DEXUS Property Group (ASX: DXS)

Appendix 4E – Results for announcement to the market

DEXUS Property Group
ARSN 089 324 541

Financial reporting for the year ended 30 June 2012

DEXUS Diversified Trust	**Note 1**			
		30 June 2012	**30 June 2011**	**change**
		$'000	**$'000**	**%**
Revenue from ordinary activities		755,884	684,651	10.4%
Net profit attributable to security holders after tax		181,070	553,012	-67.3%
Funds from operations (FFO)[1]		367,837	358,006	2.7%
Distribution to security holders		257,408	250,662	2.7%
		CPS	**CPS**	
Funds from operations per security		**7.65**	**7.40**	**3.4%**
Distributions per security for the period ending				
31 December		2.67	2.59	3.1%
30 June		2.68	2.59	3.5%
Total distributions	**Note 2**	**5.35**	**5.18**	**3.3%**
Payout ratio (distributions as a % of FFO)		70%	70%	
Basic and diluted earnings per security[2]		3.75	11.44	
		$'000	**$'000**	
Total assets		7,364,107	7,987,644	-7.8%
Total borrowings		1,940,762	2,215,056	-12.4%
Security holders equity		5,007,326	5,102,813	-1.9%
Market capitalisation		4,448,950	4,258,341	4.5%
		$ per unit	**$ per unit**	
Net tangible assets (excluding non-controlling interests)		1.00	1.01	-1.0%
Securities price		0.93	0.88	5.7%
Securities on issue ('000)		4,783,818	4,839,024	
Record date		29 June 2012	30 June 2011	
Payment date		31 August 2012	31 August 2011	

DEXUS PROPERTY GROUP

[1] FFO is often used as a measure of real estate operating performance after finance costs and taxes. It represents AIFRS profit after tax attributable to stapled security holders adjusted for property revaluations, impairments, derivative and FX mark to market movements, amortisation of certain tenant incentives, gain/loss on sale of certain assets, straight line rent adjustments, deferred tax expense and DEXUS RENTS Trust capital distribution.

[2] This calculation is based on the consolidated profit attributable to stapled security holders of the Group.

Results commentary

Refer to the Directors' Report of the Group Financial Statements and the ASX release for a commentary on the results of the Group.

Distribution Reinvestment Plan (DRP)

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

Notes

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

Note 2: The distribution for the period 1 July 2011 to 30 June 2012 is the aggregate of the distributions from DEXUS Diversified Trust, DEXUS Industrial Trust and DEXUS Office Trust (DEXUS Operations Trust did not pay a distribution during the period). The Annual Tax Statement, issued as at 30 June 2012, will provide details of the components of DXS' distributions.

Note 3: The distribution includes foreign sourced income of $0.00 per security.

2012

DEXUS Property Group

Financial Report
30 June 2012

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PROPERTY GROUP

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

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

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

FIVE YEAR FINANCIAL PERFORMANCE

	2008 $'000	2009 $'000	2010 $'000	2011 $'000	2012 $'000
Consolidated Statement of Comprehensive Income					
Profit and loss					
Property revenue	664,831	708,506	663,068	629,072	653,582
Management fees	26,760	63,663	51,588	50,655	50,712
Proceeds from sale of inventory	–	–	–	3,359	49,847
Property revaluations	184,444	–	–	148,433	75,227
Reversal of previous impairment	–	–	13,307	–	–
Contribution from equity accounted investments	2,467	31	(26,243)	34,053	13,784
Other income	12,829	5,739	10,144	5,486	3,933
Total income	**891,331**	**777,939**	**711,864**	**871,058**	**847,085**
Property expenses	(159,565)	(174,485)	(169,753)	(151,865)	(154,901)
Cost of sale of inventory	–	–	–	(3,353)	(43,998)
Finance costs	(213,233)	(384,241)	(190,685)	(52,744)	(261,869)
Net gain/(loss) on sale of investment properties	2,297	(1,880)	(53,342)	7,052	(32,566)
Employee benefit expense	(23,340)	(59,282)	(58,978)	(67,417)	(74,366)
Impairments and property devaluations	(61)	(1,685,733)	(209,367)	–	(14,846)
Other expenses	(44,266)	(47,970)	(28,132)	(26,298)	(23,601)
Total expenses	**(438,168)**	**(2,353,591)**	**(710,257)**	**(294,625)**	**(606,147)**
Foreign currency translation reserve transfer	–	–	–	–	(41,531)
Profit/(loss) before tax	453,163	(1,575,652)	1,607	576,433	199,407
Income and withholding tax (expense)/benefit	(7,902)	120,236	29,983	(21,313)	(16,526)
Net profit/(loss)	**445,261**	**(1,455,416)**	**31,590**	**555,120**	**182,881**
Other non-controlling interests (including RENTS)	(6,984)	(3,695)	(170)	(2,108)	(1,811)
Net profit/(loss) to stapled security holders	**438,277**	**(1,459,111)**	**31,420**	**553,012**	**181,070**
Operating EBIT	485.9	514.5	461.3	437.2	467.9
Funds from operations (cents per security)	11.90	10.43	7.30	7.40	7.65
Distributions[1] (cents per security)	11.90	7.30	5.10	5.18	5.35
Consolidated Statement of Financial Position					
Cash and receivables	135,671	120,661	89,429	109,921	90,035
Property assets[2]	8,731,773	7,735,859	7,306,585	7,487,082	6,922,722
Other (including derivative financial instruments and intangibles)	481,543	494,590	475,014	390,641	351,350
Total assets	**9,348,987**	**8,351,110**	**7,871,028**	**7,987,644**	**7,364,107**
Payables and provisions	322,528	289,561	281,230	274,346	276,970
Interest bearing liabilities	3,006,919	2,509,012	2,240,082	2,215,056	1,940,762
Other (including financial instruments)	184,487	406,320	343,269	191,401	139,049
Total liabilities	3,513,934	3,204,893	2,864,581	2,680,803	2,356,781
Net assets	5,835,053	5,146,217	5,006,447	5,306,841	5,007,326
Minority interest	205,998	206,772	205,275	204,028	–
Net assets (after non-controlling interest)	**5,629,055**	**4,939,445**	**4,801,172**	**5,102,813**	**5,007,326**
NTA per security ($)	1.77	1.01	0.95	1.01	1.00
Gearing ratio[3] (%)	33.2	31.2	29.8	28.4	27.2
Consolidated Statement of Changes in Equity					
Total equity at the beginning of the year	5,704,943	5,835,053	5,146,217	5,006,447	5,306,841
Net profit/(loss)	445,261	(1,455,416)	31,590	555,120	182,881
Other comprehensive income/(loss)	77,929	(53,478)	(7,034)	(4,973)	41,864
Contributions of equity, net of transaction costs	243,524	1,129,971	90,360	14,528	–
Buy back of contributed equity, net of transaction costs	–	–	–	–	(50,950)
Acquisition of non-controlling interest	–	–	–	–	(204,000)
Distributions provided for or paid	(355,380)	(296,648)	(244,411)	(250,662)	(257,408)
Other transactions with equity holders	402	–	–	–	113
Other non-controlling interest movements during the year	(281,626)	(13,265)	(10,275)	(13,619)	(12,015)
Total equity at the end of the year	**5,835,053**	**5,146,217**	**5,006,447**	**5,306,841**	**5,007,326**
Consolidated Statement of Cash Flows					
Net cash inflow from operating activities	374,445	359,577	340,174	239,342	348,391
Net cash inflow/(outflow) from investing activities	11,065	(212,459)	90,592	(227,039)	659,567
Net cash (outflow)/inflow from financing activities	(342,514)	(170,190)	(444,382)	4,949	(1,019,837)
Net (decrease)/increase in cash and cash equivalents	42,996	(23,072)	(13,616)	17,252	(11,879)
Cash and cash equivalents at the beginning of the year	59,603	99,214	84,845	64,419	73,746
Effects of exchange rate changes on cash and cash equivalents	(3,385)	8,703	(6,810)	(7,925)	(2,674)
Cash and cash equivalents at the end of the year	99,214	84,845	64,419	73,746	59,193

1 70% of FFO.
2 Property assets include investment properties, non-current assets held for sale, inventories and investment property accounted for using the equity method.
3 Includes cash.

BOARD OF DIRECTORS

Chris Beare **Chair and Independent Director**

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

Chris Beare is both the Chair and an Independent Director of DEXUS Funds Management Limited (appointed 4 August 2004). He is also a member of the Board Nomination, Remuneration & Governance Committee (previously the Board Nomination & Remuneration Committee) and the Board Finance Committee.

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

Chris is currently Chair of Mnet Group, an ASX listed company.

Elizabeth Alexander **AM** **Independent Director**

BComm, FCA, FAICD, FCPA

Elizabeth Alexander is an Independent Director of DEXUS Funds Management Limited (appointed 1 January 2005), Chair of DEXUS Wholesale Property Limited and a member of the Board Audit, Risk & Sustainability Committee (previously the Board Audit Committee and Board Risk & Sustainability Committee).

Elizabeth brings to the Board extensive experience in accounting, finance, corporate governance and risk management and was formerly a partner with PricewaterhouseCoopers. Elizabeth's previous appointments include National Chair of the Australian Institute of Company Directors, National President of the Australian Society of Certified Practising Accountants and Deputy Chairman of the Financial Reporting Council. Elizabeth was Chairman of CSL and on the Boards of Amcor and Boral.

Elizabeth is currently a Director of Medibank Private and the Chancellor of the University of Melbourne.

Barry Brownjohn **Independent Director**

BComm

Barry Brownjohn is an Independent Director of DEXUS Funds Management Limited (appointed 1 January 2005) and is Chair of the Board Audit, Risk & Sustainability Committee (previously the Board Audit Committee and Board Risk & Sustainability Committee). During the year, Barry was also a member of the Board Finance Committee.

Barry has over 20 years' experience in Australia, Asia and North America in international banking and previously held positions with the Bank of America including heading global risk management for the capital markets business, the Asia capital markets business and was the Australasian CEO between 1991 and 1996. Following his career with Bank of America, Barry has been active in advising companies in Australia and overseas on strategic expansion and capital raising strategies. Barry has also held numerous industry positions including Chairing the International Banks and Securities Association in Australia and the Asia Pacific Managed Futures Association.

Barry is an Independent Director of Citigroup Australia Pty Limited and a Director of Bakers Delight Holdings Pty Limited. He also serves as a member on the Board of Governors of the Heart Research Institute.

John Conde **AO** **Independent Director**

BSc, BE (Hons), MBA

John Conde is an Independent Director of DEXUS Funds Management Limited (appointed 29 April 2009), is the Chair of the Board Nomination, Remuneration & Governance Committee (previously the Board Nomination & Remuneration Committee). During the year, John was also a member of the Board Compliance Committee.

John brings to the Board extensive experience across diverse sectors including commerce, industry and government. John was previously Chairman of Ausgrid (formerly Energy Australia), Director of BHP Billiton and Excel Coal Limited, Managing Director of Broadcast Investment Holdings Pty Limited, Director of Lumley Corporation and President of the National Heart Foundation of Australia.

John is the Chairman of Bupa Australia Holdings Pty Limited, Sydney Symphony Limited and Destination NSW and Deputy Chairman of Whitehaven Coal Limited. John is President of the Commonwealth Remuneration Tribunal and a Director of the McGrath Foundation Limited. John is also Chairman of the Australian Olympic Committee (NSW) Fundraising Committee.

Tonianne Dwyer **Independent Director**

BJuris (Hons), LLB (Hons)

Tonianne Dwyer is an Independent Director of DEXUS Funds Management Limited (appointed 24 August 2011) and DEXUS Wholesale Property Limited, and a member of the Board Compliance Committee.

Tonianne brings to the Board significant experience as a company director and executive working in listed property, funds management and corporate strategy across a variety of international markets. Tonianne was a Director from 2006 until 2010 of Quintain Estates and Development – a listed United Kingdom property company comprising funds management, investment and urban regeneration – and was previously Head of Funds Management from 2003. Prior to joining Quintain, Tonianne was a Director of Investment Banking at Hambros Bank, SG Cowen and Société Générale based in London.

Tonianne also held directorships on a number of boards associated with Quintain's funds management business including the Quercus, Quantum and iQ Property Partnerships and the Bristol & Bath Science Park Stakeholder Board. She is currently a Director of Cardno Limited.

Stewart Ewen OAM **Independent Director**

Stewart Ewen is an Independent Director of DEXUS Funds Management Limited (appointed 4 August 2004) and a member of the Board Nomination, Remuneration & Governance Committee (previously the Board Nomination & Remuneration Committee).

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

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

Richard Sheppard **Independent Director**

BEc (Hons)

Richard Sheppard is an Independent Director of DEXUS Funds Management Limited (appointed 1 January 2012) and a member of the Board Audit, Risk & Sustainability Committee (previously the Board Audit Committee and Board Risk & Sustainability Committee). From 1 July 2012, Richard is a member of the Board Finance Committee.

Richard brings to the Board extensive experience in banking and finance and as a Director and Chairman of listed and unlisted property trusts. He was Managing Director and Chief Executive Officer of Macquarie Bank Limited and Deputy Managing Director of Macquarie Group Limited from 2007 until late 2011. Following seven years at the Reserve Bank of Australia, Richard joined Macquarie Group's predecessor, Hill Samuel Australia in 1975, initially working in Corporate Finance. He became Head of the Corporate Banking Group in 1988 and headed a number of the Bank's major operating Groups, including the Financial Services Group and the Corporate Affairs Group. He was a member of the Group Executive Committee since 1986 and Deputy Managing Director since 1996.

Richard was Chairman of the Australian Government's Financial Sector Advisory Council from 2009-2011 and is a Director of the Bradman Foundation and the Sydney Cricket Club. He is also the Chairman of Eraring Energy and Chairman of the Macquarie Group Foundation.

Darren Steinberg **Chief Executive Officer and Executive Director**

BEc

Darren Steinberg is CEO and an Executive Director of DEXUS Funds Management Limited (appointed 1 March 2012).

Darren has more than 20 years' experience in the property industry. Prior to joining DEXUS in March 2012, Darren was Managing Director Colonial First State Global Asset Management with responsibility for $18 billion of listed property, unlisted property and asset management and development functions. Prior to that, Darren held a number of senior property roles with Stockland, Westfield, Lend Lease and Jones Lang Wootton. Darren has a Bachelor of Economics from the University of Western Australia.

Darren is the current National President of the Property Council of Australia, a Fellow of the Royal Institution of Chartered Surveyors and the Australian Property Institute and a member of the Australian Institute of Company Directors.

Peter St George **Independent Director**

CA(SA), MBA

Peter is an Independent Director of DEXUS Funds Management Limited (appointed 29 April 2009) and the Chair of the Board Finance Committee. During the year, Peter was also a member of the Board Audit and Board Risk & Sustainability Committees.

Peter has more than 20 years' experience in senior corporate advisory and finance roles within NatWest Markets and Hill Samuel & Co in London. Peter acted as Chief Executive/Co-Chief Executive Officer of Salomon Smith Barney Australia/NatWest Markets Australia from 1995 to 2001. Peter was previously a Director of Spark Infrastructure Group, its related companies and SFE Corporation Limited.

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

CORPORATE GOVERNANCE STATEMENT

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

The Board has implemented a corporate governance framework which applies to all DXFM funds and mandates and is designed to support the strategic objectives of the Group by defining accountability and creating control systems to mitigate the risks inherent in its day-to-day operations.

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

Effective 1 July, 2012, the Board increased the breadth of responsibility of the Board Nomination & Remuneration Committee to include oversight of its corporate governance framework. As a result, the Committee changed its name to the Board Nomination, Remuneration & Governance Committee. References to the Board Nomination, Remuneration & Governance Committee in this Report should be assumed to also apply to the previously named Board Nomination & Remuneration Committee.

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

Principle 1 – Lay solid foundations for management and oversight

Roles and responsibilities

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

The Board has determined that its governance framework will also meet the highest standards of a publicly listed company. This includes the conduct of an annual general meeting, the appointment of Directors by DEXUS security holders and additional disclosure such as the remuneration report.

Board responsibilities

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

The Board is responsible for:

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

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

During 2011/12 a new Chief Executive Officer was appointed by the Board following an executive search, including internal and external candidates, assisted by an external consultant.

Group Management Committee responsibilities

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

Members of the Group Management Committee in 2011/12 were the Chief Executive Officer, Chief Investment Officer, Chief Financial Officer, Chief Operating Officer and General Counsel. From 1 July, 2012, the Group Management Committee has been extended to include Executive General Managers heading Human Resources, Investor Relations and Communications, and Strategy and Research.

Principle 2 – Structure the Board to add value

Board composition

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

- the ability and competence to make appropriate business decisions
- an entrepreneurial talent for contributing to the creation of investor value
- relevant experience in the property, investment and financial services sectors
- high ethical standards
- exposure to emerging issues, and
- a commitment to the fiduciary and statutory obligations to further the interests of all investors and achieve the Group's objectives

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

Size

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

Throughout 2011/12, the Board comprised nine members, eight Independent Directors plus the Chief Executive Officer. Although the DXFM constitution allows for the appointment of up to 10 Directors, the Board has determined that its long term target is eight members, and will migrate to this target over time.

During the year, two Independent Directors were appointed to the Board and one resigned. Further, Victor Hoog Antink resigned as Chief Executive Officer and Executive Director and Darren Steinberg was appointed Chief Executive Officer and Executive Director, commencing 1 March, 2012. As a consequence of the transition to a new Chief Executive Officer, the Board identified a need for stability and continuity throughout 2012. Therefore no further changes are planned at Board level for the remainder of this calendar year.

The tenure of Independent Directors at 30 June, 2012 was:

Name	0 to 3 years	3 to 6 years	6 to 9 years
Chris Beare (Chair)			7 years 10 months
Elizabeth Alexander AM			7 years 6 months
Barry Brownjohn			7 years 6 months
John Conde AO		3 years 2 months	
Tonianne Dwyer	10 months		
Stewart Ewen OAM			7 years 10 months
Richard Sheppard	6 months		
Peter St George		3 years 2 months	

Board independence

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

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

1. been retained as a professional adviser to DEXUS either directly or indirectly, or
2. been a significant customer of DEXUS or supplier to DEXUS (as determined by the Chair), or
3. held a significant financial interest in DEXUS either directly or indirectly (as determined by the Chair), or
4. held a senior executive position at DEXUS

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

Stewart Ewen, an Independent Director, was paid a fixed fee of $30,000 per annum for his attendance at property inspections, reviewing property investment proposals and participating in informal management meetings. The Board has considered this circumstance and determined that it has not affected Stewart's independence. This arrangement ceased on 30 June, 2012.

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

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

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

The Board has defined the responsibilities and performance requirements of the Chief Executive Officer and the performance of the Chief Executive Officer is monitored by the Chair. Biographies outlining the skills and experience of each Director are set out on pages ii to iii.

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

Meetings

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

Board meetings are normally held at the registered office of DEXUS, although some meetings are held "offsite" to allow Directors to visit DEXUS owned and managed properties. For example, in July 2011, the Board met in Newport Beach, California, at the offices of its US west coast operations. To assist participation, video conferencing facilities are utilised as required.

Directors are expected to attend at least 75% of meetings a year. In 2011/12 there was 100% attendance at all Board meetings.

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

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

Each monthly Board meeting includes time for Independent Directors to meet without the Chief Executive Officer or other executives present. Board papers are provided to Directors no less than five business days before the scheduled meeting. Senior management is made available to provide clarification or answer any questions Directors may have prior to the Board meeting, or to attend the Board meeting if requested by the Directors.

Some of the key decisions made by the Board during 2011/12 included the:

- selection and appointment of a new Chief Executive Officer
- selection and appointment of two new Independent Directors
- disposal of non-core US properties
- design of a new remuneration framework
- commencement of a share buy-back
- retirement of RENTS
- approval of a revised Board Committee structure

Access to training and information

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

New Directors receive an information pack which addresses the corporate governance framework, Committee structures and their Terms of Reference, governing documents, and background reports. All Directors undertake training, including regular presentations by management and external advisers on sector, fund, and industry specific trends, and property tours.

Directors are encouraged to:

- seek independent professional advice, at the Group's expense and independent of management
- seek additional information from management, and
- directly access senior DEXUS executives as required

Performance

The Board Nomination, Remuneration & Governance Committee oversees a two-year Board performance evaluation program in which Board and Committee performance is evaluated in the first year and individual Director performance in the next. The process is designed to identify opportunities for performance improvement.

During 2011/12, the Chair conducted a series of interviews with new and existing Independent Directors in order to ascertain their views regarding Board and Committee performance. As a result of these interviews, the Board implemented a number of improvements to Committee structures and membership, which were effective from 1 July 2012. Chris Beare also met with key investors to obtain feedback on the performance of DEXUS and its remuneration policy.

Board support

The Board has established a number of Committees to assist it in the fulfilment of its responsibilities. Terms of Reference for these are reviewed at least annually, and copies can be found at www.dexus.com/corporategovernance.

Independent Directors have a standing invitation to attend any/all Board Committee meetings, and agendas of Board Committee meetings are provided to all Independent Directors in advance of each meeting.

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

Principle 3 – Promote ethical and responsible decision making

Codes of Conduct

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

- The Board considers it important that all employees meet the highest ethical and professional standards and has consequently established an Employee Code of Conduct and a Directors' Code of Conduct, both of which are approved by the Board Compliance Committee.
- DEXUS's Anti-Bribery Policy covers the acceptance and provision of appropriate gifts and benefits and reinforces the Group's commitment not to make donations to political parties.
- The Group strongly supports the disclosure of corrupt conduct, illegality, or substantial waste of company assets under its Good Faith Reporting policy.

Employees who make such disclosures are protected from any detrimental action or reprisal, and an independent external disclosure management service provider has been appointed to ensure anonymity for those reporting incidents.

On an annual basis, all employees are required to confirm compliance with key policies such as the Code of Conduct and Good Faith Reporting.

Insider trading and trading in DEXUS securities

To minimise any potential conflicts of interest, the Board previously determined that DEXUS Directors and Senior Executives will not trade in any security managed by the Group.

This position was reviewed by the Board in 2012 and, to better enhance alignment of interests, the Board determined that it would be appropriate for Directors to hold DEXUS securities in the future. The Board has set a minimum holding of 50,000 securities to be acquired by each Independent Director by 30 June 2015. Newly appointed Independent Directors will be required to purchase 50,000 securities within their first three year term.

The Group has implemented a securities trading policy that applies to Directors and employees who wish to invest in DEXUS securities for their personal account or on behalf of an associate.

The policy requires any Director who wishes to trade in DEXUS securities to obtain written approval from the Chair and Company Secretary. Employees wishing to trade in DEXUS securities must obtain written approval from the Chief Executive Officer and General Manager, Compliance, Risk & Governance, before entering into a trade. Effective 1 July, 2012, DEXUS Directors and employees will only be able to trade DEXUS securities in defined trading windows.

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

Policies and procedures are available on our website at www.dexus.com/corporategovernance.

Conflicts of interest and related party dealings

The Group has implemented policies covering the management of conflicts of interest.

Business conflicts may arise in the following ways:

- conflicts arising from allocating property transactions, where there may be conflicts between the interests of different DEXUS clients
- when allocating a limited investment opportunity between a number of clients
- tenant conflicts, where a prospective tenant has two similar properties to choose from, owned by different DEXUS clients, and
- conflicts arising from related party dealings involving more than one of DEXUS's clients

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

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

During 2011/12, DEXUS managed several related party transactions where DEXUS Property Services Pty Limited (a wholly owned property management company) leased space to accommodate its onsite managers from properties owned by STC and DEXUS Wholesale Property Fund. In these cases, independent verification was sought to ensure that rent reflected market rates.

Responsible investment

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

Diversity

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

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

During 2011/12, all employees were required to undertake training addressing equal employment, victimisation, harassment, and bullying. To reinforce DEXUS's zero tolerance approach to discrimination we have appointed an independent external disclosure management service provider to accept claims of inappropriate or unethical behaviour.

Principle 4 – Safeguard integrity in financial reporting

Board Audit Committee[1]

To ensure the factual presentation of each Trust's financial position, DXFM has put in place a structure of review and authorisation, which includes the establishment of a Board Audit Committee to review:

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

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

The Board Audit Committee:

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

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

During 2011/12, the members of the Board Audit Committee were:

Barry Brownjohn, Chair, Independent Director
Elizabeth Alexander AM, Independent Director
Peter St George, Independent Director
Richard Sheppard, Independent Director (appointed 1 February, 2012)

Consistent with the Group's objective to maintain efficient operations, effective 1 July, 2012, the Committee reverted to a membership of three, with Peter St George standing down.

The following reports are made to the Board Audit Committee:

- The Chief Executive Officer and the Chief Financial Officer make representations on a semi-annual basis about the veracity of the Financial Statements and financial risk management systems
- The Internal Risk Committee completes a Fraud Risk questionnaire semi-annually to identify any instances of actual or perceived fraud during the period
- The Chief Executive Officer makes a representation at least quarterly to the General Manager, Compliance, Risk & Governance, regarding conformance with compliance policies and procedures, with any significant exceptions reported to the Board Compliance Committee
- The Chief Financial Officer provides quarterly certification to the Board Compliance Committee as to the continued adequacy of financial risk management systems

PwC continues its appointment as statutory auditor of DXFM and its related trusts and entities.

In order to ensure the independence of the statutory auditor, the Board Audit Committee has responsibility for approving the engagement of the auditor for any non-audit service greater than $100,000. As at 30 June, 2012, fees paid to the external auditor for non-audit services were 15.0% of audit fees (27.6% at 30 June, 2011).

1 The Board Audit Committee and Board Risk & Sustainability Committee were amalgamated and became the Board Audit, Risk & Sustainability Committee on 8 August 2012.

Board Compliance Committee

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

The Board Compliance Committee reviews compliance matters and monitors DXFM conformance with the requirements of its Australian Financial Services Licence and of the *Corporations Act 2001* as it relates to Managed Investment Schemes. The scope of the Committee includes all Trusts, including the Group's investment mandates.

The Committee includes only members who are familiar with the requirements of Managed Investment Schemes and have risk and compliance experience. Committee members are encouraged to obtain independent professional advice in the satisfaction of their duties at the cost of the Group and independent of management, although during 2011/12, no member of the Board Compliance Committee needed to seek such independent professional advice.

As at 30 June, 2012, the Committee comprised five members, three external members (who satisfy the requirements of Section 601JB(2) of the *Corporations Act 2001*) and two executives of the Group.

The members of the Board Compliance Committee for 2011/12 were:

Andy Esteban, Chair, external member
John Conde AO, external member (and Independent Director)
Tonianne Dwyer, external member (and Independent Director) (appointed 31 October, 2011)
Tanya Cox, executive member
John Easy, executive member

The Compliance Plan Auditor is invited to each Board Compliance Committee meeting.

The skills, experience and qualifications of Tonianne Dwyer and John Conde are detailed on pages ii and iii and details for Tanya Cox and John Easy are in the Directors' Report in the financial report.

Andy Esteban holds a Bachelor of Business majoring in Accounting. He is a CPA and a member of the Australian Institute of Company Directors. Andy has over 30 years' experience in the financial services industry, 21 years of which were with Perpetual Trustees.
In December 1999 he established FP Esteban and Associates, specialising in implementing and monitoring risk management and compliance frameworks in the financial services industry. He has provided consulting services to organisations including UBS Global Asset Management in Australia, Hong Kong, Singapore, Taiwan and China. Andy is Chair of Certitude Global Investments Ltd, a Director of HFA Holdings Ltd and Chair of their Audit and Risk Committee and a member of their Remuneration and Nomination Committee; Chair of the Compliance Committees of Aberdeen Asset Management Ltd, Deutsche Asset Management Australia Ltd, and Grant Samuel; and an Independent Member of the of Australian Unity Funds Management Ltd, Celsius Investment Management Limited, Schroder Investment Management Australia Ltd, Fidelity International Investment Management Limited and Alliance Bernstein Compliance Committees.

Consistent with the Group's objective to maintain efficient operations, effective 1 July, 2012, the Committee membership was reduced to three, with John Conde and Tanya Cox standing down. The Committee reports any breaches of the *Corporations Act 2001* or of the provisions contained in any Trust's Constitution or Compliance Plans to the DXFM Board, and reports to ASIC in accordance with legislative requirements.

In accordance with DEXUS's Good Faith Reporting policy, employees have access to Board Compliance Committee members to raise any concerns regarding unethical business practices. To enable the Board Compliance Committee to fulfil its obligations effectively, an Internal Compliance Committee has been established to monitor the effectiveness of the Group's internal compliance and control systems.

Principle 5 – Make timely and balanced disclosure

Continuous disclosure

DXFM has established a Continuous Disclosure Committee to ensure timely and accurate continuous disclosure for all material matters that impact the Group. Committee members comprise members of the Group Management Committee, which meets weekly to consider the activities of the Group and specifically considers whether any disclosure obligation is likely to arise as a result.

The Continuous Disclosure Committee has been established to ensure that:

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

Management is required to provide a quarterly attestation to the Compliance, Risk & Governance team that there have been no issues within their area of responsibility that would be subject to continuous disclosure requirements.

Following each DXFM Board meeting, Directors consider the issues discussed during the meeting and determine whether any price sensitive information has arisen that would require market disclosure. Compliance with our Continuous Disclosure and Analyst Briefings policy is subject to ongoing monitoring, the results of which are reported to the Board Compliance Committee. For a copy of the Policy, see www.dexus.com/corporategovernance.

Principle 6 – Respect the rights of shareholders

Annual General Meeting

The Board has committed to the conduct of an Annual General Meeting (AGM) to facilitate the effective exercise by DXS security holders of their rights.

Each AGM is designed to:

- supplement effective communication with security holders
- provide them with ready access to balanced and understandable information
- increase the opportunities for participation, and
- facilitate security holders' rights to appoint Directors to the Board of DXFM

The Group's policy is that all Directors attend its AGM.

The external auditor of the Trusts also attends each AGM and is available to answer investor questions about the conduct of the audits both of the Trusts' financial records and of their Compliance Plans, as well as the preparation and content of the Auditor's Report.

DEXUS engages an independent service provider, Link Market Services, to conduct any security holder vote required at the AGM. To facilitate participation, the AGM can be accessed via webcast for those security holders unable to attend the meeting.

Stakeholder communication

In addition to conducting an AGM, the Group has an investor relations and communications strategy that promotes an informed market and encourages participation with investors. This strategy includes use of the Group's website to enable access to DEXUS announcements, annual and half-year reports, presentations, and analyst support material.

The website also contains historical information on announcements, distributions and other related information at www.dexus.com/dxs. Analyst briefings are undertaken on a regular basis and enquiries received from investors are addressed in a timely manner in accordance with DEXUS's policy on the handling of enquiries and complaints.

Principle 7 – Recognise and manage risk

Board Risk & Sustainability Committee[2]

To oversee risk management at DEXUS, the Board has established a Board Risk & Sustainability Committee that is responsible for reviewing the Group's operational risk management, environmental management, sustainability initiatives, internal audit practices, and handling any incidents of fraud. The Committee also approves and oversees the effectiveness of the Group's Risk Management Framework.

The Board Risk & Sustainability Committee and Board Audit Committee share common membership to ensure that a comprehensive understanding of control systems is maintained by both Committees.

Members of the Board Risk & Sustainability Committee for 2011/12 were:

Barry Brownjohn, Chair, Independent Director
Elizabeth Alexander AM, Independent Director
Peter St George, Independent Director
Richard Sheppard, Independent Director (appointed 1 February, 2012)

Consistent with the Group's objective to maintain efficient operations, effective 1 July, 2012, the Committee reverted to a membership of three, with Peter St George standing down.

During 2011/12, the Board Risk & Sustainability Committee focused on strategic risk management, including DEXUS's appetite for risk. While some risks are identified, managed and monitored internally, DEXUS has appointed independent experts to undertake monitoring of health and safety, environmental risks, and other risks where expert knowledge is essential to ensure DEXUS has in place best practice processes and procedures.

The Board Risk & Sustainability Committee is empowered to engage consultants, advisers, or other experts independently of management. During 2011/12, an independent external expert was appointed to undertake a detailed review of DEXUS's Business Continuity Plan, which resulted in improvements to existing procedures.

Risk management

The management of risk is an important aspect of the DEXUS's activities, so the Group has created a segregated risk function reporting to the General Counsel (previously the Chief Operating Officer) on a day-to-day basis, as well as an Internal Risk Committee that has an independent reporting line to the Board Risk & Sustainability Committee. The General Manager, Compliance, Risk & Governance also has access to the Chief Executive Officer and Independent Directors.

Risks to DEXUS come from numerous sources, driven by both internal and external factors and include (in no particular order):

- Strategic risks
- Market risks
- Health and safety risks
- Operational risks
- Environmental risks
- Financial risks
- Regulatory risks
- Fraud risks

The Compliance, Risk & Governance team's responsibility is to promote an effective risk and compliance culture by providing advice, drafting and updating relevant risk and compliance policies and procedures, conducting training, and monitoring and reporting adherence to key policies and procedures. Frameworks have been developed and implemented in accordance with ISO 31000:2009 (Risk Management) and AS 3806:2006 (Compliance Programs).

The functions of the Risk & Governance team include risk and compliance management, corporate governance, and internal audit. The ongoing effectiveness of the risk management and internal control systems is reported by the General Manager, Compliance, Risk & Governance to the Board Risk & Sustainability Committee and Board Compliance Committee on a quarterly basis.

DEXUS's internal control procedures are also subject to annual independent verification as part of the GS007 (Audit Implications of the Use of Service Organisations for Investment Management Services) audit.

Internal audit

The internal audit program has a three year cycle, the results of which are reported on a quarterly basis to the Internal Audit Committee and to the Board Risk & Sustainability Committee. While internal audit is resourced internally, DEXUS has adopted a co-sourcing arrangement. The appointment of an external firm as co-source service provider has the advantage of ensuring DXFM is informed of broader industry trends and experience. A partner from the internal audit co-source service provider is invited to each Board Risk & Sustainability Committee meeting to keep Directors informed about these trends.

2 The Board Audit Committee and Board Risk & Sustainability Committee were amalgamated and became the Board Audit, Risk & Sustainability Committee on 8 August 2012.

Board Finance Committee

The Group is subject to significant financial risk, including interest rate and foreign exchange exposures. To assist in the effective management of these exposures, the Board has established a committee specifically to deal with them.

The Board Finance Committee's role is to review and recommend financial risk management policies, hedging and funding strategies, forward looking financial management processes, and periodic market guidance for consideration by the Board.

Members of the Board Finance Committee are:

Peter St George, Chair, Independent Director
Barry Brownjohn, Independent Director
Chris Beare, Independent Director

Consistent with the Group's objective to maintain efficient operations and refresh its expertise, effective 1 July, 2012, Barry Brownjohn stood down and Richard Sheppard joined the Committee. To support this Committee's deliberations, a Capital Markets Committee has been established.

Principle 8 – Remunerate fairly and responsibly

Board Nomination, Remuneration & Governance Committee

A Board Nomination, Remuneration & Governance Committee oversees all aspects of:

- Director and Executive remuneration
- Board renewal
- Director, Chief Executive Officer, and management succession planning
- Board and Committee performance evaluation
- Director nominations

The Committee comprises three Independent Directors:

John Conde AO, Chair, Independent Director
Chris Beare, Independent Director
Stewart Ewen OAM, Independent Director

The Chief Executive Officer and Executive General Manager, Human Resources attend the Board Nomination, Remuneration & Governance Committee meeting by invitation.

It is the practice of the Board Nomination, Remuneration & Governance Committee to meet without executives as required, and non-committee members are not in attendance when their own performance or remuneration is discussed. The Board Nomination, Remuneration & Governance Committee is empowered to engage external consultants independently of management and in 2011/12, appointed Ernst & Young and Egan Associates to provide it with independent remuneration services.

To reflect the evolution of best practice remuneration policy, effective 1 July, 2012, the Board determined that 25% of all short term incentive payments to Senior Executives will be deferred over 12 and 24 months, and will be subject to clawback provisions.

In 2012 the Board also determined that DEXUS's existing Deferred Performance Payment Plan would be discontinued and that an LTI Plan would be introduced, granting equity awards over 36 and 48 months to Senior Executives, subject to performance hurdles. The LTI Plan is subject to security holder approval at the Group's Annual General Meeting in November 2012.

Details of the Group's remuneration framework for Executives, Independent Directors and employees are set out in the Remuneration Report that forms part of the Directors' Report contained in the financial report. There are no schemes for retirement benefits (other than superannuation) for Independent Directors.

The Directors of DEXUS Funds Management Limited (DXFM) as Responsible Entity of DEXUS Diversified Trust (DDF or the Trust) present their Directors' Report together with the consolidated Financial Statements for the year ended 30 June 2012. The consolidated Financial Statements represents DDF and its consolidated entities, DEXUS Property Group (DXS or the Group).

The Trust together with DEXUS Industrial Trust (DIT), DEXUS Office Trust (DOT) and DEXUS Operations Trust (DXO) form the DEXUS Property Group stapled security.

1 Directors and Secretaries

1.1 Directors

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

Directors	Appointed	Resigned
Christopher T Beare	4 August 2004	
Elizabeth A Alexander, AM	1 January 2005	
Barry R Brownjohn	1 January 2005	
John C Conde, AO	29 April 2009	
Tonianne Dwyer	24 August 2011	
Stewart F Ewen, OAM	4 August 2004	
Victor P Hoog Antink	1 October 2004	1 March 2012
Brian E Scullin	1 January 2005	31 October 2011
W Richard Sheppard	1 January 2012	
Darren J Steinberg	1 March 2012	
Peter B St George	29 April 2009	

1.2 Company Secretaries

The names and details of the Company Secretaries of DXFM as at 30 June 2012 are as follows:

Tanya L Cox MBA MAICD FCSA FCIS
Appointed: 1 October 2004

Tanya is the Executive General Manager Property Services and Chief Operating Officer of DEXUS Property Group and is responsible for the tenant and client service delivery model, corporate responsibility and sustainability practices, information technology solutions and company secretarial services across the Group.

Tanya has over 25 years' experience in the finance industry. Prior to joining DEXUS in July 2003, Tanya held various general management positions over the previous 15 years, including Director and Chief Operating Officer of NM Rothschild & Sons (Australia) Ltd and General Manager – Finance, Operations and IT for Bank of New Zealand (Australia). Tanya is a Director of Low Carbon Australia Limited and Member of the Property Council of Australia National Risk Committee. Tanya is Chair of Australian Athletes With a Disability Limited and is a non-executive director of a number of not-for-profit organisations.

Tanya is a member of the Australian Institute of Company Directors and a fellow of the Institute of Chartered Secretaries of Australia.

Tanya has an MBA from the Australian Graduate School of Management, a Diploma in Applied Corporate Governance and was a finalist in the 2005 NSW Telstra Business Woman of the year awards.

1 Directors and Secretaries (continued)

1.2 Company Secretaries (continued)

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

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

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

Prior to joining 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. John also is an Associate of the Institute of Chartered Secretaries of Australia.

John is General Counsel and Company Secretary for all DEXUS Group companies. He is also a member of the Board Compliance Committee and Chair of the Continuous Disclosure Committee.

2 Attendance of Directors at Board meetings and Board Committee meetings

The number of Directors' meetings held during the year and each Director's attendance at those meetings is set out in the table below. The Directors met 13 times during the year. Nine Board meetings were main meetings, four meetings were held to consider specific business. While the Board continually considers strategy, following commencement of the new CEO the Group's strategic plans were reviewed in detail, culminating in a one day Board and senior executive workshop held in June 2012.

	Main meetings held	Main meetings attended	Specific meetings held	Specific meetings attended
Christopher T Beare	9	9	4	4
Elizabeth A Alexander, AM	9	9	4	4
Barry R Brownjohn	9	9	4	4
John C Conde, AO	9	9	4	4
Tonianne Dwyer	7	7	4	4
Stewart F Ewen, OAM	9	9	4	4
Victor P Hoog Antink	5	5	1	1
Brian E Scullin	3	3	-	-
W Richard Sheppard	5	5	2	2
Darren J Steinberg	4	4	2	2
Peter B St George	9	9	4	4

2 Attendance of Directors at Board meetings and Board Committee meetings (continued)

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

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

	Board Audit 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	-	-	-	-	-	-	11	11	4	4
Elizabeth A Alexander, AM	4	4	4	4	-	-	-	-	-	-
Barry R Brownjohn	4	4	4	4	-	-	-	-	4	4
John C Conde, AO	-	-	-	-	4	4	11	11	-	-
Tonianne Dwyer	-	-	-	-	3	3	-	-	-	-
Stewart F Ewen, OAM	-	-	-	-	-	-	11	11	-	-
Brian E Scullin	-	-	-	-	1	1	-	-	-	-
W Richard Sheppard	2	2	2	2	-	-	-	-	-	-
Peter B St George	4	4	4	4	-	-	-	-	4	4

3 Remuneration Report

3.1 Overview

The Remuneration Report has been prepared in accordance with the Corporations Act and relevant accounting standards. Whilst DXS is not required statutorily to prepare such a report, we continue to believe that disclosure of the Group's remuneration practices is in the best interests of all security holders.

Following a vote against the adoption of the 2011 Remuneration Report, we have made significant changes to the executive remuneration arrangements to be effective from 1 July 2012. The changes to the remuneration arrangements are subject to security holder approval at the Annual General Meeting (AGM) in November 2012.

These changes resulted from extensive consultations with and feedback obtained from security holders, proxy advisors and remuneration advisors following last year's AGM. The Chairman of the Board met personally with 14 of our institutional security holders during March and April of this year.

Whilst further detail is provided below, we have reviewed fixed remuneration levels payable to key Executives (including the Chief Executive Officer) and annual "at-risk" incentive remuneration opportunity (including the basis for and form of any such benefit), and will introduce a transparent and targeted long term incentive plan including a range of appropriate performance hurdles.

The changes are aimed at ensuring each component of the Group's overall remuneration framework reflects current market practice and the Group's contemporary business environment and profile, specifically the A-REIT sector.

We have undertaken a significant restructure of the executive incentive plans so that they are more transparent, better understood and, most importantly, offer closer alignment of reward outcomes to security holder interests. This has involved the explicit inclusion of security holder return performance hurdles within the executive incentive plans and requiring relevant Executives to hold a significant proportion of their total remuneration in DXS securities upon achievement of such hurdles.

The Board concluded that the DEXUS Deferred Performance Payment (DDPP) was perceived to be a long-term incentive arrangement and assessed accordingly by external commentators – whereas, in reality, the DDPP was a deferral, annually, of a portion of a short-term incentive award. The principal perceived problem of the DDPP was its potential to increase the value of the deferred award at a rate in excess of movement in security holder value. The DDPP will be replaced from 1 July 2012 and no new DDPP awards will be made with respect to remuneration after that date. The Board has also foreshadowed that it intends to exercise its discretion not to apply the DDPP outperformance multiplier on awards already granted but not yet vested (for 2010, 2011 and 2012). The new CEO and his direct reports will receive their DDPP awards for the 2012 financial year in the form of performance rights to DXS securities under a transition arrangement.

The Board also concluded that the Remuneration Reports should provide greater disclosure on comparator groups and performance outcomes for Executives and that a more active security holder engagement strategy should be adopted. Upon completion of the review the Board resolved to introduce this new remuneration framework.

During the year an agreement was made to change our Chief Executive Officer (CEO). Following an executive search process and effective transition period, our new CEO commenced on 1 March 2012. We have provided further detail below of the remuneration arrangements that applied to our former CEO and the arrangements applying to our new CEO.

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 2012. The information provided in this Report has been audited in accordance with the provisions of section 308 (3C) of the *Corporations Act 2001*.

3 Remuneration Report (continued)

3.2 Key Management Personnel

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

- Non-Executive Directors
- the Chief Executive Officer (CEO)
- Key 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 key Executive personnel.

Non-Executive Directors

During the year, the following relevant changes relating to the Board's composition occurred:

- Resignation of Mr Scullin as a Non-Executive Director effective 31 October 2011
- Appointment of Ms Dwyer as a Non-Executive Director effective 24 August 2011
- Appointment of Mr Sheppard as a Non-Executive Director effective 1 January 2012

Non-Executive Director	Title	KMP 2012	KMP 2011
Christopher T Beare	Chair	✓	✓
Elizabeth A Alexander AM	Director	✓	✓
Barry R Brownjohn	Director	✓	✓
John C Conde AO	Director	✓	✓
Tonianne Dwyer	Director	✓	
Stewart F Ewen OAM	Director	✓	✓
Brian E Scullin	Director	✓	✓
W Richard Sheppard	Director	✓	
Peter B St George	Director	✓	✓

Key Executives

During the year, the following executive changes occurred:

- Mr Hoog Antink agreed with the Board to a CEO leadership transition and the Board commenced a search for a new CEO
- Mr Steinberg was appointed CEO effective 1 March 2012
- In accordance with the transition agreement, Mr Hoog Antink was given notice by the Board that his services would be terminated on 31 March 2012 which triggered his contractual severance conditions
- Mr Say was advised that his position of Chief Investment Officer would become redundant, effective 1 July 2012, which triggered his contractual severance conditions

Key Executive	Position	KMP 2012	KMP 2011
Darren J Steinberg	Chief Executive Officer & Executive Director	✓	
Tanya L Cox	Chief Operating Officer	✓	✓
John C Easy	General Counsel	✓	✓
Craig D Mitchell	Chief Financial Officer	✓	✓
Victor P Hoog Antink	Former Executive - Chief Executive Officer	✓	✓
Paul D Say	Former Executive - Chief Investment Officer	✓	✓

3 Remuneration Report (continued)

3.3 Board Nomination, Remuneration & Governance Committee

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

- To review and recommend to the Board:
  - Board and CEO succession plans
  - performance evaluation procedures for the Board, its committees and individual Directors
  - the nomination, appointment, re-election and removal of Directors
  - the approach to remuneration at DEXUS, including design and operation of employee incentive plans
  - Executive performance and remuneration outcomes
  - Non-Executive Directors' fees

During the year ended 30 June 2012 Committee members were:

Non-Executive Director	Title	2012	2011
John C Conde AO	Committee Chair	✓	✓
Christopher T Beare	Committee Member	✓	✓
Stewart F Ewen OAM	Committee Member	✓	✓

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

The Committee operates independently from management, and may at its discretion appoint external advisors or instruct management to compile information for its consideration. During the year the Committee appointed Egan Associates and Ernst & Young to provide remuneration advisory services. Such services were provided to the Committee free from any undue influence by management.

Advisor	Description of Service	Fee
Egan Associates	Remuneration Advisory Services	$90,552
Ernst & Young	Remuneration Advisory Services	$116,884
Clayton Utz	Executive Contract Advice	$4,405

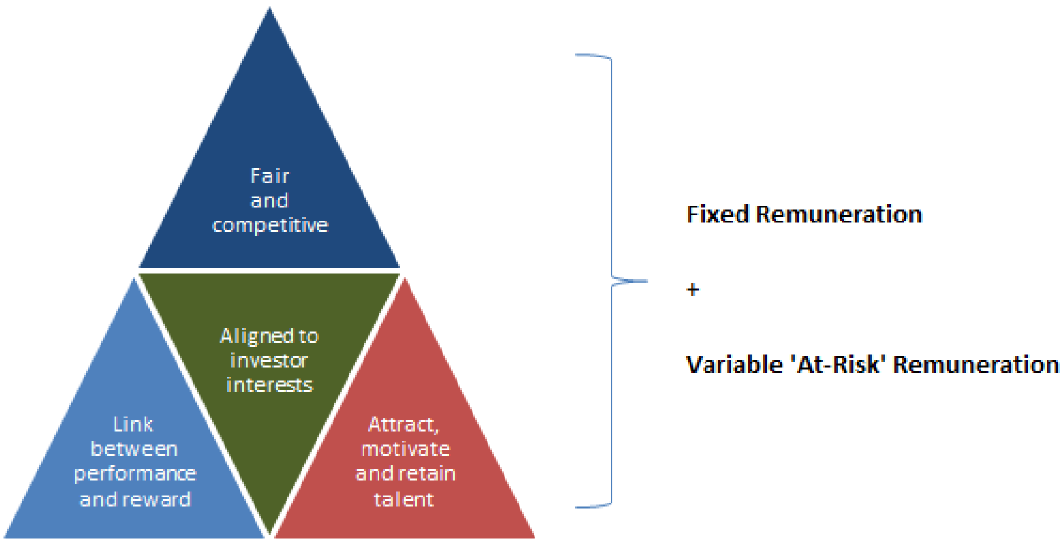
3 Remuneration Report (continued)

3.4 Executive Remuneration

Context

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

The Group's remuneration principles can be summarised as follows:



The Group requires, and needs to retain, a senior management team with significant experience in:

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

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

- comparable international funds and asset managers which have an active presence in Australia;
- ASX listed entities
- boutique property asset managers and consultants
- private equity and hedge funds which have an increasing exposure to the business interests of the Group

In establishing the new remuneration framework, the Board has been assisted by feedback from remuneration advisers, proxy advisers and institutional investors.

Given that the Group instigated an extensive executive search process during 2011, the process provided invaluable input to the Group's deliberations about total remuneration quantum and structure (fixed and variable) for the position of CEO of the Group. This process addressed conclusively the issue of CEO remuneration for the Group.

3 Remuneration Report (continued)

3.4 Executive Remuneration (continued)

Remuneration Structure & Key Changes

The remuneration structure for key Executives will comprise fixed remuneration, a short term incentive and a long term incentive.

As previously announced by the Group and also highlighted in the overview section above, several key changes have been approved by the Board in respect of executive incentive plans. A revised short term incentive (STI) plan will be introduced for key Executives (CEO and his direct reports) from 1 July 2012 (the 2013 financial year). A new long term incentive (LTI) plan will also be introduced for key Executives to commence 1 July 2013 (the 2014 financial year).

For the 2012 financial year, participating Executives continued to receive performance pay in accordance with the DEXUS Performance Payment (DPP) and the DEXUS Deferred Performance Plan (DDPP). The first grant under the new LTI plan will be made in August 2013. Key Executives have agreed to accept their DDPP performance award for the 2012 financial year in the form of performance rights to DXS securities under a transition arrangement.

Commencing 1 July 2012, the following will apply in relation to the remuneration of key Executives:

Key Executives

- No increase to fixed remuneration for the CEO and other key Executives
- Implementation of the new remuneration framework will be effective 1 July 2012 (conditional on security holder approval at the November 2012 AGM)

New STI plan

- Provide an annual performance-based award assessment similar to that under the existing DPP based on a balanced scorecard of key performance indicators (KPIs) set at stretch

However, unlike the DPP:

- Only 75% of any award will be immediately payable in cash. The remaining 25% will be deferred into performance rights to DXS securities
- The performance rights will vest in equal tranches 12 and 24 months after they are awarded and be subject to clawback and service conditions during the deferral periods
- Executives will be entitled to the benefit of any distributions paid on the underlying DXS securities prior to vesting through the issue of additional performance rights.

New LTI plan (to apply from 1 July 2013)

- Performance-based remuneration aligned better to security holder interest through a grant of performance rights to DXS securities
- Subject to a performance assessment over three and four years.
- Main features of the new LTI plan are:
    - Performance rights will be granted in two equal tranches vesting after 3 and 4 years subject to performance, clawback and service conditions being satisfied over each period
    - Performance hurdles will be based on relative total security holder return (TSR), FFO and ROE measures
    - No performance multiplier will apply for outperformance
    - Executives will not be entitled to distributions paid on the underlying DXS securities prior to the performance rights vesting
    - There will be no retesting of performance

The tables on the following pages provide a summary of the proposed evolution of the existing remuneration framework to the new remuneration framework. The table illustrates the increased proportion of total remuneration that is deferred and also the new proportion held as performance rights to DXS securities. This evolution further aligns the Group's executive remuneration structures with security holders' interests.

<table>
<tr><th></th><th></th><th colspan="4">Existing Framework</th><th colspan="4">New Framework</th></tr>
<tr><th></th><th>Component</th><th>Performance Measure</th><th>Performance Range</th><th>Delivery Mechanism</th><th>% of Fixed Remuneration</th><th>Performance Measure</th><th>Performance Range</th><th>Delivery Mechanism</th><th>% of Fixed Remuneration</th></tr>
<tr><td>Fixed</td><td>Fixed remuneration</td><td>Market review</td><td>Actual payments reflect individual expertise & market conditions</td><td>Cash, superannuation & packaged benefits</td><td>100%</td><td>Market review</td><td>Actual payments reflect individual expertise & market conditions</td><td>Cash, superannuation & packaged benefits</td><td>100%</td></tr>
<tr><td rowspan="3">At Risk</td><td>STI (immediate)

DEXUS Performance Payment
(DPP)</td><td rowspan="2">Annual performance against pre-agreed weighted financial and non-financial KPIs (i.e. balanced scorecard)</td><td>0 to 100% of target remuneration structure</td><td>Cash</td><td><u>Target</u>
85% (CEO)
75% (CFO & CIO)
50% (other key Execs)</td><td rowspan="2">Annual performance against pre-agreed weighted financial and non-financial KPIs (i.e. balanced scorecard)</td><td rowspan="2">Failure to meet threshold performance will result in zero payment for that performance component

To achieve target STI, Executives must meet pre-agreed business and individual KPIs set at stretch

To achieve maximum STI, Executives must achieve exceptional business and Individual performance outcomes</td><td>75% paid in cash</td><td rowspan="2"><u>Target</u>
100% (CEO & CFO)
70% (other key Execs)

<u>Outperformance</u>
up to 125% (CEO & CFO)
up to 87.5% (other key Execs</td></tr>
<tr><td>STI (deferred)

DEXUS Deferred Performance Payment
(DDPP)</td><td>0 to 100% of target remuneration structure

<u>and</u>

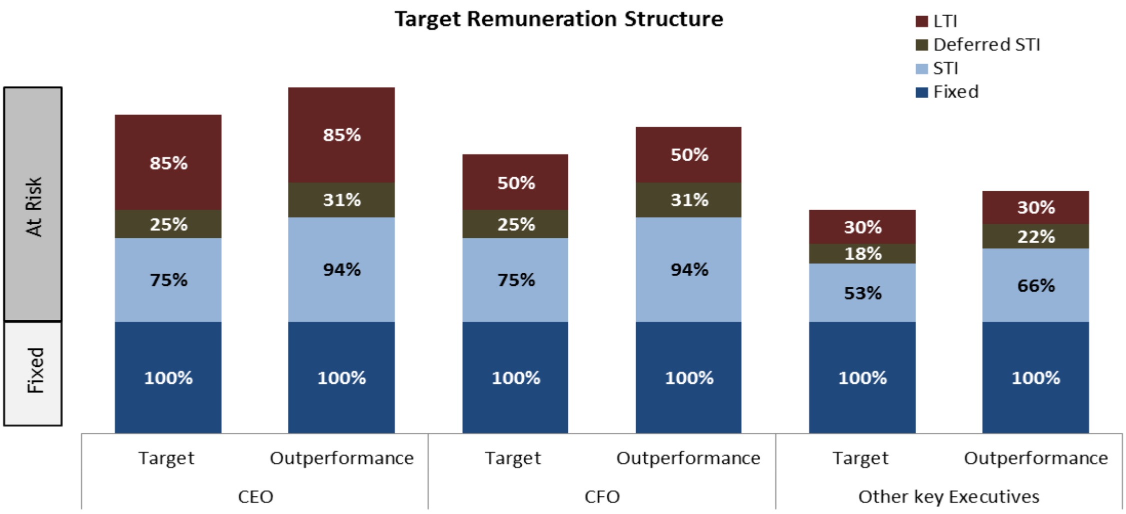
1.1 to 1.5 times award for outperformance of 3 year benchmark investment returns</td><td>Phantom composite equity (DXS and Unlisted), vesting over 3 years

Outperformance multiplier incentive available</td><td><u>Target</u>
100% (CEO)
75% (CFO & CIO)
50% (other key Execs)</td><td>25% deferred into DXS performance rights, vesting in equal tranches 12 and 24 months after award and subject to service and clawback provisions</td></tr>
<tr><td>Long Term Incentive</td><td colspan="4">Not available</td><td>Vesting conditional on future performance hurdles (Relative TSR and earnings measures)</td><td>Grant based on a pre-determined % of fixed remuneration</td><td>DXS performance rights, vesting in two equal tranches 3 and 4 years after grant and subject to service and clawback provisions</td><td><u>Maximum Opportunity</u>
at grant:
85% (CEO)
50% (CFO)
30% (other key Execs)</td></tr>
</table>

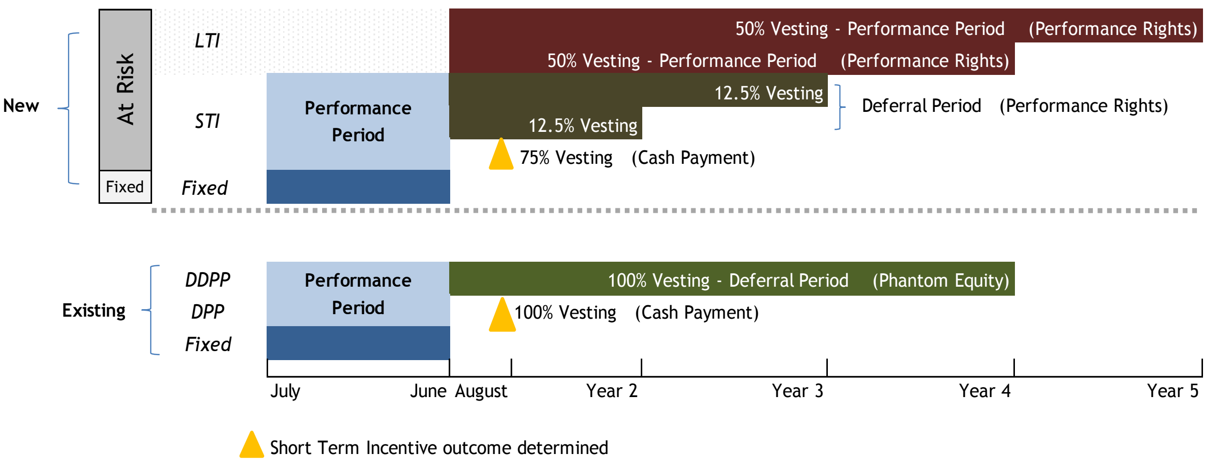
3 Remuneration Report (continued)

3.4 Executive Remuneration (continued)

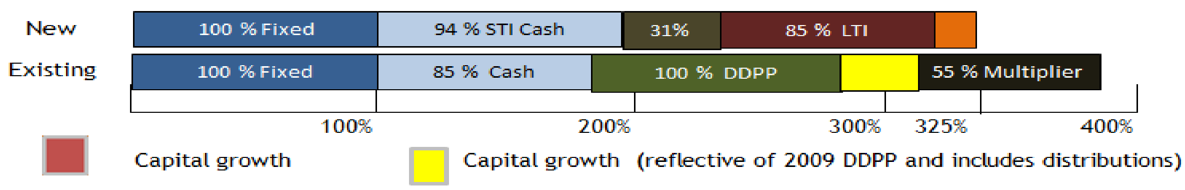
Target remuneration mix for key Executives (expressed as a percentage of fixed remuneration) is shown below:



Evolution of CEO Remuneration



The illustration below highlights the maximum remuneration opportunity for the CEO under the new framework incorporating a traditional LTI with performance hurdles, compared to the current remuneration framework incorporating the established DPP and DDPP, the latter which embraced a performance multiplier at vesting. The illustration reflects an uplift in security price over the 4 year LTI vesting period and the impact of the multiplier (incorporating security price growth and distributions) under the current DDPP. The new framework also incorporates a deferral element under the annual incentive award in the form of DXS securities and, whilst revealing a reduction in key Executive potential reward, better aligns remuneration opportunity to security holder interests.



3 Remuneration Report (continued)

3.4 Executive Remuneration (continued)

Frequently Asked Questions

New Remuneration Structure

What is the new Remuneration Structure?	The remuneration structure for Executives at Target is as follows: • CEO – 35% fixed, 65% at-risk • CFO – 40% fixed, 60% at-risk • Other key Executives – 50% fixed, 50% at-risk The "at-risk" amount consists of STI and LTI components which, if certain Group and Individual performance conditions are not met, can be significantly reduced (in the case of the STI) or forfeited entirely (in the case of the LTI).
Why does the Board consider this Structure appropriate?	The Board considers the remuneration structure to be appropriate as it: • reflects market practice • links individual performance to STI outcomes • is closely aligned to security holder interests through LTI performance hurdles • through equity exposure and outperformance potential, the structure offers attractive incentives for highly effective Executives

Total Remuneration

How does the Board determine total remuneration?	The Committee reviews a considerable amount of information from a variety of sources to ensure an appropriate outcome reflecting market practice (incorporating various benchmarks) is achieved. These sources include: • Publicly available remuneration reports of A-REIT competitors • Publicly available remuneration reports from ASX listed companies with similar market capitalisation and complexity • Advice on remuneration levels of privately held property, funds management, and private equity owned companies • Salary survey data from Hart Consulting, Avdiev, Aon Hewitt, FIRG and others as appropriate • Advice from external advisors appointed by the Committee, Egan Associates and Ernst & Young The comparator group considered as part of the above process is significantly larger than the comparator group adopted for assessment of the Group's relative TSR performance under the new LTI plan (refer below). Executives are recruited from the former group though DXS performance will subsequently be assessed appropriately with respect to the latter.

Fixed Remuneration

What is Fixed Remuneration?	Fixed remuneration is the regular pay (base salary and statutory superannuation contributions) an Executive receives in relation to his/her role. It reflects the complexity of the role, as well as the skills and competencies required to fulfil it, and is determined having regard to a variety of information sources to ensure the quantum is fair and competitive.
How is Fixed Remuneration determined?	The Committee sets fixed remuneration around the median level of comparable companies after making adjustments for the different risk profiles of those companies (refer to Total Remuneration above)

3 Remuneration Report (continued)

3.4 Executive Remuneration (continued)

Frequently Asked Questions (continued)

STI Plan

<table>
<tr><td>What is the STI Plan?</td><td>The STI Plan provides the Executive with an opportunity to achieve an annual remuneration outcome in addition to fixed remuneration, subject to the achievement of pre-agreed Group, divisional and individual performance objectives which are set out in a personalised balanced scorecard.</td></tr>
<tr><td>How much can be earned under the STI Plan?</td><td> Expressed as a percentage of fixed remuneration, Executives can earn the following incentive payments under the STI Plan:
<table>
<tr><th></th><th>Target</th><th>Outperformance</th></tr>
<tr><td>CEO</td><td>100%</td><td>125%</td></tr>
<tr><td>CFO</td><td>100%</td><td>125%</td></tr>
<tr><td>Other Key Execs</td><td>70%</td><td>87.5%</td></tr>
</table>
Aggregate performance below predetermined thresholds would result in no award being made under the STI Plan.
The amount each Executive can earn is dependent on how he/she performs against a balanced scorecard of KPIs that is set at the beginning of each year. The balanced scorecard is arranged in categories and each category is weighted differently depending on the specific accountabilities of each Executive. If an Executive does not meet threshold performance in a category, the score for that category will be zero.
The combination of KPIs in each category is set at stretch levels such that it would be very difficult for any Executive to score 100% in any category. Target is this combination of KPIs and is therefore a stretch goal.
Typically the balanced scorecard in the old plan has delivered 85% to 90% of target for fully effective performance. We expect the new plan to operate in a similar fashion. With the introduction of thresholds, failure to achieve a KPI threshold will result in no payment for that KPI and potentially, in aggregate, for the total STI assessment. Furthermore, outperformance would only be recognised if an Executive outperformed the balanced scorecard KPIs by exceptional achievements. </td></tr>
<tr><td>How does the deferral component operate?</td><td> 25% of any award under the STI Plan will be deferred and awarded in the form of performance rights to DXS securities.
The rights will vest in two equal tranches, 12 and 24 months after being awarded subject to clawback and continued employment based on a deferral period commencing 1 July after the relevant performance period. </td></tr>
</table>

3 Remuneration Report (continued)

3.4 Executive Remuneration (continued)

Frequently Asked Questions (continued)

STI Plan (continued)

How is the STI Plan aligned to security holder interests?	The STI Plan is aligned to security holder interests in the following ways:
	• as an immediate reward opportunity to attract, motivate and retain talented Executives who can influence the future performance of the Group
	• through a 25% mandatory STI deferral for Executives
	    ○ ensuring that Executives have a continuing interest in the outperformance of DXS securities
	    ○ allowing for future clawback of STI awards in the event of a material misstatement of the Group's financial position

When is the STI paid?	Paid to Executives in August of the financial year immediately following the performance period, following the sign-off of statutory accounts and announcement of Group's annual results.
How is the allocation of deferred STI determined?	The numbers of performance rights awarded is based on 25% of the STI value awarded to the Executive divided by the volume weighted average price (VWAP) of securities 10 trading days either side of the first trading day of the new financial year.
How are distributions treated during the deferral period?	Executives will be entitled to the benefit of distributions paid on the underlying DXS securities prior to vesting through the issue of additional performance rights.

LTI Plan

What is the LTI Plan?	The LTI is an incentive grant which rewards Executives for sustained earnings and security holder returns and is delivered in the form of performance rights to DXS securities.
How are grants under the LTI Plan determined?	Executives receive a grant of performance rights to DXS securities (dependent on their role and responsibilities) under the LTI Plan equivalent to the following percentage of Fixed Remuneration: <table><tr><th></th><th>LTI Grant (% of Fixed Remuneration)</th></tr><tr><td>CEO</td><td>85%</td></tr><tr><td>CFO</td><td>50%</td></tr><tr><td>Other Key Execs</td><td>30%</td></tr></table>
How does the LTI Plan work?	Performance rights are converted into DXS securities upon achievement of performance conditions set by the Board. Performance against the selected hurdles will be assessed in two equal tranches over two periods, 3 and 4 years after the grant date. If the performance conditions are not met over either period, then the respective performance rights will be forfeited. There is no re-testing of forfeited rights.

3 Remuneration Report (continued)

3.4 Executive Remuneration (continued)

Frequently Asked Questions (continued)

LTI Plan (continued)

What are the performance hurdles?	• 50% measured on the basis of the Group's performance against relative total security holder return (Relative TSR) performance hurdle. TSR represents an investor's return, calculated as the percentage difference between the initial amount invested and the final value of the DXS securities at the end of the relevant period, assuming distributions were reinvested. • 25% measured on the basis of the Group's performance against a predetermined Funds From Operations (FFO) per security hurdle rate FFO is defined as profit/loss after tax adjusted for property revaluations, impairments, derivative and FX mark to market impacts, amortisation of certain tenant incentives, straight line rent adjustments, deferred tax expense/benefit and any capital distributions received. • 25% measured on the basis of predetermined Return on Equity performance hurdles. Vesting under the Relative TSR measure will be on a sliding scale and reflect the degree of outperformance relative to a comparator group of companies. The comparator group will comprise both listed and unlisted entities.

How are the performance hurdles measured?	Relative TSR
	• 50% vesting for performance at the median of comparator group;
	• Straight line vesting for performance between the 50th and 75th percentile; and
	• 100% vesting for performance at or above the 75th percentile.
	• Proposed comparator group:
	    ○ Listed: CPA, IOF, GPT, CFX, WRT, DXS
	    ○ Unlisted: AMP Office, GWOF, APPF, Investa, ISPT (Diversified)
	FFO per security & Return on Equity
	• 50% vesting for Target performance;
	• Straight line vesting for performance between Target and Stretch; and
	• 100% vesting for Stretch performance.

How is the LTI Plan aligned to security holder interests?	Aligned to long-term security holder interests in the following ways: • as a reward to Executives when the Group's overall performance exceeds specific predetermined earnings and security holder return benchmarks • as a reward mechanism which encourages Executive retention and at the same time allows for future clawback of LTI grants for financial underperformance, deliberate misrepresentation or fraud • aligning the financial interests of security holders with Executives through exposure to DXS securities and the Group's performance • encouraging and incentivising Executives to make sustainable business decisions within the Board-approved risk appetite and strategy of the Group

3 Remuneration Report (continued)

3.4 Executive Remuneration (continued)

Frequently Asked Questions (continued)

LTI Plan (continued)

What policies and procedures exist to support the integrity of the LTI Plan?	The administration of the LTI Plan is supported by Plan Guidelines which provide Executives with the rules of the Plan and guidance as to how it is to be administered. Executives are prevented from hedging their exposure to unvested DXS securities or trading in DXS securities or related products. The Group also has Conflict of Interest and Insider Trading policies in place to support the integrity of the LTI Plan, which extend to family members and associates of the Executive.
How is the allocation of performance rights determined?	The number of performance rights granted is based on the grant value to the Executive (% of fixed remuneration) divided by the volume weighted average price (VWAP) of securities 10 trading days either side of the first trading day of the new financial year.
How are distributions treated prior to vesting?	Executives will not be entitled to distributions paid on the underlying DXS securities prior to the performance rights vesting.

Under both the STI and LTI plans, if an Executive voluntarily resigns, or is terminated by the Group for cause prior to vesting, all unvested performance rights are forfeited. If an Executive's employment is terminated for reasons such as retirement, redundancy, reorganisation, change in control or other unforeseen circumstances, the Committee will recommend whether 'good leaver' provisions apply, for decision by the Board. The operation of all incentive plans is at the discretion of the Board which retains the right to discontinue, suspend or amend the operation of such plans.

For both the STI and LTI plans, where entitlements involve DXS securities, it is the Board's intention, subject to legal and tax advice, that DXS securities be acquired on-market and not through the issue of new securities.

3 Remuneration Report (continued)

3.4 Executive Remuneration (continued)

At-Risk Remuneration Arrangements for 2012

Executives were awarded at-risk cash remuneration under the DPP for the 2012 financial year. The awards were based on a Balanced Scorecard assessment of performance for the financial year. Key Executives, agreed to accept their DDPP award as performance rights under a transition arrangement in respect of the 2012 financial year.

Awards were made under the DDPP to all participating Executives including eligible former Executives.

DEXUS Performance Payment (DPP) award

The DPP, which previously rewarded annual performance, will be retired in favour of the new STI plan (discussed above), effective 1 July 2012. There are no legacy payments required to be made under the DPP once the cash payments for year ending 30 June 2012 are made in August 2012.

DEXUS Deferred Performance Payment (DDPP) award

The DDPP, which offered deferred cash incentives and was the primary mechanism to promote retention of Executives, will be retired effective 1 July 2012 (subject to security holder approval at the November 2012 AGM). DDPP awards from years 2010, 2011 and 2012 (where applicable) will continue to vest in accordance with the plan guidelines. During 2012 the Board foreshadowed that it intends to exercise its discretion not to apply the outperformance multiplier with respect to the 2010, 2011 and 2012 awards.

Former Executives Mr Hoog Antink and Mr Say will receive a final award under the DDPP (with respect to their performance for the 2012 financial year), which will vest in July 2015. The Committee determined that Mr Hoog Antink and Mr Say were “good leavers” under the DDPP and that their DDPP awards will continue to vest according to the vesting schedule. Along with other DDPP participants, the Board has foreshadowed that Mr Hoog Antink and Mr Say will not receive a multiplier on their awards for years 2010, 2011, and 2012.

The DDPP Plan operates as follows:

- DDPP is subject to a three year vesting period from the allocation date
- The DDPP allocation value is notionally invested during the vesting period in DXS securities (50%) and Unlisted Funds and Mandates (50%)
- During the vesting period, DDPP values fluctuate in line with changes in the “Composite Total Return” (simulating notional investment exposure), comprising 50% the total return of DXS securities and 50% of the combined asset weighted total return of the Group’s Unlisted Funds and Mandates
- 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 an outperformance multiplier to the final DDPP payment value:

    1. The “Composite Performance Benchmark” comprises 50% of the S&P/ASX 200 Property Accumulation Index and 50% of the Mercer Unlisted Property Fund Index over the 3-year vesting period
    2. For performance up to 100% of the “Composite Performance Benchmark”, Executives receive a final DDPP payment by reference to the “Composite Total Return” of the preceding 3 year vesting period
    3. For the 2009 performance between 100% and 130% of the “Composite Performance Benchmark” an outperformance multiplier may be applied by the Board, ranging from 1.1 to a maximum of 1.5 times the final DDPP payment value

NB - For the 2010, 2011 and 2012 DDPP awards, the Board has foreshadowed that it intends to exercise its discretion not to apply the outperformance multiplier.

3 Remuneration Report (continued)

3.4 Executive Remuneration (continued)

At-Risk Remuneration Arrangements for 2012 (continued)

Transition Award

Key Executives agreed to accept their DDPP award in the form of performance rights to DXS securities under a transition arrangement in respect of the 2012 financial year.

Subject to security holder approval in November 2012, Executives will be awarded performance rights to DXS securities vesting in July 2015 (with a similar vesting period to the DDPP), subject to future clawback and service conditions. The award allocation will be determined based on the value awarded to the Executive divided by the volume weighted average price (VWAP) of securities 10 trading days either side of the first trading day of the new financial year.

Executives will be entitled to any distributions paid on the underlying DXS securities prior to the rights vesting (consistent with the basis for performance assessment under the DDPP) through the issue of additional performance rights each period equivalent to the distribution value entitlement. Unlike the DDPP, there will be no multiplier in respect of these performance rights.

These equity awards are a one-off arrangement as part of the Group's transition to its new remuneration framework, effective 1 July 2012.

If security holder approval is not obtained at the November 2012 AGM, relevant Executives will receive an award under the DDPP.

3 Remuneration Report (continued)

3.5 Service Agreements

The employment arrangements for Executives at the time of their appointment are set out below.

CEO - Darren J Steinberg

On 1 March 2012, the Group appointed Mr Steinberg as CEO under the following contract terms; as announced to the market on 28 November 2011:

	Terms
Employment Agreement	Employment is under a rolling service agreement
Fixed Remuneration	$1,400,000 per annum (inclusive of compulsory superannuation, packaged benefits and fringe benefits tax)
Short-term Incentive	Pro rata participation in the DPP (30% of Total Remuneration) and DDPP (35% of Total Remuneration) for the year ended 30 June 2012
Sign-on Award	$1,500,000 upon commencement as part compensation for foregone remuneration from his previous employer and to secure his services. An additional $500,000 for the year ending 30 June 2013 subject to achievement of specific Key Performance Indicators under the DPP
Termination	By Mr Steinberg with 6 months' notice or by the Group with 12 months' notice (or payment in lieu) No entitlement to severance payment By the Group without notice if serious misconduct has occurred

Former CEO - Victor P Hoog Antink

The former CEO's employment contract commenced on 1 October 2004. The principal terms of the employment arrangement were as follows:

	Terms
Employment Agreement	Employment is under a rolling service agreement
Fixed Remuneration	$1,550,000 per annum (inclusive of compulsory superannuation, packaged benefits and fringe benefits tax)
Short-term Incentive	Participation in the DPP (30% of Total Remuneration) and DDPP (35% of Total Remuneration) for the year ended 30 June 2012
Termination	By Mr Hoog Antink with 6 months' notice or by the Group with 6 months' notice (or payment in lieu) Entitlement to severance payment of 100% of Fixed Remuneration By the Group without notice if serious misconduct has occurred

By mutual agreement between Mr Hoog Antink and the Board, a 4 months' notice period applied on his departure. Mr Hoog Antink was entitled to a pro rata DPP and DDPP entitlement for the 2012 year with vesting in accordance with the vesting schedule of the DDPP Plan.

3 Remuneration Report (continued)

3.5 Service Agreements (continued)

CFO & Other Key Executives

The following contract terms were in place for Mr Mitchell, Mr Say, Ms Cox and Mr Easy, being key Executives of DEXUS for the year ending 30 June 2012:

	Terms
Employment Agreement	Employment is under a rolling service agreement
Fixed Remuneration	$450,000-$750,000 per annum (inclusive of compulsory superannuation, packaged benefits and fringe benefits tax)
Short-term Incentive	Participation in the DPP (25%-30% of Total Remuneration) and DDPP (25%-35% of Total Remuneration)
Termination	By Executive with 3 months' notice or by the Group with 3 months' notice (or payment in lieu) Entitlement to severance payment of 75% of Fixed Remuneration By the Group without notice if serious misconduct has occurred

The Group may terminate the Executive's employment by providing three months written notice, or payment in lieu of notice, based on Fixed Remuneration. In addition, the Group may provide a DPP payment and/or a DDPP award to the Executive for the period from the last review date (being 1 July).

On termination by the Group, any DDPP awards will vest in accordance with the vesting schedule of the DDPP. In the case of termination by the Group for serious misconduct, the Executive is entitled only to the fixed portion of his or her remuneration, and only up to the date of termination. Any unvested DDPP awards will be forfeited.

Aspects of these employment arrangements will be updated to reflect their participation in the new remuneration framework over the balance of the current calendar year.

3 Remuneration Report (continued)

3.6 Performance Pay

(Linking Group Performance to Performance Pay for 2012 financial year)

Group Performance

Group Highlights

Group	Property portfolio		Capital Management	Funds Management
3.4% FFO per security growth	1 million sqm of space in total leased	$1.6bn Total transactions across the Group	27.2% Gearing at 30 June 2012	Top quartile investment performance for DWPF and STC
$10m in cost savings secured	5.4% Office like-for-like NOI growth	US$770m US central portfolio sold	70-80% FFO payout ratio from FY13	$420m+ Equity raised for DWPF

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.

	1 Year	2 Years	3 Years	Since 1 October 2004
Year Ended 30 June 2012	(% per annum)	(% per annum)	(% per annum)	(% per annum)
DEXUS Property Group	12.20%	16.80%	14.30%	3.70%
S&P/ASX200 Property Accumulation Index	11.00%	8.40%	12.30%	(2.10%)
DEXUS Composite Total Return	11.00%	13.70%	11.80%	6.70%
Composite Performance Benchmark	10.20%	9.20%	9.90%	4.30%

In determining the construction of the Composite Total Return and in particular the relative weighting between the returns of 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
- the greater market presence and relevance the third party business brings to DEXUS Property Group

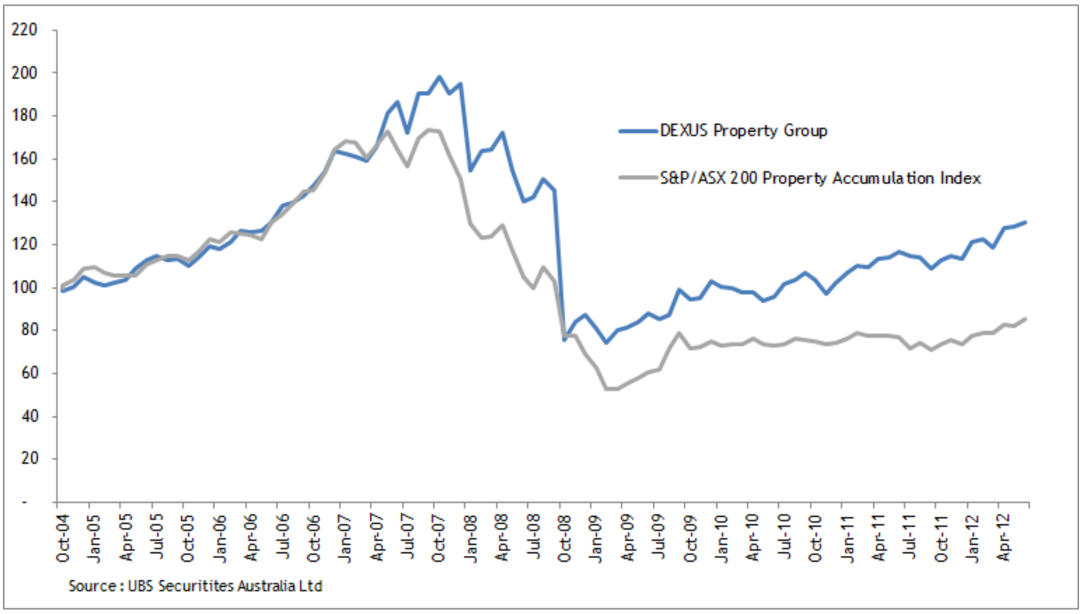
The Board previously considered whether the construction of the Composite Total Return should reflect the actual value of the unlisted funds and mandates ($5.6 billion as at 30 June 2012), and DEXUS Property Group's own funds under management ($6.9 billion as at 30 June 2012).

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 DEXUS Property Group and provides the greatest assurance that all investors are treated equitably.

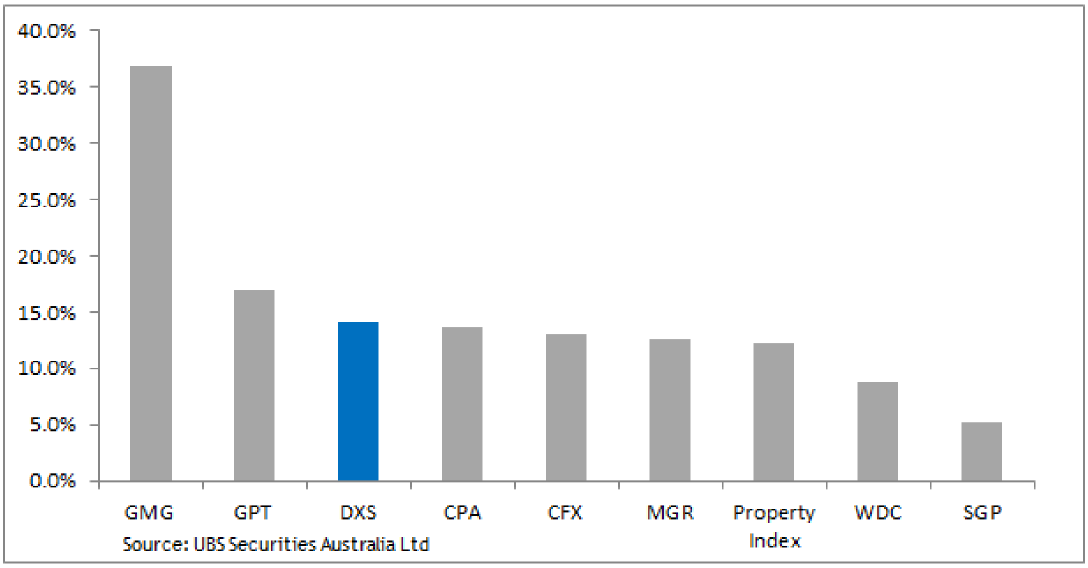
3 Remuneration Report (continued)

3.6 Performance Pay (continued)

Total Return of DXS Securities



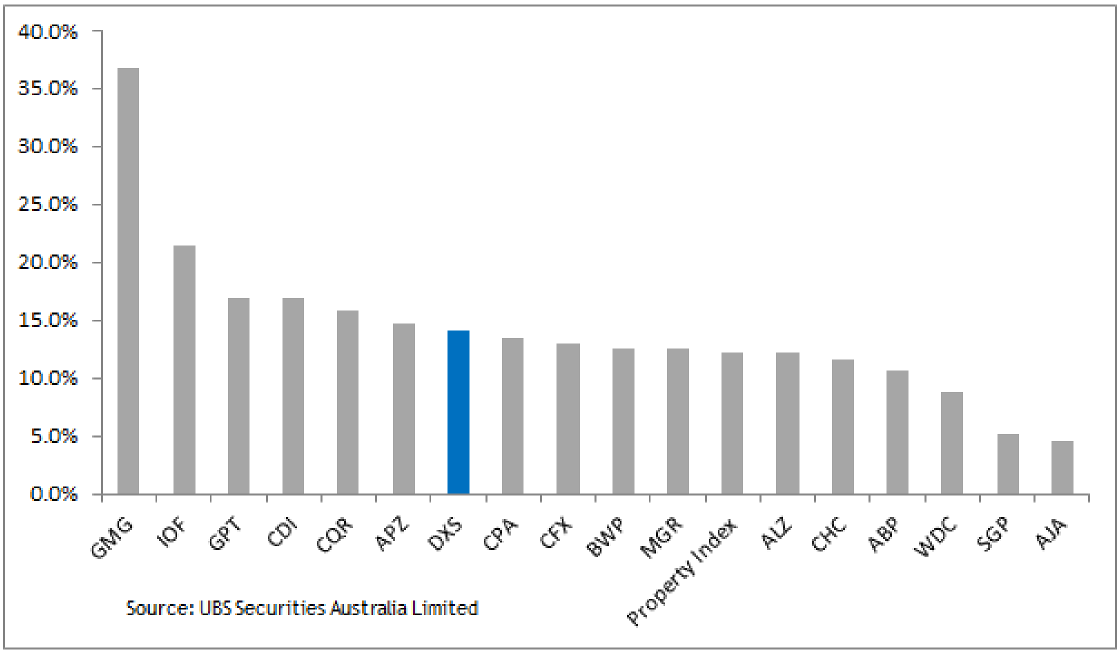
The chart below illustrates the DXS's performance relative to A-REITs above $2 billion market capitalisation over the past 3 financial years.



3 Remuneration Report (continued)

3.6 Performance Pay (continued)

The chart below illustrates DXS's performance against the broader property sector over the past three years.



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 the Group'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 the Group's strategic plans.

Individual Performance Assessment – Balanced Scorecard

Prior to the commencement of each financial year, the Board approves DEXUS's strategic and operational objectives which are then translated into a series of weighted financial and non-financial Key Performance Indicators (KPIs) for management. KPIs are assembled to form each Executive's Balanced Scorecard.

The Balanced Scorecard is divided into four components - financial performance, business development, management and strategy, stakeholder engagement, and leadership. These components are weighted differently for each Executive. For each of the components the Executive has objectives, measures and specific initiatives set for that year. These scorecards are agreed with the Executive at the beginning of the year, reviewed at half year and assessed for performance awards at the end of the year.

3 Remuneration Report (continued)

3.6 Performance Pay (continued)

Individual Performance Assessment – Balanced Scorecard (continued)

The KPIs are clear, tailored to each Executive's role, measurable and specific. It would be very difficult for an Executive to achieve all of the KPIs. Most Executives would have 3 to 8 measures and often up to 10 particular initiatives in each component of the scorecard. These measures can be very specific – sell certain assets, recruit new Executives, improve tenant satisfaction by x%, implement certain projects by x date, etc. Without specifically identifying an Executive or all the measures and initiatives, we have illustrated below in abbreviated form an indicative balanced scorecard that applied last year.

Theme	Weight	Objective	Measure	Initiative
Financial performance	40%	• Financial outperformance relative to peers	• Deliver financial targets in Business Plan • Net operating income (pre-asset sales) > $490m • FFO > $370.2m • Capital expenditure = $60m • Group FFO per security 7.65 cents • Non-core assets sales	• Secure at least $4 m of trading profits • Re-finance $800 m of debt • Increase debt duration to > 4.0 years • Reduce cost of funds • Lease 123 Albert St to 100% by 31 December 2011 • Lease 1 Bligh St to 80% by 30 June 2012 • [US central initiative][1] • [US West coast initiative][1]
Business Development, Management and Strategy	30%	• Enhance performance management • Maintain leadership in CR&S	• CR&S Report • Delivery of divisional Business Plans	• [Office sector initiative] [1] • [Industrial sector value-add initiative] [1] • [Retail sector initiative] [1] • [3rd party FUM initiative] [1] • [International initiative] [1]
Stakeholder Engagement	10%	• Improve Investor Relations • Proactive media coverage	• Investor surveys • Analyst feedback • Tenant satisfaction survey improved from previous year	• Develop Investor Relations plan • [Brand and external marketing] [1] • Implement Top Client contact plan
Leadership	20%	• Develop executive management • Implement change management • Build corporate branding • Embed DEXUS values	• Teamwork & trust review via 1 on 1 interviews • Staff engagement survey results • Succession planning • Staff turnover measures	• Mentor & promote team members • [Specific personal actions] [1] • [Specific external actions] [1] • Leadership programs

1 Specific initiatives viewed as commercial in confidence and therefore not disclosed.

3 Remuneration Report (continued)

3.6 Performance Pay (continued)

Additional KPIs

Additional KPIs for the Group, set following the commencement of the new CEO, for the year ended 30 June 2012 can be summarised as follows:

Financial Objectives	Performance as at 30 June 2012
• Reduce business expenses and create operational efficiencies	• Implemented business restructure and management changes
• Progress recycling of non-core properties and exiting offshore markets	• Settlement of US Central Portfolio and German portfolio sales
• Reduce the cost and improve the access to capital	• Revised payout ratio • Commenced on-market buyback

Performance Pay Outcomes

Following an assessment of Executive's Balanced Scorecards, the Board has determined that the following remuneration outcomes are appropriate with respect to each Executive's performance during the year ending 30 June 2012. Awards were rounded by the Board following their assessment of the criticality and weighting of group, divisional and individual performance, which is reflected in the table below:

Key Executive	Position	Balanced Scorecard Result	DPP Award	Transition Performance Rights [1]	DDPP Award
Darren J Steinberg	Chief Executive Officer	90%	360,000	420,000	0
Craig D Mitchell	Chief Financial Officer	87%	500,000	500,000	0
Tanya L Cox	Chief Operating Officer	93%	200,000	200,000	0
John C Easy	General Counsel	90%	200,000	200,000	0
Former Executives					
Victor P Hoog Antink	Chief Executive Officer	83%	825,000	0	975,000
Paul D Say	Chief Investment Officer	82%	350,000	0	350,000

1 Refer to Notes 1 and 38 of the Financial Statements for details on this award.

3 Remuneration Report (continued)

3.6 Performance Pay (continued)

Unvested and Vesting DDPP Awards

The table below shows the value of unvested and vested DDPP awards as at 30 June 2012. For awards made in 2009, a performance factor has been approved by the Board under the DDPP Plan rules which reflects the Group's strong relative performance over a three year period.

The table also shows the value of awards made under the DDPP Plan for former Executives Mr Hoog Antink and Mr Say. Following these final awards, the DDPP Plan will be closed and will continue to operate only as a legacy plan to administer prior year awards.

Participant	Award Date	DDPP Allocation Value	Movement in DDPP Value since Award Date	Closing DDPP Value as at 30 June 2012	Movement due to Performance Factor	Vesting DDPP Value as at 30 June 2012	Vest Date
Victor P Hoog Antink	1 Jul 2012	975,000	0	975,000			1 Jul 2015
	1 Jul 2011	1,300,000	143,650	1,443,650			1 Jul 2014
	1 Jul 2010	1,200,000	352,200	1,552,200			1 Jul 2013
	1 Jul 2009	915,000	364,536	1,279,536	511,814	1,791,350	1 Jul 2012
Craig D Mitchell	1 Jul 2012	0	0	0			1 Jul 2015
	1 Jul 2011	450,000	49,725	499,725			1 Jul 2014
	1 Jul 2010	400,000	117,400	517,400			1 Jul 2013
	1 Jul 2009	325,000	129,480	454,480	181,792	636,272	1 Jul 2012
Paul G Say	1 Jul 2012	350,000	0	350,000			1 Jul 2015
	1 Jul 2011	400,000	44,200	444,200			1 Jul 2014
	1 Jul 2010	250,000	73,375	323,375			1 Jul 2013
	1 Jul 2009	200,000	79,680	279,680	111,872	391,552	1 Jul 2012
Tanya L Cox	1 Jul 2012	0	0	0			1 Jul 2015
	1 Jul 2011	190,000	20,995	210,995			1 Jul 2014
	1 Jul 2010	180,000	52,830	232,830			1 Jul 2013
	1 Jul 2009	150,000	59,760	209,760	83,904	293,664	1 Jul 2012
John C Easy	1 Jul 2012	0	0	0			1 Jul 2015
	1 Jul 2011	185,000	20,443	205,443			1 Jul 2014
	1 Jul 2010	188,000	55,178	243,178			1 Jul 2013
	1 Jul 2009	162,000	64,541	226,541	90,616	317,157	1 Jul 2012

3 Remuneration Report (continued)

3.7 Actual Performance Pay Received

Executive Remuneration Actual Cash Received

In line with best-practice recommendations, the amounts shown in the table below provide a summary of actual remuneration received during the year ended 30 June 2012. The DPP and DDPP cash payments were received for performance in the 2011 and 2008 financial years respectively.

					Earned in Prior FY		
Key Executive	Cash Salary	Pension & Super Benefits [1]	Other Short Term Benefits [2]	Term Benefits [3]	DPP Cash Payments [4]	DDPP Cash Payment [5]	Total
Darren J Steinberg	461,409	5,258	1,500,000				1,966,667
Craig D Mitchell	734,225	15,775			450,000	353,950	1,553,950
Tanya L Cox	434,225	15,775			195,000	247,765	892,765
John C Easy	427,225	22,775			190,000	169,896	809,896
Former Executives							
Victor P Hoog Antink	1,145,191	15,775	815,978	1,550,000	1,100,000	1,274,220	5,901,164
Paul G Say	734,225	15,775	107,856	750,000	400,000	353,950	2,361,806

1 Includes employer contributions to superannuation under the superannuation guarantee legislation and salary sacrifice amounts.
2 Mr Steinberg received a one-off sign on payment, Mr Hoog Antink and Mr Say received payment for accrued but unused leave entitlements upon termination.
3 Notice and severance payments made under contractual terms to former Executives Mr Hoog Antink and Mr Say.
4 Cash payment made in August 2011 with respect to the 2011 DPP (i.e. annual performance payment for the prior year).
5 Cash payment made in August 2011 with respect to the 2008 DDPP award that vested on 30 June 2011 (i.e. realisation of 3 year deferred performance payment).

3 Remuneration Report (continued)

3.7 Actual Performance Pay Received (continued)

Executive Remuneration Statutory Accounting Method

The amounts shown in this table are prepared in accordance with AASB 124 Related Party Disclosures and do not represent actual cash payments received by Executives for the year ended 30 June 2012. Amounts shown under Long Term Benefits reflect the accounting expenses recorded during the year with respect to prior year deferred remuneration and awards that have or are yet to vest. For performance payments and awards made with respect to the year ended 30 June 2012, refer to the Performance Pay Outcomes section of this report.

		Short Term Benefits			Post-Employment Benefits		Security-Based Benefits	Long Term Benefits		
Key Executive	Year	Cash Salary	DPP Awards [1]	Other Short Term Benefits [2]	Pension& Super Benefits [3]	Termination Benefits [4]	Transition Performance Rights [5]	DDPP Awards [6]	Change in prior DDPP Awards [7]	Total
Darren J Steinberg	2012	461,409	360,000	1,500,000	5,258		105,000			2,431,667
	2011									0
Craig D Mitchell	2012	734,225	500,000		15,775		125,000		328,664	1,703,664
	2011	684,801	450,000		15,199			450,000	273,781	1,873,781
Tanya L Cox	2012	434,225	200,000		15,775		50,000		149,140	849,140
	2011	375,001	195,000		49,999			190,000	161,359	971,359
John C Easy	2012	427,225	200,000		22,775		50,000		158,013	858,013
	2011	401,801	190,000		23,199			185,000	131,830	931,830
Sub-Total	2012	2,057,084	1,260,000	1,500,000	59,583	0	330,000	0	635,817	5,842,484
	2011	1,461,603	835,000	0	88,397	0	0	825,000	566,970	3,776,970
Former Executives										
Victor P Hoog Antink	2012	1,145,191	825,000	815,978	15,775	1,550,000		975,000	938,512	6,265,456
	2011	1,502,801	1,100,000		47,199			1,300,000	900,583	4,850,583
Paul G Say	2012	734,225	350,000	107,856	15,775	750,000		350,000	216,352	2,524,208
	2011	649,801	400,000		50,199			400,000	226,785	1,726,785
Total	2012	3,936,500	2,435,000	2,423,834	91,133	2,300,000	330,000	1,325,000	1,790,681	14,632,148
	2011	3,614,205	2,335,000	0	185,795	0	0	2,525,000	1,694,338	10,354,338

1 Annual cash performance payment made in August 2012
2 Mr Steinberg received a one-off sign on payment, Mr Hoog Antink and Mr Say received payment for accrued but unused leave entitlements upon termination
3 Includes employer contributions to superannuation under the superannuation guarantee legislation and salary sacrifice amounts
4 Notice and severance payments made under contractual terms to former Executives Mr Hoog Antink and Mr Say
5 Reflects the accounting expense accrued during the financial year for transition 3 year performance rights vesting in July 2015. This does not represent an actual payment or potential value.
6 DDPP Legacy Plan only applicable to former Executives Mr Hoog Antink and Mr Say and vesting after 3 years in July 2015.
7 Indicates the movement in value during the financial year of unvested and vesting DDPP grants. This does not represent an actual payment or potential value.

3 Remuneration Report (continued)

3.8 Non-Executive Directors

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

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

Total fees paid to Non-Executive Directors remain within the aggregate fee pool of $1,750,000 per annum approved by DEXUS security holders at the AGM in October 2008.

In 2012, the Board determined that it would be appropriate for Non-Executive Directors (existing and new) to hold DEXUS securities. A minimum target of 50,000 securities is to be acquired in each Director's first three year term (effective from 1 July 2012). Such securities would be subject to the Group's existing trading and insider information policies.

Other than the Chair who receives a single fee, Non-Executive Directors receive a base fee plus additional fees for membership of Board Committees. The table below outlines the Board fee structure (inclusive of statutory superannuation contributions) for the year ended 30 June 2012:

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

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

From 1 July 2012:

- The Nomination & Remuneration Committee has broadened its mandate to include oversight of DEXUS corporate governance practices and is now named the Nomination, Remuneration & Governance Committee. To reflect the increased workload and responsibilities of this Committee, fees were increased to $15,000 for Members and $30,000 for the Chair from 1 July 2012

- No other fee increases will be applicable to Non-Executive Directors.

3 Remuneration Report (continued)

3.8 Non-Executive Directors (continued)

Breakdown of Non-Executive Director's Fee Composition

		Base Fee	Committee Fees						
Non-Executive Director	Year	DXFM	Risk & Sustain-ability	Audit	Comp-liance	Finance	Nom & Rem	DWPL	Total
Christopher T Beare	2012	350,000							350,000
	2011	350,000							350,000
Elizabeth A Alexander AM	2012	150,000	7,500	7,500				30,000	195,000
	2011	150,000	7,500	7,500				30,000	195,000
Barry R Brownjohn	2012	150,000	15,000	15,000		7,500			187,500
	2011	150,000	15,000	15,000		7,500			187,500
John C Conde AO	2012	150,000			7,500		15,000		172,500
	2011	150,000			7,500		15,000		172,500
Tonianne Dwyer[1]	2012	129,125			5,000			10,000	144,125
	2011								0
Stewart F Ewen OAM	2012	150,000					7,500		157,500
	2011	150,000					7,500		157,500
Brian E Scullin[2]	2012	50,000			5,000			5,000	60,000
	2011	150,000			15,000			15,000	180,000
W Richard Sheppard[3]	2012	75,000	3,125	3,125					81,250
	2011								0
Peter B St George	2012	150,000	7,500	7,500		15,000			180,000
	2011	150,000	7,500	7,500		15,000			180,000
Total	2012	1,354,125	33,125	33,125	17,500	22,500	22,500	45,000	1,527,875
	2011	1,250,000	30,000	30,000	22,500	22,500	22,500	45,000	1,422,500

1 Ms Dwyer was appointed on 24 August 2011
2 Mr Scullin resigned effective 31 October 2011
3 Mr Sheppard was appointed 1 January 2012

In addition to the Non-Executive Directors' fee structure outlined above, Mr Ewen's company was 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. This fee has been discontinued effective 1 July 2012.

3 Remuneration Report (continued)

3.8 Non-Executive Directors (continued)

Non-Executive Director's Statutory Accounting Table

The amounts shown in this table are prepared in accordance with AASB 124 Related Party Disclosures. The table is a summary of the actual cash and benefits received by each Non-Executive Director for the year ended 30 June 2012.

Non-Executive Director	Year	Short Term Benefits	Post Employment Benefits	Other Long Term Benefits	Total
Christopher T Beare	2012	334,225	15,775		350,000
	2011	334,801	15,199		350,000
Elizabeth A Alexander AM	2012	170,539	24,461		195,000
	2011	179,801	15,199		195,000
Barry R Brownjohn	2012	172,018	15,482		187,500
	2011	172,301	15,199		187,500
John C Conde AO	2012	158,257	14,243		172,500
	2011	158,257	14,243		172,500
Tonianne Dwyer[1]	2012	132,225	11,900		144,125
	2011	0	0		0
Stewart F Ewen OAM	2012	109,052	48,448		157,500
	2011	109,052	48,448		157,500
Brian E Scullin[2]	2012	55,046	4,954		60,000
	2011	165,138	14,862		180,000
W Richard Sheppard[3]	2012	74,541	6,709		81,250
	2011	0	0		0
Peter B St George	2012	165,138	14,862		180,000
	2011	165,138	14,862		180,000
Total	2012	1,371,041	156,834	0	1,527,875
	2011	1,284,488	138,012	0	1,422,500

1 Ms Dwyer was appointed on 24 August 2011
2 Mr Scullin resigned effective 31 October 2011
3 Mr Sheppard was appointed 1 January 2012

4 Directors' interests

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

Following a review of the policy by the Board in 2012, and to further enhance alignment of interests, the Board determined that it would be appropriate for Directors to hold DXS securities in the future. The Board has set a minimum holding of 50,000 securities to be acquired by each Independent Director by 30 June 2015. Newly appointed Independent Directors will be required to purchase 50,000 securities within their first three year term.

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.

5 Directors' directorships in other listed entities

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

Director	Company	Date appointed	Date resigned 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	19 October 2011
John C Conde, AO	Whitehaven Coal Limited	3 May 2007	
Tonianne Dwyer	Cardno Limited	25 June 2012	
W Richard Sheppard	Macquarie Office Management Limited[1]	28 May 2009	1 March 2010
	Macquarie Countrywide Management Limited[2]	31 March 2007	1 March 2010
	Macquarie DDR Management Limited[3]	8 October 2003	18 June 2010
Peter B St George	Boart Longyear Limited	21 February 2007	
	First Quantum Minerals Limited[4]	20 October 2003	

1 Responsible entity for Macquarie Office Trust (ASX: MOF).
2 Responsible entity for Macquarie Countrywide Trust (ASX: MCW).
3 Responsible entity for Macquarie DDR Trust (ASX: MDT).
4 Listed for trading on the Toronto Stock Exchange in Canada and the London Stock Exchange in the United Kingdom.

6 Principal activities

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

7 Total value of Trust assets

The total value of the assets of the Group as at 30 June 2012 was $7,364.1 million (2011: $7,987.6 million). Details of the basis of this valuation are outlined in note 1 of the Notes to the Financial Statements and form part of this Directors' Report.

8 Review of results and operations

Financial results

DEXUS Property Group's financial performance for the year ended 30 June 2012 is summarised below. To fully understand our results, please refer to the full Financial Statements included in this Financial Report.

In accordance with Australian Accounting Standards, net profit includes a number of non-cash adjustments including fair value movements in asset and liability values. Funds from Operations[1] (FFO) is a global financial measure of real estate operating performance after finance costs and taxes, and is adjusted for certain non-cash items.

The Directors consider FFO to be a measure that reflects the underlying performance of the Group. The following table reconciles between profit attributable to stapled security holders, FFO and distributions paid to stapled security holders.

	30 June 2012 ($m)	**30 June 2011 ($m)**
Net profit for the year attributable to stapled security holders	181.1	553.0
Net fair value gain of investment properties[2]	(82.7)	(182.0)
Impairment of inventories	14.8	-
Net fair value loss/(gain) of derivatives	102.1	(44.2)
Net loss/(gain) on sale of investment properties[3]	72.8	(7.1)
Foreign currency translation reserve transfer on partial disposal of foreign operations	41.5	-
Incentive amortisation and rent straight-line[2,4]	31.7	28.6
RENTS capital distribution	(10.2)	(10.4)
Deferred tax and other	16.7	20.1
Funds from Operations (FFO)	**367.8**	**358.0**
Retained earnings[5]	**(110.4)**	**(107.3)**
Distributions	**257.4**	**250.7**
FFO per security (cents)	7.65	7.40
Distribution per security (cents)	5.35	5.18
Net tangible asset backing per security ($)	1.00	1.01

1 DEXUS's FFO comprises net profit/loss after tax attributable to stapled security holders calculated in accordance with Australian Accounting Standards and adjusted for: property revaluations, impairments, derivative and FX mark to market impacts, amortisation of certain tenant incentives, gain/loss on sale of certain assets, straight line rent adjustments, deferred tax expense/benefit and DEXUS RENTS Trust capital distribution.
2 Including DXS's share of equity accounted investments.
3 Including tax and finance cost impacts of the US central portfolio sale.
4 Including cash and fit out incentives amortisation.
5 Based on the distribution policy for the financial year ended 30 June 2012 of 70% of FFO.

8 Review of results and operations (continued)

Financial results (continued)

Net profit attributable to stapled security holders is $181.1 million or 3.75 cents per security, a decrease of $371.9 million from the prior year (2011: $553.0 million) predominantly due to the movement in non-cash items and the impact of selling the US central portfolio. The key drivers are:

- Net fair value loss on derivatives of $102.1 million (2011: gain of $44.2 million) which includes unrealised, non-cash losses resulting from the restating of derivatives to account for lower market interest rates.
- Net revaluation gains from investment properties and inventories of $67.9 million, representing an average increase of 1.0% across the portfolio (2011: $182.0 million). This gain is underpinned by a $93.5 million or 2.0% revaluation increase in the office portfolio.
- Net loss on sale of investment properties of $72.8 million, primarily relating to the divestment of the US central portfolio on 21 June 2012 for US$770 million and the divestment of 12 European industrial properties for €82.0 million.

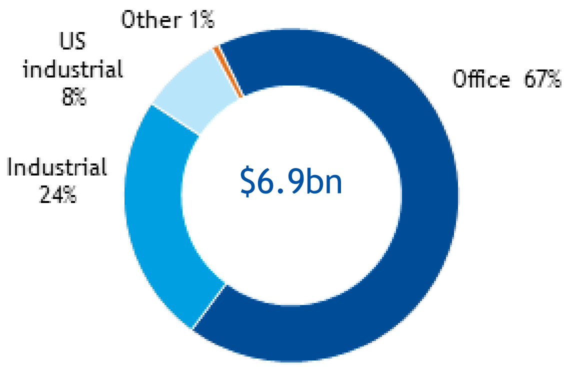
Operationally, FFO increased 2.7% to $367.8 million (2011: $358.0 million) underpinned by strong performance from the office portfolio and a reduced cost of funds. FFO per security increased 3.4% to 7.65 cents (2011: 7.40 cents).

Based on the current distribution policy of 70% of FFO, the distribution paid for the year to 30 June 2012 increased 3.3% to 5.35 cents per security (2011: 5.18 cents per security).

Operations

Portfolio composition

The total value of investment property at 30 June 2012 was $6.9 billion. The office portfolio represented 67% of total investments while the Australian industrial portfolio represented 24%. Following the sale of the US central portfolio on 21 June 2012, the US industrial portfolio now represents 8% of total investments.



Office portfolio

- Portfolio value $4.7 billion (2011: $4.5 billion)
- Like for like net operating income (NOI) growth 5.4% (2011: 3.3%)
- Occupancy (by area/income) 97.1%/96.8% (2011: 96.2%/95.3%)
- Weighted average lease expiry (by income) 4.9 years (2011: 5.3 years)

Net operating income increased by $34.6 million (13.6%) to $289.8 million (2011: $255.2 million) driven by strong like for like NOI growth of 5.4% and the completion of the Bligh and Albert Street developments. New leases completed during the year achieved average rental increases of 4.6%.

Occupancy for the office portfolio was strong at 97.1% (2011: 96.2%), up 0.9% and 4.4% higher than the national average of 92.2%. Developments at 1 Bligh Street Sydney and 123 Albert Street Brisbane, which were completed in July 2011, are 90% and 99% committed respectively.

8 Review of results and operations (continued)

Operations (continued)

Office portfolio (continued)

During the year over 75,600 sqm of space was leased which includes securing heads of agreement over 19,000 sqm. The stand-out success was securing of a new Government tenant, with no downtime, at Garema Court in Canberra. Subdued tenant demand in the Sydney and Melbourne office markets and global economic uncertainty have seen tenants tending to remain in existing premises and, in some cases, downsize their office space requirements. While this has led to some upward pressure on incentives, our proactive approach to leasing has seen only a slight increase in incentives (excluding development leasing) to 17.3%, for leases executed during the year (2011: 16.0%).

The office portfolio capital value increased 3.7% or $168.7 million to $4.7 billion for the year (2011: $4.5 billion) and the weighted average capitalisation rate for the portfolio tightened 7bps to 7.30% at 30 June 2012.

Industrial portfolio

- Portfolio value $1.7 billion (2011: $1.6 billion)
- Like for like NOI change -1.6% (2011: 1.1%)
- Occupancy (by area/income) 91.7%/92.8% (2011: 96.2%/95.1%)
- Weighted average lease expiry (by income) 4.4 years (2011: 4.7 years)

Net operating income increased by $3.6 million (3.1%) to $120.0 million (2011: $116.4 million) primarily as a result of the completion of eight developments during the year, with a combined cost of $144.1 million. Like for like NOI was down 1.6% primarily due to the vacancy of Garigal Road, Belrose which had been identified for sale but has not yet been sold.

In an active year for the Australian industrial portfolio over 300,000 sqm of industrial space was leased including over 195,000 sqm within the stable portfolio (representing 17% of total portfolio area) and over 105,000 sqm in developments. Occupancy by area fell to 91.7% (2011: 96.2%) with the departure of Elders at Gillman on 30 June 2012 (6% of portfolio NLA) however, post 30 June 2012, 57% of this space has been leased or is secured under heads of agreement, at rents averaging 34% higher than prior rents.

The Australian industrial portfolio capital value remained relatively stable for the year with the weighted average capitalisation rate tightening by 5bps to 8.59% at 30 June 2012.

US industrial portfolio

- Portfolio value US$549.5 million or A$539.2 million (2011: US$490.8 million or $A457.0 million)[1]
- Like for like NOI growth 3.8% (2011: 3.3%)[1]
- Occupancy (by area/income) 97.1%/98.2% (2011: 97.7%/97.4%)[1]
- Weighted average lease expiry (by income) 4.4 years (2011: 4.5 years)[1]

On a constant currency basis, net operating income declined $1.4 million to $74.7 million (2011: $76.1m) due to property transactions including the sale of the central portfolio which settled on 21 June 2012. Like for like NOI growth for the remaining core west coast portfolio was strong at 3.8% (2011:-4.5%).

During the year a total of 184 leases were executed, totalling over 5.4 million square feet, or 23% of total lettable area. Following the internalisation of leasing management of the central portfolio in June 2011, occupancy for the central portfolio improved by 10.3% to 89.7% prior to its sale 12 months later. Occupancy for the US industrial portfolio at 30 June 2012 was 97.1%, broadly in line with the prior year occupancy of 97.7% for the core west coast portfolio.

As a consequence of the sale of the US central portfolio, the Group now owns and manages 24 industrial properties over 6.8 million square feet in the west coast industrial markets and three land parcels in Texas. The US industrial portfolio now represents 8% of the investment portfolio and is considered non-core. The Group expects to exit the US within 12-24 months.

1 US industrial west coast portfolio only

8 Review of results and operations (continued)

Operations (continued)

Key portfolio metrics

30 June 2012	Office	Industrial	US industrial[1]	Total
Occupancy (% by area)	97.1	91.7	97.1	93.4
Occupancy (% by income)	96.8	92.8	98.2	95.8
Tenant retention (%)	66	59	66	-
WALE (years)	4.9	4.4	4.4	4.7
Like-for-like NOI growth (%)	5.4	(1.6)	3.8	3.3
Weighted average cap rate %	7.30	8.59	6.32	7.51
Total return – 1 year (%)	9.5	8.0	10.0	-

Third party funds management

The DEXUS Wholesale Property Fund (DWPF) was again a top quartile performer, delivering a 9.7% total return in the 12 months to 30 June 2012. DWPF has outperformed the Mercer IPD index on a three year rolling basis by 1.7% per annum. The fund also raised over $420 million of equity during the year and has now raised $1.4 billion since early 2010.

The Group's Australian mandate (STC) also outperformed its benchmarks on a one and three year basis. During the year, STC sold its half share of QV1 in Perth for $310 million.

Management business EBIT increased $1.2 million driven by $5.8 million of industrial trading profits and increased third party revenue, offset by $6.5 million in one off costs relating to CEO transition costs and redundancies. The management expense ratio for the year ended 30 June 2012 excluding these one off costs was 30bp. The funds management business unit delivered a 54% margin and the property management business unit delivered a 10% margin.

Interest expense

Following the completion of two premium grade office buildings at 1 Bligh Street in Sydney and 123 Albert Street in Brisbane in July 2011, interest is no longer being capitalised on these developments. This was the principal driver of the $27.5 million increase in financing costs, which was offset by additional rental income from the two properties. Overall cost of funds reduced 50 basis points to 6.1% for the year ended 30 June 2012 (2011: 6.6%).

Transactions and developments

DEXUS completed $1.6 billion in transactions over the course of the year including:

- The single largest transaction was the US$770 million sale of the US central portfolio, comprising 65 industrial properties. The transaction settled on 21 June 2012.
- The Group also sold 71% of the European portfolio during the year, comprising lower quality industrial assets with large capital expenditure requirements and short lease terms, resulting in seven properties remaining including one in Germany and six in France. The proceeds for the 12 properties sold was $107.5 million.
- On behalf of third party funds the Group sold a 50% interest in QV1 Building in Perth for $310 million (for STC) and acquired three properties (for DWPF) including 452 Flinders Street in Melbourne for $201.5 million and two industrial properties for $96.5 million; the Sir Joseph Banks Corporate Park in Botany, NSW and 34 Manton Street in Morningside, Queensland.

During the year the Group completed eight industrial developments delivering over 120,000 sqm with a total cost of $144.1 million and a yield on cost of 9.2%. Developments leased to Loscam at Laverton and Schenker at Erskine Park were sold, delivering $5.8 million in trading profits for the year.

1 US industrial west coast portfolio only

8 Review of results and operations (continued)

Capital management

Financing costs and treasury

Highlights for the year ended 30 June 2012 include:

- Debt facilities totalling $850 million were refinanced in the domestic bank, US bond and US mortgage markets at margins below 2%.
- Following the sale of the US central portfolio for US$770 million, a restructure of US debt facilities was undertaken, including prepaying certain debt obligations and unwinding various interest rate swaps associated with the US funding.
- The $204 million in Real-estate perpetual ExchanNgeable sTep-up Securities (RENTS) were repurchased on 29 June 2012, prior to the step up date, resulting in the wind up of the DEXUS RENTS Trust.
- The weighted average cost of funds has reduced by 50 bps from 6.6% to 6.1% and the average debt duration was maintained at 4.2 years as at 30 June 2012.
- Gearing (including cash) at 30 June 2012 was 27.2%, well below the Group's target of less than 40%.
- The Group is comfortably within all covenant limits and the Group's credit ratings of Baa1 and BBB+, both with stable outlooks, were reaffirmed during the year.

Securities buyback

An on-market securities buyback commenced in April 2012 for up to $200 million of securities, representing approximately 5% of securities on issue. As at 30 June 2012 a total of 55.2 million securities had been bought back for a total cost of $51.0 million, at an average price of $0.923 per security. During July 2012 a further 21.3 million securities were bought back for a total cost of $19.7 million. Cumulatively, 35.3% of the total $200 million commitment has now been fulfilled.

Distribution policy

The distribution payout policy for the financial year ended 30 June 2012 is 70% of FFO. On 16 April 2012 the Group announced a change to the distribution policy effective from FY13. Under the new policy the Group will distribute between 70% and 80% of FFO, in line with free cash flows, with the expectation that over time the average payout ratio will be around 75% of FFO.

Strategy

Management has undertaken a strategic review of the overall Group, since the commencement of the new CEO on 1 March 2012.

The outcomes of the review have resulted in capitalising on the Group's key competitive strengths and taking advantage of opportunities both within the Australian real estate sector and internal to the Group.

The Group's revised strategy is focused on the delivery of superior risk-adjusted returns for investors, through investment in high quality Australian real estate, primarily comprising CBD office properties. The Group will achieve this by:

- Being the leading owner and manager of Australian office
- Having the best people, strongest tenant relationships, and most efficient systems
- Being the wholesale partner of choice in Australian office, industrial and retail
- Actively managing capital and risk in a prudent and disciplined manner

The Group will continue to have an office and industrial oriented platform and will grow primarily through its third party funds management platform and an increased office exposure.

The strategic review identified that the Group's offshore exposure is considered non-core and Management will concentrate on the core Australian office and industrial markets. An offshore exit strategy will be progressed that is focused on maximising returns for investors over the next 12 to 24 months.

8 Review of results and operations (continued)

Strategy (continued)

The first phase of execution involves re-focusing the business and strengthening the platform for growth and performance. During the year ended 30 June 2012 and as a part of the strategic review process several strategic initiatives were executed including the:

- Sale of the US central portfolio
- Commencement of an on-market securities buyback
- Announcement of the revised distribution payout policy
- Implementation of a business restructure and associated management changes

9 Likely developments and expected results of operations

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

10 Significant changes in the state of affairs

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

11 Matters subsequent to the end of the financial year

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

12 Distributions

Distributions paid or payable by the Group for the year ended 30 June 2012 were 5.35 cents per security (2011: 5.18 cents per security) as outlined in note 27 of the Notes to the Financial Statements.

13 DXFM's fees and associate interests

Details of fees paid or payable by the Group to DXFM for the year ended 30 June 2012 are outlined in note 32 of the Notes to the Financial Statements and form part of this Directors' Report.

The number of interests in the Group held by DXFM or its associates as at the end of the financial year were nil (2011: nil).

14 Interests in DXS securities

The movement in securities on issue in the Group during the year and the number of securities on issue as at 30 June 2012 are detailed in note 24 of the Notes to the Financial Statements and form part of this Directors' Report.

With the exception of performance rights which are discussed in detail in the Remuneration Report, the Group did not have any options on issue as at 30 June 2012 (2011: nil).

15 Environmental regulation

The Group's 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.

16 Indemnification and insurance

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

PricewaterhouseCoopers (PwC or the Auditor), is indemnified out of the assets of the Group pursuant to the DEXUS Specific Terms of Business agreed for all engagements with PwC, to the extent that the Group inappropriately uses or discloses a report prepared by PwC. The Auditor, PwC, is not indemnified for the provision of services where such an indemnification is prohibited by the *Corporations Act 2001*.

17 Audit

17.1 Auditor

PricewaterhouseCoopers continues in office in accordance with section 327 of the *Corporations Act 2001*.

17.2 Non-audit services

The Group may decide to employ the Auditor on assignments, in addition to their statutory audit duties, where the Auditor's expertise and experience with the Group are important.

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

The Board Audit 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.

17.3 Auditor's Independence Declaration

A copy of the Auditor's Independence Declaration as required under section 307C of the *Corporations Act 2001* is set out on page 40 and forms part of this Directors' Report.

18 Corporate governance

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

19 Rounding of amounts and currency

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

20 Management representation

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

21 Directors' authorisation

The Directors' Report is made in accordance with a resolution of the Directors. The Financial Statements were authorised for issue by the Directors on 15 August 2012. The Directors have the power to amend and reissue the Financial Statements.

Christopher T Beare
Chair
15 August 2012

Darren J Steinberg
Chief Executive Officer
15 August 2012

Auditor's Independence Declaration

As lead auditor for the audit of DEXUS Diversified Trust for the year ended 30 June 2012, I declare that to the best of my knowledge and belief, there have been:

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

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

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

E A Barron
Partner
PricewaterhouseCoopers

Sydney
15 August 2012

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Consolidated Statement of Comprehensive Income

For the year ended 30 June 2012

	Note	2012 $'000	2011 $'000
Revenue from ordinary activities			
Property revenue	2	**653,582**	629,072
Proceeds from sale of inventory		**49,847**	3,359
Interest revenue		**1,743**	1,565
Management fee revenue		**50,712**	50,655
Total revenue from ordinary activities		**755,884**	684,651
Net fair value gain of investment properties		**75,227**	148,433
Share of net profit of associates accounted for using the equity method	15	**13,784**	34,053
Net foreign exchange gain		**2,170**	574
Other income		**20**	742
Total income		**847,085**	868,453
Expenses			
Property expenses		**(154,901)**	(151,865)
Cost of sale of inventory		**(43,998)**	(3,353)
Finance costs	3	**(261,869)**	(52,744)
Net (loss)/gain on sale of investment properties		**(32,566)**	7,052
Net fair value (loss)/gain of derivatives		**(1,564)**	2,605
Depreciation and amortisation		**(2,805)**	(3,811)
Impairment of inventories		**(14,846)**	-
Impairment of goodwill		**(625)**	(194)
Employee benefits expense		**(74,366)**	(67,417)
Other expenses	5	**(18,607)**	(22,293)
Total expenses		**(606,147)**	(292,020)
Foreign currency translation reserve transfer on partial disposal of foreign operations		**(41,531)**	-
Profit before tax		**199,407**	576,433
Tax benefit/(expense)			
Income tax benefit	4(a)	**20,131**	4,851
Withholding tax expense	4(c)	**(36,657)**	(26,164)
Total tax expense		**(16,526)**	(21,313)
Profit after tax		**182,881**	555,120
Other comprehensive income/(loss):			
Exchange differences on translating foreign operations	25(a)	**333**	(4,973)
Foreign currency translation reserve transfer on partial disposal of foreign operations	25(a)	**41,531**	-
Total comprehensive income for the year		**224,745**	550,147
Profit for the year attributable to:			
Unitholders of the parent entity		**81,475**	182,368
Unitholders of other stapled entities (non-controlling interests)		**99,595**	370,644
Stapled security holders		**181,070**	553,012
Other non-controlling interest		**1,811**	2,108
Total profit for the year		**182,881**	555,120
Total comprehensive income for the year attributable to:			
Unitholders of the parent entity		**139,145**	153,280
Unitholders of other stapled entities (non-controlling interests)		**83,789**	394,856
Stapled security holders		**222,934**	548,136
Other non-controlling interest		**1,811**	2,011
Total comprehensive income for the year		**224,745**	550,147

			Cents
Earnings per unit			
Basic earnings per unit on profit attributable to unitholders of the parent entity	37	**1.69**	3.77
Diluted earnings per unit on profit attributable to unitholders of the parent entity	37	**1.69**	3.77

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

Earnings per stapled security			
Basic earnings per unit on profit attributable to stapled security holders	37	**3.75**	11.44
Diluted earnings per unit on profit attributable to stapled security holders	37	**3.75**	11.44

Consolidated Statement of Financial Position

As at 30 June 2012

	Note	2012 $'000	2011 $'000
Current assets			
Cash and cash equivalents	7	**59,193**	73,746
Receivables	8	**30,842**	36,175
Non-current assets classified as held for sale	9	**212,264**	59,260
Inventories	10	**26,841**	7,991
Derivative financial instruments	11	**3,617**	23,112
Current tax assets		**198**	1,247
Other	12	**10,646**	11,396
Total current assets		**343,601**	212,927
Non-current assets			
Investment properties	13	**6,391,457**	7,105,914
Plant and equipment	14	**4,682**	3,926
Inventories	10	**70,990**	104,247
Investments accounted for using the equity method	15	**217,043**	200,356
Derivative financial instruments	11	**74,655**	77,108
Deferred tax assets	16	**36,729**	55,577
Intangible assets	17	**223,641**	224,684
Other	18	**1,309**	2,905
Total non-current assets		**7,020,506**	7,774,717
Total assets		**7,364,107**	7,987,644
Current liabilities			
Payables	19	**108,484**	108,916
Interest bearing liabilities	20	**-**	315,777
Current tax liabilities		**2,087**	7,014
Provisions	21	**151,969**	147,806
Derivative financial instruments	11	**8,243**	5,000
Total current liabilities		**270,783**	584,513
Non-current liabilities			
Interest bearing liabilities	20	**1,940,762**	1,899,279
Derivative financial instruments	11	**112,659**	155,085
Deferred tax liabilities	22	**12,391**	18,151
Provisions	21	**16,517**	17,624
Other	23	**3,669**	6,151
Total non-current liabilities		**2,085,998**	2,096,290
Total liabilities		**2,356,781**	2,680,803
Net assets		**5,007,326**	5,306,841
Equity			
Equity attributable to unitholders of the parent entity			
Contributed equity	24	**1,605,014**	1,798,077
Reserves	25	**(46,053)**	(103,670)
Retained profits	25	**197,380**	222,638
Parent entity unitholders' interest		**1,756,341**	1,917,045
Equity attributable to unitholders of other stapled entities (non-controlling interests)			
Contributed equity	24	**3,156,465**	3,014,665
Reserves	25	**53,239**	68,566
Retained profits	25	**41,281**	102,537
Other stapled unitholders' interest		**3,250,985**	3,185,768
Stapled security holders' interest		**5,007,326**	5,102,813
Other non-controlling interest	26	**-**	204,028
Total equity		**5,007,326**	5,306,841

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 2012

	Note	Contributed equity	Retained profits	Foreign currency translation reserve	Asset revaluation reserve	Security-based payments reserve	Stapled security-holders' equity	Other non-controlling interest	Total equity
		Stapled security holders equity							
		$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Opening balance as at 1 July 2010		4,798,214	33,186	(72,967)	42,739	-	4,801,172	205,275	5,006,447
Profit for the year attributable to:									
Unitholders of the parent entity		-	182,368	-	-	-	182,368	-	182,368
Other stapled entities (non-controlling interests)		-	370,644	-	-	-	370,644	-	370,644
Other non-controlling interest		-	-	-	-	-	-	2,011	2,011
Profit for the year		-	553,012	-	-	-	553,012	2,011	555,023
Other comprehensive (loss)/income for the year attributable to:									
Unitholders of the parent entity		-	-	(29,088)	-	-	(29,088)	-	(29,088)
Other stapled entities (non-controlling interests)		-	-	24,212	-	-	24,212	-	24,212
Total other comprehensive loss for the year		-	-	(4,876)	-	-	(4,876)	-	(4,876)
Transactions with owners in their capacity as owners									
Contributions of equity, net of transaction costs		14,528	-	-	-	-	14,528	(991)	13,537
Distributions paid or provided for	27	-	(250,662)	-	-	-	(250,662)	(12,628)	(263,290)
Total transactions with owners in their capacity as owners		14,528	(250,662)	-	-	-	(236,134)	(13,619)	(249,753)
Transfer (from)/to retained profits		-	(10,361)	-	-	-	(10,361)	10,361	-
Closing balance as at 30 June 2011		4,812,742	325,175	(77,843)	42,739	-	5,102,813	204,028	5,306,841

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

		Stapled security holders equity							
	Note	Contributed equity $'000	Retained profits $'000	Foreign currency translation reserve $'000	Asset revaluation reserve $'000	Security-based payments reserve $'000	Stapled security-holders' equity $'000	Other non-controlling interest $'000	Total equity $'000
Opening balance as at 1 July 2011		4,812,742	325,175	(77,843)	42,739	-	5,102,813	204,028	5,306,841
Profit for the year attributable to:									
Unitholders of the parent entity		-	81,475	-	-	-	81,475	-	81,475
Other stapled entities (non-controlling interests)		-	99,595	-	-	-	99,595	-	99,595
Other non-controlling interest		-	-	-	-	-	-	1,811	1,811
Profit for the year		-	181,070	-	-	-	181,070	1,811	182,881
Other comprehensive income/(loss) for the year attributable to:									
Unitholders of the parent entity		-	-	57,670	-	-	57,670	-	57,670
Other stapled entities (non-controlling interests)		-	-	(15,806)	-	-	(15,806)	-	(15,806)
Total other comprehensive income		-	-	41,864	-	-	41,864	-	41,864
Transactions with owners in their capacity as owners									
Buy back of contributed equity, net of transaction costs		(50,950)	-	-	-	-	(50,950)	-	(50,950)
Capital payments and capital contributions, net of transaction costs		(313)	-	-	-	-	(313)	-	(313)
Acquisition of non-controlling interest		-	-	-	-	-	-	(204,000)	(204,000)
Security-based payments expense	38	-	-	-	-	426	426	-	426
Distributions paid or provided for	27	-	(257,408)	-	-	-	(257,408)	(12,015)	(269,423)
Total transactions with owners in their capacity as owners		(51,263)	(257,408)	-	-	426	(308,245)	(216,015)	(524,260)
Transfer (from)/to retained profits		-	(10,176)	-	-	-	(10,176)	10,176	-
Closing balance as at 30 June 2012		4,761,479	238,661	(35,979)	42,739	426	5,007,326	-	5,007,326

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 2012

	Note	2012 $'000	2011 $'000
Cash flows from operating activities			
Receipts in the course of operations (inclusive of GST)		854,518	797,297
Payments in the course of operations (inclusive of GST)		(365,050)	(332,682)
Interest received		1,931	1,539
Finance costs paid to financial institutions		(157,719)	(169,484)
Distributions received from associates accounted for using the equity method		7,539	-
Income and withholding taxes (paid)/received		(1,109)	118
Proceeds from sale of property classified as inventory		53,206	-
Payments for property classified as inventory		(44,925)	(57,446)
Net cash inflow from operating activities	35(a)	348,391	239,342
Cash flows from investing activities			
Proceeds from sale of investment properties		883,604	170,547
Payments for capital expenditure on investment properties	35(b)	(177,600)	(291,917)
Payments for acquisition of investment properties		(34,730)	(41,083)
Payments for acquisition of investments net of cash		-	(872)
Payments for investments accounted for using the equity method		(8,565)	(61,726)
Payments for property, plant and equipment		(3,142)	(1,988)
Net cash inflow/(outflow) from investing activities		659,567	(227,039)
Cash flows from financing activities			
Proceeds from borrowings		2,628,212	2,245,856
Repayment of borrowings		(3,123,096)	(1,999,591)
Payments for buy back of contributed equity		(50,950)	-
Capital contribution and capital payment transaction costs		(313)	-
Acquisition of non-controlling interest		(204,000)	-
Distributions paid to security holders		(254,533)	(228,913)
Distributions paid to other non-controlling interests		(15,157)	(12,403)
Net cash (outflow)/inflow from financing activities		(1,019,837)	4,949
Net (decrease)/increase in cash and cash equivalents		(11,879)	17,252
Cash and cash equivalents at the beginning of the year		73,746	64,419
Effects of exchange rate changes on cash and cash equivalents		(2,674)	(7,925)
Cash and cash equivalents at the end of the year	7	59,193	73,746

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

Note 1

Summary of significant accounting policies

(a) Basis of preparation

In accordance with Australian Accounting Standards, the entities within the Group must be consolidated. The parent entity and deemed acquirer of DIT, DOT and DXO is DDF. These Financial Statements represent the consolidated results of DDF, which comprises DDF and its controlled entities, DIT and its controlled entities, DOT and its controlled entities, and DXO and its controlled entities. Equity attributable to other trusts stapled to DDF is a form of non-controlling interest and represents the equity of DIT, DOT and DXO. Other non-controlling interests represent the equity attributable to parties external to the Group.

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

DEXUS Funds Management Limited (DXFM) as Responsible Entity for DDF, DIT, DOT and DXO may only unstaple the Group if approval is obtained by a special resolution of the stapled security holders.

These general purpose Financial Statements for the year ended 30 June 2012 have been prepared in accordance with the requirements of the Constitution of the entities within the Group, the *Corporations Act 2001*, Australian Accounting Standards and other authoritative pronouncements of the Australia Accounting Standards Board and interpretations. Compliance with Australian Accounting Standards ensures that the Financial Statements and notes also comply with International Financial Reporting Standards (IFRS).

These Financial Statements are prepared on a going concern basis and in accordance with historical cost conventions and have not been adjusted to take account of either changes in the general purchasing power of the dollar or changes in the values of specific assets, except for the valuation of certain non-current assets and financial instruments (refer notes 1(e), 1(l), 1(o), 1(q), 1(v), 1(w), and 1(aa)).

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

Critical accounting estimates

The preparation of Financial Statements requires the use of certain critical accounting estimates and management to exercise its judgement in the process of applying the Group's accounting policies. Other than the estimations described in notes 1(e), 1(l), 1(o), 1(q), 1(v), 1(w) and 1(aa), 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 property valuations

The fair value of our investment properties in the United States and Europe have 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 the 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.

Note 1

Summary of significant accounting policies (continued)

(b) Principles of consolidation

(i) Controlled entities

The Financial Statements have been prepared on a consolidated basis in recognition of the fact that while the securities issued by the Group are stapled into one trading security and cannot be traded separately, the Financial Statements must be presented on a consolidated basis. The parent entity and deemed acquirer of the Group is DDF. The accounting policies of the subsidiaries are consistent with those of the parent.

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

The Financial Statements incorporate an elimination of inter-entity transactions and balances to present the Financial Statements on a consolidated basis. Net profit and equity in controlled entities, which is attributable to the 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 Group's share of the results and assets of this partnership or joint venture are consolidated into the Statement of Comprehensive Income and Statement of Financial Position of the Group. Where assets are jointly controlled via ownership of units in single purpose unlisted unit trusts or shares in companies, the Group applies equity accounting to record the operations of these investments (refer note 1(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. 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 Group.

(ii) Borrowing costs

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

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

(e) Derivatives and other financial instruments

(i) Derivatives

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

(ii) Debt and equity instruments issued by the Group

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

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

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

Note 1

Summary of significant accounting policies (continued)

(e) Derivatives and other financial instruments (continued)

(iii) Financial guarantee contracts

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

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

(iv) Other financial assets

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

(f) Goods and services tax/value added tax

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

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

(g) Taxation

Under current Australian income tax legislation, DDF, DIT and DOT are not liable for income tax provided they satisfy certain legislative requirements. The Group may be liable for income tax in jurisdictions where foreign property is held (i.e. United States, France, Germany, and New Zealand).

DXO is subject to Australian income tax as follows:

- 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.

Note 1

Summary of significant accounting policies (continued)

(g) Taxation (continued)

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

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

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

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

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

DOT NZ Sub-Trust No. 1, a wholly owned Australian sub-trust of DOT, is liable for New Zealand corporate tax on its New Zealand taxable income at the rate of 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 end of the reporting period, where required.

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

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

(h) Distributions

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

(i) Repairs and maintenance

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

(j) Cash and cash equivalents

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

Note 1

Summary of significant accounting policies (continued)

(k) Receivables

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

(l) Inventories

Land and properties held for resale

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

Net realisable value

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

(m) Non-current assets held for sale

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) Other financial assets at fair value through profit and loss

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

(o) 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 Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the Statement of Comprehensive Income during the reporting period in which they are incurred.

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)).

(p) 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)	5-40 years
IT and office equipment	3-5 years

Note 1

Summary of significant accounting policies (continued)

(q) Investment properties

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

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

External valuations of the individual investment properties are carried out in accordance with the Constitutions for each trust forming the Group or may be earlier where the Responsible Entity believes there is a potential for a material change in the fair value of the property.

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

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

(r) Leasing fees

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

(s) 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.

(t) Investments accounted for using the equity method

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

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

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

Note 1

Summary of significant accounting policies (continued)

(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.

The carrying value of the goodwill is tested for impairment at the end of each reporting period with any decrement in value taken to the Statement of Comprehensive Income as an expense.

(ii) Management rights

Management rights represent the asset management rights owned by the Group which entitle it to management fee revenue from both finite and indefinite life trusts. Those rights that are deemed to have a finite useful life are measured at cost and amortised using the straight-line method over their estimated remaining useful lives of 20 years. Management rights with indefinite useful lives are not subject to amortisation and are tested for impairment annually.

(w) Financial assets and liabilities

(i) Classification

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

Financial asset/liability	Classification	Valuation basis	Reference
Receivables	Loans and receivables	Amortised cost	Refer note 1(k)
Other financial assets	Loans and receivables	Amortised cost	Refer note 1(e)
Payables	Financial liability at amortised cost	Amortised cost	Refer note 1(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.

Note 1

Summary of significant accounting policies (continued)

(w) 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 Group is the current bid price. The appropriate quoted market price for financial liabilities is the current ask price.

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

(x) Payables

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

(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 Group has an unconditional right to defer the liability for at least 12 months after the reporting date.

(z) Foreign currency

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

(i) Foreign currency transactions

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

(ii) Foreign operations

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

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

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

Note 1

Summary of significant accounting policies (continued)

(aa) Employee benefits

(i) Wages, salaries and annual leave

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

(ii) Long service leave

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

The provision is calculated using expected future increases in wage and salary rates including related on-costs and expected settlement dates based on turnover history and is discounted using the rates attaching to national government bonds at the end of the reporting period that most closely matches the term of the maturity of the related liabilities. The unwinding of the discount is treated as long service leave expense.

(iii) Security-based payments

Security-based employee benefits will be provided to eligible participants via the DEXUS Transitional Performance Rights Plan ('the Plan'). Information relating to this Plan is set out in note 38.

Under the Plan, participating employees will be granted a certain number of performance rights which will vest into DXS stapled securities at no cost, if certain vesting conditions are satisfied.

The fair value of performance rights granted is recognised as an employee benefit expense with a corresponding increase in the security-based payments reserve in equity. The total amount to be expensed is determined by reference to the fair value of the performance rights granted. Fair value is determined independently using Black-Scholes and Binomial pricing models with reference to the expected life of the rights, security price at grant date, expected price volatility of the underlying security, expected distribution yield and the risk free interest rate for the term of the rights.

Non-market vesting conditions are included in assumptions about the number of performance rights that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each period, the Group revises its estimates of the number of performance rights that are expected to vest based on the non-market vesting conditions. The impact of the revised estimates, if any, is recognised in profit or loss with a corresponding adjustment to equity.

When performance rights vest, the Group will arrange for the delivery or allocation of the appropriate number of securities to the participant.

(ab) Earnings per unit

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

Diluted earnings per unit are adjusted from the basic earnings per unit by taking into account the impact of dilutive potential units. The Group did not have such dilutive potential units during the year.

(ac) Operating segments

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

(ad) Rounding of amounts

The Group is the kind referred to in Class Order 98/0100, issued by the Australian Securities & Investments Commission, relating to the rounding off of amounts in the Financial Statements. Amounts in the Financial Statements have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

Note 1

Summary of significant accounting policies (continued)

(ae) Parent entity financial information

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

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

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

(af) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for the 30 June 2012 reporting period. Our assessment of the impact of these new standards and interpretations is set out below:

AASB 2012-3 *Amendments to Australian Accounting Standard - Offsetting Financial Assets and Financial Liabilities* and AASB 2012-2 *Disclosures - Offsetting Financial Assets and Financial Liabilities* (effective 1 July 2014 and 1 July 2013 respectively).

In June 2012, the AASB approved amendments to the application guidance in AASB 132 *Financial Instruments: Presentation*, to clarify some of the requirements for offsetting financial assets and financial liabilities in the Financial Statements. These amendments are effective from 1 July 2014. They are unlikely to affect the accounting for any of the Group's current offsetting arrangements. The AASB has also introduced more extensive disclosure requirements into AASB 7 which will apply from 1 July 2013. The Group intends to apply the new rules from 1 July 2013 and does not expect any significant impacts.

AASB 2012-5 *Amendments to Australian Accounting Standard arising from Annual Improvements 2009-2011 cycle* (effective 1 July 2013).

In June 2012, the AASB approved a number of amendments to Australian Accounting Standards as a result of the 2009-2011 annual improvements project. The Group will apply the amendments from 1 July 2013 and does not expect any significant impacts.

AASB 9 *Financial Instruments* 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 Group intends to apply the standards from 1 July 2013 and does not expect any significant impacts.

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 Group intends to apply the standard from 1 July 2012 and does not expect any significant impacts.

AASB 2011-4 *Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements* (effective 1 July 2013)

In July 2011 the AASB decided to remove the individual KMP disclosure requirements from AASB 124 *Related Party Disclosures*, to achieve consistency with the international equivalent standard and remove a duplication of the requirements with the *Corporations Act 2001*. While this will reduce the disclosures that are currently required in the Notes to the Financial Statements, it will not affect any of the amounts recognised in the Financial Statements. The amendments apply from 1 July 2013 and cannot be adopted early.

Note 1

Summary of significant accounting policies (continued)

(af) New accounting standards and interpretations (continued)

AASB 10 *Consolidated financial statements* (effective 1 January 2013).
AASB 10 replaces all of the guidance on control and consolidation in AASB 127 *Consolidated and separate financial statements*, and SIC-12 *Consolidation – special purpose entities*. The standard introduces a single definition of control that applies to all entities. It focuses on the need to have both power and rights or exposure to variable returns before control is present. The Group intends to apply the standard from 1 July 2013 and does not expect any significant impacts.

AASB 11 *Joint Arrangements* (effective 1 January 2013).
AASB 11 introduces a principles based approach to accounting for joint arrangements. The focus is no longer on the legal structure of joint arrangements, but rather on how rights and obligations are shared by the parties to the joint arrangement. Based on the assessment of rights and obligations, a joint arrangement will be classified as either a joint operation or joint venture. Joint ventures are accounted for using the equity method, and the choice to proportionately consolidate will no longer be permitted. The Group intends to apply the standard from 1 July 2013 and does not expect any significant impacts.

AASB 12 *Disclosure of interests in other entities* (effective 1 January 2013).
AASB 12 sets out the required disclosures for entities reporting under the two new standards, AASB 10 and AASB 11, and replaces the disclosure requirements currently found in AASB 128. Application of this standard will not affect any of the amounts recognised in the Financial Statements, but may impact some of the Group's current disclosures. The Group intends to apply the standard from 1 July 2013.

AASB 128 *Investments in associates and joint ventures* (effective 1 January 2013).
Amendments to AASB 128 provide clarification that an entity continues to apply the equity method and does not remeasure its retained interest as part of ownership changes where a joint venture becomes an associate, and vice versa. The Group intends to apply the standard from 1 July 2013 and does not expect any significant impacts.

AASB 13 *Fair value measurement* (effective 1 January 2013).
AASB 13 explains how to measure fair value and aims to enhance fair value disclosures. Application of this standard will not affect any of the amounts recognised in the Financial Statements, but may impact some of the Group's current disclosures. The Group intends to apply the standard from 1 July 2013.

Revised AASB 101 *Presentation of Financial Statements* (effective 1 July 2012)
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 Group intends to adopt the new standard from 1 July 2012.

Note 2

Property revenue

	2012 $'000	2011 $'000
Rent and recoverable outgoings	**681,166**	648,421
Incentive amortisation	**(63,003)**	(58,732)
Other revenue	**35,419**	39,383
Total property revenue	**653,582**	629,072

Note 3

Finance costs

	2012 $'000	2011 $'000
Interest paid/payable	**135,297**	124,427
Amount capitalised	**(22,458)**	(60,955)
Other finance costs	**5,169**	4,444
Net fair value loss/(gain) of interest rate swaps	**99,561**	(15,172)
	217,569	52,744
Finance costs attributable to US sales transaction[1]	**44,300**	-
Total finance costs	**261,869**	52,744

1 As a result of the US sales transaction on 21 June 2012, debt was repaid and associated finance costs, that are incremental to the costs that would ordinarily be incurred by the Group, were recognised in the Statement of Comprehensive Income. These costs include the cost of early repayment of debt, restructure of derivatives and accelerated deferred borrowing costs.

The average capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation is 7.70% (2011: 7.74%).

Note 4
Income tax

(a) Income tax benefit

	Note	2012 $'000	2011 $'000
Current tax benefit/(expense)		**1,065**	(97)
Deferred tax benefit		**19,066**	4,948
Total income tax benefit		**20,131**	4,851
Deferred income tax benefit included in income tax benefit comprises:			
Increase in deferred tax assets	16	**8,677**	11,803
Decrease/(increase) in deferred tax liabilities	22	**10,389**	(6,855)
Total deferred tax benefit		**19,066**	4,948

(b) Reconciliation of income tax expense to net profit

	2012 $'000	2011 $'000
Profit before tax	**199,407**	576,433
Less amounts not subject to income tax (note 1(g))	**(261,463)**	(614,379)
	(62,056)	(37,946)
Prima facie tax benefit at the Australian tax rate of 30% (2011: 30%)	**18,617**	11,384
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Depreciation and amortisation	**905**	1,342
Movements in the carrying value and tax cost base of properties	**5,101**	(7,886)
Net (loss)/gain on sale of investment properties	**(4,606)**	26
Sundry items	**114**	(15)
	1,514	(6,533)
Income tax benefit	**20,131**	4,851

(c) Withholding tax expense

Withholding tax expense of $36,657,000 (2011: $26,164,000) comprises deferred tax expense of $34,164,000 (2011: $23,592,000) and current tax expense of $2,493,000 (2011: $2,572,000). The deferred tax expense is recognised on differences between the tax cost base of the US assets and liabilities and their accounting carrying value at the end of the reporting period. The majority of the deferred tax expense arises due to the tax depreciation and revaluation of US investment properties, the reversal of deferred tax assets associated with the US asset sale, and the mark-to-market of derivatives.

Note 5

Other expenses

	Note	2012 $'000	2011 $'000
Audit and taxation fees	6	**2,036**	2,264
Custodian fees		**411**	474
Legal and other professional fees		**1,917**	1,542
Registry costs and listing fees		**705**	651
Occupancy expenses		**3,054**	2,881
Administration expenses		**3,830**	4,101
Other staff expenses		**1,990**	2,528
External management fees		**-**	2,799
Other expenses		**4,664**	5,053
Total other expenses		**18,607**	22,293

Note 6

Audit, taxation and transaction services fees

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

	2012 $	2011 $
Audit fees		
PwC Australia - audit and review of Financial Statements	**1,220,819**	1,068,066
PwC US - audit and review of Financial Statements[1]	**-**	278,057
PwC fees paid in relation to outgoings audits[2]	**102,793**	107,361
PwC Australia - regulatory audit and compliance services	**176,925**	170,816
PwC Australia - audit and review of US asset disposals[3]	**115,000**	-
Audit fees paid to PwC	**1,615,537**	1,624,300
Fees paid to non-PwC audit firms	**52,691**	57,874
Total audit fees	**1,668,228**	1,682,174
Taxation fees		
Fees paid to PwC Australia	**69,560**	188,539
Fees paid to PwC NZ	**17,068**	12,670
Fees paid to PwC US	**-**	3,103
Fees paid to PwC Australia is respect of US asset disposals[3]	**45,000**	-
Taxation fees paid to PwC	**131,628**	204,312
Fees paid to non-PwC audit firms	**498,635**	484,384
Total taxation fees[4]	**630,263**	688,696
Total audit and taxation fees[5]	**2,298,491**	2,370,870
Transaction services fees		
Fees paid to PwC Australia	**110,000**	243,557
Transaction services fees paid to PwC	**110,000**	243,557
Fees paid to non-PwC audit firms	**-**	52,432
Total transaction services fees	**110,000**	295,989
Total audit, taxation and transaction services fees	**2,408,491**	2,666,859

1 PwC Australia were engaged for the audit and review of the US entities for the year ended 30 June 2012.
2 Fees paid in relation to outgoing audits are included in property expenses in the Statement of Comprehensive Income.
3 Fees paid in relation to US asset disposals are included in loss on sale of investment properties in the Statement of Comprehensive Income.
4 These services include general compliance work, one off project work and advice.
5 After allowing for the impact of footnotes 2 and 3 above, total audit and taxation fees included in other expenses is $2,035,698 (2011: $2,263,509).

Note 7

Current assets - cash and cash equivalents

	2012 $'000	2011 $'000
Cash at bank	**20,752**	28,039
Short-term deposits[1]	**38,441**	45,707
Total current assets - cash and cash equivalents	**59,193**	73,746

1 As at 30 June 2012, the Group held US$25.2 million (A$24.7 million) in escrow in relation to the US asset disposals in June 2012.

As at 30 June 2011, the Group held C$34.7 million (A$33.4 million) in escrow in relation to the sale of its Canadian asset in June 2011. These funds were released during the year ended 30 June 2012.

Note 8

Current assets - receivables

	2012 $'000	2011 $'000
Rent receivable	**7,469**	9,203
Less: provision for doubtful debts	**(901)**	(3,112)
Total rental receivables	**6,568**	6,091
Fees receivable	**9,873**	9,354
Interest receivable	**94**	282
Other receivables	**14,307**	20,448
Total other receivables	**24,274**	30,084
Total current assets - receivables	**30,842**	36,175

Note 9

Non-current assets classified as held for sale

(a) Non-current assets held for sale

	2012 $'000	2011 $'000
Investment properties held for sale	**212,264**	59,260
Total non-current assets classified as held for sale	**212,264**	59,260

(b) Reconciliation

	Note	2012 $'000	2011 $'000
Opening balance at the beginning of the year		**59,260**	18,068
Disposals		**(34,938)**	(15,674)
Transfer from investment properties[1]	13	**187,375**	59,260
Foreign exchange differences on foreign currency translation		**(2,015)**	(2,445)
Net fair value gain of investment properties held for sale		**1,550**	-
Additions, amortisation and other		**1,032**	51
Closing balance at the end of the year		**212,264**	59,260

1 On 30 June 2012, 114-120 Old Pittwater Road, Brookvale NSW was transferred from investment properties to non-current assets held for sale with an intention to sell.
On 30 June 2012, 50% of an industrial portfolio consisting of assets at DEXUS Industrial Estate Laverton North VIC, Altona North VIC and Quarry Greystanes NSW was transferred from investment properties to non-current assets held for sale with an intention to sell.
On 30 June 2012, a parcel of land at Quarry Greystanes NSW was transferred from investment properties to non-current assets held for sale with an intention to sell.

Disposals

- On 16 September 2011, Schillerstraße 51, Ellhofen was disposed of for gross proceeds of €6.8 million (A$9.4 million).
- On 16 September 2011, Schillerstraße 42, 42a & Bahnhofstraße 44, 50, Ellhofen was disposed of for gross proceeds of €4.0 million (A$5.5 million).
- On 16 September 2011, Sulmstraße, Ellhofen-Weinsberg was disposed of for gross proceeds of €9.8 million (A$13.6 million).
- On 30 December 2011, Niedesheimerstraße 24, Worms was disposed of for gross proceeds of €2.5 million (A$3.1 million).
- On 26 June 2012, Über der Dingelstelle, Langenweddingen was disposed of for gross proceeds of €2.9 million (A$3.6 million).

Note 10
Inventories

(a) Land and properties held for resale

	2012 $'000	2011 $'000
Current assets		
Land and properties held for resale	**26,841**	7,991
Total current assets - inventories	**26,841**	7,991
Non-current assets		
Land and properties held for resale	**70,990**	104,247
Total non-current assets - inventories	**70,990**	104,247
Total assets - inventories	**97,831**	112,238

(b) Reconciliation

	Note	2012 $'000	2011 $'000
Opening balance at the beginning of the year		**112,238**	45,470
Transfer (to)/from investment properties[1]	13	**(7,035)**	6,448
Disposals		**(43,998)**	(3,353)
Impairment		**(14,846)**	-
Acquisitions, additions and other		**51,472**	63,673
Closing balance at the end of the year		**97,831**	112,238

1 On 30 June 2012, 50% of Boundary Road Laverton VIC – Fastline, was transferred from inventories to investment properties with an intention to hold.

Acquisitions

- On 29 November 2011, undeveloped land was acquired at 3676 Ipswich Rd, Wacol QLD.
- On 29 June 2012, undeveloped land was acquired at 57-75 Templar Road, Erskine Park NSW.

Disposals

- On 21 July 2011, two lots located at Templar Road, Erskine Park NSW were disposed of for gross proceeds of $10.1 million.
- On 27 October 2011, a 6,534sqm development for Loscam at Foundation Drive, Laverton VIC was disposed of for gross proceeds of $11.7 million.
- On 15 June 2012, 94-106 Lenore Drive, Erskine Park NSW was disposed of for gross proceeds of $28.0 million.

Note 11

Derivative financial instruments

	2012 $'000	2011 $'000
Current assets		
Interest rate swap contracts	**1,284**	3,336
Cross currency swap contracts	**-**	17,583
Forward foreign exchange contracts	**2,333**	2,193
Total current assets - derivative financial instruments	**3,617**	23,112
Non-current assets		
Interest rate swap contracts	**74,655**	71,765
Cross currency swap contracts	**-**	3,198
Forward foreign exchange contracts	**-**	2,145
Total non-current assets - derivative financial instruments	**74,655**	77,108
Current liabilities		
Interest rate swap contracts	**8,155**	4,675
Forward foreign exchange contracts	**88**	325
Total current liabilities - derivative financial instruments	**8,243**	5,000
Non-current liabilities		
Interest rate swap contracts	**112,544**	154,677
Cross currency swap contracts	**115**	408
Total non-current liabilities - derivative financial instruments	**112,659**	155,085
Net derivative financial instruments	**(42,630)**	(59,865)

Refer note 29 for further discussion regarding derivative financial instruments.

Note 12

Current assets - other

	2012 $'000	2011 $'000
Prepayments	**10,646**	11,396
Total current assets - other	**10,646**	11,396

Note 13

Non-current assets – investment properties

(a) Properties	Ownership %	Acquisition date	Independent valuation date	Independent valuation amount $'000	Independent valuer	Book value 30 Jun 2012 $'000	Book value 30 Jun 2011 $'000
Kings Park Industrial Estate, Bowmans Road, Marayong, NSW	100	May 1990	Dec 2009	88,000	(i)	**89,009**	88,660
Target Distribution Centre, Lot 1, Tara Avenue, Altona North, VIC[1,2]	100	Oct 1995	Jun 2011	16,250	(i)	**16,300**	32,500
Axxess Corporate Park, Mount Waverley, VIC	100	Oct 1996	Jun 2010	179,400	(g)	**182,838**	181,249
Knoxfield Industrial Estate, 20 Henderson Road, Knoxfield, VIC	100	Aug 1996	Jun 2011	37,600	(g)	**37,704**	37,600
12 Frederick Street, St Leonards, NSW	100	Jul 2000	Jun 2011	33,500	(a)	**33,873**	33,500
2 Alspec Place, Eastern Creek, NSW	100	Mar 2004	Dec 2011	24,900	(d)	**24,900**	24,328
108-120 Silverwater Road, Silverwater, NSW	100	May 2010	n/a	n/a	n/a	**24,300**	25,931
40 Talavera Road, North Ryde, NSW	100	Oct 2002	Dec 2011	31,500	(g)	**29,000**	27,981
44 Market Street, Sydney, NSW	100	Sep 1987	Jun 2010	192,700	(d)	**217,692**	207,000
8 Nicholson Street, Melbourne, VIC	100	Nov 1993	Jun 2012	93,500	(a)	**93,500**	80,162
130 George Street, Parramatta, NSW	100	May 1997	Dec 2010	77,000	(f)	**77,200**	79,460
Flinders Gate Complex, 172 Flinders Street & 189 Flinders Lane, Melbourne, VIC	100	Mar 1999	Jun 2011	28,500	(e)	**28,100**	28,500
383-395 Kent Street, Sydney, NSW	100	Sep 1987	Dec 2011	133,000	(a)	**133,964**	127,225
14 Moore Street, Canberra, ACT**	100	May 2002	Jun 2010	37,000	(i)	**27,600**	33,000
Sydney CBD Floor Space[3]	100	Jul 2000	Dec 2011	129	(a)	**129**	129
34-60 Little Collins Street, Melbourne, VIC**	100	Nov 1984	Jun 2011	39,200	(i)	**39,259**	39,200
32-44 Flinders Street, Melbourne, VIC	100	Jun 1998	Jun 2011	29,500	(e)	**29,932**	29,500
Flinders Gate Carpark, 172-189 Flinders Street, Melbourne, VIC	100	Mar 1999	Jun 2011	54,000	(e)	**54,000**	54,000
383-395 Kent Street Car Park, Sydney, NSW	100	Sep 1987	Dec 2011	64,000	(a)	**64,000**	60,000
123 Albert St, Brisbane, QLD[4]	100	Oct 1984	Jun 2012	375,500	(d)	**375,500**	-
2 - 4 Military Rd, Matraville, NSW	100	Dec 2009	Jun 2012	52,900	(i)	**52,900**	48,902
79-99 St Hilliers Road, Auburn, NSW	100	Sep 1997	Dec 2011	37,500	(g)	**37,522**	37,400
3 Brookhollow Avenue, Baulkham Hills, NSW	100	Dec 2002	Jun 2012	42,000	(f)	**42,000**	40,112
1 Garigal Road, Belrose, NSW	100	Dec 1998	Jun 2012	16,300	(a)	**16,300**	20,500
2 Minna Close, Belrose, NSW	100	Dec 1998	Jun 2012	24,000	(a)	**24,000**	27,312
114 - 120 Old Pittwater Road, Brookvale, NSW[5]	100	Sep 1997	Dec 2011	45,500	(a)	**-**	44,128

1 50% classified as investment property held for sale at 30 June 2012.
2 The valuation reflects 50% of the independent valuation amount.
3 Heritage floor space retained following the disposal of 1 Chifley Square, Sydney.
4 Classified as development property held as investment property at 30 June 2011.
5 Classified as investment property held for sale at 30 June 2012.

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

Note 13

Non-current assets – investment properties (continued)

(a) Properties (continued)	Ownership	Acquisition date	Independent valuation date	Independent valuation amount	Independent valuer	Book value 30 Jun 2012	Book value 30 Jun 2011
	%			$'000		$'000	$'000
145 - 151 Arthur Street, Flemington, NSW	100	Sep 1997	Jun 2011	28,000	(f)	**28,472**	28,000
436 - 484 Victoria Road, Gladesville, NSW	100	Sep 1997	Dec 2011	41,500	(e)	**41,676**	43,500
1 Foundation Place, Greystanes, NSW	100	Feb 2003	Jun 2010	41,500	(f)	**43,255**	43,000
5 - 15 Roseberry Avenue & 25 - 55 Rothschild Avenue, Rosebery, NSW	100	Apr 1998	Dec 2010	89,000	(f)	**90,840**	89,756
10 - 16 South Street, Rydalmere, NSW	100	Sep 1997	Jun 2011	39,250	(g)	**40,701**	39,250
Pound Road West, Dandenong, VIC	100	Jan 2004	Jun 2012	72,000	(f)	**74,454**	75,300
DEXUS Industrial Estate, Boundary Road, Laverton North, VIC[1,2]	100	Jul 2002	Jun 2012	36,200	(i)	**36,875**	73,200
12-18 Distribution Drive, Laverton North, VIC	50	Jul 2002	Jun 2010	48,000	(g)	**50,437**	50,193
250 Forest Road, South Lara, VIC	100	Dec 2002	Jun 2012	52,300	(e)	**52,300**	50,000
15 - 23 Whicker Road, Gillman, SA	100	Dec 2002	Dec 2010	25,500	(a)	**27,300**	28,800
25 Donkin Street, Brisbane, QLD	100	Dec 1998	Dec 2010	27,000	(f)	**29,400**	26,200
52 Holbeche Road, Arndell Park, NSW	100	Jul 1998	Jun 2012	12,500	(f)	**12,500**	12,500
30 - 32 Bessemer Street, Blacktown, NSW	100	May 1997	Jun 2011	16,250	(e)	**15,606**	16,250
27 - 29 Liberty Road, Huntingwood, NSW	100	Jul 1998	Dec 2010	8,000	(i)	**8,026**	8,000
154 O'Riordan Street, Mascot, NSW	100	Jun 1997	Jun 2011	13,750	(e)	**14,334**	13,750
11 Talavera Road, North Ryde, NSW	100	Jun 2002	Jun 2010	127,000	(g)	**147,856**	141,000
DEXUS Industrial Estate, Egerton Street, Silverwater, NSW	100	May 1997	Jun 2012	35,000	(g)	**35,000**	33,300
89 Egerton Street, Silverwater, NSW	100	May 1997	Jun 2012	4,000	(g)	**4,000**	6,900
114 Fairbank Road, Clayton, VIC	100	Jul 1997	Dec 2010	14,900	(f)	**15,208**	15,090
30 Bellrick Street, Acacia Ridge, QLD	100	Jun 1997	Jun 2010	19,600	(d)	**20,335**	20,300
Quarry Greystanes, NSW - Solaris[1,2]	100	Dec 2007	Dec 2011	12,625	(e)	**12,625**	24,502
Quarry Greystanes, NSW - Symbion[1,2]	100	Dec 2007	Jun 2012	16,050	(d)	**16,050**	30,411
Quarry Greystanes, NSW - Fujitsu[1,3]	100	Dec 2007	n/a	n/a	n/a	**20,000**	-
Quarry Greystanes, NSW - Camerons Transport[1,3]	100	Dec 2007	n/a	n/a	n/a	**14,900**	-
Boundary Road, Laverton, VIC - Fastline[1,3]	100	Jun 2010	n/a	n/a	n/a	**7,035**	-
Boundary Road, Laverton, VIC - Toll[1,3]	100	Jun 2010	n/a	n/a	n/a	**5,379**	-
Boundary Road, Laverton, VIC - ACFS[1,3]	100	Jun 2010	n/a	n/a	n/a	**5,870**	-
45 Clarence Street, Sydney, NSW	100	Dec 1998	Jun 2011	247,500	(f)	**250,301**	247,500

1 50% classified as investment property held for sale at 30 June 2012.
2 The valuation reflects 50% of the independent valuation amount.
3 Classified as development property held as investment property at 30 June 2011.

Note 13

Non-current assets – investment properties (continued)

(a) Properties (continued)	Ownership %	Acquisition date	Independent valuation date	Independent valuation amount $'000	Independent valuer	Book value 30 Jun 2012 $'000	Book value 30 Jun 2011 $'000
Governor Phillip Tower & Governor Macquarie Tower, 1 Farrer Place, Sydney, NSW[1]	50	Dec 1998	Dec 2010	643,000	(d)	**651,086**	645,443
309-321 Kent Street, Sydney, NSW[1]	50	Dec 1998	Jun 2012	191,000	(d)	**191,000**	184,308
1 Margaret Street, Sydney, NSW	100	Dec 1998	Dec 2011	173,500	(d)	**175,326**	170,863
Victoria Cross 60 Miller Street, North Sydney, NSW	100	Dec 1998	Jun 2011	135,000	(a)	**141,135**	135,000
The Zenith, 821-843 Pacific Highway, Chatswood, NSW[1]	50	Dec 1998	Jun 2010	107,500	(e)	**117,266**	112,953
Woodside Plaza, 240 St Georges Terrace, Perth, WA	100	Jan 2001	Jun 2012	460,000	(f)	**460,000**	441,000
30 The Bond, 30-34 Hickson Road, Sydney, NSW	100	May 2002	Dec 2010	145,000	(a)	**146,509**	145,455
Southgate Complex, 3 Southgate Avenue, Southbank, VIC	100	Aug 2000	Jun 2012	418,350	(i)	**418,350**	385,000
201-217 Elizabeth Street, Sydney, NSW[1]	50	Aug 2000	Jun 2011	144,000	(d)	**148,080**	144,000
Garema Court, 140-180 City Walk, Civic, ACT **	100	Aug 2000	Dec 2011	29,500	(a)	**48,800**	31,000
Australia Square Complex, 264-278 George Street, Sydney, NSW[1]	50	Aug 2000	Dec 2011	278,750	(f)	**271,500**	271,463
Non-core international properties[2]	n/a	n/a	n/a	n/a	n/a	**656,132**	1,380,799
Total investment properties excluding development properties						**6,297,441**	6,572,265
Total development properties held as investment property						**94,016**	533,649
Total investment properties						**6,391,457**	7,105,914

1 The valuation reflects 50% of the independent valuation amount.
2 Includes New Zealand, United States and European properties.
The title to all properties is freehold, with the exception of the properties marked ** which are leasehold.

(a) Colliers International
(b) Landmark White
(c) Cushman & Wakefield
(d) Jones Lang LaSalle
(e) Knight Frank
(f) FPD Savills
(g) m3property
(h) Weiser Realty Advisors (USA)
(i) CB Richard Ellis

Note 13

Non-current assets - investment properties (continued)

(a) Properties (continued)

Valuation basis

The basis of valuation of investment properties is fair value, being the amounts for which the assets could be exchanged between knowledgeable willing parties in an arm's length transaction, based on current prices in an active market for similar properties in the same location and condition and subject to similar leases. In relation to development properties under construction for future use as investment property, fair value is determined based on the market value of the property on the assumption it had already been completed at the valuation date less costs still required to complete the project, including an appropriate adjustment for profit and risk. Properties independently valued in the last 12 months were based on independent assessments by a member of the Australian Property Institute, the New Zealand Institute of Valuers, the Appraisal Institute in the United States of America, the French Real Estate Valuation Institution or the Society of Property Researchers, Germany.

Key valuation assumptions

The below table illustrates the key valuation assumptions used in the determination of the investment properties fair value.

2012	Australian office	Australian industrial	US industrial
Weighted average capitalisation rate (%)	**7.3**	**8.6**	**6.3**
Weighted average lease expiry by income (years)	**4.9**	**4.4**	**4.4**
Occupancy by income (%)	**96.8**	**92.8**	**98.2**

2011	Australian office	Australian industrial	US industrial
Weighted average capitalisation rate (%)	7.4	8.6	7.6
Weighted average lease expiry by income (years)	5.3	4.7	4.4
Occupancy by income (%)	95.3	95.1	87.9

Ten year discounted cash flows and capitalisation valuation methods are used together with active market evidence. In addition to the key assumptions set out in the table above, assumed portfolio downtime ranges from six to 12 months and tenant retention ranges from 50% to 75%.

Acquisitions

- On 6 July 2011, 6711 Valley View Street, La Palma, California was acquired for US$18.3 million (A$17.1 million), excluding acquisition costs.
- On 27 October 2011, 2250 Riverside Avenue, Colton, California was acquired for US$18.4 million (A$17.5 million), excluding acquisition costs.

Disposals

- On 14 September 2011, Tri-County 5, Tri-County Parkway, Schertz, San Antonio, Texas was disposed of for gross proceeds of US$1.8 million (A$1.8 million).
- On 16 September 2011, 2700 International Street, Columbus, Ohio was disposed of for gross proceeds of US$3.1 million (A$3.0 million).
- On 26 September 2011, 44633-44645 Guilford Road & 21641 Beaumeade Circle, Ashburn, Virginia was disposed of for gross proceeds of US$22.2 million (A$22.9 million).
- On 30 November 2011, Kopenhagenerstraße, Duisburg was disposed of for gross proceeds of €18.9 million (A$25.1 million).
- On 30 November 2011, Theodorstraße, Düsseldorf was disposed of for gross proceeds of €14.5 million (A$19.3 million).
- On 23 December 2011, 9842 International Boulevard, Cincinnati, Ohio was disposed of for gross proceeds of US$4.5 million (A$4.4 million).
- On 17 February 2012, 7700 68th Avenue, Brooklyn Park was disposed of for gross proceeds of US$3.0 million (A$2.8 million).

Note 13

Non-current assets - investment properties (continued)

(a) Properties (continued)

Disposals (continued)

- On 21 June 2012, 65 properties in the United States were disposed of for gross proceeds of US$770.0 million (A$771.1 million).
- On 26 June 2012, Im Gewerbegebiet 18, Friedewald was disposed of for gross proceeds of €2.4 million (A$3.0 million).
- On 26 June 2012, Im Steinbruch 4, 6, Knetzgau was disposed of for gross proceeds of €4.8 million (A$5.9 million).
- On 26 June 2012, Carl-Leverkus-Straße 3-5 & Winkelsweg 182-184, Langenfeld was disposed of for gross proceeds of €4.9 million (A$6.0 million)
- On 26 June 2012, Schneiderstraße 82, Langenfeld 3 was disposed of for gross proceeds of €2.9 million (A$3.6 million).
- On 26 June 2012, Former Straße 6, Unna was disposed of for gross proceeds of €7.6 million (A$9.4 million).

(b) Reconciliation

	Note	2012 $'000	2011 $'000
Opening balance at the beginning of the year		**7,105,914**	7,146,397
Additions		**160,725**	267,455
Acquisitions		**35,175**	41,205
Lease incentives		**62,732**	85,439
Amortisation of lease incentives		**(62,672)**	(58,732)
Rent straightlining		**4,434**	(2,119)
Disposals		**(881,109)**	(141,674)
Transfer to non-current assets classified as held for sale[1]	9	**(187,375)**	(59,260)
Transfer from/(to) inventories[2]	10	**7,035**	(6,448)
Net fair value gain of investment properties		**73,677**	148,433
Foreign exchange differences on foreign currency translation		**72,921**	(314,782)
Closing balance at the end of the year		**6,391,457**	7,105,914

1 On 30 June 2012, 114-120 Old Pittwater Road, Brookvale NSW was transferred from investment properties to non-current assets held for sale with an intention to sell.
On 30 June 2012, 50% of an industrial portfolio consisting of assets at DEXUS Industrial Estate Laverton North VIC, Altona North VIC and Quarry Greystanes NSW was transferred from investment properties to non-current assets held for sale with an intention to sell.
On 30 June 2012, a parcel of land at Quarry Greystanes NSW was transferred from investment properties to non-current assets held for sale with an intention to sell.

2 On 30 June 2012, 50% of Boundary Road Laverton VIC – Fastline, was transferred from inventories to investment properties with an intention to hold.

(c) Investment properties pledged as security

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

Note 14

Non-current assets - plant and equipment

	2012 $'000	2011 $'000
Opening balance at the beginning of the year	**3,926**	5,264
Additions	**3,142**	1,988
Depreciation charge	**(2,386)**	(3,326)
Disposals - cost	**-**	(1,400)
Disposals - accumulated depreciation	**-**	1,400
Closing balance at the end of the year	**4,682**	3,926

	2012 $'000	2011 $'000
Cost	**14,811**	11,669
Accumulated depreciation	**(10,129)**	(7,743)
Net book value as at the end of the year	**4,682**	3,926

Plant and equipment comprises IT and office equipment.

Note 15

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

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

Information relating to this entity is set out below:

		Ownership interest			
		2012	2011	2012	2011
Name of entity	**Principal activity**	%	%	$'000	$'000
Bent Street Trust	Office property investment	**33.3**	33.3	**217,043**	200,356
Total non-current assets - investments accounted for using the equity method				**217,043**	200,356

The Bent Street Trust was formed in Australia.

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

	2012 $'000	2011 $'000
Opening balance at the beginning of the year	**200,356**	93,344
Units issued during the year	**8,565**	61,726
Interest acquired during the year	**1,264**	11,832
Share of net profit after tax[1]	**13,784**	34,053
Distributions received/receivable	**(6,926)**	(599)
Closing balance at the end of the year	**217,043**	200,356
Results attributable to investments accounted for using the equity method		
Operating profit before income tax	**13,784**	34,053
Operating profit after income tax	**13,784**	34,053
Less: Distributions received/receivable	**(6,926)**	(599)
	6,858	33,454
Retained profits/(accumulated losses) at the beginning of the year	**844**	(32,610)
Retained profits at the end of the year	**7,702**	844

1 Share of net profit after tax includes a fair value gain of $7.5 million (2011: $33.6 million) in relation to the Group's share of the Bligh Street investment property.

Note 15

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

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

The Group's share of aggregate profit, assets and liabilities of investments accounted for using the equity method are:

	2012 $'000	2011 $'000
Profit from ordinary activities after income tax expense	13,784	34,053
Assets	221,170	212,252
Liabilities	4,127	11,896
Share of expenditure commitments		
Capital commitments	12,447	646

Note 16

Non-current assets - deferred tax assets

	2012 $'000	2011 $'000
The balance comprises temporary differences attributable to:		
Investment properties	-	23,753
Derivative financial instruments	1,048	4,719
Tax losses	22,264	13,865
Employee provisions	12,229	12,229
Other	1,188	1,011
Total non-current assets - deferred tax assets	36,729	55,577
Movements		
Opening balance at the beginning of the year	55,577	79,927
Reversal of previous tax losses	-	(3,033)
Recognition of tax losses	8,399	13,865
Temporary differences	278	971
Credited to the Statement of Comprehensive Income	8,677	11,803
Movements in deferred withholding tax arising from:		
Temporary differences	(28,648)	(23,592)
Foreign currency translation	1,123	(12,561)
Charged to the Statement of Comprehensive Income	(27,525)	(36,153)
Closing balance at the end of the year	36,729	55,577

Note 17

Non-current assets - intangible assets

	2012 $'000	2011 $'000
Management rights		
Opening balance at the beginning of the year	**222,353**	223,000
Amortisation charge	**(418)**	(647)
Closing balance at the end of the year	**221,935**	222,353
Cost	**252,382**	252,382
Accumulated amortisation	**(2,644)**	(2,226)
Accumulated impairment	**(27,803)**	(27,803)
Total management rights	**221,935**	222,353
Goodwill		
Opening balance at the beginning of the year	**2,331**	2,525
Impairment	**(625)**	(194)
Closing balance at the end of the year	**1,706**	2,331
Cost	**2,998**	2,998
Accumulated impairment	**(1,292)**	(667)
Total goodwill	**1,706**	2,331
Total non-current assets - intangible assets	**223,641**	224,684

Management rights represent the asset management rights owned by DEXUS Holdings Pty Limited, a wholly owned subsidiary of DXO, which entitle it to management fee revenue from both finite life trusts and indefinite life trusts. Those rights that are deemed to have a finite useful life (held at a value of $5,686,657 (2011: $7,769,204)) are measured at cost and amortised using the straight-line method over their estimated remaining useful lives of 20 years. Management rights that are deemed to have an indefinite life are held at a value of $216,248,492 (2011: $214,584,150).

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.

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% (2011: 12.5%) was used incorporating an appropriate risk premium for a management business.
- The cash flows have been discounted at 9.3% (2011: 9.3%) based on externally published weighted average cost of capital for an appropriate peer group plus an appropriate premium for risk. A 0.25% (2011: 0.25%) decrease in the discount rate would increase the valuation by $2.4 million (2011: $2.3 million).

Note 18

Non-current assets - other

	2012 $'000	2011 $'000
Tenant bonds	913	1,097
Other	396	1,808
Total non-current assets - other	**1,309**	**2,905**

Note 19

Current liabilities - payables

	2012 $'000	2011 $'000
Trade creditors	38,985	41,806
Accruals	17,452	13,168
Amount payable to other non-controlling interests	-	3,142
Accrued capital expenditure	20,508	13,194
Prepaid income	16,215	15,487
GST payable	885	181
Accrued interest	14,439	21,938
Total current liabilities - payables	**108,484**	**108,916**

Note 20

Interest bearing liabilities

	Notes	2012 $'000	2011 $'000
Current			
Secured			
Bank loans	(d)	-	250,983
Total secured		-	250,983
Unsecured			
US senior notes		-	65,183
Total unsecured		-	65,183
Deferred borrowing costs		-	(389)
Total current liabilities - interest bearing liabilities		-	315,777
Non-current			
Secured			
Bank loans	(b),(c)	**75,459**	153,218
Total secured		**75,459**	153,218
Unsecured			
US senior notes		**493,674**	720,967
Bank loans	(a)	**1,046,660**	701,573
Medium term notes		**340,000**	340,000
Preference shares	(e)	**91**	86
Total unsecured		**1,880,425**	1,762,626
Deferred borrowing costs		**(15,122)**	(16,565)
Total non-current liabilities - interest bearing liabilities		**1,940,762**	1,899,279
Total interest bearing liabilities		**1,940,762**	2,215,056

Note 20

Interest bearing liabilities (continued)

Financing arrangements

Type of Facility	Note	Currency	Security	Maturity Date	2012 $'000 Utilised	2012 $'000 Facility Limit
US senior notes (144A)		US$	Unsecured	Oct-14 to Mar-21	366,110	366,110
US senior notes (USPP)		US$	Unsecured	Dec-14 to Mar-17	127,564	127,564
Medium term notes		A$	Unsecured	Jul-14 to Apr-17	340,000	340,000
Multi-option revolving credit facilities	(a)	Multi Currency	Unsecured	Sept-13 to Jul-17	1,046,660	1,620,623
Bank debt - secured	(c)	US$	Secured	Jun-17 to Dec-17	75,459	75,459
Total					1,955,793	2,529,756
Bank guarantee utilised					1,148	
Unused at balance date					572,815	

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

(a) Multi-option revolving credit facilities

This includes 18 facilities maturing between September 2013 and July 2017 with a weighted average maturity of September 2015. The total facility limit comprises US$153.5 million (A$150.6 million) and A$1,470.0 million (refer additional information below). A$1.1 million is utilised as bank guarantees for developments.

(b) Bank loans - secured

During the period, a total of US$80.9 million (A$82.6 million) was repaid and associated mortgages discharged.

(c) Bank loans - secured

This includes a total of US$76.9 million (A$75.5 million) of secured bank facilities with maturities of June 2017 and December 2017. The facilities are secured by mortgages over investment properties totalling US$178.5 million (A$175.2 million) as at 30 June 2012.

(d) Bank loans - secured

During the period, a total of A$250.0 million was repaid and associated mortgages discharged.

(e) Preferred shares

US REIT has issued US$92,550 (A$90,815) of preferred shares as part of the requirement to be classified as a Real Estate Investment Trust (REIT) under US tax legislation. These preferred shares will remain on issue until such time that the Board decides that it is no longer in the Group's interest to qualify as a REIT.

Additional information

The Group has forward start commitments of A$100 million, A$150 million and A$50 million to extend existing facilities from their current maturity dates within the next 12 months to maturities of December 2015, December 2016 and July 2017, respectively.

Note 21

Provisions

	2012 $'000	2011 $'000
Current		
Provision for distribution	**128,206**	125,331
Provision for employee benefits	**23,763**	22,475
Total current liabilities - provisions	**151,969**	147,806

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

	2012 $'000	2011 $'000
Provision for distribution		
Opening balance at the beginning of the year	**125,331**	118,110
Additional provisions	**257,408**	250,662
Payments and reinvestment of distributions	**(254,533)**	(243,441)
Closing balance at the end of the year	**128,206**	125,331

A provision for distribution has been raised for the period ended 30 June 2012. This distribution is to be paid on 31 August 2012.

	2012 $'000	2011 $'000
Non-current		
Provision for employee benefits	**16,517**	17,624
Total non-current liabilities - provisions	**16,517**	17,624

Note 22

Non-current liabilities - deferred tax liabilities

	2012 $'000	2011 $'000
The balance comprises temporary differences attributable to:		
Derivative financial instruments	**3,848**	1,137
Goodwill	**2,205**	2,331
Investment properties	**5,926**	13,862
Other	**412**	821
Total non-current liabilities - deferred tax liabilities	**12,391**	18,151
Movements		
Opening balance at the beginning of the year	**18,151**	11,296
Temporary differences	**(10,389)**	6,855
(Credited)/charged to the Statement of Comprehensive Income	**(10,389)**	6,855
Movements in deferred withholding tax arising from:		
Temporary differences	**5,516**	-
Foreign currency translation	**(887)**	-
Charged to the Statement of Comprehensive Income	**4,629**	-
Closing balance at the end of the year	**12,391**	18,151

Note 23

Non-current liabilities - other

	2012 $'000	2011 $'000
Tenant bonds	**3,669**	6,151
Total non-current liabilities - other	**3,669**	6,151

Note 24

Contributed equity

(a) Contributed equity of unitholders of the parent entity

	2012 $'000	2011 $'000
Opening balance at the beginning of the year	1,798,077	1,789,973
Capital payments	(174,979)	-
Buy back of contributed equity	(18,006)	-
Distributions reinvested	-	8,104
Transaction costs	(78)	-
Closing balance at the end of the year	**1,605,014**	1,798,077

(b) Contributed equity of unitholders of other stapled entities

	2012 $'000	2011 $'000
Opening balance at the beginning of the year	3,014,665	3,008,241
Capital contributions	174,979	-
Buy back of contributed equity	(32,944)	-
Distributions reinvested	-	6,424
Transaction costs	(235)	-
Closing balance at the end of the year	**3,156,465**	3,014,665

Capital payments and capital contributions

In December 2011, DXS implemented the Capital Reallocation Proposal approved by security holders at the 2011 Annual General Meeting held on 31 October 2011. Under the Capital Reallocation Proposal, DOT and DDF made capital payments to security holders of 3.616 cents for each DOT and DDF unit which was then compulsorily applied as a capital contribution to DIT and DXO units. Security holders did not receive any cash as part of the Capital Reallocation Proposal.

In April 2012, DXS commenced a securities buy back of up to $200 million. As at 30 June 2012, DXS had purchased 55,206,519 stapled securities at an average price of $0.92 per stapled security.

(c) Number of securities on issue

	2012 No. of securities	2011 No. of securities
Opening balance at the beginning of the year	4,839,024,176	4,820,821,799
Buy back of contributed equity	(55,206,519)	-
Distributions reinvested	-	18,202,377
Closing balance at the end of the year	**4,783,817,657**	4,839,024,176

Terms and conditions

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

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

(d) 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 13 December 2010, the Group announced the suspension of the DRP until further notice.

Note 25

Reserves and retained profits

(a) Reserves

	2012 $'000	2011 $'000
Foreign currency translation reserve	**(35,979)**	(77,843)
Asset revaluation reserve	**42,739**	42,739
Security-based payments reserve	**426**	-
Total reserves	**7,186**	(35,104)
Movements:		
Foreign currency translation reserve		
Opening balance at the beginning of the year	**(77,843)**	(72,967)
Exchange differences on translating foreign operations	**333**	(4,876)
Foreign currency translation reserve transfer on partial disposal of foreign operations	**41,531**	-
Closing balance at the end of the year	**(35,979)**	(77,843)
Asset revaluation reserve		
Opening balance at the beginning of the year	**42,739**	42,739
Closing balance at the end of the year	**42,739**	42,739
Security-based payments reserve		
Opening balance at the beginning of the year	**-**	-
Security-based payments expense	**426**	-
Closing balance at the end of the year	**426**	-

(b) Nature and purpose of reserves

Foreign currency translation reserve

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

Asset revaluation reserve

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

Security-based payments reserve

The security-based payments reserve is used to recognise the fair value of performance rights to be issued under the DEXUS Transitional Performance Rights Plan. Refer to note 38 for further details.

(c) Retained profits

	2012 $'000	2011 $'000
Opening balance at the beginning of the year	**325,175**	33,186
Net profit attributable to security holders	**181,070**	553,012
Transfer of capital reserve of other non-controlling interests	**(10,176)**	(10,361)
Distributions provided for or paid	**(257,408)**	(250,662)
Closing balance at the end of the year	**238,661**	325,175

Note 26

Other non-controlling interests

	2012 $'000	2011 $'000
Interest in		
Contributed equity	-	200,126
Reserves	-	70,568
Accumulated losses	-	(66,666)
Total other non-controlling interests	-	204,028

As announced to RENTS unitholders on 30 March 2012, all RENTS preference units were repurchased on 29 June 2012. In accordance with the terms and conditions of the issue of the preference units, RENTS unitholders received the full face value of the preference units ($100 per unit) in addition to the final distribution entitlement of $1.37 per unit. As a result of the repurchase, RENTS are no longer recognised as a non-controlling interest.

Note 27

Distributions paid and payable

(a) Distribution to security holders

	2012 $'000	2011 $'000
31 December (paid 29 February 2012)	**129,202**	125,331
30 June (payable 31 August 2012)	**128,206**	125,331
	257,408	250,662

(b) Distribution to other non-controlling interests

	2012 $'000	2011 $'000
DEXUS RENTS Trust (paid 18 October 2011)	**3,223**	3,162
DEXUS RENTS Trust (paid 17 January 2012)	**3,101**	3,182
DEXUS RENTS Trust (paid 18 April 2012)	**2,897**	3,142
DEXUS RENTS Trust (paid 29 June 2012)	**2,794**	3,142
	12,015	12,628
Total distributions	**269,423**	263,290

(c) Distribution rate

	2012 Cents per security	2011 Cents per security
31 December (paid 29 February 2012)	**2.67**	2.59
30 June (payable 31 August 2012)	**2.68**	2.59
Total distributions	**5.35**	5.18

(d) Franked dividends

The franked portions of the final dividends recommended after 30 June 2012 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 2012.

Franking credits	2012 $'000	2011 $'000
Opening balance at the beginning of the year	**17,196**	19,730
Franking credits arising during the year on payment of tax at 30%	-	1,528
Franking debits arising during the year on receipt of tax refund at 30%	**(1,015)**	(4,062)
Closing balance at the end of the year	**16,181**	17,196

Note 28

Parent entity financial information

(a) Summary financial information

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

	2012 $'000	2011 $'000
Total current assets	**220,722**	162,887
Total assets	**2,255,845**	2,567,774
Total current liabilities	**116,125**	114,676
Total liabilities	**499,028**	650,730
Equity		
Contributed equity	**1,605,014**	1,798,077
Retained profits	**151,803**	118,967
Total equity	**1,756,817**	1,917,044
Net profit for the year	**139,091**	155,671
Total comprehensive income for the year	**139,091**	155,671

(b) Guarantees entered into by the parent entity

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

(c) Contingent liabilities

The parent entity had no contingent liabilities as at 30 June 2012 (2011: nil).

(d) Capital commitments

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

	2012 $'000	2011 $'000
Investment properties	**3,393**	11,817
Total capital commitments	**3,393**	11,817

Note 29

Financial risk management

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

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

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

(1) Capital risk management

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

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

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

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

The Group has a stated target gearing level of below 40%. The gearing ratio calculated in accordance with our covenant requirements at 30 June 2012 was 27.8% (as detailed below).

Gearing ratio	**2012** **$'000**	2011 $'000
Total interest bearing liabilities[1]	**1,955,999**	2,211,637
Total tangible assets[2]	**7,025,465**	7,607,163
Gearing ratio	**27.8%**	29.1%

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.

The Group is rated BBB+ by Standard and Poor's (S&P) and Baa1 by Moody's. The Group considers potential impacts upon the rating when assessing the strategy and activities of the Group and regards those impacts as an important consideration in its management of the Group's capital structure.

The Group is required to comply with certain financial covenants in respect of its interest bearing liabilities. During the 2012 and 2011 reporting periods, the Group was in compliance with all of its financial covenants.

Note 29

Financial risk management (continued)

(1) Capital risk management (continued)

DXFM is the Responsible Entity for the managed investment schemes that are stapled to form the Group. DXFM has been issued with an Australian Financial Services Licence (AFSL). The licence is subject to certain capital requirements including the requirement to 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.

DWPL, a wholly owned entity, has also been issued with an AFSL as it is the Responsible Entity for DEXUS Wholesale Property Fund (DWPF). It is subject to the same requirements.

(2) Financial risk management

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

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

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

(a) Liquidity risk

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

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

- short-term liquidity management includes continuously monitoring forecast and actual cash flows;
- medium-term liquidity management includes maintaining a level of committed borrowing facilities above the forecast committed debt requirements (liquidity headroom buffer). Committed debt includes future expenditure that has been approved by the Board or Investment Committee (as required within delegated limits), and may also include projects that have a very high probability of proceeding, taking into consideration risk factors such as the level of regulatory approval, tenant pre-commitments and portfolio considerations; and
- long-term liquidity risk is managed through ensuring an adequate spread of maturities of borrowing facilities so that refinancing risk is not concentrated, and ensuring an adequate diversification of funding sources where possible, subject to market conditions.

Note 29

Financial risk management (continued)

(2) Financial risk management (continued)

(a) Liquidity risk (continued)

Refinancing risk

A key liquidity risk is the Group's ability to refinance its current debt facilities. As the Group's debt facilities mature, they are usually required to be refinanced by extending the 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 Group's key risk management strategy for margin price risk on refinancing is to spread the maturities of debt facilities over different time periods to reduce the volume of facilities to be refinanced and the exposure to market conditions in any one period.

An analysis of the contractual maturities of the Group's interest bearing liabilities and derivative financial instruments is shown in the table below. The amounts in the table represent undiscounted cash flows.

	2012				2011			
	Expiring within one year $'000	Expiring between one and two years $'000	Expiring between two and five years $'000	Expiring after five years $'000	Expiring within one year $'000	Expiring between one and two years $'000	Expiring between two and five years $'000	Expiring after five years $'000
Receivables	30,842	-	-	-	36,175	-	-	-
Payables	108,484	-	-	-	108,916	-	-	-
	(77,642)	-	-	-	(72,741)	-	-	-
Interest bearing liabilities and interest								
Fixed interest rate liabilities and interest	45,211	45,211	525,169	295,433	117,506	104,327	603,438	525,524
Floating interest rate liabilities and interest	71,210	163,776	1,142,431	151,860	326,254	105,971	899,860	73,380
Total interest bearing liabilities and interest[1]	116,421	208,987	1,667,600	447,293	443,760	210,298	1,503,298	598,904
Derivative financial instruments								
Derivative assets	35,184	22,541	18,557	-	65,100	38,431	48,564	8,450
Derivative liabilities	37,241	29,163	49,650	14,039	57,768	54,702	129,639	61,515
Total net derivative financial instruments[2]	(2,057)	(6,622)	(31,093)	(14,039)	7,332	(16,271)	(81,075)	(53,065)

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

2 The notional maturities on derivatives is only shown for cross currency interest rate swaps (refer foreign exchange rate risk) and forward foreign exchange contracts as they are the only instruments where a principal amount is exchanged. For interest rate swaps, only the net interest cash flows (not the notional principal) are included. For financial assets and liabilities that have floating rate interest cash flows, future cash flows have been calculated using static interest and exchange rates prevailing at the end of each reporting period. Refer to note 11 (derivative financial instruments) for fair value of derivatives. Refer note 30 (contingent liabilities) for financial guarantees.

Note 29

Financial risk management (continued)

(2) Financial risk management (continued)

(b) Market risk

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

(i) Interest rate risk

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

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

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

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

As at 30 June 2012, 67% (2011: 84%) of the financial assets and liabilities of the Group had an effective fixed interest rate.

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

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

	June 2013 $'000	June 2014 $'000	June 2015 $'000	June 2016 $'000	June 2017 $'000	> June 2018 $'000
Fixed rate debt						
A$ fixed rate debt[1]	75,000	75,000	75,000	75,000	56,250	-
US$ fixed rate debt[1]	250,093	250,093	250,093	250,093	250,093	229,259
Interest rate swaps						
A$ hedged[1]	957,500	814,167	640,000	538,333	430,000	90,208
A$ hedge rate (%)[2]	4.26%	4.77%	5.23%	5.43%	5.48%	5.99%
US$ hedged[1]	135,000	120,000	83,333	82,917	60,000	17,500
US$ hedge rate (%)[2]	2.79%	2.85%	3.48%	3.58%	3.70%	3.58%
Combined fixed debt and swaps (A$ equivalent)	**1,410,354**	**1,264,326**	**1,055,889**	**953,797**	**803,284**	**342,491**
Hedge rate (%)	**3.87%**	**4.20%**	**4.67%**	**4.77%**	**4.78%**	**4.19%**

1 Average amounts for the period. Hedged amounts above do not include potential hedges that are cancellable at the counterparty's option. Fixed rate debt is fixed coupon debt less the amount converted to floating rate basis via coupon-matched swaps.

2 The above hedge rates do not include margins payable on borrowings.

Note 29

Financial risk management (continued)

(2) Financial risk management (continued)

(b) Market risk (continued)

(i) Interest rate risk (continued)

Sensitivity on interest expense

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

		2012	2011
		(+/-) $'000	(+/-) $'000
+/- 0.50% (50 basis points)	A$	**2,557**	888
+/- 0.50% (50 basis points)	US$	**856**	932
+/- 0.50% (50 basis points)	€	**183**	(25)
+/- 0.50% (50 basis points)	C$	**-**	150
Total A$ equivalent		**3,622**	1,866

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

Sensitivity on fair value of interest rate swaps

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

		2012	2011
		(+/-) $'000	(+/-) $'000
+/- 0.50% (50 basis points)	A$	**13,991**	13,060
+/- 0.50% (50 basis points)	US$	**640**	8,934
+/- 0.50% (50 basis points)	€	**-**	2,714
Total A$ equivalent		**14,619**	25,044

(ii) Foreign exchange risk

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

The Group operates internationally with investments in North America, New Zealand, France and Germany. As a result of these activities, the Group has foreign exchange risk, arising primarily from:

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

Note 29

Financial risk management (continued)

(2) Financial risk management (continued)

(b) Market risk (continued)

(ii) Foreign exchange risk (continued)

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

Foreign currency assets and liabilities

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

Where Australian dollar borrowings are used to fund the foreign currency investment, the Group may transact cross currency swaps for the purpose of providing an alternate source of foreign currency funding whilst maintaining the natural hedge. In these instances the Group has committed foreign currency borrowing capacity in place that can replace the foreign currency amounts that are due under the cross currency swaps. The Group's net foreign currency exposures for net investments in foreign operations and hedging instruments are as follows:

	2012	2011
	$'000	$'000
US$ assets[1]	**549,564**	1,259,179
US$ net borrowings and cross currency swaps[2]	**(523,710)**	(1,246,552)
US$ denominated net investment	**25,854**	12,627
% hedged	**95%**	99%
€ assets[1]	**36,650**	128,788
€ net borrowings and cross currency swaps[2]	**(32,613)**	(129,803)
€ denominated net investment	**4,037**	(1,015)
% hedged	**89%**	101%
C$ assets	**-**	35,573
C$ net borrowings and cross currency swaps[2]	**-**	(30,000)
C$ denominated net investment	**-**	5,573
% hedged	**0%**	84%
NZ$ assets[1]	**123,253**	123,001
NZ$ denominated net investment	**123,253**	123,001
% hedged	**0%**	0%
Total foreign net investment (A$ equivalent)	**126,868**	110,711
Total % hedged	**81%**	92%

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

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

Note 29

Financial risk management (continued)

(2) Financial risk management (continued)

(b) Market risk (continued)

(ii) Foreign exchange risk (continued)

Sensitivity on equity (foreign currency translation reserve)

The table below shows the impact on the foreign currency translation reserve for changes in the translated value of foreign currency assets and liabilities for an increase and decrease in foreign exchange rates per currency. The increase and decrease in cents per currency has been based on the historical movements of the Australian dollar relative to each currency[1]. The cents per currency has been applied to the spot rates prevailing at the end of each reporting period[2]. The impact on the foreign currency translation reserve arises as the translation of the Group's foreign currency assets and liabilities are recorded (in Australian dollars) directly in the foreign currency translation reserve.

		2012	2011
		$'000	$'000
+ 13.2 cents (13%) (2011: 14.2 cents)	US$ (A$ equivalent)	**2,912**	1,373
- 13.2 cents (13%) (2011: 14.2 cents)	US$ (A$ equivalent)	**(3,780)**	(1,792)
+ 10.3 cents (13%) (2011: 9.6 cents)	€ (A$ equivalent)	**563**	(158)
- 10.3 cents (13%) (2011: 9.6 cents)	€ (A$ equivalent)	**(727)**	205
+ 10.6 cents (8%) (2011: 10.9 cents)	NZ$ (A$ equivalent)	**7,374**	7,375
- 10.6 cents (8%) (2011: 10.9 cents)	NZ$ (A$ equivalent)	**(8,704)**	(8,731)
+ 8.6 cents (8%) (2011: 8.7 cents)	C$ (A$ equivalent)	**-**	413
- 8.6 cents (8%) (2011: 8.7 cents)	C$ (A$ equivalent)	**-**	(488)

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 2012: A$/US$ 1.0191 (2011: 1.0739), A$/€ 0.8092 (2011: 0.7405), A$/NZ$ 1.2771 (2011: 1.2953), A$/C$ 1.0454 (2011: 1.0389).

Sensitivity on fair value of cross currency swaps

The table below shows the impact on the Statement of Comprehensive Income for changes in the fair value of cross currency swaps for a 50 basis points increase and decrease in market rates. The sensitivity on the fair value arises from the impact that changes in short-term and long-term market rates will have on the interest rate mark-to-market valuation of the cross currency swaps[1]. The Group has elected not to apply hedge accounting to its cross currency swaps. Accordingly, gains or losses arising from changes in the fair value are reflected in the Statement of Comprehensive Income.

		2012	2011
		(+/-) $'000	(+/-) $'000
+/- 0.50% (50 basis points)	US$ (A$ equivalent)	**-**	2
+/- 0.50% (50 basis points)	€ (A$ equivalent)	**-**	10
+/- 0.50% (50 basis points)	C$ (A$ equivalent)	**-**	3
Total A$ equivalent		**-**	15

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.

Note 29

Financial risk management (continued)

(2) Financial risk management (continued)

(b) Market risk (continued)

(ii) Foreign exchange risk (continued)

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 2012 and 30 June 2011 are as follows:

	2012	**2012**	**2012**	2011	2011	2011
	To pay US$ 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	-	**2,304**	-	4,400	6,199	0.7098
Over 1 and less than 2 years	-	-	-	2,650	3,981	0.6657
More than 2 years	-	-	-	2,500	3,678	0.6798

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[1]. The cents per currency has been applied to the spot rates prevailing at the end of each reporting period[2]. 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 Group with an economic hedge, the Group 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.

		2012	2011
		$'000	$'000
+ 13.2 cents (13%) (2011: 14.2 cents)	US$ (A$ equivalent)	-	1,339
- 13.2 cents (13%) (2011: 14.2 cents)	US$ (A$ equivalent)	-	(1,026)

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 2012: A$/US$ 1.0191 (2011: 1.0739), A$/NZ$ 1.2771 (2011: 1.2953).

Note 29

Financial risk management (continued)

(2) Financial risk management (continued)

(c) Credit risk

Credit risk is the risk of loss to the Group in the event of non-performance by the Group's financial instrument counterparties. Credit risk arises from cash and cash equivalents, loans and receivables, and derivative financial instruments. The Group has exposure to credit risk on all financial assets.

The Group manages this risk by:

- adopting a process for determining an approved counterparty, with consideration of qualitative factors as well as the counterparty's rating;
- regularly monitoring counterparty exposure within approved credit limits that are based on the lower of a S&P, Moody's and Fitch credit rating. The exposure includes the current market value of in-the-money contracts as well as potential exposure, which is measured with reference to credit conversion factors as per APRA guidelines;
- entering into ISDA Master Agreements once a financial institution counterparty is approved;
- ensuring tenants, together with approved credit limits, are approved and ensuring that leases are undertaken with a large number of tenants;
- for some trade receivables, obtaining collateral where necessary in the form of bank guarantees and tenant bonds; and
- regularly monitoring loans and receivables on an ongoing basis.

A minimum S&P rating of A– (or Moody's or Fitch equivalent) is required to become or remain an approved counterparty. As at 30 June 2012, the lowest rating of counterparties the Group is exposed to was A (S&P) (2011: A+ (S&P)).

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

The maximum exposure to credit risk at 30 June 2012 and 30 June 2011 was the carrying amount of financial assets recognised on the Statement of Financial Position.

As at 30 June 2012 and 30 June 2011, 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 2012 is ($'000): 29,213 (0-30 days), 706 (31-60 days), 207 (61-90 days), 716 (91+ days). The ageing analysis of loans and receivables net of provisions at 30 June 2011 is ($'000): 34,336 (0-30 days), 637 (31-60 days), 530 (61-90 days), 672 (91+ days)). Amounts over 31 days are past due, however, no receivables are impaired.

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

Note 29

Financial risk management (continued)

(2) Financial risk management (continued)

(d) Fair value of financial instruments

Fair value interest rate risk is the risk of an adverse change in the net fair (or market) value of an asset or liability due to movements in interest rates.

As at 30 June 2012 and 30 June 2011, the carrying amounts and fair value of financial assets and liabilities are shown as follows:

	2012	**2012**	2011	2011
	Carrying amount[1]	**Fair value**[2]	Carrying amount[1]	Fair value[2]
	$'000	**$'000**	$'000	$'000
Financial assets				
Cash and cash equivalents	**59,193**	**59,193**	73,746	73,746
Loans and receivables (current)	**30,842**	**30,842**	36,175	36,175
Derivative assets	**78,272**	**78,272**	100,220	100,220
Total financial assets	**168,307**	**168,307**	210,141	210,141
Financial liabilities				
Trade payables	**108,484**	**108,484**	108,916	108,916
Derivative liabilities	**120,902**	**120,902**	160,085	160,085
Interest bearing liabilities				
Fixed interest bearing liabilities	**673,674**	**743,217**	1,011,864	1,065,852
Floating interest bearing liabilities	**1,282,119**	**1,282,119**	1,220,060	1,220,060
Preference shares	**91**	**91**	86	86
Total financial liabilities	**2,185,270**	**2,254,813**	2,501,011	2,554,999

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 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 5.66% for US$ and 2.97% to 6.75% for A$. Refer note 1(w) for fair value methodology for financial assets and liabilities.

Note 29

Financial risk management (continued)

(2) Financial risk management (continued)

(d) Fair value of financial instruments (continued)

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

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

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

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

The following tables present the assets and liabilities measured and recognised as at fair value at 30 June 2012 and 30 June 2011.

	Level 1 $'000	Level 2 $'000	Level 3 $'000	2012 $'000
Financial assets				
Derivative assets				
Interest rate derivatives	-	75,939	-	75,939
Cross currency swaps	-	-	-	-
Forward exchange contracts	-	2,333	-	2,333
	-	78,272	-	78,272
Financial liabilities				
Interest bearing liabilities				
Fixed interest bearing liabilities	-	743,217	-	743,217
Floating interest bearing liabilities	-	1,282,119	-	1,282,119
	-	2,025,336	-	2,025,336
Derivative liabilities				
Interest rate derivatives	-	120,699	-	120,699
Cross currency swaps	-	115	-	115
Forward exchange contracts	-	88	-	88
	-	120,902	-	120,902

	Level 1 $'000	Level 2 $'000	Level 3 $'000	2011 $'000
Financial assets				
Derivative assets				
Interest rate derivatives	-	75,101	-	75,101
Cross currency swaps	-	20,781	-	20,781
Forward exchange contracts	-	4,338	-	4,338
	-	100,220	-	100,220
Financial liabilities				
Interest bearing liabilities				
Fixed interest bearing liabilities	-	1,065,852	-	1,065,852
Floating interest bearing liabilities	-	1,220,060	-	1,220,060
	-	2,285,912	-	2,285,912
Derivative liabilities				
Interest rate derivatives	-	159,352	-	159,352
Cross currency swaps	-	408	-	408
Forward exchange contracts	-	325	-	325
	-	160,085	-	160,085

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

Note 30
Contingent liabilities

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

	2012 $'000	2011 $'000
Bank guarantees by the Group in respect of variations and other financial risks associated with the development of:		
1 Bligh Street, Sydney, NSW[1]	**250**	5,650
Boundary Road, Laverton , VIC - Stage 2	**368**	-
123 Albert Street, Brisbane, QLD	**500**	5,682
34-60 Little Collins Street, Melbourne, VIC	**30**	30
Contingent liabilities in respect of developments	**1,148**	11,362

1 Bank guarantee held in relation to an equity accounted investment (refer note 15).

DDF together with DIT, DOT and DXO is also a guarantor of a total of A$1,470.0 million and US$153.5 million (A$150.6 million) of bank bilateral facilities, a total of A$340.0 million of medium term notes, a total of US$130.0 million (A$127.6 million) of privately placed notes, and a total of US$374.5 million (A$367.4 million) public 144A senior notes, which have all been negotiated to finance the Group and other entities within DXS. The guarantees have been given in support of debt outstanding and drawn against these facilities, and may be called upon in the event that a borrowing entity has not complied with certain requirements such as failure to pay interest or repay a borrowing, whichever is earlier. During the period no guarantees were called.

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

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

Note 31

Commitments

(a) Capital commitments

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

	2012 $'000	2011 $'000
Investment properties	**52,825**	37,425
Inventories	**10,126**	13,253
Total capital commitments	**62,951**	50,678

(b) Lease payable commitments

The future minimum lease payments payable by the Group are:

	2012 $'000	2011 $'000
Within one year	**3,456**	3,200
Later than one year but not later than five years	**5,861**	7,726
Later than five years	**6,119**	6,098
Total lease payable commitments	**15,436**	17,024

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 Group has a commitment for ground rent payable in respect of a leasehold property included in investment properties, and commitments for its Head Office premise at 343 George Street, Sydney and its US Office premise at Newport, California.

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

(c) Lease receivable commitments

The future minimum lease payments receivable by the Group are:

	2012 $'000	2011 $'000
Within one year	**512,226**	505,234
Later than one year but not later than five years	**1,491,519**	1,436,299
Later than five years	**740,434**	712,081
Total lease receivable commitments	**2,744,179**	2,653,614

Note 32
Related parties

Responsible Entity

DXFM is the Responsible Entity of DDF, DIT, DOT and DXO.

DXFM was also the Responsible Entity of Gordon Property Trust and Gordon Property Investment Trust (collectively known as "the Syndicate"). On 30 April 2011, Gordon Property Trust and Gordon Property 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 Constitutions of the entities within the Group, the Responsible Entity is entitled to receive fees in relation to the management of the Group. DXFM's parent entity, DXH, is entitled to be reimbursed for administration expenses incurred on behalf of the Group. DEXUS Property Services Pty Limited (DXPS), a wholly owned subsidiary of DXH, is entitled to property management fees from the Group.

Related party transactions

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

DEXUS Wholesale Property Fund

	2012	2011
	$	$
Responsible Entity fee income	**19,003,659**	16,483,106
Property management fee income	**7,435,393**	6,185,789
Recovery of administration expenses	**3,141,448**	2,122,590
Aggregate amount receivable at the end of each reporting period (included above)	**1,666,675**	1,432,482
Property management fees receivable at the end of each reporting period (included above)	**710,019**	1,076,948
Administration expenses receivable at the end of each reporting period (included above)	**142,607**	30,298

The Syndicate

	2012	2011
	$	$
Responsible Entity fee income	-	439,709
Property management fee income	-	499,173
Performance fee	-	1,669,625
Recovery of administration expenses	-	102,585

Bent Street Trust

	2012	2011
	$	$
Property management fee income	**704,044**	1,403,196
Recovery of administration expenses	**265,379**	67,692
Property management fees receivable at the end of each reporting period (included above)	**43,180**	-
Administration expenses receivable at the end of each reporting period (included above)	**2,889**	-

Note 32

Related parties (continued)

Transactions with Master Development Corporation (MDC)

The Group entered into a two year lease agreement with the two MDC principals for the Newport office which commenced on 1 June 2010 and expired on 31 May 2012 for which rental of US$165,000 (A$159,266) (2011:US$180,000 (A$167,613)) was payable. In addition, on 1 February 2011 the Group entered into a one year assignment of a sublease agreement from MDC for adjacent office space which expired 31 January 2012 for which rental of US$26,628 (A$25,702) (2011:US$45,648 (A$42,507)) was payable.

The Group has earned management fee revenue for managing the MDC property portfolio that the two MDC principals held interests in. The management fees of US$397,322 (A$383,682) (2011: US$973,884 (A$959,787)) are consolidated in the Group.

Directors

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

C T Beare, BSc, BE (Hons), MBA, PhD, FAICD [1,4,5]
E A Alexander, AM, BComm, FCA, FAICD, FCPA [1,2,6]
B R Brownjohn, BComm [1,2,5,6]
J C Conde, AO, BSc, BE (Hons), MBA [1,4,12]
T Dwyer, BJuris (Hons), LLB (Hons) [7]
S F Ewen, OAM [1,4]
V P Hoog Antink, BComm, MBA, FCA, FAPI, FRICS, FAICD [8]
B E Scullin, BEc [9]
W R Sheppard, BEc (Hons) [10]
D J Steinberg, BEc, FRICS, FAPI [11]
P B St George, CA(SA), MBA [1,2,5,6]

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 & Sustainability Committee Member
7 Appointed as Independent Director and Board Compliance Committee Member on 24 August 2011
8 Resigned as Director on 1 March 2012
9 Resigned as Independent Director and Board Compliance Committee Member on 31 October 2011
10 Appointed as Independent Director, Board Audit Committee Member and Board Risk and Sustainability Committee Member on 1 January 2012
11 Appointed as Director on 1 March 2012
12 Resigned as Board Compliance Committee Member on 1 July 2012

No Directors held an interest in the Group for the years ended 30 June 2012 and 30 June 2011.

Note 32

Related parties (continued)

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
Darren J Steinberg[1]	Chief Executive Officer
Victor P Hoog Antink[2]	Chief Executive Officer
Tanya L Cox	Chief Operating Officer
John C Easy	General Counsel
Craig D Mitchell	Chief Financial Officer
Paul G Say[3]	Chief Investment Officer

1 Appointed 1 March 2012
2 Resigned 1 March 2012
3 Resigned 30 June 2012

No key management personnel or their related parties held an interest in the Group for the years ended 30 June 2012 and 30 June 2011.

There were no loans or other transactions with key management personnel or their related parties during the years ended 30 June 2012 and 30 June 2011.

	2012	2011
	$	$
Compensation		
Short-term employee benefits	**10,166,375**	8,266,683
Post employment benefits	**247,967**	912,706
Other long-term benefits	**3,115,681**	4,794,526
Termination benefits	**2,300,000**	-
Security-based payments	**330,000**	-
	16,160,023	13,973,915

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

Note 33

Events occurring after reporting date

Between 1 July 2012 and 15 August 2012, as part of the securities buy back announced in April 2012, 21.3 million stapled securities were purchased for $19.7 million.

On 13 July 2012, 114-120 Old Pittwater Road, Brookvale, NSW was disposed of for gross proceeds of $40.5 million.

On 14 August 2012, the Group exchanged contracts for the acquisition of an office tower at 50 Carrington Street, Sydney NSW for $58.5 million.

On 15 August 2012, the Group exchanged contracts for the acquisition of a 50% interest in an office tower at 12 Creek Street, Brisbane QLD for $120.8 million (representing 50% of the total purchase price). This asset will be co-owned with DWPF.

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

Note 34

Operating segments

(a) Description of segments

The Chief Operating Decision Maker (CODM) has been identified as the Board of Directors as they are responsible for the strategic decision making within the Group. DXS management has identified the Group's operating segments based on the sectors analysed within the management reports reviewed by the CODM in order to monitor performance across the Group and to appropriately allocate resources. Refer to the table below for a brief description of the Group's operating segments.

Office – 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 – United States	This comprises industrial properties, industrial estates and industrial developments in the United States.
Management Business	This comprises funds management of third party clients and owned assets, property management services, development and other corporate costs associated with maintaining and operating the Group.
Financial Services	The treasury function of the Group 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 portfolio. This operating segment does not meet the quantitative thresholds set out in AASB 8 *Operating Segments* due to its relatively small scale. As a result this non-core operating segment has been included in 'all other segments' in the operating segment information.

Note 34

Operating segments (continued)

(b) Segment information provided to the CODM

The segment information provided to the CODM for the reportable segments for the year ended 30 June 2012 and 30 June 2011 includes the following:

30 June 2012	Office Australia & New Zealand $'000	Industrial Australia $'000	Industrial United States $'000	Management Business $'000	Financial Services $'000	All other segments $'000	Eliminations $'000	Total $'000
Segment performance measures								
Property revenue[1]	390,908	149,752	105,569	3,592	-	12,323	-	**662,144**
Proceeds from sale of inventory	-	-	-	49,847	-	-	-	**49,847**
Management fee revenue	-	-	-	50,712	-	-	-	**50,712**
Interest revenue	-	-	-	-	1,743	-	-	**1,743**
Inter-segment revenue[2]	-	-	-	39,024	-	-	(39,024)	**-**
Total operating segment revenue	**390,908**	**149,752**	**105,569**	**143,175**	**1,743**	**12,323**	**(39,024)**	**764,446**
Net operating income (NOI)[2]	**289,753**	**120,036**	**74,721**	**-**	**-**	**8,895**	**-**	**493,405**
Management business EBIT	**-**	**-**	**-**	**4,675**	**-**	**-**	**-**	**4,675**
Finance costs	-	-	-	-	(261,869)	-	-	**(261,869)**
Compensation related expenses	-	-	-	(74,366)	-	-	-	**(74,366)**
Net fair value gain/(loss) of investment property[3]	93,519	(42,976)	36,475	-	-	(4,251)	-	**82,767**
Impairment of inventories	-	-	-	(14,846)	-	-	-	**(14,846)**
Net loss on sale of investment property	-	-	(17,213)	-	-	(15,353)	-	**(32,566)**
Net fair value loss on derivatives	-	-	-	-	(1,564)	-	-	**(1,564)**
Segment asset measures								
Direct property portfolio	4,679,501	1,560,892	539,206	97,831	-	45,292	-	**6,922,722**
Additions to direct property portfolio	120,403	70,357	64,259	51,632	-	2,056	-	**308,707**
Segment liability measures								
Interest bearing liabilities	-	-	-	-	1,940,762	-	-	**1,940,762**

1 Includes the Group's share of property revenue of its investment accounted for using the equity method of $8.6 million.

2 Includes internal property management fees of $11.5 million included in operating segment revenue for the Management Business and in property expenses for Office Australia and New Zealand NOI and Industrial Australia NOI but eliminated for statutory accounting purposes. These fees are recovered from tenants and included in property revenue.

3 Includes net fair value gain of investment property of $75.2 million and the Group's share of the net fair value gain of its investment accounted for using the equity method of $7.5 million.

Note 34

Operating segments (continued)

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

30 June 2011	Office Australia & New Zealand $'000	Industrial Australia $'000	Industrial United States $'000	Management Business $'000	Financial Services $'000	All other segments $'000	Eliminations $'000	Total $'000
Segment performance measures								
Property revenue	344,057	144,554	115,723	4,181	-	20,557	-	**629,072**
Proceeds from sale of inventory	-	-	-	3,359	-	-	-	**3,359**
Management fee revenue	-	-	-	50,655	-	-	-	**50,655**
Interest revenue	-	-	-	-	1,565	-	-	**1,565**
Inter-segment revenue[1]	-	-	-	37,119	-	-	(37,119)	**-**
Total operating segment revenue	**344,057**	**144,554**	**115,723**	**95,314**	**1,565**	**20,557**	**(37,119)**	**684,651**
Net operating income (NOI)[1]	**255,204**	**116,355**	**79,591**	**-**	**-**	**16,037**	**-**	**467,187**
Management business EBIT	**-**	**-**	**-**	**3,453**	**-**	**-**	**-**	**3,453**
Finance costs	-	-	-	-	(52,744)	-	-	**(52,744)**
Compensation related expenses	-	-	-	(67,417)	-	-	-	**(67,417)**
Net fair value gain/(loss) of investment property[2]	122,686	(13,448)	81,130	-	-	(8,337)	-	**182,031**
Net gain/(loss) on sale of investment property	-	(349)	7,313	218	-	(130)	-	**7,052**
Net fair value gain on derivatives	-	-	-	-	2,605	-	-	**2,605**
Segment asset measures								
Direct property portfolio	4,510,798	1,518,963	1,171,163	112,238	-	173,920	-	**7,487,082**
Additions to direct property portfolio	300,813	63,948	85,832	63,673	-	4,963	-	**519,229**
Segment liability measures								
Interest bearing liabilities	-	-	-	-	2,215,056	-	-	**2,215,056**

1 Includes internal property management fees of $10.2 million included in operating segment revenue for the Management Business and in property expenses for Office Australia and New Zealand NOI and Industrial Australia NOI but eliminated for statutory accounting purposes. These fees are recovered from tenants and included in property revenue.

2 Includes net fair value loss of investment property of $148.4 million and the Group’s share of the net fair value loss of its investments accounted for using the equity accounted method of $33.6 million.

Note 34

Operating segments (continued)

(c) Other segment information

(i) Segment revenue

The revenue from external parties reported to the Board is measured in a manner consistent with that in the Statement of Comprehensive Income.

Revenue from external customers is derived predominantly through property revenue and management fee revenue. A breakdown of revenue by operating segment is provided in the tables above. The Group internally manages many of its investment properties for which inter-segment management fees are received (refer to note 32 for information relating to inter-company management fee income). Furthermore, inter-segment rental income is received from the funds management company. These amounts are eliminated on consolidation (refer to the reconciliation below).

	2012 $'000	2011 $'000
Gross operating segment revenue	**803,470**	721,770
Less: inter-segment revenue eliminated on consolidation		
Responsible Entity fee revenue	**(26,576)**	(26,150)
Other management fee revenue	**(12,448)**	(10,969)
Total inter-segment revenue	**(39,024)**	(37,119)
Total operating segment revenue	**764,446**	684,651
Share of property revenue from associates	**(8,562)**	-
Total revenue from ordinary activities	**755,884**	684,651

The Group is domiciled in Australia. The result of its revenue from external customers in Australia is $602.3 million (2011: $548.4 million), and the total revenue from external customers in other countries is $162.1 million (2011: $136.3 million). Revenue from external customers includes $149.8 million (2011: $115.7 million) attributable to the United States portfolio. Segment revenues are allocated based on the country in which the investment property is located.

There is no single external tenant responsible for greater than 10% of external revenue.

(ii) Net operating income (NOI) and operating earnings before interest and tax (Operating EBIT)

The Board assesses the performance of each operating sector based on a measure of NOI, which is determined as property revenue less attributable property expenses. The performance indicator predominantly used as a measure of the management business performance is the Management Business EBIT, which comprises management fee revenue less compensation related expenses and other management operating expenses. Both the property NOI and the management business' EBIT exclude the effects of finance costs, taxation and non-cash items, such as unrealised fair value adjustments, which are monitored by management separately. The reconciliation below reconciles these profit measures to the profit attributable to stapled security holders.

Note 34

Operating segments (continued)

(c) Other segment information (continued)

(ii) Net operating income (NOI) and operating earnings before interest and tax (Operating EBIT) (continued)

Reconciliation of net operating income and management business EBIT to Group net loss attributable to stapled security holders:

	2012 $'000	2011 $'000
Property revenue per Statement of Comprehensive Income	**653,582**	629,072
Property expenses per Statement of Comprehensive Income	**(154,901)**	(151,865)
Intercompany property revenue and expenses[1]	**(11,480)**	(10,413)
Share of net operating income from associates	**6,204**	393
Net operating income (NOI)	**493,405**	467,187
Add: management business EBIT[1]	**4,675**	3,453
Less: Internal management fees[2]	**(26,576)**	(26,150)
Other income and expense[3]	**(3,606)**	(7,281)
Operating EBIT	**467,898**	437,209
Interest revenue	**1,743**	1,565
Finance costs	**(261,869)**	(52,744)
Share of net fair value gain from associates	**7,540**	33,598
Net fair value gain of investment properties	**75,227**	148,433
Net (loss)/gain on sale of investment properties	**(32,566)**	7,052
Net fair value (loss)/gain of derivatives	**(1,564)**	2,605
Impairment and other[4]	**(15,471)**	(1,285)
Tax expense	**(16,526)**	(21,313)
Other non-controlling interests	**(1,811)**	(2,108)
Foreign currency translation reserve transfer on partial disposal of foreign operations	**(41,531)**	-
Net profit attributable to stapled security holders	**181,070**	553,012

1 Includes internal property expenses of $11.5 million (2011: $10.2 million) included in NOI for management reporting purposes but eliminated for statutory accounting purposes. The internal property management expenses comprise of property management fees included in the management business EBIT.

2 Elimination of internally generated Responsible Entity fees of $20.4 million (2011: $19.5 million) and $6.2 million (2011: $6.7 million) other internal management fees.

3 Other income and expenses comprise foreign exchange gains; depreciation, other income and expenses excluding amounts included in the management business' EBIT.

4 Includes $1.1 million of non-recurring depreciation in the year ended 30 June 2011.

Note 34

Operating segments (continued)

(c) Other segment information (continued)

(iii) Segment assets

The amounts provided to the CODM as a measure of segment assets is the direct property portfolio. The direct property portfolio values are allocated based on the physical location of the asset and are measured in a manner consistent with the Statement of Financial Position. The direct property portfolio comprises investment properties, all development properties and the Group's share of properties held through equity accounted investments. The reconciliation below reconciles the total direct property portfolio balance to total assets in the Statement of Financial Position.

The Group is domiciled in Australia. Total non-current assets other than financial instruments and deferred tax assets located in Australia is $6,350.7 million (2011: $6,354.8 million), and the amount located in other countries is $559.6 million (2011: $1,287.2 million). This includes $539.2 million (2011: $1,172.5 million) attributable to the United States portfolio.

Reconciliation of direct property portfolio to Group total assets in the Statement of Financial Position:

	2012 $'000	2011 $'000
Investment properties	**6,391,457**	7,105,914
Non-current assets held for sale	**212,264**	59,260
Inventories	**97,831**	112,238
Investment property (accounted for using the equity method)[1]	**221,170**	209,670
Direct property portfolio	**6,922,722**	7,487,082
Cash and cash equivalents	**59,193**	73,746
Receivables	**30,842**	36,175
Intangible assets	**223,641**	224,684
Derivative financial instruments	**78,272**	100,220
Deferred tax assets	**36,729**	55,577
Current tax assets	**198**	1,247
Plant and equipment	**4,682**	3,926
Prepayments & other assets[2]	**7,828**	4,987
Total assets	**7,364,107**	7,987,644

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

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

Note 35

Reconciliation of net profit to net cash inflow from operating activities

(a) Reconciliation

	2012 $'000	2011 $'000
Net profit for the year	**182,881**	555,120
Capitalised interest	**(22,458)**	(60,955)
Depreciation and amortisation	**2,805**	3,811
Impairment of inventories	**14,846**	-
Impairment of goodwill	**625**	194
Net fair value gain of investment properties	**(75,227)**	(148,433)
Share of net profit of associates accounted for using the equity method	**(13,784)**	(34,053)
Net fair value loss/(gain) of derivatives	**1,564**	(2,605)
Net fair value (loss)/gain of interest rate swaps	**100,491**	(41,599)
Net loss/(gain) on sale of investment properties	**32,566**	(7,052)
Net foreign exchange gain	**(2,170)**	(574)
Transfer of foreign currency losses on partial disposal of foreign operations	**41,531**	-
Provision for doubtful debts	**(2,211)**	(5,516)
Change in operating assets and liabilities		
Decrease/(increase) in receivables	**7,544**	(5,649)
Decrease in prepaid expenses	**750**	2,159
Decrease in other non-current assets - investments	**34,992**	24,222
Decrease/(increase) in inventories	**14,407**	(66,768)
(Increase)/decrease in other current assets	**(4,313)**	4,741
Decrease in other non-current assets	**1,596**	1,199
Decrease in payables	**(7,746)**	(3,770)
Decrease in current liabilities	**(6,528)**	(6,177)
Increase/(decrease) in other non-current liabilities	**33,142**	(158)
Decrease in deferred tax assets	**13,088**	31,205
Net cash inflow from operating activities	**348,391**	239,342

(b) Capital expenditure on investment properties

Payments for capital expenditure on investment properties include $99.8 million (2011: $101.8 million) of maintenance and incentive capital expenditure.

Note 36

Non-cash financing and investing activities

	Note	2012 $'000	2011 $'000
Distributions reinvested	24	-	14,528

Note 37

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.

	2012 cents	2011 cents
Basic earnings per unit on profit attributable to unitholders of the parent entity	**1.69**	3.77
Diluted earnings per unit on profit attributable to unitholders of the parent entity	**1.69**	3.77
Basic earnings per unit on profit attributable to stapled security holders	**3.75**	11.44
Diluted earnings per unit on profit attributable to stapled security holders	**3.75**	11.44

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

	2012 $'000	2011 $'000
Net profit for the year	**182,881**	555,120
Net profit attributable to unitholders of other stapled entities (non-controlling interests)	**(99,595)**	(370,644)
Net profit attributable to other non-controlling interests	**(1,811)**	(2,108)
Net profit attributable to the unitholders of the Trust used in calculating basic and diluted earnings per unit	**81,475**	182,368

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

	2012 securities	2011 securities
Weighted average number of units outstanding used in calculation of basic and diluted earnings per unit	**4,834,864,561**	4,836,131,743

Note 38

Security-based payments

The DXFM Board has, subject to security holder approval at the November 2012 Annual General Meeting, approved a one-off grant of performance rights to DXS stapled securities to eligible participants. Awards under the 2012 Transitional Performance Rights Plan ('the Plan') will be in the form of performance rights awarded to eligible participants which convert to DXS stapled securities for nil consideration if specific service conditions for a four year period are satisfied.

The DXFM Board approved the eligible participants nominated by Nomination and Remuneration Committee. Each participant will be granted performance rights, based on performance against agreed 2012 key performance indicators, as a percentage of their target remuneration mix. The dollar value, once approved by the DXFM Board, will be converted into performance rights to DXS stapled securities using the average closing price of DXS securities for the period of ten days either side of 30 June 2012. Participants must remain in employment for the four year period in order for the performance rights to vest.

The fair value of the performance rights will be amortised over the four year period starting from 1 July 2011 to 30 June 2015. In accordance with AASB2 *Share-based Payments*, fair value has been independently determined using a Black-Scholes and Binomial pricing models which take into account the following inputs:

- Grant date
- Expected vesting date
- Security price at grant date
- Expected price volatility (based on historic DXS security price movements)
- Expected life
- Dividend yield
- Risk free interest rate

The number of performance rights granted was 1,840,656. The fair value of these performance rights is $0.9263 per performance right and the total security-based payment expense recognised during the year ended 30 June 2012 was $426,250.

The Directors of DEXUS Funds Management Limited as Responsible Entity of DEXUS Diversified Trust declare that the Financial Statements and notes set out on pages 41 to 105:

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

(ii) give a true and fair view of the Group's financial position as at 30 June 2012 and of their performance, as represented by the results of their operations and their cash flows, for the year ended on that date.

In the Directors' opinion:

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

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

(c) the Group has operated in accordance with the provisions of the Constitution dated 15 August 1984 (as amended) during the year ended 30 June 2012.

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
15 August 2012

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

Report on the financial report

We have audited the accompanying financial report of DEXUS Diversified Trust (the Trust or DDF), which comprises the statement of financial position as at 30 June 2012, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for DEXUS Property Group (the Group or the consolidated stapled entity). The consolidated stapled entity, as described in Note 1 to the financial report, comprises the Trust and the entities it controlled at the year-end or from time to time during the financial year.

Directors' responsibility for the financial report

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

Auditor's responsibility

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

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

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

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

PricewaterhouseCoopers, ABN 52 780 433 757
Darling Park Tower 2, 201 Sussex Street, GPO BOX 2650, SYDNEY NSW 1171
T: +61 2 8266 0000, F: +61 2 8266 9999, www.pwc.com.au

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

Auditor's opinion
In our opinion:

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

(i) giving a true and fair view of DEXUS Property Group - the consolidated stapled entity's financial position as at 30 June 2012 and of its performance for the year ended on that date; and

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

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

Report on the Remuneration Report
We have audited the remuneration report included in pages 4 to 30 of the directors' report for the year ended 30 June 2012. The directors of the Responsible Entity are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion
In our opinion, the remuneration report of DEXUS Diversified Trust for the year ended 30 June 2012, complies with section 300A of the *Corporations Act 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers

E A Barron
Partner

Sydney
15 August 2012