

# 2011

DEXUS Property Group

COMBINED FINANCIAL  
STATEMENTS





**DEXUS INDUSTRIAL TRUST**

(ARSN 090 879 137)

DIRECTORS' REPORT	1
AUDITOR'S INDEPENDENCE DECLARATION	5
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME	6
CONSOLIDATED STATEMENT OF FINANCIAL POSITION	7
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	8
CONSOLIDATED STATEMENT OF CASH FLOWS	9
NOTES TO THE FINANCIAL STATEMENTS	10
DIRECTORS' DECLARATION	53
INDEPENDENT AUDITOR'S REPORT	54

**DEXUS OFFICE TRUST**

(ARSN 090 768 531)

DIRECTORS' REPORT	56
AUDITOR'S INDEPENDENCE DECLARATION	60
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME	61
CONSOLIDATED STATEMENT OF FINANCIAL POSITION	62
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	63
CONSOLIDATED STATEMENT OF CASH FLOWS	64
NOTES TO THE FINANCIAL STATEMENTS	65
DIRECTORS' DECLARATION	107
INDEPENDENT AUDITOR'S REPORT	108

**DEXUS OPERATIONS TRUST**

(ARSN 110 521 223)

DIRECTORS' REPORT	110
AUDITOR'S INDEPENDENCE DECLARATION	114
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME	115
CONSOLIDATED STATEMENT OF FINANCIAL POSITION	116
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	117
CONSOLIDATED STATEMENT OF CASH FLOWS	118
NOTES TO THE FINANCIAL STATEMENTS	119
DIRECTORS' DECLARATION	161
INDEPENDENT AUDITOR'S REPORT	162

**DIRECTORY**

164

**2011 Annual Reporting suite**

DEXUS Property Group (DXS) reports financial and non-financial performance across three reports:

1. The 2011 Annual Review, an integrated report summarising our financial, operational and Corporate Responsibility and Sustainability (CR&S) performance for the year ending 30 June 2011. Further CR&S information can be found on our website at [www.dexus.com/crs](http://www.dexus.com/crs)
2. This report, the 2011 Annual Report containing the DXS's consolidated Financial Statements, Corporate Governance Statement and information about our Board of Directors. This document should be read in conjunction with the 2011 Annual Review.
3. The 2011 Combined Financial Statements providing the Financial Statements of DEXUS Industrial Trust, DEXUS Office Trust and DEXUS Operations Trust on an individual basis. This document should be read in conjunction with the DEXUS Property Group 2011 Annual Report and Annual Review.

These reports are provided in print and online at [www.dexus.com/dxs/reports](http://www.dexus.com/dxs/reports) along with our Annual General Meeting Notice of Meeting to security holders.

All amounts are A\$ unless otherwise specified.

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

Cover: 123 Albert Street, Brisbane, QLD

# DEXUS INDUSTRIAL TRUST

## DIRECTORS' REPORT

For the year ended 30 June 2011

The Directors of DEXUS Funds Management Limited (DXFM) as Responsible Entity of DEXUS Industrial Trust and its consolidated entities (DIT or the Trust) present their Directors' Report together with the consolidated Financial Statements for the year ended 30 June 2011.

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:

Directors	Appointed
Christopher T Beare	4 August 2004
Elizabeth A Alexander, AM	1 January 2005
Barry R Brownjohn	1 January 2005
John C Conde, AO	29 April 2009
Stewart F Ewen, OAM	4 August 2004
Victor P Hoog Antink	1 October 2004
Brian E Scullin	1 January 2005
Peter B St George	29 April 2009

Particulars of the qualifications, experience and special responsibilities of current 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 2011 are as follows:

#### **Tanya L Cox MBA MAICD FCIS** **Appointed: 1 October 2004**

Tanya Cox is the Chief Operating Officer and Company Secretary of DXFM and is responsible for the delivery of company secretarial, operational, information technology, communications and administration services, as well as operational risk management systems and practices across the Group. Prior to joining DXS in July 2003, Tanya held various general management positions over the past 16 years, including Director and Chief Operating Officer of NM Rothschild & Sons (Australia) Ltd and General Manager – Finance, Operations and IT for Bank of New Zealand (Australia).

Tanya is a non-executive director of a number of not-for-profit organisations, a member of the Australian Institute of Company Directors and a fellow of the Institute of Chartered Secretaries and Administrators (ICSA) and Chartered Secretaries Australia (CSA). Tanya has an MBA from the Australian Graduate School of Management and a Graduate Diploma in Applied Corporate Governance.

Tanya is Chief Operating Officer and Company Secretary of DXFM, DEXUS Holdings Pty Limited (DXH) and DEXUS Wholesale Property Limited (DWPL) and is a member of the Board Compliance Committee.

#### **John C Easy B Comm LLB ACIS** **Appointed: 1 July 2005**

John is the General Counsel and Company Secretary of DXFM. During his time with the Group he has been involved in the establishment and public listing of the Deutsche Office Trust, the acquisition of the Paladin and AXA property portfolios, and subsequent stapling and creation of DXS. Prior to joining DXS 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. He is a member of Chartered Secretaries Australia (CSA) and holds a Graduate Diploma in Applied Corporate Governance.

John is General Counsel and Company Secretary for DXFM, DXH and DWPL and is a member of the Board Compliance Committee.

## Directors' Report

For the year ended 30 June 2011

CONTINUED

## 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 13 times during the year. Ten Board meetings were main meetings and three meetings were held to consider specific business. While the Board continuously considers strategy, in March 2011 it met with the executive and senior management team over three days to consider DXS's strategic plans.

	Main meetings held	Main meetings attended	Specific meetings held	Specific meetings attended
Christopher T Beare	10	10	3	3
Elizabeth A Alexander, AM	10	10	3	3
Barry R Brownjohn	10	10	3	3
John C Conde, AO	10	10	3	3
Stewart F Ewen, OAM	10	10	3	3
Victor P Hoog Antink	10	10	3	3
Brian E Scullin	10	9	3	3
Peter B St George	10	10	3	3

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 Committee		Board Risk and Sustainability Committee		Board Compliance Committee		Board Nomination and Remuneration Committee		Board Finance Committee	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended	Held	Attended
Christopher T Beare	–	–	–	–	–	–	7	7	4	4
Elizabeth A Alexander, AM	6	6	4	4	–	–	–	–	–	–
Barry R Brownjohn	6	6	4	4	–	–	–	–	4	4
John C Conde, AO	–	–	–	–	4	4	7	7	–	–
Stewart F Ewen, OAM	–	–	–	–	–	–	7	7	–	–
Victor P Hoog Antink	–	–	–	–	–	–	–	–	–	–
Brian E Scullin	–	–	–	–	4	4	–	–	–	–
Peter B St George	6	6	4	4	–	–	–	–	4	4

## 3. Directors' interests

The Board's policy on insider trading and trading in DXS securities, or securities in any of the funds managed by DXS, by any Director or employee is outlined in the Corporate Governance Statement in the DEXUS Property Group Annual Report.

While the trading policy described in the Corporate Governance Statement applies to Directors and Senior Executives, the Board has determined that Directors will not trade in any security managed by DXS.

Directors have made this decision because the Board of DXFM has responsibility for the Group itself 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 a conflict that may arise by being a Director of multiple funds, the Directors have determined that they will not invest in any fund managed by the Group including DXS. This position is periodically reviewed by the Board.

As a direct result of the Group's policy regarding Directors holding DXS securities, or securities in any of the funds managed by the Group, as at the date of this Directors' Report no Director directly or indirectly held:

- DXS securities; or
- options over, or any other contractual interest in, DXS securities; or
- an interest in any other fund managed by DXFM or any other entity that forms part of the Group.

#### 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 or ceased being a Director of a listed security
Christopher T Beare	MNet Group Limited	6 November 2009	
Elizabeth A Alexander, AM	CSL Limited	12 July 1991	
	Boral Limited	15 December 1999	24 October 2008
John C Conde, AO	Whitehaven Coal Limited	3 May 2007	
Brian E Scullin	SPARK Infrastructure RE Limited <sup>1</sup>	31 May 2011	
	BT Investment Management Limited	17 September 2007	
Peter B St George	Boart Longyear Limited	21 February 2007	
	SPARK Infrastructure RE Limited <sup>1</sup>	8 November 2005	31 December 2008
	First Quantum Minerals Limited <sup>2</sup>	20 October 2003	

<sup>1</sup> SPARK Infrastructure RE Limited has issued ASX listed stapled securities trading as SPARK Infrastructure Group (ASX: SKI).

<sup>2</sup> 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 2011 were:

- profit attributable to unitholders was \$114.7 million (2010: \$96.7 million loss);
- total assets were \$1,881.9 million (2010: \$1,958.8 million); and
- net assets were \$576.6 million (2010: \$444.7 million).

A review of the results, financial position and operations of the Group, of which the Trust forms part thereof, is set out in the Operating and Financial Review of the DEXUS Property Group Annual Report and forms part of this Directors' Report. Refer to the Chief Executive Officer's report of the DEXUS Property Group 2011 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 2011 are outlined in note 25 of the Notes to the Financial Statements and form part of this Directors' Report.

#### 11. DXFM's fees and associate interests

Details of fees paid or payable by the Trust to DXFM for the year ended 30 June 2011 are outlined in note 30 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 (2010: 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 2011 are detailed in note 23 of the Notes to the Financial Statements and form part of this Directors' Report.

The Trust did not have any options on issue as at 30 June 2011 (2010: nil).

#### 13. Environmental regulation

DXS senior management, through its Board Risk and 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 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 was adopted in 2010 that 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 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 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 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 in the Financial Statements and forms part of this Directors' Report.

## 16. Corporate governance

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

## 17. Rounding of amounts and currency

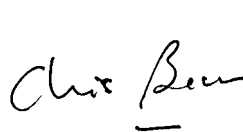
The Trust is a registered scheme of the kind referred to in Class Order 98/0100, issued by the Australian Securities & Investments Commission, relating to the rounding off of amounts in this Directors' Report and the Financial Statements. Amounts in this Directors' Report and the Financial Statements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

## 18. Management representation

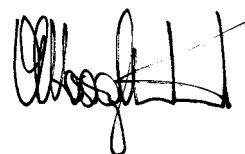
The Chief Executive Officer and Chief Financial Officer have reviewed the Trust's financial reporting processes, policies and procedures together with its risk management, internal control and compliance policies and procedures. Following that review, it is their opinion that the Trust's financial records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

## 19. Directors' authorisation

This Directors' Report is made in accordance with a resolution of the Directors. The Financial Statements were authorised for issue by the Directors on 16 August 2011. The Directors have the power to amend and reissue the Financial Statements.



Christopher T Beare  
Chair  
16 August 2011



Victor P Hoog Antink  
Chief Executive Officer  
16 August 2011



### Auditor's Independence Declaration

**PricewaterhouseCoopers**  
**ABN 52 780 433 757**

Darling Park Tower 2  
201 Sussex Street  
GPO BOX 2650  
SYDNEY NSW 1171  
DX 77 Sydney  
Australia  
Telephone +61 2 8266 0000  
Facsimile +61 2 8266 9999  
[www.pwc.com/au](http://www.pwc.com/au)

As lead auditor for the audit of DEXUS Industrial Trust for the year ended 30 June 2011, 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.

A handwritten signature in black ink, appearing to read 'JA Dunning'.

JA Dunning  
Partner  
PricewaterhouseCoopers

Sydney  
16 August 2011

# DEXUS INDUSTRIAL TRUST

## Consolidated Statement of Comprehensive Income

For the year ended 30 June 2011

	Note	2011 \$'000	2010 \$'000
<b>Revenue from ordinary activities</b>			
Property revenue	2	143,816	154,107
Interest revenue	3	1,761	2,157
<b>Total revenue from ordinary activities</b>		<b>145,577</b>	<b>156,264</b>
Share of net profit of associates accounted for using the equity method	16	20,326	–
Net fair value gain of investment properties		39,696	–
Net fair value gain of derivatives		1,992	3,704
Net foreign exchange gain		1,546	1,390
Net gain on sale of investment properties		3,285	–
Other income		41	–
<b>Total income</b>		<b>212,463</b>	<b>161,358</b>
<b>Expenses</b>			
Property expenses		(28,333)	(32,674)
Responsible Entity fees	30	(4,103)	(4,439)
Finance costs	4	(60,326)	(129,914)
Share of net loss of associates accounted for using the equity method	16	–	(59,285)
Net loss on sale of investment properties		–	(1,535)
Net fair value loss of investment properties		–	(24,581)
Other expenses	6	(2,171)	(3,783)
<b>Total expenses</b>		<b>(94,933)</b>	<b>(256,211)</b>
<b>Profit/(loss) before tax</b>		<b>117,530</b>	<b>(94,853)</b>
<b>Tax expense</b>			
Income tax expense	5(a)	(1)	(41)
Withholding tax expense		(2,784)	(1,804)
<b>Total tax expense</b>		<b>(2,785)</b>	<b>(1,845)</b>
<b>Profit/(loss) after tax</b>		<b>114,745</b>	<b>(96,698)</b>
<b>Other comprehensive income:</b>			
Exchange differences on translating foreign operations		29,479	7,372
<b>Total comprehensive income/(loss) for the year</b>		<b>144,224</b>	<b>(89,326)</b>
<b>Earnings per unit</b>			
		<b>Cents</b>	<b>Cents</b>
Basic earnings per unit on profit/(loss) attributable to unitholders	34	2.37	(2.03)
Diluted earnings per unit on profit/(loss) attributable to unitholders	34	2.37	(2.03)

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



## DEXUS INDUSTRIAL TRUST

## Consolidated Statement of Financial Position

As at 30 June 2011

	Note	2011 \$'000	2010 \$'000
<b>Current assets</b>			
Cash and cash equivalents	8	39,837	16,537
Receivables	9	5,662	4,604
Non-current assets classified as held for sale	10	60,688	–
Loan with related parties	11	259,537	138,948
Derivative financial instruments	12	20,854	9,657
Current tax assets		233	73
Other	13	2,592	2,737
<b>Total current assets</b>		<b>389,403</b>	<b>172,556</b>
<b>Non-current assets</b>			
Investment properties	14	1,307,484	1,462,007
Investments accounted for using the equity method	16	162,513	122,627
Deferred tax assets	17	6,061	10,080
Loans with related parties	11	–	151,942
Derivative financial instruments	12	16,283	39,261
Other	18	197	305
<b>Total non-current assets</b>		<b>1,492,538</b>	<b>1,786,222</b>
<b>Total assets</b>		<b>1,881,941</b>	<b>1,958,778</b>
<b>Current liabilities</b>			
Payables	19	48,538	44,545
Current tax liabilities		5,956	973
Interest bearing liabilities	20	–	47,796
Provisions	21	12,360	–
Derivative financial instruments	12	2,039	7,139
<b>Total current liabilities</b>		<b>68,893</b>	<b>100,453</b>
<b>Non-current liabilities</b>			
Loans with related parties	11	1,111,503	1,257,916
Interest bearing liabilities	20	47,758	–
Derivative financial instruments	12	76,412	154,833
Other	22	810	875
<b>Total non-current liabilities</b>		<b>1,236,483</b>	<b>1,413,624</b>
<b>Total liabilities</b>		<b>1,305,376</b>	<b>1,514,077</b>
<b>Net assets</b>		<b>576,565</b>	<b>444,701</b>
<b>Equity</b>			
Contributed equity	23	925,116	925,116
Reserves	24	41,642	12,163
Accumulated losses	24	(390,193)	(492,578)
<b>Total equity</b>		<b>576,565</b>	<b>444,701</b>

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

# DEXUS INDUSTRIAL TRUST

## Consolidated Statement of Changes in Equity

For the year ended 30 June 2011

	Note	Contributed equity \$'000	Accumulated losses \$'000	Foreign currency translation reserve \$'000	Total equity \$'000
<b>Opening balance as at 1 July 2009</b>		<b>925,116</b>	<b>(395,880)</b>	<b>4,791</b>	<b>534,027</b>
Comprehensive loss for the year		–	(96,698)	7,372	(89,326)
<b>Transactions with owners in their capacity as owners</b>					
Contributions of equity, net of transaction costs		–	–	–	–
Distributions paid or provided for	25	–	–	–	–
<b>Closing balance as at 30 June 2010</b>		<b>925,116</b>	<b>(492,578)</b>	<b>12,163</b>	<b>444,701</b>
<b>Opening balance as at 1 July 2010</b>		<b>925,116</b>	<b>(492,578)</b>	<b>12,163</b>	<b>444,701</b>
Comprehensive income for the year		–	114,745	29,479	144,224
<b>Transactions with owners in their capacity as owners</b>					
Contributions of equity, net of transaction costs		–	–	–	–
Distributions paid or provided for	25	–	(12,360)	–	(12,360)
<b>Closing balance as at 30 June 2011</b>		<b>925,116</b>	<b>(390,193)</b>	<b>41,642</b>	<b>576,565</b>

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

## Consolidated Statement of Cash Flows

For the year ended 30 June 2011

	Note	2011 \$'000	2010 \$'000
<b>Cash flows from operating activities</b>			
Receipts in the course of operations (inclusive of GST)		148,228	180,396
Payments in the course of operations (inclusive of GST)		(50,598)	(53,266)
Interest received		1,687	2,122
Finance costs paid		(41,595)	(52,382)
Dividends received		–	517
Income and withholding taxes paid		(575)	(619)
<b>Net cash inflow from operating activities</b>	<b>33</b>	<b>57,147</b>	<b>76,768</b>
<b>Cash flows from investing activities</b>			
Proceeds from sale of investment properties		106,031	100,685
Payments for capital expenditure on investment properties		(24,972)	(13,715)
Payments for investment properties		–	(28,191)
Payments for investments accounted for using the equity method		(50,322)	(52,584)
<b>Net cash inflow from investing activities</b>		<b>30,737</b>	<b>6,195</b>
<b>Cash flows from financing activities</b>			
Borrowings provided by entities within DXS		209,182	317,612
Borrowings provided to entities within DXS		(273,401)	(390,801)
Proceeds from borrowings		42,613	49,435
Repayment of borrowings		(40,601)	(54,637)
<b>Net cash outflow from financing activities</b>		<b>(62,207)</b>	<b>(78,391)</b>
<b>Net increase in cash and cash equivalents</b>		<b>25,677</b>	<b>4,572</b>
Cash and cash equivalents at the beginning of the year		16,537	13,043
Effects of exchange rate changes on cash and cash equivalents		(2,377)	(1,078)
<b>Cash and cash equivalents at the end of the year</b>	<b>8</b>	<b>39,837</b>	<b>16,537</b>

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

**Note 1. Summary of significant accounting policies****(a) Basis of preparation**

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 each entity within DXS may only unstack the Group if approval is obtained by a special resolution of the stapled security holders.

These general purpose Financial Statements for the year ended 30 June 2011 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(n), 1(o) and 1(u)).

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(n), 1(o) and 1(u), 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.

**Uncertainty around international property valuations**

The fair value of our investment properties in the United States and Europe has been adjusted to reflect market conditions at the end of the reporting period. While this represents the best estimates of fair value as at the end of the reporting period, the current uncertainty in these markets means that if investment property is sold in future, the price achieved may be higher or lower than the most recent valuation, or higher or lower than the fair value recorded in the Financial Statements.

**(b) Principles of consolidation****(i) Controlled entities**

The Financial Statements have been prepared on a consolidated basis. The accounting policies of the subsidiaries are consistent with those of the parent.

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

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

**(ii) Partnerships and joint ventures**

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

**(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 and property, plant and equipment where such expenses are the responsibility of the Trust.

**(ii) Borrowing costs**

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

Qualifying assets are assets which take more than 12 months to get ready for their intended use or sale. In these circumstances, borrowing costs are capitalised to the cost of the asset during the period of time



that is required to complete and prepare the asset for its intended use or sale. Where funds are borrowed generally, borrowing costs are capitalised using a weighted average capitalisation rate.

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

### **(i) Derivatives**

The Trust's activities expose it to a variety of financial risks including foreign exchange risk and interest rate risk. Accordingly, the Trust enters into various derivative financial instruments such as interest rate swaps, cross currency swaps and foreign exchange contracts to manage its exposure to certain risks. Written policies and limits are approved by the Board of Directors of the Responsible Entity, in relation to the use of financial instruments to manage financial risks. The Responsible Entity continually reviews the Trust's exposures and updates its treasury policies and procedures. The Trust does not trade in derivative instruments for speculative purposes. Even though derivative financial instruments are entered into for the purpose of providing the Trust with an economic hedge, the Trust has elected not to apply hedge accounting under AASB 139 *Financial Instruments: Recognition and Measurement* for interest rate swaps and foreign exchange contracts. Accordingly, derivatives including interest rate swaps, interest rate component of cross currency swaps and foreign exchange contracts are measured at fair value with any changes in fair value recognised in the Statement of Comprehensive Income.

### **(ii) Debt and equity instruments issued by the Trust**

Financial instruments issued by the Trust are classified as either liabilities or as equity in accordance with the substance of the contractual arrangements. Accordingly, ordinary units issued by the Trust are classified as equity.

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

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

### **(iii) Financial guarantee contracts**

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

The fair value of financial guarantees is determined as the present value of the difference in the net cash flows between the contractual payments under the debt instrument and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assuming the obligations.

Where guarantees in relation to loans or other payables of subsidiaries or associates are provided for no compensation, the fair values are accounted for as contributions and recognised as part of the cost of the investment.

### **(iv) Other financial assets**

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

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

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

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

## **(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. United States, France, Germany and Canada).

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

In addition, a deferred tax liability or asset and related deferred tax expense/benefit is recognised on differences between the tax cost base of US assets and liabilities in the Trust (held by US REIT and US W REIT) and their accounting carrying values at the end of the reporting period. Any deferred tax liability or asset is calculated using a blend of the current withholding tax rate applicable to income distributions and the applicable US federal and state taxes.

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

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

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

DEXUS Canada Trust, a wholly owned Australian sub-trust of DIT, is liable for Canadian income tax on its Canadian taxable income at the rate of 42.92%.

## **(h) Distributions**

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

## **(i) Repairs and maintenance**

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

**Note 1. Summary of significant accounting policies**

(continued)

**(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.

**(m) Other financial assets at fair value through profit and loss**

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

**(n) Property, plant and equipment**

Property, 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 Trust 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.

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

**(o) Investment properties**

During the year ended 30 June 2010, the Trust adopted the amendments to AASB 140 *Investment Property* as set out in AASB 2008-5 *Amendments to Australian Accounting Standards arising from the Annual Improvements Project* effective for reporting periods beginning on or after 1 January 2009. Under this amendment, property that is under construction or development for future use as investment property falls within the scope of AASB 140. As such, development property of this nature is no longer recognised and measured as property, plant and equipment but is included as investment property measured at fair value. Where fair value of investment property under construction is not reliably measurable, the property is measured at cost until the earlier of the date construction is completed and the date at which fair value becomes reliably measurable. As required by the standard, the amendments to AASB 140 were applied prospectively from 1 July 2009.

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

The basis of valuations of investment properties is fair value being the amounts for which the assets could be exchanged between knowledgeable willing parties in an arm's length transaction, based on current prices in an active market for similar properties in the same location and condition and subject to similar leases. In addition, an appropriate valuation method is used, which may include the discounted cash flow and the capitalisation method. Discount rates and capitalisation rates are determined based on industry expertise and knowledge and, where possible, a direct comparison to third party rates for similar assets in a comparable location. Rental revenue from current leases and assumptions about future leases, as well as any expected operational cash outflows in relation to the property, are also reflected in fair value. In relation to development properties under construction for future use as investment property, where reliably measurable, fair value is determined based on the market value of the property on the assumption it had already been completed at the valuation date less costs still required to complete the project, including an appropriate adjustment for profit and risk.

External valuations of the individual investment properties are carried out in accordance with the Trust's Constitution or may be earlier where the Responsible Entity believes there is a potential for a material change in the fair value of the property.

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

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

#### (p) Leasing fees

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

#### (q) 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.

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

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

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

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

#### (s) Business combinations

The acquisition method of accounting is used to account for all business combinations. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Trust. The consideration transferred also includes the fair value of any contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The Trust recognises any non-controlling interest in the acquiree at its proportionate share of the acquiree's net identifiable assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Trust's share of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in the Statement of Comprehensive Income as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

#### (t) 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.

#### (u) Financial assets and liabilities

##### (i) Classification

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

Financial asset/liability	Classification	Valuation basis	Reference
Cash and cash equivalents	Fair value through profit or loss	Fair value	Refer note 1(j)
Receivables	Loans and receivables	Amortised cost	Refer note 1(k)
Other financial assets	Loans and receivables	Amortised cost	Refer note 1(e)
Other financial assets	Fair value through profit or loss	Fair value	Refer note 1(m)
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)
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.

**Note 1. Summary of significant accounting policies**

(continued)

**(u) Financial assets and liabilities (continued)****(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.

**(v) 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.

**(w) 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 end of the reporting period.

**(x) 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.

**(y) Foreign currency**

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

**(i) Foreign currency transactions**

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

**(ii) Foreign operations**

Foreign operations are located in the United States, France, Germany and Canada. These operations have a functional currency of US dollars, Euros and Canadian dollars respectively, which are translated into the presentation currency.

The assets and liabilities of the foreign operations are translated at exchange rates prevailing at the end of 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 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.

**(z) 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.

**(aa) 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.

**(ab) Parent entity financial information**

On 28 June 2010 the *Corporations Amendment (Corporate Reporting Reform) Act 2010* received Royal Assent. As a result of the amendments, Financial Statements for financial years ending on or after 30 June 2010 no longer need to include separate columns and associated note disclosures for the parent entity. Instead, the Corporations Regulations now prescribe limited disclosures that will need to be made in the Notes to the Financial Statements which include disclosure of key financial information for the parent entity and details of any guarantees, contingent liabilities and commitments.

The financial information for the parent entity of the Trust is disclosed in note 26 and has been prepared on the same basis as the consolidated Financial Statements except as set out below:

**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.



### (ac) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for the 30 June 2011 reporting period. Our assessment of the impact of these new standards and interpretations is set out below:

- (i) AASB 2010-4 *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project* (effective 1 January 2011). In June 2010, the AASB made a number of amendments to Australian Accounting Standards as a result of the IASB's annual improvements project. The Trust intends to apply the standard from 1 July 2011 and does not expect any significant impacts.
- (ii) AASB 2010-6 *Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets* (effective 1 July 2011). Amendments made to AASB 7 *Financial Instruments: Disclosures* in November 2010 introduce additional disclosures in respect of risk exposures arising from transferred financial assets. The amendments will particularly affect entities that sell, factor, securitise, lend or otherwise transfer financial assets to other parties. The Trust intends to apply the standard from 1 July 2011 and does not expect any significant impacts.
- (iii) AASB 9 *Financial Instruments* and AASB 2009-11 *Amendments to Australian Accounting Standards arising from AASB 9* and AASB 2010-7 *Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)* (effective 1 January 2013). AASB 9 *Financial Instruments* addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard simplifies the classifications of financial assets into those to be carried at amortised cost and those to be carried at fair value. The Trust intends to apply the standards from 1 July 2013 and does not expect any significant impacts.
- (iv) AASB 2010-8 *Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets* (effective 1 January 2012). In December 2010, the AASB amended AASB 112 *Income Taxes* to provide an amended approach for measuring deferred tax liabilities and deferred tax assets when investment property is measured using the fair value model. AASB 112 requires the measurement of deferred tax assets or liabilities to reflect the tax consequences that would follow from the way management expects to recover or settle the carrying amount of the relevant assets or liabilities, that is through use or through sale. The Trust intends to apply the standard from 1 July 2012 and does not expect any significant impacts.
- (v) AASB 1054 *Australian Additional Disclosures*, AASB 2011-1 *Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project* and AASB 2011-2 *Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project – Reduced Disclosure Requirements* (effective 1 July 2011). The AASB and NZ FRSB have issued accounting standards that eliminate most of the existing differences between their local standards and IFRS. Where additional disclosures were considered necessary, they were moved to new standard AASB 1054. Adoption of the new rules will not affect any of the amounts recognised in the Financial Statements, but may simplify some of the Trust's current disclosures. The Trust intends to apply the standards from 1 July 2011.

- (vi) AASB 2011-4 *Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements* (effective 1 July 2013). In July 2011, the AASB decided to remove the individual key management personnel disclosure requirements from AASB 124 *Related Party Disclosures*, to achieve consistency with the international equivalent standard and remove a duplication of the requirements with the *Corporations Act 2001*. While this will reduce the disclosures that are currently required in the Notes to the Financial Statements, it will not affect any of the amounts recognised in the Financial Statements. The amendments apply from 1 July 2013 and cannot be adopted early. The *Corporations Act* requirements in relation to remuneration reports will remain unchanged for now, but these requirements are currently subject to review and may also be revised in the near future.

The IASB has issued new and amended standards as discussed below. The AASB is expected to issue equivalent Australian standards shortly.

- (vii) IFRS 10 *Consolidated financial statements* (effective 1 January 2013). IFRS 10 replaces all of the guidance on control and consolidation in IAS 27 *Consolidated and separate financial statements*, and SIC-12 *Consolidation – special purpose entities*. The standard introduces a single definition of control that applies to all entities. It focuses on the need to have both power and rights or exposure to variable returns before control is present. The Trust intends to apply the standard from 1 July 2013 and does not expect any significant impacts.
- (viii) IFRS 12 *Disclosure of interests in other entities* (effective 1 January 2013). IFRS 12 sets out the required disclosures for entities reporting under the two new standards, IFRS 10 and IFRS 11, and replaces the disclosure requirements currently found in IAS 28. Application of this standard will not affect any of the amounts recognised in the Financial Statements, but may impact some of the Trust's current disclosures. The Trust intends to apply the standard from 1 July 2013.
- (ix) IAS 28 *Investments in associates* (effective 1 January 2013). Amendments to IAS 28 provide clarification that an entity continues to apply the equity method and does not remeasure its retained interest as part of ownership changes where a joint venture becomes an associate, and vice versa. The Trust intends to apply the standard from 1 July 2013 and does not expect any significant impacts.
- (x) IFRS 13 *Fair value measurement* (effective 1 January 2013). IFRS 13 explains how to measure fair value and aims to enhance fair value disclosures. Application of this standard will not affect any of the amounts recognised in the Financial Statements, but may impact some of the Trust's current disclosures. The Trust intends to apply the standard from 1 July 2013.
- (xi) Revised IAS 1 *Presentation of Financial Statements* (effective 1 July 2012). In June 2011, the IASB made an amendment to IAS 1 *Presentation of Financial Statements*. The AASB is expected to make equivalent changes to AASB 101 shortly. The amendment requires entities to separate items presented in other comprehensive income into two groups, based on whether they may be recycled to profit or loss in the future. It will not affect the measurement of any of the items recognised in the balance sheet or the profit or loss in the current period. The Trust intends to adopt the new standard from 1 July 2012.

## Notes to the Financial Statements

For the year ended 30 June 2011

CONTINUED

## Note 2. Property revenue

	2011 \$'000	2010 \$'000
Rent and recoverable outgoings	139,618	153,831
Incentive amortisation	(7,395)	(4,999)
Other revenue	11,593	5,275
<b>Total property revenue</b>	<b>143,816</b>	<b>154,107</b>

## Note 3. Interest revenue

	2011 \$'000	2010 \$'000
Interest revenue from financial institutions	132	331
Interest revenue from related parties	1,629	1,826
<b>Total interest revenue</b>	<b>1,761</b>	<b>2,157</b>

## Note 4. Finance costs

	2011 \$'000	2010 \$'000
Interest paid/payable	1,094	1,905
Interest paid to related parties	74,366	77,865
Amount capitalised	(1,005)	(6,073)
Other finance costs	124	365
Net fair value (gain)/loss of interest rate swaps	(14,253)	55,852
<b>Total finance costs</b>	<b>60,326</b>	<b>129,914</b>

The average capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation is 7.77% (2010: 7.15%).

## Note 5. Income tax

## (a) Income tax expense

	2011 \$'000	2010 \$'000
Current tax expense	1	37
Deferred tax expense	–	4
Income tax expense	1	41
<b>Deferred income tax expense included in income tax expense comprises:</b>		
Increase in deferred tax assets	–	4
	–	<b>4</b>

(b) Reconciliation of income tax expense to net profit

	2011 \$'000	2010 \$'000
Profit/(loss) before tax	117,530	(94,853)
Less amounts not subject to income tax (note 1(g))	(120,320)	96,326
	<b>(2,790)</b>	<b>1,473</b>
Prima facie tax expense at the Australian tax rate of 30% (2010: 30%)	(837)	442
<b>Tax effect of amounts which are not (deductible)/taxable in calculating taxable income:</b>		
Depreciation and amortisation	(1,400)	(1,443)
Revaluation of investment properties	2,199	948
Net loss on sale of investment properties	39	94
	838	(401)
<b>Income tax expense</b>	<b>1</b>	<b>41</b>

**Note 6. Other expenses**

	Note	2011 \$'000	2010 \$'000
Audit and taxation fees	7	417	497
Custodian fees		86	77
Legal and other professional fees		275	865
Registry costs and listing fees		129	232
External management fees		825	1,083
Other expenses		439	1,029
<b>Total other expenses</b>		<b>2,171</b>	<b>3,783</b>

**Note 7. Audit and taxation fees**

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

	2011 \$	2010 \$
<b>Audit fees</b>		
PwC Australia – audit and review of Financial Statements	212,709	283,020
PwC US – audit and review of Financial Statements	28,595	15,425
PwC fees paid in relation to outgoings audit <sup>1</sup>	24,562	5,483
PwC Australia – regulatory audit and compliance services	7,520	7,520
Audit fees paid to PwC	273,386	311,448
Fees paid to non-PwC audit firms	57,874	92,786
<b>Total audit fees</b>	<b>331,260</b>	<b>404,234</b>
<b>Taxation fees</b>		
Fees paid to PwC Australia	8,377	51,900
Fees paid to PwC US	–	45,961
Taxation fees paid to PwC	8,377	97,861
Fees paid to non-PwC audit firms	101,442	–
<b>Total taxation fees<sup>2</sup></b>	<b>109,819</b>	<b>97,861</b>
<b>Total audit and taxation fees<sup>1</sup></b>	<b>441,079</b>	<b>502,095</b>

<sup>1</sup> Fees paid in relation to outgoing audits are included in property expenses. Therefore total audit and taxation fees included in other expenses are \$416,517 (2010: \$496,612).

<sup>2</sup> These services include general compliance work, one off project work and advice with respect to the management of day-to-day tax affairs of the Trust.

## Notes to the Financial Statements

For the year ended 30 June 2011

CONTINUED

## Note 8. Current assets – cash and cash equivalents

	2011 \$'000	2010 \$'000
Cash at bank	6,436	16,537
Short term deposits <sup>1</sup>	33,401	–
<b>Total current assets – cash and cash equivalents</b>	<b>39,837</b>	<b>16,537</b>

1 As at 30 June 2011, the Trust held cash of C\$34.7 million (A\$33.4 million) in escrow in relation to the sale of its Toronto warehouse facility in June 2011. The funds in escrow relate to an amount withheld by the purchaser under the Canadian tax law as part of the finalisation of the capital gains tax on disposal. The majority of the remaining funds will be used to repay debt once released by the Canadian tax authority.

## Note 9. Current assets – receivables

	2011 \$'000	2010 \$'000
Rent receivable	3,903	4,049
Less: provision for doubtful debts	(1,595)	(2,452)
<b>Total rental receivables</b>	<b>2,308</b>	<b>1,597</b>
GST receivable	279	–
Interest receivable from related parties	4	128
Other receivables	3,071	2,879
<b>Total other receivables</b>	<b>3,354</b>	<b>3,007</b>
<b>Total current assets – receivables</b>	<b>5,662</b>	<b>4,604</b>

## Note 10. Non-current assets classified as held for sale

## (a) Non-current assets held for sale

	2011 \$'000	2010 \$'000
Investment properties held for sale	60,688	–
<b>Total non-current assets classified as held for sale</b>	<b>60,688</b>	<b>–</b>

## (b) Reconciliation

	2011 \$'000	2010 \$'000
Opening balance at the beginning of the year	–	22,254
Disposals	–	(22,202)
Transfer from investment properties	60,688	–
Additions, amortisation and other	–	(52)
<b>Closing balance at the end of the year</b>	<b>60,688</b>	<b>–</b>



## Note 11. Loans with related parties

	2011 \$'000	2010 \$'000
<b>Current assets – loans with related parties</b>		
Non-interest bearing loans with entities within DXS <sup>1</sup>	138,948	138,948
Interest bearing loans with entities within DXS	120,589	–
<b>Total current assets – loans with related parties</b>	<b>259,537</b>	<b>138,948</b>
<b>Non-current assets – loans with related parties</b>		
Interest bearing loans with entities within DXS	–	151,942
<b>Total non-current assets – loans with related parties</b>	<b>–</b>	<b>151,942</b>
<b>Non-current liabilities – loans with related parties</b>		
Interest bearing loans with related parties <sup>2</sup>	1,059,393	1,152,388
Interest bearing loans with entities within DXS	52,110	105,528
<b>Total non-current liabilities – loans with related parties</b>	<b>1,111,503</b>	<b>1,257,916</b>

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

	2011 \$'000	2010 \$'000
<b>Current assets</b>		
Interest rate swap contracts	1,662	1,186
Cross currency swap contracts	17,583	7,812
Forward foreign exchange contracts	1,609	659
<b>Total current assets – derivative financial instruments</b>	<b>20,854</b>	<b>9,657</b>
<b>Non-current assets</b>		
Interest rate swap contracts	11,856	24,804
Cross currency swap contracts	3,198	13,440
Forward foreign exchange contracts	1,229	1,017
<b>Total non-current assets – derivative financial instruments</b>	<b>16,283</b>	<b>39,261</b>
<b>Current liabilities</b>		
Interest rate swap contracts	1,714	798
Cross currency swap contracts	–	6,248
Forward foreign exchange contracts	325	93
<b>Total current liabilities – derivative financial instruments</b>	<b>2,039</b>	<b>7,139</b>
<b>Non-current liabilities</b>		
Interest rate swap contracts	76,004	153,117
Cross currency swap contracts	408	1,585
Forward foreign exchange contracts	–	131
<b>Total non-current liabilities – derivative financial instruments</b>	<b>76,412</b>	<b>154,833</b>
<b>Net derivative financial instruments</b>	<b>(41,314)</b>	<b>(113,054)</b>

Refer note 27 for further discussion regarding derivative financial instruments.

## Notes to the Financial Statements

For the year ended 30 June 2011

CONTINUED

## Note 13. Current assets – other

	2011 \$'000	2010 \$'000
Prepayments	2,592	2,737
<b>Total current assets – other</b>	<b>2,592</b>	<b>2,737</b>

## Note 14. Non-current assets – investment properties

	Note	2011 \$'000	2010 \$'000
Opening balance at the beginning of the year		1,462,007	1,425,178
Additions		16,500	17,169
Acquisitions		–	80,262
Transfer from property, plant and equipment	15	–	94,007
Lease incentives		18,398	4,254
Amortisation of lease incentives		(7,395)	(4,793)
Net fair value gain/(loss) of investment properties		39,696	(24,581)
Rent straightlining		805	1,072
Disposals		(97,563)	(80,019)
Transfer to non-current assets classified as held for sale	10	(60,688)	–
Foreign exchange differences on foreign currency translation		(64,276)	(50,542)
<b>Closing balance at the end of the year</b>		<b>1,307,484</b>	<b>1,462,007</b>

## Key valuation assumptions

Details of key valuation assumptions in relation to investment properties are outlined in note 12 of the DXS Financial Statements.

## Disposals

- On 21 December 2010, 21 rue du Chemin Blanc, Champlan was disposed of for €5.7 million (A\$7.6 million).
- On 4 May 2011, 19 Chifley Street, Smithfield, was sold for \$15.4 million.
- On 24 June 2011, 8574 Boston Church Road, Milton, Ontario, Canada was disposed of for C\$78.7 million (A\$76.3 million).
- On 28 June 2011, 5A 64 Pound Road West, Dandenong South, VIC, was sold for \$7.8 million.

## Note 15. Non-current assets – property, plant and equipment

	Construction in progress \$'000	Land and freehold buildings \$'000	Total \$'000
Opening balance as at 1 July 2010	–	–	–
Transfer to investment properties	–	–	–
<b>Closing balance as at 30 June 2011</b>	<b>–</b>	<b>–</b>	<b>–</b>

	Construction in progress \$'000	Land and freehold buildings \$'000	Total \$'000
Opening balance as at 1 July 2009	44,282	49,725	94,007
Transfer to investment properties	(44,282)	(49,725)	(94,007)
<b>Closing balance as at 30 June 2010</b>	<b>–</b>	<b>–</b>	<b>–</b>

## Note 16. Non-current assets – investments accounted for using the equity method

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

Information relating to these entities is set out below.

Name of entity	Principal activity	Ownership Interest			
		2011 %	2010 %	2011 \$'000	2010 \$'000
DEXUS Industrial Properties, Inc. <sup>1</sup>	Asset, property and funds management	50.0	50.0	162,513	122,627
<b>Total</b>				<b>162,513</b>	<b>122,627</b>

1 The remaining 50% of this entity is owned by DDF. As a result, this entity is classed as controlled on a DDF consolidated basis.

DEXUS Industrial Properties, Inc. was formed in the United States.

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

	2011 \$'000	2010 \$'000
Opening balance at the beginning of the year	122,627	138,276
Interest acquired during the year	50,322	54,937
Share of net profit/(loss) after tax	20,326	(59,285)
Dividends received	–	(517)
Foreign exchange difference on foreign currency translation	(30,762)	(10,784)
<b>Closing balance at the end of the year</b>	<b>162,513</b>	<b>122,627</b>
<b>Results attributable to investments accounted for using the equity method</b>		
Operating profit/(loss) before income tax	20,326	(58,447)
Withholding tax expense	–	(838)
<b>Operating profit/(loss) after income tax</b>	<b>20,326</b>	<b>(59,285)</b>
Less: Dividends received	–	(517)
	20,326	(59,802)
Accumulated losses at the beginning of the year	(247,252)	(187,450)
<b>Accumulated losses at the end of the year</b>	<b>(226,926)</b>	<b>(247,252)</b>

### 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:

	2011 \$'000	2010 \$'000
Profit/(loss) from ordinary activities after income tax expense	20,326	(59,285)
Assets	534,040	696,814
Liabilities	371,527	574,187
<b>Share of expenditure commitments</b>		
Capital commitments	1,607	5,168

## Notes to the Financial Statements

For the year ended 30 June 2011

CONTINUED

## Note 17. Non-current assets – deferred tax assets

	2011 \$'000	2010 \$'000
<b>The balance comprises temporary differences attributable to:</b>		
Investment properties	6,061	10,080
<b>Total non-current assets – deferred tax assets</b>	<b>6,061</b>	<b>10,080</b>
<b>Movements</b>		
Opening balance at the beginning of the year	10,080	11,177
Charged to the Statement of Comprehensive Income	(4,019)	(1,097)
<b>Closing balance at the end of the year</b>	<b>6,061</b>	<b>10,080</b>

## Note 18. Non-current assets – other

	2011 \$'000	2010 \$'000
Tenant and other bonds	197	305
<b>Total non-current assets – other</b>	<b>197</b>	<b>305</b>

## Note 19. Current liabilities – payables

	2011 \$'000	2010 \$'000
Trade creditors	9,877	9,393
Accruals	1,485	2,049
Accrued capital expenditure	1,496	1,622
Prepaid income	2,465	2,053
Responsible Entity fee payable	337	724
GST payable	–	7,575
Accrued interest	6,151	2,193
Other payable to related party	26,727	18,936
<b>Total current liabilities – payables</b>	<b>48,538</b>	<b>44,545</b>

## Note 20. Interest bearing liabilities

	Note	2011 \$'000	2010 \$'000
<b>Current</b>			
<b>Secured</b>			
Bank loans	(a)	–	48,046
<b>Total secured</b>		<b>–</b>	<b>48,046</b>
Deferred borrowing costs		–	(250)
<b>Total current liabilities – interest bearing liabilities</b>		<b>–</b>	<b>47,796</b>
<b>Non-current</b>			
Bank loans	(a)	48,329	–
<b>Total unsecured</b>		<b>48,329</b>	<b>–</b>
Deferred borrowing costs		(571)	–
<b>Total non-current liabilities – interest bearing liabilities</b>		<b>47,758</b>	<b>–</b>
<b>Total interest bearing liabilities</b>		<b>47,758</b>	<b>47,796</b>



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

The current debt facilities will be refinanced as at/or prior to their maturity.

#### (a) Bank loans – secured

This includes a new US\$51.9 million (A\$48.3 million) secured bank facility maturing in December 2017. The facility is secured by a mortgage over one investment property with a value of US\$113.3 million (A\$121.7 million) as at 30 June 2011. During the period, a total of US\$41.0 million (A\$38.1 million) was repaid.

### Note 21. Current liabilities – provisions

	2011 \$'000	2010 \$'000
Provision for distribution	12,360	–
<b>Total current liabilities – provisions</b>	<b>12,360</b>	<b>–</b>

Movements in provision for distribution is set out below:

	2011 \$'000	2010 \$'000
Opening balance at the beginning of the year	–	–
Additional provisions	12,360	–
<b>Closing balance at the end of the year</b>	<b>12,360</b>	<b>–</b>

A provision for distribution has been raised for the period ended 30 June 2011. This distribution is to be paid on 31 August 2011.

### Note 22. Non-current liabilities – other

	2011 \$'000	2010 \$'000
Tenant bonds	810	875
<b>Total non-current liabilities – other</b>	<b>810</b>	<b>875</b>

### Note 23. Contributed equity

#### (a) Contributed equity

	2011 \$'000	2010 \$'000
Opening balance at the beginning of the year	925,116	925,116
<b>Closing balance at the end of the year</b>	<b>925,116</b>	<b>925,116</b>

#### (b) Number of units on issue

	2011 No. of units	2010 No. of units
Opening balance at the beginning of the year	4,820,821,799	4,700,841,666
Distributions reinvested	18,202,377	119,980,133
<b>Closing balance at the end of the year</b>	<b>4,839,024,176</b>	<b>4,820,821,799</b>

#### 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*.

## Notes to the Financial Statements

For the year ended 30 June 2011

CONTINUED

**Note 23. Contributed equity** (continued)**(c) Distribution reinvestment plan**

Under the distribution reinvestment plan (DRP), stapled security holders may elect to have all or part of their distribution entitlements satisfied by the issue of new stapled securities, rather than being paid in cash.

On 27 August 2010, 18,202,377 units were issued at a unit price of nil in relation to the June 2010 distribution period.

On 13 December 2010, DXS announced the suspension of the DRP until further notice.

**Approval of issues of Stapled Securities to an underwriter in connection with issues under a distribution reinvestment plan**

At the Extraordinary General Meeting held on 6 February 2009 by DXFM, as Responsible Entity for DDF, DIT, DOT and DXO, stapled security holders resolved to authorise DXFM, as Responsible Entity, to issue stapled securities, each comprising a unit in each of the above mentioned trusts (Stapled Securities), to an underwriter or persons procured by an underwriter within a period of 24 months from the date of the meeting in connection with any issue of Stapled Securities under the DXS distribution reinvestment plan.

Such an issue will not be counted for the purposes of the calculation of the 15% limit under ASX Listing Rule 7.1.

**Note 24. Reserves and accumulated losses****(a) Reserves**

	2011 \$'000	2010 \$'000
Foreign currency translation reserve	41,642	12,163
<b>Total reserves</b>	<b>41,642</b>	<b>12,163</b>
<b>Movements:</b>		
<b>Foreign currency translation reserve</b>		
Opening balance at the beginning of the year	12,163	4,791
Exchange difference arising from the translation of the financial statements of foreign operations	29,479	7,372
<b>Total movement in foreign currency translation reserve</b>	<b>29,479</b>	<b>7,372</b>
<b>Closing balance at the end of the year</b>	<b>41,642</b>	<b>12,163</b>

**(b) Nature and purpose of reserves****Foreign currency translation reserve**

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

**(c) Accumulated losses**

	2011 \$'000	2010 \$'000
Opening balance at the beginning of the year	(492,578)	(395,880)
Net profit/(loss) attributable to unitholders	114,745	(96,698)
Distributions provided for or paid	(12,360)	–
<b>Closing balance at the end of the year</b>	<b>(390,193)</b>	<b>(492,578)</b>

**Note 25. Distributions paid and payable****(a) Distribution to unitholders**

	2011 \$'000	2010 \$'000
30 June (payable 31 August 2011)	12,360	–
<b>Total distributions</b>	<b>12,360</b>	<b>–</b>

## (b) Distribution rate

	2011 Cents per unit	2010 Cents per unit
30 June (payable 31 August 2011)	0.26	–
<b>Total distributions</b>	<b>0.26</b>	<b>–</b>

## Note 26. Parent entity financial information

### (a) Summary financial information

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

	2011 \$'000	2010 \$'000
Total current assets	322,088	152,881
Total assets	1,794,510	1,818,624
Total current liabilities	55,060	57,349
Total liabilities	1,152,063	1,311,665
<b>Equity</b>		
Contributed equity	925,116	925,116
Accumulated losses	(282,669)	(418,157)
<b>Total equity</b>	<b>642,447</b>	<b>506,959</b>
Net profit/(loss) for the year	147,848	(103,988)
<b>Total comprehensive income/(loss) for the year</b>	<b>147,848</b>	<b>(103,988)</b>

### (b) Investments in controlled entities

The parent entity has the following investments:

		Ownership Interest			
Name of entity	Principal activity	2011 %	2010 %	2011 \$'000	2010 \$'000
Foundation Macquarie Park Trust	Industrial property investment	100.0	100.0	96,159	96,631
DEXUS PID Trust	Industrial property investment	100.0	100.0	167,184	169,325
DIT Luxemburg 1 SARL	Investment trust	100.0	100.0	–	–
DEXUS GLOG Trust	Industrial property investment	100.0	100.0	–	–
DEXUS US Whirlpool Trust	Industrial property investment	100.0	100.0	104,491	63,693
DEXUS Canada Trust	Industrial property investment	100.0	100.0	19,481	3,596
<b>Total investments in controlled entities</b>				<b>387,315</b>	<b>333,245</b>

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

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

### (d) Contingent liabilities

The parent entity had no contingent liabilities as at 30 June 2011 (2010: nil).

### (e) Contractual 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.

	2011 \$'000	2010 \$'000
Not longer than one year	4,745	265
	<b>4,745</b>	<b>265</b>

## Note 27. 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](http://www.dexus.com)

### (1) Capital risk management

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

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

- the cost of capital and the financial risks associated with each class of capital;
- gearing levels and other covenants;
- potential impacts on net tangible assets and unitholders' equity;
- potential impacts on DXS's credit rating; and
- other market factors and circumstances.

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

The gearing ratio at 30 June 2011 was 62.0% (as detailed below).

Gearing ratio	2011 \$'000	2010 \$'000
Total interest bearing liabilities <sup>1</sup>	1,139,460	1,292,543
Total tangible assets <sup>2</sup>	1,838,743	1,899,781
<b>Gearing ratio<sup>3</sup></b>	<b>62.0%</b>	<b>68.0%</b>

1 Total interest bearing liabilities excludes deferred borrowing costs and includes the fair value of cross currency swaps as reported internally to management. The interest bearing liabilities disclosed in the Financial Statements for the reporting period ended 30 June 2010 did not include the fair value of cross currency swaps and the resultant gearing ratio was 68.7%.

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

3 Gearing is managed centrally for DXS. The gearing ratio as disclosed in the DEXUS Property Group Financial Statements 2011 is 29.1% (refer note 30 of the DXS Financial Statements).

The Trust is not rated by ratings agencies, however, DXS is rated BBB+ by Standard and Poor's and Baa1 by Moody's. The Trust considers potential impacts upon the rating when assessing the strategy and activities of the Trust and regards those impacts as an important consideration in its management of the Trust's capital structure.

The Responsible Entity for the Trust (DXFM) has been issued with an Australian Financial Services Licence (AFSL). The licence is subject to certain capital requirements including the requirement to hold minimum net tangible assets (of \$5 million), and to maintain a minimum level of surplus liquid funds. Furthermore, the Responsible Entity maintains trigger points in accordance with the requirements of the licence. These trigger points maintain a headroom value above the AFSL requirements and the entity has in place a number of processes and procedures should a trigger point be reached.

### (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.

#### 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.

	2011				2010			
	Expiring within one year	Expiring between one and two years	Expiring between two and five years	Expiring after five years	Expiring within one year	Expiring between one and two years	Expiring between two and five years	Expiring after five years
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Receivables	5,662	–	–	–	4,604	–	–	–
Payables	48,538	–	–	–	44,545	–	–	–
	(42,876)	–	–	–	(39,941)	–	–	–
<b>Loans with related parties and interest<sup>1</sup></b>	<b>68,502</b>	<b>68,502</b>	<b>205,506</b>	<b>1,271,799</b>	<b>77,757</b>	<b>77,757</b>	<b>233,270</b>	<b>1,488,981</b>
<b>Interest bearing liabilities and interest</b>								
Floating interest bearing liabilities and interest	902	904	2,713	49,672	49,096	–	–	–
<b>Total interest bearing liabilities and interest<sup>2</sup></b>	<b>902</b>	<b>904</b>	<b>2,713</b>	<b>49,672</b>	<b>49,096</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>Derivative financial instruments</b>								
Derivative assets	36,885	13,317	17,766	5,793	31,958	25,848	1,794	195
Derivative liabilities	26,235	20,446	51,353	41,624	49,841	33,483	34,806	12,053
<b>Total net derivative financial instruments<sup>3</sup></b>	<b>10,650</b>	<b>(7,129)</b>	<b>(33,587)</b>	<b>(35,831)</b>	<b>(17,883)</b>	<b>(7,635)</b>	<b>(33,012)</b>	<b>(11,858)</b>

1 Includes estimated interest.

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

3 The notional maturities on derivatives is only shown for cross currency interest rate swaps (refer foreign exchange rate risk) and forward foreign exchange contracts as they are the only instruments where a principal amount is exchanged. For interest rate swaps, only the net interest cash flows (not the notional principal) are included. For derivative assets and liabilities that have floating rate interest cash flow, future cash flows have been calculated using static interest rates prevailing at the end of each reporting period. Refer to note 12 (derivative financial instruments) for fair value of derivatives. Refer note 28 (contingent liabilities) for financial guarantees.

**Note 27. Financial risk management** (continued)**(2) Financial risk management** (continued)**(b) Market risk**

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

**(i) Interest rate risk**

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

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

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

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

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

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

	June 2012 \$'000	June 2013 \$'000	June 2014 \$'000	June 2015 \$'000	June 2016 \$'000	> June 2017 \$'000
<b>Interest rate swaps</b>						
A\$ hedged <sup>1</sup>	332,000	271,667	75,000	75,000	91,667	74,667
A\$ hedge rate (%) <sup>2</sup>	5.92%	6.30%	6.87%	6.87%	6.42%	6.09%
US\$ hedged <sup>1</sup>	255,000	195,000	230,750	227,250	190,833	118,433
US\$ hedge rate (%) <sup>2</sup>	3.88%	3.83%	3.92%	3.87%	3.81%	4.88%
€ hedged <sup>1</sup>	127,500	105,000	70,000	68,333	50,000	4,000
€ hedge rate (%) <sup>2</sup>	4.43%	4.55%	4.86%	4.21%	4.06%	4.10%
<b>Total interest rate swaps (A\$ equivalent)</b>	<b>753,146</b>	<b>617,842</b>	<b>419,496</b>	<b>416,147</b>	<b>367,208</b>	<b>205,628</b>
<b>Hedge rate (%)</b>	<b>4.91%</b>	<b>5.08%</b>	<b>4.68%</b>	<b>4.49%</b>	<b>4.49%</b>	<b>5.30%</b>

<sup>1</sup> Average amounts for the period. Hedged amounts above do not include potential hedges that are cancellable at the counterparty's option.

<sup>2</sup> 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.

		2011 (+/-) \$'000	2010 (+/-) \$'000
+/- 0.50% (50 basis points)	A\$	916	515
+/- 0.50% (50 basis points)	US\$	891	(58)
+/- 0.50% (50 basis points)	€	(25)	13
+/- 0.50% (50 basis points)	C\$	150	–
<b>Total A\$ equivalent</b>		<b>1,856</b>	<b>466</b>

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

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

The table below shows the impact on the Statement of Comprehensive Income for changes in the fair value of interest rate swaps for a 50 basis points increase and decrease in short term and long term market interest rates. The sensitivity on the fair value arises from the impact that changes in market rates will have on the mark-to-market valuation of the interest rate swaps. The fair value of interest rate swaps is calculated as the present value of estimated future cash flows on the instruments. Cash flows are discounted using the forward price curve of interest rates at the end of the reporting period. Although interest rate swaps are transacted for the purpose of providing the 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.

		2011 (+/-) \$'000	2010 (+/-) \$'000
+/- 0.50% (50 basis points)	A\$	6,306	6,753
+/- 0.50% (50 basis points)	US\$	1,941	11,579
+/- 0.50% (50 basis points)	€	2,714	2,777
+/- 0.50% (50 basis points)	C\$	–	1,784
<b>Total A\$ equivalent</b>		<b>11,778</b>	<b>26,305</b>

### (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 North America, France and Germany. As a result of these activities, the Trust has foreign exchange risk, arising primarily from:

- translation of investments in foreign operations;
- borrowings and cross currency swaps denominated in foreign currencies; and
- earnings distributions and other transactions denominated in foreign currencies.

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

**Note 27. 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 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.

The Trust's net foreign currency exposures for net investments in foreign operations and hedging instruments are as follows:

	2011 \$'000	2010 \$'000
US\$ assets <sup>1</sup>	386,982	334,893
US\$ net borrowings <sup>2</sup>	(484,733)	(405,487)
US\$ cross currency swaps <sup>3</sup>	—	—
<b>US\$ denominated net investment</b>	<b>(97,751)</b>	<b>(70,594)</b>
<b>% hedged</b>	<b>125%</b>	<b>121%</b>
€ assets <sup>1</sup>	129,846	137,350
€ net borrowings <sup>2</sup>	(49,803)	(54,942)
€ cross currency swaps <sup>3</sup>	(80,000)	(80,000)
<b>€ denominated net investment</b>	<b>43</b>	<b>2,408</b>
<b>% hedged</b>	<b>100%</b>	<b>98%</b>
C\$ assets <sup>4</sup>	35,573	55,650
C\$ cross currency swaps <sup>3</sup>	(30,000)	(50,000)
<b>C\$ denominated net investment</b>	<b>5,573</b>	<b>5,650</b>
<b>% hedged</b>	<b>84%</b>	<b>90%</b>
<b>Total net foreign investment (A\$ equivalent)</b>	<b>(85,602)</b>	<b>(73,082)</b>
<b>Total % hedged<sup>5</sup></b>	<b>115%</b>	<b>111%</b>

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

2 Net borrowings equals interest bearing liabilities less cash.

3 Cross currency swap amounts comprise the foreign currency denominated leg of the cross currency interest swaps.

4 C\$ assets include cash of C\$34.7 million (A\$33.4 million) held in escrow in relation to the sale of its Toronto warehouse facility in June 2011.

5 Hedging for investments in foreign operations is managed centrally for DXS. The total % hedge as disclosed in the DXS Financial Statements 2011 is 92% (refer note 30 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<sup>1</sup>. The cents per currency has been applied to the spot rates prevailing at the end of each period<sup>2</sup>. 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.

		2011 \$'000	2010 \$'000
+ 14.2 cents (13.2%)	US\$ (A\$ Equivalent)	(18,629)	(9,706)
– 14.2 cents (13.2%)	US\$ (A\$ Equivalent)	24,308	12,678
+ 9.6 cents (13.0%)	€ (A\$ Equivalent)	(158)	388
– 9.6 cents (13.0%)	€ (A\$ Equivalent)	205	(500)
+ 8.7 cents (8.3%)	C\$ (A\$ Equivalent)	413	486
– 8.7 cents (8.3%)	C\$ (A\$ Equivalent)	(488)	(575)

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 2011: A\$/US\$ 1.0739 (2010: 0.8523), A\$/€ 0.7405 (2010: 0.6979), A\$/C\$ 1.0389 (2010: 0.8976).

#### *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. 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<sup>1</sup>. The Trust has elected not to apply hedge accounting to its cross currency swaps. Accordingly, gains or losses arising from changes in the fair value are reflected in the Statement of Comprehensive Income.

		2011 (+/-) \$'000	2010 (+/-) \$'000
+ 0.50% (50 basis point)	US\$ (A\$ Equivalent)	2	4
+ 0.50% (50 basis point)	€ (A\$ Equivalent)	10	16
+ 0.50% (50 basis point)	C\$ (A\$ Equivalent)	3	3
<b>Total A\$ equivalent</b>		<b>15</b>	<b>23</b>

1 Note the above sensitivity is reflective of how changes in interest rates will affect the valuation of the cross currency swaps. The effect of movements in foreign exchange rates on the valuation of cross currency swaps is reflected in the foreign currency translation reserve sensitivity.

#### *Net foreign currency denominated cash flows*

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

Forward foreign exchange contracts outstanding at 30 June 2011 are as follows:

	2011			2010		
	To pay US\$'000	To receive A\$'000	Weighted average exchange rate	To pay US\$'000	To receive A\$'000	Weighted average exchange rate
1 year or less	2,900	4,125	0.7031	–	587	–
Over 1 and less than 2 years	1,900	2,856	0.6653	2,900	4,125	0.7031
More than 2 years	1,000	1,468	0.6813	2,900	4,324	0.6707

**Note 27. Financial risk management** (continued)**(2) Financial risk management** (continued)**(b) Market risk** (continued)**(ii) Foreign exchange risk** (continued)*Sensitivity on fair value of foreign exchange contracts*

The table below shows the impact on the Statement of Comprehensive Income for changes in the fair value of forward foreign exchange contracts for an increase and decrease in market rates. The increase and decrease in cents per currency has been based on the historical movements of the Australian dollar relative to each currency<sup>1</sup>. The cents per currency has been applied to the spot rates prevailing at the end of each reporting period<sup>2</sup>. The sensitivity on the fair value arises from the impact that changes in market rates will have on the mark-to-market valuation of the forward foreign exchange contracts.

Although forward foreign exchange contracts are transacted for the purpose of providing the Trust with an economic hedge, the Trust has elected not to apply hedge accounting to its forward foreign exchange contracts. Accordingly, gains or losses arising from changes in the fair value are reflected in the Statement of Comprehensive Income.

		2011 \$'000	2010 \$'000
+ 14.2 cents (13.2%)	US\$ (A\$ Equivalent)	815	1,011
– 14.2 cents (13.2%)	US\$ (A\$ Equivalent)	(624)	(774)
<b>Total A\$ equivalent</b>		<b>191</b>	<b>237</b>

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 2011: A\$/US\$ 1.0739 (2010: 0.8523), A\$/€ 0.7405 (2010: 0.6979), A\$/C\$ 1.0389 (2010: 0.8976).

**(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 2011, the lowest rating of counterparties the Trust is exposed to was A+ (S&P) (2010: A (S&P)).

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

The maximum exposure to credit risk at 30 June 2011 and 30 June 2010 is the carrying amount of financial assets recognised on the Statement of Financial Position.

As at 30 June 2011 and 30 June 2010, 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 2011 is (\$'000): 4,883 (0-30 days), 168 (31-60 days), 56 (61-90 days), 555 (91+ days). The ageing analysis of loans and receivables net of provisions at 30 June 2010 is (\$'000): 3,834 (0-30 days), 165 (31-60 days), 266 (61-90 days), 339 (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 2011 and 30 June 2010, the carrying amounts and fair value of financial assets and liabilities are shown as follows:

	2011		2010	
	Carrying amount <sup>1</sup> \$'000	Fair value <sup>2</sup> \$'000	Carrying amount <sup>1</sup> \$'000	Fair value <sup>2</sup> \$'000
<b>Financial assets</b>				
Cash and cash equivalents	39,837	39,837	16,537	16,537
Loans and receivables (current)	5,662	5,662	4,604	4,604
Derivative assets	37,137	37,137	48,918	48,918
Loans with related parties	259,537	259,537	290,890	290,890
<b>Total financial assets</b>	<b>342,173</b>	<b>342,173</b>	<b>360,949</b>	<b>360,949</b>
<b>Financial liabilities</b>				
Trade payables	48,538	48,538	44,545	44,545
Derivative liabilities	78,451	78,451	161,972	161,972
Interest bearing liabilities	48,329	48,329	47,796	47,796
Loans with related parties	1,111,503	1,111,503	1,257,916	1,257,916
<b>Total financial liabilities</b>	<b>1,286,821</b>	<b>1,286,821</b>	<b>1,512,229</b>	<b>1,512,229</b>

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

2 Fair value is the amount for which the financial instrument could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction, however, not recognised in the Statement of Financial Position.

The fair value of interest bearing liabilities and derivative financial instruments has been determined by discounting the expected future cash flows by the relevant market interest rates. The discount rates applied range from 0.25% to 5.02% for US\$ and 4.81% to 6.42% for A\$. Refer note 1(u) for fair value methodology for financial assets and liabilities.

#### Determination of fair value

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

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

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

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

## Notes to the Financial Statements

For the year ended 30 June 2011

CONTINUED

## Note 27. Financial risk management (continued)

## (2) Financial risk management (continued)

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

The following table presents the assets and liabilities measured and recognised as at fair value at 30 June 2011 and 30 June 2010.

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	2011 \$'000
<b>Financial assets</b>				
Derivative assets				
Interest rate derivatives	–	13,518	–	13,518
Cross currency swaps	–	20,781	–	20,781
Forward exchange contracts	–	2,838	–	2,838
	–	<b>37,137</b>	–	<b>37,137</b>
<b>Financial liabilities</b>				
Interest bearing liabilities				
Floating interest bearing liabilities	–	48,329	–	48,329
	–	<b>48,329</b>	–	<b>48,329</b>
<b>Derivative liabilities</b>				
Interest rate derivatives	–	77,718	–	77,718
Cross currency swaps	–	408	–	408
Forward exchange contracts	–	325	–	325
	–	<b>78,451</b>	–	<b>78,451</b>
	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	2010 \$'000
<b>Financial assets</b>				
Derivative assets				
Interest rate derivatives	–	25,990	–	25,990
Cross currency swaps	–	21,252	–	21,252
Forward exchange contracts	–	1,676	–	1,676
	–	<b>48,918</b>	–	<b>48,918</b>
<b>Financial liabilities</b>				
Interest bearing liabilities				
Floating interest bearing liabilities	–	48,046	–	48,046
	–	<b>48,046</b>	–	<b>48,046</b>
<b>Derivative liabilities</b>				
Interest rate derivatives	–	153,915	–	153,915
Cross currency swaps	–	7,833	–	7,833
Forward exchange contracts	–	224	–	224
	–	<b>161,972</b>	–	<b>161,972</b>

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



## Note 28. Contingent liabilities

The Trust together with DDF, DXO and DOT is also a guarantor of a total of A\$1,147.5 million and US\$120.0 million (A\$111.7 million) of bank bilateral facilities, a total of A\$340.0 million of medium term notes, a total of US\$296.0 million (A\$275.6 million) of privately placed notes, and a total of US\$550.0 million (A\$512.2 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 borrower under the above facilities does not comply with certain loan conditions, such as, failure to meet interest payments or failure to repay a borrowing, whichever is earlier. During the period none of the guarantees were called.

The Trust together with DDF, DOT and DXO is also a guarantor, on a subordinated basis, of RENTS (Real-estate perpetual ExchaNgeable sTep-up Securities). The guarantee has been given in support of payments that become due and payable to the RENTS holders and ranks ahead of the Trust's distribution payments, but subordinated to the claims of the senior creditors.

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 29. 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:

	2011 \$'000	2010 \$'000
<b>Not longer than one year</b>		
3 Brookhollow Avenue, Baulkham Hills, NSW	461	93
5-15 Rosebery Avenue, Rosebery, NSW	–	172
79-99 St Hilliers Road, Auburn, NSW	68	–
DEXUS Industrial Estate, Egerton Street, Silverwater, NSW	1,344	–
114-120 Old Pittwater Road, Brookvale, NSW	2,872	–
RN 19 ZAC de L'Orme Rond, Servon	–	1,614
<b>Total capital commitments</b>	<b>4,745</b>	<b>1,879</b>

### (b) Lease receivable commitments

The future minimum lease payments receivable by the Trust are:

	2011 \$'000	2010 \$'000
Within one year	109,219	119,966
Later than one year but not later than five years	303,607	337,344
Later than five years	163,786	230,644
<b>Total lease receivable commitments</b>	<b>576,612</b>	<b>687,954</b>

## Notes to the Financial Statements

For the year ended 30 June 2011

CONTINUED

## Note 30. 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.

## 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:

	2011 \$	2010 \$
Responsible Entity fees paid and payable	4,103,138	4,438,726
Property management fees paid and payable to DXPS	2,467,122	3,888,555
Administration expenses paid and payable to DXH	3,000,491	3,640,256
Responsible Entity fees payable at the end of each reporting period (included above)	336,702	769,515
Property management fees payable at the end of each reporting period (included above)	414,292	828,564
Administration expenses payable at the end of each reporting period (included above)	274,038	97,845

## Entities within DXS

Aggregate amounts included in the determination of profit that resulted from transactions with each class of other related parties:

	2011 \$	2010 \$
Interest revenue	1,629,129	1,825,950
Interest expense	74,365,816	77,865,385
Interest bearing loans advanced to entities within DXS	273,400,627	390,800,617
Interest bearing loans advanced from entities within DXS	209,181,814	317,612,417
Sale of land to DEXUS Projects Pty Limited	–	64,800,000

## Directors

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

C T Beare, BSc, BE (Hons), MBA, PhD, FAICD<sup>1,4,5</sup>E A Alexander, AM, BComm, FCA, FAICD, FCPA<sup>1,2,6</sup>B R Brownjohn, BComm<sup>1,2,5,6</sup>J C Conde, AO, BSc, BE(Hons), MBA<sup>1,3,4</sup>S F Ewen, OAM<sup>1,4</sup>

V P Hoog Antink, BComm, MBA, FAICD, FCA, FAPI, FRICS

B E Scullin, BEC<sup>1,3</sup>P B St George, CA(SA), MBA<sup>1,2,5,6</sup>

1 Independent Director

2 Board Audit Committee Member

3 Board Compliance Committee Member

4 Board Nomination and Remuneration Committee Member

5 Board Finance Committee Member

6 Board Risk and Sustainability Committee Member

No Directors held an interest in the Trust for the years ended 30 June 2011 and 30 June 2010.

## Other key management personnel

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

Name	Title
Victor P Hoog Antink	Chief Executive Officer
Tanya L Cox	Chief Operating Officer
John C Easy	General Counsel
Craig D Mitchell	Chief Financial Officer
Paul G Say	Chief Investment Officer

No key management personnel or their related parties held an interest in DXO for the years ended 30 June 2011 and 30 June 2010.

There were no loans or other transactions with key management personnel or their related parties during the years ended 30 June 2011 and 30 June 2010.

	2011 \$	2010 \$
<b>Compensation</b>		
Short term employee benefits	8,266,683	9,174,298
Post-employment benefits	912,706	328,058
Other long term benefits	4,794,526	3,797,553
	<b>13,973,915</b>	<b>13,299,909</b>

## Remuneration Report

### 1. Introduction

This Remuneration Report has been prepared in accordance with *AASB 124 Related Party Disclosures* and section 300A of the *Corporations Act 2001* for the year ended 30 June 2011. The information provided in this Report has been audited in accordance with the provisions of section 308 (3C) of the *Corporations Act 2001*.

#### Key Management Personnel

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

- Non-Executive Directors;
- the Chief Executive Officer; and
- Executives who are members of the Group Management Committee (GMC).

Below are the individuals determined to be KMP of the Group, classified between Non-Executive Director and Executive personnel.

#### Non-Executive Directors

There were no changes to the composition of Non-Executive Directors from the previous year.

Name	Title	KMP 2011	KMP 2010
Christopher T Beare	Non-Executive Chair	✓	✓
Elizabeth A Alexander, AM	Non-Executive Director	✓	✓
Barry R Brownjohn	Non-Executive Director	✓	✓
John C Conde, AO	Non-Executive Director	✓	✓
Stewart F Ewen, OAM	Non-Executive Director	✓	✓
Brian E Scullin	Non-Executive Director	✓	✓
Peter B St George	Non-Executive Director	✓	✓

**Note 30. Related parties** (continued)

## Remuneration Report (continued)

**1. Introduction** (continued)

## Executives

The following changes occurred within the Executive group during the year ended 30 June 2011:

- the GMC was formed on 1 July 2010, replacing the former Executive Committee;
- all property sector Executives now report through to the Chief Investment Officer;
- Mr Turner, former Head of Funds Management and a KMP, ceased employment on 31 December 2010; and
- Ms Martin, former Head of Office and a KMP, ceased employment on 31 December 2010.

Name	Title	Status	KMP 2011	KMP 2010
Victor P Hoog Antink	Chief Executive Officer	GMC Member	✓	✓
Tanya L Cox	Chief Operating Officer	GMC Member	✓	✓
John C Easy	General Counsel	GMC Member	✓	✓
Craig D Mitchell	Chief Financial Officer	GMC Member	✓	✓
Paul G Say	Chief Investments Officer	GMC Member	✓	✓
Andrew P Whiteside <sup>1</sup>	Head of Industrial	Executive	–	✓
R Jane Lloyd <sup>1</sup>	Head of US Investments	Executive	–	✓
Patricia A Daniels <sup>1</sup>	Head of Human Resources	Executive	–	✓
Mark F Turner <sup>2</sup>	Head of Funds Management	Executive/Left Employment	–	✓
Louise J Martin <sup>2</sup>	Head of Office and Retail	Executive/Left Employment	–	✓

- 1 Following the establishment of the GMC on 1 July 2010, Mr Whiteside, Ms Lloyd and Ms Daniels were no longer considered to be KMP for the purpose of this report. However, the total of their remuneration received in 2010 has been disclosed in sections 5 and 8 of this report to provide consistency with figures reported in the prior year.
- 2 Ms Martin is included in the remuneration disclosure in sections 5 and 8 of this report due to her termination payments placing her within the five most highly paid Directors or Executives as defined under the *Corporations Act 2001*. Mr Turner's remuneration is disclosed for 2010 within the former KMP group in sections 5 and 8.

**2. Board oversight of remuneration**

The objectives of the Board Nomination and Remuneration Committee (Committee) are to assist the Board in fulfilling its responsibilities by overseeing all aspects of Director and Executive remuneration, as well as Board nomination and performance evaluation. Specifically, the Committee carries out the following activities:

## Nomination

To review and recommend to the Board:

- the nomination, appointment, re-election and removal of Directors;
- performance evaluation procedures for the Board, its committees and individual Directors;
- Board and CEO succession plans;
- identification of those employees who fall within the definition of Key Management Personnel as defined in *AASB124 Related Party Disclosures*;
- the DEXUS Diversity Policy;
- measurable objectives for the achievement of gender diversity and monitoring of those objectives;
- ongoing training and development requirements for Directors;
- the effectiveness of the induction process for Directors; and
- determination of the time required by independent Directors to discharge their responsibilities effectively, and whether Directors are meeting this commitment.

## Remuneration

To review and recommend to the Board:

- remuneration approach, including design and operation of the performance payment employee incentive schemes;
- CEO and Executive performance and remuneration;
- aggregate annual performance payment pool; and
- Directors' fees.

To review and approve:

- aggregate base salary increases and annual performance payment pool, for all employees other than the CEO and Key Management Personnel; and
- recruitment, retention and termination policies and procedures.

Regarding remuneration, the Committee assesses the appropriateness of the structure and the quantum of both Director and Executive remuneration on an annual basis, with reference to relevant regulatory and market conditions, and individual and company performance. At its discretion, the Committee engages external consultants to provide independent advice when required (see section 4 for a description of the remuneration review process).

Further information about the role and responsibilities of the Committee is set out in the Board Nomination and Remuneration Committee Terms of Reference, which may be found online at [www.dexus.com](http://www.dexus.com) in the Corporate Governance section.

The composition of the Committee remained unchanged throughout the year ended 30 June 2011. Mr Conde continued in his role as Committee Chair, drawing upon his extensive experience from a diverse range of appointments, including his role as President of the Commonwealth Remuneration Tribunal. The Committee's experience is further enhanced through the membership of Messrs Beare and Ewen, each of whom has significant management experience in the property and financial services sectors.

During the year ended 30 June 2011, Committee members were:

Name	Title	KMP 2011	KMP 2010
John C Conde, AO <sup>1</sup>	Committee Chair	✓	✓
Christopher T Beare <sup>2</sup>	Committee Member	✓	✓
Stewart F Ewen, OAM	Committee Member	✓	✓
Brian E Scullin <sup>3</sup>	Committee Member	–	✓

1 Mr Conde was formerly a member of the Committee and became Chair effective 1 September 2009.

2 Mr Beare was formerly Chair of the Committee and became a Member effective 1 September 2009.

3 Mr Scullin ceased being a Member of the Committee on 31 August 2009 (there were no FY10 meetings of the Committee prior to this).

### 3. Non-Executive Directors' remuneration framework

The objectives of the Non-Executive Directors' remuneration framework are to ensure Non-Executive Directors' fees reflect the responsibilities of Non-Executive Directors and are market competitive. Non-Executive Directors' fees are reviewed annually with reference to:

- comparably sized companies in the S&P/ASX 100 index;
- publicly available remuneration reports from competitors; and
- information supplied by independent external advisors, such as the Australian Institute of Company Directors, Ernst & Young and the Godfrey Remuneration Group.

Non-Executive Directors, other than the Chair, receive a base fee plus additional fees for membership of Board Committees. The table below outlines the fee structure for the year ended 30 June 2011.

Committee	Chair \$	Member \$
Director's Base Fee	350,000	150,000
Board Audit and Risk	30,000	15,000
DWPL Board	30,000	15,000
Board Finance	15,000	7,500
Board Compliance	15,000	7,500
Board Nomination and Remuneration	15,000	7,500

In addition to the Directors' fee structure outlined above, Mr Ewen's company is paid a fixed fee of \$30,000 per annum for his attendance at property inspections, for reviewing property investment proposals and participating in informal management meetings.

Recognising the greater responsibility and time commitment required, the Board Chair receives a higher fee than other Non-Executive Directors, which is benchmarked to the market median of comparably sized ASX listed entities. The Chair does not receive Board Committee fees, nor is the Chair present during any discussion relating to the determination of the Chair's fees.

Non-Executive Directors are not eligible to receive performance based remuneration or accrue separate retirement benefits beyond statutory superannuation entitlements.

Base fees for both the Chair and Non-Executive Directors were increased effective 1 July 2010. This increase was reported in the remuneration report for the year ended 30 June 2010. Total fees paid to Directors remain within the aggregate fee pool of \$1,750,000 per annum approved by DXS security holders at its Annual General Meeting in October 2008.

**Note 30. Related parties** (continued)

## Remuneration Report (continued)

**4. Approach to Executive remuneration****4.1 Executive remuneration principles**

DXS Executives are charged with providing a full range of integrated property services, focused on office and industrial property management, delivering consistent total returns to investors, while assuming relatively moderate risk. Earnings growth is also driven by increasing activity in each of our operating business and growing new revenue streams. The Directors consider that an appropriately skilled and qualified Executive team is essential to achieve this objective. The Group's approach to the principles, structure and quantum of Executive remuneration is therefore designed to attract, motivate and retain such an Executive team.

In establishing the Group's remuneration principles, the Directors are cognisant that DXS's business is based on long term property investments and similarly long term tenant relationships. Furthermore, property market investment returns tend to be cyclical. Taking these factors into account, the Executive remuneration structure is based on the following criteria:

1. market competitiveness and reasonableness;
2. alignment of Executive performance payments with achievement of the Group's financial and operational objectives, within its risk framework and cognisant of its values-based culture; and
3. an appropriate mix of remuneration components, including performance payments linked to security holder returns over the longer term.

*(a) Market competitiveness and reasonableness*

For the purposes of determining market competitive remuneration, the Group takes a research based approach, obtaining external executive remuneration benchmarks from a range of sources, including:

- publicly available data from the annual reports of constituents of the S&P/ASX 100 index;
- independent remuneration consultants, including Hart Consulting Group, Financial Institutions Remuneration Group, Aon Hewitt and the Avdiev Group, regarding property organisations of a similar market capitalisation; and
- various recruitment and consulting agencies who are informed sources of market remuneration trends.

*(b) Alignment of Executive performance payments with achievement of the Group's objectives*

The Group assesses individual Executive performance within a Balanced Scorecard framework. The Balanced Scorecard prescribes the financial and non-financial performance indicators that will be used to measure an Executive's performance for the year. Financial performance indicators include objectives that promote the achievement of superior security holder returns over time, whilst non-financial indicators are designed to encourage operational effectiveness and sustainable business and people practices. By setting objectives which promote a balanced performance outcome, the Group is able to monitor the execution of its strategy in a holistic manner. The Balanced Scorecard focuses on performance in four areas, which reflect each Executive's role, responsibility, accountability and strategy delivery.

**DEXUS Balanced Scorecard – typical objectives**

Financial performance	Business development and business management
<ul style="list-style-type: none"> <li>■ Earnings per security</li> <li>■ Distributions per security</li> <li>■ Third party funds performance</li> <li>■ Total security holder return, relative to peers</li> </ul>	<ul style="list-style-type: none"> <li>■ Execution of strategy on time and within budget</li> <li>■ Corporate responsibility and sustainability initiatives</li> <li>■ Achievement of international operations strategies</li> </ul>
Stakeholder satisfaction	Leadership
<ul style="list-style-type: none"> <li>■ Investor relations</li> <li>■ Tenant satisfaction</li> <li>■ Employee engagement</li> </ul>	<ul style="list-style-type: none"> <li>■ Executive succession</li> <li>■ Talent management</li> <li>■ Role modelling DEXUS cultural values</li> <li>■ Executive development</li> </ul>

Individual objectives are selected based on the key strategic drivers for each area of responsibility and as a result are tailored and weighted differently for each Executive. The typical objectives listed above are therefore not common to all Executive roles.

The Committee reviews and approves Balanced Scorecard objectives at the commencement of each financial year and reviews achievement against these KPIs at the end of each financial year. The Committee's review of Executive performance, in conjunction with data provided from external benchmarks and the target remuneration mix, guide the Committee in its determination of the appropriate quantum of Performance Payments to be awarded to Executives.



*(c) Executive remuneration structure*

*i. Executive remuneration components*

The DXS Executive remuneration structure comprises the following remuneration components:

TOTAL REMUNERATION			
<ul style="list-style-type: none"> <li>■ delivered through fixed and variable components</li> <li>■ variable remuneration is delivered as immediate and deferred performance payments and is determined on a range of factors including achievement of KPIs and relative market remuneration mix</li> </ul>		<ul style="list-style-type: none"> <li>■ fixed remuneration is targeted at the market median awarded on a variable scale, which may result in a total remuneration range from lower quartile to upper quartile, reflecting differing levels of experience, role structure and contribution</li> </ul>	
<b>FIXED REMUNERATION</b>	Salary	<ul style="list-style-type: none"> <li>■ Consists of cash salary and salary sacrificed fringe benefits, such as motor vehicles</li> </ul>	<ul style="list-style-type: none"> <li>■ Targeted at Australian market median using external benchmark data and varies according to Executives' skills and depth of experience</li> </ul>
	Superannuation	<ul style="list-style-type: none"> <li>■ Prescribed and salary sacrifice superannuation contributions, including insurance premiums (if applicable)</li> </ul>	<ul style="list-style-type: none"> <li>■ Reviewed annually by the Board, effective 1 July, including internal and external relativities</li> </ul>
<b>VARIABLE REMUNERATION</b>	Performance Payments	<ul style="list-style-type: none"> <li>■ The aim of Performance Payments is to attract, motivate and retain appropriately skilled and qualified executives to achieve the strategic objectives of the business, measured through the achievement of KPIs</li> <li>■ Strategic objectives incorporate financial and non-financial measures of performance at Group, business unit and individual level and represent key drivers for the success of the business and for delivering long term value to security holders</li> <li>■ The achievement of KPIs is assessed through a Balanced Scorecard approach</li> <li>■ Individual awards are determined on a range of factors, including achievement of KPIs and relative market remuneration mix</li> </ul>	<ul style="list-style-type: none"> <li>■ Performance Payments are delivered as immediate and deferred elements in accordance with the targeted remuneration mix set out in the table below</li> <li>■ The annual award of any Performance Payment to an Executive is dependent upon the Board being satisfied that minimum threshold performance targets have been achieved</li> <li>■ Only in exceptional circumstances would the Board consider awarding a performance payment which exceeds the target remuneration mix</li> </ul>
	DEXUS Performance Payments (DPP)	<ul style="list-style-type: none"> <li>■ Delivery of DPP is immediate</li> </ul>	<ul style="list-style-type: none"> <li>■ Awarded annually as a cash payment in September</li> </ul>
	DEXUS Deferred Performance Payments (DDPP)	<ul style="list-style-type: none"> <li>■ Delivery of DDPP is deferred for three years, as described below</li> </ul>	<ul style="list-style-type: none"> <li>■ Granted annually</li> <li>■ Grants vest after three years (i.e. no accelerated vesting)</li> <li>■ Delivered as a cash payment in accordance with the plan design described below</li> <li>■ Unvested grants are forfeited upon Executive initiated termination (i.e. resignation)</li> <li>■ The Nomination and Remuneration Committee may use its discretion in operating the Plan</li> </ul>

*Performance payment pool*

A single pool of funds is accrued to meet all Performance Payments. The pool of funds accrued is sufficient to ensure that the Group is able to meet its objectives under its remuneration framework. The Board may exercise its discretion to vary the size of the pool by reference to such factors as:

- three year absolute total security holder return;
- management costs, risk factors and revenue of DEXUS Holdings Pty Limited; and
- performance against budgeted earnings and distributions per security.

**Note 30. Related parties** (continued)

## Remuneration Report (continued)

**4. Approach to Executive remuneration** (continued)

## 4.1 Executive remuneration principles (continued)

*(c) Executive remuneration structure (continued)**ii. Target mix of remuneration components*

The target remuneration mix for KMP, expressed as a percentage of total remuneration, is outlined in the table below.

Remuneration component	2011			2010		
	CEO	CFO & CIO	Other Executives	CEO	CFO & CIO	Other Executives
Total fixed	35%	40%	50%	35%	40%	50%
DEXUS Performance Payment (DPP)	30%	30%	25%	30%	30%	25%
DEXUS Deferred Performance Payment (DDPP)	35%	30%	25%	35%	30%	25%

The Directors consider that the target mix of remuneration is appropriate and reflects alignment with long term returns to security holders.

The Group's performance payment philosophy is based on appropriate reward for performance. In the event of exceptional performance the Nomination and Remuneration Committee may choose to award a performance payment in excess of the target remuneration mix. Although the Committee has chosen to not adopt a maximum performance payment cap, historically it has not exercised its right to award performance payments in excess of the target remuneration mix.

*iii. DEXUS Deferred Performance Payment (DDPP) plan*

The DDPP plan operates as follows:

- following allocation, Deferred Performance Payments are subject to a three year vesting period from allocation date;
- the DDPP allocation value is notionally invested during the vesting period in DXS securities (50% of DDPP value) and its unlisted funds and mandates (50% of DDPP value);
- during the vesting period, DDPP allocation values fluctuate in line with changes in the "Composite Total Return" (simulating notional investment exposure), comprising 50% of the total return of DXS securities and 50% of the combined asset weighted total return of its unlisted funds and mandates; and
- at the conclusion of the three year vesting period, if the Composite Total Return meets or exceeds the Composite Performance Benchmark, the Board may approve the application of a performance factor to the final DDPP allocation value:
  1. The "Composite Performance Benchmark" is 50% of the S&P/ASX200 Property Accumulation Index and 50% of the Mercer Unlisted Property Fund Index over the three year vesting period;
  2. For performance up to 100% of the Composite Performance Benchmark, executives receive a DDPP allocation reflecting the Composite Total Return of the preceding three year vesting period; and
  3. For performance between 100% and 130% of the Composite Performance Benchmark a performance factor may be applied, ranging from 1.1 to a maximum of 1.5 times.

Provisions regarding the vesting of DDPP in the event of termination of service are outlined in section 7.

*Equity options scheme*

The Group does not operate an equity option scheme as part of its Executive remuneration structure. The Committee has considered the introduction of such a scheme, but has determined that it would not be an appropriate component of the Group's remuneration structure.

*Equity and loan schemes*

The Group does not operate a security participation plan or a loan plan for Executives or Directors.

The deferred element of DXS's Performance Payment is designed to simulate, or at least replicate, some of the features of an equity plan, but it does not provide Executives with direct equity exposure.

*Hedging policy*

The Group does not permit Executives to hedge their DDPP allocation.

## 5. Remuneration arrangements for the year ended 30 June 2011

This section outlines how the approach to remuneration described above has been implemented in the year ended 30 June 2011.

### Non-Executive Director's remuneration for the year ended 30 June 2011

- At its meeting of 20 May 2010, the Nomination and Remuneration Committee endorsed an increase to the base fee payable to both the Chair and Non-Executive Directors to bring DXS fees into line with the fee structure of comparably sized ASX listed entities.
- This increase in base fees came into effect on 1 July 2010 (as set out in section 8 of this report).
- There were no changes to committee fees.

### Executive remuneration for the year ended 30 June 2011

- At its meeting of 21 July 2010, the Nomination and Remuneration Committee determined that the fixed remuneration of a number of Executives had fallen below the market median of comparably sized ASX listed entities.
- Two substantial increases to KMP remuneration were required to correct this position and to reflect increased responsibilities as a result of the Executive restructure on 1 July 2010 (as set out in section 8 of this report).
- These increases in fixed remuneration came into effect 1 July 2010.
- DPP and DDPP awarded to Executives reflected a combination of individual and group performance, external market comparisons and benchmarking, and reference to the remuneration mix guidelines established for each category of Executive (as set out in section 4 of this report).
- DPP is payable in September 2011, with DDPP following the vesting schedule applicable under the DDPP Plan.

### Actual remuneration earned/granted

The following table provides details of actual remuneration earned/granted by Executives in the years ended 30 June 2010 and 30 June 2011. This table includes details of the five highest paid Directors or Executives. The amounts detailed in the remuneration earned/granted table vary from the amounts detailed in the statutory accounting table in section 8, because performance payments (in the remuneration earned/granted table) are attributed to Executives in the year performance payments are earned.

Name		Cash salary including superannuation	DEXUS performance payments	DEXUS deferred performance payments	Other short term benefits	Termination benefits	Total
		\$	\$	\$	\$	\$	\$
<b>Victor P Hoog Antink</b>	<b>2011</b>	<b>1,550,000</b>	<b>1,100,000</b>	<b>1,300,000</b>	–	–	<b>3,950,000</b>
	2010	1,300,000	1,100,000	1,200,000	–	–	3,600,000
<b>Craig D Mitchell</b>	<b>2011</b>	<b>700,000</b>	<b>450,000</b>	<b>450,000</b>	–	–	<b>1,600,000</b>
	2010	550,000	400,000	400,000	–	–	1,350,000
<b>Paul G Say</b>	<b>2011</b>	<b>700,000</b>	<b>400,000</b>	<b>400,000</b>	–	–	<b>1,500,000</b>
	2010	500,000	250,000	250,000	–	–	1,000,000
<b>John C Easy</b>	<b>2011</b>	<b>425,000</b>	<b>190,000</b>	<b>185,000</b>	–	–	<b>800,000</b>
	2010	375,000	187,000	188,000	–	–	750,000
<b>Tanya L Cox</b>	<b>2011</b>	<b>425,000</b>	<b>195,000</b>	<b>190,000</b>	–	–	<b>810,000</b>
	2010	400,000	180,000	180,000	–	–	760,000
<b>Andrew P Whiteside<sup>1</sup></b>	<b>2011</b>	<b>525,000</b>	<b>235,000</b>	<b>240,000</b>	–	–	<b>1,000,000</b>
	2010	475,000	225,000	225,000	–	–	925,000
<b>Louise J Martin<sup>1,2</sup></b>	<b>2011</b>	<b>262,500</b>	–	–	<b>74,389</b>	<b>525,000</b>	<b>861,889</b>
	2010	500,000	200,000	200,000	–	–	900,000
<b>Total</b>	<b>2011</b>	<b>4,587,500</b>	<b>2,570,000</b>	<b>2,765,000</b>	<b>74,389</b>	<b>525,000</b>	<b>10,521,889</b>
	2010	4,100,000	2,542,000	2,643,000	–	–	9,285,000

1 Mr Whiteside and Ms Martin are former KMP. Mr Whiteside's remuneration is disclosed due to being counted among the five highest paid Directors or Executives. Ms Martin ceased employment on 31 December 2010 and due to termination benefits received, also forms part of the five highest paid Directors or Executives. Ms Martin will not form part of subsequent remuneration disclosures.

2 Ms Martin received payment for statutory leave entitlements upon termination.

For the purpose of consistency, the following table includes the total remuneration of former KMP as disclosed for the year ended 30 June 2010. As referred to in Section 1 of this report, the former KMP group comprises Mr Turner (ceased employment on 31 December 2010), Ms Lloyd and Ms Daniels. This group will not form part of subsequent remuneration disclosures.

Former KMP Total	2010	1,081,249	383,391	383,391	123,107	–	1,971,138
Combined Totals	2010	5,181,249	2,925,391	3,026,391	123,107	–	11,256,138

**Note 30. Related parties** (continued)

## Remuneration Report (continued)

**5. Remuneration arrangements for the year ended 30 June 2011** (continued)

Actual remuneration earned/granted (continued)

*Other employee remuneration for the year ended 30 June 2011*

- A moderate increase in base salaries was applied to the wider employee group to ensure market competitive remuneration was maintained.
- A limited number of adjustments was made as a result of promotion, key talent retention and market comparison.
- DPP was awarded based on individual and company performance, with reference to the remuneration mix guidelines in place for each category of employee.
- DDPP continues to be limited to a small number of key employees outside the Executive group.
- DPP is payable in August 2011, with DDPP (if applicable) following the vesting schedule applicable under the DDPP Plan.

*Decisions taken relating to remuneration arrangements for the year ending 30 June 2012*

- No change to Non-Executive Directors' base or committee fees;
- No increase to the CEO's base salary;
- Conservative increases to Executive base salaries in line with market comparisons and cognisant of prior year adjustments;
- Industry standard increases to base salaries for the wider employee group, with a small number of adjustments made to ensure retention of key talent and to recognise increased contribution to the group in some roles; and
- No change to the target remuneration mix guidelines which are used to determine the split between fixed remuneration, DPP and DDPP.

**6. Group performance and the link to remuneration**

Total return analysis

The table below sets out DXS's total security holder return since inception, relative to the S&P/ASX200 Property Accumulation Index. It also sets out DXS's Composite Total Return since inception, relative to the Composite Performance Benchmark. The DEXUS Composite Total Return is 50% of the total return of DXS securities, plus 50% of the combined asset weighted total return of its unlisted funds and mandates and the Composite Performance Benchmark is 50% of the S&P/ASX200 Property Accumulation Index and 50% of Mercers' Unlisted Property Fund Index.

Year ended 30 June 2011	1 year	2 years	3 years	Since 1 October 2004
	% per annum	% per annum	% per annum	% per annum
DEXUS Property Group <sup>1</sup>	21.6	15.4	(5.8)	2.5
S&P/ASX200 Property Accumulation Index	5.8	12.9	(9.7)	(4.0)
DEXUS Composite Total Return	16.4	12.2	(1.9)	6.1
Composite Performance Benchmark	8.3	9.9	(4.6)	3.5

Note: DEXUS inception date was 1 October 2004.

<sup>1</sup> Compound annual return, source DEXUS/IRESS.

In determining the construction of the Composite Total Return and in particular the relative weighting between the returns of the DEXUS Property Group and its unlisted funds and mandates, the Board considered the following factors:

- the desire of DEXUS Property Group to attract and retain third party funds and mandates based on the assurance that incentives are in place to ensure their equitable treatment;
- the economic contribution to DEXUS Property Group of management fees arising from third party funds under management;
- the increased investment in its management team and infrastructure, enabled by third party funds management fees, including in-house research, valuations and sustainability teams, the cost of which is defrayed by those fees; and
- the greater market presence and relevance the third party business brings to the DEXUS Property Group.

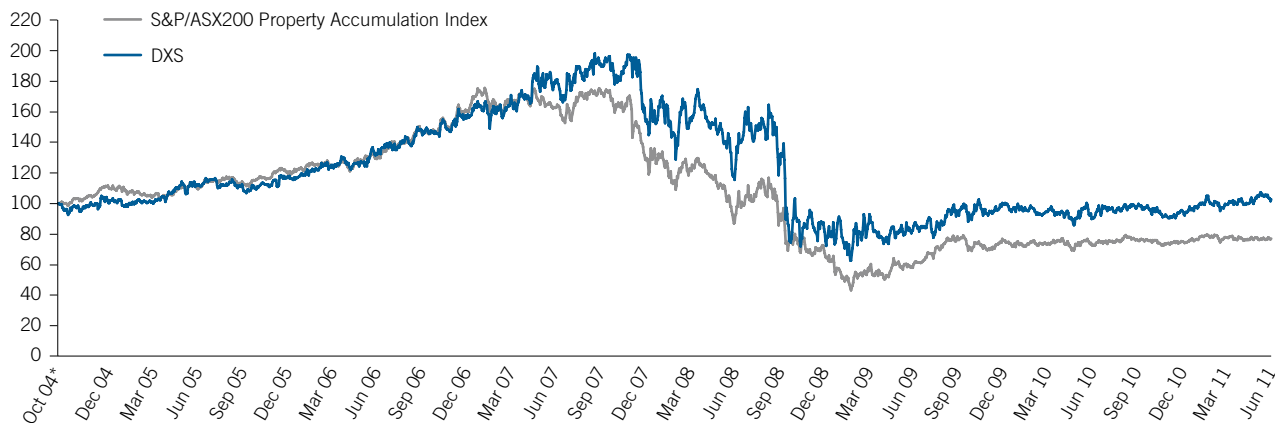
The Board also considered whether the construction of the Composite Total Return should reflect the actual value of the unlisted funds and mandates (\$6.1 billion as at 30 June 2011), and DEXUS Property Group's own funds under management (\$7.6 billion as at 30 June 2011).

Cognisant of all the above factors, the Board determined that a 50/50 allocation, rather than an allocation varying according to asset weighting, most fairly reflects the value contribution of third party funds to the DEXUS Property Group and provides the greatest assurance that all investors are treated equitably.

During the year the Group did not buy-back or cancel any of its securities.

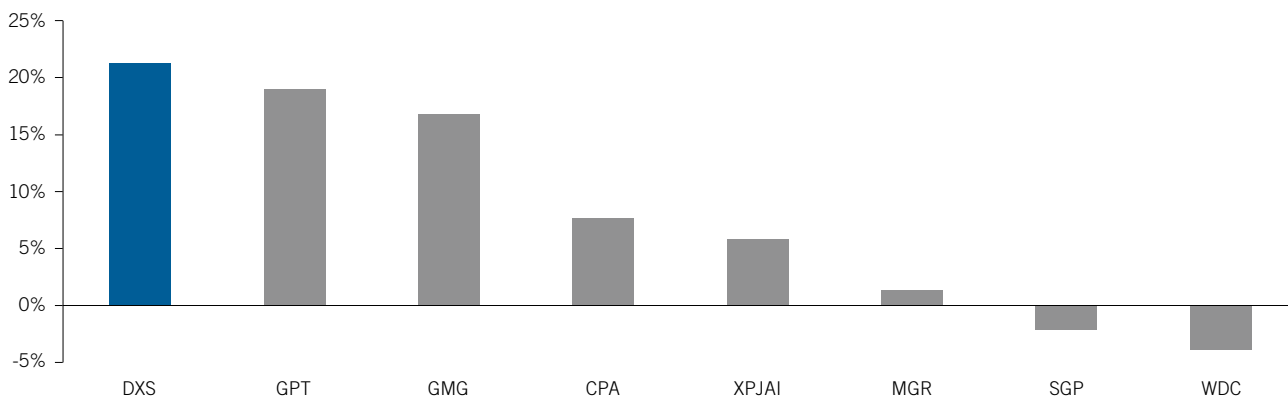
### Total return of DXS securities

The graph below illustrates DXS's total security holder return relative to the S&P/ASX200 Property Accumulation Index.



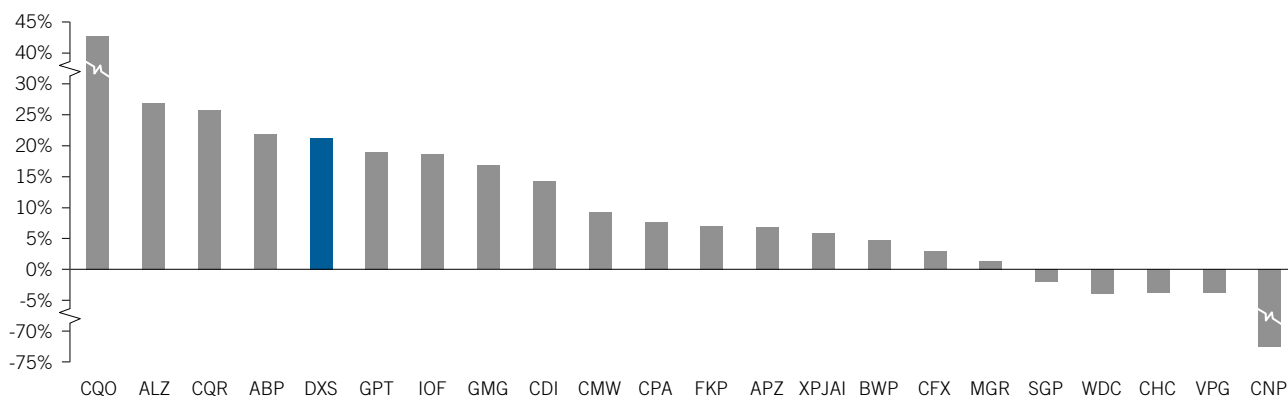
\* 6 October 2004 to 30 June 2011. Source: IRESS/DEXUS.

The chart below illustrates DXS's performance relative to A-REITs above \$2 billion market capitalisation.



Source: UBS Securities Australia Ltd.

The chart below illustrates DXS's performance against the broader property sector.



Source: UBS Securities Australia Ltd.

**Note 30. Related parties** (continued)**Remuneration Report** (continued)**6. Group performance and the link to remuneration** (continued)

## Total return of DXS securities (continued)

DXS continues to outperform the S&P/ASX200 Property Accumulation Index and has exceeded this benchmark on a rolling three year basis each period since inception in October 2004. In addition, the DXS Composite Total Return has also outperformed the Composite Performance Benchmark on a rolling three year basis since inception.

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

**7. Service agreements**

The employment arrangements for Executives are set out below.

## CEO – Victor P Hoog Antink

The current employment contract commenced on 1 October 2004. The principal terms of the employment arrangement are as follows:

- the CEO is employed under a rolling contract;
- the CEO may resign from his position and thus terminate this contract by giving six months written notice. On resignation any unvested DDPP will be forfeited subject to the discretion of the Board;
- the Group may terminate the CEO's employment agreement by providing six months written notice or payment in lieu of the notice period (based on the fixed component of CEO's remuneration). Additionally, the Group may provide a performance payment for the period of the last review date (being 1 July) until the last day of the notice period;
- in the event that the Group initiates termination for reasons outside the control of the CEO, a severance payment equal to 100% of fixed remuneration is payable;
- on termination by the Group, any DDPP awards will vest in accordance with the vesting schedule of the DDPP Plan, subject to the discretion of the Board; and
- the Group may terminate the contract of the CEO at any time without notice if serious misconduct has occurred. In the event of termination for cause, the CEO is only entitled to that portion of remuneration that is fixed, and only up to the date of termination. On termination for cause any unvested DDPP awards will immediately be forfeited.

## KMP Executives (other than the CEO)

The principal terms of Executive employment arrangements are as follows:

- all Executives have rolling contracts;
- an Executive may resign from their position and thus terminate their contract by giving three months written notice. On resignation any unvested DDPP will be forfeited subject to the discretion of the Board;
- the Group may terminate an Executive's employment agreement by providing three months written notice or providing payment in lieu of the notice period (based on the fixed component of the Executive's remuneration). In the event that the Group initiates the termination for reasons outside the control of the Executive, a severance payment equal to a maximum of 75% of fixed remuneration will be made;
- on termination by the Group, any DDPP awards will vest in accordance with the vesting schedule of the DDPP Plan, subject to the discretion of the Board; and
- the Group may terminate the contract at any time without notice if serious misconduct has occurred. Where termination for cause occurs the Executive is only entitled to that portion of remuneration that is fixed, and only up to the date of termination. On termination for cause any unvested DDPP awards will immediately be forfeited.



## 8. Statutory accounting method

In accordance with Australian Accounting Standard AASB 124, details of the structure and quantum of each component of remuneration for Executives for the years ended 30 June 2010 and 30 June 2011 are set out in the following table.

Name	Short term benefits			Post-employment benefits		Long term benefits			Total
	Cash salary	DEXUS performance payments	Other short term benefits	Pension and super benefits	Termination benefits	DEXUS deferred performance payment allocations	Movement in prior year deferred performance payment allocation values	Other long term benefits	Total
	\$	\$	\$	\$	\$	\$	\$	\$	\$
<b>Victor P Hoog Antink</b>									
2011	1,502,801	1,100,000	–	47,199	–	1,300,000	900,583	–	4,850,583
2010	1,252,539	1,100,000	–	47,461	–	1,200,000	363,957	–	3,963,957
<b>Craig D Mitchell</b>									
2011	684,801	450,000	–	15,199	–	450,000	273,781	–	1,873,781
2010	535,539	400,000	–	14,461	–	400,000	40,528	–	1,390,528
<b>Paul G Say</b>									
2011	649,801	400,000	–	50,199	–	400,000	226,785	–	1,726,785
2010	485,539	250,000	–	14,461	–	250,000	30,565	–	1,030,565
<b>John C Easy</b>									
2011	401,801	190,000	–	23,199	–	185,000	131,830	–	931,830
2010	360,539	187,000	–	14,461	–	188,000	47,437	–	797,437
<b>Tanya L Cox</b>									
2011	375,001	195,000	–	49,999	–	190,000	161,359	–	971,359
2010	385,539	180,000	–	14,461	–	180,000	62,533	–	822,533
<b>Andrew P Whiteside<sup>1</sup></b>									
2011	509,801	235,000	–	15,199	–	240,000	121,087	–	1,121,087
2010	460,539	225,000	–	14,461	–	225,000	16,610	–	941,610
<b>Louise J Martin<sup>1,2</sup></b>									
2011	213,800	–	74,389	48,700	525,000	–	214,101	–	1,075,990
2010	485,539	200,000	–	14,461	–	200,000	74,415	–	974,415
<b>Total</b>									
2011	4,337,806	2,570,000	74,389	249,694	525,000	2,765,000	2,029,526	–	12,551,415
2010	3,965,773	2,542,000	–	134,227	–	2,643,000	636,045	–	9,921,045
<b>Former KMP total</b>									
2010	1,003,666	406,000	123,107	77,583	–	407,000	111,508	–	2,128,864
<b>Combined totals</b>									
2010	4,969,439	2,948,000	123,107	211,810	–	3,050,000	747,553	–	12,049,909

<sup>1</sup> Mr Whiteside and Ms Martin are former KMP. Mr Whiteside's remuneration is disclosed due to being counted among the five highest paid Directors or Executives. Ms Martin ceased employment on 31 December 2010 and due to termination benefits received, also forms part of the five highest paid Directors or Executives. Ms Martin will not form part of subsequent remuneration disclosures.

<sup>2</sup> Ms Martin received payment for statutory leave entitlements upon termination.

For the purpose of consistency, the following table includes the total remuneration of former KMP as disclosed for the year ended 30 June 2010. As referred to in Section 1 of this report, the former KMP group comprises Mr Turner (ceased employment on 31 December 2010), Ms Lloyd and Ms Daniels. This group will not form part of subsequent remuneration disclosures.

<b>Former KMP total</b>									
2010	1,003,666	406,000	123,107	77,583	–	407,000	111,508	–	2,128,864
<b>Combined totals</b>									
2010	4,969,439	2,948,000	123,107	211,810	–	3,050,000	747,553	–	12,049,909

## Notes to the Financial Statements

For the year ended 30 June 2011

CONTINUED

## Note 30. Related parties (continued)

## Remuneration Report (continued)

## 8. Statutory accounting method (continued)

## Deferred Performance Payments

The table below sets out details of DDPP allocations made to KMP and their current valuations.

Name	Grant year	DDPP allocation value	Movement in DDPP allocation value (since grant date)	Closing DDPP allocation value as at vesting date (30 June 2011)	Movement in DDPP allocation value at vesting date (30 June 2011) due to performance multiplier	Vested DDPP value as at 30 June 2011	Vest year
		\$	\$	\$	\$	\$	
<b>Victor P Hoog Antink</b>	<b>2011</b>	<b>1,300,000</b>	<b>–</b>	<b>1,300,000</b>	<b>–</b>	<b>–</b>	<b>2014</b>
	2010	1,200,000	197,160	1,397,160	–	–	2013
	2009	915,000	236,528	1,151,528	–	–	2012
	2008	900,000	(50,580)	849,420	424,800	1,274,220	2011
<b>Craig D Mitchell</b>	<b>2011</b>	<b>450,000</b>	<b>–</b>	<b>450,000</b>	<b>–</b>	<b>–</b>	<b>2014</b>
	2010	400,000	65,720	465,720	–	–	2013
	2009	325,000	84,013	409,013	–	–	2012
	2008	250,000	(14,050)	235,950	118,000	353,950	2011
<b>Paul G Say</b>	<b>2011</b>	<b>400,000</b>	<b>–</b>	<b>400,000</b>	<b>–</b>	<b>–</b>	<b>2014</b>
	2010	250,000	41,075	291,075	–	–	2013
	2009	200,000	51,700	251,700	–	–	2012
	2008	250,000	(14,050)	235,950	118,000	353,950	2011
<b>John C Easy</b>	<b>2011</b>	<b>185,000</b>	<b>–</b>	<b>185,000</b>	<b>–</b>	<b>–</b>	<b>2014</b>
	2010	188,000	30,888	218,888	–	–	2013
	2009	162,000	41,877	203,877	–	–	2012
	2008	120,000	(6,744)	113,256	56,640	169,896	2011
<b>Tanya L Cox</b>	<b>2011</b>	<b>190,000</b>	<b>–</b>	<b>190,000</b>	<b>–</b>	<b>–</b>	<b>2014</b>
	2010	180,000	29,574	209,574	–	–	2013
	2009	150,000	38,775	188,775	–	–	2012
	2008	175,000	(9,835)	165,165	82,600	247,765	2011
<b>Andrew P Whiteside<sup>1</sup></b>	<b>2011</b>	<b>240,000</b>	<b>–</b>	<b>240,000</b>	<b>–</b>	<b>–</b>	<b>2014</b>
	2010	225,000	36,968	261,968	–	–	2013
	2009	135,000	34,898	169,898	–	–	2012
	2008	100,000	(5,620)	94,380	47,200	141,580	2011
<b>Louise J Martin<sup>1</sup></b>	<b>2011</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>2014</b>
	2010	200,000	32,860	232,860	–	–	2013
	2009	175,000	45,238	220,238	–	–	2012
	2008	250,000	(14,050)	235,950	118,000	353,950	2011

<sup>1</sup> Mr Whiteside and Ms Martin are former KMP. Mr Whiteside's remuneration is disclosed due to being counted among the five highest paid Directors or Executives.

Ms Martin ceased employment on 31 December 2010 and due to termination benefits received, also forms part of the five highest paid Directors or Executives.

Ms Martin will not form part of subsequent remuneration disclosures, however, her prior grants will continue vest in accordance with the plan's rules.

Figures are subject to rounding.

#### Non-Executive Director Board and Committee fees

Board and Committee fees paid to Non-Executive Directors for the years ended 30 June 2010 and 30 June 2011 are set out in the table below.

There were no changes to the Committee appointments of Non-Executive Directors during the year ended 30 June 2011.

Name		Directors fees			Committee fees			Total
		Board	DWPL	Board Audit & Risk	Board Compliance	Board Nom & Rem	Board Finance	Total
		\$	\$	\$	\$	\$	\$	\$
<b>Christopher T Beare</b>	<b>2011</b>	<b>350,000</b>	–	–	–	–	–	<b>350,000</b>
	2010	300,000	–	–	–	–	–	300,000
<b>Elizabeth A Alexander, AM</b>	<b>2011</b>	<b>150,000</b>	<b>30,000</b>	<b>15,000</b>	–	–	–	<b>195,000</b>
	2010	130,000	17,500	17,500	–	–	–	165,000
<b>Barry R Brownjohn</b>	<b>2011</b>	<b>150,000</b>	–	<b>30,000</b>	–	–	<b>7,500</b>	<b>187,500</b>
	2010	130,000	–	27,500	–	–	8,750	166,250
<b>John C Conde, AO</b>	<b>2011</b>	<b>150,000</b>	–	–	<b>7,500</b>	<b>15,000</b>	–	<b>172,500</b>
	2010	130,000	–	–	7,500	13,750	–	151,250
<b>Stewart F Ewen, OAM</b>	<b>2011</b>	<b>150,000</b>	–	–	–	<b>7,500</b>	–	<b>157,500</b>
	2010	130,000	–	–	–	7,500	–	137,500
<b>Brian E Scullin</b>	<b>2011</b>	<b>150,000</b>	<b>15,000</b>	–	<b>15,000</b>	–	–	<b>180,000</b>
	2010	130,000	25,000	–	15,000	1,250	–	171,250
<b>Peter B St George</b>	<b>2011</b>	<b>150,000</b>	–	<b>15,000</b>	–	–	<b>15,000</b>	<b>180,000</b>
	2010	130,000	–	15,000	–	–	13,750	158,750
<b>Total</b>	<b>2011</b>	<b>1,250,000</b>	<b>45,000</b>	<b>60,000</b>	<b>22,500</b>	<b>22,500</b>	<b>22,500</b>	<b>1,422,500</b>
	2010	1,080,000	42,500	60,000	22,500	22,500	22,500	1,250,000

The comparatively higher total for the year ended 30 June 2011 is reflective of the increase in base fees for both the Chair and Non-Executive Directors endorsed by the Nomination and Remuneration Committee on 20 May 2010. This increase was reported in the year ended 30 June 2010 remuneration report and remains within the aggregate pool of \$1,750,000 per annum approved by DXS security holders at its Annual General Meeting in October 2008.

Non-Executive Directors also receive reimbursement for reasonable travel, accommodation and other expenses incurred whilst undertaking DEXUS business.

The Chief Executive Officer, Victor P Hoog Antink, does not receive fees in respect of his role as a Director, but does receive remuneration as a Senior Executive of the DEXUS Property Group.

In addition to his Director's fee, Mr Ewen's company is paid \$30,000 for the added responsibilities he assumes in attending property inspections, reviewing property investment proposals and participating in informal management meetings.

## Notes to the Financial Statements

For the year ended 30 June 2011

CONTINUED

## Note 30. Related parties (continued)

## Remuneration Report (continued)

## 8. Statutory accounting method (continued)

## Non-Executive Director Remuneration

Details of the structure and quantum of each component of remuneration for each Non-Executive Director for the years ended 30 June 2010 and 30 June 2011 are set out in the following table.

Name		Short term employment benefits \$	Post- employment benefits <sup>1</sup> \$	Other long term benefits \$	Total \$
<b>Christopher T Beare</b>	<b>2011</b>	<b>334,801</b>	<b>15,199</b>	–	<b>350,000</b>
	2010	285,539	14,461	–	300,000
<b>Elizabeth A Alexander, AM</b>	<b>2011</b>	<b>179,801</b>	<b>15,199</b>	–	<b>195,000</b>
	2010	151,376	13,624	–	165,000
<b>Barry R Brownjohn</b>	<b>2011</b>	<b>172,301</b>	<b>15,199</b>	–	<b>187,500</b>
	2010	152,523	13,727	–	166,250
<b>John C Conde, AO</b>	<b>2011</b>	<b>158,257</b>	<b>14,243</b>	–	<b>172,500</b>
	2010	138,761	12,489	–	151,250
<b>Stewart F Ewen, OAM</b>	<b>2011</b>	<b>109,052</b>	<b>48,448</b>	–	<b>157,500</b>
	2010	102,700	34,800	–	137,500
<b>Brian E Scullin</b>	<b>2011</b>	<b>165,138</b>	<b>14,862</b>	–	<b>180,000</b>
	2010	157,211	14,039	–	171,250
<b>Peter B St George</b>	<b>2011</b>	<b>165,138</b>	<b>14,862</b>	–	<b>180,000</b>
	2010	145,642	13,108	–	158,750
<b>Total</b>	<b>2011</b>	<b>1,284,488</b>	<b>138,012</b>	–	<b>1,422,500</b>
	2010	1,133,752	116,248	–	1,250,000

1 Post-employment benefits represent compulsory and salary sacrificed superannuation benefits.

### Note 31. 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 Trust, the results of those operations, or state of the Trust's affairs in future financial periods.

### Note 32. 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 DXS and to appropriately allocate resources. Refer to the table below for a brief description of DXS's operating segments.

Office – Australia and New Zealand	This comprises office space with any associated retail space; as well as car-parks and office developments in Australia and New Zealand.
Industrial – Australia	This comprises domestic industrial properties, industrial estates and industrial developments.
Industrial – North America	This comprises industrial properties, industrial estates and industrial developments in the United States as well as one industrial asset in Canada <sup>1</sup> .
Management Business	The domestic and US based management businesses are responsible for asset, property and development management of Office, Industrial and Retail properties for DXS and the third party funds management business.
Financial Services	The treasury function of DXS is managed through a centralised treasury department. As a result, all treasury related financial information relating to borrowings, finance costs as well as fair value movements in derivatives, are prepared and monitored separately.
All other segments	This comprises the European industrial and retail <sup>2</sup> portfolios. These operating segments do not meet the quantitative thresholds set out in AASB 8 <i>Operating Segments</i> due to their relatively small scale. As a result these non-core operating segments have been included in "all other segments" in the operating segment information shown below.

1 The Canadian asset was sold on 24 June 2011 (refer note 14).

2 The retail asset was sold on 31 March 2010. The Group does not own any other retail assets.

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 36 in the DEXUS Property Group Financial Statements).

## Notes to the Financial Statements

For the year ended 30 June 2011

CONTINUED

## Note 33. Reconciliation of net profit/(loss) to net cash inflow from operating activities

	2011 \$'000	2010 \$'000
Net profit/(loss)	114,745	(96,698)
Capitalised interest	(1,005)	(6,073)
Net fair value (gain)/loss of investment properties	(39,696)	24,581
Share of net (profit)/loss of associates accounted for using the equity method	(20,326)	59,285
Net fair value gain of derivatives	(1,992)	(3,704)
Net (gain)/loss on sale of investment properties	(3,285)	1,535
Net foreign exchange gain	(1,546)	(1,390)
<b>Change in operating assets and liabilities</b>		
(Increase)/decrease in receivables	(1,058)	9,431
Decrease in prepaid expenses	144	398
Decrease in deferred withholding tax assets	4,019	641
(Increase)/decrease in other non-current assets	(2,684)	1,674
(Decrease)/increase in payables	(7,758)	26,129
Increase in other non-current liabilities	17,589	60,959
<b>Net cash inflow from operating activities</b>	<b>57,147</b>	<b>76,768</b>

## Note 34. 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.

	2011 cents	2010 cents
Basic earnings per unit on profit/(loss) attributable to unitholders	2.37	(2.03)
Diluted earnings per unit on profit/(loss) attributable to unitholders	2.37	(2.03)

## (a) Reconciliation of earnings used in calculating earnings per unit

	2011 \$'000	2010 \$'000
Net profit/(loss) for the year	114,745	(96,698)
<b>Net profit/(loss) attributable to the unitholders of the Trust used in calculating basic and diluted earnings per unit</b>	<b>114,745</b>	<b>(96,698)</b>

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

	2011 units	2010 units
Weighted average number of units outstanding used in calculation of basic and diluted earnings per unit	4,836,131,743	4,774,467,174

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 6 to 52:

- (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 2011 and of their performance, as represented by the results of their operations and their cash flows, for the year ended on that date.

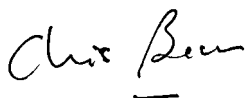
In the Directors' opinion:

- (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 2011.

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

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

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



Christopher T Beare  
Chair  
16 August 2011





## 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 2011, 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 the 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. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

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

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

PricewaterhouseCoopers  
ABN 52 780 433 757

Darling Park Tower 2  
201 Sussex Street  
GPO BOX 2650  
SYDNEY NSW 1171  
DX 77 Sydney  
Australia  
Telephone +61 2 8266 0000  
Facsimile +61 2 8266 9999  
[www.pwc.com/au](http://www.pwc.com/au)



*Independence*

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

*Auditor's opinion*

In our opinion:

- (a) the financial report of DEXUS 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 2011 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in Note 1.

*Matters relating to the electronic presentation of the audited financial report*

This auditor's report relates to the financial report of DEXUS Industrial Trust for the year ended 30 June 2011 included on DEXUS Industrial Trust web site. The Responsible Entity's directors are responsible for the integrity of this web site. We have not been engaged to report on the integrity of this web site. The auditor's report refers only to the financial report named above. It does not provide an opinion on any other information which may have been hyperlinked to/from the financial report. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report to confirm the information included in the audited financial report presented on this web site.

*PricewaterhouseCoopers*

PricewaterhouseCoopers

*JA Dunning*

JA Dunning  
Partner

Sydney  
16 August 2011

# DEXUS OFFICE TRUST

## DIRECTORS' REPORT

For the year ended 30 June 2011

The Directors of DEXUS Funds Management Limited (DXFM) as Responsible Entity of DEXUS Office Trust and its consolidated entities (DOT or the Trust) present their Directors' Report together with the consolidated Financial Statements for the year ended 30 June 2011.

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:

Directors	Appointed
Christopher T Beare	4 August 2004
Elizabeth A Alexander, AM	1 January 2005
Barry R Brownjohn	1 January 2005
John C Conde, AO	29 April 2009
Stewart F Ewen, OAM	4 August 2004
Victor P Hoog Antink	1 October 2004
Brian E Scullin	1 January 2005
Peter B St George	29 April 2009

Particulars of the qualifications, experience and special responsibilities of current 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 2011 are as follows:

##### **Tanya L Cox MBA MAICD FCIS** **Appointed: 1 October 2004**

Tanya is the Chief Operating Officer and Company Secretary of DXFM and is responsible for the delivery of company secretarial, operational, information technology, communications and administration services, as well as operational risk management systems and practices across the Group. Prior to joining DXS in July 2003, Tanya held various general management positions over the past 16 years, including Director and Chief Operating Officer of NM Rothschild & Sons (Australia) Ltd and General Manager – Finance, Operations and IT for Bank of New Zealand (Australia).

Tanya is a non-executive director of a number of not-for-profit organisations, a member of the Australian Institute of Company Directors and a fellow of the Institute of Chartered Secretaries and Administrators (ICSA) and Chartered Secretaries Australia (CSA). Tanya has an MBA from the Australian Graduate School of Management and a Graduate Diploma in Applied Corporate Governance.

Tanya is Chief Operating Officer and Company Secretary of DXFM, DEXUS Holdings Pty Limited (DXH) and DEXUS Wholesale Property Limited (DWPL) and is a member of the Board Compliance Committee.

##### **John C Easy B Comm LLB ACIS** **Appointed: 1 July 2005**

John is the General Counsel and Company Secretary of DXFM. During his time with the Group he has been involved in the establishment and public listing of the Deutsche Office Trust, the acquisition of the Paladin and AXA property portfolios, and subsequent stapling and creation of DXS. Prior to joining DXS 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. He is a member of Chartered Secretaries Australia (CSA) and holds a Graduate Diploma in Applied Corporate Governance.

John is General Counsel and Company Secretary for DXFM, DXH and DWPL and is a member of the Board Compliance Committee.

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

The number of Directors' meetings held during the year and each Director's attendance at those meetings is set out in the table below.

The Directors met 13 times during the year. Ten Board meetings were main meetings and three meetings were held to consider specific business. While the Board continuously considers strategy, in March 2011 it met with the executive and senior management team over three days to consider DXS's strategic plans.

	Main meetings held	Main meetings attended	Specific meetings held	Specific meetings attended
Christopher T Beare	10	10	3	3
Elizabeth A Alexander, AM	10	10	3	3
Barry R Brownjohn	10	10	3	3
John C Conde, AO	10	10	3	3
Stewart F Ewen, OAM	10	10	3	3
Victor P Hoog Antink	10	10	3	3
Brian E Scullin	10	9	3	3
Peter B St George	10	10	3	3

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 Directors' attendance at those meetings.

	Board Audit Committee		Board Risk and Sustainability Committee		Board Compliance Committee		Board Nomination and Remuneration Committee		Board Finance Committee	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended	Held	Attended
Christopher T Beare	–	–	–	–	–	–	7	7	4	4
Elizabeth A Alexander, AM	6	6	–	–	–	–	–	–	–	–
Barry R Brownjohn	6	6	4	4	–	–	–	–	4	4
John C Conde, AO	–	–	–	–	4	4	7	7	–	–
Stewart F Ewen, OAM	–	–	–	–	–	–	7	7	–	–
Victor P Hoog Antink	–	–	–	–	–	–	–	–	–	–
Brian E Scullin	–	–	–	–	4	4	–	–	–	–
Peter B St George	6	6	4	4	–	–	–	–	4	4

## 3. Directors' interests

The Board's policy on insider trading and trading in DXS securities, or securities in any of the funds managed by DXS, by any Director or employee is outlined in the Corporate Governance Statement in the DEXUS Property Group Annual Report.

While the trading policy described in the Corporate Governance Statement applies to Directors and Senior Executives, the Board has determined that Directors will not trade in any security managed by DXS.

Directors have made this decision because the Board of DXFM has responsibility for the Group itself 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 a conflict that may arise by being a Director of multiple funds, the Directors have determined that they will not invest in any fund managed by the Group including DXS. This position is periodically reviewed by the Board.

As a direct result of the Group's policy regarding Directors holding DXS securities, or securities in any of the funds managed by the Group, as at the date of this Directors' Report no Director directly or indirectly held:

- DXS securities; or
- options over, or any other contractual interest in, DXS securities; or
- an interest in any other fund managed by DXFM or any other entity that forms part of the Group.

#### 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:

Directors	Company	Date appointed	Date resigned or ceased being a Director of a listed entity
Christopher T Beare	MNet Group Limited	6 November 2009	
Elizabeth A Alexander, AM	CSL Limited	12 July 1991	
	Boral Limited	15 December 1999	24 October 2008
John C Conde, AO	Whitehaven Coal Limited	3 May 2007	
Brian E Scullin	SPARK Infrastructure RE Limited <sup>1</sup>	31 May 2011	
	BT Investment Management Limited	17 September 2007	
Peter B St George	Boart Longyear Limited	21 February 2007	
	SPARK Infrastructure RE Limited <sup>1</sup>	8 November 2005	31 December 2008
	First Quantum Minerals Limited <sup>2</sup>	20 October 2003	

1 SPARK Infrastructure RE Limited has issued ASX listed stapled securities trading as SPARK Infrastructure Group (ASX: SKI).

2 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 2011 were:

- profit attributable to unitholders was \$263.6 million (2010: \$124.7 million);
- total assets were \$3,248.5 million (2010: \$3,105.6 million); and
- net assets were \$2,808.2 million (2010: \$2,684.4 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 in 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 2011 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 2011 are outlined in note 23 of the Notes to the Financial Statements and form part of this Directors' Report.

#### 11. DXFM's fees and associate interests

Details of fees paid or payable by the Trust to DXFM for the year ended 30 June 2011 are outlined in note 28 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 (2010: 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 2011 are detailed in note 20 of the Notes to the Financial Statements and form part of this Directors' Report.

The Trust did not have any options on issue as at 30 June 2011 (2010: nil).

#### 13. Environmental regulation

DXS senior management, through its Board Risk and 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 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 was adopted in 2010 that 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 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 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 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 in the Financial Statements and forms part of this Directors' Report.

## 16. Corporate governance

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

## 17. Rounding of amounts and currency

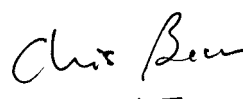
The Trust is a registered scheme of the kind referred to in Class Order 98/0100, issued by the Australian Securities & Investments Commission, relating to the rounding off of amounts in this Directors' Report and the Financial Statements. Amounts in this Directors' Report and the Financial Statements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

## 18. Management representation

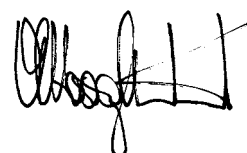
The Chief Executive Officer and Chief Financial Officer have reviewed the Trust's financial reporting processes, policies and procedures together with its risk management and internal control and compliance policies and procedures. Following that review, it is their opinion that the Trust's financial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

## 19. Directors' authorisation

The Directors' Report is made in accordance with a resolution of the Directors. The Financial Statements were authorised for issue by the Directors on 16 August 2011. The Directors have the power to amend and reissue the Financial Statements.



Christopher T Beare  
Chair  
16 August 2011



Victor P Hoog Antink  
Chief Executive Officer  
16 August 2011



### **Auditor's Independence Declaration**

**PricewaterhouseCoopers**  
**ABN 52 780 433 757**

Darling Park Tower 2  
201 Sussex Street  
GPO BOX 2650  
SYDNEY NSW 1171  
DX 77 Sydney  
Australia  
Telephone +61 2 8266 0000  
Facsimile +61 2 8266 9999  
[www.pwc.com/au](http://www.pwc.com/au)

As lead auditor for the audit of DEXUS Office Trust for the year ended 30 June 2011, 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.

A handwritten signature in black ink, appearing to read 'JA Dunning', is written over a horizontal line.

JA Dunning  
Partner  
PricewaterhouseCoopers

Sydney  
16 August 2011

## DEXUS OFFICE TRUST

## Consolidated Statement of Comprehensive Income

For the year ended 30 June 2011

	Note	2011 \$'000	2010 \$'000
<b>Revenue from ordinary activities</b>			
Property revenue	2	260,213	247,993
Interest revenue	3	395	301
<b>Total revenue from ordinary activities</b>		<b>260,608</b>	<b>248,294</b>
Net fair value gain of investment properties		56,970	7,297
Share of net profit of associates accounted for using the equity method	14	34,053	–
Net foreign exchange gain		88	120
Other income		145	3
<b>Total income</b>		<b>351,864</b>	<b>255,714</b>
<b>Expenses</b>			
Property expenses		(68,928)	(66,692)
Responsible Entity fees	28	(9,361)	(8,998)
Finance costs	4	(6,439)	(25,234)
Share of net loss of associates accounted for using the equity method	14	–	(26,243)
Net loss on sale of investment		–	(15)
Net fair value loss of derivatives		(46)	(77)
Other expenses	5	(1,420)	(2,095)
<b>Total expenses</b>		<b>(86,194)</b>	<b>(129,354)</b>
<b>Profit before tax</b>		<b>265,670</b>	<b>126,360</b>
<b>Other comprehensive income:</b>			
Exchange differences on translating foreign operations		(5,260)	1,163
<b>Total comprehensive income for the year</b>		<b>260,410</b>	<b>127,523</b>
<b>Net profit for the year attributable to:</b>			
Unitholders of DEXUS Office Trust		263,576	124,728
Non-controlling interests		2,094	1,632
<b>Net profit for the year</b>		<b>265,670</b>	<b>126,360</b>
<b>Total comprehensive income for the year attributable to:</b>			
Unitholders of DEXUS Office Trust		258,316	125,891
Non-controlling interests		2,094	1,632
<b>Total comprehensive income for the year</b>		<b>260,410</b>	<b>127,523</b>
<b>Earnings per unit</b>			
		<b>Cents</b>	<b>Cents</b>
Basic earnings per unit on profit attributable to unitholders	32	0.55	0.26
Diluted earnings per unit on profit attributable to unitholders	32	0.55	0.26

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



# DEXUS OFFICE TRUST

## Consolidated Statement of Financial Position

As at 30 June 2011

	Note	2011 \$'000	2010 \$'000
<b>Current assets</b>			
Cash and cash equivalents	7	7,671	8,766
Receivables	8	6,005	3,737
Derivative financial instruments	10	266	46
Other	11	2,797	3,462
<b>Total current assets</b>		<b>16,739</b>	<b>16,011</b>
<b>Non-current assets</b>			
Investment properties	12	3,026,959	2,939,511
Derivative financial instruments	10	3,544	6,064
Investments accounted for using the equity method	14	200,356	93,344
Loans with related parties	9	–	49,637
Other	15	860	997
<b>Total non-current assets</b>		<b>3,231,719</b>	<b>3,089,553</b>
<b>Total assets</b>		<b>3,248,458</b>	<b>3,105,564</b>
<b>Current liabilities</b>			
Payables	16	38,452	41,782
Interest bearing liabilities	17	249,700	–
Loans with related parties	9	55,684	55,684
Provisions	18	64,739	52,225
Derivative financial instruments	10	1,207	1,083
<b>Total current liabilities</b>		<b>409,782</b>	<b>150,774</b>
<b>Non-current liabilities</b>			
Interest bearing liabilities	17	–	248,618
Loans with related parties	9	14,423	–
Derivative financial instruments	10	15,552	21,083
Other	19	551	708
<b>Total non-current liabilities</b>		<b>30,526</b>	<b>270,409</b>
<b>Total liabilities</b>		<b>440,308</b>	<b>421,183</b>
<b>Net assets</b>		<b>2,808,150</b>	<b>2,684,381</b>
<b>Equity</b>			
Contributed equity	20	2,063,214	2,056,790
Reserves	21	(15,815)	(10,555)
Retained profits	21	556,723	433,945
		<b>2,604,122</b>	<b>2,480,180</b>
Non-controlling interests	22	204,028	204,201
<b>Total equity</b>		<b>2,808,150</b>	<b>2,684,381</b>

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

## Consolidated Statement of Changes in Equity

For the year ended 30 June 2011

	Note	Contributed equity  \$'000	Retained profits  \$'000	Foreign currency translation reserve \$'000	Unitholder equity  \$'000	Non-controlling interests  \$'000	Total equity  \$'000
<b>Opening balance as at 1 July 2009</b>		<b>2,015,192</b>	<b>429,669</b>	<b>(11,718)</b>	<b>2,433,143</b>	<b>204,025</b>	<b>2,637,168</b>
Comprehensive income for the year		–	124,728	1,163	125,891	1,632	127,523
<b>Transactions with owners in their capacity as owners</b>							
Contributions of equity, net of transaction costs		41,598	–	–	41,598	–	41,598
Distributions paid or provided for	23	–	(111,606)	–	(111,606)	(10,302)	(121,908)
Transfer to retained profits		–	(8,846)	–	(8,846)	8,846	–
<b>Closing balance as at 30 June 2010</b>		<b>2,056,790</b>	<b>433,945</b>	<b>(10,555)</b>	<b>2,480,180</b>	<b>204,201</b>	<b>2,684,381</b>
<b>Opening balance as at 1 July 2010</b>		<b>2,056,790</b>	<b>433,945</b>	<b>(10,555)</b>	<b>2,480,180</b>	<b>204,201</b>	<b>2,684,381</b>
Comprehensive income for the year		–	263,576	(5,260)	258,316	2,094	260,410
<b>Transactions with owners in their capacity as owners</b>							
Contributions of equity, net of transaction costs		6,424	–	–	6,424	–	6,424
Distributions paid or provided for	23	–	(130,437)	–	(130,437)	(12,628)	(143,065)
Transfer to retained profits		–	(10,361)	–	(10,361)	10,361	–
<b>Closing balance as at 30 June 2011</b>		<b>2,063,214</b>	<b>556,723</b>	<b>(15,815)</b>	<b>2,604,122</b>	<b>204,028</b>	<b>2,808,150</b>

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

# DEXUS OFFICE TRUST

## Consolidated Statement of Cash Flows

For the year ended 30 June 2011

	Note	2011 \$'000	2010 \$'000
<b>Cash flows from operating activities</b>			
Receipts in the course of operations (inclusive of GST)		305,663	299,916
Payments in the course of operations (inclusive of GST)		(107,572)	(103,048)
Interest received		395	301
Finance costs paid to financial institutions		(17,340)	(19,146)
Distributions received		–	16
<b>Net cash inflow from operating activities</b>	<b>31</b>	<b>181,146</b>	<b>178,039</b>
<b>Cash flows from investing activities</b>			
Payments for capital expenditure on investment properties		(58,168)	(31,343)
Proceeds from the sale of investments		–	3,288
Payments for investments accounted for using the equity method		(61,726)	(31,995)
<b>Net cash outflow from investing activities</b>		<b>(119,894)</b>	<b>(60,050)</b>
<b>Cash flows from financing activities</b>			
Borrowings provided to entities within DXS		(158,415)	(147,525)
Borrowings provided by entities within DXS		220,014	131,557
Distributions paid to unitholders		(111,499)	(91,923)
Distributions paid to non-controlling interests		(12,403)	(9,629)
<b>Net cash outflow from financing activities</b>		<b>(62,303)</b>	<b>(117,520)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(1,051)</b>	<b>469</b>
Cash and cash equivalents at the beginning of the year		8,766	8,289
Effects of exchange rate changes on cash and cash equivalents		(44)	8
<b>Cash and cash equivalents at the end of the year</b>	<b>7</b>	<b>7,671</b>	<b>8,766</b>

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

**Note 1. Summary of significant accounting policies****(a) Basis of preparation**

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 the Australian Accounting Standards.

DEXUS Funds Management Limited (DXFM) as Responsible Entity for each entity within DXS may only unstack the Group if approval is obtained by a special resolution of the stapled security holders.

These general purpose Financial Statements for the year ended 30 June 2011 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(m), 1(n) and 1(t)).

As at 30 June 2011, the Trust had a net current asset deficiency of \$393.0 million (2010: \$134.8 million). The DXS group has in place both external and internal funding arrangements to support the cash flow requirements of the Trust. The Trust is a going concern and the Financial Statements have been prepared on that basis. Gearing is managed centrally for DXS. The gearing ratio as disclosed in the DXS Financial Statements for the year ended 30 June 2011 is 29.1% (refer note 30 of the DXS Financial Statements).

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

**Critical accounting estimates**

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

**(b) Principles of consolidation****(i) Controlled entities**

The Financial Statements have been prepared on a consolidated basis. The accounting policies of the subsidiaries are consistent with those of the parent.

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

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

**(ii) Partnerships and joint ventures**

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

**(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.

**Note 1. Summary of significant accounting policies**

(continued)

**(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 and property, plant and equipment where such expenses are the responsibility of the Trust.

**(ii) Borrowing costs**

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

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

**(e) Derivatives and other financial instruments****(i) Derivatives**

The Trust's activities expose it to a variety of financial risks including foreign exchange risk and interest rate risk. Accordingly, the Trust enters into various derivative financial instruments such as interest rate swaps and foreign exchange contracts to manage its exposure to certain risks. Written policies and limits are approved by the Board of Directors of the Responsible Entity, in relation to the use of financial instruments to manage financial risks. The Responsible Entity continually reviews the Trust's exposures and updates its treasury policies and procedures. The Trust does not trade in derivative instruments for speculative purposes. Even though derivative financial instruments are entered into for the purpose of providing the Trust with an economic hedge, the Trust has elected not to apply hedge accounting under AASB 139 *Financial Instruments: Recognition and Measurement*. Accordingly, derivatives including interest rate swaps, 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 the amount of Goods and Services Tax (GST), except where the amount of GST incurred is not recoverable. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

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

**(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 30%. 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.

**(h) Distributions**

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

**(i) Repairs and maintenance**

Plant is required to be overhauled on a regular basis and is managed as part of an ongoing major cyclical maintenance program. The costs of this maintenance are charged as expenses as incurred, except where they relate to the replacement of a component of an asset, in which case the replaced component will be derecognised and the replacement costs capitalised in accordance with note 1(m). 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) Other financial assets at fair value through profit and loss

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

#### (m) Property, plant and equipment

Property, 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 Trust and the cost of the item can be measured reliably. All other repairs and maintenance are charged to Statement of Comprehensive Income during the reporting period in which they are incurred.

Property, 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)).

#### (n) Investment properties

During the year ended 30 June 2010, the Trust adopted the amendments to AASB 140 *Investment Property* as set out in AASB 2008-5 *Amendments to Australian Accounting Standards arising from the Annual Improvements Project* effective for reporting periods beginning on or after 1 January 2009. Under this amendment, property that is under construction or development for future use as investment property falls within the scope of AASB 140. As such, development property of this nature is no longer recognised and measured as property, plant and equipment but is included as investment property measured at fair value. Where fair value of investment property under construction is not reliably measurable, the property is measured at cost until the earlier of the date construction is completed and the date at which fair value becomes reliably measurable. As required by the standard, the amendments to AASB 140 were applied prospectively from 1 July 2009.

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

The basis of valuations of investment properties is fair value being the amounts for which the assets could be exchanged between knowledgeable willing parties in an arm's length transaction, based on current prices in an active market for similar properties in the same location and condition and subject to similar leases. In addition, an appropriate valuation method is used, which may include the discounted cash flow and the capitalisation method. Discount rates and capitalisation rates are determined based on industry expertise and knowledge and, where possible, a direct comparison to third party rates for similar assets in a comparable location. Rental revenue from current leases and assumptions about future leases, as well as any expected operational cash outflows in relation to the property, are also reflected in fair value. In relation to development properties under construction for future use as investment property, where reliably measurable, fair value is determined based on the market value of the property on the assumption it had already been completed at the valuation date less costs still required to complete the project, including an appropriate adjustment for profit and risk.

External valuations of the individual investment properties are carried out in accordance with the Trust's Constitution, or may be earlier where the Responsible Entity believes there is a potential for a material change in the fair value of the property.

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

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

#### (o) Leasing fees

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

#### (p) 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)****(q) Investments accounted for using the equity method**

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

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

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

**(r) Business combinations**

The acquisition method of accounting is used to account for all business combinations. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Trust. The consideration transferred also includes the fair value of any contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The Trust recognises any non-controlling interest in the acquiree at its proportionate share of the acquiree's net identifiable assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Trust's share of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in the Statement of Comprehensive Income as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

**(s) 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.

**(t) Financial assets and liabilities****(i) Classification**

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

Financial asset/liability	Classification	Valuation basis	Reference
Cash and cash equivalents	Fair value through profit or loss	Fair value	Refer note 1(j)
Receivables	Loans and receivables	Amortised cost	Refer note 1(k)
Other financial assets	Loans and receivables	Amortised cost	Refer note 1(e)
Other financial assets	Fair value through profit or loss	Fair value	Refer note 1(n)
Payables	Financial liability at amortised cost	Amortised cost	Refer note 1(u)
Interest bearing liabilities	Financial liability at amortised cost	Amortised cost	Refer note 1(v)
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.

#### (u) 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.

#### (v) 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 end of each reporting period.

#### (w) 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.

#### (x) Foreign currency

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

#### (i) Foreign currency transactions

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

#### (ii) Foreign operations

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

The assets and liabilities of the foreign operations are translated at exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising are recognised in the foreign currency translation reserve and recognised in profit or loss on disposal 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) 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 DOT, DDF, 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 the CODM are presented in DXS's Financial Statements.

#### (z) 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.

#### (aa) Parent entity financial information

On 28 June 2010 the *Corporations Amendment (Corporate Reporting Reform) Act 2010* received Royal Assent. As a result of the amendments, Financial Statements for financial years ending on or after 30 June 2010 no longer need to include separate columns and associated note disclosures for the parent entity. Instead, the Corporations Regulations now prescribe limited disclosures that will need to be made in the Notes to the Financial Statements which include disclosure of key financial information for the parent entity and details of any guarantees, contingent liabilities and commitments.

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:

#### 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.

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

Certain new accounting standards and interpretations have been published that are not mandatory for the 30 June 2011 reporting period. Our assessment of the impact of these new standards and interpretations is set out below:

- (i) AASB 2010-4 *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project* (effective 1 January 2011). In June 2010, the AASB made a number of amendments to Australian Accounting Standards as a result of the IASB's annual improvements project. The Trust intends to apply the standard from 1 July 2011 and does not expect any significant impacts.
- (ii) AASB 2010-6 *Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets* (effective 1 July 2011). Amendments made to AASB 7 *Financial Instruments: Disclosures* in November 2010 introduce additional disclosures in respect of risk exposures arising from transferred financial assets. The amendments will particularly affect entities that sell, factor, securitise, lend or otherwise transfer financial assets to other parties. The Trust intends to apply the standard from 1 July 2011 and does not expect any significant impacts.



**Note 1. Summary of significant accounting policies**

(continued)

**(ab) New accounting standards and interpretations**

(continued)

- (iii) AASB 9 *Financial Instruments* and AASB 2009-11 *Amendments to Australian Accounting Standards arising from AASB 9* and AASB 2010-7 *Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)* (effective 1 January 2013). AASB 9 *Financial Instruments* addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard simplifies the classifications of financial assets into those to be carried at amortised cost and those to be carried at fair value. The Trust intends to apply the standards from 1 July 2013 and does not expect any significant impacts.
- (iv) AASB 2010-8 *Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets* (effective 1 January 2012). In December 2010, the AASB amended AASB 112 *Income Taxes* to provide an amended approach for measuring deferred tax liabilities and deferred tax assets when investment property is measured using the fair value model. AASB 112 requires the measurement of deferred tax assets or liabilities to reflect the tax consequences that would follow from the way management expects to recover or settle the carrying amount of the relevant assets or liabilities, that is through use or through sale. The Trust intends to apply the standard from 1 July 2012 and does not expect any significant impacts.
- (v) AASB 1054 *Australian Additional Disclosures*, AASB 2011-1 *Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project* and AASB 2011-2 *Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project – Reduced Disclosure Requirements* (effective 1 July 2011). The AASB and NZ FRSB have issued accounting standards that eliminate most of the existing differences between their local standards and IFRS. Where additional disclosures were considered necessary, they were moved to new standard AASB 1054. Adoption of the new rules will not affect any of the amounts recognised in the Financial Statements, but may simplify some of the Trust's current disclosures. The Trust intends to apply the standards from 1 July 2011.
- (vi) AASB 2011-4 *Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements* (effective 1 July 2013). In July 2011 the AASB decided to remove the individual key management personnel disclosure requirements from AASB 124 *Related Party Disclosures*, to achieve consistency with the international equivalent standard and remove a duplication of the requirements with the *Corporations Act 2001*. While this will reduce the disclosures that are currently required in the Notes to the Financial Statements, it will not affect any of the amounts recognised in the Financial Statements. The amendments apply from 1 July 2013 and cannot be adopted early. The Corporations Act requirements in relation to remuneration reports will remain unchanged for now, but these requirements are currently subject to review and may also be revised in the near future.

The IASB has issued new and amended standards as discussed below. The AASB is expected to issue equivalent Australian standards shortly.

- (vii) IFRS 10 *Consolidated Financial Statements* (effective 1 January 2013). IFRS 10 replaces all of the guidance on control and consolidation in IAS 27 *Consolidated and separate financial statements*, and SIC-12 *Consolidation – special purpose entities*. The standard introduces a single definition of control that applies to all entities. It focuses on the need to have both power and rights or exposure to variable returns before control is present. The Trust intends to apply the standard from 1 July 2013 and does not expect any significant impacts.
- (viii) IFRS 12 *Disclosure of interests in other entities* (effective 1 January 2013). IFRS 12 sets out the required disclosures for entities reporting under the two new standards, IFRS 10 and IFRS 11, and replaces the disclosure requirements currently found in IAS 28. Application of this standard will not affect any of the amounts recognised in the Financial Statements, but may impact some of the Trust's current disclosures. The Trust intends to apply the standard from 1 July 2013.
- (ix) IAS 28 *Investments in associates* (effective 1 January 2013). Amendments to IAS 28 provide clarification that an entity continues to apply the equity method and does not remeasure its retained interest as part of ownership changes where a joint venture becomes an associate, and vice versa. The Trust intends to apply the standard from 1 July 2013 and does not expect any significant impacts.
- (x) IFRS 13 *Fair value measurement* (effective 1 January 2013). IFRS 13 explains how to measure fair value and aims to enhance fair value disclosures. Application of this standard will not affect any of the amounts recognised in the Financial Statements, but may impact some of the Trust's current disclosures. The Trust intends to apply the standard from 1 July 2013.
- (xi) Revised IAS 1 *Presentation of Financial Statements* (effective 1 July 2012). In June 2011, the IASB made an amendment to IAS 1 *Presentation of Financial Statements*. The AASB is expected to make equivalent changes to AASB 101 shortly. The amendment requires entities to separate items presented in other comprehensive income into two groups, based on whether they may be recycled to profit or loss in the future. It will not affect the measurement of any of the items recognised in the balance sheet or the profit or loss in the current period. The Trust intends to adopt the new standard from 1 July 2012.

## Note 2. Property revenue

	2011 \$'000	2010 \$'000
Rent and recoverable outgoings	275,911	265,201
Incentive amortisation	(26,843)	(25,266)
Other revenue	11,145	8,058
<b>Total property revenue</b>	<b>260,213</b>	<b>247,993</b>

## Note 3. Interest revenue

	2011 \$'000	2010 \$'000
Interest revenue from financial institutions	395	301
<b>Total interest revenue</b>	<b>395</b>	<b>301</b>

## Note 4. Finance costs

	2011 \$'000	2010 \$'000
Interest paid/payable	16,459	14,316
Interest paid to related parties	2,345	6,157
Amount capitalised	(11,832)	(7,212)
Other finance costs	1,106	1,079
Net fair value (gain)/loss of interest rate swaps	(1,639)	10,894
<b>Total finance costs</b>	<b>6,439</b>	<b>25,234</b>

The average capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation is 7.77% (2010: 7.15%).

## Note 5. Other expenses

	Note	2011 \$'000	2010 \$'000
Audit and taxation fees	6	317	302
Custodian fees		216	206
Legal and other professional fees		387	232
Registry costs and listing fees		275	360
Other expenses		225	995
<b>Total other expenses</b>		<b>1,420</b>	<b>2,095</b>

**Note 6. Audit and taxation fees**

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

	2011 \$	2010 \$
<b>Audit fees</b>		
PwC Australia – audit and review of Financial Statements	280,018	278,248
PwC fees paid in relation to outgoings audit <sup>1</sup>	40,203	45,000
PwC Australia – regulatory audit and compliance services	10,750	6,457
<b>Audit fees paid to PwC</b>	<b>330,971</b>	<b>329,705</b>
<b>Total audit fees</b>	<b>330,971</b>	<b>329,705</b>
<b>Taxation fees</b>		
Fees paid to PwC Australia	13,377	11,009
Fees paid to PwC NZ	12,670	6,639
<b>Taxation fees paid to PwC</b>	<b>26,047</b>	<b>17,648</b>
<b>Total taxation fees<sup>2</sup></b>	<b>26,047</b>	<b>17,648</b>
<b>Total audit and taxation fees<sup>1</sup></b>	<b>357,018</b>	<b>347,353</b>

1 Fees paid in relation to outgoing audits are included in property expenses. Therefore total audit and taxation fees included in other expenses are \$316,815 (2010: \$302,353).

2 These services include general compliance work, one off project work and advice with respect to the management of day-to-day tax affairs of the Trust.

**Note 7. Current assets – cash and cash equivalents**

	2011 \$'000	2010 \$'000
Cash at bank	7,671	8,766
<b>Total current assets – cash and cash equivalents</b>	<b>7,671</b>	<b>8,766</b>

**Note 8. Current assets – receivables**

	2011 \$'000	2010 \$'000
Rent receivable	1,112	903
Less: provision for doubtful debts	(88)	(75)
<b>Total rental receivables</b>	<b>1,024</b>	<b>828</b>
Receivables from related parties	614	15
Other receivables	4,367	2,894
<b>Total other receivables</b>	<b>4,981</b>	<b>2,909</b>
<b>Total current assets – receivables</b>	<b>6,005</b>	<b>3,737</b>

## Note 9. Loans with related parties

	2011 \$'000	2010 \$'000
<b>Non-current assets – loans with related parties</b>		
Interest bearing loans with related parties <sup>1</sup>	–	49,637
<b>Total non-current assets – loans with related parties</b>	<b>–</b>	<b>49,637</b>
<b>Current liabilities – loans with related parties</b>		
Non-interest bearing loans with entities within DXS <sup>2</sup>	55,684	55,684
<b>Total current liabilities – loans with related parties</b>	<b>55,684</b>	<b>55,684</b>
<b>Non-current liabilities – loans with related parties</b>		
Interest bearing loans with related parties <sup>1</sup>	14,423	–
<b>Total non-current liabilities – loans with related parties</b>	<b>14,423</b>	<b>–</b>

1 Interest bearing loans with DEXUS Finance Pty Limited (DXF). These loan balances eliminate on consolidation within DXS.

2 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.

## Note 10. Derivative financial instruments

	2011 \$'000	2010 \$'000
<b>Current assets</b>		
Interest rate swap contracts	266	–
Forward foreign exchange contracts	–	46
<b>Total current assets – derivative financial instruments</b>	<b>266</b>	<b>46</b>
<b>Non-current assets</b>		
Interest rate swap contracts	3,544	6,064
<b>Total non-current assets – derivative financial instruments</b>	<b>3,544</b>	<b>6,064</b>
<b>Current liabilities</b>		
Interest rate swap contracts	1,207	1,083
<b>Total current liabilities – derivative financial instruments</b>	<b>1,207</b>	<b>1,083</b>
<b>Non-current liabilities</b>		
Interest rate swap contracts	15,552	21,083
<b>Total non-current liabilities – derivative financial instruments</b>	<b>15,552</b>	<b>21,083</b>
<b>Net derivative financial instruments</b>	<b>(12,949)</b>	<b>(16,056)</b>

Refer note 25 for further discussion regarding derivative financial instruments.

## Note 11. Current assets – other

	2011 \$'000	2010 \$'000
Prepayments	2,797	3,462
<b>Total current assets – other</b>	<b>2,797</b>	<b>3,462</b>

**Note 12. Non-current assets – investment properties**

	Note	2011 \$'000	2010 \$'000
Opening balance at the beginning of the year		2,939,511	2,891,603
Additions		39,736	17,845
Transfer from property, plant and equipment	13	–	18,150
Lease incentives		22,178	27,736
Amortisation of lease incentives		(26,843)	(25,267)
Net fair value gain of investment properties		56,970	7,297
Rent straightlining		683	1,131
Foreign exchange differences on foreign currency translation		(5,276)	1,016
<b>Closing balance at the end of the year</b>		<b>3,026,959</b>	<b>2,939,511</b>

**Key valuation assumptions**

Details of key valuation assumptions in relation to investment properties are outlined in note 12 of the DXS Financial Statements.

**Note 13. Non-current assets – property, plant and equipment**

	Construction in progress \$'000	Land and freehold buildings \$'000	Total \$'000
Opening balance as at 1 July 2010	–	–	–
Transfer to investment properties	–	–	–
<b>Closing balance as at 30 June 2011</b>	<b>–</b>	<b>–</b>	<b>–</b>

	Construction in progress \$'000	Land and freehold buildings \$'000	Total \$'000
Opening balance as at 1 July 2009	2,033	16,117	18,150
Transfer to investment properties	(2,033)	(16,117)	(18,150)
<b>Closing balance as at 30 June 2010</b>	<b>–</b>	<b>–</b>	<b>–</b>

#### Note 14. Non-current assets – investments accounted for using the equity method

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

Information relating to this entity is set out below.

Name of entity	Principal activity	Ownership Interest			
		2011 %	2010 %	2011 \$'000	2010 \$'000
Bent Street Trust	Office property investment	33.3	33.3	200,356	93,344
<b>Total</b>				<b>200,356</b>	<b>93,344</b>

Bent Street Trust was formed in Australia.

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

	2011 \$'000	2010 \$'000
Opening balance at the beginning of the year	93,344	84,165
Units issued during the year	73,558	38,739
Interest sold during the year	–	(3,302)
Share of net profit/(loss) after tax <sup>1</sup>	34,053	(26,243)
Distributions receivable	(599)	(15)
<b>Closing balance at the end of the year</b>	<b>200,356</b>	<b>93,344</b>
<b>Results attributable to investments accounted for using the equity method</b>		
Operating profit/(loss) before income tax	34,053	(26,243)
<b>Operating profit/(loss) after income tax</b>	<b>34,053</b>	<b>(26,243)</b>
Less: Distributions receivable	(599)	(15)
	<b>33,454</b>	<b>(26,258)</b>
Accumulated losses at the beginning of the year	(32,610)	(6,352)
<b>Retained profits/(accumulated losses) at the end of the year</b>	<b>844</b>	<b>(32,610)</b>

<sup>1</sup> Share of net profit/(loss) after tax includes a fair value gain of \$33.6 million (2010: loss of \$26.2 million) in relation to the Trust's share of the Bligh Street development.

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

The Trust's share of aggregate profit/(loss), assets and liabilities of investments accounted for using the equity method are:

	2011 \$'000	2010 \$'000
Profit/(loss) from ordinary activities after income tax expense	34,053	(26,243)
Assets	212,252	97,670
Liabilities	11,896	4,326
<b>Share of expenditure commitments</b>		
Capital commitments	646	67,308

#### Note 15. Non-current assets – other

	2011 \$'000	2010 \$'000
Tenant and other bonds	571	708
Other	289	289
<b>Total non-current assets – other</b>	<b>860</b>	<b>997</b>

**Note 16. Current liabilities – payables**

	2011 \$'000	2010 \$'000
Trade creditors	11,981	11,760
Accruals	3,339	3,652
Amount payable to non-controlling interests	3,142	2,917
Accrued capital expenditure	6,921	10,850
Prepaid income	8,207	8,008
Responsible Entity fee payable	796	756
GST payable	1,007	1,058
Accrued interest	3,059	2,781
<b>Total current liabilities – payables</b>	<b>38,452</b>	<b>41,782</b>

**Note 17. Interest bearing liabilities**

	Note	2011 \$'000	2010 \$'000
<b>Current</b>			
<b>Secured</b>			
Bank loans	(a)	250,000	–
<b>Total secured</b>		<b>250,000</b>	<b>–</b>
Deferred borrowing costs		(300)	–
<b>Total current liabilities – interest bearing liabilities</b>		<b>249,700</b>	<b>–</b>
<b>Non-current</b>			
<b>Secured</b>			
Bank loans		–	250,000
<b>Total secured</b>		<b>–</b>	<b>250,000</b>
Deferred borrowing costs		–	(1,382)
<b>Total non-current liabilities – interest bearing liabilities</b>		<b>–</b>	<b>248,618</b>

**(a) Bank loans – secured**

Comprises a \$250.0 million secured bank loan maturing in October 2011. The loan is secured by mortgages over one DDF investment property and two DOT investment properties totalling \$792.6 million as at 30 June 2011.

**Note 18. Current liabilities – provisions**

	2011 \$'000	2010 \$'000
Provision for distribution	64,739	52,225
<b>Total current liabilities – provisions</b>	<b>64,739</b>	<b>52,225</b>

Movements in provision for distribution is set out below:

	2011 \$'000	2010 \$'000
Opening balance at the beginning of the year	52,225	74,141
Additional provisions	130,437	111,606
Payments and reinvestment of distributions	(117,923)	(133,522)
<b>Closing balance at the end of the year</b>	<b>64,739</b>	<b>52,225</b>

A provision for distribution has been raised for the period ended 30 June 2011. This distribution is to be paid on 31 August 2011.

## Note 19. Non-current liabilities – other

	2011 \$'000	2010 \$'000
Tenant bonds	551	708
<b>Total non-current liabilities – other</b>	<b>551</b>	<b>708</b>

## Note 20. Contributed equity

### (a) Contributed equity

	2011 \$'000	2010 \$'000
Opening balance at the beginning of the year	2,056,790	2,015,192
Distributions reinvested	6,424	41,598
<b>Closing balance at the end of the year</b>	<b>2,063,214</b>	<b>2,056,790</b>

### (b) Number of units on issue

	2011 No. of units	2010 No. of units
Opening balance at the beginning of the year	4,820,821,799	4,700,841,666
Distributions reinvested	18,202,377	119,980,133
<b>Closing balance at the end of the year</b>	<b>4,839,024,176</b>	<b>4,820,821,799</b>

### 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*.

### (c) Distribution reinvestment plan

Under the distribution reinvestment plan (DRP), stapled security holders may elect to have all or part of their distribution entitlements satisfied by the issue of new stapled securities, rather than being paid in cash.

On 27 August 2010, 18,202,377 units were issued at a unit price of 35.3 cents in relation to the June 2010 distribution period.

On 13 December 2010, DXS announced the suspension of the DRP until further notice.

### Approval of issues of Stapled Securities to an underwriter in connection with issues under a distribution reinvestment plan

At the Extraordinary General Meeting held on 6 February 2009 by DXFM, as Responsible Entity for DDF, DIT, DOT and DXO, stapled security holders resolved to authorise DXFM, as Responsible Entity, to issue stapled securities, each comprising a unit in each of the above mentioned trusts (Stapled Securities), to an underwriter or persons procured by an underwriter within a period of 24 months from the date of the meeting in connection with any issue of Stapled Securities under the DXS distribution reinvestment plan.

Such an issue will not be counted for the purposes of the calculation of the 15% limit under the ASX Listing Rule 7.1.

## Note 21. Reserves and retained profits

### (a) Reserves

	2011 \$'000	2010 \$'000
Foreign currency translation reserve	(15,815)	(10,555)
<b>Total reserves</b>	<b>(15,815)</b>	<b>(10,555)</b>
<b>Movements:</b>		
<b>Foreign currency translation reserve</b>		
Opening balance at the beginning of the year	(10,555)	(11,718)
Exchange difference arising from the translation of the financial statements of foreign operations	(5,260)	1,163
<b>Total movement in foreign currency translation reserve</b>	<b>(5,260)</b>	<b>1,163</b>
<b>Closing balance at the end of the year</b>	<b>(15,815)</b>	<b>(10,555)</b>



## Notes to the Financial Statements

For the year ended 30 June 2011

CONTINUED

**Note 21. Reserves and retained profits** (continued)

## (b) Nature and purpose of reserves

**Foreign currency translation reserve**

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

## (c) Retained profits

	2011 \$'000	2010 \$'000
Opening balance at the beginning of the year	433,945	429,669
Net profit attributable to unitholders	263,576	124,728
Transfer of capital reserve of non-controlling interests	(10,361)	(8,846)
Distributions provided for or paid	(130,437)	(111,606)
<b>Closing balance at the end of the year</b>	<b>556,723</b>	<b>433,945</b>

**Note 22. Non-controlling interests**

Interest in	2011 \$'000	2010 \$'000
Contributed equity	197,705	197,705
Reserves	70,928	60,566
Accumulated losses	(64,605)	(54,070)
<b>Total non-controlling interests</b>	<b>204,028</b>	<b>204,201</b>

**Note 23. Distributions paid and payable**

## (a) Distribution to unitholders

	2011 \$'000	2010 \$'000
31 December (paid 25 February 2011)	65,698	59,381
30 June (payable 31 August 2011)	64,739	52,225
	<b>130,437</b>	<b>111,606</b>

## (b) Distribution to non-controlling interests

	2011 \$'000	2010 \$'000
DEXUS RENTS Trust (paid 18 October 2010)	3,162	2,285
DEXUS RENTS Trust (paid 18 January 2011)	3,182	2,387
DEXUS RENTS Trust (paid 15 April 2011)	3,142	2,713
DEXUS RENTS Trust (payable 15 July 2011)	3,142	2,917
	<b>12,628</b>	<b>10,302</b>
<b>Total distributions</b>	<b>143,065</b>	<b>121,908</b>

## (c) Distribution rate

	2011 Cents per unit	2010 Cents per unit
31 December (paid 25 February 2011)	1.36	1.25
30 June (payable 31 August 2011)	1.34	1.08
<b>Total distributions</b>	<b>2.70</b>	<b>2.33</b>

## Note 24. Parent entity financial information

### (a) Summary financial information

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

	2011 \$'000	2010 \$'000
Total current assets	429,265	319,634
Total assets	3,009,152	2,862,290
Total current liabilities	146,751	133,919
Total liabilities	426,972	404,305
<b>Equity</b>		
Contributed equity	2,063,214	2,056,790
Retained profits	518,966	401,196
<b>Total equity</b>	<b>2,582,180</b>	<b>2,457,986</b>
Net profit for the year	248,207	117,568
<b>Total comprehensive income for the year</b>	<b>248,207</b>	<b>117,568</b>

The parent entity has sufficient facilities to draw upon as required.

### (b) Investments in controlled entities

The parent entity has the following investments:

Name of entity	Principal activity	Ownership Interest		2011 \$'000	2010 \$'000
		2011 %	2010 %		
DOT Commercial Trust	Office property investment	100.0	100.0	476,250	429,301
DOT NZ Sub-Trust No 1	Office property investment	100.0	100.0	16,950	24,592
DOT NZ Sub-Trust No 2	Office property investment	100.0	100.0	55	55
<b>Total investments in controlled entities</b>				<b>493,255</b>	<b>453,948</b>

### (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 2011 (2010: nil).

### (e) Contractual capital commitments

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

	2011 \$'000	2010 \$'000
Not longer than one year	3,456	7,252
Later than one year but no later than five years	378	–
<b>Total capital commitments</b>	<b>3,834</b>	<b>7,252</b>

## 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](http://www.dexus.com)

### (1) Capital risk management

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

The capital structure of the Trust consists of debt (see note 17), cash and cash equivalents, and equity attributable to unitholders (including hybrid securities). The capital structure is monitored and managed in consideration of a range of factors including:

- the cost of capital and the financial risks associated with each class of capital;
- gearing levels and other covenants;
- potential impacts on net tangible assets and unitholders equity;
- potential impacts on DXS's credit rating; and
- other market factors and circumstances.

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

The gearing ratio at 30 June 2011 was 8.1% (as detailed below).

Gearing ratio	2011 \$'000	2010 \$'000
Total interest bearing liabilities <sup>1</sup>	264,423	250,000
Total tangible assets <sup>2</sup>	3,244,648	3,099,454
<b>Gearing ratio<sup>3</sup></b>	<b>8.1%</b>	<b>8.1%</b>

<sup>1</sup> Total interest bearing liabilities excludes deferred borrowing costs and includes the fair value of cross currency swaps as reported internally to management.

<sup>2</sup> Total tangible assets comprise total tangible assets less derivatives and deferred tax balances as reported internally to management.

<sup>3</sup> Gearing is managed centrally for DXS. The gearing ratio as disclosed in the DEXUS Property Group Financial Statements 2011 is 29.1% (refer note 30 of the DXS Financial Statements).

The Trust is not rated by ratings agencies, however, DXS has been rated BBB+ by Standard and Poor's (S&P) and Baa1 by Moody's. The Trust considers potential impacts upon the rating when assessing the strategy and activities of the Trust and regards those impacts as an important consideration in its management of the Trust's capital structure.

The Responsible Entity for the Trust (DXFM) has been issued with an Australian Financial Services Licence (AFSL). The licence is subject to certain capital requirements including the requirement to hold minimum net tangible assets (of \$5 million), and to maintain a minimum level of surplus liquid funds. Furthermore, the Responsible Entity maintains trigger points in accordance with the requirements of the licence. These trigger points maintain a headroom value above the AFSL requirements and the entity has in place a number of processes and procedures should a trigger point be reached.

### (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 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.

	2011				2010			
	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	6,005	–	–	–	3,737	–	–	–
Payables	38,452	–	–	–	41,782	–	–	–
	(32,447)	–	–	–	(38,045)	–	–	–
<b>Total interest bearing liabilities and interest<sup>1</sup></b>	<b>254,264</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>16,300</b>	<b>254,274</b>	<b>–</b>	<b>–</b>
<b>Total net loans with related parties and interest<sup>2</sup></b>	<b>1,164</b>	<b>1,164</b>	<b>3,492</b>	<b>16,751</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>Derivative financial instruments</b>								
Derivative assets	1,871	1,468	136	–	2,264	1,971	2,392	569
Derivative liabilities	4,593	5,892	13,998	1,943	6,278	5,082	9,817	1,754
<b>Total net derivative financial instruments<sup>3</sup></b>	<b>(2,722)</b>	<b>(4,424)</b>	<b>(13,862)</b>	<b>(1,943)</b>	<b>(4,014)</b>	<b>(3,111)</b>	<b>(7,425)</b>	<b>(1,185)</b>

1 Refer to note 17 (interest bearing liabilities). Excludes deferred borrowing costs and preference shares but includes estimated fees and interest. Refer to note 26 (contingent liabilities) for financial guarantees.

2 Includes estimated interest.

3 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 derivative assets and liabilities that have floating rate interest cash flows, future cash flows have been calculated using static interest rates prevailing at the end of each reporting period. Refer to note 10 (derivative financial instruments) for fair value of derivatives. Refer note 26 (contingent liabilities) for financial guarantees.

**Note 25. Financial risk management** (continued)**(2) Financial risk management** (continued)**(b) Market risk**

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

**(i) Interest rate risk**

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

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

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

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

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

	June 2012 \$'000	June 2013 \$'000	June 2014 \$'000	June 2015 \$'000	June 2016 \$'000	> June 2017 \$'000
<b>Interest rate swaps</b>						
A\$ hedged <sup>1</sup>	683,333	645,000	640,000	480,000	338,333	45,333
A\$ hedge rate (%) <sup>2</sup>	5.50%	5.80%	5.93%	6.05%	6.34%	5.87%

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.

		2011 (+/-) \$'000	2010 (+/-) \$'000
+/- 0.50% (50 basis points)	A\$	(2,658)	(3,279)

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.

		2011 (+/-) \$'000	2010 (+/-) \$'000
+/- 0.50% (50 basis points)	A\$	12,049	13,755

#### (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 investments in foreign operations; and
- earnings distributions and other transactions denominated in foreign currencies.

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

#### *Foreign currency assets and liabilities*

Exposure to foreign exchange risk is minimised by predominantly matching the currency of the Trust's debt with the currency of its investment to form a natural hedge against movements in exchange rates. This policy reduces the risk that movements in foreign exchange rates will have an adverse impact on unitholder's 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.

The Trust's net foreign currency exposures for net investments in foreign operations and hedging instruments are as follows:

	2011 \$'000	2010 \$'000
NZ\$ net assets <sup>1</sup>	123,001	128,500
NZ\$ net borrowings <sup>2</sup>	–	–
NZ\$ cross currency swaps <sup>3</sup>	–	–
<b>NZ\$ denominated net investment</b>	<b>123,001</b>	<b>128,500</b>
<b>% hedged</b>	<b>0%</b>	<b>0%</b>
Total foreign investment (A\$)	94,959	104,404
Total % hedged	0%	0%

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

2 Net borrowings equals interest bearing liabilities less cash.

3 Cross currency swap amounts comprise the foreign currency denominated leg of the cross currency swaps.

**Note 25. 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. The increase and decrease in cents has been based on the historical movements of the Australian dollar relative to the New Zealand dollar<sup>1</sup>. The increase and decrease has been applied to the spot rate prevailing at the end of each reporting period<sup>2</sup>. 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.

		2011 (+/-) \$'000	2010 (+/-) \$'000
+ 10.9 cents (8%) (2010: 10.4 cents)	NZ\$ (A\$ Equivalent)	7,375	8,156
- 10.9 cents (8%) (2010: 10.4 cents)	NZ\$ (A\$ Equivalent)	(8,731)	(9,666)

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 2011: A\$/NZ\$ 1.2953 (2010: 1.2308).

*Net foreign currency denominated cash flows*

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

Forward foreign exchange contracts outstanding at 30 June 2011 and 30 June 2010 are as follows:

	2011			2010		
	To pay NZ\$'000	To receive A\$'000	Weighted average exchange rate	To pay NZ\$'000	To receive A\$'000	Weighted average exchange rate
1 year or less	-	-	-	2,000	1,688	1.1847
Over 1 and less than 2 years	-	-	-	-	-	-
More than 2 years	-	-	-	-	-	-

*Sensitivity on fair value of foreign exchange contracts*

The table below shows the impact on the Statement of Comprehensive Income for changes in the fair value of forward foreign exchange contracts for an increase and decrease in market rates. The increase and decrease in cents has been based on the historical movements of the Australian dollar relative to the New Zealand dollar<sup>1</sup>. The increase and decrease in cents has been applied to the spot rate prevailing the end of each reporting period<sup>2</sup>. 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 forward foreign exchange contracts.

Although forward foreign exchange contracts are transacted for the purpose of providing the Trust with an economic hedge, the Trust has elected not to apply hedge accounting to its forward foreign exchange contracts. Accordingly, gains or losses arising from changes in the fair value are reflected in the Statement of Comprehensive Income.

		2011 (+/-) \$'000	2010 (+/-) \$'000
+ 10.9 cents (8%) (2010: 10.4 cents)	NZ\$ (A\$ Equivalent)	-	124
- 10.9 cents (8%) (2010: 10.4 cents)	NZ\$ (A\$ Equivalent)	-	(146)

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 2011: A\$/NZ\$ 1.2953 (2010: 1.2308).

### (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 2011, the lowest rating of counterparties the Trust is exposed to was A+ (S&P) (2010: A (S&P)).

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

The maximum exposure to credit risk at 30 June 2011 and 30 June 2010 is the carrying amount of financial assets recognised on the Statement of Financial Position.

As at 30 June 2011 and 30 June 2010, 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 2011 is (\$'000): 5,773 (0-30 days), 156 (31-60 days), 76 (61-90 days), nil (91+ days). The ageing analysis of loans and receivables net of provisions at 30 June 2010 is (\$'000): 3,610 (0-30 days), 61 (31-60 days), 37 (61-90 days), 29 (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 2011 and 30 June 2010, the carrying amounts and fair value of financial assets and liabilities are shown as follows:

	2011		2010	
	Carrying amount <sup>1</sup> \$'000	Fair value <sup>2</sup> \$'000	Carrying amount <sup>1</sup> \$'000	Fair value <sup>2</sup> \$'000
<b>Financial assets</b>				
Cash and cash equivalents	7,671	7,671	8,766	8,766
Loans and receivables (current)	6,005	6,005	3,737	3,737
Derivative assets	3,810	3,810	6,110	6,110
<b>Interest bearing assets</b>				
Interest bearing loans with related parties	–	–	49,637	49,637
<b>Total financial assets</b>	<b>17,486</b>	<b>17,486</b>	<b>68,250</b>	<b>68,250</b>
<b>Financial liabilities</b>				
Trade payables	38,452	38,452	41,782	41,782
Derivative liabilities	16,759	16,759	22,166	22,166
Non-interest bearing loans with the entities within DXS	55,684	55,684	55,684	55,684
<b>Interest bearing liabilities</b>				
Interest bearing loans with related parties	14,423	14,423	–	–
Bank loans	250,000	250,000	250,000	250,000
<b>Total financial liabilities</b>	<b>375,318</b>	<b>375,318</b>	<b>369,632</b>	<b>369,632</b>

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

2 Fair value is the amount for which the financial instrument could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction, however, not recognised in the Statement of Financial Position.

The fair value of fixed rate interest bearing liabilities has been determined by discounting the expected future cash flows by the relevant market rates. The discount rates applied range from 4.81% to 6.42% for A\$. Refer note 1(t) for fair value methodology for financial assets and liabilities.

#### Determination of fair value

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

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

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

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

The following table presents the assets and liabilities measured and recognised as at fair value at 30 June 2011 and 30 June 2010.

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	2011 \$'000
<b>Financial assets</b>				
Derivative assets				
Interest rate derivatives	–	3,810	–	3,810
<b>Financial liabilities</b>				
Derivative liabilities				
Interest rate derivatives	–	16,759	–	16,759
	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	2010 \$'000
<b>Financial assets</b>				
Derivative assets				
Interest rate derivatives	–	13,557	–	13,557
Forward exchange contracts	–	227	–	227
	–	<b>13,784</b>	–	<b>13,784</b>
<b>Financial liabilities</b>				
Derivative liabilities				
Interest rate derivatives	–	24,025	–	24,025

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

**Note 26. Contingent liabilities**

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

	2011 \$'000	2010 \$'000
Bank guarantees by the Trust in respect of variations and other financial risks associated with the development of:		
Bligh Street, Sydney, NSW <sup>1</sup>	5,650	3,820
<b>Total contingent liabilities</b>	<b>5,650</b>	<b>3,820</b>

<sup>1</sup> Bank guarantee held in relation to an equity accounted investment (refer note 14).

The Trust together with DDF, DIT and DXO is also a guarantor of a total of A\$1,147.5 million and US\$120.0 million (A\$111.7 million) of bank bilateral facilities, a total of A\$340.0 million of medium term notes, a total of US\$296.0 million (A\$275.6 million) of privately placed notes, and a total of US\$550.0 million (A\$512.2 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 Trust together with DDF, DIT and DXO is also a guarantor, on a subordinated basis, of RENTS (Real-estate perpetual ExchaNgeable sTep-up Securities). The guarantee has been given in support of payments that become due and payable to the RENTS holders and ranks ahead of DXS's distribution payments, but subordinated to the claims of senior creditors.

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:

	2011 \$'000	2010 \$'000
<b>Not longer than one year</b>		
Governor Phillip & Macquarie Tower Complex 1, Farrer Place, Sydney, NSW	982	1,986
The Zenith, 821-843 Pacific Highway, Chatswood, NSW	660	1,811
60 Miller Street, North Sydney, NSW	–	765
One Margaret Street, Sydney, NSW	–	369
45 Clarence Street, Sydney, NSW	578	1,200
309-321 Kent Street, Sydney, NSW	1,236	1,121
Southgate Complex, 3 Southgate Avenue, Southbank, VIC	7,505	756
Garema Court, 140-180 City Walk, Canberra, ACT	777	–
201-217 Elizabeth Street, Sydney, NSW	2,411	–
Australia Square Complex, 264-278 George Street, Sydney, NSW	98	–
	<b>14,247</b>	<b>8,008</b>
<b>Later than one year but no later than five years</b>		
309-321 Kent Street, Sydney, NSW	378	–
	<b>378</b>	<b>–</b>
<b>Total capital commitments</b>	<b>14,625</b>	<b>8,008</b>

### (b) Lease receivable commitments

The future minimum lease payments receivable by the Trust are:

	2011 \$'000	2010 \$'000
Within one year	214,885	191,581
Later than one year but not later than five years	630,509	645,175
Later than five years	235,601	241,914
<b>Total lease receivable commitments</b>	<b>1,080,995</b>	<b>1,078,670</b>

**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:

	2011 \$	2010 \$
Responsible Entity fees paid and payable	9,361,017	8,998,138
Property management fees paid and payable to DXPS	6,331,551	5,279,268
Administration expenses paid and payable to DXH	4,497,928	5,272,669
Responsible Entity fees payable at the end of each reporting period (included above)	796,119	758,567
Property management fees payable at the end of each reporting period (included above)	1,168,601	983,764
Administration expenses payable at the end of each reporting period (included above)	483,657	626,545
Net rental expense payable to DXPS	–	382,593
Rent received from DXPS	3,106,752	–

**Entities within DXS**

Aggregate amounts included in the determination of profit that resulted from transactions with each class of other related parties:

	2011 \$	2010 \$
Interest revenue	1,134,643	2,202,233
Interest expense	3,479,460	8,359,663
Interest bearing loans advanced to entities within DXS	220,015,472	147,525,419
Interest bearing loans advanced from entities within DXS	158,415,139	131,557,258

**Directors**

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

C T Beare, BSc, BE (Hons), MBA, PhD, FAICD<sup>1,4,5</sup>

E A Alexander, AM, BComm, FCA, FAICD, FCPA<sup>1,2,6</sup>

B R Brownjohn, BComm<sup>1,2,5,6</sup>

J C Conde, AO, BSc, BE(Hons), MBA<sup>1,3,4</sup>

S F Ewen, OAM<sup>1,4</sup>

V P Hoog Antink, BComm, MBA, FAICD, FCA, FAPI, FRICS

B E Scullin, BEc<sup>1,3</sup>

P B St George, CA(SA), MBA<sup>1,2,5,6</sup>

1 Independent Director

2 Board Audit Committee Member

3 Board Compliance Committee Member

4 Board Nomination and Remuneration Committee Member

5 Board Finance Committee Member

6 Board Risk and Sustainability Committee Member

No Directors held an interest in the Trust for the years ended 30 June 2011 and 30 June 2010.

## Other key management personnel

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

Name	Title
Victor P Hoog Antink	Chief Executive Officer
Tanya L Cox	Chief Operating Officer
John C Easy	General Counsel
Craig D Mitchell	Chief Financial Officer
Paul G Say	Chief Investment Officer

No key management personnel or their related parties held an interest in the Trust for the years ended 30 June 2011 and 30 June 2010.

There were no loans or other transactions with key management personnel or their related parties for the years ended 30 June 2011 and 30 June 2010.

	2011 \$	2010 \$
<b>Compensation</b>		
Short term employee benefits	8,266,683	9,174,298
Post-employment benefits	912,706	328,058
Other long term benefits	4,794,526	3,797,553
	<b>13,973,915</b>	<b>13,299,909</b>

## Remuneration Report

### 1. Introduction

This Remuneration Report has been prepared in accordance with AASB 124 *Related Party Disclosures* and section 300A of the *Corporations Act 2001* for the year ended 30 June 2011. The information provided in this Report has been audited in accordance with the provisions of section 308 (3C) of the *Corporations Act 2001*.

#### Key Management Personnel

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

- Non-Executive Directors;
- the Chief Executive Officer; and
- Executives who are members of the Group Management Committee (GMC)

Below are the individuals determined to be KMP of the Group, classified between Non-Executive Director and Executive personnel.

#### Non-Executive Directors

There were no changes to the composition of Non-Executive Directors from the previous year.

Name	Title	KMP 2011	KMP 2010
Christopher T Beare	Non-Executive Chair	✓	✓
Elizabeth A Alexander, AM	Non-Executive Director	✓	✓
Barry R Brownjohn	Non-Executive Director	✓	✓
John C Conde, AO	Non-Executive Director	✓	✓
Stewart F Ewen, OAM	Non-Executive Director	✓	✓
Brian E Scullin	Non-Executive Director	✓	✓
Peter B St George	Non-Executive Director	✓	✓

**Note 28. Related parties** (continued)

## Remuneration Report (continued)

**1. Introduction** (continued)

## Executives

The following changes occurred within the Executive group during the year ended 30 June 2011:

- the GMC was formed on 1 July 2010, replacing the former Executive Committee;
- all property sector Executives now report through to the Chief Investment Officer;
- Mr Turner, former Head of Funds Management and a KMP, ceased employment on 31 December 2010; and
- Ms Martin, former Head of Office and a KMP, ceased employment on 31 December 2010.

Name	Title	Status	KMP 2011	KMP 2010
Victor P Hoog Antink	Chief Executive Officer	GMC Member	✓	✓
Tanya L Cox	Chief Operating Officer	GMC Member	✓	✓
John C Easy	General Counsel	GMC Member	✓	✓
Craig D Mitchell	Chief Financial Officer	GMC Member	✓	✓
Paul G Say	Chief Investments Officer	GMC Member	✓	✓
Andrew P Whiteside <sup>1</sup>	Head of Industrial	Executive	–	✓
R Jane Lloyd <sup>1</sup>	Head of US Investments	Executive	–	✓
Patricia A Daniels <sup>1</sup>	Head of Human Resources	Executive	–	✓
Mark F Turner <sup>2</sup>	Head of Funds Management	Executive/Left Employment	–	✓
Louise J Martin <sup>2</sup>	Head of Office and Retail	Executive/Left Employment	–	✓

1 Following the establishment of the GMC on 1 July 2010, Mr Whiteside, Ms Lloyd and Ms Daniels were no longer considered to be KMP for the purpose of this report.

However, the total of their remuneration received in 2010 has been disclosed in sections 5 and 8 of this report to provide consistency with figures reported in the prior year.

2 Ms Martin is included in the remuneration disclosure in sections 5 and 8 of this report due to her termination payments placing her within the five most highly paid Directors or Executives as defined under the *Corporations Act 2001*. Mr Turner's remuneration is disclosed for 2010 within the former KMP group in sections 5 and 8.

**2. Board oversight of remuneration**

The objectives of the Board Nomination and Remuneration Committee (Committee) are to assist the Board in fulfilling its responsibilities by overseeing all aspects of Director and Executive remuneration, as well as Board nomination and performance evaluation. Specifically, the Committee carries out the following activities:

## Nomination

To review and recommend to the Board:

- the nomination, appointment, re-election and removal of Directors;
- performance evaluation procedures for the Board, its committees and individual Directors;
- Board and CEO succession plans;
- identification of those employees who fall within the definition of Key Management Personnel as defined in AASB124 *Related Party Disclosures*;
- the DEXUS Diversity Policy;
- measurable objectives for the achievement of gender diversity and monitoring of those objectives;
- ongoing training and development requirements for Directors;
- the effectiveness of the induction process for Directors; and
- determination of the time required by independent Directors to discharge their responsibilities effectively, and whether Directors are meeting this commitment.

## Remuneration

To review and recommend to the Board:

- remuneration approach, including design and operation of the performance payment employee incentive schemes;
- CEO and Executive performance and remuneration;
- aggregate annual performance payment pool; and
- Directors' fees.

To review and approve:

- aggregate base salary increases and annual performance payment pool, for all employees other than the CEO and Key Management Personnel; and
- recruitment, retention and termination policies and procedures.

Regarding remuneration, the Committee assesses the appropriateness of the structure and the quantum of both Director and Executive remuneration on an annual basis, with reference to relevant regulatory and market conditions, and individual and company performance. At its discretion, the Committee engages external consultants to provide independent advice when required (see section 4 for a description of the remuneration review process).

Further information about the role and responsibilities of the Committee is set out in the Board Nomination and Remuneration Committee Terms of Reference, which may be found online at [www.dexus.com](http://www.dexus.com) in the Corporate Governance section.

The composition of the Committee remained unchanged throughout the year ended 30 June 2011. Mr Conde continued in his role as Committee Chair, drawing upon his extensive experience from a diverse range of appointments, including his role as President of the Commonwealth Remuneration Tribunal. The Committee's experience is further enhanced through the membership of Messrs Beare and Ewen, each of whom has significant management experience in the property and financial services sectors.

During the year ended 30 June 2011, Committee members were:

Name	Title	KMP 2011	KMP 2010
John C Conde, AO <sup>1</sup>	Committee Chair	✓	✓
Christopher T Beare <sup>2</sup>	Committee Member	✓	✓
Stewart F Ewen, OAM	Committee Member	✓	✓
Brian E Scullin <sup>3</sup>	Committee Member	–	–

1 Mr Conde was formerly a member of the Committee and became Chair effective 1 September 2009.

2 Mr Beare was formerly Chair of the Committee and became a Member effective 1 September 2009.

3 Mr Scullin ceased being a Member of the Committee on 31 August 2009 (there were no FY10 meetings of the Committee prior to this).

### 3. Non-Executive Directors' remuneration framework

The objectives of the Non-Executive Directors' remuneration framework are to ensure Non-Executive Directors' fees reflect the responsibilities of Non-Executive Directors and are market competitive. Non-Executive Directors' fees are reviewed annually with reference to:

- comparably sized companies in the S&P/ASX 100 index;
- publicly available remuneration reports from competitors; and
- information supplied by independent external advisors, such as the Australian Institute of Company Directors, Ernst & Young and the Godfrey Remuneration Group.

Non-Executive Directors, other than the Chair, receive a base fee plus additional fees for membership of Board Committees.

The table below outlines the fee structure for the year ended 30 June 2011.

Committee	Chair \$	Member \$
Director's Base Fee	350,000	150,000
Board Audit and Risk	30,000	15,000
DWPL Board	30,000	15,000
Board Finance	15,000	7,500
Board Compliance	15,000	7,500
Board Nomination and Remuneration	15,000	7,500

In addition to the Directors' fee structure outlined above, Mr Ewen's company is paid a fixed fee of \$30,000 per annum for his attendance at property inspections, for reviewing property investment proposals and participating in informal management meetings.

Recognising the greater responsibility and time commitment required, the Board Chair receives a higher fee than other Non-Executive Directors, which is benchmarked to the market median of comparably sized ASX listed entities. The Chair does not receive Board Committee fees, nor is the Chair present during any discussion relating to the determination of the Chair's fees.

Non-Executive Directors are not eligible to receive performance based remuneration or accrue separate retirement benefits beyond statutory superannuation entitlements.

Base fees for both the Chair and Non-Executive Directors were increased effective 1 July 2010. This increase was reported in the remuneration report for the year ended 30 June 2010. Total fees paid to Directors remain within the aggregate fee pool of \$1,750,000 per annum approved by DXS security holders at its Annual General Meeting in October 2008.



**Note 28. Related parties** (continued)

## Remuneration Report (continued)

**4. Approach to Executive remuneration****4.1 Executive remuneration principles**

DXS Executives are charged with providing a full range of integrated property services, focused on office and industrial property management, delivering consistent total returns to investors, while assuming relatively moderate risk. Earnings growth is also driven by increasing activity in each of our operating business and growing new revenue streams. The Directors consider that an appropriately skilled and qualified Executive team is essential to achieve this objective. The Group's approach to the principles, structure and quantum of Executive remuneration is therefore designed to attract, motivate and retain such an Executive team.

In establishing the Group's remuneration principles, the Directors are cognisant that DXS's business is based on long term property investments and similarly long term tenant relationships. Furthermore, property market investment returns tend to be cyclical. Taking these factors into account, the Executive remuneration structure is based on the following criteria:

1. market competitiveness and reasonableness;
2. alignment of Executive performance payments with achievement of the Group's financial and operational objectives, within its risk framework and cognisant of its values-based culture; and
3. an appropriate mix of remuneration components, including performance payments linked to security holder returns over the longer term.

*(a) Market competitiveness and reasonableness*

For the purposes of determining market competitive remuneration, the Group takes a research based approach, obtaining external executive remuneration benchmarks from a range of sources, including:

- publicly available data from the annual reports of constituents of the S&P/ASX 100 index;
- independent remuneration consultants, including Hart Consulting Group, Financial Institutions Remuneration Group, Aon Hewitt and the Avdiev Group, regarding property organisations of a similar market capitalisation; and
- various recruitment and consulting agencies who are informed sources of market remuneration trends.

*(b) Alignment of Executive performance payments with achievement of the Group's objectives*

The Group assesses individual Executive performance within a Balanced Scorecard framework. The Balanced Scorecard prescribes the financial and non-financial performance indicators that will be used to measure an Executive's performance for the year. Financial performance indicators include objectives that promote the achievement of superior security holder returns over time, whilst non-financial indicators are designed to encourage operational effectiveness and sustainable business and people practices. By setting objectives which promote a balanced performance outcome, the Group is able to monitor the execution of its strategy in a holistic manner. The Balanced Scorecard focuses on performance in four areas, which reflect each Executive's role, responsibility, accountability and strategy delivery.

**DEXUS Balanced Scorecard – typical objectives**

Financial performance	Business development and business management
<ul style="list-style-type: none"> <li>■ Earnings per security</li> <li>■ Distributions per security</li> <li>■ Third party funds' performance</li> <li>■ Total security holder return, relative to peers</li> </ul>	<ul style="list-style-type: none"> <li>■ Execution of strategy on time and within budget</li> <li>■ Corporate responsibility and sustainability initiatives</li> <li>■ Achievement of international operations strategies</li> </ul>
Stakeholder satisfaction	Leadership
<ul style="list-style-type: none"> <li>■ Investor relations</li> <li>■ Tenant satisfaction</li> <li>■ Employee engagement</li> </ul>	<ul style="list-style-type: none"> <li>■ Executive succession</li> <li>■ Talent management</li> <li>■ Role modelling DEXUS cultural values</li> <li>■ Executive development</li> </ul>

Individual objectives are selected based on the key strategic drivers for each area of responsibility and as a result are tailored and weighted differently for each Executive. The typical objectives listed above are therefore not common to all Executive roles.

The Committee reviews and approves Balanced Scorecard objectives at the commencement of each financial year and reviews achievement against these KPIs at the end of each financial year. The Committee's review of Executive performance, in conjunction with data provided from external benchmarks and the target remuneration mix, guide the Committee in its determination of the appropriate quantum of Performance Payments to be awarded to Executives.

### (c) Executive remuneration structure

#### i. Executive remuneration components

The DXS Executive remuneration structure comprises the following remuneration components:

TOTAL REMUNERATION			
		<ul style="list-style-type: none"> <li>■ delivered through fixed and variable components</li> <li>■ fixed remuneration is targeted at the market median awarded on a variable scale, which may result in a total remuneration range from lower quartile to upper quartile, reflecting differing levels of experience, role structure and contribution</li> </ul>	<ul style="list-style-type: none"> <li>■ variable remuneration is delivered as immediate and deferred performance payments and is determined on a range of factors including achievement of KPIs and relative market remuneration mix</li> </ul>
<b>FIXED REMUNERATION</b>	Salary	<ul style="list-style-type: none"> <li>■ Consists of cash salary and salary sacrificed fringe benefits, such as motor vehicles</li> </ul>	<ul style="list-style-type: none"> <li>■ Targeted at Australian market median using external benchmark data and varies according to Executives' skills and depth of experience</li> </ul>
	Superannuation	<ul style="list-style-type: none"> <li>■ Prescribed and salary sacrifice superannuation contributions, including insurance premiums (if applicable)</li> </ul>	<ul style="list-style-type: none"> <li>■ Reviewed annually by the Board, effective 1 July, including internal and external relativities</li> </ul>
<b>VARIABLE REMUNERATION</b>	Performance Payments	<ul style="list-style-type: none"> <li>■ The aim of Performance Payments is to attract, motivate and retain appropriately skilled and qualified executives to achieve the strategic objectives of the business, measured through the achievement of KPIs</li> <li>■ Strategic objectives incorporate financial and non-financial measures of performance at Group, business unit and individual level and represent key drivers for the success of the business and for delivering long term value to security holders</li> <li>■ The achievement of KPIs is assessed through a Balanced Scorecard approach</li> <li>■ Individual awards are determined on a range of factors, including achievement of KPIs and relative market remuneration mix</li> </ul>	<ul style="list-style-type: none"> <li>■ Performance payments are delivered as immediate and deferred elements in accordance with the targeted remuneration mix set out in the table below</li> <li>■ The annual award of any Performance Payment to an Executive is dependent upon the Board being satisfied that minimum threshold performance targets have been achieved</li> <li>■ Only in exceptional circumstances would the Board consider awarding a Performance Payment which exceeds the target remuneration mix</li> </ul>
	DEXUS Performance Payments (DPP)	<ul style="list-style-type: none"> <li>■ Delivery of DPP is immediate</li> </ul>	<ul style="list-style-type: none"> <li>■ Awarded annually as a cash payment in September</li> </ul>
	DEXUS Deferred Performance Payments (DDPP)	<ul style="list-style-type: none"> <li>■ Delivery of DDPP is deferred for three years, as described below</li> </ul>	<ul style="list-style-type: none"> <li>■ Granted annually</li> <li>■ Grants vest after three years (i.e. no accelerated vesting)</li> <li>■ Delivered as a cash payment in accordance with the plan design described below</li> <li>■ Unvested grants are forfeited upon Executive initiated termination (i.e. resignation)</li> <li>■ The Nomination and Remuneration Committee may use its discretion in operating the Plan</li> </ul>

#### Performance payment pool

A single pool of funds is accrued to meet all Performance Payments. The pool of funds accrued is sufficient to ensure that the Group is able to meet its objectives under its remuneration framework. The Board may exercise its discretion to vary the size of the pool by reference to such factors as:

- three year absolute total security holder return;
- management costs, risk factors and revenue of DEXUS Holdings Pty Limited; and
- performance against budgeted earnings and distributions per security.

**Note 28. Related parties** (continued)

## Remuneration Report (continued)

**4. Approach to Executive remuneration** (continued)

## 4.1 Executive remuneration principles (continued)

*(c) Executive remuneration structure (continued)**ii. Target mix of remuneration components*

The target remuneration mix for KMP, expressed as a percentage of total remuneration, is outlined in the table below.

Remuneration component	2011			2010		
	CEO	CFO & CIO	Other Executives	CEO	CFO & CIO	Other Executives
Total fixed	35%	40%	50%	35%	40%	50%
DEXUS Performance Payment (DPP)	30%	30%	25%	30%	30%	25%
DEXUS Deferred Performance Payment (DDPP)	35%	30%	25%	35%	30%	25%

The Directors consider that the target mix of remuneration is appropriate and reflects alignment with long term returns to security holders.

The Group's performance payment philosophy is based on appropriate reward for performance. In the event of exceptional performance the Nomination and Remuneration Committee may choose to award a performance payment in excess of the target remuneration mix. Although the Committee has chosen to not adopt a maximum performance payment cap, historically it has not exercised its right to award performance payments in excess of the target remuneration mix.

*iii. DEXUS Deferred Performance Payment (DDPP) plan*

The DDPP plan operates as follows:

- Following allocation, Deferred Performance Payments are subject to a three year vesting period from allocation date;
- The DDPP allocation value is notionally invested during the vesting period in DXS securities (50% of DDPP value) and its unlisted funds and mandates (50% of DDPP value);
- During the vesting period, DDPP allocation values fluctuate in line with changes in the "Composite Total Return" (simulating notional investment exposure), comprising 50% of the total return of DXS securities and 50% of the combined asset weighted total return of its unlisted funds and mandates; and
- At the conclusion of the three year vesting period, if the Composite Total Return meets or exceeds the Composite Performance Benchmark, the Board may approve the application of a performance factor to the final DDPP allocation value:
  1. The "Composite Performance Benchmark" is 50% of the S&P/ASX200 Property Accumulation Index and 50% of the Mercer Unlisted Property Fund Index over the three year vesting period;
  2. For performance up to 100% of the Composite Performance Benchmark, executives receive a DDPP allocation reflecting the Composite Total Return of the preceding three year vesting period; and
  3. For performance between 100% and 130% of the Composite Performance Benchmark a performance factor may be applied, ranging from 1.1 to a maximum of 1.5 times.

Provisions regarding the vesting of DDPP in the event of termination of service are outlined in section 7.

*Equity options scheme*

The Group does not operate an equity option scheme as part of its Executive remuneration structure. The Committee has considered the introduction of such a scheme, but has determined that it would not be an appropriate component of the Group's remuneration structure.

*Equity and loan schemes*

The Group does not operate a security participation plan or a loan plan for Executives or Directors.

The deferred element of DXS's Performance Payment is designed to simulate, or at least replicate, some of the features of an equity plan, but it does not provide Executives with direct equity exposure.

*Hedging policy*

The Group does not permit Executives to hedge their DDPP allocation.

## 5. Remuneration arrangements for the year ended 30 June 2011

This section outlines how the approach to remuneration described above has been implemented in the year ended 30 June 2011.

### Non-Executive Director's remuneration for the year ended 30 June 2011

- At its meeting of 20 May 2010, the Nomination and Remuneration Committee endorsed an increase to the base fee payable to both the Chair and Non-Executive Directors to bring DXS fees into line with the fee structure of comparably sized ASX listed entities.
- This increase in base fees came into effect on 1 July 2010 (as set out in section 8 of this report).
- There were no changes to committee fees.

### Executive remuneration for the year ended 30 June 2011

- At its meeting of 21 July 2010, the Nomination and Remuneration Committee determined that the fixed remuneration of a number of Executives had fallen below the market median of comparably sized ASX listed entities.
- Two substantial increases to KMP remuneration were required to correct this position and to reflect increased responsibilities as a result of the Executive restructure on 1 July 2010 (as set out in section 8 of this report).
- These increases in fixed remuneration came into effect 1 July 2010.
- DPP and DDPP awarded to Executives reflected a combination of individual and group performance, external market comparisons and benchmarking, and reference to the remuneration mix guidelines established for each category of Executive (as set out in section 4 of this report).
- DPP is payable in September 2011, with DDPP following the vesting schedule applicable under the DDPP Plan.

### Actual remuneration earned/granted

The following table provides details of actual remuneration earned/granted by Executives in the years ended 30 June 2010 and 30 June 2011. This table includes details of the five highest paid Directors or Executives. The amounts detailed in the remuneration earned/granted table vary from the amounts detailed in the statutory accounting table in section 8, because performance payments (in the remuneration earned/granted table) are attributed to Executives in the year performance payments are earned.

		Cash salary including superannuation	DEXUS performance payments	DEXUS deferred performance payments	Other short term benefits	Termination benefits	Total
		\$	\$	\$	\$	\$	\$
<b>Name</b>							
<b>Victor P Hoog Antink</b>	<b>2011</b>	<b>1,550,000</b>	<b>1,100,000</b>	<b>1,300,000</b>	–	–	<b>3,950,000</b>
	2010	1,300,000	1,100,000	1,200,000	–	–	3,600,000
<b>Craig D Mitchell</b>	<b>2011</b>	<b>700,000</b>	<b>450,000</b>	<b>450,000</b>	–	–	<b>1,600,000</b>
	2010	550,000	400,000	400,000	–	–	1,350,000
<b>Paul G Say</b>	<b>2011</b>	<b>700,000</b>	<b>400,000</b>	<b>400,000</b>	–	–	<b>1,500,000</b>
	2010	500,000	250,000	250,000	–	–	1,000,000
<b>John C Easy</b>	<b>2011</b>	<b>425,000</b>	<b>190,000</b>	<b>185,000</b>	–	–	<b>800,000</b>
	2010	375,000	187,000	188,000	–	–	750,000
<b>Tanya L Cox</b>	<b>2011</b>	<b>425,000</b>	<b>195,000</b>	<b>190,000</b>	–	–	<b>810,000</b>
	2010	400,000	180,000	180,000	–	–	760,000
<b>Andrew P Whiteside<sup>1</sup></b>	<b>2011</b>	<b>525,000</b>	<b>235,000</b>	<b>240,000</b>	–	–	<b>1,000,000</b>
	2010	475,000	225,000	225,000	–	–	925,000
<b>Louise J Martin<sup>1,2</sup></b>	<b>2011</b>	<b>262,500</b>	–	–	<b>74,389</b>	<b>525,000</b>	<b>861,889</b>
	2010	500,000	200,000	200,000	–	–	900,000
<b>Total</b>	<b>2011</b>	<b>4,587,500</b>	<b>2,570,000</b>	<b>2,765,000</b>	<b>74,389</b>	<b>525,000</b>	<b>10,521,889</b>
	2010	4,100,000	2,542,000	2,643,000	–	–	9,285,000

1 Mr Whiteside and Ms Martin are former KMP. Mr Whiteside's remuneration is disclosed due to being counted among the five highest paid Directors or Executives.

Ms Martin ceased employment on 31 December 2010 and due to termination benefits received, also forms part of the five highest paid Directors or Executives.

Ms Martin will not form part of subsequent remuneration disclosures.

2 Ms Martin received payment for statutory leave entitlements upon termination.

For the purpose of consistency, the following table includes the total remuneration of former KMP as disclosed for the year ended 30 June 2010. As referred to in section 1 of this report, the former KMP group comprises Mr Turner (ceased employment on 31 December 2010), Ms Lloyd and Ms Daniels. This group will not form part of subsequent remuneration disclosures.

Former KMP Total	2010	1,081,249	383,391	383,391	123,107	–	1,971,138
Combined Totals	2010	5,181,249	2,925,391	3,026,391	123,107	–	11,256,138

**Note 28. Related parties** (continued)

## Remuneration Report (continued)

**5. Remuneration arrangements for the year ended 30 June 2011** (continued)

Actual remuneration earned/granted (continued)

*Other employee remuneration for the year ended 30 June 2011*

- A moderate increase in base salaries was applied to the wider employee group to ensure market competitive remuneration was maintained.
- A limited number of adjustments was made as a result of promotion, key talent retention and market comparison.
- DPP was awarded based on individual and company performance, with reference to the remuneration mix guidelines in place for each category of employee.
- DDPP continues to be limited to a small number of key employees outside the Executive group.
- DPP is payable in August 2011, with DDPP (if applicable) following the vesting schedule applicable under the DDPP Plan.

*Decisions taken relating to remuneration arrangements for the year ending 30 June 2012*

- No change to Non-Executive Directors' base or committee fees;
- No increase to the CEO's base salary;
- Conservative increases to Executive base salaries in line with market comparisons and cognisant of prior year adjustments;
- Industry standard increases to base salaries for the wider employee group, with a small number of adjustments made to ensure retention of key talent and to recognise increased contribution to the group in some roles; and
- No change to the target remuneration mix guidelines which are used to determine the split between fixed remuneration, DPP and DDPP.

**6. Group performance and the link to remuneration**

Total return analysis

The table below sets out DXS's total security holder return since inception, relative to the S&P/ASX200 Property Accumulation Index. It also sets out DXS's Composite Total Return since inception, relative to the Composite Performance Benchmark. The DEXUS Composite Total Return is 50% of the total return of DXS securities, plus 50% of the combined asset weighted total return of its unlisted funds and mandates and the Composite Performance Benchmark is 50% of the S&P/ASX200 Property Accumulation Index and 50% of Mercers' Unlisted Property Fund Index.

Year ended 30 June 2011	1 year	2 years	3 years	Since 1 October 2004
	% per annum	% per annum	% per annum	% per annum
DEXUS Property Group <sup>1</sup>	21.6	15.4	(5.8)	2.5
S&P/ASX200 Property Accumulation Index	5.8	12.9	(9.7)	(4.0)
DEXUS Composite Total Return	16.4	12.2	(1.9)	6.1
Composite Performance Benchmark	8.3	9.9	(4.6)	3.5

Note: DEXUS inception date was 1 October 2004.

<sup>1</sup> Compound annual return, source DEXUS/IRESS.

In determining the construction of the Composite Total Return and in particular the relative weighting between the returns of the DEXUS Property Group and its unlisted funds and mandates, the Board considered the following factors:

- the desire of DEXUS Property Group to attract and retain third party funds and mandates based on the assurance that incentives are in place to ensure their equitable treatment;
- the economic contribution to DEXUS Property Group of management fees arising from third party funds under management;
- the increased investment in its management team and infrastructure, enabled by third party funds management fees, including in-house research, valuations and sustainability teams, the cost of which is defrayed by those fees; and
- the greater market presence and relevance the third party business brings to the DEXUS Property Group.

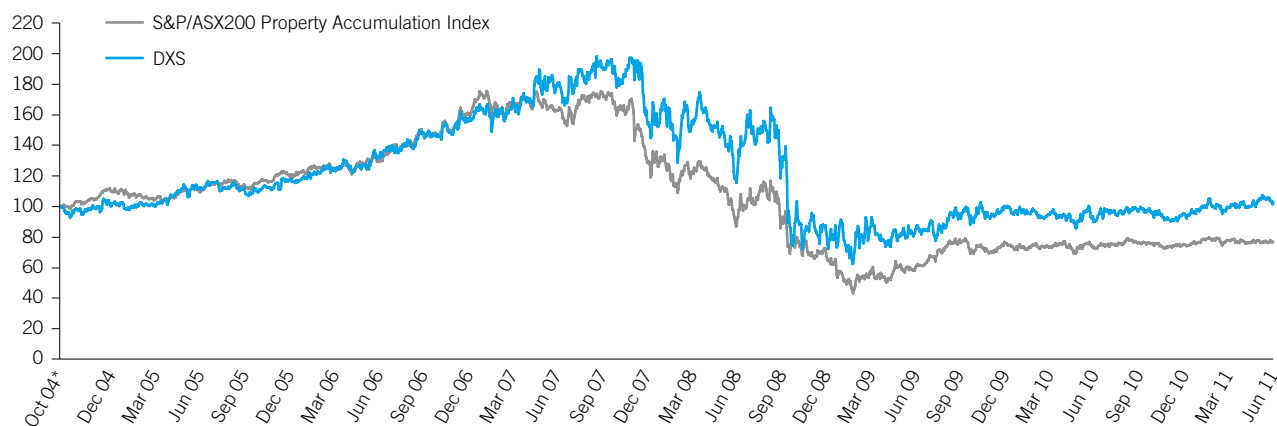
The Board also considered whether the construction of the Composite Total Return should reflect the actual value of the unlisted funds and mandates (\$6.1 billion as at 30 June 2011), and DEXUS Property Group's own funds under management (\$7.6 billion as at 30 June 2011).

Cognisant of all the above factors, the Board determined that a 50/50 allocation, rather than an allocation varying according to asset weighting, most fairly reflects the value contribution of third party funds to the DEXUS Property Group and provides the greatest assurance that all investors are treated equitably.

During the year the Group did not buy-back or cancel any of its securities.

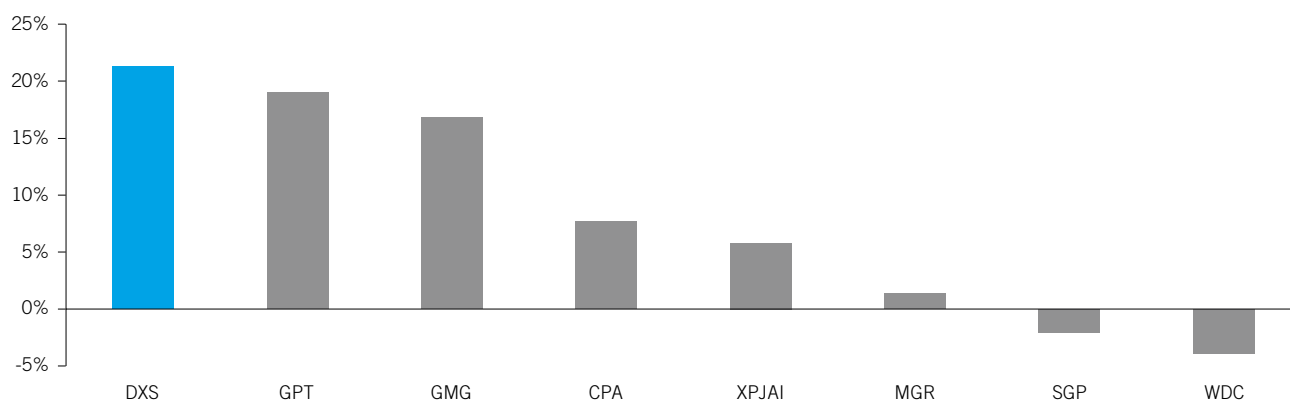
### Total return of DXS securities

The graph below illustrates DXS's total security holder return relative to the S&P/ASX200 Property Accumulation Index.



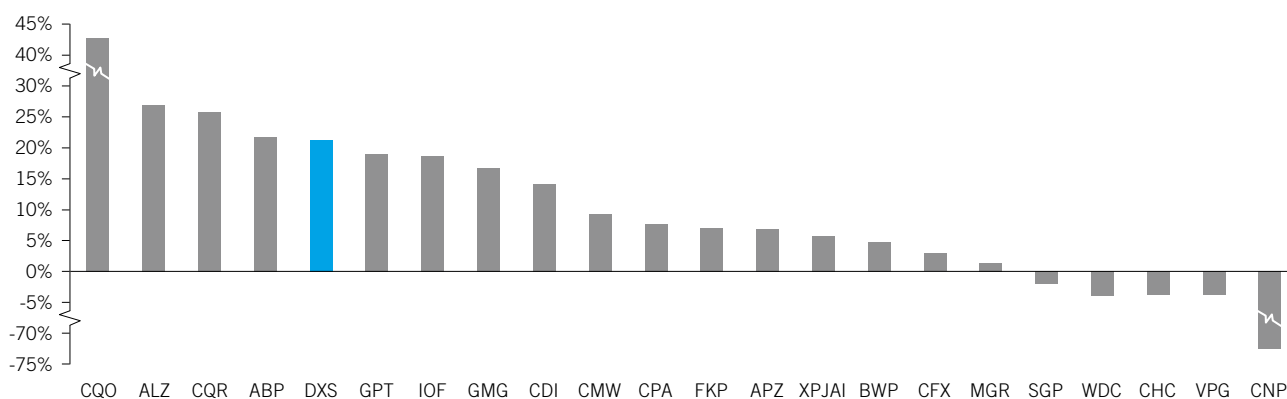
\* 6 October 2004 to 30 June 2011. Source: IRESS/DEXUS.

The chart below illustrates DXS's performance relative to A-REITs above \$2 billion market capitalisation.



Source: UBS Securities Australia Ltd.

The chart below illustrates DXS's performance against the broader property sector.



Source: UBS Securities Australia Ltd.

**Note 28. Related parties** (continued)

## Remuneration Report (continued)

**6. Group performance and the link to remuneration** (continued)

## Total return of DXS securities (continued)

DXS continues to outperform the S&P/ASX200 Property Accumulation Index and has exceeded this benchmark on a rolling three year basis each period since inception in October 2004. In addition, the DXS Composite Total Return has also outperformed the Composite Performance Benchmark on a rolling three year basis since inception.

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

**7. Service agreements**

The employment arrangements for Executives are set out below.

## CEO – Victor P Hoog Antink

The current employment contract commenced on 1 October 2004. The principal terms of the employment arrangement are as follows:

- the CEO is employed under a rolling contract;
- the CEO may resign from his position and thus terminate this contract by giving six months written notice. On resignation any unvested DDPP will be forfeited subject to the discretion of the Board;
- the Group may terminate the CEO's employment agreement by providing six months written notice or payment in lieu of the notice period (based on the fixed component of CEO's remuneration). Additionally, the Group may provide a performance payment for the period of the last review date (being 1 July) until the last day of the notice period;
- in the event that the Group initiates termination for reasons outside the control of the CEO, a severance payment equal to 100% of fixed remuneration is payable;
- on termination by the Group, any DDPP awards will vest in accordance with the vesting schedule of the DDPP Plan, subject to the discretion of the Board; and
- the Group may terminate the contract of the CEO at any time without notice if serious misconduct has occurred. In the event of termination for cause, the CEO is only entitled to that portion of remuneration that is fixed, and only up to the date of termination. On termination for cause any unvested DDPP awards will immediately be forfeited.

## KMP Executives (other than the CEO)

The principal terms of Executive employment arrangements are as follows:

- all Executives have rolling contracts;
- an Executive may resign from their position and thus terminate their contract by giving three months written notice. On resignation any unvested DDPP will be forfeited subject to the discretion of the Board;
- the Group may terminate an Executive's employment agreement by providing three months written notice or providing payment in lieu of the notice period (based on the fixed component of the Executive's remuneration). In the event that the Group initiates the termination for reasons outside the control of the Executive, a severance payment equal to a maximum of 75% of fixed remuneration will be made;
- on termination by the Group, any DDPP awards will vest in accordance with the vesting schedule of the DDPP Plan, subject to the discretion of the Board; and
- the Group may terminate the contract at any time without notice if serious misconduct has occurred. Where termination for cause occurs the Executive is only entitled to that portion of remuneration that is fixed, and only up to the date of termination. On termination for cause any unvested DDPP awards will immediately be forfeited.

## 8. Statutory accounting method

In accordance with Australian Accounting Standard AASB 124, details of the structure and quantum of each component of remuneration for Executives for the years ended 30 June 2010 and 30 June 2011 are set out in the following table.

Name	Short term benefits			Post-employment benefits		Long term benefits			Total
	Cash salary	DEXUS performance payments	Other short term benefits	Pension and super benefits	Termination benefits	DEXUS deferred performance payment allocations	Movement in prior year deferred performance payment allocation values	Other long term benefits	Total
	\$	\$	\$	\$	\$	\$	\$	\$	\$
<b>Victor P Hoog Antink</b>									
2011	1,502,801	1,100,000	–	47,199	–	1,300,000	900,583	–	4,850,583
2010	1,252,539	1,100,000	–	47,461	–	1,200,000	363,957	–	3,963,957
<b>Craig D Mitchell</b>									
2011	684,801	450,000	–	15,199	–	450,000	273,781	–	1,873,781
2010	535,539	400,000	–	14,461	–	400,000	40,528	–	1,390,528
<b>Paul G Say</b>									
2011	649,801	400,000	–	50,199	–	400,000	226,785	–	1,726,785
2010	485,539	250,000	–	14,461	–	250,000	30,565	–	1,030,565
<b>John C Easy</b>									
2011	401,801	190,000	–	23,199	–	185,000	131,830	–	931,830
2010	360,539	187,000	–	14,461	–	188,000	47,437	–	797,437
<b>Tanya L Cox</b>									
2011	375,001	195,000	–	49,999	–	190,000	161,359	–	971,359
2010	385,539	180,000	–	14,461	–	180,000	62,533	–	822,533
<b>Andrew P Whiteside<sup>1</sup></b>									
2011	509,801	235,000	–	15,199	–	240,000	121,087	–	1,121,087
2010	460,539	225,000	–	14,461	–	225,000	16,610	–	941,610
<b>Louise J Martin<sup>1,2</sup></b>									
2011	213,800	–	74,389	48,700	525,000	–	214,101	–	1,075,990
2010	485,539	200,000	–	14,461	–	200,000	74,415	–	974,415
<b>Total</b>									
2011	4,337,806	2,570,000	74,389	249,694	525,000	2,765,000	2,029,526	–	12,551,415
2010	3,965,773	2,542,000	–	134,227	–	2,643,000	636,045	–	9,921,045
<b>Former KMP total</b>									
2010	1,003,666	406,000	123,107	77,583	–	407,000	111,508	–	2,128,864
<b>Combined totals</b>									
2010	4,969,439	2,948,000	123,107	211,810	–	3,050,000	747,553	–	12,049,909

<sup>1</sup> Mr Whiteside and Ms Martin are former KMP. Mr Whiteside's remuneration is disclosed due to being counted among the five highest paid Directors or Executives.

Ms Martin ceased employment on 31 December 2010 and due to termination benefits received, also forms part of the five highest paid Directors or Executives.

Ms Martin will not form part of subsequent remuneration disclosures.

<sup>2</sup> Ms Martin received payment for statutory leave entitlements upon termination.

For the purpose of consistency, the following table includes the total remuneration of former KMP as disclosed for the year ended 30 June 2010. As referred to in section 1 of this report, the former KMP group comprises Mr Turner (ceased employment on 31 December 2010), Ms Lloyd and Ms Daniels. This group will not form part of subsequent remuneration disclosures.

<b>Former KMP total</b>									
2010	1,003,666	406,000	123,107	77,583	–	407,000	111,508	–	2,128,864
<b>Combined totals</b>									
2010	4,969,439	2,948,000	123,107	211,810	–	3,050,000	747,553	–	12,049,909



## Notes to the Financial Statements

For the year ended 30 June 2011

CONTINUED

## Note 28. Related parties (continued)

## Remuneration Report (continued)

## 8. Statutory accounting method (continued)

## Deferred Performance Payments

The table below sets out details of DDPP allocations made to KMP and their current valuations.

Name	Grant year	DDPP allocation value	Movement in DDPP allocation value since grant date	Closing DDPP allocation value as at vesting date (30 June 2011)	Movement in DDPP allocation value at vesting date (30 June 2011) due to performance multiplier	Vested DDPP value as at 30 June 2011	Vest year
		\$	\$	\$	\$	\$	
<b>Victor P Hoog Antink</b>	<b>2011</b>	<b>1,300,000</b>	<b>–</b>	<b>1,300,000</b>	<b>–</b>	<b>–</b>	<b>2014</b>
	2010	1,200,000	197,160	1,397,160	–	–	2013
	2009	915,000	236,528	1,151,528	–	–	2012
	2008	900,000	(50,580)	849,420	424,800	1,274,220	2011
<b>Craig D Mitchell</b>	<b>2011</b>	<b>450,000</b>	<b>–</b>	<b>450,000</b>	<b>–</b>	<b>–</b>	<b>2014</b>
	2010	400,000	65,720	465,720	–	–	2013
	2009	325,000	84,013	409,013	–	–	2012
	2008	250,000	(14,050)	235,950	118,000	353,950	2011
<b>Paul G Say</b>	<b>2011</b>	<b>400,000</b>	<b>–</b>	<b>400,000</b>	<b>–</b>	<b>–</b>	<b>2014</b>
	2010	250,000	41,075	291,075	–	–	2013
	2009	200,000	51,700	251,700	–	–	2012
	2008	250,000	(14,050)	235,950	118,000	353,950	2011
<b>John C Easy</b>	<b>2011</b>	<b>185,000</b>	<b>–</b>	<b>185,000</b>	<b>–</b>	<b>–</b>	<b>2014</b>
	2010	188,000	30,888	218,888	–	–	2013
	2009	162,000	41,877	203,877	–	–	2012
	2008	120,000	(6,744)	113,256	56,640	169,896	2011
<b>Tanya L Cox</b>	<b>2011</b>	<b>190,000</b>	<b>–</b>	<b>190,000</b>	<b>–</b>	<b>–</b>	<b>2014</b>
	2010	180,000	29,574	209,574	–	–	2013
	2009	150,000	38,775	188,775	–	–	2012
	2008	175,000	(9,835)	165,165	82,600	247,765	2011
<b>Andrew P Whiteside<sup>1</sup></b>	<b>2011</b>	<b>240,000</b>	<b>–</b>	<b>240,000</b>	<b>–</b>	<b>–</b>	<b>2014</b>
	2010	225,000	36,968	261,968	–	–	2013
	2009	135,000	34,898	169,898	–	–	2012
	2008	100,000	(5,620)	94,380	47,200	141,580	2011
<b>Louise J Martin<sup>1</sup></b>	<b>2011</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>2014</b>
	2010	200,000	32,860	232,860	–	–	2013
	2009	175,000	45,238	220,238	–	–	2012
	2008	250,000	(14,050)	235,950	118,000	353,950	2011

<sup>1</sup> Mr Whiteside and Ms Martin are former KMP. Mr Whiteside's remuneration is disclosed due to being counted among the five highest paid Directors or Executives.

Ms Martin ceased employment on 31 December 2010 and due to termination benefits received, also forms part of the five highest paid Directors or Executives.

Ms Martin will not form part of subsequent remuneration disclosures, however, her prior grants will continue vest in accordance with the plan's rules.

Figures are subject to rounding.

#### Non-Executive Director Board and Committee fees

Board and Committee fees paid to Non-Executive Directors for the years ended 30 June 2010 and 30 June 2011 are set out in the table below.

There were no changes to the Committee appointments of Non-Executive Directors during the year ended 30 June 2011.

Name		Directors fees			Committee fees			Total
		Board	DWPL	Board Audit & Risk	Board Compliance	Board Nom & Rem	Board Finance	Total
		\$	\$	\$	\$	\$	\$	\$
<b>Christopher T Beare</b>	<b>2011</b>	<b>350,000</b>	–	–	–	–	–	<b>350,000</b>
	2010	300,000	–	–	–	–	–	300,000
<b>Elizabeth A Alexander, AM</b>	<b>2011</b>	<b>150,000</b>	<b>30,000</b>	<b>15,000</b>	–	–	–	<b>195,000</b>
	2010	130,000	17,500	17,500	–	–	–	165,000
<b>Barry R Brownjohn</b>	<b>2011</b>	<b>150,000</b>	–	<b>30,000</b>	–	–	<b>7,500</b>	<b>187,500</b>
	2010	130,000	–	27,500	–	–	8,750	166,250
<b>John C Conde, AO</b>	<b>2011</b>	<b>150,000</b>	–	–	<b>7,500</b>	<b>15,000</b>	–	<b>172,500</b>
	2010	130,000	–	–	7,500	13,750	–	151,250
<b>Stewart F Ewen, OAM</b>	<b>2011</b>	<b>150,000</b>	–	–	–	<b>7,500</b>	–	<b>157,500</b>
	2010	130,000	–	–	–	7,500	–	137,500
<b>Brian E Scullin</b>	<b>2011</b>	<b>150,000</b>	<b>15,000</b>	–	<b>15,000</b>	–	–	<b>180,000</b>
	2010	130,000	25,000	–	15,000	1,250	–	171,250
<b>Peter B St George</b>	<b>2011</b>	<b>150,000</b>	–	<b>15,000</b>	–	–	<b>15,000</b>	<b>180,000</b>
	2010	130,000	–	15,000	–	–	13,750	158,750
<b>Total</b>	<b>2011</b>	<b>1,250,000</b>	<b>45,000</b>	<b>60,000</b>	<b>22,500</b>	<b>22,500</b>	<b>22,500</b>	<b>1,422,500</b>
	2010	1,080,000	42,500	60,000	22,500	22,500	22,500	1,250,000

The comparatively higher total for the year ended 30 June 2011 is reflective of the increase in base fees for both the Chair and Non-Executive Directors endorsed by the Nomination and Remuneration Committee on 20 May 2010. This increase was reported in the year ended 30 June 2010 remuneration report and remains within the aggregate pool of \$1,750,000 per annum approved by DXS security holders at its Annual General Meeting in October 2008.

Non-Executive Directors also receive reimbursement for reasonable travel, accommodation and other expenses incurred whilst undertaking DEXUS business.

The Chief Executive Officer, Victor P Hoog Antink, does not receive fees in respect of his role as a Director, but does receive remuneration as a Senior Executive of the DEXUS Property Group.

In addition to his Director's fee, Mr Ewen's company is paid \$30,000 for the added responsibilities he assumes in attending property inspections, reviewing property investment proposals and participating in informal management meetings.

## Notes to the Financial Statements

For the year ended 30 June 2011

CONTINUED

## Note 28. Related parties (continued)

## Remuneration Report (continued)

## 8. Statutory accounting method (continued)

## Non-Executive Director Remuneration

Details of the structure and quantum of each component of remuneration for each Non-Executive Director for the years ended 30 June 2010 and 30 June 2011 are set out in the following table.

		Short term employment benefits \$	Post- employment benefits <sup>1</sup> \$	Other long term benefits \$	Total \$
Name					
Christopher T Beare	2011	334,801	15,199	–	350,000
	2010	285,539	14,461	–	300,000
Elizabeth A Alexander, AM	2011	179,801	15,199	–	195,000
	2010	151,376	13,624	–	165,000
Barry R Brownjohn	2011	172,301	15,199	–	187,500
	2010	152,523	13,727	–	166,250
John C Conde, AO	2011	158,257	14,243	–	172,500
	2010	138,761	12,489	–	151,250
Stewart F Ewen, OAM	2011	109,052	48,448	–	157,500
	2010	102,700	34,800	–	137,500
Brian E Scullin	2011	165,138	14,862	–	180,000
	2010	157,211	14,039	–	171,250
Peter B St George	2011	165,138	14,862	–	180,000
	2010	145,642	13,108	–	158,750
Total	2011	1,284,488	138,012	–	1,422,500
	2010	1,133,752	116,248	–	1,250,000

1 Post-employment benefits represent compulsory and salary sacrificed superannuation benefits.

## 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 DXS and to appropriately allocate resources. Refer to the table below for a brief description of DXS's operating segments.

Office – Australia and New Zealand	This comprises office space with any associated retail space; as well as car-parks and office developments in Australia and New Zealand.
Industrial – Australia	This comprises domestic industrial properties, industrial estates and industrial developments.
Industrial – North America	This comprises industrial properties, industrial estates and industrial developments in the United States as well as one industrial asset in Canada <sup>1</sup> .
Management Business	The domestic and US based management businesses are responsible for asset, property and development management of Office, Industrial and Retail properties for DXS and the third party funds management business.
Financial Services	The treasury function of DXS is managed through a centralised treasury department. As a result, all treasury related financial information relating to borrowings, finance costs as well as fair value movements in derivatives, are prepared and monitored separately.
All other segments	This comprises the European industrial and retail <sup>2</sup> portfolios. These operating segments do not meet the quantitative thresholds set out in AASB 8 <i>Operating Segments</i> due to their relatively small scale. As a result these non-core operating segments have been included in “all other segments” in the operating segment information shown below.

1 The Canadian asset was sold on 24 June 2011.

2 The retail asset was sold on 31 March 2010. The Group does not own any other retail assets.

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 36 in the DEXUS Property Group Financial Statements).

## Note 30. Events occurring after reporting date

Since the end of the year, the Directors are not aware of any matter or circumstance not otherwise dealt with in their Directors' Report or the Financial Statements that has significantly or may significantly affect the operations of the 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 outflow from operating activities**

	2011 \$'000	2010 \$'000
Net profit	265,670	126,360
Capitalised interest	(11,832)	(7,212)
Net fair value gain of investment properties	(56,970)	(7,297)
Share of net (profit)/loss of associates accounted for using the equity method	(34,053)	26,259
Net fair value (gain)/loss of derivatives	(2,577)	7,368
Net foreign exchange (gain)/loss	(8)	134
<b>Change in operating assets and liabilities</b>		
(Increase)/decrease in receivables	(1,670)	2,977
Decrease/(increase) in other current assets	666	(760)
Decrease in other non-current assets – investments	18,485	18,961
Decrease in other non-current assets	139	5,546
Increase in payables	332	4,840
Increase in other non-current liabilities	2,964	863
<b>Net cash inflow from operating activities</b>	<b>181,146</b>	<b>178,039</b>

**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.

	2011 cents	2010 cents
Basic earnings per unit on profit attributable to unitholders	0.55	0.26
Diluted earnings per unit on profit attributable to unitholders	0.55	0.26

**(a) Reconciliation of earnings used in calculating earnings per unit**

	2011 \$'000	2010 \$'000
Net profit for the year	265,670	126,360
Net profit attributable to non-controlling interests	(2,094)	(1,632)
<b>Net profit attributable to the unitholders of the Trust used in calculating basic and diluted earnings per unit</b>	<b>263,576</b>	<b>124,728</b>

**(b) Weighted average number of units used as a denominator**

	2011 units	2010 units
Weighted average number of units outstanding used in calculation of basic and diluted earnings per unit	4,836,131,743	4,774,467,167

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 61 to 106:

- (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 2011 and of their performance, as represented by the results of their operations and their cash flows, for the year ended on that date.

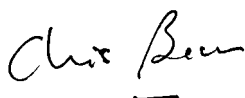
In the Directors' opinion:

- (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 2011.

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

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

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



Christopher T Beare  
Chair

16 August 2011



**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 2011, 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 the 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. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

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

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

**PricewaterhouseCoopers**  
**ABN 52 780 433 757**

Darling Park Tower 2  
201 Sussex Street  
GPO BOX 2650  
SYDNEY NSW 1171  
DX 77 Sydney  
Australia  
Telephone +61 2 8266 0000  
Facsimile +61 2 8266 9999  
[www.pwc.com/au](http://www.pwc.com/au)

Liability limited by a scheme approved under Professional Standards Legislation



*Independence*

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

*Auditor's opinion*

In our opinion:

- (a) the financial report of DEXUS 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 2011 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in Note 1.

*Matters relating to the electronic presentation of the audited financial report*

This auditor's report relates to the financial report of DEXUS Office Trust for the year ended 30 June 2011 included on DEXUS Office Trust web site. The Responsible Entity's directors are responsible for the integrity of this web site. We have not been engaged to report on the integrity of this web site. The auditor's report refers only to the financial report named above. It does not provide an opinion on any other information which may have been hyperlinked to/from the financial report. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report to confirm the information included in the audited financial report presented on this web site.

PricewaterhouseCoopers

JA Dunning  
Partner

Sydney  
16 August 2011



# DEXUS OPERATIONS TRUST

## DIRECTORS' REPORT

For the year ended 30 June 2011

The Directors of DEXUS Funds Management Limited (DXFM) as Responsible Entity of DEXUS Operations Trust and its consolidated entities (DXO or the Trust) present their Directors' Report together with the consolidated Financial Statements for the year ended 30 June 2011.

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:

Directors	Appointed
Christopher T Beare	4 August 2004
Elizabeth A Alexander, AM	1 January 2005
Barry R Brownjohn	1 January 2005
John C Conde, AO	29 April 2009
Stewart F Ewen, OAM	4 August 2004
Victor P Hoog Antink	1 October 2004
Brian E Scullin	1 January 2005
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 2011 are as follows:

##### **Tanya L Cox MBA MAICD FCIS** **Appointed: 1 October 2004**

Tanya is the Chief Operating Officer and Company Secretary of DXFM and is responsible for the delivery of company secretarial, operational, information technology, communications and administration services, as well as operational risk management systems and practices across the Group. Prior to joining DXS in July 2003, Tanya held various general management positions over the past 16 years, including Director and Chief Operating Officer of NM Rothschild & Sons (Australia) Ltd and General Manager – Finance, Operations and IT for Bank of New Zealand (Australia).

Tanya is a non-executive director of a number of not-for-profit organisations, a member of the Australian Institute of Company Directors and a fellow of the Institute of Chartered Secretaries and Administrators (ICSA) and Chartered Secretaries Australia (CSA). Tanya has an MBA from the Australian Graduate School of Management and a Graduate Diploma in Applied Corporate Governance.

Tanya is Chief Operating Officer and Company Secretary of DXFM, DEXUS Holdings Pty Limited (DXH) and DEXUS Wholesale Property Limited (DWPL) and is a member of the Board Compliance Committee.

##### **John C Easy B Comm LLB ACIS** **Appointed: 1 July 2005**

John is the General Counsel and Company Secretary of DXFM. During his time with the Group he has been involved in the establishment and public listing of the Deutsche Office Trust, the acquisition of the Paladin and AXA property portfolios, and subsequent stapling and creation of DXS. Prior to joining DXS 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. He is a member of Chartered Secretaries Australia (CSA) and holds a Graduate Diploma in Applied Corporate Governance.

John is General Counsel and Company Secretary for DXFM, DXH and DWPL and is a member of the Board Compliance Committee.

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

The number of Directors' meetings held during the year and each Director's attendance at those meetings is set out in the table below.

The Directors met 13 times during the year. Ten Board meetings were main meetings and three meetings were held to consider specific business. While the Board continually considers strategy, in March 2011 it met with the executive and senior management team over three days to consider DXS's strategic plans.

	Main meetings held	Main meetings attended	Specific meetings held	Specific meetings attended
Christopher T Beare	10	10	3	3
Elizabeth A Alexander, AM	10	10	3	3
Barry R Brownjohn	10	10	3	3
John C Conde, AO	10	10	3	3
Stewart F Ewen, OAM	10	10	3	3
Victor P Hoog Antink	10	10	3	3
Brian E Scullin	10	9	3	3
Peter B St George	10	10	3	3

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 Committee		Board Risk and Sustainability Committee		Board Compliance Committee		Board Nomination and Remuneration Committee		Board Finance Committee	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended	Held	Attended
Christopher T Beare	–	–	–	–	–	–	7	7	4	4
Elizabeth A Alexander, AM	6	6	4	4	–	–	–	–	–	–
Barry R Brownjohn	6	6	4	4	–	–	–	–	4	4
John C Conde, AO	–	–	–	–	4	4	7	7	–	–
Stewart F Ewen, OAM	–	–	–	–	–	–	7	7	–	–
Victor P Hoog Antink	–	–	–	–	–	–	–	–	–	–
Brian E Scullin	–	–	–	–	4	4	–	–	–	–
Peter B St George	6	6	4	4	–	–	–	–	4	4

## 3. Directors' interests

The Board's policy on insider trading and trading in DXS securities, or securities in any of the funds managed by DXS, by any Director or employee is outlined in the Corporate Governance Statement in the DEXUS Property Group Annual Report.

While the trading policy described in the Corporate Governance Statement applies to Directors and Senior Executives, the Board has determined that Directors will not trade in any security managed by DXS.

Directors have made this decision because the Board of DXFM has responsibility for the Group itself 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 a conflict that may arise by being a Director of multiple funds, the Directors have determined that they will not invest in any fund managed by the Group, including DXS. This position is periodically reviewed by the Board.

As a direct result of the Group's policy regarding Directors holding DXS securities, or securities in any of the funds managed by the Group, as at the date of this Directors' Report no Director directly or indirectly held:

- DXS securities; or
- options over, or any other contractual interest in, DXS securities; or
- an interest in any other fund managed by DXFM or any other entity that forms part of the Group.

## Directors' Report

For the year ended 30 June 2011

CONTINUED

#### 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:

Directors	Company	Date appointed	Date resigned or ceased being a Director of a listed security
Christopher T Beare	MNet Group Limited	6 November 2009	
Elizabeth A Alexander, AM	CSL Limited	12 July 1991	
	Boral Limited	15 December 1999	24 October 2008
John C Conde, AO	Whitehaven Coal Limited	3 May 2007	
Brian E Scullin	SPARK Infrastructure RE Limited <sup>1</sup>	1 November 2005	24 August 2007
	BT Investment Management Limited	17 September 2007	
Peter B St George	Boart Longyear Limited	21 February 2007	
	SPARK Infrastructure RE Limited <sup>1</sup>	8 November 2005	31 December 2008
	First Quantum Minerals Limited <sup>2</sup>	20 October 2003	

<sup>1</sup> SPARK Infrastructure RE Limited has issued ASX listed stapled securities trading as SPARK Infrastructure Group (ASX: SKI).

<sup>2</sup> 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 DXO was to be a trading trust. There were no significant changes in the nature of the Trust's activities during the year.

#### 6. Review of results and operations

The results for the year ended 30 June 2011 were:

- loss attributable to unitholders was \$29.3 million (2010: \$8.3 million); and
- total assets were \$602.1 million (2010: \$500.4 million); and
- net asset deficiency was \$21.5 million (2010: \$7.7 million net assets).

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 2011 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. Dividends

Dividends paid or payable by the Trust for the year ended 30 June 2011 were nil (2010: nil).

#### 11. DXFM's fees and associate interests

Details of fees paid or payable by the Trust to DXFM for the year ended 30 June 2011 are outlined in note 29 of the Notes to the Financial Statements and form part of this Directors' Report.

The number of interests in the Trust held by DXFM or its associates as at the end of the financial year were nil (2010: 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 2011 are detailed in note 22 of the Notes to the Financial Statements and form part of this Directors' Report.

The Trust did not have any options on issue as at 30 June 2011 (2010: nil).

#### 13. Environmental regulation

DXS senior management, through its Board Risk and 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 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 was adopted in 2010 that 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 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 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 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 in the Financial Statements and forms part of this Directors' Report.

## 16. Corporate governance

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

## 17. Rounding of amounts and currency

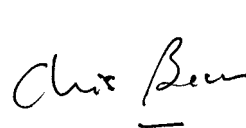
The Trust is a registered scheme of the kind referred to in Class Order 98/0100, issued by the Australian Securities & Investments Commission, relating to the rounding off of amounts in this Directors' Report and the Financial Statements. Amounts in this Directors' Report and the Financial Statements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

## 18. Management representation

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

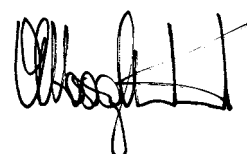
## 19. Directors' authorisation

The Directors' Report is made in accordance with a resolution of the Directors. The Financial Statements were authorised for issue by the Directors on 16 August 2011. The Directors have the power to amend and reissue the Financial Statements.



Christopher T Beare  
Chair

16 August 2011



Victor P Hoog Antink  
Chief Executive Officer

16 August 2011



### **Auditor's Independence Declaration**

**PricewaterhouseCoopers**  
**ABN 52 780 433 757**

Darling Park Tower 2  
201 Sussex Street  
GPO BOX 2650  
SYDNEY NSW 1171  
DX 77 Sydney  
Australia  
Telephone +61 2 8266 0000  
Facsimile +61 2 8266 9999  
[www.pwc.com/au](http://www.pwc.com/au)

As lead auditor for the audit of DEXUS Operations Trust for the year ended 30 June 2011, 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.

A handwritten signature in black ink, appearing to read 'JA Dunning'.

JA Dunning  
Partner  
PricewaterhouseCoopers

Sydney  
16 August 2011

## DEXUS OPERATIONS TRUST

## Consolidated Statement of Comprehensive Income

For the year ended 30 June 2011

	Note	2011 \$'000	2010 \$'000
<b>Revenue from ordinary activities</b>			
Management fee revenue	2	80,180	80,105
Property revenue	3	8,338	725
Proceeds from sale of inventory		3,359	–
Interest revenue		848	626
<b>Total revenue from ordinary activities</b>		<b>92,725</b>	<b>81,456</b>
Net gain on sale of investment properties		218	–
Other income		101	522
Reversal of previous impairment		–	13,307
<b>Total income</b>		<b>93,044</b>	<b>95,285</b>
<b>Expenses</b>			
Property expenses	3	(4,224)	(467)
Cost of sale of inventory		(3,353)	–
Finance costs	4	(19,182)	(9,940)
Net fair value loss of investment properties		(19,079)	(20,132)
Net loss on sale of investment properties		–	(493)
Depreciation and amortisation		(2,417)	(3,492)
Impairment		(194)	(242)
Employee benefits expense		(63,957)	(58,580)
Other expenses	6	(14,347)	(11,804)
<b>Total expenses</b>		<b>(126,753)</b>	<b>(105,150)</b>
<b>Loss before tax</b>		<b>(33,709)</b>	<b>(9,865)</b>
<b>Tax benefit</b>			
Income tax benefit	5(a)	4,418	1,604
<b>Total tax benefit</b>		<b>4,418</b>	<b>1,604</b>
<b>Loss after tax</b>		<b>(29,291)</b>	<b>(8,261)</b>
<b>Total comprehensive loss for the year</b>		<b>(29,291)</b>	<b>(8,261)</b>

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

# DEXUS OPERATIONS TRUST

## Consolidated Statement of Financial Position

As at 30 June 2011

	Note	2011 \$'000	2010 \$'000
<b>Current assets</b>			
Cash and cash equivalents	8	13,229	12,897
Receivables	9	26,084	21,364
Current tax assets		1,015	3,547
Inventories	13	7,991	–
Other	10	461	357
<b>Total current assets</b>		<b>48,780</b>	<b>38,165</b>
<b>Non-current assets</b>			
Investment properties	11	192,306	170,011
Property, plant and equipment	12	3,922	4,898
Inventories	13	104,247	45,470
Deferred tax assets	14	28,052	16,248
Intangible assets	15	224,684	225,525
Other	16	67	66
<b>Total non-current assets</b>		<b>553,278</b>	<b>462,218</b>
<b>Total assets</b>		<b>602,058</b>	<b>500,383</b>
<b>Current liabilities</b>			
Payables	17	9,415	4,930
Loans with related parties	18	48,932	48,932
Provisions	19	21,105	16,389
Derivative financial instruments	20	773	–
<b>Total current liabilities</b>		<b>80,225</b>	<b>70,251</b>
<b>Non-current liabilities</b>			
Loans with related parties	18	506,133	389,675
Deferred tax liabilities	21	17,013	9,627
Provisions	19	17,624	16,524
Derivative financial instruments	20	2,587	6,558
Other		19	–
<b>Total non-current liabilities</b>		<b>543,376</b>	<b>422,384</b>
<b>Total liabilities</b>		<b>623,601</b>	<b>492,635</b>
<b>Net assets</b>		<b>(21,543)</b>	<b>7,748</b>
<b>Equity</b>			
Contributed equity	22	26,335	26,335
Reserves	23	42,738	42,738
Accumulated losses	23	(90,616)	(61,325)
<b>Total equity</b>		<b>(21,543)</b>	<b>7,748</b>

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

# DEXUS OPERATIONS TRUST

## Consolidated Statement of Changes in Equity

For the year ended 30 June 2011

	Note	Contributed equity \$'000	Asset revaluation reserve \$'000	Accumulated losses \$'000	Total equity \$'000
<b>Opening balance as at 1 July 2009</b>		<b>26,335</b>	<b>42,738</b>	<b>(53,064)</b>	<b>16,009</b>
Comprehensive loss for the year		–	–	(8,261)	(8,261)
<b>Transactions with owners in their capacity as owners</b>					
Contributions of equity, net of transaction costs	22	–	–	–	–
<b>Closing balance as at 30 June 2010</b>		<b>26,335</b>	<b>42,738</b>	<b>(61,325)</b>	<b>7,748</b>
<b>Opening balance as at 1 July 2010</b>		<b>26,335</b>	<b>42,738</b>	<b>(61,325)</b>	<b>7,748</b>
Comprehensive loss for the year		–	–	(29,291)	(29,291)
<b>Transactions with owners in their capacity as owners</b>					
Contributions of equity, net of transaction costs	22	–	–	–	–
<b>Closing balance as at 30 June 2011</b>		<b>26,335</b>	<b>42,738</b>	<b>(90,616)</b>	<b>(21,543)</b>

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



# DEXUS OPERATIONS TRUST

## Consolidated Statement of Cash Flows

For the year ended 30 June 2011

	Note	2011 \$'000	2010 \$'000
<b>Cash flows from operating activities</b>			
Receipts in the course of operations (inclusive of GST)		97,281	85,396
Payments in the course of operations (inclusive of GST)		(88,144)	(72,915)
Payments for acquisitions of development property classified as inventory		(37,614)	–
Payments for development property classified as inventory		(19,832)	(45,470)
Interest received		822	612
Finance costs paid		(3,471)	(4,015)
Income tax received		2,533	1,650
<b>Net cash outflow from operating activities</b>	<b>32</b>	<b>(48,425)</b>	<b>(34,742)</b>
<b>Cash flows from investing activities</b>			
Payments for property, plant and equipment		(956)	(1,030)
Payments for capital expenditure on investment properties		(32,897)	(22,349)
Payments for investment properties		–	(40,040)
Proceeds from sale of investment properties		380	54,011
<b>Net cash outflow from investing activities</b>		<b>(33,473)</b>	<b>(9,408)</b>
<b>Cash flows from financing activities</b>			
Borrowings provided to entities within DXS		(104,734)	(121,790)
Borrowings provided by entities within DXS		186,964	165,072
<b>Net cash inflow from financing activities</b>		<b>82,230</b>	<b>43,282</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>332</b>	<b>(868)</b>
Cash and cash equivalents at the beginning of the year		12,897	13,765
<b>Cash and cash equivalents at the end of the year</b>	<b>8</b>	<b>13,229</b>	<b>12,897</b>

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

## Note 1. Summary of significant accounting policies

### (a) Basis of preparation

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 each entity within DXS may only unstack the Group if approval is obtained by a special resolution of the stapled security holders.

These general purpose Financial Statements for the year ended 30 June 2011 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(n), 1(p), 1(v) and 1(w)).

As at 30 June 2011, the Trust had a net current asset deficiency of \$31.4 million (2010: \$32.1 million) and a net asset deficiency of \$21.5 million (2010: \$7.7 million net asset surplus). The DXS group has in place both external and internal funding arrangements to support the cash flow requirements of the Trust. The Trust is a going concern and the Financial Statements have been prepared on that basis. Gearing is managed centrally for DXS. The gearing ratio as disclosed in the DEXUS Property Group Financial Statements for the year ended 30 June 2011 is 29.1% (refer note 30 of the DXS Financial Statements).

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

### Critical accounting estimates

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

### (b) Principles of consolidation

#### (i) Controlled entities

The Financial Statements have been prepared on a consolidated basis. The accounting policies of the subsidiaries are consistent with those of the parent.

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

The Financial Statements incorporate an elimination of inter-entity transactions and balances to present the Financial Statements on a consolidated basis. Where control of an entity is obtained during a financial year, its results are included in the Statement of Comprehensive Income from the date on which control is gained. They are deconsolidated from the date that control ceases. The Financial Statements incorporate all the assets, liabilities and results of the parent and its controlled entities.

#### (ii) Partnerships and joint ventures

Where assets are held in a partnership or joint venture with another entity directly, the Trust's share of the results and assets of this partnership or joint venture are consolidated into the Statement of Comprehensive Income and Statement of Financial Position of the Trust. Where assets are jointly controlled via ownership of units in single purpose unlisted unit trusts or shares in companies, the Trust applies equity accounting to record the operations of these investments (refer note 1(t)).

### (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.

**Note 1. Summary of significant accounting policies**

(continued)

**(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 and property, plant and equipment where such expenses are the responsibility of the Trust.

**(ii) Borrowing costs**

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

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

**(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 various derivative financial instruments such as interest rate swaps to manage its exposure to certain risks. Written policies and limits are approved by the Board of Directors of the Responsible Entity, in relation to the use of financial instruments to manage financial risks. The Responsible Entity continually reviews the Trust's exposures and updates its treasury policies and procedures. The Trust does not trade in derivative instruments for speculative purposes. Even though derivative financial instruments are entered into for the purpose of providing the Trust with an economic hedge, the Trust has elected not to apply hedge accounting under AASB 139 *Financial Instruments: Recognition and Measurement*. Accordingly, derivatives including interest rate swaps are measured at fair value with any changes in fair value recognised in the Statement of Comprehensive Income.

**(ii) Debt and equity instruments issued by the Trust**

Financial instruments issued by the Trust are classified as either liabilities or as equity in accordance with the substance of the contractual arrangements. Accordingly, ordinary units issued by the Trust are classified as equity.

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

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

**(iii) Financial guarantee contracts**

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

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

**(iv) Other financial assets**

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

**(f) Goods and services tax**

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

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

**(g) Taxation**

The Trust 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 a tax rate of 30% 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. 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.

#### **Tax consolidation**

In December 2009 DXO became the head entity of a tax consolidated group. This group currently comprises 20 Barrack Street Trust, DEXUS Holdings Pty Limited, DEXUS Funds Management Limited, DEXUS Property Services Pty Limited, DEXUS Financial Services Pty Limited, DEXUS Projects Pty Limited, DEXUS Wholesale Property Limited, DEXUS CMBS Issuer Pty Limited, Otho Pty Limited and DWPL Nominees Pty Limited. The implementation date for the DXO tax consolidation group was 1 July 2008.

The entities in the DXO tax consolidated group have entered into a Tax Sharing Deed. In the opinion of the Directors, this limits the joint and several liability of the wholly owned entities in the case of a default by the head entity, DXO.

#### **(h) Distributions**

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

#### **(i) Repairs and maintenance**

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

#### **(j) Cash and cash equivalents**

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

#### **(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**

##### **Land and properties held for resale**

Land and properties held for resale is 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.

##### **Net realisable value**

Net realisable value is the estimated selling price in the ordinary course of business. Marketing and selling expenses are estimated and deducted to establish net realisable value.

#### **(m) 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.

#### **(n) Property, plant and equipment**

Property, 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 Trust 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.

Property, 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 (u)).

#### **(o) Depreciation of property, plant and equipment**

Land is not depreciated. Depreciation on buildings (including fit-out) is calculated on a straight-line basis so as to write off the net cost of each non-current asset over its expected useful life. Estimates for remaining useful lives are reviewed on a regular basis for all assets and are as follows:

Buildings (including fit-out)	5–50 years
IT equipment	3–5 years

**Note 1. Summary of significant accounting policies**

(continued)

**(p) Investment properties**

During the year ended 30 June 2010, DXO adopted the amendments to AASB 140 *Investment Property* as set out in AASB 2008-5 *Amendments to Australian Accounting Standards arising from the Annual Improvements Project* effective for reporting periods beginning on or after 1 January 2009. Under this amendment, property that is under construction or development for future use as investment property falls within the scope of AASB 140. As such, development property of this nature is no longer recognised and measured as property, plant and equipment but is included as investment property measured at fair value. Where fair value of investment property under construction is not reliably measurable, the property is measured at cost until the earlier of the date construction is completed and the date at which fair value becomes reliably measurable. As required by the standard, the amendments to AASB 140 were applied prospectively from 1 July 2009.

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

The basis of valuations of investment properties is fair value being the amounts for which the assets could be exchanged between knowledgeable willing parties in an arm's length transaction, based on current prices in an active market for similar properties in the same location and condition and subject to similar leases. In addition, an appropriate valuation method is used, which may include the discounted cash flow and the capitalisation method. Discount rates and capitalisation rates are determined based on industry expertise and knowledge and, where possible, a direct comparison to third party rates for similar assets in a comparable location. Rental revenue from current leases and assumptions about future leases, as well as any expected operational cash outflows in relation to the property, are also reflected in fair value. In relation to development properties under construction for future use as investment property, where reliably measurable, fair value is determined based on the market value of the property on the assumption it had already been completed at the valuation date less costs still required to complete the project, including an appropriate adjustment for profit and risk.

External valuations of the individual investment properties are carried out in accordance with the Trust's Constitution or may be earlier where the Responsible Entity believes there is a potential for a material change in the fair value of the property.

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

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

**(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) Other financial assets at fair value through profit and loss**

Interests held by the Trust in associates are measured at fair value through profit and loss to reduce a measurement or recognition inconsistency.

**(t) Business combinations**

The acquisition method of accounting is used to account for all business combinations. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Trust. The consideration transferred also includes the fair value of any contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The Trust recognises any non-controlling interest in the acquiree at its proportionate share of the acquiree's net identifiable assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Trust's share of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in Statement of Comprehensive Income as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

**(u) 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.

#### (v) 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.

In a business combination achieved in stages, the acquirer shall remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss.

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 useful lives which vary from five to 21 years.

During the year, the Trust changed the accounting policy for the testing of impairment of management rights associated with indefinite life trusts. These management rights are tested for impairment annually in accordance with AASB 136 *Impairment of Assets*. Previously testing was performed every six months at the end of each reporting period. There is no adjustment required to current or prior periods as a result of the change in policy. As at the date of this report, there were no events or circumstances identified that would indicate an impairment during the year ended 30 June 2011.

#### (w) Financial assets and liabilities

##### (i) Classification

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

Financial asset/liability	Classification	Valuation basis	Reference
Cash and cash equivalents	Fair value through profit or loss	Fair value	Refer note 1(j)
Receivables	Loans and receivables	Amortised cost	Refer note 1(k)
Other financial assets	Loans and receivables	Amortised cost	Refer note 1(e)
Other financial assets	Fair value through profit or loss	Fair value	Refer note 1(s)
Payables	Financial liability at amortised cost	Amortised cost	Refer note 1(x)
Interest bearing liabilities	Financial liability at amortised cost	Amortised cost	Refer note 1(y)
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.



**Note 1. Summary of significant accounting policies**

(continued)

**(x) 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.

**(y) 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 end of the reporting period.

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

Liabilities for employee benefits for wages, salaries and annual leave represent present obligations resulting from employees' services provided to the end of the reporting period, calculated at undiscounted amounts based on remuneration wage and salary rates that the 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.

**(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. The Trust did not have such dilutive potential units during the year.

**(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 DXO, DDF, DIT and DOT. 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**

On 28 June 2010 the *Corporations Amendment (Corporate Reporting Reform) Act 2010* received Royal Assent. As a result of the amendments, Financial Statements for financial years ending on or after 30 June 2010 no longer need to include separate columns and associated note disclosures for the parent entity. Instead, the Corporations Regulations now prescribe limited disclosures that will need to be made in the Notes to the Financial Statements which include disclosure of key financial information for the parent entity and details of any guarantees, contingent liabilities and commitments.

The financial information for the parent entity of the Trust is disclosed in note 25 and has been prepared on the same basis as the consolidated Financial Statements except as set out below:

**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.

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

Certain new accounting standards and interpretations have been published that are not mandatory for the 30 June 2011 reporting period. Our assessment of the impact of these new standards and interpretations is set out below:

- (i) AASB 2010-4 *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project* (effective 1 January 2011). In June 2010, the AASB made a number of amendments to Australian Accounting Standards as a result of the IASB's annual improvements project. The Trust intends to apply the standard from 1 July 2011 and does not expect any significant impacts.
- (ii) AASB 2010-6 *Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets* (effective 1 July 2011). Amendments made to AASB 7 *Financial Instruments: Disclosures* in November 2010 introduce additional disclosures in respect of risk exposures arising from transferred financial assets. The amendments will particularly affect entities that sell, factor, securitise, lend or otherwise transfer financial assets to other parties. The Trust intends to apply the standard from 1 July 2011 and does not expect any significant impacts.
- (iii) AASB 9 *Financial Instruments* and AASB 2009-11 *Amendments to Australian Accounting Standards arising from AASB 9 and AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)* (effective 1 January 2013). AASB 9 *Financial Instruments* addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard simplifies the classifications of financial assets into those to be carried at amortised cost and those to be carried at fair value. The Trust intends to apply the standards from 1 July 2013 and does not expect any significant impacts.

- (iv) AASB 2010-8 *Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets* (effective 1 January 2012). In December 2010, the AASB amended AASB 112 *Income Taxes* to provide an amended approach for measuring deferred tax liabilities and deferred tax assets when investment property is measured using the fair value model. AASB 112 requires the measurement of deferred tax assets or liabilities to reflect the tax consequences that would follow from the way management expects to recover or settle the carrying amount of the relevant assets or liabilities that is through use or through sale. The Trust intends to apply the standard from 1 July 2012 and does not expect any significant impacts.
- (v) AASB 1054 *Australian Additional Disclosures*, AASB 2011-1 *Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project* and AASB 2011-2 *Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project – Reduced Disclosure Requirements* (effective 1 July 2011). The AASB and NZ FRSB have issued accounting standards that eliminate most of the existing differences between their local standards and IFRS. Where additional disclosures were considered necessary, they were moved to new standard AASB 1054. Adoption of the new rules will not affect any of the amounts recognised in the Financial Statements, but may simplify some of the Trust's current disclosures. The Trust intends to apply the standards from 1 July 2011.
- (vi) AASB 2011-4 *Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements* (effective 1 July 2013). In July 2011 the AASB decided to remove the individual key management personnel disclosure requirements from AASB 124 *Related Party Disclosures*, to achieve consistency with the international equivalent standard and remove a duplication of the requirements with the *Corporations Act 2001*. While this will reduce the disclosures that are currently required in the Notes to the Financial Statements, it will not affect any of the amounts recognised in the Financial Statements. The amendments apply from 1 July 2013 and cannot be adopted early. The Corporations Act requirements in relation to remuneration reports will remain unchanged for now, but these requirements are currently subject to review and may also be revised in the near future.
- The IASB has issued new and amended standards as discussed below. The AASB is expected to issue equivalent Australian standards shortly.
- (vii) IFRS 10 *Consolidated financial statements* (effective 1 January 2013). IFRS 10 replaces all of the guidance on control and consolidation in IAS 27 *Consolidated and separate financial statements*, and SIC-12 *Consolidation – special purpose entities*. The standard introduces a single definition of control that applies to all entities. It focuses on the need to have both power and rights or exposure to variable returns before control is present. The Trust intends to apply the standard from 1 July 2013 and does not expect any significant impacts.
- (viii) IFRS 12 *Disclosure of interests in other entities* (effective 1 January 2013). IFRS 12 sets out the required disclosures for entities reporting under the two new standards, IFRS 10 and IFRS 11, and replaces the disclosure requirements currently found in IAS 28. Application of this standard will not affect any of the amounts recognised in the Financial Statements, but may impact some of the Trust's current disclosures. The Trust intends to apply the standard from 1 July 2013.
- (ix) IFRS 13 *Fair value measurement* (effective 1 January 2013). IFRS 13 explains how to measure fair value and aims to enhance fair value disclosures. Application of this standard will not affect any of the amounts recognised in the Financial Statements, but may impact some of the Trust's current disclosures. The Trust intends to apply the standard from 1 July 2013.
- (x) Revised IAS 1 *Presentation of Financial Statements* (effective 1 July 2012). In June 2011, the IASB made an amendment to IAS 1 *Presentation of Financial Statements*. The AASB is expected to make equivalent changes to AASB 101 shortly. The amendment requires entities to separate items presented in other comprehensive income into two groups, based on whether they may be recycled to profit or loss in the future. It will not affect the measurement of any of the items recognised in the balance sheet or the profit or loss in the current period. The Trust intends to adopt the new standard from 1 July 2012.



## DEXUS OPERATIONS TRUST

### Notes to the Financial Statements

For the year ended 30 June 2011

CONTINUED

#### Note 2. Management fee revenue

	2011 \$'000	2010 \$'000
Responsible Entity fees	35,340	34,476
Asset management fees	9,973	10,077
Property management fees	22,392	20,478
Capital works and development fees	2,791	5,966
Wages recovery and other fees	9,684	9,108
<b>Total management fee revenue</b>	<b>80,180</b>	<b>80,105</b>

#### Note 3. Property revenue and property expenses

Property revenue includes \$4.5 million (2010: nil) and property expenses includes \$0.6 million (2010: nil) 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

	2011 \$'000	2010 \$'000
Interest paid to related parties	37,583	20,526
Amount capitalised	(18,676)	(11,639)
Other finance costs	20	19
Net fair value loss of interest rate swaps	255	1,034
<b>Total finance costs</b>	<b>19,182</b>	<b>9,940</b>

The average capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation is 7.77% (2010: 7.15%).

#### Note 5. Income tax

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

	2011 \$'000	2010 \$'000
Current tax (benefit)/expense	–	(3,775)
Deferred tax (benefit)/expense	(4,418)	2,171
<b>Total income tax (benefit)/expense</b>	<b>(4,418)</b>	<b>(1,604)</b>
<b>Deferred income tax expense/(benefit) included in income tax expense comprises:</b>		
Increase in deferred tax assets	(11,804)	(1,096)
Increase in deferred tax liabilities	7,386	3,267
<b>Total deferred tax (income)/expense</b>	<b>(4,418)</b>	<b>2,171</b>

(b) Reconciliation of income tax expense to net profit

	2011 \$'000	2010 \$'000
Loss before tax	(33,709)	(9,865)
Prima facie tax benefit at the Australian tax rate of 30% (2010: 30%)	(10,113)	(2,960)
<b>Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:</b>		
Depreciation and amortisation	58	73
Sundry items	15	5
Unused tax losses	–	(225)
Net fair value loss of investment properties	5,687	6,040
Reversal of previous impairment	–	(3,992)
Previous unrecognised tax losses utilised	–	(693)
Net (gain)/loss on sale of assets	(65)	148
	<b>5,695</b>	<b>1,356</b>
<b>Income tax (benefit)/expense</b>	<b>(4,418)</b>	<b>(1,604)</b>

**Note 6. Other expenses**

	Note	2011 \$'000	2010 \$'000
Audit and taxation fees	7	477	336
Custodian fees		25	13
Legal and other professional fees		2,587	1,569
Registry costs and listing fees		44	64
Occupancy expenses		2,821	2,279
Administration expenses		3,547	3,196
Other staff expenses		2,959	2,665
Other expenses		1,887	1,682
<b>Total other expenses</b>		<b>14,347</b>	<b>11,804</b>

**Note 7. Audit and taxation fees**

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

	2011 \$	2010 \$
<b>Audit fees</b>		
PwC Australia – audit and review of Financial Statements	213,989	199,857
PwC Australia – regulatory audit and compliance services	218,486	28,110
<b>Audit fees paid to PwC</b>	<b>432,475</b>	<b>227,967</b>
Fees paid to non-PwC audit firms	–	75,075
<b>Total audit fees</b>	<b>432,475</b>	<b>303,042</b>
<b>Taxation fees</b>		
Fees paid to PwC Australia	44,638	63,114
<b>Taxation fees paid to PwC</b>	<b>44,638</b>	<b>63,114</b>
Fees paid to non-PwC audit firms	–	–
<b>Total taxation fees<sup>1</sup></b>	<b>44,638</b>	<b>366,156</b>
<b>Total audit and taxation fees</b>	<b>477,113</b>	<b>366,156</b>

1 These services include general compliance work, one-off project work and advice with respect to the management of day-to-day tax affairs of the Trust.

## Notes to the Financial Statements

For the year ended 30 June 2011

CONTINUED

## Note 8. Current assets – cash and cash equivalents

	2011 \$'000	2010 \$'000
Cash at bank	3,229	2,843
Short term deposits	10,000	10,054
<b>Total current assets – cash and cash equivalents</b>	<b>13,229</b>	<b>12,897</b>

## Note 9. Current assets – receivables

	2011 \$'000	2010 \$'000
Fee receivable	13,467	10,919
GST receivable	1,130	6,582
Receivables from related entities	6,468	3,812
Receivable on sale of inventory	3,359	–
Interest receivable	71	45
Other receivables	1,589	6
<b>Total current assets – receivables</b>	<b>26,084</b>	<b>21,364</b>

## Note 10. Current assets – other

	2011 \$'000	2010 \$'000
Prepayments	461	357
<b>Total current assets – other</b>	<b>461</b>	<b>357</b>

## Note 11. Non current assets – investment properties

	Note	2011 \$'000	2010 \$'000
Opening balance at the beginning of the year		170,011	–
Additions		45,463	33,745
Acquisitions		–	40,050
Transfers from property, plant and equipment	12	–	116,348
Lease incentives		2,236	–
Lease incentives amortisation		(159)	–
Rent straightlining		282	–
Transfers to inventories	13	(6,448)	–
Net fair value loss of investment properties		(19,079)	(20,132)
<b>Closing balance at the end of the year</b>		<b>192,306</b>	<b>170,011</b>

## Key Valuation Assumptions

Details of key valuation assumptions in relation to investment properties are outlined in note 12 of the DXS Financial Statements.

## Note 12. Non-current assets – property, plant and equipment

	Construction in progress \$'000	Land and freehold buildings \$'000	IT and office \$'000	Total \$'000
Opening balance as at 1 July 2010	–	–	4,898	4,898
Additions	–	–	956	956
Depreciation charge	–	–	(1,932)	(1,932)
Transfer to IT and office	–	–	–	–
Transfer to investment properties	–	–	–	–
<b>Closing balance as at 30 June 2011</b>	<b>–</b>	<b>–</b>	<b>3,922</b>	<b>3,922</b>
Cost	–	–	11,665	11,665
Accumulated depreciation	–	–	(7,743)	(7,743)
Transfer to IT and office	–	–	–	–
Transfer to investment properties	–	–	–	–
<b>Net book value as at 30 June 2011</b>	<b>–</b>	<b>–</b>	<b>3,922</b>	<b>3,922</b>

	Construction in progress \$'000	Land and freehold buildings \$'000	IT and office \$'000	Total \$'000
Opening balance as at 1 July 2009	47,624	69,695	5,759	123,078
Additions	–	–	769	769
Depreciation charge	–	(809)	(1,792)	(2,601)
Transfer to IT and office	–	(162)	162	–
Transfer to investment properties	(47,624)	(68,724)	–	(116,348)
<b>Closing balance as at 30 June 2010</b>	<b>–</b>	<b>–</b>	<b>4,898</b>	<b>4,898</b>
Cost	114,611	90,155	10,547	215,313
Accumulated depreciation	–	(809)	(5,811)	(6,620)
Transfer to IT and office	–	(162)	162	–
Transfer to investment properties	(114,611)	(89,184)	–	(203,795)
<b>Net book value as at 30 June 2010</b>	<b>–</b>	<b>–</b>	<b>4,898</b>	<b>4,898</b>

## Notes to the Financial Statements

For the year ended 30 June 2011

CONTINUED

## Note 13. Non-current assets – inventories

## (a) Land and properties held for resale

	2011 \$'000	2010 \$'000
<b>Current assets</b>		
Land and properties held for resale	7,991	–
<b>Total current assets – inventories</b>	<b>7,991</b>	<b>–</b>
<b>Non-current assets</b>		
Land and properties held for resale	104,247	45,470
<b>Total non-current assets – inventories</b>	<b>104,247</b>	<b>45,470</b>
<b>Total assets – inventories</b>	<b>112,238</b>	<b>45,470</b>

## (b) Reconciliation

	2011 \$'000	2010 \$'000
Opening balance at the beginning of the year	45,470	–
Transfer from investment properties	6,448	–
Acquisitions	37,614	45,135
Disposals	(3,353)	–
Additions and other	26,059	335
<b>Closing balance at the end of the year</b>	<b>112,238</b>	<b>45,470</b>

## Acquisitions

- On 16 August 2010, DEXUS Projects Pty Limited (DXP), a wholly owned subsidiary of the Trust, acquired undeveloped land at 94-106 Lenore Drive, Erskine Park NSW, for \$15.9 million.
- On 1 November 2010, DXP acquired, with an intention to develop and sell, land and property at 57-101 Balham Road, Archerfield QLD, for \$21.7 million.

## Disposals

- On 30 June 2011, a parcel of DEXUS Industrial Estate, Laverton North, VIC was compulsorily acquired by Melbourne Water Corporation for \$3.4 million.

## Note 14. Non-current assets – deferred tax assets

	2011 \$'000	2010 \$'000
<b>The balance comprises temporary differences attributable to:</b>		
Derivative financial instruments	947	1,967
Employee provisions	12,229	10,365
Impairment	288	231
Other	723	652
<b>Deferred tax asset arising from temporary differences</b>	<b>14,187</b>	<b>13,215</b>
Deferred tax arising on tax losses	13,865	3,033
<b>Total non-current assets – deferred tax assets</b>	<b>28,052</b>	<b>16,248</b>
<b>Movements</b>		
Opening balance at the beginning of the year	16,248	15,152
Reversal of previously recognised tax losses	(3,033)	(3,081)
Recognition of tax losses	13,865	3,033
Movement in deferred tax asset arising from temporary differences	972	1,144
Credited to the Statement of Comprehensive Income	11,804	1,096
<b>Closing balance at the end of the year</b>	<b>28,052</b>	<b>16,248</b>

## Note 15. Non-current assets – intangible assets

	2011 \$'000	2010 \$'000
<b>Management rights</b>		
Opening balance at the beginning of the year	223,000	210,500
Amortisation charge	(647)	(807)
Reversal of previous impairment	–	13,307
<b>Closing balance at the end of the year</b>	<b>222,353</b>	<b>223,000</b>
Cost	252,382	252,382
Accumulated amortisation	(2,226)	(1,579)
Accumulated impairment	(27,803)	(27,803)
<b>Total management rights</b>	<b>222,353</b>	<b>223,000</b>

Management rights represent the asset management rights owned by DXH, which entitle it to management fee revenue from both finite life trusts (\$7,769,204) and indefinite life trusts (\$214,584,150). 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 useful lives, which vary from five to 21 years.

### Impairment of management rights

During the current year, management carried out a review of the recoverable amount of its management rights. The review did not identify any events or circumstances that would indicate an impairment of management rights associated with indefinite life trusts.

During the year ended 30 June 2010, as part of the process to review the recoverable amount of management rights, the estimated fair value of assets under management, which are used to derive the future expected management fee income, were adjusted to better reflect market conditions. This resulted in the recognition of a reversal of a previous impairment of \$13.3 million in that year.

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

### Key assumptions:

- A terminal capitalisation rate of 12.5% was used incorporating an appropriate risk premium for a management business.
- The cash flows have been discounted at 9.3% based on externally published weighted average cost of capital for and appropriate peer group plus an appropriate premium for risk. A 0.25% decrease in the discount rate would increase the valuation by \$2.3 million.

	2011 \$'000	2010 \$'000
<b>Goodwill</b>		
Opening balance at the beginning of the year	2,525	2,767
Impairment	(194)	(242)
<b>Closing balance at the end of the year</b>	<b>2,331</b>	<b>2,525</b>
Cost	2,998	2,998
Accumulated impairment	(667)	(473)
<b>Total goodwill</b>	<b>2,331</b>	<b>2,525</b>
<b>Total intangible assets</b>	<b>224,684</b>	<b>225,525</b>

# DEXUS OPERATIONS TRUST

## Notes to the Financial Statements

For the year ended 30 June 2011

CONTINUED

### Note 16. Non-current assets – other

	2011 \$'000	2010 \$'000
Tenant and other bonds	5	5
Other	62	61
<b>Total non-current assets – other</b>	<b>67</b>	<b>66</b>

### Note 17. Current liabilities – payables

	2011 \$'000	2010 \$'000
Trade creditors	1,144	48
Accruals	2,541	2,726
Accrued capital expenditure	–	140
Employee related expenses	2,375	2,016
Interest payable to related parties	3,355	–
<b>Total current liabilities – payables</b>	<b>9,415</b>	<b>4,930</b>

### Note 18. Loans with related parties

	2011 \$'000	2010 \$'000
<b>Current liabilities – loans with related parties</b>		
Non-interest bearing loans with entities within DXS <sup>1</sup>	48,932	48,932
<b>Total current liabilities – loans with related parties</b>	<b>48,932</b>	<b>48,932</b>
<b>Non-current liabilities – loans with related parties</b>		
Interest bearing loans with related parties <sup>2</sup>	506,133	389,675
<b>Total non-current liabilities – loans with related parties</b>	<b>506,133</b>	<b>389,675</b>

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 19. Provisions

	2011 \$'000	2010 \$'000
<b>Current</b>		
Provision for employee benefits	21,105	16,389
<b>Total current liabilities – provisions</b>	<b>21,105</b>	<b>16,389</b>
<b>Non-current</b>		
Provision for employee benefits	17,624	16,524
<b>Total non-current liabilities – provisions</b>	<b>17,624</b>	<b>16,524</b>

## Note 20. Derivative financial instruments

	2011 \$'000	2010 \$'000
<b>Current liabilities</b>		
Interest rate swap contracts	773	–
<b>Total current liabilities – derivative financial instruments</b>	<b>773</b>	<b>–</b>
<b>Non-current liabilities</b>		
Interest rate swap contracts	2,587	6,558
<b>Total non-current liabilities – derivative financial instruments</b>	<b>2,587</b>	<b>6,558</b>
<b>Total liabilities – derivative financial instruments</b>	<b>3,360</b>	<b>6,558</b>

Refer note 26 for further discussion regarding derivative financial instruments.

## Note 21. Non-current liabilities – deferred tax liabilities

	2011 \$'000	2010 \$'000
<b>The balance comprises temporary differences attributable to:</b>		
Goodwill	2,331	2,525
Investment properties	14,561	7,089
Other	121	13
<b>Total non-current liabilities – deferred tax liabilities</b>	<b>17,013</b>	<b>9,627</b>
<b>Movements</b>		
Opening balance at the beginning of the year	9,627	6,360
Charged to the Statement of Comprehensive Income	7,386	3,267
<b>Closing balance at the end of the year</b>	<b>17,013</b>	<b>9,627</b>

## Note 22. Contributed equity

### (a) Contributed equity

	2011 \$'000	2010 \$'000
Opening balance at the beginning of the year	26,335	26,335
Distributions reinvested	–	–
<b>Closing balance at the end of the year</b>	<b>26,335</b>	<b>26,335</b>

### (b) Number of units on issue

	2011 \$'000	2010 \$'000
Opening balance at the beginning of the year	4,820,821,799	4,700,841,666
Distributions reinvested	18,202,377	119,980,133
<b>Closing balance at the end of the year</b>	<b>4,839,024,176</b>	<b>4,820,821,799</b>

### 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*.



## Notes to the Financial Statements

For the year ended 30 June 2011

CONTINUED

**Note 22. Contributed equity** (continued)**(c) Distribution reinvestment plan**

Under the distribution reinvestment plan (DRP), stapled security holders may elect to have all or part of their distribution entitlements satisfied by the issue of new stapled securities, rather than being paid in cash.

On 27 August 2010, 18,202,377 units were issued at a unit price of nil in relation to the June 2010 distribution period.

On 13 December 2010, DXS announced the suspension of the DRP until further notice.

**Approval of issues of Stapled Securities to an underwriter in connection with issues under a distribution reinvestment plan**

At the Extraordinary General Meeting held on 6 February 2009 by DXFM, as Responsible Entity for DDF, DIT, DOT and DXO, stapled security holders resolved to authorise DXFM, as Responsible Entity, to issue stapled securities, each comprising a unit in each of the above mentioned trusts (Stapled Securities), to an underwriter or persons procured by an underwriter within a period of 24 months from the date of the meeting in connection with any issue of Stapled Securities under the DXS distribution reinvestment plan.

Such an issue will not be counted for the purposes of the calculation of the 15% limit under the ASX Listing Rule 7.1.

**Note 23. Reserves and accumulated losses****(a) Reserves**

	2011 \$'000	2010 \$'000
Asset revaluation reserve	42,738	42,738
<b>Total reserves</b>	<b>42,738</b>	<b>42,738</b>

**Nature and purpose of asset revaluation reserves**

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

**(b) Accumulated losses**

	2011 \$'000	2010 \$'000
Opening balance at the beginning of the year	(61,325)	(53,064)
Net loss attributable to unitholders	(29,291)	(8,261)
<b>Closing balance at the end of the year</b>	<b>(90,616)</b>	<b>(61,325)</b>

**Note 24. Distributions paid and payable**

Dividends paid or payable by the Trust for the year ended 30 June 2011 were nil (2010: nil).

**Franking credits**

The franked portions of the final dividends recommended after 30 June 2011 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 2011.

	2011 \$'000	2010 \$'000
<b>Franking credits</b>		
Opening balance at the beginning of the year	19,730	21,380
Franking credits arising during the year on payment of tax at 30%	1,528	4,996
Franking debits arising during the year on receipt of tax refund at 30%	(4,062)	(6,646)
<b>Closing balance at the end of the year</b>	<b>17,196</b>	<b>19,730</b>

## Note 25. Parent entity financial information

### (a) Summary financial information

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

	2011 \$'000	2010 \$'000
Total current assets	62,786	68,331
Total assets	369,019	339,902
Total current liabilities	55,803	49,228
Total liabilities	434,834	380,245
<b>Equity</b>		
Contributed equity	26,335	26,335
Accumulated losses	(92,150)	(66,678)
<b>Total equity</b>	<b>(65,815)</b>	<b>(40,343)</b>
Net loss for the year	(25,472)	(35,555)
<b>Total comprehensive loss for the year</b>	<b>(25,472)</b>	<b>(35,555)</b>

### (b) Investments in controlled entities

The parent entity has the following investments:

Name of entity	Principal activity	Ownership interest			
		2011 %	2010 %	2011 \$'000	2010 \$'000
Barrack Street Trust	Office property investment	100.0	100.0	99	99
DEXUS Holdings Pty Limited	Management	100.0	100.0	98,652	98,652
DEXUS Projects Pty Limited	Office and industrial development	100.0	100.0	–	–
<b>Total non-current assets – investments in controlled entities</b>				<b>98,751</b>	<b>98,751</b>

### (c) Guarantees

Refer to note 28 for details of guarantees entered into by the parent entity.

### (d) Contingent liabilities

The parent entity had no contingent liabilities as at 30 June 2011 (2010: nil).

### (e) Contractual 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.

	2011 \$'000	2010 \$'000
Not longer than one year	3,024	20,106
	<b>3,024</b>	<b>20,106</b>

**Note 26. Financial risk management**

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

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

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

**(1) Capital risk management**

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

The capital structure of the Trust consists of debt (see note 18), cash and cash equivalents, and equity attributable to unitholders.

The capital structure is monitored and managed in consideration of a range of factors including:

- the cost of capital and the financial risks associated with each class of capital;
- gearing levels and other covenants;
- potential impacts on net tangible assets and unitholders' equity; and
- other market factors and circumstances.

The gearing ratio at 30 June 2011 was 144.9% (as detailed below).

	2011 \$'000	2010 \$'000
<b>Gearing ratio</b>		
Total interest bearing liabilities <sup>1</sup>	506,133	389,675
Total tangible assets <sup>2</sup>	349,322	258,610
<b>Gearing ratio<sup>3</sup></b>	<b>144.9%</b>	<b>150.7%</b>

1 Total interest bearing liabilities excludes deferred borrowing costs and includes the fair value 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 Gearing is managed centrally for DXS. The gearing ratio as disclosed in the DEXUS Property Group Financial Statements 2011 is 29.1% (refer note 30 of the DXS Financial Statements).

The Trust is not rated by ratings agencies, however, DXS is rated BBB+ by Standard and Poor's and Baa1 by Moody's. The Trust considers potential impacts upon the rating when assessing the strategy and activities of the Trust and regards those impacts as an important consideration in its management of the Trust's capital structure.

The Responsible Entity for the Trust, DXFM (a wholly owned entity), has been issued with an Australian Financial Services License (AFSL). The license is subject to certain capital requirements including the requirement to hold minimum net tangible assets (of \$5 million), and to maintain a minimum level of surplus liquid funds. Furthermore, the Responsible Entity maintains trigger points in accordance with the requirements of the licence. These trigger points maintain a headroom value above the AFSL requirements and the entity has in place a number of processes and procedures should a trigger point be reached.

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. It is subject to the same requirements.

## (2) Financial risk management

The Trust's activities expose it to a variety of financial risks: credit risk, market risk (interest rate 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, 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.

	2011				2010			
	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	26,084	–	–	–	21,364	–	–	–
Payables	9,415	–	–	–	4,930	–	–	–
	<b>16,669</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>16,434</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>Interest bearing loans with related parties and interest<sup>1</sup></b>	40,845	40,845	122,535	587,823	31,447	31,447	94,340	484,015
<b>Derivative financial instruments</b>								
Derivative assets	–	–	–	–	–	–	–	–
Derivative liabilities	1,178	846	867	–	3,661	1,239	1,331	–
<b>Total net derivative financial instruments<sup>2</sup></b>	<b>(1,178)</b>	<b>(846)</b>	<b>(867)</b>	<b>–</b>	<b>(3,661)</b>	<b>(1,239)</b>	<b>(1,331)</b>	<b>–</b>

<sup>1</sup> Includes estimated interest.

<sup>2</sup> 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 rates prevailing as at the end of each reporting period. Refer to note 20 (derivative financial instruments) for fair value of derivatives. Refer to note 27 (contingent liabilities) for financial guarantees.

## Notes to the Financial Statements

For the year ended 30 June 2011

CONTINUED

**Note 26. Financial risk management** (continued)**(2) Financial risk management** (continued)**(b) Market risk**

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

**(i) Interest rate risk**

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

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

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

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

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

	June 2012 \$'000	June 2013 \$'000	June 2014 \$'000	June 2015 \$'000	June 2016 \$'000	> June 2017 \$'000
<b>Interest rate swaps</b>						
A\$ hedged <sup>1</sup>	50,000	50,000	50,000	–	–	–
A\$ hedge rate (%) <sup>2</sup>	6.77%	6.75%	6.75%	–	–	–

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 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.

		2011 (+/-) \$'000	2010 (+/-) \$'000
+/- 0.50% (50 basis points)	A\$	2,281	2,286

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 point 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.

		2011 (+/-) \$'000	2010 (+/-) \$'000
+/- 0.50% (50 basis points)	A\$	684	756

### (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 2011, the lowest rating of counterparties that the Trust is exposed to was A+ (S&P)/2010: A (S&P).

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

The maximum exposure to credit risk at 30 June 2011 and 30 June 2010 is the carrying amount of financial assets recognised on the Statement of Financial Position.

As at 30 June 2011 and 30 June 2010, 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 2011 is (\$'000): 23,212 (0-30 days), 1,809 (31-60 days), 533 (61-90 days), 530 (91+ days). The ageing analysis of loans and receivables net of provisions at 30 June 2010 is (\$'000): 21,364 (0-30 days), nil (31-60 days), nil (61-90 days), nil (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 2011 and 30 June 2010, the carrying amounts and fair value of financial assets and liabilities are shown as follows:

	2011		2010	
	Carrying amount <sup>1</sup> \$'000	Fair value <sup>2</sup> \$'000	Carrying amount <sup>1</sup> \$'000	Fair value <sup>2</sup> \$'000
<b>Financial assets</b>				
Cash and cash equivalents	13,229	13,229	12,897	12,897
Loans and receivables (current)	26,084	26,084	21,364	21,364
<b>Total financial assets</b>	<b>39,313</b>	<b>39,313</b>	<b>34,261</b>	<b>34,261</b>
<b>Financial liabilities</b>				
Trade payables	9,415	9,415	4,930	4,930
Derivative liabilities	3,360	3,360	6,558	6,558
Loans with related parties	48,932	48,932	48,932	48,932
<b>Interest bearing liabilities</b>				
Interest bearing loans with related parties	506,133	506,133	389,675	389,675
<b>Total financial liabilities</b>	<b>567,840</b>	<b>567,840</b>	<b>450,095</b>	<b>450,095</b>

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

2 Fair value is the amount for which the financial instrument could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction, however, not recognised on the Statement of Financial Position.

The fair value of fixed rate interest bearing liabilities have been determined by discounting the expected future cash flows by the relevant market rates. The discount rates applied range from 4.81% to 6.42% for A\$. Refer note 1(w) for fair value methodology for financial assets and liabilities.

## Notes to the Financial Statements

For the year ended 30 June 2011

CONTINUED

**Note 26. 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.

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	2011 \$'000
<b>Financial liabilities</b>				
Derivative Liabilities				
Interest rate derivatives	–	3,360	–	3,360
	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	2010 \$'000
<b>Financial liabilities</b>				
Derivative Liabilities				
Interest rate derivatives	–	6,558	–	6,558

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

**Note 27. Contingent liabilities**

The Trust together with DDF, DIT and DOT is also a guarantor of a total of A\$1,147.5 million and US\$120.0 million (A\$111.7 million) of bank bilateral facilities, a total of A\$340.0 million of medium term notes, a total of US\$296.0 million (A\$275.6 million) of privately placed notes, and a total of US\$550.0 million (A\$512.2 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 Trust together with DIT, DOT and DDF is also a guarantor, on a subordinated basis, of RENTS (Real-estate perpetual ExchaNgable sTep-up Securities). The guarantee has been given in support of payments that become due and payable to the RENTS holders and ranks ahead of DXS's distribution payments, but subordinated to the claims of senior creditors.

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 day of completion of this report.

## Note 28. 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.

	2011 \$'000	2010 \$'000
<b>Not longer than one year</b>		
Greystanes Estate, NSW	3,024	20,106
94-106 Lenore Drive, Erskine Park, NSW	8,133	–
DEXUS Industrial Estate, Laverton North, VIC	5,120	–
	<b>16,277</b>	<b>20,106</b>
<b>Later than one year but not later than five years</b>		
Greystanes Estate, NSW	–	2,000
	–	<b>2,000</b>
<b>Total capital commitments</b>	<b>16,277</b>	<b>22,106</b>

### (b) Lease payable commitments

The future minimum lease payments payable are:

	2011 \$'000	2010 \$'000
Within one year	2,732	2,085
Later than one year but not later than five years	6,564	9,210
<b>Total lease payable commitments</b>	<b>9,296</b>	<b>11,295</b>

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.

The Trust has a commitment for ground rent payable in respect of a leasehold property included in investment properties and a commitment for its head office premise at 343 George Street Sydney.

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

### (c) Lease receivable commitments

The future minimum lease payments receivable are:

	2011 \$'000	2010 \$'000
Within one year	5,635	–
Later than one year but not later than five years	25,502	–
Later than five years	47,252	–
<b>Total lease receivable commitments</b>	<b>78,389</b>	<b>–</b>



## Notes to the Financial Statements

For the year ended 30 June 2011

CONTINUED

## Note 29. Related parties

## Responsible Entity

DXFM is the Responsible Entity of the Trust.

DXFM was also the Responsible Entity of Gordon Property Trust, Gordon Property Investment Trust, Northgate Property Trust and Northgate Investment Trust (collectively known as "the Syndicates"). On 30 April 2011, Gordon Property Trust and Gordon Property Investment Trust were wound up. On 31 May 2010, Northgate Property Trust and Northgate Investment Trust were wound up.

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

## Responsible Entity fees

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

## Related party transactions

Responsible Entity fees in relation to DXS assets are on a cost recovery basis. DXPS has a contractual agreement to pay rent on one component of an investment property owned by DEXUS Office Trust (DOT). The agreement is conducted on normal commercial terms and conditions. Agreements with third party funds are conducted under normal commercial terms and conditions.

## DEXUS Funds Management Limited and its related entities

There were a number of transactions and balances between the Trust and the Responsible Entity and its related entities as detailed below:

	2011 \$'000	2010 \$'000
<b>Transactions with DEXUS Diversified Trust</b>		
Responsible Entity fee revenue	5,146,272	5,174,882
Property management fee revenue	3,953,458	3,422,924
Recovery of administration expenses	4,136,570	4,445,229
Aggregate amount receivable at the end of each reporting period (included above)	2,190,062	1,149,223
<b>Transactions with DEXUS Industrial Trust</b>		
Responsible Entity fee revenue	4,094,482	4,438,726
Property management fee revenue	2,467,122	3,888,555
Recovery of administration expenses	3,000,491	3,640,256
Aggregate amount receivable at the end of each reporting period (included above)	1,025,033	1,695,924
Purchase of land	–	64,800,000

	2011 \$	2010 \$
<b>Transactions with DEXUS Office Trust</b>		
Responsible Entity fee revenue	9,361,017	8,998,139
Property management fee revenue	6,331,551	5,279,268
Recovery of administration expenses	4,497,928	5,272,669
Aggregate amount receivable at the end of each reporting period (included above)	2,448,377	2,365,876
Net rental income receivable from Southgate Trust	–	382,593
Rent paid to Southgate Trust	3,106,752	–
<b>Transactions with DEXUS Finance Pty Limited</b>		
Management fee revenue	783,499	840,922
Recovery of administration expenses	640,983	180,043
Aggregate amount receivable at the end of each reporting period (included above)	213,690	211,376
Interest bearing loan payable at the end of each reporting period	506,133,889	389,674,914
<b>Transactions with DEXUS Wholesale Property Fund</b>		
Responsible Entity fee revenue	16,483,106	15,065,861
Property management fee revenue	6,185,789	5,878,083
Recovery of administration expenses	2,122,590	1,404,968
Aggregate amount receivable at the end of each reporting period (included above)	2,539,728	1,898,703
<b>Transactions with the Syndicates</b>		
Responsible Entity fee revenue	439,709	958,425
Property management fee revenue	499,173	962,108
Performance fee – Gordon Syndicate	1,669,625	–
Performance fee – Northgate Syndicate	–	1,752,500
Recovery of administration expenses	102,585	388,551
Aggregate amount receivable at the end of each reporting period (included above)	–	106,152
<b>Bent Street Trust</b>		
Property management fee revenue	1,403,196	1,403,196
Recovery of administration expenses	67,692	5,885
<b>Transactions with Kent Street Joint Venture</b>		
Responsible Entity fee revenue	529,500	253,969
Property management fee revenue	475,996	323,058
Recovery of administration expenses	222,800	254,743
Aggregate amount receivable at the end of each reporting period (included above)	210,716	182,987
<b>Transactions with DEXUS US Management LLC</b>		
Recovery of administration expenses	2,677,193	648,682
Aggregate amount receivable at the end of each reporting period (included above)	89,538	648,682

## Notes to the Financial Statements

For the year ended 30 June 2011

CONTINUED

## Note 29. Related parties (continued)

## Directors

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

Christopher T Beare, BSc, BE (Hons), MBA, PhD, FAICD<sup>1,4,5</sup>

Brian E Scullin, BEc<sup>1,3</sup>

Elizabeth A Alexander, AM, BComm, FCA, FAICD, FCPA<sup>1,2,6</sup>

Peter B St George, CA(SA), MBA<sup>1,2,5,6</sup>

Barry R Brownjohn, BComm<sup>1,2,5,6</sup>

1 Independent Director

John C Conde, AO, BSc, BE (Hons), MBA<sup>1,3,4</sup>

2 Board Audit Committee Member

Stewart F Ewen, OAM<sup>1,4</sup>

3 Board Compliance Committee Member

4 Board Nomination and Remuneration Committee Member

Victor P Hoog Antink, BComm, MBA, FAICD, FCA, FAPI, FRICS

5 Board Finance Committee Member

6 Board Risk and Sustainability Committee Member

No Directors held an interest in the Trust for the years ended 30 June 2011 and 30 June 2010.

## Other key management personnel

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

Name	Title
Victor P Hoog Antink	Chief Executive Officer
Tanya L Cox	Chief Operating Officer
John C Easy	General Counsel
Craig D Mitchell	Chief Financial Officer
Paul G Say	Chief Investment Officer

No key management personnel or their related parties held an interest in the Trust for the years ended 30 June 2011 and 30 June 2010.

There were no loans or other transactions with key management personnel or their related parties during the years ended 30 June 2011 and 30 June 2010.

	2011 \$	2010 \$
<b>Compensation</b>		
Short term employee benefits	8,266,683	9,174,298
Post-employment benefits	912,706	328,058
Other long term benefits	4,794,526	3,797,553
	<b>13,973,915</b>	<b>13,299,909</b>

## Remuneration Report

### 1. Introduction

This Remuneration Report has been prepared in accordance with AASB 124 *Related Party Disclosures* and section 300A of the *Corporations Act 2001* for the year ended 30 June 2011. The information provided in this Report has been audited in accordance with the provisions of section 308 (3C) of the *Corporations Act 2001*.

#### Key Management Personnel

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

- Non-Executive Directors;
- the Chief Executive Officer; and
- Executives who are members of the Group Management Committee (GMC).

Below are the individuals determined to be KMP of the Group, classified between Non-Executive Director and Executive personnel.

#### Non-Executive Directors

There were no changes to the composition of Non-Executive Directors from the previous year.

Name	Title	KMP 2011	KMP 2010
Christopher T Beare	Non-Executive Chair	✓	✓
Elizabeth A Alexander, AM	Non-Executive Director	✓	✓
Barry R Brownjohn	Non-Executive Director	✓	✓
John C Conde, AO	Non-Executive Director	✓	✓
Stewart F Ewen, OAM	Non-Executive Director	✓	✓
Brian E Scullin	Non-Executive Director	✓	✓
Peter B St George	Non-Executive Director	✓	✓

#### Executives

The following changes occurred within the Executive group during the year ended 30 June 2011:

- the GMC was formed on 1 July 2010, replacing the former Executive Committee;
- all property sector Executives now report through to the Chief Investment Officer;
- Mr Turner, former Head of Funds Management and a KMP, ceased employment on 31 December 2010; and
- Ms Martin, former Head of Office and a KMP, ceased employment on 31 December 2010.

Name	Title	Status	KMP 2011	KMP 2010
Victor P Hoog Antink	Chief Executive Officer	GMC Member	✓	✓
Tanya L Cox	Chief Operating Officer	GMC Member	✓	✓
John C Easy	General Counsel	GMC Member	✓	✓
Craig D Mitchell	Chief Financial Officer	GMC Member	✓	✓
Paul G Say	Chief Investments Officer	GMC Member	✓	✓
Andrew P Whiteside <sup>1</sup>	Head of Industrial	Executive	–	✓
R Jane Lloyd <sup>1</sup>	Head of US Investments	Executive	–	✓
Patricia A Daniels <sup>1</sup>	Head of Human Resources	Executive	–	✓
Mark F Turner <sup>2</sup>	Head of Funds Management	Executive/Left Employment	–	✓
Louise J Martin <sup>2</sup>	Head of Office and Retail	Executive/Left Employment	–	✓

- <sup>1</sup> Following the establishment of the GMC on 1 July 2010, Mr Whiteside, Ms Lloyd and Ms Daniels were no longer considered to be KMP for the purpose of this report. However, the total of their remuneration received in 2010 has been disclosed in sections 5 and 8 of this report to provide consistency with figures reported in the prior year.
- <sup>2</sup> Ms Martin is included in the remuneration disclosure in sections 5 and 8 of this report due to her termination payments placing her within the five most highly paid Directors or Executives as defined under the Corporations Act. Mr Turner's remuneration is disclosed for 2010 within the former KMP group in sections 5 and 8.

**Note 29. Related parties** (continued)

## Remuneration Report (continued)

**2. Board oversight of remuneration**

The objectives of the Board Nomination and Remuneration Committee (Committee) are to assist the Board in fulfilling its responsibilities by overseeing all aspects of Director and Executive remuneration, as well as Board nomination and performance evaluation. Specifically, the Committee carries out the following activities:

**Nomination**

To review and recommend to the Board:

- the nomination, appointment, re-election and removal of Directors;
- performance evaluation procedures for the Board, its committees and individual Directors;
- Board and CEO succession plans;
- identification of those employees who fall within the definition of Key Management Personnel as defined in AASB124 *Related Party Disclosures*;
- the DEXUS Diversity Policy;
- measurable objectives for the achievement of gender diversity and monitoring of those objectives;
- ongoing training and development requirements for Directors;
- the effectiveness of the induction process for Directors; and
- determination of the time required by independent Directors to discharge their responsibilities effectively, and whether Directors are meeting this commitment.

**Remuneration**

To review and recommend to the Board:

- remuneration approach, including design and operation of the performance payment employee incentive schemes;
- CEO and Executive performance and remuneration;
- aggregate annual performance payment pool; and
- Directors' fees.

To review and approve:

- aggregate base salary increases and annual performance payment pool, for all employees other than the CEO and Key Management Personnel; and
- recruitment, retention and termination policies and procedures.

Regarding remuneration, the Committee assesses the appropriateness of the structure and the quantum of both Director and Executive remuneration on an annual basis, with reference to relevant regulatory and market conditions, and individual and company performance. At its discretion, the Committee engages external consultants to provide independent advice when required (see section 4 for a description of the remuneration review process).

Further information about the role and responsibilities of the Committee is set out in the Board Nomination and Remuneration Committee Terms of Reference, which may be found online at [www.dexus.com](http://www.dexus.com) in the Corporate Governance section.

The composition of the Committee remained unchanged throughout the year ended 30 June 2011. Mr Conde continued in his role as Committee Chair, drawing upon his extensive experience from a diverse range of appointments, including his role as President of the Commonwealth Remuneration Tribunal. The Committee's experience is further enhanced through the membership of Messrs Beare and Ewen, each of whom has significant management experience in the property and financial services sectors.

During the year ended 30 June 2011, Committee members were:

Name	Title	KMP 2011	KMP 2010
John C Conde, AO <sup>1</sup>	Committee Chair	✓	✓
Christopher T Beare <sup>2</sup>	Committee Member	✓	✓
Stewart F Ewen, OAM	Committee Member	✓	✓
Brian E Scullin <sup>3</sup>	Committee Member	–	–

1 Mr Conde was formerly a member of the Committee and became Chair effective 1 September 2009.

2 Mr Beare was formerly Chair of the Committee and became a Member effective 1 September 2009.

3 Mr Scullin ceased being a Member of the Committee on 31 August 2009 (there were no FY10 meetings of the Committee prior to this).

### 3. Non-Executive Directors' remuneration framework

The objectives of the Non-Executive Directors' remuneration framework are to ensure Non-Executive Directors' fees reflect the responsibilities of Non-Executive Directors and are market competitive. Non-Executive Directors' fees are reviewed annually with reference to:

- comparably sized companies in the S&P/ASX 100 index;
- publicly available remuneration reports from competitors; and
- information supplied by independent external advisors, such as the Australian Institute of Company Directors, Ernst & Young and the Godfrey Remuneration Group.

Non-Executive Directors, other than the Chair, receive a base fee plus additional fees for membership of Board Committees. The table below outlines the fee structure for the year ended 30 June 2011.

Committee	Chair \$	Member \$
Director's Base Fee	350,000	150,000
Board Audit and Risk	30,000	15,000
DWPL Board	30,000	15,000
Board Finance	15,000	7,500
Board Compliance	15,000	7,500
Board Nomination and Remuneration	15,000	7,500

In addition to the Directors' fee structure outlined above, Mr Ewen's company is paid a fixed fee of \$30,000 per annum for his attendance at property inspections, for reviewing property investment proposals and participating in informal management meetings.

Recognising the greater responsibility and time commitment required, the Board Chair receives a higher fee than other Non-Executive Directors, which is benchmarked to the market median of comparably sized ASX listed entities. The Chair does not receive Board Committee fees, nor is the Chair present during any discussion relating to the determination of the Chair's fees.

Non-Executive Directors are not eligible to receive performance based remuneration or accrue separate retirement benefits beyond statutory superannuation entitlements.

Base fees for both the Chair and Non-Executive Directors were increased effective 1 July 2010. This increase was reported in the remuneration report for the year ended 30 June 2010. Total fees paid to Directors remain within the aggregate fee pool of \$1,750,000 per annum approved by DXS security holders at its Annual General Meeting in October 2008.

### 4. Approach to Executive remuneration

#### 4.1 Executive remuneration principles

DXS Executives are charged with providing a full range of integrated property services, focused on office and industrial property management, delivering consistent total returns to investors, while assuming relatively moderate risk. Earnings growth is also driven by increasing activity in each of our operating business and growing new revenue streams. The Directors consider that an appropriately skilled and qualified Executive team is essential to achieve this objective. The Group's approach to the principles, structure and quantum of Executive remuneration is therefore designed to attract, motivate and retain such an Executive team.

In establishing the Group's remuneration principles, the Directors are cognisant that DXS's business is based on long term property investments and similarly long term tenant relationships. Furthermore, property market investment returns tend to be cyclical. Taking these factors into account, the Executive remuneration structure is based on the following criteria:

1. market competitiveness and reasonableness;
2. alignment of Executive performance payments with achievement of the Group's financial and operational objectives, within its risk framework and cognisant of its values-based culture; and
3. an appropriate mix of remuneration components, including performance payments linked to security holder returns over the longer term.

#### *(a) Market competitiveness and reasonableness*

For the purposes of determining market competitive remuneration, the Group takes a research based approach, obtaining external executive remuneration benchmarks from a range of sources, including:

- publicly available data from the annual reports of constituents of the S&P/ASX 100 index;
- independent remuneration consultants, including Hart Consulting Group, Financial Institutions Remuneration Group, Aon Hewitt and the Avdiev Group, regarding property organisations of a similar market capitalisation; and
- various recruitment and consulting agencies who are informed sources of market remuneration trends.

**Note 29. Related parties** (continued)

## Remuneration Report (continued)

**4. Approach to Executive remuneration** (continued)

## 4.1 Executive remuneration principles (continued)

*(b) Alignment of Executive performance payments with achievement of the Group's objectives*

The Group assesses individual Executive performance within a Balanced Scorecard framework. The Balanced Scorecard prescribes the financial and non-financial performance indicators that will be used to measure an Executive's performance for the year. Financial performance indicators include objectives that promote the achievement of superior security holder returns over time, whilst non-financial indicators are designed to encourage operational effectiveness and sustainable business and people practices. By setting objectives which promote a balanced performance outcome, the Group is able to monitor the execution of its strategy in a holistic manner. The Balanced Scorecard focuses on performance in four areas, which reflect each Executive's role, responsibility, accountability and strategy delivery.

**DEXUS Balanced Scorecard – typical objectives**

Financial performance	Business development and business management
<ul style="list-style-type: none"> <li>■ Earnings per security</li> <li>■ Distributions per security</li> <li>■ Third party funds' performance</li> <li>■ Total security holder return, relative to peers</li> </ul>	<ul style="list-style-type: none"> <li>■ Execution of strategy on time and within budget</li> <li>■ Corporate responsibility and sustainability initiatives</li> <li>■ Achievement of international operations strategies</li> </ul>
Stakeholder satisfaction	Leadership
<ul style="list-style-type: none"> <li>■ Investor relations</li> <li>■ Tenant satisfaction</li> <li>■ Employee engagement</li> </ul>	<ul style="list-style-type: none"> <li>■ Executive succession</li> <li>■ Talent management</li> <li>■ Role modelling DEXUS cultural values</li> <li>■ Executive development</li> </ul>

Individual objectives are selected based on the key strategic drivers for each area of responsibility and as a result are tailored and weighted differently for each Executive. The typical objectives listed above are therefore not common to all Executive roles.

The Committee reviews and approves Balanced Scorecard objectives at the commencement of each financial year and reviews achievement against these KPIs at the end of each financial year. The Committee's review of Executive performance, in conjunction with data provided from external benchmarks and the target remuneration mix, guide the Committee in its determination of the appropriate quantum of Performance Payments to be awarded to Executives.

(c) Executive remuneration structure

i. Executive remuneration components

The DXS Executive remuneration structure comprises the following remuneration components:

TOTAL REMUNERATION			
		<ul style="list-style-type: none"> <li>■ delivered through fixed and variable components</li> <li>■ fixed remuneration is targeted at the market median awarded on a variable scale, which may result in a total remuneration range from lower quartile to upper quartile, reflecting differing levels of experience, role structure and contribution</li> </ul>	<ul style="list-style-type: none"> <li>■ variable remuneration is delivered as immediate and deferred performance payments and is determined on a range of factors including achievement of KPIs and relative market remuneration mix</li> </ul>
<b>FIXED REMUNERATION</b>	Salary	<ul style="list-style-type: none"> <li>■ Consists of cash salary and salary sacrificed fringe benefits, such as motor vehicles</li> </ul>	<ul style="list-style-type: none"> <li>■ Targeted at Australian market median using external benchmark data and varies according to Executives' skills and depth of experience</li> </ul>
	Superannuation	<ul style="list-style-type: none"> <li>■ Prescribed and salary sacrifice superannuation contributions, including insurance premiums (if applicable)</li> </ul>	<ul style="list-style-type: none"> <li>■ Reviewed annually by the Board, effective 1 July, including internal and external relativities</li> </ul>
<b>VARIABLE REMUNERATION</b>	Performance Payments	<ul style="list-style-type: none"> <li>■ The aim of Performance Payments is to attract, motivate and retain appropriately skilled and qualified executives to achieve the strategic objectives of the business, measured through the achievement of KPIs</li> <li>■ Strategic objectives incorporate financial and non-financial measures of performance at Group, business unit and individual level and represent key drivers for the success of the business and for delivering long term value to security holders</li> <li>■ The achievement of KPIs is assessed through a Balanced Scorecard approach</li> <li>■ Individual awards are determined on a range of factors, including achievement of KPIs and relative market remuneration mix</li> </ul>	<ul style="list-style-type: none"> <li>■ Performance payments are delivered as immediate and deferred elements in accordance with the targeted remuneration mix set out in the table below</li> <li>■ The annual award of any Performance Payment to an Executive is dependent upon the Board being satisfied that minimum threshold performance targets have been achieved</li> <li>■ Only in exceptional circumstances would the Board consider awarding a Performance Payment which exceeds the target remuneration mix</li> </ul>
	DEXUS Performance Payments (DPP)	<ul style="list-style-type: none"> <li>■ Delivery of DPP is immediate</li> </ul>	<ul style="list-style-type: none"> <li>■ Awarded annually as a cash payment in September</li> </ul>
	DEXUS Deferred Performance Payments (DDPP)	<ul style="list-style-type: none"> <li>■ Delivery of DDPP is deferred for three years, as described below</li> </ul>	<ul style="list-style-type: none"> <li>■ Granted annually</li> <li>■ Grants vest after three years (i.e. no accelerated vesting)</li> <li>■ Delivered as a cash payment in accordance with the plan design described below</li> <li>■ Unvested grants are forfeited upon Executive initiated termination (i.e. resignation)</li> <li>■ The Nomination and Remuneration Committee may use its discretion in operating the Plan</li> </ul>



**Note 29. Related parties** (continued)

## Remuneration Report (continued)

**4. Approach to Executive remuneration** (continued)

## 4.1 Executive remuneration principles (continued)

*(c) Executive remuneration structure (continued)**Performance payment pool*

A single pool of funds is accrued to meet all Performance Payments. The pool of funds accrued is sufficient to ensure that the Group is able to meet its objectives under its remuneration framework. The Board may exercise its discretion to vary the size of the pool by reference to such factors as:

- three year absolute total security holder return;
- management costs, risk factors and revenue of DEXUS Holdings Pty Limited; and
- performance against budgeted earnings and distributions per security.

*ii. Target mix of remuneration components*

The target remuneration mix for KMP, expressed as a percentage of total remuneration, is outlined in the table below.

Remuneration component	2011			2010		
	CEO	CFO & CIO	Other Executives	CEO	CFO & CIO	Other Executives
Total fixed	35%	40%	50%	35%	40%	50%
DEXUS Performance Payment (DPP)	30%	30%	25%	30%	30%	25%
DEXUS Deferred Performance Payment (DDPP)	35%	30%	25%	35%	30%	25%

The Directors consider that the target mix of remuneration is appropriate and reflects alignment with long term returns to security holders.

The Group's performance payment philosophy is based on appropriate reward for performance. In the event of exceptional performance the Nomination and Remuneration Committee may choose to award a performance payment in excess of the target remuneration mix. Although the Committee has chosen to not adopt a maximum performance payment cap, historically it has not exercised its right to award performance payments in excess of the target remuneration mix.

*iii. DEXUS Deferred Performance Payment (DDPP) plan*

The DDPP plan operates as follows:

- Following allocation, Deferred Performance Payments are subject to a three year vesting period from allocation date;
- The DDPP allocation value is notionally invested during the vesting period in DXS securities (50% of DDPP value) and its unlisted funds and mandates (50% of DDPP value);
- During the vesting period, DDPP allocation values fluctuate in line with changes in the "Composite Total Return" (simulating notional investment exposure), comprising 50% of the total return of DXS securities and 50% of the combined asset weighted total return of its unlisted funds and mandates; and
- At the conclusion of the three year vesting period, if the Composite Total Return meets or exceeds the Composite Performance Benchmark, the Board may approve the application of a performance factor to the final DDPP allocation value:
  1. The "Composite Performance Benchmark" is 50% of the S&P/ASX200 Property Accumulation Index and 50% of the Mercer Unlisted Property Fund Index over the three year vesting period;

2. For performance up to 100% of the Composite Performance Benchmark, executives receive a DDPP allocation reflecting the Composite Total Return of the preceding three year vesting period; and
3. For performance between 100% and 130% of the Composite Performance Benchmark a performance factor may be applied, ranging from 1.1 to a maximum of 1.5 times.

Provisions regarding the vesting of DDPP in the event of termination of service are outlined in section 7.

*Equity options scheme*

The Group does not operate an equity option scheme as part of its Executive remuneration structure. The Committee has considered the introduction of such a scheme, but has determined that it would not be an appropriate component of the Group's remuneration structure.

*Equity and loan schemes*

The Group does not operate a security participation plan or a loan plan for Executives or Directors.

The deferred element of DXS's Performance Payment is designed to simulate, or at least replicate, some of the features of an equity plan, but it does not provide Executives with direct equity exposure.

*Hedging policy*

The Group does not permit Executives to hedge their DDPP allocation.

## 5. Remuneration arrangements for the year ended 30 June 2011

This section outlines how the approach to remuneration described above has been implemented in the year ended 30 June 2011.

### Non-Executive Director's remuneration for the year ended 30 June 2011

- At its meeting of 20 May 2010, the Nomination and Remuneration Committee endorsed an increase to the base fee payable to both the Chair and Non-Executive Directors to bring DXS fees into line with the fee structure of comparably sized ASX listed entities.
- This increase in base fees came into effect on 1 July 2010 (as set out in section 8 of this report).
- There were no changes to committee fees.

### Executive remuneration for the year ended 30 June 2011

- At its meeting of 21 July 2010, the Nomination and Remuneration Committee determined that the fixed remuneration of a number of Executives had fallen below the market median of comparably sized ASX listed entities.
- Two substantial increases to KMP remuneration were required to correct this position and to reflect increased responsibilities as a result of the Executive restructure on 1 July 2010 (as set out in section 8 of this report).
- These increases in fixed remuneration came into effect 1 July 2010.
- DPP and DDPP awarded to Executives reflected a combination of individual and group performance, external market comparisons and benchmarking, and reference to the remuneration mix guidelines established for each category of Executive (as set out in section 4 of this report).
- DPP is payable in September 2011, with DDPP following the vesting schedule applicable under the DDPP Plan.

### Actual remuneration earned/granted

- The following table provides details of actual remuneration earned/granted by Executives in the years ended 30 June 2010 and 30 June 2011. This table includes details of the five highest paid Directors or Executives. The amounts detailed in the remuneration earned/granted table vary from the amounts detailed in the statutory accounting table in section 8, because performance payments (in the remuneration earned/granted table) are attributed to Executives in the year performance payments are earned.

		Cash salary including superannuation	DEXUS performance payments	DEXUS deferred performance payments	Other short term benefits	Termination benefits	Total
		\$	\$	\$	\$	\$	\$
<b>Name</b>							
<b>Victor P Hoog Antink</b>	<b>2011</b>	<b>1,550,000</b>	<b>1,100,000</b>	<b>1,300,000</b>	–	–	<b>3,950,000</b>
	2010	1,300,000	1,100,000	1,200,000	–	–	3,600,000
<b>Craig D Mitchell</b>	<b>2011</b>	<b>700,000</b>	<b>450,000</b>	<b>450,000</b>	–	–	<b>1,600,000</b>
	2010	550,000	400,000	400,000	–	–	1,350,000
<b>Paul G Say</b>	<b>2011</b>	<b>700,000</b>	<b>400,000</b>	<b>400,000</b>	–	–	<b>1,500,000</b>
	2010	500,000	250,000	250,000	–	–	1,000,000
<b>John C Easy</b>	<b>2011</b>	<b>425,000</b>	<b>190,000</b>	<b>185,000</b>	–	–	<b>800,000</b>
	2010	375,000	187,000	188,000	–	–	750,000
<b>Tanya L Cox</b>	<b>2011</b>	<b>425,000</b>	<b>195,000</b>	<b>190,000</b>	–	–	<b>810,000</b>
	2010	400,000	180,000	180,000	–	–	760,000
<b>Andrew P Whiteside<sup>1</sup></b>	<b>2011</b>	<b>525,000</b>	<b>235,000</b>	<b>240,000</b>	–	–	<b>1,000,000</b>
	2010	475,000	225,000	225,000	–	–	925,000
<b>Louise J Martin<sup>1,2</sup></b>	<b>2011</b>	<b>262,500</b>	–	–	<b>74,389</b>	<b>525,000</b>	<b>861,889</b>
	2010	500,000	200,000	200,000	–	–	900,000
<b>Total</b>	<b>2011</b>	<b>4,587,500</b>	<b>2,570,000</b>	<b>2,765,000</b>	<b>74,389</b>	<b>525,000</b>	<b>10,521,889</b>
	2010	4,100,000	2,542,000	2,643,000	–	–	9,285,000

1 Mr Whiteside and Ms Martin are former KMP. Mr Whiteside's remuneration is disclosed due to being counted among the five highest paid Directors or Executives. Ms Martin ceased employment on 31 December 2010 and due to termination benefits received, also forms part of the five highest paid Directors or Executives. Ms Martin will not form part of subsequent remuneration disclosures.

2 Ms Martin received payment for statutory leave entitlements upon termination.

For the purpose of consistency, the following table includes the total remuneration of former KMP as disclosed for the year ended 30 June 2010. As referred to in section 1 of this report, the former KMP group comprises Mr Turner (ceased employment on 31 December 2010), Ms Lloyd and Ms Daniels. This group will not form part of subsequent remuneration disclosures.

Former KMP Total	2010	1,081,249	383,391	383,391	123,107	–	1,971,138
Combined Totals	2010	5,181,249	2,925,391	3,026,391	123,107	–	11,256,138

**Note 29. Related parties** (continued)

## Remuneration Report (continued)

**5. Remuneration arrangements for the year ended 30 June 2011** (continued)*Other employee remuneration for the year ended 30 June 2011*

- A moderate increase in base salaries was applied to the wider employee group to ensure market competitive remuneration was maintained.
- A limited number of adjustments was made as a result of promotion, key talent retention and market comparison.
- DPP was awarded based on individual and company performance, with reference to the remuneration mix guidelines in place for each category of employee.
- DDPP continues to be limited to a small number of key employees outside the Executive group.
- DPP is payable in August 2011, with DDPP (if applicable) following the vesting schedule applicable under the DDPP Plan.

*Decisions taken relating to remuneration arrangements for the year ending 30 June 2012*

- No change to Non-Executive Directors' base or committee fees;
- No increase to the CEO's base salary;
- Conservative increases to Executive base salaries in line with market comparisons and cognisant of prior year adjustments;
- Industry standard increases to base salaries for the wider employee group, with a small number of adjustments made to ensure retention of key talent and to recognise increased contribution to the group in some roles; and
- No change to the target remuneration mix guidelines which are used to determine the split between fixed remuneration, DPP and DDPP.

**6. Group performance and the link to remuneration**

## Total return analysis

The table below sets out DXS's total security holder return since inception, relative to the S&P/ASX200 Property Accumulation Index. It also sets out DXS's Composite Total Return since inception, relative to the Composite Performance Benchmark. The DEXUS Composite Total Return is 50% of the total return of DXS securities, plus 50% of the combined asset weighted total return of its unlisted funds and mandates and the Composite Performance Benchmark is 50% of the S&P/ASX200 Property Accumulation Index and 50% of Mercers' Unlisted Property Fund Index.

Year ended 30 June 2011	1 year % per annum	2 years % per annum	3 years % per annum	Since 1 October 2004 % per annum
DEXUS Property Group <sup>1</sup>	21.6	15.4	(5.8)	2.5
S&P/ASX200 Property Accumulation Index	5.8	12.9	(9.7)	(4.0)
DEXUS Composite Total Return	16.4	12.2	(1.9)	6.1
Composite Performance Benchmark	8.3	9.9	(4.6)	3.5

Note: DEXUS inception date was 1 October 2004.

<sup>1</sup> Compound annual return, source DEXUS/IRESS.

In determining the construction of the Composite Total Return and in particular the relative weighting between the returns of the DEXUS Property Group and its unlisted funds and mandates, the Board considered the following factors:

- the desire of DEXUS Property Group to attract and retain third party funds and mandates based on the assurance that incentives are in place to ensure their equitable treatment;
- the economic contribution to DEXUS Property Group of management fees arising from third party funds under management;
- the increased investment in its management team and infrastructure, enabled by third party funds management fees, including in-house research, valuations and sustainability teams, the cost of which is defrayed by those fees; and
- the greater market presence and relevance the third party business brings to the DEXUS Property Group.

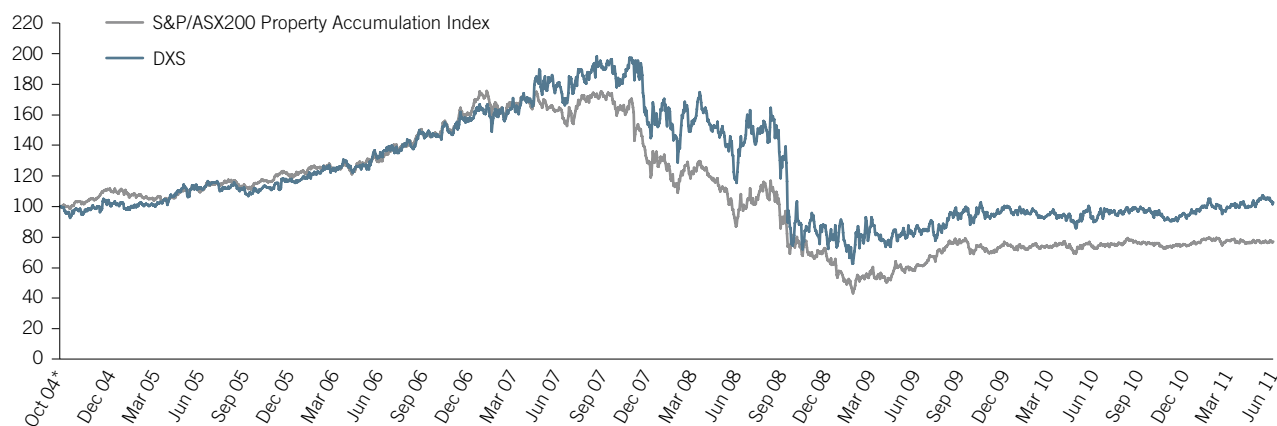
The Board also considered whether the construction of the Composite Total Return should reflect the actual value of the unlisted funds and mandates (\$6.1 billion as at 30 June 2011), and DEXUS Property Group's own funds under management (\$7.6 billion as at 30 June 2011).

Cognisant of all the above factors, the Board determined that a 50/50 allocation, rather than an allocation varying according to asset weighting, most fairly reflects the value contribution of third party funds to the DEXUS Property Group and provides the greatest assurance that all investors are treated equitably.

During the year the Group did not buy-back or cancel any of its securities.

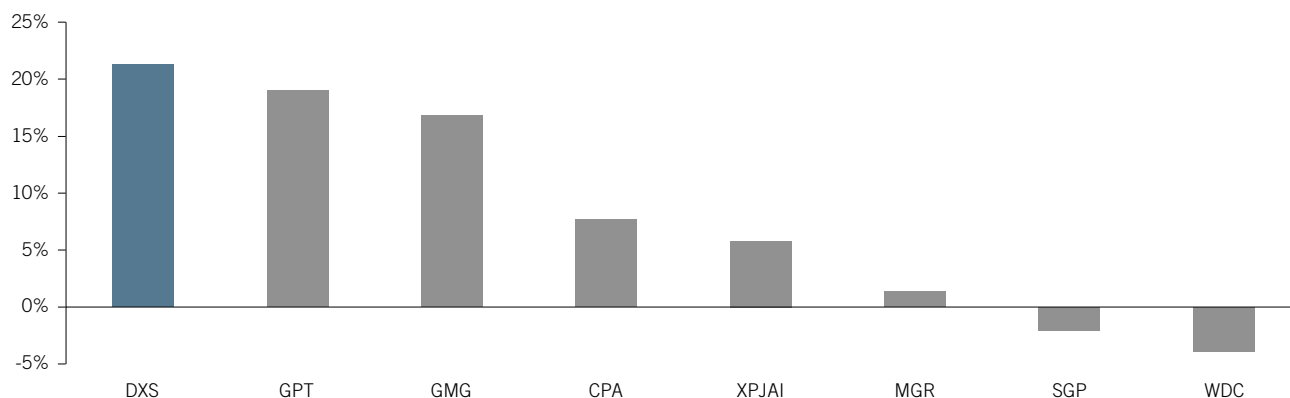
### Total return of DXS securities

The graph below illustrates DXS's total security holder return relative to the S&P/ASX200 Property Accumulation Index.



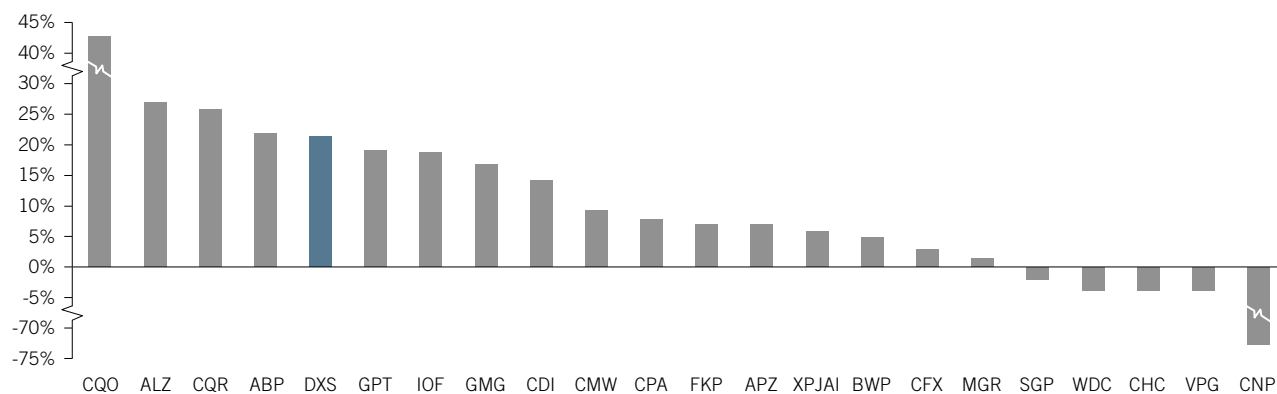
\* 6 October 2004 to 30 June 2011. Source: IRESS/DEXUS.

The chart below illustrates DXS's performance relative to A-REITs above \$2 billion market capitalisation.



Source: UBS Securities Australia Ltd.

The chart below illustrates DXS's performance against the broader property sector.



Source: UBS Securities Australia Ltd.

**Note 29. Related parties** (continued)

## Remuneration Report (continued)

**6. Group performance and the link to remuneration** (continued)

## Total return of DXS securities (continued)

DXS continues to outperform the S&P/ASX200 Property Accumulation index and has exceeded this benchmark on a rolling three year basis each period since inception in October 2004. In addition, the DXS Composite Total Return has also outperformed the Composite Performance Benchmark on a rolling three year basis since inception.

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

**7. Service agreements**

The employment arrangements for Executives are set out below.

## CEO – Victor P Hoog Antink

The current employment contract commenced on 1 October 2004. The principal terms of the employment arrangement are as follows:

- the CEO is employed under a rolling contract;
- the CEO may resign from his position and thus terminate this contract by giving six months written notice. On resignation any unvested DDPP will be forfeited subject to the discretion of the Board;
- the Group may terminate the CEO's employment agreement by providing six months written notice or payment in lieu of the notice period (based on the fixed component of CEO's remuneration). Additionally, the Group may provide a performance payment for the period of the last review date (being 1 July) until the last day of the notice period;
- in the event that the Group initiates termination for reasons outside the control of the CEO, a severance payment equal to 100% of fixed remuneration is payable;
- on termination by the Group, any DDPP awards will vest in accordance with the vesting schedule of the DDPP Plan, subject to the discretion of the Board; and
- the Group may terminate the contract of the CEO at any time without notice if serious misconduct has occurred. In the event of termination for cause, the CEO is only entitled to that portion of remuneration that is fixed, and only up to the date of termination. On termination for cause any unvested DDPP awards will immediately be forfeited.

## KMP Executives (other than the CEO)

The principal terms of Executive employment arrangements are as follows:

- all Executives have rolling contracts;
- an Executive may resign from their position and thus terminate their contract by giving three months written notice. On resignation any unvested DDPP will be forfeited subject to the discretion of the Board;
- the Group may terminate an Executive's employment agreement by providing three months written notice or providing payment in lieu of the notice period (based on the fixed component of the Executive's remuneration). In the event that the Group initiates the termination for reasons outside the control of the Executive, a severance payment equal to a maximum of 75% of fixed remuneration will be made;
- on termination by the Group, any DDPP awards will vest in accordance with the vesting schedule of the DDPP Plan, subject to the discretion of the Board; and
- the Group may terminate the contract at any time without notice if serious misconduct has occurred. Where termination for cause occurs the Executive is only entitled to that portion of remuneration that is fixed, and only up to the date of termination. On termination for cause any unvested DDPP awards will immediately be forfeited.

## 8. Statutory accounting method

In accordance with Australian Accounting Standard AASB 124, details of the structure and quantum of each component of remuneration for Executives for the years ended 30 June 2010 and 30 June 2011 are set out in the following table.

Name	Short term benefits			Post-employment benefits		Long term benefits			Total
	Cash salary	DEXUS performance payments	Other short term benefits	Pension and super benefits	Termination benefits	DEXUS deferred performance payment allocations	Movement in prior year deferred performance payment allocation values	Other long term benefits	Total
	\$	\$	\$	\$	\$	\$	\$	\$	\$
<b>Victor P Hoog Antink</b>									
2011	1,502,801	1,100,000	–	47,199	–	1,300,000	900,583	–	4,850,583
2010	1,252,539	1,100,000	–	47,461	–	1,200,000	363,957	–	3,963,957
<b>Craig D Mitchell</b>									
2011	684,801	450,000	–	15,199	–	450,000	273,781	–	1,873,781
2010	535,539	400,000	–	14,461	–	400,000	40,528	–	1,390,528
<b>Paul G Say</b>									
2011	649,801	400,000	–	50,199	–	400,000	226,785	–	1,726,785
2010	485,539	250,000	–	14,461	–	250,000	30,565	–	1,030,565
<b>John C Easy</b>									
2011	401,801	190,000	–	23,199	–	185,000	131,830	–	931,830
2010	360,539	187,000	–	14,461	–	188,000	47,437	–	797,437
<b>Tanya L Cox</b>									
2011	375,001	195,000	–	49,999	–	190,000	161,359	–	971,359
2010	385,539	180,000	–	14,461	–	180,000	62,533	–	822,533
<b>Andrew P Whiteside<sup>1</sup></b>									
2011	509,801	235,000	–	15,199	–	240,000	121,087	–	1,121,087
2010	460,539	225,000	–	14,461	–	225,000	16,610	–	941,610
<b>Louise J Martin<sup>1,2</sup></b>									
2011	213,800	–	74,389	48,700	525,000	–	214,101	–	1,075,990
2010	485,539	200,000	–	14,461	–	200,000	74,415	–	974,415
<b>Total</b>									
2011	4,337,806	2,570,000	74,389	249,694	525,000	2,765,000	2,029,526	–	12,551,415
2010	3,965,773	2,542,000	–	134,227	–	2,643,000	636,045	–	9,921,045
<b>Former KMP total</b>									
2010	1,003,666	406,000	123,107	77,583	–	407,000	111,508	–	2,128,864
<b>Combined totals</b>									
2010	4,969,439	2,948,000	123,107	211,810	–	3,050,000	747,553	–	12,049,909

1 Mr Whiteside and Ms Martin are former KMP. Mr Whiteside's remuneration is disclosed due to being counted among the five highest paid Directors or Executives.

Ms Martin ceased employment on 31 December 2010 and due to termination benefits received, also forms part of the five highest paid Directors or Executives.

Ms Martin will not form part of subsequent remuneration disclosures.

2 Ms Martin received payment for statutory leave entitlements upon termination.

For the purpose of consistency, the following table includes the total remuneration of former KMP as disclosed for the year ended 30 June 2010. As referred to in section 1 of this report, the former KMP group comprises Mr Turner (ceased employment on 31 December 2010), Ms Lloyd and Ms Daniels. This group will not form part of subsequent remuneration disclosures.

<b>Former KMP total</b>									
2010	1,003,666	406,000	123,107	77,583	–	407,000	111,508	–	2,128,864
<b>Combined totals</b>									
2010	4,969,439	2,948,000	123,107	211,810	–	3,050,000	747,553	–	12,049,909

## Notes to the Financial Statements

For the year ended 30 June 2011

CONTINUED

## Note 29. Related parties (continued)

## Remuneration Report (continued)

## 8. Statutory accounting method (continued)

## Deferred Performance Payments

The table below sets out details of DDPP allocations made to KMP and their current valuations.

Name	Grant year	DDPP allocation value	Movement in DDPP allocation value (since grant date)	Closing DDPP allocation value as at vesting date (30 June 2011)	Movement in DDPP allocation value at vesting date (30 June 2011) due to performance multiplier	Vested DDPP value as at 30 June 2011	Vest year
		\$	\$	\$	\$	\$	
<b>Victor P Hoog Antink</b>	<b>2011</b>	<b>1,300,000</b>	<b>–</b>	<b>1,300,000</b>	<b>–</b>	<b>–</b>	<b>2014</b>
	2010	1,200,000	197,160	1,397,160	–	–	2013
	2009	915,000	236,528	1,151,528	–	–	2012
	2008	900,000	(50,580)	849,420	424,800	1,274,220	2011
<b>Craig D Mitchell</b>	<b>2011</b>	<b>450,000</b>	<b>–</b>	<b>450,000</b>	<b>–</b>	<b>–</b>	<b>2014</b>
	2010	400,000	65,720	465,720	–	–	2013
	2009	325,000	84,013	409,013	–	–	2012
	2008	250,000	(14,050)	235,950	118,000	353,950	2011
<b>Paul G Say</b>	<b>2011</b>	<b>400,000</b>	<b>–</b>	<b>400,000</b>	<b>–</b>	<b>–</b>	<b>2014</b>
	2010	250,000	41,075	291,075	–	–	2013
	2009	200,000	51,700	251,700	–	–	2012
	2008	250,000	(14,050)	235,950	118,000	353,950	2011
<b>John C Easy</b>	<b>2011</b>	<b>185,000</b>	<b>–</b>	<b>185,000</b>	<b>–</b>	<b>–</b>	<b>2014</b>
	2010	188,000	30,888	218,888	–	–	2013
	2009	162,000	41,877	203,877	–	–	2012
	2008	120,000	(6,744)	113,256	56,640	169,896	2011
<b>Tanya L Cox</b>	<b>2011</b>	<b>190,000</b>	<b>–</b>	<b>190,000</b>	<b>–</b>	<b>–</b>	<b>2014</b>
	2010	180,000	29,574	209,574	–	–	2013
	2009	150,000	38,775	188,775	–	–	2012
	2008	175,000	(9,835)	165,165	82,600	247,765	2011
<b>Andrew P Whiteside<sup>1</sup></b>	<b>2011</b>	<b>240,000</b>	<b>–</b>	<b>240,000</b>	<b>–</b>	<b>–</b>	<b>2014</b>
	2010	225,000	36,968	261,968	–	–	2013
	2009	135,000	34,898	169,898	–	–	2012
	2008	100,000	(5,620)	94,380	47,200	141,580	2011
<b>Louise J Martin<sup>1</sup></b>	<b>2011</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>2014</b>
	2010	200,000	32,860	232,860	–	–	2013
	2009	175,000	45,238	220,238	–	–	2012
	2008	250,000	(14,050)	235,950	118,000	353,950	2011

<sup>1</sup> Mr Whiteside and Ms Martin are former KMP. Mr Whiteside's remuneration is disclosed due to being counted among the five highest paid Directors or Executives.

Ms Martin ceased employment on 31 December 2010 and due to termination benefits received, also forms part of the five highest paid Directors or Executives.

Ms Martin will not form part of subsequent remuneration disclosures, however, her prior grants will continue vest in accordance with the plan's rules.

Figures are subject to rounding.

# Non-Executive Director Board and Committee fees

Board and Committee fees paid to Non-Executive Directors for the years ended 30 June 2010 and 30 June 2011 are set out in the table below.

There were no changes to the Committee appointments of Non-Executive Directors during the year ended 30 June 2011.

Name		Directors fees		Committee fees				Total
		Board	DWPL	Board Audit & Risk	Board Compliance	Board Nom & Rem	Board Finance	Total
		\$	\$	\$	\$	\$	\$	\$
<b>Christopher T Beare</b>	<b>2011</b>	<b>350,000</b>	–	–	–	–	–	<b>350,000</b>
	2010	300,000	–	–	–	–	–	300,000
<b>Elizabeth A Alexander, AM</b>	<b>2011</b>	<b>150,000</b>	<b>30,000</b>	<b>15,000</b>	–	–	–	<b>195,000</b>
	2010	130,000	17,500	17,500	–	–	–	165,000
<b>Barry R Brownjohn</b>	<b>2011</b>	<b>150,000</b>	–	<b>30,000</b>	–	–	<b>7,500</b>	<b>187,500</b>
	2010	130,000	–	27,500	–	–	8,750	166,250
<b>John C Conde, AO</b>	<b>2011</b>	<b>150,000</b>	–	–	<b>7,500</b>	<b>15,000</b>	–	<b>172,500</b>
	2010	130,000	–	–	7,500	13,750	–	151,250
<b>Stewart F Ewen, OAM</b>	<b>2011</b>	<b>150,000</b>	–	–	–	<b>7,500</b>	–	<b>157,500</b>
	2010	130,000	–	–	–	7,500	–	137,500
<b>Brian E Scullin</b>	<b>2011</b>	<b>150,000</b>	<b>15,000</b>	–	<b>15,000</b>	–	–	<b>180,000</b>
	2010	130,000	25,000	–	15,000	1,250	–	171,250
<b>Peter B St George</b>	<b>2011</b>	<b>150,000</b>	–	<b>15,000</b>	–	–	<b>15,000</b>	<b>180,000</b>
	2010	130,000	–	15,000	–	–	13,750	158,750
<b>Total</b>	<b>2011</b>	<b>1,250,000</b>	<b>45,000</b>	<b>60,000</b>	<b>22,500</b>	<b>22,500</b>	<b>22,500</b>	<b>1,422,500</b>
	2010	1,080,000	42,500	60,000	22,500	22,500	22,500	1,250,000

The comparatively higher total for the year ended 30 June 2011 is reflective of the increase in base fees for both the Chair and Non-Executive Directors endorsed by the Nomination and Remuneration Committee on 20 May 2010. This increase was reported in the year ended 30 June 2010 remuneration report and remains within the aggregate pool of \$1,750,000 per annum approved by DXS security holders at its Annual General Meeting in October 2008.

Non-Executive Directors also receive reimbursement for reasonable travel, accommodation and other expenses incurred whilst undertaking DEXUS business.

The Chief Executive Officer, Victor P Hoog Antink, does not receive fees in respect of his role as a Director, but does receive remuneration as a Senior Executive of the DEXUS Property Group.

In addition to his Director's fee, Mr Ewen's company is paid \$30,000 for the added responsibilities he assumes in attending property inspections, reviewing property investment proposals and participating in informal management meetings.



## Notes to the Financial Statements

For the year ended 30 June 2011

CONTINUED

## Note 29. Related parties (continued)

## Remuneration Report (continued)

## 8. Statutory accounting method (continued)

## Non-Executive Director Remuneration

Details of the structure and quantum of each component of remuneration for each Non-Executive Director for the years ended 30 June 2010 and 30 June 2011 are set out in the following table.

Name		Short term employment benefits \$	Post- employment benefits <sup>1</sup> \$	Other long term benefits \$	Total \$
<b>Christopher T Beare</b>	<b>2011</b>	<b>334,801</b>	<b>15,199</b>	–	<b>350,000</b>
	2010	285,539	14,461	–	300,000
<b>Elizabeth A Alexander, AM</b>	<b>2011</b>	<b>179,801</b>	<b>15,199</b>	–	<b>195,000</b>
	2010	151,376	13,624	–	165,000
<b>Barry R Brownjohn</b>	<b>2011</b>	<b>172,301</b>	<b>15,199</b>	–	<b>187,500</b>
	2010	152,523	13,727	–	166,250
<b>John C Conde, AO</b>	<b>2011</b>	<b>158,257</b>	<b>14,243</b>	–	<b>172,500</b>
	2010	138,761	12,489	–	151,250
<b>Stewart F Ewen, OAM</b>	<b>2011</b>	<b>109,052</b>	<b>48,448</b>	–	<b>157,500</b>
	2010	102,700	34,800	–	137,500
<b>Brian E Scullin</b>	<b>2011</b>	<b>165,138</b>	<b>14,862</b>	–	<b>180,000</b>
	2010	157,211	14,039	–	171,250
<b>Peter B St George</b>	<b>2011</b>	<b>165,138</b>	<b>14,862</b>	–	<b>180,000</b>
	2010	145,642	13,108	–	158,750
<b>Total</b>	<b>2011</b>	<b>1,284,488</b>	<b>138,012</b>	–	<b>1,422,500</b>
	2010	1,133,752	116,248	–	1,250,000

1 Post-employment benefits represent compulsory and salary sacrificed superannuation benefits.

### Note 30. Events occurring after the reporting date

On 21 July 2011, DXP disposed of two lots located at 94-106 Lenore Drive, Erskine Park NSW for \$10.1 million.

Since the end of the year, other than the matter discussed 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 31. Operating segments

The Chief Operating Decision Maker (CODM) has been identified as the Board of Directors as they are responsible for the strategic decision making within the Group. DXS management has identified 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 – Australia and New Zealand	This comprises office space with any associated retail space; as well as car-parks and office developments in Australia and New Zealand.
Industrial – Australia	This comprises domestic industrial properties, industrial estates and industrial developments.
Industrial – North America	This comprises industrial properties, industrial estates and industrial developments in the United States as well as one industrial asset in Canada <sup>1</sup> .
Management Business	The domestic and US based management businesses are responsible for asset, property and development management of Office, Industrial and Retail properties for DXS and the third party funds management business.
Financial Services	The treasury function of DXS is managed through a centralised treasury department. As a result, all treasury related financial information relating to borrowings, finance costs as well as fair value movements in derivatives, are prepared and monitored separately.
All other segments	This comprises the European industrial and retail <sup>2</sup> portfolios. These operating segments do not meet the quantitative thresholds set out in AASB 8 <i>Operating Segments</i> due to their relatively small scale. As a result these non-core operating segments have been included in "all other segments" in the operating segment information shown below.

<sup>1</sup> The Canadian asset was sold on 24 June 2011.

<sup>2</sup> The retail asset was sold on 31 March 2010. The Group does not own any other retail assets.

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 36 in the DEXUS Property Group Financial Statements).

## Notes to the Financial Statements

For the year ended 30 June 2011

CONTINUED

## Note 32. Reconciliation of net loss to net cash outflow from operating activities

	2011 \$'000	2010 \$'000
Net loss for the year	(29,291)	(8,261)
Capitalised interest	(18,676)	(11,639)
Depreciation and amortisation	2,417	3,492
Impairments	194	242
Reversal of previous impairment	–	(13,307)
Net (gain)/loss on sale of investment properties	(218)	493
Net fair value loss of investments properties	19,079	20,132
<b>Change in operating assets and liabilities</b>		
Increase in receivables	(4,720)	(5,169)
Increase in inventories	(54,190)	(45,470)
(Increase)/decrease in other current assets	(105)	292
Decrease/(increase) in current tax assets	2,532	(2,125)
Increase in deferred tax assets	(11,804)	(1,096)
Increase in other non-current assets	(2,378)	–
Increase in payables	1,129	551
Increase/(decrease) in current liabilities	5,489	(6,220)
Increase in other non-current liabilities	34,731	30,076
Increase in deferred tax liabilities	7,386	3,267
<b>Net cash outflow from operating activities</b>	<b>(48,425)</b>	<b>(34,742)</b>

## Note 33. Earnings per unit

	2011 cents	2010 cents
Basic earnings per unit on loss attributable to unitholders	(0.61)	(0.17)
Diluted earnings per unit on loss attributable to unitholders	(0.61)	(0.17)

## (a) Reconciliation of earnings used in calculating earnings per unit

	2011 \$'000	2010 \$'000
Net loss for the year	(29,291)	(8,261)
<b>Net loss attributable to the unitholders of the Trust used in calculating basic and diluted earnings per unit</b>	<b>(29,291)</b>	<b>(8,261)</b>

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

	2011 units	2010 units
Weighted average number of units outstanding used in calculation of basic and diluted earnings per unit	4,836,131,743	4,774,467,167

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 115 to 160:

- (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 2011 and of their performance, as represented by the results of their operations and their cash flows, for the year ended on that date.

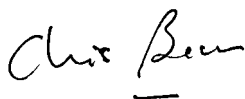
In the Directors' opinion:

- (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 2011.

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

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

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



Christopher T Beare  
Chair  
16 August 2011



## Independent auditor's report to the unitholders 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 2011, 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 the 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. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

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

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

PricewaterhouseCoopers  
ABN 52 780 433 757

Darling Park Tower 2  
201 Sussex Street  
GPO BOX 2650  
SYDNEY NSW 1171  
DX 77 Sydney  
Australia  
Telephone +61 2 8266 0000  
Facsimile +61 2 8266 9999  
[www.pwc.com/au](http://www.pwc.com/au)



*Independence*

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

*Auditor's opinion*

In our opinion:

- (a) the financial report of DEXUS Operations Trust is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in Note 1.

*Matters relating to the electronic presentation of the audited financial report*

This auditor's report relates to the financial report of DEXUS Operations Trust for the year ended 30 June 2011 included on DEXUS Operations Trust web site. The Responsible Entity's directors are responsible for the integrity of this web site. We have not been engaged to report on the integrity of this web site. The auditor's report refers only to the financial report named above. It does not provide an opinion on any other information which may have been hyperlinked to/from the financial report. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report to confirm the information included in the audited financial report presented on this web site.

PricewaterhouseCoopers

JA Dunning  
Partner

Sydney  
16 August 2011

DEXUS Diversified Trust  
ARSN 089 324 541

DEXUS Industrial Trust  
ARSN 090 879 137

DEXUS Office Trust  
ARSN 090 768 531

DEXUS Operations Trust  
ARSN 110 521 223

## Responsible Entity

DEXUS Funds Management Limited  
ABN 24 060 920 783

## Registered office of Responsible Entity

Level 9, 343 George Street  
Sydney NSW 2000

PO Box R1822  
Royal Exchange  
Sydney NSW 1225

Phone: +61 2 9017 1100  
Fax: +61 2 9017 1101  
Email: [ir@dexus.com](mailto:ir@dexus.com)

[www.dexus.com](http://www.dexus.com)

## DEXUS US Office

4200 Von Karman Avenue  
Newport Beach CA 92660

Phone: +1 949 783 2801  
Fax: +1 949 433 9124  
Email: [ir@dexus.com](mailto:ir@dexus.com)

[www.dexus.com/us](http://www.dexus.com/us)

## Directors of the Responsible Entity

Christopher T Beare, Chair  
Elizabeth A Alexander AM  
Barry R Brownjohn  
John C Conde AO  
Tonianne Dwyer  
Stewart F Ewen OAM  
Victor P Hoog Antink, CEO  
Brian E Scullin  
Peter B St George

## Secretaries of the Responsible Entity

Tanya L Cox  
John C Easy

## Auditors

PricewaterhouseCoopers  
Chartered Accountants  
201 Sussex Street  
Sydney NSW 2000

## Investor enquiries

Infoline: 1800 819 675  
or +61 2 8280 7126

Investor Relations: +61 2 9017 1330  
Email: [ir@dexus.com](mailto:ir@dexus.com)

Website: [www.dexus.com](http://www.dexus.com)

## Security Registry

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

Locked Bag A14  
Sydney South NSW 1235

Registry Infoline: 1800 819 675  
or +61 2 8280 7126  
Fax: +61 2 9287 0303  
Email: [registrars@linkmarketservices.com.au](mailto:registrars@linkmarketservices.com.au)  
Website: [www.linkmarketservices.com.au](http://www.linkmarketservices.com.au)

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

For enquiries regarding your holding please contact the Security Registry, or access your holding details via the Investor Centre on our website [www.dexus.com](http://www.dexus.com) and look for the Login box.

## Australian Stock Exchange

ASX code: DXS





**2011 DEXUS Property Group**  
COMBINED FINANCIAL STATEMENTS

