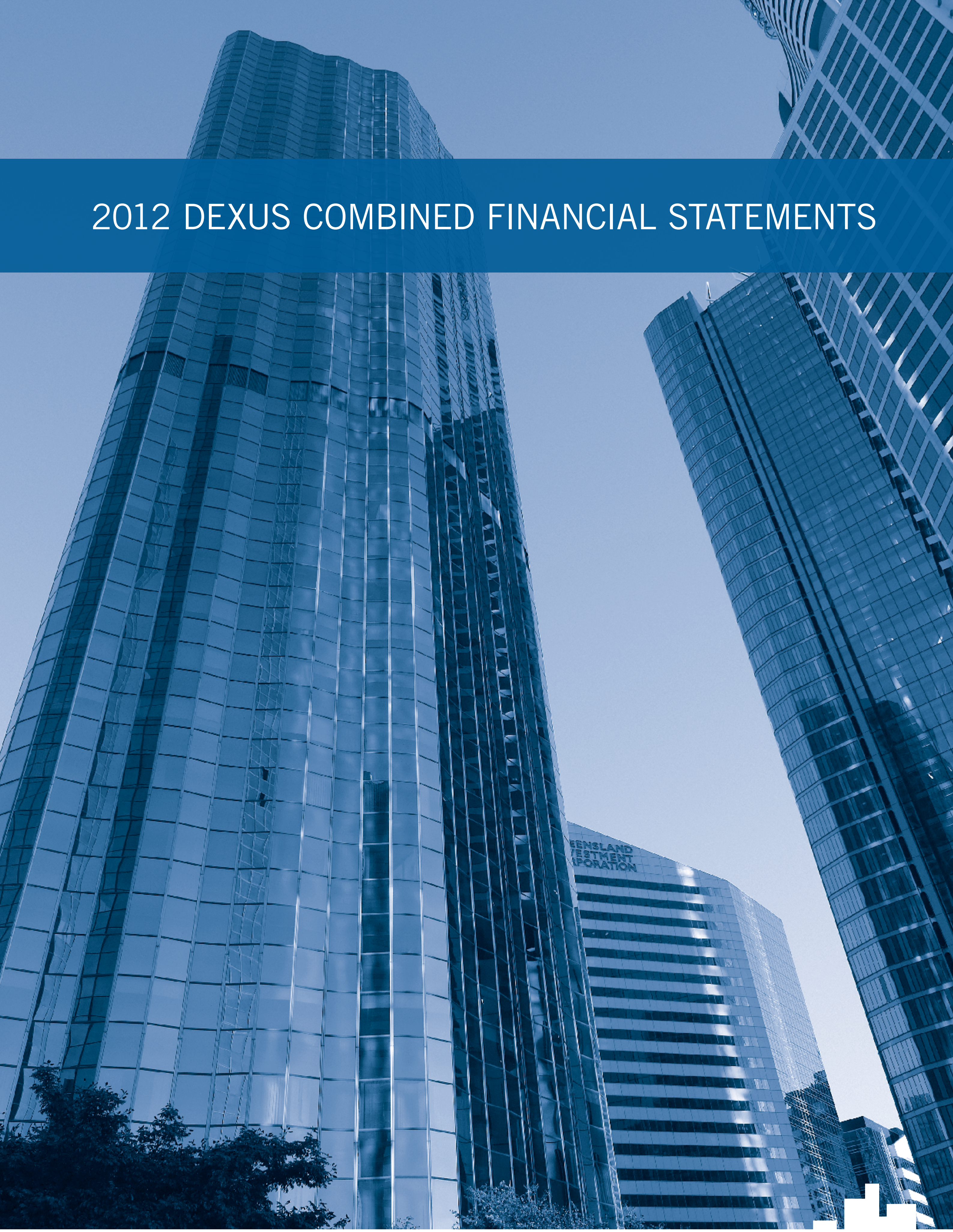
# 2012 DEXUS COMBINED FINANCIAL STATEMENTS



DEXUS
PROPERTY GROUP

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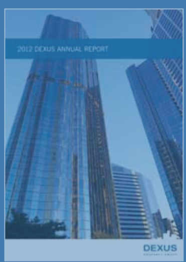
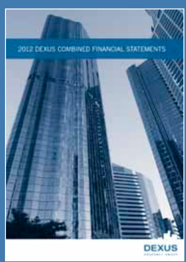
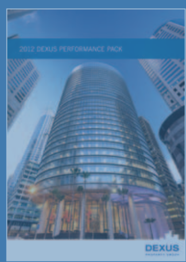

## 2012 Annual Reporting suite

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

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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

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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** | **Darren J Steinberg** |
| Chair | Chief Executive Officer |
| 15 August 2012 | 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

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*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.*

## Consolidated Statement of Financial Position

As at 30 June 2012

| | 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<br>$'000 | 2011<br>$'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<br>$'000 | 2011<br>$'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<br>$'000 | 2011<br>$'000 |
|---|---|---|
| 30 June (payable 31 August 2012) | 10,000 | 12,360 |
| **Total distributions** | **10,000** | 12,360 |

### (b) Distribution rate

| | 2012<br>Cents per unit | 2011<br>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<br>$'000 | 2011<br>$'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** | **Expiring between one and two years** | **Expiring between two and five years** | **Expiring after five years** | Expiring within one year | Expiring between one and two years | Expiring between two and five years | Expiring after five years |
| | **$'000** | **$'000** | **$'000** | **$'000** | $'000 | $'000 | $'000 | $'000 |
| Receivables | **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<br>(+/-) $'000 | 2011<br>(+/-) $'000 |
|---|---|---|---|
| +/- 0.50% (50 basis points) | A$ | (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<br>(+/-) $'000 | 2011<br>(+/-) $'000 |
|---|---|---|---|
| +/- 0.50% (50 basis points) | A$ | 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** | **2012** | 2011 | 2011 |
|---|---|---|---|---|
| | **Carrying amount**[1] | **Fair value**[2] | Carrying amount1 | Fair value2 |
| | **$'000** | **$'000** | $'000 | $'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 |

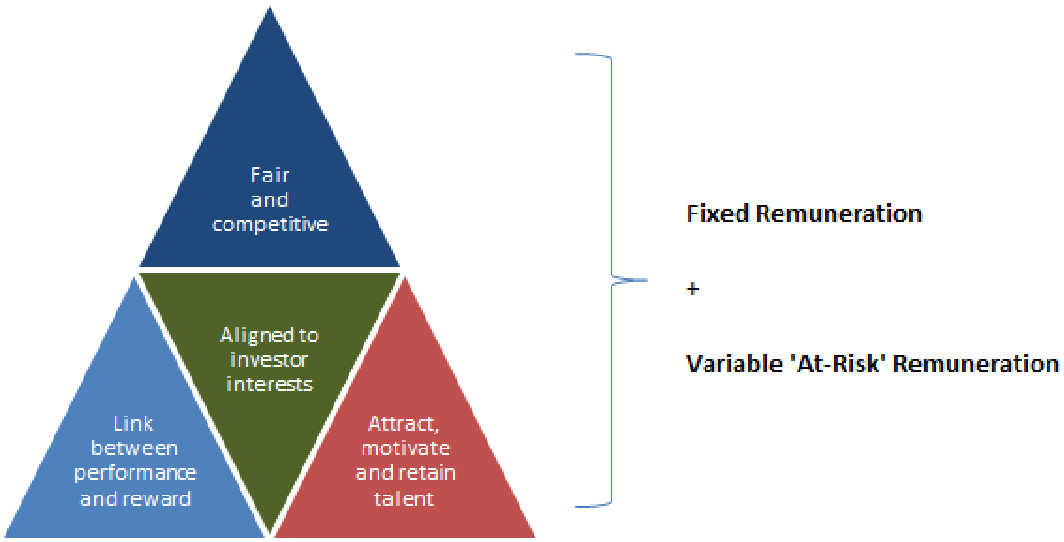
**Remuneration Report** (continued)

## 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)

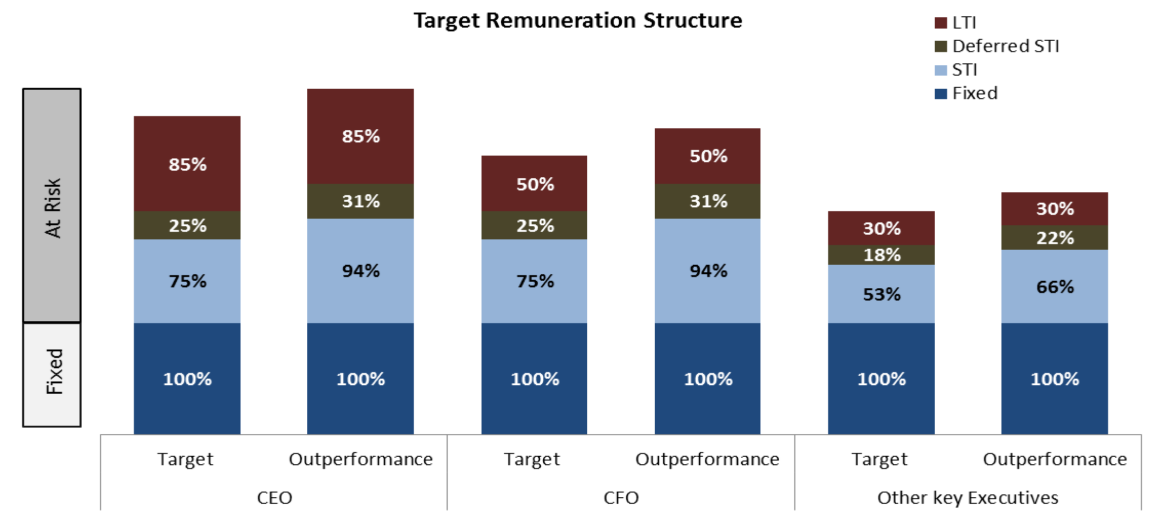
**4. Executive Remuneration** (continued)

<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)<br><br>DEXUS Performance Payment<br>*(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><br>85% (CEO )<br>75% (CFO & CIO)<br>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<br><br>To achieve target STI, Executives must meet pre-agreed business and individual KPIs set at stretch<br><br>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><br>100% (CEO & CFO)<br>70% (other key Execs)<br><br><u>Outperformance</u><br>up to 125% (CEO & CFO)<br>up to 87.5% (other key Execs</td></tr>
<tr><td>STI (deferred)<br><br>DEXUS Deferred Performance Payment<br>*(DDPP)*</td><td>0 to 100% of target remuneration structure<br><br><u>and</u><br><br>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<br><br>Outperformance multiplier incentive available</td><td><u>Target</u><br>100% (CEO )<br>75% (CFO & CIO)<br>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><br>at grant:<br>85% (CEO)<br>50% (CFO)<br>30% (other key Execs)</td></tr>
</table>

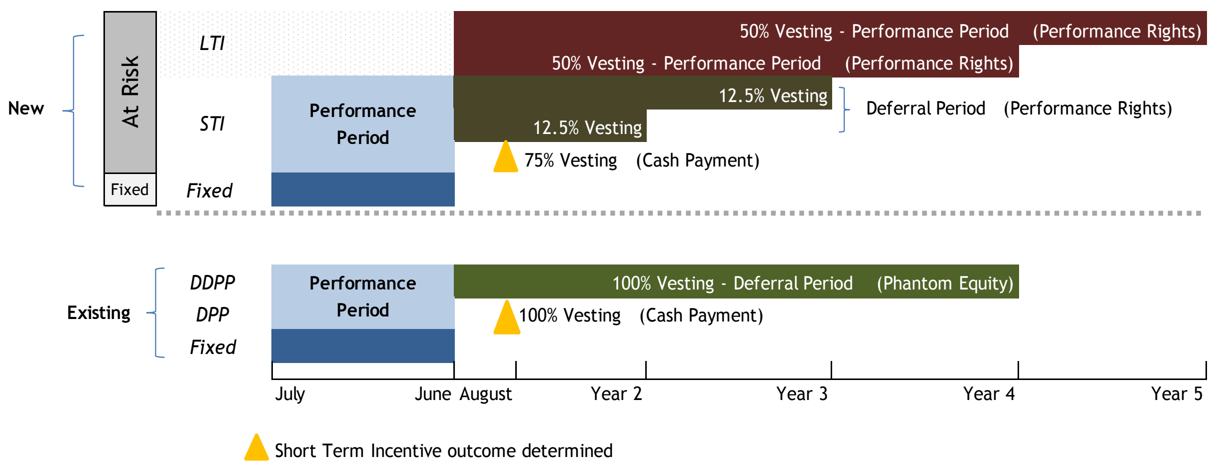
## Remuneration Report (continued)

### 4. Executive Remuneration (continued)

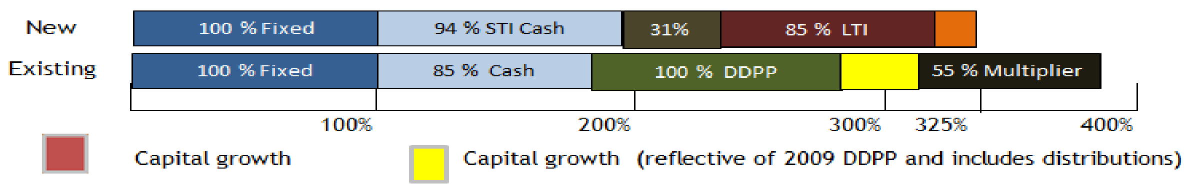
Target remuneration mix for key Executives (expressed as a percentage of fixed remuneration) is shown below:




### 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:<br>• CEO – 35% fixed, 65% at-risk<br>• CFO – 40% fixed, 60% at-risk<br>• Other key Executives – 50% fixed, 50% at-risk<br><br>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:<br>• reflects market practice<br>• links individual performance to STI outcomes<br>• is closely aligned to security holder interests through LTI performance hurdles<br>• 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:<br>• Publicly available remuneration reports of A-REIT competitors<br>• Publicly available remuneration reports from ASX listed companies with similar market capitalisation and complexity<br>• Advice on remuneration levels of privately held property, funds management, and private equity owned companies<br>• Salary survey data from Hart Consulting, Avdiev, Aon Hewitt, FIRG and others as appropriate<br>• Advice from external advisors appointed by the Committee, Egan Associates and Ernst & Young<br><br>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:<br><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><br>Aggregate performance below predetermined thresholds would result in no award being made under the STI Plan.<br><br>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.<br><br>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.<br><br>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.<br><br>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:<br>• as an immediate reward opportunity to attract, motivate and retain talented Executives who can influence the future performance of the Group<br>• through a 25% mandatory STI deferral for Executives<br>  ○ ensuring that Executives have a continuing interest in the outperformance of DXS securities<br>  ○ 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<br>(% 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.<br>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.<br>• 25% measured on the basis of the Group's performance against a predetermined Funds From Operations (FFO) per security hurdle rate<br>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.<br>• 25% measured on the basis of predetermined Return on Equity performance hurdles.<br>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<br>• 50% vesting for performance at the median of comparator group;<br>• Straight line vesting for performance between the 50th and 75th percentile; and<br>• 100% vesting for performance at or above the 75th percentile.<br>• Proposed comparator group:<br>  ○ Listed: CPA, IOF, GPT, CFX, WRT, DXS<br>  ○ Unlisted: AMP Office, GWOF, APPF, Investa, ISPT (Diversified)<br>FFO per security & Return on Equity<br>• 50% vesting for Target performance;<br>• Straight line vesting for performance between Target and Stretch; and<br>• 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:<br>• as a reward to Executives when the Group's overall performance exceeds specific predetermined earnings and security holder return benchmarks<br>• as a reward mechanism which encourages Executive retention and at the same time allows for future clawback of LTI grants for financial underperformance, deliberate misrepresentation or fraud<br>• aligning the financial interests of security holders with Executives through exposure to DXS securities and the Group's performance<br>• 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.<br>Executives are prevented from hedging their exposure to unvested DXS securities or trading in DXS securities or related products.<br>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)<br>No entitlement to severance payment<br>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)<br>Entitlement to severance payment of 100% of Fixed Remuneration<br>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)<br>Entitlement to severance payment of 75% of Fixed Remuneration<br>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%<br>FFO per security growth | 1 million<br>sqm of space in total leased | $1.6bn<br>Total transactions across the Group | 27.2%<br>Gearing at 30 June 2012 | Top quartile investment performance for DWPF and STC |
| $10m<br>in cost savings secured | 5.4%<br>Office like-for-like NOI growth | US$770m<br>US central portfolio sold | 70-80%<br>FFO payout ratio from FY13 | $420m+<br>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

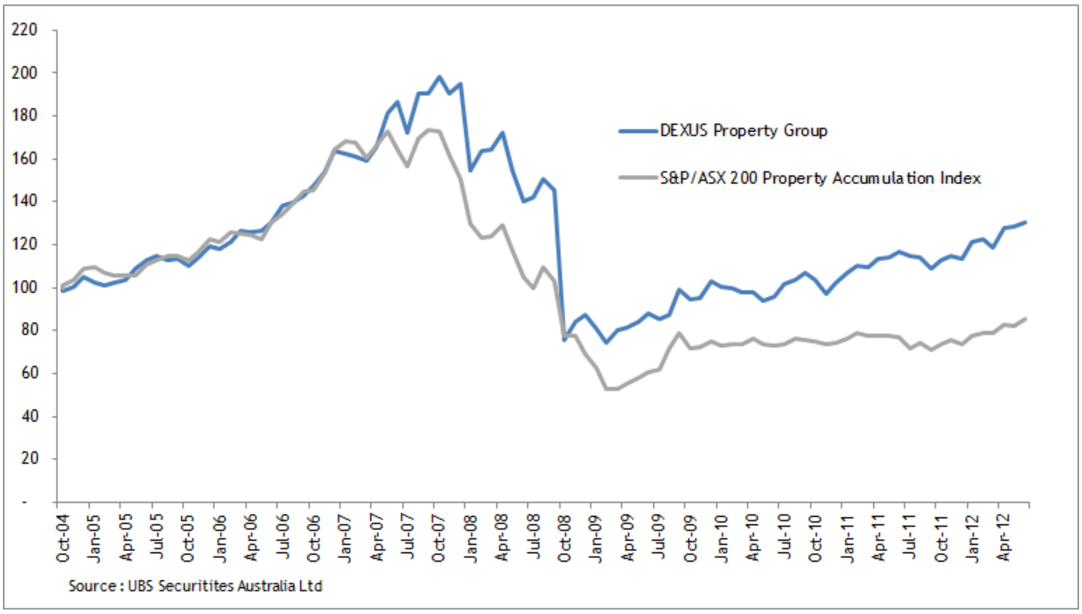
The Board previously considered whether the construction of the Composite Total Return should reflect the actual value of the unlisted funds and mandates ($5.6 billion as at 30 June 2012), and DEXUS Property Group's own funds under management ($6.9 billion as at 30 June 2012).

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.

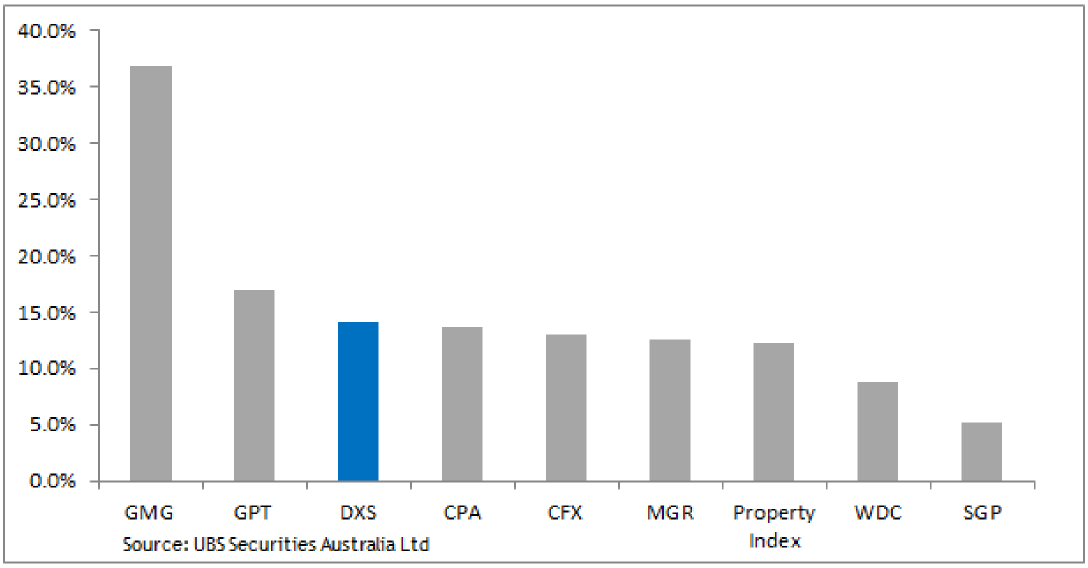
## Remuneration Report (continued)

### 6. Performance Pay (continued)

Total Return of DXS Securities



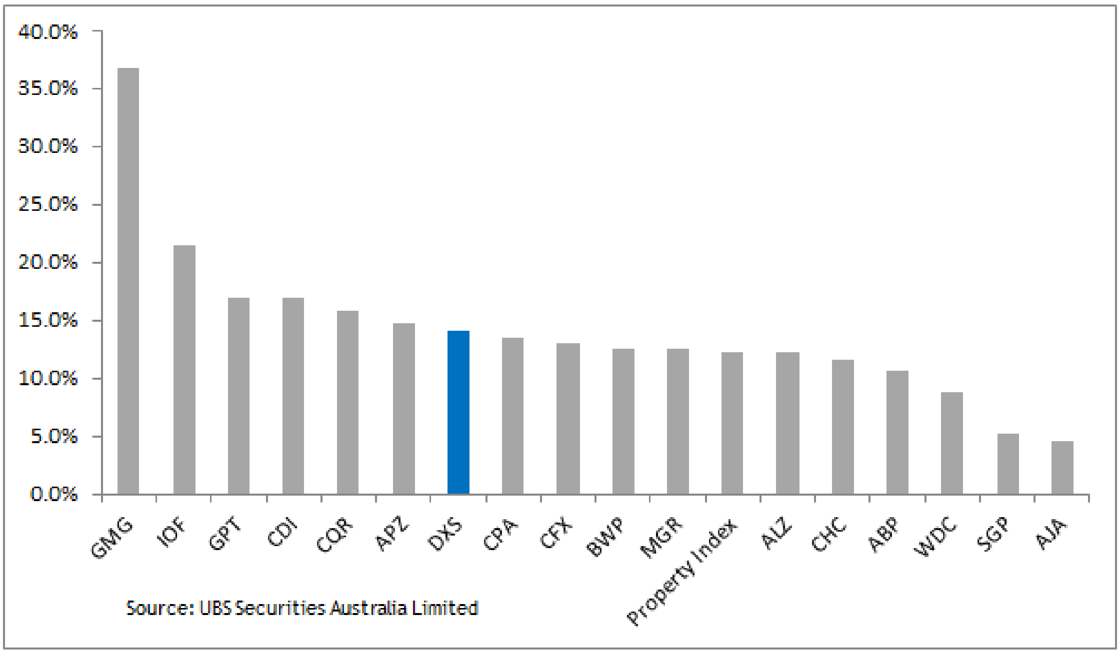

The chart below illustrates the DXS's performance relative to A-REITs above $2 billion market capitalisation over the past 3 financial years.



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

| Non-Executive Director | Year | Base Fee | Committee Fees | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | 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*.

*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

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*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.*

| | 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<br>$ | 2011<br>$ |
|---|---|---|
| **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<br>$'000 | 2011<br>$'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<br>$'000 | 2011<br>$'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 $'000 | 2011 $'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 $'000 | 2011 $'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** | 2011 |
|---|---|---|
| | **$'000** | $'000 |
| NZ$ 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** | 2011 |
|---|---|---|---|
| | | **(+/-) $'000** | (+/-) $'000 |
| + 10.6 cents (8.3%) (2011: 10.9 cents) | NZ$ (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** | **Level 2** | **Level 3** | **2012** |
|---|---|---|---|---|
| | **$'000** | **$'000** | **$'000** | **$'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 | Level 2 | Level 3 | 2011 |
|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'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 |

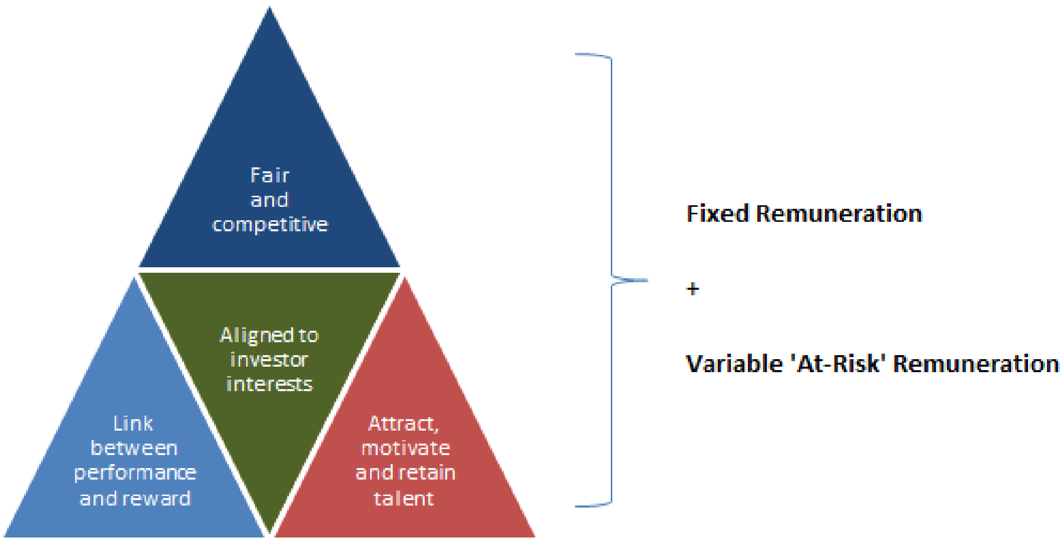
**Remuneration Report** (continued)

## 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)

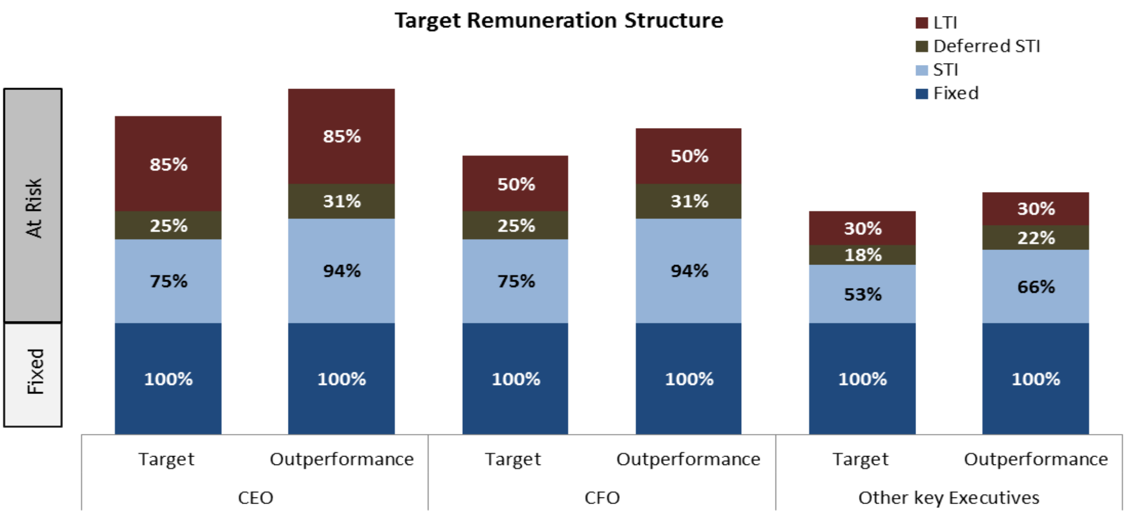
**4. Executive Remuneration** (continued)

<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)<br><br>DEXUS Performance Payment<br>*(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><br>85% (CEO )<br>75% (CFO & CIO)<br>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<br><br>To achieve target STI, Executives must meet pre-agreed business and individual KPIs set at stretch<br><br>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><br>100% (CEO & CFO)<br>70% (other key Execs)<br><br><u>Outperformance</u><br>up to 125% (CEO & CFO)<br>up to 87.5% (other key Execs</td></tr>
<tr><td>STI (deferred)<br><br>DEXUS Deferred Performance Payment<br>*(DDPP)*</td><td>0 to 100% of target remuneration structure<br><br><u>and</u><br><br>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<br><br>Outperformance multiplier incentive available</td><td><u>Target</u><br>100% (CEO )<br>75% (CFO & CIO)<br>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><br>at grant:<br>85% (CEO)<br>50% (CFO)<br>30% (other key Execs)</td></tr>
</table>

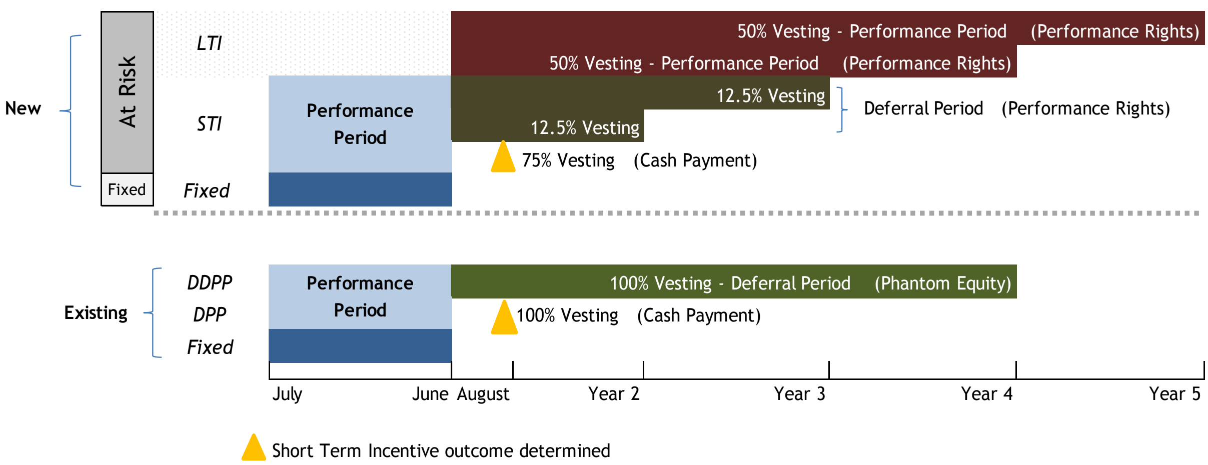
## Remuneration Report (continued)

### 4. Executive Remuneration (continued)

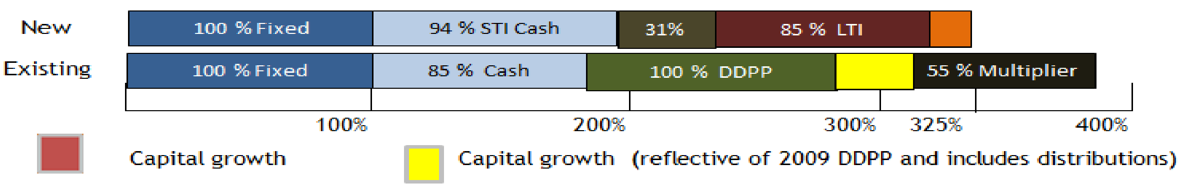
Target remuneration mix for key Executives (expressed as a percentage of fixed remuneration) is shown below:




### 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:<br>• CEO – 35% fixed, 65% at-risk<br>• CFO – 40% fixed, 60% at-risk<br>• Other key Executives – 50% fixed, 50% at-risk<br><br>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:<br>• reflects market practice<br>• links individual performance to STI outcomes<br>• is closely aligned to security holder interests through LTI performance hurdles<br>• 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:<br>• Publicly available remuneration reports of A-REIT competitors<br>• Publicly available remuneration reports from ASX listed companies with similar market capitalisation and complexity<br>• Advice on remuneration levels of privately held property, funds management, and private equity owned companies<br>• Salary survey data from Hart Consulting, Avdiev, Aon Hewitt, FIRG and others as appropriate<br>• Advice from external advisors appointed by the Committee, Egan Associates and Ernst & Young<br><br>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.<br><br>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.<br><br>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.<br><br>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.<br><br>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:<br>• as an immediate reward opportunity to attract, motivate and retain talented Executives who can influence the future performance of the Group<br>• through a 25% mandatory STI deferral for Executives<br>  ○ ensuring that Executives have a continuing interest in the outperformance of DXS securities<br>  ○ 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: |
| 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. |

| | LTI Grant (% of Fixed Remuneration) |
|---|---|
| CEO | 85% |
| CFO | 50% |
| Other Key Execs | 30% |

**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.<br>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.<br>• 25% measured on the basis of the Group's performance against a predetermined Funds From Operations (FFO) per security hurdle rate<br>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.<br>• 25% measured on the basis of predetermined Return on Equity performance hurdles.<br>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<br>• 50% vesting for performance at the median of comparator group;<br>• Straight line vesting for performance between the 50th and 75th percentile; and<br>• 100% vesting for performance at or above the 75th percentile.<br>• Proposed comparator group:<br>  ○ Listed: CPA, IOF, GPT, CFX, WRT, DXS<br>  ○ Unlisted: AMP Office, GWOF, APPF, Investa, ISPT (Diversified)<br>FFO per security & Return on Equity<br>• 50% vesting for Target performance;<br>• Straight line vesting for performance between Target and Stretch; and<br>• 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:<br>• as a reward to Executives when the Group's overall performance exceeds specific predetermined earnings and security holder return benchmarks<br>• as a reward mechanism which encourages Executive retention and at the same time allows for future clawback of LTI grants for financial underperformance, deliberate misrepresentation or fraud<br>• aligning the financial interests of security holders with Executives through exposure to DXS securities and the Group's performance<br>• 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.<br>Executives are prevented from hedging their exposure to unvested DXS securities or trading in DXS securities or related products.<br>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)<br>No entitlement to severance payment<br>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)<br>Entitlement to severance payment of 100% of Fixed Remuneration<br>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)<br>Entitlement to severance payment of 75% of Fixed Remuneration<br>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%<br>FFO per security growth | 1 million<br>sqm of space in total leased | $1.6bn<br>Total transactions across the Group | 27.2%<br>Gearing at 30 June 2012 | Top quartile investment performance for DWPF and STC |
| $10m<br>in cost savings secured | 5.4%<br>Office like-for-like NOI growth | US$770m<br>US central portfolio sold | 70-80%<br>FFO payout ratio from FY13 | $420m+<br>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

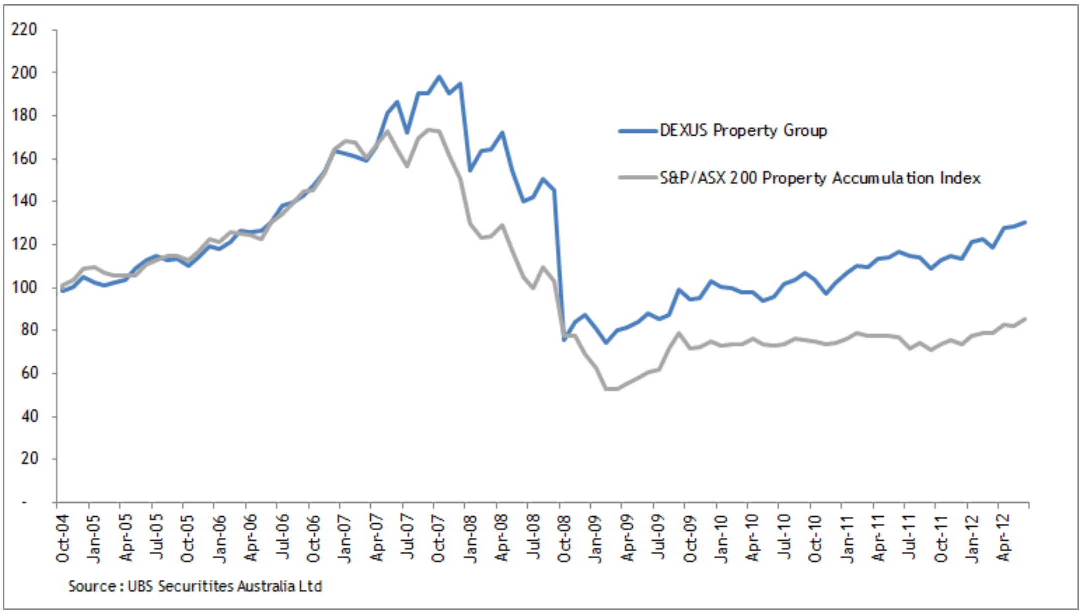
The Board previously considered whether the construction of the Composite Total Return should reflect the actual value of the unlisted funds and mandates ($5.6 billion as at 30 June 2012), and DEXUS Property Group's own funds under management ($6.9 billion as at 30 June 2012).

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.

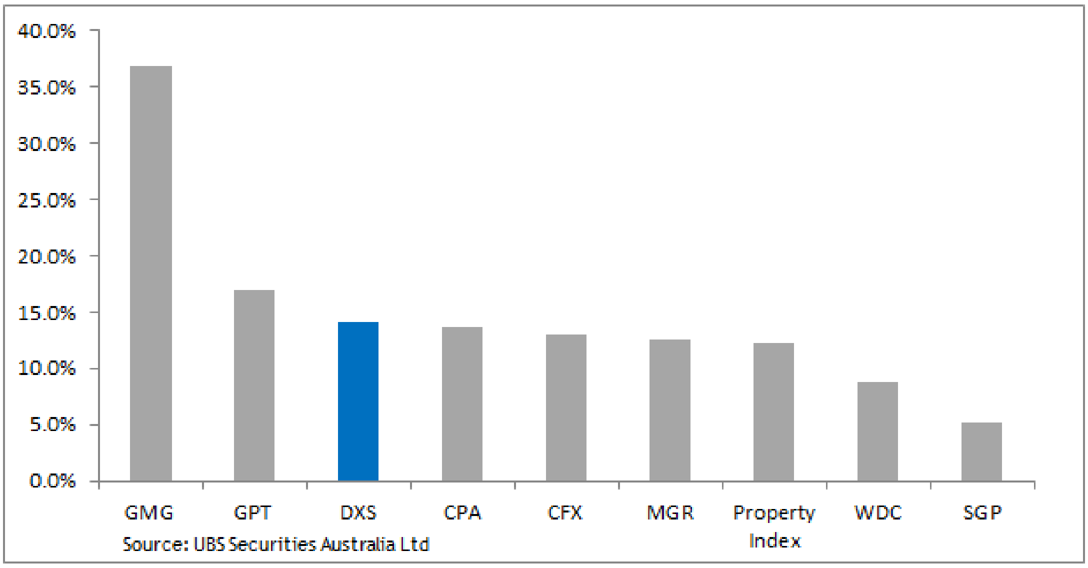
**Remuneration Report** (continued)

**6. Performance Pay** (continued)

Total Return of DXS Securities



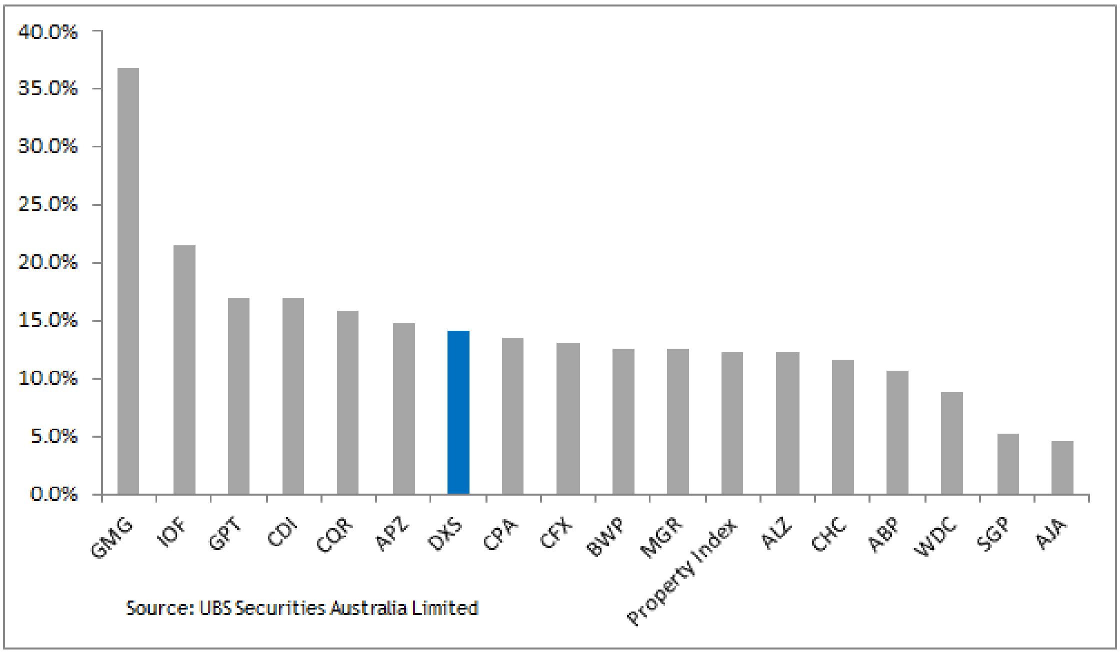

The chart below illustrates the DXS's performance relative to A-REITs above $2 billion market capitalisation over the past 3 financial years.



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

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*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

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| | 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<br>$'000 | 2011<br>$'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** | 2011 |
|---|---|---|---|
| | | **(+/-) $'000** | (+/-) $'000 |
| + / - 0.50% (50 basis points) | A$ | **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<br>$'000 | 2011<br>$'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 |

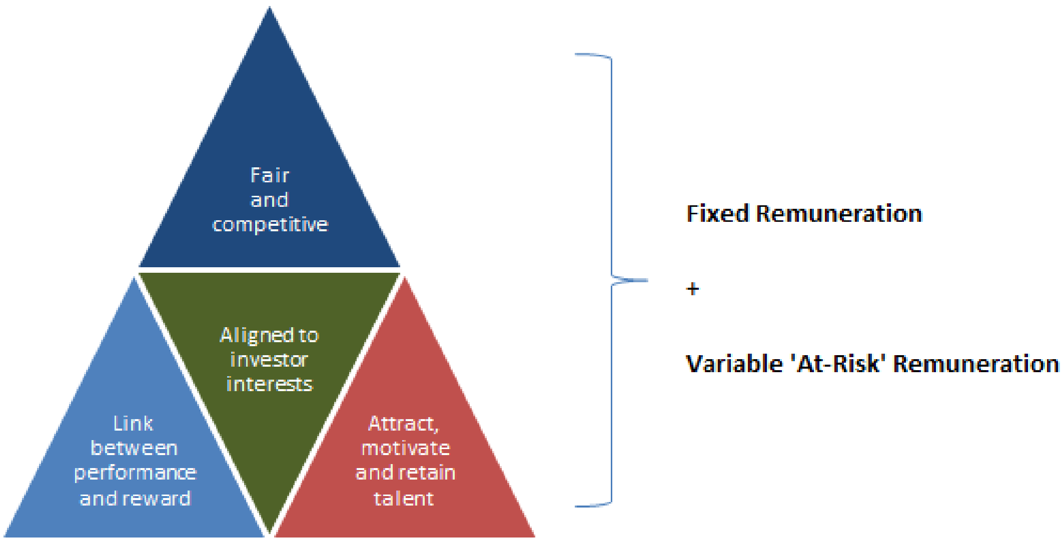
**Remuneration Report** (continued)

## 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)

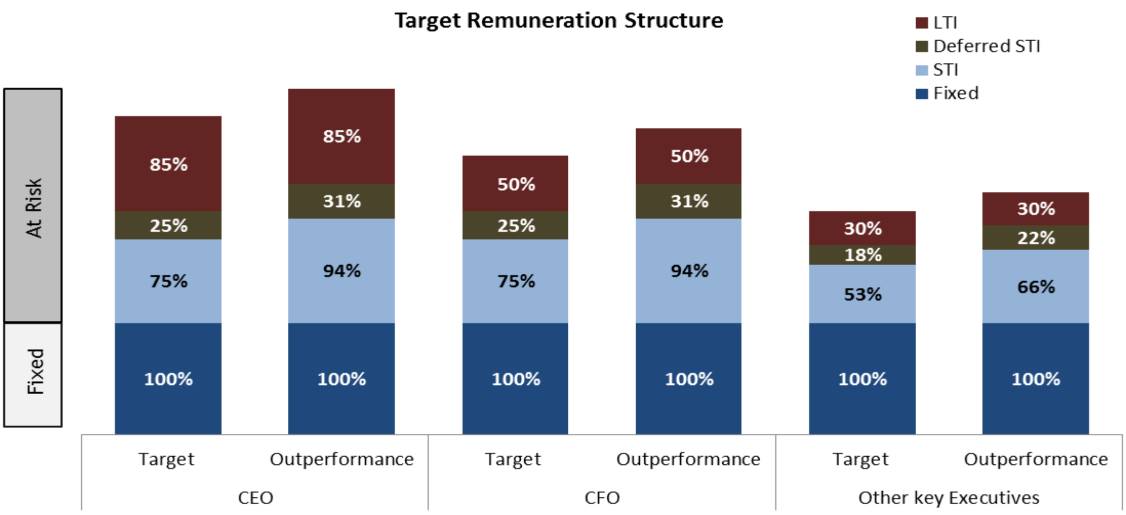
### 4. Executive Remuneration (continued)

<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)<br><br>DEXUS Performance Payment<br>*(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><br>85% (CEO )<br>75% (CFO & CIO)<br>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<br><br>To achieve target STI, Executives must meet pre-agreed business and individual KPIs set at stretch<br><br>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><br>100% (CEO & CFO)<br>70% (other key Execs)<br><br><u>Outperformance</u><br>up to 125% (CEO & CFO)<br>up to 87.5% (other key Execs</td></tr>
<tr><td>STI (deferred)<br><br>DEXUS Deferred Performance Payment<br>*(DDPP)*</td><td>0 to 100% of target remuneration structure<br><br><u>and</u><br><br>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<br><br>Outperformance multiplier incentive available</td><td><u>Target</u><br>100% (CEO )<br>75% (CFO & CIO)<br>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><br>at grant:<br>85% (CEO)<br>50% (CFO)<br>30% (other key Execs)</td></tr>
</table>

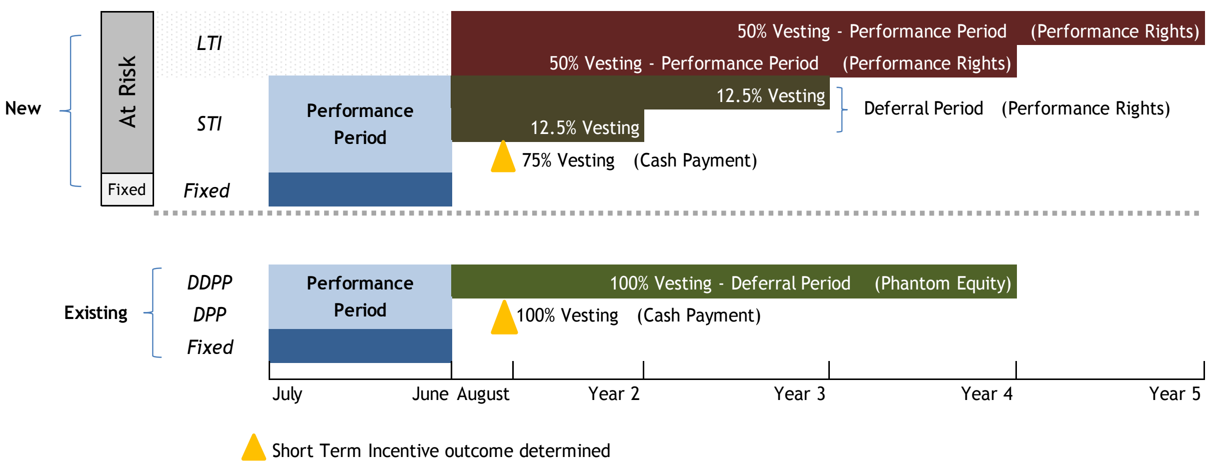
## **Remuneration Report** (continued)

## 4 **Executive Remuneration** (continued)

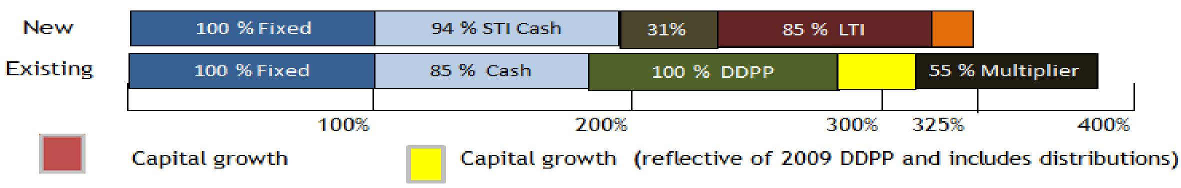
Target remuneration mix for key Executives (expressed as a percentage of fixed remuneration) is shown below:




### 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:<br>• CEO – 35% fixed, 65% at-risk<br>• CFO – 40% fixed, 60% at-risk<br>• Other key Executives – 50% fixed, 50% at-risk<br><br>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:<br>• reflects market practice<br>• links individual performance to STI outcomes<br>• is closely aligned to security holder interests through LTI performance hurdles<br>• 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:<br>• Publicly available remuneration reports of A-REIT competitors<br>• Publicly available remuneration reports from ASX listed companies with similar market capitalisation and complexity<br>• Advice on remuneration levels of privately held property, funds management, and private equity owned companies<br>• Salary survey data from Hart Consulting, Avdiev, Aon Hewitt, FIRG and others as appropriate<br>• Advice from external advisors appointed by the Committee, Egan Associates and Ernst & Young<br><br>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:<br>• as an immediate reward opportunity to attract, motivate and retain talented Executives who can influence the future performance of the Group<br>• through a 25% mandatory STI deferral for Executives<br>    ○ ensuring that Executives have a continuing interest in the outperformance of DXS securities<br>    ○ 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:<br><br>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. |

| | LTI Grant (% of Fixed Remuneration) |
|---|---|
| CEO | 85% |
| CFO | 50% |
| Other Key Execs | 30% |

## 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.<br>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.<br>• 25% measured on the basis of the Group's performance against a predetermined Funds From Operations (FFO) per security hurdle rate<br>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.<br>• 25% measured on the basis of predetermined Return on Equity performance hurdles.<br>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<br>• 50% vesting for performance at the median of comparator group;<br>• Straight line vesting for performance between the $50^{th}$ and $75^{th}$ percentile; and<br>• 100% vesting for performance at or above the $75^{th}$ percentile.<br>• Proposed comparator group:<br>  ○ Listed: CPA, IOF, GPT, CFX, WRT, DXS<br>  ○ Unlisted: AMP Office, GWOF, APPF, Investa, ISPT (Diversified)<br>FFO per security & Return on Equity<br>• 50% vesting for Target performance;<br>• Straight line vesting for performance between Target and Stretch; and<br>• 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:<br>• as a reward to Executives when the Group's overall performance exceeds specific predetermined earnings and security holder return benchmarks<br>• as a reward mechanism which encourages Executive retention and at the same time allows for future clawback of LTI grants for financial underperformance, deliberate misrepresentation or fraud<br>• aligning the financial interests of security holders with Executives through exposure to DXS securities and the Group's performance<br>• 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.<br>Executives are prevented from hedging their exposure to unvested DXS securities or trading in DXS securities or related products.<br>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)<br>No entitlement to severance payment<br>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)<br>Entitlement to severance payment of 100% of Fixed Remuneration<br>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)<br>Entitlement to severance payment of 75% of Fixed Remuneration<br>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%<br>FFO per security growth | 1 million<br>sqm of space in total leased | $1.6bn<br>Total transactions across the Group | 27.2%<br>Gearing at 30 June 2012 | Top quartile investment performance for DWPF and STC |
| $10m<br>in cost savings secured | 5.4%<br>Office like-for-like NOI growth | US$770m<br>US central portfolio sold | 70-80%<br>FFO payout ratio from FY13 | $420m+<br>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

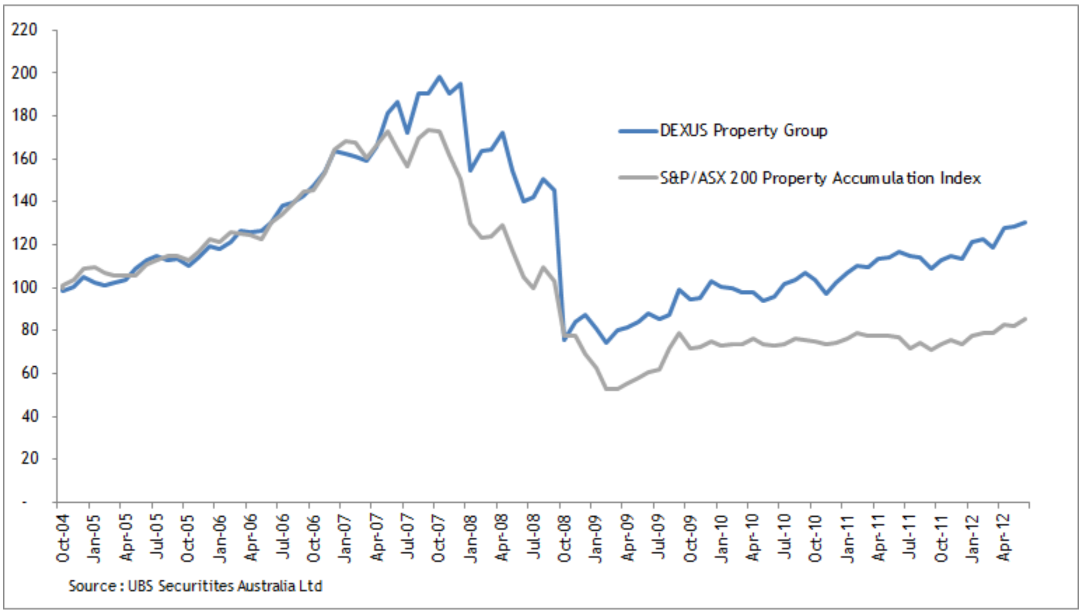
The Board previously considered whether the construction of the Composite Total Return should reflect the actual value of the unlisted funds and mandates ($5.6 billion as at 30 June 2012), and DEXUS Property Group's own funds under management ($6.9 billion as at 30 June 2012).

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.

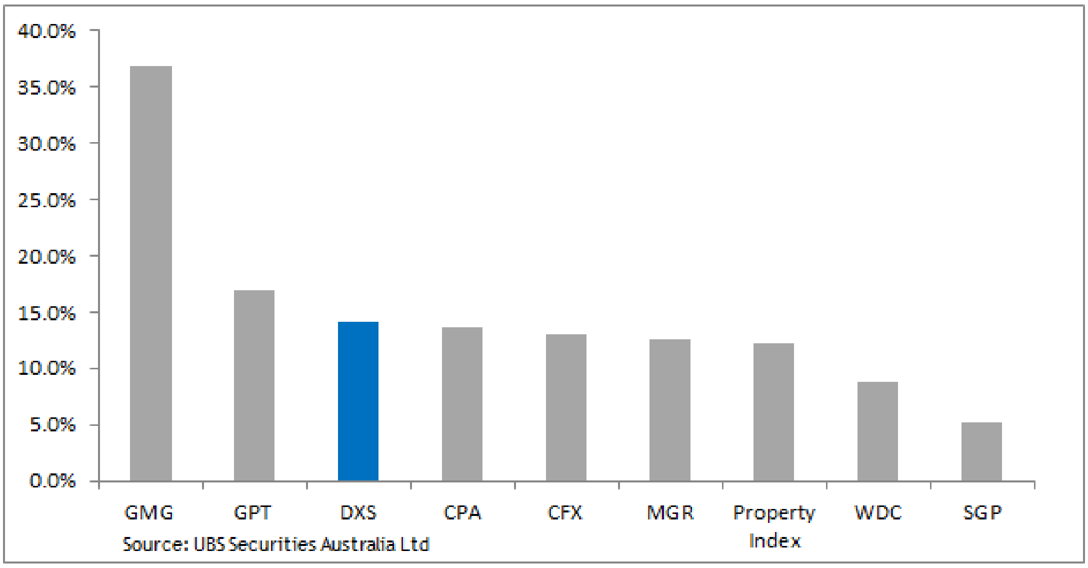
## **Remuneration Report** (continued)

### 6 **Performance Pay** (continued)

Total Return of DXS Securities



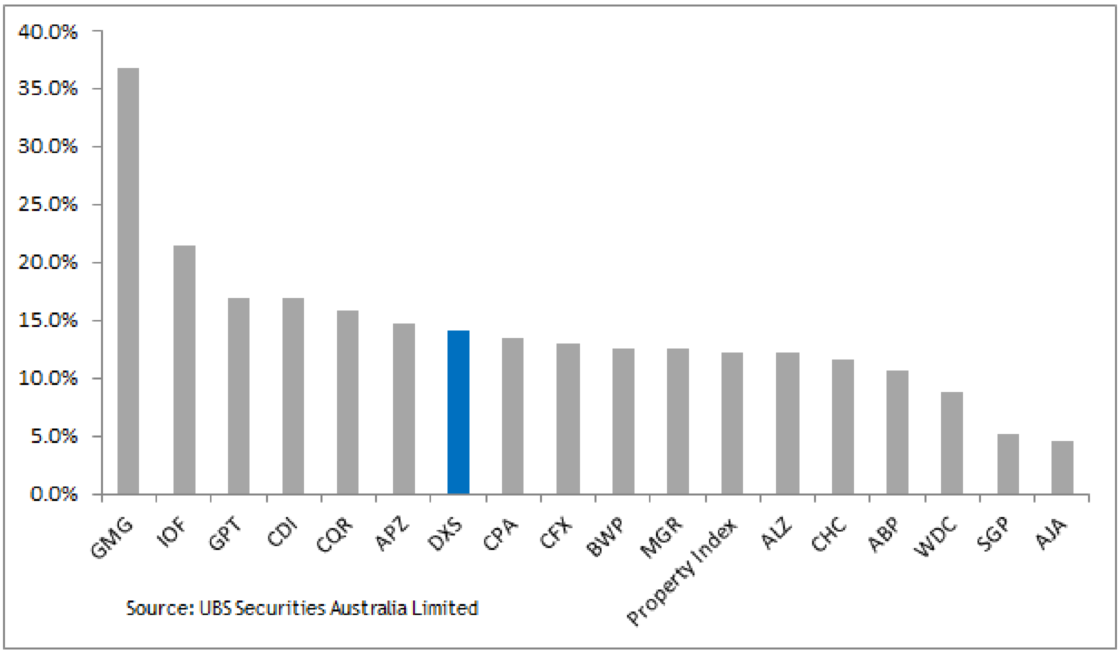

The chart below illustrates the DXS's performance relative to A-REITs above $2 billion market capitalisation over the past 3 financial years.



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

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

www.dexus.com

## DEXUS US office

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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

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Sydney NSW 2000

Locked Bag A14
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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

www.dexus.com