | **973** | - |
| | **973** | 5,214 |
| **Income tax benefit** | **973** | 1,757 |

# Note 6
## Other expenses

| | Note | 2014 $'000 | 2013 $'000 |
|---|---|---|---|
| Audit and taxation fees | 7 | **292** | 295 |
| Custodian fees | | **47** | 66 |
| Legal and other professional fees | | **199** | 104 |
| Registry costs and listing fees | | **94** | 63 |
| Other expenses | | **181** | 10 |
| **Total other expenses** | | **813** | 538 |

# Note 7

**Audit, taxation and transaction services fees**

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

| | 2014 $ | 2013 $ |
|---|---|---|
| **Audit fees** | | |
| PwC Australia - audit and review of Financial Statements | **285,214** | 264,689 |
| PwC fees paid in relation to outgoings audit[1] | **9,000** | 31,180 |
| PwC Australia - regulatory audit and compliance services | **7,240** | 7,034 |
| **Audit fees paid to PwC** | **301,454** | 302,903 |
| **Taxation fees** | | |
| Fees paid to PwC Australia | **5,000** | 16,667 |
| **Taxation fees paid to PwC[2]** | **5,000** | 16,667 |
| **Total audit and taxation fees paid to PwC[3]** | **306,454** | 319,570 |

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 After allowing for the impact of the above footnotes, total audit and taxation fees included in other expenses are $292,454 (2013: $295,464).

# Note 8

**Current assets - cash and cash equivalents**

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| Cash at bank | **2,197** | 2,452 |
| **Total current assets - cash and cash equivalents** | **2,197** | 2,452 |

**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:

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| Balances as above | **2,197** | 2,452 |
| Discontinued operations | **-** | 384 |
| **Balances per Statement of Cash Flows** | **2,197** | 2,836 |

# Note 9

**Current assets - receivables**

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| Rent receivable | **2,458** | 2,218 |
| Less: provision for doubtful debts | **-** | (486) |
| **Total rental receivables** | **2,458** | 1,732 |
| Other receivables | **3,300** | 2,031 |
| **Total other receivables** | **3,300** | 2,031 |
| **Total current assets - receivables** | **5,758** | 3,763 |

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

The profit from the discontinued operations comprises:

| | **2014** **$'000** | 2013 $'000 |
|---|---|---|
| Property revenue | - | 9,739 |
| Interest revenue | - | 772 |
| Share of net profit of associates accounted for using the equity method | - | 26,322 |
| Net fair value gain of investment properties | - | 355 |
| Net foreign exchange loss | - | (2,721) |
| Net loss on sale of investment properties | - | (1,651) |
| Property expenses | - | (1,901) |
| Responsible Entity fees | - | (388) |
| Finance gain | - | 3,825 |
| Net fair value loss of derivatives | - | (1,729) |
| Other expenses | - | (309) |
| **Profit before tax** | - | 32,314 |
| Income tax benefit | - | 1,757 |
| **Total tax benefit/(expense)** | - | 1,757 |
| Foreign currency translation reserve transfer on disposal of foreign operations | **812** | 26,620 |
| **Profit after tax** | **812** | 60,691 |
| | | |
| 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 from discontinued operations** | **812** | 55,207 |
| | | |
| Net cash flows from operating activities | - | (4,827) |
| Net cash flows from investing activities | **8,085** | 17,268 |
| Net cash flows from financing activities | **(8,085)** | 125,113 |
| **Net increase in cash generated by discontinued operations** | - | 137,555 |

# Note 10

**Assets classified as held for sale and discontinued operations** (continued)

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

| | 2014 $'000 | 2013 $'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 assets classified as held for sale and discontinued operations 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.

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| **Assets classified as held for sale** | | |
| Cash and cash equivalents | - | 384 |
| Receivables | - | 395 |
| Other assets | - | 263 |
| Investment properties[1] | - | 7,699 |
| **Total assets classified as held for sale** | - | 8,741 |
| **Liabilities classified as held for sale** | | |
| Payables | - | 80 |
| **Total liabilities classified as held for sale** | - | 80 |

1 Includes the remaining European property.

**Disposals**

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

# Note 11

**Loans with related parties**

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| **Current assets - loans with related parties** | | |
| Non-interest bearing loans with entities within DXS[1] | **138,948** | 138,948 |
| **Total current assets - loans with related parties** | **138,948** | 138,948 |
| **Non-current assets - loans with related parties** | | |
| Interest bearing loans with related parties[2] | **59,962** | - |
| **Total non-current assets - loans with related parties** | **59,962** | - |
| **Non-current liabilities - loans with related parties** | | |
| Interest bearing loans with related parties[2] | **-** | 286,473 |
| **Total non-current liabilities - loans with related parties** | **-** | 286,473 |

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**

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| **Current assets** | | |
| Interest rate swap contracts | **1,174** | 29 |
| Cross currency swap contracts | **3,201** | - |
| **Total current assets - derivative financial instruments** | **4,375** | 29 |
| | | |
| **Non-current assets** | | |
| Interest rate swap contracts | **3,479** | 7,731 |
| Cross currency swap contracts | **2,087** | 6,610 |
| **Total non-current assets - derivative financial instruments** | **5,566** | 14,341 |
| | | |
| **Current liabilities** | | |
| Interest rate swap contracts | **-** | 972 |
| **Total current liabilities - derivative financial instruments** | **-** | 972 |
| | | |
| **Non-current liabilities** | | |
| Interest rate swap contracts | **21,401** | 19,742 |
| **Total non-current liabilities - derivative financial instruments** | **21,401** | 19,742 |
| **Net derivative financial instruments** | **(11,460)** | (6,344) |

Refer note 25 for further discussion regarding derivative financial instruments.

# Note 13

**Current assets - other**

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| Prepayments | **1,095** | 1,887 |
| **Total current assets - other** | **1,095** | 1,887 |

# Note 14

## Non-current assets - investment properties

### (a) Reconciliation

| | Office $'000 | Industrial $'000 | Development properties $'000 | 2014 $'000 | 2013 $'000 |
|---|---|---|---|---|---|
| Opening balance at the beginning of the year | 146,638 | 768,685 | 10,203 | 925,526 | 1,058,533 |
| Additions | 1,533 | 6,045 | - | 7,578 | 8,472 |
| Acquisitions | - | - | - | - | 22,248 |
| Lease incentives | 2,305 | 6,515 | - | 8,820 | 6,015 |
| Amortisation of lease incentives | (2,467) | (4,583) | - | (7,050) | (6,661) |
| Net fair value loss of investment properties | 2,467 | (3,150) | - | (683) | (5,417) |
| Rent straightlining | 288 | 264 | - | 552 | 974 |
| Disposals | - | (208,352) | - | (208,352) | (18,500) |
| Transfer to non-current assets classified as held for sale | - | - | - | - | (140,138) |
| **Closing balance at the end of the year** | 150,764 | 565,424 | 10,203 | 726,391 | 925,526 |

### Disposals

- On 31 December 2013, 1-55 Rothschild Ave, Rosebery, NSW was disposed of for gross proceeds of $34.5 million.
- On 31 December 2013, 5-13 Rosebery Ave, Rosebery, NSW was disposed of for gross proceeds of $58.9 million.
- On 28 February 2014, 10-16 South Street, Rydalmere, NSW was disposed of for gross proceeds of $43.3 million.
- On 30 May 2014, 30-32 Bessemer Street, Blacktown, NSW was disposed of for gross proceeds of $16.6 million.
- On 25 June 2014, 85 Egerton Street, Silverwater, NSW was disposed of for gross proceeds of $6.1 million.
- On 30 June 2014, 25 Donkin Street, Brisbane, QLD was disposed of for gross proceeds of $25.7 million.
- On 30 June 2014, 2 Minna Close, Belrose, NSW was disposed of for gross proceeds of $19.5 million.

### (b) Valuation process

Properties independently valued in the last 12 months were based on independent assessments by a member of the Australian Property Institute who are instructed in accordance with all applicable regulatory requirements. Independent valuations of individual investment properties are carried out in accordance with the Constitutions of the Trust which at a minimum requires each individual property to be independently valued every three years. Each valuation firm and its signatory valuer are appointed on the basis that they are engaged for no more than three consecutive valuations. Independent valuations may be undertaken earlier where the Trust believes there is potential for a material change in the fair value of the property being the greater of 5% of the asset value, or $5 million.

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

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

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

# Note 14

**Non-current assets - investment properties** (continued)

## (c) Fair value measurement, valuation techniques and inputs

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

| Class of property | Fair value hierarchy | Fair Value 2014 $'000 | Inputs used to measure fair value | Range of unobservable inputs 2014 |
|---|---|---|---|---|
| Office | Level 3 | **150,764** | Adopted Capitalisation rate | 8.50% |
| | | | Adopted Discount rate | 9.25% |
| | | | Adopted terminal yield | 8.50% |
| | | | Current net market rental (per sqm) | $370 |
| | | | 10 year average market rental growth | 3.05% |
| Industrial | Level 3 | **565,424** | Adopted Capitalisation rate | 7.25% - 11.00% |
| | | | Adopted Discount rate | 9.00% - 11.50% |
| | | | Adopted terminal yield | 7.75% - 11.00% |
| | | | Current net market rental (per sqm) | $43 - $300 |
| | | | 10 year average market rental growth | 2.52% - 3.26% |
| Development properties | Level 3 | **10,203** | Land rate (per sqm) | $418 |
| Total | | **726,391** | | |

## (d) Sensitivity information

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

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

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

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

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

# Note 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, which was sold in the year ended 30 June 2013, is set out below.

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

| | 2014<br>$'000 | 2013<br>$'000 |
|---|---|---|
| Opening balance at the beginning of the year | - | 65,599 |
| Share of net profit after tax | - | 26,322 |
| Interest sold during the year | - | (90,533) |
| Foreign exchange difference on foreign currency translation | - | (1,388) |
| **Closing balance at the end of the year** | - | - |

**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:

| | 2014<br>$'000 | 2013<br>$'000 |
|---|---|---|
| Profit from ordinary activities after income tax expense | - | 26,322 |
| Assets | - | - |
| Liabilities | - | - |
| Capital commitments | - | - |

# Note 16

### Non-current assets - other

| | 2014<br>$'000 | 2013<br>$'000 |
|---|---|---|
| Tenant and other bonds | - | 143 |
| **Total non-current assets - other** | - | 143 |

# Note 17

### Current liabilities - payables

| | 2014<br>$'000 | 2013<br>$'000 |
|---|---|---|
| Trade creditors | 5,110 | 6,204 |
| Accruals | 2,821 | 3,357 |
| Accrued capital expenditure | 909 | 632 |
| Prepaid income | 1,746 | 1,931 |
| Responsible Entity fee payable | 392 | 239 |
| GST payable | 1,348 | 202 |
| Accrued interest | 1,409 | 2,939 |
| Other payable to related party | 40,944 | 41,817 |
| **Total current liabilities - payables** | 54,679 | 57,321 |

# Note 18

**Current liabilities - provisions**

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| Provision for distribution | - | 10,000 |
| **Total current liabilities - provisions** | - | 10,000 |

Movements in provision for distribution are set out below:

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| Opening balance at the beginning of the year | 10,000 | 10,000 |
| Additional provisions | - | 10,000 |
| Payments of distributions | (10,000) | (10,000) |
| **Closing balance at the end of the year** | - | 10,000 |

# Note 19

**Non-current liabilities - other**

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| Tenant bonds | 201 | 111 |
| **Total non-current liabilities - other** | 201 | 111 |

# Note 20

**Non-current liabilities - deferred tax liabilities**

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| Opening balance at the beginning of the year | - | 595 |
| Charged to the Statement of Comprehensive Income | - | (595) |
| **Closing balance at the end of the year** | - | - |

# Note 21
**Contributed equity**

### (a) Contributed equity

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| Opening balance at the beginning of the year | **1,082,464** | 1,092,787 |
| Buy-back of contributed equity | **(10,464)** | (10,323) |
| Issue of additional equity | **118,969** | - |
| **Closing balance at the end of the year** | **1,190,969** | 1,082,464 |

### (b) Number of units on issue

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

**Terms and conditions**

Each stapled security ranks equally with all other stapled securities for the purposes of distributions and on termination of the Trust. Each stapled security entitles the holder to vote in accordance with the provisions of the Constitution and the *Corporations Act 2001*.

# Note 22
**Reserves and accumulated losses**

### (a) Reserves

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| Foreign currency translation reserve | - | 680 |
| **Total reserves** | - | 680 |
| | | |
| **Movements:** | | |
| **Foreign currency translation reserve** | | |
| Opening balance at the beginning of the year | **680** | 24,530 |
| Exchange differences on translating foreign operations | **132** | 2,770 |
| Foreign currency translation reserve transfer on disposal of foreign operations | **(812)** | (26,620) |
| **Closing balance at the end of the year** | - | 680 |

### (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 22

**Reserves and accumulated losses** (continued)

### (c) Accumulated losses

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| Opening balance at the beginning of the year | **(362,986)** | (453,076) |
| Net profit attributable to unitholders | **40,028** | 100,090 |
| Distributions provided for or paid | **-** | (10,000) |
| **Closing balance at the end of the year** | **(322,958)** | (362,986) |

## Note 23

**Distributions paid and payable**

### (a) Distribution to unitholders

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| 30 June | **-** | 10,000 |
| **Total distributions** | **-** | 10,000 |

### (b) Distribution rate

| | 2014 Cents per unit | 2013 Cents per unit |
|---|---|---|
| 30 June | **-** | 0.21 |
| **Total distributions** | **-** | 0.21 |

## Note 24

**Parent entity financial information**

### (a) Summary financial information

The individual Financial Statements for the parent entity show the following aggregate amounts:

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| Total current assets | **164,251** | 143,779 |
| Total assets | **940,322** | 1,099,935 |
| Total current liabilities | **53,145** | 77,711 |
| Total liabilities | **74,747** | 384,022 |
| | | |
| **Equity** | | |
| Contributed equity | **1,190,969** | 1,082,464 |
| Accumulated losses | **(325,394)** | (366,551) |
| **Total equity** | **865,575** | 715,913 |
| | | |
| Net profit for the year from continuing operations | **41,157** | 45,159 |
| Net loss for the year from discontinued operations | **-** | (52,817) |
| Net profit/(loss) for the year | **41,157** | (7,657) |
| **Total comprehensive income/(loss) for the year** | **41,157** | (7,657) |

# Note 24

**Parent entity financial information** (continued)

### (b) Investments in controlled entities

The parent entity has the following investments:

| | | Ownership Interest | |
|---|---|---|---|
| | | **2014** | 2013 |
| **Name of entity** | **Principal activity** | **%** | % |
| Foundation Macquarie Park Trust | Industrial property investment | **100** | 100 |
| DEXUS PID Trust | Industrial property investment | **100** | 100 |
| DIT Subtrust No. 1 | Industrial property investment | **100** | 100 |

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

Refer to note 26 for details of guarantees entered into by the parent entity.

### (d) Contingent liabilities

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

| | **2014** | 2013 |
|---|---|---|
| | **$'000** | $'000 |
| Investment properties | **136** | 47 |
| **Total capital commitments** | **136** | 47 |

# Note 25

**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 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 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).

At 30 June 2014 the Trust did not have any interest bearing liabilities.

The Trust is not rated by ratings agencies, however, DXS is rated A- by Standard and Poor's and A3 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 25

**Financial risk management** (continued)

**(1) Capital risk management** (continued)

The Responsible Entity for the Trust (DXFM) has been issued with an Australian Financial Services Licence (AFSL). The licence is subject to certain capital requirements including the requirement to maintain liquidity above specified limits. DXFM must also prepare rolling cash projections over at least the next 12 months and demonstrate it will have access to sufficient financial resources to meet its liabilities that are expected to be payable over that period. Cash projections and assumptions are approved, at least quarterly, by the Board of the Responsible Entity.

**(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 25

**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.

| | 2014 | | | | 2013 | | | |
|---|---|---|---|---|---|---|---|---|
| | 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 | 5,758 | - | - | - | 3,763 | - | - | - |
| Payables | 54,679 | - | - | - | 57,321 | - | - | - |
| | (48,921) | - | - | - | (53,558) | - | - | - |
| **Loans receivable/(payable) with related parties and interest**[1] | 2,898 | 2,898 | 65,758 | - | (15,555) | (15,555) | (333,139) | - |
| **Derivative financial instruments** | | | | | | | | |
| Derivative assets | 49,929 | 1,222 | 22,384 | - | 3,119 | 50,054 | 23,741 | - |
| Derivative liabilities | 51,319 | 6,149 | 26,812 | 1,652 | 7,791 | 51,082 | 30,826 | 7,040 |
| **Total net derivative financial instruments**[2] | (1,390) | (4,927) | (4,428) | (1,652) | (4,672) | (1,028) | (7,085) | (7,040) |

1 Includes estimated 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 12 (derivative financial instruments) for fair value of derivatives. Refer note 26 (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.

# Note 25

**Financial risk management** (continued)

## (2) Financial risk management (continued)

### (b) Market risk (continued)

(i) Interest rate risk (continued)

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.

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

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

| | June 2015 $'000 | June 2016 $'000 | June 2017 $'000 | June 2018 $'000 | June 2019 $'000 | > June 2020 $'000 |
|---|---|---|---|---|---|---|
| **Interest rate swaps** | | | | | | |
| A$ hedged[1] | 220,000 | 261,667 | 220,000 | 150,833 | 170,000 | 4,000 |
| A$ hedge rate (%)[2] | 5.27% | 4.91% | 4.55% | 5.62% | 6.03% | 2.04% |

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.

| | | **2014** (+/-) $'000 | 2013 (+/-) $'000 |
|---|---|---|---|
| +/- 0.50% (50 basis points) | A$ | **432** | 237 |
| +/- 0.50% (50 basis points) | € | **-** | 27 |
| **Total A$ equivalent** | | **432** | 275 |

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

## Note 25

**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.

| | | **2014** | 2013 |
|---|---|---|---|
| | | **(+/-) $'000** | (+/-) $'000 |
| +/- 0.50% (50 basis points) | A$ | **4,217** | 4,993 |
| +/- 0.50% (50 basis points) | US$ | **(328)** | (672) |
| **Total A$ equivalent** | | **3,869** | 4,268 |

(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 has foreign exchange risk, arising primarily from borrowings and cross currency swaps 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 25

**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:

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| US$ net borrowings and cross currency swaps[2] | - | 90 |
| **$US denominated net investment** | - | 90 |
| **% hedged** | 100% | 0% |
| € assets[1] | - | 6,000 |
| € net borrowings and cross currency swaps[2] | - | (4,248) |
| **€ denominated net investment** | - | 1,752 |
| **% hedged** | - | 71% |
| **Total foreign net investment (A$ equivalent)** | - | 2,567 |
| **Total % hedged[3]** | 100% | 71% |

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 2014 is 89% (refer note 29 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, prior to the disposal of the operations, the translation of the Trust's foreign currency assets and liabilities are recorded (in Australian dollars) directly in the foreign currency translation reserve.

| | | 2014 $'000 | 2013 $'000 |
|---|---|---|---|
| + 11.6 cents (11.8%) | US$ (A$ Equivalent) | - | 11 |
| - 11.6 cents (11.8%) | US$ (A$ Equivalent) | - | (14) |
| + 8.4 cents (12.2%) | € (A$ Equivalent) | - | 274 |
| - 8.4 cents (12.2%) | € (A$ Equivalent) | - | (353) |

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

2 Exchange rates at 30 June 2014: A$/US$ 0.9420 (2013: 0.9275), A$/€ 0.6906 (2013: 0.7095).

# Note 25

**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.

| | | 2014<br>(+/-) $'000 | 2013<br>(+/-) $'000 |
|---|---|---|---|
| + 0.50% (50 basis point) | US$ (A$ Equivalent) | 77 | 655 |
| **Total A$ equivalent** | | **77** | 655 |

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

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

Financial instrument transactions are spread among a number of approved financial institutions within specified credit limits to minimise the 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 2014 and 30 June 2013 is the carrying amount of financial assets recognised on the Statement of Financial Position.

As at 30 June 2014 and 30 June 2013, there were no significant concentrations of credit risk for trade receivables. Trade receivable balances and the credit quality of trade debtors are consistently monitored on an ongoing basis.

The ageing analysis of loans and receivables net of provisions at 30 June 2014 is ($'000): 5,393 (0-30 days), 133 (31-60 days), 54 (61-90 days), 178 (91+ days). The ageing analysis of loans and receivables net of provisions at 30 June 2013 is ($'000): 3,659 (0-30 days), (121) (31-60 days), (35) (61-90 days), 260 (91+ days). 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 25

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

| | **2014 Carrying amount[1] $'000** | **2014 Fair value[2] $'000** | 2013 Carrying amount[1] $'000 | 2013 Fair value[2] $'000 |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Cash and cash equivalents | **2,197** | **2,197** | 2,836 | 2,836 |
| Loans and receivables (current) | **5,758** | **5,758** | 4,158 | 4,158 |
| Derivative assets | **9,941** | **9,941** | 14,370 | 14,370 |
| Non interest bearing loans with related parties | **138,948** | **138,948** | 138,948 | 138,948 |
| Interest bearing loans with related parties | **59,962** | **59,962** | - | - |
| **Total financial assets** | **216,806** | **216,806** | **160,312** | **160,312** |
| **Financial liabilities** | | | | |
| Trade payables | **54,679** | **54,679** | 58,159 | 58,159 |
| Derivative liabilities | **21,401** | **21,401** | 20,714 | 20,714 |
| Interest bearing loans with related parties | **-** | **-** | 286,473 | 286,473 |
| **Total financial liabilities** | **76,080** | **76,080** | 365,346 | 365,346 |

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

2 Fair value is the price that would be received to transfer the asset or liability in an orderly transaction between market participants at the measurement date. Where there is a difference between the carrying amount and fair value, the difference is not recognised in the Statement of Financial Position.

The fair value of interest bearing liabilities and derivative financial instruments has been determined based on a discounted cash flow analysis using observable market inputs (interest rates, exchange rates, and basis) and applying a credit or debit value adjustment based on the current credit worthiness of counterparties and the Trust.

**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 25

**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 2014 and 30 June 2013.

| **2014** | **Level 1 $'000** | **Level 2 $'000** | **Level 3 $'000** | **Total $'000** |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Derivative assets | | | | |
| Interest rate derivatives | **-** | **4,653** | **-** | **4,653** |
| Cross currency swaps | **-** | **5,288** | **-** | **5,288** |
| | **-** | **9,941** | **-** | **9,941** |
| **Financial liabilities** | | | | |
| Derivative liabilities | | | | |
| Interest rate derivatives | **-** | **21,401** | **-** | **21,401** |
| | **-** | **21,401** | **-** | **21,401** |

| 2013 | Level 1 $'000 | Level 2 $'000 | Level 3 $'000 | Total $'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 |

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

**(e) Offsetting financial assets and financial liabilities**

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

The Trust does not have any agreements in place with derivative counterparties that allow for offsetting financial assets and financial liabilities.

**Master netting arrangements - not currently enforceable**

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

# Note 26

**Contingent liabilities**

The Trust together with DDF, DXO and DOT is a guarantor of a A$1,100.0 million of bank bilateral facilities, A$850.0 million of syndicated bank debt facilities, A$470.0 million of medium term notes, a total of US$630.0 million (A$668.8 million) of privately placed notes, and a total of US$250.0 million (A$265.4 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$16.1 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 27

**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:

| | 2014<br>$'000 | 2013<br>$'000 |
|---|---|---|
| Investment properties | **539** | 614 |
| **Total capital commitments** | **539** | 614 |

## (b) Lease receivable commitments

The future minimum lease payments receivable by the Trust are:

| | 2014<br>$'000 | 2013<br>$'000 |
|---|---|---|
| Within one year | **41,352** | 66,830 |
| Later than one year but not later than five years | **114,438** | 155,837 |
| Later than five years | **70,521** | 78,652 |
| **Total lease receivable commitments** | **226,311** | 301,319 |

# Note 28
**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:

| | **2014** | 2013 |
|---|---|---|
| | **$** | $ |
| Responsible Entity fees paid and payable | **2,566,697** | 3,084,569 |
| Property management fees paid and payable to DXPS | **1,869,777** | 2,530,596 |
| Administration expenses paid and payable to DXH | **3,497,597** | 3,204,412 |
| Responsible Entity fees payable at the end of each reporting period (included above) | **193,384** | 239,461 |
| Property management fees payable at the end of each reporting period (included above) | **244,950** | 661,659 |
| Administration expenses payable at the end of each reporting period (included above) | **50,879** | 62,913 |
| Sale of 154 O'Riordan Street, Mascot, NSW to DXO | **-** | 14,500,000 |
| Sale of 1-55 Rothchild Ave, Rosebery, NSW to DXO | **34,514,275** | - |
| Sale of 5-13 Rosebery Ave, Rosebery, NSW to DXO | **58,887,127** | - |

### Entities within DXS

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

| | **2014** | 2013 |
|---|---|---|
| | **$** | $ |
| Interest revenue | **-** | 770,797 |
| Interest expense | **11,287,303** | 26,617,268 |
| Interest bearing loans advanced to entities within DXS | **421,693,000** | 544,308,000 |
| Interest bearing loans advanced from entities within DXS | **65,954,000** | 101,211,000 |

# Note 28

**Related parties** (continued)

### Directors

The following persons were Directors of DXFM at all times during the year and to the date of this report, unless otherwise stated:

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

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

### Other key management personnel

In addition to the Directors listed above, the following persons were deemed by the Board Nomination and Remuneration & Governance Committee to be key management personnel during all or part of the financial year:

| Name | Title |
|---|---|
| Ross Du Vernet | Executive General Manager, Strategy, Transactions & Research |
| Kevin George | Executive General Manager, Office & Industrial |

### Key management personnel compensation

| | **2014** | 2013 |
|---|---|---|
| | **$** | $ |
| **Compensation** | | |
| Short-term employee benefits | **7,428,170** | 9,219,857 |
| Post employment benefits | **189,291** | 229,763 |
| Other long-term benefits | **47,700** | 1,116,082 |
| Security-based payments | **1,995,116** | 1,383,669 |
| | **9,660,277** | 11,949,371 |

# Note 28

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

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

# Note 28

**Related parties** (continued)

### Remuneration Report

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.

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

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

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

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

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

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

- An increase in the number of securities required to be held by each Director from 50,000 to 100,000. Securities are to be purchased on-market with after tax personal funds and are to be acquired within three years of the 2014 Annual General Meeting. Newly appointed Directors will need to acquire the relevant number of securities within three years of their appointment

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

### 1. Key Management Personnel

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

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

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

## Non-Executive Directors

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

## Executive Directors

| Executive Directors | Position | KMP 2013 | KMP 2014 |
|---|---|---|---|
| Darren J Steinberg | Executive Director and Chief Executive Officer | ✓ | ✓ |
| Craig D Mitchell | Executive Director Finance and Chief Operating Officer | ✓ | ✓ |

## Executive KMP

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

## 2. Board Nomination, Remuneration & Governance Committee

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

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

The Committee comprises three independent Non-Executive Directors. For the year ended 30 June 2014 Committee members were:

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

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

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

The Committee operates independently from management, and may at its discretion appoint external 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 $9,600 for remuneration recommendations made to the Committee and $25,600 for other advisory services including the review of documents, attendance at meetings and general advice. The Committee is satisfied the advice received from Egan Associates is free from undue influence from the KMP to whom the remuneration recommendations relate. Egan Associates also confirmed in writing that the remuneration recommendations were made free from undue influence by KMP.

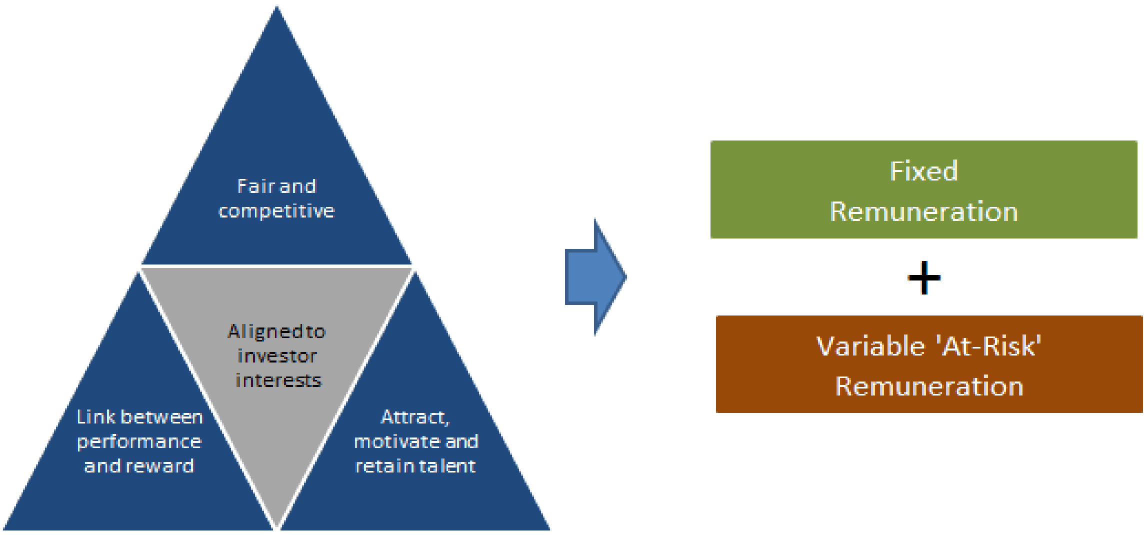
The 2013 Remuneration Report received positive security holder support at the 2013 Annual General Meeting with a vote of 98.6% in favour.

## 3. Executive Remuneration

### Context

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

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




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.

## 4. Remuneration Structure

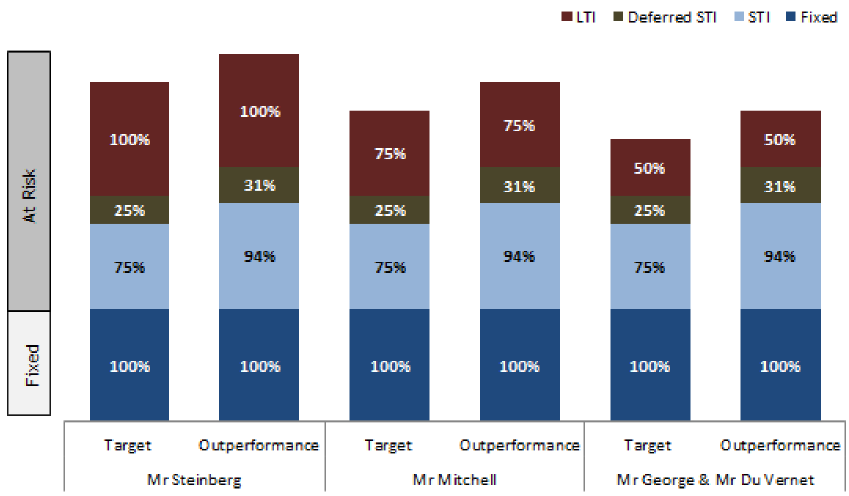
### Remuneration Mix

The remuneration structure for Executive Directors and Executive KMP (collectively referred to as 'Executives' in this report) comprises fixed remuneration, a short term incentive 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.

The target remuneration mix for Executives during 2014 was:

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

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



## STI Plan

| | |
|---|---|
| Purpose | The STI plan is designed to motivate and reward Executives for their annual contribution to the financial and non-financial performance of the Group. |
| Participation | At Target, each Executive can earn 100% of fixed remuneration under the STI plan, 25% of which is deferred at further risk, and up to a maximum of 125% of fixed remuneration for Outperformance, 25% of which is deferred in DEXUS securities and is subject to clawback and potential forfeiture. |
| Performance | The amount each Executive can earn is dependent on how he/she performs against a personalised balanced scorecard of key performance indicators (KPIs) that is set at the beginning of each year. The balanced scorecard is arranged in categories and each category is weighted differently depending on the specific accountabilities of each Executive. If an Executive does not meet Threshold performance in a category, the incentive benefit under that category will be zero.<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 achieve 100% in any category. Following the same theme, KPIs at the Outperformance level have a significant amount of stretch, and would require exceptional outcomes to be achieved. KPIs at both the Target and Outperformance levels incorporate year-on-year performance improvement.<br><br>Aggregate performance below predetermined thresholds would result in no award being made under the STI plan. |
| Payment | STI payments are made in August, following the sign-off of statutory accounts and announcement of Group's annual results for the period to which the performance relates. |
| Deferral | 25% of any award under the STI plan is deferred and awarded in the form of performance rights to DXS securities.<br><br>The rights vest ordinarily in two equal tranches, 12 and 24 months after being awarded. However, they are subject to clawback and continued employment, and are based on a deferral period commencing 1 July after the relevant performance period.<br><br>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. |
| Distributions | 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. |
| Forfeiture | 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 may recommend that the Executive should remain in the plan as a 'good leaver', for decision by the Board. |
| Alignment | 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 as set out in the previous section of this summary table, and also in the event of a material misstatement of the Group's financial position |
| Oversight | The CEO monitors and assesses performance of Executives as part of the Group's annual performance management cycle. The CEO makes STI recommendations to the Committee, who subsequently make recommendations to the Board for approval.<br><br>The CEO's own performance is assessed in a similar manner, with the Chair of the Board making recommendations to the Committee for the Board's ultimate approval.<br><br>The Board retains the right to amend, suspend or cancel the STI plan at any time. |

## LTI Plan

| | |
|---|---|
| Purpose | The LTI plan is designed to motivate and reward Executives for sustained earnings and security holder returns and is delivered in the form of performance rights to DXS securities. |
| Participation | The CEO receives an LTI grant equal to 100% of his fixed remuneration. The Executive Director Finance & Chief Operating Officer receives an LTI grant equal to 75% of his fixed remuneration and other Executive KMP 50%. |
| Allocation | Executives receive a grant of performance rights to DXS securities which are at risk and subject to performance conditions set by the Board. The number of performance rights granted is based on the Executive's grant value (% of fixed remuneration) divided by the volume weighted average price (VWAP) of securities ten trading days either side of the first trading day of the new financial year. |
| Tranches | Each grant is split into two equal tranches, with a vesting period of three and four years respectively after the grant date. |
| Performance Conditions | The Board sets the performance conditions for the LTI plan on an annual basis. Consistent with 2013, the four performance conditions for the 2014 LTI plan are:<br><u>External Performance Conditions (50%)</u><br>▪ 25% is based on the Group's relative performance against a Total Shareholder Return (Relative TSR) performance hurdle measured against listed peers within the A-REIT sector<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>▪ 25% is based on the Group's relative performance against a Return On Equity (Relative ROE) performance hurdle measured against unlisted peers<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.<br><u>Internal Performance Conditions (50%)</u><br>▪ 25% is based on the Group's performance against a predetermined Funds From Operations (FFO) per security growth hurdle<br>For the purposes 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 (ROE) 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. |

| | |
|---|---|
| Vesting | Relative TSR & Relative ROE<br>▪ Vesting under both the Relative TSR & Relative ROE conditions 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 ahead of the 2014 grant. Taking into account feedback from investors and advice from market analysts and remuneration advisors, the comparator groups have been expanded to include all members of the accepted listed and unlisted benchmarks. Specifically:<br>▪ Listed: all members of the S&P/ASX 200's A-REIT Index<br>▪ Unlisted: all members of the Mercer IPD Core Wholesale Property Fund Index<br>The Board believes this amendment will enhance the operation of the LTI plan by removing any potential sustainability risk or asset class bias that may be inherent in a smaller comparator group. The Board also believes that a broader comparator group aligns to the Group's ambition to be recognised as Australia's leading real estate company and reflects the market in which DEXUS competes for investment capital.<br>The Board reserves the right to review the comparator groups annually, with relative performance monitored by an independent external advisor at 30 June each year.<br>FFO Growth & ROE<br>Vesting under both the FFO Growth & ROE measures will be on a sliding scale reflecting performance against predetermined performance conditions 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<br>Following a review of the Group's strategy and having completed extensive internal forecasting, the Board has set the following internal performance conditions for the 2014 LTI grant:<br>▪ FFO Growth Target of 4% - with Outperformance at 6%<br>▪ ROE Target of 9% - with Outperformance at 10%<br>FFO Growth is the implied compound annual growth rate (CAGR) of the aggregate FFO earnings per security in the three and four year vesting periods. ROE is measured as the per annum average at the conclusion of each vesting period. |
| Distributions | Executives are not entitled to distributions paid on underlying DXS securities prior to performance rights vesting. |

| | |
|---|---|
| Forfeiture | If the pre-determined performance conditions are not met then the performance rights relating to that tranche will be forfeited. There is no re-testing of forfeited rights.<br><br>Additionally, forfeiture will occur should the Executive's employment terminate within 12months 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 may recommend that the Executive should remain in the plan as a 'good leaver', for decision by the Board. |
| Alignment | The LTI plan is aligned to security holders interests in the following ways:<br><br>▪ As a reward to Executive's when the Group's overall performance exceeds specific pre-determined earnings and security holder return benchmarks<br><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><br>▪ By aligning the financial interests of Executives to security holders through exposure to DXS securities and Group performance<br><br>▪ By encouraging and incentivising Executives to make sustainable business decisions within the Board-approved strategy of the Group |
| Oversight | 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>Executive 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 and held in trust for the Executive pending performance assessment.<br><br>The Board retains the right to amend, suspend or cancel the LTI plan at any time. |

## 5. Service Agreements

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

### CEO - Mr Steinberg

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

### Executives - Messrs Mitchell, George & Du Vernet

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

## 6. Performance Pay

### Group Performance

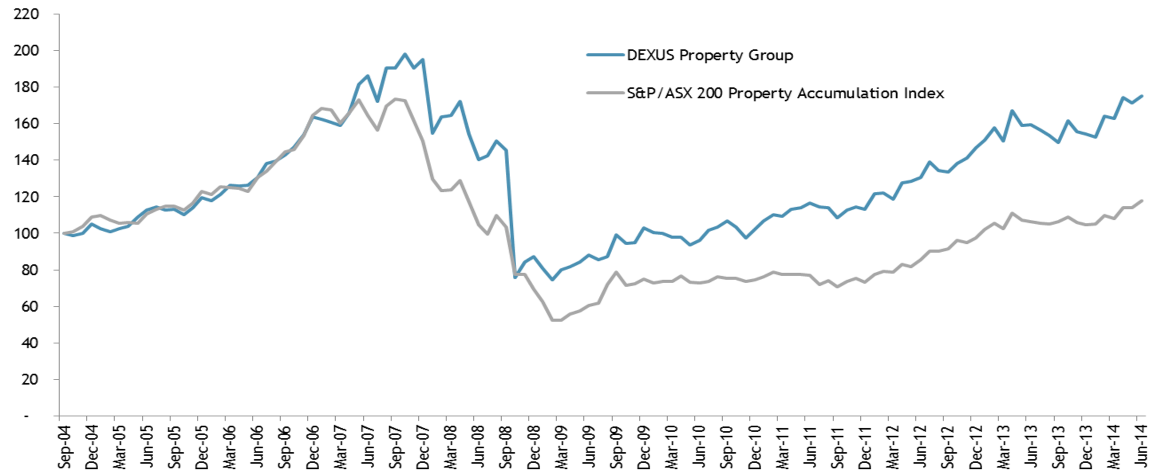
FY14 Highlights

| Group | Portfolio | Capital Management | Funds Management | Transactions |
|---|---|---|---|---|
| Delivered a 7.6% increase in FFO, resulting in a 4.3% increase in distribution per security | Leased 524,597 square metres of space across the total portfolio | Achieved upgrades to S&P and Moody's credit ratings providing benefits for future funding | Increased third party funds under management by 41% to $8.7 billion | Successfully completed the $3.4 billion takeover of CPA[1] |
| Achieved a 9.9% one-year total security holder return | Achieved 3.1% growth in like-for-like property net operating income across office and industrial portfolios | Secured $1.7 billion of new funding | Launched new partnerships with a leading global pension fund and a sovereign wealth fund | Involved in $4.0 billion of transactions across the Group[2] |

1. Jointly with Canada Pension Plan Investment Board
2. Including the CPA transaction

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, three and five year time horizon, relative to the S&P/ASX200 Property Accumulation Index:

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

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

## 7. Individual Performance Assessment - Balanced Scorecard

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

The Scorecard is divided into five major components – 'Group Financial Performance', 'Business & Portfolio Management', 'Funds Management & Transactions', 'Stakeholder Engagement' and 'People & Culture'. These components are differentially weighted to reflect the influence of each Executive. For each of the components the Executive has objectives and specific initiatives set for that year. The Scorecards are agreed with the KMP Executive at the beginning of the year, reviewed at the half year and assessed for performance awards at the end of the year.

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

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

## STI Awards

Application of the KPIs against the Balanced Scorecards resulted in no executive achieving the maximum possible STI. However, in recognition of the outstanding performance of Messrs Steinberg, Mitchell and Du Vernet during the period, and in particular for their effort in completing the $3.5billion CPA transaction, the Board used its discretion to increase the STI amount awarded to these executives. The following table summarises the final awards made to each Executive KMP with respect to their performance during the year ended 30 June 2014.

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

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

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

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

## Deferred STI Grants

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

The table below shows the number of Performance Rights to be granted to Executives under the 2014 Deferred STI plan (details of which are provided earlier in this report).

| Executive | Number of Performance Rights (#) | 1st Vesting Date 50% | 2nd Vesting Date 50% |
|---|---|---|---|
| Darren J Steinberg | 386,143 | 1 July 2015 | 1 July 2016 |
| Craig D Mitchell | 214,034 | 1 July 2015 | 1 July 2016 |
| Kevin L George | 99,294 | 1 July 2015 | 1 July 2016 |
| Ross G Du Vernet | 165,490 | 1 July 2015 | 1 July 2016 |

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

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

### LTI Grants

The table below shows the number of Performance Rights to be granted to Executives under the 2014 LTI plan (details of which are provided earlier in this report).

| Executive | Number of Performance Rights (#) | 1st Vesting Date 50% | 2nd Vesting Date 50% |
|---|---|---|---|
| Darren J Steinberg | 1,235,658 | 1 July 2017 | 1 July 2018 |
| Craig D Mitchell | 513,019 | 1 July 2017 | 1 July 2018 |
| Kevin L George | 275,816 | 1 July 2017 | 1 July 2018 |
| Ross G Du Vernet | 220,653 | 1 July 2017 | 1 July 2018 |

The number of performance rights granted to each Executive is based on the dollar value of LTI approved by the Board in its discretion and with reference to the remuneration framework, divided by the Volume Weighted Average Price (VWAP) of DXS securities ten trading days either side of 1 July 2014, which was confirmed as $1.1330.

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

### 8. Executive Remuneration Actual Cash Received

In line with best-practice recommendations, the amounts shown in the table below provide a summary of actual remuneration received during the year ended 30 June 2014. The STI and DDPP cash payments were received for performance in the 2013 and 2010 financial years respectively.

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

1 Includes employer contributions to superannuation under the superannuation guarantee legislation and salary sacrifice amounts
2 Mr Steinberg's sign-on conditions included access to an additional $500,000 subject to performance in FY13, which he was paid in full.
Mr George received a cash payment of $170,000 as compensation for foregone remuneration during the year.
In FY14, expenses were paid in relation to Mr George's relocation, including stamp duty and legal fees. Such expenses are not considered remuneration, but are footnoted here for transparency.
3 Cash payment made in August 2013 with respect to the 2013 STI Plan (i.e. annual performance payment for the prior financial year)
4 Cash payment made in August 2013 with respect to the 2010 DDPP award that vested on 1 July 2013 (i.e. realisation of 3 year deferred performance payment)

## 9. Executive Remuneration Statutory Accounting Method

The amounts shown in this table are prepared in accordance with *AASB 124 Related Party Disclosures* and do not represent actual cash payments received by Executives for the year ended 30 June 2014. Amounts shown under Long Term Benefits reflect the accounting expenses recorded during the year with respect to prior year deferred remuneration and awards that have or are yet to vest. For performance payments and awards made with respect to the year ended 30 June 2014, refer to the Performance Pay Outcomes section of this report.

| | | Short Term Benefits | | | Post-Employment Benefits | Share Based & Long Term Benefits | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Executive | Year | Cash Salary ($) | STI Cash Award [1] ($) | Other Short Term Benefits [2] ($) | Pension & Super Benefits [3] ($) | Deferred STI Plan Accrual [4] ($) | DDPP Plan Accrual [5] ($) | Transition Plan Accrual [6] ($) | LTI Plan Accrual [7] ($) | Total ($) |
| Darren J Steinberg | 2014 | 1,382,225 | 1,312,500 | - | 17,775 | 360,799 | - | 105,000 | 434,573 | 3,612,871 |
| | 2013 | 1,383,530 | 1,312,500 | 500,000 | 16,470 | 182,284 | - | 105,000 | 204,200 | 3,703,984 |
| Craig D Mitchell | 2014 | 751,300 | 727,500 | - | 23,700 | 177,281 | 47,700 | 125,000 | 159,995 | 2,012,476 |
| | 2013 | 733,530 | 562,500 | - | 16,470 | 78,122 | 172,790 | 125,000 | 64,349 | 1,752,761 |
| Kevin L George | 2014 | 602,425 | 337,500 | - | 22,575 | 271,020 | - | - | 110,452 | 1,343,972 |
| | 2013 | 338,954 | 247,500 | 634,383 | 12,008 | 219,374 | - | - | 59,029 | 1,511,248 |
| Ross G Du Vernet | 2014 | 482,225 | 562,500 | - | 17,775 | 116,960 | - | 50,000 | 84,037 | 1,313,497 |
| | 2013 | 424,305 | 288,750 | - | 16,470 | 40,103 | - | 50,000 | 42,899 | 862,527 |
| Total | 2014 | 3,218,176 | 2,940,000 | - | 81,824 | 926,060 | 47,700 | 280,000 | 789,056 | 8,282,816 |
| | 2013 | 2,880,319 | 2,411,250 | 1,134,383 | 61,418 | 519,883 | 172,790 | 280,000 | 370,477 | 7,830,520 |

1 FY14 annual cash STI performance award, payable in August 2014.
2 Mr Steinberg's sign-on conditions included access to an additional $500,000 subject to performance in FY13, which he was paid in full.
Mr George received a cash sign-on payment of $250,000, a cash payment of $170,000 as compensation for foregone remuneration and various cash relocation benefits in FY13.
In FY14, expenses of $401,341 were paid in relation to Mr George's relocation, including stamp duty and legal fees. Such expenses are not considered remuneration, but are footnoted here for transparency.
3 Includes employer contributions to superannuation under the superannuation guarantee legislation and salary sacrifice amounts.
4 Reflects the accounting expense accrued during the financial year for Deferred STI awards made with respect to FY13 and FY14 performance. Refer to note 37 of the DXS Financial Statements.
Mr George's accrual also includes accounting for Performance Rights detailed later in this report as Special Terms.
5 FY11 DDPP legacy plan only applicable to Mr Mitchell. Reflects the accounting expense accrued during the financial year.
6 FY12 Transitional plan applicable to all Executives, excluding Mr George. Reflects the accounting expense accrued during the financial year.
7 Reflects the accounting expense accrued during the financial year for LTI grants made with respect to FY13 and FY14. Refer to note 37 of the DXS Financial Statements.

## 10. Deferred Remuneration Plans

### Performance Rights Plan - Unvested Deferred STI

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

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

### Performance Rights Plan - Unvested LTI

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

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

## Legacy Plan - Vesting DDPP Awards

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

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

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

The vesting DDPP value was determined by calculating the compound total return of both listed DXS (50%) and unlisted DWPF (50%) notional securities over a 3-year vesting period. The DXS total return was 45.99% and the Group's unlisted Funds and Mandates was 31.78%, resulting in a composite 38.89% increase being applied to the original allocation value during the life of the 2011 DDPP plan. The Board chose to exercise its discretion in not applying a performance multiplier (allowable under the DDPP plan rules) to the 2011 tranche.

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

## Legacy Plan - Unvested Transitional Performance Rights

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

| Participant | Award Date | Number of Performance Rights (#) | Vesting Date |
|---|---|---|---|
| Darren J Steinberg | 1 Jul 2012 | 453,417 | 1 Jul 2015 |
| Craig D Mitchell | 1 Jul 2012 | 539,782 | 1 Jul 2015 |
| Ross G Du Vernet | 1 Jul 2012 | 215,913 | 1 Jul 2015 |

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

## Special Terms - Performance Rights & 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 were purchased on-market. The terms and conditions of this offer mirror those of the Deferred STI plan.

## 11. Non-Executive Directors

### Board Fee Structure

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

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

Other than the Chair who receives a single fee, Non-Executive Directors receive a base fee plus additional fees for membership of Board Committees. The table below outlines the Board fee structure (inclusive of statutory superannuation contributions) for the year ended 30 June 2014:

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

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

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

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

### Minimum Security Holding

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

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

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

## Non-Executive Directors' Statutory Accounting Table

The amounts shown in this table are prepared in accordance with AASB 124 Related Party Disclosures. The table is a summary of the actual cash and benefits received by each Non-Executive Director for the year ended 30 June 2014.

| Non-Executive Director | Year | Short Term Benefits\ ($) | Post Employment Benefits ($) | Other Long Term Benefits ($) | Total ($) |
|---|---|---|---|---|---|
| Christopher T Beare | 2014 | 332,225 | 17,775 | - | 350,000 |
| | 2013 | 333,530 | 16,470 | - | 350,000 |
| Elizabeth A Alexander AM | 2014 | 178,490 | 16,510 | - | 195,000 |
| | 2013 | 178,899 | 16,101 | - | 195,000 |
| Penelope Bingham-Hall [1] | 2014 | 7,921 | 733 | - | 8,654 |
| | 2013 | - | - | - | 0 |
| Barry R Brownjohn [2] | 2014 | 54,920 | 5,080 | - | 60,000 |
| | 2013 | 165,138 | 14,862 | - | 180,000 |
| John C Conde AO | 2014 | 164,760 | 15,240 | - | 180,000 |
| | 2013 | 165,138 | 14,862 | - | 180,000 |
| Tonianne Dwyer | 2014 | 165,798 | 15,336 | - | 181,135 |
| | 2013 | 158,257 | 14,243 | - | 172,500 |
| Stewart F Ewen OAM [3] | 2014 | 47,644 | 7,356 | - | 55,000 |
| | 2013 | 141,000 | 24,000 | - | 165,000 |
| W Richard Sheppard | 2014 | 167,206 | 15,467 | - | 182,673 |
| | 2013 | 158,257 | 14,243 | - | 172,500 |
| Peter B St George | 2014 | 151,030 | 13,970 | - | 165,000 |
| | 2013 | 151,376 | 13,624 | - | 165,000 |
| Total | 2014 | 1,269,994 | 107,287 | 0 | 1,377,461 |
| | 2013 | 1,451,595 | 128,405 | 0 | 1,580,000 |

1 Ms Bingham-Hall was appointed on 10 June 2014
2 Mr Brownjohn did not stand for re-election at the 2013 AGM and effectively stood down from the Board on 29 October 2013
3 Mr Ewen did not stand for re-election at the 2013 AGM and effectively stood down from the Board on 29 October 2013

# Note 29

**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 30

**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.

| | |
|---|---|
| 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 34 in the DEXUS Property Group Financial Statements).

## Note 31

**Reconciliation of net profit to net cash flows from operating activities**

| | **2014 $'000** | 2013 $'000 |
|---|---|---|
| Profit after tax | **40,028** | 100,090 |
| Net fair value loss of investment properties | **683** | 575 |
| Share of net profit of associates accounted for using the equity method | **-** | (26,322) |
| Net fair value loss of derivatives | **252** | 1,729 |
| Net loss on sale of investment properties | **4,892** | 3,027 |
| Net foreign exchange (gain)/loss | **(596)** | 2,721 |
| Foreign currency translation reserve transfer on disposal of foreign operations | **(812)** | (26,620) |
| Change in operating assets and liabilities | | |
| (Increase)/decrease in receivables | **(317)** | 105 |
| Decrease in prepaid expenses | **792** | 919 |
| Decrease in tax assets | **263** | - |
| Decrease in other non-current assets | **2,927** | 2,592 |
| Decrease in payables | **(1,271)** | (17,712) |
| Increase in other non-current liabilities | **12,089** | 15,980 |
| Decrease in tax liability | **(973)** | - |
| **Net cash inflow from operating activities** | **57,957** | 57,084 |

## Note 32

**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

| | **2014 $'000** | 2013 $'000 |
|---|---|---|
| Profit from continuing operations | **41,157** | 45,159 |
| Loss from discontinued operations | **-** | (52,817) |
| **Profit/(loss) attributable to unitholders of the parent entity** | **41,157** | (7,657) |

### (b) Weighted average number of units used as a denominator

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

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 66:

(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 2014 and of their performance, as represented by the results of their operations and their cash flows, for the year ended on that date.

In the Directors' opinion:

(a) the Financial Statements and notes are in accordance with the *Corporations Act 2001*;

(b) there are reasonable grounds to believe that the 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 2014.

Note 1(a) confirms that the Financial Statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The Directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer required by section 295A of the *Corporations Act 2001*.

This declaration is made in accordance with a resolution of the Directors.

**Christopher T Beare**
Chair
13 August 2014

# Independent auditor's report to the unitholders 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 2014, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for DEXUS Industrial Trust (the consolidated entity). The consolidated entity comprises the Trust and the entities it controlled at year's end or from time to time during the financial year.

### *Directors' responsibility for the financial report*

The directors of DEXUS Funds Management Limited (the Responsible Entity) are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

### *Auditor's responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the consolidated entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

### *Independence*

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

***PricewaterhouseCoopers, ABN 52 780 433 757***
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*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 2014 and of its performance for the year ended on that date; and

  (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.

(b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in Note 1.

PricewaterhouseCoopers

PricewaterhouseCoopers

E A Barron
Partner

Sydney
13 August 2014

# DEXUS Office Trust
(ARSN 090 768 531)

Financial Report
30 June 2014

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 2014. 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 | Resigned |
|---|---|---|
| Christopher T Beare | 4 August 2004 | |
| Elizabeth A Alexander, AM | 1 January 2005 | |
| Penny Bingham-Hall | 10 June 2014 | |
| Barry R Brownjohn | 1 January 2005 | 29 October 2013 |
| John C Conde, AO | 29 April 2009 | |
| Tonianne Dwyer | 24 August 2011 | |
| Stewart F Ewen, OAM | 4 August 2004 | 29 October 2013 |
| Craig D Mitchell | 12 February 2013 | |
| W Richard Sheppard | 1 January 2012 | |
| Darren J Steinberg | 1 March 2012 | |
| Peter B St George | 29 April 2009 | |

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 2014 are as follows:

**John C Easy B Comm LLB FGIA FCIS**
Appointed: 1 July 2005

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

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

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

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

## 1 Directors and Secretaries (continued)

### 1.2 Company Secretaries (continued)

**Scott D Mahony B Bus(Acc) MBA(e-commerce) AGIA**
Appointed: 1 April 2014

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

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

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

## 2 Attendance of Directors at Board meetings and Board Committee meetings

The number of Directors' meetings held during the year and each Director's attendance at those meetings is set out in the table below. The Directors met 18 times during the year. Ten Board meetings were main meetings and eight meetings were held to consider specific business.

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

1 Appointed 10 June 2014.
2 Resigned 29 October 2013.

Special meetings are held at a time to enable the maximum number of Directors to attend and are generally held to consider specific items that cannot be held over to the next scheduled main meeting.

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

1 Appointed 10 June 2014.
2 Resigned 29 October 2013.

## 3 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 |
| Penny Bingham-Hall[1] | - |
| John C Conde, AO | 100,000 |
| Tonianne Dwyer | 100,000 |
| Craig D Mitchell | 1,073,059[2] |
| W Richard Sheppard | 420,537 |
| Darren J Steinberg | 1,996,364[2] |
| Peter B St George | 104,000 |

1 Appointed 10 June 2014.
2 Includes interests held directly and through performance rights (refer note 28).

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

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

## 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 2014 were:

- profit attributable to unitholders was $192.8 million (2013: $287.0 million);
- total assets were $6,326.0 million (2013: $4,216.6 million); and
- net assets were $2,968.9 million (2013: $2,554.9 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 in the DEXUS Property Group 2014 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 2014 are outlined in note 23 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 2014 are outlined in note 28 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 2014 are detailed in note 21 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 28 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 2014 (2013: 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 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.

## 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 Directors' authorisation

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

| | |
|---|---|
| **Christopher T Beare** | **Darren J Steinberg** |
| Chair | Chief Executive Officer |
| 13 August 2014 | 13 August 2014 |

# Auditor's Independence Declaration

As lead auditor for the audit of DEXUS Office Trust for the year ended 30 June 2014, I declare that to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

b) no contraventions of any applicable code of professional conduct in relation to the audit.

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

E A Barron
Partner
PricewaterhouseCoopers

Sydney
13 August 2014

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| | Note | 2014 $'000 | 2013 $'000 |
|---|---|---|---|
| **Revenue from ordinary activities** | | | |
| Property revenue | 2 | **283,858** | 270,260 |
| Interest revenue | 3 | **92** | 320 |
| **Total revenue from ordinary activities** | | **283,950** | 270,580 |
| | | | |
| Net fair value gain of investment properties | | **111,565** | 131,301 |
| Share of net profit of investments accounted for using the equity method | 15 | **58,442** | 37,905 |
| Net fair value gain of derivatives | | **17,125** | 2,683 |
| Net foreign exchange gain | | **-** | 6 |
| **Total income** | | **471,082** | 442,475 |
| | | | |
| **Expenses** | | | |
| Property expenses | | **(77,442)** | (73,481) |
| Responsible Entity fees | 28 | **(12,960)** | (11,230) |
| Finance costs | 4 | **(157,525)** | (63,172) |
| Net loss on sale of investment properties | | **-** | (547) |
| Impairment of investments accounted for using the equity method | 15 | **(3,295)** | (164) |
| Transaction costs | | **(23,918)** | - |
| Net foreign exchange loss | | **(79)** | - |
| Other expenses | 5 | **(1,178)** | (1,303) |
| **Total expenses** | | **(276,397)** | (149,897) |
| **Profit before tax** | | **194,685** | 292,578 |
| Income tax expense | 7 | **(1,904)** | (5,599) |
| **Proft after tax** | | **192,781** | 286,979 |
| | | | |
| **Other comprehensive income:** | | | |
| Items that may be reclassified to profit or loss: | | | |
| Exchange differences on translating foreign operations | | **5,204** | 7,512 |
| **Total comprehensive income for the year** | | **197,985** | 294,491 |

| **Earnings per unit** | | **Cents** | Cents |
|---|---|---|---|
| Basic earnings per unit on profit attributable to unitholders of the parent entity | 32 | **4.02** | 6.25 |
| Diluted earnings per unit on profit attributable to unitholders of the parent entity | 32 | **4.02** | 6.25 |

*The above Consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying notes.*

| | Note | 2014 $'000 | 2013 $'000 |
|---|---|---|---|
| **Current assets** | | | |
| Cash and cash equivalents | 8 | **8,739** | 5,007 |
| Receivables | 9 | **76,069** | 11,883 |
| Non-current assets classified as held for sale | 10 | **130,071** | - |
| Derivative financial instruments | 12 | **-** | 3,468 |
| Other | 13 | **2,855** | 3,708 |
| **Total current assets** | | **217,734** | 24,066 |
| **Non-current assets** | | | |
| Investment properties | 14 | **3,310,615** | 3,279,378 |
| Derivative financial instruments | 12 | **2,003** | 5,483 |
| Investments accounted for using the equity method | 15 | **2,794,740** | 906,768 |
| Other | 16 | **944** | 894 |
| **Total non-current assets** | | **6,108,302** | 4,192,523 |
| **Total assets** | | **6,326,036** | 4,216,589 |
| **Current liabilities** | | | |
| Payables | 17 | **64,585** | 39,170 |
| Loans with related parties | 11 | **55,684** | 55,684 |
| Provisions | 18 | **91,666** | 78,547 |
| Derivative financial instruments | 12 | **-** | 770 |
| **Total current liabilities** | | **211,935** | 174,171 |
| **Non-current liabilities** | | | |
| Loans with related parties | 11 | **3,082,732** | 1,441,551 |
| Derivative financial instruments | 12 | **54,948** | 39,759 |
| Deferred tax liabilities | 19 | **6,766** | 5,599 |
| Other | 20 | **766** | 574 |
| **Total non-current liabilities** | | **3,145,212** | 1,487,483 |
| **Total liabilities** | | **3,357,147** | 1,661,654 |
| **Net assets** | | **2,968,889** | 2,554,935 |
| **Equity** | | | |
| Contributed equity | 21 | **2,212,662** | 1,825,984 |
| Reserves | 22 | **(1,793)** | (6,997) |
| Retained profits | 22 | **758,020** | 735,948 |
| **Total equity** | | **2,968,889** | 2,554,935 |

*The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.*

## Consolidated Statement of Changes in Equity

For the year ended 30 June 2014

| | Note | Contributed equity $'000 | Retained profits $'000 | Foreign currency translation reserve $'000 | Total equity $'000 |
|---|---|---|---|---|---|
| **Opening balance as at 1 July 2012** | | 1,863,965 | 601,688 | (14,509) | 2,451,144 |
| Profit after tax for the year | | - | 286,979 | - | 286,979 |
| Other comprehensive income for the year | | - | - | 7,512 | 7,512 |
| Transactions with owners in their capacity as owners: | | | | | |
| Buy-back of contributed equity, net of transaction costs | 21 | (37,981) | - | - | (37,981) |
| Distributions paid or provided for | 23 | - | (152,719) | - | (152,719) |
| **Closing balance as at 30 June 2013** | | 1,825,984 | 735,948 | (6,997) | 2,554,935 |
| | | | | | |
| **Opening balance as at 1 July 2013** | | **1,825,984** | **735,948** | **(6,997)** | **2,554,935** |
| Profit after tax for the year | | **-** | **192,781** | **-** | **192,781** |
| Other comprehensive income for the year | | **-** | **-** | **5,204** | **5,204** |
| Transactions with owners in their capacity as owners: | | | | | **-** |
| Buy-back of contributed equity, net of transaction costs | 21 | **(37,071)** | **-** | **-** | **(37,071)** |
| Issue of additional equity | 21 | **423,749** | | | **423,749** |
| Distributions paid or provided for | 23 | **-** | **(170,709)** | **-** | **(170,709)** |
| **Closing balance as at 30 June 2014** | | **2,212,662** | **758,020** | **(1,793)** | **2,968,889** |

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

| | Note | 2014 $'000 | 2013 $'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts in the course of operations (inclusive of GST) | | **334,655** | 318,170 |
| Payments in the course of operations (inclusive of GST) | | **(124,292)** | (114,501) |
| Interest received | | **92** | 320 |
| Finance costs paid to financial institutions | | **(21,652)** | (11,480) |
| Distributions received from investments accounted for using the equity method | | **79,000** | 19,686 |
| **Net cash inflow from operating activities** | 31 | **267,803** | 212,195 |
| | | | |
| **Cash flows from investing activities** | | | |
| Payments for capital expenditure on investment properties | | **(54,208)** | (52,314) |
| Proceeds from the sale of investment properties | | **-** | 13,629 |
| Payments for investments accounted for using the equity method | | **(1,080,904)** | (674,290) |
| Transaction costs paid | | **(7,879)** | - |
| **Net cash outflow from investing activities** | | **(1,142,991)** | (712,975) |
| | | | |
| **Cash flows from financing activities** | | | |
| Borrowings provided to entities within DXS | | **(850,205)** | (268,682) |
| Borrowings provided by entities within DXS | | **1,611,670** | 951,175 |
| Proceeds from loan with related party | | **338,359** | - |
| Repayment of borrowings | | **(26,252)** | - |
| Payments for buy-back of contributed equity | | **(37,071)** | (37,981) |
| Distributions paid to unitholders | | **(157,590)** | (141,844) |
| **Net cash inflow from financing activities** | | **878,911** | 502,668 |
| | | | |
| **Net increase in cash and cash equivalents** | | **3,723** | 1,888 |
| Cash and cash equivalents at the beginning of the year | | **5,007** | 3,091 |
| Effects of exchange rate changes on cash and cash equivalents | | **9** | 28 |
| **Cash and cash equivalents at the end of the year** | 8 | **8,739** | 5,007 |

*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 2014 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(q)). 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(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

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

(i) Controlled entities

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

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

# Note 1

**Summary of significant accounting policies** (continued)

## (b) Principles of consolidation (continued)

(ii) Joint arrangements

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

*Joint operations*

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

*Joint ventures*

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

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

## (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.

# Note 1

**Summary of significant accounting policies** (continued)

**(d) Expenses** (continued)

(ii) Borrowing costs

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

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

**(e) Derivatives and other financial instruments**

(i) Derivatives

The 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. 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.

# Note 1

**Summary of significant accounting policies** (continued)

### (f) Goods and services tax

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

Cash flows are included in the Statement of Cash Flows on a gross basis. The GST component of cash flows arising from investing and financing activities which 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, 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) Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use, and a sale is considered highly probable. 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.

# Note 1

**Summary of significant accounting policies** (continued)

### (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.

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

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

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

### (n) Leasing fees

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

### (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) 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.

# Note 1

**Summary of significant accounting policies** (continued)

### (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 | 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.

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

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

### (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

The Trust has a foreign operation located in New Zealand. This operation has a functional currency of NZ dollars, which is translated into the presentation currency.

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

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

### (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 24 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

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 Trust in controlled entities are measured at fair value through profit and loss to reduce a measurement or recognition inconsistency.

# 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 2014 reporting period. The Trust's assessment of the impact of these new standards and interpretations is set out below:

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

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

## Note 2

**Property revenue**

| | 2014<br>$'000 | 2013<br>$'000 |
|---|---|---|
| Rent and recoverable outgoings | **290,816** | 289,443 |
| Incentive amortisation | **(34,990)** | (30,535) |
| Other revenue | **28,032** | 11,352 |
| **Total property revenue** | **283,858** | 270,260 |

## Note 3

**Interest revenue**

| | 2014<br>$'000 | 2013<br>$'000 |
|---|---|---|
| Interest revenue from financial institutions | **92** | 320 |
| **Total interest revenue** | **92** | 320 |

## Note 4

**Finance costs**

| | 2014<br>$'000 | 2013<br>$'000 |
|---|---|---|
| Interest paid to related parties | **115,988** | 70,077 |
| Net fair value loss/(gain) of interest rate swaps | **41,537** | (6,905) |
| **Total finance costs** | **157,525** | 63,172 |

## Note 5

**Other expenses**

| | Note | 2014<br>$'000 | 2013<br>$'000 |
|---|---|---|---|
| Audit and taxation fees | 6 | **285** | 314 |
| Custodian fees | | **280** | 259 |
| Legal and other professional fees | | **175** | 287 |
| Registry costs and listing fees | | **329** | 229 |
| Other expenses | | **109** | 214 |
| **Total other expenses** | | **1,178** | 1,303 |

# Note 6

## Audit, taxation and transaction services fees

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

| | **2014** $ | 2013 $ |
|---|---|---|
| **Audit fees** | | |
| PwC Australia - audit and review of Financial Statements[1] | **302,616** | 246,238 |
| PwC fees paid in relation to outgoings audit[2] | **99,250** | 50,570 |
| PwC Australia - regulatory audit and compliance services | **3,620** | 3,517 |
| PwC Australia - audit and review of DOTA[3] | **212,500** | - |
| **Audit fees paid to PwC** | **617,986** | **300,325** |
| **Taxation fees** | | |
| Fees paid to PwC Australia | **5,000** | 38,167 |
| Fees paid to PwC NZ | **12,894** | 26,442 |
| Fees paid to PwC Australia in respect of the CPA acquisition[3] | **200,000** | - |
| **Taxation fees paid to PwC** | **217,894** | 64,609 |
| **Total audit and taxation fees paid to PwC[4]** | **835,880** | 364,934 |
| **Transaction services fees** | | |
| Fees paid to PwC Australia in respect of the CPA acquisition[3] | **225,000** | - |
| **Total transaction services fees paid to PwC** | **225,000** | - |
| **Total audit, taxation and transaction services fees paid to PwC** | **1,060,880** | 364,934 |

1 Includes $38,654 of fees paid in relation to joint ventures which are included in share of net profit from investments accounted for using the equity method in the Statement of Comprehensive Income.

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

3 Fees paid in relation to the Group's investment in DOTA are included in share of net profit from investments accounted for using the equity method in the Statement of Comprehensive Income.

4 After allowing for the impact of the above footnotes, total audit and taxation fees included in other expenses are $285,476 (2013: $314,364).

# Note 7

## Income Tax

### (a) Income tax expense

| | | 2014 $'000 | 2013 $'000 |
|---|---|---|---|
| Income tax expense | | **1,319** | - |
| Deferred tax expense | | **585** | 5,599 |
| **Total income tax expense** | | **1,904** | 5,599 |
| | | | |
| Deferred income tax expense attributable to: | | | |
| Increase in deferred tax liabilities | 19 | **585** | 5,599 |
| **Total deferred tax expense** | | **585** | 5,599 |

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

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| Profit before tax | **194,685** | 292,578 |
| Less amounts not subject to income tax | **(173,659)** | (279,211) |
| | **21,026** | 13,367 |
| | | |
| Prima facie tax expense at the New Zealand tax rate of 28% (2013: 28%) | **5,887** | 3,743 |
| | | |
| **Tax effects of amounts which are not deductible/(taxable) in calculating taxable income:** | | |
| Depreciation and amortisation | **(468)** | (401) |
| Movements in the carrying value and tax cost base of properties | **(1,695)** | 5,599 |
| Non-deductible interest expense | **133** | 48 |
| Tax losses brought to account | **-** | (1,154) |
| Other temporary differences | **(1,953)** | (2,236) |
| | **(3,983)** | 1,856 |
| Income tax expense | **1,904** | 5,599 |

# Note 8

## Current assets - cash and cash equivalents

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| Cash at bank | **8,739** | 5,007 |
| **Total current assets - cash and cash equivalents** | **8,739** | 5,007 |

# Note 9
## Current assets - receivables

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| Rent receivable | **3,934** | 1,993 |
| Less: provision for doubtful debts | **(94)** | (55) |
| **Total rental receivables** | **3,840** | 1,938 |
| Distributions receivable | **68,770** | 2,620 |
| Other receivables | **3,459** | 7,325 |
| **Total other receivables** | **72,229** | 9,945 |
| **Total current assets - receivables** | **76,069** | 11,883 |

# Note 10
## Non-current assets classified as held for sale

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| Investment properties held for sale | **130,071** | - |
| **Total non-current assets classified as held for sale** | **130,071** | - |

# Note 11
## Loans with related parties

| | 2014 $'000 | 2013 $'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] | **2,744,373** | 1,441,551 |
| Non-interest bearing loan from DEXUS Office Trust Australia[3] | **338,359** | - |
| **Total non-current liabilities - loans with related parties** | **3,082,732** | 1,441,551 |

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.
3 Represents the Trust’s share of proceeds from the sale of four properties by DEXUS Office Trust Australia. Refer to note 15 for further details.

## Note 12

**Derivative financial instruments**

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| **Current assets** | | |
| Interest rate swap contracts | - | 785 |
| Other | - | 2,683 |
| **Total current assets - derivative financial instruments** | - | 3,468 |
| **Non-current assets** | | |
| Interest rate swap contracts | **2,003** | 5,483 |
| **Total non-current assets - derivative financial instruments** | **2,003** | 5,483 |
| **Current liabilities** | | |
| Interest rate swap contracts | - | 770 |
| **Total current liabilities - derivative financial instruments** | - | 770 |
| **Non-current liabilities** | | |
| Interest rate swap contracts | **54,948** | 39,759 |
| **Total non-current liabilities - derivative financial instruments** | **54,948** | 39,759 |
| **Net derivative financial instruments** | **(52,945)** | (31,578) |

Refer note 25 for further discussion regarding derivative financial instruments.

## Note 13

**Current assets - other**

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| Prepayments | **2,855** | 3,708 |
| **Total current assets - other** | **2,855** | 3,708 |

# Note 14

## Non-current assets - investment properties

### (a) Reconciliation

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| Opening balance at the beginning of the year | **3,279,378** | 3,132,600 |
| Additions | **29,246** | 21,471 |
| Disposals | **-** | (14,176) |
| Lease incentives | **43,174** | 35,605 |
| Amortisation of lease incentives | **(34,990)** | (30,735) |
| Transfer to non-current assets classified as held for sale[1] | **(130,071)** | - |
| Net fair value gain of investment properties | **111,565** | 131,301 |
| Rent straightlining | **1,237** | (3,999) |
| Foreign exchange differences on foreign currency translation | **11,076** | 7,311 |
| **Closing balance at the end of the year** | **3,310,615** | 3,279,378 |

1 During the year ended 30 June 2014, $130.1 million of investment property was transferred to assets held for sale with an intention to sell.

### (b) Valuation process

Properties independently valued in the last 12 months were based on independent assessments by a member of the Australian Property Institute or the New Zealand Institute of Valuers who are instructed in accordance with all applicable regulatory requirements. Independent valuations of individual investment properties are carried out in accordance with the Constitutions of the Trust which at a minimum requires each individual property to be independently valued every three years. Each valuation firm and its signatory valuer are appointed on the basis that they are engaged for no more than three consecutive valuations. Independent valuations may be undertaken earlier where the Trust believes there is potential for a material change in the fair value of the property being the greater of 5% of the asset value, or $5 million.

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

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

# Note 14

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

### (c) Fair value measurement, valuation techniques and inputs

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

| Fair value heirarchy | Fair value 2014 $'000 | Valuation technique | Inputs used to measure fair value | Range of unobservable inputs 2014 |
|---|---|---|---|---|
| Level 3 | **3,310,615** | Income capitalisation method and DCF | Adopted Capitalisation rate | 6.05% - 8.25% |
| | | | Adopted Discount rate | 8.09% - 9.00% |
| | | | Adopted terminal yield | 6.05% - 8.25% |
| | | | Current net market rental (per sqm) | $359 - $1,065 |
| | | | 10 year average market rental growth | 2.10% - 3.79% |

### (d) Sensitivity information

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

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

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

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

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

# Note 15

**Non-current assets - investments accounted for using the equity method**

Investments are accounted for in the Financial Statements using the equity method of accounting (refer note 1(b)).

Information relating to these entities is set out below:

| | Ownership Interest | | | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| **Name of entity** | **%** | % | **$'000** | $'000 |
| Bent Street Trust | **33.3** | 33.3 | **250,183** | 248,291 |
| DEXUS Creek Street Trust | **50.0** | 50.0 | **131,839** | 127,620 |
| DEXUS Martin Place Trust | **50.0** | 50.0 | **81,472** | 79,787 |
| Grosvenor Place Holding Trust[1] | **50.0** | 50.0 | **293,487** | 289,086 |
| Site 6 Homebush Bay Trust[1] | **50.0** | 50.0 | **37,549** | 37,093 |
| Site 7 Homebush Bay Trust[1] | **50.0** | 50.0 | **50,812** | 50,266 |
| DEXUS 480 Q Holding Trust | **50.0** | 50.0 | **82,853** | 44,502 |
| DEXUS Kings Square Trust | **50.0** | 50.0 | **88,781** | 30,123 |
| DEXUS Office Trust Australia | **50.0** | - | **1,777,764** | - |
| **Total non-current assets - investments accounted for using the equity method** | | | **2,794,740** | 906,768 |

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

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

# Note 15

**Non-current assets – investments accounted for using the equity method** (continued)

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

| | DEXUS Office Trust Australia | | Grosvenor Place Holding Trust | | Bent Street Trust | | Other joint ventures | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 | **2014** | 2013 | **2014** | 2013 | **2014** | 2013 |
| **Summarised Statement of Financial Position** | **$'000** | $'000 | **$'000** | $'000 | **$'000** | $'000 | **$'000** | $'000 | **$'000** | $'000 |
| **Current assets** | | | | | | | | | | |
| Cash and cash equivalents | **21,721** | - | **372** | 644 | **777** | 1,414 | **3,034** | 2,732 | **25,904** | 4,790 |
| Other current assets | **6,716** | - | **705** | 1,916 | **2,874** | 453 | **1,577** | 2,457 | **11,872** | 4,826 |
| **Total current assets** | **28,437** | **-** | **1,077** | 2,560 | **3,651** | 1,867 | **4,611** | 5,189 | **37,776** | 9,616 |
| | | | | | | | | | | |
| **Non-current assets** | | | | | | | | | | |
| Investment properties | **1,506,906** | - | **295,504** | 289,154 | **250,260** | 250,333 | **475,982** | 373,348 | **2,528,652** | 912,835 |
| Investments accounted for using the equity method | **188,204** | - | **-** | - | **-** | - | **-** | - | **188,204** | - |
| Loan to related party[1] | **338,359** | - | **-** | - | **-** | - | **-** | - | **338,359** | - |
| **Total non-current assets** | **2,033,469** | - | **295,504** | 289,154 | **250,260** | 250,333 | **475,982** | 373,348 | **3,055,215** | 912,835 |
| | | | | | | | | | | |
| **Current liabilities** | | | | | | | | | | |
| Provision for distribution | **63,744** | - | **1,814** | 1,012 | **2,268** | - | **945** | 1,609 | **68,771** | 2,621 |
| Other current liabilities | **34,721** | - | **1,280** | 1,616 | **1,460** | 3,909 | 6,342 | 7,537 | **43,803** | 13,062 |
| **Total current liabilities** | **98,465** | - | **3,094** | 2,628 | **3,728** | 3,909 | **7,287** | 9,146 | **112,574** | 15,683 |
| | | | | | | | | | | |
| **Non-current liabilities** | | | | | | | | | | |
| Borrowings | **185,677** | - | **-** | - | **-** | - | - | - | **185,677** | - |
| **Total non-current liabilities** | **185,677** | - | **-** | - | **-** | - | - | - | **185,677** | - |
| **Net assets** | **1,777,764** | - | **293,487** | 289,086 | **250,183** | 248,291 | **473,306** | 369,391 | **2,794,740** | 906,768 |
| | | | | | | | | | | |
| **Reconciliation of carrying amounts:** | | | | | | | | | | |
| Opening balance at the beginning of the year | **-** | - | **289,086** | - | **248,291** | 217,043 | **369,391** | - | **906,768** | 217,043 |
| Additions | **1,878,647** | - | **2,421** | 289,485 | **3,129** | 15,873 | **93,778** | 368,932 | **1,977,975** | 674,290 |
| Share of net (loss)/profit after tax | **(8,998)** | - | **18,167** | 3,969 | **13,703** | 24,395 | **35,570** | 9,541 | **58,442** | 37,905 |
| Impairment | **(3,295)** | - | **-** | (932) | **-** | - | **-** | 768 | **(3,295)** | (164) |
| Distributions received/receivable | **(88,590)** | - | **(16,187)** | (3,436) | **(14,940)** | (9,020) | **(25,433)** | (9,850) | **(145,150)** | (22,306) |
| **Closing balance at the end of the year** | **1,777,764** | - | **293,487** | 289,086 | **250,183** | 248,291 | **473,306** | 369,391 | **2,794,740** | 906,768 |

1 Refer to note 11. Represents the Trust's share of proceeds from the sale of four properties by DEXUS Office Trust Australia.

# Note 15

**Non-current assets - investments accounted for using the equity method** (continued)

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

| | DEXUS Office Trust Australia | | Grosvenor Place Holding Trust | | Bent Street Trust | | Other joint ventures | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 | **2014** | 2013 | **2014** | 2013 | **2014** | 2013 |
| **Summarised Statement of Comprehensive Income** | **$'000** | $'000 | **$'000** | $'000 | **$'000** | $'000 | **$'000** | $'000 | **$'000** | $'000 |
| Property revenue | **63,686** | **-** | **22,600** | 5,646 | **17,036** | 14,467 | **24,065** | 12,064 | **127,387** | 32,177 |
| Property revaluations | **2,977** | - | **-** | - | **-** | 12,855 | **16,768** | - | **19,745** | 12,855 |
| Interest income | **319** | **-** | **16** | - | **56** | 46 | **52** | 66 | **443** | 112 |
| Finance costs | **(5,421)** | - | - | - | **-** | - | **-** | - | **(5,421)** | - |
| Other expenses | **(70,559)** | - | **(4,449)** | (1,677) | **(3,389)** | (2,973) | **(5,315)** | (2,589) | **(83,712)** | (7,239) |
| **Net (loss)/profit for the year** | **(8,998)** | - | **18,167** | 3,969 | **13,703** | 24,395 | **35,570** | 9,541 | **58,442** | 37,905 |
| **Total comprehensive (loss)/income for the year** | **(8,998)** | **-** | **18,167** | 3,969 | **13,703** | 24,395 | **35,570** | 9,541 | **58,442** | 37,905 |

# Note 16

**Non-current assets - other**

| | **2014** **$'000** | 2013 $'000 |
|---|---|---|
| Tenant bonds | **710** | 660 |
| Other | **234** | 234 |
| **Total non-current assets - other** | **944** | 894 |

# Note 17

**Current liabilities - payables**

| | **2014** **$'000** | 2013 $'000 |
|---|---|---|
| Trade creditors | **23,783** | 10,836 |
| Accruals | **6,106** | 5,947 |
| Accrued capital expenditure | **5,913** | 5,990 |
| Prepaid income | **10,249** | 7,797 |
| Responsible Entity fee payable | **2,955** | 1,029 |
| GST payable | **-** | 831 |
| Current tax liabilities | **1,327** | - |
| Accrued interest | **14,252** | 6,740 |
| **Total current liabilities - payables** | **64,585** | 39,170 |

# Note 18

**Current liabilities - provisions**

| | **2014** **$'000** | 2013 $'000 |
|---|---|---|
| Provision for distribution | **91,666** | 78,547 |
| **Total current liabilities - provisions** | **91,666** | 78,547 |

Movements in provision for distribution are set out below:

| | **2014** **$'000** | 2013 $'000 |
|---|---|---|
| Opening balance at the beginning of the year | **78,547** | 67,672 |
| Additional provisions | **170,709** | 152,719 |
| Payments of distributions | **(157,590)** | (141,844) |
| **Closing balance at the end of the year** | **91,666** | 78,547 |

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

## Note 19

### Non-current liabilities - deferred tax liabilities

| | **2014** | 2013 |
|---|---|---|
| | **$'000** | $'000 |
| **The balance comprises temporary differences attributable to:** | | |
| Investment properties | **6,766** | 5,599 |
| **Total non-current liabilities - deferred tax liabilities** | **6,766** | 5,599 |
| | | |
| **Movements** | | |
| Opening balance at the beginning of the year | **5,599** | - |
| Temporary differences | **585** | 5,599 |
| Foreign currency translation | **582** | - |
| Charged to the Statement of Comprehensive Income | **1,167** | 5,599 |
| **Closing balance at the end of the year** | **6,766** | 5,599 |

## Note 20

### Non-current liabilities - other

| | **2014** | 2013 |
|---|---|---|
| | **$'000** | $'000 |
| Tenant bonds | **766** | 574 |
| **Total non-current liabilities - other** | **766** | 574 |

## Note 21

### Contributed equity

#### (a) Contributed equity

| | **2014** | 2013 |
|---|---|---|
| | **$'000** | $'000 |
| Opening balance at the beginning of the year | **1,825,984** | 1,863,965 |
| Buy-back of contributed equity | **(37,071)** | (37,981) |
| Issue of additional equity | **423,749** | - |
| **Closing balance at the end of the year** | **2,212,662** | 1,825,984 |

#### (b) Number of units on issue

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

**Terms and conditions**

Each stapled security ranks equally with all other stapled securities for the purposes of distributions and on termination of the Trust. Each stapled security entitles the holder to vote in accordance with the provisions of the Constitution and the *Corporations Act 2001*.

# Note 22

## Reserves and retained profits

### (a) Reserves

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| Foreign currency translation reserve | (1,793) | (6,997) |
| **Total reserves** | **(1,793)** | (6,997) |
| | | |
| **Movements:** | | |
| **Foreign currency translation reserve** | | |
| Opening balance at the beginning of the year | (6,997) | (14,509) |
| Exchange differences on translating foreign operations | 5,204 | 7,512 |
| **Closing balance at the end of the year** | **(1,793)** | (6,997) |

### (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

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| Opening balance at the beginning of the year | 735,948 | 601,688 |
| Net profit attributable to unitholders | 192,781 | 286,979 |
| Distributions provided for or paid | (170,709) | (152,719) |
| **Closing balance at the end of the year** | **758,020** | 735,948 |

# Note 23

## Distributions paid and payable

### (a) Distribution to unitholders

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| 31 December (paid 28 February 2014) | 79,043 | 74,172 |
| 30 June (payable 29 August 2014) | 91,666 | 78,547 |
| | 170,709 | 152,719 |

### (b) Distribution rate

| | 2014 Cents per unit | 2013 Cents per unit |
|---|---|---|
| 31 December (paid 28 February 2014) | 1.45 | 1.58 |
| 30 June (payable 29 August 2014) | 1.69 | 1.58 |
| **Total distributions** | **3.14** | 3.16 |

# Note 24

## Parent entity financial information

### (a) Summary financial information

The individual Financial Statements for the parent entity show the following aggregate amounts:

| | **2014** | 2013 |
|---|---|---|
| | **$'000** | $'000 |
| Total current assets | **1,628,932** | 633,022 |
| Total assets | **5,941,809** | 4,185,551 |
| Total current liabilities | **187,617** | 165,075 |
| Total liabilities | **2,994,863** | 1,652,558 |
| | | |
| **Equity** | | |
| Contributed equity | **2,212,662** | 1,825,984 |
| Retained profits | **734,283** | 707,009 |
| **Total equity** | **2,946,945** | 2,532,993 |
| | | |
| Net profit for the year | **197,984** | 294,492 |
| **Total comprehensive income for the year** | **197,984** | 294,492 |

### (b) Investments in controlled entities

The parent entity has the following investments:

| | | Ownership Interest | |
|---|---|---|---|
| | | **2014** | 2013 |
| **Name of entity** | **Principal activity** | **%** | % |
| DOT Commercial Trust | Office property investment | **100.0** | 100.0 |
| DOT NZ Sub-Trust No 1 | Office property investment | **100.0** | 100.0 |
| DOT NZ Sub-Trust No 2 | Office property investment | **100.0** | 100.0 |
| DOT Subtrust No. 2 | Office property investment | **100.0** | - |

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

Refer to note 26 for details of guarantees entered into by the parent entity.

### (d) Contingent liabilities

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

| | **2014** | 2013 |
|---|---|---|
| | **$'000** | $'000 |
| Investment properties | **38,548** | 12,289 |
| **Total capital commitments** | **38,548** | 12,289 |

# Note 25

## 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 (refer note 11), 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 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 gearing ratio at 30 June 2014 was 45.8% (as detailed below).

| Gearing ratio | **2014** **$'000** | 2013 $'000 |
|---|---|---|
| Total interest bearing liabilities[1] | **2,744,373** | 1,441,551 |
| Total tangible assets[2] | **5,985,674** | 4,207,638 |
| **Gearing ratio[3]** | **45.8%** | 34.3% |

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 2014 is 30.2% (2013: 29.1%) (refer note 29 of the DXS Financial Statements).

The Trust is not rated by ratings agencies, however, DXS has been rated A- by Standard and Poor's (S&P) and A3 by Moody's. 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 2014 and 2013 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 maintain liquidity above specified limits. 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 25

**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 25

**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.

| | 2014 | | | | 2013 | | | |
|---|---|---|---|---|---|---|---|---|
| | 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 | 76,069 | - | - | - | 11,883 | - | - | - |
| Payables | 64,585 | - | - | - | 39,170 | - | - | - |
| | 11,484 | - | - | - | (27,287) | - | - | - |
| **Loans with related parties and interest**[1] | 141,469 | 141,469 | 3,027,311 | - | 81,159 | 81,159 | 1,685,029 | - |
| **Derivative financial instruments** | | | | | | | | |
| Derivative assets | 897 | 897 | 34 | - | 1,154 | 770 | 802 | - |
| Derivative liabilities | 16,370 | 21,324 | 52,680 | 7,686 | 16,623 | 12,793 | 20,332 | 10 |
| **Total net derivative financial instruments**[2] | (15,473) | (20,427) | (52,646) | (7,686) | (15,469) | (12,023) | (19,530) | (10) |

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 12 (derivative financial instruments) for fair value of derivatives. Refer note 26 (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 25

**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 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.

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

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

| | **June 2015** | **June 2016** | **June 2017** | **June 2018** | **June 2019** | **> June 2020** |
|---|---|---|---|---|---|---|
| | **$'000** | **$'000** | **$'000** | **$'000** | **$'000** | **$'000** |
| **Interest rate swaps** | | | | | | |
| A$ hedged[1] | 1,333,333 | 1,540,417 | 1,602,500 | 1,406,250 | 978,333 | 54,417 |
| A$ hedge rate (%)[2] | 3.88% | 3.94% | 3.80% | 3.89% | 4.07% | 3.37% |

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.

| | | **2014** | 2013 |
|---|---|---|---|
| | | **(+/-) $'000** | (+/-) $'000 |
| +/- 0.50% (50 basis points) | $A | **8,091** | 5,058 |
| +/- 0.50% (50 basis points) | NZ$ | **625** | - |
| **Total A$ equivalent** | | **8,631** | 5,058 |

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

# Note 25

**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.

| | | **2014** | 2013 |
|---|---|---|---|
| | | **(+/-) $'000** | (+/-) $'000 |
| +/- 0.50% (50 basis points) | $A | **34,772** | 11,040 |

(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 investments in New Zealand. As a result of these activities, the Trust has foreign exchange risk, arising primarily from:

- translation of an investment in a foreign operation;
- borrowings 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.

# Note 25

**Financial risk management** (continued)

**(2) Financial risk management** (continued)

**(b) Market risk** (continued)

(ii) Foreign exchange risk (continued)

**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 security holder's equity and net tangible assets.

The Trust's net foreign currency exposures for net investments in foreign operations are as follows:

| | 2014<br>$'000 | 2013<br>$'000 |
|---|---|---|
| NZ$ net assets[1] | **140,000** | 127,500 |
| NZ$ net borrowings[2] | **(125,000)** | - |
| **NZ$ denominated net investment** | **15,000** | 127,500 |
| **% hedged** | **89%** | 0% |
| Total foreign investment (A$) | **13,939** | 107,405 |
| Total % hedged | **89%** | **0%** |

1 Assets exclude working capital and cash as reported internally to management.
2 Net borrowings equals interest bearing liabilities.

**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. 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 and liabilities are recorded (in Australian Dollars) directly in the foreign currency translation reserve.

| | | 2014<br>(+/-) $'000 | 2013<br>(+/-) $'000 |
|---|---|---|---|
| + 8.5 cents (9.5%) (2013: 9.5 cents) | NZ$ (A$ Equivalent) | **9,491** | 7,991 |
| - 8.5 cents (9.5%) (2013: 9.5 cents) | NZ$ (A$ Equivalent) | **(11,112)** | (9,388) |

1 The sensitivity on market rates has been based on the standard deviation of the annual change in the Australian dollar exchange rate per currency since 1984 or commencement.
2 Exchange rates at 30 June 2014: AUD/NZD 1.0761 (2013: 1.1871).

# Note 25

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

Financial instrument transactions are spread among a number of approved financial institutions within specified credit limits to minimise the 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 2014 and 30 June 2013 is the carrying amount of financial assets recognised on the Statement of Financial Position.

As at 30 June 2014 and 30 June 2013, there were no significant concentrations of credit risk for trade receivables. Trade receivable balances and the credit quality of trade debtors are consistently monitored on an ongoing basis.

The ageing analysis of loans and receivables net of provisions at 30 June 2014 is ($'000): 75,249 (0-30 days), 275 (31-60 days), 103 (61-90 days), 442 (91+ days). The ageing analysis of loans and receivables net of provisions at 30 June 2013 is ($'000): 11,286 (0-30 days), 366 (31-60 days), 231 (61-90 days), 0 (91+ days). 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 25

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

| | 2014 Carrying amount[1] $'000 | 2014 Fair value[2] $'000 | 2013 Carrying amount[1] $'000 | 2013 Fair value[2] $'000 |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Cash and cash equivalents | **8,739** | **8,739** | 5,007 | 5,007 |
| Loans and receivables (current) | **76,069** | **76,069** | 11,883 | 11,883 |
| Derivative assets | **2,003** | **2,003** | 8,951 | 8,951 |
| **Total financial assets** | **86,811** | **86,811** | 25,841 | 25,841 |
| **Financial liabilities** | | | | |
| Trade payables | **64,585** | **64,585** | 39,170 | 39,170 |
| Derivative liabilities | **54,948** | **54,948** | 40,529 | 40,529 |
| 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 | **3,082,732** | **3,082,732** | 1,441,551 | 1,441,551 |
| **Total financial liabilities** | **3,257,949** | **3,257,949** | 1,576,934 | 1,576,934 |

1 Carrying value is equal to the value of the financial instruments in the Statement of Financial Position.
2 Fair value is the price that would be received to transfer the asset or liability in an orderly transaction between market participants at the measurement date. Where there is a difference between the carrying amount and fair value, the difference is not recognised in the Statement of Financial Position.

The fair value of interest bearing liabilities and derivative financial instruments has been determined based on a discounted cash flow analysis using observable market inputs (interest rates, exchange rates, and basis) and applying a credit or debit value adjustment based on the current credit worthiness of counterparties and the Trust.

### 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 25

**Financial risk management** (continued)

**(2) Financial risk management** (continued)

**(d) Fair value of financial instruments** (continued)

**Determination of fair value** (continued)

The following tables present the assets and liabilities measured and recognised as at fair value at 30 June 2014 and 30 June 2013.

| 2014 | Level 1 $'000 | Level 2 $'000 | Level 3 $'000 | Total $'000 |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Derivative assets | | | | |
| Interest rate derivatives | - | 2,003 | - | 2,003 |
| | - | 2,003 | - | 2,003 |
| **Financial liabilities** | | | | |
| Derivative liabilities | | | | |
| Interest rate derivatives | - | 54,948 | - | 54,948 |
| | - | 54,948 | - | 54,948 |

| 2013 | Level 1 $'000 | Level 2 $'000 | Level 3 $'000 | Total $'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 |

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

**(e) Offsetting financial assets and financial liabilities**

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

All derivatives held by the Trust are in a liability position and therefore disclosure of the offsetting arrangements is consistent with the amounts disclosed in the Statement of Financial Position.

**Master netting arrangements - not currently enforceable**

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

# Note 26

**Contingent liabilities**

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

| | 2014 $'000 | 2013 $'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 15).

The Trust together with DDF, DIT and DXO is also a guarantor of a total of A$1,100.0 million of bank bilateral facilities, A$850.0 million of syndicated bank debt facilities, A$470.0 million of medium term notes, a total of US$630.0 million (A$668.8 million) of privately placed notes, and a total of US$250.0 million (A$265.4 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 27

**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:

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| Investment properties | **51,018** | 19,847 |
| Investments accounted for using the equity method | **284,797** | 302,274 |
| **Total capital commitments** | **335,815** | 322,121 |

## (b) Lease receivable commitments

The future minimum lease payments receivable by the Trust are:

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| Within one year | **172,909** | 168,093 |
| Later than one year but not later than five years | **401,251** | 365,401 |
| Later than five years | **146,968** | 108,858 |
| **Total lease receivable commitments** | **721,128** | 642,352 |

# Note 28

## 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:

| | **2014** | 2013 |
|---|---|---|
| | **$** | $ |
| Responsible Entity fees paid and payable | **12,960,239** | 11,229,765 |
| Property management fees paid and payable to DXPS | **11,066,146** | 7,757,188 |
| Administration expenses paid and payable to DXH | **19,491,123** | 10,362,695 |
| Responsible Entity fees payable at the end of each reporting period (included above) | **2,039,693** | 1,029,348 |
| Property management fees payable at the end of each reporting period (included above) | **1,145,160** | 1,242,274 |
| Administration expenses payable at the end of each reporting period (included above) | **301,853** | 1,042,715 |
| Rent received from DXPS | **1,443,769** | 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:

| | **2014** | 2013 |
|---|---|---|
| | **$** | $ |
| Interest expense | **115,986,659** | 70,076,436 |
| Interest bearing loans advanced from entities within DXS | **2,038,309,586** | 951,175,101 |
| Interest bearing loans advanced to entities within DXS | **850,205,456** | 268,681,673 |

# Note 28

**Related parties** (continued)

**Directors**

The following persons were Directors of DXFM at all times during the year and to the date of this report, unless otherwise stated:

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

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

**Other key management personnel**

In addition to the Directors listed above, the following persons were deemed by the Board Nomination, Remuneration & Governance Committee to be key management personnel during all or part of the financial year:

| Name | Title |
|---|---|
| Ross Du Vernet | Executive General Manager, Strategy, Transactions & Research |
| Kevin George | Executive General Manager, Office & Industrial |

**Key management personnel compensation**

| | 2014 $ | 2013 $ |
|---|---|---|
| **Compensation** | | |
| Short-term employee benefits | **7,428,170** | 9,219,857 |
| Post employment benefits | **189,291** | 229,763 |
| Other long-term benefits | **47,700** | 1,116,082 |
| Security-based payments | **1,995,116** | 1,383,669 |
| | **9,660,277** | 11,949,371 |

# Note 28

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

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

# Note 28

**Related parties** (continued)

## Remuneration Report

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.

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

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

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

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

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

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

- An increase in the number of securities required to be held by each Director from 50,000 to 100,000. Securities are to be purchased on-market with after tax personal funds and are to be acquired within three years of the 2014 Annual General Meeting. Newly appointed Directors will need to acquire the relevant number of securities within three years of their appointment

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

### 1. Key Management Personnel

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

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

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

## Non-Executive Directors

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

## Executive Directors

| Executive Directors | Position | KMP 2013 | KMP 2014 |
|---|---|---|---|
| Darren J Steinberg | Executive Director and Chief Executive Officer | ✓ | ✓ |
| Craig D Mitchell | Executive Director Finance and Chief Operating Officer | ✓ | ✓ |

## Executive KMP

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

## 2. Board Nomination, Remuneration & Governance Committee

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

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

The Committee comprises three independent Non-Executive Directors. For the year ended 30 June 2014 Committee members were:

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

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

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

The Committee operates independently from management, and may at its discretion appoint external 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 $9,600 for remuneration recommendations made to the Committee and $25,600 for other advisory services, including the review of documents, attendance at meetings and general advice. The Committee is satisfied the advice received from Egan Associates is free from undue influence from the KMP to whom the remuneration recommendations relate. Egan Associates also confirmed in writing that the remuneration recommendations were made free from undue influence by KMP.

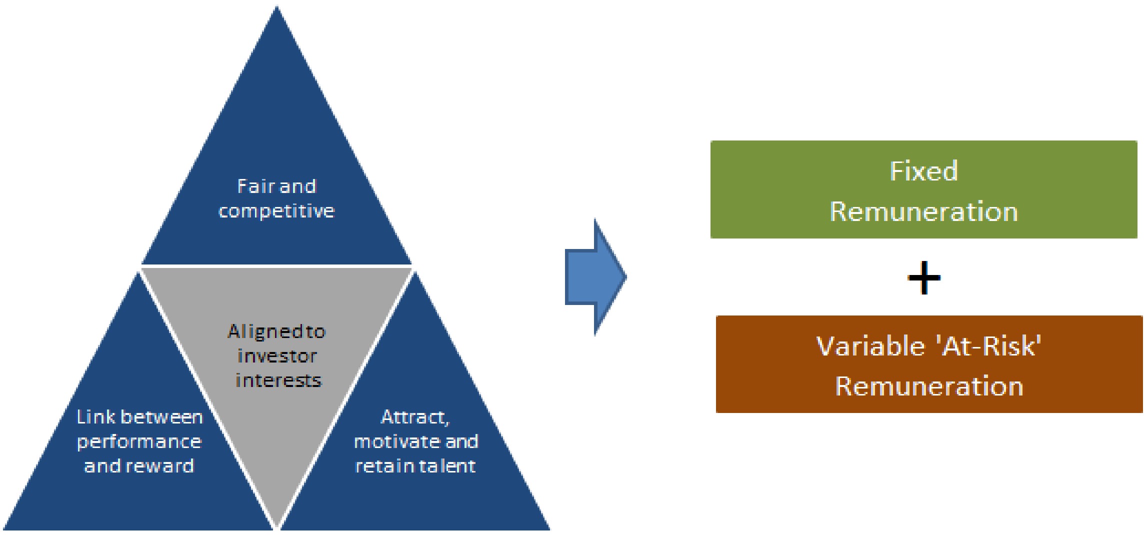
The 2013 Remuneration Report received positive security holder support at the 2013 Annual General Meeting with a vote of 98.6% in favour.

## 3. Executive Remuneration

### Context

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

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




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.

## 4. Remuneration Structure

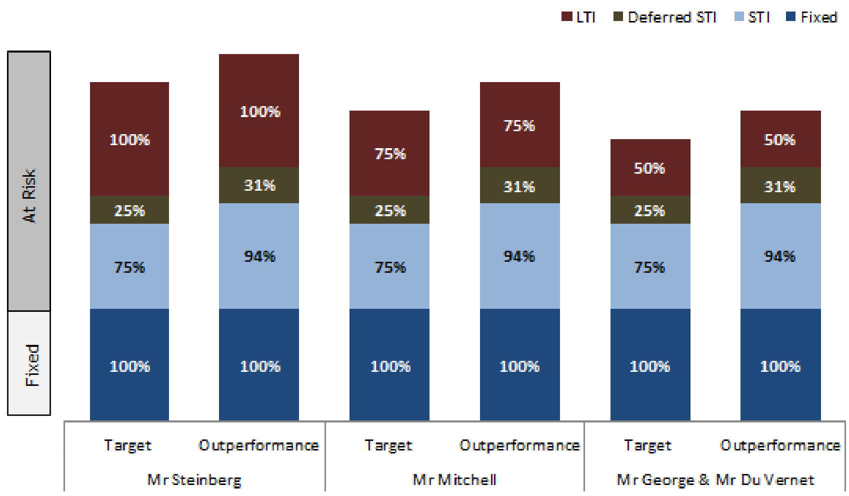
### Remuneration Mix

The remuneration structure for Executive Directors and Executive KMP (collectively referred to as 'Executives' in this report) comprises fixed remuneration, a short term incentive 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.

The target remuneration mix for Executives during 2014 was:

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

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



## STI Plan

| | |
|---|---|
| Purpose | The STI plan is designed to motivate and reward Executives for their annual contribution to the financial and non-financial performance of the Group. |
| Participation | At Target, each Executive can earn 100% of fixed remuneration under the STI plan, 25% of which is deferred at further risk, and up to a maximum of 125% of fixed remuneration for Outperformance, 25% of which is deferred in DEXUS securities and is subject to clawback and potential forfeiture. |
| Performance | The amount each Executive can earn is dependent on how he/she performs against a personalised balanced scorecard of key performance indicators (KPIs) that is set at the beginning of each year. The balanced scorecard is arranged in categories and each category is weighted differently depending on the specific accountabilities of each Executive. If an Executive does not meet Threshold performance in a category, the incentive benefit under that category will be zero.<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 achieve 100% in any category. Following the same theme, KPIs at the Outperformance level have a significant amount of stretch, and would require exceptional outcomes to be achieved. KPIs at both the Target and Outperformance levels incorporate year-on-year performance improvement.<br><br>Aggregate performance below predetermined thresholds would result in no award being made under the STI plan. |
| Payment | STI payments are made in August, following the sign-off of statutory accounts and announcement of Group's annual results for the period to which the performance relates. |
| Deferral | 25% of any award under the STI plan is deferred and awarded in the form of performance rights to DXS securities.<br><br>The rights vest ordinarily in two equal tranches, 12 and 24 months after being awarded. However, they are subject to clawback and continued employment, and are based on a deferral period commencing 1 July after the relevant performance period.<br><br>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. |
| Distributions | 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. |
| Forfeiture | 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 may recommend that the Executive should remain in the plan as a 'good leaver', for decision by the Board. |
| Alignment | 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 as set out in the previous section of this summary table, and also in the event of a material misstatement of the Group's financial position |
| Oversight | The CEO monitors and assesses performance of Executives as part of the Group's annual performance management cycle. The CEO makes STI recommendations to the Committee, who subsequently make recommendations to the Board for approval.<br><br>The CEO's own performance is assessed in a similar manner, with the Chair of the Board making recommendations to the Committee for the Board's ultimate approval.<br><br>The Board retains the right to amend, suspend or cancel the STI plan at any time. |

## LTI Plan

| | |
|---|---|
| Purpose | The LTI plan is designed to motivate and reward Executives for sustained earnings and security holder returns and is delivered in the form of performance rights to DXS securities. |
| Participation | The CEO receives an LTI grant equal to 100% of his fixed remuneration. The Executive Director Finance & Chief Operating Officer receives an LTI grant equal to 75% of his fixed remuneration and other Executive KMP 50%. |
| Allocation | Executives receive a grant of performance rights to DXS securities which are at risk and subject to performance conditions set by the Board. The number of performance rights granted is based on the Executive's grant value (% of fixed remuneration) divided by the volume weighted average price (VWAP) of securities ten trading days either side of the first trading day of the new financial year. |
| Tranches | Each grant is split into two equal tranches, with a vesting period of three and four years respectively after the grant date. |
| Performance Conditions | The Board sets the performance conditions for the LTI plan on an annual basis. Consistent with 2013, the four performance conditions for the 2014 LTI plan are:<br><br><u>External Performance Conditions (50%)</u><br><br>▪ 25% is based on the Group's relative performance against a Total Shareholder Return (Relative TSR) performance hurdle measured against listed peers within the A-REIT sector<br><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 unlisted peers<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.<br><br><u>Internal Performance Conditions (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 purposes 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 (ROE) 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. |

| | |
|---|---|
| Vesting | Relative TSR & Relative ROE<br>▪ Vesting under both the Relative TSR & Relative ROE conditions 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 ahead of the 2014 grant. Taking into account feedback from investors and advice from market analysts and remuneration advisors, the comparator groups have been expanded to include all members of the accepted listed and unlisted benchmarks. Specifically:<br>▪ Listed: all members of the S&P/ASX 200's A-REIT Index<br>▪ Unlisted: all members of the Mercer IPD Core Wholesale Property Fund Index<br>The Board believes this amendment will enhance the operation of the LTI plan by removing any potential sustainability risk or asset class bias that may be inherent in a smaller comparator group. The Board also believes that a broader comparator group aligns to the Group's ambition to be recognised as Australia's leading real estate company and reflects the market in which DEXUS competes for investment capital.<br>The Board reserves the right to review the comparator groups annually, with relative performance monitored by an independent external advisor at 30 June each year.<br>FFO Growth & ROE<br>Vesting under both the FFO Growth & ROE measures will be on a sliding scale reflecting performance against predetermined performance conditions 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<br>Following a review of the Group's strategy and having completed extensive internal forecasting, the Board has set the following internal performance conditions for the 2014 LTI grant:<br>▪ FFO Growth Target of 4% - with Outperformance at 6%<br>▪ ROE Target of 9% - with Outperformance at 10%<br>FFO Growth is the implied compound annual growth rate (CAGR) of the aggregate FFO earnings per security in the three and four year vesting periods. ROE is measured as the per annum average at the conclusion of each vesting period. |
| Distributions | Executives are not entitled to distributions paid on underlying DXS securities prior to performance rights vesting. |

| | |
|---|---|
| Forfeiture | If the pre-determined performance conditions are not met then the performance rights relating to that tranche will be forfeited. There is no re-testing of forfeited rights.<br><br>Additionally, forfeiture will occur should the Executive's employment terminate within 12months 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 may recommend that the Executive should remain in the plan as a 'good leaver', for decision by the Board. |
| Alignment | The LTI plan is aligned to security holders interests in the following ways:<br>▪ As a reward to Executive's when the Group's overall performance exceeds specific pre-determined 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>▪ By aligning the financial interests of Executives to security holders through exposure to DXS securities and Group performance<br>▪ By encouraging and incentivising Executives to make sustainable business decisions within the Board-approved strategy of the Group |
| Oversight | 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>Executive 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 and held in trust for the Executive pending performance assessment.<br><br>The Board retains the right to amend, suspend or cancel the LTI plan at any time. |

## 5. Service Agreements

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

### CEO - Mr Steinberg

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

### Executives - Messrs Mitchell, George & Du Vernet

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

## 6. Performance Pay

### Group Performance

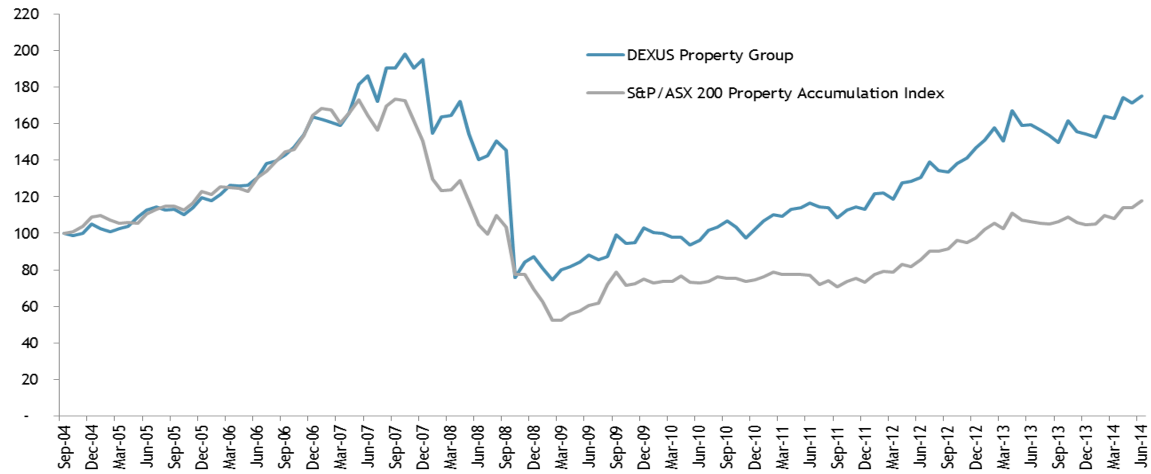
FY14 Highlights

| Group | Portfolio | Capital Management | Funds Management | Transactions |
|---|---|---|---|---|
| Delivered a 7.6% increase in FFO, resulting in a 4.3% increase in distribution per security | Leased 524,597 square metres of space across the total portfolio | Achieved upgrades to S&P and Moody's credit ratings providing benefits for future funding | Increased third party funds under management by 41% to $8.7 billion | Successfully completed the $3.4 billion takeover of CPA[1] |
| Achieved a 9.9% one-year total security holder return | Achieved 3.1% growth in like-for-like property net operating income across office and industrial portfolios | Secured $1.7 billion of new funding | Launched new partnerships with a leading global pension fund and a sovereign wealth fund | Involved in $4.0 billion of transactions across the Group[2] |

1. Jointly with Canada Pension Plan Investment Board
2. Including the CPA transaction

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, three and five year time horizon, relative to the S&P/ASX200 Property Accumulation Index:

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

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

## 7. Individual Performance Assessment - Balanced Scorecard

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

The Scorecard is divided into five major components – 'Group Financial Performance', 'Business & Portfolio Management', 'Funds Management & Transactions', 'Stakeholder Engagement' and 'People & Culture'. These components are differentially weighted to reflect the influence of each Executive. For each of the components the Executive has objectives and specific initiatives set for that year. The Scorecards are agreed with the KMP Executive at the beginning of the year, reviewed at the half year and assessed for performance awards at the end of the year.

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

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

## STI Awards

Application of the KPIs against the Balanced Scorecards resulted in no executive achieving the maximum possible STI. However, in recognition of the outstanding performance of Messrs Steinberg, Mitchell and Du Vernet during the period, and in particular for their effort in completing the $3.5billion CPA transaction, the Board used its discretion to increase the STI amount awarded to these executives. The following table summarises the final awards made to each Executive KMP with respect to their performance during the year ended 30 June 2014.

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

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

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

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

## Deferred STI Grants

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

The table below shows the number of Performance Rights to be granted to Executives under the 2014 Deferred STI plan (details of which are provided earlier in this report).

| Executive | Number of Performance Rights (#) | 1st Vesting Date 50% | 2nd Vesting Date 50% |
|---|---|---|---|
| Darren J Steinberg | 386,143 | 1 July 2015 | 1 July 2016 |
| Craig D Mitchell | 214,034 | 1 July 2015 | 1 July 2016 |
| Kevin L George | 99,294 | 1 July 2015 | 1 July 2016 |
| Ross G Du Vernet | 165,490 | 1 July 2015 | 1 July 2016 |

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

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

## LTI Grants

The table below shows the number of Performance Rights to be granted to Executives under the 2014 LTI plan (details of which are provided earlier in this report).

| Executive | Number of Performance Rights (#) | 1st Vesting Date 50% | 2nd Vesting Date 50% |
|---|---|---|---|
| Darren J Steinberg | 1,235,658 | 1 July 2017 | 1 July 2018 |
| Craig D Mitchell | 513,019 | 1 July 2017 | 1 July 2018 |
| Kevin L George | 275,816 | 1 July 2017 | 1 July 2018 |
| Ross G Du Vernet | 220,653 | 1 July 2017 | 1 July 2018 |

The number of performance rights granted to each Executive is based on the dollar value of LTI approved by the Board in its discretion and with reference to the remuneration framework, divided by the Volume Weighted Average Price (VWAP) of DXS securities ten trading days either side of 1 July 2014, which was confirmed as $1.1330.

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

### 8. Executive Remuneration Actual Cash Received

In line with best-practice recommendations, the amounts shown in the table below provide a summary of actual remuneration received during the year ended 30 June 2014. The STI and DDPP cash payments were received for performance in the 2013 and 2010 financial years respectively.

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

1 Includes employer contributions to superannuation under the superannuation guarantee legislation and salary sacrifice amounts
2 Mr Steinberg's sign-on conditions included access to an additional $500,000 subject to performance in FY13, which he was paid in full.
Mr George received a cash payment of $170,000 as compensation for foregone remuneration during the year.
In FY14, expenses were paid in relation to Mr George's relocation, including stamp duty and legal fees. Such expenses are not considered remuneration, but are footnoted here for transparency.
3 Cash payment made in August 2013 with respect to the 2013 STI Plan (i.e. annual performance payment for the prior financial year)
4 Cash payment made in August 2013 with respect to the 2010 DDPP award that vested on 1 July 2013 (i.e. realisation of 3 year deferred performance payment)

## 9. Executive Remuneration Statutory Accounting Method

The amounts shown in this table are prepared in accordance with *AASB 124 Related Party Disclosures* and do not represent actual cash payments received by Executives for the year ended 30 June 2014. Amounts shown under Long Term Benefits reflect the accounting expenses recorded during the year with respect to prior year deferred remuneration and awards that have or are yet to vest. For performance payments and awards made with respect to the year ended 30 June 2014, refer to the Performance Pay Outcomes section of this report.

| | | Short Term Benefits | | | Post-Employment Benefits | Share Based & Long Term Benefits | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Executive | Year | Cash Salary ($) | STI Cash Award [1] ($) | Other Short Term Benefits [2] ($) | Pension & Super Benefits [3] ($) | Deferred STI Plan Accrual [4] ($) | DDPP Plan Accrual [5] ($) | Transition Plan Accrual [6] ($) | LTI Plan Accrual [7] ($) | Total ($) |
| Darren J Steinberg | 2014 | 1,382,225 | 1,312,500 | - | 17,775 | 360,799 | - | 105,000 | 434,573 | 3,612,871 |
| | 2013 | 1,383,530 | 1,312,500 | 500,000 | 16,470 | 182,284 | - | 105,000 | 204,200 | 3,703,984 |
| Craig D Mitchell | 2014 | 751,300 | 727,500 | - | 23,700 | 177,281 | 47,700 | 125,000 | 159,995 | 2,012,476 |
| | 2013 | 733,530 | 562,500 | - | 16,470 | 78,122 | 172,790 | 125,000 | 64,349 | 1,752,761 |
| Kevin L George | 2014 | 602,425 | 337,500 | - | 22,575 | 271,020 | - | - | 110,452 | 1,343,972 |
| | 2013 | 338,954 | 247,500 | 634,383 | 12,008 | 219,374 | - | - | 59,029 | 1,511,248 |
| Ross G Du Vernet | 2014 | 482,225 | 562,500 | - | 17,775 | 116,960 | - | 50,000 | 84,037 | 1,313,497 |
| | 2013 | 424,305 | 288,750 | - | 16,470 | 40,103 | - | 50,000 | 42,899 | 862,527 |
| Total | 2014 | 3,218,175 | 2,940,000 | - | 81,824 | 926,060 | 47,700 | 280,000 | 789,056 | 8,282,816 |
| | 2013 | 2,880,319 | 2,411,250 | 1,134,383 | 61,418 | 519,883 | 172,790 | 280,000 | 370,477 | 7,830,520 |

1 FY14 annual cash STI performance award, payable in August 2014.
2 Mr Steinberg's sign-on conditions included access to an additional $500,000 subject to performance in FY13, which he was paid in full.
Mr George received a cash sign-on payment of $250,000, a cash payment of $170,000 as compensation for foregone remuneration and various cash relocation benefits in FY13.
In FY14, expenses of $401,341 were paid in relation to Mr George's relocation, including stamp duty and legal fees. Such expenses are not considered remuneration, but are footnoted here for transparency.
3 Includes employer contributions to superannuation under the superannuation guarantee legislation and salary sacrifice amounts.
4 Reflects the accounting expense accrued during the financial year for Deferred STI awards made with respect to FY13 and FY14 performance. Refer to note 37 of the DXS Financial Statements.
Mr George's accrual also includes accounting for Performance Rights detailed later in this report as Special Terms.
5 FY11 DDPP legacy plan only applicable to Mr Mitchell. Reflects the accounting expense accrued during the financial year.
6 FY12 Transitional plan applicable to all Executives, excluding Mr George. Reflects the accounting expense accrued during the financial year.
7 Reflects the accounting expense accrued during the financial year for LTI grants made with respect to FY13 and FY14. Refer to note 37 of the DXS Financial Statements.

## 10. Deferred Remuneration Plans

### Performance Rights Plan - Unvested Deferred STI

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

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

### Performance Rights Plan - Unvested LTI

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

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

## Legacy Plan - Vesting DDPP Awards

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

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

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

The vesting DDPP value was determined by calculating the compound total return of both listed DXS (50%) and unlisted DWPF (50%) notional securities over a 3-year vesting period. The DXS total return was 45.99% and the Group's unlisted Funds and Mandates was 31.78%, resulting in a composite 38.89% increase being applied to the original allocation value during the life of the 2011 DDPP plan. The Board chose to exercise its discretion in not applying a performance multiplier (allowable under the DDPP plan rules) to the 2011 tranche.

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

## Legacy Plan - Unvested Transitional Performance Rights

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

| Participant | Award Date | Number of Performance Rights (#) | Vesting Date |
|---|---|---|---|
| Darren J Steinberg | 1 Jul 2012 | 453,417 | 1 Jul 2015 |
| Craig D Mitchell | 1 Jul 2012 | 539,782 | 1 Jul 2015 |
| Ross G Du Vernet | 1 Jul 2012 | 215,913 | 1 Jul 2015 |

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

## Special Terms - Performance Rights & 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 were purchased on-market. The terms and conditions of this offer mirror those of the Deferred STI plan.

## 11. Non-Executive Directors

### Board Fee Structure

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

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

Other than the Chair who receives a single fee, Non-Executive Directors receive a base fee plus additional fees for membership of Board Committees. The table below outlines the Board fee structure (inclusive of statutory superannuation contributions) for the year ended 30 June 2014:

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

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

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

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

### Minimum Security Holding

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

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

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

## Non-Executive Directors' Statutory Accounting Table

The amounts shown in this table are prepared in accordance with AASB 124 Related Party Disclosures. The table is a summary of the actual cash and benefits received by each Non-Executive Director for the year ended 30 June 2014.

| Non-Executive Director | Year | Short Term Benefits\ ($) | Post Employment Benefits ($) | Other Long Term Benefits ($) | Total ($) |
|---|---|---|---|---|---|
| Christopher T Beare | 2014 | 332,225 | 17,775 | - | 350,000 |
| | 2013 | 333,530 | 16,470 | - | 350,000 |
| Elizabeth A Alexander AM | 2014 | 178,490 | 16,510 | - | 195,000 |
| | 2013 | 178,899 | 16,101 | - | 195,000 |
| Penelope Bingham-Hall [1] | 2014 | 7,921 | 733 | - | 8,654 |
| | 2013 | - | - | - | 0 |
| Barry R Brownjohn [2] | 2014 | 54,920 | 5,080 | - | 60,000 |
| | 2013 | 165,138 | 14,862 | - | 180,000 |
| John C Conde AO | 2014 | 164,760 | 15,240 | - | 180,000 |
| | 2013 | 165,138 | 14,862 | - | 180,000 |
| Tonianne Dwyer | 2014 | 165,798 | 15,336 | - | 181,135 |
| | 2013 | 158,257 | 14,243 | - | 172,500 |
| Stewart F Ewen OAM [3] | 2014 | 47,644 | 7,356 | - | 55,000 |
| | 2013 | 141,000 | 24,000 | - | 165,000 |
| W Richard Sheppard | 2014 | 167,206 | 15,467 | - | 182,673 |
| | 2013 | 158,257 | 14,243 | - | 172,500 |
| Peter B St George | 2014 | 151,030 | 13,970 | - | 165,000 |
| | 2013 | 151,376 | 13,624 | - | 165,000 |
| Total | 2014 | 1,269,994 | 107,287 | - | 1,377,461 |
| | 2013 | 1,451,595 | 128,405 | - | 1,580,000 |

1 Ms Bingham-Hall was appointed on 10 June 2014
2 Mr Brownjohn did not stand for re-election at the 2013 AGM and effectively stood down from the Board on 29 October 2013
3 Mr Ewen did not stand for re-election at the 2013 AGM and effectively stood down from the Board on 29 October 2013

# Note 29

## 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.

| | |
|---|---|
| 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 34 in the DEXUS Property Group Financial Statements).

## Note 30

**Events occurring after reporting date**

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 31

**Reconciliation of net profit to net cash inflow from operating activities**

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| Profit after tax | 192,781 | 286,979 |
| Net fair value gain of investment properties | (111,565) | (131,301) |
| Share of net profit of investments accounted for using the equity method | (58,442) | (37,905) |
| Net fair value loss/(gain) of derivatives | 18,931 | (9,974) |
| Net foreign exchange (gain)/loss | (849) | 166 |
| Impairment of investments accounted for using the equity method | 3,295 | - |
| Transaction costs | 23,918 | - |
| Change in operating assets and liabilities | | |
| Increase in receivables | (64,185) | (5,382) |
| Decrease/(increase) in other current assets | 853 | (1,173) |
| Decrease in other non-current assets - investments | 160,618 | 23,000 |
| (Increase)/decrease in other non-current assets | (49) | 22,191 |
| Increase in payables | 1,319 | 1,050 |
| Increase in deferred tax liabilities | 1,167 | 5,599 |
| Increase in other non-current liabilities | 100,011 | 58,945 |
| **Net cash inflow from operating activities** | **267,803** | 212,195 |

## Note 32

**Earnings per unit**

Earnings per unit are determined by dividing the net profit attributable to unitholders by the weighted average number of ordinary units outstanding during the year. The weighted average number of units has been adjusted for the bonus elements in units issued during the year and comparatives have been appropriately restated.

**(a) Net profit attributable to unitholders of the parent entity used in calculating basic and diluted earnings per unit**

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| Net profit for the year | 197,984 | 294,492 |
| **Net profit attributable to the unitholders of the parent entity** | **197,984** | 294,492 |

**(b) Weighted average number of units used as a denominator**

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

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 9 to 68:

(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 2014 and of their performance, as represented by the results of their operations and their cash flows, for the year ended on that date.

In the Directors' opinion:

(a) the Financial Statements and notes are in accordance with the *Corporations Act 2001*;

(b) there are reasonable grounds to believe that the 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 2014.

Note 1(a) confirms that the Financial Statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The Directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer required by section 295A of the *Corporations Act 2001*.

This declaration is made in accordance with a resolution of the Directors.

**Christopher T Beare**
Chair
13 August 2014

# Independent auditor's report to the unitholders 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 2014, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for DEXUS Office Trust (the consolidated entity). The consolidated entity comprises the Trust and the entities it controlled at year's end or from time to time during the financial year.

### *Directors' responsibility for the financial report*

The directors of DEXUS Funds Management Limited (the Responsible Entity) are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

### *Auditor's responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the consolidated entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

### *Independence*

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

*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 2014 and of its performance for the year ended on that date; and

   (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.

(b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in Note 1.

PricewaterhouseCoopers

PricewaterhouseCoopers

E A Barron
Partner

Sydney
13 August 2014

# DEXUS Operations Trust

(ARSN 110 521 223)

Financial Report
30 June 2014

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 2014. 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 | Resigned |
|---|---|---|
| Christopher T Beare | 4 August 2004 | |
| Elizabeth A Alexander, AM | 1 January 2005 | |
| Penny Bingham-Hall | 10 June 2014 | |
| Barry R Brownjohn | 1 January 2005 | 29 October 2013 |
| John C Conde, AO | 29 April 2009 | |
| Tonianne Dwyer | 24 August 2011 | |
| Stewart F Ewen, OAM | 4 August 2004 | 29 October 2013 |
| Craig D Mitchell | 12 February 2013 | |
| W Richard Sheppard | 1 January 2012 | |
| Darren J Steinberg | 1 March 2012 | |
| Peter B St George | 29 April 2009 | |

## 1.2 Company Secretaries

The names and details of the Company Secretaries of DXFM as at 30 June 2014 are as follows:

**John C Easy B Comm LLB FGIA FCIS**
Appointed: 1 July 2005

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

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

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

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

**Scott D Mahony B Bus(Acc) MBA(e-commerce) AGIA**
Appointed: 1 April 2014

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

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

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

## 2 Attendance of Directors at Board meetings and Board Committee meetings

The number of Directors' meetings held during the year and each Director's attendance at those meetings is set out in the table below. The Directors met 18 times during the year. Ten Board meetings were main meetings, eight meeting were held to consider specific business.

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

1 Appointed 10 June 2014.
2 Resigned 29 October 2013.

Special meetings are held at a time to enable the maximum number of Directors to attend and are generally held to consider specific items that cannot be held over to the next scheduled main meeting.

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

| | Board Audit, Risk & Sustainability Committee | | Board Compliance Committee | | Board Nomination, Remuneration & Governance Committee | | Board Finance Committee | |
|---|---|---|---|---|---|---|---|---|
| | held | attended | held | attended | held | attended | held | attended |
| Christopher T Beare | 3 | 3 | - | - | 5 | 5 | 8 | 7 |
| Elizabeth A Alexander, AM | 4 | 4 | - | - | - | - | - | - |
| Penny Bingham-Hall [1] | - | - | - | - | - | - | - | - |
| Barry R Brownjohn [2] | 1 | 1 | - | - | - | - | - | - |
| John C Conde, AO | - | - | - | - | 5 | 5 | - | - |
| Tonianne Dwyer | - | - | 4 | 4 | 3 | 3 | - | - |
| Stewart F Ewen, OAM [2] | - | - | - | - | 1 | 1 | - | - |
| W Richard Sheppard | 4 | 4 | - | - | - | - | 8 | 8 |
| Peter B St George | - | - | - | - | - | - | 8 | 8 |

1 Appointed 10 June 2014.
2 Resigned 29 October 2013.

## 3 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 |
| Penny Bingham-Hall[1] | - |
| John C Conde, AO | 100,000 |
| Tonianne Dwyer | 100,000 |
| Craig D Mitchell | 1,073,059[2] |
| W Richard Sheppard | 420,537 |
| Darren J Steinberg | 1,996,364[2] |
| Peter B St George | 104,000 |

1 Appointed 10 June 2014.

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

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

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

## 5 Principal activities

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

## 6 Review of results and operations

The results for the year ended 30 June 2014 were:
- net profit for the year was $31.9 million (2013: $30.6 million);
- total assets were $990.1 million (2013: $759.9 million); and
- net assets were $192.9 million (2013: $151.4 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 2014 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 2014 are outlined in note 27 of the Notes to the Financial Statements and form part of this Director's 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 2014 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 (2013: 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 2014 are detailed in note 25 of the Notes to the Financial Statements and form part of this Directors' Report.

Details of the number of interests in the 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 2014 (2013: 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 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.

## 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 Directors' authorisation

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

| | |
|---|---|
| **Christopher T Beare** | **Darren J Steinberg** |
| Chair | Chief Executive Officer |
| 13 August 2014 | 13 August 2014 |

# Auditor's Independence Declaration

As lead auditor for the audit of DEXUS Operations Trust for the year ended 30 June 2014, I declare that to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

b) no contraventions of any applicable code of professional conduct in relation to the audit.

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

E A Barron
Partner
PricewaterhouseCoopers

Sydney
13 August 2014

***PricewaterhouseCoopers, ABN 52 780 433 757***
*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 | 2014 $'000 | 2013 $'000 |
|---|---|---|---|
| **Revenue from ordinary activities** | | | |
| Management fee revenue | 2 | **91,836** | 81,480 |
| Property revenue | 3 | **47,923** | 25,402 |
| Proceeds from sale of inventory | | **69,326** | 24,422 |
| Interest revenue | | **46** | 612 |
| **Total revenue from ordinary activities** | | **209,131** | 131,916 |
| Reversal of previous impairment | 17 | **7,309** | 20,494 |
| Net fair value gain of investment properties | | **11,201** | 3,926 |
| Net gain on sale of investment properties | | **775** | - |
| Distribution income | | **305** | 64 |
| Other income | | **4** | 166 |
| **Total income** | | **228,725** | 156,566 |
| | | | |
| **Expenses** | | | |
| Property expenses | 3 | **(11,019)** | (7,009) |
| Cost of sale of inventory | | **(65,307)** | (23,924) |
| Finance costs | 4 | **(30,117)** | (17,800) |
| Employee benefits expense | | **(63,777)** | (62,274) |
| Net loss on sale of investment properties | | **-** | (876) |
| Impairment of inventories | | **-** | (1,209) |
| Depreciation and amortisation | | **(2,315)** | (3,234) |
| Impairment of goodwill | | **(99)** | (99) |
| Other expenses | 6 | **(12,299)** | (11,735) |
| **Total expenses** | | **(184,933)** | (128,160) |
| **Profit before tax** | | **43,792** | 28,406 |
| **Tax (expense)/ benefit** | | | |
| Income tax (expense)/benefit | 5(a) | **(11,908)** | 3,383 |
| **Total tax (expense)/benefit** | | **(11,908)** | 3,383 |
| **Profit after tax from continuing operations** | | **31,884** | 31,789 |
| Loss from discontinued operations | 8 | **-** | (1,141) |
| **Net profit for the year** | | **31,884** | 30,648 |
| **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 | **(321)** | (13) |
| **Total comprehensive income for the year** | | **31,563** | 30,635 |

| **Earnings per unit** | | **Cents** | Cents |
|---|---|---|---|
| **Basic and diluted earnings per unit attributable to unitholders of the parent entity** | | | |
| Earnings per unit - profit from continuing operations | 36 | **0.43** | 0.23 |
| Earnings per unit - profit from discontinued operations | 36 | **-** | - |
| Earnings per unit - total | 36 | **0.43** | 0.23 |

*The above Consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying notes.*

| | Note | 2014 $'000 | 2013 $'000 |
|---|---|---|---|
| **Current assets** | | | |
| Cash and cash equivalents | 9 | **1,269** | 4,748 |
| Receivables | 10 | **40,633** | 30,416 |
| Non-current assets classified as held for sale | 11 | **9,500** | - |
| Inventories | 15 | **80,346** | 10,853 |
| Other | 12 | **2,268** | 1,467 |
| **Total current assets** | | **134,016** | 47,484 |
| | | | |
| **Non-current assets** | | | |
| Investment properties | 13 | **275,397** | 176,279 |
| Plant and equipment | 14 | **10,797** | 8,781 |
| Inventories | 15 | **235,931** | 242,057 |
| Deferred tax assets | 16 | **35,836** | 39,414 |
| Intangible assets | 17 | **292,586** | 243,707 |
| Available-for-sale financial assets | 18 | **5,470** | 2,200 |
| Other | 19 | **90** | 7 |
| **Total non-current assets** | | **856,107** | 712,445 |
| **Total assets** | | **990,123** | 759,929 |
| | | | |
| **Current liabilities** | | | |
| Payables | 20 | **15,891** | 12,754 |
| Loans with related parties | 21 | **48,932** | 48,932 |
| Provisions | 22 | **39,411** | 22,834 |
| Derivative financial instruments | 23 | **166** | - |
| Other | | **719** | 719 |
| **Total current liabilities** | | **105,119** | 85,239 |
| | | | |
| **Non-current liabilities** | | | |
| Loans with related parties | 21 | **668,052** | 500,369 |
| Provisions | 22 | **9,543** | 13,639 |
| Derivative financial instruments | 23 | **297** | 2,442 |
| Deferred tax liabilities | 24 | **11,527** | 3,215 |
| Other | | **2,672** | 3,639 |
| **Total non-current liabilities** | | **692,091** | 523,304 |
| **Total liabilities** | | **797,210** | 608,543 |
| **Net assets** | | **192,913** | 151,386 |
| | | | |
| **Equity** | | | |
| Contributed equity | 25 | **222,086** | 197,775 |
| Reserves | 26 | **43,064** | 42,732 |
| Accumulated losses | 26 | **(72,237)** | (89,121) |
| **Total equity** | | **192,913** | 151,386 |

*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 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: | | | | | | | | | |
| 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 |
| Distributions paid or provided for | 27 | - | - | - | - | - | - | - | 24 |
| **Closing balance as at 30 June 2013** | | 197,775 | 42,738 | - | (56) | 37 | 13 | (89,121) | 151,386 |
| **Opening balance as at 1 July 2013** | | **197,775** | **42,738** | **-** | **(56)** | **37** | **13** | **(89,121)** | **151,386** |
| Net profit for the year | | **-** | **-** | **-** | **-** | **-** | **-** | **31,884** | **31,884** |
| Other comprehensive income for the year | 26 | **-** | **-** | **-** | **-** | **-** | **321** | **-** | **321** |
| Transactions with owners in their capacity as owners: | | | | | | | | | |
| Buy-back of contributed equity, net of transaction costs | 25 | **(2,221)** | **-** | **-** | **-** | **-** | **-** | **-** | **(2,221)** |
| Issue of additional equity | 25 | **26,532** | **-** | **-** | **-** | **-** | **-** | **-** | **26,532** |
| Purchase of securities, net of transaction costs | 26 | **-** | **-** | **-** | **(109)** | **-** | **-** | **-** | **(109)** |
| Security-based payments expense | 26 | **-** | **-** | **-** | **-** | **120** | **-** | **-** | **120** |
| Distributions paid or provided for | 27 | **-** | **-** | **-** | **-** | **-** | **-** | **(15,000)** | **(15,000)** |
| **Closing balance as at 30 June 2014** | | **222,086** | **42,738** | **-** | **(165)** | **157** | **334** | **(72,237)** | **192,913** |

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

| | Note | 2014 $'000 | 2013 $'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts in the course of operations (inclusive of GST) | | **137,333** | 109,716 |
| Payments in the course of operations (inclusive of GST) | | **(101,105)** | (97,180) |
| Proceeds from sale of property classified as inventory | | **69,326** | 24,422 |
| Payments for property classified as inventory | | **(124,094)** | (175,340) |
| Interest received | | **46** | 683 |
| Finance costs paid | | **(2,355)** | (1,639) |
| Income tax paid | | **(18)** | - |
| **Net cash outflow from operating activities** | 35 | **(20,867)** | (139,338) |
| | | | |
| **Cash flows from investing activities** | | | |
| Proceeds from sale of investment properties | | **5,147** | 163,070 |
| Payments for acquisition of investment properties | | **(77,173)** | (58,114) |
| Payments for capital expenditure on investment properties | | **(18,640)** | (37,324) |
| Acquisition of subsidiaries net of cash acquired | | **-** | 5,238 |
| Payments for management rights | | **(42,000)** | - |
| Payments for plant and equipment | | **(4,000)** | (7,008) |
| **Net cash (outflow)/inflow from investing activities** | | **(136,666)** | 65,862 |
| | | | |
| **Cash flows from financing activities** | | | |
| Borrowings provided to entities within DXS | | **(358,566)** | (271,203) |
| Borrowings provided by entities within DXS | | **491,148** | 340,525 |
| Purchase of securities for security-based payments plans | | **(3,059)** | (2,243) |
| Payments for buy-back of contributed equity | | **(2,221)** | (1,937) |
| Proceeds from issue of additional equity | | **26,532** | - |
| Distributions received | | **220** | - |
| **Net cash inflow from financing activities** | | **154,054** | 65,142 |
| | | | |
| **Net decrease in cash and cash equivalents** | | **(3,479)** | (8,334) |
| Cash and cash equivalents at the beginning of the year | | **4,748** | 13,082 |
| **Cash and cash equivalents at the end of the year** | 9 | **1,269** | 4,748 |

*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 2014 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.

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(g), 1(p), 1(s), 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.

# Note 1

**Summary of significant accounting policies** (continued)

### (b) Principles of consolidation

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

(i) Controlled entities

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

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

(ii) Joint arrangements

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

*Joint operations*

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

*Joint ventures*

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

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

(iii) Employee share trust

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

# 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. 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 prepare for their intended use or sale. In these circumstances, borrowing costs are capitalised to the cost of the asset during the period of time that is required to complete and prepare the asset for its intended use or sale. Where funds are borrowed generally, borrowing costs are capitalised using a weighted average capitalisation rate.

# 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 Australian Goods and Services Tax (GST), except where the amount of GST incurred is not recoverable. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Cash flows are included in the 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. 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 Consolidated Statement of Comprehensive Income.

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.

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

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

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

### (q) Leasing fees

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

### (r) Lease incentives

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

The costs of incentives are recognised as a reduction of rental revenue on a straight-line basis from the earlier of the date which the tenant has effective use of the premises or the lease commencement date to the end of the lease term. The carrying amount of the lease incentives is reflected in the fair value of investment properties.

# 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 arising on valuation of investments are recognised in other comprehensive income net of tax, in a separate reserve in equity. 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 | 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.

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

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

### (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 Financial Statements are presented in Australian dollars.

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

(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 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 2014 reporting period. The Trust's assessment of the impact of these new standards and interpretations is set out below:

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

## Note 2

**Management fee revenue**

| | 2014<br>$'000 | 2013<br>$'000 |
|---|---|---|
| Investment management and responsible entity fees | **53,705** | 47,063 |
| Property management fees | **28,517** | 25,888 |
| Capital works and development fees | **1,736** | 1,740 |
| Wages recovery and other fees | **7,878** | 6,789 |
| **Total management fee revenue** | **91,836** | 81,480 |

## Note 3

**Property revenue and property expenses**

Property revenue includes $34.8 million (2013: $20.4 million) and property expenses includes $8.3 million (2013: $6.2 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**

| | 2014<br>$'000 | 2013<br>$'000 |
|---|---|---|
| Interest paid to related parties | **35,864** | 28,015 |
| Amount capitalised | **(6,125)** | (10,525) |
| Net fair value loss of interest rate swaps | **343** | 285 |
| Other finance costs | **35** | 25 |
| **Total finance costs** | **30,117** | 17,800 |

# Note 5
## Income tax

### (a) Income tax (expense)/benefit

| | | 2014 $'000 | 2013 $'000 |
|---|---|---|---|
| Current tax expense | | (18) | (48) |
| Deferred tax (expense)/benefit | | (11,890) | 3,383 |
| **Total income tax (expense)/benefit** | | (11,908) | 3,335 |
| | | | |
| **Total income tax (expense)/benefit attributable to:** | | | |
| Profit from continuing operations | | (11,908) | 3,383 |
| Loss from discontinued operations | | - | (48) |
| **Total income tax (expense)/benefit** | | (11,908) | 3,335 |
| | | | |
| **Deferred income tax benefit included in income tax benefit comprises:** | | | |
| (Decrease)/increase in deferred tax assets | 16 | (3,578) | 2,685 |
| (Increase)/decrease in deferred tax liabilities | 24 | (8,312) | 698 |
| **Total deferred tax expense/(benefit)** | | (11,890) | 3,383 |

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

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| Profit from continuing operations before income tax | 43,792 | 28,406 |
| Loss from discontinued operations before income tax | - | (1,093) |
| **Total profit before income tax** | 43,792 | 27,313 |
| | | |
| Prima facie tax expense at the Australian tax rate of 30% (2013: 30%) | (13,138) | (8,194) |
| | | |
| **Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:** | | |
| Depreciation and amortisation | 1,739 | 682 |
| Reversal of previous impairment | 2,192 | 6,148 |
| Other timing differences | (2,460) | (1,682) |
| Movements in the carrying value and tax cost base of properties | 1,180 | 6,458 |
| Accounting loss on sale of assets | (1,421) | (29) |
| | 1,230 | 11,577 |
| **Income tax (expense)/benefit** | (11,908) | 3,383 |

# Note 6

**Other expenses**

| | Note | 2014 $'000 | 2013 $'000 |
|---|---|---|---|
| Audit and other fees | 7 | **386** | 346 |
| Custodian fees | | **22** | 33 |
| Legal and other professional fees | | **2,232** | 2,185 |
| Registry costs and listing fees | | **17** | 7 |
| Occupancy expenses | | **2,952** | 3,074 |
| Administration expenses | | **1,710** | 1,690 |
| Other staff expenses | | **2,383** | 2,306 |
| Other expenses | | **2,597** | 2,094 |
| **Total other expenses** | | **12,299** | 11,735 |

# 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:

| | 2014 $ | 2013 $ |
|---|---|---|
| **Audit fees** | | |
| PwC Australia - audit and review of Financial Statements | **189,353** | 178,079 |
| PwC Australia - fees paid in relation to outgoings audit[1] | **4,500** | 10,552 |
| PwC Australia - regulatory audit and compliance services | **192,078** | 168,184 |
| **Total audit fees** | **385,931** | 356,815 |
| | | |
| **Taxation fees** | | |
| Fees paid to PwC Australia | **5,000** | - |
| **Total taxation fees[2]** | **5,000** | - |
| **Total audit and taxation fees[1]** | **390,931** | 356,815 |

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 $386,431 (2013: $346,263).

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. The US industrial portfolio was sold in the year ended 30 June 2013, therefore the results have been presented within profit/(loss) from discontinued operations in the Statement of Comprehensive Income for the year ended 30 June 2013.

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

| | **2014 $'000** | 2013 $'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 operation | - | (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**

| | **2014 $'000** | 2013 $'000 |
|---|---|---|
| Cash at bank | **1,269** | 1,792 |
| Cash held in escrow[1] | - | 2,956 |
| **Total current assets - cash and cash equivalents** | **1,269** | 4,748 |

1 As at 30 June 2014, 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**

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| Rent Receivable | **2,949** | 372 |
| Less: provision for doubtful debts | **-** | - |
| **Total rental receivables** | **2,949** | 372 |
| | | |
| Fee receivable | **20,147** | 13,131 |
| GST receivable | **-** | 373 |
| Receivables from related entities | **17,121** | 14,841 |
| Distribution receivable | **148** | 64 |
| Other receivables | **268** | 1,635 |
| **Total current assets - receivables** | **40,633** | 30,416 |

# Note 11

**Non-current assets classified as held for sale**

**(a) Non-current assets held for sale**

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| Investment properties held for sale | **9,500** | - |
| **Total non-current assets classified as held for sale** | **9,500** | - |

**(b) Reconciliation**

| | Note | 2014 $'000 | 2013 $'000 |
|---|---|---|---|
| Opening balance at the beginning of the year | | **-** | 93,700 |
| Transfer from investment properties | 13 | **9,500** | 7,202 |
| 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** | | **9,500** | - |

# Note 12

**Current assets - other**

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| Prepayments | **2,268** | 1,467 |
| **Total current assets - other** | **2,268** | 1,467 |

# Note 13

**Non-current assets - investment properties**

## (a) Reconciliation

| | Note | Office $'000 | Industrial $'000 | Development Properties $'000 | 2014 $'000 | 2013 $'000 |
|---|---|---|---|---|---|---|
| Opening balance at the beginning of the year | | - | 117,400 | 58,879 | 176,279 | 141,151 |
| Additions | | 176 | 45 | 22,392 | 22,613 | 39,712 |
| Acquisitions | | 77,173 | - | - | 77,173 | - |
| Lease incentives | | 9 | 1,785 | - | 1,794 | 1,881 |
| Amortisation of lease incentives | | (2) | (1,108) | - | (1,110) | (647) |
| Rent straightlining | | 92 | 1,228 | - | 1,320 | 1,290 |
| Disposals | | - | - | (4,372) | (4,372) | (6,761) |
| Transfer to non-current assets classified as held for sale | 11 | - | (9,500) | - | (9,500) | (7,202) |
| Transfer from/(to) development properties | | - | 48,089 | (48,089) | - | |
| Net fair value gain of investment properties | | 1,052 | 10,148 | - | 11,200 | 6,855 |
| **Closing balance at the end of the year** | | 78,500 | 168,087 | 28,810 | 275,397 | 176,279 |

**Disposals**

- On 22 October 2013, 50% of Quarry Greystanes, NSW – Warehouse 10 was disposed of for gross proceeds of $4.7 million.

## (b) Valuation process

Properties independently valued in the last 12 months were based on independent assessments by a member of the Australian Property Institute who are instructed in accordance with all applicable regulatory requirements. Independent valuations of individual investment properties are carried out in accordance with the Constitution which at a minimum requires each individual property to be independently valued every three years. Each valuation firm and its signatory valuer are appointed on the basis that they are engaged for no more than three consecutive valuations. Independent valuations may be undertaken earlier where the Responsible Entity believes there is potential for a material change in the fair value of the property being the greater of 5% of the asset value, or $5 million.

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

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

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

# Note 13

**Non-current assets - investment properties** (continued)

### (c) Fair value measurement, valuation techniques and inputs

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

| Class of property | Fair value hierarchy | Fair Value 2014 $'000 | Valuation technique | Inputs used to measure fair value | Range of unobservable inputs 2014 |
|---|---|---|---|---|---|
| Office | Level 3 | **78,500** | Income capitalisation method and DCF | Adopted Capitalisation rate | 8.25% |
| | | | | Adopted Discount rate | 9.50% |
| | | | | Adopted terminal yield | 8.50% |
| | | | | Current net market rental (per sqm) | $407 |
| | | | | 10 year average market rental growth | 3.60% |
| Industrial | Level 3 | **168,087** | Income capitalisation method and DCF | Adopted Capitalisation rate | 7.13% - 8.25% |
| | | | | Adopted Discount rate | 9.00% - 9.50% |
| | | | | Adopted terminal yield | 7.63% - 8.25% |
| | | | | Current net market rental (per sqm) | $75 - $199 |
| | | | | 10 year average market rental growth | 3.20% - 3.26% |
| Development properties | Level 3 | **28,810** | Income capitalisation | Adopted Capitalisation rate | 7.13% |
| | | | | Land rate (per sqm) | $50 - $250 |
| **Total** | | **275,397** | | | |

### (d) Sensitivity information

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

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

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

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

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

## Note 14

### Non-current assets - plant and equipment

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| Opening balance at the beginning of the year | **8,781** | 4,678 |
| Additions | **4,000** | 7,008 |
| Depreciation charge | **(1,984)** | (2,905) |
| **Closing balance at the end of the year** | **10,797** | 8,781 |

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| Cost | **26,626** | 22,626 |
| Accumulated depreciation | **(15,829)** | (13,845) |
| **Net book value as at the end of the year** | **10,797** | 8,781 |

Plant and equipment comprises IT and office equipment.

## Note 15

### Inventories

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

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| **Current assets** | | |
| Land and properties held for resale | **80,346** | 10,853 |
| **Total current assets - inventories** | **80,346** | 10,853 |
| | | |
| **Non-current assets** | | |
| Land and properties held for resale | **235,931** | 242,057 |
| **Total non-current assets - inventories** | **235,931** | 242,057 |
| **Total assets - inventories** | **316,277** | 252,910 |

**(b) Reconciliation**

| | Note | 2014 $'000 | 2013 $'000 |
|---|---|---|---|
| Opening balance at the beginning of the year | | **252,910** | 97,831 |
| Acquisitions and additions | | **128,674** | 180,212 |
| Disposals | | **(65,307)** | (23,924) |
| Impairment | | **-** | (1,209) |
| **Closing balance at the end of the year** | | **316,277** | 252,910 |

**Disposals**

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

# Note 16

**Non-current assets - deferred tax assets**

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| **The balance comprises temporary differences attributable to:** | | |
| Derivative financial instruments | 104 | 650 |
| Employee provisions | 9,589 | 10,671 |
| Other | 944 | 598 |
| **Deferred tax asset arising from temporary differences** | 10,637 | 11,919 |
| Deferred tax arising on tax losses | 25,199 | 27,495 |
| **Total non-current assets - deferred tax assets** | 35,836 | 39,414 |
| | | |
| **Movements** | | |
| Opening balance at the beginning of the year | 39,414 | 36,729 |
| (Utilisation)/recognition of tax losses | (2,296) | 5,231 |
| Movement in deferred tax asset arising from temporary differences | (1,282) | (2,546) |
| (Charged)/credited to the Statement of Comprehensive Income | (3,578) | 2,685 |
| **Closing balance at the end of the year** | 35,836 | 39,414 |

## Note 17

**Non-current assets - intangible assets**

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| **Management rights** | | |
| Opening balance at the beginning of the year | **242,100** | 221,935 |
| Acquisition of management rights | **42,000** | - |
| Reversal of previous impairment | **7,309** | 20,494 |
| Amortisation charge | **(331)** | (329) |
| **Closing balance at the end of the year** | **291,078** | 242,100 |
| | | |
| Cost | **294,382** | 252,382 |
| Accumulated amortisation | **(3,304)** | (2,973) |
| Accumulated impairment | **-** | (7,309) |
| **Total management rights** | **291,078** | 242,100 |
| | | |
| **Goodwill** | | |
| Opening balance at the beginning of the year | **1,607** | 1,706 |
| Impairment | **(99)** | (99) |
| **Closing balance at the end of the year** | **1,508** | 1,607 |
| | | |
| Cost | **2,998** | 2,998 |
| Accumulated impairment | **(1,490)** | (1,391) |
| **Total goodwill** | **1,508** | 1,607 |
| **Total non-current assets - intangible assets** | **292,586** | 243,707 |

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 $5,054,806 (2013: $5,385,968)) are measured at cost and amortised using the straight-line method over their estimated remaining useful lives of 18 years.

During the year the Trust purchased management rights which entitle it to management fee revenue from DEXUS Office Trust Australia (DOTA). These rights are deemed to have an indefinite life and are held at $42,000,000 (2013: nil). Management rights in relation to other managed funds deemed to have an indefinite life are held at a value of $244,022,841 (2013: $236,714,033).

**Impairment of management rights**

During the current year, management carried out a review of the recoverable amount of its management rights. As part of this process, the estimated fair value of assets under management, which are used to derive the future expected management fee income, have been adjusted to better reflect current market conditions and committed developments. This has resulted in the recognition of a reversal of previous impairments of $7.3 million (2013: $20.5 million) through the Statement of Comprehensive Income.

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

Key assumptions:
- A terminal capitalisation rate range between 12.5% – 16.7% (2013: 12.5%) was used incorporating an appropriate risk premium for a management business.
- The cash flows have been discounted at 9.5% (2013: 9.5%) based on externally published weighted average cost of capital for an appropriate peer group plus an appropriate premium for risk. A 0.25% (2013: 0.25%) decrease in the discount rate would increase the valuation by $3.7 million (2013: $2.7 million).

## Note 18

**Non-current assets - available-for-sale financial assets**

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| DXS securities | **5,470** | 2,200 |
| **Total available-for-sale financial assets** | **5,470** | 2,200 |

## Note 19

**Non-current assets - other**

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| Tenant and other bonds | **88** | 5 |
| Other | **2** | 2 |
| **Total non-current assets - other** | **90** | 7 |

## Note 20

**Current liabilities - payables**

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| Trade creditors | **6,680** | 3,887 |
| Accruals | **1,905** | 4,150 |
| Accrued capital expenditure | **274** | 759 |
| GST Payable | **1,114** | - |
| Employee related expenses | **2,387** | 2,292 |
| Payable to related parties | **3,531** | 1,666 |
| **Total current liabilities - payables** | **15,891** | 12,754 |

## Note 21

**Loans with related parties**

| | 2014 $'000 | 2013 $'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] | **668,052** | 500,369 |
| **Total non-current liabilities - loan with related parties** | **668,052** | 500,369 |

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**

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| **Current** | | |
| Provision for employee benefits | **24,411** | 22,834 |
| Provision for distributions | **15,000** | - |
| **Total current liabilities - provisions** | **39,411** | 22,834 |

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| **Non-current** | | |
| Provision for employee benefits | **9,543** | 13,639 |
| **Total non-current liabilities - provisions** | **9,543** | 13,639 |

# Note 23

**Derivative financial instruments**

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| **Current liabilities** | | |
| Interest rate swap contracts | **166** | - |
| **Total current liabilities - derivative financial instruments** | **166** | - |
| **Non-current liabilities** | | |
| Interest rate swap contracts | **297** | 2,442 |
| **Total non-current liabilities - derivative financial instruments** | **297** | 2,442 |

Refer note 29 for further discussion regarding derivative financial instruments.

# Note 24

**Non-current liabilities - deferred tax liabilities**

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| **The balance comprises temporary differences attributable to:** | | |
| Intangible assets | **2,008** | 2,107 |
| Inventories | **9,169** | 932 |
| Other | **350** | 176 |
| **Total non-current liabilities - deferred tax liabilities** | **11,527** | 3,215 |
| **Movements** | | |
| Opening balance at the beginning of the year | **3,215** | 3,913 |
| Charged/(credited) to the Statement of Comprehensive Income | **8,312** | (698) |
| **Closing balance at the end of the year** | **11,527** | 3,215 |

# Note 25

**Contributed Equity**

**(a) Contributed equity**

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| Opening balance at the beginning of the year | **197,775** | 199,712 |
| Buy-back of contributed equity | **(2,221)** | (1,937) |
| Issue of additional equity | **26,532** | - |
| **Closing balance at the end of the year** | **222,086** | 197,775 |

**(b) Number of units on issue**

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

**Terms and conditions**

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

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| Asset revaluation reserve | **42,738** | 42,738 |
| Foreign currency translation reserve | **-** | - |
| Security-based payments reserve | **157** | 37 |
| Treasury securities reserve | **(165)** | (56) |
| Available-for-sale financial assets | **334** | 13 |
| **Total reserves** | **43,064** | 42,732 |
| | | |
| **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 | **37** | 13 |
| Security-based payments expense | **120** | 24 |
| **Closing balance at the end of the year** | **157** | 37 |
| | | |
| **Treasury securities reserve** | | |
| Opening balance at the beginning of the year | **(56)** | - |
| Purchase of securities | **(109)** | (56) |
| **Closing balance at the end of the year** | **(165)** | (56) |
| | | |
| **Available-for-sale financial assets** | | |
| Opening balance at the beginning of the year | **13** | - |
| Fair value gain of securities | **321** | 13 |
| **Closing balance at the end of the year** | **334** | 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 37 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 2014, the Trust held 5,086,949 stapled securities (2013: 2,108,728).

### 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**

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| Opening balance at the beginning of the year | **(89,121)** | (119,769) |
| Net profit attributable to unitholders | **31,884** | 30,648 |
| Distributions paid or provided for | **(15,000)** | - |
| **Closing balance at the end of the year** | **(72,237)** | (89,121) |

## Note 27

**Distributions paid and payable**

**(a) Distributions to unitholders**

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| 30 June (payable 29 August 2014) | **15,000** | - |
| **Total distributions** | **15,000** | - |

**(b) Distribution rate**

| | 2014 Cents per unit | 2013 Cents per unit |
|---|---|---|
| 30 June (payable 29 August 2014) | **0.28** | - |
| **Total distributions** | **0.28** | - |

**(c) Franked dividends**

The franked portions of the final dividends recommended after 30 June 2014 will be franked out of existing franking credits or out of franking credits arising from the payment of income tax in the year ended 30 June 2014.

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| Opening balance at the beginning of the year | **16,181** | 16,181 |
| Franking credits utilised for payment of distributions | **(6,429)** | - |
| **Closing balance at the end of the year** | **9,752** | 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:

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| Total current assets | **55,147** | 54,831 |
| Total assets | **400,669** | 339,180 |
| Total current liabilities | **68,252** | 52,272 |
| Total liabilities | **253,797** | 222,764 |
| | | |
| **Equity** | | |
| Contributed equity | **222,086** | 197,775 |
| Retained profits | **(75,214)** | (81,359) |
| **Total equity** | **146,872** | 116,416 |
| | | |
| Net profit for the year from continuing operations | **21,145** | 10,768 |
| Net profit for the year from discontinued operations | **-** | 34 |
| Net profit for the year | **21,145** | 10,802 |
| **Total comprehensive loss for the year** | **21,145** | 10,802 |

### (b) Investments in controlled entities

The parent entity has the following investments:

| | | Ownership Interest 2014 % | Ownership Interest 2013 % |
|---|---|---|---|
| **Name of entity** | **Principal activity** | | |
| Barrack Street Trust | Office property investment | **100.0** | 100.0 |
| DEXUS Holdings Pty Limited | Management services | **100.0** | 100.0 |
| 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** | 100.0 |

### (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 2014 (2013: 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.

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| Investment properties | **-** | 34,806 |
| **Total capital commitments** | **-** | 34,806 |

# 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 (refer 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 2014 was 101.0% (2013: 104.9%) as detailed below.

| Gearing ratio | 2014 $'000 | 2013 $'000 |
|---|---|---|
| Interest bearing liabilities [1] | **668,052** | 500,369 |
| Total tangible assets [2] | **661,701** | 476,808 |
| **Gearing ratio [3]** | **101.0%** | 104.9% |

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 2014 is 32.4% (2013: 29.1%)(refer note 29 of the DXS Financial Statements).

The Trust is not rated by ratings agencies, however, DXS is rated A- by Standard and Poor's and A3 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 2014 and 2013 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 maintain liquidity above specified limits. DXFM must also prepare rolling cash projections over at least the next 12 months and demonstrate it will have access to sufficient financial resources to meet its liabilities that are expected to be payable over that period. Cash projections and assumptions are approved, at least quarterly, by the Board of the Responsible Entity.

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 Third Party managed funds. 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)

| | 2014 | | | | 2013 | | | |
|---|---|---|---|---|---|---|---|---|
| | **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 | **40,633** | **-** | **-** | **-** | 30,416 | - | - | - |
| Payables | **15,891** | **-** | **-** | **-** | 12,754 | - | - | - |
| | **24,742** | | | | 17,662 | | | |
| **Interest bearing loans with related parties and interest**[1] | **34,672** | **34,672** | **737,396** | **-** | 30,964 | 28,004 | 581,426 | - |
| **Derivative financial instruments** | | | | | | | | |
| Derivative assets | **50** | **-** | **-** | **-** | 1,941 | 48 | - | - |
| Derivative liabilities | **226** | **33** | **-** | **-** | - | 92 | 14 | - |
| **Total net derivative financial instruments**[2] | **(176)** | **(33)** | **-** | **-** | 1,941 | (44) | (14) | - |

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)

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

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

| | June 2015 | June 2016 | June 2017 | June 2018 | June 2019 | June 2020 |
|---|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| **Interest rate swaps** | | | | | | |
| A$ hedged [1] | 55,000 | 5,000 | - | - | - | - |
| A$ hedge rate (%) [2] | 2.87% | 0.27% | 0.00% | 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.

| | | 2014 | 2013 |
|---|---|---|---|
| | | (+/-) $'000 | (+/-) $'000 |
| + / - 0.50% (50 basis points) | A$ | **3,090** | 2,252 |

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.

| | | 2014 | 2013 |
|---|---|---|---|
| | | (+/-) $'000 | (+/-) $'000 |
| + / - 0.50% (50 basis points) | A$ | **297** | 393 |

# 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.

| | | **2014 (+/-) $'000** | 2013 (+/-) $'000 |
|---|---|---|---|
| + / - 10% | A$ | **547** | 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 2014, the lowest rating of counterparties that the Trust is exposed to was A- (Fitch) (2013: A- (Fitch)).

Financial instrument transactions are spread among a number of approved financial institutions within specified credit limits to minimise the 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 2014 and 30 June 2013 is the carrying amount of financial assets recognised on the Statement of Financial Position.

As at 30 June 2014 and 30 June 2013, there were no significant concentrations of credit risk for trade receivables. Trade receivable balances and the credit quality of trade debtors are consistently monitored on an ongoing basis.

# 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 2014 is ($'000): 36,805 (0-30 days), 2,626 (31-60 days), 478 (61-90 days), 724 (91+ days). The ageing analysis of loans and receivables net of provisions at 30 June 2013 is ($'000): 25,548 (0-30 days), 2,352 (31-60 days), 1,693 (61-90 days), 1,823 (91+ days). Amounts over 31 days are past due, however, no receivables are impaired.

The credit quality of financial assets that are neither past due nor impaired is consistently monitored to ensure that there are no adverse changes in credit quality.

**(d) Fair value of financial instruments**

Fair value interest rate risk is the risk of an adverse change in the net fair (or market) value of an asset or liability due to movements in interest rates.

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

| | **2014 Carrying amount [1] $'000** | **2014 Fair value [2] $'000** | 2013 Carrying amount [1] $'000 | 2013 Fair value [2] $'000 |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Cash and cash equivalents | **1,269** | **1,269** | 4,748 | 4,748 |
| Receivables | **40,633** | **40,633** | 30,416 | 30,416 |
| Available-for-sale financial assets | **5,470** | **5,470** | 2,200 | 2,200 |
| **Total financial assets** | **47,372** | **47,372** | 37,364 | 37,364 |
| **Financial liabilities** | | | | |
| Trade payables | **15,891** | **15,891** | 12,754 | 12,754 |
| Derivative liabilities | **463** | **463** | 2,442 | 2,442 |
| 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 | **668,052** | **668,052** | 500,369 | 500,369 |
| **Total financial liabilities** | **733,338** | **733,338** | 564,497 | 564,497 |

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

2 Fair value is the price that would be received to transfer the asset or liability in an orderly transaction between market participants at the measurement date. Where there is a difference between the carrying amount and fair value, the difference is not recognised in the Statement of Financial Position.

The fair value of interest bearing liabilities and derivative financial instruments has been determined based on a discounted cash flow analysis using observable market inputs (interest rates, exchange rates, and basis) and applying a credit or debit value adjustment based on the current credit worthiness of counterparties and the Trust.

# 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 2014 and 30 June 2013.

| 2014 | Level 1 $'000 | Level 2 $'000 | Level 3 $'000 | Total $'000 |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Available-for-sale financial assets | **5,470** | **-** | **-** | **5,470** |
| **Financial liabilities** | | | | |
| Derivative Liabilities | | | | |
| Interest rate derivatives | **-** | **463** | **-** | **463** |

| 2013 | Level 1 $'000 | Level 2 $'000 | Level 3 $'000 | Total $'000 |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Available-for-sale financial assets | 2,200 | - | - | 2,200 |
| **Financial liabilities** | | | | |
| Derivative Liabilities | | | | |
| Interest rate derivatives | - | 2,442 | - | 2,442 |

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

**(e) Offsetting financial assets and financial liabilities**

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

All derivatives held by the Trust are in a liability position and therefore disclosure of the offsetting arrangements is consistent with the amounts disclosed in the Statement of Financial Position.

### Master netting arrangements - not currently enforceable

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

# Note 30

**Contingent liabilities**

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

| | 2014 $'000 | 2013 $'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 | **349** | 532 |
| Quarry, Greystanes NSW | **413** | 413 |
| **Contingent liabilities in respect of developments** | **762** | 945 |

The Trust together with DDF, DIT and DOT is also a guarantor of a total of A$1,100.0 million of bank bilateral facilities, A$850.0 million of syndicated bank debt facilities, A$470.0 million of medium term notes, US$630.0 million (A$668.8 million) of privately placed notes and US$250.0 million (A$265.4 million) public 144A senior notes, which have all been negotiated to finance the 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 $20.2 million held on behalf of DEXUS Funds Management Limited, DEXUS Wholesale Property Limited and DEXUS Wholesale Management Limited to comply with the terms of their Australian Financial Services Licences (AFSL). The 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.

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| Investment properties | 118 | 29,876 |
| Inventories | 790 | 4,930 |
| **Total capital commitments** | **908** | **34,806** |

### (b) Lease payable commitments

The future minimum lease payments payable are:

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| Within one year | 3,294 | 4,153 |
| Later than one year but not later than five years | 11,452 | 11,564 |
| Greater than five years | 1,264 | 1,990 |
| **Total lease payable commitments** | **16,010** | **17,707** |

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.

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:

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| Within one year | 34,158 | 19,760 |
| Later than one year but not later than five years | 99,720 | 61,769 |
| Later than five years | 40,529 | 30,565 |
| **Total lease receivable commitments** | **174,407** | **112,094** |

# Note 32

## Related Parties

### Responsible Entity and Investment Manager

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

DXH is also the parent entity of DWPL, the Responsible Entity for DEXUS Wholesale Property Fund (DWPF).

DXH is the Investment Manager of DOTA.

### Management 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:

| | 2014<br>$ | 2013<br>$ |
|---|---|---|
| **Transactions with DEXUS Diversified Trust** | | |
| Responsible entity fee revenue | **4,956,471** | 5,162,470 |
| Property management fee revenue | **4,798,073** | 4,459,208 |
| Recovery of administration expenses | **4,826,806** | 3,769,142 |
| Purchase of investment properties | **85,172,889** | - |
| Aggregate amount receivable at the end of each reporting period (included above) | **764,915** | 935,104 |
| **Transactions with DEXUS Industrial Trust** | | |
| Responsible entity fee revenue | **2,566,201** | 3,084,569 |
| Property management fee revenue | **1,869,777** | 2,530,596 |
| Recovery of administration expenses | **3,497,597** | 3,204,412 |
| Purchase of investment properties | **93,404,272** | 14,500,000 |
| Aggregate amount receivable at the end of each reporting period (included above) | **489,213** | 964,033 |
| **Transactions with DEXUS Office Trust** | | |
| Responsible entity fee revenue | **12,960,239** | 11,229,765 |
| Property management fee revenue | **11,066,146** | 7,757,188 |
| Recovery of administration expenses | **19,491,123** | 10,362,695 |
| Aggregate amount receivable at the end of each reporting period (included above) | **4,930,475** | 3,594,546 |
| Rent paid to Southgate Trust | **1,443,769** | 4,263,654 |

# Note 32

**Related parties** (continued)

| | 2014 $ | 2013 $ |
|---|---|---|
| **Transactions with DEXUS Finance Pty Limited** | | |
| Management fee revenue | 1,084,131 | 897,198 |
| Recovery of administration expenses | 1,070,583 | 762,459 |
| Aggregate amount receivable at the end of each reporting period (included above) | - | 232,806 |
| Interest bearing loan payable at the end of each reporting period | 668,052,043 | 500,368,753 |
| **Transactions with DEXUS Wholesale Property Fund** | | |
| Responsible entity fee revenue | 24,172,632 | 21,017,944 |
| Property management fee revenue | 7,397,251 | 7,629,028 |
| Recovery of administration expenses | 5,776,646 | 3,377,099 |
| Aggregate amount receivable at the end of each reporting period (included above) | 941,699 | 2,891,504 |
| **Bent Street Trust** | | |
| Property management fee revenue | 334,706 | 283,653 |
| Recovery of administration expenses | 348,627 | 180,393 |
| Aggregate amount receivable at the end of each reporting period (included above) | 34,216 | 143,340 |
| **Transactions with Kent Street Joint Venture** | | |
| Responsible entity fee revenue | 573,938 | 565,875 |
| Property management fee revenue | 440,803 | 366,813 |
| Recovery of administration expenses | 520,743 | 239,326 |
| Aggregate amount receivable at the end of each reporting period (included above) | 38,026 | 183,975 |
| **Transactions with DEXUS Office Trust Australia** | | |
| Asset management fee revenue | 2,330,849 | - |
| Property management fee revenue | 1,669,642 | - |
| Recovery of administration expenses | 5,569,514 | - |
| Aggregate amount receivable at the end of each reporting period (included above) | 511,959 | - |

**Entities within DXS**

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

| | 2014 $ | 2013 $ |
|---|---|---|
| Interest expense | 35,863,570 | 28,015,050 |
| Interest bearing loans advanced to entities within DXS | 358,566,407 | 271,202,386 |
| Interest bearing loans advanced from entities within DXS | 491,148,023 | 340,524,537 |

# Note 32

**Related parties** (continued)

### Directors

The following persons were Directors of DXFM at all times during the year and to the date of this report, unless otherwise stated:

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

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

### Other key management personnel

In addition to the Directors listed above, the following persons were deemed by the Board Nomination, Remuneration & Governance Committee to be key management personnel during all or part of the financial year:

| Name | Title |
|---|---|
| Ross Du Vernet | Executive General Manager, Strategy, Transactions & Research |
| Kevin George | Executive General Manager, Office & Industrial |

### Key management personnel compensation

| | **2014** | 2013 |
|---|---|---|
| | **$** | $ |
| **Compensation** | | |
| Short-term employee benefits | **7,428,170** | 9,219,857 |
| Post employment benefits | **189,291** | 229,763 |
| Other long-term benefits | **47,700** | 1,116,082 |
| Termination benefits | **-** | - |
| Security-based payments | **1,995,116** | 1,383,669 |
| | **9,660,277** | 11,949,371 |

# Note 32

**Related parties** (continued)

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

The DXFM Board has approved a grant of performance rights to 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 2014 and 30 June 2013.

# Note 32

**Related parties** (continued)

## Remuneration report

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.

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

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

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

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

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

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

- An increase in the number of securities required to be held by each Director from 50,000 to 100,000. Securities are to be purchased on-market with after tax personal funds and are to be acquired within three years of the 2014 Annual General Meeting. Newly appointed Directors will need to acquire the relevant number of securities within three years of their appointment

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

### 1. Key Management Personnel

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

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

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

## Non-Executive Directors

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

## Executive Directors

| Executive Directors | Position | KMP 2013 | KMP 2014 |
|---|---|---|---|
| Darren J Steinberg | Executive Director and Chief Executive Officer | ✓ | ✓ |
| Craig D Mitchell | Executive Director Finance and Chief Operating Officer | ✓ | ✓ |

## Executive KMP

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

## 2. Board Nomination, Remuneration & Governance Committee

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

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

The Committee comprises three independent Non-Executive Directors. For the year ended 30 June 2014 Committee members were:

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

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

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

The Committee operates independently from management, and may at its discretion appoint external 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 $9,600 for remuneration recommendations made to the Committee and $25,600 for other advisory services, including the review of documents, attendance at meetings and general advice. The Committee is satisfied the advice received from Egan Associates is free from undue influence from the KMP to whom the remuneration recommendations relate. Egan Associates also confirmed in writing that the remuneration recommendations were made free from undue influence by KMP.

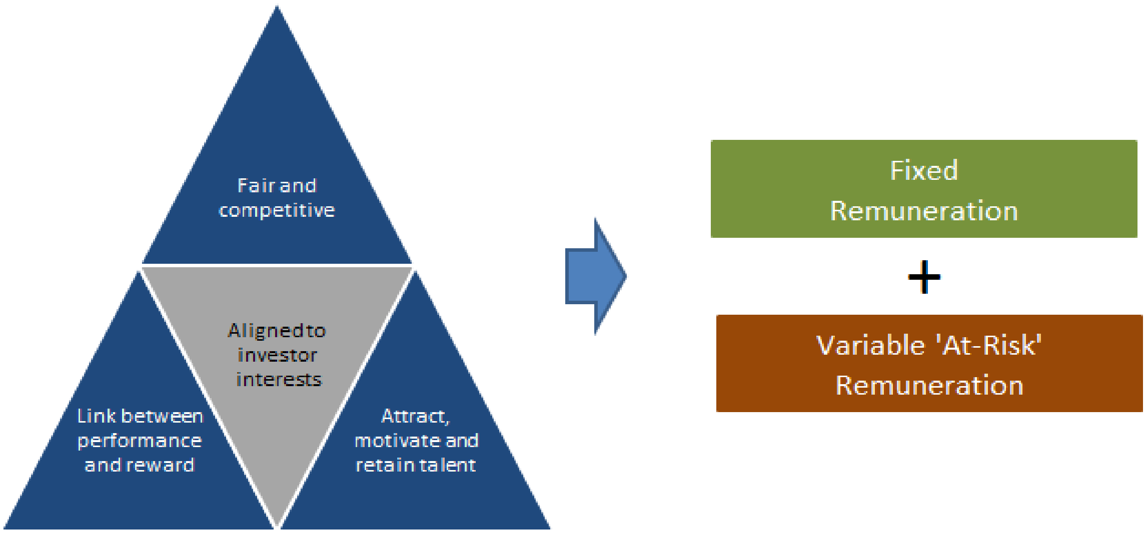
The 2013 Remuneration Report received positive security holder support at the 2013 Annual General Meeting with a vote of 98.6% in favour.

### 3. Executive Remuneration

## Context

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

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




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.

## 4. Remuneration Structure

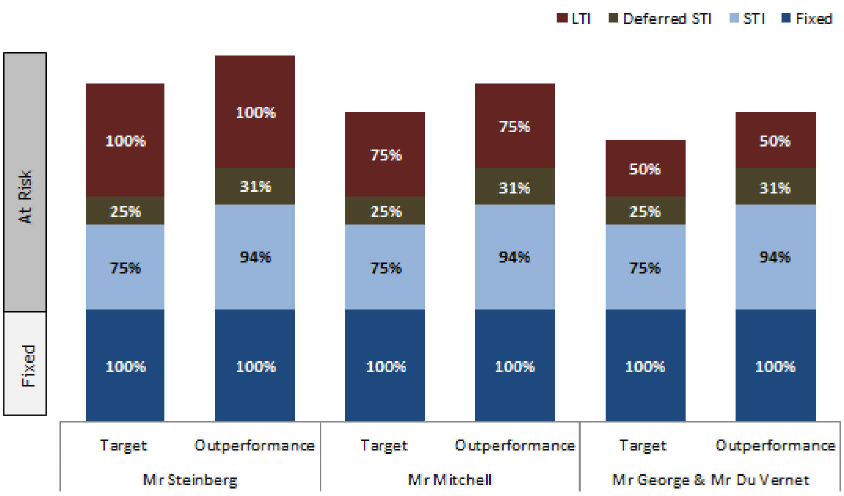
### Remuneration Mix

The remuneration structure for Executive Directors and Executive KMP (collectively referred to as 'Executives' in this report) comprises fixed remuneration, a short term incentive 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.

The target remuneration mix for Executives during 2014 was:

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

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



## STI Plan

| | |
|---|---|
| Purpose | The STI plan is designed to motivate and reward Executives for their annual contribution to the financial and non-financial performance of the Group. |
| Participation | At Target, each Executive can earn 100% of fixed remuneration under the STI plan, 25% of which is deferred at further risk, and up to a maximum of 125% of fixed remuneration for Outperformance, 25% of which is deferred in DEXUS securities and is subject to clawback and potential forfeiture. |
| Performance | The amount each Executive can earn is dependent on how he/she performs against a personalised balanced scorecard of key performance indicators (KPIs) that is set at the beginning of each year. The balanced scorecard is arranged in categories and each category is weighted differently depending on the specific accountabilities of each Executive. If an Executive does not meet Threshold performance in a category, the incentive benefit under that category will be zero.<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 achieve 100% in any category. Following the same theme, KPIs at the Outperformance level have a significant amount of stretch, and would require exceptional outcomes to be achieved. KPIs at both the Target and Outperformance levels incorporate year-on-year performance improvement.<br><br>Aggregate performance below predetermined thresholds would result in no award being made under the STI plan. |
| Payment | STI payments are made in August, following the sign-off of statutory accounts and announcement of Group's annual results for the period to which the performance relates. |
| Deferral | 25% of any award under the STI plan is deferred and awarded in the form of performance rights to DXS securities.<br><br>The rights vest ordinarily in two equal tranches, 12 and 24 months after being awarded. However, they are subject to clawback and continued employment, and are based on a deferral period commencing 1 July after the relevant performance period.<br><br>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. |
| Distributions | 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. |
| Forfeiture | 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 may recommend that the Executive should remain in the plan as a 'good leaver', for decision by the Board. |
| Alignment | The STI plan is aligned to security holder interests in the following ways:<br><br>• as an immediate reward opportunity to attract, motivate and retain talented Executives who can influence the future performance of the Group<br><br>• through a 25% mandatory STI deferral for Executives, allowing for future clawback of STI awards as set out in the previous section of this summary table, and also in the event of a material misstatement of the Group's financial position |
| Oversight | The CEO monitors and assesses performance of Executives as part of the Group's annual performance management cycle. The CEO makes STI recommendations to the Committee, who subsequently make recommendations to the Board for approval.<br><br>The CEO's own performance is assessed in a similar manner, with the Chair of the Board making recommendations to the Committee for the Board's ultimate approval.<br><br>The Board retains the right to amend, suspend or cancel the STI plan at any time. |

### LTI Plan

| | |
|---|---|
| Purpose | The LTI plan is designed to motivate and reward Executives for sustained earnings and security holder returns and is delivered in the form of performance rights to DXS securities. |
| Participation | The CEO receives an LTI grant equal to 100% of his fixed remuneration. The Executive Director Finance & Chief Operating Officer receives an LTI grant equal to 75% of his fixed remuneration and other Executive KMP 50%. |
| Allocation | Executives receive a grant of performance rights to DXS securities which are at risk and subject to performance conditions set by the Board. The number of performance rights granted is based on the Executive's grant value (% of fixed remuneration) divided by the volume weighted average price (VWAP) of securities ten trading days either side of the first trading day of the new financial year. |
| Tranches | Each grant is split into two equal tranches, with a vesting period of three and four years respectively after the grant date. |
| Performance Conditions | The Board sets the performance conditions for the LTI plan on an annual basis. Consistent with 2013, the four performance conditions for the 2014 LTI plan are:<br><br><u>External Performance Conditions (50%)</u><br><br>▪ 25% is based on the Group's relative performance against a Total Shareholder Return (Relative TSR) performance hurdle measured against listed peers within the A-REIT sector<br><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 unlisted peers<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.<br><br><u>Internal Performance Conditions (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 purposes 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 (ROE) 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. |

<table>
<tr><td>Vesting</td><td>
<u>Relative TSR & Relative ROE</u>
<ul>
<li>Vesting under both the Relative TSR & Relative ROE conditions will be on a sliding scale reflecting relative performance against a comparator group of entities.</li>
<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
<ul><li>The listed and unlisted comparator groups have been reviewed ahead of the 2014 grant. Taking into account feedback from investors and advice from market analysts and remuneration advisors, the comparator groups have been expanded to include all members of the accepted listed and unlisted benchmarks. Specifically:</li></ul></li>
<li>Listed: all members of the S&P/ASX 200’s A-REIT Index</li>
<li>Unlisted: all members of the Mercer IPD Core Wholesale Property Fund Index</li>
</ul>
The Board believes this amendment will enhance the operation of the LTI plan by removing any potential sustainability risk or asset class bias that may be inherent in a smaller comparator group. The Board also believes that a broader comparator group aligns to the Group’s ambition to be recognised as Australia’s leading real estate company and reflects the market in which DEXUS competes for investment capital.<br><br>
The Board reserves the right to review the comparator groups annually, with relative performance monitored by an independent external advisor at 30 June each year.<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 conditions 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>
Following a review of the Group’s strategy and having completed extensive internal forecasting, the Board has set the following internal performance conditions for the 2014 LTI grant:
<ul>
<li>FFO Growth Target of 4% - with Outperformance at 6%</li>
<li>ROE Target of 9% - with Outperformance at 10%</li>
</ul>
FFO Growth is the implied compound annual growth rate (CAGR) of the aggregate FFO earnings per security in the three and four year vesting periods. ROE is measured as the per annum average at the conclusion of each vesting period.
</td></tr>
<tr><td>Distributions</td><td>Executives are not entitled to distributions paid on underlying DXS securities prior to performance rights vesting.</td></tr>
</table>

| | |
|---|---|
| Forfeiture | If the pre-determined performance conditions are not met then the performance rights relating to that tranche will be forfeited. There is no re-testing of forfeited rights.<br><br>Additionally, forfeiture will occur should the Executive's employment terminate within 12months 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 may recommend that the Executive should remain in the plan as a 'good leaver', for decision by the Board. |
| Alignment | The LTI plan is aligned to security holders interests in the following ways:<br>▪ As a reward to Executive's when the Group's overall performance exceeds specific pre-determined 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>▪ By aligning the financial interests of Executives to security holders through exposure to DXS securities and Group performance<br>▪ By encouraging and incentivising Executives to make sustainable business decisions within the Board-approved strategy of the Group |
| Oversight | 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>Executive 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 and held in trust for the Executive pending performance assessment.<br><br>The Board retains the right to amend, suspend or cancel the LTI plan at any time. |

## 5. Service Agreements

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

### CEO - Mr Steinberg

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

### Executives - Messrs Mitchell, George & Du Vernet

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

## 6. Performance Pay

### Group Performance

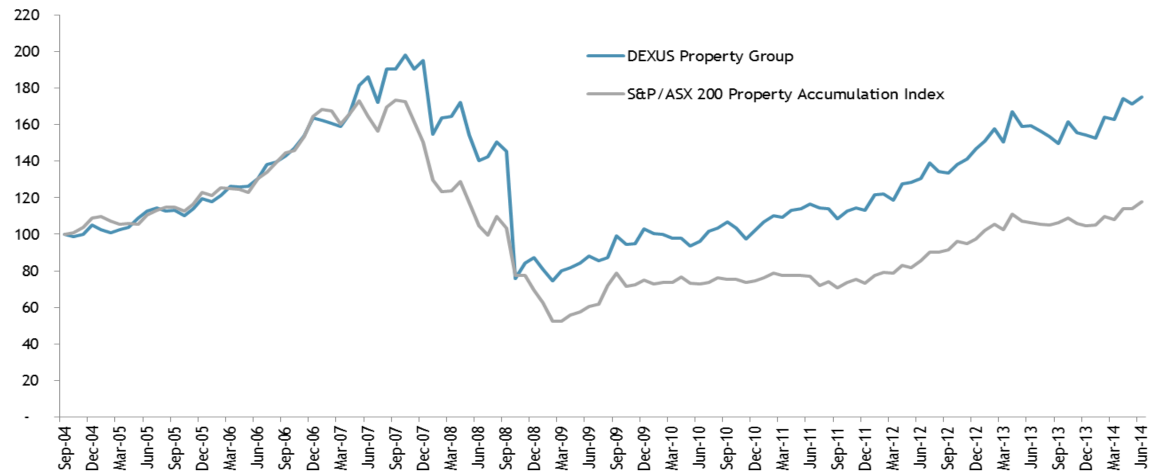
FY14 Highlights

| Group | Portfolio | Capital Management | Funds Management | Transactions |
|---|---|---|---|---|
| Delivered a 7.6% increase in FFO, resulting in a 4.3% increase in distribution per security | Leased 524,597 square metres of space across the total portfolio | Achieved upgrades to S&P and Moody's credit ratings providing benefits for future funding | Increased third party funds under management by 41% to $8.7 billion | Successfully completed the $3.4 billion takeover of CPA[1] |
| Achieved a 9.9% one-year total security holder return | Achieved 3.1% growth in like-for-like property net operating income across office and industrial portfolios | Secured $1.7 billion of new funding | Launched new partnerships with a leading global pension fund and a sovereign wealth fund | Involved in $4.0 billion of transactions across the Group[2] |

1. Jointly with Canada Pension Plan Investment Board
2. Including the CPA transaction

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, three and five year time horizon, relative to the S&P/ASX200 Property Accumulation Index:

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

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

## 7. Individual Performance Assessment - Balanced Scorecard

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

The Scorecard is divided into five major components – 'Group Financial Performance', 'Business & Portfolio Management', 'Funds Management & Transactions', 'Stakeholder Engagement' and 'People & Culture'. These components are differentially weighted to reflect the influence of each Executive. For each of the components the Executive has objectives and specific initiatives set for that year. The Scorecards are agreed with the KMP Executive at the beginning of the year, reviewed at the half year and assessed for performance awards at the end of the year.

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

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

## STI Awards

Application of the KPIs against the Balanced Scorecards resulted in no executive achieving the maximum possible STI. However, in recognition of the outstanding performance of Messrs Steinberg, Mitchell and Du Vernet during the period, and in particular for their effort in completing the $3.5billion CPA transaction, the Board used its discretion to increase the STI amount awarded to these executives. The following table summarises the final awards made to each Executive KMP with respect to their performance during the year ended 30 June 2014.

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

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

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

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

## Deferred STI Grants

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

The table below shows the number of Performance Rights to be granted to Executives under the 2014 Deferred STI plan (details of which are provided earlier in this report).

| Executive | Number of Performance Rights (#) | 1st Vesting Date 50% | 2nd Vesting Date 50% |
|---|---|---|---|
| Darren J Steinberg | 386,143 | 1 July 2015 | 1 July 2016 |
| Craig D Mitchell | 214,034 | 1 July 2015 | 1 July 2016 |
| Kevin L George | 99,294 | 1 July 2015 | 1 July 2016 |
| Ross G Du Vernet | 165,490 | 1 July 2015 | 1 July 2016 |

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

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

## LTI Grants

The table below shows the number of Performance Rights to be granted to Executives under the 2014 LTI plan (details of which are provided earlier in this report).

| Executive | Number of Performance Rights (#) | 1st Vesting Date 50% | 2nd Vesting Date 50% |
|---|---|---|---|
| Darren J Steinberg | 1,235,658 | 1 July 2017 | 1 July 2018 |
| Craig D Mitchell | 513,019 | 1 July 2017 | 1 July 2018 |
| Kevin L George | 275,816 | 1 July 2017 | 1 July 2018 |
| Ross G Du Vernet | 220,653 | 1 July 2017 | 1 July 2018 |

The number of performance rights granted to each Executive is based on the dollar value of LTI approved by the Board in its discretion and with reference to the remuneration framework, divided by the Volume Weighted Average Price (VWAP) of DXS securities ten trading days either side of 1 July 2014, which was confirmed as $1.1330.

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

### 8. Executive Remuneration Actual Cash Received

In line with best-practice recommendations, the amounts shown in the table below provide a summary of actual remuneration received during the year ended 30 June 2014. The STI and DDPP cash payments were received for performance in the 2013 and 2010 financial years respectively.

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

1 Includes employer contributions to superannuation under the superannuation guarantee legislation and salary sacrifice amounts
2 Mr Steinberg's sign-on conditions included access to an additional $500,000 subject to performance in FY13, which he was paid in full.
Mr George received a cash payment of $170,000 as compensation for foregone remuneration during the year.
In FY14, expenses were paid in relation to Mr George's relocation, including stamp duty and legal fees. Such expenses are not considered remuneration, but are footnoted here for transparency.
3 Cash payment made in August 2013 with respect to the 2013 STI Plan (i.e. annual performance payment for the prior financial year)
4 Cash payment made in August 2013 with respect to the 2010 DDPP award that vested on 1 July 2013 (i.e. realisation of 3 year deferred performance payment)

## 9. Executive Remuneration Statutory Accounting Method

The amounts shown in this table are prepared in accordance with *AASB 124 Related Party Disclosures* and do not represent actual cash payments received by Executives for the year ended 30 June 2014. Amounts shown under Long Term Benefits reflect the accounting expenses recorded during the year with respect to prior year deferred remuneration and awards that have or are yet to vest. For performance payments and awards made with respect to the year ended 30 June 2014, refer to the Performance Pay Outcomes section of this report.

| | | Short Term Benefits | | | Post-Employment Benefits | Share Based & Long Term Benefits | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Executive | Year | Cash Salary ($) | STI Cash Award [1] ($) | Other Short Term Benefits [2] ($) | Pension & Super Benefits [3] ($) | Deferred STI Plan Accrual [4] ($) | DDPP Plan Accrual [5] ($) | Transition Plan Accrual [6] ($) | LTI Plan Accrual [7] ($) | Total ($) |
| Darren J Steinberg | 2014 | 1,382,225 | 1,312,500 | - | 17,775 | 360,799 | - | 105,000 | 434,573 | 3,612,871 |
| | 2013 | 1,383,530 | 1,312,500 | 500,000 | 16,470 | 182,284 | - | 105,000 | 204,200 | 3,703,984 |
| Craig D Mitchell | 2014 | 751,300 | 727,500 | - | 23,700 | 177,281 | 47,700 | 125,000 | 159,995 | 2,012,476 |
| | 2013 | 733,530 | 562,500 | - | 16,470 | 78,122 | 172,790 | 125,000 | 64,349 | 1,752,761 |
| Kevin L George | 2014 | 602,425 | 337,500 | - | 22,575 | 271,020 | - | - | 110,452 | 1,343,972 |
| | 2013 | 338,954 | 247,500 | 634,383 | 12,008 | 219,374 | - | - | 59,029 | 1,511,248 |
| Ross G Du Vernet | 2014 | 482,225 | 562,500 | - | 17,775 | 116,960 | - | 50,000 | 84,037 | 1,313,497 |
| | 2013 | 424,305 | 288,750 | - | 16,470 | 40,103 | - | 50,000 | 42,899 | 862,527 |
| Total | 2014 | 3,218,175 | 2,940,000 | - | 81,824 | 926,060 | 47,700 | 280,000 | 789,056 | 8,282,816 |
| | 2013 | 2,880,319 | 2,411,250 | 1,134,383 | 61,418 | 519,883 | 172,790 | 280,000 | 370,477 | 7,830,520 |

1 FY14 annual cash STI performance award, payable in August 2014.
2 Mr Steinberg's sign-on conditions included access to an additional $500,000 subject to performance in FY13, which he was paid in full.
Mr George received a cash sign-on payment of $250,000, a cash payment of $170,000 as compensation for foregone remuneration and various cash relocation benefits in FY13.
In FY14, expenses of $401,341 were paid in relation to Mr George's relocation, including stamp duty and legal fees. Such expenses are not considered remuneration, but are footnoted here for transparency.
3 Includes employer contributions to superannuation under the superannuation guarantee legislation and salary sacrifice amounts.
4 Reflects the accounting expense accrued during the financial year for Deferred STI awards made with respect to FY13 and FY14 performance. Refer to note 37 of the DXS Financial Statements.
Mr George's accrual also includes accounting for Performance Rights detailed later in this report as Special Terms.
5 FY11 DDPP legacy plan only applicable to Mr Mitchell. Reflects the accounting expense accrued during the financial year.
6 FY12 Transitional plan applicable to all Executives, excluding Mr George. Reflects the accounting expense accrued during the financial year.
7 Reflects the accounting expense accrued during the financial year for LTI grants made with respect to FY13 and FY14. Refer to note 37 of the DXS Financial Statements.

## 10. Deferred Remuneration Plans

### Performance Rights Plan - Unvested Deferred STI

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

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

### Performance Rights Plan - Unvested LTI

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

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

### Legacy Plan - Vesting DDPP Awards

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

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

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

The vesting DDPP value was determined by calculating the compound total return of both listed DXS (50%) and unlisted DWPF (50%) notional securities over a 3-year vesting period. The DXS total return was 45.99% and the Group’s unlisted Funds and Mandates was 31.78%, resulting in a composite 38.89% increase being applied to the original allocation value during the life of the 2011 DDPP plan. The Board chose to exercise its discretion in not applying a performance multiplier (allowable under the DDPP plan rules) to the 2011 tranche.

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

### Legacy Plan - Unvested Transitional Performance Rights

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

| Participant | Award Date | Number of Performance Rights (#) | Vesting Date |
|---|---|---|---|
| Darren J Steinberg | 1 Jul 2012 | 453,417 | 1 Jul 2015 |
| Craig D Mitchell | 1 Jul 2012 | 539,782 | 1 Jul 2015 |
| Ross G Du Vernet | 1 Jul 2012 | 215,913 | 1 Jul 2015 |

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

### Special Terms - Performance Rights & 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 were purchased on-market. The terms and conditions of this offer mirror those of the Deferred STI plan.

## 11. Non-Executive Directors

### Board Fee Structure

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

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

Other than the Chair who receives a single fee, Non-Executive Directors receive a base fee plus additional fees for membership of Board Committees. The table below outlines the Board fee structure (inclusive of statutory superannuation contributions) for the year ended 30 June 2014:

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

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

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

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

### Minimum Security Holding

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

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

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

## Non-Executive Directors' Statutory Accounting Table

The amounts shown in this table are prepared in accordance with AASB 124 Related Party Disclosures. The table is a summary of the actual cash and benefits received by each Non-Executive Director for the year ended 30 June 2014.

| Non-Executive Director | Year | Short Term Benefits\ ($) | Post Employment Benefits ($) | Other Long Term Benefits ($) | Total ($) |
|---|---|---|---|---|---|
| Christopher T Beare | 2014 | 332,225 | 17,775 | - | 350,000 |
| | 2013 | 333,530 | 16,470 | - | 350,000 |
| Elizabeth A Alexander AM | 2014 | 178,490 | 16,510 | - | 195,000 |
| | 2013 | 178,899 | 16,101 | - | 195,000 |
| Penelope Bingham-Hall [1] | 2014 | 7,921 | 733 | - | 8,654 |
| | 2013 | - | - | - | - |
| Barry R Brownjohn [2] | 2014 | 54,920 | 5,080 | - | 60,000 |
| | 2013 | 165,138 | 14,862 | - | 180,000 |
| John C Conde AO | 2014 | 164,760 | 15,240 | - | 180,000 |
| | 2013 | 165,138 | 14,862 | - | 180,000 |
| Tonianne Dwyer | 2014 | 165,798 | 15,336 | - | 181,135 |
| | 2013 | 158,257 | 14,243 | - | 172,500 |
| Stewart F Ewen OAM [3] | 2014 | 47,644 | 7,356 | - | 55,000 |
| | 2013 | 141,000 | 24,000 | - | 165,000 |
| W Richard Sheppard | 2014 | 167,206 | 15,467 | - | 182,673 |
| | 2013 | 158,257 | 14,243 | - | 172,500 |
| Peter B St George | 2014 | 151,030 | 13,970 | - | 165,000 |
| | 2013 | 151,376 | 13,624 | - | 165,000 |
| Total | 2014 | 1,269,994 | 107,287 | - | 1,377,461 |
| | 2013 | 1,451,595 | 128,405 | - | 1,580,000 |

1 Ms Bingham-Hall was appointed on 10 June 2014
2 Mr Brownjohn did not stand for re-election at the 2013 AGM and effectively stood down from the Board on 29 October 2013
3 Mr Ewen did not stand for re-election at the 2013 AGM and effectively stood down from the Board on 29 October 2013

# Note 33

**Events occurring after reporting date**

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

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

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

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

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

Since the end of the year, other than the matters disclosed above, the Directors are not aware of any matter or circumstance not otherwise dealt with in their Directors' Report or the Financial Statements that has significantly or may significantly affect the operations of the 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.

| | |
|---|---|
| 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 34 in the DEXUS Property Group Financial Statements).

## Note 35

**Reconciliation of net profit to net cash flows from operating activities**

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| Net profit | **31,884** | 30,648 |
| Capitalised interest | **(6,125)** | (10,525) |
| Depreciation and amortisation | **2,315** | 3,234 |
| Reversal of previous impairment | **(7,309)** | (20,494) |
| Impairment of goodwill | **99** | 99 |
| Net (gain)/loss on sale of investment properties | **(775)** | 876 |
| Net fair value gain of derivatives | **(343)** | (285) |
| Lease incentives | **(2,811)** | (1,695) |
| Net fair value gain of investment properties | **(11,201)** | (3,926) |
| Change in operating assets and liabilities | | |
| Increase in receivables | **(10,133)** | (10,593) |
| Increase in inventories | **(63,367)** | (155,079) |
| Increase in other current assets | **(801)** | (649) |
| Decrease/(increase) in deferred tax assets | **3,578** | (2,685) |
| Increase in payables | **3,137** | 2,307 |
| Increase in current liabilities | **1,577** | 1,229 |
| Increase in other non-current liabilities | **31,096** | 28,898 |
| Increase/(decrease) in deferred tax liabilities | **8,312** | (698) |
| **Net cash outflow from operating activities** | **(20,867)** | (139,338) |

## 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.

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| Profit from continuing operations | **21,145** | 10,768 |
| Profit from discontinued operations | **-** | 34 |
| Profit attributable to unitholders of the parent entity | **21,145** | 10,768 |

**(b) Weighted average number of units used as a denominator**

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

# Note 37

**Security-based payments**

The DXFM Board has approved a grant of performance rights to 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 2014 (2013: nil). The fair value of the 2012 performance rights is $1.11 per performance right and the total security-based payment expense recognised during the year ended 30 June 2014 was $547,595 (2013: $535,605).

**(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 2014 was 2,246,686 (2013: 2,073,400) and the fair value of these performance rights is $1.11 (2013: $1.07) per performance right. The total security-based payment expense recognised during the year ended 30 June 2014 was $1,896,231 (2013: $924,390).

**(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 2014 was 2,840,247 (2013: 3,317,014). The fair value of these performance rights is $0.83 (2013: $0.80) per performance right. The total security-based payment expense recognised during the year ended 30 June 2014 was $808,565 (2013: $600,379).

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 8 to 73:

(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 2014 and of their performance, as represented by the results of their operations and their cash flows, for the year ended on that date.

In the Directors' opinion:

(a) the Financial Statements and notes are in accordance with the *Corporations Act 2001*;

(b) there are reasonable grounds to believe that the 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 2014.

Note 1(a) confirms that the Financial Statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The Directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer required by section 295A of the *Corporations Act 2001*.

This declaration is made in accordance with a resolution of the Directors.

**Christopher T Beare**
Chair
13 August 2014

# Independent auditor's report to the 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 2014, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for DEXUS Operations Trust (the consolidated entity). The consolidated entity comprises the Trust and the entities it controlled at year's end or from time to time during the financial year.

### *Directors' responsibility for the financial report*

The directors of DEXUS Funds Management Limited (the Responsible Entity) are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

### *Auditor's responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the consolidated entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

### *Independence*

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

***PricewaterhouseCoopers, ABN 52 780 433 757***
*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*

*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 2014 and of its performance for the year ended on that date; and

 (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.

(b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in Note 1.

PricewaterhouseCoopers

PricewaterhouseCoopers

E A Barron
Partner

Sydney
13 August 2014