DEXUS Property Group (ASX: DXS)

ASX release

26 September 2012

2012 Annual Reporting suite

DEXUS Property Group provides its 2012 Annual Reporting suite including:

- 2012 DEXUS Annual Review
- 2012 DEXUS Annual Report
- 2012 DEXUS Combined Financial Statements

For further information contact:

Investor Relations		**Media Relations**	
David Yates	T: (02) 9017 1424 M: 0418 861 047 E: david.yates@dexus.com	Emma Parry	T: (02) 9017 1133 M: 0421 000 329 E: emma.parry@dexus.com

About DEXUS

DEXUS's vision is to be globally recognised as the leading real estate company in Australia, with market leadership in office, and has $13 billion of assets under management. DEXUS invests in high quality Australian office and industrial properties and, on behalf of third party clients, is a leading manager and developer of industrial properties and shopping centres in key markets. The Group's stock market trading code is DXS and more than 18,000 investors from 15 countries invest in the Group. At DEXUS we pride ourselves on the quality of our properties and people, delivering world-class, sustainable workspaces and service excellence to our tenants and delivering enhanced returns to our investors. DEXUS is committed to being a market leader in Corporate Responsibility and Sustainability.

www.dexus.com

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

2012 DEXUS ANNUAL REVIEW

DEXUS PROPERTY GROUP

CONTENTS

FY12 GROUP HIGHLIGHTS

TOTAL TRANSACTIONS COMPLETED
$1.6bn

TOTAL OCCUPANCY
94.5%

TOTAL AREA LEASED
1,061,425sqm

AUSTRALIAN PORTFOLIO ENVIRONMENTAL PERFORMANCE

8.9%
ENERGY CONSUMPTION

7.1%
WATER CONSUMPTION

6.8%
GHG EMISSIONS

$420m+
CAPITAL RAISED FOR DWPF

$360m
NEW CAPITAL PARTNERSHIP

85%
EMPLOYEE ENGAGEMENT

82%
TENANT SATISFACTION

TIMELINE

DEXUS's achievements for July 2011 to September 2012 are summarised in this timeline. For a full history of DEXUS, visit www.dexus.com

JUL 2011
1 Bligh Street reached practical completion and anchor tenant Clayton Utz moved in

AUG 2011
Tonianne Dwyer joined the DEXUS Board

SEP 2011
A major innovative lease is signed to install the largest solar rooftop facility in the US at our Whirlpool property

DXS completed five industrial developments totalling $106.9m

OCT 2011
DEXUS achieved an A+ rating from GRI for our FY11 annual reporting suite

NOV 2011
DEXUS announced the retirement of Victor Hoog Antink and the appointment of Darren Steinberg as the new CEO

DEC 2011
DWPF ranked as the top performing wholesale property fund for the year

JAN 2012
Richard Sheppard joined the DEXUS Board

FEB 2012
DEXUS Head Office was certified carbon neutral for FY11

MAR 2012
Darren Steinberg commenced as Chief Executive and Executive Director

APR 2012
DXS announced the sale of the US central portfolio for US$770m

DXS commenced an on market securities buy-back

DXS announced revised distribution payout policy to 70-80% of FFO from FY13

FY12 DXS HIGHLIGHTS

DISTRIBUTION PER SECURITY UP
3.3%

TOTAL SECURITY HOLDER RETURN
12.2%

GEARING AT 30 JUNE 2012
27.2%

OFFICE LIKE-FOR-LIKE NOI GROWTH
5.4%

US CENTRAL PORTFOLIO SOLD
US$770m

OFFICE AVERAGE NABERS ENERGY RATING
3.9 STARS

MAY 2012

DEXUS's organisational restructure implemented

JUN 2012

DEXUS RENTS repurchased

Sale of the US central portfolio completed

JUL 2012

1 Bligh Street reached 90% occupancy

DEXUS Head Office was certified carbon neutral for the second successive year

AUG 2012

New remuneration framework announced

DXS announced acquisition of two quality office properties in Sydney and Brisbane

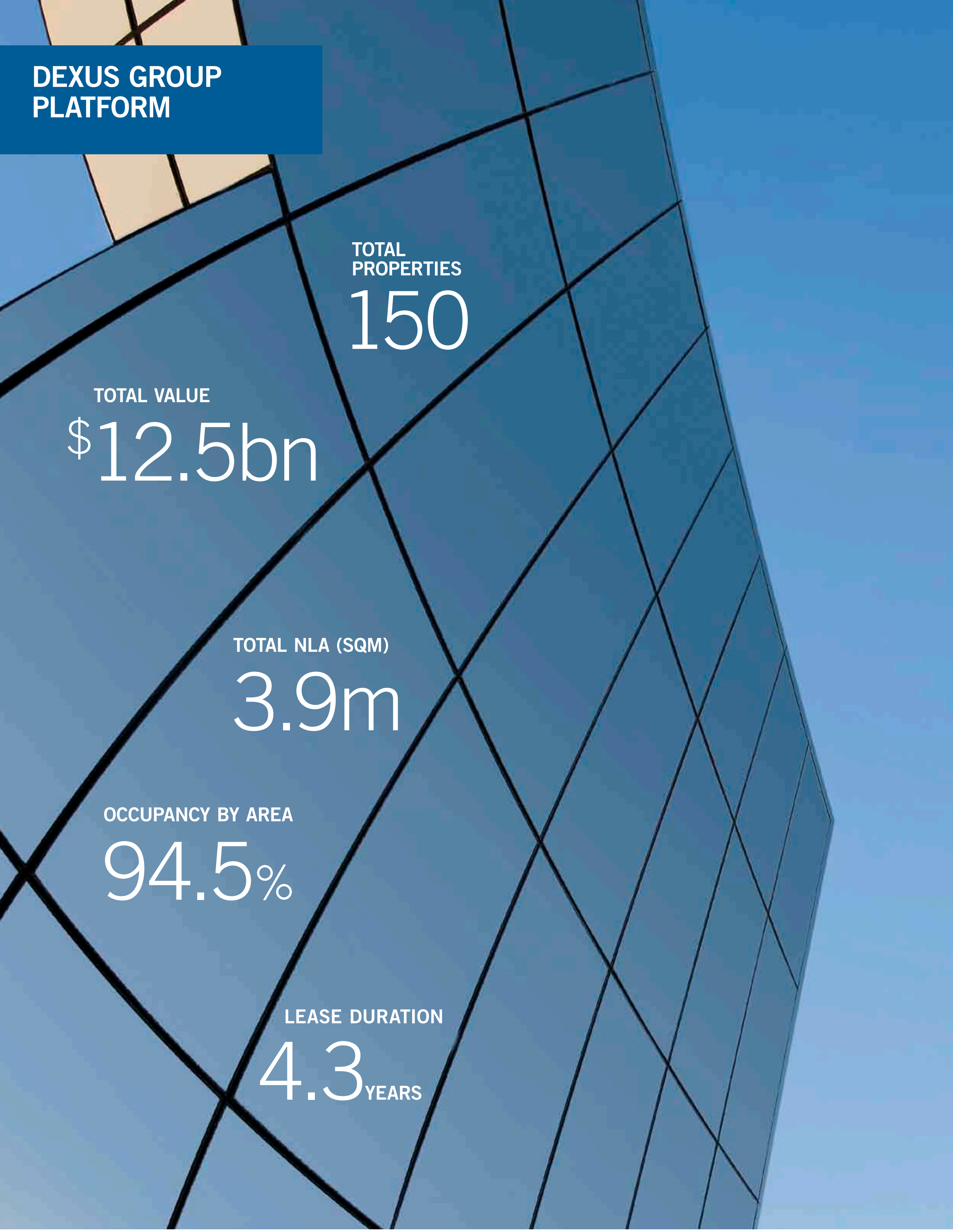
New industrial capital partnership announced

Revised strategy announced

SEP 2012

The FY12 annual reporting suite was submitted to GRI for accreditation

Maintained DJSI listing for the 7th consecutive year



DEXUS GROUP PLATFORM

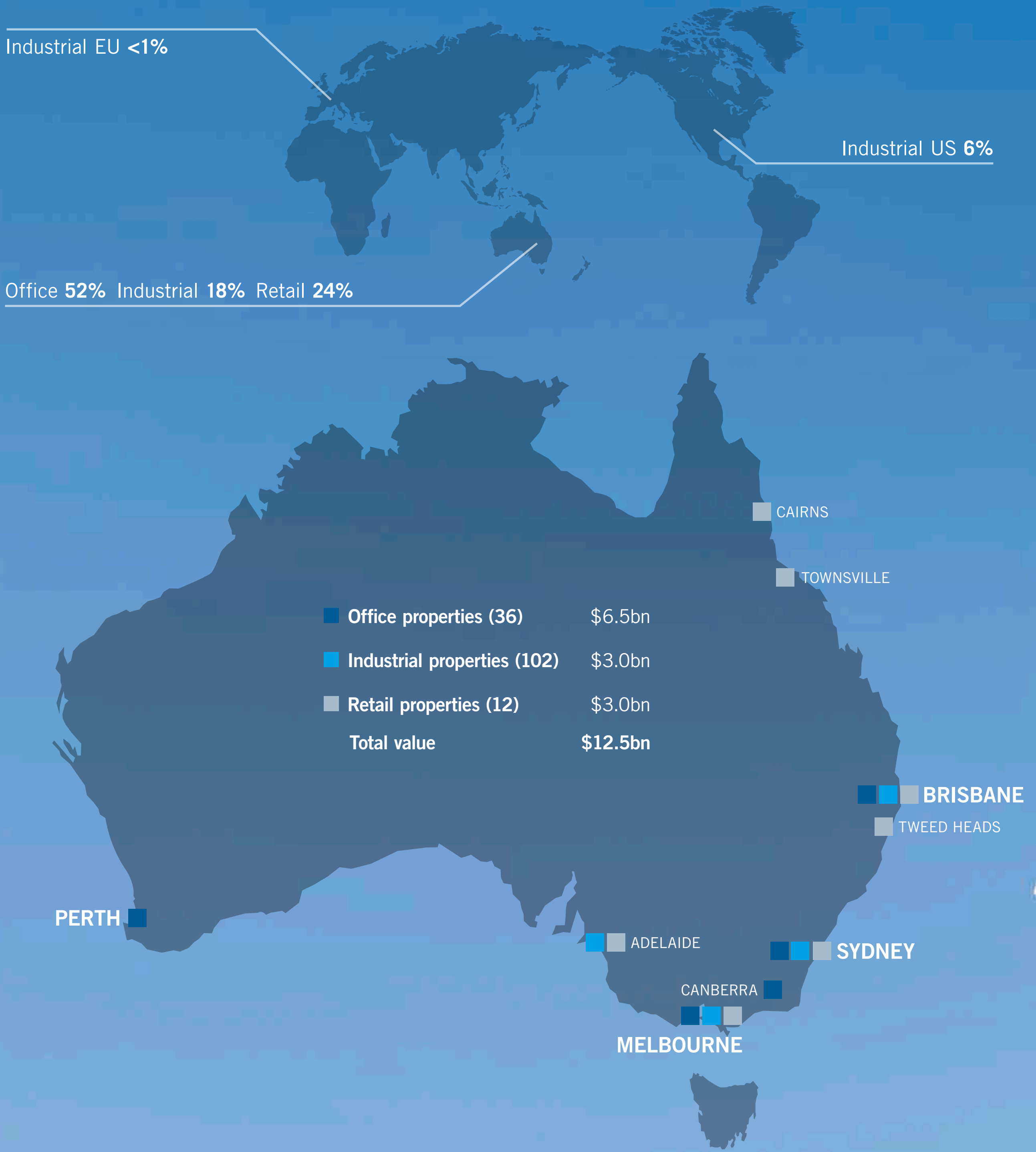
TOTAL PROPERTIES
150

TOTAL VALUE
$12.5bn

TOTAL NLA (SQM)
3.9m

OCCUPANCY BY AREA
94.5%

LEASE DURATION
4.3 YEARS



Office properties (36)	$6.5bn
Industrial properties (102)	$3.0bn
Retail properties (12)	$3.0bn
Total value	**$12.5bn**

DEXUS GROUP

A$12.5bn[1] FUM

DXS portfolio $6.9bn

Office
$4.7bn

Industrial
$1.7bn

Industrial US
$0.5bn

Third Party Funds Management $5.6bn

Office
$1.8bn

Industrial AU & US
$0.8bn

Retail
$3.0bn

1 Excluding cash as at 30 June 2012.

OUR STRATEGY

Our strategy is to deliver superior risk-adjusted returns for our investors from high quality Australian real estate, primarily comprising CBD office buildings.

DEXUS is one of Australia's leading real estate groups with $13 billion of funds under management and a proven track record spanning over 25 years in commercial property investment and management.

We own high quality office and industrial properties and have an established and successful third party funds management business that invests in the office, industrial and retail sectors.

We have a strong corporate team and experienced property professionals with core capabilities in office, industrial and retail investment and development management.

We take a prudent approach to capital and risk management and seek to create strategic partnerships with major capital partners and investors.

In August 2012, following a six month review of business operations and capabilities, the operating environment and the competitive landscape, we announced a revised vision statement and strategy.

Our competitive strengths

During the past six months we undertook a strategic review which reinforced several key competitive strengths:

- the highest quality listed office portfolio in Australia
- core capabilities in office, industrial and retail asset management with a strong track record in development
- strong and diversified relationships with tenants and intermediaries including leasing agents and tenant representatives
- established third party investment partners and the expertise to grow this business
- an excellent record of performance delivering consistent long term investor returns

Opportunities to excel

We plan to build on these competitive strengths in order to achieve our vision of being globally recognised as Australia's leading real estate company.

As there is no clear market leader and limited differentiation in the office sector, this is a clear opportunity for DEXUS.

We have the right structure and strategy to be the leading real estate company in the Australian office market, but we recognise we need to further enhance our core capabilities to achieve this.

We will effectively redeploy capital from non-core markets such as the US and Europe over the next 12 to 24 months into our core Australian markets and leverage access to capital through our third party funds management business.

OUR VISION

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

OUR STRATEGY

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

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

OUR PEOPLE WILL BE RECOGNISED FOR			
	Property expertise	Institutional rigour	Entrepreneurial spirit

Achieving our vision

DEXUS will continue to invest in Australian office and industrial properties, focusing on office investments in the listed trust, while seeking to expand industrial, office and retail off balance sheet to service third party investors.

Our people are key to the success of our vision and a culture of service excellence and high performance will ensure we are recognised for our property expertise, institutional rigour and entrepreneurial spirit.

To achieve our vision we will focus on attaining our strategic objectives as follows:

We will demonstrate leadership in Australian **office** by:

- having advanced asset and tenant deal flow and superior market intelligence
- pre-empting and satisfying tenant needs
- having the lowest operating cost model relative to our peers

We will demonstrate leading **core capabilities** by:

- having the best people, systems and processes, and strongest tenant relationships
- actively managing properties and recycling through the cycle to drive returns
- being recognised for our culture of service excellence and high performance

We will demonstrate our leadership in **capital partnerships** as the wholesale partner of choice by:

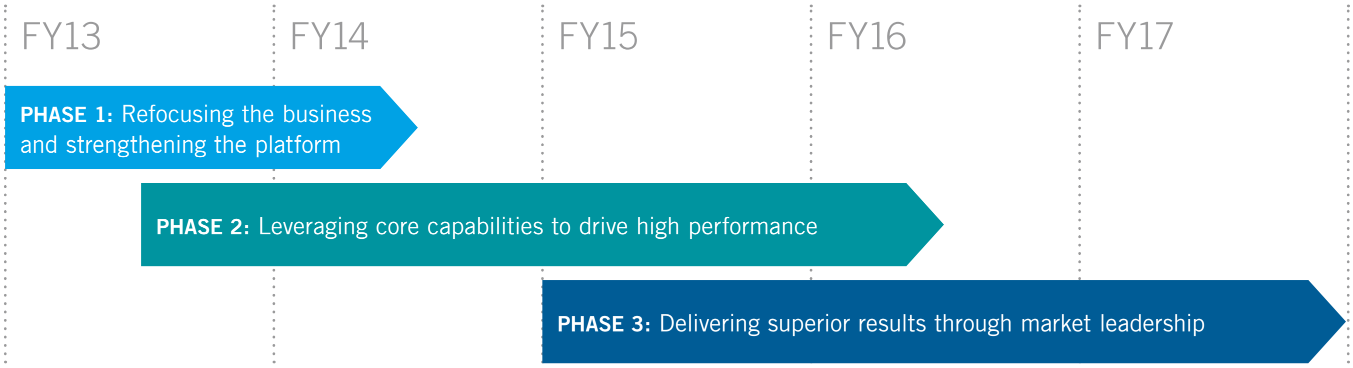
- increasing our access to long term capital partnerships to invest through the cycle
- developing high quality investment grade properties with our capital partners

We will demonstrate our leadership in **capital and risk management** by:

- having the most competitive cost of equity relative to our peers
- having a better cost and access to debt funding through the cycle relative to our peers
- actively managing our capital and risk in a prudent and disciplined manner

Implementing our strategy

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



In FY13 our objective is to refocus the business and strengthen the platform via the initiatives detailed below.

OFFICE

Initiatives
- Proactively managing and driving the performance of the office portfolio
- Redeploying excess capital into core Australian office markets
- Enhancing tenant relationships through implementing new systems and practices

CORE CAPABILITIES

Initiatives
- Implementing processes and systems to enhance core property capabilities
- Embedding a culture of service excellence and high performance
- Creating operational efficiencies and reducing costs

CAPITAL PARTNERSHIPS

Initiatives
- Growing third party funds management business through:
  - Partnering with third party funds on investment opportunities
  - Developing new capital partnerships

CAPITAL & RISK MANAGEMENT

Initiatives
- Reducing the cost and improving access to capital
- Progressing the exit of non-core offshore markets
- Progressing the recycling of non-core Australian properties

We have already made early progress on several of our FY13 objectives which we detail in the CEO's Report on page 10.

Clear operational and financial targets

To ensure the success of our revised strategy, senior personnel have clear and enhanced performance objectives to achieve DEXUS's operational and financial KPIs, with additional KPIs aligned to strategic initiatives.

Operational KPIs
Property specific targets
■ Total return and IRR focus on stabilised properties
■ Return on cost, IRR and margin for developments
Portfolio specific targets
■ Like-for-like NOI growth
■ Reducing leasing risk
Corporate and capital specific targets
■ Cost of funds
■ Management expense ratio

Financial KPIs	Target
FFO growth per security	3-5% per annum through the cycle
Return on equity	9-10% per annum through the cycle
Total security holder return	Long term top quartile performance relative to peer group

DELIVERING SUPERIOR RISK-ADJUSTED RETURNS FOR INVESTORS

Corporate Responsibility & Sustainability – delivering on strategy

DEXUS has been developing and implementing leading practice in Corporate Responsibility & Sustainability for more than 15 years. We remain committed to continual improvement and market leadership in this important area.

As a signatory to the United Nations Principles of Responsible Investment, we are committed to delivering value to our investors from all of our activities while respecting and supporting our various stakeholders.

While our investment strategy seeks to deliver enhanced performance and maximise returns from our properties through providing world-class sustainable property solutions for our tenants, our commitment extends to all our operations to ensure that we remain an ethical and responsible organisation.

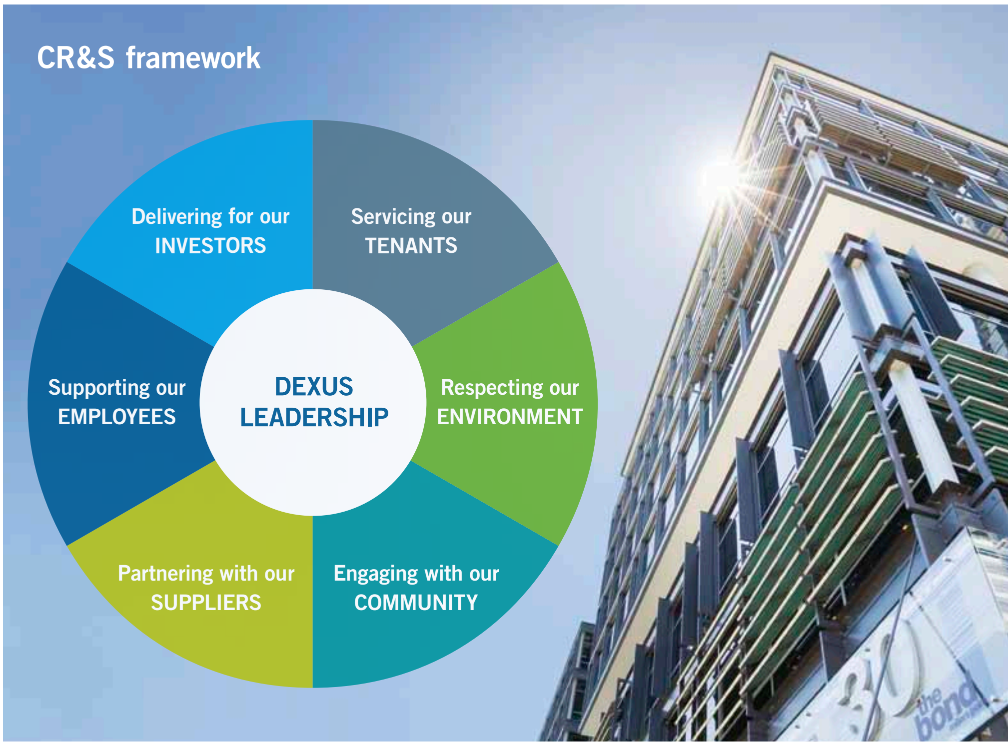
Our strategy and strategic objectives will be implemented through our CR&S framework. Being recognised as the leading real estate company in Australia in office, core capabilities, capital partnerships and capital and risk management requires us to fulfil our commitments to:

- our investors
- our tenants
- our employees
- our suppliers
- our community
- our environment

To achieve this we will use our property expertise, institutional rigour and entrepreneurial spirit to deliver the best outcomes for all of our stakeholder groups. Our FY13 commitments against our stakeholder groups are detailed starting on page 42.

Stakeholder engagement

DEXUS has a robust stakeholder engagement strategy in place that allows us to measure, assess and respond to material issues, using the framework outlined under the AA1000 standard.



30 The Bond, Sydney, NSW

We also engage with policy makers, industry bodies and investor groups regarding changes to regulations and industry trends.

This allows us to:

- assess and mitigate financial, social and environmental risks cognisant of regulatory frameworks
- understand the expectations of our stakeholders through transparent and inclusive engagement and respond effectively to material issues
- be a preferred employer in the real estate sector
- have a positive impact upon the communities in which we operate

We aim to respond to the material needs of each of our stakeholders while ensuring that we minimise our impact on the environment.

We will create shared value through partnering with our stakeholders to achieve our objectives and deliver on our social responsibilities.

Managing risk

The Board and the Group Management Committee continuously review and actively evaluate risk to ensure that it is appropriately managed.

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

When determining the residual rating for each identified risk, we consider DEXUS's appetite to risk. Additional controls are then implemented to reduce the residual risk rating to a level acceptable to management.

The property industry is a dynamic and challenging environment, a prudent and robust approach to risk management is an essential part of our ongoing success.

For more information on our approach to risk management, see the Corporate Governance section on page 47.

LETTER FROM THE CHAIR

2012 was a year of transition and refocus for DEXUS

The last 12 months saw the appointment of a new CEO, a review of our business and property portfolio and the development of a revised strategy for DEXUS.

Uncertain market, but increasing opportunity

Operating conditions continue to be challenging as a result of ongoing global economic uncertainty.

This has continued to impact business confidence in FY12, with mixed indicators in the US and uncertainty about future growth in the economies of Europe and China.

This uncertainty has contributed to subdued tenant demand. We expect these conditions to continue into FY13 but longer term market fundamentals remain sound.

The flight to quality continues and investment appetite for prime properties in key locations – DEXUS's speciality – remains robust. We are cautiously optimistic about the prospects of our core markets, particularly in the office sector.

Australia continues to be an attractive destination for investment by foreign pension funds due to our growing economy, and the property sector stands to benefit.

New CEO, new focus

In November 2011 the Board appointed Darren Steinberg, who commenced on 1 March 2012 as the new Chief Executive Officer and Executive Director of DEXUS Funds Management Limited.

Darren brings a wealth of property sector experience to DEXUS with a background in listed and unlisted property, asset management and development.

Over the past six months, Darren has streamlined operations, improved efficiencies and progressed strategic initiatives such as the sale of the US central portfolio.

He has led the review and development of our revised strategy which is designed to reinforce DEXUS's position as Australia's leading real estate company.

Our objective of exiting non-core markets and focusing on core CBD office properties will enable us to enhance performance and ultimately achieve our goal of being the leader in office property in Australia.

An active year for DEXUS

While DEXUS's core business is property investment management, we do not just own property. In 2012 we:

- completed the development of two major office towers valued at over $1 billion
- re-financed $850 million of debt
- raised over $420 million of equity in our wholesale fund
- sold US$770 million of US industrial property at book value
- substantially exited European markets through the sale of 71% of our portfolio for €82 million

Property is a long term business. We are proud of the results we have achieved through prudent risk management and sound governance.

We continue to manage operating cash flow carefully with the objective that distributions are fully funded from free cash flow.

Operating cash flows have benefited from reduced capital expenditure as a result of the US central portfolio sale and the completion of our office portfolio's NABERS Energy upgrade program in 2012.

DEXUS's strong financial position has enabled us to improve distributions to investors. Further:

- from 1 July 2012, a new distribution policy was introduced broadening the distribution range to between 70% and 80% of FFO, in line with free cash flow (we expect this to average 75% over the medium term)
- in April 2012, we commenced a $200 million strategic on-market securities buy-back

Our investment philosophy, which seeks to maximise returns through investment in superior quality properties in core markets, continues to realise benefits for DEXUS investors.

A new executive remuneration framework

Following the 28.2% unfavourable response to our remuneration report at last year's AGM, we fully reviewed our remuneration framework.

I personally met with many of our major investors to get a better understanding of their concerns and the Board has reflected on that feedback in addition to advice from proxy advisors and remuneration consultants.

The result is a proposed new remuneration framework subject to investor approval at the AGM on 5 November 2012. The framework focuses on equity interests for executives, applies a clearer balanced scorecard approach to short term incentives (STI) with caps on STI awards, introduces a long term incentive (LTI) grant as well as hurdles that are appropriate for the long term nature of our business.

The full remuneration report starts on page 16 in the 2012 Annual Report. A summary can be found on page 49 of this Annual Review.

> "Our objective of exiting non-core markets and focusing on core CBD office properties will enable us to enhance performance and ultimately achieve our goal of being the leader in office property in Australia."

L to R: Chris Beare, Chair; Darren Steinberg, CEO

Our new remuneration framework is aligned more closely to conventional market practice and seeks to attract the best talent and reward strong performance, as we firmly believe this will deliver better results for our investors.

Good corporate citizenship

This year we have continued to build upon the significant successes that we have achieved in CR&S.

We are incorporating the United Nations' Principles of Responsible Investment as performance metrics for our investment decision making.

Our $31 million NABERS Energy upgrade program is now complete, improving the value, performance and appeal of our office properties.

We have led by example, being the first Australian property trust with our Sydney head office certified carbon neutral by Low Carbon Australia for the second successive year (see case study on page 18).

Our commitment is to maintain the highest standards of corporate governance, ethics and environmental and social responsibility. We do this in order to increase investor value, provide excellent service to our tenants, support our people, partner with our suppliers, engage with our communities and respect our environment.

Changes to the Board of Directors

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

On 1 January 2012 we welcomed Richard Sheppard to the Board, replacing Brian Scullin who left on 31 October 2011.

Richard is the former Managing Director and Chief Executive Officer of Macquarie Bank Limited and former Deputy Managing Director of Macquarie Group Limited, spending 36 years with the group. He brings a range of financial and business skills to the DEXUS Board, including valuable experience as a Director and Chairman of Macquarie Bank's listed and unlisted property trusts.

Darren Steinberg and Richard Sheppard have now joined the Board and I welcome them and the skills and experience they bring to the table.

Diversity target progress

DEXUS is committed to employee diversity as we believe it enables organisations to make better informed decisions.

We set a target last year of 33% female participation at senior management level by 2015 and I am pleased to report as at 30 June 2012 we are at 30%.

Looking forward

The Board of Directors of DEXUS Funds Management Limited is committed to developing a high performing organisation that creates superior value for investors and stakeholders.

Our commitment to transparency and disclosure is fundamental to our operations and is reflected in this Annual Review.

The financial year to 30 June 2012 has proven to be very successful for the Group in a difficult market environment and FY13 shows significant promise, with the launch of our revised strategy and early achievement of a number of strategic objectives.

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

Chris Beare
Chair

26 September 2012

CHIEF EXECUTIVE OFFICER'S REPORT

DEXUS ended the year in a strong position as a result of our proactive approach to asset management combined with strategic decisions to exit non-core markets and reinvest in our core office markets in Australia

A year of achievements

Over the year to 30 June 2012 we achieved:

- a statutory net profit of $181.1 million
- a 3.3% increase in distributions per security to 5.35 cents
- Funds From Operations (FFO)[1] of $367.8 million or 7.65 cents per security, up 3.4%
- net tangible assets per security of $1.00
- a strong result in our office portfolio with like-for-like NOI growth of 5.4%
- total portfolio occupancy (by area) of 94.5%, including 97.1% occupancy in the DXS office portfolio
- over one million square metres of space leased across the Group
- $1.6 billion of transactions, including the sale of the US central portfolio – the single largest US property transaction for the year
- $5.8 million in trading profits from industrial developments

In addition:

- our wholesale fund, DWPF, raised more than $420 million of equity and ended the year as a top quartile performer, outperforming the one and three year benchmarks
- we implemented a business restructure and associated management changes which will deliver approximately $10 million in savings

Overall, our balance sheet remains strong and we continue to manage our operating cash flows prudently. Our gearing at 30 June 2012 was 27.2% and we have no debt refinancing requirements until September 2013. We also maintained our Moody's and Standard & Poor's credit ratings of Baa1 and BBB+ respectively.

Our full year result reflects the dedication and efforts of the DEXUS team driving net operating income across our property portfolios.

Solid returns in an uncertain market

In an uncertain market, DXS achieved a solid total security holder return of 12.2%, out-performing the A-REIT index over one, three and five years.

	1 year %	3 years %	5 years %
DEXUS Property Group	12.2	14.1	-6.8
S&P/ASX 200 (GICS) Prop Acc. Index	11.0	12.3	-12.3
Variance	1.2	1.8	5.5

Source: UBS Securities Australia.

Proactive leasing

Across the Group, we leased over one million square metres of space during the year.

Some of our standout leasing achievements included:

- substantially leasing our flagship properties at 123 Albert Street, Brisbane and 1 Bligh Street, Sydney which are 99% and 90% committed respectively
- securing a new Government tenant at Garema Court in Canberra with no downtime. This has placed the property in a strong position for sale during FY13
- securing DB Schenker on a seven year lease for 21,000 square metres in Erskine Park. This was one of the largest industrial leases in the Australian market in the past year

"FY12 was an active year with a total of $1.6 billion of transactions completed, comprising 95 properties across the Group including the US$770 million sale of the US central portfolio."

Strategic transactions improve the quality of our portfolio

In August 2012 we announced the acquisition of two high quality office properties:

- 50 Carrington Street in Sydney, a 15 level office property with strong repositioning potential where we will use our real estate expertise to enhance value. It was acquired for $58.5 million representing an acquisition capitalisation rate of 8.0% and a target three year IRR of 11.2%

1 Refer to page 36 for reconciliation and the Glossary for FFO definition.

12 Creek Street, Brisbane, QLD

50 Carrington Street, Sydney, NSW

1 Bligh Street, Sydney, NSW

- 12 Creek Street in Brisbane was purchased jointly with DEXUS Wholesale Property Fund as a core office market investment. It cost $241.6 million representing an acquisition capitalisation rate of 7.75% and a target 10 year IRR of 10.2%

Both of these properties will be funded from existing debt facilities.

Our success in transactions during the year (up to August 2012) resulted in the composition of our office holdings increasing to 70% in the DXS portfolio and 52% across the Group.

Maximising profitability from development and trading

We demonstrated our strong capabilities in industrial development and trading in FY12, delivering projects on time and budget and realising $5.8 million of trading profits, exceeding our target by $1.8 million.

A new capital partner

We actively engaged with prospective capital partners and gained strong interest from like-minded investors during the year.

In August 2012, we announced the establishment of a new partnership with one of the world's largest pension funds, the National Pension Service of Korea (NPS), who were advised by the real estate investment manager Heitman.

NPS will co-invest alongside DXS in a selection of industrial properties at Greystanes in NSW, and Laverton North and Altona in VIC. The initial portfolio of $360 million[1] includes 50% ownership of 13 industrial properties and has the potential to double over a five year period with NPS having the exclusive option to partner in 50% of the future development pipeline at Quarry and Laverton at the prevailing market value.

This partnership provides an enhanced return on equity for DXS investors through fee income at the property and partnership level and further diversifies our capital sources.

Driving environmental performance

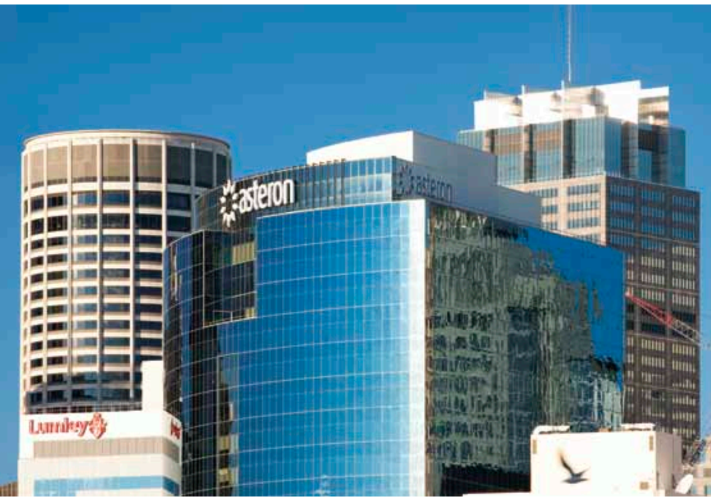
We are committed to being a market leader in Corporate Responsibility & Sustainability.

Our goal is to deliver high quality, operationally efficient buildings to provide best in class workspace for our tenants, maximise rental income and reduce operating costs.

This year we completed our $31 million NABERS Energy upgrade program. The DXS portfolio average is currently 3.9 stars and we are on track to achieve an average 4.5 star rating across our portfolio by 31 December 2012. At the date of this Annual Review, we have 11 buildings rated at 5 stars or higher across the Group.

1 Bligh Street, Sydney and 123 Albert Street, Brisbane received several design, development and sustainability awards during the year (see page 28). 1 Bligh Street also achieved its 6 star Green Star As Built v2 rating.

1 Initial partnership amount includes DXS's 50% interest in these properties.



Australia Square, 309-321 Kent Street, GPT, Sydney, NSW

2-6 Basalt Road, Greystanes, NSW

We continue to benchmark our performance internationally, maintaining our listing on the FTSE4Good Index for the 6th year running and achieving a Sustainability Leader position in the global real estate sector on the 2012 SAM Corporate Sustainability Assessment.

A revised strategy for DEXUS

As detailed earlier, we revised our vision and strategy following an extensive review.

Our revised strategy capitalises on our key competitive strengths and takes advantage of opportunities both within the Australian real estate sector and within the Group itself.

Our strategy is focused on delivering superior risk-adjusted returns for investors.

We will concentrate on investment in the core Australian office and industrial markets and progress our offshore exit over the next 12 to 24 months ensuring that we maximise returns for investors.

Looking ahead

As we enter the 2013 financial year, we are already achieving early momentum and delivering on our strategic objectives. We are fortunate to be one of the best positioned A-REITs and it is an exciting time for the team at DEXUS as we work together to refocus the business and build upon our strengths.

Our portfolio is 94.5% occupied and we have demonstrated our ability in forward solving leasing risks.

> "Our balance sheet is strong and we are well positioned to respond to changes in debt markets and to redeploy funds into value enhancing acquisitions."

Although challenging conditions and market volatility are expected to continue, we expect both the Australian office and industrial markets to be positioned for growth from FY14 as detailed in the Market Outlook section on pages 20-21. In this environment we are confident we have the scale, expertise and strategy to continue to grow earnings.

Barring unforeseen changes to operating conditions, our guidance[1] for earnings or FFO for the year ending 30 June 2013 is 7.75 cents per security, a 1.3% increase over FY12 and a like-for-like increase of 5.2% excluding the sale of the US central portfolio. As a result of our revised payout policy we are targeting a payout ratio of 75% for FY13, and distributions are expected to grow 8.4% to 5.8 cents per security for the year ending 30 June 2013.

I look forward to keeping you updated on the progress of our strategy over the coming year as we strive to achieve our vision of being globally recognised as Australia's leading real estate company, with market leadership in office.

Darren Steinberg
Chief Executive Officer

26 September 2012

1 Assumptions include: delivering 2% like-for-like NOI growth in the office portfolio, $5 million in trading profits, cost of debt remaining at 6.1% and excluding impacts of further on market buy-back.

DELIVERING ON OUR FY12 COMMITMENTS

At DEXUS we are focused on delivering superior returns to our investors while adopting leading CR&S practice. To ensure our activities are relevant and material, both to our overall corporate strategy and to our stakeholders, our FY12 commitments were developed following a materiality assessment workshop. This identified the most material issues for our organisation (which can be found in our 2011 Annual Review and on our website at www.dexus.com/crs). Our performance against these commitments is outlined as follows:

OUR INVESTOR COMMITMENTS

- ☑ FFO earnings per share of at least 7.65 cents per security
- ☑ Distributions of at least 5.35 cents per security
- ➠ As a signatory to the UN Principles of Responsible Investment, develop value-add metrics to incorporate in our investment decision making process

Office

- ☑ Like-for-like income growth >FY11
- ➠ Complete residual leasing at 1 Bligh
- ➠ Secure pre-lease commitments for our developments

Industrial

- ☒ Consistent like-for-like income growth
- ☑ Complete 80,000 square metre developments
- ☑ Realise trading profits >$4 million

Industrial US

- ☑ Increase central portfolio occupancy by >6% and position for sale

Capital Management

- ➠ Increase debt duration
- ☑ Reduce cost of funds

Third Party Funds Management

- ☑ Create partnering opportunities for third party investors which leverage DEXUS's integrated model
- ➠ Improve and expand engagement opportunities with our investors to better understand material and emerging issues and measure their response

Performance on investor commitments is detailed in the CEO's report, DXS portfolio, third party funds management and capital management sections.

OUR TENANT COMMITMENTS

- ☑ Standardise our approach to tenant satisfaction surveys across all sectors with specific focus on analysis and response to material issues
- ☑ Incorporate a standard green lease clause into new leases across the office portfolio
- ☑ Develop standard green leases in our Australian retail and industrial sectors
- ☑ Partner with our tenants to encourage sustainability initiatives within their existing workspaces

Standardised tenant satisfaction surveys

DEXUS included standard questions in tenant surveys for each sector this year, so that satisfaction levels could be benchmarked across the Group. The questions focus on tenant satisfaction with our management performance, building maintenance, sustainability, service delivery and responsiveness. This allows us to develop a more consistent approach to service delivery for our tenants.

Green leases

Updated green lease clauses have been incorporated into all new office, industrial and retail leases for DEXUS's properties.

Our standard leases encourage a collaborative approach to sustainability within the tenants' premises and a joint obligation to maintain environmentally responsible practices within the property.

Sustainability partnerships

Throughout the year we continued to engage with tenants on sustainability initiatives. For example, as part of our involvement with CitySwitch, a local government national tenant energy efficiency program, we hosted presentations with tenants in our properties on environmental initiatives, encouraged tenants to obtain NABERS Energy ratings for their tenancies and suggested ways to reduce energy usage within their workplace.

KEY: ☑ Achieved ➠ Underway ☒ Not achieved

OUR CORPORATE COMMITMENTS

- Develop a stakeholder engagement framework incorporating engagement principles and service excellence standards for all operational areas of the business
- Review our corporate processes and current committee structure to facilitate continued best practice corporate governance
- Further expand the integration of our CR&S platform and program in the US business
- Drive the integration of CR&S into key decision making processes through the introduction of CR&S training modules for our people and greater stakeholder integration into our business planning and performance management

Stakeholder engagement

The stakeholder engagement framework has been completed and will be rolled out across the organisation in FY13. The framework will evolve as we continually review, measure and improve our engagement with all stakeholder groups.

Corporate governance

Committees at both the Board and corporate levels were reviewed and rationalised with the new structure commencing on 1 July 2012. Details can be found in the Corporate Governance section of this Review starting on page 46 and on our website www.dexus.com/corporategovernance

CR&S integration of leading practice in the US

Programs incorporating energy performance, monitoring, team training, renewable energy initiatives, tenant collaboration and community involvement have been developed and implemented in line with corporate objectives.

CR&S training

Revised corporate policies for key areas of CR&S were completed during the year, covering:

- climate change
- carbon neutrality
- biodiversity
- responsible investment
- green leases
- supply chain and procurement
- stakeholder engagement

Ongoing education and engagement continues with employees across the business to embed the policies into our operations.

OUR SUPPLIER COMMITMENTS

- Develop a comprehensive sustainable procurement framework for our corporate supply chain to be extended to all property sectors
- Completed corporate procurement review to reduce consumables and waste and increase quality and value
- Fully embed CR&S principles in standard consultancy agreements and professional services contracts to align with corporate values

Sustainable procurement framework

This year we completed the Sustainable Procurement Policy for our business activities, which is used to contract with suppliers.

Our Supplier Code of Conduct was also completed. The Code specifies engagement practices as well as outlining minimum social and environmental standards to be achieved in the supply of goods and services.

These documents are available on our website at www.dexus.com/crs

Corporate procurement review

In FY12 we completed a gap analysis of our supply contracts to determine where we could realise efficiencies.

As a result of that analysis we are reducing the number of suppliers we use and seeking to source supplies from companies that take a strong approach to CR&S, use more recycled content in their products, consume less energy and water, emit less carbon and satisfy other environmental criteria.

Consultancy agreements

To ensure that there is consistency in service delivery, all professional service providers are now expected to comply with our Supplier Code of Conduct.

OUR PEOPLE COMMITMENTS

- ➠ Further enhance our senior leadership development program with bi-annual 360 degree feedback and a service excellence program
- ☑ Embed additional CR&S KPIs into our people's performance objectives
- ➠ Increase Green Building and LEED accredited professionals to at least 50% of our development executives in each sector

Leadership development

The senior finance team undertook 360 degree reviews in FY12, which assisted with their leadership development program.

Reviews for the rest of the senior leadership team were deferred due to corporate changes throughout the year, including the restructure of the organisation in May 2012.

A Service Excellence program has been implemented in the office and industrial teams – for details see the case study on page 17.

CR&S KPIs

An expanded set of corporate responsibility and sustainability performance goals, tailored for different roles within the organisation, have been finalised and incorporated into DEXUS's Performance Management assessment for FY12.

Examples of these KPIs include:

- support and enable the integration of the UNPRI into investment decisions
- undertake the investment required to improve NABERS ratings where commercially viable and in line with stakeholder expectations
- property management teams to report monthly on sustainability performance, resource management and implementation of resource reduction projects and manage the properties to achieve their targets
- employee participation in community activities

Green Building and LEED accredited professionals

As at 30 June 2012, 94.7% of our senior development employees have undertaken the Green Star Foundation course in Australia or LEED training in the United States. Of these, 21.1% have so far been accredited.

OUR COMMUNITY COMMITMENTS

- ➠ Embed community charters for each sector into our stakeholder framework
- ☑ Expand the level of support provided to our community in 2012 with an in kind support target of 1,000 volunteering hours

Community charters

We have expanded the scope of our community engagement charters to align them to each sector.

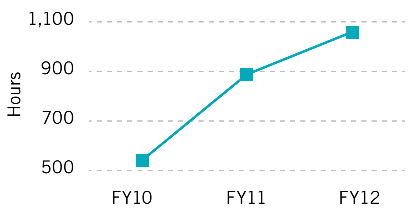
These have been incorporated into the corporate stakeholder engagement framework as part of our ongoing plan to improve our relationships with our stakeholders.

Volunteering

Our volunteering program enables employees to engage with their local communities through our charity partners.

In FY12, a total of 1,058.5 in-kind volunteer hours were contributed by our employees to the community. This represents an increase of 19.3% or 170.9 hours from FY11 and 96% or 518.5 hours on our contribution in FY10.

COMMUNITY SERVICE HOURS VOLUNTEERED BY DEXUS EMPLOYEES



KEY: ☑ Achieved ➠ Underway ☒ Not achieved

OUR ENVIRONMENTAL COMMITMENTS

- ☑ Climate change adaptation strategies to be implemented across the Australian portfolio
- ➠ Develop a waste management strategy including targets to be set for the retail sector
- ☑ LEED ratings program to be further expanded in the US core portfolio
- ☑ Reduce energy consumption by a further 3% across the Group's core property portfolio in 2012
- ☑ Support innovation through the implementation of new technology/renewable energy options in each property sector
- ➠ Establish three and five year management plans for each sector that will outline new reduction targets for energy, greenhouse gas emissions, water and waste

Climate change adaptation

We completed a climate change risk assessment for our Australian portfolio and identified the top ten at risk properties, for which action plans and adaptation strategies have been developed. We also completed similar risk assessment across our US portfolio which identified the top five properties at risk in the US.

Waste management

A strategy for waste management in the retail sector is currently being developed after completion of a portfolio audit. Targets for waste diversion from landfill are being set for commencement in FY13.

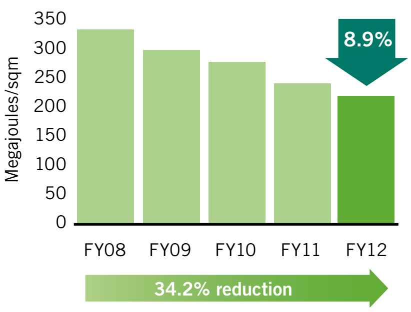
LEED ratings program

As part of our overall strategy to measure and improve building efficiency, a pilot program was initiated at our Kent West property in Seattle using the LEED Existing Building Operations and Maintenance tool. This is the first time this tool has been used for an industrial property in the US.

Energy consumption

Through careful and considered investment and property maintenance and operations, we have reduced energy consumption across the total Australian portfolio by 8.9% over the last 12 months, a reduction of 82,020 GJ, and exceeding our target by 5.9%. We recently completed our NABERS Energy 4.5 star upgrade program in our office portfolio and we expect to realise further savings going forward.

ENERGY CONSUMPTION FOR AUSTRALIA/ NEW ZEALAND (GJ)



Supporting innovation

DEXUS strongly encourages the use of innovation in our properties. Through new technologies and renewable energy solutions, we have worked to minimise our resource consumption and operating costs. The following are examples of innovative projects delivered in FY12.

Solar electricity

We installed solar electricity in two locations:

- a 45 kW system at Garema Court in Canberra (see the case study on page 26)
- a 10 MW solar array – the largest rooftop installation in the US – at our Whirlpool property in Perris, California.

We are currently investigating the potential to install similar solar energy solutions cost effectively on other buildings within our portfolio.

Reflective paint

A thermal management coating has been applied to the roof of Plumpton Marketplace in outer western Sydney to reduce heat load and deliver energy savings. This has lowered electricity costs for the centre, with an estimated reduction in usage of 15,500 kWh per annum, equivalent to 331.9 tonnes of CO_2. The reduced load is also helping to extend the operating life of the mechanical services plant.

Stormwater recycling

At Smithfield Shopping Centre we have engineered a solution to reduce water consumption by installing a bespoke stormwater catchment system utilised in the toilet flushing system. The solution comprised a series of linked tanks with inbuilt pressure pumps that enable the capture and reuse of enough stormwater to fill 30 Olympic swimming pools.

Management plans

Three and five year management plans have been developed to improve environmental performance at select properties within the office and industrial portfolios and are now being prepared for our retail properties.

Minimum targets of 3% reduction in energy, GHG, water and waste, year-on-year have been adopted within each sector and NABERS targets are in place for both energy and water at each property for the next 12 months.

KEY: ☑ Achieved ➠ Underway ☒ Not achieved

OUR PEOPLE AND CULTURE

As one of Australia's leading real estate companies, we are proud to have a strong reputation for DEXUS's culture and employer brand

We recognise the important role our employees play in our ongoing success and seek to develop and motivate our team to outperform.

Our corporate values of respect, excellence, service, integrity, teamwork and empowerment are fundamental to our culture.

Employee Opinion Survey

The 2011 Employee Opinion Survey saw an increased response rate from the previous year and a continued overall improvement in results since 2008.

DEXUS performed well against both global and Australian benchmarks particularly in:

- Communications – employees feel well informed
- Well-being – employees generally enjoy their work

At 85%, our Employee Engagement exceeds both the Australian and international norms and we have seen particular improvement in the Reward and Recognition, Well Being and Performance Management categories.

Although there was a reduction in 2011 in employee perceptions of our approach to service excellence, we believe that this was largely influenced by our focus on this area during the year with internal workshops debating service improvement opportunities.

A new Service Excellence Charter has been developed as a result of these workshops, which is currently being implemented across the organisation and is designed to improve our approach to service delivery.

SERVICE EXCELLENCE CHARTER

Our vision is to be globally recognised as Australia's leading real estate company and to achieve this we focus on delivering the best service in the Australian office and industrial markets.

Service is the critical success factor for our business, as it drives tenant satisfaction and retention. Delivering superior service contributes to our reputation, which in turn helps us to attract new tenants. To improve our service performance we have developed a Service Excellence Charter.

This Charter identifies the behaviours needed to strengthen our high performance culture, provide better service to our customers and deliver higher total returns to our investors.

The Charter has been endorsed by senior management and will be rolled out across the business in the coming year, providing a set of guiding principles to ensure our ongoing success.

In the innovation category, in an otherwise positive response, our employee survey suggested that we could be doing more to support the generation and implementation of new business ideas, a theme which has been picked up in our revised strategy.

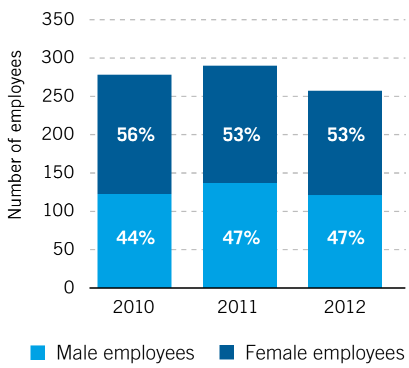
This feedback presents us with a good opportunity to achieve improved results in the 2012 survey.

Gender diversity

DEXUS welcomes employee diversity, which provides a competitive advantage and helps the organisation make better informed decisions. Gender diversity in particular is encouraged at all levels of the organisation.

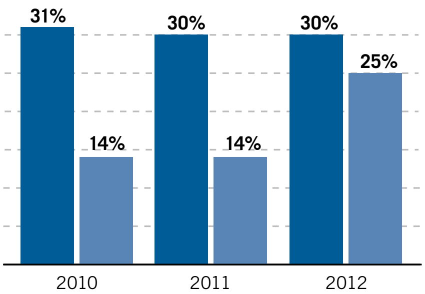
At 30 June 2012, women constituted 53% of our total workforce, 30% of the senior management and 25% of our Independent Directors. We are proud to say these rates are higher than most of our competitors in the property industry and are amongst the highest in the ASX100.

GENDER DIVERSITY AT DEXUS



L to R: Southgate Complex, 3 Southgate Avenue, Southbank, VIC; 1 Bligh Street, Sydney, NSW; 2-6 Basalt Road, Greystanes, NSW

GENDER DIVERSITY IN SENIOR LEADERSHIP



- Percentage of females in senior management team
- Percentage of female Independent Directors

Leadership development for our female employees is assisted through our partnership with the National Institute of Dramatic Art (NIDA) Women in Business program, which focuses on strategies and techniques to manage workplace communication challenges.

This program is part of our strategy to achieve a target of 33% female participation at senior management level by 2015.

Our commitment to safety

We recognise the importance of safety at DEXUS and our duty of care to prevent work health and safety risks. In FY12, there were eight incidents reported by employees, with no lost time from injury.

To minimise the risks and protect the health, safety and well-being of our employees, we have comprehensive policies covering:

- Risk management
- Work health, safety and liability
- Employee code of conduct

These are designed to ensure that all employees understand their rights and responsibilities and to guide our response to any safety concerns.

We also hold regular training programs to keep everyone within our organisation up to date with changes to the law and what constitutes acceptable and unacceptable behaviour.

At DEXUS, we pride ourselves on creating safe working environments and these results reflect our successful management of potential hazards.

DEXUS HEAD OFFICE – LEADING CARBON NEUTRALITY

Our commitment to reducing our carbon emissions has been rewarded with recognition from Low Carbon Australia.

In a first for an A-REIT, DEXUS's head office has been certified carbon neutral for the two years to June 2012. Through a combination of energy savings and offsets, our employees led the project to minimise resource consumption in our operations, achieving a 4.5 star NABERS Energy Tenancy rating and reducing greenhouse gas emissions across the business.

Initiatives included:

- saving 70.4 tonnes of CO_2-e (17% of DEXUS head office's energy consumption) through IT projects such as server rationalisation and a reduction in cooling requirements
- a 37% reduction in printing over the six months to 30 June 2012
- implementing recommendations from our NABERS rating assessment report

After savings, our remaining GHG emissions were offset through the purchase of credits in the following projects:

- hydroelectric power generation in China
- wastewater treatment and biogas production in Thailand
- biogas and bagasse-based cogeneration in India

These global projects were selected on the basis of their capacity to produce both greenhouse gas credits and social value by contributing to projects that improve conditions within the local community.

Reward and recognition

As mentioned in our Chair's letter, the Board has undertaken a review of DEXUS's remuneration framework (detailed on page 49), which included extensive consultation with major investors, remuneration consultants and proxy advisors to deliver a policy that focuses on equity and a balanced scorecard approach to performance payments.

DEXUS continues to conduct semi-annual talent management reviews to assess the ongoing performance and potential of all employees.

Our commitment to training

As part of our ongoing compliance training program for all employees, in FY12 an external consultant was engaged to facilitate interactive workplace relations workshops. These included refresher training on DEXUS's expectations of employee conduct in relation to discrimination, harassment, victimisation and bullying. Attendance was mandatory for all Sydney employees and plans for further training in our regional areas are underway.

We also carry out regular training for employees in line with our obligations under our Australian Financial Services Licence. These forums keep employees informed about disclosure requirements, ways to avoid conflicts of interest and compliance with all relevant laws and reporting requirements.

Employees must also successfully complete regular compliance assessments to test that their knowledge is up to date.

Community engagement initiatives

We believe that community engagement is a key part of our culture. Across the Group our people contribute their time and money to worthy causes that benefit the local community.

At a corporate level that support extends to charitable organisations that provide accommodation solutions to a range of less fortunate individuals.

SHARING KNOWLEDGE TO SUPPORT THE COMMUNITY

When the Wayside Chapel moved into new premises this year, they did so under the watchful eye of a DEXUS employee.

Group Risk Manager Joseph Stokes donated his time and considerable expertise to review their OH&S Manual and undertake risk assessments of their new headquarters.

DEXUS values these direct in-kind contributions to community charities, which we believe create valuable experiences for our employees and support for the community, far more than could be achieved through providing a financial donation alone.

As a property company, we believe the provision of accommodation is a critical element in the sustainable development and social fabric of our community.

Over the last 12 months we have maintained an ongoing relationship with a number of key charities:

- Barnardos, our 2012 charity of the year, builds relationships between disadvantaged Australian children, young people, their families and the community and is at the forefront of child welfare services
- The Sir David Martin Foundation, a group whose mission is to help and support homeless and troubled youths who are effected by drug, alcohol and mental health issues
- The Wayside Chapel, a non-denominational service that has been providing support for people on and around the streets of Kings Cross since 1964
- CREATE Foundation, Australia's peak body representing children and young people in out of home care
- The Station, a refuge in the Sydney CBD that provides a range of services for people who are having difficulty attaining and sustaining adequate and secure accommodation, improving their health, personal autonomy and dignity

Other organisations supported by our employees included House with No Steps, Oxfam, Cure Cancer, Green Australia, Fare Share, various local charities in regional areas across Australia and national events such as Daffodil Day, Red Nose Day, Jeans for Genes Day and Australia's Biggest Morning Tea.

As part of our community strategy in the US we held volunteering events and fund raising for the US Vets, an initiative to provide a transition for military veterans back into society through the provision of housing and comprehensive support services.

Triple Care Farm working bee, Sir David Martin Foundation

DEXUS employees working with Fare Share

MARKET OUTLOOK

Global economic uncertainty continued during FY12 with European debt concerns and volatility in global and domestic share markets, resulting in another challenging year for Australian property markets

Investment climate

In 2012 the Australian economy is forecast to grow by 3.3%, a rate close to the long term average.

Despite this solid headline number, there is significant divergence in terms of growth between industries and states, with Western Australia and Queensland clearly leading New South Wales and Victoria. While the global economic outlook remains uncertain, Australia is well placed with an unemployment rate of 5.1% and the capacity for authorities to ease fiscal and monetary policy if required.

In recent months employment growth has weakened and consequently tenant demand for space is expected to remain soft in FY13, after which we expect easing monetary policy to stimulate a cyclical improvement in activity.

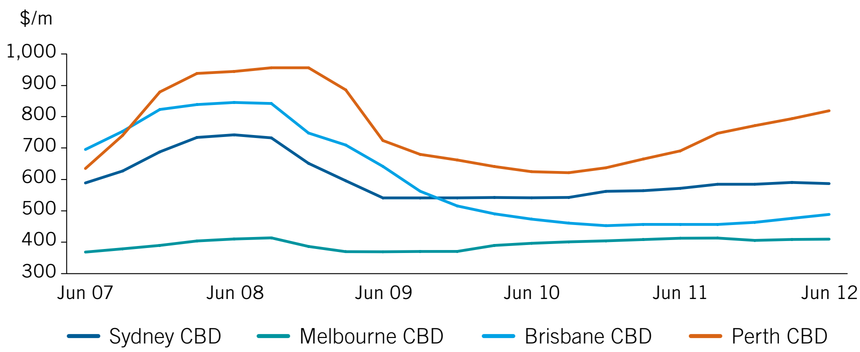
Australian office markets

The Australian office markets are forecast to experience cyclically slow tenant demand in FY13. This is expected to improve in FY14, driven by increased business confidence and the positive influence of lower interest rates on employment growth.

In addition, the overall modest levels of new construction across the core Australian CBD office markets will also help in keeping vacancy rates relatively stable over the next two years.

At 30 June 2012 the national CBD vacancy rate was 7.8%, only a slight increase on the previous year. This has helped to keep effective rents relatively stable across Australia in the past year, except in Brisbane and Perth which experienced mild growth.

GROSS EFFECTIVE OFFICE RENTS



Source: Jones Lang LaSalle, DEXUS Research

In Sydney, our largest office market, tenant demand for space remains subdued and we anticipate that this will continue for the next 18 months, with incentives expected to remain elevated. Supply will remain below average over the next two years, rising to above average levels in 2015-16 as the first office buildings in the Barangaroo precinct are completed.

As with any significant new addition to supply, the development at Barangaroo will contribute to a more competitive leasing market. However we believe that our office exposure in the western corridor will actually benefit from the additional infrastructure and amenity that will be created for the project and its surroundings.

Furthermore, as the development is pitched at higher than average rents, there will be a flow-on benefit to quality properties in the area, such as 30 The Bond and One Margaret Street in Sydney, with likely increased rents and valuations as a result.

In Melbourne, tenant demand has weakened and is expected to remain subdued over the next 12 months, due to low levels of employment growth. Adding to this is the ongoing construction of significant new supply, which is likely to result in vacancy rates rising in FY14. The availability of backfill space is expected to keep incentives elevated, which may result in new projects being delayed until the next cycle.

In Brisbane, tenant demand is expected to ease off the highs of last year but remain positive, due to continued employment growth driven in part by the mining and business service sectors. There is little new supply under construction at present, so the market vacancy rate is expected to tighten further in FY13.

In Perth, although tenant demand is expected to weaken from the current strong levels due to lower commodity prices and slowing resource investment, it should still remain positive. A lack of new supply in the next two years will result in the market vacancy rate remaining low until FY15 at which point new supply may begin to enter the market.

Governor Phillip Tower, 1 Bligh Street, Gateway, Sydney, NSW

51 Eastern Creek Drive, Eastern Creek, NSW

Westfield Miranda, NSW

Australian industrial markets

In recent months, demand for prime industrial space has been subdued, in line with weaker business confidence. This is expected to continue in FY13, but conditions are expected to improve in FY14 as easing monetary policy encourages retail sales and imports.

A forecast 30% to 40% increase in import volumes over the next five years should also help to improve demand. For example imports in New South Wales are forecast to grow by 6.2% per annum over the next five years, driving demand for warehousing and distribution space.

In Sydney, there is a declining trend in vacant prime space in key sub-markets, mainly due to a supply of new industrial space remaining below the 10-year average. In some areas the supply of quality prime space is unlikely to satisfy the expected demand, resulting in a level of speculative development in some areas.

In Melbourne, although take-up has been below the 10-year average over the last few years the major markets continue to have low levels of supply. Consequently, the level of prime space available for lease in key sub-markets has declined. Conditions are expected to be subdued in FY13 before improving in line with economic activity.

In Brisbane, take up has been mainly through renewals rather than pre-lease activity. Market vacancy for existing prime space is falling, due to below average levels of new supply throughout the market. Supply is constrained for larger industrial facilities, which is resulting in some speculative development.

Australian retail markets

The retail sector continues to face challenging conditions, but these are expected to improve in FY13.

National retail turnover grew by 4.1% for the year to 30 June 2012 but remained variable across states and categories. Consumer sentiment remains fragile as a result of rising costs of living and easing house prices, so spending on non-discretionary items has grown faster than discretionary purchases.

Retailer margins have been squeezed by the combined effect of subdued turnover growth and cost increases. This has kept market rents in shopping centres flat, although rental performance has varied between individual shopping centres.

In FY13, retail spending is expected to benefit from the recent cuts in official interest rates. Other positive influences include falling fuel prices, a stabilising household savings rate and the introduction of the government's carbon price stimulus package.

Expansion in online retailing is a long term issue for the retail sector leading to changes in tenant mixes in shopping centres and the adoption of multichannel strategies by retailers.

US industrial markets

The US economy is experiencing a period of slow, but positive, economic growth. First quarter GDP growth was 1.9% per annum, well above the 0.4% recorded for the previous year.

Nationally, net absorption of industrial space was positive in the second quarter of 2012, although absorption has varied across markets. Vacancy rates are steadily declining. In Q2 2012 the national vacancy rate was 13.4%, down from the peak of 15.3% following the global financial crisis. Vacancy rates in the main west coast markets are generally below the national average, reflecting stronger conditions in the port cities and markets which serve as regional trade hubs.

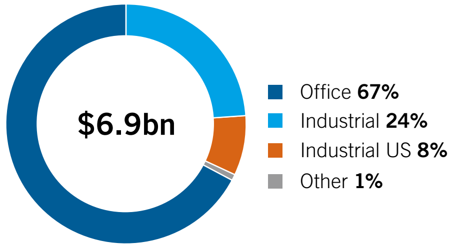
In FY13, declining retail sales and weak consumer confidence are likely to result in a slowing of growth in business investment and imports, constraining net absorption.

However modest construction levels mean that there is a relative scarcity of large and modern industrial space which should help to prevent vacancy from increasing significantly.

DXS PORTFOLIO

HIGHLIGHTS

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



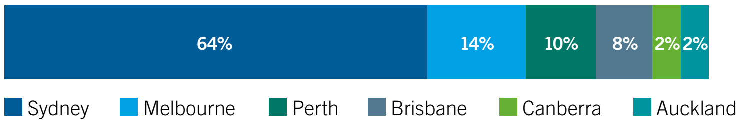
DXS portfolio focus on Australia

DXS will concentrate on the domestic market and make a full exit from all offshore markets within the next 12 to 24 months, focusing management attention back to Australia.

We will increase our investment in our core markets, focusing on the ownership and management control of properties.

Our overall philosophy for development will be to develop properties for both our listed trust and for our third party funds.

AU/NZ OFFICE PORTFOLIO



INDUSTRIAL AU PORTFOLIO

DXS invests in high quality properties in Sydney, Melbourne, Brisbane and Perth.

SYDNEY

17 OFFICE
$3.0bn PORTFOLIO VALUE

28 INDUSTRIAL
$0.9bn PORTFOLIO VALUE

MELBOURNE

6 OFFICE
$0.7 bn PORTFOLIO VALUE

12 INDUSTRIAL
$0.5 bn PORTFOLIO VALUE

BRISBANE

1 OFFICE
$0.4bn PORTFOLIO VALUE

4 INDUSTRIAL
$0.1bn PORTFOLIO VALUE

PERTH

1 OFFICE
$0.5bn PORTFOLIO VALUE

CANBERRA

2 OFFICE
$0.1bn
PORTFOLIO VALUE

ADELAIDE

1 INDUSTRIAL
<$0.1bn
PORTFOLIO VALUE

INTERNATIONAL

1 NZ OFFICE
$0.1bn
PORTFOLIO VALUE

27 US INDUSTRIAL
$0.5bn
PORTFOLIO VALUE

6 EU INDUSTRIAL
<$0.1bn
PORTFOLIO VALUE

1 Reduction is due to the sale of the US central portfolio.

DXS PORTFOLIO TARGET CORE MARKETS AND PROPERTIES

Australian office

Target markets

- Concentrate on core CBD office markets of Sydney, Melbourne, Brisbane and Perth
- Pursue selective recycling of non-core properties and markets

Target asset quality and type

- Premium grade properties
  - which attract quality tenants to deliver secure cash flows and low capital expenditure requirements
- A or B-grade properties
  - repositioning value-add opportunities
- Development
  - develop product of scale and quality suitable for long term ownership

Australian industrial

Target markets

- Concentrate on key industrial metropolitan markets of Sydney, Melbourne and Brisbane
- Located close to intermodal, infrastructure and employment hubs

Target asset quality and type

- Modern, functional high quality distribution and warehouse facilities
- Development
  - undertake selective value-add opportunities

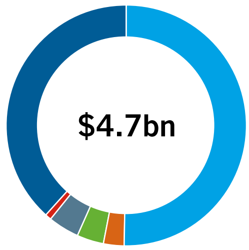
OFFICE

DEXUS Property Group owns a leading office portfolio of high quality properties located predominantly in Sydney, Melbourne, Brisbane and Perth CBDs

HIGHLIGHTS

	FY12	FY11	FY10
Portfolio value (A$)	**$4.7bn**	$4.5bn	$4.1bn
Total properties	**28**	28	28
Net lettable area (sqm)	**596,111**	558,000	542,400
NOI (A$)	**$289.8m**	$255.2m	$245.1m
Like-for-like income growth	**5.4%**	3.3%	0.4%
Occupancy (by area)	**97.1%**	96.2%	95.7%
Occupancy (by income)	**96.8%**	95.3%	96.2%
Lease duration (by income)	**4.9 years**	5.3 years	5.4 years
Average capitalisation rate	**7.3%**	7.4%	7.6%
1 year total return	**9.5%**	9.0%	6.9%
Tenant retention rate	**66%**	53%	56%
Tenant satisfaction scores	**76%**	73%	73%

PROPERTY TYPE (BY VALUE)



Leadership in office

Increasing investment in our core office markets is central to our revised strategy. Our strategy seeks to increase DXS portfolio exposure to quality office properties to 80-90% within a three to five year timeframe.

Our goal is to become the clear leader in the Australian office market in terms of:

- our investment performance
- the capability and expertise of our team
- the quality and range of our properties
- our ability to access capital
- the quality of our service to tenants
- the scale of our investments

Capital inflows

Australia is an attractive destination for foreign and super fund investment, due to its stable, growing economy and market transparency.

Due to the traditional stability of the Australian property market and the reliability of returns, we are well positioned to attract this capital, which can be used to support our investment strategies.

Strong operational performance

Our high quality office portfolio and proactive leasing approach has resulted in the portfolio continuing to deliver strong performance.

Leasing efforts have resulted in increased net operating income of $289.8 million, up 13.6% from $255.2 million in 2011. This was underpinned by 5.4% growth in like-for-like NOI and the completion of developments at 1 Bligh Street, Sydney and 123 Albert Street, Brisbane in July 2011.

The office portfolio delivered a one year total return of 9.5% (2011: 9.0%) driven by higher occupancy, strong rental growth and improved property values.

Improving valuations

The weighted average capitalisation rate for the portfolio tightened by 7 basis points to 7.3% (June 2011: 7.4%). This contributed to a 3.7% ($168.7 million) increase in the office portfolio value to $4.7 billion (2011: $4.5 billion).

The resource-led markets of Brisbane and Perth performed strongly as evidenced by the increase in property value for Woodside Plaza, which increased $18.6 million or 4.2%.

In Melbourne, the valuation of Southgate increased $16.5 million or 4.1%, following the successful redevelopment of the retail area.

Leasing progress

As a result of global economic uncertainty, tenant demand has remained subdued in the Sydney and Melbourne office markets.

Longer lead time has resulted in some upward pressure on incentives for new leases, but our active leasing approach has resulted in only a slight increase in incentives (an average 17.3%) on leases secured during the year.

Despite these challenges, the office team achieved excellent leasing traction, increasing occupancy from 96.2% to 97.1% compared with a national average of 92.2%[1], securing average rental increases on new leases and renewals of 4.6% and achieving a weighted average lease duration of 4.9 years (2011: 5.3 years) across the portfolio. The team also increased tenant retention to 66% (2011: 53%).

In the year to 30 June 2012, we secured leases covering 75,600 square metres, representing 13% of the portfolio. This included:

- 42 new leases over 30,600 square metres
- 36 lease renewals over 45,000 square metres

1 Bligh Street is 90% committed with the finalisation of leases with Bloomberg, Oil Search and the Commonwealth Parliamentary Offices.

1 Source: Jones Lang LaSalle.



L to R: One Margaret Street, Sydney, NSW; Woodside Plaza, 240 St Georges Terrace, Perth, WA; 123 Albert Street, Brisbane, QLD

At One Margaret Street, Sydney we actively managed our future expiries, renewing PKF for 10 years increasing their lease expiry to 2025 across 6,756 square metres.

Another stand-out example of our active leasing approach is Garema Court in Canberra. Following the decision by the government tenant to relocate, our office team successfully secured the Department of Regional Australia, Local Government, the Arts and Sport as a replacement tenant for a 12 year term over 10,873 square metres. This new tenancy was secured with no loss in rent and no downtime, as a result of active engagement with the Government (see the case study below).

In addition to ensuring good renewal rates, strong relationships with our tenants allow us to meet tenant needs within the portfolio, as demonstrated by MYOB moving from a tenancy in 383 Kent Street to 45 Clarence Street, Sydney.

Leasing risks for FY13 are posed by:

- 8 Nicholson Street, Melbourne: we are in negotiation with the tenant to take up their five year option over 23,528 square metres
- 14 Moore Street, Canberra: we are currently negotiating with tenants over 9,876 square metres
- 309 Kent Street, Sydney: we have commenced extensive on-floor refurbishments and are marketing 4,372 square metres of available space
- 201 Elizabeth Street, Sydney: we have renewed 70% of potential FY13 expiries, representing 6,527 square metres and are actively negotiating the remaining exposure

Strategic transactions

Consistent with our strategy to invest in quality office properties in key CBDs, in August 2012 we exchanged contracts to acquire:

- 50 Carrington Street in Sydney, for $58.5 million, a 15 level office tower

GAREMA COURT: SEAMLESS AND SUSTAINABLE

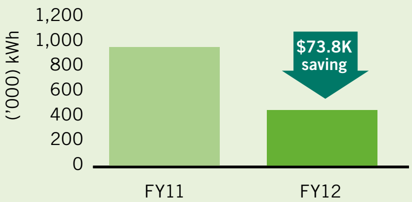
Garema Court in Canberra is an example of our success in actively managing office properties.

The building was faced with vacancy with the departure of the major tenant, the Department of Education, Employment and Workplace Relations. However, through strong relationships and proactive engagement with the Federal Government, this vacancy was quickly filled by the Department of Regional Australia, Local Government, Arts and Sport, with no downtime.

Part of the reason for this success was the decision to upgrade the property's NABERS Energy rating in alignment with the lease expiry from 3 stars to 5 stars by:

- upgrading the chiller plant
- installing a new Building Management and Controls System
- installing sub-metering for energy monitoring
- upgrading lighting in selected areas
- introducing carbon monoxide monitoring in the car park

As a result of this work, savings in electricity consumption of 510,000 kWh or $73,800 were realised during the year.

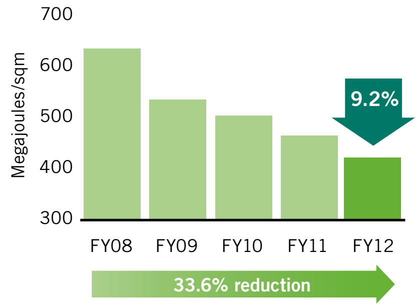


In addition, gas consumption decreased by over 1.34 million MJ or 43%. A 45 kW solar array was installed, further reducing the property's reliance upon grid electricity. These upgrades have resulted in the number of service requests for air conditioning decreasing and the building operating at optimal comfort levels.

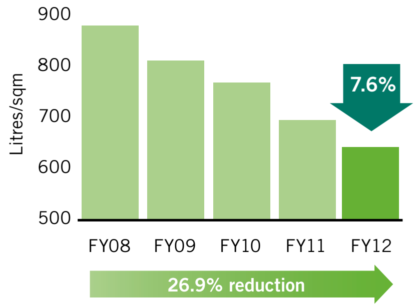
The work on Garema Court has made it an attractive property for both tenants and investors.

SUSTAINABILITY HIGHLIGHTS

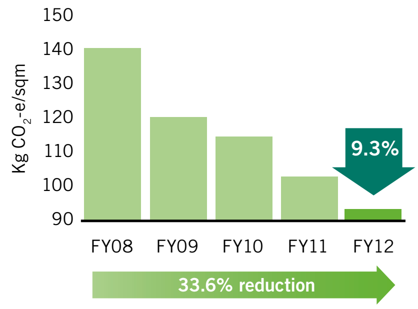
DXS OFFICE ENERGY CONSUMPTION/ INTENSITY



DXS OFFICE WATER CONSUMPTION/ INTENSITY



DXS OFFICE GHG EMISSIONS/ INTENSITY



- 12 Creek Street in Brisbane, for $241.6 million, jointly with DEXUS Wholesale Property Fund

These acquisitions provide us with potential value-add opportunities where we can reposition both properties through more effective leasing and refurbishment and improve their NABERS Energy ratings.

Better returns through resource efficiency

The DXS office portfolio continues to deliver improved sustainability performance.

Through active management of our properties, we have achieved annual savings on energy and water consumption and greenhouse emissions on an intensity basis of 9.2%, 7.6% and 9.3% respectively in the past year.

This reduction in consumption has resulted in tangible financial savings across our office portfolio and demonstrates our credentials as a market leader in resource efficiency.

The consequent reduction in outgoings for tenants improves the appeal of our properties and helps to reduce overall vacancy rates.

Our NABERS Energy and NABERS Water upgrade programs have been very successful with an increase in the average DXS NABERS Energy rating to 3.9 stars across the portfolio and 3.3 stars for NABERS Water as at 30 June 2012. This is in line with our target (see the case study above). When ratings are certified by 31 December 2012, we expect to reach our stated goals of a 4.5 star average NABERS Energy rating and a 3.5 star average NABERS Water rating.

These programs have been matched by the success of our most recent developments – 1 Bligh Street, Sydney and 123 Albert Street, Brisbane. 1 Bligh Street has been awarded a 6 Star Green Star As Built v2 rating while 123 Albert is currently being assessed, in addition to their respective 6 Star Design ratings. These buildings have been locally and internationally recognised as two of the world's most sustainable office buildings.

1 Bligh Street's performance resulted in it being awarded the best development in Asia by the Chicago-based Council on Tall Buildings and Urban Habitat (CTBUH) – the first time an Australian building has won the award. This is one of the many awards won by 1 Bligh and 123 Albert Street (see "Award winning performance" on page 28).

We will be taking the learnings and best practice from these buildings into our future development projects.

REACHING FOR THE STARS

In 2009, DXS embarked on a NABERS upgrade program to improve the average NABERS Energy rating performance of the DXS office portfolio from 3.0 stars to 4.5 stars.

A target of 4.5 stars was seen as both achievable, necessary and consistent with our positioning as a leader in sustainability.

A growing interest amongst tenants in environmental performance and increasing energy prices were key drivers.

DEXUS invested a total of $31 million to deliver the program with additional funding by grants from the Australian Government's Green Building Fund. The upgrade programs have been completed and ratings are due by 31 December 2012.

The project has already resulted in some significant improvements – for example, six buildings were newly certified 5 star this year: 309 and 321 Kent Street, Sydney; One Margaret Street, Sydney; 45 Clarence Street, Sydney; 130 George Street, Parramatta and Garema Court, Canberra.

This program commenced in advance of the introduction of the Government's Commercial Buildings Disclosure program, which mandates the disclosure of a building's NABERS Energy rating at point of sale or lease of office space over 2,000 square metres.

The upgrade program demonstrates leading practice energy management and has reduced both our energy cost and CO_2 emissions across all properties in the program.

A 3.5 star NABERS Water upgrade program is also underway and is delivering similar results across our portfolio.

REDEVELOPMENT OF SOUTHGATE

Located on the banks of the Yarra River in the arts and leisure precinct of Southbank, the Southgate Complex is one of the major office and retail properties in Melbourne, comprising two high quality office towers, a three level retail plaza and a large underground car park.

In FY12, DXS took the opportunity to redevelop the retail areas of the Complex to address increased competition from newer facilities, improve turnover and attract new retail and restaurant tenants.

The refurbishment led to:

- a new food and retail mix better catering to market segments including a number of iconic restaurants and retailers
- upgraded facilities and finishes that enhanced ambience, appeal and customer circulation around the three level complex
- a program of festivals and events leveraging Southgate's food and arts heritage
- a relaunched Southgate brand, positioning it as the leading food/leisure precinct

As a result of the redevelopment monthly traffic increased by an average of approximately 38% and over 63,000 visitors to the updated website celebratesouthgate.com.au, an increase of 55%.

Maintaining tenant satisfaction

The satisfaction of our tenants is measured through annual tenant surveys, which in the 12 months to 30 June 2012 demonstrated a high satisfaction level of 76% across our Australian office portfolio. In FY12, in line with our commitment, we standardised scoring across all sectors. This score represents satisfaction regarding our responsiveness to tenant queries, building services, our environmental initiatives, our overall performance and their tenancy.

Tenant surveys allow us to identify areas requiring specific attention, to improve the tenants' experience and increase overall retention rates. We do this through identifying areas for improvement, developing an action plan and linking it to the KPIs of our property teams.

We have also developed two new methods for improving our relationships with tenants – a revised Service Excellence Charter, and a new customer database to support our Customer Relationship Management program. These programs are designed to assist the property teams in understanding and servicing our tenants.

Award winning performance

Our latest office developments have been locally and internationally recognised. Over the last 12 months, we have achieved the following accolades:

- UDIA QLD 2011 Awards for Excellence
  Environmentally Sustainable Development – Built Form

  123 Albert Street, Brisbane
- UDIA NSW Awards for Excellence 2011
  Retail/Commercial Development

  1 Bligh Street, Sydney
- API NSW Excellence in Property Awards 2011
  Property Development Award

  1 Bligh Street, Sydney
- Asia Pacific 2011 Property Awards
  Best Office Development Australia

  123 Albert Street, Brisbane

  Highly Commended Office Development Australia

  Highly Commended Office Architecture Australia

  1 Bligh Street, Sydney
- Council on Tall Buildings and Urban Habitats (CTBUH)
  Best Tall Building – Asia & Australasia

  1 Bligh Street, Sydney
- 2012 Australian Institute of Architects (NSW) Awards
  Urban Design Architecture Award
  Commercial Architecture Award
  Sustainable Architecture Award

  1 Bligh Street, Sydney
- UDIA NSW Awards for Excellence 2012
  Design & Innovation

  1 Bligh Street, Sydney

INDUSTRIAL AUSTRALIA

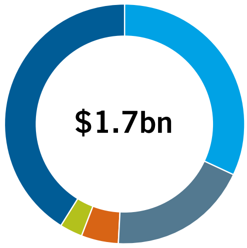


L to R: 8 Basalt Road and 2-6 Basalt Road, Greystanes, NSW; 2-4 Military Road, Matraville, NSW

HIGHLIGHTS

	FY12	FY11	FY10
Portfolio value (A$)	**$1.7bn**	$1.6bn	$1.5bn
Total properties	**45**	35	34
Net lettable area (sqm)	**1,194,309**	1,125,300	1,175,200
NOI (A$)	**$120.0m**	$116.4m	$109.9m
Like-for-like income growth	**(1.6%)**	1.1%	1.6%
Occupancy (by area)	**91.7%**	96.2%	98.4%
Occupancy (by income)	**92.8%**	95.1%	97.9%
Lease duration (by income)	**4.4 years**	4.7 years	4.9 years
Average capitalisation rate	**8.6%**	8.6%	8.8%
1 year total return	**8.0%**	9.4%	7.9%
Tenant retention rate	**59%**	61%	80%
Tenant satisfaction scores	**85%**	74%	66%

PROPERTY TYPE (BY VALUE)



- Industrial estates **41%**
- Business parks **32%**
- Distribution centres **19%**
- Land **5%**
- Data centre **3%**

Our Australian industrial portfolio is one of the largest in the country with 45 quality properties located in key growth markets, predominantly in Sydney and Melbourne

Our strategy is to invest in modern, functional high quality facilities that deliver superior risk-adjusted returns to our investors.

Stable performance in a difficult market

In an active year we successfully completed eight new industrial facilities through our trading and development business and leased over 300,000 square metres. In FY12, the industrial portfolio delivered an 8% total return which was below our long term target of 10%, impacted by a negative capital return of 0.8%.

Valuations in Sydney's northern and inner west markets were adversely affected by increased vacancy. This was partially offset by outperformance of our more modern buildings in outer western Sydney, Melbourne and Brisbane.

Over the past 12 months, NOI increased 3.1% to $120.0 million (2011: $116.4 million), driven by the completion of developments, but this was offset by a reduction in like-for-like NOI of 1.6% primarily as a result of the vacancy at Garigal Road, Belrose.

Valuations

The book value of the industrial portfolio increased 1.7% to $1.7 billion at 30 June 2012. This was a result of the completion of eight developments, offset by negative revaluations of 3.4% across the portfolio.

The negative variance on valuations reflects lower occupancy across the Sydney portfolio and lower land values. Capitalisation rates have not firmed as quickly as anticipated, while short term rental growth is lower and incentives are still at 2011 levels. The portfolio's weighted average capitalisation rate remained steady at 8.6%.

L to R: Pound Road West, Dandenong, VIC; 1 Foundation Place, Greystanes, NSW; Axxess Corporate Park, Mount Waverley, VIC

Leasing progress

The industrial team actively leased over 300,000 square metres in FY12, in 91 transactions, including:

- 143,800 square metres in renewals with 54 existing tenants
- 51,900 square metres in new leases for existing buildings with 29 new tenants
- 105,200 square metres in new leases for our development projects with eight new tenants

Our leasing activity saw tenant retention remain reasonably steady at 59%. While a correction to over-renting in previous years has seen a fall in rental income from retained tenants of 5.0%, incentives remained stable at 5.6%.

Occupancy of 91.7% at 30 June 2012 (2011: 96.2%) did not truly represent average occupancy during the year, with a tenant at 15-23 Whicker Road, Gillman, South Australia vacating 72,115 square metres (6% of total area) on 30 June 2012. Weighted average lease duration was down slightly at 4.4 years (2011: 4.7 years).

Increased transaction activity in key markets

In FY12 we purchased two strategic properties totalling 11 hectares in Wacol, Queensland and Erskine Park, NSW.

At the same time, we sold a total of 58,277 square metres and 3.5 hectares of land at three locations for $90 million, made up of:

- $38.1 million for land and a completed development at Erskine Park in NSW realising a trading profit of $4.5 million
- $11.7 million for a completed development at Laverton North in July 2012 realising a profit of $1.3 million
- $40.5 million for a property at Brookvale. As the property was originally acquired in September 1997 for $28 million (excluding acquisition costs), the sale price realised an unlevered IRR of 10.4%

Despite adverse economic conditions over the last few years, investment demand is likely to increase in the coming 12 months as a result of a bigger appetite from offshore investment and superannuation funds, leading to increased transactional activity.

A leading developer of industrial property

During the past two years, DXS has been recognised as one of the most active developers in the industrial space, having completed 10 properties covering 156,500 square metres since June 2010.

In FY12 alone, we completed eight industrial facilities covering 120,102 square metres on an average yield on cost of 9.1%, exceeding our target of 80,000 square metres.

Currently, approximately 75,285 square metres of developments are underway, for an estimated total cost of $99.1 million, with a further $205.5 million in the development pipeline.

ERSKINE PARK DEVELOPMENT AND TRANSACTION STRATEGIES

Erskine Park in NSW demonstrated our core capabilities of property development, leasing and transaction management:

- in July 2011 we sold 3.5 hectares of surplus land for a profit of $1.4 million
- in March 2012 we leased a 21,143 square metre speculative warehouse to DB Schenker, which we subsequently sold for $28 million, generating an IRR of 18.1% and a trading profit of $3.1 million
- in June 2012 we acquired a new land bank at 57-75 Templar Road, Erskine Park, which is now being developed

Despite ongoing global economic uncertainty, these transactions demonstrate that there are still opportunities available in our core industrial markets.

LEADING EDGE LOGISTICAL FACILITIES

We have an ongoing strategic relationship with the Toll Group, Asia-Pacific's leading provider of integrated logistics solutions.

Our relationship with Toll has evolved from a facility within our Rydalmere industrial estate in Sydney's inner west, which Toll operates for one of their major pharmaceutical contracts.

They have now moved into a brand new purpose built facility designed to service their major client Adidas within our Laverton North industrial estate in Melbourne's west.

We leveraged our expertise and close relationships with tenants to maximise portfolio value:

- At Erskine Park (see case study on page 30) we continue to realise development and speculative investment opportunities
- At the 4.7 hectare site in Wacol, QLD we have entered into a pre-lease with a leading car manufacturer for a 10 year term and have commenced construction of a $10.6 million, 7,830 square metre warehouse. An adjoining $7.4 million, 5,800 square metre warehouse facility is also under construction, with both facilities due to complete in December 2012
- At Laverton North we completed four fully-leased developments covering 53,165 square metres
- At Greystanes, we completed three developments for a total 45,794 square metres and commenced a development that has been pre-leased to Brady Australia for 13,310 square metres for a 10 year term with two five year options

Supporting sustainable outcomes

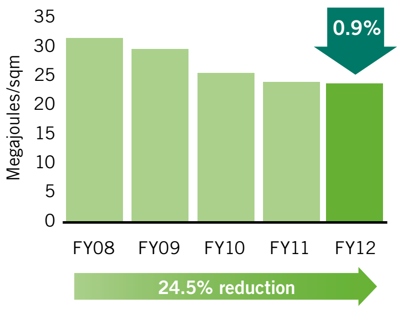
Leading environmental performance from our industrial properties is an important goal for us.

Energy and greenhouse gas efficiency strategies have seen reductions in intensity by 0.9% and 1.1% respectively over the last 12 months.

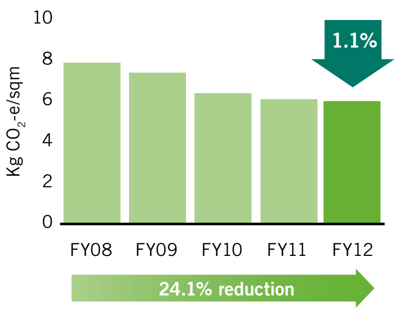
Unlike the office sector, water consumption in our industrial portfolio is primarily under the control of our tenants and, while we have worked with our tenants to encourage better performance, we have seen an increase in water consumption intensity of 0.4% over the last 12 months, a rise of 7.2% since FY08. We will continue to engage with our tenants on water savings.

SUSTAINABILITY HIGHLIGHTS

INDUSTRIAL AU ENERGY CONSUMPTION/ INTENSITY



INDUSTRIAL AU GHG EMISSIONS/ INTENSITY



RECYCLING AND REUSE IN INDUSTRIAL

Wherever possible, we seek to implement sustainable practices and recycled materials to reduce the environmental impact of our new developments.

At Greystanes, the Fujitsu facility was constructed using reclaimed ironbark beams that were recycled from Brisbane's decommissioned Hornibrook Bridge.

Opened in 1935 Hornibrook Bridge was one of three bridges crossing Queensland's Bramble Bay and, at 2.6 kilometres, was Australia's longest bridge.

It was carefully dismantled and the timber was shipped out of Brisbane just prior to the big floods early last year.

The reuse of the timber as structural columns successfully added aesthetic value to the building and removed the need for steel beams.

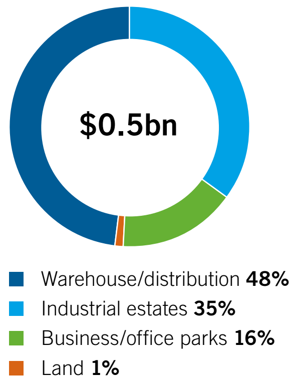
INDUSTRIAL US AND EUROPE

L to R: 1777 S Vintage Avenue, Ontario, CA; 19700 38th Avenue East, Spanaway, Seattle, WA; Riverbend Commerce Park, 8005 South 266th Street, Kent, WA

HIGHLIGHTS

	US west coast FY12	US west coast FY11	Total US FY11	Total US FY10
Portfolio value (US$)	**$549.5m**	$490.8m	$1.3bn	$1.2bn
Total properties	**24**	23	94	98
Net lettable area (sf)	**6.8m**	6.4m	23.7m	24.7m
NOI (US$)	**$77.1m**[1]	N/A	$78.6m	$87.3m
Like-for-like income growth	**3.8%**	3.3%	(4.5)%	(12.3)%
Occupancy (by area)	**97.1%**	97.7%	84.4%	86.4%
Occupancy (by income)	**98.2%**	97.4%	87.9%	84.3%
Lease duration (by income)	**4.4 years**	4.5 years	4.4 years	4.9 years
Average capitalisation rate	**6.3%**	6.6%	7.6%	8.4%
1 year total return	**10.0%**	17.6%	14.3%	N/A
Tenant retention rate	**66%**	58%	55%	56%

US PROPERTY TYPE (BY VALUE)



During the year we progressed exit plans in our non-core markets of the United States and Europe

In what are still very challenging conditions in the United States, with the local economy still in recession, the US industrial team managed to achieve some notable success.

Sale of the US central portfolio

In the 12 months since we internalised leasing management, we increased the occupancy rate in the central portfolio by 10.3% to 89.7%, through the leasing of 3.7 million square feet in 136 transactions, which supported the portfolio sale.

Consistent with our strategy to exit non-core markets, in June 2012 the US central portfolio, comprising 65 properties, including three properties leased to Whirlpool, was sold to affiliates of Blackstone Real Estate Partners VII.

The sale price of US$770 million, before transaction costs, was in line with book value.

The team also sold a further five non-core properties totalling US$34.6 million.

DXS now has 24 properties in the US west coast industrial market and three land parcels in Texas.

In line with our revised strategy, our US portfolio is now considered to be a non-core investment. Over the next 12-24 months, we plan to exit this market.

In the meantime our focus is to maximise the performance of these properties in order to achieve the best return for our investors.

1 Includes income from the US central portfolio.

Strong leasing results

In a very active year, over 5.4 million square feet was leased in the US including 1.7 million square feet in the west coast portfolio, in 49 transactions. Occupancy for the west coast portfolio remained relatively steady at 97.1% (2011: 97.7%). We retained 22 tenants resulting in a tenant retention rate of 66% including early renewal of leases in Los Angeles covering 460,000 square feet.

Tightening capitalisation rates and improved valuations

The west coast portfolio benefited from a valuation uplift of 7.3% driven by a 30 basis point capitalisation rate compression and strong occupancy levels. The values of our properties in Los Angeles, Inland Empire and Seattle increased.

Improving confidence delivers strong operational performance

The US industrial team has improved the overall performance of the portfolio in recovering markets.

NOI for the portfolio declined by US$1.5 million to US$77.1 million (2011: US$78.6 million) following the sale of 70 properties during the year. Notwithstanding this result the portfolio recorded strong like-for-like NOI growth of 3.8%.

The total return for the year to 30 June 2012 of 10.0%[1], down from 17.6%.

3691 North Perris Boulevard, Perris, CA

Sustainability leadership

DXS has a track record of success in sustainability in the United States, setting a high standard in the industrial sector. We are the first company to undertake a full LEED Existing Buildings: Operations and Certification on a multi tenant facility at Kent West Corporate Park in Seattle. This pilot demonstrates both the benefits and opportunities created by developing a strong working relationship with our tenants.

Following a 20 year lease agreement signed with Southern California Edison (SCE) in September 2011, the solar installation of 36,000 panels on our Whirlpool facility in Perris went live in August 2012.

The installation is the largest rooftop solar array in the US and is expected to generate enough electricity to power over 5,000 homes.

US environmental performance data

As the US central portfolio has been sold, and we have signalled our intention to exit all offshore investment over the next 12-24 months, we will no longer collect, assure or report on the energy and water consumption data and greenhouse gas emissions of the remaining portfolio. We will continue our commitment to the LEED pilot program and manage our operations in line with our commitment to environmental and financial performance.

EUROPEAN PORTFOLIO SALE

Our strategy to exit non-core properties is on track, with the sale of all but six of our European properties completed in FY12. These sales delivered proceeds of €82 million (A$107.5 million), leaving one building in Germany and five in France still in the portfolio with a value of €36.7 million and an NLA of 100,600 square metres. Occupancy by area of these remaining properties is 68.9% with a lease duration of 3.2 years.

We expect that the remainder of our European portfolio will be sold in FY13.

1 West coast portfolio only.

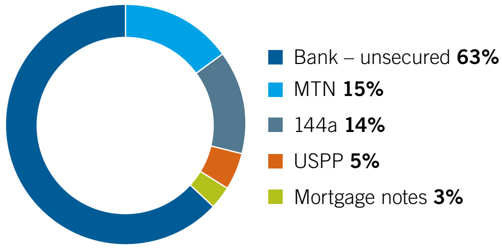
CAPITAL MANAGEMENT

We have maintained our active and prudent approach to capital management during the year with a focus on reducing the cost of debt and increasing duration

HIGHLIGHTS

	FY12	FY11	FY10
Cost of debt[1]	6.1%	6.6%	6.6%
Duration of debt[1]	4.2 years	4.2 years	3.2 years
Hedged debt	73%	82%	90%
Gearing[2]	27.2%	28.4%	29.8%
Headroom (approximately)[3]	$0.6bn	$0.6bn	$1.2bn
S&P/Moody's credit rating	BBB+/Baa1	BBB+/Baa1	BBB+/Baa1

DIVERSIFIED MIX OF DEBT FACILITIES[4]



In the year to 30 June 2012:

- $850 million of debt facilities were refinanced at margins below 2%
- a $200 million on-market buy-back of our securities commenced in April 2012, with 35% of this target completed by 16 August 2012
- the $204 million Real-estate perpetual ExchanNgeable sTep-up Securities (RENTS) was repurchased in June 2012, prior to the Step-up Date
- the weighted average cost of debt reduced from 6.6% to 6.1% and the average debt duration was maintained at 4.2 years as at 30 June 2012

DXS sits comfortably inside all its covenant limits and the Group's S&P and Moody's credit ratings of BBB+ and Baa1 respectively, both with stable outlooks, were reaffirmed during the year.

Redeploying capital into value-enhancing initiatives

Following the sale of the US central portfolio, a restructure of our US debt was undertaken, including the repayment and cancellation of bank credit facilities, US bonds and US mortgage notes together with associated hedging.

Our proactive capital management approach resulted in gearing being reduced by 120 basis points to 27.2%, well below our target of 30-40% and providing headroom of approximately $600 million.

Across the DXS debt platform, $850 million of facilities were refinanced during the year at average margins below 2% with a reduction of 50 basis points in the average cost of funds. Our debt duration was maintained at 4.2 years, exceeding our four-year target.

In total, we had an average of 73% of our debt hedged during FY12, with a weighted average interest rate of 4.3% and a weighted average maturity of 4.9 years. This has enabled us to take better advantage of a lower interest rate environment while managing currency and interest rate risks.

We remain in a strong position to respond to any changes in debt markets and have the capacity to redeploy funds into value enhancing acquisitions.

On market securities buy-back

On 16 April 2012 DXS announced that part of the surplus capital from the sale of the US central portfolio would be allocated to a $200 million on market buy-back of approximately 5% of our securities on issue.

At 30 June 2012 we had achieved 25.5% of our target, repurchasing 55.2 million securities for $51.0 million. By 16 August, this had reached 76.5 million securities or 35.3% of the buy-back for a total cost of $70.6 million.

The average price for all securities purchased by 16 August 2012 was $0.923, representing a 7.7% discount to NTA price per security of $1.00 as at 30 June 2012.

We believe that the buy-back is a sensible use of surplus capital when DXS securities trade at a discount to their underlying value and it is accretive to investor returns.

RENTS repurchase

On 30 March 2012 we announced our decision to repurchase and delist our $204 million RENTS hybrid securities, prior to the Step-up Date when the RENTS margin was to increase by 200 basis points to 3.3%.

1 Weighted average.

2 Refer to glossary for gearing definition.

3 Undrawn facilities plus cash.

4 Including $30 million of medium term notes that were secured post 30 June 2012.

DEXUS's TREASURY TEAM OF THE YEAR

The DEXUS Treasury Team took out the prestigious Corporate Treasury Team of the Year award at the Annual Capital/CFO Magazine awards, published by *The Australian Financial Review.*

Up against three other finalists – the Commonwealth Bank of Australia, Arrium (formerly OneSteel) and Bendigo and Adelaide Bank – the DEXUS team impressed the judges with the quality of our achievements in a challenging market and the level of teamwork demonstrated.

Particular recognition was given to the execution of the complex US central portfolio sale, with the smooth settlement of the US$770 million sale including repayment of bonds, mortgage loans and bank debt and the simultaneous release of various entities as guarantors from DXS's lending platform.

The DEXUS Treasury Team's ability to overcome challenges was demonstrated through their creative thinking and problem solving skills.

The award couldn't have been achieved without the collective efforts of the wider finance, legal, tax, property and funds teams supporting our capital management initiatives during the year.

The decision to repurchase was based on our liquidity requirements, availability of capital and our weighted average cost of capital.

The DEXUS RENTS Trust was delisted on 29 June 2012.

Change to our distribution payout policy

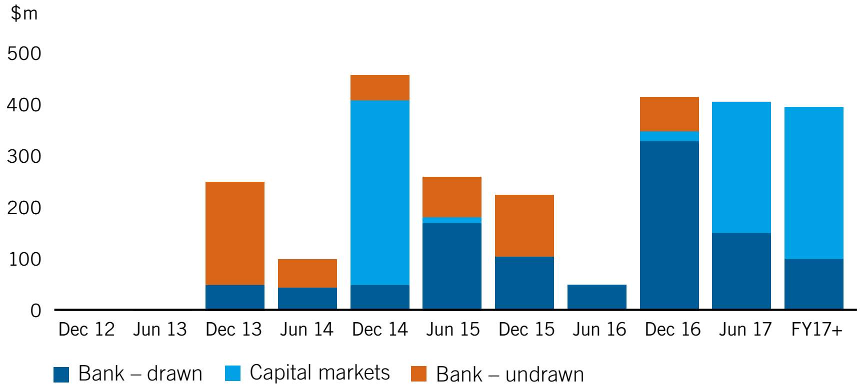
The completion of the NABERS Energy upgrade program and the sale of the capital intensive US central portfolio resulted in the announcement of a change to the distribution policy, effective for FY13.

Under the new policy DXS 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.

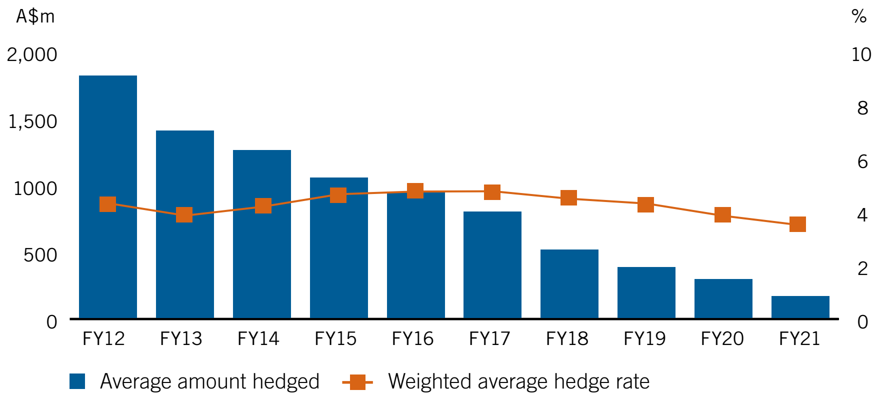
FY13 focus

For FY13 we will remain focused on reducing our cost of funds and maintaining a strong diversity of debt sources and duration of greater than four years. As a result we will maintain our strong credit rating metrics. We will also continue the on market securities buy-back, where it is accretive to investor returns and we will focus on redeploying or reducing our excess headroom.

DEBT MATURITY PROFILE



HEDGING MATURITY PROFILE



DXS REVIEW OF RESULTS AND OPERATIONS

Financial results

DEXUS Property Group's financial performance for the year ended 30 June 2012 is summarised below. To understand our results fully, please refer to the Financial Report in the 2012 Annual 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 table below reconciles between profit attributable to stapled security holders, FFO and distributions paid to stapled security holders.

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 previous 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 sale of the US central portfolio on 21 June 2012 for US$770 million and 12 European industrial properties sold for €82 million

Operationally, FFO increased 2.7% to $367.8 million (2011: $358 million) underpinned by the strong performance of the office portfolio and a reduced cost of debt. FFO per security increased 3.4% to 7.65 cents (2011: 7.40 cents per security).

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).

Operational results

The total value of investment property at 30 June 2012 was $6.9 billion, comprised of 67% office investments, 24% Australian industrial properties, 8% in the US and 1% in other.

- Office portfolio NOI 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. Occupancy was strong at 97.1% (2011: 96.2%), 4.4% higher than the national average of 92.2%[2]
- The Australian industrial portfolio's NOI increased by $3.6 million (3.1%) to $120.0 million (2011: $116.4 million) 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 was subsequently postponed. Occupancy by area for the portfolio fell to 91.7% (2011: 96.2%) with the departure of the tenant at 15-23 Whicker Road, Gillman. However at 16 August 2012, 57% of this space has subsequently been leased or is under Heads of Agreement
- On a constant currency basis, NOI from the industrial US portfolio declined $1.4 million to $74.7 million (2011: $76.1 million) due to property transactions including the sale of the central portfolio. Like-for-like NOI growth for the remaining west coast portfolio was strong at 3.8% (2011: 3.3%). Occupancy was 97.1%, broadly in line with the prior year occupancy of 97.7% for the core west coast portfolio
- 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 30 basis points
- Interest is no longer being capitalised on our two premium grade office buildings at 1 Bligh Street in Sydney and 123 Albert Street in Brisbane following their completion. This was the principal driver of the $27.5 million increase in financing costs, which was offset by additional rental income from the new properties. Overall cost of debt reduced 50 basis points to 6.1% for the year ended 30 June 2012 (2011: 6.6%)

The distribution payout policy commencing FY13 is between 70% and 80% of FFO, with FY13 guidance of 75% of FFO representing free cash flow.

	FY12 $m	FY11 $m
Net profit for the year attributable to stapled security holders	181.1	553.0
Net fair value gain of investment properties[3]	(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[4]	72.8	(7.1)
Foreign currency translation reserve transfer on partial disposal of foreign operations	41.5	–
Incentive amortisation and rent straight-line[3, 5]	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[6]	(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 (cents)	100.0	100.8

1 DXS'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 assets, straight-line rent adjustments, deferred tax expense/benefit and DEXUS RENTS Trust capital distribution.
2 Source: Jones Lang LaSalle.
3 Including DXS's share of equity accounted investments.
4 Including tax and finance cost impacts of the US central portfolio sale.
5 Including cash and fit-out incentives amortisation.
6 Based on the distribution policy for the financial year ended 30 June 2012 of 70% of FFO.

FIVE YEAR FINANCIAL SUMMARY

	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 commencing FY09.
2 Property assets include investment properties, non-current assets held for sale, inventories and investment property accounted for using the equity method.
3 Includes cash.

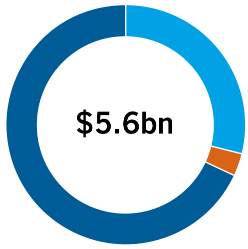
THIRD PARTY FUNDS MANAGEMENT

DEXUS is one of the leading managers of unlisted property funds in Australia, responsible for over $5.6 billion of funds under management

HIGHLIGHTS

	FY12	FY11	FY10
Portfolio value	**$5.6bn**	$6.2bn	$5.9bn
Number of properties	**46**	68	46
Office	**10**	15	18
Industrial	**24**	38	12
Retail	**12**	15	16
Average NABERS Energy ratings			
Office	**4.0**	3.9	3.3
Retail	**3.0**	2.9	N/A
Average NABERS Water ratings			
Office	**3.0**	2.7	2.5
Retail	**3.5**	2.9	N/A

THIRD PARTY FUNDS MANAGEMENT (BY VALUE)



DEXUS aims to be the partner of choice in commercial property for like-minded wholesale investors. During the year we built on our strong record of performance and our reputation for specialist property and investment skills and best practice corporate governance.

As at 30 June 2012, the third party funds management business was made up of the $3.8 billion DWPF that has 42 institutional investors, an Australian external mandate, SAS Trustee Corporation, totalling $1.6 billion and a $0.2 billion mandate in the US.

Overview

Despite current economic conditions, investor demand for unlisted property investments remains strong. Australian and international superannuation and pension funds continue to provide ready capital for investment in stable markets such as Australia.

Our active approach to property funds management continues to deliver strong performance in terms of investor returns and CR&S achievements for our third party investors. For DXS investors, the third party business introduces like-minded capital partners, who value expert investment and property management skills and provide DXS with investment management fees. This in turn supports our investment in experienced, specialist property and investment managers.

During the year the composition of the funds management business changed with the transfer of management of the AXA portfolio to AMP on 31 May 2012, following AMP's acquisition of the AXA business.

New capital partner

During the year, we focused on rebalancing the portfolios of our third party funds in line with their investment strategies and seeking new investment partnerships. In August 2012 we entered a new $360 million[1] joint venture partnership with the National Pension Service of Korea, who were advised by the real estate investment manager Heitman (see case study on page 39).

During the financial year, we sold a half share of QV1 in Perth for $310 million, as well as other smaller properties. In total, over $650 million of property was transacted on behalf of third party investors.

Delivering outperformance

In FY12, our third party business continued to outperform their benchmarks on a one, three and five year basis.

Third Party performance

Period to 30 June 2012 (pre fees)	1 year %	3 years %	5 years %
Third Party	9.86	9.23	5.00
Benchmark[2]	9.44	7.47	4.52
Variance	0.42	1.76	0.48

2 Mercer IPD Pre Fee Gross Asset Weighted Index to 30 June 2012 and annualised.

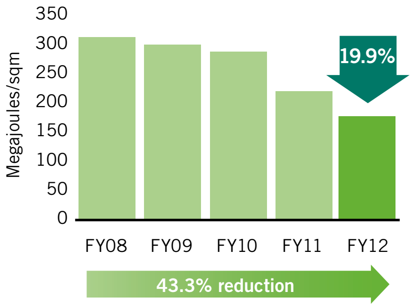
1 Initial partnership amount includes DXS's 50% interest in these properties.



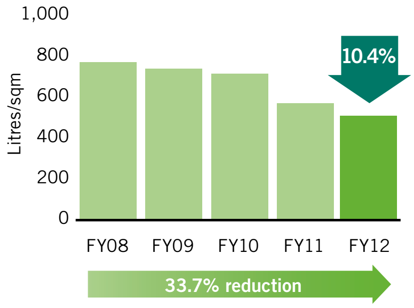


SUSTAINABILITY HIGHLIGHTS

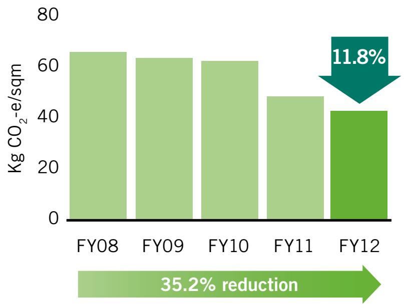
THIRD PARTY ENERGY CONSUMPTION/ INTENSITY



THIRD PARTY WATER CONSUMPTION/ INTENSITY



THIRD PARTY GHG EMISSIONS/ INTENSITY



Strong sustainability performance

We have been actively upgrading office properties in the third party business to increase NABERS ratings in line with agreed strategic improvement plans (SIPs).

Now that the majority of upgrades have been completed this has resulted in office properties in the third party business having an average NABERS Energy rating of 4.0 stars as at 30 June 2012.

In our retail properties our NABERS assessments were completed, achieving an average NABERS Energy rating of 3.0 stars for internally managed properties as at 30 June 2012, with additional investment planned to further increase efficiency.

The result of all sustainability initiatives across the third party funds portfolio is a reduction in energy and water consumption and greenhouse gas emissions on an intensity basis of 19.4%, 10.4% and 11.8% respectively over the last 12 months.

NEW CAPITAL PARTNERSHIP

Over the past year DEXUS has focused on securing new partnerships with like-minded wholesale investors.

In August 2012, we formalised a new long term capital partnership with one of the world's largest pension funds, NPS who were advised by the real estate investment manager Heitman, which will see NPS co-investing with DXS in selected industrial properties.

The initial portfolio is valued at $360 million[1] and includes a 50% joint ownership of 13 industrial properties at the Quarry in Greystanes, Sydney, NSW and the DEXUS Industrial Estate in Laverton North and Altona in Melbourne, VIC.

The partnership also has the potential to double over a five year period, with NPS having the exclusive option to partner in 50% of the future development pipeline at Quarry and Laverton North at the prevailing market value.

1 Initial partnership amount includes DXS's 50% interest in these properties.

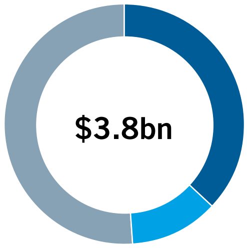
DEXUS WHOLESALE PROPERTY FUND

DWPF is an open-ended unlisted wholesale property fund which invests in a diversified portfolio of core and core plus retail, office and industrial properties

HIGHLIGHTS

	FY12	FY11	FY10
Total value	**$3.8bn**	$3.3bn	$2.8bn
Weighted average lease expiry (by income)	**3.9 years**	4.1 years	4.2 years
Occupancy (by area)	**96.6%**	95.8%	95.8%
Weighted average cap rate	**6.97%**	7.00%	6.91%
Number of properties	**30**	27	13
Portfolio quality – prime office, prime industrial and regional shopping centres	**82%**	80%	82%

DWPF ASSET MIX[1]



- Retail **51%**
- Office **37%**
- Industrial **12%**

DWPF has consistently delivered outperformance and was the top performing wholesale fund in the Mercer IPD Unlisted Pooled Property Fund Index for the 12 months to 31 December 2011.

Overall FY12 has been very successful for the Fund, which:

- outperformed its benchmark over the quarter, one and three year periods to 30 June 2012
- acquired three high quality office and industrial properties during the year, totalling $298 million[2]
- increased its portfolio weighting towards the office and industrial sectors, from 33.8% to 37.4% and from 10.6% to 11.9% respectively, in accordance with the Fund's strategy
- raised over $420 million of equity, including a distribution reinvestment plan (DRP), from both new and existing investors
- satisfied $90 million of redemption requests, with no outstanding requests at the end of the financial year
- had an occupancy rate across the portfolio of 96.6% as at 30 June 2012. Particularly strong performance was delivered at 1 Bligh Street (33% co-owned with DXS), with occupancy increasing from 54.4% to be 90% committed at 30 June 2012

Stand-out performance

DWPF has continued its success, outperforming its benchmark over the quarter, one and three year periods, on both a pre and post fees basis.

DWPF PERFORMANCE

Period to 30 June 2012 (post fees)	1 year %	3 years %	5 years %
Fund return	9.68	8.96	3.79
Benchmark[3]	8.80	7.23	4.15
Variance	0.88	1.73	-0.36

3 Mercer IPD Australian Pooled Property Fund Index (net returns net asset weighted).

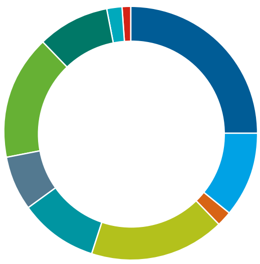
Strong capital management position

The Fund secured over $420 million of equity from both new and existing investors and an increased DRP participation rate. This investor support brings total equity raised since the start of the 2010 calendar year to approximately $1.4 billion.

The Fund has successfully managed unitholder liquidity requirements during the year, satisfying three redemption requests totalling $90 million.

As a result of this activity, the Fund enters FY13 in a stable capital management position with gearing at 15.6%, no outstanding redemption requests and strong interest from potential new investors.

DWPF ASSET CATEGORY[1]



- Sydney office **25%**
- Melbourne office **11%**
- Brisbane office **2%**
- Super-regional retail **17%**
- Sub-regional retail **10%**
- Major regional retail **7%**
- Regional retail **16%**
- NSW industrial **9%**
- VIC industrial **2%**
- QLD industrial **1%**

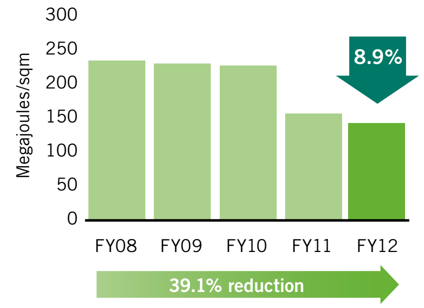
1 Based on book value at 30 June 2012. Includes properties acquired during the year.

2 Purchase price, excludes acquisition costs.

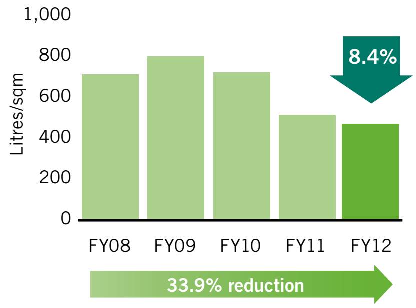
L to R: View from Governor Macquarie Tower, Sydney, NSW; Willows Shopping Centre, Townsville, QLD; Acquatica Business Park, Port Melbourne, VIC

SUSTAINABILITY HIGHLIGHTS

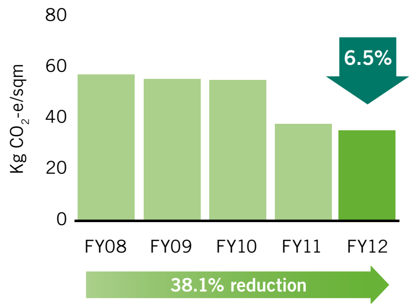
DWPF ENERGY CONSUMPTION/INTENSITY



DWPF WATER CONSUMPTION/INTENSITY



DWPF GHG EMISSIONS/INTENSITY



Strategic acquisitions and targeted divestments

DWPF completed three acquisitions during the year. This has enhanced portfolio returns and property valuations of each have increased:

- 452 Flinders Street, Melbourne is a high quality office asset in the western CBD core. It was acquired substantially below estimated replacement cost and was 99.7% leased at 30 June 2012
- Sir Joseph Banks Corporate Park, Botany is a modern prime industrial estate located in the south Sydney industrial precinct. It benefits from excellent road infrastructure and close proximity to Sydney's air and sea ports
- 34 Manton Street, Morningside is well situated within close proximity both to the Port of Brisbane and Brisbane airport. It was 100% leased at 30 June 2012. The acquisition included an attractive value-add opportunity with additional development potential on the site

In addition, in August 2012, DWPF exchanged contracts to acquire 12 Creek Street in Brisbane for $241.6 million jointly with DXS.

Development plans

Planning and design work continues on a number of development opportunities within the portfolio, including:

- planning permit approved to develop a rear plaza annex of 21,000 square metres at 360 Collins Street, Melbourne. Marketing is underway to secure tenant pre-commitment
- development application approved by Townsville City Council (pending a public appeal) for a supermarket relocation and additional specialty shops in Willows Shopping Centre
- plans for development work at Westfield Miranda and Westfield West Lakes

Reducing resource consumption

DWPF continues its commitment to sustainability performance through a process of proactive property management, prudent risk management and a commitment to continuous improvement.

While not mandatory for the retail sector, NABERS ratings were again completed for our entire retail portfolio and targets set for continual improvement.

Through a combination of focused management and the use of SIPs, the Fund has been enhancing the performance of its properties. Two of the Fund's landmark office buildings, Gateway, Sydney and 360 Collins Street, Melbourne have increased by 1.5 stars each under the NABERS Energy rating system to 4.5 stars and 3.5 stars respectively.

On a smaller scale, the Fund is in discussions for a potential partnership with a major tenant at Aquatica Business Park in Port Melbourne to install a 27kW solar panel system, which will result in substantial energy savings and offset 44 tonnes of CO_2 per annum.

Across the Fund in FY12, our energy consumption reduced by 8.9%, water consumption fell 8.4% and greenhouse gas emissions trended down by 6.5% on an intensity basis.

DWPF will continue to invest in high quality sustainable properties and actively monitor and manage performance to deliver further improvements and returns to investors.

FY13 COMMITMENTS

DEXUS's vision is to be globally recognised as Australia's leading real estate company

The primary goal for our revised strategy in FY13 is to refocus the business on core activities and strengthen the business for growth and outperformance. This will be achieved by delivering on our strategic objectives in office leadership, core capabilities, capital partnerships and capital and risk management.

Our overarching objective is to deliver superior risk-adjusted returns for our investors from high quality Australian real estate and drive ethical and responsible performance in all areas of our operations.

For FY13 we have identified our top 10 material issues, which came from our analysis of:

- business plans from across the organisation
- tenant surveys
- our Employee Opinion Survey
- the FY11 materiality workshop results

This breadth of information has allowed us to consider materiality in terms of our current and future performance, in line with our strategy.

By developing commitments for FY13 based on the most material issues to our stakeholders, we aim to deliver outcomes aligned to the interests of security holders and the wider community.

This is in line with our responsibility as a good corporate citizen.

Top 10 material issues for FY13

Material issue	To manage this issue we will	Refer to
Market leadership	Demonstrate clear market leadership in the quality of our portfolio, the calibre and expertise of our property team, the delivery of service excellence to our tenants and enhanced returns to investors	Our Strategy, page 4 FY13 Commitments – Our Investors
Long term sustainable performance	Invest in, actively manage and develop quality properties in key markets to deliver enhanced returns	Our Strategy, page 4 FY13 Commitments – Our Investors
Cost-effective access to capital	Leverage access to capital through our Third Party Funds Management business and engage with the wider investment community	Our Strategy, page 4 FY13 Commitments – Our Investors
Capability and performance of Board and senior management	Provide effective oversight and implement our revised strategy	Corporate Governance, page 46 FY13 Commitments – Our Employees
Board and executive remuneration	Implement a transparent, performance-based remuneration framework	Corporate Governance, page 49 FY13 Commitment – Our Employees
Competition for tenants	Engage with existing and prospective tenants to ensure delivery of service excellence	FY13 Commitments – Our Tenants
Attraction and retention of employee talent	Engage with our employees and implement appropriate remuneration strategies	FY13 Commitments – Our Employees
Employee skills and capabilities development	Target development and training programs for our employees	FY13 Commitment – Our Strategy
Rising cost of energy and water	Manage and deliver energy and water efficient buildings in line with leading practice	FY13 Commitments – Our Environment
Risk management and regulatory compliance	Implement effective risk management processes and a robust governance structure	Corporate Governance, page 46 and the 2012 Annual Report

OUR INVESTORS

Market leadership, sustainable growth, financial performance and capital management

- Deliver FFO earnings per security of 7.75 cents per security, representing a payout ratio of 75% of Funds From Operations
- Target a return on equity of 9-10% per year through the cycle
- Continue the disposal of non-core properties and recycle capital into core Australian properties and markets
- Deliver long term top quartile performance relative to our peer group, industry benchmarks and global indices

Capital management

- Maintain strong credit rating metrics
- Maintain debt duration of greater than four years

Office

- Actively manage lease expiries and improve portfolio occupancy, with a focus on expiries in Sydney's western corridor
- Increase our office property investments in order to reach a target portfolio composition of 80%-90% of assets over the next 3-5 years

Industrial

- Actively manage lease expiries and improve portfolio occupancy
- Deliver committed development leasing
- Grow industrial exposure in our third party funds

Industrial US and EU

- Maintain leasing focus in the US portfolio
- Progress our exit strategy for the US and European portfolios

Third Party Funds Management

- Continue to achieve investment objectives to enhance returns
- Establish new third party capital partnerships

OUR TENANTS

Tenant attraction and retention

- Service Excellence Charter adopted by office and industrial teams and incorporate service levels into team KPIs
- Improve tenant retention across all portfolios
- Increase response rates and improve tenant satisfaction survey scores through targeted engagement
- Monitor and report on the take up of DEXUS's green lease schedule by tenants across each portfolio
- Rollout the Insurance Affinity program for retail tenants providing access to group discounted rates

OUR SUPPLIERS

Fairness and efficiency

- Work with our service providers to implement the new DEXUS Service Excellence Charter, Supplier Principles, Sustainable Procurement Policy and Supplier Code of Conduct with KPIs to measure success
- Create strategic alliances with leading suppliers to achieve economies of scale and enhance value

OUR EMPLOYEES

Board and employee capabilities, remuneration and talent retention

- Implement a more transparent and market aligned remuneration strategy and compensation and benefits framework for our employees
- Increase accountability and create a stronger link between performance and reward through alignment to Group and individual KPIs

OUR COMMUNITY

Community relationships

- Increase DEXUS's volunteering commitment with at least 75% of employees contributing to one day's community service during the year
- Evaluate DEXUS's strategic relationships with, and membership of, industry and environmental bodies to ensure they are aligned with our corporate and community goals
- Promote and expand community engagement activity in our office and industrial portfolios

OUR ENVIRONMENT

Resource efficiency and sustainability

- Outperform the IPD Green Building Index through responsible capital investment in environmental initiatives and maintain our average 4.5 star NABERS Energy rating across the office portfolio
- Continue to drive sustainability in our industrial estates, such as Greystanes, through the use of master planning and resource efficiency programs
- Deliver a 10% energy saving over the next three years across our property portfolio
- Expand our Carbon Neutrality program to our other business areas

DEXUS BOARD OF DIRECTORS

L to R: Elizabeth Alexander, John Conde, Barry Brownjohn, Darren Steinberg (CEO), Chris Beare (Chair), Richard Sheppard, Stewart Ewen, Tonianne Dwyer and Peter St George

Chris Beare

BSc, BE (Hons), MBA, PhD, FAICD
Chair and Independent Director

Chris Beare is both the Chair and an Independent Director of DEXUS Funds Management Limited (appointed 4 August, 2004). He is also a member of the Board Nomination, Remuneration & Governance Committee and the Board Finance Committee. Chris has significant experience in international business, technology, strategy, finance and management.

Elizabeth Alexander AM

BComm, FCA, FAICD, FCPA
Independent Director

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. Elizabeth brings to the Board extensive experience in accounting, finance, corporate governance and risk management and was formerly a partner with PricewaterhouseCoopers.

Barry Brownjohn

BComm
Independent Director

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. Barry has over 20 years' experience in Australia, Asia and North America in international banking.

John Conde AO

BSc, BE (Hons), MBA
Independent Director

John Conde is an Independent Director of DEXUS Funds Management Limited (appointed 29 April, 2009) and is the Chair of the Board Nomination, Remuneration & Governance Committee. John brings to the Board extensive experience across diverse sectors including commerce, industry and government.

Tonianne Dwyer

BJuris (Hons), LLB (Hons)
Independent Director

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.

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. Stewart has extensive property sector experience and started his property career with the Hooker Corporation in 1966.

Richard Sheppard

BEc (Hons)
Independent Director

Richard Sheppard is an Independent Director of DEXUS Funds Management Limited (appointed 1 January, 2012), a member of the Board Audit, Risk & Sustainability Committee and the Board Finance Committee. Richard brings to the DEXUS Board, extensive experience in the banking and finance industries and as a Director and Chairman of listed and unlisted property trusts.

Darren Steinberg

BEc, FRICS, FAPI
Chief Executive Officer and Executive Director

Darren Steinberg is CEO and Executive Director of DEXUS Funds Management Limited (appointed 1 March, 2012). Darren has overall responsibility for the operations of DEXUS. Darren has an extensive background in office, retail and industrial, property investment and development.

Peter St George

CA(SA), MBA
Independent Director

Peter is an Independent Director of DEXUS Funds Management Limited (appointed 29 April, 2009) and is Chair of the Board Finance Committee. Peter has more than 20 years' experience in senior corporate advisory and finance roles.

GROUP MANAGEMENT COMMITTEE

Darren Steinberg

Chief Executive Officer and Executive Director

Darren has overall responsibility for the operations of DEXUS. Darren has an extensive background in office, retail and industrial, property investment and development.

Tanya Cox

Executive General Manager, Property Services and Chief Operating Officer

Tanya 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 almost 10 years' experience in the property industry and a further 15 years' experience in the finance industry.

Pat Daniels

Executive General Manager, Human Resources

Pat is responsible for leading the Company's human resources function with a strong focus on partnering with the business to attract and retain the calibre of employee required for a leading property group. Pat's career has spanned both government and financial sector roles in a variety of countries – Australia, Indonesia, Lebanon, Japan and Singapore – and she brings extensive experience in human resources management.

Ross Du Vernet

Executive General Manager, Strategy & Research

Ross is responsible for corporate strategic planning and execution, transactions and property research across the Group. Ross has a depth of experience in real estate funds management, capital management and mergers and acquisitions in Australia and abroad.

L to R: Craig Mitchell, Tanya Cox, John Easy, Darren Steinberg (CEO), Ross Du Vernet, Pat Daniels and David Yates

John Easy

General Counsel

John is responsible for the legal function and compliance, risk and governance systems and practices across the Group, as well as company secretarial services. John's career spans over 20 years with the majority of this time in the property and funds management industry.

Craig Mitchell

Chief Financial Officer

Craig is responsible for the Group's finance, tax and treasury function. In addition, he is also responsible for the funds management business which includes the management of the DEXUS retail portfolio. Craig has more than 20 years of experience with over 15 years specialising in the property industry.

David Yates

Executive General Manager, Investor Relations & Communications

David is responsible for the investor relations and communications function across the Group combined with managing the relationships and information flow to the investment community. David has more than 13 years of investor relations experience specifically in the Australian commercial property industry.

1 EGM, Office & Industrial to be appointed.

CORPORATE GOVERNANCE

At DEXUS, we strive to meet the highest ethical, efficiency and governance standards. We continually review our processes to deliver enhanced performance and benefits to our investors, tenants and stakeholders. Each year we review our approach to corporate governance to ensure best practice

Board and Committee membership

During the year the Chair, Chris Beare, conducted a series of interviews with Independent Directors as part of our Board performance evaluation program, to seek their views regarding Board and Board Committee performance. These discussions led to several improvements to Committee structures and membership, effective 1 July 2012.

The Board currently comprises eight Independent Directors and DEXUS's Chief Executive Officer. 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. So, while up to ten Directors may be appointed, the Board has decided that its long term target is to reduce its membership to eight.

Board Committees have been streamlined and reduced to a membership of three Independent Directors effective 1 July 2012, impacting for example, the Board Audit, Risk & Sustainability Committee and the Board Finance Committee.

Group Management Committee responsibilities

The Board has appointed a Group Management Committee (GMC) comprising the most senior executives. This committee is responsible for achieving DEXUS's objectives, including ensuring the prudent financial and risk management of the Group.

Members of the GMC in FY12 were the Chief Executive Officer, Chief Investment Officer, Chief Financial Officer, Chief Operating Officer and General Counsel.

From 1 July, 2012, the GMC has been extended to include Executive General Managers heading Human Resources, Investor Relations and Communications and Strategy, Transactions and Research.

DEXUS Funds Management committees and policies

Board
Audit, Risk & Sustainability Committee[1]
Compliance Committee
Finance Committee
Nomination, Remuneration & Governance Committee[2]

Management Committees
Group Management Committee
Capital Markets Committee
Compliance, Risk & Ethics Committee[3]
Continuous Disclosure Committee
Corporate Responsibility and Sustainability Committee
Investment Committee
US Investment Committee
US Management Committee

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

1 A combination of the Audit Committee and the Risk & Sustainability Committee.
2 Formerly the Nomination & Remuneration Committee.
3 Formed by the merger of the Compliance Committee, Internal Audit Committee and Risk Committee.

Compliance, risk and ethics

The new Compliance, Risk & Ethics Committee oversees the risk and compliance functions within DEXUS. It has oversight of policies and procedures that encourage and support ethical behaviour by individuals and DEXUS as a company.

The Committee reports regularly to the GMC and the Board Compliance Committee and Audit, Risk & Sustainability Committee.

Risk management

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

During FY12, the Board Audit, Risk & Sustainability Committee focused on strategic risk management, including DEXUS's appetite for risk and its Business Continuity Plan. DEXUS operates in a dynamic and challenging environment which requires a careful and robust approach to risk. We actively review and manage our risks as an integral part of our decision-making process.

The Board and the GMC consider business risks when setting strategies and approving investments.

This process identifies risks and corresponding mitigating controls. Where residual risks fall outside DEXUS's risk appetite, additional controls are identified and implemented.

Business opportunities seen as high risk are not pursued unless risk can be mitigated to an acceptable level. Our key risks and how we respond to them are detailed below.

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

Director and Executive trading

The Board has reconsidered its previous decision that DEXUS Directors and senior executives be prohibited from trading in any security managed by the Group.

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

Directors and employees will only be able to trade DXS securities in defined trading windows and additional procedures have been introduced to further minimise the risk of insider trading or perceived conflicts of interest.

Leading practice corporate governance

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

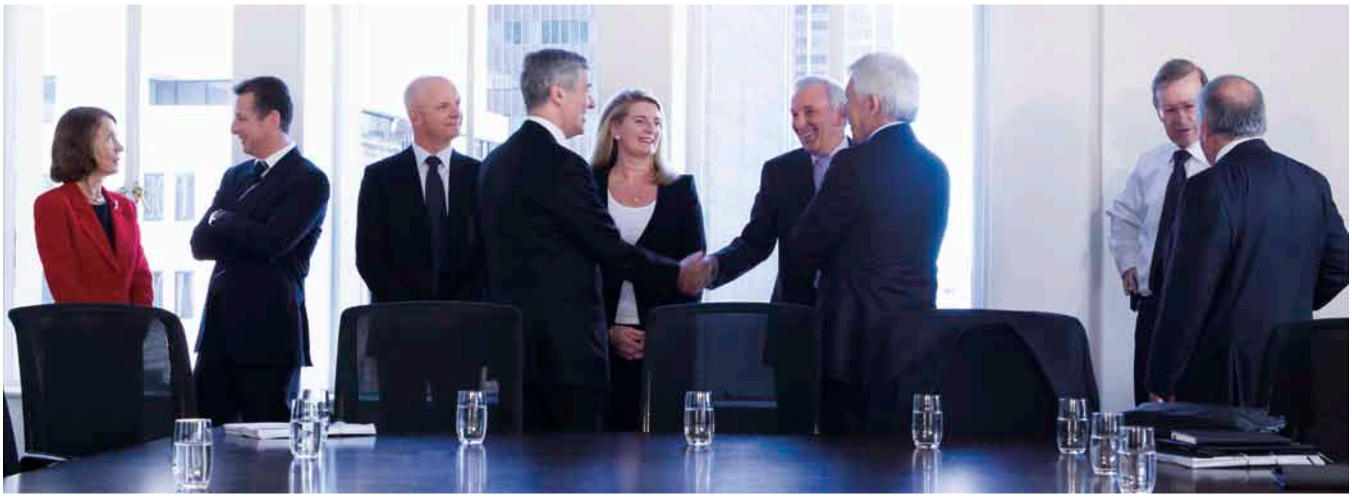
While DXFM is not a publicly listed company, the Board has implemented a corporate governance framework that extends to all DXFM funds and mandates which:

- satisfies the highest standards and procedural requirements of a publicly listed company, including the conduct of an annual general meeting, the appointment of Independent Directors by DEXUS security holders and corporate disclosure, such as the remuneration report
- supports the strategic objectives of the Group
- defines accountability
- sets out a process for managing the risks inherent in its day-to-day operations

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

ASX Corporate Governance Principles and Recommendations	Complies	DEXUS Annual Report
Principle 1 Lay solid foundations for management and oversight	✓	Page 7
Principle 2 Structure of the board to add value	✓	Pages 7-9
Principle 3 Promote ethical and responsible decision making	✓	Pages 9-10
Principle 4 Safeguard integrity in financial reporting	✓	Pages 10-11
Principle 5 Make timely and balanced disclosure	✓	Page 11
Principle 6 Respect the rights of shareholders	✓	Page 12
Principle 7 Recognise and manage risk	✓	Pages 12-13
Principle 8 Remunerate fairly and responsibly	✓	Page 13

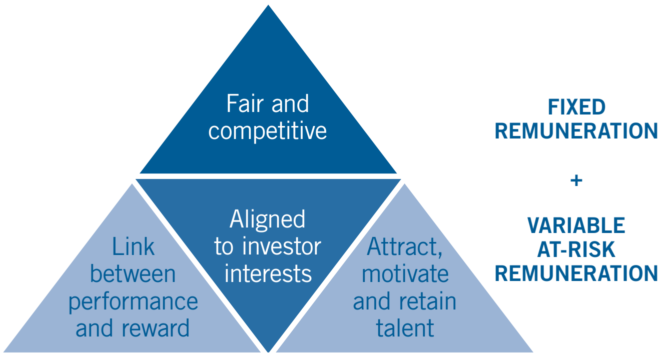
For more information and our performance against the ASX Governance Principles, refer to the full Corporate Governance Statement in the Annual Report starting on page 6, or at www.dexus.com/corporategovernance



Remuneration policy

The Board believes that key executives should be rewarded commensurate 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 tenants under contemporary lease arrangements, asset valuation, 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 Board's Nomination, Remuneration & Governance Committee reviews trends in employee reward structures and strategies adopted by:

- 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 advisors, proxy advisors and institutional investors.

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

The proposed new remuneration framework is subject to security holder approval at the AGM on 5 November 2012.

New executive remuneration framework

The major outcomes of the review, which are applicable to key DEXUS executives are:

- no increase in fixed remuneration for FY13
- the DEXUS Performance Payment (DPP) Plan will be discontinued
- the DEXUS Deferred Performance Payment (DDPP) Plan, including composite index benchmarking and the availability of a performance multiplier, will become a legacy plan and will be closed to new grants
- for awards earned in prior years under the DDPP Plan, the Board has signalled its intention to discontinue the performance multiplier
- a revised Short Term Incentive (STI) Plan will be introduced reflecting achievement of results against balanced scorecard metrics with:
  - 75% of any award paid in cash
  - 25% deferred into performance rights to DXS securities, subject to clawback and service conditions, vesting in two equal tranches after 12 and 24 months
- a new Long Term Incentive (LTI) Plan will be introduced, in which key Executives will be granted performance rights to DXS securities subject to three performance hurdles which will be relative total security holder return, Funds From Operations per security and Return on Equity related measures
- the new LTI Plan will vest in two equal tranches, three and four years after the grant date and will be subject to service and clawback conditions, with no retesting available

To reflect the introduction of the STI deferral and the new LTI Plan, the remuneration mix for executives will be changed to:

- Stretch target STI as a percentage of fixed remuneration will be:
  - CEO and CFO – 100%
  - Other key executives – 70%
  - For significant outperformance, an additional 25% could be awarded
- LTI grants as a percentage of fixed remuneration will be:
  - CEO – 85%
  - CFO – 50%
  - Other key executives – 30%

The Board considers these weightings to be appropriate, given the nature of DEXUS's business and these have been set to ensure that the Group continues to attract, motivate and retain senior executives who create security holder value.

The Board is committed to providing greater clarity regarding how executive pay outcomes are determined, including more detailed disclosure of balanced scorecard criteria and DEXUS's performance positioning against comparator benchmarks.

The Board is confident that the new framework better supports and drives the achievement of the strategic objectives of the Group and represents an appropriate balance between pay outcomes and the creation of security holder value.

Non-Executive Director remuneration

Board and Committee fees paid to Non-Executive Directors for the years ended 30 June 2011 and 30 June 2012 are outlined in the table below.

Fees are reviewed annually by the Board Nomination, Remuneration & Governance Committee to ensure they reflect the responsibilities of Directors and are market competitive.

Total payments to Non-Executive Directors remain within the aggregate fee pool of $1,750,000 per annum approved by DXS security holders at its Annual General Meeting in October 2008 and reflect a base fee with additional payments for membership of Board Committees for all except the Chair.

This table summarises the actual cash and benefits received by each Non-Executive Director for the year to 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	–	–		–
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	–	–		–
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**		**1,527,875**
	2011	1,284,488	138,012		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 on 1 January 2012.

Remuneration of DEXUS Executives

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 the Remuneration Report contained in the DEXUS 2012 Annual Report.

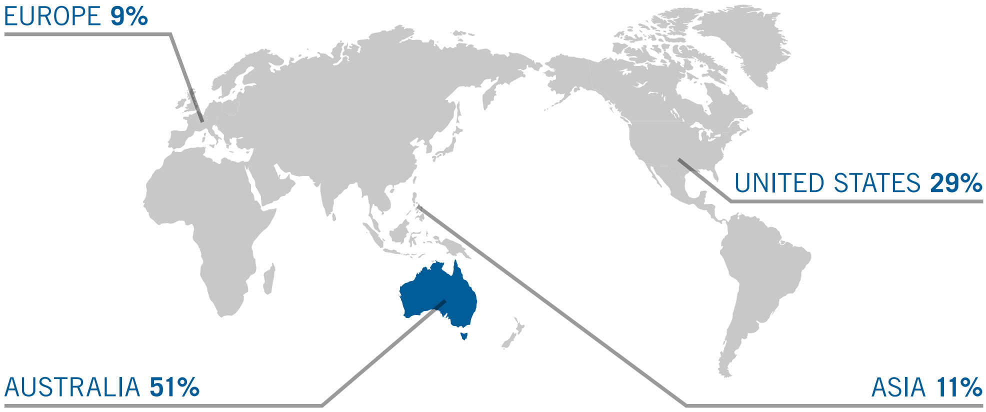
		Short term benefits			Post-employment benefits		Security-based benefits	Long term benefits		
Key Executive	**Year**	**Cash salary $**	**DPP awards[1] $**	**Other short term benefits[2] $**	**Pension & super benefits[3] $**	**Termination benefits[4] $**	**Transition performance rights[5] $**	**DDPP awards[6] $**	**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									
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**		**330,000**		**635,817**	**5,842,484**
	2011	1,461,603	835,000		88,397			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		185,795			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.

INVESTOR INFORMATION

DXS INVESTORS

DEXUS Property Group is one of the largest real estate groups listed on the Australian Securities Exchange (ASX) and is listed under the ASX code DXS. Over 18,000 investors located in 15 countries around the world invest in DXS, highlighting the investor demand both domestically and abroad for our high quality property portfolio.



Investor Relations

The Investor Relations team drives and facilitates communication with existing and potential institutional investors, financial analysts and retail investors.

The team, alongside DEXUS senior management, maintains strong rapport with the investment community through proactive and regular investor engagement initiatives. During FY12, we participated in investor conferences and roadshows in Singapore, Hong Kong and the United States.

We are committed to ensuring all investors have equal access to information about our investment activities. In line with our commitment to the long term integration of sustainable business practices, we provide investor communications via various electronic methods.

We provide a wide range of information including ASX announcements, our annual reporting suite, presentations, corporate governance policies, Board of Directors and executive team information at www.dexus.com

For a full list of our ASX announcements, visit page 95 of the Annual Report.

In addition, we have communication tools available on our website, including:

- an online enquiry facility at www.dexus.com/contact and a contact directory
- an investor login facility at www.dexus.com/dxs which allows investors to choose the method of delivery for distributions, distribution statements and investor reports
- a subscribe feature at www.dexus.com/media which enables investors to receive ASX announcements as they are released
- a “create your property report” function at www.dexus.com/properties which enables you to select and download individual or group property information

Annual General Meeting information

On Monday 5 November 2012 our Annual General Meeting (AGM) will be held at ASX Exchange Square, 20 Bridge Street, Sydney commencing at 2.00pm.

We encourage investors to attend the AGM in person and to meet our Board of Directors and Executive team. The AGM will be webcast at www.dexus.com for those investors who are unable to attend in person. The Chairman’s address and the meeting results will be announced to the ASX and will be available at www.dexus.com/dxs

Distribution payments

DXS revised its distribution policy effective from 1 July 2012. The new payout policy will be to distribute between 70% and 80% of Funds From Operations (FFO), in line with free cash flow, with the expectation that over time the average payout ratio will be around 75% of FFO.

Distributions are paid for the six months to 31 December and 30 June each year. Distribution statements are available in print and electronic formats and are paid by direct credit into a nominated bank account or by cheque. To change the method of receiving distributions or how they are paid, please use our investor login facility at www.dexus.com/dxs

Unclaimed distribution income

If you believe you have unpresented cheques or unclaimed distribution income, please contact the DXS Infoline on 1800 819 675.

For monies outstanding more than seven years, please contact the NSW Office of State Revenue on 1300 366 016, use their search facility at osr.nsw.gov.au or email unclaimedmoney@osr.nsw.gov.au

Annual taxation statements

An annual taxation statement is sent to investors in August each year. The statement summarises distributions provided during the financial year and includes information required to complete your tax return. Annual taxation statements are also available online at www.dexus.com/dxs via our investor login facility.

Non-resident information

The notice required by non-resident investors and custodians of non-resident investors for the purposes of Section 12-400 of Schedule 1 to the *Tax Administration Act 1953* is available at www.dexus.com/dxs/tax prior to the payment of each distribution.

Complaints

Investors wishing to lodge a complaint should do so in writing and forward it to DEXUS Funds Management Limited at the address shown in the Directory.

DEXUS Funds Management Limited is a member of Financial Ombudsman Service (FOS), an independent dispute resolution scheme who may be contacted at:

Financial Ombudsman Service
GPO Box 3
Melbourne VIC 3001

Phone: 1300 780 808
Fax: +61 3 9613 6399
Email: info@fos.org.au
Website: fos.org.au

2013 Distribution calendar

Period end	ASX announcement	Ex-distribution date	Record date	Payment date
31 Dec 2012	18 Dec 2012	21 Dec 2012	31 Dec 2012	28 Feb 2013
30 Jun 2013	19 Jun 2013	24 Jun 2013	28 Jun 2013	30 Aug 2013

2013 Reporting calendar

Event	Anticipated date
2012 Annual General Meeting	5 Nov 2012
2013 Half-year results	14 Feb 2013
2013 Annual results	15 Aug 2013
2013 Annual General Meeting	31 Oct 2013

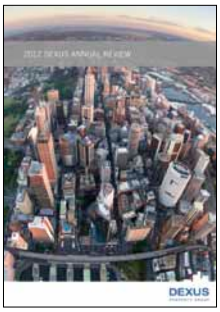
Please note that these dates are indicative and are subject to change without prior notice.

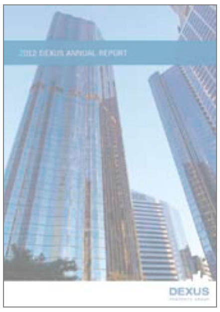
GLOSSARY

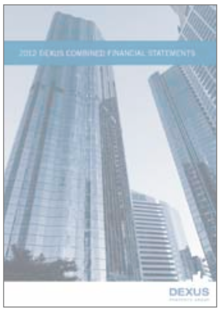
AGM	Annual General Meeting
AIFRS	Australian International Financial Reporting Standards
A-REIT	Australian Real Estate Investment Trust
Baa1	A Moody's credit rating
Bagasse	The fibrous matter that remains after sugarcane or sorghum stalks are crushed to extract their juice, which is used as a biofuel
BBB+	A Standard & Poor's credit rating
Biogas	A gas produced by the biological breakdown of organic matter in the absence of oxygen and converted into an organic fuel (a biofuel)
Buy-back	The repurchase of stock by the company that issued it
Capitalisation rate	Cap rate: ratio between the net operating income produced by an asset and its capital cost
Carbon neutral	Achieving net zero carbon emissions by balancing a measured amount of carbon released with an equivalent amount sequestered or offset
CBD	Central Business District
CO_2	Carbon dioxide
CR&S	Corporate Responsibility and Sustainability
DEXUS Group, DEXUS or the Group	DXS and the Third Party Investment Management business
DEXUS Performance Payment Plan (DPP)	The previous remuneration incentive plan for senior DEXUS executives
DEXUS Property Group, DXS or the Trusts	The four Trusts that comprise DEXUS Property Group Stapled Security: DEXUS Diversified Trust (DDF); DEXUS Industrial Trust (DIT); DEXUS Office Trust (DOT); and DEXUS Operations Trust (DXO)
Distribution Reinvestment Plan (DRP)	The reinvestment of a unit holder's distributions back into DWPF
DJSI	Dow Jones Sustainability Indexes: the Indexes track the stock performance of the world's leading companies in terms of economic, environmental and social criteria
Duration of debt	The average term to maturity of all amounts drawn down under debt facilities
DWPF	DEXUS Wholesale Property Fund
DXFM	DEXUS Funds Management Limited, the Responsible Entity for each of the four Trusts that comprise DEXUS Property Group
EBIT	Earnings Before Interest and Tax
FFO	Funds from Operations. This term is often used as a measure of real estate operating performance after finance costs and taxes. At DEXUS it represents AIFRS profit after tax attributable to stapled security holders, adjusted for property revaluations, impairments, derivative and foreign currency mark to market movements, amortisation of certain tenant incentives, profit and loss on sale of certain assets, straight-line rent adjustments, deferred tax expense and DEXUS RENTS Trust capital distribution
FUM	Funds Under Management
FY11/FY12, etc	Financial years to 30 June 2011, 2012
GHG	Greenhouse gases
GJ	Gigajoule, a measurement of energy
Green lease	Clauses inserted into a lease requiring both parties to minimise their impact upon the environment and their use of resources
Green Star	A comprehensive, national, voluntary environmental rating system that evaluates the environmental design and construction of buildings and communities
Green Star – Office As Built v2	A rating tool that assesses the delivery of the same environmental design criteria as in Green Star – Office Design v2, but at construction completion
GRI	Global Reporting Initiative – a non-profit organisation that promotes economic sustainability. It produces standards for sustainability reporting by corporations
Headroom	The total of all amounts under debt facilities not yet drawn but available to be drawn plus cash
Heads of Agreement	An agreement between tenant and landlord on the commercial terms and conditions of a lease
Hedged debt	The amount of drawn debt subject to a contracted fixed or capped interest rate (this includes fixed rate bonds and bank debt not converted by interest rate swaps to floating rate debt)
Inland Empire	A major market east of Los Angeles, consisting of Inland Empire West and Inland Empire East (also known as Riverside). Inland Empire West includes the sub-markets of Chino, Fontana, Mira Loma, Rancho Cucamonga and Rialto. Inland Empire East includes Riverside up to San Bernardino and the Moreno Valley

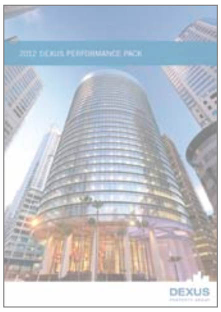
Intensity	Graph data is provided on an "intensity per square metre" basis which enables like-for-like comparisons year-on-year, excluding property acquisitions, disposals and developments during the period. Note: all environmental data includes only properties under our operational control as defined under NGERS
IRR	Internal rate of return: a rate of return used in capital budgeting to measure and compare the profitability of investments
IPD	Investment Property Databank, a world leader in performance analysis for owners, investors, managers and occupiers of real estate
IPD Green Building Index	An index that quantifies the investment performance of buildings with a Green Star, NABERS Energy or NABERS Water rating
KPI	Key Performance Indicators
kW	Kilowatt
kWh	Kilowatt hours
Lease duration	Refer to WALE in this glossary
LEED	Leadership in Energy and Environmental Design, a green building rating system in the US. It is equivalent to Green Star in Australia
Like-for-like	A comparison using a consistent group of properties
LTI	Long term incentive
MBA	Master of Business Administration
MJ	Megajoule, a measurement of energy
NABERS	National Australian Built Environment Rating System, a performance-based environmental impact rating system for existing buildings
NLA	Net lettable area
NOI	Net operating income
NTA	Net tangible assets
Operational control	A company is deemed to have operational control of premises when it has the authority to introduce and implement operating, health and safety and/or environmental policies
Pre-lease	To obtain lease commitments in a building or complex prior to it being available for occupancy
Premium/A-grade/ B-grade, etc	A quality rating for office buildings, developed by the Property Council of Australia for office buildings
RENTS	Real-estate perpetual ExchaNgeable sTep-up Securities – DEXUS RENTS Trust
Responsible entity	An Australian public company holding an Australian Financial Services Licence who holds the dual role of trustee and manager of a managed investment scheme, as prescribed by the Commonwealth *Corporations Act (2001)*
S&P	Standard & Poor's rating agency
Sector/(s)	Property investment sectors. Specifically, office, industrial, industrial US, retail
Sf/sqm	Square feet/square metres
Step-up date	A one-off increase in the margin payable on RENTS of 2.00% per annum which would apply to any outstanding RENTS from 1 July 2012
STI	Short term incentive
Strategic improvement plans (SIPs)	A plan which identifies projects that will have a positive environmental impact upon the organisation's operations
Tenant incentive	A property industry standard practice. Tenants may be offered incentives by property owners who pay a given amount towards the tenant's fit-out and/or a rent free period at commencement of the lease
UNPRI	United Nations Principles for Responsible Investment, a network of international investors working together to put the six Principles for Responsible Investment into practice
WALE	Weighted Average Lease Expiry. The weighted average lease term remaining to expire across a portfolio, it can be weighted by rental income or square metres
Weighted average cost of capital	A calculation of a firm's cost of capital in which each category of capital is proportionately weighted

2012 ANNUAL REPORTING SUITE









DEXUS Property Group (DXS) presents our 2012 annual reporting suite and supporting material for the year ending 30 June 2012:

1. This 2012 DEXUS Annual Review – an integrated report summarising our financial, operational and Corporate Responsibility and Sustainability (CR&S) performance.
2. The 2012 DEXUS Annual Report – DXS's consolidated financial statements, Corporate Governance Statement and information about our Board of Directors. This document should be read in conjunction with the 2012 DEXUS Annual Review.
3. The 2012 DEXUS Combined Financial Statements – the Financial Statements of DEXUS Industrial Trust, DEXUS Office Trust and DEXUS Operations Trust. This document should be read in conjunction with the 2012 DEXUS Annual Report and Annual Review. It is available in hard copy on request by email at ir@dexus.com, phone on 1800 819 675 or online in our annual reporting suite at www.dexus.com/dxs/reports
4. The 2012 DEXUS Performance Pack – the data and information supporting the results outlined in the 2012 DEXUS Annual Review will be available in our online annual reporting suite from mid-October 2012. Further CR&S information can be found on our website at www.dexus.com/crs

Through these reports we demonstrate how we manage our financial and non-financial performance in line with our corporate strategy.

We welcome your feedback, either via the feedback function in our online report at www.dexus.com/dxs/reports or by email at crs@dexus.com

Report scope

The Annual Review covers our financial performance at all locations, including Australia, New Zealand, the United States and Europe. Environmental data only includes properties under our operational control as defined under the National Greenhouse and Energy Reporting System (NGERS). The US has been excluded from our environmental reporting given the sale of a substantial part of the portfolio as detailed in the report and the reclassification of the remaining portfolio as non-core. All figures contained in this Annual Review are as at 30 June 2012 and all $ amounts are in Australian dollars, unless otherwise specified. All resource graphs in this report display consumption and GHG emissions on an intensity basis (per square metre) basis. Absolute consumption and additional information is provided in the Performance Pack in our online reporting suite at www.dexus.com/dxs/reports, available mid October 2012.

Independent assurance

In addition to auditing our Financial Statements, PricewaterhouseCoopers (PwC) has provided limited assurance over select data from Australia and New Zealand within our integrated online reporting suite. This covers the 12 months to 30 June 2012 in accordance with our reporting criteria (www.dexus.com/crs). The assurance statement, the GRI verification report and associated reporting criteria documents will be available from our online reporting suite by mid-October 2012.

DIRECTORY

DEXUS Diversified Trust
ARSN 089 324 541

DEXUS Industrial Trust
ARSN 090 879 137

DEXUS Office Trust
ARSN 090 768 531

DEXUS Operations Trust
ARSN 110 521 223

Responsible Entity

DEXUS Funds Management Limited
ABN 24 060 920 783

Directors of the Responsible Entity

Christopher T Beare, Chair
Elizabeth A Alexander AM
Barry R Brownjohn
John C Conde AO
Tonianne Dwyer
Stewart F Ewen OAM
W Richard Sheppard
Darren J Steinberg, CEO
Peter B St George

Secretaries of the Responsible Entity

Tanya L Cox
John C Easy

Registered office of the Responsible Entity

Level 9, 343 George Street
Sydney NSW 2000

PO Box R1822
Royal Exchange
Sydney NSW 1225

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

DEXUS US office

Suite 110, 4000 Westerly Place
Newport Beach CA 92660

Phone: +1 949 724 8886
Fax: +1 949 724 8887
Email: ir@dexus.com
www.dexus.com/us

Auditors

PricewaterhouseCoopers
Chartered Accountants
201 Sussex Street
Sydney NSW 2000

Investor enquiries

Registry Infoline: 1800 819 675
or +61 2 8280 7126

Investor Relations:
+61 2 9017 1330
Email: ir@dexus.com
www.dexus.com

Security registry

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

Locked Bag A14
Sydney South NSW 1235

Registry Infoline: 1800 819 675
or +61 2 8280 7126

Fax: +61 2 9287 0303
Email: registrars@linkmarketservices.com.au
linkmarketservices.com.au

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

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

Australian Securities Exchange

ASX Code: DXS

2012 DEXUS ANNUAL REVIEW

www.dexus.com

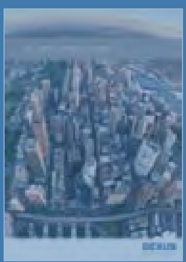
DEXUS

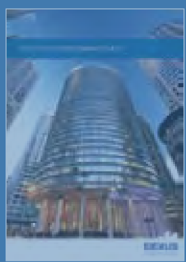
PROPERTY GROUP

2012 DEXUS ANNUAL REPORT

DEXUS
PROPERTY GROUP

DEXUS DIVERSIFIED TRUST
(ARSN 089 324 541)



2012 Annual Reporting suite

DEXUS Property Group (DXS) presents our 2012 annual reporting suite and supporting material for the year ending 30 June 2012:

1. The 2012 DEXUS Annual Review – an integrated report summarising our financial, operational and Corporate Responsibility and Sustainability (CR&S) performance.
2. This 2012 DEXUS Annual Report – DXS's consolidated financial statements, Corporate Governance Statement and information about our Board of Directors. This document should be read in conjunction with the 2012 DEXUS Annual Review.
3. The 2012 DEXUS Combined Financial Statements – the Financial Statements of DEXUS Industrial Trust, DEXUS Office Trust and DEXUS Operations Trust. This document should be read in conjunction with the 2012 DEXUS Annual Report and Annual Review. It is available in hard copy on request by email at ir@dexus.com, phone on 1800 819 675 or online in our annual reporting suite at www.dexus.com/dxs/reports
4. The 2012 DEXUS Performance Pack – the data and information supporting the results outlined in the 2012 DEXUS Annual Review will be available in our online annual reporting suite from mid-October 2012. Further CR&S information can be found on our website at www.dexus.com/crs

Through these reports we demonstrate how we manage our financial and non-financial performance in line with our corporate strategy.

We welcome your feedback, either via the feedback function in our online report at www.dexus.com/dxs/reports or by email at crs@dexus.com

---

All amounts are A$ unless otherwise specified.

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

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

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

Cover: 12 Creek Street, Brisbane, QLD

LETTER FROM THE CHAIR

2012 was a year of transition and refocus for DEXUS

The last 12 months saw the appointment of a new CEO, a review of our business and property portfolio and the development of a revised strategy for DEXUS.

Uncertain market, but increasing opportunity

Operating conditions continue to be challenging as a result of ongoing global economic uncertainty.

This has continued to impact business confidence in FY12, with mixed indicators in the US and uncertainty about future growth in the economies of Europe and China.

This uncertainty has contributed to subdued tenant demand. We expect these conditions to continue into FY13 but longer term market fundamentals remain sound.

The flight to quality continues and investment appetite for prime properties in key locations – DEXUS's speciality – remains robust. We are cautiously optimistic about the prospects of our core markets, particularly in the office sector.

Australia continues to be an attractive destination for investment by foreign pension funds due to our growing economy, and the property sector stands to benefit.

New CEO, new focus

In November 2011, the Board appointed Darren Steinberg, who commenced on 1 March 2012 as the new Chief Executive Officer and Executive Director of DEXUS Funds Management Limited.

Darren brings a wealth of property sector experience to DEXUS with a background in listed and unlisted property, asset management and development.

Over the past six months, Darren has streamlined operations, improved efficiencies and progressed strategic initiatives such as the sale of the US central portfolio.

He has led the review and development of our revised strategy which is designed to reinforce DEXUS's position as Australia's leading real estate company.

Our objective of exiting non-core markets and focusing on core CBD office properties will enable us to enhance performance and ultimately achieve our goal of being the leader in office property in Australia.

An active year for DEXUS

While DEXUS's core business is property investment management, we do not just own property. In 2012 we:

- completed the development of two major office towers valued at over $1 billion
- re-financed $850 million of debt
- raised over $420 million of equity in our wholesale fund
- sold US$770 million of industrial US property at book value
- substantially exited European markets through the sale of 71% of our portfolio for €82 million

Property is a long term business. We are proud of the results we have achieved through prudent risk management and sound governance.

We continue to manage operating cash flow carefully with the objective that distributions are fully funded from free cash flow.

Operating cash flows have benefited from reduced capital expenditure as a result of the US central portfolio sale and the completion of our office portfolio's NABERS Energy upgrade program in 2012.

DEXUS's strong financial position has enabled us to improve distributions to investors. Further:

- from 1 July 2012, a new distribution policy was introduced broadening the distribution range to between 70% and 80% of FFO, in line with free cash flow (we expect this to average 75% over the medium term)
- in April 2012, we commenced a $200 million strategic on-market securities buy-back

Our investment philosophy, which seeks to maximise returns through investment in superior quality properties in core markets, continues to realise benefits for DEXUS investors.

A new executive remuneration framework

Following the 28.2% unfavourable response to our remuneration report at last year's AGM, we fully reviewed our remuneration framework.

I personally met with many of our major investors to get a better understanding of their concerns and the Board has reflected on that feedback in addition to advice from proxy advisors and remuneration consultants.

The result is a proposed new remuneration framework subject to investor approval at the AGM on 5 November 2012. The framework focuses on equity interests for executives, applies a clearer balanced scorecard approach to short term incentives (STI) with caps on STI awards, introduces a long term incentive (LTI) grant as well as hurdles that are appropriate for the long term nature of our business.

The full remuneration report starts on page 16 in this report.

Our new remuneration framework is aligned more closely to conventional market practice and seeks to attract the best talent and reward strong performance, as we firmly believe this will deliver better results for our investors.

Good corporate citizenship

This year we have continued to build upon the significant successes that we have achieved in CR&S.

We are incorporating the United Nations' Principles of Responsible Investment as performance metrics for our investment decision making.

Our $31 million NABERS Energy upgrade program is now complete, improving the value, performance and appeal of our office properties.

We have led by example, being the first Australian property trust with our Sydney head office certified carbon neutral by Low Carbon Australia for the second successive year.

Our commitment is to maintain the highest standards of corporate governance, ethics and environmental and social responsibility. We do this in order to increase investor value, provide excellent service to our tenants, support our people, partner with our suppliers, engage with our communities and respect our environment.

A change to the Board of Directors

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

On 1 January 2012 we welcomed Richard Sheppard to the Board, replacing Brian Scullin who left on 31 October 2011.

Richard is the former Managing Director and Chief Executive Officer of Macquarie Bank Limited and former Deputy Managing Director of Macquarie Group Limited, spending 36 years with the group. He brings a range of financial and business skills to the DEXUS Board, including valuable experience as a Director and Chairman of Macquarie Bank's listed and unlisted property trusts.

Darren Steinberg and Richard Sheppard have now joined the Board and I welcome them and the skills and experience they bring to the table.

Diversity target progress

DEXUS is committed to employee diversity as we believe it enables organisations to make better informed decisions.

We set a target last year of 33% female participation at senior management level by 2015 and I am pleased to report as at 30 June 2012 we are at 30%.

Looking forward

The Board of Directors of DEXUS Funds Management Limited is committed to developing a high performing organisation that creates superior value for investors and stakeholders.

Our commitment to transparency and disclosure is fundamental to our operations. Further information on our financial, operational and Corporate Responsibility and Sustainability performance is provided in our 2012 DEXUS Annual Review.

The financial year to 30 June 2012 has proven to be very successful for the Group in a difficult market environment and FY13 shows significant promise, with the launch of our revised strategy and early achievement of a number of strategic objectives.

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

Chris Beare

Christopher T Beare
Chair

26 September 2011

FIVE YEAR FINANCIAL SUMMARY

	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[1] (cents per security)	11.90	10.43	7.30	7.40	7.65
Distributions[2] (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[3]	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[4] (%)	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 Refer to page 33 for a definition of Funds From Operations (FFO).

2 70% of FFO.

3 Property assets include investment properties, non-current assets held for sale, inventories and investment property accounted for using the equity method.

4 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, FRICS, FAPI

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

ASX Corporate Governance Principles and Recommendations		DEXUS
Principle 1 – Lay solid foundations for management and oversight		Page 7
1.1	Companies should establish and disclose the functions reserved for the board and those delegated to senior executives	✓
1.2	Companies should disclose the process for evaluating the performance of senior executives	✓
Principle 2 – Structure of the board to add value		Pages 7-9
2.1	A majority of the board should be independent directors	✓
2.2	The chair should be an independent director	✓
2.3	The roles of chair and chief executive officer should not be exercised by the same individual	✓
2.4	The board should establish a nomination committee	✓
2.5	Companies should disclose the process for evaluating the performance of the board, its committees and individual directors	✓
Principle 3 – Promote ethical and responsible decision making		Pages 9-10
3.1	Companies should establish and disclose a code of conduct or a summary of the code	✓
3.2	Companies should establish and disclose a policy concerning diversity or a summary of that policy. The policy should include requirements for the board to establish measurable objectives for achieving gender diversity for the board to assess annually both the objectives and progress in achieving them	✓
3.3	Companies should disclose in each annual report the measurable objectives for achieving gender diversity in accordance with the diversity policy and progress towards achieving them	✓
3.4	Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the board	✓
Principle 4 – Safeguard integrity in financial reporting		Pages 10-11
4.1	The board should establish an audit committee	✓
4.2	The audit committee should be structured so that it consists only of non-executive directors, with a majority of independent directors, is chaired by an independent chair who is not chair of the board and has at least three members	✓
4.3	The audit committee should have a formal charter	✓
Principle 5 – Make timely and balanced disclosure		Page 11
5.1	Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for compliance to and disclosure of those policies or a summary of those policies	✓
Principle 6 – Respect the rights of shareholders		Page 12
6.1	Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy	✓
Principle 7 – Recognise and manage risk		Pages 12-13
7.1	Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies	✓
7.2	The board should require management to design and implement the risk management and internal control systems to manage the company's material business risks and report on whether those risks are being managed effectively. The board should disclose that management has reported as to the effectiveness of the company's management of its material business risks	✓
7.3	The board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks	✓
Principle 8 – Remunerate fairly and responsibly		Page 13
8.1	The board should establish a remuneration committee	✓
8.2	The remuneration committee should be structured so that it: consists of a majority of independent directors, is chaired by an independent chair and has at least three members	✓
8.3	Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives	✓

DEXUS Funds Management Limited (DXFM) is the Responsible Entity of each of the four Trusts that comprise DEXUS Property Group (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 Independent 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 FY12 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 FY12 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 acknowledges 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 FY12, 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 as determined by the Board
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 4-5 of this Annual Report.

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

Meetings

The Board generally meets monthly between February and November, with additional 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 FY12 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 FY12 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 FY12, 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 would 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:

- 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
- from tenant conflicts, where a prospective tenant has two similar properties to choose from, owned by different DEXUS clients, and
- 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 FY12, 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 FY12, 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 FY12, 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% 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 and 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 FY12, 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 FY12 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 John Conde and Tonianne Dwyer are detailed on pages 4 and 5 and details for Tanya Cox and John Easy are on page 14 in this Annual 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 FY12 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 FY12, 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 FY12, 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

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

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

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 FY12, 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 this report starting on page 14. There are no schemes for retirement benefits (other than superannuation) for Independent Directors.

Financial Report

DIRECTORS' REPORT

For the year ended 30 June 2012

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 S 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.

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

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 & Sustainability Committee		Board Compliance Committee		Board Nomination & 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*.

3.2 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	✓	✓

3.3 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

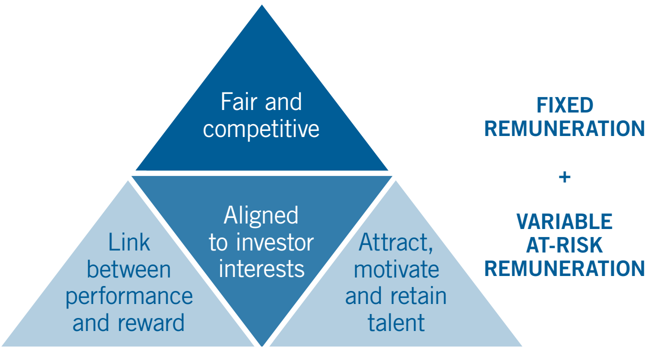
3 Remuneration Report (continued)

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.

Remuneration structure and 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 and graphs on pages 19-20 provide a summary of the proposed evolution of the existing remuneration framework to the new remuneration framework. They also illustrate 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.

Existing framework

	Component	Performance measure	Performance range	Delivery mechanism	% of fixed remuneration
FIXED	Fixed Remuneration	Market review	Actual payments reflect individual expertise & market conditions	Cash, superannuation & packaged benefits	100%
AT RISK	DEXUS Performance Payment (DPP)	Annual performance against pre-agreed weighted financial and non-financial KPIs (i.e. balanced scorecard)	0 to 100% of target remuneration structure	Cash	Target 85% (CEO) 75% (CFO & CIO) 50% (other key Execs)
	DEXUS Deferred Performance Payment (DDPP)		0 to 100% of target remuneration structure and 1.1 to 1.5 times award for outperformance of 3 year benchmark investment returns	Phantom composite equity (DXS and Unlisted), vesting over 3 years Outperformance multiplier incentive available	Target 100% (CEO) 75% (CFO & CIO) 50% (other key Execs)
	Long Term Incentive (LTI)	Not available			

New framework

	Component	Performance measure	Performance range	Delivery mechanism	% of fixed remuneration
FIXED	Fixed Remuneration	Market review	Actual payments reflect individual expertise & market conditions	Cash, superannuation & packaged benefits	100%
AT RISK	STI (immediate)	Annual performance against pre-agreed weighted financial and non-financial KPIs (i.e. balanced scorecard)	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	75% paid in cash	Target 100% (CEO & CFO) 70% (other key Execs) Outperformance up to 125% (CEO & CFO) up to 87.5% (other key Execs
	STI (deferred)			25% deferred into DXS performance rights, vesting in equal tranches 12 and 24 months after award and subject to service and clawback provisions	
	Long Term Incentive (LTI)	Vesting conditional on future performance hurdles (Relative TSR and earnings measures)	Grant based on a pre-determined % of fixed remuneration	DXS performance rights, vesting in two equal tranches 3 and 4 years after grant and subject to service and clawback provisions	Maximum Opportunity at grant: 85% (CEO) 50% (CFO) 30% (other key Execs)

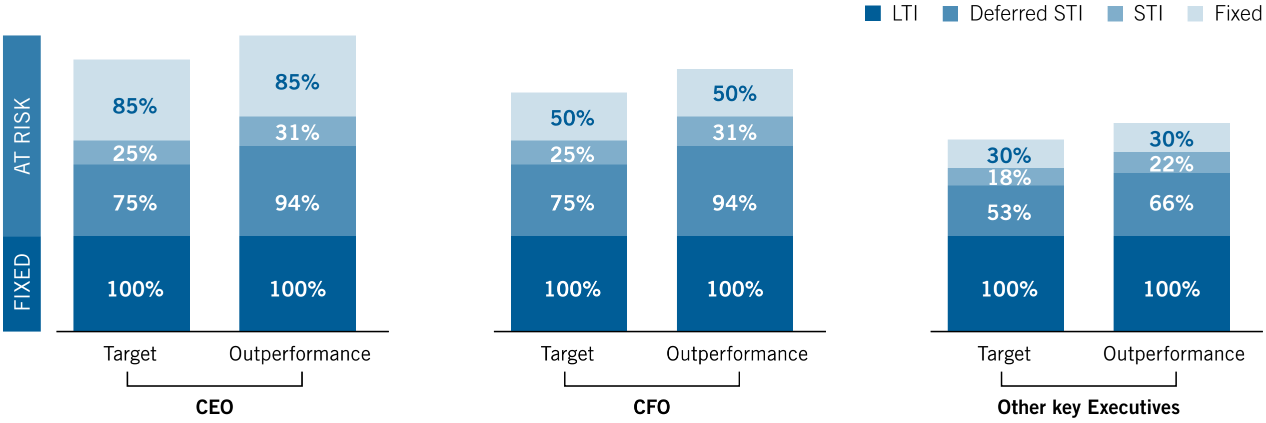
3 Remuneration Report (continued)

3.4 Executive remuneration (continued)

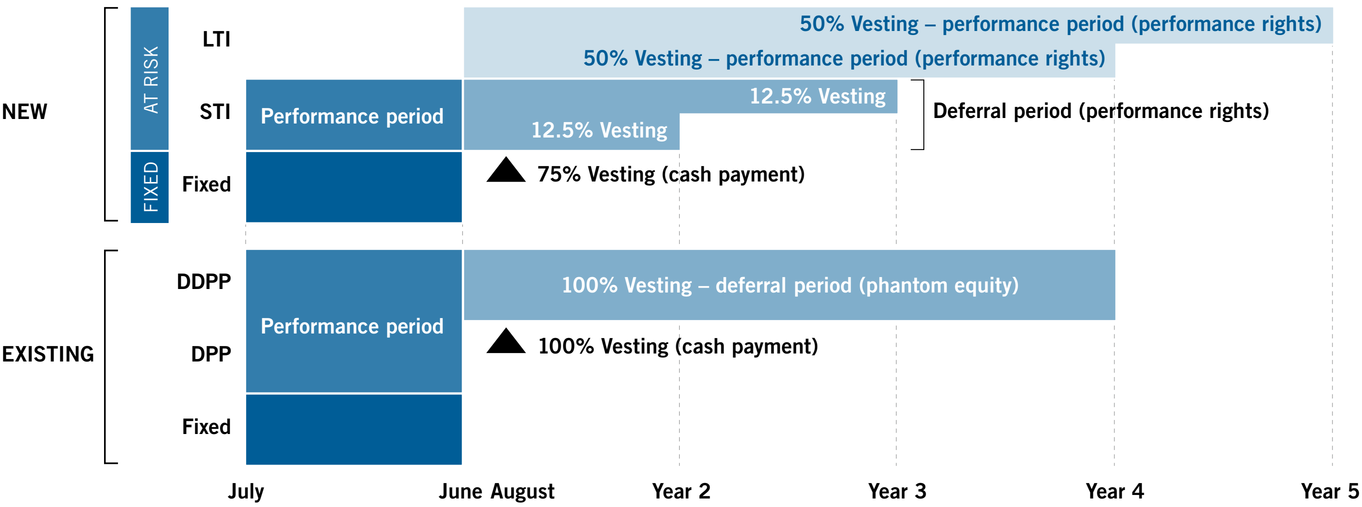
Key Executives (continued)

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

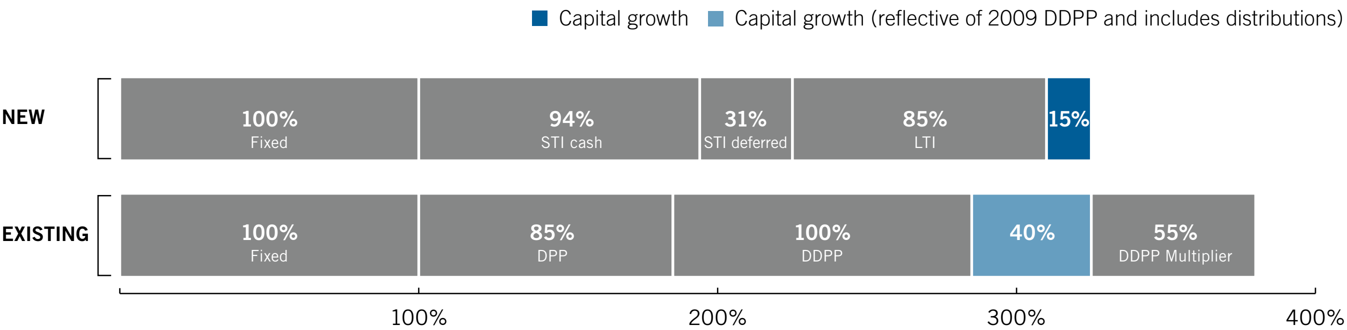
Target remuneration structure



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.



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).

STI Plan

What is the STI Plan?

The STI Plan provides the Executive with an opportunity to achieve an annual remuneration outcome in addition to fixed remuneration, subject to the achievement of pre-agreed Group, divisional and individual performance objectives which are set out in a personalised balanced scorecard.

How much can be earned under the STI Plan?

Expressed as a percentage of fixed remuneration, Executives can earn the following incentive payments under the STI Plan:

	Target	Outperformance
CEO	100%	125%
CFO	100%	125%
Other key Executives	70%	87.5%

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.

How does the deferral component operate?

25% of any award under the STI Plan will be deferred and awarded in the form of performance rights to DXS securities.

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.

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.

3 Remuneration Report (continued)

3.4 Executive remuneration (continued)

Frequently asked questions (continued)

How is the allocation of deferred STI determined?

The number of performance rights awarded is based on 25% of the STI value awarded to the Executive divided by the volume weighted average price (VWAP) of securities 10 trading days either side of the first trading day of the new financial year.

How are distributions treated during the deferral period?

Executives will be entitled to the benefit of distributions paid on the underlying DXS securities prior to vesting through the issue of additional performance rights.

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:

	LTI Grant (% of Fixed Remuneration)
CEO	85%
CFO	50%
Other Key Executives	30%

How does the LTI Plan work?

Performance rights are converted into DXS securities upon achievement of performance conditions set by the Board. Performance against the selected hurdles will be assessed in two equal tranches over two periods, 3 and 4 years after the grant date. If the performance conditions are not met over either period, then the respective performance rights will be forfeited. There is no re-testing of forfeited rights.

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 and 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

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.

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

Note: 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.

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.

CFO and 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.

3.6 Performance pay

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

Group performance

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

Year ended 30 June 2012	1 Year (% per annum)	2 Years (% per annum)	3 Years (% per annum)	Since 1 October 2004 (% 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).

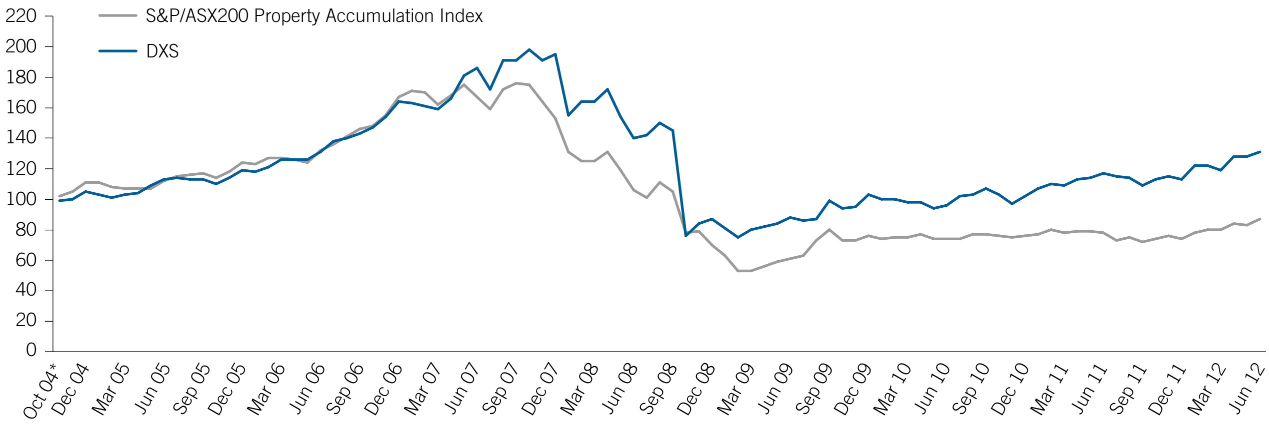
Cognisant of all the above factors, the Board determined that a 50/50 allocation, rather than an allocation varying according to asset weighting, most fairly reflects the value contribution of third party funds to DEXUS Property Group and provides the greatest assurance that all investors are treated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

3 Remuneration Report (continued)

3.6 Performance Pay (continued)

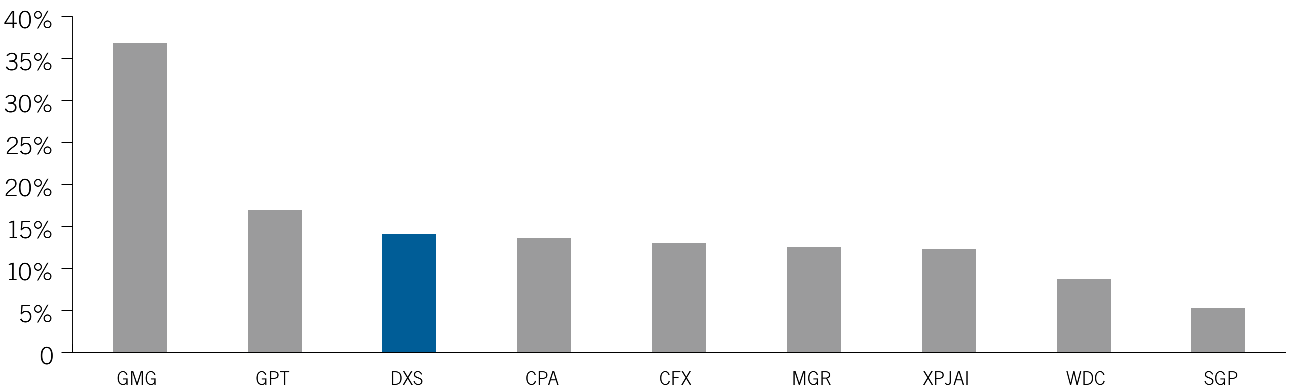
Group performance (continued)

Total return of DXS securities



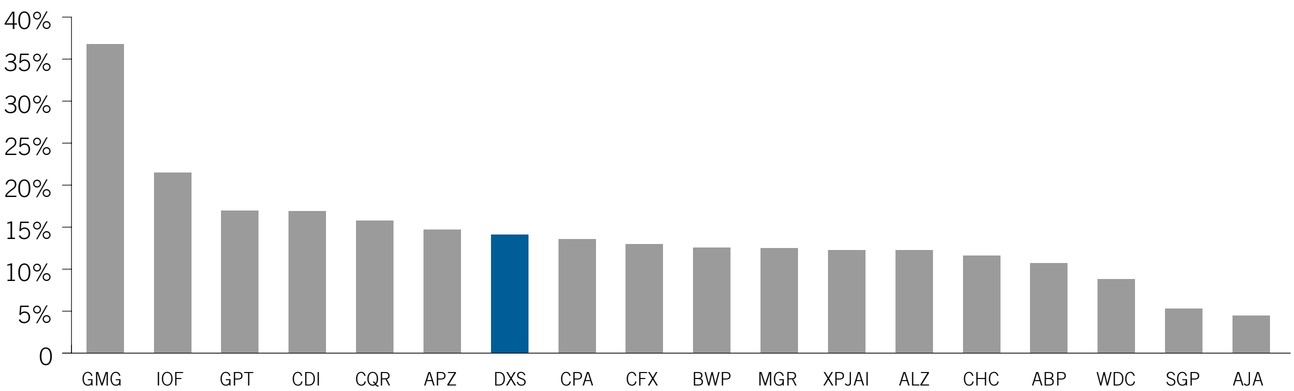
* 31 October 2004 to 30 June 2012. Source: UBS Securities Australia Ltd.

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



Source: UBS Securities Australia Ltd.

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



Source: UBS Securities Australia Ltd.

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.

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 $4m of trading profits ■ Re-finance $800m of debt ■ Increase debt duration to > 4.0 years ■ Reduce cost of funds ■ Lease 123 Albert Street to 100% by 31 December 2011 ■ Lease 1 Bligh Street 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 and trust review via one-on-one 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.

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 buy-back

3 Remuneration Report (continued)

3.6 Performance Pay (continued)

Group performance (continued)

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	–
Craig D Mitchell	Chief Financial Officer	87%	500,000	500,000	–
Tanya L Cox	Chief Operating Officer	93%	200,000	200,000	–
John C Easy	General Counsel	90%	200,000	200,000	–
Former Executives					
Victor P Hoog Antink	Chief Executive Officer	83%	825,000	–	975,000
Paul D Say	Chief Investment Officer	82%	350,000	–	350,000

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

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**	**–**	**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**	**–**	**–**	**–**	**–**	**–**	**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**	**–**	**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**	**–**	**–**	**–**	**–**	**–**	**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**	**–**	**–**	**–**	**–**	**–**	**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

3.7 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 three year deferred performance payment).

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 $**	**Other short term benefits $**	**Pension & super benefits $**	**Termination benefits $**	**Transition performance rights $**	**DDPP awards $**	**Change in prior DDPP awards $**	**Total $**
Darren J Steinberg	**2012**	**461,409**	**360,000**	**1,500,000**	**5,258**	**–**	**105,000**	**–**	**–**	**2,431,667**
	2011	–	–	–	–	–	–	–	–	–
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**	**–**	**330,000**	**–**	**635,817**	**5,842,484**
	2011	1,461,603	835,000	–	88,397	–	–	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	–	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	–	185,795	–	–	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 three 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 three 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[1]	$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

1 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

Breakdown of Non-Executive Director's fee composition

		Base fee	Committee fees						
Non-Executive Director	Year	DXFM	Risk & Sustainability	Audit	Compliance	Finance	Nomination and Remuneration	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	–	–	–	–	–	–	–	–
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	–	–	–	–	–	–	–	–
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.

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	–	–	–	–
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	–	–	–	–
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**	**–**	**1,527,875**
	2011	1,284,488	138,012	–	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.

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).

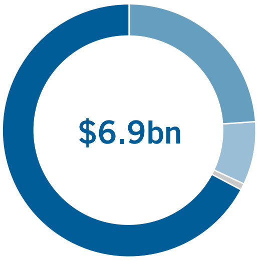
Based on the current distribution policy of 70% of FFO, the distribution paid for the year to 30 June 2012 increased 3.3% to 5.35 cents per security (2011: 5.18 cents per security).

8 Review of results and operations (continued)

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 industrial US portfolio now represents 8% of total investments.



Key portfolio metrics

30 June 2012	Office	Industrial	Industrial US[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	–

1 Industrial US west coast portfolio only.

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.

During the year over 75,600 square metres of space was leased which includes securing heads of agreement over 19,000 square metres. 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 7 basis points 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 square metres of industrial space was leased including over 195,000 square metres within the stable portfolio (representing 17% of total portfolio area) and over 105,000 square metres 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 5 basis points to 8.59% at 30 June 2012.

Industrial US 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: $76.1 million) 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 industrial US 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 industrial US portfolio now represents 8% of the investment portfolio and is considered non-core. The Group expects to exit the US within 12 to 24 months.

1 Industrial US west coast portfolio only.

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 30 basis points. 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 square metres with a total cost of $144.1 million and a yield on cost of 9.2%. Developments leased to Loscam at Laverton and DB Schenker at Erskine Park were sold, delivering $5.8 million in trading profits for the year.

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 basis points 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 buy-back

An on-market securities buy-back 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.

8 Review of results and operations (continued)

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.

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 buy-back
- 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 38 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

pwc

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

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

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**

Earnings per unit		**Cents**	**Cents**
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
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

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 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	Stapled security holders' equity						Other non-controlling interest	Total equity
		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	$'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**
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 for the year		**–**	**–**	**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 Australian 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.

(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.

(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.

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.

(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)).

Note 1 Summary of significant accounting policies
(continued)

(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

(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 cash flow and the capitalisation method. Discount rates and capitalisation rates are determined based on industry expertise and knowledge and, where possible, a direct comparison to third party rates for similar assets in a comparable location. Rental revenue from current leases and assumptions about future leases, as well as any expected operational cash outflows in relation to the property, are also reflected in fair value. In relation to development properties under construction for future use as investment property, where reliably measurable, fair value is determined based on the market value of the property on the assumption it had already been completed at the valuation date less costs still required to complete the project, including an appropriate adjustment for profit and risk.

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

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

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

(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.

(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.

(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.

(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.

Note 1 Summary of significant accounting policies
(continued)

(aa) Employee benefits (continued)

(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.

(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.

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 in 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[4]	**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 at 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 at 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 Road, 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 6,534 square metre 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

Kings Park Industrial Estate, Vardys Road, Marayong, NSW
Target Distribution Centre, Taras Road, Altona North, VIC[1, 2]
Axxess Corporate Park, Corner Ferntree Gully & Gilby Roads, Mount Waverley, VIC
Knoxfield Industrial Estate, Henderson Road, Knoxfield, VIC
12 Frederick Street, St Leonards, NSW
2 Alspec Place, Eastern Creek, NSW
Centrewest Industrial Estate, 108-120 Silverwater Road, Silverwater, NSW
40-50 Talavera Road, Macquarie Park, NSW
44 Market Street, Sydney, NSW
8 Nicholson Street, Melbourne, VIC
130 George Street, Parramatta, NSW
Flinders Gate Complex, 172 Flinders Street & 189 Flinders Lane, Melbourne, VIC
383-395 Kent Street, Sydney, NSW
14 Moore Street, Canberra, ACT**
Sydney CBD Floor Space (1 Chifley Square, Sydney), NSW[3]
34-60 Little Collins Street, Melbourne, VIC**
32-44 Flinders Street, Melbourne, VIC
Flinders Gate Complex, 172 Flinders Street, Melbourne, VIC
383-395 Kent Street Car Park, Sydney, NSW
123 Albert Street, Brisbane, QLD[4]
2-4 Military Road, Matraville, NSW
79-99 St Hilliers Road, Auburn, NSW
3 Brookhollow Avenue, Baulkham Hills, NSW
1 Garigal Road, Belrose, NSW
2 Minna Close, Belrose, NSW
114-120 Old Pittwater Road, Brookvale, NSW[5]
145-151 Arthur Street, Flemington, NSW
436-484 Victoria Road, Gladesville, NSW
1 Foundation Place, Greystanes, NSW
5-15 Rosebery Avenue & 25-55 Rothschild Avenue, Rosebery, NSW
10-16 South Street, Rydalmere, NSW
DEXUS Industrial Estate, Pound Road West, Dandenong South, VIC
DEXUS Industrial Estate, Boundary Road (including 440 Doherty's Road), Laverton North, VIC[1, 2]
12-18 Distribution Drive, Laverton North, VIC
250 Forest Road South, Lara, VIC
15-23 Whicker Road, Gillman, SA
25 Donkin Street, West End, Brisbane, QLD
52 Holbeche Road, Arndell Park, NSW
30-32 Bessemer Street, Blacktown, NSW
27-29 Liberty Road, Huntingwood, NSW
154 O'Riordan Street, Mascot, NSW

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, NSW.
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.

Ownership %	Acquisition date	Independent valuation date	Independent valuation amount $'000	Independent valuer	Book value 30 Jun 2012 $'000	Book value 30 Jun 2011 $'000
100	May 1990	Dec 2009	88,000	(i)	89,009	88,660
100	Oct 1995	Jun 2011	16,250	(i)	16,300	32,500
100	Oct 1996	Jun 2010	179,400	(g)	182,838	181,249
100	Aug 1996	Jun 2011	37,600	(g)	37,704	37,600
100	Jul 2000	Jun 2011	33,500	(a)	33,873	33,500
100	Mar 2004	Dec 2011	24,900	(d)	24,900	24,328
100	May 2010	n/a	n/a	n/a	24,300	25,931
100	Oct 2002	Dec 2011	31,500	(g)	29,000	27,981
100	Sep 1987	Jun 2010	192,700	(d)	217,692	207,000
100	Nov 1993	Jun 2012	93,500	(a)	93,500	80,162
100	May 1997	Dec 2010	77,000	(f)	77,200	79,460
100	Mar 1999	Jun 2011	28,500	(e)	28,100	28,500
100	Sep 1987	Dec 2011	133,000	(a)	133,964	127,225
100	May 2002	Jun 2010	37,000	(i)	27,600	33,000
100	Jul 2000	Dec 2011	129	(a)	129	129
100	Nov 1984	Jun 2011	39,200	(i)	39,259	39,200
100	Jun 1998	Jun 2011	29,500	(e)	29,932	29,500
100	Mar 1999	Jun 2011	54,000	(e)	54,000	54,000
100	Sep 1987	Dec 2011	64,000	(a)	64,000	60,000
100	Oct 1984	Jun 2012	375,500	(d)	375,500	–
100	Dec 2009	Jun 2012	52,900	(i)	52,900	48,902
100	Sep 1997	Dec 2011	37,500	(g)	37,522	37,400
100	Dec 2002	Jun 2012	42,000	(f)	42,000	40,112
100	Dec 1998	Jun 2012	16,300	(a)	16,300	20,500
100	Dec 1998	Jun 2012	24,000	(a)	24,000	27,312
100	Sep 1997	Dec 2011	45,500	(a)	–	44,128
100	Sep 1997	Jun 2011	28,000	(f)	28,472	28,000
100	Sep 1997	Dec 2011	41,500	(e)	41,676	43,500
100	Feb 2003	Jun 2010	41,500	(f)	43,255	43,000
100	Apr 1998	Dec 2010	89,000	(f)	90,840	89,756
100	Sep 1997	Jun 2011	39,250	(g)	40,701	39,250
100	Jan 2004	Jun 2012	72,000	(f)	74,454	75,300
100	Jul 2002	Jun 2012	36,200	(i)	36,875	73,200
50	Jul 2002	Jun 2010	48,000	(g)	50,437	50,193
100	Dec 2002	Jun 2012	52,300	(e)	52,300	50,000
100	Dec 2002	Dec 2010	25,500	(a)	27,300	28,800
100	Dec 1998	Dec 2010	27,000	(f)	29,400	26,200
100	Jul 1998	Jun 2012	12,500	(f)	12,500	12,500
100	May 1997	Jun 2011	16,250	(e)	15,606	16,250
100	Jul 1998	Dec 2010	8,000	(i)	8,026	8,000
100	Jun 1997	Jun 2011	13,750	(e)	14,334	13,750

Note 13 Non-current assets – investment properties (continued)

(a) Properties (continued)

11 Talavera Road, Macquarie Park, NSW
DEXUS Industrial Estate, Egerton Street, Silverwater, NSW
89 Egerton Street, Silverwater, NSW
114 Fairbank Road, Clayton, VIC
30 Bellrick Street, Acacia Ridge, QLD
Quarry Industrial Estate, 8 Basalt Road, Greystanes, NSW – Solaris[1, 2]
Quarry Industrial Estate, 5 Bellevue Circuit, Greystanes, NSW – Symbion[1, 2]
Quarry Industrial Estate, 6 Bellevue Circuit, Greystanes, NSW – Fujitsu[1, 4]
Quarry Industrial Estate, 2-6 Basalt Road, Greystanes, NSW – Camerons Transport[1, 4]
2-10 Distribution Drive, Laverton North, VIC – Fastline[1, 4]
27 Distribution Drive, Laverton North, VIC – Toll[1, 4]
25 Distribution Drive, Laverton North, VIC – ACFS[1, 4]
45 Clarence Street, Sydney, NSW
Governor Phillip & Macquarie Tower Complex, 1 Farrer Place, Sydney, NSW[2]
309-321 Kent Street, Sydney, NSW[2]
One Margaret Street, Sydney, NSW
Victoria Cross 60 Miller Street, North Sydney, NSW
The Zenith, 821 Pacific Highway, Chatswood, NSW[2]
Woodside Plaza, 240 St Georges Terrace, Perth, WA
30 The Bond, 30-34 Hickson Road, Sydney, NSW
Southgate Complex, 3 Southgate Avenue, Southbank, VIC
201-217 Elizabeth Street, Sydney, NSW[2]
Garema Court, 140-180 City Walk, Canberra, ACT**
Australia Square Complex, 264-278 George Street, Sydney, NSW[2]
Non-core international properties[6]
Total investment properties excluding development properties
Total development properties held as investment property
Total investment properties

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.
6 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

Ownership %	Acquisition date	Independent valuation date	Independent valuation amount $'000	Independent valuer	Book value 30 Jun 2012 $'000	Book value 30 Jun 2011 $'000
100	Jun 2002	Jun 2010	127,000	(g)	147,856	141,000
100	May 1997	Jun 2012	35,000	(g)	35,000	33,300
100	May 1997	Jun 2012	4,000	(g)	4,000	6,900
100	Jul 1997	Dec 2010	14,900	(f)	15,208	15,090
100	Jun 1997	Jun 2010	19,600	(d)	20,335	20,300
100	Dec 2007	Dec 2011	12,625	(e)	12,625	24,502
100	Dec 2007	Jun 2012	16,050	(d)	16,050	30,411
100	Dec 2007	n/a	n/a	n/a	20,000	–
100	Dec 2007	n/a	n/a	n/a	14,900	–
100	Jun 2010	n/a	n/a	n/a	7,035	–
100	Jun 2010	n/a	n/a	n/a	5,379	–
100	Jun 2010	n/a	n/a	n/a	5,870	–
100	Dec 1998	Jun 2011	247,500	(f)	250,301	247,500
50	Dec 1998	Dec 2010	643,000	(d)	651,086	645,443
50	Dec 1998	Jun 2012	191,000	(d)	191,000	184,308
100	Dec 1998	Dec 2011	173,500	(d)	175,326	170,863
100	Dec 1998	Jun 2011	135,000	(a)	141,135	135,000
50	Dec 1998	Jun 2010	107,500	(e)	117,266	112,953
100	Jan 2001	Jun 2012	460,000	(f)	460,000	441,000
100	May 2002	Dec 2010	145,000	(a)	146,509	145,455
100	Aug 2000	Jun 2012	418,350	(i)	418,350	385,000
50	Aug 2000	Jun 2011	144,000	(d)	148,080	144,000
100	Aug 2000	Dec 2011	29,500	(a)	48,800	31,000
50	Aug 2000	Dec 2011	278,750	(f)	271,500	271,463
n/a	n/a	n/a	n/a	n/a	656,132	1,380,799
					6,297,441	**6,572,265**
					94,016	**533,649**
					6,391,457	**7,105,914**

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			
Weighted average capitalisation rate (%)	7.4	8.6	7.6
Weighted average lease expiry by income (years)	5.3	4.7	3.9
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).
- 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 straight-lining		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 at 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 at 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**
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:

Name of entity	Principal activity	Ownership interest			
		2012 %	2011 %	2012 $'000	2011 $'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.

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).

Note 17 Non-current assets – intangible assets (continued)

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					**2012 $'000**	**2012 $'000**
Type of facility	**Note**	**Currency**	**Security**	**Maturity date**	**Utilised**	**Facility limit**
US senior notes (144A)		US$	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	Sep 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.

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.

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.

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 (+/–) $'000	2011 (+/–) $'000
+/– 0.50% (50 basis points)	A$	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 (+/–) $'000	2011 (+/–) $'000
+/– 0.50% (50 basis points)	A$	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.

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

Note 29 Financial risk management (continued)

(2) Financial risk management (continued)

(b) Market risk (continued)

(ii) Foreign exchange risk (continued)

Foreign currency assets and liabilities

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

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

	2012 $'000	2011 $'000
US$ 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.

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 $'000	2011 $'000
+ 13.2 cents (13%) (2011: 14.2 cents)	US$ (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 (+/–) $'000	2011 (+/–) $'000
+/– 0.50% (50 basis points)	US$ (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.

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$'000	To receive A$'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

Note 29 Financial risk management (continued)

(2) Financial risk management (continued)

(b) Market risk (continued)

(ii) Foreign exchange risk (continued)

Sensitivity on fair value of foreign exchange contracts

The table below shows the impact on the Statement of Comprehensive Income for changes in the fair value of forward foreign exchange contracts for an increase and decrease in market rates. The increase and decrease in cents per currency has been based on the historical movements of the Australian dollar relative to each currency[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 $'000	**2011 $'000**
+ 13.2 cents (13%) (2011: 14.2 cents)	US$ (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).

(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.

(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 Carrying amount[1] $'000	2012 Fair value[2] $'000	2011 Carrying amount[1] $'000	2011 Fair value[2] $'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.

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.

Note 29 Financial risk management (continued)

(2) Financial risk management (continued)

(d) Fair value of financial instruments (continued)

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

30 June 2012	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**

30 June 2011	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.

Note 31 Commitments (continued)

(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	–

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 & 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.

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.

(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.

(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.

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 and 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 39 to 88:

(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*;

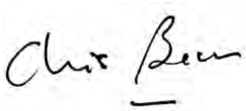
(b) there are reasonable grounds to believe that the Group and its consolidated entities will be able to pay their debts as and when they become due and payable; and

(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

pwc

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 16 to 31 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

ADDITIONAL INFORMATION

Top 20 security holders as at 31 August 2012

Rank	Name	Number of securities	% of issued capital
1	HSBC Custody Nominees (Australia) Limited	1,748,881,339	36.75
2	JP Morgan Nominees Australia Limited	882,660,661	18.55
3	National Nominees Limited	776,983,696	16.33
4	Citicorp Nominees Pty Limited	265,577,746	5.58
5	Citicorp Nominees Pty Limited <Colonial First State Inv A/C>	124,635,062	2.62
6	AMP Life Limited	106,064,042	2.23
7	BNP Paribas Nominees Pty Ltd <DRP>	86,806,820	1.82
8	JP Morgan Nominees Australia Limited <Cash Income A/C>	66,667,886	1.40
9	BNP Paribas Nominees Pty Ltd <SMP Accounts DRP>	40,567,677	0.85
10	BNP Paribas Nominees Pty Ltd <Master Cust DRP>	40,042,934	0.84
11	RBC Investor Services Australia Nominees Pty Limited <APN A/C>	34,774,331	0.73
12	Questor Financial Services Limited <TPS RF A/C>	23,545,205	0.49
13	Equity Trustees Limited <EQT SGH Property Inc Fund>	23,047,075	0.48
14	Bond Street Custodians Limited <ENH Property Securities A/C>	20,361,945	0.43
15	HSBC Custody Nominees (Australia) Limited <NT-Comnonwealth Super Corp A/C>	12,727,054	0.27
16	Share Direct Nominees Pty Ltd <10026 A/C>	10,568,607	0.22
17	Queensland Investment Corporation	10,244,528	0.22
18	Invia Custodian Pty Limited <GSJBW Managed A/C>	9,888,555	0.21
19	Bond Street Custodians Limited <Property Securities A/C>	7,909,264	0.17
20	Suncorp Custodian Services Pty Limited <SGALPT>	7,373,602	0.15
	Total	**4,299,327,129**	**90.35**
	Balance of Register	**459,126,353**	**9.65**
	Grand Total	**4,758,453,482**	**100.00**

Substantial holders at 31 August 2012

The names of substantial holders, who at 31 August 2012 have notified the Responsible Entity in accordance with Section 671B of the *Corporations Act 2001*, are:

Date	Name	Number of stapled securities	% voting
30 Aug 2012	CBRE Clarion Securities LLC	440,873,263	8.11
28 Jan 2011	ING Group	388,416,634	8.03
1 May 2012	AMP LImited	293,093,543	6.06
28 Oct 2010	Vanguard Group	291,637,480	6.03
2 Dec 2009	BlackRock Investment Management	275,099,167	5.77
11 Jul 2012	Westpac Banking Corporation Group	244,213,504	5.05

Class of securities

DEXUS Property Group has one class of stapled security trading on the ASX with security holders holding stapled securities at 31 August 2012.

Spread of securities at 31 August 2012

Range	Securities	%	Number of holders
100,001 and over	4,475,613,665	94.06	355
50,001 to 100,000	58,543,086	1.23	860
10,001 to 50,000	183,295,519	3.85	8,506
5,001 to 10,000	30,313,786	0.64	4,001
1,001 to 5,000	10,189,072	0.21	3,250
1 to 1,000	498,354	0.01	1,567
Total	**4,758,453,482**	**100.00**	**18,539**

At 31 August 2012, the number of security holders holding less than a marketable parcel of 524 securities ($500) is 1,103 and they hold in total 135,700 securities.

Voting rights

At meetings of the security holders of DEXUS Diversified Trust, DEXUS Industrial Trust, DEXUS Office Trust and DEXUS Operations Trust, being the Trusts that comprise DEXUS Property Group, on a show of hands, each security holder of each Trust has one vote. On a poll, each security holder of each Trust has one vote for each dollar of the value of the total interests they have in the Trust.

Securities restricted or subject to voluntary escrow

There are no stapled securities that are restricted or subject to voluntary escrow.

On-market buy-back

DEXUS Property Group commenced an on-market securities buy-back on 16 April 2012. At 31 August 2012 DEXUS Property Group has acquired 92,566,887 securities for $86.1 million on an average price of $0.9299.

Cost base apportionment

For capital gains tax purposes, the cost base apportionment details for DXS securities for the 12 months ended 30 June 2012 are:

Date	DEXUS Diversified Trust	DEXUS Industrial Trust	DEXUS Office Trust	DEXUS Operating Trust
1 Jul 2011 to 31 Dec 2011	37.88%	11.27%	50.85%	0
1 Jan 2012 to 30 June 2012	35.34%	14.19%	47.48%	2.99%

Historical cost base details are available at www.dexus.com/dxs/tax in the downloads section.

INVESTOR INFORMATION

DEXUS Property Group is one of the largest real estate groups listed on the Australian Securities Exchange (ASX) and is listed under the ASX code DXS. Over 18,000 investors located in 15 countries around the world invest in DXS, highlighting the investors' demand both domestically and abroad for our high quality property portfolio

Investor relations

The Investor Relations team drives and facilitates communication with existing and potential institutional investors, financial analysts and retail investors.

The team, alongside DEXUS senior management, maintains strong rapport with the investment community through proactive and regular investor engagement initiatives. During FY12, we participated in investor conferences and roadshows in Singapore, Hong Kong, and the United States.

We are committed to ensuring all investors have equal access to information about our investment activities. In line with our commitment to the long term integration of sustainable business practices, we provide investor communications via various electronic methods.

We provide a wide range of information including ASX announcements, our annual reporting suite, presentations, corporate governance policies, Board of Directors and Executive team information at www.dexus.com

In addition, we have communication tools available on our website, including:

- an online enquiry facility at www.dexus.com/contact and contact directory
- an investor login facility at www.dexus.com/dxs which allows investors to choose the method of delivery for distributions, distribution statements and investor reports
- a subscribe feature at www.dexus.com/media which enables investors to receive ASX announcements as they are released
- a "create your property report" function at www.dexus.com/properties which enables you to select and download individual or group property information

Annual General Meeting information

On Monday 5 November 2012 our Annual General Meeting (AGM) will be held at ASX Exchange Square, 20 Bridge Street, Sydney commencing at 2.00pm.

We encourage investors to attend the AGM in person and to meet our Board of Directors and Executive team. The AGM will be webcast at www.dexus.com for those investors who are unable to attend in person. The Chairman's address and the meeting results will be announced to the ASX and will be available at www.dexus.com/dxs

Distribution payments

DXS revised its distribution policy effective from 1 July 2012. The new payout policy will be to distribute between 70% and 80% of Funds From Operations (FFO), in line with free cash flow, with the expectation that over time the average payout ratio will be around 75% of FFO.

Distributions are paid for the six months to 31 December and 30 June each year. Distribution statements are available in print and electronic formats and paid by direct credit into a nominated bank account or by cheque. To change the method of receiving distributions or how they are paid, please use our investor login facility at www.dexus.com/dxs

Unclaimed distribution income

If you believe you have unpresented cheques or unclaimed distribution income, please contact the DXS Infoline on 1800 819 675.

For monies outstanding more than seven years, please contact the NSW Office of State Revenue on 1300 366 016, use their search facility at osr.nsw.gov.au or email unclaimedmoney@osr.nsw.gov.au

Annual taxation statements

An annual taxation statement is sent to investors in August each year. The statement summarises the distributions provide to you during the 2011-2012 financial year and includes information required to complete your tax return. Annual taxation statements are also available online at www.dexus.com via our investor login facility.

Non-resident information

The notice required by non-resident investors and custodians of non-resident investors for the purposes of Section 12-400 of Schedule 1 to the *Tax Administration Act 1953* is available at www.dexus.com/dxs/tax prior to the payment of each distribution.

Complaints

Investors wishing to lodge a complaint should do so in writing and forward it to DEXUS Funds Management Limited at the address shown in the Directory.

DEXUS Funds Management Limited is a member of Financial Ombudsman Service (FOS), an independent dispute resolution scheme who may be contacted at:

Financial Ombudsman Service
GPO Box 3
Melbourne VIC 3001

Phone: 1300 780 808
Fax: +61 3 9613 6399
Email: info@fos.org.au
Website: fos.org.au

2013 Distribution calendar

Period end	ASX announcement	Ex-distribution date	Record date	Payment date
31 Dec 2012	18 Dec 2012	21 Dec 2012	31 Dec 2012	28 Feb 2013
30 Jun 2013	19 Jun 2013	24 Jun 2013	28 Jun 2013	30 Aug 2013

2013 Reporting calendar

Event	Anticipated date
2012 Annual General Meeting	5 November 2012
2013 Half year results	14 February 2013
2013 Annual results	15 August 2013
2013 Annual General Meeting	31 October 2013

Please note that these dates are indicative and are subject to change without prior notice.

Key ASX announcements

27.08.12	Appendix 3Y (Peter St George) change in Director's Interest
24.08.12	Appendix 3Y (Stewart Ewen) change in Director's Interest Appendix 3Y (Christopher Beare) change in Director's Interest Appendix 3Y (John Conde) change in Director's Interest
16.08.12	DEXUS security trading policy 2012 Combined Financial Statements 2012 Property Synopsis & Portfolio Results 2012 Annual Results & Strategic Review presentation 2012 Annual Results & Strategic Review release 2012 Appendix IX 4E and DXS 2012 Financial Report
02.08.12	DEXUS announces new executive framework
03.07.12	DXS change in membership of Compliance Committee
22.06.12	DXS announces the completion of the sale of its US central portfolio
20.06.12	DEXUS 2012 June distribution details
18.06.12	DEXUS sells industrial development at Erskine Park
14.06.12	DEXUS 2012 Sydney industrial tour
08.05.12	DEXUS 2012 March portfolio update
07.05.12	DEXUS announces restructure and senior management changes
16.04.12	DEXUS announces sale of US central portfolio and capital management initiatives
04.04.12	DEXUS Property Group United States portfolio update – response to market speculation
30.03.12	DEXUS repurchase of RENTS
29.02.12	DEXUS 2012 half year report
15.02.12	DEXUS 2012 half year results DEXUS 2012 half year results release and presentation
21.12.11	DEXUS provides a capital reallocation letter to security holders
16.12.11	DEXUS 2011 December distribution details
07.12.11	DEXUS implements the capital reallocation
28.11.11	DEXUS announces future retirement of Chief Executive Officer and appointment of successor DEXUS announces Richard Sheppard appointed as new director
08.11.11	DEXUS 2011 September portfolio update
31.10.11	DEXUS 2011 Annual General Meeting address and presentation DEXUS membership change in Compliance Committee DEXUS 2011 Annual General Meeting results DEXUS Supplemental Deed Polls DEXUS Consolidated Constitutions
11.10.11	DEXUS 2011 Sydney office tour
26.09.11	DEXUS 2011 notice of Annual General Meeting DEXUS 2011 annual reporting suite

DIRECTORY

DEXUS Diversified Trust
ARSN 089 324 541

DEXUS Industrial Trust
ARSN 090 879 137

DEXUS Office Trust
ARSN 090 768 531

DEXUS Operations Trust
ARSN 110 521 223

Responsible Entity

DEXUS Funds Management Limited
ABN 24 060 920 783

Directors of the Responsible Entity

Christopher T Beare, Chair
Elizabeth A Alexander AM
Barry R Brownjohn
John C Conde AO
Tonianne Dwyer
Stewart F Ewen OAM
W Richard Sheppard
Darren J Steinberg, CEO
Peter B St George

Secretaries of the Responsible Entity

Tanya L Cox
John C Easy

Registered office of Responsible Entity

Level 9, 343 George Street
Sydney NSW 2000

PO Box R1822
Royal Exchange
Sydney NSW 1225

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

DEXUS US office

Suite 110, 4000 Westerly Place
Newport Beach CA 92660

Phone: +1 949 724 8886
Fax: +1 949 724 8887
Email: ir@dexus.com
www.dexus.com/us

Auditors

PricewaterhouseCoopers
Chartered Accountants
201 Sussex Street
Sydney NSW 2000

Investor enquiries

Registry Infoline: 1800 819 675
or +61 2 8280 7126

Investor Relations: +61 2 9017 1330
Email: ir@dexus.com
www.dexus.com

Security registry

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

Locked Bag A14
Sydney South NSW 1235

Registry Infoline: 1800 819 675
or +61 2 8280 7126
Fax: +61 2 9287 0303
Email: registrars@linkmarketservices.com.au
Website: linkmarketservices.com.au

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

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

Australian Securities Exchange

ASX code: DXS

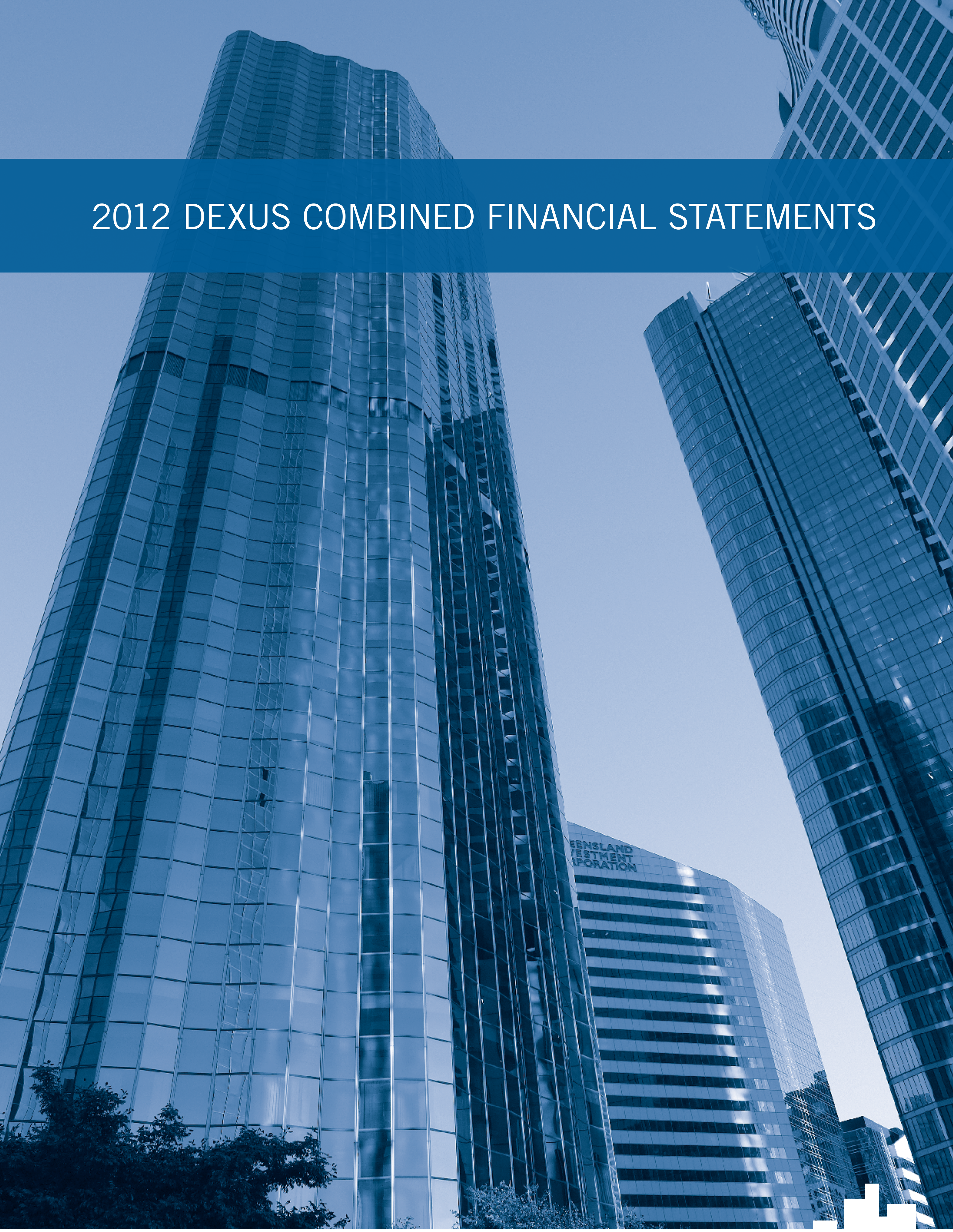
2012 DEXUS ANNUAL REPORT

DEXUS

PROPERTY GROUP

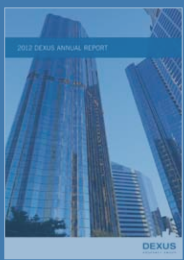
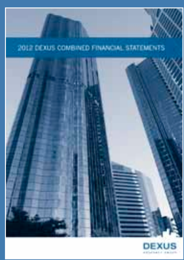
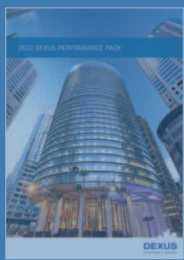
www.dexus.com

2012 DEXUS COMBINED FINANCIAL STATEMENTS



DEXUS
PROPERTY GROUP

CONTENTS

2012 Annual Reporting suite

DEXUS Property Group (DXS) presents our 2012 annual reporting suite and supporting material for the year ending 30 June 2012:

1. The 2012 DEXUS Annual Review – an integrated report summarising our financial, operational and Corporate Responsibility and Sustainability (CR&S) performance.
2. The 2012 DEXUS Annual Report – DXS's consolidated financial statements, Corporate Governance Statement and information about our Board of Directors. This document should be read in conjunction with the 2012 DEXUS Annual Review.
3. This 2012 DEXUS Combined Financial Statements – the Financial Statements of DEXUS Industrial Trust, DEXUS Office Trust and DEXUS Operations Trust. This document should be read in conjunction with the 2012 DEXUS Annual Report and Annual Review. It is available in hard copy on request by email at ir@dexus.com, phone on 1800 819 675 or online in our annual reporting suite at www.dexus.com/dxs/reports
4. The 2012 DEXUS Performance Pack – the data and information supporting the results outlined in the 2012 DEXUS Annual Review will be available in our online annual reporting suite from mid-October 2012. Further CR&S information can be found on our website at www.dexus.com/crs

Through these reports we demonstrate how we manage our financial and non-financial performance in line with our corporate strategy.

We welcome your feedback, either via the feedback function in our online report at www.dexus.com/dxs/reports or by email at crs@dexus.com

---

All amounts are A$ unless otherwise specified.

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

Under Australian Accounting Standards, DDF has been deemed the parent entity for accounting purposes. Therefore the DDF consolidated Financial Statements include all entities forming part of DXS. The DDF consolidated financial statements are provided in the 2012 DEXUS Annual Report as DXS's consolidated financial statements.

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

Cover: 12 Creek Street, Brisbane, QLD

2012

DEXUS Industrial Trust
(ARSN 090 879 137)

Financial Report
30 June 2012

DEXUS
PROPERTY GROUP

Contents

Page

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

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

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

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

The Trust together with DEXUS Diversified Trust (DDF), DEXUS Office Trust (DOT) and DEXUS Operations Trust (DXO) form the DEXUS Property Group (DXS or the Group) stapled security.

1 Directors and Secretaries

1.1 Directors

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

Directors	Appointed	Resigned
Christopher T Beare	4 August 2004	
Elizabeth A Alexander, AM	1 January 2005	
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	

Particulars of the qualifications, experience and special responsibilities of the Directors at the date of this Directors' Report are set out in the Board of Directors section of the DEXUS Property Group Annual Report and form part of this Directors' Report.

1.2 Company Secretaries

The names and details of the Company Secretaries of DXFM as at 30 June 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 DXFM 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 the 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 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 and 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

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

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

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

	Board Audit 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 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.

4 Directors' directorships in other listed entities

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

Director	Company	Date appointed	Date resigned or ceased being a Director of a listed 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.

5 Principal activities

During the year the principal activity of the Trust was investment in real estate assets. There were no significant changes in the nature of the Trust's activities during the year.

6 Review and results of operations

The results for the year ended 30 June 2012 were:

- loss attributable to unitholders was $52.9 million (2011: $114.7 million profit);
- total assets were $1,534.8 million (2011: $1,881.9million); and
- net assets were $664.2 million (2011: $576.6 million).

A review of the results, financial position and operations of the Group, of which the Trust forms part thereof, is set out in the Operating and Financial Review of the DEXUS Property Group Annual Report and forms part of this Directors' Report. Refer to the Chief Executive Officer's report of the DEXUS Property Group 2012 Annual Review for further information.

7 Likely developments and expected results of operations

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

8 Significant changes in the state of affairs

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

9 Matters subsequent to the end of the financial year

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

10 Distributions

Distributions paid or payable by the Trust for the year ended 30 June 2012 are outlined in note 25 of the Notes to the Financial Statements and form part of this Directors' Report.

11 DXFM's fees and associate interests

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

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

12 Units on issue

The movement in units on issue in the Trust during the year and the number of units on issue as at 30 June 2012 are detailed in note 23 of the Notes to the Financial Statements and form part of this Directors' Report.

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

13 Environmental regulation

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

14 Indemnification and insurance

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

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

15 Audit

15.1 Auditor

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

15.2 Non-audit services

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

Details of the amounts paid or payable to the Auditor, for audit and non-audit services provided during the year, are set out in note 7 of the Notes to the Financial Statements.

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

The reasons for the Directors being satisfied are:

- a Charter of Audit Independence was adopted in 2010 that provides guidelines under which the Auditor may be engaged to provide non-audit services without impairing the Auditor's objectivity or independence.
- the Charter states that the Auditor will not provide services where the Auditor may be required to review or audit its own work, including:
  - the preparation of tax provisions, accounting records and financial statements;
  - the design, implementation and operation of information technology systems;
  - the design and implementation of internal accounting and risk management controls;
  - conducting valuation, actuarial or legal services;
  - consultancy services that include direct involvement in management decision making functions;
  - investment banking, borrowing, dealing or advisory services;
  - acting as trustee, executor or administrator of trust or estate;
  - prospectus independent expert reports and being a member of the due diligence committee; and
  - providing internal audit services.
- the Board Audit Committee regularly reviews the performance and independence of the Auditor and whether the independence of this function has been maintained having regard to the provision of non-audit services. The Auditor has provided a written declaration to the Board regarding its independence at each reporting period and Board Audit Committee approval is required before the engagement of the Auditor to perform any non-audit service for a fee in excess of $100,000.

The above Directors' statements are in accordance with the advice received from the Board Audit Committee.

15.3 Auditor's Independence Declaration

A copy of the Auditor's Independence Declaration as required under section 307C of the *Corporations Act 2001* is set out on page 7 and forms part of this Directors' Report.

16 Corporate governance

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

17 Rounding of amounts and currency

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

18 Management representation

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

19 Directors' authorisation

This 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 Industrial 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 Industrial Trust and the entities it controlled during the period.

E A Barron
Partner
PricewaterhouseCoopers

Sydney
15 August 2012

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

	Note	2012 $'000	2011 $'000
Revenue from ordinary activities			
Property revenue	2	**126,193**	143,816
Interest revenue	3	**1,836**	1,761
Total revenue from ordinary activities		**128,029**	145,577
Share of net profit of associates accounted for using the equity method	15	**3,398**	20,326
Net fair value gain of investment properties		**-**	39,696
Net fair value gain of derivatives		**-**	1,992
Net foreign exchange gain		**872**	1,546
Net gain on sale of investment properties		**-**	3,285
Other income		**8**	41
Total income		**132,307**	212,463
Expenses			
Property expenses		**(26,606)**	(28,333)
Responsible Entity fees	30	**(4,026)**	(4,103)
Finance costs	4	**(112,128)**	(60,326)
Net fair value loss of derivatives		**(1,017)**	-
Net loss on sale of investment properties		**(20,388)**	-
Net fair value loss of investment properties		**(20,787)**	-
Other expenses	6	**(2,199)**	(2,171)
Total expenses		**(187,151)**	(94,933)
Foreign currency translation reserve transfer on partial disposal of foreign operations		**10,380**	-
(Loss)/profit before tax		**(44,464)**	117,530
Tax expense			
Income tax benefit/(expense)	5(a)	**635**	(1)
Withholding tax expense		**(9,054)**	(2,784)
Total tax expense		**(8,419)**	(2,785)
(Loss)/profit after tax		**(52,883)**	114,745
Other comprehensive income:			
Foreign currency translation reserve transfer on partial disposal of foreign operations		**(10,380)**	-
Exchange differences on translating foreign operations		**(6,732)**	29,479
Total comprehensive (loss)/income for the year		**(69,995)**	144,224

Earnings per unit		**Cents**	Cents
Basic earnings per unit on (loss)/profit attributable to unitholders of the parent entity	34	**(1.16)**	3.06
Diluted earnings per unit on (loss)/profit attributable to unitholders of the parent entity	34	**(1.16)**	3.06

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

	Note	2012 $'000	2011 $'000
Current assets			
Cash and cash equivalents	8	**11,862**	39,837
Receivables	9	**16,629**	5,662
Non-current assets classified as held for sale	10	**102,264**	60,688
Loan with related parties	11	**266,021**	259,537
Derivative financial instruments	12	**1,332**	20,854
Current tax assets		**198**	233
Other	13	**2,806**	2,592
Total current assets		**401,112**	389,403
Non-current assets			
Investment properties	14	**1,058,533**	1,307,484
Investments accounted for using the equity method	15	**65,599**	162,513
Deferred tax assets	16	**-**	6,061
Derivative financial instruments	12	**9,386**	16,283
Other	17	**158**	197
Total non-current assets		**1,133,676**	1,492,538
Total assets		**1,534,788**	1,881,941
Current liabilities			
Payables	18	**75,871**	48,538
Current tax liabilities		**973**	5,956
Provisions	20	**10,000**	12,360
Derivative financial instruments	12	**1,430**	2,039
Total current liabilities		**88,274**	68,893
Non-current liabilities			
Loans with related parties	11	**696,367**	1,111,503
Interest bearing liabilities	19	**49,404**	47,758
Derivative financial instruments	12	**35,096**	76,412
Deferred tax liabilities	22	**595**	-
Other	21	**811**	810
Total non-current liabilities		**782,273**	1,236,483
Total liabilities		**870,547**	1,305,376
Net assets		**664,241**	576,565
Equity			
Contributed equity	23	**1,092,787**	925,116
Reserves	24	**24,530**	41,642
Accumulated losses	24	**(453,076)**	(390,193)
Total equity		**664,241**	576,565

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 $'000	Accumulated losses $'000	Foreign currency translation reserve $'000	Total equity $'000
Opening balance as at 1 July 2010		925,116	(492,578)	12,163	444,701
Profit after tax for the year		-	114,745	-	114,745
Other comprehensive income for the year		-	-	29,479	29,479
Transactions with owners in their capacity as owners					
Capital contribution, net of transaction costs		-	-	-	-
Buy back of contributed equity		-	-	-	-
Distributions paid or provided for	25	-	(12,360)	-	(12,360)
Closing balance as at 30 June 2011		925,116	(390,193)	41,642	576,565
Opening balance as at 1 July 2011		**925,116**	**(390,193)**	**41,642**	**576,565**
Loss after tax for the year		**-**	**(52,883)**	**-**	**(52,883)**
Other comprehensive loss for the year		**-**	**-**	**(17,112)**	**(17,112)**
Transactions with owners in their capacity as owners					
Capital contribution, net of transaction costs		**174,901**	**-**	**-**	**174,901**
Buy back of contributed equity		**(7,230)**	**-**	**-**	**(7,230)**
Distributions paid or provided for	25	**-**	**(10,000)**	**-**	**(10,000)**
Closing balance as at 30 June 2012		**1,092,787**	**(453,076)**	**24,530**	**664,241**

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

	Note	2012 $'000	2011 $'000
Cash flows from operating activities			
Receipts in the course of operations (inclusive of GST)		**141,538**	148,228
Payments in the course of operations (inclusive of GST)		**(50,205)**	(50,598)
Interest received		**1,858**	1,687
Finance costs paid		**(20,839)**	(41,595)
Income and withholding taxes paid		**(2,000)**	(575)
Net cash inflow from operating activities	33	**70,352**	57,147
Cash flows from investing activities			
Proceeds from sale of investment properties		**188,416**	106,031
Payments for capital expenditure on investment properties		**(20,817)**	(24,972)
Payments for investments accounted for using the equity method		**-**	(50,322)
Proceeds from investments accounted for using the equity method		**98,690**	-
Net cash inflow from investing activities		**266,289**	30,737
Cash flows from financing activities			
Proceeds from capital contribution		**174,979**	-
Capital contribution transaction costs		**(78)**	-
Payments for buy back of contributed equity		**(7,230)**	-
Borrowings provided by entities within DXS		**149,381**	209,182
Borrowings provided to entities within DXS		**(619,306)**	(273,401)
Proceeds from borrowings		**29,073**	42,613
Repayment of borrowings		**(75,920)**	(40,601)
Distributions paid to unitholders		**(12,360)**	-
Net cash outflow from financing activities		**(361,461)**	(62,207)
Net (decrease)/increase in cash and cash equivalents		**(24,820)**	25,677
Cash and cash equivalents at the beginning of the year		**39,837**	16,537
Effects of exchange rate changes on cash and cash equivalents		**(3,155)**	(2,377)
Cash and cash equivalents at the end of the year	8	**11,862**	39,837

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

Note 1

Summary of significant accounting policies

(a) Basis of preparation

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

DEXUS Funds Management Limited (DXFM) as Responsible Entity for each entity within DXS may only 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 Trust's Constitution, the *Corporations Act 2001*, Australian Accounting Standards and other authoritative pronouncements of the Australia Accounting Standards Board and interpretations. Compliance with Australian Accounting Standards ensures that the Financial Statements and notes also comply with International Financial Reporting Standards (IFRS).

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

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

Critical accounting estimates

The preparation of Financial Statements requires the use of certain critical accounting estimates and management to exercise its judgement in the process of applying the Trust's accounting policies. Other than the estimations described in notes 1(e), 1(n) and 1(s), no key assumptions concerning the future or other estimation of uncertainty at the end of each reporting period have a significant risk of causing material adjustments to the Financial Statements in the next annual reporting period.

Uncertainty around international property valuations

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

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. The accounting policies of the subsidiaries are consistent with those of the parent.

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

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

(ii) Partnerships and joint ventures

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

(c) Revenue recognition

(i) Rent

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

(ii) Interest revenue

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

(iii) Dividends and distribution revenue

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

Note 1

Summary of significant accounting policies (continued)

(d) Expenses

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

(i) Property expenses

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

(ii) Borrowing costs

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

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

(e) Derivatives and other financial instruments

(i) Derivatives

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

(ii) Debt and equity instruments issued by the Trust

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

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

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

(iii) Financial guarantee contracts

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

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

Note 1

Summary of significant accounting policies (continued)

(e) Derivatives and other financial instruments (continued)

(iii) Financial guarantee contracts (continued)

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

(iv) Other financial assets

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

(f) Goods and services tax/value added tax

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

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

(g) Taxation

Under current Australian income tax legislation, the Trust is not liable for income tax provided it satisfies certain legislative requirements. The Trust may be liable for income tax in jurisdictions where foreign property is held (i.e. United States, France, Germany and Canada).

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

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

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

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

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

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

(h) Distributions

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

Note 1

Summary of significant accounting policies (continued)

(i) Repairs and maintenance

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

(j) Cash and cash equivalents

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

(k) Receivables

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

(l) Non-current assets held for sale

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

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

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

(n) Investment properties

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

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

Note 1

Summary of significant accounting policies (continued)

(n) Investment properties (continued)

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

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

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

(o) Leasing fees

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

(p) Lease incentives

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

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

(q) Investments accounted for using the equity method

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

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

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

(r) Impairment of assets

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

Note 1

Summary of significant accounting policies (continued)

(s) Financial assets and liabilities

(i) Classification

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

Financial asset/liability	Classification	Valuation basis	Reference
Receivables	Loans and receivables	Amortised cost	Refer note 1(k)
Other financial assets	Loans and receivables	Amortised cost	Refer note 1(e)
Other financial assets	Fair value through profit or loss	Fair value	Refer note 1(m)
Payables	Financial liability at amortised cost	Amortised cost	Refer note 1(t)
Interest bearing liabilities	Financial liability at amortised cost	Amortised cost	Refer note 1(u)
Derivatives	Fair value through profit or loss	Fair value	Refer note 1(e)

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

(ii) Fair value estimation of financial assets and liabilities

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

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

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

(t) Payables

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

(u) Interest bearing liabilities

Subsequent to initial recognition at fair value, net of transaction costs incurred, interest bearing liabilities are measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the Statement of Comprehensive Income over the period of the borrowings using the effective interest method. Interest bearing liabilities are classified as current liabilities unless the Trust has an unconditional right to defer the liability for at least 12 months after the reporting date.

(v) Earnings per unit

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

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

Note 1

Summary of significant accounting policies (continued)

(w) Foreign currency

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

(i) Foreign currency transactions

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

(ii) Foreign operations

Foreign operations are located in the United States, France and Germany. These operations have a functional currency of US 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 the reporting period. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising are recognised in the foreign currency translation reserve and recognised in profit or loss on disposal or partial disposal of the foreign operation.

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

(x) Operating segments

The Chief Operating Decision Maker (CODM) has been identified as the Board of Directors as they are responsible for the strategic decision making within DXS, which consists of DIT, DOT, DDF and DXO. Consistent with how the CODM manages the business, the operating segments within DXS are reviewed on a consolidated basis rather than at an individual trust level. Disclosures concerning DXS's operating segments as well as the operating segments' key financial information provided to the CODM are presented in DXS's Financial Statements.

(y) Rounding of amounts

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

(z) Parent entity financial information

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

(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.

Note 1

Summary of significant accounting policies (continued)

(aa) 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 Trust's current offsetting arrangements. The AASB has also introduced more extensive disclosure requirements into AASB 7 which will apply from 1 July 2013. The Trust intends to apply the new rules from 1 July 2013 and does not expect any significant impacts.

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

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

AASB 9 *Financial Instruments* and AASB 2009-11 *Amendments to Australian Accounting Standards arising from AASB 9* and AASB 2010-7 *Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)* (effective 1 January 2013).

AASB 9 *Financial Instruments* addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard simplifies the classifications of financial assets into those to be carried at amortised cost and those to be carried at fair value. The Trust intends to apply the standards from 1 July 2013 and does not expect any significant impacts.

AASB 2010-8 *Amendments to Australian Accounting Standards - Deferred Tax: Recovery of Underlying Assets* (effective 1 January 2012).

In December 2010, the AASB amended AASB 112 *Income Taxes* to provide an amended approach for measuring deferred tax liabilities and deferred tax assets when investment property is measured using the fair value model. AASB 112 requires the measurement of deferred tax assets or liabilities to reflect the tax consequences that would follow from the way management expects to recover or settle the carrying amount of the relevant assets or liabilities, that is through use or through sale. The Trust intends to apply the standard from 1 July 2012 and does not expect any significant impacts.

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

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

AASB 10 *Consolidated financial statements* (effective 1 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 Trust intends to apply the standard from 1 July 2013 and does not expect any significant impacts.

Note 1

Summary of significant accounting policies (continued)

(aa) New accounting standards and interpretations

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 Trust intends to apply the standard from 1 July 2013 and does not expect any significant impacts.

AASB 12 *Disclosure of interests in other entities* (effective 1 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 Trust's current disclosures. The Trust 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 Trust 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 Trust's current disclosures. The Trust 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 Trust intends to adopt the new standard from 1 July 2012.

Note 2

Property revenue

	2012 $'000	2011 $'000
Rent and recoverable outgoings	**127,954**	139,618
Incentive amortisation	**(7,391)**	(7,395)
Other revenue	**5,630**	11,593
Total property revenue	**126,193**	143,816

Note 3

Interest revenue

	2012 $'000	2011 $'000
Interest revenue from financial institutions	**307**	132
Interest revenue from related parties	**1,529**	1,629
Total interest revenue	**1,836**	1,761

Note 4

Finance costs

	2012 $'000	2011 $'000
Interest paid/payable	**998**	1,094
Interest paid to related parties	**58,471**	74,366
Net fair value loss/(gain) of interest rate swaps	**52,298**	(14,253)
Amount capitalised	**(1,111)**	(1,005)
Other finance costs	**1,472**	124
Total finance costs	**112,128**	60,326

The average capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation is 7.70% (2011: 7.77%).

Note 5

Income tax

(a) Income tax (benefit)/expense

	2012 $'000	2011 $'000
Current tax (benefit)/expense	(635)	1
Income tax (benefit)/expense	(635)	1

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

	2012 $'000	2011 $'000
(Loss)/profit before tax	(44,464)	117,530
Less amounts not subject to income tax (note 1(g))	25,732	(120,320)
	(18,732)	(2,790)
Prima facie tax expense at Australian tax rate of 30% (2011: 30%)	(5,620)	(837)
Tax effect of amounts which are not (deductible)/taxable in calculating taxable income:		
Depreciation and amortisation	(1,113)	(1,400)
Revaluation of investment properties	1,491	2,199
Net loss on sale of investment properties	4,606	39
	4,984	838
Income tax (benefit)/expense	(635)	1

Note 6

Other expenses

	Note	2012 $'000	2011 $'000
Audit and taxation fees	7	447	417
Custodian fees		72	86
Legal and other professional fees		333	275
Registry costs and listing fees		95	129
External management fees		-	825
Other expenses		1,154	439
Total other expenses		2,101	2,171

Note 7

Audit, taxation and transaction services fees

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

	2012 $	2011 $
Audit fees		
PwC Australia - audit and review of Financial Statements	**277,353**	212,709
PwC US - audit and review of Financial Statements[1]	**-**	28,595
PwC fees paid in relation to outgoings audit[2]	**25,127**	24,562
PwC Australia - regulatory audit and compliance services	**6,708**	7,520
Audit fees paid to PwC	**309,188**	273,386
Fees paid to non-PwC audit firms	**52,691**	57,874
Total audit fees	**361,879**	331,260
Taxation fees		
Fees paid to PwC Australia	**19,080**	8,377
Taxation fees paid to PwC	**19,080**	8,377
Fees paid to non-PwC audit firms	**84,071**	101,442
Total taxation fees[3]	**103,151**	109,819
Total audit and taxation fees[2]	**465,030**	441,079
Transaction services fees		
Fees paid to PwC Australia	**7,500**	-
Total transaction services fees[3]	**7,500**	-
Total audit, taxation and transaction services fees	**472,530**	441,079

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. Therefore total audit and taxation fees included in other expenses are $439,903 (2011: $416,517).

3 These services include general compliance work, one off project work and advice.

Note 8

Current assets - cash and cash equivalents

	2012 $'000	2011 $'000
Cash at bank	**9,100**	6,436
Short-term deposits[1]	**2,762**	33,401
Total current assets - cash and cash equivalents	**11,862**	39,837

1 As at 30 June 2012, the Trust held US$2.8 million (A$2.8 million) in escrow in relation to the US asset disposals in June 2012.

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

Note 9
Current assets - receivables

	2012 $'000	2011 $'000
Rent receivable	**2,311**	3,903
Less: provision for doubtful debts	**(342)**	(1,595)
Total rental receivables	**1,969**	2,308
GST Receivable	**-**	279
Interest receivable from related parties	**5**	4
Other receivables	**14,655**	3,071
Total other receivables	**14,660**	3,354
Total current assets - receivables	**16,629**	5,662

Note 10
Non-current assets classified as held for sale

(a) Non-current assets held for sale

	2012 $'000	2011 $'000
Investment properties held for sale	**102,264**	60,688
Total non-current assets classified as held for sale	**102,264**	60,688

(b) Reconciliation

	Note	2012 $'000	2011 $'000
Opening balance at the beginning of the year		**60,688**	-
Disposals		**(35,631)**	-
Transfer from investment properties	14	**77,375**	60,688
Foreign exchange differences on foreign currency translation		**(2,029)**	-
Net fair value loss of investment properties held for sale		**829**	-
Additions, amortisation and other		**1,032**	-
Closing balance at the end of the year		**102,264**	60,688

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 11

Loans with related parties

	2012 $'000	2011 $'000
Current assets - loans with related parties		
Non-interest bearing loans with entities within DXS[1]	**138,948**	138,948
Interest bearing loans with entities within DXS	**127,073**	120,589
Total current assets - loans with related parties	**266,021**	259,537
Non-current liabilities - loans with related parties		
Interest bearing loans with related parties[2]	**696,367**	1,059,393
Interest bearing loans with entities within DXS	**-**	52,110
Total non-current liabilities - loans with related parties	**696,367**	1,111,503

1 Non-interest bearing loans with entities within DXS were created to effect the stapling of the Trust, DDF, DOT and DXO. These loan balances eliminate on consolidation within DXS.

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

Note 12

Derivative financial instruments

	2012 $'000	2011 $'000
Current assets		
Interest rate swap contracts	**-**	1,662
Cross currency swap contracts	**-**	17,583
Forward foreign exchange contracts	**1,332**	1,609
Total current assets - derivative financial instruments	**1,332**	20,854
Non-current assets		
Interest rate swap contracts	**9,386**	11,856
Cross currency swap contracts	**-**	3,198
Forward foreign exchange contracts	**-**	1,229
Total non-current assets - derivative financial instruments	**9,386**	16,283
Current liabilities		
Interest rate swap contracts	**1,381**	1,714
Forward foreign exchange contracts	**49**	325
Total current liabilities - derivative financial instruments	**1,430**	2,039
Non-current liabilities		
Interest rate swap contracts	**35,038**	76,004
Cross currency swap contracts	**58**	408
Total non-current liabilities - derivative financial instruments	**35,096**	76,412
Net derivative financial instruments	**(25,808)**	(41,314)

Refer note 27 for further discussion regarding derivative financial instruments.

Note 13

Current assets - other

	2012 $'000	2011 $'000
Prepayments	**2,806**	2,592
Total current assets - other	**2,806**	2,592

Note 14

Non-current assets - investment properties

	Note	2012 $'000	2011 $'000
Opening balance at the beginning of the year		**1,307,485**	1,462,007
Additions		**15,259**	16,500
Lease incentives		**9,791**	18,398
Amortisation of lease incentives		**(7,297)**	(7,395)
Net fair value (loss)/gain of investment properties		**(21,616)**	39,696
Rent straightlining		**921**	805
Disposals		**(172,919)**	(97,563)
Transfer to non-current assets classified as held for sale	10	**(77,375)**	(60,688)
Foreign exchange differences on foreign currency translation		**4,284**	(64,276)
Closing balance at the end of the year		**1,058,533**	1,307,485

Key valuation assumptions

Details of key valuation assumptions in relation to investment properties are outlined in note 13 of the DXS Financial Statements.

Disposals

- 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 21 June 2012, 13201 South Orange Avenue, Orlando was disposed of for gross proceeds of US$31.3 million (A$30.7 million).
- On 21 June 2012, 6241 Shook Road, Columbus was disposed of for gross proceeds of US$57.7 million (A$56.6 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).

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
DEXUS Industrial Properties, Inc.[1]	Asset, property and funds management	**50.0**	50.0	**65,599**	162,513
Total non-current assets - investments accounted for using the equity method				**65,599**	162,513

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

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

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

	2012	2011
	$'000	$'000
Opening balance at the beginning of the year	**162,513**	122,627
Interest acquired during the year	**-**	50,322
Share of net profit after tax	**3,398**	20,326
Distributions received/receivable	**(109,656)**	-
Foreign exchange difference on foreign currency translation	**9,344**	(30,762)
Closing balance at the end of the year	**65,599**	162,513
Results attributable to investments accounted for using the equity method		
Operating profit before income tax	**3,398**	20,326
Operating profit after income tax	**3,398**	20,326
	3,398	20,326
Accumulated losses at the beginning of the year	**(226,926)**	(247,252)
Accumulated losses at the end of the year	**(223,528)**	(226,926)

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

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

	2012	2011
	$'000	$'000
Profit from ordinary activities after income tax expense	**3,398**	20,326
Assets	**224,732**	534,040
Liabilities	**159,133**	371,527
Share of expenditure commitments		
Capital commitments	**183**	1,607

Note 16

Non-current assets - deferred tax assets

	2012 $'000	2011 $'000
The balance comprises temporary differences attributable to:		
Investment properties	-	6,061
Total non-current assets - deferred tax assets	-	6,061
Movements		
Opening balance at the beginning of the year	6,061	6,061
Charged to the Statement of Comprehensive Income	(6,061)	-
Closing balance at the end of the year	-	6,061

Note 17

Non-current assets - other

	2012 $'000	2011 $'000
Tenant and other bonds	158	197
Total non-current assets - other	158	197

Note 18

Current liabilities - payables

	2012 $'000	2011 $'000
Trade creditors	9,456	9,877
Accruals	2,476	1,485
Accrued capital expenditure	1,060	1,496
Prepaid income	3,391	2,465
Responsible Entity fee payable	338	337
GST payable	91	-
Accrued interest	3,140	6,151
Other payable to related party	55,919	26,727
Total current liabilities - payables	75,871	48,538

Note 19
Interest bearing liabilities

	Note	2012 $'000	2011 $'000
Non-current			
Bank loans	(a)	**50,927**	48,329
Total secured		**50,927**	48,329
Deferred borrowing costs		**(1,523)**	(571)
Total non-current liabilities - interest bearing liabilities		**49,404**	47,758
Total interest bearing liabilities		**49,404**	47,758

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

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

(a) Bank loans - secured

This includes a US$51.9 million (A$50.9 million) secured bank facility maturing in December 2017. The facility is secured by a mortgage over one investment property with a value of US$122.0 million (A$119.7 million) as at 30 June 2012.

Note 20
Current liabilities - provisions

	2012 $'000	2011 $'000
Provision for distribution	10,000	12,360
Total current liabilities - provisions	10,000	12,360

Movements in provision for distribution are set out below:

	2012 $'000	2011 $'000
Opening balance at the beginning of the year	12,360	-
Additional provisions	10,000	12,360
Payments of distributions	(12,360)	-
Closing balance at the end of the year	10,000	12,360

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

Note 21
Non-current liabilities - other

	2012 $'000	2011 $'000
Tenant bonds	**811**	810
Total non-current liabilities - other	**811**	810

Note 22

Non-current liabilities - deferred tax liabilities

	2012 $'000	2011 $'000
The balance comprises temporary differences attributable to:		
Investment properties	**595**	-
Total non-current liabilities - deferred tax liabilities	**595**	-
Movements		
Opening balance at the beginning of the year	**-**	-
Charged to the Statement of Comprehensive Income	**595**	-
Closing balance at the end of the year	**595**	-

Note 23

Contributed equity

(a) Contributed equity

	2012 $'000	2011 $'000
Opening balance at the beginning of the year	**925,116**	925,116
Capital contribution	**174,979**	-
Capital contribution transaction costs	**(78)**	-
Buy back of contributed equity	**(7,230)**	-
Closing balance at the end of the year	**1,092,787**	925,116

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.

(b) Number of units on issue

	2012 No. of units	2011 No. of units
Opening balance at the beginning of the year	**4,839,024,176**	4,820,821,799
Distributions reinvested	**-**	18,202,377
Buy back of contributed equity	**(55,206,519)**	-
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 Trust. Each stapled security entitles the holder to vote in accordance with the provisions of the Constitution and the *Corporations Act 2001*.

(c) Distribution reinvestment plan

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

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

Note 24
Reserves and accumulated losses

(a) Reserves

	2012 $'000	2011 $'000
Foreign currency translation reserve	24,530	41,642
Total reserves	**24,530**	41,642
Movements:		
Foreign currency translation reserve		
Opening balance at the beginning of the year	41,642	12,163
Exchange differences on translating foreign operations	(6,732)	29,479
Foreign currency translation reserve transfer on partial disposal of foreign operations	(10,380)	-
Total movement in foreign currency translation reserve	**(17,112)**	29,479
Closing balance at the end of the year	**24,530**	41,642

(b) Nature and purpose of reserves

Foreign currency translation reserve

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

(c) Accumulated losses

	2012 $'000	2011 $'000
Opening balance at the beginning of the year	(390,193)	(492,578)
Net (loss)/profit attributable to unitholders	(52,883)	114,745
Distributions provided for or paid	(10,000)	(12,360)
Closing balance at the end of the year	**(453,076)**	(390,193)

Note 25
Distributions paid and payable

(a) Distribution to unitholders

	2012 $'000	2011 $'000
30 June (payable 31 August 2012)	10,000	12,360
Total distributions	**10,000**	12,360

(b) Distribution rate

	2012 Cents per unit	2011 Cents per unit
30 June (payable 31 August 2012)	0.21	0.26
Total distributions	**0.21**	0.26

Note 26

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	160,106	322,088
Total assets	1,524,226	1,794,510
Total current liabilities	86,664	55,060
Total liabilities	780,332	1,152,063
Equity		
Contributed equity	1,092,787	925,116
Accumulated losses	(348,894)	(282,669)
Total equity	743,893	642,447
Net (loss)/profit for the year	(56,225)	147,848
Total comprehensive (loss)/income for the year	(56,225)	147,848

(b) Investments in controlled entities

The parent entity has the following investments:

Name of entity	Principal activity	Ownership Interest 2012 %	Ownership Interest 2011 %	2012 $'000	2011 $'000
Foundation Macquarie Park Trust	Industrial property investment	100.0	100.0	96,159	96,159
DEXUS PID Trust	Industrial property investment	100.0	100.0	161,958	167,184
DIT Luxemburg 1 SARL	Investment trust	100.0	100.0	-	-
DEXUS GLOG Trust	Industrial property investment	100.0	100.0	-	-
DEXUS US Whirlpool Trust	Industrial property investment	100.0	100.0	71,469	104,491
DEXUS Canada Trust	Industrial property investment	100.0	100.0	20,412	19,481
Total investments in controlled entities				349,998	387,315

(c) Guarantees entered into by the parent entity

Refer to note 28 for details of guarantees entered into by the parent entity.

(d) Contingent liabilities

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

(e) Capital commitments

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

	2012 $'000	2011 $'000
Investment properties	1,551	4,745
Total capital commitments	1,551	4,745

Note 27

Financial risk management

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

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

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

(1) Capital risk management

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

The capital structure of the Trust consists of debt (see note 19), cash and cash equivalents, and equity attributable to unitholders. The capital structure is monitored and managed in consideration of a range of factors including:

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

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

The gearing ratio at 30 June 2012 was 49.0% (as detailed below).

Gearing ratio	2012 $'000	2011 $'000
Total interest bearing liabilities[1]	**747,352**	1,139,460
Total tangible assets[2]	**1,524,070**	1,838,743
Gearing ratio[3]	**49.0%**	62.0%

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 derivatives and deferred tax balances as reported internally to management.

3 Gearing is managed centrally for DXS. The gearing ratio as disclosed in the DEXUS Property Group Financial Statements 2012 is 27.8% (2011: 29.1%) (refer note 29 of the DXS Financial Statements).

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

Note 27

Financial risk management (continued)

(1) Capital risk management (continued)

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

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

(2) Financial risk management

The Trust's activities expose it to a variety of financial risks: credit risk, market risk (including currency risk, interest rate risk and price risk), and liquidity risk. Financial risk management is not managed at the individual trust level, but holistically as part of DXS. DXS's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Trust.

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

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

(a) Liquidity risk

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

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

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

Note 27

Financial risk management (continued)

(2) Financial risk management (continued)

(a) Liquidity risk (continued)

Refinancing risk

A key liquidity risk is the Trust's ability to refinance its current debt facilities. As the Trust's debt facilities mature, they are usually required to be refinanced by extending the facility or replacing the facility with an alternative form of capital.

The refinancing of existing facilities may also result in margin price risk, whereby market conditions may result in an unfavourable change in credit margins on the refinanced facilities. The Trust's key risk management strategy for margin price risk on refinancing is to spread the maturities of debt facilities over different time periods to reduce the volume of facilities to be refinanced and the exposure to market conditions in any one period.

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

	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	16,629	-	-	-	5,662	-	-	-
Payables	75,871	-	-	-	48,538	-	-	-
	(59,242)	-	-	-	(42,876)	-	-	-
Loans with related parties and interest[1]	35,929	35,929	107,787	751,318	68,502	68,502	205,506	1,271,799
Interest bearing liabilities and interest								
Floating interest bearing liabilities and interest	1,049	1,049	3,148	51,436	902	904	2,713	49,672
Total interest bearing liabilities and interest[2]	1,049	1,049	3,148	51,436	902	904	2,713	49,672
Derivative financial instruments								
Derivative assets	5,022	3,211	3,551	-	36,885	13,317	17,766	5,793
Derivative liabilities	10,766	5,861	18,468	10,913	26,235	20,446	51,353	41,624
Total net derivative financial instruments[3]	(5,744)	(2,650)	(14,917)	(10,913)	10,650	(7,129)	(33,587)	(35,831)

1 Includes estimated interest.

2 Refer to note 19 (interest bearing liabilities). Excludes deferred borrowing costs, but includes estimated fees and interest.

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

Note 27

Financial risk management (continued)

(2) Financial risk management (continued)

(b) Market risk

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

(i) Interest rate risk

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

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

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

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

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

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

	June 2013 $'000	June 2014 $'000	June 2015 $'000	June 2016 $'000	June 2017 $'000	> June 2018 $'000
Interest rate swaps						
A$ hedged[1]	346,667	170,000	170,000	236,667	270,000	112,833
A$ hedge rate (%)[2]	4.93%	4.47%	4.60%	5.00%	5.18%	5.78%
US$ hedged[1]	-	-	25,000	30,000	30,000	13,000
US$ hedge rate (%)[2]	0.00%	0.00%	3.71%	4.45%	4.49%	4.50%
Total interest rate swaps (A$ equivalent)	**346,667**	**170,000**	**195,560**	**267,338**	**300,672**	**126,124**
Hedge rate (%)	**4.98%**	**4.47%**	**4.58%**	**4.98%**	**5.11%**	**5.45%**

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

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

Note 27

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 Trust's floating rate debt and derivative cash flows. Net interest expense is only sensitive to movements in market rates to the extent that floating rate debt is not hedged.

		2012 (+/-) $'000	2011 (+/-) $'000
+/- 0.50% (50 basis points)	A$	(234)	916
+/- 0.50% (50 basis points)	US$	1,100	891
+/- 0.50% (50 basis points)	€	-	(25)
+/- 0.50% (50 basis points)	C$	-	150
Total A$ equivalent		**846**	1,856

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

Sensitivity on fair value of interest rate swaps

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

		2012 (+/-) $'000	2011 (+/-) $'000
+/- 0.50% (50 basis points)	A$	7,084	6,306
+/- 0.50% (50 basis points)	US$	368	1,941
+/- 0.50% (50 basis points)	€	-	2,714
+/- 0.50% (50 basis points)	C$	-	-
Total A$ equivalent		**7,446**	11,778

Note 27

Financial risk management (continued)

(2) Financial risk management (continued)

(b) Market risk (continued)

(ii) Foreign exchange risk

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

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

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

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

Foreign currency assets and liabilities

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

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

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

	2012 $'000	2011 $'000
US$ assets[1]	**188,873**	386,982
US$ net borrowings and cross currency swaps[2]	**(239,447)**	(484,733)
$US denominated net investment	**(50,574)**	(97,751)
% hedged	**127%**	125%
€ assets[1]	**36,650**	129,846
€ net borrowings and cross currency swaps[2]	**(32,613)**	(49,803)
€ denominated net investment	**4,037**	43
% hedged	**89%**	100%
C$ assets[3]	**-**	35,573
C$ net borrowings and cross currency swaps[2]	**-**	(30,000)
$C denominated net investment	**-**	5,573
% hedged	**0%**	84%
Total foreign net investment (A$ equivalent)	**(44,637)**	(85,602)
Total % hedged[4]	**119%**	115%

1 Assets exclude working capital and cash as reported internally to management. US$ assets include cash of US$2.8 million (A$2.8 million) held in escrow in relation to the US asset disposals in June 2012.

2 Net borrowings equals interest bearing liabilities less cash. Cross currency swap amounts comprise the foreign currency denominated leg of the cross currency interest swaps.

3 June 2011 included cash of C$34.7 million (A$33.4 million) held in escrow in relation to the sale of the Toronto warehouse facility.

4 Hedging for investments in foreign operations is managed centrally for DXS. The total % hedge as disclosed in the DXS Financial Statements 2012 is 81% (refer note 29 of the DXS Financial Statements).

Note 27

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 Trust's foreign currency assets and liabilities are recorded (in Australian dollars) directly in the foreign currency translation reserve.

		2012 $'000	2011 $'000
+ 13.2 cents (13.0%)	US$ (A$ Equivalent)	**(5,696)**	(18,629)
- 13.2 cents (13.0%)	US$ (A$ Equivalent)	**7,394**	24,308
+ 10.3 cents (12.7%)	€ (A$ Equivalent)	**563**	(158)
- 10.3 cents (12.7%)	€ (A$ Equivalent)	**(727)**	205
+ 8.6 cents (8.2%)	C$ (A$ Equivalent)	**-**	413
- 8.6 cents (8.2%)	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$/€ 0.8092 (2011: 0.7405), A$/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 point increase and decrease in market rates. The sensitivity on the fair value arises from the impact that changes in short-term and long-term market rates will have on the interest rate mark-to-market valuation of the cross currency swaps[1]. The Trust has elected not to apply hedge accounting to its cross currency swaps. Accordingly, gains or losses arising from changes in the fair value are reflected in the Statement of Comprehensive Income.

		2012 (+/-) $'000	2011 (+/-) $'000
+ 0.50% (50 basis point)	US$ (A$ Equivalent)	**-**	2
+ 0.50% (50 basis point)	€ (A$ Equivalent)	**-**	10
+ 0.50% (50 basis point)	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 27

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$'000	**To receive A$'000**	**Weighted average exchange rate**	To pay US$'000	To receive A$'000	Weighted average exchange rate
1 year or less	**-**	**1,316**	**-**	2,900	4,125	0.7031
Over 1 and less than 2 years	**-**	**-**	**-**	1,900	2,856	0.6653
More than 2 years	**-**	**-**	**-**	1,000	1,468	0.6813

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

		2012	2011
		$'000	$'000
+ 13.2 cents (13.0%)	US$ (A$ Equivalent)	**-**	815
- 13.2 cents (13.0%)	US$ (A$ Equivalent)	**-**	(624)
Total A$ equivalent		**-**	191

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$/€ 0.8092 (2011: 0.7405), A$/C$ 1.0454 (2011: 1.0389).

Note 27

Financial risk management (continued)

(2) Financial risk management (continued)

(c) Credit risk

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

The Trust manages this risk by:

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

A minimum S&P rating of A– (or Moody's or Fitch equivalent) is required to become or remain an approved counterparty. As at 30 June 2012, the lowest rating of counterparties the Trust 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 Trust's exposure to any one counterparty. As a result, there is no significant concentration of credit risk for financial instruments.

The maximum exposure to credit risk at 30 June 2012 and 30 June 2011 is 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 ($'000): 16,218 (0-30 days), 81 (31-60 days), 35 (61-90 days), 295 (91+ days). The ageing analysis of loans and receivables net of provisions at 30 June 2011 is ($'000): 4,883 (0-30 days), 168 (31-60 days), 56 (61-90 days), 555 (91+ days). 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 27

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 Carrying amount[1] $'000	2012 Fair value[2] $'000	2011 Carrying amount1 $'000	2011 Fair value2 $'000
Financial assets				
Cash and cash equivalents	**11,862**	**11,862**	39,837	39,837
Loans and receivables (current)	**16,629**	**16,629**	5,662	5,662
Derivative assets	**10,718**	**10,718**	37,137	37,137
Loans with related parties	**266,021**	**266,021**	259,537	259,537
Total financial assets	**305,230**	**305,230**	342,173	342,173
Financial liabilities				
Trade payables	**75,871**	**75,871**	48,538	48,538
Derivative liabilities	**36,526**	**36,526**	78,451	78,451
Interest bearing liabilities	**50,927**	**50,927**	48,329	48,329
Loans with related parties	**696,367**	**696,367**	1,111,503	1,111,503
Total financial liabilities	**859,691**	**859,691**	1,286,821	1,286,821

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

The fair value of interest bearing liabilities and derivative financial instruments has been determined by discounting the expected future cash flows by the relevant market interest rates. The discount rates applied range from 0.25% to 5.66% for US$ and 2.97% to 6.75% for A$. Refer note 1(s) for fair value methodology for financial assets and liabilities.

Determination of fair value

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

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

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

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

Note 27

Financial risk management (continued)

(2) Financial risk management (continued)

(d) Fair value of financial instruments (continued)

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

	Level 1 $'000	Level 2 $'000	Level 3 $'000	2012 $'000
Financial assets				
Derivative assets				
Interest rate derivatives	-	9,386	-	9,386
Cross currency swaps	-	-	-	-
Forward exchange contracts	-	1,332	-	1,332
	-	10,718	-	10,718
Financial liabilities				
Interest bearing liabilities				
Floating interest bearing liabilities	-	50,927	-	50,927
	-	50,927	-	50,927
Derivative liabilities				
Interest rate derivatives	-	36,419	-	36,419
Cross currency swaps	-	58	-	58
Forward exchange contracts	-	49	-	49
	-	36,526	-	36,526

	Level 1 $'000	Level 2 $'000	Level 3 $'000	2011 $'000
Financial assets				
Derivative assets				
Interest rate derivatives	-	13,518	-	13,518
Cross currency swaps	-	20,781	-	20,781
Forward exchange contracts	-	2,838	-	2,838
	-	37,137	-	37,137
Financial liabilities				
Interest bearing liabilities				
Floating interest bearing liabilities	-	48,329	-	48,329
	-	48,329	-	48,329
Derivative liabilities				
Interest rate derivatives	-	77,718	-	77,718
Cross currency swaps	-	408	-	408
Forward exchange contracts	-	325	-	325
	-	78,451	-	78,451

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

Note 28

Contingent liabilities

The Trust together with DDF, DXO and DOT is 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 Trust and other entities within DXS. The guarantees have been given in support of debt outstanding and drawn against these facilities, and may be called upon in the event that a borrowing entity has not complied with certain requirements such as failure to pay interest or repay a borrowing, whichever is earlier. During the period no guarantees were called.

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

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

Note 29

Commitments

(a) Capital commitments

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

	2012	2011
	$'000	$'000
Investment properties	**1,996**	4,745
Total capital commitments	**1,996**	4,745

(b) Lease receivable commitments

The future minimum lease payments receivable by the Trust are:

	2012	2011
	$'000	$'000
Within one year	**83,970**	109,219
Later than one year but not later than five years	**247,903**	303,607
Later than five years	**93,166**	163,786
Total lease receivable commitments	**425,039**	576,612

Note 30
Related parties

Responsible Entity

DXFM is the Responsible Entity of the Trust.

Responsible Entity fees

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

Related party transactions

Responsible Entity fees in relation to the Trust assets are on a cost recovery basis.

DEXUS Funds Management Limited and its related entities

There were a number of transactions and balances between the Trust and the Responsible Entity and its related entities, as detailed below:

	2012 $	2011 $
Responsible Entity fees paid and payable	**4,025,546**	4,103,138
Property management fees paid and payable to DXPS	**2,496,534**	2,467,122
Administration expenses paid and payable to DXH	**3,739,108**	3,000,491
Responsible Entity fees payable at the end of each reporting period (included above)	**337,570**	336,702
Property management fees payable at the end of each reporting period (included above)	**239,773**	414,292
Administration expenses payable at the end of each reporting period (included above)	**4,312**	274,038

Entities within DXS

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

	2012 $	2011 $
Interest revenue	**1,528,584**	1,629,129
Interest expense	**58,470,680**	74,365,816
Interest bearing loans advanced to entities within DXS	**619,306,260**	273,400,627
Interest bearing loans advanced from entities within DXS	**149,380,336**	209,181,814

Note 30

Related parties (continued)

Directors

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

C T Beare, BSc, BE (Hons), MBA, PhD, FAICD [1,4,5]
E A Alexander, AM, BComm, FCA, FAICD, FCPA [1,2,6]
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 and 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 Trust for the years ended 30 June 2012 and 30 June 2011.

Note 30

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

Note 30

Related parties (continued)

Remuneration Report

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*.

Remuneration Report (continued)

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	✓	✓

Remuneration Report (continued)

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

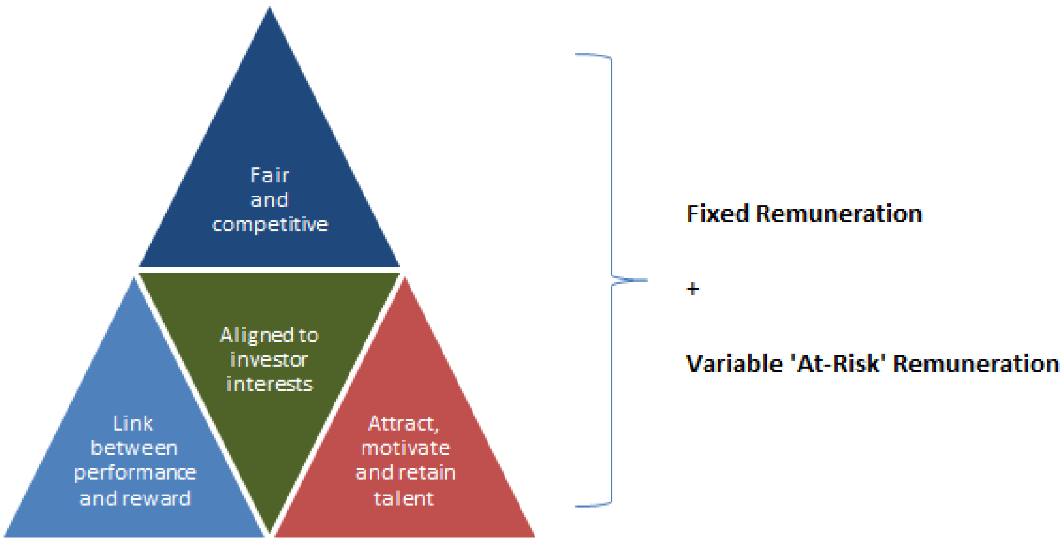
Remuneration Report (continued)

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.

Remuneration Report (continued)

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.

Remuneration Report (continued)

4. **Executive Remuneration** (continued)

<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>

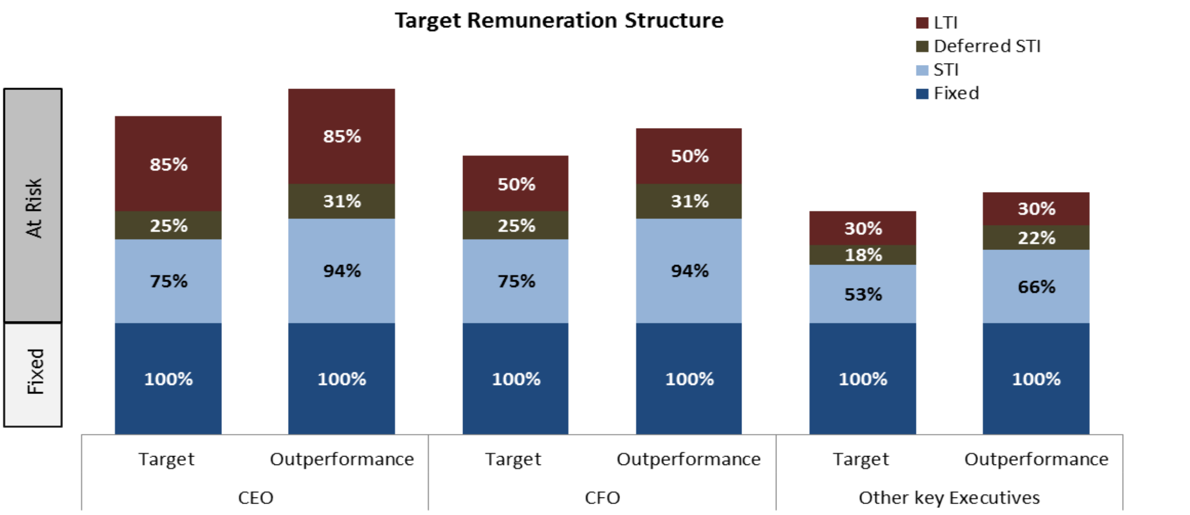
1.1 to 1.5 times award for outperformance of 3 year benchmark investment returns</td><td>Phantom composite equity (DXS and Unlisted), vesting over 3 years

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>

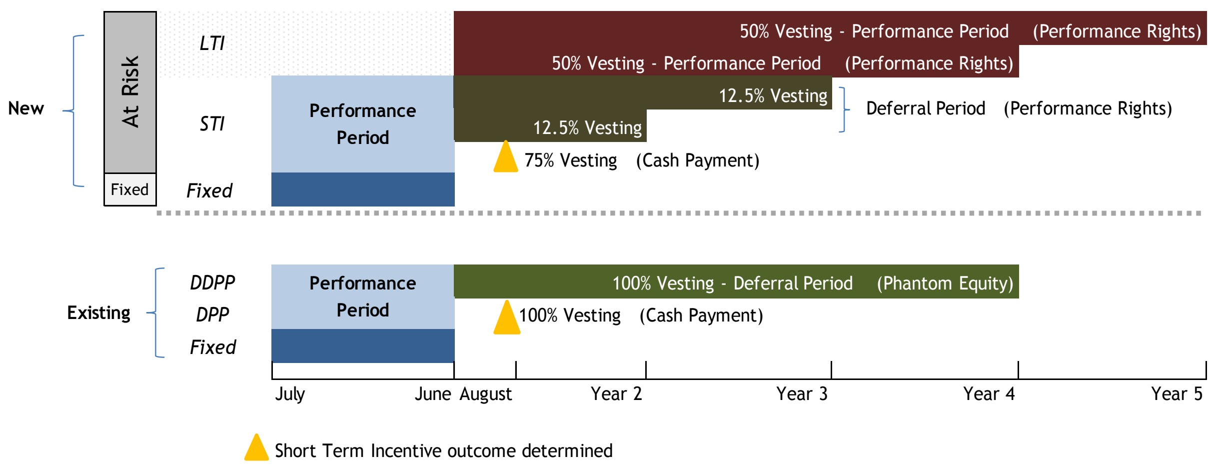
Remuneration Report (continued)

4. Executive Remuneration (continued)

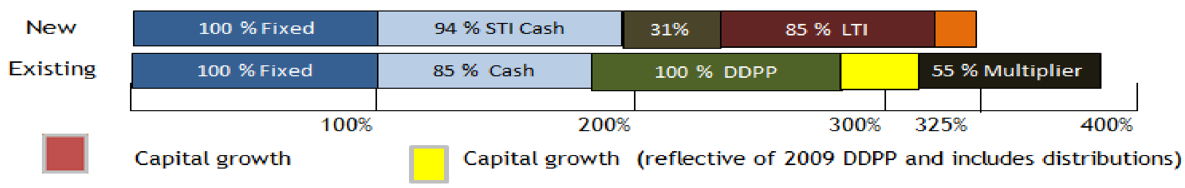
Target remuneration mix for key Executives (expressed as a percentage of fixed remuneration) is shown below:



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.



Remuneration Report (continued)

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)

Remuneration Report (continued)

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>

Remuneration Report (continued)

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: LTI Grant (% of Fixed Remuneration): CEO: 85% CFO: 50% Other Key Execs: 30%
How does the LTI Plan work?	Performance rights are converted into DXS securities upon achievement of performance conditions set by the Board. Performance against the selected hurdles will be assessed in two equal tranches over two periods, 3 and 4 years after the grant date. If the performance conditions are not met over either period, then the respective performance rights will be forfeited. There is no re-testing of forfeited rights.

Remuneration Report (continued)

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 50^{th} and 75^{th} percentile; and
	• 100% vesting for performance at or above the 75^{th} 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

Remuneration Report (continued)

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.

Remuneration Report (continued)

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.

Remuneration Report (continued)

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.

Remuneration Report (continued)

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.

Remuneration Report (continued)

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.

Remuneration Report (continued)

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

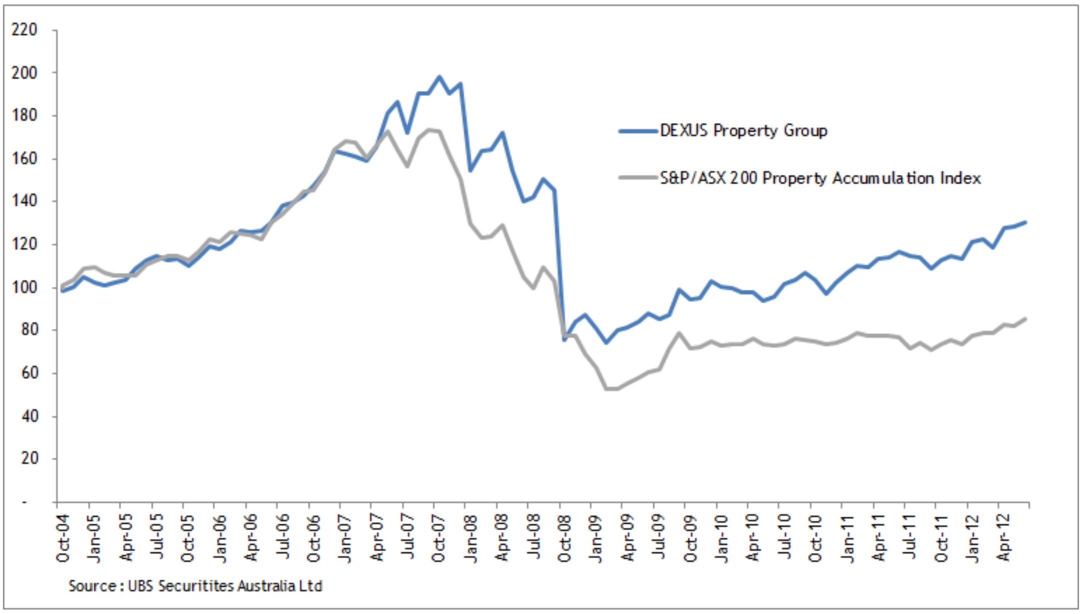
The Board previously considered whether the construction of the Composite Total Return should reflect the actual value of the unlisted funds and mandates ($5.6 billion as at 30 June 2012), and DEXUS Property Group's own funds under management ($6.9 billion as at 30 June 2012).

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.

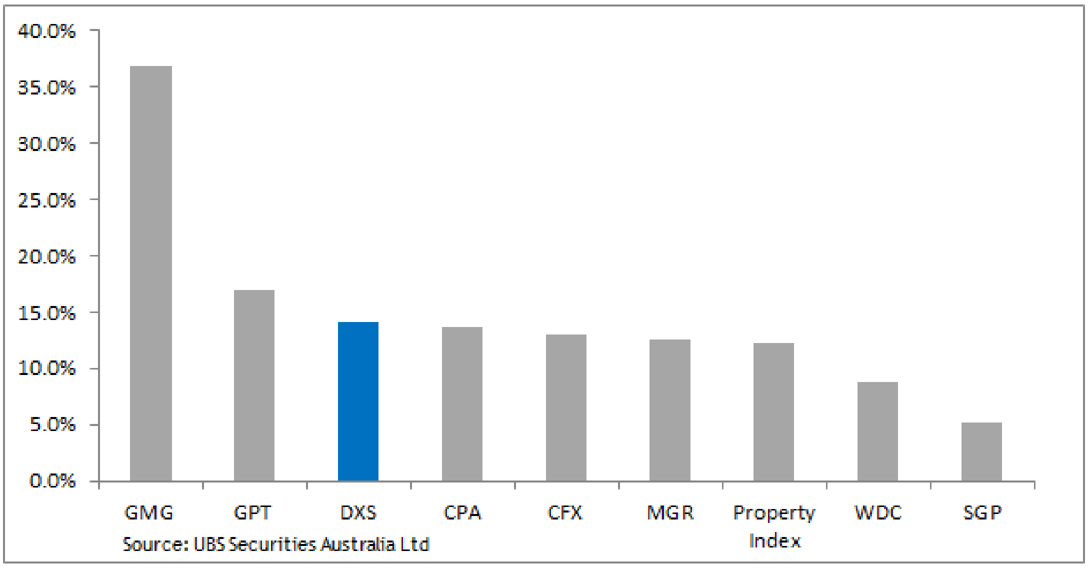
Remuneration Report (continued)

6. Performance Pay (continued)

Total Return of DXS Securities



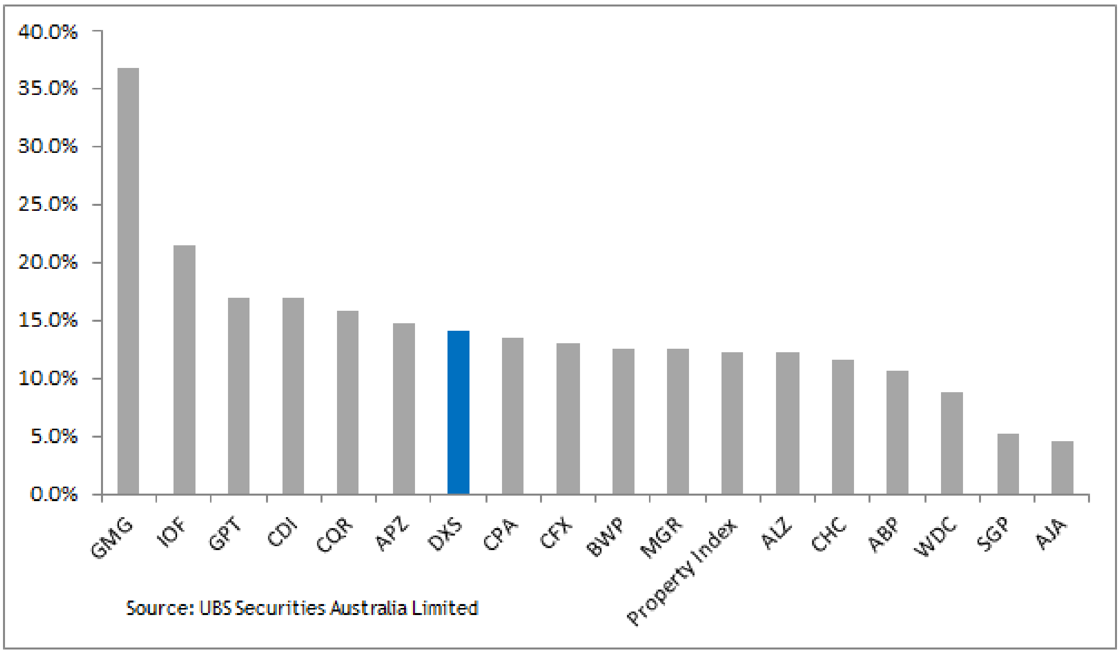
The chart below illustrates the DXS's performance relative to A-REITs above $2 billion market capitalisation over the past 3 financial years.



Remuneration Report (continued)

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.

Remuneration Report (continued)

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.

Remuneration Report (continued)

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.

Remuneration Report (continued)

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

Remuneration Report (continued)

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).

Remuneration Report (continued)

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.

Remuneration Report (continued)

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.

Remuneration Report (continued)

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.

Remuneration Report (continued)

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

Note 31

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.

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 32

Operating segments

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

Office – 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.

Consistent with how the CODM manages the business, the operating segments within DXS are reviewed on a consolidated basis and are not monitored at an individual trust level. The results of the individual trusts are not limited to any one of the segments described above.

Disclosures concerning DXS's operating segments, as well as the operating segments' key financial information provided to the CODM, are presented in the DEXUS Property Group Annual Report (refer note 34 in the DEXUS Property Group Financial Statements).

Note 33

Reconciliation of net (loss)/profit to net cash inflow from operating activities

	2012 $'000	2011 $'000
Net (loss)/profit	**(52,883)**	114,745
Capitalised interest	**(1,111)**	(1,005)
Net fair value loss/(gain) of investment properties	**20,787**	(39,696)
Share of net profit of associates accounted for using the equity method	**(3,398)**	(20,326)
Net fair value loss/(gain) of derivatives	**1,017**	(1,992)
Net loss/(gain) on sale of investment properties	**20,388**	(3,285)
Net foreign exchange gain	**(872)**	(1,546)
Foreign currency translation reserve transfer on partial disposal of foreign operations	**(10,380)**	-
Change in operating assets and liabilities		
Decrease/(increase) in receivables	**81**	(1,058)
(Increase)/decrease in prepaid expenses	**(214)**	144
Decrease in deferred withholding tax assets	**6,061**	4,019
Decrease/(increase) in other non-current assets	**2,182**	(2,684)
Increase/(decrease) in payables	**27,333**	(7,758)
Increase in other non-current liabilities	**66,344**	17,589
Decrease in current tax liabilities	**(4,983)**	-
Net cash inflow from operating activities	**70,352**	57,147

Note 34

Earnings per unit

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

	2012 cents	2011 cents
Basic earnings per unit on (loss)/profit attributable to unitholders of the parent entity	**(1.16)**	3.06
Diluted earnings per unit on (loss)/profit attributable to unitholders of the parent entity	**(1.16)**	3.06

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

	2012 $'000	2011 $'000
Net (loss)/profit for the year of the parent entity	**(56,225)**	147,848
Net (loss)/profit attributable to the unitholders of the Trust used in calculating basic and diluted earnings per unit	**(56,225)**	147,848

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

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

The Directors of DEXUS Funds Management Limited as Responsible Entity for DEXUS Industrial Trust declare that the Financial Statements and notes set out on pages 8 to 77:

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

(ii) give a true and fair view of the consolidated entity's financial position as at 30 June 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 Trust and its consolidated entities will be able to pay their debts as and when they become due and payable; and

(c) the Trust has operated in accordance with the provisions of the Constitution dated 1 August 1997 (as amended) during the year ended 30 June 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 unit holders of DEXUS Industrial Trust

Report on the financial report

We have audited the accompanying financial report of DEXUS Industrial Trust (the Trust), which comprises the statement of financial position as at 30 June 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 the DEXUS Industrial Trust Group (the consolidated entity). The consolidated entity comprises the Trust and the entities it controlled at the year-end or from time to time during the financial year.

Directors' responsibility for the financial report

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

Auditor's responsibility

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

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

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

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

Independence

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

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

Auditor's opinion

In our opinion:

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

(i) giving a true and fair view of the consolidated entity's financial position as at 30 June 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.

PricewaterhouseCoopers

PricewaterhouseCoopers

E A Barron
Partner

Sydney
15 August 2012

2012

DEXUS Office Trust (ARSN 090 768 531)

Financial Report
30 June 2012

DEXUS
PROPERTY GROUP

Contents

Page

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

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

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

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

The Trust together with DEXUS Diversified Trust (DDF), DEXUS Industrial Trust (DIT) and DEXUS Operations Trust (DXO) form the DEXUS Property Group (DXS or the Group) stapled security.

1 Directors and Secretaries

1.1 Directors

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

Directors	Appointed	Resigned
Christopher T Beare	4 August 2004	
Elizabeth A Alexander, AM	1 January 2005	
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	

Particulars of the qualifications, experience and special responsibilities of the Directors at the date of this Directors' Report are set out in the Board of Directors section of the DEXUS Property Group Annual Report and form part of this Directors' Report.

1.2 Company Secretaries

The names and details of the Company Secretaries of DXFM as at 30 June 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 Australia.

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

John C Easy B Comm LLB 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.

1 Directors and Secretaries (continued)

1.2 Company Secretaries (continued)

John C Easy B Comm LLB ACIS ACIS (continued)
During his time with the Group, John has been involved in the establishment and public listing of the Deutsche Office Trust, the acquisition of the Paladin and AXA property portfolios, and subsequent stapling and creation of 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 continuously 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

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 Directors' interests

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

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.

4 Directors' directorships in other listed entities

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

Director	Company	Date appointed	Date resigned or ceased being a Director of a listed 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.

5 Principal activities

During the year the principal activity of the Trust was investment in real estate assets. There were no significant changes in the nature of the Trust's activities during the year.

6 Review of results and operations

The results for the year ended 30 June 2012 were:

- profit attributable to unitholders was $196.3 million (2011: $263.6 million);
- total assets were $3,368.4 million (2011: $3,248.5 million); and
- net assets were $2,451.2 million (2011: $2,808.2 million).

A review of the results, financial position and operations of the Group, of which the Trust forms part thereof, is set out in the Operating and Financial Review of the DEXUS Property Group Annual Report and forms part of this Directors' Report. Refer to the Chief Executive Officer's Report of the DEXUS Property Group 2012 Annual Review for further information.

7 Likely developments and expected results of operations

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

8 Significant changes in the state of affairs

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

9 Matters subsequent to the end of the financial year

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

10 Distributions

Distributions paid or payable by the Trust for the year ended 30 June 2012 are outlined in note 22 of the Notes to the Financial Statements and form part of this Directors' Report.

11 DXFM's fees and associate interests

Details of fees paid or payable by the Trust to DXFM for the year ended 30 June 2012 are outlined in note 27 of the Notes to the Financial Statements and form part of this Directors' Report.

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

12 Units on issue

The movement in units on issue in the Trust during the year and the number of units on issue as at 30 June 2012 are detailed in note 19 of the Notes to the Financial Statements and form part of this Directors' Report.

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

13 Environmental regulation

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

14 Indemnification and insurance

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

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

15 Audit

15.1 Auditor

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

15.2 Non-audit services

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

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

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

The reasons for the Directors being satisfied are:

- a Charter of Audit Independence was adopted in 2010 that provides guidelines under which the Auditor may be engaged to provide non-audit services without impairing the Auditor's objectivity or independence.
- the Charter states that the Auditor will not provide services where the Auditor may be required to review or audit its own work, including:
  - the preparation of tax provisions, accounting records and financial statements;
  - the design, implementation and operation of information technology systems;
  - the design and implementation of internal accounting and risk management controls;
  - conducting valuation, actuarial or legal services;
  - consultancy services that include direct involvement in management decision making functions;
  - investment banking, borrowing, dealing or advisory services;
  - acting as trustee, executor or administrator of trust or estate;
  - prospectus independent expert reports and being a member of the due diligence committee; and
  - providing internal audit services.
- the Board Audit Committee regularly reviews the performance and independence of the Auditor and whether the independence of this function has been maintained having regard to the provision of non-audit services. The Auditor has provided a written declaration to the Board regarding its independence at each reporting period and Board Audit Committee approval is required before the engagement of the Auditor to perform any non-audit service for a fee in excess of $100,000.

The above Directors' statements are in accordance with the advice received from the Board Audit Committee.

15.3 Auditor's Independence Declaration

A copy of the Auditor's Independence Declaration as required under section 307C of the *Corporations Act 2001* is set out on page 7 and forms part of this Directors' Report.

16 Corporate governance

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

17 Rounding of amounts and currency

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

18 Management representation

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

19 Directors' authorisation

The Directors' Report is made in accordance with a resolution of the Directors. The Financial Statements were authorised for issue by the Directors on 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 Office 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 Office Trust and the entities it controlled during the period.

E A Barron
Partner
PricewaterhouseCoopers

Sydney
15 August 2012

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

	Note	2012 $'000	2011 $'000
Revenue from ordinary activities			
Property revenue	2	**270,253**	260,213
Interest revenue	3	**389**	395
Total revenue from ordinary activities		**270,642**	260,608
Net fair value gain of investment properties		**67,158**	56,970
Share of net profit of associates accounted for using the equity method	13	**13,784**	34,053
Net foreign exchange gain		**18**	88
Other income		**-**	145
Total income		**351,602**	351,864
Expenses			
Property expenses		**(70,765)**	(68,928)
Responsible Entity fees	27	**(9,861)**	(9,361)
Finance costs	4	**(71,390)**	(6,439)
Net fair value loss of derivatives		**-**	(46)
Other expenses	5	**(1,482)**	(1,420)
Total expenses		**(153,498)**	(86,194)
Profit before tax		**198,104**	265,670
Other comprehensive income:			
Exchange differences on translating foreign operations		**1,306**	(5,260)
Total comprehensive income for the year		**199,410**	260,410
Net profit for the year attributable to:			
Unitholders of DEXUS Office Trust		**196,293**	263,576
Non-controlling interests		**1,811**	2,094
Net profit for the year		**198,104**	265,670
Total comprehensive income for the year attributable to:			
Unitholders of DEXUS Office Trust		**197,599**	258,316
Non-controlling interests		**1,811**	2,094
Total comprehensive income for the year		**199,410**	260,410

Earnings per unit		**Cents**	Cents
Basic earnings per unit on profit attributable to unitholders of the parent entity	31	**0.39**	0.51
Diluted earnings per unit on profit attributable to unitholders of the parent entity	31	**0.39**	0.51

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

	Note	2012 $'000	2011 $'000
Current assets			
Cash and cash equivalents	7	**3,091**	7,671
Receivables	8	**6,502**	6,005
Derivative financial instruments	10	**1,284**	266
Other	11	**2,961**	2,797
Total current assets		**13,838**	16,739
Non-current assets			
Investment properties	12	**3,132,600**	3,026,959
Derivative financial instruments	10	**4,124**	3,544
Investments accounted for using the equity method	13	**217,043**	200,356
Other	14	**779**	860
Total non-current assets		**3,354,546**	3,231,719
Total assets		**3,368,384**	3,248,458
Current liabilities			
Payables	15	**41,854**	38,452
Interest bearing liabilities	16	**-**	249,700
Loans with related parties	9	**55,684**	55,684
Provisions	17	**67,672**	64,739
Derivative financial instruments	10	**1,288**	1,207
Total current liabilities		**166,498**	409,782
Non-current liabilities			
Loans with related parties	9	**693,109**	14,423
Derivative financial instruments	10	**57,088**	15,552
Other	18	**545**	551
Total non-current liabilities		**750,742**	30,526
Total liabilities		**917,240**	440,308
Net assets		**2,451,144**	2,808,150
Equity			
Contributed equity	19	**1,863,965**	2,063,214
Reserves	20	**(14,509)**	(15,815)
Retained profits	20	**601,688**	556,723
		2,451,144	2,604,122
Non-controlling interests	21	**-**	204,028
Total equity		**2,451,144**	2,808,150

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 $'000	Retained profits $'000	Foreign currency translation reserve $'000	Unitholder equity $'000	Non-controlling interests $'000	Total equity $'000
Opening balance as at 1 July 2010		2,056,790	433,945	(10,555)	2,480,180	204,201	2,684,381
Profit before tax for the year		-	263,576	-	263,576	2,094	265,670
Other comprehensive loss for the year		-	-	(5,260)	(5,260)	-	(5,260)
Transactions with owners in their capacity as owners							
Contributions of equity, net of transaction costs		6,424	-	-	6,424	-	6,424
Distributions paid or provided for	22	-	(130,437)	-	(130,437)	(12,628)	(143,065)
Transfer to retained profits		-	(10,361)	-	(10,361)	10,361	-
Closing balance as at 30 June 2011		2,063,214	556,723	(15,815)	2,604,122	204,028	2,808,150
Opening balance as at 1 July 2011		**2,063,214**	**556,723**	**(15,815)**	**2,604,122**	**204,028**	**2,808,150**
Profit before tax for the year		**-**	**196,293**	**-**	**196,293**	**1,811**	**198,104**
Other comprehensive income for the year		**-**	**-**	**1,306**	**1,306**	**-**	**1,306**
Transactions with owners in their capacity as owners							
Buy back of contributed equity, net of transaction costs		**(24,191)**	**-**	**-**	**(24,191)**	**-**	**(24,191)**
Capital payment, net of transaction costs		**(175,058)**	**-**	**-**	**(175,058)**	**-**	**(175,058)**
Acquisition of non-controlling interest		**-**	**-**	**-**	**-**	**(204,000)**	**(204,000)**
Distributions paid or provided for	22	**-**	**(141,152)**	**-**	**(141,152)**	**(12,015)**	**(153,167)**
Transfer to retained profits		**-**	**(10,176)**	**-**	**(10,176)**	**10,176**	**-**
Closing balance as at 30 June 2012		**1,863,965**	**601,688**	**(14,509)**	**2,451,144**	**-**	**2,451,144**

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)		**318,870**	305,663
Payments in the course of operations (inclusive of GST)		**(109,824)**	(107,572)
Interest received		**389**	395
Finance costs paid to financial institutions		**(8,180)**	(17,340)
Distributions received from associates accounted for using the equity method		**7,539**	-
Net cash inflow from operating activities	30	**208,794**	181,146
Cash flows from investing activities			
Payments for capital expenditure on investment properties		**(52,240)**	(58,168)
Payments for investments accounted for using the equity method		**(8,565)**	(61,726)
Net cash outflow from investing activities		**(60,805)**	(119,894)
Cash flows from financing activities			
Borrowings provided to entities within DXS		**(192,117)**	(158,415)
Borrowings provided by entities within DXS		**846,162**	220,014
Repayment of borrowings		**(250,000)**	-
Capital payment		**(174,979)**	-
Capital payment transaction costs		**(79)**	-
Acquisition of non-controlling interest		**(204,000)**	-
Payments for buy back of contributed equity		**(24,191)**	-
Distributions paid to unitholders		**(138,219)**	(111,499)
Distributions paid to non-controlling interests		**(15,157)**	(12,403)
Net cash outflow from financing activities		**(152,580)**	(62,303)
Net decrease in cash and cash equivalents		**(4,591)**	(1,051)
Cash and cash equivalents at the beginning of the year		**7,671**	8,766
Effects of exchange rate changes on cash and cash equivalents		**11**	(44)
Cash and cash equivalents at the end of the year	7	**3,091**	7,671

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

Note 1

Summary of significant accounting policies

(a) Basis of preparation

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

DEXUS Funds Management Limited (DXFM) as Responsible Entity for each entity within DXS may only 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 Trust's Constitution, the *Corporations Act 2001*, Australian Accounting Standards and other authoritative pronouncements of the Australia Accounting Standards Board and interpretations. Compliance with Australian Accounting Standards ensures that the Financial Statements and notes also comply with International Financial Reporting Standards (IFRS).

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

As at 30 June 2012, the Trust had a net current asset deficiency of $152.7 million (2011: $393.0 million). The DXS Group has in place both external and internal funding arrangements to support the cashflow requirements of the Trust. The Trust is a going concern and the Financial Statements have been prepared on that basis. Gearing is managed centrally for DXS. The gearing ratio as disclosed in the DXS Financial Statements for the year ended 30 June 2012 is 27.8% (refer note 29 of the DXS Financial Statements).

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

Critical accounting estimates

The preparation of Financial Statements requires the use of certain critical accounting estimates and management to exercise its judgement in the process of applying the Trust's accounting policies. Other than the estimations described in notes 1(e), 1(m) and 1(r), no key assumptions concerning the future or other estimation of uncertainty at the end of each reporting date have a significant risk of causing material adjustments to the Financial Statements in the next annual reporting period.

(b) Principles of consolidation

(i) Controlled entities

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

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

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

Note 1

Summary of significant accounting policies (continued)

(b) Principles of consolidation (continued)

(ii) Partnerships and joint ventures

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

(c) Revenue recognition

(i) Rent

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

(ii) Interest revenue

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

(iii) Dividends and distribution revenue

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

(d) Expenses

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

(i) Property expenses

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

(ii) Borrowing costs

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

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

Note 1

Summary of significant accounting policies (continued)

(e) Derivatives and other financial instruments

(i) Derivatives

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

(ii) Debt and equity instruments issued by the Trust

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

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

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

(iii) Financial guarantee contracts

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

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

(iv) Other financial assets

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

(f) Goods and services tax

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

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

Note 1

Summary of significant accounting policies (continued)

(g) Taxation

Under current Australian income tax legislation, the Trust is not liable for income tax provided it satisfies certain legislative requirements. The Trust may be liable for income tax in jurisdictions where foreign property is held (i.e. New Zealand).

DOT NZ Sub-Trust No. 1, a wholly owned Australian sub-trust of the Trust, is liable for New Zealand corporate tax on its New Zealand taxable income at the rate of 30%. In addition, a deferred tax liability or asset and its related deferred tax expense/benefit is recognised on differences between the tax cost base of the New Zealand real estate asset and the accounting carrying value at the end of the reporting period, where required.

(h) Distributions

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

(i) Repairs and maintenance

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

(j) Cash and cash equivalents

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

(k) Receivables

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

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

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

(m) Investment properties

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

Note 1

Summary of significant accounting policies (continued)

(m) Investment properties (continued)

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

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

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

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

(n) Leasing fees

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

(o) Lease incentives

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

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

(p) Investments accounted for using the equity method

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

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

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

Note 1

Summary of significant accounting policies (continued)

(q) Impairment of assets

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

(r) Financial assets and liabilities

(i) Classification

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

Financial asset/liability	Classification	Valuation basis	Reference
Receivables	Loans and receivables	Amortised cost	Refer note 1(k)
Other financial assets	Loans and receivables	Amortised cost	Refer note 1(e)
Other financial assets	Fair value through profit or loss	Fair value	Refer note 1(l)
Payables	Financial liability at amortised cost	Amortised cost	Refer note 1(s)
Interest bearing liabilities	Financial liability at amortised cost	Amortised cost	Refer note 1(t)
Derivatives	Fair value through profit or loss	Fair value	Refer note 1(e)

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

(ii) Fair value estimation of financial assets and liabilities

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

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

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

(s) Payables

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

(t) Interest bearing liabilities

Subsequent to initial recognition at fair value, net of transaction costs incurred, interest bearing liabilities are measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the Statement of Comprehensive Income over the period of the borrowings using the effective interest method. Interest bearing liabilities are classified as current liabilities unless the Trust has an unconditional right to defer the liability for at least 12 months after the reporting date.

Note 1

Summary of significant accounting policies (continued)

(u) Earnings per unit

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

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

(v) Foreign currency

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

(i) Foreign currency transactions

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

(ii) Foreign operations

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

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

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

(w) 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 Trust.

(x) Rounding of amounts

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

(y) Parent entity financial information

The financial information for the parent entity of the Trust is disclosed in note 23 and has been prepared on the same basis as the consolidated Financial Statements except as set out below:

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

Investments in subsidiaries, associates and joint ventures are accounted for at cost in the parent entity's financial Statement of Financial Position. Distributions received from associates are recognised in the parent entity's Statement of Comprehensive Income, rather than being deducted from the carrying amount of these investments.

Note 1

Summary of significant accounting policies (continued)

(z) 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 Trust's current offsetting arrangements. The AASB has also introduced more extensive disclosure requirements into AASB 7 which will apply from 1 July 2013. The Trust intends to apply the new rules from 1 July 2013 and does not expect any significant impacts.

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

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

AASB 9 *Financial Instruments* and AASB 2009-11 *Amendments to Australian Accounting Standards arising from AASB 9* and AASB 2010-7 *Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)* (effective 1 January 2013).

AASB 9 *Financial Instruments* addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard simplifies the classifications of financial assets into those to be carried at amortised cost and those to be carried at fair value. The Trust intends to apply the standards from 1 July 2013 and does not expect any significant impacts.

AASB 2010-8 *Amendments to Australian Accounting Standards - Deferred Tax: Recovery of Underlying Assets* (effective 1 January 2012).

In December 2010, the AASB amended AASB 112 *Income Taxes* to provide an amended approach for measuring deferred tax liabilities and deferred tax assets when investment property is measured using the fair value model. AASB 112 requires the measurement of deferred tax assets or liabilities to reflect the tax consequences that would follow from the way management expects to recover or settle the carrying amount of the relevant assets or liabilities, that is through use or through sale. The Trust intends to apply the standard from 1 July 2012 and does not expect any significant impacts.

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

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

AASB 10 *Consolidated financial statements* (effective 1 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 Trust intends to apply the standard from 1 July 2013 and does not expect any significant impacts.

Note 1

Summary of significant accounting policies (continued)

(z) New accounting standards and interpretations (continued)

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 Trust intends to apply the standard from 1 July 2013 and does not expect any significant impacts.

AASB 12 *Disclosure of interests in other entities* (effective 1 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 Trust's current disclosures. The Trust 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 Trust 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 Trust's current disclosures. The Trust 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 Trust intends to adopt the new standard from 1 July 2012.

Note 2

Property revenue

	2012 $'000	2011 $'000
Rent and recoverable outgoings	288,367	275,911
Incentive amortisation	(29,216)	(26,843)
Other revenue	11,102	11,145
Total property revenue	270,253	260,213

Note 3

Interest revenue

	2012 $'000	2011 $'000
Interest revenue from financial institutions	389	395
Total interest revenue	389	395

Note 4

Finance costs

	2012 $'000	2011 $'000
Interest paid/payable	3,835	16,459
Interest paid to related parties	27,859	2,345
Amount capitalised	(1,264)	(11,832)
Other finance costs	308	1,106
Net fair value loss/(gain) of interest rate swaps	40,652	(1,639)
Total finance costs	71,390	6,439

The average capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation is 7.70% (2011: 7.77%).

Note 5

Other expenses

	Note	2012 $'000	2011 $'000
Audit and taxation fees	6	291	317
Custodian fees		227	216
Legal and other professional fees		313	387
Registry costs and listing fees		346	275
Other expenses		305	225
Total other expenses		1,482	1,420

Note 6

Audit, taxation and transaction services fees

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

	2012 $	2011 $
Audit fees		
PwC Australia - audit and review of Financial Statements	**253,612**	280,018
PwC fees paid in relation to outgoings audit[1]	**36,581**	40,203
PwC Australia - regulatory audit and compliance services	**6,164**	10,750
Audit fees paid to PwC	**296,357**	330,971
Total audit fees	**296,357**	330,971
Taxation fees		
Fees paid to PwC Australia	**14,325**	13,377
Fees paid to PwC NZ	**17,068**	12,670
Taxation fees paid to PwC	**31,393**	26,047
Total taxation fees[2]	**31,393**	26,047
Total audit and taxation fees[1]	**327,750**	357,018
Transaction services fees		
Fees paid to PwC Australia	**7,500**	-
Total transaction services fees[2]	**7,500**	-
Total audit, taxation and transaction services fees	**335,250**	357,018

1 Fees paid in relation to outgoing audits are included in property expenses in the Statement of Comprehensive Income. Therefore total audit and taxation fees included in other expenses are $291,169 (2011: $316,815).

2 These services include general compliance work, one off project work and advice.

Note 7

Current assets - cash and cash equivalents

	2012 $'000	2011 $'000
Cash at bank	**3,091**	7,671
Total current assets - cash and cash equivalents	**3,091**	7,671

Note 8

Current assets - receivables

	2012 $'000	2011 $'000
Rent receivable	**1,813**	1,112
Less: provision for doubtful debts	**-**	(88)
Total rental receivables	**1,813**	1,024
Receivables from related parties	**-**	614
Other receivables	**4,689**	4,367
Total other receivables	**4,689**	4,981
Total current assets - receivables	**6,502**	6,005

Note 9

Loans with related parties

	2012	2011
	$'000	$'000
Current liabilities - loans with related parties		
Non-interest bearing loans with entities within DXS[1]	**55,684**	55,684
Total current liabilities - loans with related parties	**55,684**	55,684
Non-current liabilities - loans with related parties		
Interest bearing loans with related parties[2]	**693,109**	14,423
Total non-current liabilities - loans with related parties	**693,109**	14,423

1 Non-interest bearing loans with entities within DXS were created to effect the stapling of the Trust, DIT, DDF and DXO. These loan balances eliminate on consolidation within DXS.

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

Note 10

Derivative financial instruments

	2012	2011
	$'000	$'000
Current assets		
Interest rate swap contracts	**1,284**	266
Total current assets - derivative financial instruments	**1,284**	266
Non-current assets		
Interest rate swap contracts	**4,124**	3,544
Total non-current assets - derivative financial instruments	**4,124**	3,544
Current liabilities		
Interest rate swap contracts	**1,288**	1,207
Total current liabilities - derivative financial instruments	**1,288**	1,207
Non-current liabilities		
Interest rate swap contracts	**57,088**	15,552
Total non-current liabilities - derivative financial instruments	**57,088**	15,552
Net derivative financial instruments	**(52,968)**	(12,949)

Refer note 24 for further discussion regarding derivative financial instruments.

Note 11

Current assets - other

	2012 $'000	2011 $'000
Prepayments	**2,961**	2,797
Total current assets - other	**2,961**	2,797

Note 12

Non-current assets - investment properties

	2012 $'000	2011 $'000
Opening balance at the beginning of the year	**3,026,959**	2,939,511
Additions	**44,088**	39,736
Lease incentives	**22,595**	22,178
Amortisation of lease incentives	**(29,216)**	(26,843)
Net fair value gain of investment properties	**67,158**	56,970
Rent straightlining	**(338)**	683
Foreign exchange differences on foreign currency translation	**1,354**	(5,276)
Closing balance at the end of the year	**3,132,600**	3,026,959

Key valuation assumptions

Details of key valuation assumptions in relation to investment properties are outlined in note 13 of the DXS Financial Statements.

Note 13

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	2011
	$'000	$'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: gain of $33.6 million) in relation to the Trust's share of the Bligh Street investment property.

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

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

	2012	2011
	$'000	$'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 14

Non-current assets - other

	2012 $'000	2011 $'000
Tenant and other bonds	546	571
Other	233	289
Total non-current assets - other	**779**	860

Note 15

Current liabilities - payables

	2012 $'000	2011 $'000
Trade creditors	13,711	11,981
Accruals	2,696	3,339
Amount payable to non-controlling interests	-	3,142
Accrued capital expenditure	12,969	6,921
Prepaid income	8,149	8,207
Responsible Entity fee payable	827	796
GST payable	641	1,007
Accrued interest	2,861	3,059
Total current liabilities - payables	**41,854**	38,452

Note 16

Interest bearing liabilities

	Note	2012 $'000	2011 $'000
Current			
Secured			
Bank loans	(a)	-	250,000
Total secured		-	250,000
Deferred borrowing costs		-	(300)
Total current liabilities - interest bearing liabilities		-	249,700

(a) Bank loans - secured

During the period, a $250 million secured bank loan was repaid and the associated mortgage discharged.

Note 17
Current liabilities - provisions

	2012 $'000	2011 $'000
Provision for distribution	**67,672**	64,739
Total current liabilities - provisions	**67,672**	64,739

Movements in provision for distribution are set out below:

	2012 $'000	2011 $'000
Opening balance at the beginning of the year	**64,739**	52,225
Additional provisions	**141,152**	130,437
Payments and reinvestment of distributions	**(138,219)**	(117,923)
Closing balance at the end of the year	**67,672**	64,739

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

Note 18
Non-current liabilities - other

	2012 $'000	2011 $'000
Tenant bonds	**545**	551
Total non-current liabilities - other	**545**	551

Note 19

Contributed equity

(a) Contributed equity

	2012 $'000	2011 $'000
Opening balance at the beginning of the year	**2,063,214**	2,056,790
Capital payment	**(174,979)**	-
Capital payment transaction costs	**(79)**	-
Buy back of contributed equity	**(24,191)**	-
Distributions reinvested	**-**	6,424
Closing balance at the end of the year	**1,863,965**	2,063,214

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.

(b) Number of units on issue

	2012 No. of units	2011 No. of units
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 Trust. Each stapled security entitles the holder to vote in accordance with the provisions of the Constitution and the *Corporations Act 2001*.

(c) Distribution reinvestment plan

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

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

Note 20

Reserves and retained profits

(a) Reserves

	2012 $'000	2011 $'000
Foreign currency translation reserve	**(14,509)**	(15,815)
Total reserves	**(14,509)**	(15,815)
Movements:		
Foreign currency translation reserve		
Opening balance at the beginning of the year	**(15,815)**	(10,555)
Exchange differences on translating foreign operations	**1,306**	(5,260)
Closing balance at the end of the year	**(14,509)**	(15,815)

(b) Nature and purpose of reserves

Foreign currency translation reserve

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

(c) Retained profits

	2012 $'000	2011 $'000
Opening balance at the beginning of the year	**556,723**	433,945
Net profit attributable to unitholders	**196,293**	263,576
Transfer of capital reserve of non-controlling interests	**(10,176)**	(10,361)
Distributions provided for or paid	**(141,152)**	(130,437)
Closing balance at the end of the year	**601,688**	556,723

Note 21

Non-controlling interests

	2012 $'000	2011 $'000
Interest in		
Contributed equity	-	197,705
Reserves	-	70,928
Accumulated losses	-	(64,605)
Total 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 22

Distributions paid and payable

(a) Distribution to unitholders

	2012 $'000	2011 $'000
31 December (paid 29 February 2012)	**73,481**	65,698
30 June (payable 31 August 2012)	**67,671**	64,739
	141,152	130,437

(b) Distribution to 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	**153,167**	143,065

(c) Distribution rate

	2012 Cents per unit	2011 Cents per unit
31 December (paid 29 February 2012)	**1.54**	1.36
30 June (payable 31 August 2012)	**1.41**	1.34
Total distributions	**2.95**	2.70

Note 23

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	**599,599**	429,265
Total assets	**3,332,618**	3,009,152
Total current liabilities	**151,634**	146,751
Total liabilities	**903,417**	426,972
Equity		
Contributed equity	**1,863,965**	2,063,214
Retained profits	**565,236**	518,966
Total equity	**2,429,201**	2,582,180
Net profit for the year	**187,422**	248,207
Total comprehensive income for the year	**187,422**	248,207

(b) Investments in controlled entities

The parent entity has the following investments:

		Ownership Interest			
		2012	2011	**2012**	2011
Name of entity	**Principal activity**	**%**	%	**$'000**	$'000
DOT Commercial Trust	Office property investment	**100.0**	100.0	**576,816**	476,250
DOT NZ Sub-Trust No 1	Office property investment	**100.0**	100.0	**18,856**	16,950
DOT NZ Sub-Trust No 2	Office property investment	**100.0**	100.0	**55**	55
Total investments in controlled entities				**595,727**	493,255

(c) Guarantees entered into by the parent entity

Refer to note 25 for details of guarantees entered into by the parent entity.

(d) Contingent liabilities

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

(e) Capital commitments

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

	2012 $'000	2011 $'000
Investment properties	**13,175**	3,834
Total capital commitments	**13,175**	3,834

Note 24

Financial risk management

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

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

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

(1) Capital risk management

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

The capital structure of the Trust consists of debt (see note 9), cash and cash equivalents, and equity attributable to unitholders. The capital structure is monitored and managed in consideration of a range of factors including:

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

The gearing ratio at 30 June 2012 was 20.6% (as detailed below).

Gearing ratio	2012 $'000	2011 $'000
Total interest bearing liabilities[1]	**693,109**	264,423
Total tangible assets[2]	**3,368,384**	3,244,648
Gearing ratio[3]	**20.6%**	8.1%

1 Total interest bearing liabilities excludes deferred borrowing costs.
2 Total tangible assets comprise total tangible assets less derivatives and deferred tax balances as reported internally to management.
3 Gearing is managed centrally for DXS. The gearing ratio as disclosed in the DEXUS Property Group Financial Statements 2012 is 27.8% (2011: 29.1%) (refer note 29 of the DXS Financial Statements).

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

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

The Responsible Entity for the Trust (DXFM) has been issued with an Australian Financial Services Licence (AFSL). The licence is subject to certain capital requirements including the requirement to hold minimum net tangible assets (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.

Note 24

Financial risk management (continued)

(2) Financial risk management

The Trust's activities expose it to a variety of financial risks: credit risk, market risk (including currency risk, interest rate risk and price risk), and liquidity risk. Financial risk management is not managed at the individual trust level, but holistically as part of DXS. DXS's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Trust.

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

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

(a) Liquidity risk

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

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

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

Refinancing risk

A key liquidity risk is the Trust's ability to refinance its current debt facilities. As the Trust's debt facilities mature, they are usually required to be refinanced by extending the facility or replacing the facility with an alternative form of capital.

The refinancing of existing facilities may also result in margin price risk, whereby market conditions may result in an unfavourable change in credit margins on the refinanced facilities. The Trust's key risk management strategy for margin price risk on refinancing is to spread the maturities of debt facilities over different time periods to reduce the volume of facilities to be refinanced and the exposure to market conditions in any one period.

Note 24

Financial risk management (continued)

(2) Financial risk management (continued)

(a) Liquidity risk (continued)

Refinancing risk (continued)

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

	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	6,502	-	-	-	6,005	-	-	-
Payables	41,854	-	-	-	38,452	-	-	-
	(35,352)	-	-	-	(32,447)	-	-	-
Total interest bearing liabilities and interest[1]	-	-	-	-	254,264	-	-	-
Loans with related parties and interest[2]	46,785	46,785	140,355	739,894	1,164	1,164	3,492	16,751
Derivative financial instruments								
Derivative assets	3,407	299	-	-	1,871	1,468	136	-
Derivative liabilities	16,668	14,354	23,417	1,575	4,593	5,892	13,998	1,943
Total net derivative financial instruments[3]	(13,261)	(14,055)	(23,417)	(1,575)	(2,722)	(4,424)	(13,862)	(1,943)

1 Refer to note 16 (interest bearing liabilities). Excludes deferred borrowing but includes estimated fees and interest. Refer to note 25 (contingent liabilities) for financial guarantees.

2 Includes estimated interest.

3 The notional maturities on derivatives are only shown for forward foreign exchange contracts as they are the only instruments where a principal amount is exchanged. For interest rate swaps, only the net interest cash flows (not the notional principal) are included. For financial assets and liabilities that have floating rate interest cash flows, future cash flows have been calculated using static interest and exchange rates prevailing at the end of each reporting period. Refer to note 10 (derivative financial instruments) for fair value of derivatives. Refer note 25 (contingent liabilities) for financial guarantees.

(b) Market risk

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

(i) Interest rate risk

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

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

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

Note 24

Financial risk management (continued)

(2) Financial risk management (continued)

(b) Market risk (continued)

(i) Interest rate risk (continued)

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

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

	June 2013	June 2014	June 2015	June 2016	June 2017	> June 2018
	$'000	$'000	$'000	$'000	$'000	$'000
Interest rate swaps						
A$ hedged[1]	580,833	534,167	370,000	228,333	160,000	45,333
A$ hedge rate (%)[2]	5.35%	5.60%	5.64%	5.78%	5.87%	3.23%

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

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

Sensitivity on interest expense

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

		2012	2011
		(+/-) $'000	(+/-) $'000
+/- 0.50% (50 basis points)	$A	**516**	(2,658)

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

Sensitivity on fair value of interest rate swaps

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

		2012	2011
		(+/-) $'000	(+/-) $'000
+/- 0.50% (50 basis points)	$A	**5,150**	12,049

Note 24

Financial risk management (continued)

(2) Financial risk management (continued)

(b) Market risk (continued)

(ii) Foreign exchange risk

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

The Trust operates internationally with investments in New Zealand. As a result of these activities, the Trust has foreign exchange risk, arising primarily from:

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

Foreign currency assets and liabilities

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

	2012 $'000	2011 $'000
NZ$ net assets[1]	**123,253**	123,001
NZ$ denominated net investment	**123,253**	123,001
% hedged	**0%**	0%
Total foreign investment (A$)	**96,510**	94,959
Total % hedged	**0%**	**0%**

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

Sensitivity on equity (foreign currency translation reserve)

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

		2012 (+/-) $'000	2011 (+/-) $'000
+ 10.6 cents (8.3%) (2011: 10.9 cents)	NZ$ (A$ Equivalent)	**7,374**	7,375
- 10.6 cents (8.3%) (2011: 10.9 cents)	NZ$ (A$ Equivalent)	**(8,704)**	(8,731)

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: AUD/NZD 1.2771 (2011: 1.2953).

Note 24

Financial risk management (continued)

(2) Financial risk management (continued)

(c) Credit risk

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

The Trust manages this risk by:

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

A minimum S&P rating of A– (or Moody's or Fitch equivalent) is required to become or remain an approved counterparty. As at 30 June 2012, the lowest rating of counterparties the Trust 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 Trust's exposure to any one counterparty. As a result, there is no significant concentration of credit risk for financial instruments.

The maximum exposure to credit risk at 30 June 2012 and 30 June 2011 is 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 ($'000): 5,835 (0-30 days), 419 (31-60 days), 64 (61-90 days), 184 (91+ days). The ageing analysis of loans and receivables net of provisions at 30 June 2011 is ($'000): 5,773 (0-30 days), 156 (31-60 days), 76 (61-90 days), nil (91+ days). Amounts over 31 days are past due, however, no receivables are impaired.

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

Note 24

Financial risk management (continued)

(2) Financial risk management (continued)

(d) Fair value of financial instruments

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

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

	2012 Carrying amount[1] $'000	2012 Fair value[2] $'000	2011 Carrying amount[1] $'000	2011 Fair value[2] $'000
Financial assets				
Cash and cash equivalents	**3,091**	**3,091**	7,671	7,671
Loans and receivables (current)	**6,502**	**6,502**	6,005	6,005
Derivative assets	**5,408**	**5,408**	3,810	3,810
Total financial assets	**15,001**	**15,001**	17,486	17,486
Financial liabilities				
Trade payables	**41,854**	**41,854**	38,452	38,452
Derivative liabilities	**58,376**	**58,376**	16,759	16,759
Non-interest bearing loans with the entities within DXS	**55,684**	**55,684**	55,684	55,684
Interest bearing liabilities				
Interest bearing loans with related parties	**693,109**	**693,109**	14,423	14,423
Bank loans	**-**	**-**	250,000	250,000
Total financial liabilities	**849,023**	**849,023**	375,318	375,318

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

The fair value of fixed rate interest bearing liabilities has been determined by discounting the expected future cash flows by the relevant market rates. The discount rates applied range from 2.97% to 6.75% for A$. Refer note 1(r) for fair value methodology for financial assets and liabilities.

Note 24

Financial risk management (continued)

(2) Financial risk management (continued)

(d) Fair value of financial instruments (continued)

Determination of fair value

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

Level 1: the fair value is calculated using quoted prices in active markets.
Level 2: the fair value is determined using inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
Level 3: the fair value is estimated using inputs for the asset or liability that are not based on observable data.

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

	Level 1 $'000	**Level 2 $'000**	**Level 3 $'000**	**2012 $'000**
Financial assets				
Derivative assets				
Interest rate derivatives	**-**	**5,408**	**-**	**5,408**
Financial liabilities				
Derivative liabilities				
Interest rate derivatives	**-**	**58,376**	**-**	**58,376**

	Level 1 $'000	Level 2 $'000	Level 3 $'000	2011 $'000
Financial assets				
Derivative assets				
Interest rate derivatives	-	3,810	-	3,810
Financial liabilities				
Derivative liabilities				
Interest rate derivatives	-	16,759	-	16,759

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

Note 25

Contingent liabilities

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

	2012 $'000	2011 $'000
Bank guarantees by the Trust in respect of variations and other financial risks associated with the development of:		
Bligh Street, Sydney, NSW[1]	**250**	5,650
Contingent liabilities in respect of developments	**250**	5,650

1 Bank guarantee held in relation to an equity accounted investment. (Refer note 13).

The Trust together with DDF, DIT and DOT 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 Trust and other entities within DXS. The guarantees have been given in support of debt outstanding and drawn against these facilities, and may be called upon in the event that a borrowing entity has not complied with certain requirements such as failure to pay interest or repay a borrowing, whichever is earlier. During the period no guarantees were called.

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

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

Note 26

Commitments

(a) Capital commitments

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

	2012 $'000	2011 $'000
Investment properties	**16,422**	14,625
Total capital commitments	**16,422**	14,625

(b) Lease receivable commitments

The future minimum lease payments receivable by the Trust are:

	2012 $'000	2011 $'000
Within one year	**279,218**	214,885
Later than one year but not later than five years	**806,490**	630,509
Later than five years	**370,275**	235,601
Total lease receivable commitments	**1,455,983**	1,080,995

Note 27

Related parties

Responsible Entity

DXFM is the Responsible Entity of the Trust.

Responsible Entity fees

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

Related party transactions

Responsible Entity fees in relation to the Trust assets are on a cost recovery basis. The Trust is entitled to receive rent from DXPS on one component of an investment property owned by the Trust. The agreement is conducted on normal commercial terms and conditions.

DEXUS Funds Management Limited and its related entities

There were a number of transactions and balances between the Trust and the Responsible Entity and its related entities, as detailed below:

	2012	2011
	$	$
Responsible Entity fees paid and payable	**9,860,933**	9,361,017
Property management fees paid and payable to DXPS	**8,210,494**	6,331,551
Administration expenses paid and payable to DXH	**6,099,606**	4,497,928
Responsible Entity fees payable at the end of each reporting period (included above)	**827,033**	796,119
Property management fees payable at the end of each reporting period (included above)	**890,933**	1,168,601
Administration expenses payable at the end of each reporting period (included above)	**78,969**	483,657
Rent received from DXPS	**3,150,041**	3,106,752

Entities within DXS

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

	2012	2011
	$	$
Interest revenue	**-**	1,134,643
Interest expense	**27,858,645**	3,479,460
Interest bearing loans advanced to entities within DXS	**846,161,956**	220,015,472
Interest bearing loans advanced from entities within DXS	**192,116,918**	158,415,139

Note 27

Related parties (continued)

Directors

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

C T Beare, BSc, BE (Hons), MBA, PhD, FAICD[1,4,5]
E A Alexander, AM, BComm, FCA, FAICD, FCPA[1,2,6]
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 and 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 Trust for the years ended 30 June 2012 and 30 June 2011.

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 Trust 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 for the years ended 30 June 2012 and 30 June 2011.

Note 27

Related parties (continued)

Other key management personnel (continued)

	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

Note 27

Related parties (continued)

Remuneration Report

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*.

Remuneration Report (continued)

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	✓	✓

Remuneration Report (continued)

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

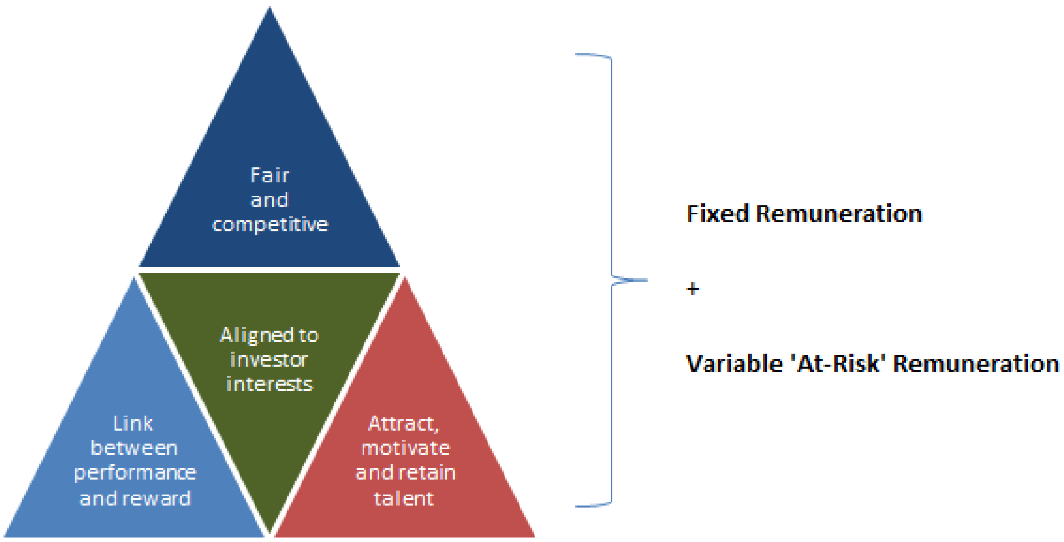
Remuneration Report (continued)

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.

Remuneration Report (continued)

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.

Remuneration Report (continued)

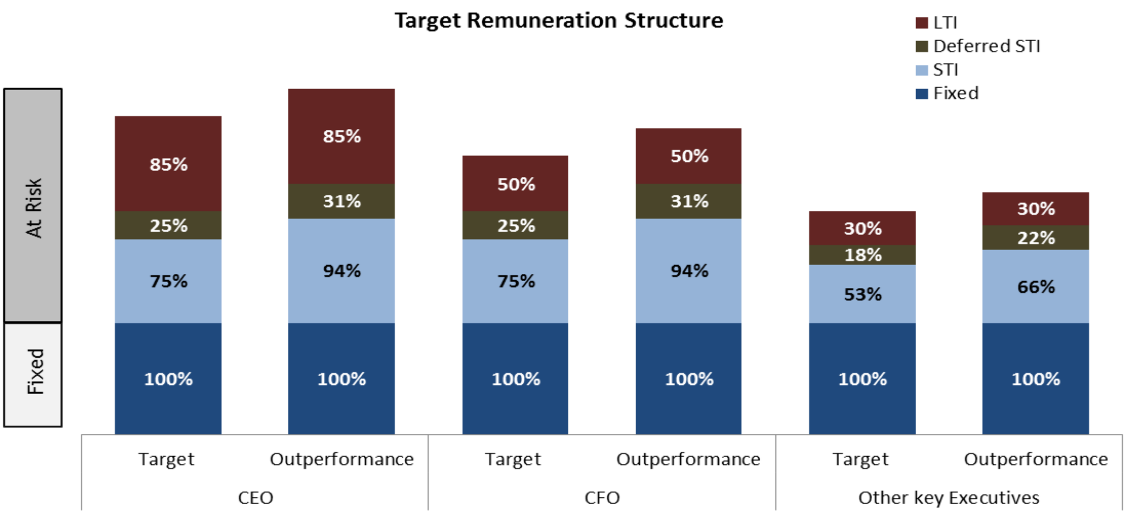
4. Executive Remuneration (continued)

	Component	Existing Framework: Performance Measure	Existing Framework: Performance Range	Existing Framework: Delivery Mechanism	Existing Framework: % of Fixed Remuneration	New Framework: Performance Measure	New Framework: Performance Range	New Framework: Delivery Mechanism	New Framework: % of Fixed Remuneration
Fixed	Fixed remuneration	Market review	Actual payments reflect individual expertise & market conditions	Cash, superannuation & packaged benefits	100%	Market review	Actual payments reflect individual expertise & market conditions	Cash, superannuation & packaged benefits	100%
At Risk	STI (immediate) DEXUS Performance Payment *(DPP)*	Annual performance against pre-agreed weighted financial and non-financial KPIs (i.e. balanced scorecard)	0 to 100% of target remuneration structure	Cash	<u>Target</u> 85% (CEO) 75% (CFO & CIO) 50% (other key Execs)	Annual performance against pre-agreed weighted financial and non-financial KPIs (i.e. balanced scorecard)	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	75% paid in cash	<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
	STI (deferred) DEXUS Deferred Performance Payment *(DDPP)*		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	Phantom composite equity (DXS and Unlisted), vesting over 3 years Outperformance multiplier incentive available	<u>Target</u> 100% (CEO) 75% (CFO & CIO) 50% (other key Execs)			25% deferred into DXS performance rights, vesting in equal tranches 12 and 24 months after award and subject to service and clawback provisions	
	Long Term Incentive	Not available				Vesting conditional on future performance hurdles (Relative TSR and earnings measures)	Grant based on a pre-determined % of fixed remuneration	DXS performance rights, vesting in two equal tranches 3 and 4 years after grant and subject to service and clawback provisions	<u>Maximum Opportunity</u> at grant: 85% (CEO) 50% (CFO) 30% (other key Execs)

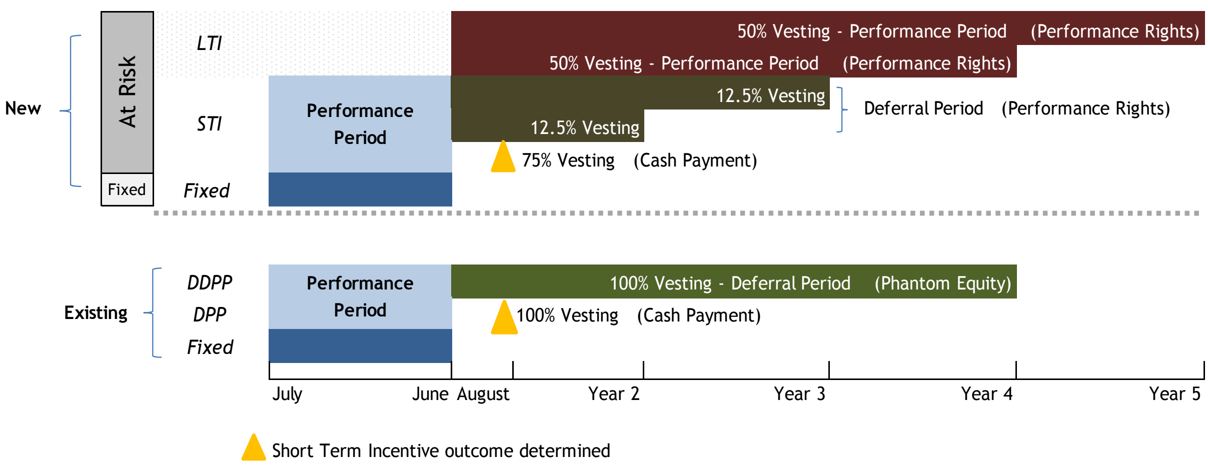
Remuneration Report (continued)

4. Executive Remuneration (continued)

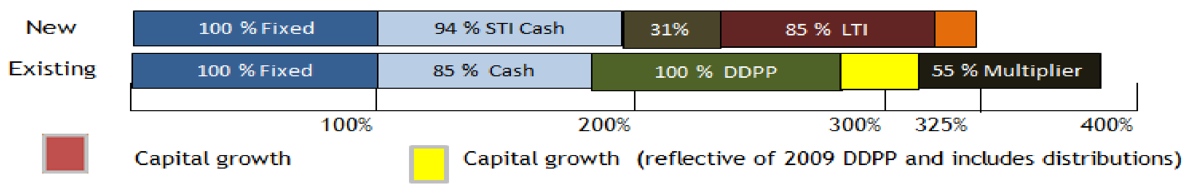
Target remuneration mix for key Executives (expressed as a percentage of fixed remuneration) is shown below:



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.



Remuneration Report (continued)

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)

Remuneration Report (continued)

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>

Remuneration Report (continued)

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
	    o ensuring that Executives have a continuing interest in the outperformance of DXS securities
	    o 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

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

Remuneration Report (continued)

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

Remuneration Report (continued)

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.

Remuneration Report (continued)

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.

Remuneration Report (continued)

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.

Remuneration Report (continued)

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.

Remuneration Report (continued)

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.

Remuneration Report (continued)

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

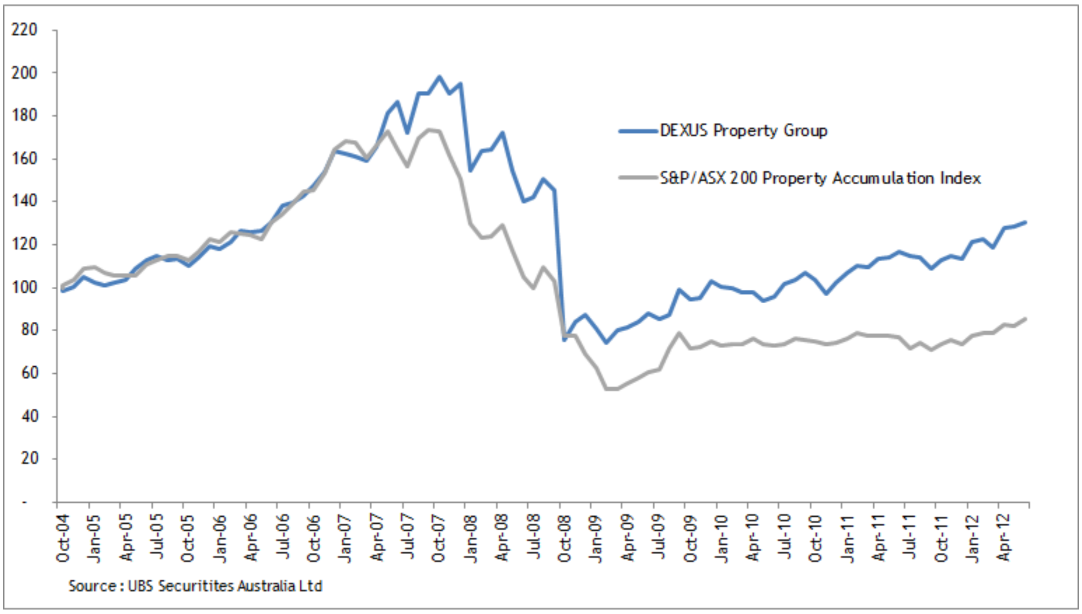
The Board previously considered whether the construction of the Composite Total Return should reflect the actual value of the unlisted funds and mandates ($5.6 billion as at 30 June 2012), and DEXUS Property Group's own funds under management ($6.9 billion as at 30 June 2012).

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.

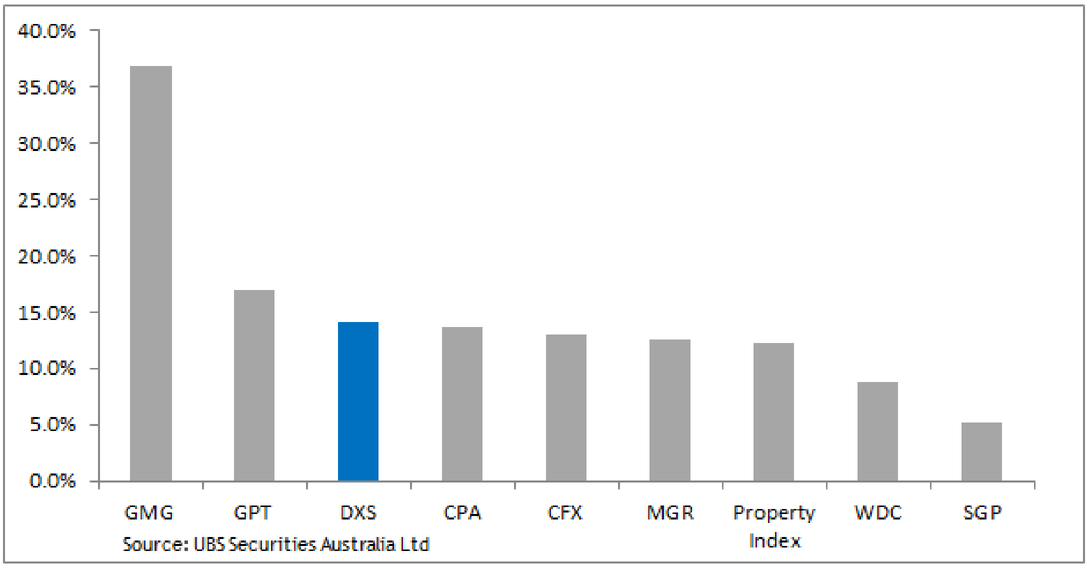
Remuneration Report (continued)

6. Performance Pay (continued)

Total Return of DXS Securities



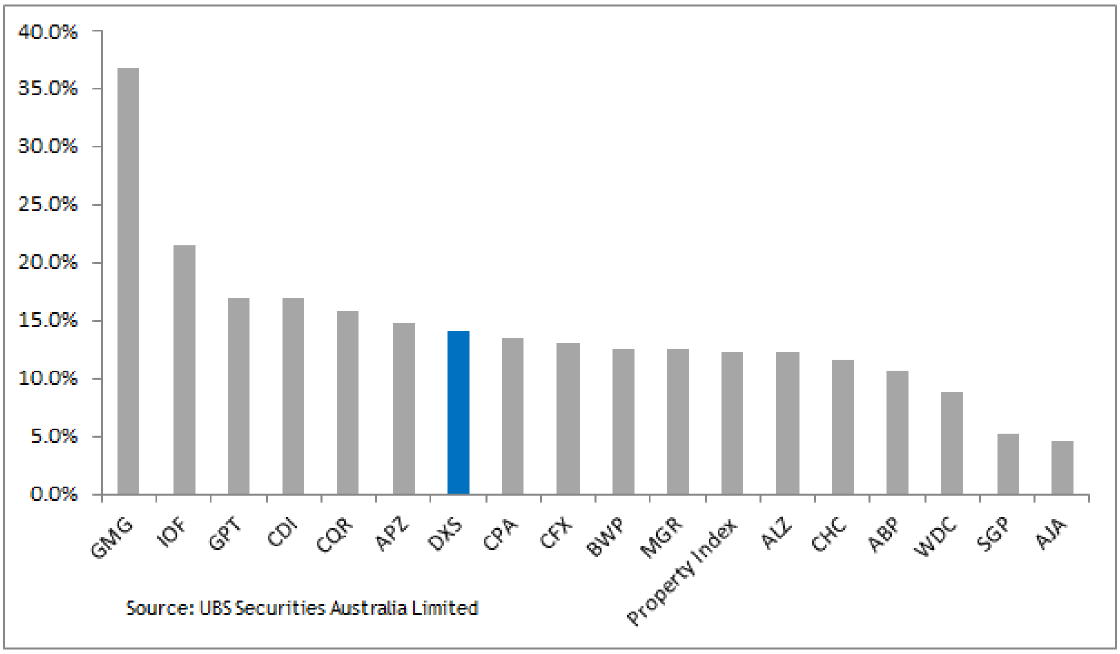
The chart below illustrates the DXS's performance relative to A-REITs above $2 billion market capitalisation over the past 3 financial years.



Remuneration Report (continued)

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.

<u>Individual Performance Assessment – Balanced Scorecard</u>

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.

Remuneration Report (continued)

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.

Remuneration Report (continued)

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.

Remuneration Report (continued)

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

Remuneration Report (continued)

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).

Remuneration Report (continued)

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.

Remuneration Report (continued)

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.

Remuneration Report (continued)

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.

Remuneration Report (continued)

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

Note 28

Operating segments

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

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.

Consistent with how the CODM manages the business, the operating segments within DXS are reviewed on a consolidated basis and are not monitored at an individual trust level. The results of the individual trusts are not limited to any one of the segments described above.

Disclosures concerning DXS's operating segments, as well as the operating segments' key financial information provided to the CODM, are presented in the DEXUS Property Group Annual Report (refer note 34 in the DEXUS Property Group Financial Statements).

Note 29

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 15 August 2012, the Trust 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 DEXUS Wholesale Property Fund.

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

Note 30

Reconciliation of net profit to net cash outflow from operating activities

	2012 $'000	2011 $'000
Net profit	**198,104**	265,670
Capitalised interest	**(1,264)**	(11,832)
Net fair value gain of investment properties	**(67,158)**	(56,970)
Share of net profit of associates accounted for using the equity method	**(13,784)**	(34,053)
Net fair value loss/(gain) of derivatives	**39,416**	(2,577)
Net foreign exchange gain	**(59)**	(8)
Change in operating assets and liabilities		
Increase in receivables	**(1,110)**	(1,670)
Decrease in other current assets	**35**	666
Increase in other non-current assets - investments	**21,158**	18,485
Increase in other non-current assets	**7,222**	139
(Decrease)/increase in payables	**(1,666)**	332
Increase in other non-current liabilities	**27,900**	2,964
Net cash inflow from operating activities	**208,794**	181,146

Note 31

Earnings per unit

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

	2012 cents	2011 cents
Basic earnings per unit on profit attributable to unitholders of the parent entity	**0.39**	0.51
Diluted earnings per unit on profit attributable to unitholders of the parent entity	**0.39**	0.51

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

	2012 $'000	2011 $'000
Net profit for the year of the parent entity	**187,422**	248,207
Net profit attributable to the unitholders of the Trust used in calculating basic and diluted earnings per unit	**187,422**	263,576

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

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

The Directors of DEXUS Funds Management Limited as Responsible Entity for DEXUS Office Trust (the Trust) declare that the Financial Statements and notes set out on pages 8 to 72:

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

(ii) give a true and fair view of the consolidated entity's financial position as at 30 June 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 Trust and its consolidated entities will be able to pay their debts as and when they become due and payable; and

(c) the Trust has operated in accordance with the provisions of the Constitution dated 17 June 1998 (as amended) during the year ended 30 June 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 unit holders of DEXUS Office Trust

Report on the financial report

We have audited the accompanying financial report of DEXUS Office Trust (the Trust), which comprises the statement of financial position as at 30 June 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 Office Trust Group (the consolidated entity). The consolidated entity comprises the Trust and the entities it controlled at the year-end or from time to time during the financial year.

Directors' responsibility for the financial report

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

Auditor's responsibility

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

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

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

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

Independence

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

Auditor's opinion

In our opinion:

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

(i) giving a true and fair view of the consolidated entity's financial position as at 30 June 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.

PricewaterhouseCoopers

PricewaterhouseCoopers

E A Barron
Partner

Sydney
15 August 2012

2012

DEXUS Operations Trust
(ARSN 110 521 223)

Financial Report
30 June 2012

DEXUS
PROPERTY GROUP

Contents | Page

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

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

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

The Directors of DEXUS Funds Management Limited (DXFM) as Responsible Entity of DEXUS Operations Trust present their Directors' Report together with the consolidated Financial Statements for the year end 30 June 2012. The consolidated Financial Statements represents DEXUS Operations Trust and its consolidated entities (DXO or the Trust).

The Trust together with DEXUS Diversified Trust (DDF), DEXUS Industrial Trust (DIT) and DEXUS Office Trust (DOT) form the DEXUS Property Group (DXS or the Group) stapled security.

1 Directors and Secretaries

1.1 Directors

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

Directors	Appointed	Resigned
Christopher T Beare	4 August 2004	
Elizabeth A Alexander, AM	1 January 2005	
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	

Particulars of the qualifications, experience and special responsibilities of the Directors at the date of this Directors' Report are set out in the Board of Directors section of the DEXUS Property Group Annual Report and form part of this Directors' Report.

1.2 Company Secretaries

The names and details of the Company Secretaries of DXFM as at 30 June 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 DXFM 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 DXS in July 2003, Tanya held various general management positions over the past 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 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 the 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 is also an Associate of the Institute of Chartered Secretaries 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	0	0
W Richard Sheppard	5	5	2	2
Darren J Steinberg	4	4	2	2
Peter B St George	9	9	4	4

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.

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

	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 Directors' interests

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

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.

4 Directors' directorships in other listed entities

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

Director	Company	Date appointed	Date resigned or ceased being a Director of a listed 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 Mineral 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.

5 Principal activities

During the year the principal activity of the Trust was to be a trading trust. There were no significant changes in the nature of the Trust's activities during the year.

6 Review of results and operations

The results for the year ended 30 June 2012 were:

- loss attributable to unitholders was $29.2 million (2011: $29.3 million);
- total assets were $631.5 million (2011: $602.1 million); and
- net assets were $122.7 million (2011: $21.5 million net asset deficiency).

A review of the results, financial position and operations of the Group, of which the Trust forms part thereof, is set out in the Operating and Financial Review of the DEXUS Property Group Annual Report and forms part of this Directors' Report. Refer to the Chief Executive Officers report of the DEXUS Property Group 2012 Annual Review for further information.

7 Likely developments and expected results of operations

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

8 Significant changes in the state of affairs

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

9 Matters subsequent to the end of the financial year

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

10 Dividends

Dividends paid or payable by the Trust for the year ended 30 June 2012 were nil (2011: nil).

11 DXFM's fees and associate interests

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

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

12 Units on issue

The movement in units on issue in the Trust during the year and the number of units on issue as at 30 June 2012 are detailed in note 23 of the Notes to the Financial Statements and form part of this Directors' Report.

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

13 Environmental regulation

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

14 Indemnification and insurance

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

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

15 Audit

15.1 Auditor

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

15.2 Non-audit services

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

Details of the amounts paid or payable to the Auditor, for audit and non-audit services provided during the year, are set out in note 7 of the Notes to the Financial Statements.

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

The reasons for the Directors being satisfied are:

- a Charter of Audit Independence was adopted in 2010 that provides guidelines under which the Auditor may be engaged to provide non-audit services without impairing the Auditor's objectivity or independence.
- the Charter states that the Auditor will not provide services where the Auditor may be required to review or audit its own work, including:
    - the preparation of tax provisions, accounting records and financial statements;
    - the design, implementation and operation of information technology systems;
    - the design and implementation of internal accounting and risk management controls;
    - conducting valuation, actuarial or legal services;
    - consultancy services that include direct involvement in management decision making functions;
    - investment banking, borrowing, dealing or advisory services;
    - acting as trustee, executor or administrator of trust or estate;
    - prospectus independent expert reports and being a member of the due diligence committee; and
    - providing internal audit services.
- the Board Audit Committee regularly reviews the performance and independence of the Auditor and whether the independence of this function has been maintained having regard to the provision of non-audit services. The Auditor has provided a written declaration to the Board regarding its independence at each reporting period and Board Audit Committee approval is required before the engagement of the Auditor to perform any non-audit service for a fee in excess of $100,000.

The above Directors' statements are in accordance with the advice received from the Board Audit Committee.

15.3 Auditor's Independence Declaration

A copy of the Auditor's Independence Declaration as required under section 307C of the *Corporations Act 2001* is set out on page 7 and forms part of this Directors' Report.

16 Corporate governance

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

17 Rounding of amounts and currency

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

18 Management representation

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

19 Directors' authorisation

The Directors' Report is made in accordance with a resolution of the Directors. The Financial Statements were authorised for issue by the Directors on 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 Operations 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 Operations Trust and the entities it controlled during the period.

E A Barron
Partner
PricewaterhouseCoopers

Sydney
15 August 2012

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

	Note	2012 $'000	2011 $'000
Revenue from ordinary activities			
Management fee revenue	2	**83,314**	80,180
Property revenue	3	**16,236**	8,338
Proceeds from sale of inventory		**49,847**	3,359
Interest revenue		**868**	848
Total revenue from ordinary activities		**150,265**	92,725
Net gain on sale of investment properties		**-**	218
Other income		**33**	101
Total income		**150,298**	93,044
Expenses			
Property expenses	3	**(5,023)**	(4,224)
Cost of sale of inventory		**(43,998)**	(3,353)
Finance costs	4	**(22,022)**	(19,182)
Net fair value loss of investment properties		**(27,318)**	(19,079)
Depreciation and amortisation		**(2,483)**	(2,417)
Impairment of inventories		**(14,846)**	-
Impairment of goodwill		**(625)**	(194)
Employee benefits expense		**(71,493)**	(63,957)
Other expenses	6	**(13,420)**	(14,347)
Total expenses		**(201,228)**	(126,753)
Loss before tax		**(50,930)**	(33,709)
Tax benefit			
Income tax benefit	5(a)	**21,777**	4,418
Total tax benefit		**21,777**	4,418
Loss after tax		**(29,153)**	(29,291)
Total comprehensive loss for the year		**(29,153)**	(29,291)

Earnings per unit		**Cents**	Cents
Basic earnings per unit on loss attributable to unitholders of the parent entity	34	**(0.00)**	(0.53)
Diluted earnings per unit on loss attributable to unitholders of the parent entity	34	**(0.00)**	(0.53)

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

	Note	2012 $'000	2011 $'000
Current assets			
Cash and cash equivalents	8	**13,082**	13,229
Receivables	9	**19,823**	26,084
Current tax assets		**-**	1,015
Non-current assets classified as held for sale	10	**93,700**	-
Inventories	14	**26,841**	7,991
Other	11	**759**	461
Total current assets		**154,205**	48,780
Non-current assets			
Investment properties	12	**141,151**	192,306
Plant and equipment	13	**4,678**	3,922
Inventories	14	**70,990**	104,247
Deferred tax assets	15	**36,729**	28,052
Intangible assets	16	**223,641**	224,684
Other	17	**66**	67
Total non-current assets		**477,255**	553,278
Total assets		**631,460**	602,058
Current liabilities			
Payables	18	**11,065**	9,415
Loans with related parties	19	**48,932**	48,932
Provisions	20	**22,324**	21,105
Derivative financial instruments	21	**-**	773
Total current liabilities		**82,321**	80,225
Non-current liabilities			
Loans with related parties	19	**402,409**	506,133
Deferred tax liabilities	22	**3,913**	17,013
Provisions	20	**16,351**	17,624
Derivative financial instruments	21	**3,772**	2,587
Other		**-**	19
Total non-current liabilities		**426,445**	543,376
Total liabilities		**508,766**	623,601
Net assets/(liabilities)		**122,694**	(21,543)
Equity			
Contributed equity	23	**199,712**	26,335
Reserves	24	**42,751**	42,738
Accumulated losses	24	**(119,769)**	(90,616)
Total equity		**122,694**	(21,543)

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

	Note	Contributed equity $'000	Asset revaluation reserve $'000	Security-based payments reserve $'000	Accumulated losses $'000	Total equity $'000
Opening balance as at 1 July 2010		26,335	42,738	-	(61,325)	7,748
Loss after tax for the year		-	-	-	(29,291)	(29,291)
Transactions with owners in their capacity as owners:						
Contributions of equity, net of transaction costs	23	-	-	-	-	-
Closing balance as at 30 June 2011		26,335	42,738	-	(90,616)	(21,543)
Opening balance as at 1 July 2011		**26,335**	**42,738**	**-**	**(90,616)**	**(21,543)**
Loss after tax for the year		**-**	**-**	**-**	**(29,153)**	**(29,153)**
Transactions with owners in their capacity as owners:						
Capital contribution, net of transaction costs	23	**174,901**	**-**	**-**	**-**	**174,901**
Buy back of contributed equity, net of transaction costs	23	**(1,524)**	**-**	**-**	**-**	**(1,524)**
Employee incentive scheme expenses	24	**-**	**-**	**13**	**-**	**13**
Closing balance as at 30 June 2012		**199,712**	**42,738**	**13**	**(119,769)**	**122,694**

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

	Note	2012 $'000	2011 $'000
Cash flows from operating activities			
Receipts in the course of operations (inclusive of GST)		**109,573**	97,281
Payments in the course of operations (inclusive of GST)		**(97,515)**	(88,144)
Payments for property classified as inventory		**(44,925)**	(57,446)
Proceeds from sale of property classified as inventory		**53,206**	-
Interest received		**870**	822
Finance costs paid		**(1,790)**	(3,471)
Income tax received		**1,015**	2,533
Net cash inflow/(outflow) from operating activities	33	**20,434**	(48,425)
Cash flows from investing activities			
Payments for property, plant and equipment		**(2,820)**	(956)
Payments for capital expenditure on investment properties		**(50,760)**	(32,897)
Proceeds from sale of investment properties		**-**	380
Net cash outflow from investing activities		**(53,580)**	(33,473)
Cash flows from financing activities			
Borrowings provided to entities within DXS		**(336,858)**	(104,734)
Borrowings provided by entities within DXS		**196,480**	186,964
Proceeds from capital contribution		**174,979**	-
Capital contribution transaction costs		**(78)**	-
Payments for buy back of contributed equity		**(1,524)**	-
Net cash inflow from financing activities		**32,999**	82,230
Net (decrease)/increase in cash and cash equivalents		**(147)**	332
Cash and cash equivalents at the beginning of the year		**13,229**	12,897
Cash and cash equivalents at the end of the year	8	**13,082**	13,229

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

Note 1

Summary of significant accounting policies

(a) Basis of preparation

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

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

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

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

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

Critical accounting estimates

The preparation of Financial Statements requires the use of certain critical accounting estimates and management to exercise its judgement in the process of applying the Trust's accounting policies. Other than the estimations described in notes 1(e), 1(l), 1(n), 1(p), 1(u), 1(v) and 1(y), no key assumptions concerning the future or other estimation of uncertainty at the end of each reporting period have a significant risk of causing material adjustments to the Financial Statements in the next annual reporting period.

(b) Principles of consolidation

(i) Controlled entities

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

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

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

(ii) Partnerships and joint ventures

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

Note 1

Summary of significant accounting policies (continued)

(c) Revenue recognition

(i) Rent

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

(ii) Management fee revenue

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

(iii) Interest revenue

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

(iv) Dividends and distribution revenue

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

(d) Expenses

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

(i) Property expenses

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

(ii) Borrowing costs

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

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

Note 1

Summary of significant accounting policies (continued)

(e) Derivatives and other financial instruments

(i) Derivatives

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

(ii) Debt and equity instruments issued by the Trust

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

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

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

(iii) Financial guarantee contracts

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

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

(iv) Other financial assets

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

(f) Goods and services tax

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

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

Note 1

Summary of significant accounting policies (continued)

(g) Taxation

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

- the income tax expense for the year is the tax payable on the current year's taxable income based on a tax rate of 30% adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses;
- deferred tax assets and liabilities are recognised for temporary differences arising from differences between the carrying amount of assets and liabilities and the corresponding tax base of those items. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax assets or liabilities. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability (where they do not arise as a result of a business combination and did not affect either accounting profit/loss or taxable profit/loss);
- deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses;
- deferred tax assets and liabilities are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future; and
- current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

Tax consolidation

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 Trust distributes its distributable income to unitholders by cash or reinvestment. Distributions are provided for when they are approved by the Board of Directors and declared.

(i) Repairs and maintenance

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

(j) Cash and cash equivalents

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

Note 1

Summary of significant accounting policies (continued)

(k) Receivables

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

(l) Inventories

Land and properties held for resale

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

Net realisable value

Net realisable value is the 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) Property, plant and equipment

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

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

(o) 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)

(p) Investment properties

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

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

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

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

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

(q) Leasing fees

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

(r) Lease incentives

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

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

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

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

Note 1

Summary of significant accounting policies (continued)

(t) Impairment of assets

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

(u) Intangible assets

(i) Goodwill

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

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

(ii) Management rights

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

Note 1

Summary of significant accounting policies (continued)

(v) Financial assets and liabilities

(i) Classification

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

Financial asset/liability	Classification	Valuation basis	Reference
Receivables	Loans and receivables	Amortised cost	Refer note 1(k)
Other financial assets	Loans and receivables	Amortised cost	Refer note 1(e)
Other financial assets	Fair value through profit or loss	Fair value	Refer note 1(s)
Payables	Financial liability at amortised cost	Amortised cost	Refer note 1(w)
Interest bearing liabilities	Financial liability at amortised cost	Amortised cost	Refer note 1(x)
Derivatives	Fair value through profit or loss	Fair value	Refer note 1(e)

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

(ii) Fair value estimation of financial assets and liabilities

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

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

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

(w) Payables

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

(x) Interest bearing liabilities

Subsequent to initial recognition at fair value, net of transaction costs incurred, interest bearing liabilities are measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the Statement of Comprehensive Income over the period of the borrowings using the effective interest method. Interest bearing liabilities are classified as current liabilities unless the Trust has an unconditional right to defer the liability for at least 12 months after the reporting date.

Note 1

Summary of significant accounting policies (continued)

(y) Employee benefits

(i) Wages, salaries and annual leave

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

(ii) Long service leave

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

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

(iii) Security-based payments

Security-based employee benefits will be provided to eligible participants via the DEXUS Transitional Performance Rights Plan ('the Plan'). Information relating to this Plan is set out in note 35.

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 provision for employee benefits and security-based payments reserve in equity. The total amount to be expensed is determined by reference to the fair value of the performance rights granted. Fair value is determined independently using Black-Scholes and 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. The amount recorded in the security-based payments reserve is DXO's share of the security based payment which is deemed to be equity settled in accordance with AASB 2 *Share-based Payments*. The amount is calculated based on DXO's proportionate share of the Group's net asset value, with the remainder of the security-based payment recorded as a provision for employee benefits.

Non-market vesting conditions 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, management revises its estimates of the number of performance rights that are expected to vest based on the non-market vesting conditions. The impact of the revised estimates, if any, is recognised in profit or loss with a corresponding adjustment to the security-based payments reserve and provision for employee benefits.

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

(z) Earnings per unit

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

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

Note 1

Summary of significant accounting policies (continued)

(aa) Operating segments

The Chief Operating Decision Maker (CODM) has been identified as the Board of Directors as they are responsible for the strategic decision making within DXS, which consists of DDF, DOT, DIT and DXO. Consistent with how the CODM manages the business, the operating segments within DXS are reviewed on a consolidated basis rather than at an individual trust level. Disclosures concerning DXS's operating segments as well as the operating segments' key financial information provided to CODM are presented in DXS's Financial Statements.

(ab) Rounding of amounts

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

(ac) Parent entity financial information

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

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

Investments in subsidiaries, associates and joint venture entities are accounted for at cost in the parent entity's Statement of Financial Position. Distributions received from associates are recognised in the parent entity's Statement of Comprehensive Income, rather than being deducted from the carrying amount of these investments.

(ad) 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 Trust's current offsetting arrangements. The AASB has also introduced more extensive disclosure requirements into AASB 7 which will apply from 1 July 2013. The Trust intends to apply the new rules from 1 July 2013 and does not expect any significant impacts.

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

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

AASB 9 *Financial Instruments* and AASB 2009-11 *Amendments to Australian Accounting Standards arising from AASB 9* and AASB 2010-7 *Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)* (effective 1 January 2013).

AASB 9 *Financial Instruments* addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard simplifies the classifications of financial assets into those to be carried at amortised cost and those to be carried at fair value. The Trust intends to apply the standards from 1 July 2013 and does not expect any significant impacts.

Note 1

Summary of significant accounting policies (continued)

(ad) New accounting standards and interpretations (continued)

AASB 2010-8 *Amendments to Australian Accounting Standards - Deferred Tax: Recovery of Underlying Assets* (effective 1 January 2012).
In December 2010, the AASB amended AASB 112 *Income Taxes* to provide an amended approach for measuring deferred tax liabilities and deferred tax assets when investment property is measured using the fair value model. AASB 112 requires the measurement of deferred tax assets or liabilities to reflect the tax consequences that would follow from the way management expects to recover or settle the carrying amount of the relevant assets or liabilities, that is through use or through sale. The Trust intends to apply the standard from 1 July 2012 and does not expect any significant impacts.

AASB 2011-4 *Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements* (effective 1 July 2013)
In July 2011 the AASB decided to remove the individual KMP disclosure requirements from AASB 124 *Related Party Disclosures*, to achieve consistency with the international equivalent standard and remove a duplication of the requirements with the *Corporations Act 2001*. While this will reduce the disclosures that are currently required in the Notes to the Financial Statements, it will not affect any of the amounts recognised in the Financial Statements. The amendments apply from 1 July 2013 and cannot be adopted early.

AASB 10 *Consolidated financial statements* (effective 1 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 Trust 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 Trust intends to apply the standard from 1 July 2013 and does not expect any significant impacts.

AASB 12 *Disclosure of interests in other entities* (effective 1 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 Trust's current disclosures. The Trust 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 Trust 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 Trust's current disclosures. The Trust 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 Trust intends to adopt the new standard from 1 July 2012.

Note 2

Management fee revenue

	2012 $'000	2011 $'000
Responsible Entity fees	**38,178**	35,340
Asset management fees	**9,480**	9,973
Property management fees	**23,832**	22,392
Capital works and development fees	**3,888**	2,791
Wages recovery and other fees	**7,936**	9,684
Total management fee revenue	**83,314**	80,180

Note 3

Property revenue and property expenses

Property revenue includes $8.9 million (2011: $2.8 million) and property expenses includes $0.7 million (2011: $0.3 million) related to investment properties owned by the Trust. The balance of the property revenue and expenses relates to property held as inventory and one component of an investment property owned by DOT for which DEXUS Property Services Pty Limited (DXPS), a wholly owned subsidiary of the Trust, has a contractual agreement to earn income.

Note 4

Finance costs

	2012 $'000	2011 $'000
Interest paid to related parties	**35,583**	37,583
Amount capitalised	**(15,763)**	(18,676)
Other finance costs	**18**	20
Net fair value loss of interest rate swaps	**2,184**	255
Total finance costs	**22,022**	19,182

The average capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation is 7.70% (2011: 7.77%).

Note 5
Income tax

(a) Income tax benefit

	2012 $'000	2011 $'000
Deferred tax benefit	21,777	4,418
Total income tax benefit	**21,777**	4,418
Deferred income tax benefit included in income tax benefit comprises:		
Increase in deferred tax assets	8,677	11,804
Decrease/(increase) in deferred tax liabilities	13,100	(7,386)
Total deferred tax benefit	**21,777**	4,418

(b) Reconciliation of income tax benefit to net profit

	2012 $'000	2011 $'000
Loss before tax	(50,930)	(33,709)
Prima facie tax benefit at the Australian tax rate of 30% (2011: 30%)	15,279	10,113
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Depreciation and amortisation	(208)	(58)
Sundry items	114	(15)
Movements in the carrying value and tax cost base of properties	6,592	(5,687)
Gain on sale of assets	-	65
	6,498	(5,695)
Income tax benefit	**21,777**	4,418

Note 6
Other expenses

	Note	2012 $'000	2011 $'000
Audit and other fees	7	**351**	477
Custodian fees		**29**	25
Legal and other professional fees		**2,319**	2,587
Registry costs and listing fees		**32**	44
Occupancy expenses		**2,937**	2,821
Administration expenses		**3,039**	3,547
Other staff expenses		**2,489**	2,959
Other expenses		**2,224**	1,887
Total other expenses		**13,420**	14,347

Note 7
Audit, taxation and transaction services fees

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

	2012 $	2011 $
Audit fees		
PwC Australia - audit and review of Financial Statements	**173,280**	213,989
PwC Australia - regulatory audit and compliance services	**160,699**	218,486
PwC Australia - fees paid in relation to outgoings audit[1]	**5,026**	-
Total audit fees	**339,005**	432,475
Taxation fees		
Fees paid to PwC Australia	**17,075**	44,638
Total taxation fees[2]	**17,075**	44,638
Total audit and taxation fees[1]	**356,080**	477,113
Transaction services fees		
Fees paid to PwC Australia	**87,500**	-
Total transaction services fees[2]	**87,500**	-
Total audit, taxation and transaction services fees	**443,580**	477,113

1 Fees paid in relation to outgoing audits are included in property expenses in the Statement of Comprehensive Income. Therefore total audit and taxation fees included in other expenses are $351,054 (2011: $477,113).

2 These services include general compliance work, one off project work and advice.

Note 8
Current assets - cash and cash equivalents

	2012 $'000	2011 $'000
Cash at bank	3,082	3,229
Short-term deposits	10,000	10,000
Total current assets - cash and cash equivalents	13,082	13,229

Note 9
Current assets - receivables

	2012 $'000	2011 $'000
Fee receivable	12,843	13,467
GST receivable	589	1,130
Receivables from related entities	4,508	6,468
Receivable on sale of inventory	-	3,359
Interest receivable	70	71
Other receivables	1,813	1,589
Total current assets - receivables	19,823	26,084

Note 10
Non-current assets classified as held for sale

(a) Non-current assets held for sale

	2012 $'000	2011 $'000
Investment properties held for sale	93,700	-
Total non-current assets classified as held for sale	93,700	-

(b) Reconciliation

	Note	2012 $'000	2011 $'000
Opening balance at the beginning of the year		-	-
Transfer from investment properties[1]	12	93,700	-
Closing balance at the end of the year		93,700	-

[1] On 30 June 2012, 50% of an industrial portfolio consisting of assets at DEXUS Industrial Estate Laverton 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.

Note 11
Current assets - other

	2012 $'000	2011 $'000
Prepayments	759	461
Total current assets - other	759	461

Note 12

Non-current assets - investment properties

	Note	2012 $'000	2011 $'000
Opening balance at the beginning of the year		**192,306**	170,011
Additions		**60,782**	45,463
Lease incentives		**895**	2,236
Amortisation of lease incentives		**(254)**	(159)
Rent straightlining		**1,405**	282
Transfer to non-current assets classified as held for sale	10	**(93,700)**	-
Transfer from/(to) inventories[1]	14	**7,035**	(6,448)
Net fair value loss of investment properties		**(27,318)**	(19,079)
Closing balance at the end of the year		**141,151**	192,306

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

Key Valuation Assumptions

Details of key valuation assumptions in relation to investment properties are outlined in note 13 of the DXS Financial Statements.

Note 13

Non-current assets - plant and equipment

	2012 $'000	2011 $'000
Opening balance at the beginning of the year	**3,922**	4,898
Additions	**2,821**	956
Depreciation charge	**(2,065)**	(1,932)
Closing balance at the end of the year	**4,678**	3,922

	2012 $'000	2011 $'000
Cost	**14,486**	11,665
Accumulated depreciation	**(9,808)**	(7,743)
Net book value as at the end of the year	**4,678**	3,922

Plant and equipment comprises IT and office equipment.

Note 14

Non-current assets - 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]	12	**(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 Rd Laverton VIC – Fastline, was transferred from inventory to investment properties with an intention to hold.

Acquisitions

- On 29 November 2011, undeveloped land was acquired at 3676 Ipswich Road, 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 15

Non-current assets - deferred tax assets

	2012 $'000	2011 $'000
The balance comprises temporary differences attributable to:		
Derivative financial instruments	**1,048**	947
Employee provisions	**12,229**	12,229
Incentives	**363**	288
Other	**825**	723
Deferred tax asset arising from temporary differences	**14,465**	14,187
Deferred tax arising on tax losses	**22,264**	13,865
Total non-current assets - deferred tax assets	**36,729**	28,052
Movements		
Opening balance at the beginning of the year	**28,052**	16,248
Recognition of tax losses	**8,399**	10,832
Movement in deferred tax asset arising from temporary differences	**278**	972
Credited to the Statement of Comprehensive Income	**8,677**	11,804
Closing balance at the end of the year	**36,729**	28,052

Note 16

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 DXH, which entitle it to management fee revenue from both finite and indefinite life trusts. Those rights that are deemed to have a finite useful life (held at a value of $5,686,657 (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 17

Non-current assets - other

	2012 $'000	2011 $'000
Tenant and other bonds	**5**	5
Other	**61**	62
Total non-current assets - other	**66**	67

Note 18

Current liabilities - payables

	2012 $'000	2011 $'000
Trade creditors	**1,938**	1,144
Accruals	**2,629**	2,541
Accrued capital expenditure	**972**	-
Employee related expenses	**3,242**	2,375
Interest payable to related parties	**2,284**	3,355
Total current liabilities - payables	**11,065**	9,415

Note 19

Loans with related parties

	2012 $'000	2011 $'000
Current liabilities - loan with related parties		
Non-interest bearing loans with entities within DXS[1]	**48,932**	48,932
Total current liabilities - loan with related parties	**48,932**	48,932
Non-current liabilities - loan with related parties		
Interest bearing loans with related parties[2]	**402,409**	506,133
Total non-current liabilities - loan with related parties	**402,409**	506,133

1 Non-interest bearing loans with entities within DXS were created to effect the stapling of the Trust, DIT, DOT and DDF. These loan balances eliminate on consolidation within DXS.

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

Note 20

Provisions

	2012 $'000	2011 $'000
Current		
Provision for employee benefits	**22,324**	21,105
Total current liabilities - provisions	**22,324**	21,105

	2012 $'000	2011 $'000
Non-current		
Provision for employee benefits	**16,351**	17,624
Total non-current liabilities - provisions	**16,351**	17,624

Note 21
Derivative financial instruments

	2012 $'000	2011 $'000
Current liabilities		
Interest rate swap contracts	-	773
Total current liabilities - derivative financial instruments	-	773
Non-current liabilities		
Interest rate swap contracts	3,772	2,587
Total non-current liabilities - derivative financial instruments	3,772	2,587
Total liabilities - derivative financial instruments	3,772	3,360

Refer note 27 for further discussion regarding derivative financial instruments.

Note 22
Non-current liabilities - deferred tax liabilities

	2012 $'000	2011 $'000
The balance comprises temporary differences attributable to:		
Goodwill	2,205	2,331
Investment properties	1,626	14,561
Other	82	121
Total non-current liabilities - deferred tax liabilities	3,913	17,013
Movements		
Opening balance at the beginning of the year	17,013	9,627
(Credited)/charged to the Statement of Comprehensive Income	(13,100)	7,386
Closing balance at the end of the year	3,913	17,013

Note 23

Contributed equity

(a) Contributed equity

	2012 $'000	2011 $'000
Opening balance at the beginning of the year	**26,335**	26,335
Capital contribution	**174,979**	-
Capital contribution transaction costs	**(78)**	-
Buy back of contributed equity	**(1,524)**	-
Closing balance at the end of the year	**199,712**	26,335

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.

(b) Number of units on issue

	2012 No. of units	2011 No. of units
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 Trust. Each stapled security entitles the holder to vote in accordance with the provisions of the Constitution and the *Corporations Act 2001*.

(c) Distribution reinvestment plan

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

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

Note 24

Reserves and accumulated losses

(a) Reserves

	2012 $'000	2011 $'000
Asset revaluation reserve	**42,738**	42,738
Security-based payments reserve	**13**	-
Total reserves	**42,751**	42,738
Movements:		
Asset revaluation reserve		
Opening balance at the beginning of the year	**42,738**	42,738
Closing balance at the end of the year	**42,738**	42,738
Security-based payments reserve		
Opening balance at the beginning of the year	**-**	-
Security-based payments expense	**13**	-
Closing balance at the end of the year	**13**	-

(b) Nature and purpose of reserves

Asset revaluation reserve

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

Security-based payment 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 35 for further details.

(c) Accumulated losses

	2012 $'000	2011 $'000
Opening balance at the beginning of the year	**(90,616)**	(61,325)
Net loss attributable to unitholders	**(29,153)**	(29,291)
Closing balance at the end of the year	**(119,769)**	(90,616)

Note 25

Distributions paid and payable

There were no dividends paid or payable by the Trust for the year ended 30 June 2012 (2011: nil).

Franking credits

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.

	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 26
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
Current assets	**153,089**	62,786
Total assets	**403,014**	369,019
Current liabilities	**51,724**	55,803
Total liabilities	**295,463**	434,834
Equity		
Contributed equity	**199,712**	26,335
Retained profits	**(92,161)**	(92,150)
Total equity	**107,551**	(65,815)
Net loss for the year	**(11)**	(25,472)
Total comprehensive loss for the year	**(11)**	(25,472)

(b) Investments in controlled entities

The parent entity has the following investments:

		Ownership Interest			
		2012	2011	2012	2011
Name of entity	**Principal activity**	%	%	$'000	$'000
Barrack Street Trust	Office property investment	**100.0**	100.0	**99**	99
DEXUS Holdings Pty Limited	Management services	**100.0**	100.0	**98,652**	98,652
DEXUS Projects Pty Limited	Industrial property development	**100.0**	100.0	**-**	-
DEXUS Office Projects Pty Limited	Office property development	**100.0**	-	**-**	-
DXO Subtrust No. 1	Holding Company	**100.0**	-	**-**	-
Total non-current assets - investments in controlled entities				98,751	98,751

(c) Guarantees

Refer to note 28 for details of guarantees entered into by the parent entity.

(d) Contingent liabilities

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

(e) Capital commitments

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

	2012 $'000	2011 $'000
Investment properties	**30,647**	3,024
Total capital commitments	**30,647**	3,024

Note 27

Financial risk management

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

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

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

(1) Capital risk management

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

The capital structure of the Trust consists of debt (see note 19), cash and cash equivalents, and equity attributable to unitholders. The capital structure is monitored and managed in consideration of a range of factors including:

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

The gearing ratio at 30 June 2012 was 108.4% (as detailed below).

Gearing ratio	2012 $'000	2011 $'000
Interest bearing liabilities [1]	402,409	506,133
Total tangible assets [2]	371,090	349,322
Gearing ratio [3]	**108.4%**	144.9%

1 Total interest bearing liabilities excludes deferred borrowing costs.
2 Total tangible assets comprise total assets less intangible assets, derivatives and deferred tax balances as reported internally to management.
3 Gearing is managed centrally for DXS. The gearing ratio as disclosed in the DEXUS Property Group Financial Statements 2012 is 27.8% (2011: 29.1%)(refer note 29 of the DXS Financial Statements).

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

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

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

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

Note 27

Financial risk management (continued)

(2) Financial risk management

The Trust's activities expose it to a variety of financial risks: credit risk, market risk (interest rate risk), and liquidity risk. Financial risk management is not managed at the individual trust level, but holistically as part of DXS. DXS's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Trust.

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

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

(a) Liquidity risk

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

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

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

Refinancing risk

A key liquidity risk is the Trust's ability to refinance its current debt facilities. As the Trust's debt facilities mature, they are usually required to be refinanced by extending the facility or replacing the facility with an alternative form of capital.

The refinancing of existing facilities may also result in margin price risk, whereby market conditions may result in an unfavourable change in credit margins on the refinanced facilities. The Trust's key risk management strategy for margin price risk on refinancing is to spread the maturities of debt facilities over different time periods to reduce the volume of facilities to be refinanced and the exposure to market conditions in any one period.

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

Note 27
Financial risk management (continued)

(2) Financial risk management (continued)

(a) Liquidity risk (continued)

	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	**19,823**	**-**	**-**	**-**	26,084	-	-	-
Payables	**11,065**	**-**	**-**	**-**	9,415	-	-	438,607
	8,758				16,669	-	-	(438,607)
Interest bearing loans with related parties and interest[1]	**27,163**	**27,163**	**81,488**	**429,572**	40,845	40,845	122,535	587,823
Derivative financial instruments								
Derivative assets					-	-	-	-
Derivative liabilities	**1,461**	**1,305**	**29**	**-**	1,178	846	867	-
Total net derivative financial instruments[2]	**(1,461)**	**(1,305)**	**(29)**	**-**	(1,178)	(846)	(867)	-

1 Includes estimated interest.

2 For interest rate swaps, only the net interest cash flows (not the notional principal) are included. For derivative assets and liabilities that have floating interest cash flows, future cash flows have been calculated using static interest and exchange rates prevailing at the end of each reporting period. Refer to note 21 (derivative financial instruments) for fair value of derivatives. Refer to note 28 (contingent liabilities) for financial guarantees.

Note 27

Financial risk management (continued)

(2) Financial risk management (continued)

(b) Market risk

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

(i) Interest rate risk

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

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

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

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

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

	June 2013	June 2014	June 2015	June 2016	> June 2017
	$'000	$'000	$'000	$'000	$'000
Interest rate swaps					
A$ hedged [1]	50,000	50,000	-	-	-
A$ hedge rate (%) [2]	6.75%	6.75%	0.00%	0.00%	0.00%

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

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

Sensitivity on interest expense

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

		2012	2011
		(+/-) $'000	(+/-) $'000
+ / - 0.50% (50 basis points)	A$	**1,762**	2,281

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

Note 27

Financial risk management (continued)

(2) Financial risk management (continued)

(b) Market risk (continued)

(i) Interest rate risk (continued)

Sensitivity on fair value of interest rate swaps

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

		2012 **(+/-) $'000**	2011 (+/-) $'000
+ / - 0.50% (50 basis points)	A$	**491**	684

(c) Credit risk

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

The Trust manages this risk by:

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

A minimum S&P rating of A– (or Moody's or Fitch equivalent) is required to become or remain an approved counterparty. As at 30 June 2012, the lowest rating of counterparties that the Trust 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 Trust's exposure to any one counterparty. As a result, there is no significant concentration of credit risk for financial instruments.

The maximum exposure to credit risk at 30 June 2012 and 30 June 2011 is 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.

Note 27

Financial risk management (continued)

(2) Financial risk management (continued)

(c) Credit risk (continued)

The ageing analysis of loans and receivables net of provisions at 30 June 2012 is ($'000): 14,604 (0-30 days), 1,621 (31-60 days), 1,537 (61-90 days), 2,061 (91+ days). The ageing analysis of loans and receivables net of provisions at 30 June 2011 is ($'000): 23,212 (0-30 days), 1,809 (31-60 days), 533 (61-90 days), 530 (91+ days). Amounts over 31 days are past due, however, no receivables are impaired.

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

(d) Fair value of financial instruments

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

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

	2012 Carrying amount [1] $'000	**2012 Fair value [2] $'000**	2011 Carrying amount [1] $'000	2011 Fair value [2] $'000
Financial assets				
Cash and cash equivalents	**13,082**	**13,082**	13,229	13,229
Receivables	**19,823**	**19,823**	26,084	26,084
Total financial assets	**32,905**	**32,905**	39,313	39,313
Financial liabilities				
Trade payables	**11,065**	**11,065**	9,415	9,415
Derivative liabilities	**3,772**	**3,772**	3,360	3,360
Non-interest bearing loans with entities within DXS	**48,932**	**48,932**	48,932	48,932
Interest bearing liabilities				
Interest bearing loans with related parties	**402,409**	**402,409**	506,133	506,133
Total financial liabilities	**466,178**	**466,178**	567,840	567,840

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

The fair value of fixed rate interest bearing liabilities have been determined by discounting the expected future cash flows by the relevant market rates. The discount rates applied range from 2.97% to 4.44% for A$. Refer note 1(v) for fair value methodology for financial assets and liabilities.

Note 27

Financial risk management (continued)

(2) Financial risk management (continued)

(d) Fair value of financial instruments (continued)

Determination of fair value

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

Level 1: the fair value is calculated using quoted prices in active markets.
Level 2: the fair value is determined using inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
Level 3: the fair value is estimated using inputs for the asset or liability that are not based on observable data.

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

	Level 1 $'000	Level 2 $'000	Level 3 $'000	2012 $'000
Financial liabilities				
Derivative Liabilities				
Interest rate derivatives	-	3,772	-	3,772

	Level 1 $'000	Level 2 $'000	Level 3 $'000	2011 $'000
Financial liabilities				
Derivative Liabilities				
Interest rate derivatives	-	3,360	-	3,360

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

Note 28

Contingent liabilities

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

	2012 $'000	2011 $'000
Bank guarantees by the Trust in respect of variations and other financial risks associated with the development of:		
Boundary Road, Laverton VIC - Stage 2	368	-
Contingent liabilities in respect of developments	**368**	-

The Trust together with DDF, DIT and DOT 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 Trust and other entities within DXS. The guarantees have been given in support of debt outstanding and drawn against these facilities, and may be called upon in the event that a borrowing entity has not complied with certain requirements such as failure to pay interest or repay a borrowing, whichever is earlier. During the period no guarantees were called.

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

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

Note 29
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	**30,647**	3,024
Inventories	**10,126**	13,253
Total capital commitments	**40,773**	16,277

(b) Lease payable commitments

The future minimum lease payments payable are:

	$'000	$'000
Within one year	**3,008**	2,732
Later than one year but not later than five years	**3,918**	6,564
Total lease payable commitments	**6,926**	9,296

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

The Trust has a commitment for ground rent payable in respect of a leasehold property included in investment properties and a commitment for its Head Office premise at 343 George Street Sydney.

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

(c) Lease receivable commitments

The future minimum lease payments receivable by the Trust are:

	$'000	$'000
Within one year	**11,854**	5,635
Later than one year but not later than five years	**50,620**	25,502
Later than five years	**79,209**	47,252
Total lease receivable commitments	**141,683**	78,389

Note 30

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, 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 DEXUS Wholesale Property Fund (DWPF).

Responsible Entity fees

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

Related party transactions

Responsible entity fees in relation to DXS assets are on a cost recovery basis. DXPS has a contractual agreement to pay rent on one component of an investment property owned by DEXUS Office Trust (DOT). The agreement is conducted on normal commercial terms and conditions. Agreements with third party funds are conducted under normal commercial terms and conditions.

DEXUS Funds Management Limited and its related entities

There were a number of transactions and balances between the Trust and the Responsible Entity and its related entities as detailed below:

	2012	2011
	$	$
Transactions with DEXUS Diversified Trust		
Responsible Entity fee revenue	**5,487,594**	5,146,272
Property management fee revenue	**4,330,685**	3,953,458
Recovery of administration expenses	**3,915,031**	4,136,570
Aggregate amount receivable at the end of each reporting period (included above)	**1,079,398**	2,190,062
Transactions with DEXUS Industrial Trust		
Responsible Entity fee revenue	**4,025,546**	4,094,482
Property management fee revenue	**2,496,534**	2,467,122
Recovery of administration expenses	**3,739,108**	3,000,491
Aggregate amount receivable at the end of each reporting period (included above)	**581,655**	1,025,033
Transactions with DEXUS Office Trust		
Responsible Entity fee revenue	**9,860,933**	9,361,017
Property management fee revenue	**8,210,494**	6,331,551
Recovery of administration expenses	**6,099,606**	4,497,928
Aggregate amount receivable at the end of each reporting period (included above)	**1,796,935**	2,448,377
Rent paid to Southgate Trust	**3,150,041**	3,106,752

Note 30

Related parties (continued)

	2012 $	2011 $
Transactions with DEXUS Finance Pty Limited		
Management fee revenue	**888,297**	783,499
Recovery of administration expenses	**84,804**	640,983
Aggregate amount receivable at the end of each reporting period (included above)	**223,092**	213,690
Interest bearing loan payable at the end of each reporting period	**402,409,437**	506,133,889
Transactions with DEXUS Wholesale Property Fund		
Responsible Entity fee revenue	**19,003,659**	16,483,106
Property management fee revenue	**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)	**2,519,300**	2,539,728
Transactions with the Syndicate		
Responsible Entity fee revenue	**-**	439,709
Property management fee revenue	**-**	499,173
Performance Fee - Gordon Syndicate	**-**	1,669,625
Recovery of administration expenses	**-**	102,585
Bent Street Trust		
Property management fee revenue	**2,112,131**	1,403,196
Recovery of administration expenses	**796,137**	67,692
Aggregate amount receivable at the end of each reporting period (included above)	**138,206**	-
Transactions with Kent Street Joint Venture		
Responsible Entity fee revenue	**547,500**	529,500
Property management fee revenue	**436,201**	475,996
Recovery of administration expenses	**301,674**	222,800
Aggregate amount receivable at the end of each reporting period (included above)	**314,952**	210,716
Transactions with DEXUS US Management LLC		
Recovery of administration expenses	**2,575,560**	2,677,193
Aggregate amount receivable at the end of each reporting period (included above)	**-**	89,538

Entities within DXS

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

	2012 $	2011 $
Interest expense	**35,583,270**	37,583,195
Interest bearing loans advanced to entities within DXS	**336,858,348**	104,734,059
Interest bearing loans advanced from entities within DXS	**196,480,439**	186,964,476

Note 30

Related parties (continued)

Directors

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

C T Beare, BSc, BE (Hons), MBA, PhD, FAICD[1,4,5]
E A Alexander, AM, BComm, FCA, FAICD, FCPA[1,2,6]
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 and 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 Trust for the years ended 30 June 2012 and 30 June 2011.

Note 30

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 Trust 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

Note 30

Related parties (continued)

Remuneration report

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*.

Remuneration Report (continued)

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	✓	✓

Remuneration Report (continued)

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

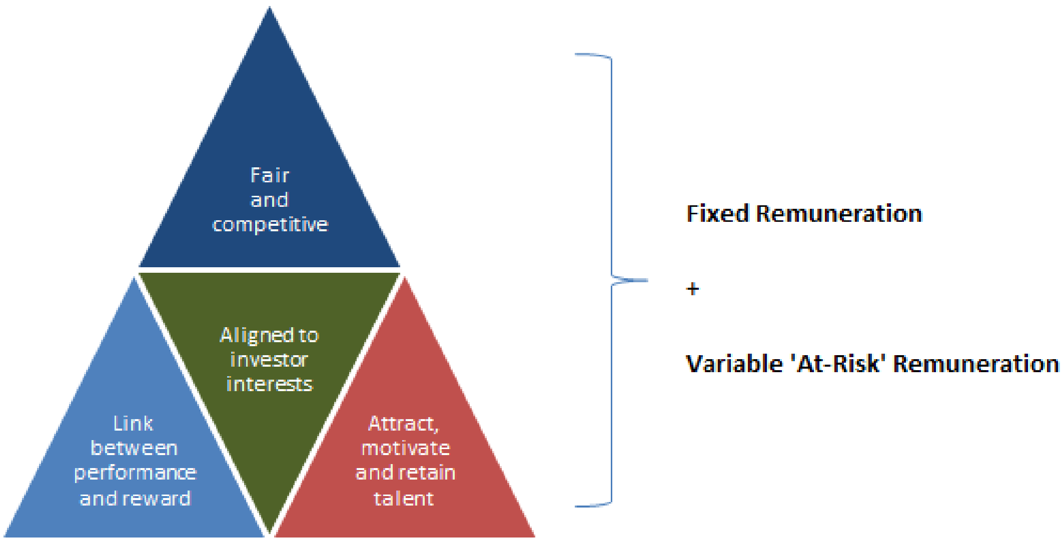
Remuneration Report (continued)

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.

Remuneration Report (continued)

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.

Remuneration Report (continued)

4. Executive Remuneration (continued)

<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>Target
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">Target
100% (CEO & CFO)
70% (other key Execs)

Outperformance
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

and

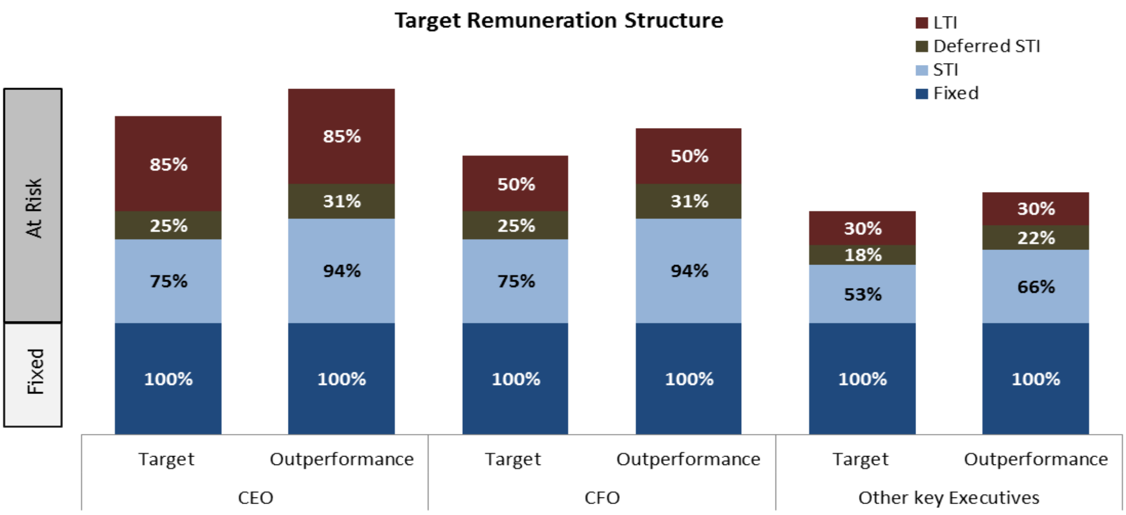
1.1 to 1.5 times award for outperformance of 3 year benchmark investment returns</td><td>Phantom composite equity (DXS and Unlisted), vesting over 3 years

Outperformance multiplier incentive available</td><td>Target
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>Maximum Opportunity at grant:
85% (CEO)
50% (CFO)
30% (other key Execs)</td></tr>
</table>

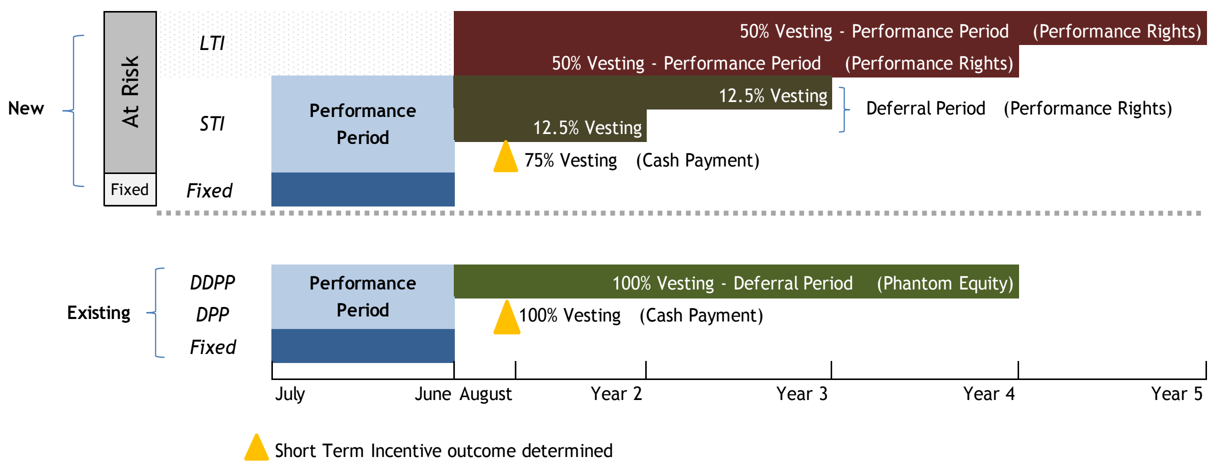
Remuneration Report (continued)

4 Executive Remuneration (continued)

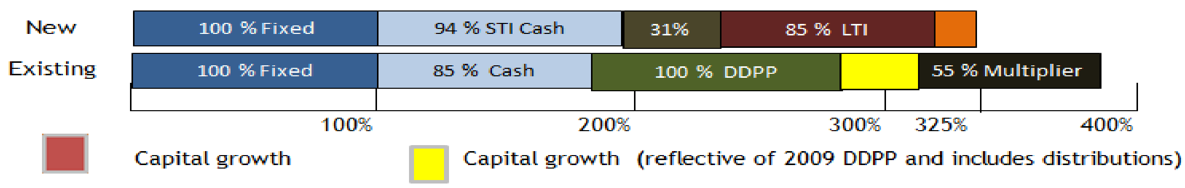
Target remuneration mix for key Executives (expressed as a percentage of fixed remuneration) is shown below:



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.



Remuneration Report (continued)

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)

Remuneration Report (continued)

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>

Remuneration Report (continued)

4 Executive Remuneration (continued)

Frequently Asked Questions (continued)

STI Plan (continued)

<table>
<tr><td>How is the STI Plan aligned to security holder interests?</td><td>The STI Plan is aligned to security holder interests in the following ways:
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</td></tr>
<tr><td>When is the STI paid?</td><td>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.</td></tr>
<tr><td>How is the allocation of deferred STI determined?</td><td>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.</td></tr>
<tr><td>How are distributions treated during the deferral period?</td><td>Executives will be entitled to the benefit of distributions paid on the underlying DXS securities prior to vesting through the issue of additional performance rights.</td></tr>
</table>

LTI Plan

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

Remuneration Report (continued)

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

Remuneration Report (continued)

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.

Remuneration Report (continued)

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.

Remuneration Report (continued)

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.

Remuneration Report (continued)

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.

Remuneration Report (continued)

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.

Remuneration Report (continued)

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

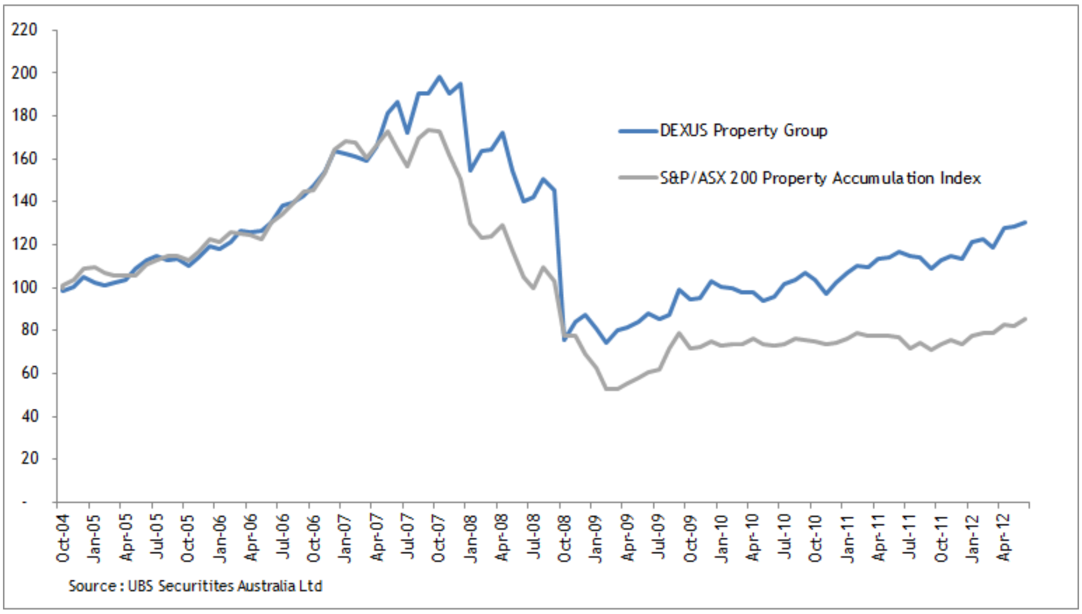
The Board previously considered whether the construction of the Composite Total Return should reflect the actual value of the unlisted funds and mandates ($5.6 billion as at 30 June 2012), and DEXUS Property Group's own funds under management ($6.9 billion as at 30 June 2012).

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.

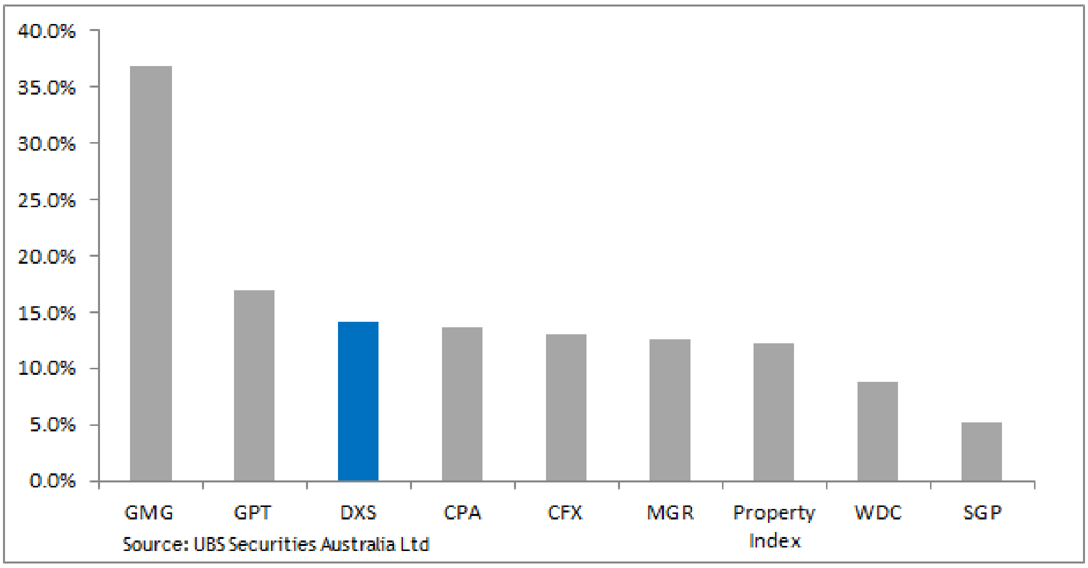
Remuneration Report (continued)

6 Performance Pay (continued)

Total Return of DXS Securities



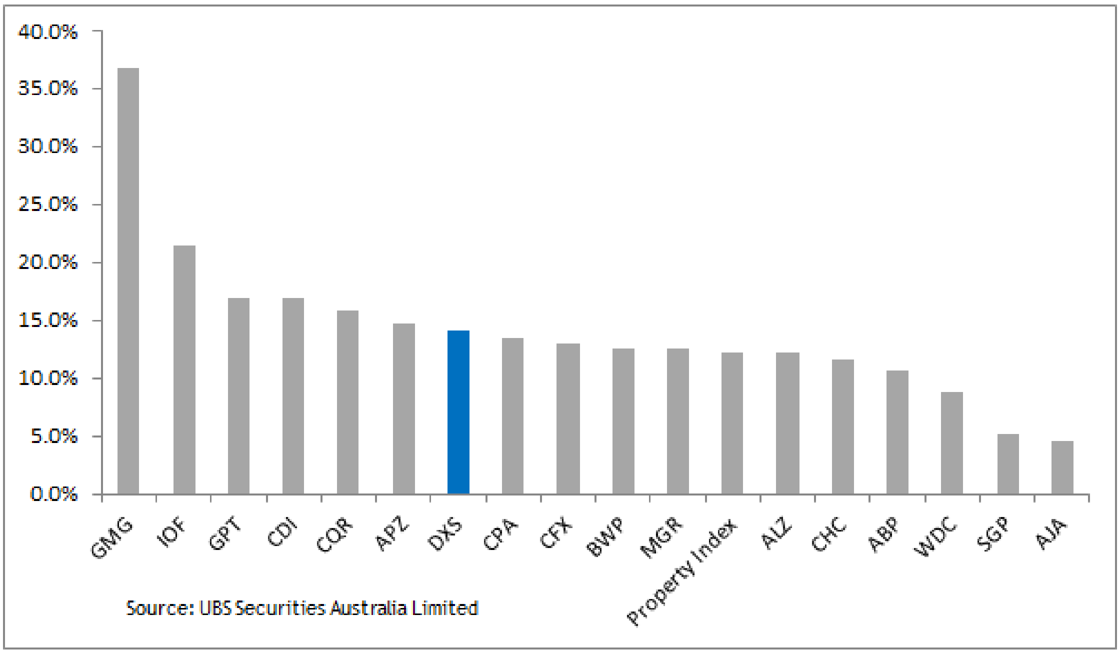
The chart below illustrates the DXS's performance relative to A-REITs above $2 billion market capitalisation over the past 3 financial years.



Remuneration Report (continued)

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.

Remuneration Report (continued)

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.

Remuneration Report (continued)

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.

Remuneration Report (continued)

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

Remuneration Report (continued)

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).

Remuneration Report (continued)

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.

Remuneration Report (continued)

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.

Remuneration Report (continued)

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.

Remuneration Report (continued)

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

Note 31

Events occurring after the 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 14 August 2012, the Trust exchanged contracts for the acquisition of an office tower at 50 Carrington Street, Sydney NSW for $58.5 million.

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

Note 32

Operating segments

The Chief Operating Decision Maker (CODM) has been identified as the Board of Directors as they are responsible for the strategic decision making within the Group. DXS management has identified DXS's operating segments based on the sectors analysed within the management reports reviewed by the CODM in order to monitor performance across 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 segments has been included in 'all other segments' in the operating segment information.

Consistent with how the CODM manages the business, the operating segments within DXS are reviewed on a consolidated basis and are not monitored at an individual trust level. The results of the individual trusts are not limited to any one of the segments described above.

Disclosures concerning DXS's operating segments as well as the operating segments' key financial information provided to the CODM, are presented in the DEXUS Property Group Annual Report (refer note 34 in the DEXUS Property Group Financial Statements).

Note 33

Reconciliation of net loss to net cash inflow/(outflow) from operating activities

	2012 $'000	2011 $'000
Net loss	**(29,153)**	(29,291)
Capitalised interest	**(15,763)**	(18,676)
Depreciation and amortisation	**2,483**	2,417
Impairment of goodwill	**625**	194
Net gain on sale of investment properties	**-**	(218)
Lease incentives	**(2,046)**	-
Net fair value loss of investments properties	**27,318**	19,079
Change in operating assets and liabilities		
Decrease/(increase) in receivables	**6,261**	(4,720)
Decrease/(increase) in inventories	**13,114**	(54,190)
Increase in other current assets	**(298)**	(105)
Decrease in current tax assets	**1,015**	2,532
Increase in deferred tax assets	**(8,677)**	(11,804)
Increase in other non-current assets	**-**	(2,378)
Increase in payables	**2,721**	1,129
Increase in current liabilities	**446**	5,489
Increase in other non-current liabilities	**35,488**	34,731
(Decrease)/increase in deferred tax liabilities	**(13,100)**	7,386
Net cash inflow/(outflow) from operating activities	**20,434**	(48,425)

Note 34

Earnings per unit

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

	2012 cents	2011 cents
Basic earnings per unit on loss attributable to unitholders of the parent entity	**(0.00)**	(0.53)
Diluted earnings per unit on loss attributable to unitholders of the parent entity	**(0.00)**	(0.53)

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

	2012 $'000	2011 $'000
Net loss for the year of the parent entity	**(11)**	(25,472)
Net loss attributable to the unitholders of the Trust used in calculating basic and diluted earnings per unit	**(11)**	(25,472)

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

	2012 units	2011 units
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 35

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 for DEXUS Operations Trust (the Trust) declare that the Financial Statements and notes set out on pages 8 to 79:

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

(ii) give a true and fair view of the consolidated entity's financial position as at 30 June 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 Trust and its consolidated entities will be able to pay their debts as and when they become due and payable; and

(c) the Trust has operated in accordance with the provisions of the Constitution dated 11 August 2004 (as amended) during the year ended 30 June 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 unit holders of DEXUS Operations Trust

Report on the financial report

We have audited the accompanying financial report of DEXUS Operations Trust (the Trust), which comprises the statement of financial position as at 30 June 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 the DEXUS Operations Trust Group (the consolidated entity). The consolidated entity comprises the Trust and the entities it controlled at the year-end or from time to time during the financial year.

Directors' responsibility for the financial report

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

Auditor's responsibility

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

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

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

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

Independence

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

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

Auditor's opinion

In our opinion:

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

   (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 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.

PricewaterhouseCoopers

PricewaterhouseCoopers

E A Barron
Partner

Sydney
15 August 2012

DIRECTORY

DEXUS Diversified Trust
ARSN 089 324 541

DEXUS Industrial Trust
ARSN 090 879 137

DEXUS Office Trust
ARSN 090 768 531

DEXUS Operations Trust
ARSN 110 521 223

Responsible Entity

DEXUS Funds Management Limited
ABN 24 060 920 783

Directors of the Responsible Entity

Christopher T Beare, Chair
Elizabeth A Alexander AM
Barry R Brownjohn
John C Conde AO
Tonianne Dwyer
Stewart F Ewen OAM
W Richard Sheppard
Darren J Steinberg, CEO
Peter B St George

Secretaries of the Responsible Entity

Tanya L Cox
John C Easy

Registered office of Responsible Entity

Level 9, 343 George Street
Sydney NSW 2000

PO Box R1822
Royal Exchange
Sydney NSW 1225

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

www.dexus.com

DEXUS US office

Suite 110, 4000 Westerly Place
Newport Beach CA 92660

Phone: +1 949 724 8886
Fax: +1 949 724 8887
Email: ir@dexus.com
www.dexus.com/us

Auditors

PricewaterhouseCoopers
Chartered Accountants
201 Sussex Street
Sydney NSW 2000

Investor enquiries

Registry Infoline: 1800 819 675
or +61 2 8280 7126

Investor Relations: +61 2 9017 1330
Email: ir@dexus.com

www.dexus.com

Security registry

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

Locked Bag A14
Sydney South NSW 1235

Registry Infoline: 1800 819 675
or +61 2 8280 7126
Fax: +61 2 9287 0303
Email: registrars@linkmarketservices.com.au
Website: www.linkmarketservices.com.au

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

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

Australian Securities Exchange

ASX code: DXS

2012 DEXUS COMBINED FINANCIAL STATEMENTS

DEXUS

PROPERTY GROUP

www.dexus.com