

# CORPORATE GOVERNANCE STATEMENT

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

This corporate governance framework applies to all DXFM funds and mandates, and is designed to support the strategic objectives of the Group by defining accountability and creating control systems to mitigate the risks inherent in its day to day operations.

To achieve this objective, DXFM has implemented a corporate governance framework that meets the requirements of *ASX Corporate Governance Principles and Recommendations* (2nd edition) and addresses additional aspects of governance that the Board considers appropriate. A reconciliation of the ASX Principles against DXFM's governance framework can be found on the web page [www.dexus.com/Corporate-Governance](http://www.dexus.com/Corporate-Governance)

## The Board

### Roles and responsibilities

As DEXUS comprises four real estate investment trusts, its corporate governance practices satisfy the requirements relevant to unit trusts. However, as the Group conducts itself as if it were a public company, the Board has determined that its governance framework will also satisfy the highest standards of a publicly listed company. These additional governance aspects include the conduct of an annual general meeting, the appointment of Directors by DEXUS security holders and additional disclosure, such as the remuneration report. The governance framework enables the Board to provide strategic guidance, while exercising effective oversight of management. The framework also defines the roles and responsibilities of the Board and executive management in order to clearly communicate accountability and ensure a balance of authority.

The Board is responsible for reviewing and approving DEXUS's business objectives and ensuring strategies for their achievement are in place and monitored. Objectives are reviewed periodically to ensure that they remain consistent with the Group's priorities and the changing nature of its business. These objectives become the performance targets for the CEO and Executive Committee. Performance against these objectives is reviewed annually by the Board Nomination and Remuneration Committee and is taken into account in the remuneration review of Executive Committee members.

The Board carries ultimate responsibility for the approval and monitoring of annual business plans, the approval of acquisitions, divestments and major developments. The Board also ensures that the fiduciary and statutory obligations DEXUS owes to its security holders, third party clients and investors are met.

The Board is directly responsible for appointing and removing the Chief Executive Officer (CEO), and Company Secretary, ratifying the appointment of the Chief Financial Officer (CFO) and monitoring the performance of the Executive team. The Board meets regularly throughout the year and, when required, Directors also meet to consider specific business. At each regular Board meeting the Independent Directors meet without the CEO. Each year the Directors also meet with Senior Management to specifically consider strategy.

In addition to meeting these requirements, DXFM is committed to maintaining, through both the Executive Committee and the Board, a balance of skills, experience and independence appropriate to the nature and extent of its operations.

### Composition

The composition of the Board reflects its role and the duties and responsibilities it discharges. It reflects the need for the Board to work together as a team with each Director making their own contribution to the Board's decision making process.

General qualifications for Board membership include the ability and competence to make appropriate business recommendations and decisions, an entrepreneurial talent for contributing to the creation of investor value, relevant experience in the industry sector, high ethical standards, exposure to emerging issues, sound practical sense and a total commitment to the fiduciary and statutory obligations to further the interests of all investors and achieve the Group's objectives.

At 30 June 2009, the Board comprises eight members, seven of whom are independent and the eighth member is the DEXUS CEO. Six Directors held office for the full financial year. On 29 April 2009, Peter St George and John Conde AO were appointed Independent Directors. Charles B Leitner III and Andrew Fay (Alternate Director) resigned from the Board in April 2009.

Specific skills the incumbent Directors bring to the Board include strategy, property management, funds management, capital markets and financial management. Independent Directors are independent of management and free of any business or other relationship that could materially interfere with the exercise of their unfettered and independent judgement. Independent Directors are active in areas which enable them to relate to the strategies of DEXUS and to make a meaningful contribution to the Board's deliberations.

The Board regularly assesses the independence of its Directors, in light of interests disclosed to it. Directors of the Responsible Entity are not technically subject to the approval of security holders. However, the Board has determined that all Directors other than the CEO, will stand for election by DEXUS stapled security holders. If a nominated Director fails to receive a majority vote that Director will not be appointed to the Board of DXFM. DXFM Directors, other than the CEO, will hold office for three years, following their first appointment (or, if appointed by the Board between DEXUS Property Group Annual General Meetings, from the date of the Annual General Meeting immediately succeeding this appointment). It is not generally expected that an Independent Director would hold office for more than ten years, or be nominated for more than three consecutive terms, whichever is the longer.

The Chair is an Independent Director, and is responsible for the leadership of the Board, for the efficient organisation and conduct of the Board's functions, and for the briefing of Directors in relation to issues arising pertinent to the Board. The Board has clearly defined the responsibilities and performance of the CEO. The performance of the CEO is monitored by the Chair.

CVs outlining the skills and experience of each Director are set out in this Annual Report. Please refer to [www.dexus.com/Corporate-Governance](http://www.dexus.com/Corporate-Governance) for a description of the procedure followed to select and appoint new Directors to the Board of DXFM, which includes specific criteria applied to determine Director independence.

## Performance

To ensure that new Directors are able to meet their responsibilities effectively, Directors receive an information pack and induction briefing, which addresses the corporate governance framework, committee structures and their terms of reference, governing documents and background reports. New Directors also attend specific briefings by DEXUS management on business strategy and operations. In addition, Directors undertake training, through regular presentations by management and external advisers on sector, fund and industry specific trends and conditions throughout the year. Directors are also encouraged to:

- take independent professional advice, at the Group's expense and independent of management;
- seek additional information from management; and
- directly access the Company Secretary, General Counsel, Head of Risk and Compliance and other DEXUS executives as required.

The Board Nomination and Remuneration Committee oversees the Board performance evaluation program which extends over a two year period. The process is designed to identify opportunities for performance improvement. In 2008, the evaluation process looked at the performance of the whole Board and its Committees. In 2009, individual Director performance will be evaluated later than scheduled, to enable new Directors to become familiar with the strategy and structures that guide the Group. In each alternate year the Board also reviews the progress of findings of the previous year's evaluation. The evaluation is undertaken through the use of questionnaires and face to face interviews on a broad range of issues.

## Governance

The Board has established a number of committees to assist it in the fulfilment of its responsibilities. Following the appointment of two new Directors, Board Committees were reviewed and memberships refreshed in May 2009. Committee Chairs were also rotated in August 2009. The Board and Board Committee Terms of Reference are revised at least annually.

### Board Nomination and Remuneration Committee

A Board Nomination and Remuneration Committee has been established to oversee all aspects of Director and Executive remuneration, Board renewal, Director, CEO and management succession planning, Board and Committee performance evaluation, training and Director nominations. It comprises three Independent Directors.

The members of the Board Nomination and Remuneration Committee are:

- John C Conde AO, Independent Director (appointed a member on 1 May 2009 and Chair on 1 September 2009)
- Christopher T Beare, Independent Director
- Stewart F Ewen OAM, Independent Director

Reporting to the Board Nomination and Remuneration Committee and the Executive Committee, the Compensation Committee oversees the development and implementation of human resource management systems and advises the Board Nomination and Remuneration Committee. The Board Nomination and Remuneration Committee also has the power to engage external consultants independently of management.

Remuneration and incentive payments for employees are considered by the Compensation Committee following guidance from the Board Nomination and Remuneration Committee. Recommendations to the Board Nomination and Remuneration Committee are based on the achievement of approved performance objectives and market comparable data. Details of the Group's remuneration framework for Executive, Non-Executive Directors and employees are set out in the Remuneration Report that forms part of the Directors' Report contained in this Annual Report. In 2009 there were no base salary increases for DEXUS senior management and no fee increases for Directors. There are no schemes for retirement benefits (other than superannuation) for Non-Executive Directors.

## Governance (continued)

### Board Audit Committee

To ensure the factual presentation of each Trust's financial position, DXFM has put in place a structure of review and authorisation for each of the Trust's financial records and reports. This structure includes:

- the establishment of a Board Audit Committee to review the Financial Statements of each entity and review the independence and competence of the external auditor; and
- semi-annual management representations to the Board Audit Committee, affirming the veracity of each entity's Financial Statements.

The Board Audit Committee's Terms of Reference require that all members have specific financial expertise and have an understanding of the industry in which the Group operates.

The Board Audit Committee currently comprises three Independent Directors. The Board Audit Committee operates under formal Terms of Reference, has access to management, and internal and external auditors without management present, and has the right and opportunity to seek explanations and additional information as it sees fit. Audit Committee members have unrestricted access to external auditors.

In addition, the external auditor is invited to attend all Board Audit Committee meetings. The Committee may also obtain independent professional advice in the satisfaction of its duties at the cost of the Group and independent of management. The Committee meets as frequently as required to undertake its role effectively and not less than four times per annum.

The members of the Board Audit Committee are:

- Barry R Brownjohn, Independent Director (appointed Chair on 1 September 2009)
- Elizabeth A Alexander AM, Independent Director
- Peter B St George, Independent Director (appointed a member on 1 May 2009)

In order to ensure the independence of the external auditor, the Board Audit Committee has responsibility for approving the engagement of the auditor for any non-audit service of greater than \$100,000. Both the Chief Financial Officer and the Chief Executive Officer, on a semi annual basis, make representations to the Board Audit Committee regarding the veracity of the financial statements and the financial risk management systems. The Chief Executive Officer makes a representation in relation to risk management at least quarterly to the Head of Risk and Compliance, regarding conformance with compliance policies and procedures. Any significant exceptions are reported by Compliance to the Board Compliance Committee. Furthermore, on a quarterly basis, the Chief Financial Officer provides certification to the Board Compliance Committee as to the continued adequacy of financial risk management systems.

During 2009 the Board Audit Committee approved an Auditor Independence Charter which imposes limits on the Auditor undertaking engagements of non-audit services. DEXUS has subsequently appointed a leading accounting firm to provide non-audit services and a specialist independent firm to provide Australian taxation services.

### Board Compliance Committee

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

The Board Compliance Committee reviews compliance matters and monitors DXFM conformance with the requirements of the *Corporations Act 2001* as it relates to Managed Investment Schemes.

The Committee includes only members who are familiar with the requirements of Managed Investments Schemes and have extensive risk and compliance experience. The Committee is also encouraged to obtain independent professional advice in the satisfaction of its duties at the cost of the Group and independent of management.

As at 30 June 2009, the Committee comprised five members, three of whom are external members (i.e. members who satisfy the requirements of Section 601JB(2) of the *Corporations Act 2001*), and two of whom are executives of the Group.

The scope of the Committee includes all Trusts, including the Group's investment mandates. The Committee reports to the Board of the Responsible Entity breaches of the *Corporations Act 2001* or breaches of the provisions contained in any Trust's Constitution or Compliance Plan, and further reports to ASIC in accordance with legislative requirements. DEXUS employees also have access to Board Compliance Committee members to raise concerns about unethical business practices.

The members of the Board Compliance Committee are:

- Brian E Scullin (Chair), Independent Member
- John C Conde AO, Independent Member (appointed a member on 1 May 2009)
- Andrew P Esteban, Independent Member
- Tanya L Cox, Executive Member
- John C Easy, Executive Member

The skills, experience and qualifications of Mr Scullin, Mr Conde AO, Ms Cox and Mr Easy are contained in this Annual Report.

Mr Esteban holds a Bachelor of Business majoring in Accounting. He is an Associate of the Australian Society of CPAs and a member of the Australian Institute of Company Directors. He has 30 years experience in the financial services industry, 21 years of which were with Perpetual Trustees. In December 1999 he established FP Esteban and Associates, a private company specialising in implementing and monitoring risk management and compliance frameworks in the financial services industry. Andrew has provided compliance consulting services to organisations including UBS Global Asset Management in Australia, Hong Kong, Singapore, Taiwan and China. He currently sits as an independent member of compliance committees or risk and audit committees for a range of managed investment schemes, superannuation, insurance and infrastructure products (retail and wholesale) including Macquarie Airports, Credit Suisse Asset Management, Suncorp, IAG, Schroders Investment Management, Deutsche Asset Management, Aberdeen Funds Management and SPARK Infrastructure.

To enable the Board Compliance Committee to effectively fulfil its obligations, an Internal Compliance Committee has been established to monitor the effectiveness of the Group's internal compliance and control systems.

### Board Risk Committee

To oversee risk management at DEXUS, the Board has established a Board Risk Committee responsible for reviewing the Group's operational risk management, environmental management, and internal audit practices and to review any incidents of fraud. The Committee oversees the effectiveness of the Group's Risk Management Framework and issues relating to Occupational Health & Safety. During 2009, to ensure continued focus on the Corporate Responsibility and Sustainability initiatives of the Group, the Board Risk Committee also assumed oversight of these initiatives. The Board Risk Committee and Board Audit Committee share common membership to ensure that a comprehensive understanding of control systems is maintained by both Committees.

The members of the Board Risk Committee are:

- Barry R Brownjohn, Independent Director (appointed Chair on 1 September 2009)
- Elizabeth A Alexander AM, Independent Director
- Peter B St George, Independent Director (appointed a member on 1 May 2009)

The Group is subject to those risks inherent in the business of property funds management. These risks include:

- Investment Risk – risks relating to the determination of price supporting the acquisition or divestment of property.
- Construction Risk – risks relating to the construction and development of properties within the portfolio.
- Operational Risk – risks relating to the ongoing operations of the organisation and each property including human resources, ethical conduct, disaster recovery and business continuity.
- Environmental Risk – the risk of damage to the environment emanating from a property owned by the Group or caused by a tenant of the Group.
- Safety Risk – the risk of accidents or injury of employees or visitors at properties owned or managed by the Group.
- Compliance Risk – risks relating to the failure to comply with applicable laws and regulations.
- Market Risk – risks relating to the adverse affect of changing economic conditions.
- Finance Risk – risks relating to the availability of funds for the operation of the business in both a timely manner and at an appropriate cost.

The management of both risk and compliance are important aspects of the Group's activities. Consequently the Group has created a segregated risk and compliance function reporting to the Chief Operating Officer on a day to day basis, as well as an Internal Compliance Committee, and an Internal Risk Committee, all of whom have independent reporting lines to corresponding Board Committees.

The Risk and Compliance team's responsibility is to promote an effective risk and compliance culture including the provision of advice, the drafting and updating of relevant risk and compliance policies and procedures, conducting training, monitoring and reporting adherence to key policies and procedures. Frameworks have been developed and implemented in accordance with Australian Standards AS 4360:2004 (Risk Management) and AS 3806:2006 (Compliance Programs).

The Group has developed and implemented a range of policies supporting our risk and compliance framework including:

- Anti-money Laundering and Counter Terrorism Financing
- Workplace safety – OHS&L
- Environmental Management
- Fraud Control and Awareness

Further information is available at [www.dexus.com/Corporate-Governance](http://www.dexus.com/Corporate-Governance)

While Internal Audit is resourced internally, DEXUS has recently adopted a co-sourcing arrangement. The appointment of an external firm as co-source service provider has the advantage of ensuring DXFM is informed of broader industry trends and experience.

The internal audit program has a three year cycle. The results of all audits are reported to the Internal Audit Committee and the Board Risk Committee on a quarterly basis, and the internal audit function has a dual reporting line to the Internal Audit Committee and the Board Risk Committee.

The Board Risk Committee is free to engage consultants, advisers or other experts independently of management.

## Governance (continued)

### Board Finance Committee

The Group experiences significant financial risk, including interest rate and foreign exchange exposures. To assist in the effective management of these exposures the Board has established a committee to specifically manage these financial risks. This committee is the Board Finance Committee and its role is to review and recommend for approval to the Board, financial risk management policies and hedging and funding strategies, and to review forward looking financial management processes and recommend periodic market guidance. Supporting this Committee, management has established a Capital Markets Committee.

Members of the Board Finance Committee are:

- Peter B St George, Independent Director (appointed a member on 1 May 2009 and Chair on 1 September 2009)
- Barry R Brownjohn, Independent Director
- Christopher T Beare, Independent Director

### Management

The day to day management of each of the Trusts rests in the hands of the management team. To assist this team in the direction, implementation and monitoring of its plans and strategies, a number of management committees have been established and responsibilities delegated.

The management committees in place in 2009 are:

- Executive Committee
- Investment Committee
- Trust Planning Committee
- Internal Risk Committee
- Internal Audit Committee
- Internal Compliance Committee
- Capital Markets Committee
- Corporate Responsibility and Sustainability Committee
- Project Steering Committee
- Compensation Committee
- Continuous Disclosure Committee

A summary of the responsibilities of these management committees is available at [www.dexus.com/Corporate-Governance](http://www.dexus.com/Corporate-Governance)

## Ethical behaviour

### Code of Conduct

To ensure the satisfaction of statutory and fiduciary obligations to each of its investor groups and to maintain confidence in its integrity, the Board has implemented a series of clearly articulated compliance policies and procedures by which it requires all employees to abide. In addition, the Board considers it important that its employees meet the highest ethical and professional standards and consequently has established both an Employee Code of Conduct, for all employees, and a Directors' Code of Conduct. Please refer to [www.dexus.com/Corporate-Governance](http://www.dexus.com/Corporate-Governance) for a copy of the Group's Codes of Conduct.

The Group is committed to and strongly supports disclosure being made of corrupt conduct, illegality or substantial waste of company assets. The Group aims to provide protection to employees who make such disclosures from any detrimental action or reprisal.

Management has adopted a policy of not contributing donations to any political party.

Please refer to [www.dexus.com/Corporate-Governance](http://www.dexus.com/Corporate-Governance) for a copy of the whistle-blowing policy.

### Insider trading and trading in DEXUS securities

The Group has implemented a trading policy that sets out the guidelines that apply to Directors and employees who wish to invest in any of the Group's financial products for their personal account or on behalf of an associate. The policy requires any Director or employee who wishes to trade in any security issued or managed by DXFM to obtain written approval before entering into a trade. Generally, approval will not be granted during defined blackout periods. These periods commence at the end of the financial half-year and full-year reporting periods and end on the day DEXUS Group results are released. In addition, if Compliance or the Chief Executive Officer considers that there is the potential that inside information may be held or that a significant conflict of interest may arise, additional blackout periods will be imposed.

The Board has determined that Directors will not trade in any security managed by the Group, and the Senior Executive team has similarly determined that they will not trade in any security managed by the Group. Directors have made this decision because the Board of DXFM has responsibility for the performance of DEXUS as well as the third party business. Directors are obliged to act in the best interests of each group of investors independently of each other. Therefore, to minimise the appearance of conflict that may arise by being a Director of multiple funds, the Board has determined that it will not invest in any fund managed by the Group, including DEXUS. This position is periodically reviewed by the Board.

With regard to aligning Senior Executives' interests with the interests of DEXUS's investors, the Board has put in place a long-term incentive scheme that it considers ensures an alignment of Senior Executives' interests with all investors. A description of the Senior Executives' long-term incentive scheme is contained in the Remuneration Report on page 16.

All employees are required to provide a quarterly declaration confirming their understanding and compliance with the Employee Trading Policy. Risk and Compliance undertakes regular monitoring of the share register. Please refer to [www.dexus.com/Corporate-Governance](http://www.dexus.com/Corporate-Governance) for a copy of the Employee Trading Policy.

## Conflicts of interest and related party dealings

The Group has implemented policies covering the management of conflicts of interest including:

- Employee trading
- Receipt and provision of gifts, benefits and entertainment
- Allocating property transactions
- Tenant conflicts
- Related party dealings

Where a conflict of interest has been identified, Compliance liaises with the party concerned to ensure the effective and timely management of the conflict. Where a related party dealing has been identified, the following process is adopted:

- at management level, the interests of both parties are represented by dedicated teams, each headed by a DEXUS executive;
- when required, at Board level the interests of both parties are represented by dedicated Board members;

Note: In the event of a related party transaction involving a Director, only disinterested Directors may preside over and approve the transaction.

- information barriers are established with dedicated team members operating on either side of the “wall”;
- team members are briefed by Compliance regarding their obligations and responsibilities while working on the transaction;
- a clean desk policy applies while the transaction is in progress;
- documentation resulting from the transaction is maintained on a restricted access database; and
- ongoing training is conducted for dedicated employees in relation to management of conflicts of interest during the life of the transaction.

On a monthly basis, the General Counsel reports to the Board on related party transactions that have been managed in the previous period. On a quarterly basis, the Head of Risk and Compliance reports related party transactions to the Board Compliance Committee.

During the last financial year, related party transactions have included:

- the sale of an additional 1.5% interest in the Bligh Street Trust to the DEXUS Wholesale Property Fund; and
- the execution of a property management agreement between DEXUS and the DEXUS Wholesale Property Fund.

## Continuous disclosure

DXFM has established a Committee to ensure timely and balanced continuous disclosure for all material matters that impact the Group. The Committee meets regularly to consider the activities of the Group and whether any disclosure obligation is likely to arise as a result of those activities. This Committee was established to ensure that:

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

Please refer to [www.dexus.com/Corporate-Governance](http://www.dexus.com/Corporate-Governance) for a copy of the Continuous Disclosure and Analyst Briefings Policy.

## Training

Newly appointed members of the Senior Executive team undertake induction training soon after commencing employment. Induction training in relation to the operations of DEXUS takes the form of a half day, interactive training session presented by the heads of various business units. The Head of Risk and Compliance conducts a one-to-one Compliance Induction session with each newly appointed Senior Executive outlining DEXUS's approach to risk management and compliance.

## Annual General Meeting

DEXUS respects the rights of security holders and to facilitate the effective exercise of those rights, the Board has committed to the conduct of an Annual General Meeting for DEXUS Property Group.

Each annual general meeting is designed to:

- supplement effective communication with security holders;
- provide security holders ready access to balanced and understandable information about their fund;
- increase the opportunities for security holder participation; and
- facilitate security holders' rights to appoint Non-Executive Directors to the Board of DXFM.

The Group has adopted a policy which requires Directors to attend its AGM. In October 2008 all Directors, other than Mr Leitner who resides in the US, attended the AGM.

The external auditor of the Trust also attends each Annual General Meeting and is available to answer investor questions about the conduct of the audits of both the Trusts' financial records and their Compliance Plans and the preparation and content of the Auditor's Report. In addition to conducting an Annual General Meeting, the Group has a communications and investor relations strategy that promotes an informed market and encourages participation with its investors.

This strategy includes the use of the Group's website to enable ready access to DEXUS announcements, annual and half-year reports, presentations and analyst support material. The website also has available significant historical information on announcements, distributions and other related information on its website at [www.dexus.com/Investor-Centre/DXS](http://www.dexus.com/Investor-Centre/DXS)

DEXUS Property Group engages Link Market Services to independently conduct any vote undertaken at the Annual General Meeting of security holders.