

Charter Hall Group

# Annual Report 2012



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## Financial year 2013 calendar

Estimated interim distribution announced and securities/units trade ex-distribution	December 2012
Half year results	February 2013
Interim distribution paid	February 2013
Estimated final distribution announced and securities/units trade ex-distribution	June 2013
Full year results	August 2013
Final distribution paid	August 2013
Annual General Meeting	November 2013

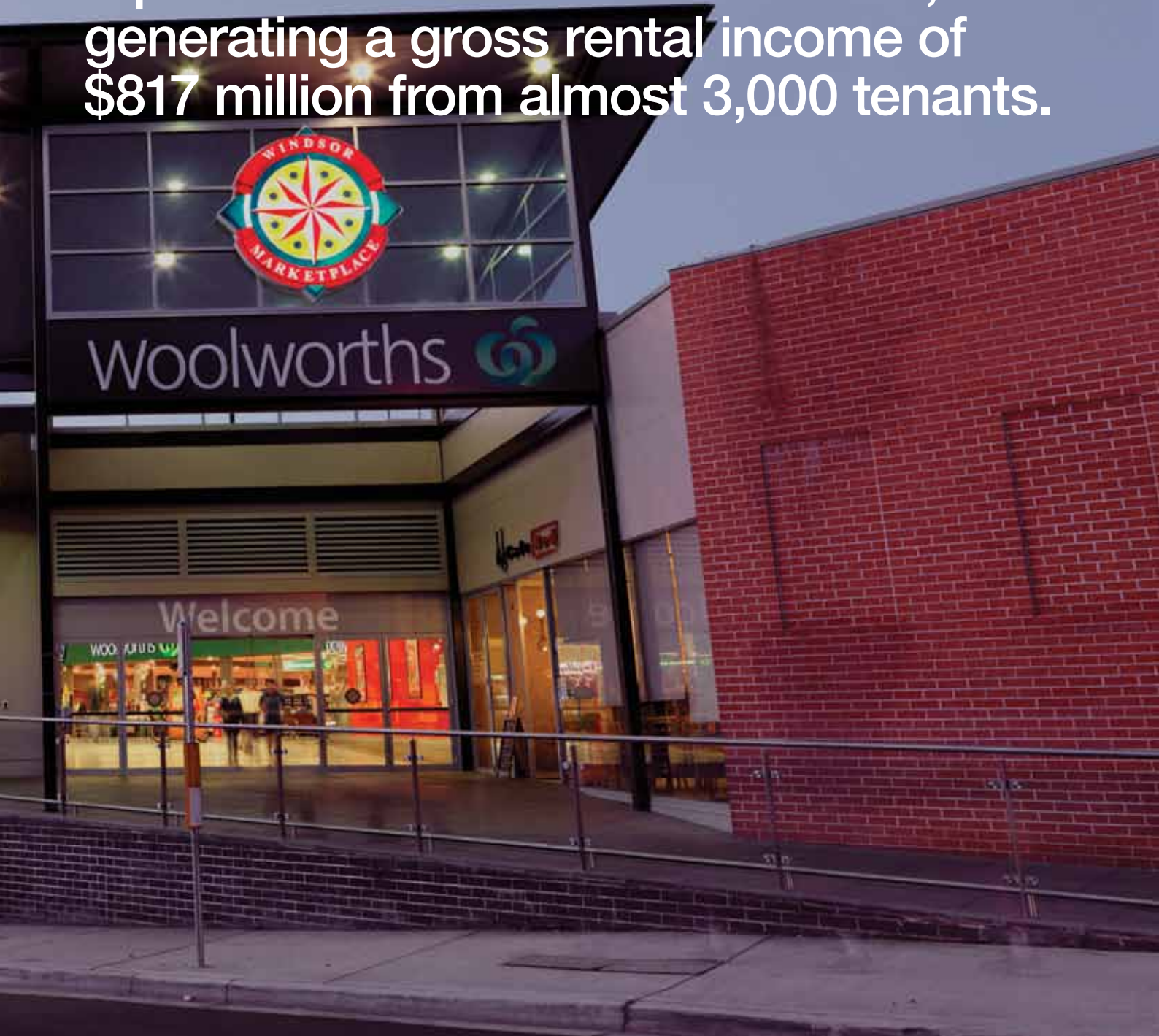
## Annual General Meeting

The 2012 Annual General Meeting will be held at The Westin Hotel, Level 6 Heritage Ballroom, No.1 Martin Place, Sydney, on Thursday, 8 November 2012 at 2.30pm

Front cover:  
Allianz Centre  
2 Market Street  
Sydney  
New South Wales

This page:  
Windsor Marketplace  
Windsor  
New South Wales

With \$9.4 billion in assets under management across listed and unlisted funds, Charter Hall owns and manages 184 office, industrial and retail properties, comprising 2.3 million square metres of net lettable area, generating a gross rental income of \$817 million from almost 3,000 tenants.



## Highlights

We have secured over \$1.3 billion<sup>1</sup> of equity from retail and unlisted wholesale investors since June 2011 for investment into quality office, industrial and retail properties.

Statutory profit after tax

**\$16.7 million**

Full year distribution

**18.2 cents per security**

Equity secured to 30 June 2012

**\$1 billion**

Operating earnings before specific items

**\$63.6 million**

Net tangible assets (NTA) per security

**\$2.13**

Equity secured since 30 June 2012

**\$319 million**

Operating earnings after specific items

**\$54.8 million**

Total funds under management (FUM)

**\$9.4 billion<sup>1</sup>**

Yield on investment portfolio

**7.1%**

Left to right:  
Paul Altschwager,  
Chief Financial  
Officer and  
Tim Carr, Group  
Financial Controller

1. At 31 August 2012

# Year in review

## July 2011

Estate works commence at Charter Hall and TA Global's \$600 million Little Bay Cove residential project in Sydney.

## August 2011



130 Stirling Street Trust (CHIF7) unitholders receive notice of the revaluation of the Trust, resulting in its NTA rising from \$0.95 to \$1.13 per unit with a distribution upgrade from 8% to 9% p.a.

Leighton Contractors commits to 21,149 square metres in Charter Hall Opportunity Fund No.5's (CHOF5) new \$230 million A-grade office development, WorkZone in Perth.

Charter Hall Retail REIT (CQR) acquires Albany Creek Shopping Centre in Brisbane for \$40.1 million.

Charter Hall Office REIT (CQO) contracts to sell 100% of its interests in its United States portfolio.

The Independent Directors of CQO receive an indicative, highly conditional, non-binding and confidential proposal from a Macquarie Capital-led consortium to acquire for cash all of CQO issued units, other than those held by Charter Hall Group.

## September 2011

Charter Hall exchanges contracts to sell Mentone Showrooms in Mentone, Victoria for \$16.7 million to a private investor.

CQR refinances its \$250 million A\$CMBS facility.

## October 2011

CHOF5's 40 Creek Street secures Fitness First Platinum following an active six months of leasing activity across the Brisbane building with approximately 5,525 square metres of space being leased.

Charter Hall increases its stake in CQR to 10%.

Charter Hall Direct Industrial Fund is named the 'Best new unlisted property fund of the year' by Property Investment Research.

## November 2011

The first soil is turned at CHOF5's new A-grade commercial office development in Perth, WorkZone, marking the official commencement of construction works.

CQR extends its NAB multi-currency debt facility to October 2016.

The Independent Directors of CQR and CQO, with assistance from Ernst & Young, complete a review of their corporate governance and fee arrangements.

One of Charter Hall's founders, Cedric Fuchs, retires from the Board. Mr Fuchs remains with Charter Hall Group as an executive director of Charter Hall Direct Property Management Limited, the responsible entity of the Group's direct funds business.

Charter Hall's Core Plus Office Fund completes a \$200 million equity raising.

## December 2011

Charter Hall announces the appointment of Paul Altschwager as Chief Financial Officer for the Group.

## January 2012

CQR settles the acquisition of Lansell Plaza, a sub-regional shopping centre located in the Bendigo suburb of Kangaroo Flat in Victoria for \$32.5 million.

A consortium consisting of Public Sector Pension Investment Board (PSP) and an entity owned by the Government of Singapore Investment Corporation (GIC) enter into the Scheme Implementation Agreement with CQO to acquire all of the issued units of CQO, other than those owned by Charter Hall Group.

## February 2012

Charter Hall's Core Plus Industrial Fund completes its \$150 million equity raising.

Charter Hall and CQR donate \$10,000 in Coles vouchers to flood impacted communities in Moree, Queensland through its Balo Square shopping centre.

## March 2012



Charter Hall's Core Plus Industrial Fund acquires a 50% freehold interest in the Metcash Regional Distribution Centre in Perth, Western Australia for \$61.5 million and signs a new \$200 million syndicated debt facility.

## April 2012

CQO de-lists from the ASX and becomes a Charter Hall managed unlisted fund, named Charter Hall Office Trust (CHOT).



CHOT and Cbus Property's premium grade office project at 171 Collins Street, Melbourne secures its third major lease pre-commitment with Egon Zehnder International joining BHP Billiton and Evans & Partners.

CQR acquires a 50% interest in Wanneroo Central Shopping Centre in Perth, Western Australia for \$35 million in a 50/50 retail partnership managed by Charter Hall.

## May 2012



Charter Hall Direct Property launches a new single property syndicate, 144 Stirling Street, Perth, Western Australia with a first year forecast income yield of 8.85%.



Charter Hall's Core Plus Office Fund acquires the remaining 50% interest in 225 St Georges Terrace, Perth, Western Australia for \$96 million. The equity utilised for this acquisition was sourced from the Fund's \$200 million capital raising which was completed in late 2011.

The first release apartments at Charter Hall and TA Global's Little Bay Cove development are 94% presold.



Scott Dundas is appointed Fund Manager of CQR.

Charter Hall's Direct Industrial Fund acquires its fifth asset, the Woolworths National Distribution Centre in Hoppers Crossing, Victoria for \$39.5 million.

Charter Hall's 130 Stirling Street office building in Perth, Western Australia achieves a 5.5 Star NABERS Rating without greenpower, demonstrating the benefits of the Group's active property management approach.

David Deverall is appointed to the Charter Hall Board as a non-executive director.

CQR refinances its €81 million German debt facility.

## June 2012

Charter Hall announces a distribution of 9.1 cents per security (cps) for the half year ended 30 June 2012. The total distribution per security for the year ended 30 June 2012 was 18.2cps, a 10.0% increase on the 16.5cps for the corresponding year ended June 2011.

Over the past year, Charter Hall has been one of the industry's strongest performing A-REITs, outperforming the S&P/ASX 200 A-REIT Accumulation Index by 7.4% with a total return of 14.6% (as at 31 July 2012).

# About us

Charter Hall is one of Australia's leading fully integrated property groups, with over 20 years' experience managing high quality property on behalf of institutional, wholesale and retail clients.

We have a \$9.4 billion<sup>1</sup> predominantly Australian property portfolio focused on the core real estate sectors of office, industrial and retail. We are the largest third party manager of Australian office and supermarket anchored retail centre assets, with the third largest managed industrial property portfolio.

As an integrated property group, our 260 property specialists deliver professional services across the full property spectrum from investment management to property management and development.

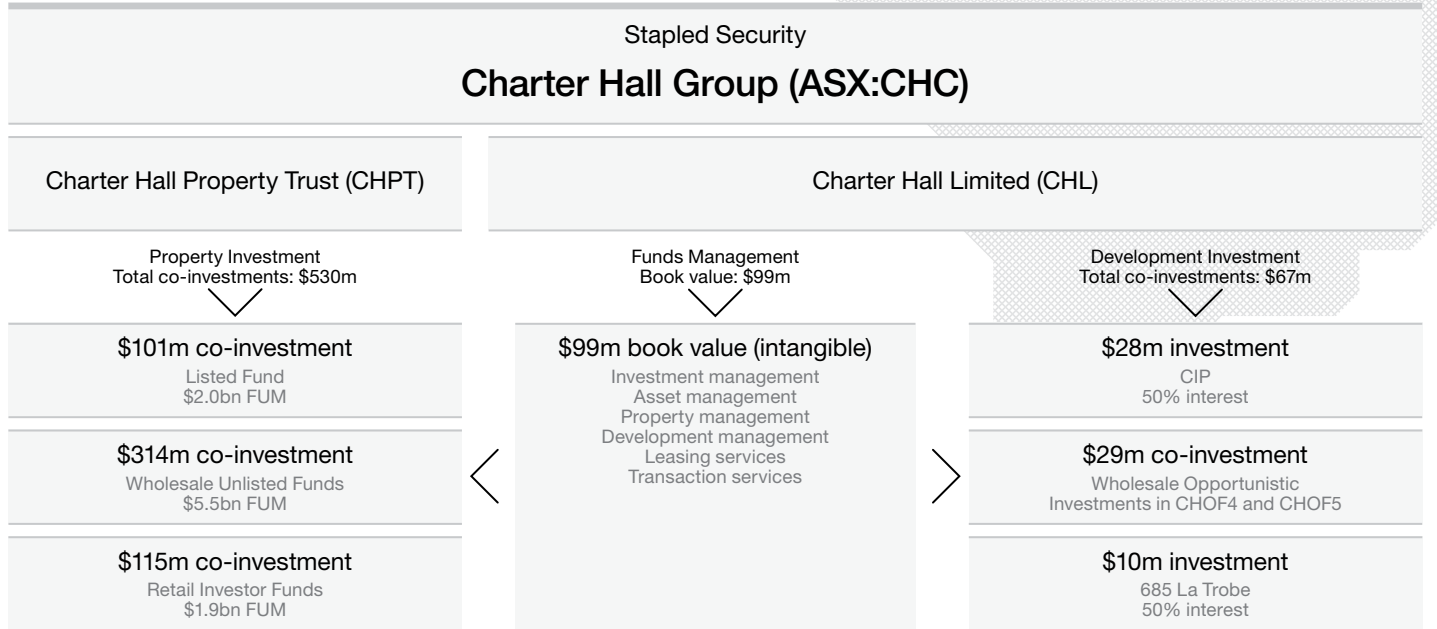
We believe sustainability is a key element to good business. By ensuring our actions are not only commercially sound but that they make a difference to our people, our customers and the environment in which we work and live, we can contribute in a positive way.



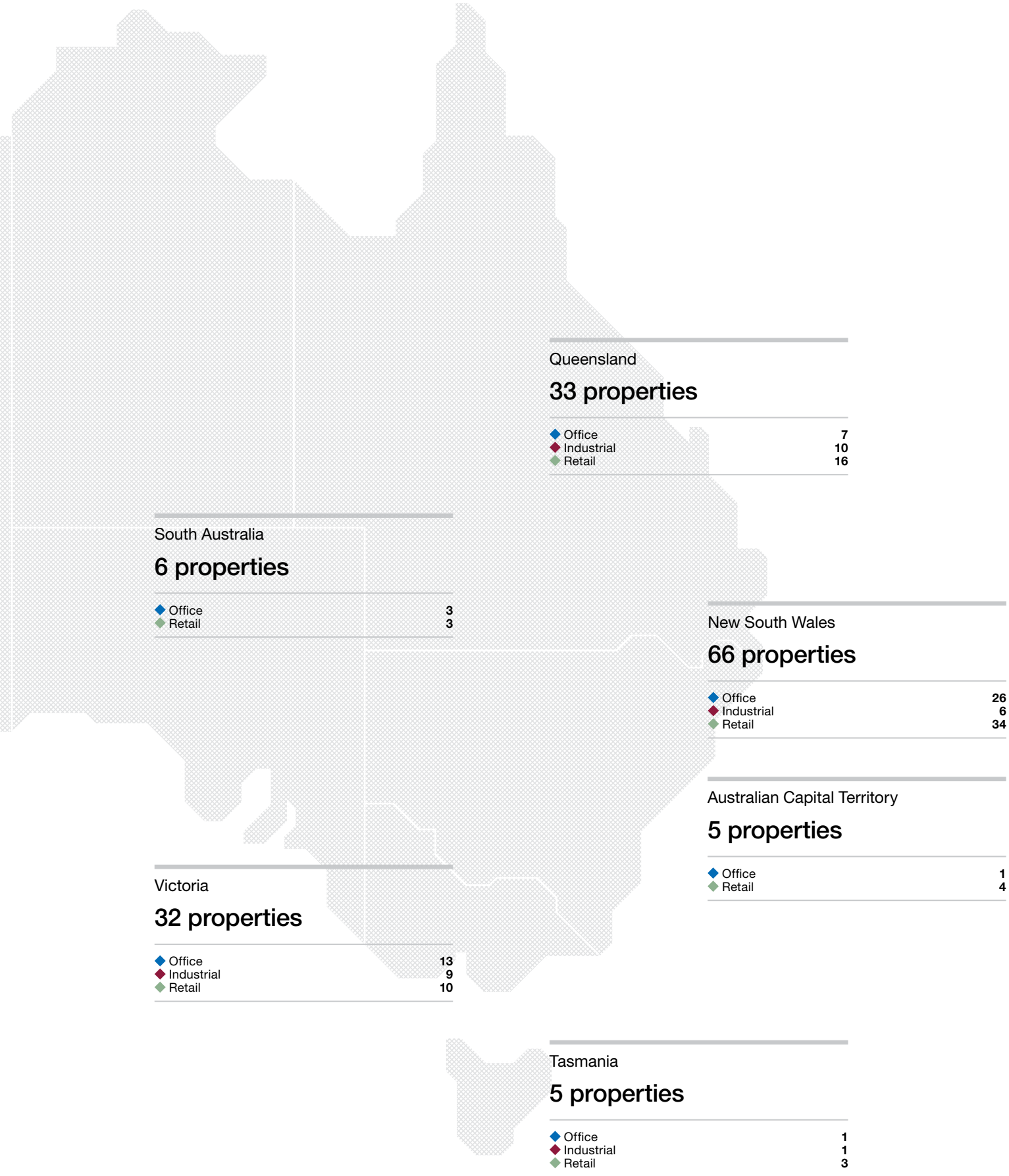
Western Australia

**20 properties**

◆ Office	6
◆ Industrial	3
◆ Retail	11



1. At 31 August 2012



Charter Hall has 17 offshore assets via its managed funds which will be marketed for sale in the short to medium term

## Chairman's review

On behalf of the Board of Directors, I am pleased to present Charter Hall Group's 2012 Annual Report.

Despite uncertain economic conditions, Charter Hall had an active year delivering on our strategy of accessing, deploying and managing equity investment in office, industrial and retail properties within Australia.

The sale of CQO's US portfolio, and subsequent privatisation of CQO, consolidated our property funds management platform. We also achieved an 8% reduction in net operating expenses; improved our EBITDA margin (before specific items) by 420 basis points to 31.8%; and delivered \$23 million in funds management earnings this year.

It was pleasing to see active property and debt management in the co-investment portfolio lift the earnings yield by 70 basis points to 7.1%. By 30 June 2012, on balance sheet debt was reduced to zero.

Charter Hall currently has total funds under management of \$9.4 billion, securing over \$1 billion in additional equity across our managed funds platform, with a further \$319 million added since the end of the financial year.

Our Australian assets have grown in line with our strategy to focus on the domestic market, where we have competitive advantages, with our Australian properties now under management increasing to \$8.9 billion, from \$8.5 billion 12 months ago.

Charter Hall now manages 184 office, industrial and retail properties comprising 2.3 million square metres of lettable area, currently generating gross rental income of \$817 million from almost 3,000 tenants.

### Committed to corporate governance

Charter Hall continues to focus on maintaining the highest levels of corporate governance standards in all our managed funds. Charter Hall's Board supported an independent review of both Charter Hall Retail and Office REITs' corporate governance arrangements and fees structures conducted by Ernst & Young, who concluded that corporate governance arrangements were already of a high standard. Charter Hall Retail REIT Board adopted a number of refinements suggested as part of this review.

We continue to operate our managed funds with a governance framework that sees the Funds' boards and investment committees comprise an Independent Chairman, where applicable, and a majority of independents, whilst Investor Representative Committees also exist for the wholesale pooled funds.

### Charter Hall Office Trust

The Proposal by a Consortium, comprising Reco Ambrosia Pte Ltd (an affiliate of the Government of Singapore Investment Corporation (Realty) Pte Ltd) and the Public Sector Pension Investment Board (of Canada) to acquire all units in CQO, other than those held by Charter Hall, was approved at the March unitholder meeting of CQO.

All conditions precedent were met, including the completion of the sale of CQO's remaining United States properties, and the Scheme was implemented on 30 April 2012. CQO was de-listed from the Australian Securities Exchange and renamed Charter Hall Office Trust, becoming one of the Charter Hall managed wholesale partnerships.

### Providing a scalable business

During the year, we restructured our business to better align the business model and the Group's organisational goals. Charter Hall now comprises Investment Management and Property Services divisions. This restructure provides a scalable operating model that focuses on our key client groups (fund investors and tenants) and our securityholders. The restructure saw a resizing of some areas of the business, which will result in cost savings whilst ensuring the business is focused on its domestic platform.

### Board changes

This financial year, one of our founders, Cedric Fuchs, retired as an Executive Director. On behalf of all stakeholders, I pay tribute to Cedric for his remarkable contribution to the business. Cedric continues in his role as an executive director on the Charter Hall Direct Property Board and as a member of the Group's managed fund investment committees.

I am also pleased to welcome David Deverall to the Board, who joined us in May this year as a Non-Executive Director. David is CEO of Hunter Hall International Limited, Australia's largest dedicated ethical investment manager that focuses on responsible investment in undervalued companies. David brings extensive experience in financial services, funds management and strategy to the Group.

Due to an illness in his family, Glenn Fraser retired as a Non-Executive Director in August 2012. Glenn, who was Chairman of the Audit & Risk Committee, served as a Board member for seven years, making a significant contribution. We will miss his constructive and balanced approach. On behalf of all stakeholders, I thank him for this contribution and wish him and his family well for the future.

### Outlook

While the Australian economy and the equities market continue to be impacted by global economic uncertainty, Charter Hall's annuity style earnings offer investors a reliable source of income, from its property funds management and co-investment portfolio. The Board and management are committed to maximising returns for our clients invested in our managed funds, and in turn maximising returns for Charter Hall securityholders.

I pay tribute to and thank Charter Hall's outstanding staff, Board and management, and thank our securityholders and all stakeholders for their continued support. We all look forward to delivering continuing positive results in the year ahead.

Despite uncertain economic conditions, we have had an active year delivering on our strategy of accessing, deploying and managing equity investment in office, industrial and retail properties within Australia.

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Chairman

**Kerry Roxburgh**

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# Joint Managing Directors' review

In a market that continues to be impacted by the global economic uncertainty, Charter Hall has continued to deliver on its strategic objectives.

During the 2012 financial year, we secured over \$1 billion in equity, including \$800 million of replacement equity for the privatisation of Charter Hall Office REIT (CQO) (now referred to as Charter Hall Office Trust (CHOT)). We have seen this momentum continue since year end, with the Group securing more than \$319 million in additional equity including the establishment of a new retail partnership with a global institutional partner and across the unlisted retail funds platform.

## Results

We are pleased to report that operating earnings before specific items increased 4.4% to 21.5 cents per security (cps) or \$63.6 million, and while operating earnings after specific items and statutory profit after tax were impacted by various non-cash and specific items, the underlying business continues to perform well. The full year distribution was 18.2cps, a 10% increase over the prior financial year.

A full provision of \$14.2 million (4.7cps) for the CHOF4 performance fee clawback, a further 2.0cps for the CHOF5 inventory write down at the Little Bay Cove development project, together with the 3.4cps mark to market loss for interest rate derivatives in a number of funds, reduced net tangible assets per security to \$2.13 at 30 June 2012.

Importantly, 97% of EBITDA was generated from core property investments and property funds management, and 89% was derived from annuity style income, providing the Group with improved quality of earnings in the current market.

Development investment will continue to represent a minor contribution, being 3% in financial year 2012 and potentially lower in financial year 2013, as capital is recycled into recurrent earnings activities.

## Growing our Australian property FUM

We have continued to focus on our strategy to reweight our managed funds' portfolios to Australia with domestic funds now representing 95% of total FUM. Australian FUM has grown by 11% per annum since June 2010.

Our total FUM declined from \$10.7 billion at 30 June 2011 to \$9.4 billion today, following the \$1.7 billion sale of CQO's United States portfolio and a number of offshore sales within Charter Hall Retail REIT (CQR). CQR's remaining offshore assets have been identified for sale.

We have continued to see strong institutional and retail investor interest in Australian property with particular interest from foreign institutional capital. Charter Hall has utilised its deep market relationships to secure over \$1.3 billion of equity since 30 June 2011, with \$926 million invested by offshore investors. Utilising this equity, the Group and its managed funds acquired approximately \$500 million of quality core properties during the year.

## Enhancing our property portfolios

We continue to actively manage our property portfolios, having leased and renewed almost 250,000 square metres of lettable floor space, driving an improvement in the overall occupancy and like-for-like income growth during the year.

Our development team has also progressed a number of projects within our off balance sheet \$1.3 billion development book and pipeline, with more than \$800 million within core funds across 14 projects.

## Realising equity from development investments

We are focused on realising equity for wholesale investors and the Group from our opportunistic funds. The Group expects to realise more than \$40 million of equity from its development investments over the next two years as completed projects are sold.

The redeployment of these equity co-investments into recurrent earnings yield co-investments will be accretive to Group earnings and will assist in achieving our strategic objective to increase annuity income streams within the Group.

## Active capital management approach

Active capital management remains a focus evidenced by the refinancing of \$3.0 billion of debt across our managed funds during the year which delivered an increased weighted average debt maturity of 3.1 years and a substantially lower weighted average cost of debt.

We also realised \$68 million of equity from our co-investments, reinvesting \$41 million into higher return investments. We will look to recycle a further \$112 million of equity over the next two years.

## Outlook

We remain focused on accessing, deploying and managing equity in the core property sectors of office, industrial and retail. Charter Hall is in a unique position in that we access equity across unlisted retail, unlisted wholesale and listed sources; and with the Australian market continuing to see strong capital inflows, we are well placed to capture these inflows to invest in high quality property. Subject to unforeseen events, we expect operating earnings for the financial year ended 30 June 2013 to be in the range of 22.5 to 23.0 cents per security, representing 5% to 7% growth over financial year 2012.

We are committed to maintaining the strong momentum achieved this financial year through our continued focus on **accessing** equity from multiple sources; **deploying** this equity into quality, accretive investment opportunities in the core property sectors of office, retail and industrial; and utilising Charter Hall's fully integrated property services platform to actively **manage** our extended portfolio. We look forward to providing a strong and sustainable total return through our focus on growing property income and capital returns for our securityholders and clients.

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Joint Managing Director

**David Harrison**

*David Harrison*

Joint Managing Director

**David Southon**

*David Southon*

## Our strategy

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With a focus on the core property sectors of office, industrial and retail, our strategy is to access, deploy and manage equity invested in these sectors to create value and provide growing income and capital returns for our clients and Charter Hall's securityholders.

Given property's cyclical nature, our investment in these core sectors ensures our business benefits through the macroeconomic cycles. This allows us to generate sustainable returns with a high income yield component, consistent with the investment appetite of investors in the real estate asset class.

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### Our key competitive advantages include:

- ◆ **Access** – our scale in the core real estate sectors enables us to attract further equity from multiple sources, including listed, pooled wholesale, partnership wholesale and direct retail, expanding our business reach for investors
- ◆ **Deploy** – with deep industry relationships and offices around Australia, we have strong market penetration, creating value for our clients by securing attractive acquisition opportunities
- ◆ **Manage** – with over 260 property specialists, we provide the full spectrum of property services including property funds management; asset management; leasing; property management; and development services, to actively manage our properties and create value

### Our FY13 strategic objectives

- ◆ Source equity to invest into core real estate sectors, targeting growth in the Australian funds under management platform by 6% to 10% per annum
- ◆ Realise and recycle \$112 million of capital in property and development investments over the next two years
- ◆ Enhance return on equity through a disciplined recycling strategy
- ◆ Drive further growth in property investment portfolio yield and capital value
- ◆ Diversify sources of debt funding for our managed funds platform
- ◆ Continue to capitalise on our scalable operating platform to service our funds under management growth



Focused on  
industrial and  
retail



Left to right:  
Andrew Glass,  
Head of Wholesale  
Pooled Funds and  
Nick Kelly, Head of  
Investor Relations

office,

# Our performance

## Property investment

Charter Hall co-invests in the majority of its managed funds, strongly aligning the Group with our investors. Our property investment portfolio is well diversified across the core property sectors of office, industrial and retail, and is leased to high calibre Australian tenants such as Wesfarmers, Woolworths, Citigroup, BHP Billiton and Australian Government.

The Group's \$530 million co-investment delivered an annualised income yield of 7.1%, up from 6.4% in the last financial year, as a result of the active management of the properties and the refinancing of debt facilities within our managed funds. Importantly, property investment represents 61% of the Group's EBITDA.

## Property funds management

In line with our strategy to reweight our managed funds portfolios to Australia, Charter Hall has \$9.4 billion in funds under management at 31 August 2012. Only \$0.5 billion of this is offshore property, following the disposal of almost \$2.5 billion in non-core offshore assets within Charter Hall Office REIT's (now Charter Hall Office Trust) portfolio and Charter Hall Retail REIT's portfolio.

Importantly, given our focus on the Australian market, our domestic funds management platform is \$8.9 billion in total, representing 94% of total funds under management, having grown 4% since June 2011.

## Portfolio performance

As an integrated property group, Charter Hall provides end to end property services for our funds and portfolios, from investment management to asset and property management services, with our growth in funds under management driving fee income from this platform.

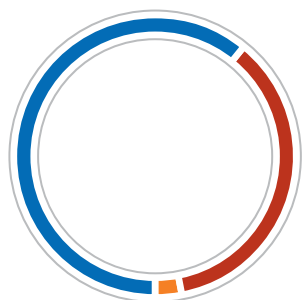
Revenue from these property services averaged 78 basis points (annualised) up from the last financial year, with 76% being derived from annuity style revenue.

## \$1.3 billion<sup>1</sup> of equity raised across our managed funds since 30 June 2011

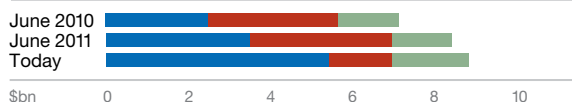
During the year, we secured over \$1 billion of equity from institutional and retail investors. Along with the privatisation of Charter Hall Office REIT, which is now managed as an unlisted wholesale fund on behalf of two foreign institutional investors, this has enabled us to acquire \$500 million of quality Australian office, supermarket anchored retail and industrial properties within our managed funds. This in turn builds our domestic funds under management platform.

Key acquisitions included the four additional retail centres within Charter Hall Retail REIT and four properties within our wholesale unlisted funds.

97% of our earnings is derived from core property investments and property funds management



Australian funds under management has grown by 4% since June 2011



1. At 31 August 2012

Since year end, we have raised \$319 million through the establishment of a new retail partnership for the acquisition of the \$164 million Bay Village Shopping Centre with a global institutional partner; and across the unlisted retail funds platform. Our Direct Industrial Fund closed oversubscribed at \$120 million and 144 Stirling Street Trust has closed raising \$32 million within three months of its launch.

Charter Hall was also appointed manager of PFA Diversified Property Trust in July 2012, which has increased our unlisted retail funds under management to \$1.9 billion.

#### Enhancing our portfolios

The Group continues to look for opportunities to enhance our managed investment funds' portfolios and we are currently undertaking 19 development projects across our \$1.3 billion development book and pipeline. The 171 Collins Street office project in Melbourne, being developed within the Charter Hall Office Trust as a 50/50 joint venture with Cbus Property, is progressing well and was recently awarded a 6 star Green Star – Office Design (v2) Certified Rating from the Green Building Council of Australia. The building is due for completion in mid-2013 with BHP Billiton, Evans & Partners and Egon Zehnder International committing to 47% of space.

#### Development investment

Given continued challenging conditions within the opportunistic sector, we are focusing on repatriating the remaining \$42.8 million of equity

invested in our opportunistic funds, Charter Hall Opportunity Fund No.4 (CHOF4) and Charter Hall Opportunity Fund No.5 (CHOF5), over the next two years. As previously announced to the market, a full provision of \$14.2 million (4.7 cents per security) for the CHOF4 performance fee clawback was made in financial year 2012.

The Group has recently contracted for sale the completed office development at 40 Creek Street, Brisbane and has settled on more than 81% of residential apartments within the now completed Lacrosse Stage 1, Melbourne. These properties are both owned by CHOF5 in which Charter Hall has a 15% interest.

The Little Bay Cove residential development in Sydney has been impacted by the challenging market conditions, with the land being revalued during the year. The Group's exposure to the development is 15% through CHOF5, which has resulted in a \$7.1 million impairment in the Group's investment. The Group continues to deliver the estate works for the project, however we are currently in dispute with our development alliance partner on an allocation of the 28 housing lots and 10 development superlots between the parties post completion of this work.

The national industrial pre-lease developer, Commercial & Industrial Property Pty Limited, in which Charter Hall has a 50% interest, continues to provide the Group with a strategic off-market source of industrial investment for its funds and contributed \$1.5 million of earnings after tax to the Group.

#### Strong equity inflows into our managed funds

	Equity secured during FY12 (\$m)	Equity secured since balance date (\$m)
Wholesale pooled funds	176	8
Wholesale partnerships	800	78
Direct funds	52	233 <sup>1</sup>
<b>Total</b>	<b>1,028</b>	<b>319</b>

1. Includes \$185 million secured as part of the PFA platform

# Sustainability

Sustainability is a critical part of how we manage risks and enhance financial, social and environmental value across our business. As an owner and manager of office, retail and industrial properties across Australia, we recognise that our success is dependent on building strong relationships with our

tenants, fostering the trust of our investors and giving back to the communities that support our business. Our approach is centred on four key sustainability themes which are managed and monitored through Charter Hall Group's sustainability strategy.

## Sustainable business

## Environment

### Our goal

To maximise our customer and investor satisfaction through operational excellence and by delivering long-term value.

To actively work to reduce our consumption of natural resources.

### Our key issues

- ◆ Aligning our business operations with our stakeholders' long-term interests
- ◆ Keeping stakeholders well informed at all times
- ◆ Longevity of business success
- ◆ Being a trusted partner by stakeholders
- ◆ Enhancing corporate governance practices

- ◆ To improve the energy efficiency of our managed properties and reduce carbon emissions
- ◆ To conserve water in our managed properties
- ◆ To reduce the waste produced
- ◆ To improve the environmental performance of our properties

### What we planned to do in FY12

- ✓ Increase the transparency of our sustainability performance disclosure
- ✓ Monitor satisfaction through tenant surveys across our commercial and industrial portfolios
- ✓ Participate in sustainability ratings to enable benchmarking of our approach and performance
- ✓ Continue to implement the UN Principles of Responsible Investment

- ✓ Improve the coverage of our environmental performance data and refine metrics and targets to allow greater transparency of reporting
- ✓ Complete energy road maps for all asset classes where we have operational control
- ✓ Continue to integrate sustainability considerations into our asset business plans

### What we have achieved in FY12

- ◆ Aligned our management team and people's KPIs with our updated business objectives
- ◆ Completed an Independent Review of our Code of Conduct
- ◆ Embedded environmental, social and governance issues into our business objectives
- ◆ Launched Charter Hall Advantage, our platform for tenant engagement and communication
- ◆ Expanded our sustainability reporting through Charter Hall Group's Corporate Responsibility & Sustainability (CR&S) Report 2012, to be released in December 2012
- ◆ Responded to Carbon Disclosure Project 2012

- ◆ Benchmarked environmental performance of all managed commercial and retail assets
- ◆ Completed energy road maps for all commercial assets
- ◆ Included sustainability action plans in all commercial and retail asset business plans

### Our priorities for FY13

- ◆ Progress our stakeholder engagement approach to provide greater consistency and better inform our business
- ◆ Further the accuracy and consistency of our CR&S reporting and seek third-party assurance in 2013
- ◆ Upgrade our website to provide an improved interface for our stakeholders with Charter Hall
- ◆ Launch our revised Code of Conduct to ensure we instil our ethics and values across our people
- ◆ Continue to review our corporate governance policies and framework against industry standards
- ◆ Undertake a review of our supplier chain to determine opportunities to influence CR&S outcomes

- ◆ Reduce energy usage by 4% and water usage by 2.5% in our retail funds in 2013
- ◆ Establish energy and water performance targets for all commercial assets
- ◆ Complete NABERS Energy ratings on all eligible retail centres
- ◆ Improve the coverage and robustness of our waste recycling data
- ◆ Track the carbon emissions associated with our business travel

The chiller plant room at 2 Park Street, Sydney, New South Wales continues to be a major focus area for energy savings for the building and our tenants

## Our people

To create a safe and engaging environment that attracts, develops, retains and supports our people.

- ◆ Attract, retain and develop high performance teams
- ◆ Respect and accept differences
- ◆ Protect the mental health and well-being of our employees
- ◆ Foster a zero harm environment

- ✓ Build on our career and development opportunities for all employees
- ✓ Sustain a high performance workforce through robust performance management
- ✓ Continue to drive sustainability as a strategic imperative by including sustainability performance objectives for all employees
- ✓ Diversity remains a priority. Develop targeted programs to address any barriers to diversity at each stage of the employee lifecycle

- ◆ Established a learning and development framework for all employees with 3.64 courses attended per employee
- ◆ Over 75% of our people attended sustainability workshops to increase their understanding of sustainability issues
- ◆ Implemented a talent review and succession planning process
- ◆ Reviewed and updated our performance management system to strengthen alignment with Charter Hall's strategic objectives
- ◆ Aligned our organisational structure to meet our strategic objectives
- ◆ Developed a Diversity and Inclusive strategy including targets for increasing women in leadership positions
- ◆ Implemented online safety incident reporting tool across our retail business

- ◆ Develop leaders who effectively build skills, knowledge and engagement, and consistently deliver on our Group strategy
- ◆ Continue to provide opportunities for our people to develop their roles and future careers
- ◆ Develop an efficient and effective recruitment framework to attract high calibre talent
- ◆ Create a remuneration strategy that drives performance, is consistent and fair, and is competitive in terms of employee attraction and retention
- ◆ Continue to measure employee engagement and create a common understanding of the vision and values
- ◆ Create a work environment that recognises, respects and values differences
- ◆ Establish a cross-divisional OHS Steering Committee and strategy
- ◆ Review OHS capabilities and develop a training plan

## Community

To make a positive contribution to the communities where we work.

- ◆ Contributing to our local communities
- ◆ Engaging with communities local to our development activities

- ✓ Appoint a Charitable Steering Committee and develop a formal charitable giving program to positively contribute to our local communities
- ✓ Develop a community involvement strategy for our retail centres
- ✓ Continue to implement the local charity support program by our new development projects

- ◆ Charitable Steering Committee developed a charitable giving framework for the Group
- ◆ Donated over \$228,000 to good causes through our charitable giving program
- ◆ Raised over \$56,000 through our development projects local charity support program
- ◆ Launched a Charter Hall workplace giving program for all employees
- ◆ Implemented a volunteer program that provides an additional paid leave day each year

- ◆ Improving the success of Charter Hall's volunteer program by increasing the number of volunteer opportunities available to our employees
- ◆ Increase staff participating in our workplace giving program
- ◆ Improve our internal communications and staff awareness of community programs
- ◆ Further evolve our community involvement strategy for our retail centres



## The Board

**Kerry Roxburgh**  
Chairman  
Age: 70

Kerry joined the Charter Hall Board in August 2005 and became Chairman in October 2005. He is also Chair of the Nomination Committee, a member of the Audit, Risk and Compliance Committee and a member of the Investment Committee. Kerry has some 50 years of business experience, most notably as co-founder of E\*TRADE Australia (where he was CEO and Chairman) and Executive Director of the Hong Kong Bank of Australia Group (where he was Head of Corporate Finance and Executive Chairman of James Capel Australia). Prior to this, he practised as a Chartered Accountant. Kerry is currently the Lead Independent Non-Executive Director of Ramsay Health Care Ltd, a Non-Executive Director of the Medical Indemnity Protection Society Group and of MIPS Insurance. He is the Chairman of Tyro Payments, of Tasman Cargo Airlines and TEKUM. He is the Deputy Chairman of Marshall Investments. Kerry is also a Member of the Advisory Boards of AON Insurance and of Built Pty Ltd. Kerry is a Practitioner Member of the Stockbrokers Association of Australia, and holds a Bachelor of Commerce degree, and an MBA.

**Roy Woodhouse**  
Deputy Chairman  
Age: 65

Roy joined the Charter Hall Board as Deputy Chairman in July 2004. Roy is a member of the Remuneration and Human Resources Committee, the Nomination Committee, and the Investment Committee. Roy worked for the Baillieu family for 30 years in various senior executive capacities including Director of L.J. Hooker, Managing Director of Knight Frank Australia and Chairman of Knight Frank Asia Pacific. Roy co-founded KFPW, a joint venture with PwC specialising in outsourcing. Roy is Chairman of National Recycling Company and is a Fellow of the Australian Institute of Company Directors (AICD).

**Anne Brennan**  
Non-Executive Director  
Age: 51

Anne joined the Charter Hall Board in October 2010, and is presently the Chair of the Remuneration and Human Resources Committee and a member of the Audit, Risk and Compliance Committee. With over 25 years' professional experience, Anne has held a variety of senior management and executive roles in large corporates and professional services firms. She has particular expertise in mergers and acquisitions, financial management, treasury, audit, risk management, tax, investor relations and ASX and statutory reporting. Anne is currently a Director of Argo Investments Ltd, Echo Entertainment Ltd, Myer Holdings Ltd and Nufarm Ltd. Anne holds a Bachelor of Commerce (Hons), is a Fellow of the Institute of Chartered Accountants Australia, and is a Fellow of the AICD.

**David Deverall**  
Non-Executive Director  
Age: 46

David joined the Charter Hall Board in May 2012, and is presently a member of the Audit, Risk and Compliance Committee. He has extensive experience in financial services, funds management and strategy, having held previous positions as CEO of Perpetual Ltd, Chairman and Director of The Financial Services Council, and Group Head of Funds Management and Head of Strategy at Macquarie Group. David has recently been appointed CEO of Hunter Hall International Ltd, and remains Managing Director of Deverall Advisory, a consulting firm he founded. David holds an MBA and a Bachelor of Engineering (Mechanical), and is a member of the AICD.

**Glenn Fraser**  
Non-Executive Director  
Age: 55

Glenn joined the Charter Hall Board in April 2005, and until August 2012 was Chairman of the Audit, Risk and Compliance Committee. Glenn specialises in infrastructure and property projects, and is a member of Transfield Holdings Advisory Board, having been instrumental in Transfield Holdings' acquisition of its interest in Charter Hall and its expansion and listing in 2005. Glenn holds a Bachelor of Commerce, and is a member of the Institute of Chartered Accountants and the AICD. Glenn retired from the Board on 15 August 2012 due to family reasons.



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**Peter Kahan**  
Non-Executive Director  
Age: 53

Peter joined the Charter Hall Board in October 2009, following an investment in Charter Hall by The Gandel Group. Peter is the Deputy Chairman and a director of Gandel and has over 18 years of property and funds management experience. He joined Gandel in 1994, became the Group's Finance Director in 2001 and was CEO from 2007 to 2012. Prior to this, Peter worked as a Chartered Accountant and held senior financial roles in various industry sectors. Peter holds Bachelor of Commerce and Bachelor of Accountancy degrees and is a member of the Institute of Chartered Accountants Australia and the AICD.

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**Colin McGowan**  
Non-Executive Director  
Age: 66

Colin joined the Charter Hall Board in April 2005, and is presently the Chair of the Group's Valuation Committee, and is a member of the Remuneration and Human Resources Committee, the Nomination Committee, and the Group's Investment Committee. Colin was formerly CEO of the listed AMP Diversified Property Trust, Executive Vice President of Bankers Trust (AUS), founding Fund Manager of the BT Property Trust and founding Fund Manager of Advance Property Fund. Colin is a qualified valuer, a Fellow of the Australian Property Institute and a Senior Fellow of Finsia.

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**David Harrison**  
Joint Managing Director  
Age: 46

David joined the Charter Hall Board as Joint Managing Director in August 2006. He is a member of the Group's Valuation Committee and Investment Committee, and holds various roles for Charter Hall related entities. He has over 25 years of property industry experience. David is jointly responsible for all aspects of the Charter Hall business, with specific focus on investment management, corporate transactions and property investment activities. He also substantially contributes to investment origination, capital raisings and structuring of transactions. David is directly responsible for overseeing the operation of the investment management divisions, including the listed REITs, wholesale unlisted and retail unlisted divisions, together with investor relations. David is a Director of responsible entities Charter Hall Retail Management Limited, Charter Hall Office Management Limited, and Charter Hall Direct Property Management Limited.

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**David Southon**  
Joint Managing Director  
Age: 46

As a co-founder of Charter Hall, David joined the Charter Hall Board as Joint Managing Director in August 2006. He is a member of the Group's Valuation Committee and Investment Committee, is Chair of the Diversity Committee, and holds various roles for Charter Hall related entities. He has over 25 years of property industry experience. David is jointly responsible for all aspects of the Charter Hall business, and is primarily responsible for overseeing wholesale opportunistic funds, the operation of the development services division, project origination, project strategy and the formulation and implementation of Group's strategy. David is a Director of responsible entities Charter Hall Retail Management Limited, Charter Hall Office Management Limited, and Charter Hall Direct Property Management Limited, and is a member of the opportunistic Funds' Investment Committees.

At Charter Hall we aim to give investors excellent service through regular, concise and relevant communications. To find out more about your investment in Charter Hall Group, contact the Investor information line on 1800 331 356.

## Investor information

### How do I invest in Charter Hall?

Charter Hall Group securities are listed on the Australian Securities Exchange (ASX:CHC). Securityholders will need to use the services of a stockbroker or an online broking facility to invest in Charter Hall.

### Where can I find more information about Charter Hall?

Charter Hall's website, [www.charterhall.com.au](http://www.charterhall.com.au) contains extensive information on our Board and management team, corporate governance, sustainability, our property portfolio and all investor communications including distribution and tax information, and reports and presentations. The website also provides information on the broader Charter Hall Group including other managed funds available for investment.

You can also register your details on our website to receive ASX announcements by an email alert as they are being released. To register your details, please visit our website at <http://www.charterhall.com.au/Subscribe-to-ASX-releases>.

### Can I receive my Annual Report electronically?

Charter Hall provides its annual report in both PDF and online formats (HTML). You can elect via your Investor login to receive notification that this report is available online. Alternatively, you can elect to receive the report in hard copy.

### Can I receive my distribution via direct credit rather than cheque?

You can receive your distribution payment efficiently and safely by having it direct credited to your bank account. If you wish to receive your distribution by direct credit, please complete the appropriate form which can be obtained from and returned to the registry, or alternatively update your details directly online at [www.charterhall.com.au](http://www.charterhall.com.au) at 'Check your holding online' in the Investor Centre.



### Can I reinvest my distribution?

The Distribution Reinvestment Plan (DRP) allows you to have your distributions reinvested in additional securities in Charter Hall, rather than having your distributions paid to you. In recognition of the Group's strong liquidity position, however, the DRP facility has been suspended. If and when Charter Hall reinstates a DRP, we will notify all securityholders.

### Do I need to supply my Tax File Number?

You are not required by law to supply your Tax File Number (TFN), Australian Business Number (ABN) or exemption. However, if you do not provide these details, withholding tax may be deducted at the highest marginal rate from your distributions. If you wish to provide your TFN, ABN or exemption, please contact Link Market Services on 1300 303 063 or your sponsoring broker. You can also update your details directly online at [www.charterhall.com.au](http://www.charterhall.com.au) at 'Check your holding online' in the Investor Centre.

### How do I complete my annual tax return for the distributions I receive from Charter Hall?

At the end of each financial year, we issue securityholders with an Annual Taxation Statement. This statement includes information required to complete your tax return. The distributions paid in February and August are required to be included in your tax return for the financial year the income was earned, that is, the distribution income paid in August 2012 should be included in your 2012 financial year tax return.

### How do I make a complaint?

Securityholders wishing to lodge a complaint should do so in writing and forward it to the Compliance Manager, Charter Hall Group at the address shown in the Directory.

In the event that a complaint cannot be resolved within a reasonable time frame (usually 45 days) or you are not satisfied with our response, you can seek assistance from the Financial Ombudsman Service (FOS), an independent dispute resolution scheme available to those investors who have first raised their complaint with us and who remain dissatisfied. FOS's contact details are below:

Financial Ombudsman Service  
GPO Box 3  
Melbourne Vic. 3001

Tel: 1300 780 808  
Fax: +61 3 9613 6399  
Email: [info@fos.org.au](mailto:info@fos.org.au)  
Website: [www.fos.org.au](http://www.fos.org.au)

Left to right:  
Adrian Taylor,  
Head of Wholesale  
Partnerships,  
Richard Stacker,  
Head of Direct  
Property and  
Natalie Devlin,  
Head of People

### Our commitment to corporate governance

Charter Hall Group (comprising Charter Hall Limited and the Charter Hall Property Trust, listed jointly on the ASX as a stapled security) (the Group or Charter Hall) is committed to delivering strong and sustainable returns (through property investment and management) to securityholders and investors. The Board of Charter Hall recognises the importance of good governance in achieving these corporate objectives, in discharging its responsibilities to all stakeholders and in addressing the broader role of being a good corporate citizen.

Charter Hall's governance framework is designed to ensure that the Group is effectively managed, statutory obligations are met, and Charter Hall's culture of corporate integrity is reinforced. Due consideration has been given to the *ASX Corporate Governance Principles and Recommendations (2nd Edition) published in June 2012 by the ASX Corporate Governance Council*, and the Group confirms full adherence to these principles and recommendations for FY12 (the reporting period).

This statement provides a summary of the corporate governance practices, systems and processes in place within Charter Hall, which were followed throughout the reporting period.

Charter Hall's key corporate policies can be found on its website at [www.charterhall.com.au](http://www.charterhall.com.au) (Charter Hall's website).

### Corporate governance foundations

#### The Board

The Board of Charter Hall is committed to effectively representing and promoting the Group, and thereby adding long-term value to all securityholders. The Board is accountable to securityholders for the management of Charter Hall's business and affairs and as such is responsible for the overall strategy, governance and performance of the Group.

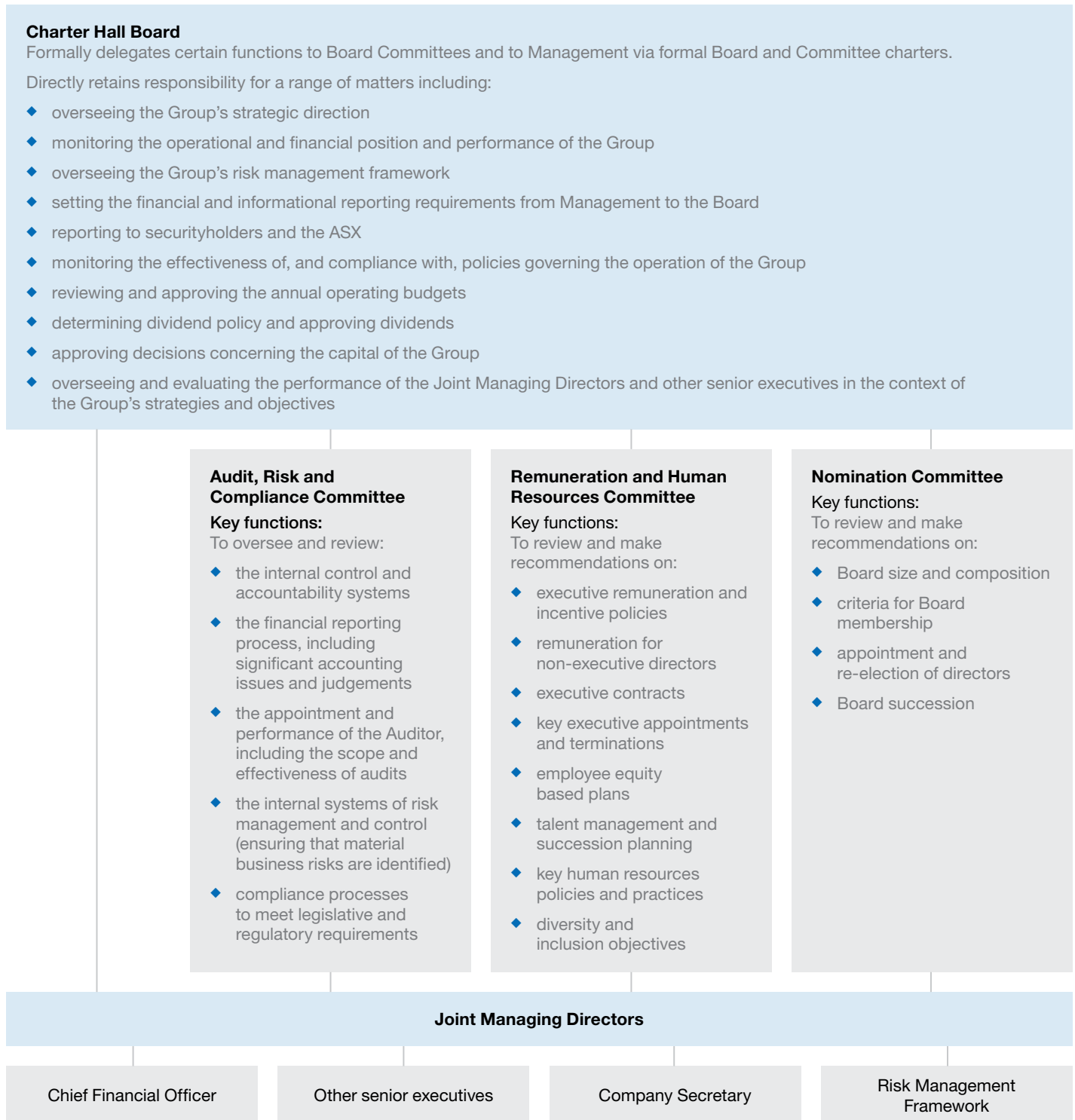
To clarify the roles and responsibilities of directors and management, and to assist the Board in discharging its responsibilities, Charter Hall has established a governance framework which sets out the functions reserved to the Board and provides for the delegation of functions to Board Committees and management. Those functions and responsibilities reserved to the Board are set out in the Board Charter, which is available to view in the 'Corporate Governance' section of Charter Hall's website.

The Board has delegated day-to-day management functions to the Joint Managing Directors, and senior executives, who are required to work within authority limits and delegations set out in a 'Delegations of Authority' document. This document is approved by the Board, and is an internal working document.

Non-executive directors have been appointed under a formal letter which sets out the key terms and conditions of that appointment. Each Joint Managing Director has a formal job description and letter of appointment which sets out his duties and obligations, rights, responsibilities and entitlements.

**Governance framework**

The diagram below summarises Charter Hall’s governance framework, including the functions reserved for the Board and those carried out by the standing Board Committees.



# Corporate governance statement

## Board Committees

The Board has established three standing Board Committees to assist the Board in the execution of its responsibilities. Each Committee operates under a specific charter, which can be found in the 'Corporate Governance' section of Charter Hall's website.

In accordance with their respective charters, each Board Committee must have at least three non-executive members, be comprised of a majority of 'independent' directors, and be chaired by an 'independent' non-executive director. Director independence is discussed on page 24 of this statement.

During the reporting period, the membership of each Board Committee was as follows:

Board Committee	Membership
Audit, Risk and Compliance	Glenn Fraser (Chair), Anne Brennan, Kerry Roxburgh
Remuneration and Human Resources	Anne Brennan (Chair), Colin McGowan, Roy Woodhouse, Peter Kahan (alternate member)
Nomination	Kerry Roxburgh (Chair), Roy Woodhouse, Colin McGowan, Peter Kahan (alternate member)

The membership of the Board Committees will change from time to time, depending on the needs of the Board and the directors' rotation policy.

Following Glenn Fraser's retirement from the Board on 15 August 2012, the membership of each Board Committee was revised to the following:

Board Committee	Membership
Audit, Risk and Compliance	Anne Brennan (Acting Chair), Kerry Roxburgh, David Deverall
Remuneration and Human Resources	Anne Brennan (Chair), Colin McGowan, Peter Kahan
Nomination	Kerry Roxburgh (Chair), Roy Woodhouse, Colin McGowan, Peter Kahan (alternate member)

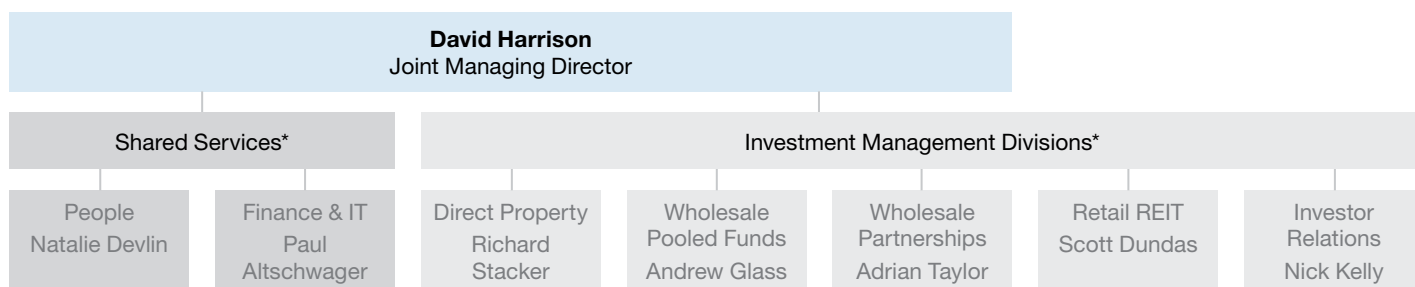
The membership of the Board Committees remains under review as the Board seeks to fill the non-executive director position left vacant by the departure of Glenn Fraser.

The number of Board and Board Committee meetings held during the reporting period and the number of meetings that were attended by each of the directors is presented in the Directors' Report on page 41 of this Annual Report.

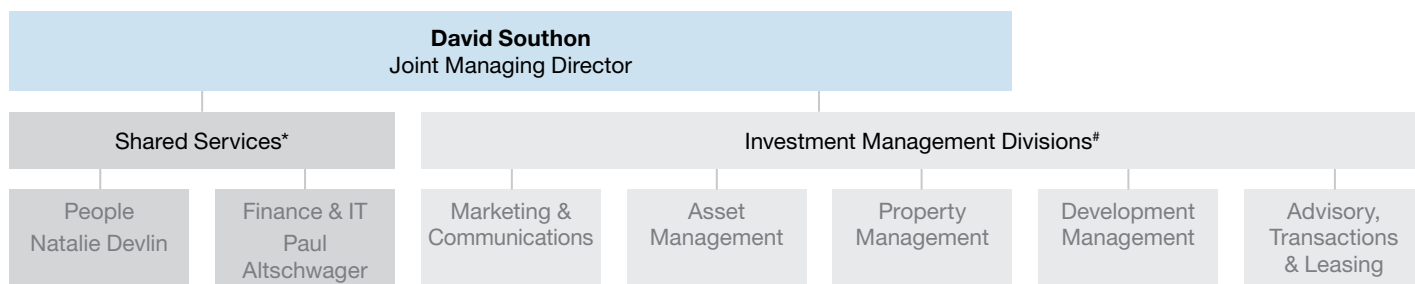
## Management

The Board has delegated the responsibility for day-to-day management of the Group to the Joint Managing Directors, who are assisted by an executive management team. The diagrams below present the executives who report to the Joint Managing Directors.

David Harrison has specific responsibility for the investment management divisions of the Group, David Southon has specific responsibility for the service divisions of the Group, and they share responsibility for all shared services.



\* Heads of the Investment Management Divisions and Shared Services form the executive management team.



# Heads of the Service Divisions are not part of the executive management team.

The Joint Managing Directors must consult with the Chairman or Deputy Chairman on any matters which the Managing Directors consider are of such a sensitive, extraordinary or strategic nature as to warrant attention of the Board, regardless of value.

The authorisation thresholds for the control of expenditure and capital commitments have been established and are defined in the Group's internal 'Delegations of Authority' document.

### Performance of senior executives

The Group defines its senior executives as the Joint Managing Directors and its executive management team (identified above as the divisional heads of shared services and investment management). The senior executives are the Key Management Personnel (KMPs) listed in the Remuneration Report, which forms part of the Directors' Report.

A combination of financial and non-financial key performance indicators (KPIs) are used to monitor senior executive performance. Details of the KPIs used for the Joint Managing Directors in FY12 are set out in the Remuneration Report on page 48 of this Annual Report.

The individual performance of the Joint Managing Directors is formally assessed on a bi-annual basis by the Board, based upon advice from the Remuneration and Human Resources Committee. All KPIs are carefully considered by the Remuneration and Human Resources Committee, which evaluates the performance of each Joint Managing Director individually and makes recommendations to the Board.

Executives reporting to the Joint Managing Directors are assessed bi-annually against financial and non-financial KPIs. Assessments are made by either or both of the Joint Managing Directors depending on the reporting lines. Executive performance results are reported to the Remuneration and Human Resources Committee and the Board.

This performance evaluation process was in place, and was followed, for the reporting period.

Each senior executive has a formal job description and a letter of appointment that sets out his/her duties and obligations, rights, responsibilities and entitlements. Compliance with the Group's Code of Conduct is mandatory for all employees and directors.

Senior executives are provided with access to continuing education to update and enhance their skills and knowledge.

An induction program exists for new senior executives to ensure they gain an understanding of the Group's financial position, strategies, operations and risk management policies, as well as the responsibilities and roles of the Board and Management.

### Board structure

Charter Hall aims to maintain a Board that comprises directors with a broad range of skills, expertise and experience who are able to effectively understand and manage the issues arising in Charter Hall's business activities, and to review and challenge the performance of Management to optimise the Group's performance.

Throughout the reporting period, the Board was comprised of two executive directors and six non-executive directors. Of those six non-executive directors, a majority were independent directors ('independence' is discussed on page 24 of this statement). David Deverall joined the Board as a seventh non-executive and independent director on 7 May 2012. Glenn Fraser retired from the Board on 15 August 2012.

Name	Position	Independent (Yes/No)	Appointed
Kerry Roxburgh	Chairman, Non-Executive Director	Yes	12 April 2005
Roy Woodhouse	Deputy Chairman, Non-Executive Director	Yes	6 April 2005
Anne Brennan	Non-Executive Director	Yes	6 October 2010
David Deverall	Non-Executive Director	Yes	7 May 2012
Glenn Fraser*	Non-Executive Director	Yes	6 April 2005
David Harrison	Joint Managing Director, Executive Director	No	30 August 2006
Peter Kahan	Non-Executive Director	No	1 October 2009
Colin McGowan	Non-Executive Director	Yes	6 April 2005
David Southon	Joint Managing Director, Executive Director	No	30 August 2006

\* Glenn Fraser retired from the Board on 15 August 2012 for family reasons.

Details of the background, particular qualifications, expertise and period of service of each director are set out in the Directors' Report on pages 38 to 40 of this Annual Report.

# Corporate governance statement

## The Chairman of the Board

The Chairman is responsible for leadership of the Board and for the efficient organisation and conduct of the Board. The Chairman seeks effective contributions from all directors and promotes constructive and respectful relations between directors, and between the Board and Management. The role of the Chairman is further defined in the Board's Charter, which is available to view under the 'Corporate Governance' section of Charter Hall's website.

## Director independence

The Board considers that a director is independent if he/she is independent of Management and free of any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the exercise of unfettered and independent judgement. Directors are required to declare their interests and the Board evaluates the materiality of any interests or relationships that could be perceived to compromise independence on a case by case basis, having regard to the circumstances of each director.

Directors are expected to be meticulous in their disclosure of any material personal or family contract or relationship. Directors must also strictly adhere to constraints on their participation and voting in relation to matters in which they may have an interest, in accordance with the Corporations Act and the Group's policies.

The Board regularly assesses whether directors are independent, and each director is required to provide information relative to this assessment. It is noted that David Harrison and David Southon, due to their employment by the Group in an executive capacity, are not independent. In addition, Peter Kahan is considered not to be independent due to his role as Deputy Chairman and director of The Gandel Group, a substantial securityholder of Charter Hall.

## Independent decision making

Directors are entitled to seek independent professional advice at the expense of the Group as required in the furtherance of their duties and in relation to their functions (including their Board Committee functions), subject to an estimate of costs being first approved by the Chairman or Deputy Chairman as reasonable.

Non-executive directors of the Board meet regularly without Management present, in order to consider matters independently of Management.

## Director appointments

The Nomination Committee reviews, and where appropriate, makes recommendations to the Board on the size and composition of the Board, including assessment of necessary and desirable competencies of Board members. The Committee's Charter is available to view under the 'Corporate Governance' section of Charter Hall's website.

The Committee has adopted composition and membership criteria for the Board. A majority of the directors on the Board must be 'independent'. Directors are to encompass an appropriate range of qualifications and expertise. Directors nominated for election require approval of the Board and must stand for re-election at the next General Meeting of securityholders.

Also, guidelines have been adopted for director selection and nomination to the Board. Foremost is integrity, particular expertise (sector and functional) and the degree to which he/she complements the skill set of the existing Board members, his/her reputation and standing in the market, and in the case of prospective independent directors, the actual and perceived independence from Charter Hall.

Presently, the Board and the Nomination Committee have engaged the services of an external adviser to assist in the development of a Board skills matrix. This matrix is used to identify any gaps in the skills and experience of the directors on the Board for the purposes of identifying the search and assessment criteria for new directors.

The Committee's current membership is set out on page 22 of this statement and the independence of the members is provided on page 23 of this statement. Details of the Committee's meetings for the reporting period, and the attendance by members, are provided in the Directors' Report on page 41 of this Annual Report.

## Board performance

The following structures are in place to support the Group's directors in performing their duties:

- ◆ an induction program for new directors on the Board;
- ◆ a formal annual performance self-assessment of the Board, Board Committees, and individual directors, externally facilitated this year; and
- ◆ access by directors to continuing education to ensure that their skills and knowledge are updated and enhanced.

The procedure for evaluating Board performance (for the reporting period) required each director to complete an externally facilitated performance evaluation. These evaluations were submitted to an independent party who collated and provided summarised and individual results to the Chairman, who then distributed the results to the full Board. An external consulting firm was engaged for this process. Based on the results of the survey and the Chairman's feedback, the Board as a whole discussed and analysed Board and Committee performances during the year, and directors engaged in one-on-one sessions with the Chairman. These discussions and sessions enabled the directors to consider suggestions for change and/or improvement.

To ensure that directors are well-placed to discharge their duties effectively, they are provided in advance of Board meetings with papers containing sufficient information to enable informed discussion of all agenda items.

## Access to information

The Joint Managing Directors, senior executives and the Company Secretary supply the Board with regular reports and information to enable the Board to discharge its duties. Directors are entitled to request additional information where they consider such information is necessary to make informed decisions.

## Company Secretary

The Company Secretary plays an important role in supporting the effectiveness of the Board by ensuring that Board policy and procedures are followed, and coordinating the timely completion and dispatch of the Board agenda and briefing material.

All directors have access to the Company Secretary.

The appointment and removal of the Company Secretary is a matter for decision by the Board as a whole.

The Company Secretary is accountable to the Board, through the Chairman, on all governance matters.

## Ethical and responsible decision making

Charter Hall is committed to being a good corporate citizen and has a robust framework of policies in place to achieve this.

### Code of conduct

The Board has adopted a Code of Conduct which forms the basis for expected behaviour by Board members and all staff. It is the framework that provides the foundation for maintaining and enhancing the Group's reputation. The objective of the Code is to ensure that directors, other stakeholders and the broader community can be confident that the Group conducts its affairs honestly and in accordance with ethical values and practices.

The Code sets the standards for dealing ethically with employees, investors, customers, regulatory bodies and the financial and wider community, and the responsibility and accountability of individuals for reporting and investigating reports of unethical behaviour.

In addition to this, in order to deal specifically with the responsibility and accountability of individuals for reporting and investigating reports of fraudulent and unethical practices, Charter Hall has adopted a Fraud Risk Management Policy.

Staff are trained regularly on matters pertaining to ethical behaviour in the workplace. Topics covered during the reporting period included the key aspects of the Code, as well as a refresher course on fraud risk management, insider trading prohibitions and anti-money laundering and counter-terrorism financing.

A summary of Charter Halls' Code of Conduct and the Fraud Risk Management Policy are available to view under the 'Corporate Governance' section of Charter Hall's website. A full copy of the Charter Hall Code of Conduct is also available upon request from the Company Secretary.

### Managing conflicts

Charter Hall has implemented a governance framework to safeguard the interests of investors in the investment vehicles, which at times may conflict with those of Charter Hall as sponsor of related vehicles. As part of this framework, the Group has established a Related Party Transactions Policy for identifying and managing conflicts.

The Policy provides guidance on the management of conflicts of interest arising between Charter Hall managed vehicles and their related parties and requires that:

- ◆ related party transactions are identified and conducted on arm's length terms;
- ◆ related party transactions are tested by reference to whether they meet market standards; and
- ◆ decisions about transactions between Charter Hall managed vehicles and Charter Hall or its affiliates are made by independent members of the Board or Investment Committees (where they have been appointed).

The Policy also contains detailed guidelines for the Board in dealing with conflicts, including that:

- ◆ Board members declare their interests as required under the Corporations Act, ASX Listing Rules and other general law requirements;
- ◆ Board members with a material personal interest in a matter are not to be present at a Board meeting during consideration of the matter and subsequent vote unless the Board (excluding the relevant Board member) resolves otherwise; and
- ◆ Board members with a conflict not involving a material personal interest may be required to absent themselves from the relevant deliberations of the Board.

The Policy is available to view under the 'Corporate Governance' section of Charter Hall's website.

The Group also has a conflicts protocol for dealing with competing deals (e.g. acquisitions, leasing). Such deals may arise out of the fact that Charter Hall is also the manager of other listed and unlisted vehicles and the Group may transact with them from time to time, or share staff or information with other Charter Hall companies or managed vehicles.

Personal conflicts that might arise generally for directors and staff are covered by the Code of Conduct referred to earlier in this statement.

### Securities trading

The Group has in place a Securities Trading Policy which regulates the manner in which directors, senior executives and all staff involved in the management of the Group can deal in Charter Hall securities. The Policy specifies the periods in which personal trading is not permitted, the restrictions that apply to directors and senior executives, and the procedures for obtaining prior clearance for trading (when a blackout is not in effect).

Staff compliance with the Policy is monitored under Charter Hall's risk management framework. The Policy is subject to annual review by the Board, and has been lodged with the ASX.

The Securities Trading Policy is available to view under the 'Corporate Governance' section of Charter Hall's website.

### Sustainability

Charter Hall is committed to playing a leading role in achieving a sustainable future and the Board has adopted a Sustainability Policy which forms the basis for integrating environmental and social governance issues into the Group's activities. This Policy is available to view under the 'About Us' section of Charter Hall's website. In addition, Charter Hall's sustainability objectives are outlined on page 14 of this Annual Report.

### Diversity

The Board is committed to fostering a diverse and inclusive workforce in pursuit of the achievement of Charter Hall's corporate goals. Charter Hall considers diversity in the workplace as respecting and valuing differences based on a wide range of personal characteristics including gender, age and ethnicity, as well as diversity of thought and background.

Charter Hall believes that people with different experiences, backgrounds and perspectives can provide unique viewpoints and innovative solutions from which the business can benefit. In particular, the promotion of greater gender diversity broadens the pool for recruitment of high quality directors and employees, is likely to support employee retention, encourage greater innovation, allows the Group to connect with its diverse client base, provides it with a balanced perspective, and is a socially and economically responsible governance practice.

The Board has adopted a Diversity and Inclusion Policy, which is available to view under the 'Corporate Governance' section of Charter Hall's website. This Policy, initially adopted in November 2010, was reviewed and updated by the Board during the reporting period.

Management has established a Diversity Committee, comprising senior executives within the Group and chaired by one of the Joint Managing Directors. The aim of this Committee is to implement the specific diversity strategies and objectives of the Board.

## Corporate governance statement

### FY12

As at 30 June 2012, the proportion of women on the Board was 11%, in senior management was 18%, and across the Group was 49%.

During the reporting period, the following work was achieved against the objectives set by the Board:

Objective	Achievements
Selecting and appointing directors from a diverse pool of talent	<ul style="list-style-type: none"> <li>◆ Developed and implemented an appointment process for future directors taking into account diversity of background and gender</li> </ul>
Recruitment of senior executives	<ul style="list-style-type: none"> <li>◆ Defined and implemented a recruitment process which considers diversity of background as well as skills and experience</li> </ul>
Addressing impediments to diversity	<ul style="list-style-type: none"> <li>◆ Implemented Appropriate Workplace Behaviour for all employees</li> <li>◆ Updated the parental leave policy</li> <li>◆ Created a working from home policy</li> </ul>
Identify, support and develop talented individuals with leadership potential across spectrum of gender, ethnicity and age	<ul style="list-style-type: none"> <li>◆ Developed and implemented a learning and development framework for all employees</li> <li>◆ Developed Study Assistance, External Training and Professional Membership policies</li> </ul>
Identifying ways to entrench diversity as a cultural priority across the Group	<ul style="list-style-type: none"> <li>◆ Reviewed and implemented changes to the Diversity and Inclusion Committee composition to create a greater focus on diversity and inclusion</li> <li>◆ Progress has been made in terms of achieving this objective through the achievement of the objectives above</li> <li>◆ Further focus on integrating diversity as a cultural priority will continue in FY13</li> </ul>
Setting targets for women's participation in the Board, senior management and across all business	<ul style="list-style-type: none"> <li>◆ Targets were set by the Board for increasing women in leadership, management and in business related roles</li> </ul>

### Our focus for FY13

The Board has adopted the following objectives, which Management (through its Diversity Committee) will implement over a three year period up to 2015:

- ◆ increase the percentage of women in leadership and business related roles; and
- ◆ promote a culture that values diversity, inclusion and flexibility.

To achieve these objectives in the forthcoming financial year, Charter Hall will be focusing on the following diversity and inclusion strategies:

Strategy	Actions
Leadership Accountability	Leaders to drive diversity outcomes and appropriate behaviours
Recruitment	Integrate Charter Hall's diversity commitment into every aspect of recruitment
Communication	Communicate diversity policy and initiatives internally and externally
Development	Leadership development on diversity and targeted programs for women

Charter Hall will measure its success in achieving its targets through:

- ◆ employee data such as workforce profile data, learning and development, talent and succession, flexible work practices and recruitment data;
- ◆ annual external benchmarking of the Group's diversity initiatives and targets against our competitors;
- ◆ employee surveys to invite better understanding of what it takes to create a diverse and inclusive workplace; and
- ◆ engagement, retention and progression of an increased number of women in our business.

## Financial integrity

The Board has set in place a structure of review and authorisation to ensure that the Group's financial information is presented truthfully and factually.

### Audit, Risk and Compliance Committee

The Audit, Risk and Compliance Committee is responsible for assisting the Board in discharging its responsibilities to safeguard the integrity of Charter Hall's financial reporting and the system of internal control. A key component of the Committee's role is to provide advice and recommendations to the Board with respect to the accounting, audit, financial and risk management practices of the Group.

The Committee's Charter is reviewed annually by the Board, and is available to view under the 'Corporate Governance' section of Charter Hall's website.

The Committee's current membership is set out on page 22 of this statement and the independence of the members is provided on page 23 of this statement. Details of the Committee's meetings for the reporting period, and the attendance by members, are provided in the Directors' Report on page 41 of this Annual Report.

The Board regularly assesses and has determined that members of the Audit, Risk and Compliance Committee, collectively have an appropriate level of financial and property industry expertise to discharge their responsibilities.

### External Auditor

The Board has appointed PricewaterhouseCoopers (PwC) as the Group's Auditor. PwC is expected to carry out its responsibilities in accordance with Australian law and audit firm policy in respect of partner rotation.

The Auditor is invited to attend meetings of the Audit, Risk and Compliance Committee, and also meets privately with Committee members at least twice a year.

In order to ensure the independence of the Auditor, the Board has adopted an Auditor Independence Policy requiring that:

- ◆ the Auditor remain independent from Charter Hall;
- ◆ the Auditor monitor its independence and report to the Board every six months on its continuing independence;
- ◆ non-audit assignments undertaken by the Auditor are in accordance with the Policy; and
- ◆ all non-audit assignments are reported to the Audit, Risk and Compliance Committee.

The Auditor attends the Group's annual general meeting and is available to answer securityholder questions on the conduct of the audit, and the preparation and content of the Auditor's Report.

Charter Hall's Auditor Independence Policy is available to view under the 'Corporate Governance' section of Charter Hall's website.

### Internal Audit

The Board places considerable importance on maintaining a strong control environment through an organisation structure with clearly drawn lines of accountability and authority. At this time, Charter Hall has not implemented an internal audit function; however, the Board has agreed with Management that an internal audit function (whether internally based or provided through an external service provider) will be introduced in FY13.

## Disclosure

Charter Hall strives to provide timely, open and accurate information to all stakeholders, including securityholders, regulators and the wider investment community. This includes presenting a balanced approach to disclosure. Charter Hall has a Continuous Disclosure and Communications Policy which summarises the internal processes to ensure compliance with ASX Listing Rules and Australian law in respect of continuous disclosure.

The Policy includes procedures for dealing with potentially price-sensitive information, including referral to the Joint Managing Directors and Company Secretary, and the Board where necessary, for a determination as to the appropriate disclosure required.

Charter Hall's Company Secretary is the ASX liaison person.

The Continuous Disclosure and Communications Policy is available to view under the 'Corporate Governance' section of Charter Hall's website.

## Securityholder communication

Charter Hall's Continuous Disclosure and Communications Policy also contains information on the methods of providing timely and relevant information to securityholders, including:

- ◆ the right for investors to receive an Annual Report and updates which keep them informed of Charter Hall's performance and operations;
- ◆ placement under the 'News Centre' section of Charter Hall's website of market-sensitive information in the form of ASX announcements or webcasts. Investors also have the ability under this section of the website to register to receive email alerts on the Group's announcements to the ASX;
- ◆ placement under the 'Investor Centre' section of Charter Hall's website of distribution and tax information, unit price performance, financial results information including the results webcast, investor presentations, past and current reports to securityholders and past securityholder meeting information; and
- ◆ presentations to investor roadshows that are required to be lodged with the ASX are uploaded to the 'News Centre' section of Charter Hall's website.

Charter Hall is required to hold an Annual General Meeting of securityholders, which is typically held between October and November. A full copy of the notice of meeting, including an explanatory memorandum on the resolutions, is placed under the 'Investor Centre' section of Charter Hall's website. For securityholders who are unable to attend formal meetings to vote, proxies may be lodged online, by mail or by facsimile. Meetings are also webcast.

Charter Hall's Continuous Disclosure and Communications Policy is available to view under the 'Corporate Governance' section of Charter Hall's website. Recent Annual Reports and financial results are available to view under the 'Investor Centre' section of Charter Hall's website. Recent ASX announcements and investor webcasts are available to view under the 'News Centre' section of Charter Hall's website.

## Risk management

Management has implemented a Risk Management Framework (Framework) under the oversight of the Audit, Risk and Compliance Committee and the Board. This Framework sets the overall approach to risk management at Charter Hall and the functional elements of monitoring, assessment and reporting, as well as key participant responsibilities.

In accordance with its Charter, the Committee is responsible for reviewing and reporting to the Board on the internal control and risk management systems of Charter Hall and assessing the information presented by Management. In addition, the Committee regularly assesses the adequacy of the Framework including Charter Hall's compliance plans and systems, financial control systems and risk management policies and systems.

Charter Hall's Risk and Compliance Manager is responsible for daily risk and compliance processes across the business and monitors the efficiency of the Framework (including compliance systems) on an ongoing basis. The aim is to ensure that appropriate procedures, staff education and reporting arrangements are in place to support the Framework's objectives.

Management conducts an annual Operational Risk Self-Assessment (ORSA) where key risks and controls are considered and their effectiveness assessed. The results of this assessment are reported to the Audit, Risk and Compliance Committee and the Board.

During the reporting period, Management reported to the Audit, Risk and Compliance Committee on the manner in which it manages its material risks, the effectiveness of the Framework and the results of the annual ORSA.

The Board places considerable importance on maintaining a strong control environment through an organisational structure with clearly drawn lines of accountability and authority. In addition, the Board considers that an internal audit function would be beneficial to the Group, and is committed to implementing this function (internally or via external resources) within FY13.

A summary of the Group's Risk Management Framework is available to view under the 'Corporate Governance' section of Charter Hall's website.

## JMDs and CFO assurance

The Board has received assurance from the Joint Managing Directors and Chief Financial Officer that the Group's consolidated financial statements are founded on a sound system of risk management and internal control and that the system is operating in all material respects in relation to financial reporting risks. This assurance is supported by a review and sign-off process from senior managers on the key items that make up the risk management and control systems.

## Remuneration

The Board has established a Remuneration and Human Resources Committee to assist the Board in implementing the Group's human resources strategies. The Committee operates under a Charter approved by the Board, is comprised of only non-executive directors with a majority being 'independent', and is chaired by an independent director.

Broadly, the Committee is responsible for reviewing and making recommendations to the Board in respect of executive remuneration and incentive policies, equity based incentive schemes, diversity and inclusion objectives, talent management and succession planning and policies and procedures (covering recruitment, retention, performance measurement and termination). The Committee also reviews the remuneration of the non-executive directors, all key appointments and terminations to the executive management team (and other divisional heads), and the standard contractual terms applicable to Management. Stakeholder engagement is also a focus, as well as the disclosure of Charter Hall's remuneration framework in public materials, such as this Annual Report.

From a policy perspective, the Committee assists the Board in ensuring that:

- ◆ an appropriate human resources strategy is implemented to enable Charter Hall to deliver on its business strategy;
- ◆ remuneration policies and practices are in line with strategic goals and enables Charter Hall to attract and retain high calibre executives and directors who will create value for securityholders;
- ◆ directors and executives are fairly and responsibly remunerated having regard to the performance of Charter Hall, the performance of the executives and the general remuneration environment;
- ◆ Charter Hall has effective policies and procedures to attract, motivate and retain talented individuals to meet its needs; and
- ◆ people policies and practices align with Charter Hall's vision, values and overall objectives, comply with the relevant legislation, reflect current governance and mitigate against operational, financial and reputational risk.

The Committee's current membership is set out on page 22 of this statement and the independence of members is discussed on page 23 of this statement. Details of meetings held and attendance by each Committee member are contained in the Directors' Report on page 41 of this Annual Report.

From time to time the Committee may commission the assistance of external consultants to ensure the Group's remuneration policies remain appropriate, follow best practice and address the requirements of the Group's stakeholders.

Charter Hall's Head of People and the Joint Managing Directors support the Committee by the provision of requested information and advice and are invited to attend meetings from time to time.

Charter Hall distinguishes the structure of non-executive directors' remuneration from that of executive directors and senior executives. Further information is provided in the Remuneration Report on pages 41 to 64 of this Annual Report.

The Remuneration and Human Resources Committee's Charter is available to view under the 'Corporate Governance' section of Charter Hall's website.

# Financial report for the year ended 30 June 2012

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## Directors' report for the year ended 30 June 2012

The Directors of Charter Hall Limited and the Directors of Charter Hall Funds Management Limited, the Responsible Entity of Charter Hall Property Trust, present their report together with the consolidated financial report of the Charter Hall Group (Group or CHC) and the consolidated financial report of the Charter Hall Property Trust Group (Charter Hall Property Trust Group or CHPT) for the year ended 30 June 2012, and the independent auditor's report thereon. The financial report of the Group comprises Charter Hall Limited (Company or CHL) and its controlled entities, which include Charter Hall Funds Management Limited as the responsible entity of Charter Hall Property Trust (Trust). The financial report of the Charter Hall Property Trust Group comprises the Trust and its controlled entities.

Charter Hall Limited and Charter Hall Funds Management Limited have identical boards of directors. The term Board hereafter should be read as a reference to both these Boards.

The units in the Trust are 'stapled' to the shares in the Company. A stapled security comprises one Company share and one Trust unit. The stapled securities cannot be traded or dealt with separately.

### Directors

The following persons were Directors of the Group during the whole of the year and up to the date of this report, unless noted otherwise:

- ◆ Kerry Roxburgh – Chairman and Non-Executive Independent Director
- ◆ Roy Woodhouse – Deputy Chairman and Non-Executive Independent Director
- ◆ Anne Brennan – Non-Executive Independent Director
- ◆ David Deverall – Non-Executive Independent Director (appointed 7 May 2012)
- ◆ Glenn Fraser – Non-Executive Independent Director (resigned 15 August 2012)
- ◆ Cedric Fuchs – Executive Director (resigned 24 November 2011)
- ◆ David Harrison – Joint Managing Director
- ◆ Peter Kahan – Non-Executive Director
- ◆ Colin McGowan – Non-Executive Independent Director
- ◆ David Southon – Joint Managing Director

### Principal activities

During the year the principal continuing activities of the Group consisted of:

- (a) Property investment;
- (b) Property funds management; and
- (c) Development investment.

No significant changes in the nature of the activities of the Group occurred during the year.

### Distributions – Charter Hall Group

Distributions paid/declared to members during the year were as follows:

	2012 \$'000	2011 \$'000
Interim ordinary distribution for the six months ended 31 December 2011 of 9.10 cents per security paid on 23 February 2012	26,888	–
Final ordinary distribution for the six months ended 30 June 2012 of 9.10 cents per security paid on 28 August 2012	26,951	–
Interim ordinary distribution for the six months ended 31 December 2010 of 8.00 cents per security paid on 28 February 2011	–	23,500
Final ordinary distribution for the six months ended 30 June 2011 of 8.50 cents per security paid on 25 August 2011	–	24,969
	<b>53,839</b>	<b>48,469</b>

# Directors' report for the year ended 30 June 2012

## Distribution Re-investment Plan (DRP)

The DRP was not in operation during the year.

## Review and results of operations

The Group recorded a statutory profit after tax attributable to stapled securityholders for the financial year of \$16.7 million compared to a profit of \$52.3 million in 2011.

Operating earnings amounted to \$54.8 million for the financial year compared to \$60.4 million in 2011. Operating earnings before specific items related to the sale of Charter Hall Office REIT (CQO) US assets net of closure costs of the US office, costs of retaining the management rights, organisational restructure costs and provision for Charter Hall Opportunity Fund 4 performance fee clawback amounted to \$63.6 million, an increase of 5.3% over the prior period.

Operating earnings is a financial measure which represents the profit/(loss) under Australian Accounting Standards adjusted for fair value adjustments, impairment of assets, gains or losses on sale of investments, acquisition costs, non-operating movements in equity accounted investments, and non-cash items such as security-based benefits expense, amortisation and tax expense/(benefit).

The inclusion of operating earnings as a measure of the Group's profitability provides investors with the same basis that is used internally for evaluating operating segment performance. Operating earnings is used by the Board to make strategic decisions and as a guide to assessing an appropriate distribution to declare.

The operating earnings information included in the table below has not been subject to any specific audit procedures by our auditor but has been extracted from Note 5: Segment information of the accompanying financial report.

	2012 \$'000	2011 \$'000
<b>Reconciliation of operating earnings to statutory profit</b>		
<b>Operating earnings before specific items</b>	63,586	60,422
Specific items <sup>1</sup>	(8,741)	–
<b>Operating earnings</b>	54,845	60,422
Fair value adjustments on derivatives <sup>2</sup>	(9,933)	2,141
Fair value adjustments on investments and property, including remeasurement gains <sup>2</sup>	(2,034)	14,239
Inventory writedown <sup>2</sup>	(5,814)	(664)
Transfer from reserves of cumulative FX losses on disposal of foreign investments <sup>2</sup>	(12,176)	(871)
Impairment of management rights	–	(19,171)
Security-based benefits expense	(2,338)	(4,090)
Other <sup>2</sup>	(5,872)	332
<b>Statutory profit after tax attributable to stapled securityholders</b>	16,678	52,338

- Specific items include \$16.0 million fee revenue related to sale of Charter Hall Office REIT (CQO) US assets net of \$4.0 million closure costs of the US office, \$2.9 million costs of retaining the management rights, \$3.9 million organisational restructure costs and \$14.2 million provision for Charter Hall Opportunity Fund 4 (CHOF4) performance fee clawback which is then reduced by \$0.3 million being the Group's 3% equity share of the clawback receivable in CHOF4.
- These items include the Group's share of non-operating movements in equity accounted investments, including losses on sale of offshore investment properties of \$2.0 million and amortisation charges of \$2.4 million (including amortisation of management rights).

Basic weighted average number of securities per note 40 ('000s)	295,625	293,254
Basic earnings per stapled security per note 40 (cents)	5.64	17.85
Operating earnings per stapled security before specific items per note 5 (cents)	21.51	20.60
Operating earnings per stapled security per note 5 (cents)	18.55	20.60

The 30 June 2012 financial results with comparatives are summarised as follows:

	Charter Hall Group		Charter Hall Property Trust Group	
	2012	2011	2012	2011
Revenue including minority interests (\$ million) <sup>1</sup>	123.6	109.6	53.3	35.3
Statutory net profit after tax – stapled securityholders (\$ million)	16.7	52.3	36.1	57.8
Statutory earnings per stapled security (EPS) (cents)	5.64	17.85	12.21	19.72
Operating earnings before specific items – stapled securityholders (\$ million) <sup>2</sup>	63.6	60.4	N/A	N/A
Operating earnings before specific items per stapled security (cents) <sup>2</sup>	21.5	20.6	N/A	N/A
Operating earnings for stapled securityholders (\$ million) <sup>2</sup>	54.8	60.4	N/A	N/A
Operating earnings per stapled security (cents) <sup>2</sup>	18.6	20.6	N/A	N/A
Distributions to stapled securityholders (\$ million)	53.8	48.5	53.8	48.5
Distribution per stapled security (cents)	18.2	16.5	18.2	16.5
Total assets (\$ million)	877.8	957.6	775.5	1,032.3
Total liabilities (\$ million)	121.4	175.6	84.8	135.0
Net assets attributable to stapled securityholders (\$ million) <sup>3</sup>	728.9	749.8	650.2	850.2
Securities on issue (million) <sup>4</sup>	296.2	293.8	296.2	293.8
Net assets per security	2.46	2.55	2.20	2.89
Net tangible assets (NTA) attributable to stapled securityholders (\$ million)	630.2	649.8	650.2	850.2
NTA per stapled security (\$) <sup>4</sup>	2.13	2.21	2.20	2.89
Gearing – borrowings to total assets <sup>5</sup>	1.45%	8.12%	4.27%	9.44%
Funds under management (\$ billion)	8.9	10.7	N/A	N/A
Domestic funds under management (\$ billion)	8.5	8.5	N/A	N/A

1. Gross revenue does not include share of net profits of associates of \$2.9 million (2011: profit of \$30.4 million) or gains on sale of investments in 2011 of \$3.4 million.
2. Excludes fair value adjustments on investment property, financial assets and financial instruments, gains on sale of investments, non-operating movements in equity accounted investments, and non-cash items such as net gain on remeasurement of equity interests, security-based benefits expense, amortisation and income tax expense/(benefit).
3. Excludes non-controlled interest in DRF.
4. Excludes stapled securities issued under the Executive Loan Security Plan in accordance with AASB 2 *Share-based Payments*.
5. Gearing is calculated by using debt net of cash divided by total assets net of cash.

# Directors' report for the year ended 30 June 2012

## Review and results of operations (continued)

Distribution per stapled security (DPS) has increased from 16.5 cents in FY11 to 18.2 cents in FY12.

Net Tangible Assets per stapled security (NTA) has decreased from \$2.21 at 30 June 2011 to \$2.13 per security at year end.

Funds Under Management (FUM) has decreased from \$10.7 billion at 30 June 2011 to \$8.9 billion at year end primarily as a result of US asset sales by Charter Hall Office REIT (CQO), in line with its strategy to exit from all offshore markets. Domestic funds under management remains unchanged from the prior year at \$8.5 billion.

Gearing has decreased from 8.12% at 30 June 2011 to 1.45% at 30 June 2012.

Charter Hall Group is a diversified property group with a fully integrated business model. The Group has three business activities that contribute to overall performance: property investment, property funds management and development investment.

The Group recorded a statutory profit after tax attributable to stapled securityholders for the financial year of \$16.7 million compared to a profit of \$52.3 million in 2011. Earnings per security for the year amounted to 5.64 cents compared to 17.85 cents for the prior year. Net tangible assets have declined 3.6% from \$2.21 per security at 30 June 2011 to \$2.13 at 30 June 2012.

The Group delivered \$63.6 million of operating earnings before specific items compared to \$60.4 million in 2011. Property investment contributing \$31.2 million (FY11: \$29.9 million), property funds management contributing \$23.8 million (FY11: \$20.4 million), development investment contributing \$2.6 million (FY11: \$3.8 million), and the Group's interest in Charter Hall Direct Retail Fund (DRF) contributing \$6.0 million (FY11: \$6.3 million). The Group delivered \$54.8 million of operating earnings after specific items compared to \$60.4 million in 2011.

### Property investment

The Group's property investment activities are classified into the following categories reflecting different sources of external equity managed across the Group:

- ◆ Direct property investment;
- ◆ Co-investment property interest in listed funds;
- ◆ Co-investment property interest in wholesale unlisted funds; and
- ◆ Co-investment property interest in retail investor funds.

A summary of the activities of each of the above categories is provided below.

#### i) Direct property investments

Following the sale of the Mentone Showrooms property during the period, all the Group's direct property investments are within the Charter Hall Direct Retail Fund (DRF). DRF is consolidated by the Group due to its 66% interest (held by the stapled Group). DRF is actively marketing all of its investment properties for sale. Accordingly, all investment property, including investment properties held indirectly through a joint venture, have been reclassified to current assets. Consequently, all debt and derivatives relating to those properties have also been disclosed as current liabilities.

During the period, the Group sold its direct interest in the Mentone Showrooms in Melbourne, Victoria realising a gain on sale of \$0.6 million, and its direct interest in Countdown in Auckland, New Zealand realising a loss on sale of \$1.5 million.

#### Charter Hall Direct Retail Fund (DRF) – \$0.2 billion FUM, CHPT interest 50% and CHL interest 16%

DRF is an unlisted property fund that invests directly in quality

retail properties with a current portfolio of five retail shopping centres located in established markets in New South Wales, Victoria and Queensland. At 30 June 2012 this portfolio benefited from an occupancy rate of 99.6% and a weighted average lease expiry (WALE) of 5.5 years. The fund's debt facility expires in November 2013.

As noted above, all of DRF's investment properties are being actively marketed for sale.

#### ii) Listed fund

##### Charter Hall Retail REIT (CQR) – \$2.0 billion FUM, CHPT interest 10% with an equity interest carrying value of \$101.3 million

CQR's investment strategy is to invest in neighbourhood and sub-regional shopping centres in Australia anchored by Coles and Woolworths. The REIT's portfolio comprises assets across Australia with a reduced offshore exposure given the successful divestment program implemented in recent years. Asset revaluations of CQR's portfolio for the year ended 30 June 2012 resulted in a valuation decrement of \$21.1 million primarily due to devaluations for the REIT's German and bulky retail assets. These valuation movements as well as interest rate derivative movements impacted the REIT's NTA over the period. The occupancy of the CQR Australian portfolio at 30 June 2012 was 98.6%, with like for like property net operating income growth of 3.5%, reflecting the non-discretionary nature of income from the underlying assets. During the year the REIT acquired four Australian assets for \$160 million (100% share), utilising proceeds from the sale of its US wholly-owned assets.

#### iii) Wholesale unlisted funds

##### Core Plus Office Fund (CPOF) – \$1.5 billion FUM, CHPT interest 13% and CHL interest 1% with a combined equity interest carrying value of \$113.0 million

CPOF is an Australian unlisted wholesale office fund managed by the Group. CPOF has continued to focus on improving portfolio metrics, creating value via enhancements and acquisitions. With occupancy of 98% and a lease expiry profile of 5.5 years CPOF is well placed to benefit from improving market conditions. Following independent valuation of the entire portfolio across the June and December reporting periods of this financial year, CPOF maintains a gross asset value of \$1.5 billion and a current weighted average capitalisation rate of 7.86%.

##### Charter Hall Office Trust (CHOT) (formerly Charter Hall Office REIT (CQO)) – \$2.0 billion FUM, CHPT interest 15% with an equity interest carrying value of \$145.7 million

At 30 June 2012, CHOT's portfolio comprises 17 high grade office assets located in major business districts in Australia, and one premium office development under construction in the Melbourne CBD (171 Collins Street) with anticipated practical completion in May 2013.

On 1 May 2012, the Group confirmed implementation of the privatisation of CQO by a consortium of investors (the Consortium). The unlisted trust is known as Charter Hall Office Trust (CHOT). The Group has been appointed the investment, property and development manager for CHOT. It is expected that the net fee revenue that the Group will earn from managing CHOT will be generally consistent with the net revenue earned previously from managing the Australian assets of CQO. With implementation of the privatisation, CQO changed from a listed REIT to a wholesale unit trust with liquidity reviews every five years. Accordingly, the Group will amortise the management rights over a six year period, which includes an additional year to source liquidity were the trust to be wound up at that time. As a participant in the Consortium, the Group's interest in CHOT has increased from 10% to 15%.

Asset revaluations of CHOT's Australian portfolio at 30 June 2012 resulted in an increase of \$22.7 million (or \$33.1 million since June 2011). The occupancy of the CHOT portfolio increased 2% to 98% at 30 June 2012, with like for like property net operating income growth of 3.6%.

**Core Plus Industrial Fund (CPIF) – \$0.6 billion FUM, CHPT interest 8% and CHL interest 10% with a combined equity interest carrying value of \$54.9 million**

CPIF is an Australian unlisted wholesale industrial fund managed by the Group. CPIF has continued its focus on holding core logistics investments and executing accretive acquisitions. The portfolio's current weighted average capitalisation rate is 8.21%, with a WALE of 11.5 years underpinned by strong tenant covenants such as Woolworths, Coles, Metcash and Volkswagen. CPIF has been actively leasing over the financial year, reaching an occupancy level of 98% with minimal forward looking vacancy out until 2017.

**Other wholesale unlisted funds**

The Group also originates and manages segregated mandate capital for direct property investments either in joint ventures with funds such as CPOF or CQR or as 100% owned assets by our clients. There is a total portfolio value of \$635 million within the segregated mandate business.

**iv) Retail investor funds – This business manages equity raised from retail investors via advisers and through direct distribution channels, with combined FUM of \$1.5 billion**

**Charter Hall Diversified Property Fund (DPF) – \$0.1 billion FUM, CHPT interest of 25% representing a carrying value of \$11.7 million**

DPF is an unlisted property fund with rolling seven-year review events that primarily invests in a diversified portfolio of three office buildings and three industrial properties located in established markets throughout Sydney, Melbourne and Perth which benefited from an occupancy rate of 97% and a weighted average lease expiry of 6.2 years at 30 June 2012.

During the year asset sales totalling approximately \$80 million were completed, with the net proceeds being used to reduce gearing and provide capital returns to investors ahead of the fund's upcoming review event scheduled for October 2012. This review event is likely to lead to the sale of some or all of the fund's remaining assets.

**Charter Hall Direct Property Fund (CHDPF) – \$0.5 billion FUM, CHPT interest 4% representing a carrying value of \$10.8 million**

CHDPF is an unlisted property fund that primarily invests in a diversified portfolio of Australian direct properties anchored by eight office properties located in established markets throughout Sydney, Melbourne and Brisbane which benefited from an occupancy rate of 97% and a weighted average lease expiry of 4.3 years with leases to over 110 tenants at 30 June 2012. The weighted average cap rate was 8.35%.

The fund remains open for investor applications with the issue of a product disclosure statement in December 2010 and is continuing to provide limited liquidity through six-monthly withdrawal offers.

**Charter Hall Umbrella Fund (CHUF) – \$0.1 billion FUM, CHPT interest 27% representing a carrying value of \$39.5 million**

CHUF is an unlisted fund of funds with investments predominantly in Charter Hall Group managed funds, with no balance sheet gearing and exposure to a portfolio of more than 55 office, industrial and retail properties across Australia and New Zealand which benefited from a WALE of 7.6 years and a current occupancy of 98% at 30 June 2012.

During the year the fund commenced providing limited liquidity through six-monthly withdrawal offers.

**Other managed funds**

The Group also manages a series of pooled and single asset syndicates totalling \$193 million in asset value, in which the Group has no equity interest.

**Property funds management**

The property funds management business provides investment management, asset management, property management, development management, leasing and transaction services to not only funds in which the Group has a co-invested stake, but also to funds established and managed by the Group. The Group also provides services via segregated mandates looking to capitalise on the Group's expertise.

The Group's managed funds have acquired approximately \$439 million of property in Australia across Charter Hall Retail REIT (\$176 million), Charter Hall Core Plus Office Fund (\$96 million), Charter Hall Core Plus Industrial Fund (\$85 million) and Direct Industrial Fund (\$82 million). The Group's managed funds have divested approximately \$2.1 billion of assets, of which approximately \$1.7 billion related to the divestment of CQO's United States portfolio.

The integrated property services model provides transactional, leasing, investment management, asset management and property management profits within the Property Funds Management business, which substantially enhance the returns from the capital invested in property and development investments.

**Development investment**

The Group's development investments comprise a 50% interest in Commercial and Industrial Property Pty Ltd (CIP), an industrial development business, a 50% interest in an office development project at 685 La Trobe Street, Melbourne, together with equity co-investment interests in Charter Hall Opportunity Fund 4 (CHOF4) and Charter Hall Opportunity Fund 5 (CHOF5). CIP contributed \$1.5 million (FY11: \$4.0 million) of operating earnings to the Group, CHOF4 and CHOF5 contributed \$0.3 million (FY11: loss \$0.2 million) for the period and the Group has earned a commitment fee of \$0.1 million relating to the Workzone development being undertaken by CHOF5 resulting in a combined contribution to operating earnings before interest and tax of \$1.9 million (FY11: \$3.8 million). The development at 685 La Trobe Street is at an early stage in the development process and has not made a contribution to the current period result.

**Charter Hall Opportunity Fund 4 (CHOF4) – \$0.1 billion FUM, CHL interest 3% with an equity interest carrying value of \$1.1 million**

CHOF4 is fully allocated with seven of eight projects completed and capital returned to investors. There is one remaining completed project in CHOF4, being Home HQ North Shore.

In prior financial years the Group has received performance fees in respect of CHOF4 amounting to \$14.2 million. These fees were subject to clawback provisions in the event CHOF4 did not achieve a gross equity internal rate of return ('IRR') of 13% over the life of the fund.

As a result of a reduction in the IRR performance in CHOF4, the Charter Hall Board has resolved to raise a provision for the maximum potential clawback, being \$14.2 million. The clawback is payable on the earlier of 31 December 2012, unless extended, or the sale of Home HQ North Shore. As the Group has a 3% interest in CHOF4, 3% of any performance fee clawback received by CHOF4 will be taken up in the equity accounted results of the Group.

## Review and results of operations (continued)

### Development investment (continued)

#### Charter Hall Opportunity Fund 5 (CHOF5) – \$0.5 billion FUM, CHL interest 15% with an equity interest carrying value of \$28.5 million

All of the vacant space within the development components of The Park Megacentre in Hastings, New Zealand has now been leased and sale of these tenanted units, and the remaining land, has commenced.

40 Creek Street, Brisbane is 100% leased, with all remaining Heads of Agreements converted into executed leases over the last quarter. Contracts for Sale have been exchanged for \$84.5 million on 6 August 2012. Settlement was forecast for September 2012.

PDS Constructions is making good progress on Aquilo in Mentone, Victoria with the construction of all townhouses in Stages 1 complete, Stage 2 being progressively completed and Stage 3 underway. As at 30 June 2012, 110 unconditional contracts of sale have been exchanged (92%), with nine townhouses available for sale. Purchaser settlements have continued during the quarter, with a total of 36 townhouses settled as of 30 June 2012.

Progress at Workzone, Perth continues in line with programme. Broad Construction Services WA (Broad) is nine months into construction and anchor tenant Leighton Contractors Pty Ltd (Leighton) is well advanced with its fully integrated fit out design. The leasing campaign is underway for the balance of the available office and retail space with Savills and Lease Equity appointed respectively. Due to an acceptable offer to purchase not being received during the forward funded sale campaign, Management is now forecasting the sale of the development on completion in October 2013, however still remains confident that a sale may be secured prior to completion.

Construction of the Lacrosse Apartments in La Trobe Street, Melbourne reached practical completion on 25 June 2012 and 129 apartments were settled prior to 30 June 2012. Rectification of defect items is substantially complete and the building has been handed over to the building manager. Four apartments are available for sale from a total of 312. Contracts on four retail tenancies have been exchanged leaving 14 tenancies available for sale.

In respect of the Little Bay project, development of the Estate Works to create the individual housing and development superlots at the Little Bay project is currently underway, with completion scheduled for May 2013. Subsequent to year end, commercial negotiations are underway between the Development Alliance (DA) partners, being CHOF5 Little Bay Pty Limited (CHOF5LB) (a controlled entity of CHOF5) and TA Global Development Pty Ltd (TAG). In accordance with the DA Umbrella Deed, a Notice of Mediation has been issued to TAG by Charter Hall Funds Management Limited (CHFML) (in its capacity as trustee of CHOF5) in relation to a commercial dispute between the DA partners. The mediation notice has been rejected by TAG with a request for a clarification of the details of the alleged dispute between the parties. Ongoing commercial negotiations with TAG are being undertaken in an attempt to agree on the future direction of the project.

As at the date of signing the financial statements, Charter Hall Group is not able to determine whether any financial impact will occur as a result of these negotiations and any subsequent dispute or mediation process with respect to either Charter Hall directly or its 15% co-investment in CHOF5.

## Significant changes in the state of affairs

Significant matters of the Group during the year, in addition to the review of operations above, were as follows:

- ◆ On 30 September 2011, the Group announced it had exchanged contracts and subsequently settled the sale of the Mentone Showrooms in Victoria.
- ◆ On 30 September 2011, the Group announced it had completed the acquisition from Macquarie Group Limited of all shares in Charter Hall Retail Management Limited and Charter Hall Direct Property Management Limited under the Share Sale Agreement (dated 12 February 2010) following the satisfaction of conditions precedent for a sum of \$14.3 million. This transaction completed the acquisition of the Macquarie real estate funds management platform.
- ◆ On 21 October 2011, the Group increased its ownership in Charter Hall Retail REIT (CQR) to 10%, by exercising its first right of refusal to acquire a portion of Macquarie Bank Limited Group's holding in CQR. The Group acquired 1.7% of CQR units at a price of \$3.20 per unit, a total acquisition price of \$16.2 million. This acquisition was funded from the sale of the Mentone Showrooms.
- ◆ On 24 November 2011, the Group confirmed its support for the governance changes implemented across its listed REITs, CQO and CQR. The corporate governance and fee reviews were undertaken by independent directors of CHOML and Charter Hall Retail Management Limited (CHRML), as responsible entities (RE) of CQO and CQR, with the support of Ernst & Young. Governance changes included the introduction of term limits for independent directors, unitholders to ratify the appointment of independent directors, formalising the maximum number of independent directors in the Board Charter, detailed disclosure of the basis for related party fees, introduction of an effective internal audit function, adoption and disclosure of a gender diversity policy, directors' fees to be paid by the REIT rather than the Charter Hall Group to maximise independence and alignment, review of remuneration structure to align the interests of the Fund Manager of each REIT, and improvement to key management personnel (KMP) remuneration disclosures. Fund management fee structures would remain unchanged. The REITs announced that whilst resetting performance fees may increase alignment, the resetting of performance fees would likely lead to increased costs for unitholders over time. Charter Hall has existing strong alignment to the performance of the REITs through its co-invested interest of 10% in CQR.
- ◆ On 1 May 2012, the Group confirmed implementation of the privatisation of CQO by a consortium of investors, being Reco Ambrosia Pte Ltd (RAP) (an affiliate of the Government of Singapore Investment Corporation Pte Ltd), the Public Sector Pension Investment Board of Canada (PSP) and a member of the Charter Hall Group (ASX:CHC) (collectively known as the Consortium). The new unlisted trust is known as Charter Hall Office Trust (CHOT). The Group has been appointed the investment, property and development manager for CHOT. It is expected that the net fee revenue that the Group will earn from managing CHOT will be generally consistent with the net revenue earned previously from managing the Australian assets of CQO. With implementation of the privatisation, CQO changed from a listed REIT to a wholesale unit trust with liquidity reviews every five years. The Group will amortise the management rights over a six year period, which includes an additional year to source liquidity were the trust to be wound up at that time. As a participant in the Consortium, the Group's interest in CHOT rises to 15%.

- ◆ On 18 June 2012, the Group announced that it had implemented a \$200 million capital reallocation from Charter Hall Property Trust (CHPT) to Charter Hall Limited (CHL), effective 30 June 2012. The capital reallocation aims to ensure a more appropriate allocation of capital between CHPT and CHL (which together trade on the Australian Securities Exchange as Charter Hall Group) which is more closely aligned with the Group's long-term growth strategy. Under the capital reallocation proposal approved by securityholders at the Annual General Meeting on 24 November 2011, CHPT made capital payments of \$200 million which were compulsorily applied as a capital contribution for existing shares of CHL.
- ◆ On 18 June 2012, the Group advised it would take up a provision of \$14.2 million in relation to the potential clawback of Charter Hall Opportunity Fund No. 4 (CHOF4) performance fees received in respect of the 2007, 2008, 2009 and 2010 financial years. The final amount of any clawback will not be known until the earlier of the termination date of 31 December 2012, unless extended, or the completion of the sale of all the assets of CHOF4.
- ◆ On 28 June 2012, the Group announced it had entered into an Implementation Deed with various entities of Australian Property Growth Fund (APGF) for the retirement of APGF Management Limited (APGFM) (a wholly owned subsidiary of APGF) as responsible entity (RE) of PFA Diversified Property Trust (PFA) and the appointment of Charter Hall Direct Property Management Limited (CHDPML) (a wholly-owned subsidiary of Charter Hall). Subsequently, on 15 August 2012, PFA unitholders voted to approve the appointment of CHDPML as RE.
- ◆ On 28 June 2012 the Retail Partnership No. 2 Trust (RP2T) in which the Group has a 20% interest, contracted to acquire the Bay Village Shopping Centre in New South Wales for \$164 million.

## Matters subsequent to the end of the period

Since 30 June 2012, the Group has completed the following:

- ◆ On 1 August 2012, the Group announced that a Charter Hall managed wholesale fund (the Retail Partnership No. 2 Trust (RP2T)) had entered into an unconditional contract to acquire Bay Village Shopping Centre in New South Wales for \$164 million. The Group holds a 20% equity interest in RP2T. The purchase of the centre was completed on 15 August 2012. The Group's equity commitment to fund the acquisition is \$19.5 million which was paid on 15 August 2012.
- ◆ In June 2012, Charter Hall Direct Property Management Limited contracted to purchase the right to manage the PFA Diversified Property Trust (PFA) subject to approval by unitholders. With the unitholders approving the purchase of the management rights for \$5 million cash on 15 August 2012 and Australian Securities and Investments Commission (ASIC) approval given shortly after, Charter Hall Direct Property Management Limited is now the responsible entity for PFA.

- ◆ Subsequent to year end, following commercial negotiations between the Development Alliance (DA) partners in the Little Bay Cove project, being CHOF5 Little Bay Pty Limited (CHOF5LB) (a controlled entity of CHOF5) and TA Global Development Pty Ltd (TAG), in accordance with the DA Umbrella Deed, a Notice of Mediation has been issued to TAG by CHFML (in its capacity as trustee of CHOF5) in relation to a commercial dispute between the DA partners. The mediation notice has been rejected by TAG with a request for a clarification of the details of the alleged dispute between the parties. Ongoing commercial negotiations with TAG are being undertaken in an attempt to agree on the future direction of the project. Refer to note 36(e) for further information.

As at the date of signing the financial statements, Charter Hall Group is not able to determine whether any financial impact will occur as a result of these negotiations and any subsequent dispute or mediation process with respect to either Charter Hall directly or its 15% co-investment in CHOF5.

Except for the matters discussed above, no other matter or circumstance has arisen since 30 June 2012 that has significantly affected, or may significantly affect:

- the Group's operations in future financial years; or
- the results of those operations in future financial years; or
- the Group's state of affairs in future financial years.

## Likely developments and expected results of operations

As a fully integrated property group with diversified sources of equity invested across the office, retail and industrial sectors, Charter Hall is well placed to benefit from a projected growth of superannuation inflows in Australia and offshore markets. The Group derives property income returns and capital growth through its co-investments in its managed funds and its vertically integrated business model will allow Charter Hall to continue to provide specialist property services across its platform, generating fees from its managed funds.

The Group remains focused on leveraging its fully integrated property services capabilities through initiating acquisitions and developments, undertaking capital raisings for unlisted funds, external mandates and partnerships, while also recycling capital to improve the return on equity from the co-investment portfolio. For its listed fund, CQR, the Group will continue to implement strategies to increase earnings per share and to de-risk the fund.

As volatility continues in listed markets, Charter Hall has seen equity flows increasing to unlisted real estate and the Group is well positioned to benefit from these equity flows as wholesale investors further invest in low volatility direct property portfolios. Retail investor flows are expected to increase over time as investors seek a high quality manager with an integrated capability that delivers stable property investment returns from rental income and capital growth.

Further information on likely developments in the operations of the Group and the expected results of operations have not been included in this annual financial report because the Directors believe it would be likely to result in unreasonable prejudice to the Group.

# Directors' report for the year ended 30 June 2012

## Information on Directors

### Kerry Roxburgh

Chairman/Independent Non-Executive Director

#### Experience and expertise

Kerry joined the Board of the Charter Hall Group on 12 August 2005 and became Chairman in October 2005.

Kerry is a Practitioner Member of the Stockbroker Association of Australia and holds positions on the boards of several listed and unlisted companies. Currently, Kerry is the lead independent Non-Executive Director of Ramsay Health Care Ltd, a Non-Executive Director of the Medical Indemnity Protection Society and of MIPS Insurance Ltd. He is Chairman of Tyro Payments Ltd, of Tasman Cargo Airlines Ltd and of TEKTUM Ltd. He is also the Deputy Chairman of Marshall Investments Pty Ltd. Kerry is also a member of the Advisory Boards of AON Insurance and of Built Pty Ltd.

In 2000, Kerry completed a three year term as CEO of E\*TRADE Australia (a business that he co-founded in 1997), becoming its Chairman until June 2007, when it was acquired by the ANZ Bank. Prior to this, he was an Executive Director of Hong Kong Bank of Australia Group where for 10 years from 1986, he held various positions including Head of Corporate Finance and Executive Chairman of the group's stockbroker, James Capel Australia. Until 1986, Mr Roxburgh was in practice for more than 20 years as a Chartered Accountant.

Kerry holds a Bachelor of Commerce degree, and an MBA.

#### Other current listed company directorships

Ramsay Health Care Ltd (since 1997)

#### Former listed company directorships in last three years

Chairman of Eircom Holdings Limited (from 2006 to January 2010)

#### Special responsibilities

Chair of the Nomination Committee

Member of the Audit, Risk and Compliance Committee

#### Interests in securities

31,250 securities in Charter Hall Group

### Roy Woodhouse

Deputy Chairman/Independent Non-Executive Director

#### Experience and expertise

Roy joined the Board of the Charter Hall Group on 2 July 2004.

Roy worked for the Baillieu family for 30 years in various senior executive capacities including Director of L.J. Hooker, Managing Director of Knight Frank Australia and Chairman of Knight Frank Asia Pacific. Roy co-founded KFPW, a joint venture with PricewaterhouseCoopers specialising in outsourcing.

Roy is Chairman of National Recycling Group, and a principal shareholder of The Stephenson Mansell Group, an Executive Leadership Development company. Roy is a Fellow of the Institute of Company Directors and a past Fellow of the Australian Institute of Valuers.

#### Other current listed company directorships

Nil

#### Former listed company directorships in last three years

Nil

#### Special responsibilities

Member of the Remuneration and Human Resources Committee

Member of the Nomination Committee

#### Interests in securities

21,429 securities in Charter Hall Group

### Anne Brennan

Independent Non-Executive Director

#### Experience and expertise

Anne joined the Board of Charter Hall Group on 6 October 2010, and she is on the board of a number of other companies.

Anne is an experienced executive and has held senior management roles in both large corporates and professional services firms.

During Anne's executive career she was the CFO at CSR and the Finance Director of the Coates Group. Prior to her executive roles, Anne was a partner in three professional services firms: KPMG, Arthur Andersen and Ernst & Young. She has more than 25 years' experience in audit, corporate finance and transaction services. Anne was also a member of the national executive team and a board member of Ernst & Young.

Anne holds a Bachelor of Commerce (Honours) degree, is a Fellow of the Institute of Chartered Accountants in Australia and a Fellow of the Australian Institute of Company Directors.

#### Other current listed company directorships

Argo Investments Limited

Echo Entertainment Group Limited

Myer Holdings Limited

Nufarm Limited

#### Former listed company directorships in last three years

Nil

#### Special responsibilities

Member of Audit, Risk and Compliance Committee

(from 15 August 2012, Acting Chair)

Chair of Remuneration and Human Resources Committee

#### Interests in securities

30,000 securities in Charter Hall Group via direct and indirect interests

## David Deverall

Independent Non-Executive Director

### Experience and expertise

David joined the Board of the Charter Hall Group on 7 May 2012. David is also CEO of Hunter Hall International Limited and Managing Director of Deverall Advisory, a consulting firm which provides strategic and corporate advice to CEOs and boards in the wealth management industry. Prior to this, David was the Managing Director and CEO of Perpetual Limited for eight years and during this time he was also Chairman of the peak wealth management industry body, The Financial Services Council.

David has extensive experience in financial services, funds management and strategy, having also been Group Head of Funds Management and Head of Strategy at Macquarie Group.

David holds an MBA and a Bachelor of Engineering (Mechanical), and is a member of the Australian Institute of Company Directors.

### Other current listed company directorships

Hunter Hall International Limited

### Former listed company directorships in last three years

Perpetual Limited

### Special responsibilities

From 10 September 2012, a member of the Audit, Risk and Compliance Committee

### Interests in securities

15,287 securities in Charter Hall Group

## Glenn Fraser

Independent Non-Executive Director (resigned 15 August 2012)

### Experience and expertise

Glenn joined the Board of the Charter Hall Group on 6 April 2005. Glenn specialises in infrastructure and property projects, and is a member of the Transfield Holdings Advisory Board. He was instrumental in Transfield Holdings' acquisition of its interest in Charter Hall and its expansion and listing in 2005. Joining Transfield Holdings in 1996, Glenn has held positions of CFO and General Manager – Finance Project Development, where he was responsible for the financial elements of Transfield Holdings' infrastructure and property projects. Prior to this, Glenn was a principal of a project finance advisory business, Perry Development Finance Pty Limited, which was sold to Hambros Corporate Finance Limited in 1995. Glenn holds a Bachelor of Commerce, and is a member of the Institute of Chartered Accountants and the AICD. Due to family reasons, Glenn retired as a Non-Executive Director on 15 August 2012.

### Other current listed company directorships

Nil

### Former listed company directorships in last three years

Nil

### Special responsibilities

Until 15 August 2012, Chair of the Audit, Risk and Compliance Committee

### Interests in securities

70,000 securities in Charter Hall Group via indirect interests

## David Harrison

Joint Managing Director/Executive Director

### Experience and expertise

As Joint Managing Director of the Charter Hall Group, David Harrison is responsible for all aspects of the Charter Hall Group's business, with specific focus on Investment Management, Corporate Transactions and Property Investment activities. David also substantially contributes to investment origination, capital raisings and structuring of transactions. David is directly responsible for overseeing the operation of the Investment Management Divisions, including the Listed REITs, Wholesale Unlisted and Retail Unlisted Divisions, together with Investor Relations.

The Joint Managing Directors share responsibility for Corporate Finance, General Counsel and People, as well as working closely with the Chief Financial Officer in relation to Group Finance, Treasury, Information Technology and Capital Management. In addition to his responsibilities on the various unlisted Fund Boards and Investment Committees, David is an Executive Director on the responsible entity Boards of Charter Hall Retail REIT, Charter Hall Office Trust and Direct Funds business. With more than 25 years of experience in the Australian commercial property market, David has jointly overseen the growth of the Charter Hall Group from \$500 million to \$10 billion of assets under management in six years. David has been principally responsible for transactions exceeding \$13 billion of commercial, retail and industrial property assets across all property sectors over the past 15 years. David holds a Bachelor of Business Degree (Land Economy) and a Graduate Diploma in Applied Finance, and is a Fellow Member of the Australian Property Institute (FAPI).

### Other current listed company directorships

Charter Hall Retail REIT

### Former listed company directorships in last three years

Charter Hall Office REIT

### Special responsibilities

Nil

### Interests in securities

2,009,521 securities in Charter Hall Group via direct and indirect interests. 226,449 securities in the Charter Hall Executive Loan Securities Plan; securities in the Plan will vest upon the satisfaction of performance and service criteria. 862,961 Performance Rights and 849,868 Options in the Charter Hall Performance Rights and Options Plan; performance rights and options also vest after performance and service criteria are met.

# Directors' report for the year ended 30 June 2012

## Information on Directors (continued)

### Peter Kahan

Non-Executive Director

#### Experience and expertise

Peter joined the Board of the Charter Hall Group on 1 October 2009, following an investment in the Charter Hall Group by The Gandel Group.

Peter is the Executive Deputy Chairman of Gandel and has over 18 years of property and funds management experience. He joined Gandel in 1994 and was the Group's CEO from 2007 to 2012.

Prior to this, Peter worked as a Chartered Accountant and held senior financial positions in various industry sectors. From 2002 to 2006, he was a director of Gandel Retail Management Pty Ltd and Colonial First State Property Retail Pty Ltd, a leading property and fund manager managing a portfolio of approximately \$8 billion of retail assets in Australia.

Peter is a member of the Institute of Chartered Accountants in Australia and the Australian Institute of Company Directors. He holds Bachelor of Commerce and Bachelor of Accountancy degrees from the University of The Witwatersrand Johannesburg, South Africa.

#### Other current listed company directorships

Nil

#### Former listed company directorships in last three years

Nil

#### Special responsibilities

Alternate Member of the Remuneration and Human Resources Committee

#### Interests in securities

Nil

### Colin McGowan

Independent Non-Executive Director

#### Experience and expertise

Colin joined the Board of the Charter Hall Group on 6 April 2005.

Colin was formerly CEO of the listed AMP Diversified Property Trust, Executive Vice President of Bankers Trust (Australia), founding Fund Manager of the BT Property Trust and founding Fund Manager of Advance Property Fund.

He is a qualified valuer, a Fellow of the Australian Property Institute and a Senior Fellow of the Financial Services Institute of Australasia (formally SIA). He was the honorary SIA National Principal Lecturer and Task Force Chairman for the Graduate Diploma's Property Investment Analysis course – a position he held for 11 years until 2003.

#### Other current listed company directorships

Nil

#### Former listed company directorships in last three years

Nil

#### Special responsibilities

Member of the Remuneration and Human Resources Committee  
Member of the Nomination Committee

#### Interests in securities

Nil

### David Southon

Joint Managing Director/Executive Director

#### Experience and expertise

David is a co-founder of the Charter Hall Group and one of its Joint Managing Directors, with over 25 years of property industry experience. The Joint Managing Directors are responsible for the formulation and implementation of the Group's strategy. David is directly responsible for overseeing the operation of the Property Services Divisions, including Development, Leasing, Transactions, Asset Management, Property Management, Marketing and Communications, as well as strategic involvement in project origination and direction. The Joint Managing Directors share responsibility for Investor Relations, Corporate Finance, General Counsel and People, as well as working closely with the Chief Financial Officer in relation to Group Finance, Treasury, Information Technology, and Capital Management.

In addition to his responsibilities on the various Fund Boards and Investment Committees, David is an Executive Director on the responsible entity Boards for Charter Hall Retail REIT, Charter Hall Office Trust, and the Direct Funds business. He is also a Non-Executive Director on the Board of Commercial Industrial Property Pty Ltd (CIP), Chairman of the Charter Hall Diversity Committee and a member of the Investment Committees of Charter Hall Opportunity Funds 4 and 5.

David holds a Bachelor of Business Degree (Land Economy), and is a Fellow Member of the Australian Property Institute (FAPI).

#### Other current listed company directorships

Charter Hall Retail REIT

#### Former listed company directorships in last three years

Charter Hall Office REIT

#### Special responsibilities

Nil

#### Interests in securities

2,048,360 securities in Charter Hall Group via direct interests. 226,449 securities in the Charter Hall Executive Loan Security Plan; securities in the Plan will vest upon the satisfaction of performance and service criteria. 1,175,122 Options and 862,961 Performance Rights in the Charter Hall Performance Rights and Options Plan; options and performance rights also vest after performance and service conditions are met.

### Carolyn Rodger

Company Secretary

Carolyn Rodger was appointed Company Secretary of the Charter Hall Group on 18 June 2012. She is also Company Secretary for the Responsible Entity of the Charter Hall Retail REIT (ASX:CQR), and Secretary for a number of other related entities. Carolyn is admitted as a lawyer with the Supreme Court of New South Wales, and is a member of the Law Society of New South Wales. She holds a Bachelor of Business (in Accounting), a Bachelor of Laws, and a Graduate Diploma in Applied Finance and Investment. Prior to joining the Charter Hall Group in November 2011, Carolyn held senior roles in corporate governance, risk management, legal and compliance with two leading investment management firms in Australia. She has over 20 years of practical corporate governance experience.

Persons who held the position of Company Secretary during the financial year were Natalie Allen (from 24 November 2011 to the end of the financial year) and Nathan Francis (from the start of the financial year until 24 November 2011).

## Meetings of Directors

The numbers of meetings of the Group's Board of Directors and of each Committee of the Board held during the year ended 30 June 2012, and the numbers of meetings attended by each Director were:

	Full meetings of the Board of Directors		Audit, Risk and Compliance Committee		Nomination Committee		Remuneration and HR Committee	
	A	B	A	B	A	B	A	B
K Roxburgh	19	19	5	5	2	2	*	*
R Woodhouse <sup>1</sup>	17	19	*	*	2	2	8	8
A Brennan	17	19	5	5	*	*	8	8
D Deverall <sup>2</sup>	2	2	*	*	*	*	*	*
G Fraser <sup>3</sup>	17	19	5	5	*	*	*	*
C Fuchs <sup>4</sup>	6	10	*	*	*	*	*	*
D Harrison	19	19	*	*	*	*	*	*
P Kahan	19	19	*	*	*	*	*	*
C McGowan	19	19	*	*	2	2	8	8
D Southon	19	19	*	*	*	*	*	*

A = Number of meetings attended.

B = Number of meetings held during the time the Director held office or was a member of the stated Committee during the year.

\* = Not a member of the stated Committee.

1. Includes attendance by P Kahan as an alternate for R Woodhouse.
2. D Deverall was appointed as a Non-Executive Director to the Group on 7 May 2012.
3. G Fraser resigned as a Non-Executive Director on 15 August 2012.
4. C Fuchs resigned as an Executive Director of the Group effective 24 November 2011.

## Remuneration overview

Charter Hall's Board is committed to clear and transparent disclosure of the Company's remuneration structure and details of the value that key management personnel (KMP) derive from various remuneration components. The Board reviews the format and content of the remuneration report each year with a view to presenting information consistently, concisely and in a form that complies with the *Corporations Act 2001* (the Act).

In line with stakeholder feedback, this year Charter Hall has again included this brief overview of the key remuneration outcomes and actions taken during FY12 and planned for FY13, together with the actual cash value of remuneration received by KMPs.

As required by Section 308(C) of the Act, the full audited remuneration report from page 43 of this Annual Financial Report provides more detail on Charter Hall's remuneration strategy, components and outcomes.

### 1. Summary of key remuneration decisions taken in FY12

While stability in the remuneration structure is important, where modifications can be made to better align stakeholder interests and drive performance, the Board actively considers these. As a result the following key actions were taken:

#### Fixed remuneration

- ◆ No fixed remuneration increases were awarded to the Joint Managing Directors (JMDs) in FY12;
- ◆ No fixed remuneration increases will be awarded to the JMDs and Senior Executives for FY13; and
- ◆ Non-Executive Director (NED) fees were not increased in FY12 and will not be increased in FY13.

#### Short Term Incentive (STI)

A key performance metric for the Group, operating earnings per security (OEPS), before specific items, was 21.5 cents, which represented an increase of 4.4% on the prior corresponding period. However, the Board recognised that net OEPS after specific items was 18.6 cents, down 9.7% on the prior corresponding period. Reflecting this performance, the Board and management considered it appropriate to apply restraint in relation to the STI for FY12:

- ◆ The STI pool for all employees was significantly below the 'at target' STI; and
- ◆ Although the financial gateway for the JMDs STI of 95% of target OEPS was achieved, it was considered appropriate that no STI would be awarded to the JMDs.

#### Long Term Incentive (LTI)

- ◆ During FY12 the vesting period of the LTI was increased from two years (50%) and three years (50%) to full vesting at three years.

# Directors' report for the year ended 30 June 2012

## Remuneration overview (continued)

### 2. Planned changes for FY13

The series of actions identified as part of a comprehensive review of the Group's remuneration strategy in FY11 were implemented in FY12 and continue in FY13. These changes include:

- ◆ Adjusting the weighting of STI financial and non-financial measures from 50% financial and 50% non-financial in FY12 moving to 67% financial performance, and 33% non-financial performance in FY13;
- ◆ Introducing a Group financial gateway and setting threshold, target and stretch targets for STIs for all employees in FY13;
- ◆ Retaining the Absolute Total Securityholder Return (TSR) measure for LTI as it provides strong alignment with our business model of co-investing in managed funds with Absolute Return objectives;
- ◆ Increasing the range required for Absolute TSR from 10% to 12% to a range of 10% to 13% in FY13; and
- ◆ Introducing clawbacks on deferred, unpaid STI and unvested LTI for the JMDs and Senior Executives from FY13.

### 3. Actual remuneration received in FY12

The actual remuneration presented in the table below provides the remuneration that KMPs received during the financial year ended 30 June 2012. This voluntary disclosure, provided to increase transparency, includes:

- ◆ Fixed pay and other benefits for FY12;
- ◆ FY11 cash STI paid; and
- ◆ The embedded value of any LTI that vested during the year.

The actual remuneration presented is distinct from the disclosed remuneration in the Remuneration Report on page 53, which is calculated in accordance with statutory obligations and accounting standards and therefore includes accounting values for current and prior years' LTI grants which have not been (and may or may not be) received as they are dependent on performance hurdles being met.

### Reported Executives Actual Remuneration Outcomes FY12

FY12 Name	Short-term benefits		Post-employment benefits	Share-based payment	Other		% of Total Remuneration consisting of options/rights
	Salary and fees \$	Short-term incentive \$	Super-annuation \$	Value of securities vested \$	Non-monetary benefits <sup>5</sup> \$	Total \$	
<b>Executive directors</b>							
C Fuchs <sup>1</sup>	118,427	86,425	6,573	59,044	9,083	279,552	21
D Harrison	1,034,225	131,250	15,775	297,175	32,299	1,510,724	20
D Southon	1,034,225	131,250	15,775	297,175	22,699	1,501,124	20
<b>Other key management personnel</b>							
P Altschwager <sup>2</sup>	235,970	–	3,944	–	–	239,914	0
N Devlin	259,225	80,968	15,775	–	–	355,968	0
S Dundas <sup>3</sup>	70,728	–	1,503	–	–	72,231	0
A Glass	530,225	126,000	15,775	118,870	–	790,870	15
N Kelly	450,486	90,000	15,775	95,097	–	651,358	15
S Sewell <sup>4</sup>	385,210	220,000	11,831	–	–	617,041	0
R Stacker	424,225	150,000	15,775	–	–	590,000	0
A Taylor	608,225	220,000	15,775	–	–	844,000	0
<b>Totals</b>	<b>5,151,170</b>	<b>1,235,893</b>	<b>134,277</b>	<b>867,361</b>	<b>64,082</b>	<b>7,452,783</b>	

1. C Fuchs retired as a Director of Charter Hall on 24 November 2011, however remained an employee throughout the year. KMP remuneration reflected in the table above, represents all remuneration receipts to 24 November 2011.

2. P Altschwager commenced employment on 27 February 2012.

3. S Dundas became a KMP on 14 May 2012.

4. S Sewell ceased employment with Charter Hall on 17 February 2012.

5. Non-monetary benefits include motor vehicle costs and applicable FBT.

6. The FY10 PROP plan vested on 1 July 2011.

7. In FY11 the JMD's were awarded an STI of \$262,500. 50% of the STI was awarded in cash and 50% deferred into service rights vesting after one year.

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## Remuneration Report – audited

This Remuneration Report outlines Charter Hall's remuneration policies and practices together with the details and outcomes of the specific remuneration arrangements that apply to Charter Hall's KMP for the year ended 30 June 2012. This Report has been prepared in accordance with Section 300A of the Act and the information provided has been audited, as required by section 308(3C) of the Act.

### 1. Executive remuneration governance and structure

#### 1.1 Governance

The Remuneration and Human Resources Committee (Committee) provides advice and recommendations to the Board on:

- ◆ The Group's Human Resources strategy;
- ◆ Criteria for reviewing the performance of the JMDs;
- ◆ Remuneration policies for Non-Executive Directors (NEDs) and Committee Members;
- ◆ Remuneration policy for senior executives;
- ◆ Incentive plans for all employees; and
- ◆ Any other remuneration matters that relate to executives.

The Committee is appointed by the Board and is comprised solely of Non-Executive Directors, as follows:

- ◆ Anne Brennan (Chair of the Committee);
- ◆ Roy Woodhouse (Peter Kahan has attended meetings as Roy Woodhouse's alternate from 27 February 2012); and
- ◆ Colin McGowan.

The JMDs and the Head of People attend Committee meetings by invitation. Specialist external consultants attend as required. A minimum of two Committee members are required for a quorum. The members' attendance is set out at page 41. The Committee's charter is available on the Company's website at [www.charterhall.com.au](http://www.charterhall.com.au).

#### 1.2 External advisors and remuneration consultants

Where necessary, the Board seeks advice from independent experts and advisors including remuneration consultants who ensure that executives' remuneration is appropriately structured and consistent with comparable roles in the market. Other external advisors (including legal practitioners) assist with administration of the Group's performance remuneration plans and ensuring that the appropriate legal parameters are understood and employment contracts are appropriately executed.

Following the Federal Government's legislative changes regarding the governance of executive remuneration arrangements, the Board adopted a protocol governing the appointment of remuneration consultants and the manner in which any recommendations are made by those consultants to ensure there is no undue influence by management.

The advice and recommendations of external advisors are used as a guide only but do not serve as a substitute for thorough consideration of the issues by the Board. All decisions relating to remuneration strategy and approach are made independently by the Board with careful regard to the Committee's recommendations, Charter Hall's position, strategic objectives and current requirements.

During the period the following external advisors provided advice to the Committee – Ernst and Young, and Freehills. These advisors did not provide any 'remuneration recommendations' to Charter Hall as defined by the Act.

# Directors' report for the year ended 30 June 2012

## 1. Executive remuneration governance and structure (continued)

### 1.3 Key Management Personnel

The executives included in the table below are considered to be members of the KMP because they are members of the Group's Executive Committee which is responsible for the Group's strategy and operations. Executive Directors and Executives listed in the table below are referred to in this Remuneration Report as 'Reported Executives'.

Name	Role	Movement during FY12
<b>Non-Executive Directors</b>		
Anne Brennan	Director	
David Deverall	Director	Appointed 7 May 2012
Glenn Fraser	Director	Resigned 15 August 2012
Peter Kahan	Director	
Colin McGowan	Director	
Kerry Roxburgh	Chairman	
Roy Woodhouse	Director (Deputy Chairman)	
<b>Executive Directors</b>		
David Harrison	Joint Managing Director	
David Southon	Joint Managing Director	
<b>Former Executive Director</b>		
Cedric Fuchs	Executive Director	Ceased to be a KMP as at 24 November 2011. However, he continues to work within the Group as an Executive Director of Charter Hall Direct Property Management Limited.
<b>Executives</b>		
Paul Altschwager	Group Chief Financial Officer	Commenced 27 February 2012
Natalie Devlin	Head of People	
Scott Dundas	Fund Manager, Charter Hall Retail REIT (CQR)	
Andrew Glass	Head of Wholesale Pooled Funds	
Nick Kelly	Head of Investor Relations	
Richard Stacker	Head of Direct – Charter Hall Direct Property	
Adrian Taylor	Head of Wholesale Partnerships – Charter Hall Office Trust (CHOT)	
<b>Former Executives</b>		
Steven Sewell	CEO, Charter Hall Retail REIT	Ceased to be a KMP as at 3 January 2012 and left the Group on 17 February 2012

## 1.4 Decisions and actions taken during FY12

### 1.4.1 Aligning remuneration outcomes with Group performance

The Board continued to ensure strong alignment between Charter Hall's performance and remuneration outcomes.

A key performance metric for the Group, operating earnings per security (OEPS), before specific items, was 21.5 cents, which represented an increase of 4.4% on the prior corresponding period and was consistent with market guidance. However, the Board recognise net OEPS after specific items was 18.6 cents, down 9.7% on the prior corresponding period.

Reflecting this performance, the Board and management considered it appropriate to apply restraint in relation to payment of remuneration. As a result the following actions were taken:

Action	Explanation
Freeze on Executive Fixed Remuneration	There were no Fixed Remuneration increases for the JMDs in FY12. There are no Fixed Remuneration increases for the JMDs, Reported and Senior Executives in FY13.
Freeze on Directors' Fees	There were no fee increases for individual Non-Executive Directors (NEDs) in FY12. The NED fee pool was increased to \$1,000,000 in November 2011 to facilitate additional NEDs.
No STI awarded to the JMDs	Although the required gateway for the JMDs STI of 95% of OEPS was achieved, it was agreed that the JMDs receive no STI in FY12.
Reduced STI awarded for other employees	There is currently no gateway for the STI for employees other than the JMDs. The Board formed an overall view of Group performance taking into account specific items and reduced the 'at target' STI pool to 30% to reward the achievement of non-financial KPIs.
Performance Rights only awarded	Previous LTI grants comprised 50% Performance Rights and 50% Options. In FY12, only Performance Rights were granted.
Extended LTI vesting period	The FY12 grant vesting period increased from two years (50%) and three years (50%) to full vesting (100%) at three years.

### 1.4.2 Proposed remuneration framework changes for FY13

The Board endeavours to ensure that remuneration policies balance Charter Hall's performance objectives and remain in step with community and shareholder expectations. While stability in the remuneration structure is important, where modifications can be made to better align stakeholder interests and drive performance, the Board actively considers these.

In FY11 a comprehensive review of the Group's remuneration strategy was initiated with changes being implemented progressively. The following changes are proposed for FY13:

Component	Change
Short Term Incentive (STI)	<ul style="list-style-type: none"> <li>◆ Introduction of a Group financial gateway of 95% of OEPS. There is no STI entitlement below the gateway, however the Board retain an overall discretion on performance achievement;</li> <li>◆ Articulation of performance and pay outcomes at threshold, target and stretch (capped at 125% of target OEPS);</li> <li>◆ Reweighting of KPIs from 50% financial and 50% non-financial, to 67% financial and 33% non-financial; and</li> <li>◆ Deferral of one-third of any STI awarded and any award above 100% into service rights split equally over two years (applies to JMDs and Senior Executives only).</li> </ul>
Long Term Incentive (LTI)	<ul style="list-style-type: none"> <li>◆ After considering alternative measures, the Absolute TSR measure has been maintained as it provides strong alignment with our business model of co-investing in managed funds with Absolute Return objectives.</li> <li>◆ Increasing the range of the Absolute TSR measure from 10% to 12% to a range of 10% to 13%.</li> </ul>
Clawbacks	<ul style="list-style-type: none"> <li>◆ Applies to unvested deferred STI and LTI for material misstatement, misrepresentation of financial results and Board discretion around overall performance (applies to the JMDs, Reported and Senior Executives only).</li> </ul>
Remuneration mixes	<ul style="list-style-type: none"> <li>◆ Adjusting the remuneration mix for KMP (excluding the CFO and JMDs) from the current 60% fixed remuneration, 20% STI and 20% LTI to 60% fixed remuneration, 25% STI and 15% LTI to compensate for the introduction of STI deferral.</li> </ul>

## 1. Executive remuneration governance and structure (continued)

### 1.4 Decisions and actions taken during FY12 (continued)

#### 1.4.2 Proposed remuneration framework changes for FY13 (continued)

Charter Hall will continue to regularly review its remuneration policies to ensure that they remain appropriate and enable the Group to attract, motivate and retain the services of highly qualified employees and executives necessary for the Group to be able to achieve its strategic objectives and maximise securityholder value.

### 1.5 FY12 Remuneration philosophy and guiding principles

Charter Hall's remuneration philosophy is aimed at rewarding outperformance. This is achieved by attracting and retaining talented people who are motivated to achieve challenging performance targets aligned with both the business strategy and the long-term interests of securityholders.

The following diagram illustrates the link between business strategy and remuneration outcomes:

#### Charter Hall Business Strategy

Key strategic goals:

- ◆ Deliver top quartile returns vs A-REIT 200;
- ◆ Recycle equity into higher yielding investments;
- ◆ Grow sustainable earnings (>80% annuity earnings);
- ◆ Develop a scalable and efficient platform; and
- ◆ Recruit, retain and motivate a high performance team.



#### Charter Hall Remuneration Strategy

Create sustainable securityholder value by:

- ◆ Assessing performance and STI plan outcomes against financial and non-financial KPIs linked to strategy;
- ◆ Deferring a portion of STI into equity for the JMDs and Divisional Heads;
- ◆ Aligning LTI performance hurdles with securityholders' expected returns; and
- ◆ Ensuring a significant 'at risk' component of total remuneration.

Attract, retain and motivate talent by:

- ◆ Rewarding superior performance;
- ◆ Offering competitive total remuneration;
- ◆ Creating retention mechanisms; and
- ◆ Ensuring remuneration strategy is simple, transparent and consistent.



#### Charter Hall Remuneration Components

Fixed	STI	LTI
<ul style="list-style-type: none"> <li>◆ Set at the median of the Australian market using external benchmarking data;</li> <li>◆ Comprises cash salary, superannuation and packaged benefits;</li> <li>◆ Reflects responsibilities, performance, qualifications and experience;</li> <li>◆ Consideration is given to external and internal relativities; and</li> <li>◆ Reviewed annually.</li> </ul>	<ul style="list-style-type: none"> <li>◆ Size of the STI pool is linked to the achievement of a target OEPS number;</li> <li>◆ STI targets are linked to KPIs which include performance targets of the Group, Division and individual;</li> <li>◆ Financial measures relate to EPS, investment earnings and reduction in operating expenses;</li> <li>◆ Non-financial measures relate to strategy, people, stakeholder and operational excellence;</li> <li>◆ Targets are split 50/50 financial and non-financial; and</li> <li>◆ Partial deferral into service rights over two years.</li> </ul>	<ul style="list-style-type: none"> <li>◆ LTI targets have direct links to securityholder value creation;</li> <li>◆ Ensures participants only receive a benefit when Charter Hall achieves challenging TSR targets;</li> <li>◆ Performance measures based on Relative Performance and Absolute TSR;</li> <li>◆ Delivered as performance rights;</li> <li>◆ Three year performance measurement period; and</li> <li>◆ Capped at 10% of fully diluted securities on issue.</li> </ul>

## 1.6 Reported Executive remuneration mix

The table below represents the target remuneration mix for KMP in FY12. The variable STI is 'at target', whilst the LTI represents the dollar value awarded for allocation purposes.

	Not 'at risk'	'At risk'	
	Fixed Remuneration	STI	LTI
JMDs	50%	25%	25%
CFO	50%	25%	25%
Other KMP	60%	20%	20%

In FY13, the Other KMP remuneration mix will be reweighted by moving a percentage from LTI to STI to accommodate the introduction of the STI deferral, going to a mix of 60% fixed remuneration, 25% STI and 15% LTI.

## 2. Executive remuneration components and outcomes

Executive remuneration is structured as a mixture of fixed and variable 'at risk' STI and LTI components. While fixed remuneration is designed to provide a predictable base level of remuneration, the STI and LTI components reward executives when challenging measures are met or exceeded.

The components of the JMD's remuneration packages are substantially the same as the other executives. However, there are differences in the quantum, delivery and timing for the JMDs due to the unique nature of their responsibilities and the central role they play in implementing the strategic direction of the Group. Where the JMD remuneration approach differs from the Reported Executives remuneration it is noted below.

### 2.1 Fixed Remuneration

Composition	Fixed remuneration comprises cash base salary, statutory superannuation contributions and other nominated benefits (such as car parking, novated leases and additional superannuation contributions).
Review process	Fixed remuneration is targeted at the median of the market and is reviewed annually, effective 1 July, benchmarked against equivalent roles in the market recognising: <ul style="list-style-type: none"> <li>◆ Individual performance;</li> <li>◆ The competitive market environment for each individual's skills and capabilities;</li> <li>◆ Internal relativities; and</li> <li>◆ Gender pay equality.</li> </ul>
Benchmarking and peer comparisons	Benchmarking is challenging, as there are few companies that replicate Charter Hall's business model. The following comparator groups represent our competitors for capital or for talent: <ul style="list-style-type: none"> <li>◆ <b>Market capitalisation group:</b> based on S&amp;P/ASX 200 companies within 50% to 200% of Charter Hall's market capitalisation</li> <li>◆ <b>Industry related companies:</b> based on entities in the S&amp;P/ASX 200 Australian Real Estate and Investment Trust (A-REIT) industry group, excluding Westfield which was not considered to be a comparator due to its scale.</li> </ul>
JMD benchmarking	Given the unique nature of these positions, the Board references the remuneration paid to the comparator group CEOs and the 'next highest paid senior executive' (excluding the CFO) when setting their remuneration.
Fixed Remuneration Outcomes	In FY12 there were no increases for the JMDs and fixed remuneration increases for all other employees averaged 4%. In FY13 the Board has determined no fixed remuneration increases will be awarded to JMDs and Senior Executives. Fixed remuneration increases for all other employees averaged 3% overall.

### 2.2 Short Term Incentives (STI)

Purpose	The STI is an 'at-risk' incentive awarded annually designed to reward executives subject to performance against agreed financial and non-financial Key Performance Indicators (KPI)s.
Participants	All permanent employees with greater than three months service at the end of the calendar year. STI awards are pro-rated based on the amount of service within the year.

## 2. Executive remuneration components and outcomes (continued)

### 2.2 Short Term Incentives (STI) (continued)

Delivery	<p>For Reported and Senior Executives the STI is delivered in the form of cash (50%) and service rights (50%) deferred equally over two years.</p> <p>The number of rights to be issued will be determined by dividing the dollar value of the relevant STI entitlement by the independently valued fair value of CHC securities based on the volume-weighted average price (VWAP) over the five working days prior to the issue date of STI for staff (in FY12 this was 29 August 2012).</p> <p>If an Executive ceases employment prior to expiry of the relevant 12 month period, the equity rights will be forfeited.</p> <p>For all other employees the STI is delivered as cash.</p>															
Determining STI pools	<p>Subject to an overall cap, the size of the pool is determined by the Board, upon advice from the Remuneration and Human Resources Committee, based on achieving a targeted OEPS number. The Board retains discretion to increase or decrease the overall STI pool available, based on its assessment of the overall performance throughout the year.</p>															
Performance targets	<p>The STI measures are set to ensure appropriate focus on achievement of Group, divisional and individual performance targets that are aligned with implementation of Charter Hall's overall strategy.</p> <p>KPIs in FY12 were split 50% financial and 50% non-financial and are based on a Balanced Scorecard approach which encourages executives to take a holistic approach to enhancing and protecting shareholder value. In FY12, the Group's financial target was an OEPS of 21.9 cents.</p>															
Short term performance	<p>In FY12, Charter Hall's operating earnings per security (OEPS) before specific items was 21.5c, which was broadly consistent with target. However, OEPS after specific items was 18.6c, which included the net CQO divestment fees after the costs of closing the US office; Group restructuring costs; and the one off provision for the possibility of a clawback of previously paid performance fees relating to Charter Hall Opportunity Fund 4.</p> <p>Taking the above into consideration, the Board and management considered it appropriate to apply restraint in relation to payment of STI reflecting its focus on cost control and appropriate reward for performance allowing for the impact of the specific items referred to above. This ensured that STI outcomes were directly aligned with Group performance.</p>															
FY12 STI assessment – JMDs	<p>The JMDs have a financial gateway of 95% of target OEPS which must be achieved before any STI becomes available to be awarded. The Board, in consultation with the Remuneration and Human Resources Committee, assesses the Group's financial performance and the performance of the JMDs against agreed KPIs. Although the financial gateway of 95% of target OEPS before specific items was achieved, it was considered appropriate that no STI be awarded in FY12 taking into account the effect of specific items on the OEPS.</p> <p>The JMDs' KPIs for FY12 are summarised below:</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;">Measure</th> <th style="text-align: left;">KPI</th> <th style="text-align: left;">Status</th> </tr> </thead> <tbody> <tr> <td>Financial 50%</td> <td>Including EPS at each of CHC, CHOT and CQR, maximising co-investment earnings in funds, and reduction of operating expenses</td> <td>Partially achieved</td> </tr> <tr> <td rowspan="4">Non-financial 50%</td> <td>Strategic measures (15%) – in relation to the business strategy, business plan and sustainability targets</td> <td>Achieved</td> </tr> <tr> <td>People measures (15%) – in relation to enhancing the organisational structure, employee engagement and increasing the number of women in leadership positions</td> <td>Partially Achieved</td> </tr> <tr> <td>Stakeholder measures (10%) – including stakeholder management and communication, fundraising and building Charter Hall's brand and value</td> <td>Partially Achieved</td> </tr> <tr> <td>Operational excellence measures (10%) – including risk management, governance and business development</td> <td>Partially achieved</td> </tr> </tbody> </table>	Measure	KPI	Status	Financial 50%	Including EPS at each of CHC, CHOT and CQR, maximising co-investment earnings in funds, and reduction of operating expenses	Partially achieved	Non-financial 50%	Strategic measures (15%) – in relation to the business strategy, business plan and sustainability targets	Achieved	People measures (15%) – in relation to enhancing the organisational structure, employee engagement and increasing the number of women in leadership positions	Partially Achieved	Stakeholder measures (10%) – including stakeholder management and communication, fundraising and building Charter Hall's brand and value	Partially Achieved	Operational excellence measures (10%) – including risk management, governance and business development	Partially achieved
Measure	KPI	Status														
Financial 50%	Including EPS at each of CHC, CHOT and CQR, maximising co-investment earnings in funds, and reduction of operating expenses	Partially achieved														
Non-financial 50%	Strategic measures (15%) – in relation to the business strategy, business plan and sustainability targets	Achieved														
	People measures (15%) – in relation to enhancing the organisational structure, employee engagement and increasing the number of women in leadership positions	Partially Achieved														
	Stakeholder measures (10%) – including stakeholder management and communication, fundraising and building Charter Hall's brand and value	Partially Achieved														
	Operational excellence measures (10%) – including risk management, governance and business development	Partially achieved														
FY12 STI assessment – other KMP	<p>Other employees did not have a gateway for their STI in FY12. 30% of the target STI pool was made available for the achievement of non-financial KPIs which represented 50% of the Balanced Scorecard. Similar KPIs applied to other KMPs focused on individual areas of accountability.</p> <p>In view of the reduced size of the FY12 STI awarded, the Board decided that no FY12 STI would be deferred for Reported and Senior Executives. Deferral of one-third of STI will occur in FY13.</p> <p>Details of the STI awarded for FY12 are provided in the following table:</p>															

Table 2.2.a. Reported Executives STI outcomes in FY12 (statutory accounting)

FY12					
Name	STI Earned \$	Paid in Cash \$	Target STI % of Fixed Pay %	% STI earned of Target %	% STI forfeited of target %
<b>Executive directors</b>					
D Harrison	–	–	50	–	100
D Southon	–	–	50	–	100
<b>Other key management personnel</b>					
P Altschwager <sup>1</sup>	–	–	50	–	100
N Devlin	34,322	34,322	33	38	62
S Dundas	65,196	65,196	33	45	55
A Glass	48,539	48,539	33	27	73
N Kelly	48,588	48,588	33	32	68
S Sewell	–	–	33	–	100
R Stacker	65,193	65,193	33	45	55
A Taylor	92,456	92,456	33	45	55

1. Paul Altschwager commenced on 27 February 2012 and will not be eligible to receive an STI until FY13.

### 2.3 Long Term Incentives (LTI)

Purpose	The LTI aligns key employee rewards with sustainable growth in securityholder value over time. It also plays an important role in staff retention.
Participants	Reported Executives, Senior Executives and Fund Managers.
Type of equity awarded	<p>The LTI is governed by the Performance Rights and Options Plan (PROP), under which either rights or options to securities are granted to participants. From FY12, all grants under the PROP comprised Performance Rights only (i.e. no Options). Each Performance Right entitles the participant to one security in the Charter Hall Group for nil consideration at the time of vesting subject to meeting the performance hurdles outlined below.</p> <p>Details of specific grants made to Reported Executives for FY12 are provided in Section 5 of the report.</p>
Number of instruments awarded	<p>The aggregate number of offers that can be made under the PROP and the discontinued ELSP scheme, excluding those issued to Executive Directors, is limited to 10% of issued stapled securities of the Group. At 30 June 2012, LTI schemes accounted for 3% of the issued securities (note 27 in the financial statements) made up of:</p> <ul style="list-style-type: none"> <li>◆ 5,412,897 performance rights;</li> <li>◆ 6,229,835 options; and</li> <li>◆ 589,213 service rights.</li> </ul> <p>These include securityholder approved issues of securities to Executive Directors.</p>
Valuation	The value of an executive's annual LTI grant is a set percentage of their Fixed Remuneration. In FY12 the number of rights granted to an executive was determined based on an independent fair value calculation by Deloitte using the Monte Carlo simulation valuation method which is consistent with the accounting fair value standard AASB 2. For FY13, the Board has resolved that the allocation methodology for any future LTI award will be valued using the Black-Scholes methodology and will continue to be valued for accounting purposes using a Monte Carlo simulation valuation.
Performance hurdles (equally weighted) and vesting schedule	<p>For the FY12 LTI allocation, the two performance hurdles that applied to the Performance Rights for vesting over a three year period commencing 1 July 2011 were:</p> <ul style="list-style-type: none"> <li>◆ <b>Absolute TSR (50%)</b> – vesting occurs on a linear basis if the total return is between 10% and 12% per annum, starting at 50% vesting at the lower end of the range and 100% vesting at the higher end of the range;</li> <li>◆ <b>Relative Return (50%)</b> – vesting occurs on a linear basis if the total compounded return is between the S&amp;P/ASX 200 A-REIT Accumulation Index (XPJAI) and 1.10 times that number. Vesting starts at 50% at the lower end of the range and 100% will vest at the higher end of the range.</li> </ul> <p>Any Performance Rights that fail to meet these performance hurdles by 1 July 2014 will lapse.</p>

## 2. Executive remuneration components and outcomes (continued)

### 2.3 Long Term Incentives (LTI) (continued)

#### Rationale for performance conditions

Charter Hall's approach to linking individual executive performance and Group performance to the vesting of equity rights is in line with market practice. The conditions are aimed at linking the retention and remuneration of the executive directly to rewards where securityholder returns are delivered. The focus on employee-held equity is also part of a deliberate policy to strengthen engagement and direct personal interest to the provision of returns for securityholders.

TSR measures the overall returns that a company has provided for its shareholders, reflecting share price movements and reinvestment of dividends over a specified period.

Relative TSR is the most widely used LTI hurdle adopted in Australia and ensures that value is only delivered to participants if the investment return actually received by CHC securityholders is sufficiently high relative to the return they could have received by investing in a portfolio of alternative A-REIT sector stocks over the same period.

During the year the Board considered an alternate measure to Absolute TSR. The Absolute TSR hurdle has been retained as it provides a strong link to Charter Hall's business model of co-investing in managed funds with absolute and total return targets. In FY13 the Absolute Hurdle will increase from a range of 10% to 12% per annum to a range of 10% to 13% per annum.

#### Cessation of employment provisions

For the FY12 LTI allocation, the following provisions apply in the case of cessation of a participant's employment:

- ◆ **Misconduct:** all unvested Performance Rights are forfeited unless the Board determines otherwise;
- ◆ **Resignation or where a participant breaches a post-termination restriction in their employment contract:** all unvested Performance Rights are forfeited unless the Board determines otherwise; and
- ◆ **All other leavers:** all unvested Performance Rights lapse with effect from the date of cessation of employment, unless the Board allows part or all to vest early or remain on foot subject to the original terms of grant.

#### Hedging and margin lending prohibitions

In accordance with the *Corporations Act 2001* all key management personnel are prohibited from hedging or otherwise protecting the value of unvested securities.

#### Legacy programs

The LTI is currently provided by participation in the PROP. Some personnel still have an interest in the LTI plan previously offered by Charter Hall, the Employee Loan Securities Plan (ELSP), which was suspended from 1 July 2009. Further details are set out in Note 41 of the financial statements.

#### Long term performance outcomes

The following graph demonstrates how the Company's TSR (including share price movements and dividends) has performed relative to the ASX A-REIT Accumulation Index:

**Figure 1: Charter Hall's 7 year (since listing) cumulative Total Securityholder Return performance**



**Long term performance outcomes (continued)**

**Relative performance**

Charter Hall has performed generally in line with the A-REIT sector except in FY09 when it underperformed for most of that year. On acquisition of the majority of the Macquarie real estate funds management platform in March 2010, Charter Hall initially performed ahead of and more recently in line with the A-REIT Index. In the 12 months to 30 June 2012, Charter Hall has outperformed its peers in the S&P/ASX 200 A-REIT Accumulation Index by 3.4%.

**Absolute performance**

For the three years to June 2012, Charter Hall has achieved a combined average growth rate of 15% per annum based on an accumulation basis. This is based on a weighted average security price (VWAP) of \$1.82 for the month of July 2009, a 30 June 2012 closing security price of \$2.27 and cumulative distributions over the three years of 47.5 cents. This performance is in excess of the outperformance hurdle of 12%.

**LTI outcomes:**

The LTI vesting conditions for the Reported Executives provide a clear link to long-term total securityholder returns of Charter Hall. There is a direct correlation between the absolute underperformance of Charter Hall and the fact that until 30 June 2011, no LTI benefit had vested for any executive.

The following LTI outcomes occurred in FY12:

- ◆ **FY10 PROP** – Based on the achievement of performance hurdles, the FY10 issue of the PROP has fully vested. This plan had its first vesting date on 1 July 2011 and its second vesting date on 1 July 2012. Both the relative and absolute outperformance hurdles were achieved.
- ◆ **FY11 PROP** – The first tranche of the FY11 PROP had a vesting date on 1 July 2012, by which date Charter Hall had not met the target performance hurdles. Under the plan rules, any rights or options that did not vest on the first vesting date, are carried over to be re-tested with the second tranche on 1 July 2013.

Further details of LTI grants under the PROP and ELSP are set out in Section 5 of this report.

**2.4 Group performance and Total Remuneration Outcomes**

The tables below provide information on Charter Hall's performance against key metrics over the last five years and the relationship to Reported Executive Total Remuneration, both fixed and 'at risk'. Charter Hall's Short Term Incentive is weighted towards growth in operating earnings per security (OEPS) and the Long Term incentive provides an important link between remuneration and Total Securityholder Return.

**Table 2.4.a. Charter Hall 5 year performance**

Key Performance Metrics	FY08	FY09	FY10	FY11	FY12
Statutory Earnings (Loss) per Security (cps)	65.23	(71.90)	3.22	17.85	5.64
Statutory Net Profit (Loss) after Tax (\$'000s)	67,498	(82,222)	6,840	52,338	16,678
OEPS before specific items (%) <sup>1</sup>	50.96	30.44	16.83	20.60	21.51
Growth (Decline) in OEPS before specific items on prior year (%)	34.0	(40.3)	(44.7)	22.4	4.4%
Operating Profit before specific items (\$'000s)	52,742	34,828	35,781	60,422	63,586
Total Distribution per Security (cps)	50.4	19.8	12.8	16.5	18.2
Security price at 30 June	3.94	2.00	2.40	2.15	2.27
Total Securityholder Return (Loss) – July-June (%)	(58.4)	(44.6)	26.4	(3.5)	14.0%

1. A key performance metric for the Group, operating earnings per security (OEPS), before specific items, was 21.5 cents, which represented an increase of 4.4% on the prior corresponding period and was consistent with market guidance. However, the Board recognise net OEPS after specific items was 18.6 cents, down 9.7% on the prior corresponding period. Reflecting this performance, the Board and management considered it appropriate to apply restraint in relation to remuneration.

# Directors' report for the year ended 30 June 2012

## 2. Executive remuneration components and outcomes (continued)

### 2.4 Group performance and Total Remuneration Outcomes (continued)

Table 2.4.b. Reported Executive Total Remuneration

Remuneration Summary	FY08	FY09	FY10	FY11	FY12
Fixed payments (\$)	2,334,122	3,415,610	3,991,129	6,236,089	5,340,202
STI accounting expense (\$)	1,295,000	105,000	3,194,100	1,640,944	354,294
LTI accounting expense (\$) <sup>1</sup>	1,746,376	137,247 <sup>4</sup>	794,115	1,866,842	1,680,857
Earned remuneration (\$) <sup>2</sup>	5,375,498	3,657,857	7,979,344	9,743,875	7,375,353
'At target' remuneration (\$) <sup>3</sup>	4,049,474	6,074,372	7,268,548	11,238,415	9,350,464
Earned remuneration relative to target remuneration – Over/(Under) (%)	33	(40)	10	(13)	(21)

1. The LTI expense attributed to the Reported Executives reflects the statutory accounting expense under AASB 2.

2. Earned remuneration for the Reported Executives is the sum of their Fixed Payments, the STI accounting expense and the LTI accounting expense.

3. Target remuneration is calculated based on the split of remuneration for the JMDs of 50/25/25 and the Other KMP of 60/20/20. Changes to the composition of the KMP (see Section 1.3) are reflected in the target remuneration number for FY12. Scott Dundas and Paul Altschwager became KMPs part-way through the year and their numbers are based on actual figures earned. Steven Sewell resigned and left the Group on 17 February 2012.

4. One of the FY09 LTI vesting measures was an EPS target. The target was not achieved and the LTI expense was reversed.

### 2.5 Security Holdings

Table 2.5. Reported Executive Security Holdings

FY12				
Name	Opening balance	Purchased/ (Sold) during the year	LTI securities vesting/ (forfeited) during the year	Closing balance
<b>Directors of Charter Hall Limited</b>				
<b>Ordinary securities</b>				
K Roxburgh	31,250	–	–	31,250
R Woodhouse	21,429	–	–	21,429
A Brennan	30,000	–	–	30,000
D Deverall	–	15,287	–	15,287
G Fraser	156,934	(86,934)	–	70,000
D Harrison	2,429,540	(416,234)	222,664	2,235,970
P Kahan	–	–	–	–
C McGowan	–	–	–	–
D Southon	2,461,161	(90,980)	(95,372)	2,274,809
<b>Other key management personnel of the Group</b>				
P Altschwager	–	–	–	–
N Devlin	–	–	–	–
S Dundas	–	–	–	–
A Glass	–	(36,392)	36,392	–
N Kelly	55,343	(81,246)	50,058	24,155
R Stacker	–	–	–	–
A Taylor	–	–	–	–

### 3. Executive remuneration in detail

#### 3.1 Total remuneration of Executives

Details of the FY12 remuneration of the Reported Executives are provided in the following tables.

**Table 3.1.a. Reported Executives of the Group and Company FY12 (statutory accounting)**

FY12	Short-term benefits		Post-employment benefits	Share-based payment	Other			% of Total Remuneration consisting of options/rights
	Salary and fees \$	Short-term incentive \$	Super-annuation \$	Securities, options and performance rights \$	Annual Leave and Long Service Leave \$	Non-monetary benefits <sup>5</sup> \$	Total \$	
<b>Executive directors</b>								
C Fuchs <sup>1</sup>	118,427	–	6,573	52,952	(765)	9,083	186,271	28
D Harrison	1,034,225	–	15,775	503,059	45,949	32,299	1,631,307	31
D Southon	1,034,225	–	15,775	503,059	21,717	22,699	1,597,475	31
<b>Other key management personnel</b>								
P Altschwager <sup>2</sup>	235,970	–	3,944	142,311	18,243	–	400,467	36
N Devlin	259,225	34,322	15,775	42,180	(4,160)	–	347,342	12
S Dundas <sup>3</sup>	70,728	65,196	1,503	12,783	14,202	–	164,412	8
A Glass	530,225	48,539	15,775	132,340	4,665	–	731,544	18
N Kelly	450,486	48,588	15,775	111,518	30,008	–	656,375	17
S Sewell <sup>4</sup>	385,210	–	11,831	(110,694)	(48,818)	–	237,529	(47)
R Stacker	424,225	65,193	15,775	113,875	40,042	–	659,111	17
A Taylor	608,225	92,456	15,775	177,473	42,697	–	936,626	19
<b>Totals</b>	<b>5,151,170</b>	<b>354,294</b>	<b>134,277</b>	<b>1,680,857</b>	<b>163,779</b>	<b>64,082</b>	<b>7,548,459</b>	<b>22</b>

1. C Fuchs retired as a Director of Charter Hall on 24 November 2011, however remained an employee throughout the year. KMP remuneration reflected in the table above represents all remuneration receipts to 24 November 2011.

2. P Altschwager commenced employment on 27 February 2012.

3. S Dundas became a KMP on 14 May 2012.

4. S Sewell ceased employment with Charter Hall on 17 February 2012.

5. Non-monetary benefits include motor vehicle costs and associated FBT.

# Directors' report for the year ended 30 June 2012

## 3. Executive remuneration in detail (continued)

### 3.1 Total remuneration of Executives (continued)

Table 3.1.b. Reported Executives of the Group and Company FY11 (statutory accounting)

FY11 Name	Short-term benefits		Post employment benefits	Share- based payment	Other		Total \$	% of Total Remuneration consisting of options/rights
	Salary and fees \$	Short-term incentive \$	Super- annuation \$	Securities, options and performance rights \$	Annual Leave and Long Service Leave \$			
<b>Executive directors</b>								
C Fuchs	384,801	86,425	49,999	109,944	18,206	649,375	17	
D Harrison	1,034,801	262,500	15,199	412,387	26,017	1,750,904	24	
D Southon	1,034,801	262,500	15,199	412,387	(31,247)	1,693,640	24	
<b>Other key management personnel</b>								
J Bakker <sup>1</sup>	634,801	158,700	15,199	262,909	(5,000)	1,066,609	25	
A Glass	509,801	126,000	15,199	146,663	(4,039)	793,625	18	
N Kelly	434,801	90,000	25,000	120,699	12,116	682,615	18	
S Sewell	584,801	220,000	18,999	108,124	(10,776)	921,148	12	
R Stacker	384,801	150,000	27,886	64,906	(6,497)	621,096	10	
A Taylor	584,801	220,000	15,199	108,124	6,532	934,656	12	
M Winnem <sup>1</sup>	434,801	64,819	15,199	120,699	(18,463)	617,055	20	
<b>Totals</b>	<b>6,023,010</b>	<b>1,640,944</b>	<b>213,079</b>	<b>1,866,842</b>	<b>(13,151)</b>	<b>9,730,725</b>	<b>19</b>	

1. Jelte Bakker and Michael Winnem ceased being KMP on 30 June 2011.

### 3.2 JMD loan arrangements

As disclosed in previous remuneration reports, each of the JMDs entered into a loan agreement with Charter Hall Limited in 2005 in relation to the purchase of 2,500,000 (now 625,000 following the one for four security consolidation in FY11) listed securities in Charter Hall Group. The securities purchased using the loans are not reflected in the LTI amounts for the JMDs. These securities were not issued as part of any remuneration arrangements. The terms of the loans were renegotiated in FY11. Further information about these loans is included in Note 30 of the financial statements.

### 3.3 Key terms of employment

#### 3.3.1. Current Executives

The remuneration and other terms of employment for Reported Executives are formalised in employment agreements. Each of these agreements provides for participation in the Group's STI and LTI programs (as described above) and payment of other benefits (including car allowances).

The terms and conditions of employment of each executive reflect market conditions at the time of their contract. All Reported Executives' contracts are ongoing in duration. The material terms of the employment agreements for the JMDs and Senior Executives are summarised below:

Name	Position	Minimum Notice Period <sup>1</sup>	
		Employee	Charter Hall
David Harrison	Joint Managing Director	3 months	3 months
David Southon	Joint Managing Director	3 months	3 months
Paul Altschwager	Group Chief Financial Officer	3 months	6 months
Natalie Devlin	Head of People	1 month	1 month
Scott Dundas	Fund Manager – Charter Hall Retail REIT	3 months	6 months
Andrew Glass	Head of Wholesale Pooled Funds	3 months	3 months
Nick Kelly	Head of Investor Relations	4 weeks	4 weeks
Richard Stacker <sup>2</sup>	Head of Direct – Charter Hall Direct Property	3 months	3 months
Adrian Taylor <sup>3</sup>	Head of Wholesale Partnerships – Charter Hall Office Trust	3 months	3 months

1. No notice period is required for termination by the Company for serious or wilful misconduct by the employee.

2. Termination payments under Richard Stacker's contract equals six months base salary plus one month per year of service to a maximum of 12 months base salary.

3. Termination payments under Adrian Taylor's contract equals nine months base salary plus one month per year of service to a maximum of 12 months base salary.

Other than as described above, the Reported Executives' contracts do not provide for any termination benefits aside from payment in lieu of notice (where applicable). Treatment of unvested incentives is dealt with in accordance with the terms of grant (refer to STI and LTI discussion in the section above).

#### 3.3.2. Former executives

Steven Sewell resigned on 3 January 2012 and ceased employment with the Group on 17 February 2012. He received no payments upon cessation of employment with the Group, other than statutory entitlements.

## 4. Non-Executive Director remuneration

### 4.1 Policy

The Remuneration & Human Resources Committee makes recommendations to the Board on the total level of remuneration of the Chairman, Deputy Chairman and other non-executive directors (NEDs); including any additional fees payable to directors for membership of Board committees.

Fees are set by reference to the following considerations:

- ◆ Industry practice and best principles of corporate governance;
- ◆ Responsibilities and risks attaching to the role of NED;
- ◆ The time commitment expected of NEDs on Group matters; and
- ◆ Reference to fees paid to NEDs of other comparable companies.

The Board, through the Remuneration & Human Resources Committee, reviews periodically its approach to NED remuneration to ensure it remains in line with general industry practice and reflects proper compensation for duties undertaken. External independent advice is sought in these circumstances.

# Directors' report for the year ended 30 June 2012

## 4. Non-Executive Director remuneration (continued)

### 4.2 Fee framework

NED fees, including committee fees, are set by the Board within the aggregate amount approved by shareholders. Currently, the aggregate amount is \$1,000,000 per annum, which was approved by securityholders at the 2011 Annual General Meeting.

The increase to the NED fee pool at the 2011 Annual General meeting was to facilitate the payment in FY12 of two additional NEDs: Mr David Deverall who was appointed on 7 May 2012; and Mr Peter Kahan, who became entitled to earn a Director's fee from 1 October 2011. The total amount paid to NEDs in FY12 was \$821,397.

Under the current framework, NEDs receive:

- ◆ Board base fee;
- ◆ Committee fees; and
- ◆ Superannuation.

The Chairman of the Board receives a loading of 100% in recognition of the additional demands and responsibilities of the role. The Deputy Chairman does not receive a loading. NEDs are also entitled to be reimbursed for all business related expenses, including travel on Charter Hall business, as may be incurred in the discharge of their duties in accordance with Charter Hall's Constitution.

In accordance with principles of good corporate governance, NEDs do not receive any benefits upon retirement under any retirement benefits schemes (other than statutory superannuation) and NEDs are not eligible to participate in any of Charter Hall Group's employee incentive schemes.

In FY12 there was no increase to NED fees.

Details of the current fee structure are set out in the table below. Disclosure of NED remuneration for FY12 is set out section 4.3. below.

**Table 4.2. Summary of fee framework**

	FY12	FY11
<b>Board</b>		
Chair	200,000	200,000
Non-Chair	100,000	100,000
<b>Audit Risk and Compliance Committee</b>		
Chair	20,210	20,210
Non-Chair	13,475	13,475
<b>Remuneration and Human Resources Committee</b>		
Chair	20,210	20,210
Non-Chair	13,475	13,475
<b>Nomination Committee</b>		
Chair	2,000	2,000
Non-Chair	2,000	2,000
<b>Valuation Committee<sup>1</sup></b>	<b>8,800</b>	<b>8,800</b>

1. The valuation committee comprises one Non-Executive Director.

### 4.3 Total remuneration details

Table 4.3.1. Non-Executive Director remuneration FY12 (statutory accounting)

FY12			
Name	Salary and fees \$	Superannuation \$	Total \$
<b>Non-Executive Directors</b>			
K Roxburgh – Chairman	203,644	11,831	215,475
R Woodhouse – Deputy Chairman	105,940	9,535	115,475
A Brennan	122,647	11,038	133,685
D Deverall	14,780	1,330	16,110
G Fraser <sup>1</sup>	131,451	9,926	141,376
P Kahan	75,000	–	75,000
C McGowan	108,500	15,775	124,275
<b>Total</b>	<b>761,962</b>	<b>59,435</b>	<b>821,397</b>

1. Glenn Fraser received \$21,167 for additional consulting services provided to the various Group Audit, Risk and Compliance Committees.

Table 4.3.2. Non-Executive Director remuneration FY11 (statutory accounting)

FY11			
Name	Salary and fees <sup>1</sup> \$	Superannuation \$	Total \$
<b>Non-Executive Directors</b>			
K Roxburgh – Chairman	224,550	14,769	239,319
R Woodhouse – Deputy Chairman	111,701	11,024	122,725
A Brennan <sup>3</sup>	67,746	6,097	73,843
P Derrington <sup>2</sup>	34,648	3,906	38,554
G Fraser	97,737	29,678	127,415
P Kahan	–	–	–
C McGowan	83,725	47,000	130,725
<b>Total</b>	<b>620,107</b>	<b>112,474</b>	<b>732,581</b>

1. Fees paid include a one-off payment for additional work relating to the Macquarie Acquisition.

2. Patrice Derrington resigned on 10 November 2010.

3. Anne Brennan commenced on 6 October 2010.

# Directors' report for the year ended 30 June 2012

## 5. Appendix – Further detail on Long Term Incentives

### 5.1 Performance Rights and Options Plan details

Table 5.1.a. Performance rights and options issued under the PROP

Performance Rights			
Year of issue	Securities	Exercise price	Vesting conditions
FY10	582,340	Nil	Absolute and relative performance criteria described above
FY11	1,358,890	Nil	Absolute and relative performance criteria described above
FY12 <sup>1</sup>	3,471,667	Nil	Absolute and relative performance criteria described above
<b>Total performance rights issued</b>	<b>5,412,897</b>		
Options			
Year of issue	Securities	Exercise price	Vesting conditions
FY10	2,832,178	\$1.94	Absolute and relative performance criteria described above
FY10	678,516	\$2.80	Absolute and relative performance criteria described above
FY11	2,595,744	\$2.44	Absolute and relative performance criteria described above
FY11	123,397	\$2.35	Absolute and relative performance criteria described above
<b>Total options issued</b>	<b>6,229,835</b>		
Service Rights			
Year of issue	Securities	Exercise price	Vesting conditions
FY11	157,697	Nil	Service conditions
FY12	171,462	Nil	Service conditions – JMD Deferred STI
FY12	260,054	Nil	Service conditions – CFO Sign-on
<b>Total service rights issued</b>	<b>589,213</b>		

1. The increase from FY11 to FY12 reflects the move from 50% performance rights and 50% options to 100% performance rights in FY12.

### Valuation Model Inputs

The Black-Scholes or Monte Carlo method, as applicable, is utilised for valuation and accounting purposes. The model inputs for the PROP performance rights and options plan issued during FY09, FY10, FY11 and FY12, and to assess the fair value, are as follows:

#### Options

Grant date	13/11/09	18/6/10	6/9/10	11/11/10	11/1/11
Security price at grant date*	\$2.40	\$2.80	\$2.44	\$2.44	\$2.35
Fair Value of Option*	\$0.39	\$0.56	\$0.51	\$0.51	\$0.49
Exercise price per security*	\$1.94	\$2.80	\$2.44	\$2.44	\$2.35
Expiry of loan	1/7/14	18/6/15	6/9/15	6/9/15	6/9/16
Expected price volatility	40%	40%	40%	40%	40%
Risk-free interest rate	5.5%	5.5%	5.5%	5.5%	5.5%

#### Performance Rights

Grant date	22/12/08	13/11/09	18/6/10	6/9/10	19/11/10	17/1/12
Security price at grant date*	\$1.20	\$2.40	\$2.80	\$2.44	\$2.44	\$2.10
Fair Value of Right*	\$0.64	\$1.07	\$1.52	\$1.33	\$1.33	\$0.94
Expected price volatility	59%	40%	40%	40%	40%	39%
Risk-free interest rate	3.2%	5.5%	5.5%	5.5%	5.5%	3.9%

#### Service Rights

Grant date	6/9/10	22/5/12	22/5/12
Security price at grant date*	\$2.44	\$2.08	\$2.17
Fair Value of Right*	\$2.06	\$1.87	\$1.53
Expected price volatility	40%	35%	30%
Risk-free interest rate	5.5%	4.3%	3.7%

\* Security prices for prior years have been restated for the unit consolidation during FY11.

**Table 5.1.b. Performance rights and options issued to Reported Executives**

	Performance Rights FY10	Performance Rights FY11	Performance Rights FY12	Total Performance Rights	Options FY10	Options FY11	Total Options	Service Right FY12	Total Service Rights
<b>Executive Directors</b>									
C Fuchs	22,522	61,540	107,419	191,481	80,515	153,848	234,363	–	–
D Harrison	96,520	201,924	564,517	862,961	345,060	504,808	849,868	85,731	85,731
D Southon	96,520	201,924	564,517	862,961	670,314	504,808	1,175,122	85,731	85,731
<b>Key management personnel</b>									
P Altschwager	–	–	–	–	–	–	–	260,054	260,054
N Devlin	–	10,897	97,581	108,478	–	27,243	27,243	–	–
S Dundas	35,752	–	107,527	143,279	89,252	–	89,252	–	–
A Glass	38,608	50,483	141,130	230,221	268,128	126,204	394,332	–	–
N Kelly	30,886	43,272	120,968	195,126	162,500	108,176	270,676	–	–
S Sewell	–	–	–	–	–	–	–	–	–
R Stacker	53,628	–	157,549	211,177	133,876	–	133,876	–	–
A Taylor	89,252	–	223,433	312,685	223,252	–	223,252	–	–

Note: Performance Rights and Options issued to the ex-Macquarie KMP who joined Charter Hall in 2010 were issued in June 2010, in respect of the 2011 financial year.

## 5. Appendix – Further detail on Long Term Incentives (continued)

### 5.1 Performance Rights and Options Plan details (continued)

Table 5.1.c. Reported Executives Performance Rights and Options – details by plan

	Type of Equity	Rights previously granted	Rights granted during the year	Rights held at 30 June 2012	Grant Date
<b>Executive Directors</b>					
C Fuchs	LTI Performance Rights	12,621	–	–	22-Dec-08
	LTI Performance Rights	21,876	–	646	13-Nov-09
	LTI Performance Rights	21,876	–	21,876	13-Nov-09
	LTI Performance Rights	30,770	–	30,770	19-Nov-10
	LTI Performance Rights	30,770	–	30,770	19-Nov-10
	LTI Performance Rights	–	107,419	107,419	17-Jan-12
	LTI Options	78,204	–	2,311	13-Nov-09
	LTI Options	78,204	–	78,204	13-Nov-09
	LTI Options	76,924	–	76,924	11-Nov-10
	LTI Options	76,924	–	76,924	11-Nov-10
D Harrison	LTI Performance Rights	100,962	–	–	22-Dec-08
	LTI Performance Rights	93,750	–	2,770	13-Nov-09
	LTI Performance Rights	93,750	–	93,750	13-Nov-09
	LTI Performance Rights	100,962	–	100,962	19-Nov-10
	LTI Performance Rights	100,962	–	100,962	19-Nov-10
	LTI Performance Rights	–	564,517	564,517	17-Jan-12
	LTI Options	335,157	–	9,903	13-Nov-09
	LTI Options	335,157	–	335,157	13-Nov-09
	LTI Options	252,404	–	252,404	11-Nov-10
	LTI Options	252,404	–	252,404	11-Nov-10
D Southon	LTI Service Rights	–	85,731	85,731	22-May-12
	LTI Performance Rights	100,962	–	–	22-Dec-08
	LTI Performance Rights	93,750	–	2,770	13-Nov-09
	LTI Performance Rights	93,750	–	93,750	13-Nov-09
	LTI Performance Rights	100,962	–	100,962	19-Nov-10
	LTI Performance Rights	100,962	–	100,962	19-Nov-10
	LTI Performance Rights	–	564,517	564,517	17-Jan-12
	LTI Options	335,157	–	335,157	13-Nov-09
	LTI Options	335,157	–	335,157	13-Nov-09
	LTI Options	252,404	–	252,404	11-Nov-10
LTI Options	252,404	–	252,404	11-Nov-10	
	LTI Service Rights	–	85,731	85,731	22-May-12

1. Tranche 2 of the FY10 Issue of the Performance Rights and Option Plan fully vested on 1 July 2012.

2. Tranche 1 of the FY11 Performance Rights and Options Plan did not meet its performance hurdles under the plan rules on 1 July 2012. All securities under this tranche are automatically carried over for retesting with Tranche 2 of this plan on 1 July 2013.

3. The maximum value of the grants yet to vest is the amount at the grant date fair value yet to be reflected in the Group's consolidated income statement. The minimum future value is \$nil as the future performance and service conditions may not be met.

4. The intrinsic value at exercise date of options exercised by KMPs during the year were C Fuchs \$14,420, D Harrison \$81,314 and N Kelly \$23,400. The Intrinsic value represents the closing trading price of CHC securities on the exercise date, less the strike price of \$1.94 per security, multiplied by the number of options exercised.

Fair value per right at grant date	Option exercise price	No. vested and exercised during the year <sup>1,2,4</sup>	No. forfeited during the year	Vesting Date	Option Expiry Date	Maximum value to be realised in future years <sup>3</sup>
\$0.64	-	-	12,621	30-Sep-11	-	-
\$1.10	-	21,230	-	01-Jul-11	-	-
\$1.03	-	-	-	01-Jul-12	-	-
\$1.37	-	-	-	01-Jul-12	-	-
\$1.29	-	-	-	01-Jul-13	-	15,025
\$0.94	-	-	-	01-Jul-14	-	67,316
\$0.39	\$1.94	75,893	-	01-Jul-11	13-Nov-14	-
\$0.39	\$1.94	-	-	01-Jul-12	13-Nov-14	-
\$0.51	\$2.44	-	-	01-Jul-12	06-Sep-15	-
\$0.51	\$2.44	-	-	01-Jul-13	06-Sep-15	13,057
\$0.64	-	-	100,962	30-Sep-11	-	-
\$1.10	-	90,980	-	01-Jul-11	-	-
\$1.03	-	-	-	01-Jul-12	-	-
\$1.37	-	-	-	01-Jul-12	-	-
\$1.29	-	-	-	01-Jul-13	-	49,301
\$0.94	-	-	-	01-Jul-14	-	353,764
\$0.39	\$1.94	325,254	-	01-Jul-11	13-Nov-14	-
\$0.39	\$1.94	-	-	01-Jul-12	13-Nov-14	-
\$0.51	\$2.44	-	-	01-Jul-12	06-Sep-15	-
\$0.51	\$2.44	-	-	01-Jul-13	06-Sep-15	42,841
\$1.53	-	-	-	29-Aug-12	-	-
\$0.64	-	-	100,962	30-Sep-11	-	-
\$1.10	-	90,980	-	01-Jul-11	-	-
\$1.03	-	-	-	01-Jul-12	-	-
\$1.37	-	-	-	01-Jul-12	-	-
\$1.29	-	-	-	01-Jul-13	-	49,301
\$0.94	-	-	-	01-Jul-14	-	353,764
\$0.39	\$1.94	-	-	01-Jul-11	13-Nov-14	-
\$0.39	\$1.94	-	-	01-Jul-12	13-Nov-14	-
\$0.51	\$2.44	-	-	01-Jul-12	06-Sep-15	-
\$0.51	\$2.44	-	-	01-Jul-13	06-Sep-15	42,841
\$1.53	-	-	-	29-Aug-12	-	-

# Directors' report for the year ended 30 June 2012

## 5.1 Performance Rights and Options Plan details (continued)

Table 5.1.c. Reported Executives Performance Rights and Options – details by plan (continued)

	Type of Equity	Rights previously granted	Rights granted during the year	Rights held at 30 June 2012	Grant Date
<b>Key management personnel</b>					
P Altschwager	LTI Service Rights	–	130,027	130,027	22-May-12
	LTI Service Rights	–	130,027	130,027	22-May-12
N Devlin	LTI Performance Rights	5,449	–	5,449	06-Sep-10
	LTI Performance Rights	5,448	–	5,448	06-Sep-10
	LTI Performance Rights	–	97,581	97,581	17-Jan-12
	LTI Options	13,622	–	13,622	11-Jan-11
	LTI Options	13,621	–	13,621	11-Jan-11
S Dundas	LTI Performance Rights	17,876	–	17,876	18-Jun-10
	LTI Performance Rights	17,876	–	17,876	18-Jun-10
	LTI Performance Rights	–	107,527	107,527	17-Jan-12
	LTI Options	44,626	–	44,626	18-Jun-10
	LTI Options	44,626	–	44,626	18-Jun-10
A Glass	LTI Performance Rights	37,500	–	1,108	13-Nov-09
	LTI Performance Rights	37,500	–	37,500	13-Nov-09
	LTI Performance Rights	25,242	–	25,242	06-Sep-10
	LTI Performance Rights	25,241	–	25,241	06-Sep-10
	LTI Performance Rights	–	141,130	141,130	17-Jan-12
	LTI Options	134,064	–	134,064	13-Nov-09
	LTI Options	134,064	–	134,064	13-Nov-09
	LTI Options	63,102	–	63,102	06-Sep-10
N Kelly	LTI Options	63,102	–	63,102	06-Sep-10
	LTI Performance Rights	12,621	–	–	22-Dec-08
	LTI Performance Rights	30,000	–	886	13-Nov-09
	LTI Performance Rights	30,000	–	30,000	13-Nov-09
	LTI Performance Rights	21,636	–	21,636	06-Sep-10
	LTI Performance Rights	21,636	–	21,636	06-Sep-10
	LTI Performance Rights	–	120,968	120,968	17-Jan-12
	LTI Options	107,250	–	55,250	13-Nov-09
	LTI Options	107,250	–	107,250	13-Nov-09
	LTI Options	54,088	–	54,088	06-Sep-10
R Stacker	LTI Options	54,088	–	54,088	06-Sep-10
	LTI Performance Rights	26,814	–	26,814	18-Jun-10
	LTI Performance Rights	26,814	–	26,814	18-Jun-10
	LTI Performance Rights	–	157,549	157,549	17-Jan-12
	LTI Options	66,938	–	66,938	18-Jun-10
A Taylor	LTI Options	66,938	–	66,938	18-Jun-10
	LTI Performance Rights	44,626	–	44,626	18-Jun-10
	LTI Performance Rights	44,626	–	44,626	18-Jun-10
	LTI Performance Rights	–	223,433	223,433	17-Jan-12
	LTI Options	111,626	–	111,626	18-Jun-10
LTI Options	111,626	–	111,626	18-Jun-10	

1. Tranche 2 of the FY10 Issue of the Performance Rights and Option Plan fully vested on 1 July 2012.

2. Tranche 1 of the FY11 Performance Rights and Options Plan did not meet its performance hurdles under the plan rules on 1 July 2012. All securities under this tranche are automatically carried over for retesting with Tranche 2 of this plan on 1 July 2013.

Fair value per right at grant date	Option exercise price	No. vested and exercised during the year <sup>1,2,4</sup>	No. forfeited during the year	Vesting Date	Option Expiry Date	Maximum value to be realised in future years <sup>3</sup>
\$1.87	-	-	-	31-Dec-12	-	144,870
\$1.87	-	-	-	31-Dec-13	-	197,820
\$1.37	-	-	-	01-Jul-12	-	-
\$1.28	-	-	-	01-Jul-13	-	2,289
\$0.94	-	-	-	01-Jul-14	-	61,151
\$0.49	\$2.35	-	-	30-Jun-12	06-Sep-15	-
\$0.49	\$2.35	-	-	30-Jun-13	06-Sep-15	2,234
\$1.58	-	-	-	30-Jun-12	-	-
\$1.46	-	-	-	30-Jun-13	-	8,589
\$0.94	-	-	-	01-Jul-14	-	67,384
\$0.56	\$2.80	-	-	30-Jun-12	18-Jun-15	-
\$0.56	\$2.80	-	-	30-Jun-13	18-Jun-15	8,212
\$1.10	-	36,392	-	01-Jul-11	-	-
\$1.03	-	-	-	01-Jul-12	-	-
\$1.37	-	-	-	01-Jul-12	-	-
\$1.27	-	-	-	01-Jul-13	-	10,572
\$0.94	-	-	-	01-Jul-14	-	88,441
\$0.39	\$1.94	-	-	01-Jul-11	13-Nov-14	-
\$0.39	\$1.94	-	-	01-Jul-12	13-Nov-14	-
\$0.51	\$2.44	-	-	01-Jul-12	06-Sep-15	-
\$0.51	\$2.44	-	-	01-Jul-13	06-Sep-15	10,731
\$0.64	-	-	12,621	30-Sep-11	-	-
\$1.10	-	29,114	-	01-Jul-11	-	-
\$1.03	-	-	-	01-Jul-12	-	-
\$1.37	-	-	-	01-Jul-12	-	-
\$1.28	-	-	-	01-Jul-13	-	9,062
\$0.94	-	-	-	01-Jul-14	-	75,807
\$0.39	\$1.94	52,000	-	01-Jul-11	13-Nov-14	-
\$0.39	\$1.94	-	-	01-Jul-12	13-Nov-14	-
\$0.51	\$2.44	-	-	01-Jul-12	06-Sep-15	-
\$0.51	\$2.44	-	-	01-Jul-13	06-Sep-15	9,198
\$1.58	-	-	-	01-Jul-12	-	-
\$1.46	-	-	-	01-Jul-13	-	12,884
\$0.94	-	-	-	01-Jul-14	-	98,731
\$0.56	\$2.80	-	-	01-Jul-12	13-Nov-14	-
\$0.56	\$2.80	-	-	01-Jul-13	13-Nov-14	12,318
\$1.58	-	-	-	01-Jul-12	-	-
\$1.46	-	-	-	01-Jul-13	-	21,443
\$0.94	-	-	-	01-Jul-14	-	140,018
\$0.56	\$2.80	-	-	01-Jul-12	13-Nov-14	-
\$0.56	\$2.80	-	-	01-Jul-13	13-Nov-14	20,541

3. The maximum value of the grants yet to vest is the amount at the grant date fair value yet to be reflected in the Group's consolidated income statement. The minimum future value is \$nil as the future performance and service conditions may not be met.

4. The intrinsic value at exercise date of options exercised by KMPs during the year were C Fuchs \$14,420, D Harrison \$81,314 and N Kelly \$23,400. The Intrinsic value represents the closing trading price of CHC securities on the exercise date, less the strike price of \$1.94 per security, multiplied by the number of options exercised.

# Directors' report for the year ended 30 June 2012

## 5.2 Legacy Program: Executive Loan Securities Plan (ELSP) details

Table 5.2.a. Remaining securities under the ELSP – suspended from 1 July 2009

Year of issue	Securities	Transferred, sold or forfeited	Retained in plan	On issue	Issue Price	Vesting conditions applicable on securities remaining within the plan
FY08	2,682,326	(2,013,329)	9,058	678,055	\$11.04 to \$11.76	OEPS must increase by 5% in each year from FY07 or have achieved 5% compound annual growth on FY07. First tranche vested with the second and third not meeting the conditions.
<b>Total</b>	<b>2,682,326</b>	<b>(2,013,329)</b>	<b>9,058</b>	<b>678,055</b>		

Table 5.2.b. Reported Executives ELSP details – June 2012

Type of Equity	Securities	Grant Date <sup>1,2,3</sup>	Issue Price	Last Vesting Date	Loan Expiry	% Vesting	Securities in ELSP at June 2011	Securities forfeited/ lapsed in current year	Securities vested in current year	Securities in ELSP at June 2012	Maximum total value of grant yet to vest (\$) <sup>4</sup>
<b>Executive Directors</b>											
C Fuchs	ELSP	98,425	30-Jun-06	\$5.08	30-Sep-08	01-Jul-11	67	65,616	65,616	–	–
	ELSP	90,580	03-Jul-07	\$11.04	30-Sep-08	23-Jul-12	33	30,194	–	–	30,194
	ELSP	216,346	19-Nov-08	\$4.16	30-Sep-11	18-Nov-13	0	72,116	72,116	–	–
D Harrison	ELSP	290,354	30-Jun-06	\$5.08	30-Sep-08	01-Jul-11	67	193,570	193,570	–	–
	ELSP	679,348	03-Jul-07	\$11.04	30-Sep-08	23-Jul-12	33	226,449	–	–	226,449
	ELSP	1,730,769	19-Nov-08	\$4.16	30-Sep-11	18-Nov-13	0	576,923	576,923	–	–
D Southon	ELSP	279,528	30-Jun-06	\$5.08	30-Sep-08	01-Jul-11	67	186,352	186,352	–	–
	ELSP	679,348	03-Jul-07	\$11.04	30-Sep-08	23-Jul-12	33	226,449	–	–	226,449
	ELSP	1,730,769	19-Nov-08	\$4.16	30-Sep-11	18-Nov-13	0	576,923	576,923	–	–
<b>Key management personnel</b>											
N Kelly	ELSP	46,584	16-Oct-06	\$6.44	30-Sep-08	01-Jul-11	67	31,056	31,056	–	–
	ELSP	72,464	03-Jul-07	\$11.04	30-Sep-08	23-Jul-12	33	24,155	–	–	24,155
	ELSP	216,346	07-Aug-08	\$4.16	30-Sep-11	18-Nov-13	0	72,116	72,115	–	–

1. For the ELSPs granted on 30 June 2006 and 16 October 2006, the loans associated with these grants expired on 1 July 2011. As these plans were out of the money on this date, all securities attaching to these loans were forfeited.

2. For the ELSPs granted on 3 July 2007, the loans associated with these grants expired on 23 July 2012. As these plans were out of the money on this date, all securities attaching to these loans were forfeited post year end.

3. For the ELSPs granted on 7 August 2008 and 19 November 2008, the final tranche of these plans did not vest due to failure to meet performance conditions.

4. The maximum value of securities yet to vest in the ELSP is \$nil. All security based payment expenses in relation to the ELSP have been fully expensed in prior years.

## Indemnification and insurance of directors, officers and auditor

During the year, Charter Hall Group contributed to the premium for a contract insuring all directors, secretaries, executive officers and officers of the Charter Hall Group and of each related body corporate of the Group, with the balance of the premium paid by funds managed by members of the Charter Hall Group. The insurance does not provide any cover for the independent auditor of the Charter Hall Group or of a related party of the Charter Hall Group. In accordance with usual commercial practice, the insurance contract prohibits disclosure of details of the nature of the liabilities covered by the insurance, the limit of indemnity and the amount of the premium paid under the contract.

So long as the officers of the Responsible Entity act in accordance with the Charter Hall Property Trust's Constitution and the *Corporations Act 2001*, the officers are indemnified out of the assets of the Charter Hall Property Trust against losses incurred while acting on behalf of the Charter Hall Property Trust. The Charter Hall Group indemnifies the auditor (PricewaterhouseCoopers Australia) against any liability (including legal costs) for third party claims arising from a breach by Charter Hall Group of the auditor's engagement terms, except where prohibited by the *Corporations Act 2001*.

## Non-audit services

The Company may decide to employ the auditor on assignments additional to its statutory audit duties where the auditor's expertise and experience with the Group are important.

Details of the amounts paid or payable to the auditor (PricewaterhouseCoopers) for audit and non-audit services provided during the year are set out below.

The Board of Directors has considered the position and, in accordance with the advice received from the Audit, Risk and Compliance Committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The Directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- ◆ All non-audit services have been reviewed by the Audit, Risk and Compliance Committee to ensure they do not impact the impartiality and objectivity of the auditor; and
- ◆ None of the services undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*.

During the year, the following fees were paid or payable for services provided by the auditor of the Charter Hall Group and Charter Hall Property Trust Group, its related practices and non-related audit firms:

	Charter Hall Group		Charter Hall Property Trust Group	
	2012 \$	2011 \$	2012 \$	2011 \$
<b>(a) Audit services</b>				
PricewaterhouseCoopers Australian firm				
Audit and review of financial reports	347,597	387,791	32,184	47,388
Independent Review of the Charter Hall anti-money laundering program	55,000	–	–	–
Non-PricewaterhouseCoopers audit firms for audit services				
W F White & Co	–	1,940	–	–
<b>Total remuneration for audit services</b>	<b>402,597</b>	<b>389,731</b>	<b>32,184</b>	<b>47,388</b>
<b>(b) Taxation services</b>				
PricewaterhouseCoopers Australian firm				
Tax compliance services, including review of company income tax returns	60,976	55,050	10,000	29,720
<b>Total remuneration for taxation services</b>	<b>60,976</b>	<b>55,050</b>	<b>10,000</b>	<b>29,720</b>
<b>(c) Advisory services</b>				
PricewaterhouseCoopers Australian firm				
Long-term incentive plan structure	10,000	53,525	–	–
Accounting advice	25,500	–	–	–
<b>Total remuneration for advisory services</b>	<b>35,500</b>	<b>53,525</b>	<b>–</b>	<b>–</b>

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## Directors' report for the year ended 30 June 2012

### Environmental regulation

The principal activities of the Group are property investment, property funds management and development investment. Funds management involves minimal environmental impact. The Group ensures compliance with applicable environmental standards and regulations in its property investment and development investment activities.

The Group reported its greenhouse gas emissions and energy use under the *National Greenhouse and Energy Reporting Act 2007* for the first time in October 2011. In October 2012, the Group will report to the Clean Energy Regulator emissions for the measurement period 1 July 2011 to 30 June 2012.

The Group has assessed the impact of the Australian Government's Clean Energy Plan 2011 and does not anticipate a material impact to its operations from the carbon price. The Group will continue to implement resource efficiency measures to mitigate against price increases associated with the carbon price.

To the best of the Directors' knowledge, the operations of the Group have been undertaken in compliance with the applicable environmental regulations that apply to the Group's activities.

### Proceedings on behalf of the Company

No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the Company with leave of the Court under section 237 of the *Corporations Act 2001*.

### 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 67.

### Rounding of amounts

The Company is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the 'rounding off' of amounts in the Directors' report. Amounts in the Directors' report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

### Auditor

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

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



K Roxburgh  
Chairman  
Sydney  
17 September 2012



### Auditor's Independence Declaration

As lead auditor for the audit of Charter Hall Limited and Charter Hall Property 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 Charter Hall Limited and Charter Hall Property Trust and the entities they controlled during the period.

A handwritten signature in black ink that reads 'Robert Baker'.

R A Baker  
Partner  
PricewaterhouseCoopers

Sydney  
19 September 2012

**PricewaterhouseCoopers, ABN 52 780 433 757**  
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# Consolidated financial statements for the year ended 30 June 2012

## Consolidated statements of comprehensive income

	Notes	Charter Hall Group		Charter Hall Property Trust Group	
		2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
<b>Income</b>					
Revenue	6	123,630	109,594	53,287	35,335
Share of net profit of associates accounted for using the equity method		2,949	30,396	5,494	26,815
Net gain on remeasurement of equity interests	36(b)	4,645	16,726	4,533	16,733
Fair value adjustment on contingent consideration		1,355	–	–	–
Net gain on sale of investment properties and derivatives		–	3,350	–	2,523
Foreign exchange gains		–	29	–	12
<b>Total income</b>		<b>132,579</b>	<b>160,095</b>	<b>63,314</b>	<b>81,418</b>
<b>Expenses</b>					
Investment property expenses		(3,541)	(4,795)	(3,478)	(4,839)
Depreciation	7	(725)	(1,545)	–	–
Finance costs	7	(9,382)	(8,111)	(8,875)	(7,196)
Net loss on sale of investment properties and derivatives		(1,627)	–	(2,179)	–
Net valuation losses on investment properties	8	(7,692)	(2,518)	(7,692)	(128)
Net unrealised loss from derivative financial instruments	8	(310)	(386)	(310)	(387)
Net loss on investment in associates at fair value	8	(1,774)	(309)	(1,757)	(319)
Foreign exchange losses		(943)	–	(955)	–
Impairment of management rights		–	(19,171)	–	–
Amortisation of management rights	7	(1,307)	–	–	–
Asset management fees		–	–	(3,591)	(5,726)
Performance fee clawback provision		(14,239)	–	–	–
Management, administration and other expenses	7	(77,068)	(70,689)	(1,313)	(1,899)
<b>Total expenses</b>		<b>(118,608)</b>	<b>(107,524)</b>	<b>(30,150)</b>	<b>(20,494)</b>
<b>Profit before tax</b>		<b>13,971</b>	<b>52,571</b>	<b>33,164</b>	<b>60,924</b>
Income tax benefit	9	432	2,666	–	323
<b>Profit for the year</b>		<b>14,403</b>	<b>55,237</b>	<b>33,164</b>	<b>61,247</b>
<b>Profit/(loss) for the year is attributable to:</b>					
Equity holders of Charter Hall Limited		(19,409)	(5,493)	–	–
Equity holders of Charter Hall Property Trust (non-controlling interest)		36,087	57,831	36,087	57,831
<b>Profit after tax attributable to stapled securityholders of Charter Hall Group</b>		<b>16,678</b>	<b>52,338</b>	<b>36,087</b>	<b>57,831</b>
Net profit/(loss) attributable to other non-controlling interests		(2,275)	2,899	(2,923)	3,416
<b>Profit for the year</b>		<b>14,403</b>	<b>55,237</b>	<b>33,164</b>	<b>61,247</b>

	Notes	Charter Hall Group		Charter Hall Property Trust Group	
		2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
<b>Profit for the year</b>		14,403	55,237	33,164	61,247
<b>Other comprehensive income/(loss) for the year</b>					
Exchange differences on translation of foreign operations		2,021	(19,677)	2,334	(19,024)
Transfer of cumulative FX losses	28(a)	11,749	–	11,749	–
Other comprehensive income/(loss) for the year, net of tax		13,770	(19,677)	14,083	(19,024)
<b>Total comprehensive income for the year</b>		28,173	35,560	47,247	42,223
<b>Total comprehensive income for the year is attributable to:</b>					
Equity holders of Charter Hall Limited		(19,724)	(6,123)	–	–
Equity holders of Charter Hall Property Trust (non-controlling interest)		49,143	38,743	49,143	38,743
<b>Total comprehensive income attributable to stapled securityholders of Charter Hall Group</b>		29,419	32,620	49,143	38,743
Total comprehensive income/(loss) attributable to other non-controlling interests		(1,246)	2,940	(1,896)	3,480
<b>Total comprehensive income for the year</b>		28,173	35,560	47,247	42,223
<b>Basic and diluted earnings per stapled security</b>					
Basic earnings per stapled security (cents) attributable to securityholders	40	5.64	17.85	12.21	19.72
Diluted earnings per stapled security (cents) attributable to securityholders	40	5.35	17.06	11.49	18.13

The above consolidated statements of comprehensive income should be read in conjunction with the accompanying notes.

## Consolidated financial statements for the year ended 30 June 2012

### Consolidated balance sheets

	Notes	Charter Hall Group		Charter Hall Property Trust Group	
		2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
<b>Assets</b>					
<i>Current assets</i>					
Cash and cash equivalents	11	39,315	26,266	21,674	4,841
Trade and other receivables	12	32,110	43,438	17,601	13,788
Assets classified as held for sale	13	136,390	921	136,390	–
<b>Total current assets</b>		<b>207,815</b>	<b>70,625</b>	<b>175,665</b>	<b>18,629</b>
<i>Non-current assets</i>					
Trade and other receivables	12	12,870	9,400	163,542	355,874
Investment in associates at fair value through profit or loss	14	62,638	78,445	62,180	78,014
Inventories	16	9,518	7,450	–	–
Investments accounted for using the equity method	17	472,159	517,707	373,578	436,108
Property, plant and equipment	19	3,026	3,167	–	–
Investment properties	20	–	159,518	–	143,718
Intangible assets	18	98,687	99,994	–	–
Deferred tax assets	21	10,507	11,255	–	–
Other assets	24	564	–	564	–
<b>Total non-current assets</b>		<b>669,969</b>	<b>886,936</b>	<b>599,864</b>	<b>1,013,714</b>
<b>Total assets</b>		<b>877,784</b>	<b>957,561</b>	<b>775,529</b>	<b>1,032,343</b>
<b>Liabilities</b>					
<i>Current liabilities</i>					
Trade and other payables	22	50,788	58,061	30,288	32,728
Derivative financial instruments	15	669	–	669	–
Provisions	23	14,895	834	–	–
Borrowings	24	51,463	–	53,863	–
<b>Total current liabilities</b>		<b>117,815</b>	<b>58,895</b>	<b>84,820</b>	<b>32,728</b>
<i>Non-current liabilities</i>					
Trade and other payables	22	–	12,106	–	–
Borrowings	24	–	101,862	–	101,862
Deferred tax liabilities	25	2,185	1,129	–	–
Derivative financial instruments	15	–	407	–	407
Provisions	26	1,428	1,217	–	–
<b>Total non-current liabilities</b>		<b>3,613</b>	<b>116,721</b>	<b>–</b>	<b>102,269</b>
<b>Total liabilities</b>		<b>121,428</b>	<b>175,616</b>	<b>84,820</b>	<b>134,997</b>
<b>Net assets</b>		<b>756,356</b>	<b>781,945</b>	<b>690,709</b>	<b>897,346</b>

	Notes	Charter Hall Group		Charter Hall Property Trust Group	
		2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
<b>Equity</b>					
<i>Equity holders of Charter Hall Limited</i>					
Contributed equity	27	209,550	9,503	–	–
Reserves	28(a)	(49,055)	(47,547)	–	–
Accumulated losses	28(b)	(81,738)	(62,329)	–	–
Parent entity interest		78,757	(100,373)	–	–
<i>Equity holders of Charter Hall Property Trust</i>					
Contributed equity	27	739,175	934,458	739,175	934,458
Reserves	28(a)	(1,415)	(9,747)	(1,415)	(9,747)
Accumulated losses	28(b)	(87,609)	(74,520)	(87,609)	(74,520)
Equity holders of Charter Hall Property Trust (non-controlling interest)		650,151	850,191	650,151	850,191
<b>Interest attributable to stapled securityholders of Charter Hall Group</b>		<b>728,908</b>	749,818	<b>650,151</b>	850,191
Non-controlling interest in DRF	29	27,448	32,127	40,558	47,155
<b>Total equity</b>		<b>756,356</b>	781,945	<b>690,709</b>	897,346

The above consolidated balance sheets should be read in conjunction with the accompanying notes.

## Consolidated financial statements for the year ended 30 June 2012

### Consolidated statement of changes in equity – Charter Hall Group

	Attributable to the owners of Charter Hall Group				Non-controlling interest \$'000	Total equity \$'000
	Contributed equity \$'000	Reserves \$'000	Accumulated losses \$'000	Total \$'000		
Balance at 1 July 2010	936,445	(40,029)	(136,055)	760,361	50,629	810,990
Profit/(loss) for the year	–	–	52,338	52,338	2,899	55,237
Other comprehensive income/(loss)	–	(19,718)	–	(19,718)	41	(19,677)
Total comprehensive income/(loss)	–	(19,718)	52,338	32,620	2,940	35,560
Transactions with equity holders in their capacity as equity holders:						
Contributions of equity, net of issue costs	7,516	–	–	7,516	–	7,516
Distribution provided for or paid	–	–	(48,469)	(48,469)	(2,503)	(50,972)
Security-based payments	–	4,090	–	4,090	–	4,090
Transactions with non-controlling interests	–	(6,300)	–	(6,300)	(18,939)	(25,239)
Transfer from accumulated losses	–	4,663	(4,663)	–	–	–
	7,516	2,453	(53,132)	(43,163)	(21,442)	(64,605)
<b>Balance at 1 July 2011</b>	<b>943,961</b>	<b>(57,294)</b>	<b>(136,849)</b>	<b>749,818</b>	<b>32,127</b>	<b>781,945</b>
<b>Profit/(loss) for the year</b>	<b>–</b>	<b>–</b>	<b>16,678</b>	<b>16,678</b>	<b>(2,275)</b>	<b>14,403</b>
<b>Other comprehensive income</b>	<b>–</b>	<b>12,741</b>	<b>–</b>	<b>12,741</b>	<b>1,029</b>	<b>13,770</b>
<b>Total comprehensive income/(loss)</b>	<b>–</b>	<b>12,741</b>	<b>16,678</b>	<b>29,419</b>	<b>(1,246)</b>	<b>28,173</b>
Transactions with equity holders in their capacity as equity holders:						
Performance rights and options exercised	4,764	(1,452)	–	3,312	–	3,312
Distribution provided for or paid	–	–	(53,839)	(53,839)	(2,667)	(56,506)
Security-based payments	–	2,600	–	2,600	–	2,600
Transactions with non-controlling interests	–	(2,402)	–	(2,402)	(766)	(3,168)
Transfer to accumulated losses	–	(4,663)	4,663	–	–	–
	4,764	(5,917)	(49,176)	(50,329)	(3,433)	(53,762)
<b>Balance at 30 June 2012</b>	<b>948,725</b>	<b>(50,470)</b>	<b>(169,347)</b>	<b>728,908</b>	<b>27,448</b>	<b>756,356</b>

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

## Consolidated statement of changes in equity – Charter Hall Property Trust Group

	Attributable to the owners of Charter Hall Property Trust Group				Non-controlling interest \$'000	Total equity \$'000
	Contributed equity \$'000	Reserves \$'000	Accumulated losses \$'000	Total \$'000		
Balance at 1 July 2010	927,018	4,626	(79,219)	852,425	50,630	903,055
Profit/(loss) for the year	–	–	57,831	57,831	3,416	61,247
Other comprehensive income/(loss)	–	(19,088)	–	(19,088)	64	(19,024)
Total comprehensive income/(loss)	–	(19,088)	57,831	38,743	3,480	42,223
Transactions with equity holders in their capacity as equity holders:						
Contributions of equity, net of issue costs	7,440	–	–	7,440	–	7,440
Distribution provided for or paid	–	–	(48,469)	(48,469)	(3,072)	(51,541)
Transactions with non-controlling interests	–	52	–	52	(3,883)	(3,831)
Transfer from accumulated losses	–	4,663	(4,663)	–	–	–
	7,440	4,715	(53,132)	(40,977)	(6,955)	(47,932)
<b>Balance at 1 July 2011</b>	<b>934,458</b>	<b>(9,747)</b>	<b>(74,520)</b>	<b>850,191</b>	<b>47,155</b>	<b>897,346</b>
Profit/(loss) for the year	–	–	36,087	36,087	(2,923)	33,164
Other comprehensive income	–	13,056	–	13,056	1,027	14,083
Total comprehensive income/(loss)	–	13,056	36,087	49,143	(1,896)	47,247
Transactions with equity holders in their capacity as equity holders:						
Performance rights and options exercised	4,717	–	–	4,717	–	4,717
Reallocation to Charter Hall Limited	(200,000)	–	–	(200,000)	–	(200,000)
Distribution provided for or paid	–	–	(53,839)	(53,839)	(3,889)	(57,728)
Transactions with non-controlling interests	–	(61)	–	(61)	(812)	(873)
Transfer to accumulated losses	–	(4,663)	4,663	–	–	–
	(195,283)	(4,724)	(49,176)	(249,183)	(4,701)	(253,884)
<b>Balance at 30 June 2012</b>	<b>739,175</b>	<b>(1,415)</b>	<b>(87,609)</b>	<b>650,151</b>	<b>40,558</b>	<b>690,709</b>

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

# Consolidated financial statements for the year ended 30 June 2012

## Consolidated cash flow statements

	Notes	Charter Hall Group		Charter Hall Property Trust Group	
		2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
<b>Cash flows from operating activities</b>					
Receipts from customers		146,830	107,836	19,026	28,018
Payments to suppliers and employees		(93,503)	(72,932)	(14,150)	(8,180)
		53,327	34,904	4,876	19,838
Interest received		2,562	2,901	869	1,554
Interest paid		(8,654)	(7,494)	(8,644)	(7,415)
Distributions and dividends from investments		31,773	28,471	27,765	26,230
<b>Net cash inflow from operating activities</b>	39	<b>79,008</b>	<b>58,782</b>	<b>24,866</b>	<b>40,207</b>
<b>Cash flows from investing activities</b>					
Payments for property, plant and equipment		(587)	(1,128)	–	–
Proceeds on disposal of investment property		33,742	97,548	17,218	115,461
Payment for inventory		(1,294)	(7,450)	–	–
Payments for investment properties		(717)	(14,778)	(717)	(14,030)
Deferred payments for business combination		(15,752)	(280)	–	–
Investments in associates and joint ventures		(68,522)	(75,670)	(73,769)	(67,230)
Proceeds on disposal and return of capital from investments in associates		95,129	439	130,086	20,020
Loans to associates and joint ventures		(6,120)	(1,250)	(1,650)	(96,868)
Repayments from associates		–	–	26,527	35,970
Repayments from key management personnel		800	–	–	–
Transactions with non-controlling interests		–	–	–	(3,831)
Payments for acquisition of non-controlling interests		–	(30,076)	–	–
<b>Net cash inflow/(outflow) from investing activities</b>		<b>36,679</b>	<b>(32,645)</b>	<b>97,695</b>	<b>(10,508)</b>
<b>Cash flows from financing activities</b>					
Proceeds from issues of securities and other equity securities		4,162	–	2,257	–
Payment on settlement of derivative financial instruments		(183)	(4,388)	(183)	(4,388)
Proceeds from borrowings		76,442	48,510	76,442	48,510
Repayment of borrowings		(128,728)	(37,658)	(128,728)	(37,658)
Distributions paid to securityholders		(54,379)	(35,030)	(55,524)	(37,952)
<b>Net cash outflow from financing activities</b>		<b>(102,686)</b>	<b>(28,566)</b>	<b>(105,736)</b>	<b>(31,488)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>13,001</b>	<b>(2,429)</b>	<b>16,825</b>	<b>(1,789)</b>
Cash and cash equivalents at the beginning of the year		26,266	28,380	4,841	6,638
Effect of exchange rate changes on cash and cash equivalents		48	315	8	(8)
<b>Cash and cash equivalents at the end of the year</b>	11	<b>39,315</b>	<b>26,266</b>	<b>21,674</b>	<b>4,841</b>

The above consolidated cash flow statements should be read in conjunction with the accompanying notes.

# Notes to the consolidated financial statements for the year ended 30 June 2012

## 1 Summary of significant accounting policies

### (a) Basis of preparation

The Charter Hall Group (the Group or CHC) is a 'stapled' entity comprising Charter Hall Limited (the Company or CHL) and its controlled entities, and Charter Hall Property Trust (the Trust or CHPT) and its controlled entities. The shares in the Company are stapled to the units in the Trust. The stapled securities cannot be traded or dealt with separately. The stapled securities of the Group are listed on the Australian Securities Exchange.

The two Charter Hall entities comprising the stapled group remain separate legal entities in accordance with the *Corporations Act 2001*, and are each required to comply with the reporting and disclosure requirements of Accounting Standards and the *Corporations Act 2001*.

As permitted by Class Order 05/642, issued by the Australian Securities and Investments Commission, this financial report is a combined financial report that presents the financial statements and accompanying notes of both the Charter Hall Group and the Charter Hall Property Trust Group.

The financial report of the Charter Hall Group comprises Charter Hall Limited and its controlled entities including Charter Hall Funds Management Limited (Responsible Entity) as responsible entity for Charter Hall Property Trust. Charter Hall Limited has been identified as the parent entity in relation to the stapling. The results and equity, not directly owned by CHL, of CHPT have been treated and disclosed as a non-controlling interest. Whilst the results and equity of CHPT are disclosed as a non-controlling interest, the stapled securityholders of CHL are the same as the stapled securityholders of CHPT. The results and equity of the Charter Hall Direct Retail Fund (DRF) not directly owned by the Group have been treated and disclosed as a non-controlling interest.

The financial report of the Charter Hall Property Trust Group comprises the Trust and its controlled entities.

This general purpose financial report has been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board and the *Corporations Act 2001*. The Charter Hall Group and Charter Hall Property Trust Group are for-profit entities for the purpose of preparing the financial statements.

The principal accounting policies adopted in the preparation of the consolidated financial statements for the year ended 30 June 2012 are set out below. These policies have been consistently applied to the years presented, unless otherwise stated.

On 6 June 2005, CHL acquired Charter Hall Holdings Pty Ltd (CHH). Under the terms of AASB 3 *Business Combinations*, CHH was deemed to be the accounting acquirer in this business combination. This transaction has therefore been accounted for as a reverse acquisition under AASB 3. Accordingly, the consolidated financial statements of the Group have been prepared as a continuation of the consolidated financial statements of CHH. CHH, as the deemed acquirer, has acquisition accounted for CHL as at 6 June 2005.

### Compliance with IFRSs

Compliance with Australian Accounting Standards ensures that the financial statements comply with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB). Consequently, these financial statements have been prepared in accordance with and comply with IFRS as issued by the IASB.

### Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of investment properties, financial assets and liabilities (including derivative financial instruments) held at fair value through profit or loss.

### Critical accounting estimates

The preparation of the financial statements in conformity with Australian Accounting Standards requires the use of certain critical accounting estimates and management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

### (b) Principles of consolidation

#### (i) Controlled entities

The consolidated financial statements of the Charter Hall Group and the Charter Hall Property Trust Group incorporate the assets and liabilities of all controlled entities as at 30 June 2012 and their results for the year then ended.

Controlled entities are all those entities over which the Company or 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 Company or the Trust controls another entity.

Controlled entities are fully consolidated from the date on which control is transferred. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for acquisition of controlled entities by the Company or Trust (refer to note 1(g)).

Intercompany transactions, balances and unrealised gains on transactions between controlled entities are eliminated. Unrealised losses are also eliminated unless the transaction involves impairment of the asset transferred. Accounting policies of controlled entities have been changed where necessary to ensure consistency with the policies adopted by the Company or the Trust.

Non-controlling interests in the results and equity of controlled entities are shown separately in the consolidated statement of comprehensive income, consolidated balance sheets and consolidated statement of changes in equity respectively.

#### (ii) Associates

Associates are entities over which Charter Hall has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights or where Charter Hall is the responsible entity. Investments in associates are accounted for in the consolidated financial statements using the equity method of accounting after initially being recognised at cost, or as financial assets at fair value through profit or loss.

Where the equity method of accounting is used, Charter Hall's share of its associates' post acquisition profits or losses is recognised in the statement of comprehensive income, and its share of post acquisition movements in reserves is recognised in reserves. The cumulative post acquisition movements are adjusted against the carrying amount of the investment. Dividends receivable from associates are recognised in the consolidated financial statements as a reduction in the carrying amount of the investment.

# Notes to the consolidated financial statements for the year ended 30 June 2012

## 1 Summary of significant accounting policies (continued)

### (b) Principles of consolidation (continued)

#### (ii) Associates (continued)

When Charter Hall's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured long-term receivables, Charter Hall does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between Charter Hall and its associates are eliminated to the extent of Charter Hall's interests in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by Charter Hall.

For investments in associates accounted for as financial assets at fair value through profit or loss, investments are carried at fair value with gains or losses arising from changes in the fair value being presented in the statement of comprehensive income within 'fair value adjustments' in the year in which they arise. Distribution income from investments in associates accounted at fair value through profit or loss is recognised in the statement of comprehensive income as part of revenue.

#### (iii) Joint ventures

##### Joint venture entities

Investment in joint venture entities over which Charter Hall exercises joint control are accounted for in the consolidated financial statements using the equity method after initially being recognised at cost. Under the equity method, Charter Hall's share of the profits or losses of each relevant joint venture entity is recognised in profit or loss, and the share of post-acquisition movements in reserves is recognised in other comprehensive income. Details relating to the joint venture entities are set out in note 37.

Profits and losses on transactions establishing the joint venture entity and transactions with the joint venture are eliminated to the extent of Charter Hall's ownership interest until such time as they are realised by the joint venture entity on consumption or sale. However, a loss on the transaction is recognised immediately if the loss provides evidence of a reduction in the net realisable value of assets, or an impairment loss.

##### Jointly controlled assets

The proportionate interests in the assets, liabilities, income and expenses of a joint venture activity have been incorporated in the financial statements under the appropriate headings. Details of the joint venture activity are set out in note 37.

### (c) Segment reporting

Segment information is presented on the same basis as that used for internal reporting purposes.

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board.

### (d) Foreign currency translation

#### (i) Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Group operates (the functional currency). The financial statements are presented in Australian Dollars which is the Group's functional and presentation currency.

#### (ii) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- ◆ Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- ◆ Income and expenses for each income statement are translated at average exchange rates; and
- ◆ All resulting exchange differences are recognised in other comprehensive income. If an entity is sold, the proportionate share of exchange differences would be transferred out of equity and recognised in the income statement.

Functional currencies and the relevant exchange rates are as follows:

	2012	2011
<b>Spot rate</b>		
US Dollar	1.0238	1.0713
NZ Dollar	1.2778	1.2965
Euro	0.8084	0.7401
British Pounds	0.6518	0.6692
<b>Average rate</b>		
US Dollar	1.0312	0.9856
NZ Dollar	1.2823	1.3041
Euro	0.7695	0.7242
British Pounds	0.6509	0.6205

### (e) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances and amounts collected on behalf of third parties. Revenue is recognised for the major business activities as follows:

#### (i) Rental income

Rental income from operating leases represents income earned from the rental of properties (inclusive of outgoings recovered from tenants) and is recognised on a straight-line basis over the lease term. Rental income relating to straightlining is included as a component of the net gain from fair value adjustments on investment properties. The portion of operating lease income in a reporting period relating to fixed increases in operating lease rentals in future years is recognised as a separate component of investment properties.

#### (ii) Management fees

Management fees are brought to account on an accruals basis and, if not received at the reporting date, are reflected in the balance sheet as a receivable.

Where management fees are derived in respect of an acquisition or disposal of property, the fees are recognised where it is probable that criteria for entitlement will be met, and services have been performed.

*(iii) Performance fees*

Performance fees are only recognised when it is probable that a fee will be received. Detailed calculations are completed and the risks associated with the fee are assessed when deciding when it is appropriate to recognise revenue. Further information is provided in the critical accounting estimates in note 3.

*(iv) Interest income*

Interest income is recognised on a time proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

*(v) Dividends/distributions*

Dividends/distributions are recognised as revenue when the right to receive payment is established.

**(f) Income tax**

The year's income tax expense or benefit is the tax payable on the current year's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company's controlled entities and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provision where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax assets and 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. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or 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 liabilities and assets 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.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

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.

**(g) Business combinations**

The acquisition method of accounting is used to account for all business combinations, including business combinations involving entities or businesses under common control, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred and the equity interests issued by Charter Hall. The consideration transferred also includes the fair value of any contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, Charter Hall recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

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

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

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

**(h) Impairment of assets**

Assets are reviewed for impairment when 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. In 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 impairment are reviewed for possible reversal of the impairment at each reporting date.

**(i) Cash and cash equivalents**

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, 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, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

# Notes to the consolidated financial statements for the year ended 30 June 2012

## 1 Summary of significant accounting policies (continued)

### (j) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for doubtful debts. Trade receivables are due for settlement no more than 30 days from the date of recognition.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off. A provision for doubtful receivables is established when there is objective evidence that Charter Hall will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision 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 if the effect of discounting is immaterial. The amount of the provision is recognised in the income statement.

### (k) Investments and other financial assets

#### Classification

Charter Hall classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluates this designation at each reporting date.

#### (i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for long-term investment. Their treatment is discussed at note 1b(ii). Derivatives are also included unless they are designated as hedges.

#### (ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when Charter Hall provides money, goods or services directly to a debtor with no intention of selling the receivable. They are included in current assets, except for those with maturities greater than 12 months after the reporting date, which are classified as non-current assets. Loans and receivables are included in receivables in the balance sheet.

#### (iii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that management has the positive intention and ability to hold to maturity.

#### (iv) Available-for-sale financial assets

Available-for-sale financial assets, comprising principally marketable equity securities, are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the reporting date.

#### Recognition and derecognition

Regular purchases and sales of investments are recognised at trade-date – the date on which Charter Hall commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and

transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and Charter Hall has transferred substantially all the risks and rewards of ownership.

#### Subsequent measurement

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Gains or losses arising from changes in the fair value of financial assets at fair value through profit or loss, excluding interest and dividend income, are presented in the statement of comprehensive income in the year in which they arise.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), Charter Hall establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs. Further details on how the fair value of financial instruments is determined are disclosed in note 1(m) and note 2.

#### Impairment

Charter Hall assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of a security below its cost is considered in determining whether the security is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the statement of comprehensive income – is removed from equity and recognised in the statement of comprehensive income. Impairment losses recognised in the statement of comprehensive income on equity instruments classified as available-for-sale are not reversed through the statement of comprehensive income.

#### (l) Derivatives

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either:

- (1) Hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedges); or
- (2) Hedges of the cash flows of recognised assets and liabilities and highly probable forecast transactions (cash flow hedges).

The fair values of various derivative financial instruments used for hedging purposes are disclosed in note 15.

#### (i) Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the statement of comprehensive income and are included in fair value adjustment gains/(losses). The fair values previously recognised for hedges which are no longer effective are amortised over the remaining periods of the hedges.

### **(m) Fair value estimation**

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date. The quoted market price used for financial assets held by Charter Hall 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 is determined using valuation techniques. Charter Hall uses a variety of methods and makes assumptions that are based on market conditions existing at each reporting date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt instruments held. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. 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 contracts is determined using forward exchange market rates at the reporting date.

The nominal value less estimated credit adjustments of trade receivables and payables approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to Charter Hall for similar financial instruments.

### **(n) Inventories**

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

### **(o) Plant and equipment**

Plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of comprehensive income during the financial year in which they are incurred.

Depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives, as follows:

◆ Furniture, fittings and equipment	3 to 8 years
◆ Fixtures	6 to 8 years
◆ Software	3 to 5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 1(h)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the statement of comprehensive income.

### **(p) Investment properties**

Investment properties comprise investment interests in land and buildings (including integral plant and equipment) held for long-term rental yields and not occupied by Charter Hall. This includes properties that are under construction for future use as investment properties. Investment properties are carried at fair value, which is based on active market prices adjusted, if necessary, for any differences in the nature, location and condition of the specific asset. Charter Hall aims to have properties valued externally on a regular basis.

The carrying amount of investment properties recorded in the balance sheet includes components relating to lease incentives and assets relating to fixed increases in operating lease rentals in future years. Changes in fair values are recorded in the statement of comprehensive income as part of fair value adjustments.

### **(q) Intangibles**

#### *(i) Management rights – indefinite lived assets*

Management rights in relation to entities with no fixed life are not amortised as they have an indefinite life. Management rights with an indefinite life are tested for impairment annually, or more frequently if events or changes in circumstances indicate that they might be impaired, and are carried at cost less accumulated impairment losses. Management rights are allocated to cash-generating units for the purpose of impairment testing.

#### *(ii) Management rights – finite lived assets*

Management rights in relation to entities with a fixed life are amortised using the straight-line method over their useful life.

### **(r) Trade and other payables**

These amounts represent liabilities for goods and services provided to Charter Hall prior to the end of year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

### **(s) Borrowings**

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently 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. Fees paid on the establishment of loan facilities, which are not incremental costs relating to the actual draw down of the facility, are recognised as a reduction in the borrowings and amortised on a straight-line basis over the term of the facility.

Borrowings are classified as current liabilities unless Charter Hall has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

### **(t) Borrowing costs**

Borrowing costs associated with the construction of a qualifying asset, including interest expense, are capitalised as part of the cost of that asset during the period of time that is required to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed.

### **(u) Provisions**

Provisions are recognised when Charter Hall has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

# Notes to the consolidated financial statements for the year ended 30 June 2012

## 1 Summary of significant accounting policies (continued)

### (v) Employee benefits

#### (i) Wages and salaries and annual leave

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the reporting date, are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

#### (ii) Long service leave

Liabilities for other employee entitlements which are not expected to be paid or settled within 12 months of reporting date are accrued in respect of all employees at present values of future amounts expected to be paid, based on a projected weighted average increase in wage and salary rates. Expected future payments are discounted using interest rates on national government securities with terms to maturity that match, as closely as possible, the estimated future cash outflows.

#### (iii) Retirement benefit obligations

Contributions to employee defined contribution superannuation funds are recognised as an expense as they become payable.

#### (iv) Security-based benefits

Security-based compensation benefits are provided to employees via the Charter Hall Performance Rights and Options Plan (PROP). Information relating to these schemes is set out in note 41.

For accounting purposes, the fair value at grant date is independently valued using a Monte Carlo simulation pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the security price at grant date and expected price volatility of the underlying security, the expected dividend yield and the risk-free interest rate for the term of the option.

For accounting purposes, the fair value of the securities granted is adjusted to reflect market vesting conditions, but excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of securities that are expected to vest. At each reporting date, the entity revises its estimate of the number of securities that are expected to vest. The employee benefit expense recognised each year takes into account the most recent estimate.

Upon the vesting of securities and repayment of the loan, the balance of the security-based benefits reserve relating to those securities is transferred to equity and the proceeds received, net of any directly attributable transaction costs, are credited to equity.

#### (v) Bonus plans

Charter Hall recognises a liability and an expense for amounts payable to employees. Charter Hall recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

#### (vi) Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. Charter Hall recognises termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the reporting date are discounted to present value.

### (w) Contributed equity

Ordinary stapled securities are classified as equity. Incremental costs directly attributable to the issue of new securities or options are shown in equity as a deduction, net of tax, from the proceeds.

### (x) Distributions

Provision is made for the amount of any distribution declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the year but not distributed at reporting date.

### (y) Earnings per security

#### (i) Basic earnings per security

Basic earnings per security is calculated by dividing the profit attributable to equity holders of the Group, excluding any costs of servicing equity other than ordinary stapled securities, by the weighted average number of ordinary securities outstanding during the year, adjusted for bonus elements in ordinary stapled securities issued during the year.

#### (ii) Diluted earnings per security

Diluted earnings per security adjusts the figures used in the determination of basic earnings per stapled security to take into account the effect of interest and other financing costs after income tax associated with dilutive potential ordinary securities and the weighted average number of stapled securities assumed to have been issued in relation to dilutive potential stapled securities.

### (z) Goods and Services Tax (GST)

Revenues, expenses and assets (with the exception of receivables) are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable, to the taxation authority, are presented as operating cash flows.

### (aa) Rounding of amounts

The Company and the Trust are of a kind referred to in Class Order 98/100 (as amended), issued by the Australian Securities and Investments Commission, relating to the 'rounding off' of amounts in the financial statements. Amounts in the financial statements have been rounded to the nearest thousand dollars in accordance with that Class Order, unless otherwise indicated.

### (ab) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for year ended 30 June 2012 reporting periods. The impact of these new standards and interpretations (to the extent relevant to the Charter Hall Group or the Charter Hall Property Trust Group) is set out below.

#### (i) 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 (effective from 1 January 2013)

AASB 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and liabilities. The standard is not applicable until 1 January 2013 but is available

for early adoption. AASB 9 only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading. Fair value gains and losses on available-for-sale debt investments, for example, will therefore have to be recognised directly in the statement of comprehensive income. Neither the Charter Hall Group nor the Charter Hall Property Trust Group has yet decided when to adopt AASB 9. However, management does not expect this will have a significant impact on either the Charter Hall Group or the Charter Hall Property Trust Group's consolidated financial statements as neither Group holds any available-for-sale investments.

In December 2011, the IASB delayed the application date of IFRS 9 to 1 January 2015. The AASB is expected to make an equivalent amendment to AASB 9 shortly.

(ii) *AASB 2010-8 Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets (effective from 1 January 2012)*

In December 2010, the AASB amended AASB 112 *Income Taxes* to provide a practical 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 amendment introduces a rebuttable presumption that investment property which is measured at fair value is recovered entirely by sale. The Charter Hall Group and the Charter Hall Property Trust Group will apply the amendment from 1 July 2012. Management is currently evaluating the impact of the amendments.

(iii) *AASB 10 Consolidated Financial Statements, AASB 11 Joint Arrangements, AASB 12 Disclosure of Interests in Other Entities, revised AASB 127 Separate Financial Statements and AASB 128 Investments in Associates and Joint Ventures and AASB 2011-7 Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards (effective 1 January 2013)*

In August 2011, the AASB issued a suite of five new and amended standards which address the accounting for joint arrangements, consolidated financial statements and associated disclosures.

AASB 10 replaces all of the guidance on control and consolidation in AASB 127 *Consolidated and Separate Financial Statements*, and Interpretation 12 *Consolidation – Special Purpose Entities*. The core principle that a consolidated entity presents a parent and its subsidiaries as if they are a single economic entity remains unchanged, as do the mechanics of consolidation. However, 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. Power is the current ability to direct the activities that significantly influence returns. Returns must vary and can be positive, negative or both. Control exists when the investor can use its power to affect the amount of its returns. There is also new guidance on participating and protective rights and on agent/principal relationships. Management is currently evaluating the impact of the amendments.

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 a joint venture. Joint ventures are accounted for using the equity method, and the

choice to proportionately consolidate will no longer be permitted. Parties to a joint operation will account for their share of revenues, expenses, assets and liabilities in much the same way as under the previous standard. AASB 11 also provides guidance for parties that participate in joint arrangements but do not share joint control.

As the Charter Hall Group and the Charter Hall Property Trust Group already apply the appropriate accounting treatment for their joint arrangements, no material impact is expected.

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 127 and AASB 128. Application of this standard by the Charter Hall Group and the Charter Hall Property Trust Group will not affect any of the amounts recognised in the financial statements, but will impact the type of information disclosed in relation to the Charter Hall Group and the Charter Hall Property Trust Group's investments.

AASB 127 is renamed *Separate Financial Statements* and is now a standard dealing solely with separate financial statements. Application of this standard by the Charter Hall Group and the Charter Hall Property Trust Group will not affect any of the amounts recognised in the financial statements.

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 amendments also introduce a 'partial disposal' concept. The Charter Hall Group and the Charter Hall Property Trust Group are assessing the impact of these amendments.

The Charter Hall Group and the Charter Hall Property Trust Group do not expect to adopt the new standards before their operative date. They would therefore be first applied in the financial statements for the reporting period commencing on 1 July 2013.

(iv) *AASB 13 Fair Value Measurement and AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB 13 (effective 1 January 2013)*

AASB 13 was released in September 2011. It explains how to measure fair value and aims to enhance fair value disclosures. The Charter Hall Group and the Charter Hall Property Trust Group have yet to determine which, if any, of their current measurement techniques will have to change as a result of the new guidance. It is therefore not possible to state the impact, if any, of the new rules on any of the amounts recognised in the financial statements. However, application of the new standard will impact the type of information disclosed in the notes to the financial statements. Neither the Charter Hall Group nor the Charter Hall Property Trust Group intends to adopt the new standard before its operative date, which means that it would be first applied for the reporting period commencing on 1 July 2013.

(v) *AASB 2011-9 Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income (effective 1 July 2012)*

In September 2011, the AASB made an amendment to AASB 101 *Presentation of Financial Statements* which 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. This will not affect the measurement of any of the items recognised in the balance sheet or the profit or loss in the current period. Both the Charter Hall Group and the Charter Hall Property Trust Group intend to adopt the new standard from 1 July 2012.

# Notes to the consolidated financial statements for the year ended 30 June 2012

## 1 Summary of significant accounting policies (continued)

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

(vi) *Offsetting Financial Assets and Financial Liabilities*  
(Amendments to IAS 32) and *Disclosures – Offsetting Financial Assets and Financial Liabilities* (Amendments to IFRS 7) (effective 1 January 2014 and 1 January 2013 respectively)

In December 2011, the IASB made amendments to the application guidance in IAS 32 *Financial Instruments: Presentation*, to clarify some of the requirements for offsetting financial assets and financial liabilities in the balance sheet. These amendments are effective from 1 January 2014. They are unlikely to affect the accounting for any of the Charter Hall Group or the Charter Hall Property Trust Group's current offsetting arrangements. However, the IASB has also introduced more extensive disclosure requirements into IFRS 7 which will apply from 1 January 2013. The AASB is expected to make equivalent changes to IAS 32 and AASB 7 shortly. When they become applicable, the Charter Hall Group and the Charter Hall Property Trust Group will have to provide a number of additional disclosures in relation to their offsetting arrangements. Both the Charter Hall Group and the Charter Hall Property Trust Group intend to apply the new rules for the first time in the financial year commencing 1 July 2013.

### (ac) Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases (note 32). Payments made under operating leases are charged to the statement of comprehensive income on a straight-line basis. Lease income from operating leases is recognised in income on a straight-line basis over the lease term.

### (ad) 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. For an asset to be classified as held for sale, it must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets and its sale must be highly probable. Assets classified as held for sale are measured at the lower of their carrying value and fair value less costs to sell.

### (ae) Parent entity financial information

The financial information for the parent entity of the Charter Hall Group, Charter Hall Limited, and for the parent entity of the Charter Hall Property Trust Group, Charter Hall Property Trust, is disclosed in note 4, and has been prepared on the same basis as the consolidated financial statements, except as set out below.

(i) *Investments in controlled entities, associates and joint venture entities*

Investments in controlled entities, associates and joint venture entities are accounted for at cost in the financial statements of Charter Hall Limited and Charter Hall Property Trust. Dividends received from controlled entities, associates and joint venture entities are recognised in the parent entity's profit or loss, rather than deducted from the carrying amount of these investments.

(ii) *Tax consolidation legislation*

The head entity, Charter Hall Limited, and the controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a standalone taxpayer in its own right.

In addition to its own current and deferred tax amounts, Charter Hall Limited also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the Group. Details about the tax funding agreement are disclosed in note 9.

Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly-owned tax consolidated entities.

(iii) *Receivables and payables*

Trade amounts receivable from controlled entities in the normal course of business and other amounts advanced on commercial terms and conditions are included in receivables. Similarly, amounts payable to controlled entities are included in payables.

## 2 Financial risk management

Both the Charter Hall Group and Charter Hall Property Trust Group activities expose it to a variety of financial risks: market risk (price risk, interest rate risk, and foreign exchange risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses derivative financial instruments such as interest rate swaps to hedge certain risk exposures.

Risk management is carried out by the Group Treasurer, the Chief Financial Officer and the Joint Managing Directors in consultation with senior management, the Audit, Risk and Compliance Committee and the Board of Directors. The Managing Directors identify, evaluate and hedge financial risks in close co-operation with the finance department. The Board provides guidance for overall risk management, as well as covering specific areas, such as mitigating price, interest rate and credit risks, the use of derivative financial instruments and investing excess liquidity.

### (a) Market risk

(i) *Unlisted units price risk*

The Group is exposed to unlisted unit price risk. This arises from investments in unlisted property funds managed by the Group. These funds invest in direct property. Charter Hall manages all the funds that the Group invests in and its staff have a sound understanding of the underlying property values and trends that give rise to price risk. The carrying value of investments in associates at fair value through profit or loss is measured with reference to the funds' unit prices which are determined in accordance with the funds' respective constitutions. The key determinant of the unit price is the underlying property values which are approved by the Board and the Valuation sub-Committee of the Board.

The table below illustrates the potential impact a change in unlisted unit prices by +/-10% would have on the Charter Hall Group and Charter Hall Property Trust Group's profit and equity. The movement in the price variable has been determined based on management's best estimate, having regard to a number of factors, including historical levels of price movement, historical correlation of either Group's investments with the relevant benchmark and market volatility. However, actual movements in the price may be greater or less than anticipated due to a number of factors. As a result, historic price variations are not a definitive indicator of future price variations.

2012	Carrying amount \$'000	-10%		+10%	
		Profit \$'000	Equity \$'000	Profit \$'000	Equity \$'000
<b>Assets – Charter Hall Group</b>					
Investment in associates at fair value through profit or loss	62,638	(6,264)	(6,264)	6,264	6,264
<b>Assets – Charter Hall Property Trust Group</b>					
Investment in associates at fair value through profit or loss	62,180	(6,218)	(6,218)	6,218	6,218
<b>2011</b>					
<b>Assets – Charter Hall Group</b>					
Investment in associates at fair value through profit or loss	78,445	(7,845)	(7,845)	7,845	7,845
<b>Assets – Charter Hall Property Trust Group</b>					
Investment in associates at fair value through profit or loss	78,014	(7,801)	(7,801)	7,801	7,801

(ii) *Cash flow and fair value interest rate risk*

As both the Charter Hall Group and Charter Hall Property Trust Group have no significant long-term interest bearing assets, both Groups' income and operating cash receipts are not materially exposed to changes in market interest rates.

The Charter Hall Group and Charter Hall Property Trust Group's interest rate risk arises from borrowings of \$51,462,849 (2011: \$101,861,453). Borrowings drawn at variable rates expose both Groups to cash flow interest rate risk. Borrowings drawn at fixed rates expose both Groups to fair value interest rate risk. The Charter Hall Group and Charter Hall Property Trust Group's policy is to fix rates between 50-100% of core borrowings for the anticipated debt term. Core borrowings are defined as being the level of borrowings that are expected to be held for a period of more than two years. At year end 54% (2011: 49%) of total borrowings (including debt in the Charter Hall Retail Joint Venture Trust (RJVT) to which the Group is a party – refer note 24(b)) had fixed interest rates through the use of derivatives. Excluding RJVT, at year end 39% (2011: 38%) of total borrowings had fixed interest rates through the use of derivatives.

The Charter Hall Group and Charter Hall Property Trust Group both manage their cash flow interest rate risk by using floating-to-fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. Generally, the Charter Hall Group and Charter Hall Property Trust Group raise long-term borrowings at floating rates and swap them into fixed rates that are lower than those available if the Group borrowed at fixed rates directly. Under the interest rate swaps, the Group agrees with other parties to exchange, at specified intervals (mainly quarterly), the difference between fixed contract rates and floating rate interest amounts calculated by reference to the agreed notional principal amounts. Refer to note 12(d) for interest rate sensitivity analysis on assets and note 24(c) for sensitivity analysis for liabilities.

(iii) *Foreign exchange risk*

Both the Charter Hall Group and Charter Hall Property Trust Group are exposed to foreign exchange risk arising principally from their equity accounted investment in the Charter Hall Retail REIT (CQR).

CQR's investments have offshore operations in the US, Europe and New Zealand and manage their foreign exchange exposures principally through the use of offsetting borrowings in related foreign currencies and through the use of derivative financial instruments. Any residual unhedged risk remains in the foreign currency translation reserve of these funds and the Charter Hall Group's and Charter Hall Property Trust Group's equity accounted share of movements in these reserves are recognised in the foreign currency translation reserve of the Group.

The tables on the following page illustrate the potential impact a change in foreign exchange rates of +/-10% would have on the Charter Hall Group's and Charter Hall Property Trust Group's profit and equity:

# Notes to the consolidated financial statements for the year ended 30 June 2012

## 2 Financial risk management (continued)

### (a) Market risk (continued)

(iii) Foreign exchange risk (continued)

	2012		2011	
	Profit \$'000	Equity \$'000	Profit \$'000	Equity \$'000
<b>Charter Hall Group</b>				
<b>US dollars</b>				
+ 10.0%	140	(392)	324	(6,448)
- 10.0%	(170)	484	(394)	6,554
<b>Euros</b>				
+ 10.0%	40	(600)	58	(566)
- 10.0%	(40)	740	(66)	699
<b>NZ dollars</b>				
+ 10.0%	18	(102)	26	(23)
- 10.0%	(22)	122	(32)	26
<b>Charter Hall Property Trust Group</b>				
<b>US dollars</b>				
+ 10.0%	140	(520)	324	(6,456)
- 10.0%	(170)	640	(394)	6,563
<b>Euros</b>				
+ 10.0%	40	(600)	58	(566)
- 10.0%	(40)	740	(66)	699
<b>NZ dollars</b>				
+ 10.0%	27	(33)	20	(30)
- 10.0%	(33)	(2)	(24)	34

### (b) Credit risk

The Charter Hall Group and Charter Hall Property Trust Group have policies in place to ensure that sales of services are made to customers with appropriate credit histories.

Over half of the Charter Hall Group's and Charter Hall Property Trust Group's income is derived from management fees and performance fees from related parties.

Approximately 13% (2011: 16%) of the Charter Hall Group's income is derived from rental properties, whilst approximately 29% (2011: 50%) of the Charter Hall Property Trust Group's income is derived from rental properties; all tenants are assessed for creditworthiness, taking into account their financial position, past experience and other factors.

Refer to note 12(e) for more information on credit risk.

Derivative counterparties and cash transactions are limited to high credit quality financial institutions. The Charter Hall Group and Charter Hall Property Trust Group have policies that limit the amount of credit exposure to any one financial institution.

### (c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities, and the ability to close-out market positions. Due to the dynamic nature of the underlying businesses, the Charter Hall Group and Charter Hall Property Trust Group aim at maintaining flexibility in funding by keeping committed credit lines available.

#### Maturities of financial liabilities

The following table provides the contractual maturity of Charter Hall Group's and Charter Hall Property Trust Group's financial liabilities and derivatives. The amounts presented represent the future contractual undiscounted principal and interest cash flows and therefore do not equate to the value shown in the balance sheet. Repayments which are subject to notice are treated as if notice were given immediately.

	Carrying amount \$'000	Less than 1 year \$'000	Between 1 and 2 years \$'000	Between 2 and 5 years \$'000	Over 5 years \$'000	Total cash flows \$'000
<b>Charter Hall Group</b>						
<b>2012</b>						
Trade and other payables	40,249	40,249	–	–	–	40,249
Contingent consideration payable	10,539	10,788	–	–	–	10,788
Borrowings	51,463	1,878	52,820	–	–	54,698
Interest rate swaps	669	1,092	461	–	–	1,553
	102,920	54,007	53,281	–	–	107,288
<b>2011</b>						
Trade and other payables	58,061	58,061	–	–	–	58,061
Contingent consideration payable	12,106	–	13,841	–	–	13,841
Borrowings	101,862	4,739	4,739	104,446	–	113,924
Interest rate swaps	407	–	224	183	–	407
	172,436	62,800	18,804	104,629	–	186,233
<b>Charter Hall Property Trust Group</b>						
<b>2012</b>						
Trade and other payables	30,288	30,288	–	–	–	30,288
Borrowings	53,863	4,281	52,820	–	–	57,101
Interest rate swaps	669	1,092	461	–	–	1,553
	84,820	35,661	53,281	–	–	88,942
<b>2011</b>						
Trade and other payables	32,728	32,728	–	–	–	32,728
Borrowings	101,862	4,739	4,739	104,446	–	113,924
Interest rate swaps	407	–	224	183	–	407
	134,997	37,467	4,963	104,629	–	147,059

#### (d) Fair value measurements

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

AASB 7 *Financial Instruments: Disclosures* requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- (i) Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- (ii) Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); and
- (iii) Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

## Notes to the consolidated financial statements for the year ended 30 June 2012

### 2 Financial risk management (continued)

#### (d) Fair value measurements (continued)

The following tables present the Charter Hall Group and Charter Hall Property Trust Group's financial assets and financial liabilities measured and recognised at fair value.

Charter Hall Group				
	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
2012				
<i>Assets</i>				
Investment in associates at fair value through profit or loss	–	–	62,638	62,638
<b>Total assets</b>	–	–	62,638	62,638
<i>Liabilities</i>				
Derivative financial instruments	–	669	–	669
Contingent consideration payable	–	–	10,539	10,539
<b>Total liabilities</b>	–	669	10,539	11,208
Charter Hall Group				
	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
2011				
<i>Assets</i>				
Investment in associates at fair value through profit or loss	–	–	78,445	78,445
<b>Total assets</b>	–	–	78,445	78,445
<i>Liabilities</i>				
Derivative financial instruments	–	407	–	407
Contingent consideration payable	–	–	12,106	12,106
<b>Total liabilities</b>	–	407	12,106	12,513
Charter Hall Property Trust Group				
	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
2012				
<i>Assets</i>				
Investment in associates at fair value through profit or loss	–	–	62,180	62,180
<b>Total assets</b>	–	–	62,180	62,180
<i>Liabilities</i>				
Derivative financial instruments	–	669	–	669
<b>Total liabilities</b>	–	669	–	669
Charter Hall Property Trust Group				
	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
2011				
<i>Assets</i>				
Investment in associates at fair value through profit or loss	–	–	78,014	78,014
<b>Total assets</b>	–	–	78,014	78,014
<i>Liabilities</i>				
Derivative financial instruments	–	407	–	407
<b>Total liabilities</b>	–	407	–	407

The following tables present the changes in Level 3 instruments for the year:

	Charter Hall Group		Charter Hall Property Trust Group	
	Investment in associates at fair value through profit or loss \$'000	Contingent consideration payable \$'000	Investment in associates at fair value through profit or loss \$'000	Contingent consideration payable \$'000
<b>2012</b>				
Opening balance	78,445	12,106	78,014	–
Additions	273	–	229	–
Disposals	(14,306)	–	(14,306)	–
Payments made	–	(1,452)	–	–
Increase/(decrease) recognised in profit and loss	(1,774)	(115)	(1,757)	–
Closing balance	62,638	10,539	62,180	–

	Charter Hall Group		Charter Hall Property Trust Group	
	Investment in associates at fair value through profit or loss \$'000	Contingent consideration payable \$'000	Investment in associates at fair value through profit or loss \$'000	Contingent consideration payable \$'000
<b>2011</b>				
Opening balance	73,739	11,270	73,433	–
Additions	5,454	–	4,900	–
Disposals	(439)	–	–	–
Increase/(decrease) recognised in profit and loss	(309)	836	(319)	–
Closing balance	78,445	12,106	78,014	–

The carrying amounts of current trade receivables and payables approximate their fair values due to their short-term nature. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Charter Hall Group and Charter Hall Property Trust Group for similar financial instruments. The fair value of current borrowings approximates the carrying amount, as the impact of discounting is not significant.

### 3 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

#### (a) Critical accounting estimates and assumptions

The Charter Hall Group and Charter Hall Property Trust Group make estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates or assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

##### (i) Carrying value of investments

Critical judgements are made by the Charter Hall Group and Charter Hall Property Trust Group in respect of the carrying value of investments in associates (notes 14 and 36) and investment properties (notes 13 and 20). These investments are reviewed regularly for impairment by reference to external independent property valuations and market conditions, using generally accepted market practices.

The reported fair values of investment properties reflect market conditions at the end of the reporting period. While this represents best estimates as at the reporting date, actual sales prices may be higher or lower than the most recent valuations. This is particularly relevant in periods of market illiquidity or uncertainty.

##### (ii) Estimated performance fees

Critical judgements are made by the Charter Hall Group in respect of recognising performance fee revenue. Performance fees are only recognised when services have been performed and it is probable that a fee will be received. Detailed calculations are completed and the risks associated with the fee are assessed when deciding when it is appropriate to recognise revenue.

##### (iii) Estimated performance fee clawback

The Charter Hall Group has raised a provision to refund performance fees previously earned with respect to the Charter Hall Opportunity Fund 4 (CHOF4). Contractual arrangements allow a clawback of performance fees on termination of CHOF4 (currently scheduled for December 2012) to the extent necessary to allow CHOF4 to achieve a gross equity IRR equal to 13%. The gross equity IRR is calculated prior to the deduction of performance fees, fund management fees, fund costs and income tax.

# Notes to the consolidated financial statements for the year ended 30 June 2012

## 3 Critical accounting estimates and judgements (continued)

### (a) Critical accounting estimates and assumptions (continued)

#### (iii) Estimated performance fee clawback (continued)

Critical judgements have been made in determining the amount of any clawback which will not be known until all assets of CHOF4 are realised. To date, the Group has received a total of \$14.2 million in performance fees over the life of this fund in respect of the 2007, 2008, 2009 and 2010 financial years. There have been no performance fees recognised in the current period or in the prior year ended 30 June 2011.

Having regard to this and current market conditions, the Charter Hall Board has resolved to raise a provision for the maximum potential liability, being \$14.2 million (included in current liabilities in this financial report). The clawback is payable on the earlier of the termination date of 31 December 2012, unless extended, or the completion of the sale of all the assets of CHOF4.

No other performance fees received by the Group from other Charter Hall managed funds in prior periods or the current year are subject to clawback arrangements.

#### (iv) Charter Hall Opportunity Fund 5 (CHOF5) – Little Bay development

Critical judgement has been made in the assessment of commercial negotiations with TA Global Developments Pty Limited (TAG) over the Little Bay development project. Refer to note 38: Events occurring after the reporting date.

#### (v) Tax losses

The Charter Hall Group has not recognised tax losses from previous years as recovery against future taxable income of the tax consolidated group is not expected in the medium term.

#### (vi) Impairment testing of management rights

Critical judgements are made by the Charter Hall Group in assessing the carrying value of management rights acquired, where the funds to which those management rights relate have an indefinite life. Management rights are considered to have an indefinite useful life if there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the entity.

#### (vii) Classification of investments in associates

The Charter Hall Group and Charter Hall Property Trust Group have determined that it is appropriate for investments in wholesale and listed funds to be equity accounted and investments in unlisted retail funds to be recognised at fair value through profit or loss.

## 4 Parent entity financial information

### (a) Summary financial information

The individual financial statements for the parent entity of the Charter Hall Group, being Charter Hall Limited, and the Charter Hall Property Trust Group, being Charter Hall Property Trust, show the following aggregate amounts:

	Charter Hall Limited		Charter Hall Property Trust	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
<b>Balance sheet</b>				
Current assets	1,310	780	31,772	44,180
Total assets	326,892	324,494	706,947	833,481
Current liabilities	45	–	27,320	29,829
Total liabilities	163,638	355,874	27,320	62,257
<i>Shareholders' equity</i>				
Issued capital <sup>1</sup>	209,550	9,503	739,175	934,458
Reserves				
Security-based benefits reserve	1,717	1,717	–	–
Foreign currency translation reserve	–	18	–	–
Accumulated losses	(48,013)	(42,618)	(59,548)	(163,234)
	163,254	(31,380)	679,627	771,224
<b>Profit/(loss) for the year</b>	<b>(5,395)</b>	<b>(19,778)</b>	<b>103,686</b>	<b>(29,494)</b>
<b>Total comprehensive profit/(loss)</b>	<b>(5,395)</b>	<b>(19,778)</b>	<b>103,686</b>	<b>(29,494)</b>

1. On 18 June 2012, the Group announced implementation of the \$200 million capital reallocation from Charter Hall Property Trust (CHPT) to Charter Hall Limited (CHL), effective 30 June 2012. The capital reallocation aims to ensure a more appropriate allocation of capital between CHPT and CHL (which together trade on the Australian Securities Exchange as Charter Hall Group) which is more closely aligned with the Group's long-term growth strategy. Under the capital reallocation proposal approved by securityholders at the Annual General Meeting on 24 November 2011, CHPT made capital payments of \$200 million which were compulsorily applied as a capital contribution for existing shares of CHL.

**(b) Contingent liabilities of the parent entity**

Charter Hall Limited and Charter Hall Property Trust had no contingent liabilities (2011: \$nil).

**(c) Contractual commitments**

As at 30 June 2012, both Charter Hall Limited and Charter Hall Property Trust had no contractual commitments other than that disclosed below (2011: \$nil).

*Charter Hall Opportunity Fund 5 (CHOF5) Workzone (Workzone)*

On 21 December 2011, Charter Hall Limited and Charter Hall Funds Management Limited as trustee for CHOF5 entered into a Preferred Equity Deed (deed) committing \$9 million to fund development of the Workzone project. At 30 June 2012 \$4.5 million of this facility had been drawn down and is included in receivables in this financial report. A further \$1 million was drawn down in July 2012 leaving an undrawn commitment of \$3.5 million at the date of this report.

**(d) Deed of cross guarantee**

CHL and Charter Hall Holdings Pty Ltd are parties to a deed of cross guarantee under which each company guarantees the debts for the other. A consolidated income statement, statement of comprehensive income and balance sheet are disclosed in note 42.

## 5 Segment information

**(a) Description of segments****Charter Hall Group**

Management has determined the operating segments based on the reports reviewed by the Board that are used to make strategic decisions. The Board is responsible for allocating resources and assessing performance of the operating segments, and therefore has been identified as the chief operating decision maker.

The Board has identified the following three reportable segments, the performance of which it monitors separately.

**◆ Property investment**

This segment comprises interests in investment properties and listed/unlisted property funds. The property investment division has the profit result of the DRF investment identified separately for management purposes.

**◆ Property funds management**

This segment comprises funds management services, development management services and other property services.

**◆ Development investment**

This segment comprises development investment activities of the Group.

**Charter Hall Property Trust Group**

The Charter Hall Property Trust Group's only business is investing in direct property and listed and unlisted property funds. Consequently the Charter Hall Property Trust Group comprises a single reportable segment.

# Notes to the consolidated financial statements for the year ended 30 June 2012

## 5 Segment information (continued)

### (b) Segment information provided to the Board

Charter Hall Group

The operating segments provided to the Board for the reportable segments for the year ended 30 June 2012 are as follows:

30 June 2012	Property investment \$'000	Property funds management \$'000	Development investment \$'000	DRF \$'000	Combined Group \$'000
Total net rental income	305	–	–	13,946	14,251
Total investment income	34,011	–	–	–	34,011
Total rental and property income	34,316	–	–	13,946	48,262
Net development income	–	–	1,943	–	1,943
Total property funds management income	–	73,355	–	–	73,355
<b>Total income</b>	<b>34,316</b>	<b>73,355</b>	<b>1,943</b>	<b>13,946</b>	<b>123,560</b>
Operating expenses	(423)	(62,436)	–	(566)	(63,425)
Less: recovery of expenses	–	12,396	–	–	12,396
Net operating expenses	(423)	(50,040)	–	(566)	(51,029)
<b>Operating earnings before interest, tax, depreciation and amortisation (EBITDA)</b>	<b>33,893</b>	<b>23,315</b>	<b>1,943</b>	<b>13,380</b>	<b>72,531</b>
Depreciation	–	(725)	–	–	(725)
<b>Operating earnings before interest and tax (EBIT)</b>	<b>33,893</b>	<b>22,590</b>	<b>1,943</b>	<b>13,380</b>	<b>71,806</b>
Interest income	211	1,208	615	–	2,034
Interest expense	(2,921)	–	–	(4,789)	(7,710)
<b>Operating earnings (including DRF)</b>	<b>31,183</b>	<b>23,798</b>	<b>2,558</b>	<b>8,591</b>	<b>66,130</b>
Non-controlling interest	–	–	–	(2,544)	(2,544)
<b>Operating earnings before specific items</b>	<b>31,183</b>	<b>23,798</b>	<b>2,558</b>	<b>6,047</b>	<b>63,586</b>
<b>Specific items<sup>1</sup></b>	<b>–</b>	<b>(9,038)</b>	<b>297</b>	<b>–</b>	<b>(8,741)</b>
<b>Operating earnings attributable to stapled securityholders</b>	<b>31,183</b>	<b>14,760</b>	<b>2,855</b>	<b>6,047</b>	<b>54,845</b>
Weighted average number of securities ('000)					295,625
<b>Operating earnings per security before specific items</b>					21.51cps
<b>Operating earnings per security (EPS)</b>					18.55cps
Number of securities for dividend per security (DPS) ('000)					296,168
<b>DPS</b>					18.20cps

1. Specific items include \$16.0 million fee revenue related to sale of Charter Hall Office REIT (CQO) US assets net of \$4.0 million closure costs of the US office, \$2.9 million costs of retaining the management rights, \$3.9 million organisational restructure costs and \$14.2 million provision for Charter Hall Opportunity Fund 4 (CHOF4) performance fee clawback which is then reduced by \$0.3 million being the Group's 3% equity share of the clawback receivable in CHOF4.

Geographical segments are immaterial as the vast majority of the Group's income is from Australian sources.

The reportable segments for the year ended 30 June 2011 are as follows:

30 June 2011	Property investment \$'000	Property funds management \$'000	Development investment \$'000	DRF \$'000	Combined Group \$'000
Total net rental income	–	–	–	15,052	15,052
Total investment income	31,599	–	–	–	31,599
Total rental and property income	31,599	–	–	15,052	46,651
Net development income	–	–	3,769	–	3,769
Total property funds management income	–	75,257	–	–	75,257
<b>Total income</b>	<b>31,599</b>	<b>75,257</b>	<b>3,769</b>	<b>15,052</b>	<b>125,677</b>
Operating expenses	(472)	(64,806)	–	(796)	(66,074)
Less: recovery of expenses	–	10,240	–	–	10,240
Net operating expenses	(472)	(54,566)	–	(796)	(55,834)
<b>EBITDA</b>	<b>31,127</b>	<b>20,691</b>	<b>3,769</b>	<b>14,256</b>	<b>69,843</b>
Depreciation	–	(1,545)	–	–	(1,545)
<b>EBIT</b>	<b>31,127</b>	<b>19,146</b>	<b>3,769</b>	<b>14,256</b>	<b>68,298</b>
Interest income	192	1,339	–	996	2,527
Interest expense	(1,450)	–	–	(6,665)	(8,115)
<b>Operating earnings (including DRF)</b>	<b>29,869</b>	<b>20,485</b>	<b>3,769</b>	<b>8,587</b>	<b>62,710</b>
Non-controlling interest	–	–	–	(2,288)	(2,288)
<b>Operating earnings before specific items</b>	<b>29,869</b>	<b>20,485</b>	<b>3,769</b>	<b>6,299</b>	<b>60,422</b>
<b>Specific items</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>Operating earnings attributable to stapled securityholders</b>	<b>29,869</b>	<b>20,485</b>	<b>3,769</b>	<b>6,299</b>	<b>60,422</b>
Number of securities ('000)					293,254
<b>Operating EPS</b>					<b>20.60cps</b>
Number of securities for DPS ('000)					293,756
<b>DPS</b>					<b>16.50cps</b>

The reconciliation of income per the segment notes for 2012 and 2011 to the statement of comprehensive income is below:

	2012 \$'000	2011 \$'000
Total income per segment note	123,560	125,677
Add: recovery of expenses	12,396	10,240
Add specific item: fees related to the sale of the Charter Hall Office REIT US assets	16,044	–
Add specific item: 3% equity accounted share of CHOF4 performance fee	297	–
	152,297	135,917
Add: investment property expenses	2,985	4,084
Add: interest income	2,176	1,675
Less: equity accounted profit in property investment segment	(29,981)	(26,869)
Less: equity accounted (loss)/profit in funds management and corporate segment	(68)	6
Less: equity accounted profit in development investment segment	(2,104)	(3,769)
Less: equity accounted profit in DRF	(1,675)	(1,485)
Add: other	–	35
Revenue per income statement	123,630	109,594

# Notes to the consolidated financial statements for the year ended 30 June 2012

## 5 Segment information (continued)

### (b) Segment information provided to the Board (continued)

The reconciliation of net interest expense per the segment notes for 2012 and 2011 to the statement of comprehensive income is below:

	2012 \$'000	2011 \$'000
Net operating interest per segment note	(5,676)	(5,588)
Less: unwind of discount on contingent consideration	(1,240)	(836)
Less: early payout of derivative financial instrument	(265)	–
Add: bridging equity interest reclassified to investment income	480	1,175
Net interest expense	(6,701)	(5,249)

Operating earnings is a financial measure which represents the profit/(loss) under Australian Accounting Standards adjusted for fair value adjustments, impairment of assets, gains or losses on sale of investments, acquisition costs, non-operating movements in equity accounted investments, and non-cash items such as security-based benefits expense, amortisation, and tax expense/(benefit).

The inclusion of operating earnings as a measure of the Group's profitability provides investors with the same basis that is used internally for evaluating operating segment performance. Operating earnings is used by the Board to make strategic decisions and as a guide to assessing an appropriate distribution to declare.

The calculation of operating earnings by adjusting for amounts in the Statement of Comprehensive Income excluding the non-controlling interest in DRF is shown below:

	Excluding non-controlling interest	
	2012 \$'000	2011 \$'000
<b>Operating earnings before specific items</b>	<b>63,586</b>	<b>60,422</b>
Specific items <sup>1</sup>	(8,741)	–
<b>Operating earnings</b>	<b>54,845</b>	<b>60,422</b>
Fair value adjustments on derivatives <sup>2</sup>	(9,933)	2,141
Fair value adjustments on investments and property, including remeasurement gains <sup>2</sup>	(2,034)	14,239
Inventory writedown <sup>2</sup>	(5,814)	(664)
Transfer from reserves of cumulative FX losses on disposal of foreign investments <sup>2</sup>	(12,176)	(871)
Impairment of management rights	–	(19,171)
Security-based benefits expense	(2,338)	(4,090)
Other <sup>2</sup>	(5,872)	332
<b>Statutory profit after tax attributable to stapled securityholders</b>	<b>16,678</b>	<b>52,338</b>

1. Specific items include \$16.0 million fee revenue related to sale of Charter Hall Office REIT (CQO) US assets net of \$4.0 million closure costs of the US office, \$2.9 million costs of retaining the management rights, \$3.9 million organisational restructure costs and \$14.2 million provision for Charter Hall Opportunity Fund 4 (CHOF4) performance fee clawback which is then reduced by \$0.3 million being the Group's 3% equity share of the clawback receivable in CHOF4.

2. These items include the Group's share of non-operating movements in equity accounted investments, including losses on sale of offshore investment properties of \$2.0 million and amortisation charges of \$2.4 million (including amortisation of management rights).

Basic weighted average number of securities per note 40	295,624,609	293,253,621
Operating earnings before specific items per stapled security (excl. non-controlling interest)	21.51 cents	20.60 cents
Specific items	2.96 cents	–
Operating earnings per stapled security (excluding non-controlling interest)	18.55 cents	20.60 cents

Assets and liabilities have not been reported on a separate basis as the Board is provided with consolidated information.

## 6 Revenue

	Charter Hall Group		Charter Hall Property Trust Group	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
<i>Sales revenue</i>				
Gross rental income	15,561	17,716	15,532	17,723
Management and performance fees	101,863	85,491	–	–
	117,424	103,207	15,532	17,723
<i>Other revenue</i>				
Interest	2,681	2,862	34,276	14,107
Distributions/dividends*	3,525	3,525	3,479	3,505
	6,206	6,387	37,755	17,612
<b>Total revenue</b>	<b>123,630</b>	<b>109,594</b>	<b>53,287</b>	<b>35,335</b>

\* The Group and Trust Group own 25.2% (2011: 36.4%) of Charter Hall Diversified Property Fund, 26.6% (2011: 24.9%) of Charter Hall Umbrella Fund and 3.8% (2011: 3.5%) of Charter Hall Direct Property Fund, which are all accounted for at fair value. This represents the distribution of income from these funds.

## 7 Expenses

	Notes	Charter Hall Group		Charter Hall Property Trust Group	
		2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
<b>Profit before income tax includes the following specific expenses:</b>					
<i>Depreciation</i>					
Plant and equipment		725	1,545	–	–
<i>Amortisation</i>					
Of leasing and other incentives		1,031	1,183	546	682
Of management rights		1,307	–	–	–
<i>Finance costs</i>					
Interest and finance charges paid/payable		8,142	7,275	8,875	7,196
Finance costs due to unwinding of discount on contingent consideration		1,240	836	–	–
		9,382	8,111	8,875	7,196
Impairment of management rights	18	–	19,171	–	–
<i>Management, administration and other expenses</i>					
Employee benefits expense		57,461	51,480	–	–
Security-based payments expense		2,338	4,090	–	–
Superannuation expense		3,153	2,023	–	–
Legal and consulting costs		4,233	1,864	33	–
Rent expense – minimum lease payments on operating leases		1,541	1,483	–	–
Other occupancy costs		906	1,008	–	–
Other expenses		7,436	8,741	1,280	1,899
		77,068	70,689	1,313	1,899

## Notes to the consolidated financial statements for the year ended 30 June 2012

### 8 Fair value adjustments

	Notes	Charter Hall Group		Charter Hall Property Trust Group	
		2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Included in total income:					
Contingent consideration payable	22	1,355	–	–	–
Included in total expenses:					
Investment properties	20	(7,692)	(2,518)	(7,692)	(128)
Investment in associates at fair value through profit or loss	14, 36(b)	(1,774)	(309)	(1,757)	(319)
Derivative financial instruments	15	(310)	(386)	(310)	(387)
		(9,776)	(3,213)	(9,759)	(834)

### 9 Income tax benefit

	Notes	Charter Hall Group		Charter Hall Property Trust Group	
		2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
<b>(a) Income tax benefit</b>					
Current tax expense		–	218	–	–
Deferred income tax benefit		(482)	(3,341)	–	(323)
Over provided in prior years		50	457	–	–
		(432)	(2,666)	–	(323)
Deferred income tax benefit comprises:					
(Increase)/decrease in deferred tax assets	21	(1,538)	(3,231)	–	321
Increase/(decrease) in deferred tax liabilities	25	1,056	(110)	–	(644)
		(482)	(3,341)	–	(323)
<b>(b) Numerical reconciliation of income tax benefit to prima facie tax payable</b>					
Profit/(loss) before income tax expense		13,971	52,571	33,164	60,924
Prima facie tax expense/(benefit) at the Australian tax rate of 30%		4,191	15,771	9,949	18,277
Tax effect of amounts which are not deductible/ (taxable) in calculating taxable income:					
Charter Hall Property Trust income		(10,442)	(18,932)	(10,442)	(18,932)
Non-assessable income		–	(3,968)	–	–
Non-allowable expenses		549	267	–	–
Share-based payments expense		43	1,227	–	–
Losses not recognised		4,096	2,437	–	–
Sundry items		348	–	493	655
Tax on LTI interest		37	623	–	–
Non-taxable dividends, net of equity accounted profit		732	(485)	–	–
Over provided in prior years		50	457	–	–
Difference in overseas tax rates		(36)	(63)	–	–
Income tax benefit		(432)	(2,666)	–	–

### (c) Tax consolidation legislation

Charter Hall Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation with effect from 1 July 2003. The accounting policy in relation to this legislation is set out in note 1(f).

On adoption of the tax consolidation legislation, the entities in the tax consolidated group entered into a tax sharing agreement which, in the opinion of the Directors, limits the joint and several liability of the wholly-owned entities in the case of a default by the head entity, Charter Hall Limited.

The entities have also entered into a tax funding agreement under which the wholly-owned entities fully compensate Charter Hall Limited for any current tax payable assumed and are compensated by Charter Hall Limited for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to Charter Hall Limited under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly-owned entities' financial statements.

The amounts receivable/payable under the tax funding agreement are due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of each financial year. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments. The funding amounts are recognised as current intercompany receivables or payables.

	2012 \$'000	2011 \$'000
<b>(d) Tax losses – Charter Hall Group</b>		
Unused tax losses for which no deferred tax asset has been recognised	14,018	12,071
Potential tax benefit @ 30%	4,205	3,621

Based upon the completion of the June 2011 income tax return, the actual carried forward tax losses (unbooked) was calculated to be \$2,575,000. This was a reduction of \$1,046,000 on the previously disclosed carried forward losses (unbooked) in the 30 June 2011 financial statements of \$3,621,000.

## 10 Distributions paid and payable

	Charter Hall Group		Charter Hall Property Trust Group	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
<b>(a) Ordinary securities</b>				
Interim ordinary distribution for the six months ended 31 December 2011 of 9.10 cents per security paid on 23 February 2012	26,950	–	26,950	–
Final ordinary distribution for the six months ended 30 June 2012 of 9.10 cents per security paid on 28 August 2012	27,013	–	27,013	–
Interim ordinary distribution for the six months ended 31 December 2010 of 8.00 cents per security paid on 28 February 2011	–	24,507	–	24,507
Final ordinary distribution for the six months ended 30 June 2011 of 8.50 cents per security paid on 25 August 2011	–	26,039	–	26,039
Total distributions paid and payable	53,963	50,546	53,963	50,546
Less: distributions paid to holders of LTI securities	(124)	(2,077)	(124)	(2,077)
	53,839	48,469	53,839	48,469
Paid in cash	53,963	50,546	53,963	50,546
Satisfied by issue of securities	–	–	–	–

Franking credits available in the parent entity (Charter Hall Limited) for subsequent financial years based on a tax rate of 30% (2011: 30%) are \$3,336,951 (2011: \$3,336,951).

## Notes to the consolidated financial statements for the year ended 30 June 2012

### 11 Cash and cash equivalents

	Charter Hall Group		Charter Hall Property Trust Group	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Cash at bank and on hand	39,315	26,266	21,674	4,841

#### (a) Cash at bank and on hand

These amounts earn floating interest rates of between nil and 3.4% (2011: 4.7%).

### 12 Trade and other receivables

	Notes	Charter Hall Group		Charter Hall Property Trust Group	
		2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
<b>Current</b>					
Trade receivables		9,535	22,035	481	1,037
Loans to key management personnel		955	706	–	–
Loans to joint ventures	34(e)	1,650	–	1,650	–
Distributions receivable		10,441	11,556	9,703	11,289
Other receivables		8,821	7,922	5,573	1,367
Prepayments		708	1,219	194	95
		32,110	43,438	17,601	13,788
<b>Non-current</b>					
Loans to key management personnel		3,400	4,400	–	–
Loans to joint ventures	34(e)	5,000	5,000	–	–
Loans to associates	34(e)	4,470	–	–	–
Loan receivable from Charter Hall Limited		–	–	163,542	355,874
		12,870	9,400	163,542	355,874

Further information relating to loans to key management personnel is set out in note 30.

#### (a) Bad and doubtful trade receivables

In the year, the Charter Hall Group and Charter Hall Property Trust Group incurred nil expense/benefit (2011: \$nil) in respect of provisioning for bad and doubtful trade receivables.

#### (b) Fair values

The receivables are carried at amounts that approximate their fair value.

**(c) Interest rate risk**

The Charter Hall Group's and Charter Hall Property Trust Group's exposure to interest rate risk and the effective weighted average interest rate by maturity period is set out in the following tables:

Charter Hall Group		Fixed interest maturing in:						Non-interest bearing \$'000	Total \$'000
	Floating interest rate \$'000	1 year or less \$'000	Over 1 to 2 years \$'000	Over 2 to 3 years \$'000	Over 3 to 4 years \$'000	Over 4 to 5 years \$'000	Over 5 years \$'000		
<b>2012</b>									
Cash and cash equivalents	39,315	-	-	-	-	-	-	39,315	
Trade receivables	-	-	-	-	-	-	9,535	9,535	
Loans to key management personnel	-	955	1,000	2,400	-	-	-	4,355	
Loans to joint ventures	-	-	5,000	-	-	-	1,650	6,650	
Loans to associates	-	-	4,470	-	-	-	-	4,470	
Distributions receivable	-	-	-	-	-	-	10,441	10,441	
Other receivables	-	-	-	-	-	-	8,821	8,821	
	39,315	955	10,470	2,400	-	-	30,447	83,587	
Weighted average interest rate	3.35%	10.50%	10.79%	10.50%					
Charter Hall Group		Fixed interest maturing in:						Non-interest bearing \$'000	Total \$'000
	Floating interest rate \$'000	1 year or less \$'000	Over 1 to 2 years \$'000	Over 2 to 3 years \$'000	Over 3 to 4 years \$'000	Over 4 to 5 years \$'000	Over 5 years \$'000		
<b>2011</b>									
Cash and cash equivalents	26,266	-	-	-	-	-	-	26,266	
Trade receivables	-	-	-	-	-	-	22,035	22,035	
Loans to key management personnel	-	706	1,000	1,000	2,400	-	-	5,106	
Loans to joint ventures	-	-	-	5,000	-	-	-	5,000	
Distributions receivable	-	-	-	-	-	-	11,556	11,556	
Other receivables	-	-	-	-	-	-	7,922	7,922	
	26,266	706	1,000	6,000	2,400	-	41,513	77,885	
Weighted average interest rate	3.36%	12.50%	10.50%	11.75%	10.50%				

# Notes to the consolidated financial statements for the year ended 30 June 2012

## 12 Trade and other receivables (continued)

### (c) Interest rate risk (continued)

Charter Hall Property Trust Group		Fixed interest maturing in:						Non-interest bearing \$'000	Total \$'000
	Floating interest rate \$'000	1 year or less \$'000	Over 1 to 2 years \$'000	Over 2 to 3 years \$'000	Over 3 to 4 years \$'000	Over 4 to 5 years \$'000	Over 5 years \$'000		
2012									
Cash and cash equivalents	21,674	–	–	–	–	–	–	21,674	
Trade receivables	–	–	–	–	–	–	481	481	
Loans to joint ventures	–	–	–	–	–	–	1,650	1,650	
Distributions receivable	–	–	–	–	–	–	9,703	9,703	
Other receivables	–	–	–	–	–	–	5,573	5,573	
Loan receivable from Charter Hall Limited	163,542	–	–	–	–	–	–	163,542	
	185,216	–	–	–	–	–	17,407	202,623	
Weighted average interest rate	9.09%								
Charter Hall Property Trust Group		Fixed interest maturing in:						Non-interest bearing \$'000	Total \$'000
	Floating interest rate \$'000	1 year or less \$'000	Over 1 to 2 years \$'000	Over 2 to 3 years \$'000	Over 3 to 4 years \$'000	Over 4 to 5 years \$'000	Over 5 years \$'000		
2011									
Cash and cash equivalents	4,841	–	–	–	–	–	–	4,841	
Trade receivables	–	–	–	–	–	–	1,037	1,037	
Distributions receivable	–	–	–	–	–	–	11,289	11,289	
Other receivables	–	–	–	–	–	–	1,367	1,367	
Loan receivable from Charter Hall Limited	355,874	–	–	–	–	–	–	355,874	
	360,715	–	–	–	–	–	13,693	374,408	
Weighted average interest rate	8.04%								

### (d) Interest rate sensitivity analysis

The following tables illustrate the potential impact a change in interest rates of +/-1% would have on the Charter Hall Group and Charter Hall Property Trust Group's profit after tax and equity.

Charter Hall Group	Carrying amount \$'000	-1%		+1%	
		Profit \$'000	Equity \$'000	Profit \$'000	Equity \$'000
2012					
<b>Assets</b>					
Cash and cash equivalents	39,315	(393)	(393)	393	393
Total (decrease)/increase		(393)	(393)	393	393
2011					
<b>Assets</b>					
Cash and cash equivalents	26,266	(263)	(263)	263	263
Total (decrease)/increase		(263)	(263)	263	263

#### (d) Interest rate sensitivity analysis (continued)

Charter Hall Property Trust Group	Carrying amount \$'000	-1%		+1%	
		Profit \$'000	Equity \$'000	Profit \$'000	Equity \$'000
<b>2012</b>					
<b>Assets</b>					
Cash and cash equivalents	21,674	(217)	(217)	217	217
Loan receivable from Charter Hall Limited	163,542	(1,635)	(1,635)	1,635	1,635
<b>Total (decrease)/increase</b>		<b>(1,852)</b>	<b>(1,852)</b>	<b>1,852</b>	<b>1,852</b>
<b>2011</b>					
<b>Assets</b>					
Cash and cash equivalents	4,841	(48)	(48)	48	48
Loan receivable from Charter Hall Limited	355,874	(3,559)	(3,559)	3,559	3,559
<b>Total (decrease)/increase</b>		<b>(3,607)</b>	<b>(3,607)</b>	<b>3,607</b>	<b>3,607</b>

#### (e) Credit risk

There is a limited concentration of credit risk with respect to current and non-current receivables, as the Charter Hall Group and Charter Hall Property Trust Group have a large number of customers. Refer to note 2 for more information on the risk management policy of the Charter Hall Group and Charter Hall Property Trust Group.

The ageing of trade receivables at the reporting date was as follows:

	Charter Hall Group		Charter Hall Property Trust Group	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
1 to 3 months	8,068	19,856	463	752
3 to 6 months	416	348	18	65
More than 6 months	1,051	1,831	–	220
	<b>9,535</b>	<b>22,035</b>	<b>481</b>	<b>1,037</b>

The receivables are considered past due but not impaired.  
The carrying value approximates fair value.

### 13 Assets classified as held for sale

	Charter Hall Group		Charter Hall Property Trust Group	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Mentone residential properties	–	921	–	–
Bunnings Stafford, Stafford Road, Stafford	19,000	–	19,000	–
Home HQ, Ipswich	24,500	–	24,500	–
Menai Central, Menai	35,000	–	35,000	–
Home HQ, Nunawading	27,500	–	27,500	–
33 Windorah Street, Stafford	11,704	–	11,704	–
Charter Hall Retail Joint Venture Trust	18,686	–	18,686	–
	<b>136,390</b>	<b>921</b>	<b>136,390</b>	<b>–</b>

The Mentone residential properties held for sale at 30 June 2011 were sold in July 2011 at book value.

These assets are held for sale as it is considered highly probable that they will be sold in the next 12 months. All assets are investment properties except for the Charter Hall Retail Joint Venture Trust in which the Group holds a 50% interest.

The fair value represents the amount at which the assets could be exchanged between a knowledgeable willing buyer and a knowledgeable seller in an arm's length transaction at the date of the valuation, in accordance with Australian Valuation Standards.

## Notes to the consolidated financial statements for the year ended 30 June 2012

### 14 Investments in associates at fair value through profit or loss

	Notes	Charter Hall Group		Charter Hall Property Trust Group	
		2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Investments in associates	36(b)(i)	62,638	78,445	62,180	78,014

Changes in fair values of investments in associates at fair value through profit or loss are recorded in fair value adjustments in the statement of comprehensive income.

These investments comprise units in certain unlisted Charter Hall managed funds which have been designated at fair value through profit or loss.

Information about the Charter Hall Group and Charter Hall Property Trust Group's material exposure to share and unit price risk is provided in note 2(a)(i).

### 15 Derivative financial instruments

	Charter Hall Group		Charter Hall Property Trust Group	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
<b>Current liabilities</b>				
Interest rate swap contracts	669	–	669	–
	669	–	669	–
<b>Non-current liabilities</b>				
Interest rate swap contracts	–	407	–	407
	–	407	–	407

#### (a) Instruments used by the Group

The Charter Hall Group and Charter Hall Property Trust Group utilise derivative financial instruments to hedge exposure to fluctuations in interest rates in accordance with the Charter Hall Group and Charter Hall Property Trust Group's financial risk management policies (refer to note 2).

#### Interest rate swap contracts

The Charter Hall Group and Charter Hall Property Trust Group's policy is to fix rates for between 50% to 100% of core borrowings for the anticipated debt term (refer note 2(a)(ii)). Accordingly, the Charter Hall Group and Charter Hall Property Trust Group have previously entered into interest rate swap contracts under which they are obliged to receive interest at variable rates and to pay interest at fixed rates. All swaps have been entered into by DRF, which is consolidated.

Swaps currently in place cover 39% (2011: 38%) of the loan principal outstanding. The fixed interest rates in 2012 ranged between 5.05% and 5.46% (2011: between 6.84% and 7.48%) for AUD swaps (including margin and line fees). There was a NZD swap that was paid out during the year.

The interest rate swap is shown as current despite an expiry date of 2 December 2013 as it is expected to be closed out in the next 12 months.

At reporting date, the notional principal amounts and periods of expiry of the interest rate swap contracts are as follows:

	2012 \$'000	2011 \$'000
1 to 2 years	20,000	18,203
2 to 3 years	–	20,000
More than 3 years	–	–
	20,000	38,203

The contracts require settlement of net interest receivable or payable every 90 days. The settlement dates coincide with the dates on which interest is payable on the underlying debt. The contracts are settled on a net basis.

The amount of fair value adjustments on hedges recorded directly in the income statement was a loss of \$310,069 (2011: loss of \$386,000).

## (b) Credit risk exposures

Credit risk arises from the potential failure of counterparties to meet their obligations under the respective contracts at maturity. This arises with amounts receivable from unrealised gains on derivative financial instruments.

The Charter Hall Group and Charter Hall Property Trust Group undertake their transactions in interest rate contracts only with investment grade financial institutions.

## (c) Interest rate risk exposures

Refer to note 2(c) for the Charter Hall Group and Charter Hall Property Trust Group's exposure to interest rate risk on interest rate swaps.

Interest rate swaps with a notional principal amount of NZ\$23.6 million (2011: \$40.2 million) were terminated during the year, resulting in a realised loss of \$134,000 (2011: gain of \$345,323).

## 16 Inventories

	Charter Hall Group		Charter Hall Property Trust Group	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
<b>Non-current</b>				
685 La Trobe property development	9,518	7,450	–	–
	9,518	7,450	–	–

## 17 Investments accounted for using the equity method

	Notes	Charter Hall Group		Charter Hall Property Trust Group	
		2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Investments in associates	36	444,515	470,083	373,578	417,408
Investments in joint venture entities	37	27,644	47,624	–	18,700
		472,159	517,707	373,578	436,108

### (a) Investments in associates

These investments represent units in listed and unlisted Charter Hall managed funds which are accounted for in the consolidated financial statements using the equity method of accounting.

### (b) Investments in joint venture entities

These investments represent joint venture interests in Australian and overseas joint ventures which are accounted for in the consolidated financial statements using the equity method of accounting.

## 18 Intangible assets

In March 2010, the Charter Hall Group completed a transaction to acquire the majority of Macquarie Group's core real estate management platform. This transaction was structured to secure the management rights (i.e. future management fee revenue) of Macquarie Office Trust (renamed Charter Hall Office REIT), Macquarie CountryWide Trust (renamed Charter Hall Retail REIT) and Macquarie Direct Property Fund (renamed Charter Hall Direct Property Fund).

The excess of consideration paid over net tangible assets acquired represents the value of these management rights.

With the exception of management rights held over the Charter Hall Office Trust (CHOT), management considers that the management rights have an indefinite life as there are no finite terms in the underlying agreements and the Charter Hall Group has no intention to cease managing these Funds. The carrying value of management rights with an indefinite life (i.e. excluding CHOT) is \$52.961 million.

On 1 May 2012, Charter Hall Office REIT (CQO) was privatised and renamed CHOT. With implementation of the privatisation, CQO changed from a listed REIT to a wholesale unit trust with liquidity reviews every five years. It is expected that the net fee revenue that the Group will earn from managing CHOT will be generally consistent with the net revenue earned previously from managing the Australian assets of CQO. As the management rights of CHOT are subject to a liquidity event, the Group will amortise the management rights over a six year period commencing from 1 May 2012 (includes an additional year to source liquidity were the trust to be wound up in five years as a result of the liquidity review). Only the management rights held over the Charter Hall Office Trust are being amortised.

## Notes to the consolidated financial statements for the year ended 30 June 2012

### 18 Intangible assets (continued)

	Charter Hall Group		Charter Hall Property Trust Group	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Opening balance	99,994	119,165	–	–
Impairment charge	–	(19,171)	–	–
Amortisation charge	(1,307)	–	–	–
Closing balance	98,687	99,994	–	–

All management rights recognised on the balance sheet were independently valued as at 30 April 2012 by KPMG Corporate Finance. The valuation supports the carrying values and the methodology applied was an assessment of fair value (less costs to sell) based on discounted cash flows.

Key assumptions used for the indefinite life intangibles valuation calculations are as follows:

- ◆ Cash flow projections based on financial budgets approved by management covering a five year period. Cash flows beyond the five year period are extrapolated using estimated growth rates appropriate for the business;
- ◆ Discount rate range of 14% to 17% (2011: 13% to 18%) which is in excess of the Charter Hall Group's weighted average cost of capital as a result of the management platform carrying more risk than the return on property investment cash flows;
- ◆ Growth over the next five years of 3% (2011: 3%) per annum; and
- ◆ Terminal value multiple of 4.9 to 7.0 times earnings (2011: 7.0 times).

Impairment is tested at the cash-generating unit (CGU) level for each CGU. Each individual CGU is considered to be a fund which generates management fee income.

### 19 Property, plant and equipment

Charter Hall Group	Furniture, fittings and equipment \$'000	Fixtures \$'000	Software \$'000	Total \$'000
<b>Year ended 30 June 2011</b>				
Opening net book amount	1,217	768	1,607	3,592
Additions	662	–	473	1,135
Disposals	(15)	–	–	(15)
Depreciation charge	(367)	(52)	(1,126)	(1,545)
Closing net book amount	1,497	716	954	3,167
<b>At 30 June 2011</b>				
Cost	2,993	1,073	2,300	6,366
Accumulated depreciation	(1,496)	(357)	(1,346)	(3,199)
Net book amount	1,497	716	954	3,167
<b>Year ended 30 June 2012</b>				
Opening net book amount	1,497	716	954	3,167
Additions	109	3	472	584
Disposals	–	–	–	–
Depreciation charge	(325)	(70)	(330)	(725)
Closing net book amount	1,281	649	1,096	3,026
<b>At 30 June 2012</b>				
Cost	3,102	1,076	2,772	6,950
Accumulated depreciation	(1,821)	(427)	(1,676)	(3,924)
Net book amount	1,281	649	1,096	3,026

## 20 Investment properties

Property	Type	% owned		Independent valuation amount \$'000	Book value 2012 \$'000	Book value 2011 \$'000
<b>Charter Hall Property Trust Group</b>						
<b>DRF properties</b>						
Home HQ, Nunawading	Bulky retail	50	Carried as held for sale	–	–	31,000
Bunnings, Stafford	Bulky retail	100	Carried as held for sale	–	–	18,750
Home HQ, Ipswich	Bulky retail	100	Carried as held for sale	–	–	27,065
Menai Central, Menai	Bulky retail	100	Carried as held for sale	–	–	37,000
33 Windorah Street, Stafford	Bulky retail	100	Carried as held for sale	–	–	11,700
Countdown, Auckland, NZ <sup>1</sup>	Retail	–	Sold during the year	–	–	18,203
				–	–	143,718
<b>Charter Hall Group</b>						
Mentone Showrooms, Mentone <sup>2</sup>	Bulky retail	–	Sold during the year	–	–	15,800
				–	–	159,518

1. Countdown, Auckland, New Zealand was sold on 29 June 2012 for NZ\$22 million.

2. Mentone Showrooms, Mentone was sold on 28 October 2011 for \$17.7 million.

Refer to note 13 for details of the carrying values of properties classified as held for sale at 30 June 2012.

A reconciliation of the carrying amounts at the beginning and end of the current and previous years is set out below:

	Notes	Charter Hall Group		Charter Hall Property Trust Group	
		2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
<b>At fair value</b>					
Opening balance		159,518	202,118	143,718	201,348
Acquisitions and additions		503	15,610	503	15,569
Lease incentives paid		80	34	80	34
Lease incentives amortised		(546)	(682)	(546)	(682)
Disposals		(34,427)	(53,205)	(18,627)	(71,505)
Transferred to held for sale		(117,704)	(921)	(117,704)	–
Net loss from fair value adjustment	8	(7,692)	(2,518)	(7,692)	(128)
Foreign currency exchange gain/(loss)		268	(918)	268	(918)
<b>Closing balance</b>		<b>–</b>	<b>159,518</b>	<b>–</b>	<b>143,718</b>

### (a) Amounts recognised in the statement of comprehensive income for investment properties

	Charter Hall Group		Charter Hall Property Trust Group	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Rental income	15,561	17,716	15,532	17,723
Direct operating expenses from property that generated rental income	(3,541)	(4,795)	(3,478)	(4,839)
	12,020	12,921	12,054	12,884

This table includes the comprehensive income of all investment properties held during the year, regardless of whether they have been sold or reclassified as held for sale. The income is up to the date of sale or 30 June respectively.

## Notes to the consolidated financial statements for the year ended 30 June 2012

### 20 Investment properties (continued)

#### (b) Valuation basis

As at 30 June 2012 all investment properties have been classified as held for sale. They are carried at fair value, representing the amount at which the assets could be exchanged between a knowledgeable willing buyer and a knowledgeable seller in an arm's length transaction at the date of valuation, in accordance with Australian Valuation Standards.

Investment properties not independently valued are carried at Directors' valuations, which are based on detailed internal calculations. The Directors' valuations are approved by a Valuation Committee consisting of four members. The Chair of the Committee is Colin McGowan and the committee has another independent member in Rick Higgins (an independent non-executive director of Charter Hall Direct Property Management Pty Limited (a subsidiary of Charter Hall Limited)). The other two members are executive directors. The valuations at 30 June 2011 had a weighted average capitalisation rate of 8.46% and a weighted average vacancy rate of 1.5%. All investment property has been reclassified to assets held for sale at 30 June 2012.

### 21 Deferred tax assets

	Notes	Charter Hall Group		Charter Hall Property Trust Group	
		2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
<b>Deferred tax assets comprises temporary differences attributable to:</b>					
Employee benefits		2,052	3,256	–	–
Investments in associates		4,089	4,221	–	–
Management rights		–	2,842	–	–
Provisions		4,272	–	–	–
Other		94	936	–	–
		<b>10,507</b>	<b>11,255</b>	<b>–</b>	<b>–</b>
<b>A reconciliation of the carrying amount of deferred tax assets at the beginning and end of the current and previous years is set out below:</b>					
Opening balance		11,255	5,721	–	321
Charged to income statement	9	1,538	3,231	–	(321)
Charged to other comprehensive income		9	8	–	–
Charged directly to equity reserves		(2,295)	2,295	–	–
Closing balance		<b>10,507</b>	<b>11,255</b>	<b>–</b>	<b>–</b>
Deferred tax assets expected to reverse within 12 months		6,418	4,192	–	–
Deferred tax assets expected to reverse after more than 12 months		4,089	7,063	–	–
		<b>10,507</b>	<b>11,255</b>	<b>–</b>	<b>–</b>

## 22 Trade and other payables

	Charter Hall Group		Charter Hall Property Trust Group	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
<b>Current liabilities</b>				
Trade payables	712	1,926	359	4,702
Accruals	3,424	4,337	1,814	2,070
Distribution payable	27,585	25,458	27,888	25,683
GST payable	1,755	1,681	219	265
Annual leave payable	2,193	2,209	–	–
Deferred consideration payable for business combination	–	14,300	–	–
Contingent consideration payable	10,539	–	–	–
Employee benefits payable	3,927	7,345	–	–
Other payables	653	805	8	8
	<b>50,788</b>	<b>58,061</b>	<b>30,288</b>	<b>32,728</b>

All current liabilities are expected to be settled within 12 months.

	Charter Hall Group		Charter Hall Property Trust Group	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
<b>Non-current liabilities</b>				
Contingent consideration payable	–	12,106	–	–

### (i) Contingent consideration payable

On 1 March 2010, the Charter Hall Group completed a transaction to acquire the majority of Macquarie Group's core real estate management platform comprising the management of two listed and three unlisted real estate funds and co-investments in Macquarie Office Trust (renamed Charter Hall Office REIT), Macquarie CountryWide Trust (renamed Charter Hall Retail REIT) and Macquarie Direct Property Fund (renamed Charter Hall Direct Property Fund).

In the event that certain cumulative revenue targets are achieved by the offshore platform (being the people, entities and businesses that generate revenue outside of Australia, New Zealand and Japan) between 1 March 2010 and 28 February 2013, additional purchase consideration of up to \$15,000,000 may be payable in cash.

The potential undiscounted amount payable under the agreement is between \$0 (for cumulative revenues below \$21,425,000), and \$15,000,000 (for cumulative revenues above \$42,850,000). On 9 March 2012, an instalment of \$1,451,664 was paid.

The fair value of the contingent consideration at 30 June 2012 of \$10,539,093 (2011: \$12,105,593) was estimated by applying a 13% discount rate to expected payments of \$10,788,460 (2011: \$13,840,189) from July 2012 onwards.

### (ii) Deferred consideration payable for business combination – prior year

The sale to Charter Hall by Macquarie Group of all shares in Macquarie CountryWide Management Limited (renamed Charter Hall Retail Management Limited) and Macquarie Direct Property Management Limited (renamed Charter Hall Direct Property Management Limited) completed on 30 September 2011.

## Notes to the consolidated financial statements for the year ended 30 June 2012

### 23 Provisions

	Charter Hall Group		Charter Hall Property Trust Group	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Employee benefits – long service leave	656	834	–	–
Performance fee clawback	14,239	–	–	–
	14,895	834	–	–

The Group is entitled to performance fees in respect of CHOF4, calculated at 33.34% of the excess return above a gross equity internal rate of return (IRR) of 13% on the paid up capital allocated to a project. To date, the Group has received a total of \$14.2 million in performance fees over the life of this fund. There have been no performance fees recognised in the current period or in the prior year ended 30 June 2011. Contractual arrangements allow a clawback of performance fees on termination of CHOF4 (on the earlier of the termination date of 31 December 2012, unless extended, or the completion of the sale of all the assets of CHOF4) to the extent necessary to allow CHOF4 to achieve a gross equity IRR equal to 13%. The gross equity IRR is calculated prior to the deduction of performance fees, fund management fees, fund costs and income tax.

In the 31 December 2011 Interim Financial Report, the Group reported a contingent liability of up to \$14.2 million may be incurred in relation to the potential CHOF4 clawback of performance fees received in respect of the 2007, 2008, 2009 and 2010 financial years.

Having regard to this and current market conditions, the Charter Hall Board has resolved to raise a provision for the maximum potential liability, being \$14.2 million. The clawback is payable on the earlier of the termination date of 31 December 2012, unless extended, or the completion of the sale of all the assets of CHOF4.

#### (a) Movements in provisions

Refer to note 26 for the movement in provisions and split between current and non-current.

### 24 Borrowings

	Charter Hall Group		Charter Hall Property Trust Group	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
<b>Unsecured</b>				
Loan from Charter Hall Holdings Pty Ltd	–	–	2,400	–
<b>Secured</b>				
Bank loans drawn				
DRF	51,750	–	51,750	–
Unamortised borrowing costs	(287)	–	(287)	–
<b>Total current borrowings</b>	<b>51,463</b>	<b>–</b>	<b>53,863</b>	<b>–</b>
<b>Secured</b>				
Bank loans drawn				
DRF	–	69,953	–	69,953
Charter Hall Property Trust	–	33,010	–	33,010
Unamortised borrowing costs <sup>1</sup>	–	(1,101)	–	(1,101)
<b>Total non-current borrowings</b>	<b>–</b>	<b>101,862</b>	<b>–</b>	<b>101,862</b>

1. Disclosed on the balance sheet as Other Assets are unamortised borrowing costs of \$564,287 (2011: \$582,044) relating to the Charter Hall Property Trust Westpac facility. Since there is no debt drawn at 30 June 2012 on this facility the unamortised borrowing costs have been disclosed on the balance sheet as Other Assets for the current year. The prior year amount continues to be disclosed above, aggregated with unamortised borrowing costs incurred on the DRF facility. Current year unamortised borrowing costs of \$287,151 relate to the DRF facility.

The DRF loan comprises a \$40.0 million National Australia Bank (NAB) facility and a \$15.5 million share of a \$64.0 million joint venture Westpac facility. Amounts drawn under the NAB facility are potentially repayable if the Fund defaults on payments of interest or principal or allows:

- ◆ The ratio of total liabilities to total assets to exceed 55% or the ratio of debt to secured property values to exceed 50%; or
- ◆ The ratio of EBIT to interest expense to fall below 1.75 times or the ratio of net rental income to interest to fall below 1.65 times.

Amounts drawn under the DRF JV Westpac facility are potentially repayable if the Fund defaults on payments of interest or principal or allows:

- ◆ The ratio of debt to secured property assets to exceed 60%; or
- ◆ The ratio of net rental income to interest to fall below 1.6 times.

Amounts drawn under the \$75.0 million Charter Hall Property Trust loan are potentially repayable if the Trust defaults on payments of interest or principal or allows:

- ◆ The ratio of debt to total tangible assets to exceed 35%;
- ◆ The ratio of debt to EBITDA to exceed 4 times; or
- ◆ The ratio of EBIT to gross interest to fall below 3 times.

Subsequent to 30 June 2012 the interest cover covenant was amended as follows:

- ◆ The ratio of 'net cash inflow' to gross interest to be a minimum of 4.25 times, replacing the ratio of EBIT to gross interest not being less than 3 times.

During the year, DRF entered into an agreement with Charter Hall Holdings Pty Ltd to borrow \$2.4 million which was fully drawn and is repayable on demand. The interest rate is BBSY +3%.

The DRF loan facility is contractually not repayable until November 2013, but has been disclosed as current due to assets held for sale and an expectation that the borrowings will therefore be repaid within the next 12 months.

The DRF bank loan is secured by a floating charge over all the assets of DRF and by a mortgage over the investment properties held by DRF. The Charter Hall Property Trust loan is secured over the Trust's investment in listed and unlisted funds, excluding 22,500,000 units of the Trust's investment in Charter Hall Core Plus Office Fund.

The carrying amounts of assets pledged as security for borrowings are:

	Charter Hall Group		Charter Hall Property Trust Group	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
<b>Current</b>				
<i>Floating charge</i>				
Cash and cash equivalents	1,265	2,324	1,265	2,324
Receivables	1,307	1,831	1,307	1,831
<i>First mortgage</i>				
Investment property classified as held for sale	117,704	–	117,704	–
Investment in jointly controlled entity classified as held for sale	18,686	–	18,686	–
Total current assets pledged as security	138,962	4,155	138,962	4,155
<b>Non-current</b>				
<i>First mortgage</i>				
Investment properties	–	143,718	–	143,718
Investment in associates	414,777	478,412	414,777	478,412
Investment in jointly controlled entities	–	18,700	–	18,700
Total non-current assets pledged as security	414,777	640,830	414,777	640,830
Total assets pledged as security	553,739	644,985	553,739	644,985

## Notes to the consolidated financial statements for the year ended 30 June 2012

### 24 Borrowings (continued)

#### (a) Financing arrangements

The Charter Hall Group and Charter Hall Property Trust Group had unrestricted access at reporting date to the following lines of credit:

	Charter Hall Group		Charter Hall Property Trust Group	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Total facilities	130,500	170,500	132,900	170,500
Used at reporting date	51,750	102,963	54,150	102,963
<b>Unused at reporting date</b>	<b>78,750</b>	<b>67,537</b>	<b>78,750</b>	<b>67,537</b>

The Charter Hall Group and Charter Hall Property Trust Group's \$100 million WBC debt facility was reduced to \$75.0 million in April 2012. This facility expires in May 2014.

DRF's existing \$55.0 million facility was reduced to \$40.0 million on 29 June 2012. The expiry date remains at 30 November 2013. Whilst the DRF loan facility is contractually not repayable until November 2013, borrowings have been disclosed as current due to assets held for sale and an expectation that the borrowings will therefore be repaid within the next 12 months.

DRF is party to a second WBC debt facility, totalling \$64.0 million, with the Charter Hall Retail Joint Venture Trust (RJVT), Charter Hall Lake Macquarie Trust (LMT), Charter Hall Mount Hutton Trust (MHT) and CQR Nunawading Trust (CQRNT). RJVT is an equity accounted investment which in turn owns 100% of LMT and MHT. CQRNT is a wholly-owned entity of the Charter Hall Retail REIT (CQR) which is also an equity accounted investment. Accordingly, only \$15.5 million of the \$64.0 million facility, representing DRF's share of debt relating to its 50% interest in the Nunawading shopping centre, is recorded on balance sheet with the remaining \$48.5 million drawn by associates RJVT and CQRNT. DRF is joint and severally liable alongside RJVT, LMT, MHT and CQRNT for the amount of the facility, which is cross collateralised across three joint venture held mortgaged assets being shopping centres at Lake Macquarie (held by LMT), Mount Hutton (held by MHT) and Nunawading (50% held by CQRNT).

#### (b) Interest rate risk exposures

The following tables set out the Charter Hall Group and Charter Hall Property Trust Group's exposure to interest rate risk, including the contractual repricing dates and the effective weighted average interest rate by maturity period.

Exposures arise predominantly from liabilities bearing variable interest rates as the Charter Hall Group and Charter Hall Property Trust Group intend to hold fixed rate liabilities to maturity.

Charter Hall Group	Floating interest rate \$'000	Fixed interest maturing in:						Non- interest bearing \$'000	Total \$'000
		1 year or less \$'000	Over 1 to 2 years \$'000	Over 2 to 3 years \$'000	Over 3 to 4 years \$'000	Over 4 to 5 years \$'000	Over 5 years \$'000		
2012									
Trade and other payables	–	–	–	–	–	–	–	40,249	40,249
Contingent consideration payable	–	–	–	–	–	–	–	10,539	10,539
Borrowings	51,750	–	–	–	–	–	–	–	51,750
Interest rate swaps	(20,000)	–	20,000	–	–	–	–	–	–
	31,750	–	20,000	–	–	–	–	50,788	102,538
Weighted average interest rate	3.63%	5.46%							

Charter Hall Group		Fixed interest maturing in:						Non-interest bearing	Total
	Floating interest rate \$'000	1 year or less \$'000	Over 1 to 2 years \$'000	Over 2 to 3 years \$'000	Over 3 to 4 years \$'000	Over 4 to 5 years \$'000	Over 5 years \$'000	\$'000	\$'000
2011									
Trade and other payables	–	–	–	–	–	–	–	58,061	58,061
Contingent consideration payable	–	–	–	–	–	–	–	12,106	12,106
Borrowings	101,862	–	–	–	–	–	–	–	101,862
Interest rate swaps	(38,203)	–	18,203	20,000	–	–	–	–	–
	63,659	–	18,203	20,000	–	–	–	70,167	172,029
Weighted average interest rate	4.63%		4.71%	4.71%					
Charter Hall Property Trust Group		Fixed interest maturing in:						Non-interest bearing	Total
	Floating interest rate \$'000	1 year or less \$'000	Over 1 to 2 years \$'000	Over 2 to 3 years \$'000	Over 3 to 4 years \$'000	Over 4 to 5 years \$'000	Over 5 years \$'000	\$'000	\$'000
2012									
Trade and other payables	–	–	–	–	–	–	–	30,288	30,288
Borrowings	54,150	–	–	–	–	–	–	–	54,150
Interest rate swaps	(20,000)	–	20,000	–	–	–	–	–	–
	34,150	–	20,000	–	–	–	–	30,288	84,438
Weighted average interest rate	3.75%		5.46%						
Charter Hall Property Trust Group		Fixed interest maturing in:						Non-interest bearing	Total
	Floating interest rate \$'000	1 year or less \$'000	Over 1 to 2 years \$'000	Over 2 to 3 years \$'000	Over 3 to 4 years \$'000	Over 4 to 5 years \$'000	Over 5 years \$'000	\$'000	\$'000
2011									
Trade and other payables	–	–	–	–	–	–	–	32,728	32,728
Borrowings	101,862	–	–	–	–	–	–	–	101,862
Interest rate swaps	(38,203)	–	18,203	20,000	–	–	–	–	–
	63,659	–	18,203	20,000	–	–	–	32,728	134,590
Weighted average interest rate	4.63%		4.71%	4.71%					



## Charter Hall Property Trust Group

The carrying amounts and fair values of borrowings at reporting date are:

	2012		2011	
	Carrying amount \$'000	Fair value \$'000	Carrying amount \$'000	Fair value \$'000
<b>On-balance sheet</b>				
<i>Non-traded financial liabilities</i>				
Bank loans	53,863	54,150	101,862	102,963

The fair value of borrowings is inclusive of costs which would be incurred on settlement of a liability, and is based upon market prices, where a market exists, or by discounting the expected future cash flows by the current interest rates for liabilities with similar risk profiles.

### (e) Capital risk management

Gearing is a measure used to monitor levels of debt capital used by the business to fund its operations. This ratio is calculated as interest bearing debt divided by tangible assets with both net of cash and cash equivalents.

The gearing ratio of the Charter Hall Group at 30 June 2012 was 1.45% (2011: 8.12%), and of the Charter Hall Property Trust Group was 4.3% (2011: 9.4%). Debt covenants are monitored regularly to ensure compliance and reported to the debt provider on a six monthly basis. The Group Treasurer is responsible for negotiating new debt facilities and compliance with covenants.

## 25 Deferred tax liabilities

	Notes	Charter Hall Group		Charter Hall Property Trust Group	
		2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
<b>Deferred tax liabilities comprises temporary differences attributable to:</b>					
Accrued revenue		84	4	–	–
Contingent consideration payable		903	868	–	–
Investment in associates		1,078	198	–	–
Other		120	59	–	–
		2,185	1,129	–	–
<b>A reconciliation of the carrying amount of deferred tax liabilities at the beginning and end of the current and previous years is set out below:</b>					
Opening balance		1,129	1,273	–	661
Deferred tax benefit		–	–	–	(644)
Charged to income statement	9	1,056	(110)	–	–
Charged to other comprehensive income		–	(34)	–	(17)
Closing balance		2,185	1,129	–	–
Deferred tax liabilities expected to reverse within 12 months		1,107	931	–	–
Deferred tax liabilities expected to reverse after more than 12 months		1,078	198	–	–
		2,185	1,129	–	–

## Notes to the consolidated financial statements for the year ended 30 June 2012

### 26 Provisions – non-current

	Charter Hall Group		Charter Hall Property Trust Group	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Employee benefits – long service leave	1,428	1,217	–	–

#### (a) Movements in provisions

Movements in employee benefits provisions are set out below:

	Charter Hall Group		Charter Hall Property Trust Group	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
<b>Long service leave</b>				
Opening balance	2,051	1,628	–	–
Additional provisions recognised	33	423	–	–
Closing balance	2,084	2,051	–	–
Current	656	834	–	–
Non-current	1,428	1,217	–	–
<b>Total</b>	<b>2,084</b>	<b>2,051</b>	<b>–</b>	<b>–</b>

Movements in performance fee clawback provision is set out below:

	Charter Hall Group		Charter Hall Property Trust Group	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Opening balance	–	–	–	–
Provision recognised during the year	14,239	–	–	–
Closing balance	14,239	–	–	–
Current	14,239	–	–	–
Non-current	–	–	–	–
<b>Total</b>	<b>14,239</b>	<b>–</b>	<b>–</b>	<b>–</b>

### 27 Contributed equity

	Notes	2012	2011	2012	2011
		Securities	Securities	\$'000	\$'000
<b>(a) Security capital<sup>1</sup></b>					
Ordinary securities – fully paid	(b),(c),(e)	296,168,170	293,755,894	948,725	943,961
		296,168,170	293,755,894	948,725	943,961

**(b) Movements in ordinary security capital**

Details	Notes	Number of securities <sup>1</sup>	Issue price <sup>3</sup>	2012 \$'000	2011 \$'000
Opening balance		1,162,380,237			936,445
Add back LTI securities reversed in prior year <sup>2</sup>		50,343,595			73,179
Distribution Re-investment Plan issue August 2010	(d)	12,641,256	\$0.59		7,516
Balance before consolidation		1,225,365,088			1,017,140
Consolidation at one for four	(e)	(919,023,274)			-
<b>Balance at 30 June 2011</b>		306,341,814			1,017,140
Less: LTI securities reversed <sup>2</sup>		(12,585,920)			(73,179)
<b>Balance per accounts at 30 June 2011</b>		293,755,894		943,961	943,961
Add back LTI securities reversed last year <sup>2</sup>		12,585,920		73,179	
Performance rights and options exercised		2,412,255	\$1.94	4,764	
Cancellation of forfeited LTI securities off market		(11,907,844)		(65,692)	
<b>Balance at 30 June 2012</b>		296,846,225		956,212	
Less: LTI securities reversed <sup>2</sup>		(678,055)		(7,487)	
<b>Balance per accounts at 30 June 2012</b>		296,168,170		948,725	943,961
Charter Hall Limited <sup>4</sup>				209,550	9,503
Charter Hall Property Trust <sup>4</sup>				739,175	934,458
				948,725	943,961

1. This includes shares of Charter Hall Limited and units in Charter Hall Property Trust, which are stapled. Refer to note 1 for details of the accounting for this stapling arrangement.
2. Securities issued under the Charter Hall Limited Executive Loan Security Plan (ELSP) have been issued in trust and have a corresponding loan given to the employee. Under AASB 2: *Share-based Payment*, the loan, interest received on the loan, securities and the distribution paid and payable are derecognised for the preparation of the financial statements.
3. Security issue prices for transactions occurring pre October 2010 are stated on a pre security consolidation basis.
4. On 18 June 2012, the Group announced implementation of the \$200 million capital reallocation from Charter Hall Property Trust (CHPT) to Charter Hall Limited (CHL), effective 30 June 2012. The capital reallocation aims to ensure a more appropriate allocation of capital between CHPT and CHL (which together trade on the Australian Securities Exchange as Charter Hall Group) which is more closely aligned with the Group's long-term growth strategy. Under the capital reallocation proposal approved by securityholders at the Annual General Meeting on 24 November 2011, CHPT made capital payments of \$200 million which were compulsorily applied as a capital contribution for existing shares of CHL.

**(c) Ordinary securities**

Ordinary securities entitle the holder to participate in distributions/dividends and the proceeds on winding up of the Trust/Company in proportion to the number of and amounts paid on the securities held.

On a show of hands, every holder of ordinary securities present at a meeting in person or by proxy is entitled to one vote, and upon a poll each security is entitled to one vote.

**(d) Distribution Re-investment Plan**

The Company has established a Distribution Re-investment Plan (DRP) under which holders of ordinary securities may elect to have all or part of their distribution satisfied by the issue of new ordinary securities rather than by being paid in cash. Securities are issued under the plan at a discount to the market price. The DRP has been inactive since the 30 June 2010 distribution.

**(e) Consolidation**

In October 2010, the Group completed a consolidation of its securities on the basis of one new security for every four pre-consolidation securities. Where the consolidation of a holding resulted in a fractional security, that fraction was rounded up to the next whole security. The consolidation of securities resulted in the Group reducing its total securities on issue from 1,225,365,088 to 306,341,814 units.

# Notes to the consolidated financial statements for the year ended 30 June 2012

## 28 Reserves and accumulated losses

	Charter Hall Group		Charter Hall Property Trust Group	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
<b>(a) Reserves</b>				
Business combination reserve	(52,000)	(52,000)	–	–
Security-based benefits reserve	12,605	11,457	–	–
Transactions with non-controlling interests	(8,702)	(6,300)	(9)	52
Foreign currency reserve	(2,373)	(10,451)	(1,406)	(9,799)
	(50,470)	(57,294)	(1,415)	(9,747)
Charter Hall Limited and controlled entities	(49,055)	(47,547)	–	–
Charter Hall Property Trust	(1,415)	(9,747)	(1,415)	(9,747)
	(50,470)	(57,294)	(1,415)	(9,747)
<b>Movements:</b>				
<i>Business combination reserve</i>				
Opening and closing balance	(52,000)	(52,000)	–	–
<i>Security-based benefits reserve</i>				
Opening balance	11,457	7,367	–	–
Expense relating to LTI scheme	2,338	4,090	–	–
Expense relating to deferred STI transferred to security-based payment reserve	262	–	–	–
Transferred to equity on options and performance rights exercised	(1,452)	–	–	–
<b>Closing balance</b>	12,605	11,457	–	–
<i>Transactions with non-controlling interests</i>				
Opening balance	(6,300)	–	52	–
DRF acquisition premium	(2,295)	(6,300)	–	52
Acquisitions/redemptions above net tangible assets	(107)	–	(61)	–
<b>Closing balance</b>	(8,702)	(6,300)	(9)	52
<i>Foreign currency reserve</i>				
Opening balance	(10,451)	4,604	(9,799)	4,626
Exchange differences on translation of foreign operations	992	(19,718)	1,307	(19,088)
Transfer of cumulative FX losses to profit/(loss)	11,749	–	11,749	–
Transfer to accumulated losses	(4,663)	4,663	(4,663)	4,663
<b>Closing balance</b>	(2,373)	(10,451)	(1,406)	(9,799)

### (i) Business combination reserve

This reserve relates to the reverse acquisition at the initial public offering (IPO) in 2005. This is the amount that relates to the investment in CHH that is not eliminated by paid in capital. No goodwill is recognised as this transaction is the result of a reverse acquisition.

### (ii) Security-based payments reserve

The security-based payments reserve is used to recognise the fair value of securities issued under the ELSP and rights and options issued under the PROP.

### (iii) Transactions with non-controlling interests

Transactions with non-controlling interests that do not result in loss of control are treated as transactions with equity owners of the Charter Hall Group and Charter Hall Property Trust Group.

A change in ownership interest results in an adjustment between the carrying amounts of controlling and non-controlling interests to reflect their relative interests in the controlled entity. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised within this reserve.

### (iv) Foreign currency reserve

Exchange differences arising on translation of foreign controlled entities and the Charter Hall Group and Charter Hall Property Trust Group's share of foreign exchange differences arising from their equity accounted investments are recognised in other comprehensive income as described in note 1(d) and accumulated in a separate reserve within equity. The cumulative amount is reclassified to profit or loss when the net investment is disposed of.

### (b) Accumulated losses

Movements in accumulated losses were as follows:

	Charter Hall Group		Charter Hall Property Trust Group	
	2012	2011	2012	2011
Opening balance	(136,849)	(136,055)	(74,520)	(79,219)
Net profit for the year	16,678	52,338	36,087	57,831
Distributions	(53,839)	(48,469)	(53,839)	(48,469)
Transfer from foreign currency reserve	4,663	(4,663)	4,663	(4,663)
Closing balance	(169,347)	(136,849)	(87,609)	(74,520)
Charter Hall Limited and controlled entities	(81,738)	(62,329)	–	–
Charter Hall Property Trust	(87,609)	(74,520)	(87,609)	(74,520)
	(169,347)	(136,849)	(87,609)	(74,520)

## 29 Non-controlling interest

The financial statements of the Charter Hall Group include the financial statements for the consolidated entity consisting of Charter Hall Limited and its controlled entities including Charter Hall Property Trust (CHPT). Charter Hall Limited has been identified as the parent entity in relation to the stapling. The results and equity, not directly owned by CHL, of CHPT have been treated and disclosed as a non-controlling interest. Whilst the results and equity of CHPT are disclosed as a non-controlling interest, the stapled securityholders of CHL are the same as the stapled securityholders of CHPT.

	Notes	Charter Hall Group	
		2012 \$'000	2011 \$'000
Interest in:			
Contributed equity	27(b)	739,175	934,458
Reserves	28(a)	(1,415)	(9,747)
Accumulated losses	28(b)	(87,609)	(74,520)
<b>Equity holders of CHPT (non-controlling interest)</b>		<b>650,151</b>	<b>850,191</b>

## Notes to the consolidated financial statements for the year ended 30 June 2012

### 29 Non-controlling interest (continued)

The Charter Hall Group and Charter Hall Trust Group have each consolidated 100% of the net assets and results of DRF. However, with regard to the Charter Hall Group 34.09% (2011: 34.63%) of DRF is owned by non-controlling unitholders, and with regard to the Charter Hall Property Trust Group 50.37% (2011: 50.78%) of DRF is owned by non-controlling unitholders. Their non-controlling interest (NCI) in the total equity of DRF is as follows:

	Charter Hall Group		Charter Hall Property Trust Group	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
	34.09% NCI	34.63% NCI	50.37% NCI	50.78% NCI
Interest in:				
Contributed equity	67,348	68,056	99,515	100,772
Reserves	–	(330)	–	(496)
Accumulated losses	(39,900)	(35,599)	(58,957)	(53,121)
<b>Other non-controlling interest in DRF</b>	<b>27,448</b>	<b>32,127</b>	<b>40,558</b>	<b>47,155</b>

### 30 Key management personnel

#### (a) Directors

The following persons were Directors of Charter Hall Limited and Charter Hall Funds Management Limited during the year:

- ◆ Kerry Roxburgh – Chairman and Non-Executive Independent Director
- ◆ Roy Woodhouse – Deputy Chairman and Non-Executive Independent Director
- ◆ Anne Brennan – Non-Executive Independent Director
- ◆ David Deverall – Non-Executive Independent Director (appointed 7 May 2012)
- ◆ Glenn Fraser – Non-Executive Independent Director (resigned 15 August 2012)
- ◆ Cedric Fuchs – Executive Director (resigned 24 November 2011)
- ◆ David Harrison – Joint Managing Director
- ◆ Peter Kahan – Non-Executive Director
- ◆ Colin McGowan – Non-Executive Independent Director
- ◆ David Southon – Joint Managing Director

#### (b) Other key management personnel

The following persons also had authority and responsibility for planning, directing and controlling the activities of the Charter Hall Group and Charter Hall Property Trust Group, directly or indirectly, during the year. The number of other key management personnel in the year ended 30 June 2012 was seven (2011: seven).

Name	Position	Employer
P Altschwager	Group Chief Financial Officer	Charter Hall Holdings Pty Ltd
N Devlin	Head of People	Charter Hall Holdings Pty Ltd
S Dundas	Fund Manager – Charter Hall Retail REIT	Charter Hall Holdings Pty Ltd
A Glass	Head of Wholesale Pooled Funds	Charter Hall Holdings Pty Ltd
N Kelly	Head of Investor Relations	Charter Hall Holdings Pty Ltd
R Stacker	Head of Direct – Charter Hall Direct Property	Charter Hall Holdings Pty Ltd
A Taylor	Head of Wholesale Partnerships – Charter Hall Office Trust	Charter Hall Holdings Pty Ltd

**(c) Key management personnel compensation (including non-executive Directors)**

Key management personnel are employed by the Charter Hall Group. Payments made by the Charter Hall Trust Group to the Charter Hall Group do not include any amounts directly attributable to the compensation of key management personnel.

	2012 \$	2011 \$
Short-term employee benefits	5,505,464	8,296,788
Post-employment benefits	134,277	326,698
Security-based benefits	1,680,857	1,866,842
Long-term employee benefits	163,779	(13,151)
Non-monetary benefits	64,082	–
	7,548,459	10,477,177

**(d) Equity instrument disclosures relating to key management personnel***(i) Security holdings*

The numbers of securities in the Charter Hall Group held during the year by each Director and other key management personnel of the Group, including their personally related parties, are set out below.

2012 Name	Opening balance <sup>1</sup>	Purchased/ (sold) during the year	LTI securities vesting/ (forfeited) during the year	Closing balance <sup>1</sup>
<b>Directors of Charter Hall Limited</b>				
<i>Ordinary securities</i>				
K Roxburgh	31,250	–	–	31,250
R Woodhouse	21,429	–	–	21,249
A Brennan	30,000	–	–	30,000
D Deverall	–	15,287	–	15,287
G Fraser	156,934	(86,934)	–	70,000
D Harrison	2,429,540	(416,234)	222,664	2,235,970
P Kahan	–	–	–	–
C McGowan	–	–	–	–
D Southon	2,461,161	(90,980)	(95,372)	2,274,809
<b>Other key management personnel of the Group</b>				
<i>Ordinary securities</i>				
P Altschwager	–	–	–	–
N Devlin	–	–	–	–
S Dundas	–	–	–	–
A Glass	–	(36,392)	36,392	–
N Kelly	55,343	(81,246)	50,058	24,155
R Stacker	–	–	–	–
A Taylor	–	–	–	–

1. This total includes securities that have vested but have not been exercised by repayment of the loan and removal from the LTI plan. Unvested securities are excluded from the balance. The vested securities were issued with loans of \$11.04 per security which is significantly higher than the security price at 30 June 2012 of \$2.27.

## Notes to the consolidated financial statements for the year ended 30 June 2012

### 30 Key management personnel (continued)

#### (d) Equity instrument disclosures relating to key management personnel (continued)

##### (i) Security holdings (continued)

2011 Name	Opening balance <sup>1</sup>	Purchased/ (sold) during the year	LTI securities vesting/ (forfeited) during the year	Closing balance <sup>1</sup>
<b>Directors of Charter Hall Limited</b>				
<i>Ordinary securities</i>				
K Roxburgh	31,250	–	–	31,250
R Woodhouse	21,429	–	–	21,429
A Brennan	–	30,000	–	30,000
G Fraser	156,934	–	–	156,934
C Fuchs	1,454,459	–	–	1,454,459
D Harrison	2,429,540	–	–	2,429,540
P Kahan	–	–	–	–
C McGowan	–	–	–	–
D Southon	2,461,161	–	–	2,461,161
<b>Other key management personnel of the Group</b>				
<i>Ordinary securities</i>				
J Bakker	136,952	–	–	136,952
A Glass	–	–	–	–
N Kelly	55,343	–	–	55,343
S Sewell	–	–	–	–
R Stacker	–	–	–	–
A Taylor	–	–	–	–
M Winnem	138,929	(31,305)	–	107,624

The Executive Directors of Charter Hall Group and other key management personnel of Charter Hall Group held the following performance rights as at reporting date in the Company's PROP:

	2010	2011	2012	Total
<b>Executive Directors</b>				
D Harrison	96,520	201,924	564,517	862,961
D Southon	96,520	201,924	564,517	862,961
<b>Key management personnel</b>				
P Altschwager	–	–	–	–
N Devlin	–	10,897	97,581	108,478
S Dundas	35,752	–	107,527	143,279
A Glass	38,608	50,483	141,130	230,221
N Kelly	30,886	43,272	120,968	195,126
R Stacker	53,628	–	157,549	211,177
A Taylor	89,252	–	223,433	312,685

The Executive Directors of Charter Hall Group and other key management personnel of Charter Hall Group held the following options as at reporting date in the Company's PROP:

	2010	2011	2012	Total
<b>Executive Directors</b>				
D Harrison	345,060	504,808	–	849,868
D Southon	670,314	504,808	–	1,175,122
<b>Key management personnel</b>				
P Altschwager	–	–	–	–
N Devlin	–	27,243	–	27,243
S Dundas	89,252	–	–	89,252
A Glass	268,128	126,204	–	394,332
N Kelly	162,500	108,176	–	270,676
R Stacker	133,876	–	–	133,876
A Taylor	223,252	–	–	223,252

The Executive Directors of Charter Hall Group and other key management personnel of the Charter Hall Group held the following service rights as at reporting date in the Company's PROP:

	2012	Total
<b>Executive Directors</b>		
D Harrison	85,731	85,731
D Southon	85,731	85,731
<b>Key management personnel</b>		
P Altschwager	260,054	260,054

#### (e) Loans to key management personnel

Details of loans made to Directors of Charter Hall Limited and other key management personnel of Charter Hall Group, including their personally related parties, are set out below.

##### (i) Aggregates for key management personnel

	Balance at start of the year \$	Interest charged in the year \$	Payments made during the year \$	Balance at end of the year \$	Number in Group at the end of the year
<b>2012</b>	5,106,250	507,684	(1,258,558)	4,355,376	2
2011	5,145,000	206,250	(245,000)	5,106,250	2

##### (ii) Individuals with loans above \$100,000 during the period

	Balance at start of the year \$	Interest charged in the year \$	Payments made during the year \$	Balance at end of the year \$	Highest indebtedness during the year
<b>2012</b>					
D Harrison	2,553,125	264,540	(535,933)	2,281,732	2,579,666
D Southon	2,553,125	243,144	(722,625)	2,073,644	2,579,666
<b>2011</b>					
D Harrison	2,605,000	103,125	(155,000)	2,553,125	2,685,411
D Southon	2,540,000	103,125	(90,000)	2,553,125	2,620,411

## Notes to the consolidated financial statements for the year ended 30 June 2012

### 30 Key management personnel (continued)

#### (e) Loans to key management personnel (continued)

##### (i) Aggregates for key management personnel (continued)

When Charter Hall Group listed in 2005, the Product Disclosure Statement dated 11 May 2005 disclosed that related parties of the Joint Managing Directors, David Harrison and David Southon, had entered into loan agreements with CHL. Loans of \$2.5 million each were provided to fund the purchase of 2,500,000 (subsequently 625,000 following the one-for-four security consolidation in October 2010) listed securities in the Charter Hall Group.

At that time, these loans were made to align the Joint Managing Directors' interests with those of the Group and securityholders. Each loan is to a related party of the Joint Managing Directors, being the Harrison Family Trust and the Southon Family Trust.

The loans, which were initially for a three-year period, were extended in 2008 for three years to 6 June 2011 under the same terms and conditions. Until 6 June 2011, interest on the loans was equivalent to the Charter Hall Group distribution paid in respect of the securities purchased using the loan proceeds. At the time of the roll-over in June 2008, distributions received on these securities exceeded an arm's length interest rate.

In FY11, however, the distributions received were below an arm's length interest rate \$209,375 on each loan. This has not been charged to each of the borrowers.

On 7 June 2011, the loans were extended for a further three-year period to 31 July 2014, with repayment, interest, security and LVR conditions that are at arm's length terms and conditions as follows:

##### Repayment

Minimum repayments of \$300,000 each on or before 31 July 2011, \$500,000 each on or before 31 July 2012 and 31 July 2013 respectively, with the remaining principal balance at the end of the term. Subsequently, further amended to be five days after payment of the CHC distribution.

##### Interest

An interest rate of 12.5% p.a. for a loan to value ratio (LVR) greater than 50%, 10.5% p.a. for an LVR less than or equal to 50%; 9% p.a. for an LVR less than or equal to 40%, with interest payable in arrears upon each distribution date of the Charter Hall Group, commencing February 2012.

##### Additional security

Security over these loans is by way of a first ranking mortgage over all CHC securities held by the Harrison Family Trust and the Southon Family Trust, with the borrowers having the right to release CHC securities if the LVR is less than 40%. At 30 June 2012, the number of CHC securities held by the Harrison Family Trust was 2,009,521 (2011: 2,009,521) and the number held by the Southon Family Trust was 2,048,360 (2011: 2,048,360).

##### LVR covenant

Loans are not to exceed an LVR of 60%, at bi-annual testing dates, with the borrowers obligated to provide either additional security or repay such amount of the loan within 30 days, to ensure compliance with the LVR covenant.

### 31 Remuneration of auditors

During the year, the following fees were paid or payable for services provided by the auditors of the Charter Hall Group and Charter Hall Property Trust Group, their related practices and nonrelated audit firms:

	Charter Hall Group		Charter Hall Property Trust Group	
	2012 \$	2011 \$	2012 \$	2011 \$
<b>(a) Audit services</b>				
PricewaterhouseCoopers Australian firm				
Audit and review of financial reports	347,597	387,791	32,184	47,388
Independent Review of the Charter Hall anti-money laundering program	55,000	—	—	—
Non-PricewaterhouseCoopers audit firms for audit services				
W F White & Co	—	1,940	—	—
<b>Total remuneration for audit services</b>	<b>402,597</b>	<b>389,731</b>	<b>32,184</b>	<b>47,388</b>

	Charter Hall Group		Charter Hall Property Trust Group	
	2012 \$	2011 \$	2012 \$	2011 \$
<b>(b) Taxation services</b>				
PricewaterhouseCoopers Australian firm				
Tax compliance services, including review of company income tax returns	60,976	55,050	10,000	29,720
<b>Total remuneration for taxation services</b>	<b>60,976</b>	<b>55,050</b>	<b>10,000</b>	<b>29,720</b>
<b>(c) Advisory services</b>				
PricewaterhouseCoopers Australian firm				
Long-term incentive plan structure	10,000	53,525	–	–
Accounting advice	25,500	–	–	–
<b>Total remuneration for advisory services</b>	<b>35,500</b>	<b>53,525</b>	<b>–</b>	<b>–</b>

The Charter Hall Group and Charter Hall Property Trust Group's policy is to employ PricewaterhouseCoopers (PwC) on assignments additional to statutory audit duties where PwC's expertise and experience with the Charter Hall Group and Charter Hall Property Trust Group are important. These assignments are principally tax advice and investigating accountant's reports, reporting on acquisitions, or where PwC is awarded assignments on a competitive basis. It is the Charter Hall Group and Charter Hall Property Trust Group's policy to seek competitive tenders for all major consulting projects.

## 32 Commitments

### (a) Lease commitments: Group as lessee

Commitments payable in relation to leases contracted for at the reporting date but not recognised as liabilities, payable:

	Charter Hall Group		Charter Hall Property Trust Group	
	2012	2011	2012	2011
Within one year	1,549	1,476	–	–
Later than one year but not later than five years	5,808	8,088	–	–
Commitment fees from associates	7,357	9,564	–	–

### (b) Capital commitments

As at 30 June 2012 there were no contractual capital commitments (2011: \$nil).

### (c) Commitments: Other

#### Charter Hall Direct 144 Stirling Street Trust (144SST)

On 15 May 2012, Charter Hall Direct Property Management Limited issued a Product Disclosure Statement (PDS) seeking investors for an unlisted property syndicate to invest in a trust to acquire a building at 144 Stirling Street, Perth. If an amount equal to or greater than \$16 million but less than \$32 million was raised by 31 December 2012, the Group (as underwriter) had agreed to underwrite the balance of units available under the offer.

Subsequent to 30 June 2012, CHDPML was successful in raising the \$32 million in equity sought in the PDS. Accordingly the Group will not be required to underwrite any part of the equity-raising for 144SST.

#### Charter Hall Opportunity Fund No. 5 (CHOF5) Workzone (Workzone)

On 21 December 2011, Charter Hall Limited and Charter Hall Funds Management Limited as trustee for CHOF5 entered into a Preferred Equity Deed (deed) committing \$9 million to fund development of the Workzone project. At 30 June 2012 \$4.5 million of this facility had been drawn down and is included in receivables in this financial report. A further \$1 million was drawn down in July 2012 leaving an undrawn commitment of \$3.5 million at the date of this report.

#### CHPT RP2 Trust – Bay Village acquisition

CHPT RP2 Trust was established on 29 May 2012 to acquire a 20% interest in the Retail Partnership No. 2 Trust (RP2T). RP2T entered into a contract on 28 June 2012 to acquire the Bay Village shopping centre at Bateau Bay in New South Wales for \$164 million. The purchase of the centre was completed on 15 August 2012. The Group's equity commitment to fund the acquisition is \$19.5 million which was paid on 15 August 2012.

## 33 Contingent liabilities

There were no contingent liabilities as at 30 June 2012.

# Notes to the consolidated financial statements for the year ended 30 June 2012

## 34 Related parties

### (a) Parent entity

The parent entity of the Charter Hall Group is Charter Hall Limited. The parent entity of the Charter Hall Property Trust Group is the Charter Hall Property Trust.

### (b) Controlled entities

Interests in controlled entities are set out in note 35.

### (c) Key management personnel

Disclosures relating to key management personnel are set out in note 30.

### (d) Transactions with related parties

Transactions with associates and joint ventures are disclosed in note 36 and note 37 respectively.

The following income was earned from related parties during the year:

	Charter Hall Group		Charter Hall Property Trust Group	
	2012 \$	2011 \$	2012 \$	2011 \$
Accounting fees	4,174,581	4,155,000	–	–
Marketing fees	86,930	113	–	–
Management and performance fees from associates	37,756,063	39,208,306	–	–
Transaction fees from associates	28,622,218	17,389,370	–	–
Commitment fees from associates	135,000	–	–	–
Property management fees from associates	29,456,354	20,806,449	–	–

### (e) Loans to/from related parties

	Charter Hall Group		Charter Hall Property Trust Group	
	2012 \$	2011 \$	2012 \$	2011 \$
<i>Loans to joint ventures and associates</i>				
Opening balance	5,000,000	3,750,000	–	–
Loans advanced	6,120,000	1,250,000	–	–
Interest charged	601,644	594,658	–	–
Interest received	(601,644)	(594,658)	–	–
<b>Closing balance</b>	<b>11,120,000</b>	<b>5,000,000</b>	<b>–</b>	<b>–</b>
<i>Loans to Charter Hall Limited</i>				
Opening balance	–	–	355,874,328	282,424,290
Loans advanced	–	–	137,447,221	96,868,199
Loan repayments received	–	–	(163,127,456)	(35,970,548)
Capital reallocation	–	–	(200,000,000)	–
Interest charged	–	–	33,347,550	12,552,387
<b>Closing balance</b>	<b>–</b>	<b>–</b>	<b>163,541,643</b>	<b>355,874,328</b>

No provisions for doubtful debts have been raised in relation to any outstanding balances and no expense has been recognised in respect of bad or doubtful debts due from related parties.

The loans to Charter Hall Limited comprise two unsecured stapled loans maturing in July 2018 and July 2019 respectively. Interest is charged on an arm's length basis which, at 30 June 2012, amounted to a weighted average rate of 9.76% (June 2011: 8.04%).

### (f) Fees paid to the Responsible Entity or its associates

Fees paid to the Responsible Entity of the Charter Hall Property Trust, and its associates, by the Charter Hall Property Trust Group amounted to \$3,591,041 (2011: \$5,725,675).

## 35 Controlled entities

The consolidated financial statements of the Charter Hall Group incorporate the assets, liabilities and results of the following controlled entities in accordance with the accounting policy described in note 1(b):

### (a) Details of controlled entities of the Charter Hall Group

Name of entity	Country of incorporation	Class of securities	Equity holding	
			2012 %	2011 %
<b>Controlled entities of Charter Hall Limited</b>				
Charter Hall Holdings Pty Limited	Australia	Ordinary	100	100
CHTOM Pty Limited (formerly Charter Hall CUB Pty Ltd)	Australia	Ordinary	100	100
Charter Hall Mordialloc Pty Limited	Australia	Ordinary	100	–
Charter Hall La Trobe Pty Limited	Australia	Ordinary	100	–
CH La Trobe Trust	Australia	Ordinary	100	100
Charter Hall Opportunity Fund No. 6	Australia	Ordinary	100	100
CHOF6 123 Pty Limited	Australia	Ordinary	100	100
CHOF6 123 Trust	Australia	Ordinary	100	100
CHOF6 Terrace Pty Limited	Australia	Ordinary	100	100
<b>Controlled entities of Charter Hall Holdings Pty Ltd</b>				
Bieson Pty Limited	Australia	Ordinary	100	100
Bowvilla Pty Limited	Australia	Ordinary	100	100
CH Nominees Pty Limited (formerly Sandkilt (No 2) Pty Limited)	Australia	Ordinary	100	100
Charter Hall Asset Services Pty Limited (formerly Charter Hall Asset Services Limited)	Australia	Ordinary	100	100
Charter Hall Asset Services Europe Sp z.o.o	Poland	Ordinary	100	100
Charter Hall Direct Property Management Limited <sup>1</sup>	Australia	Ordinary	100	–
Charter Hall Escrow Agent Pty Limited (formerly Charter Hall Holdings Real Estate (Vic) Pty Limited)	Australia	Ordinary	100	100
Charter Hall Funds Management Limited	Australia	Ordinary	100	100
Charter Hall Holdings Investment Trust	Australia	Ordinary	100	100
Charter Hall Holdings Real Estate Pty Limited	Australia	Ordinary	100	100
Charter Hall International Office Pty Limited	Australia	Ordinary	100	100
Charter Hall (NZ) Pty Limited	Australia	Ordinary	100	100
Charter Hall Office Collins Street Pty Limited	Australia	Ordinary	100	100
Charter Hall Office Investments Pty Limited	Australia	Ordinary	100	100
Charter Hall Office Management Limited	Australia	Ordinary	100	100
Charter Hall Real Estate Inc	USA	Ordinary	100	100
CHREI US Office LLC	USA	Ordinary	100	100
CHREI US Retail LLC	USA	Ordinary	100	100
Charter Hall Real Estate Europe Limited	UK	Ordinary	100	100
Charter Hall Real Estate Management Services Pty Limited	Australia	Ordinary	100	100
Charter Hall Real Estate Management Services (ACT) Pty Limited	Australia	Ordinary	100	100
Charter Hall Real Estate Management Services (NSW) Pty Limited	Australia	Ordinary	100	100
Charter Hall Real Estate Management Services (QLD) Pty Limited	Australia	Ordinary	100	100
Charter Hall Real Estate Management Services (SA) Pty Limited	Australia	Ordinary	100	100
Charter Hall Real Estate Management Services (TAS) Pty Limited	Australia	Ordinary	100	100
Charter Hall Real Estate Management Services (VIC) Pty Limited	Australia	Ordinary	100	100
Charter Hall Real Estate Management Services (WA) Pty Limited	Australia	Ordinary	100	100
Charter Hall Retail Management Limited <sup>1</sup>	Australia	Ordinary	100	–
Frolish Pty Limited	Australia	Ordinary	100	100
Real Estate Capital Investments Limited	Australia	Ordinary	100	100
Stelridge Pty Limited	Australia	Ordinary	100	100
Visokoi Pty Limited	Australia	Ordinary	100	100

1. On 30 September 2011, the Charter Hall Group completed the acquisition from Macquarie Group Limited of all shares in Charter Hall Direct Property Management Pty Limited and Charter Hall Retail Management Pty Limited following the satisfaction of conditions precedent for a sum of \$14.3 million. This transaction completed the acquisition of the Macquarie real estate funds management platform. Although Charter Hall did not previously own the shares of these entities, Charter Hall had economic control of these entities and hence they have been consolidated since March 2010.

# Notes to the consolidated financial statements for the year ended 30 June 2012

## 35 Controlled entities (continued)

### (a) Details of controlled entities of the Charter Hall Group (continued)

Name of entity	Country of incorporation	Class of securities	Equity holding	
			2012 %	2011 %
<b>Controlled entities of Charter Hall Property Trust</b>				
Charter Hall Direct Retail Fund	Australia	Ordinary	66	66
Charter Hall Co-Investment Trust <sup>1</sup>	Australia	Ordinary	100	100
Charter Hall Special Situations Office Fund <sup>2</sup>	Australia	Ordinary	100	100
CHPT RP2 Trust <sup>3</sup>	Australia	Ordinary	100	–

1. Charter Hall Co-Investment Trust is an entity which was set up by Charter Hall Property Trust to hold its investments in Charter Hall Office Trust (CHOT), Charter Hall Retail REIT (CQR) and Charter Hall Direct Property Fund (CHDPF).
2. Special Situations Office Fund is currently inactive, but will likely be used for Charter Hall's next unlisted fund.
3. CHPT RP2 Trust was established on 29 May 2012 to acquire a 20% interest in the Retail Partnership No. 2 Trust (RP2T). RP2T entered into a contract on 28 June 2012 to acquire the Bay Village shopping centre at Bateau Bay in New South Wales.

Name of entity	Country of incorporation	Class of securities	Equity holding	
			2012 %	2011 %
<b>Controlled entities of Charter Hall Direct Retail Fund</b>				
Core Plus Retail Fund New Zealand	Australia	Ordinary	100	100
Redcliffe Retail Property Trust <sup>1</sup>	Australia	Ordinary	–	100
Belconnen Retail Warehouse Trust <sup>1</sup>	Australia	Ordinary	–	100
Box Hill Retail Warehouse Trust <sup>1</sup>	Australia	Ordinary	–	100
Nerang Retail Warehouse Trust <sup>1</sup>	Australia	Ordinary	–	100
Nowra Retail Warehouse Trust <sup>1</sup>	Australia	Ordinary	–	100
Penrith Retail Warehouse Trust <sup>1</sup>	Australia	Ordinary	–	100
Stafford Retail Warehouse Trust	Australia	Ordinary	100	100
Stafford Wiley Trust	Australia	Ordinary	100	100
Ipswich Retail Property Trust	Australia	Ordinary	100	100
Rothwell Retail Property Trust <sup>1</sup>	Australia	Ordinary	–	100
Mentone Property Trust	Australia	Ordinary	100	100
Charter Hall MMN Property Trust	Australia	Ordinary	100	100
CPRF Gepps X Trust	Australia	Ordinary	100	100
CPRF Gepps 109 Trust	Australia	Ordinary	100	100
CPRF MSN Property Trust	Australia	Ordinary	100	100

1. On 31 May 2012, unitholders were advised that these trusts were dissolved on that date. Accordingly, the results of these entities are included in the statement of comprehensive income up until 31 May 2012.

**(b) Details of controlled entities of the Charter Hall Property Trust Group**

Name of entity	Country of incorporation	Class of securities	Equity holding	
			2012 %	2011 %
<b>Controlled entities of Charter Hall Property Trust</b>				
Charter Hall Direct Retail Fund	Australia	Ordinary	49	49
Charter Hall Co-Investment Trust <sup>1</sup>	Australia	Ordinary	100	100
Charter Hall Special Situations Office Fund <sup>2</sup>	Australia	Ordinary	100	100
CHPT RP2 Trust <sup>3</sup>	Australia	Ordinary	100	–

- Charter Hall Co-Investment Trust is an entity which was set up by Charter Hall Property Trust to hold its investments in Charter Hall Office Trust (CHOT), Charter Hall Retail REIT (CQR) and Charter Hall Direct Property Fund (CHDPF).
- Special Situations Office Fund is currently inactive, but will likely be used for Charter Hall's next unlisted fund.
- CHPT RP2 Trust was established on 29 May 2012 to acquire a 20% interest in the Retail Partnership No. 2 Trust (RP2T). RP2T entered into a contract on 28 June 2012 to acquire the Bay Village shopping centre at Bateau Bay in New South Wales.

Name of entity	Country of incorporation	Class of securities	Equity holding	
			2012 %	2011 %
<b>Controlled entities of Charter Hall Direct Retail Fund</b>				
Core Plus Retail Fund New Zealand	Australia	Ordinary	100	100
Redcliffe Retail Property Trust <sup>1</sup>	Australia	Ordinary	–	100
Belconnen Retail Warehouse Trust <sup>1</sup>	Australia	Ordinary	–	100
Box Hill Retail Warehouse Trust <sup>1</sup>	Australia	Ordinary	–	100
Nerang Retail Warehouse Trust <sup>1</sup>	Australia	Ordinary	–	100
Nowra Retail Warehouse Trust <sup>1</sup>	Australia	Ordinary	–	100
Penrith Retail Warehouse Trust <sup>1</sup>	Australia	Ordinary	–	100
Stafford Retail Warehouse Trust	Australia	Ordinary	100	100
Stafford Wiley Trust	Australia	Ordinary	100	100
Ipswich Retail Property Trust	Australia	Ordinary	100	100
Rothwell Retail Property Trust <sup>1</sup>	Australia	Ordinary	–	100
Mentone Property Trust	Australia	Ordinary	100	100
Charter Hall MMN Property Trust	Australia	Ordinary	100	100
CPRF Gepps X Trust	Australia	Ordinary	100	100
CPRF Gepps 109 Trust	Australia	Ordinary	100	100
CPRF MSN Property Trust	Australia	Ordinary	100	100

- On 31 May 2012, unitholders were advised that these trusts had been dissolved on that date. Accordingly, the results of these entities are included in the statement of comprehensive income up until 31 May 2012.

# Notes to the consolidated financial statements for the year ended 30 June 2012

## 36 Investments in associates

### (a) Carrying amounts

Information relating to associates is set out below.

Charter Hall Group		Ownership interest			
Name of entity	Principal activity	2012 %	2011 %	2012 \$'000	2011 \$'000
<b>Accounted for at fair value through profit or loss</b>					
<i>Unlisted</i>					
Charter Hall Diversified Property Fund	Property investment	25.2	36.4	11,713	26,964
Charter Hall Umbrella Fund	Property investment	26.6	24.9	39,469	40,612
Charter Hall Direct Property Fund	Property investment	3.8	3.5	10,770	10,438
Charter Hall Direct Industrial Fund	Property investment	0.2	–	228	–
Charter Hall Property Securities Fund	REIT securities investment	2.1	1.4	458	431
				62,638	78,445
<b>Equity accounted:</b>					
<i>Unlisted</i>					
Charter Hall Opportunity Fund 4	Property development	3.0	3.0	1,128	1,218
Charter Hall Opportunity Fund 5	Property development	15.0	15.0	28,493	31,286
Charter Hall Core Plus Office Fund	Property investment	13.9	16.2	112,951	110,428
Charter Hall Core Plus Industrial Fund	Property investment	18.0	21.3	54,885	53,281
Charter Hall Office Trust <sup>1</sup>	Property investment	15.0	–	145,720	–
Retail Partnership No. 2 Trust <sup>2</sup>	Property investment	20.0	–	–	–
<i>Listed</i>					
Charter Hall Office REIT <sup>1</sup>	Property investment	–	10.0	–	185,681
Charter Hall Retail REIT	Property investment	10.0	8.2	101,338	88,189
				444,515	470,083
<b>Total investments in associates</b>				<b>507,153</b>	<b>548,528</b>

1. On 1 May 2012, the Charter Hall Office REIT was privatised. As a result the Charter Hall Office REIT changed from a listed REIT to a wholesale unit trust known as Charter Hall Office Trust.

2. The 20% interest in the Retail Partnership No. 2 Trust (RP2T) was acquired on 29 May 2012 for \$2. RP2T entered into a contract on 28 June 2012 to acquire the Bay Village shopping centre at Bateau Bay in New South Wales.

The above associates are incorporated in Australia.

The investments in Charter Hall Diversified Property Fund, Charter Hall Umbrella Fund, Charter Hall Direct Property Fund and Charter Hall Direct Industrial Fund are held by Charter Hall Property Trust (CHPT) and are accounted for at fair value through the profit or loss (note 14). The investment in Charter Hall Diversified Property Fund (DPF) consists of units which represent a 17.9% (2011: 19.6%) interest but also an additional investment in the form of bridging equity of \$7.4 million (2011: \$19.9 million), which is 7.3% (2011: 16.8%). CHPT has provided DPF with a bridging loan facility totalling \$18.0 million, currently drawn to \$7.4 million. This facility is available to DPF with an initial expiry date of 18 July 2018; however, there is a clause in the agreement which allows the borrower to provide written notice within 14 days prior to that date electing to extend the agreement in perpetuity.

The investment in Charter Hall Property Securities Fund is held by a controlled entity of Charter Hall Limited and is accounted for at fair value through the profit or loss (note 14).

The investments in Charter Hall Opportunity Funds 4 and 5 held by Charter Hall Limited are equity accounted in the consolidated financial statements (note 17). Both Charter Hall Limited and Charter Hall Property Trust have an investment in Charter Hall Core Plus Office Fund and Charter Hall Core Plus Industrial Fund, and are equity accounted.

Charter Hall Office Trust, Charter Hall Retail REIT and the Retail Partnership No. 2 Trust are held by Charter Hall Property Trust and are equity accounted (note 17). The carrying value of these investments is supported by value in use calculations.

Charter Hall Property Trust Group		Ownership interest			
Name of entity	Principal activity	2012 %	2011 %	2012 \$'000	2011 \$'000
<b>Accounted for at fair value through profit or loss</b>					
<i>Unlisted</i>					
Charter Hall Diversified Property Fund	Property investment	25.2	36.4	11,713	26,964
Charter Hall Umbrella Fund	Property investment	26.6	24.9	39,469	40,612
Charter Hall Direct Property Fund	Property investment	3.8	3.5	10,770	10,438
Charter Hall Direct Industrial Fund	Property investment	0.2	–	228	–
				62,180	78,014
<b>Equity accounted:</b>					
<i>Unlisted</i>					
Charter Hall Core Plus Office Fund	Property investment	12.6	13.3	102,635	90,257
Charter Hall Core Plus Industrial Fund	Property investment	7.8	21.3	23,885	53,281
Charter Hall Office Trust <sup>1</sup>	Property investment	15.0	–	145,720	–
Retail Partnership No. 2 Trust <sup>2</sup>	Property investment	20.0	–	–	–
<i>Listed</i>					
Charter Hall Office REIT <sup>1</sup>	Property investment	–	10.0	–	185,681
Charter Hall Retail REIT	Property investment	10.0	8.2	101,338	88,189
				373,578	417,408
<b>Total investments in associates</b>				<b>435,758</b>	<b>495,422</b>

- On 1 May 2012, the Charter Hall Office REIT was privatised. As a result the Charter Hall Office REIT changed from a listed REIT to a wholesale unit trust known as Charter Hall Office Trust.
- The 20% interest in the Retail Partnership No. 2 Trust (RP2T) was acquired on 29 May 2012 for \$2. RP2T entered into a contract on 28 June 2012 to acquire the Bay Village shopping centre at Bateau Bay in New South Wales.

The above associates are incorporated in Australia.

The investments in Charter Hall Diversified Property Fund, Charter Hall Umbrella Fund, Charter Hall Direct Property Fund and Charter Hall Direct Industrial Fund are held by Charter Hall Property Trust (CHPT) and are accounted for at fair value through the profit or loss (note 14). The investment in Charter Hall Diversified Property Fund (DPF) consists of units which represent a 17.9% (2011: 19.6%) interest but also an additional investment in the form of bridging equity of \$7.4 million (2011: \$19.9 million), which is 7.3% (2011: 12.3%). CHPT has provided DPF with a bridging loan facility totalling \$18.0 million, currently drawn to \$7.4 million. This facility is available to DPF with an initial expiry date of 18 July 2018, however there is a clause in the agreement which allows the borrower to provide written notice within 14 days prior to that date electing to extend the agreement in perpetuity.

The investments in Charter Hall Core Plus Office Fund, Charter Hall Core Plus Industrial Fund, Charter Hall Office Trust, Charter Hall Retail REIT and the Retail Partnership No. 2 Trust are held by Charter Hall Property Trust and are equity accounted (note 17). The carrying value of these investments is supported by value in use calculations.

## Notes to the consolidated financial statements for the year ended 30 June 2012

### 36 Investments in associates (continued)

#### (b) Movements in carrying amounts

(i) Investments at fair value through profit or loss

	Charter Hall Group		Charter Hall Property Trust Group	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
<b>Charter Hall Diversified Property Fund</b>				
Opening balance	26,964	22,068	26,964	22,068
Investment	–	4,900	–	4,900
Redemptions and repayment of bridging equity	(14,306)	–	(14,306)	–
Fair value adjustment	(945)	(4)	(945)	(4)
Closing balance	11,713	26,964	11,713	26,964
<b>Charter Hall Umbrella Fund</b>				
Opening balance	40,612	41,578	40,612	41,578
Investment	–	–	–	–
Fair value adjustment	(1,143)	(966)	(1,143)	(966)
Closing balance	39,469	40,612	39,469	40,612
<b>Charter Hall Direct Property Fund</b>				
Opening balance	10,438	9,787	10,438	9,787
Investment	–	–	–	–
Fair value adjustment	332	651	332	651
Closing balance	10,770	10,438	10,770	10,438
<b>Macquarie Property Income Fund</b>				
Opening balance	–	306	–	–
Investment	–	119	–	–
Fair value adjustment	–	14	–	–
Disposal of units	–	(439)	–	–
Closing balance	–	–	–	–
<b>Charter Hall Direct Industrial Fund</b>				
Opening balance	–	–	–	–
Investment	229	–	229	–
Fair value adjustment	(1)	–	(1)	–
Closing balance	228	–	228	–
<b>Charter Hall Property Securities Fund</b>				
Opening balance	431	–	–	–
Investment	44	435	–	–
Fair value adjustment	(17)	(4)	–	–
Closing balance	458	431	–	–
<b>Total investments at fair value through profit or loss</b>				
Opening balance	78,445	73,739	78,014	73,433
Investment	273	5,454	229	4,900
Redemptions and repayment of bridging equity	(14,306)	(439)	(14,306)	–
Fair value adjustment	(1,774)	(309)	(1,757)	(319)
Closing balance	62,638	78,445	62,180	78,014

(ii) Equity accounted investments

	Charter Hall Group		Charter Hall Property Trust Group	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
<b>Charter Hall Opportunity Fund 4</b>				
Opening balance	1,218	1,254	–	–
Investment	–	–	–	–
Share of loss after income tax	(90)	(26)	–	–
Distributions received/receivable	–	(10)	–	–
Closing balance	1,128	1,218	–	–
<b>Charter Hall Opportunity Fund 5</b>				
Opening balance	31,286	24,670	–	–
Investment	4,815	7,605	–	–
Share of loss after income tax	(7,331)	(989)	–	–
Distributions received/receivable	(259)	–	–	–
Reserves	(18)	–	–	–
Closing balance	28,493	31,286	–	–
<b>Charter Hall Core Plus Office Fund</b>				
Opening balance	110,428	104,314	90,257	104,314
Investment	–	–	10,086	–
Share of profit after income tax	8,460	11,415	7,690	10,787
Distributions received/receivable	(6,992)	(5,516)	(6,353)	(5,058)
Disposal of units	–	–	–	(20,008)
Gain on remeasurement of equity interest	1,055	215	955	222
Closing balance	112,951	110,428	102,635	90,257
<b>Charter Hall Core Plus Industrial Fund</b>				
Opening balance	53,281	51,989	53,281	51,989
Share of profit after income tax	4,711	3,770	2,217	3,770
Distributions received/receivable	(3,324)	(2,935)	(1,724)	(2,935)
Disposal of units	–	–	(30,094)	–
Gain on remeasurement of equity interest	217	457	205	457
Closing balance	54,885	53,281	23,885	53,281
<b>Charter Hall Office Trust (formerly Charter Hall Office REIT)</b>				
Opening balance	185,681	155,149	185,681	155,149
Investment	47,662	37,031	47,662	37,031
Share of profit/(loss) after income tax	(8,161)	5,688	(8,161)	5,688
Distributions received/receivable	(93,735)	(9,424)	(93,735)	(9,424)
Share of movement in reserves	12,961	(17,002)	12,961	(17,002)
Gain on remeasurement of equity interest	1,312	14,239	1,312	14,239
Closing balance	145,720	185,681	145,720	185,681
<b>Retail Partnership No. 2 Trust</b>				
Opening balance	–	–	–	–
Investment*	–	–	–	–
Closing balance	–	–	–	–

\* Investment of \$2, which is \$nil rounded to the nearest \$1,000.

# Notes to the consolidated financial statements for the year ended 30 June 2012

## 36 Investments in associates (continued)

### (b) Movements in carrying amounts (continued)

#### (ii) Equity accounted investments (continued)

	Charter Hall Group		Charter Hall Property Trust Group	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
<b>Charter Hall Retail REIT</b>				
Opening balance	88,189	82,326	88,189	82,326
Investment	16,176	7,425	16,176	7,425
Share of profit after income tax	2,587	4,928	2,587	4,928
Distributions received/receivable	(7,820)	(6,177)	(7,820)	(6,177)
Share of movement in reserves	145	(2,128)	145	(2,128)
Gain on remeasurement of equity interest	2,061	1,815	2,061	1,815
Closing balance	101,338	88,189	101,338	88,189
<b>Total equity accounted investments</b>				
Opening balance	470,083	419,702	417,408	393,778
Investment	68,653	52,061	73,924	44,456
Share of (loss)/profit after income tax	176	24,786	4,333	25,173
Distributions received/receivable	(112,130)	(24,062)	(109,632)	(23,594)
Reserves	13,088	(19,130)	13,106	(19,130)
Disposal of units	–	–	(30,094)	(20,008)
Gain on remeasurement of equity interests	4,645	16,726	4,533	16,733
Closing balance	444,515	470,083	373,578	417,408

### (c) Fair value of listed investments in associates

	Charter Hall Group		Charter Hall Property Trust Group	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Charter Hall Office REIT <sup>1</sup>	–	165,397	–	165,397
Charter Hall Retail REIT	99,177	79,705	99,177	79,705

1. Charter Hall Office REIT was delisted on 13 April 2012 and privatised on 1 May 2012.

Fair value represents market value of CQO and CQR units as at 30 June 2012 and 2011.

### (d) Share of equity accounted associates' profits or losses

	Charter Hall Group		Charter Hall Property Trust Group	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Profit before income tax	2,674	26,534	4,311	27,370
Income tax expense	(2,498)	(1,748)	22	(2,197)
Profit after income tax	176	24,786	4,333	25,173

### (e) Contingent liabilities of associates

Subsequent to year end, following commercial negotiations between the Development Alliance (DA) partners in the Little Bay Cove project, being CHOF5 Little Bay Pty Limited (CHOF5LB) (a controlled entity of CHOF5) and TA Global Development Pty Limited (TAG), in accordance with the DA Umbrella Deed, a Notice of Mediation has been issued to TAG by CHFML (in its capacity as trustee of CHOF5) in relation to a commercial dispute between the DA partners. The mediation notice has been rejected by TAG with a request for a clarification of the details of the alleged dispute between the parties. Ongoing commercial negotiations with TAG are being undertaken in an attempt to agree on the future direction of the project.

As at the date of signing the financial statements, CHOF5 is not able to determine whether any financial impact will occur as a result of these negotiations and any subsequent dispute or mediation process.

CHOF5LB has been in negotiations with Westpac, who provide the Little Bay debt facility, about ongoing covenant compliance and extending the facility past the expiry of 30 January 2013. Delays experienced on the project due to inclement weather have resulted in the completion date of the project extending from November 2012 to April 2013. This extended delay, being 120 days past completion date constitutes a review event under the debt facility. Whilst Westpac has advised it is continuing to consider its position in relation to the review event and any further powers it may wish to exercise, it has advised the following changes to the terms of the facility:

- ◆ By 15 September 2012 CHOF5LB was to provide an up to date valuation, which was duly complied with; and
- ◆ By 30 September 2012 the facility limit is to be permanently reduced by \$15.4 million (or such greater sum as may be required to ensure that the LVR is not more than 51.5%) to \$69.9 million (CHOF5's obligation is \$7.7 million, being its 50% interest in the DA); and any secured money outstanding in excess of the new facility limit is to be repaid.

CHOF5 has sufficient funds to meet its \$7.7 million share of the above obligations.

Westpac has acknowledged formal credit approval will be sought to extend the expiry date from 30 January 2013 to 30 May 2013, if requested, providing the above terms are complied with.

### (f) Summarised financial information of associates

Charter Hall Group	Charter Hall Group's share of:			
	Assets \$'000	Liabilities \$'000	Revenues \$'000	Profit/(loss) \$'000
<b>2012</b>				
Charter Hall Diversified Property Fund	25,333	5,945	2,855	(475)
Charter Hall Umbrella Fund	37,417	586	2,355	1,892
Charter Hall Direct Property Fund	19,476	8,586	2,688	1,099
Charter Hall Direct Industrial Fund	317	103	20	7
Charter Hall Property Securities Fund	472	21	63	29
Charter Hall Opportunity Fund 4	3,556	2,428	818	(90)
Charter Hall Opportunity Fund 5	52,731	24,238	14,393	(7,331)
Charter Hall Core Plus Office Fund	207,275	94,324	18,550	8,460
Charter Hall Core Plus Industrial Fund	109,583	54,698	9,793	4,711
Charter Hall Office Trust (formerly Charter Hall Office REIT)	296,878	151,158	18,092	(8,161)
Retail Partnership No. 2 Trust	–	–	–	–
Charter Hall Retail REIT	194,458	93,120	18,606	2,587
	<b>947,496</b>	<b>435,207</b>	<b>88,233</b>	<b>2,728</b>
<b>2011</b>				
Charter Hall Diversified Property Fund	55,979	30,009	5,332	1,979
Charter Hall Umbrella Fund	37,957	648	1,982	2,226
Charter Hall Direct Property Fund	18,320	7,800	1,834	1,344
Charter Hall Opportunity Fund 4	3,756	2,538	201	(26)
Charter Hall Opportunity Fund 5	46,964	15,678	2,844	(989)
Charter Hall Core Plus Office Fund	220,889	110,461	15,739	11,415
Charter Hall Core Plus Industrial Fund	94,925	41,644	10,801	3,770
Charter Hall Office REIT	322,713	137,032	23,055	5,688
Charter Hall Retail REIT	157,069	68,880	17,388	4,928
	<b>958,572</b>	<b>414,690</b>	<b>79,176</b>	<b>30,335</b>

## Notes to the consolidated financial statements for the year ended 30 June 2012

### 36 Investments in associates (continued)

#### (f) Summarised financial information of associates (continued)

Charter Hall Property Trust Group	Charter Hall Property Trust Group's share of:			
	Assets \$'000	Liabilities \$'000	Revenues \$'000	Profit/(loss) \$'000
2012				
Charter Hall Diversified Property Fund	25,333	5,945	2,855	(475)
Charter Hall Umbrella Fund	37,417	586	2,355	1,892
Charter Hall Direct Property Fund	19,476	8,586	2,688	1,099
Charter Hall Direct Industrial Fund	317	103	20	7
Charter Hall Core Plus Office Fund	188,344	85,709	16,862	7,690
Charter Hall Core Plus Industrial Fund	47,689	23,804	4,610	2,217
Charter Hall Office Trust (formerly Charter Hall Office REIT)	296,878	151,158	18,092	(8,161)
Retail Partnership No. 2 Trust	–	–	–	–
Charter Hall Retail REIT	194,458	93,120	18,606	2,587
	809,912	369,011	66,088	6,856
2011				
Charter Hall Diversified Property Fund	55,979	30,009	5,332	1,979
Charter Hall Umbrella Fund	37,957	648	1,982	2,226
Charter Hall Direct Property Fund	18,320	7,800	1,834	1,344
Charter Hall Core Plus Office Fund	180,541	90,284	15,739	10,787
Charter Hall Core Plus Industrial Fund	94,925	41,644	10,801	3,770
Charter Hall Office REIT (formerly Charter Hall Office REIT)	322,713	137,032	23,055	5,688
Charter Hall Retail REIT	157,069	68,880	17,388	4,928
	867,504	376,297	76,131	30,722

### 37 Investments in joint ventures

#### (a) Carrying amounts

Information relating to joint ventures is set out below.

Charter Hall Group		Ownership interest			
Name of company	Principal activity	2012 %	2011 %	2012 \$'000	2011 \$'000
<i>Unlisted</i>					
Commercial and Industrial Property Pty Ltd	Property development	50	50	27,598	28,843
Maguire Macquarie Management LLC	Asset management	50	50	–	–
Macquarie-Regency Management LLC	Asset management	50	50	46	26
Reliance Investment Management Pty Limited	Investment management	–	50	–	55
Charter Hall Retail JV Trust	Property investment	50	50	–	18,700
				27,644	47,624
Charter Hall Property Trust Group		Ownership interest			
Name of company	Principal activity	2012 %	2011 %	2012 \$'000	2011 \$'000
<i>Unlisted</i>					
Charter Hall Retail JV Trust	Property investment	50	50	–	18,700

**(b) Movements in carrying amounts**

	Charter Hall Group		Charter Hall Property Trust Group	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
<i>Commercial and Industrial Property Pty Limited</i>				
Opening balance	28,843	26,517	–	–
Share of profit after income tax	1,544	3,984	–	–
Dividends received/receivable	(2,789)	(1,658)	–	–
Closing balance	27,598	28,843	–	–
<i>Maguire Macquarie Management LLC</i>				
Opening balance	–	–	–	–
Closing balance	–	–	–	–
<i>Macquarie-Regency Management LLC</i>				
Opening balance	26	117	–	–
Share of profit after income tax	86	221	–	–
Dividends received/receivable	(66)	(312)	–	–
Closing balance	46	26	–	–
<i>Reliance Investment Management Pty Limited</i>				
Opening balance	55	–	–	–
Investment	93	281	–	–
Share of profit after income tax	(18)	(226)	–	–
Disposal	(130)	–	–	–
Closing balance	–	55	–	–
<i>Charter Hall Retail JV Trust</i>				
Opening balance	18,700	–	18,700	–
Investment	–	18,534	–	18,534
Share of profit after income tax	1,161	1,631	1,161	1,631
Distribution received/receivable	(1,175)	(1,465)	(1,175)	(1,465)
Reclassified to assets held for sale	(18,686)	–	(18,686)	–
Closing balance	–	18,700	–	18,700
<b>Total investments in joint ventures</b>				
Opening balance	47,624	26,634	18,700	–
Investment	93	18,815	–	18,534
Share of profit after income tax	2,773	5,610	1,161	1,631
Distributions/dividends received/receivable	(4,030)	(3,435)	(1,175)	(1,465)
Disposal	(130)	–	–	–
Reclassified to assets held for sale	(18,686)	–	(18,686)	–
Closing balance	27,644	47,624	–	18,700

## Notes to the consolidated financial statements for the year ended 30 June 2012

### 37 Investments in joint ventures (continued)

#### (c) Carrying value of joint venture entity

	Charter Hall Group		Charter Hall Property Trust Group	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Commercial and Industrial Property Pty Limited	27,598	28,843	–	–

In accordance with our accounting policy (note 1(h)), consideration was given to the fair value less cost to sell (FVLCTS) method but management believes value in use (VIU) gives the most accurate recoverable amount and resulted in a higher recoverable amount.

The base case scenario for assessing value in use has been updated by management at 30 June 2012 and includes the Group's share of expected net profit after tax in line with forecast FY13 of \$2.5 million with a growth factor of 5% and discount rate of 15% through to the end of the forecast period.

There has been no impairment or reversal of impairment in the year ended 30 June 2012 (2011: nil).

#### (d) Share of joint venture's revenue, expenses and results

	Charter Hall Group		Charter Hall Property Trust Group	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Revenues	64,524	83,055	4,220	4,052
Expenses	(61,289)	(75,732)	(3,059)	(2,421)
Profit before income tax	3,235	7,323	1,161	1,631

#### (e) Share of joint venture's assets and liabilities

	Charter Hall Group		Charter Hall Property Trust Group	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Current assets	30,622	19,775	–	417
Non-current assets	1,133	35,809	–	35,233
Total assets	31,755	55,584	–	35,650
Current liabilities	19,518	8,985	–	389
Non-current liabilities	5,198	21,726	–	16,561
Total liabilities	24,716	30,711	–	16,950
Net assets	7,039	24,873	–	18,700

At 30 June 2012 the investment in the Charter Hall Retail JV Trust has been reclassified to held for sale.

## 38 Events occurring after the reporting date

Since 30 June 2012, the Group has completed the following:

- ◆ On 1 August 2012, the Group announced that a Charter Hall managed wholesale fund (the Retail Partnership No. 2 Trust (RP2T)) had entered into an unconditional contract to acquire Bay Village shopping centre in New South Wales for \$164.0 million. The Group holds a 20% equity interest in RP2T. The purchase of the centre was completed on 15 August 2012. The Group's equity commitment to fund the acquisition is \$19.5 million which was paid on 15 August 2012.
- ◆ In June 2012, Charter Hall Direct Property Management Limited contracted to purchase the right to manage the PFA Diversified Property Trust (PFA) subject to approval by unitholders. With the unitholders approving the purchase of the management rights for \$5.0 million cash on 15 August 2012 and Australian Securities and Investments Commission (ASIC) approval given shortly after, Charter Hall Direct Property Management Limited is now the responsible entity for PFA.
- ◆ Subsequent to year end, following commercial negotiations between the Development Alliance (DA) partners in the Little Bay Cove project, being CHOF5 Little Bay Pty Limited (CHOF5LB) (a controlled entity of CHOF5) and TA Global Development Pty Ltd (TAG), in accordance with the DA Umbrella Deed, a Notice of Mediation has been issued to TAG by CHFML (in its capacity as trustee of CHOF5) in relation to a commercial dispute between the DA partners. The mediation notice has been rejected by TAG with a request for a clarification of the details of the alleged dispute between the parties. Ongoing commercial negotiations with TAG are being undertaken in an attempt to agree on the future direction of the project. Development of the Estate Works to create the individual housing and development superlots at the Little Bay project is currently underway, with completion scheduled for May 2013. Refer to note 36(e) for further information.

As at the date of signing the financial statements, Charter Hall Group is not able to determine whether any financial impact will occur as a result of these negotiations and any subsequent dispute or mediation process with respect to either Charter Hall directly or its 15% co-investment in CHOF5.

Except for the matters discussed above, no other matter or circumstance has arisen since 30 June 2012 that has significantly affected, or may significantly affect:

- The Group's operations in future financial years; or
- The results of those operations in future financial years; or
- The Group's state of affairs in future financial years.

## 39 Reconciliation of profit after tax to net cash inflow from operating activities

	Charter Hall Group		Charter Hall Property Trust Group	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Profit after tax for the year	14,403	55,237	33,164	61,247
Depreciation and amortisation	3,851	1,545	1,334	–
Non-cash employee benefits expense – security-based benefits	2,338	4,090	–	–
Loss/(gain) on sale of investments, property and derivatives	1,627	(3,350)	2,179	(2,523)
Net gain on remeasurement of equity interests	(4,645)	(16,726)	(4,533)	(16,733)
Fair value adjustments	8,421	3,213	9,759	834
Impairment of management rights	–	19,171	–	–
Change in operating assets and liabilities, net of effects from purchase of controlled entity				
Decrease/(increase) in trade debtors and other receivables	20,189	2,979	(29,013)	9,700
(Decrease)/increase in trade creditors and accruals	(4,985)	82	(5,230)	(8,548)
Net income receivable from investment in associates and joint venture entities	24,185	(4,789)	17,206	(3,430)
Increase/(decrease) in provisions	14,239	–	–	(340)
Decrease in provision for deferred income tax	(615)	(2,670)	–	–
<b>Net cash inflow from operating activities</b>	<b>79,008</b>	<b>58,782</b>	<b>24,866</b>	<b>40,207</b>

Dividend and interest income received on investments has been classified as cash flow from operating activities.

## Notes to the consolidated financial statements for the year ended 30 June 2012

### 40 Earnings per security

	Charter Hall Group		Charter Hall Property Trust Group	
	2012 Cents	2011 Cents	2012 Cents	2011 Cents
<b>(a) Basic earnings per stapled security</b>				
Basic earnings attributable to the stapled securityholders	5.64	17.85	12.21	19.72
<b>(b) Diluted earnings per security</b>				
Diluted earnings attributable to the stapled securityholders	5.35	17.06	11.49	18.13
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
<b>(c) Reconciliations of earnings used in calculating earnings per security</b>				
Profit attributable to the ordinary equity holders of the Group used in calculating basic earnings per security	16,678	52,338	36,087	57,831
Interest received from LTI securities	123	2,077	–	–
<b>Profit attributable to the ordinary equity holders of the Group used in calculating diluted earnings per security</b>	<b>16,801</b>	<b>54,415</b>	<b>36,087</b>	<b>57,831</b>

#### (d) Weighted average number of securities used as the denominator

	Charter Hall Group		Charter Hall Property Trust Group	
	2012 Number	2011 Number	2012 Number	2011 Number
Weighted average number of ordinary securities used as the denominator in calculating basic earnings per security	295,624,609	293,253,621	295,624,609	293,253,621
Adjustments for calculation of diluted earnings per security:				
Performance rights	4,097,636	3,480,731	4,097,636	3,480,731
Service rights	240,139	206,340	240,139	206,340
Options	7,843,591	9,482,030	7,843,591	9,482,030
Securities issued under the Charter Hall Limited Executive Loan Security Plan (ELSP)	6,176,495	12,585,920	6,176,495	12,585,920
<b>Weighted average number of ordinary securities and potential ordinary securities used as the denominator in calculating diluted earnings per security</b>	<b>313,982,470</b>	<b>319,008,642</b>	<b>313,982,470</b>	<b>319,008,642</b>

#### (e) Information concerning the classification of securities

##### (i) Performance rights and options issued under the Charter Hall Performance Rights and Options Plan

The performance rights and options are unquoted securities and conversion to stapled securities, and vesting to executives, is subject to service and performance conditions.

##### (ii) Securities issued under the Charter Hall Limited Executive Loan Security Plan

Securities issued under the Charter Hall Limited Executive Loan Security Plan have been issued in trust and have corresponding loans granted to employees. Under AASB 2 *Share-based Payment*, the loan, interest received on the loan, securities and the distribution paid and payable are derecognised for the preparation of the financial statements but recognised for the calculation of diluted earnings per security.

## 41 Security-based benefits

### (a) Charter Hall – Executive Loan Security Plan (ELSP) (legacy plan)

The ELSP was suspended on 1 July 2009.

The establishment of the Charter Hall Limited Executive Loan Security Plan was approved by the Board in the process of the initial public offering. Staff who were eligible to participate in the plan were determined by the Joint Managing Directors in discussion with the Board.

Securities were granted under the plan at market value and were purchased with a loan to the employee. Recourse on the loan is limited to the value of the securities. The securities are intended to vest over a three-year period in equal portions subject to performance and service conditions. The amount of interest due on the loan is equivalent to the amount of the distribution receivable on the underlying securities.

Distributions on the loan securities are paid to Charter Hall Limited as interest receivable on the loan provided to employees.

As ELSP members do not hold securities in their own name, the plan manager seeks instructions from plan members on their voting intentions. The plan manager distributes a voting instruction form to collate responses and completes the ELSP's proxy form for lodgement with the share registry.

Set out below are summaries of securities granted under the plan:

Charter Hall Group and Charter Hall Property Trust Group	2012 Number	2011 Number
Opening balance (number of securities)	12,585,920	50,343,597
Impact of consolidation at one for four	–	(37,757,677)
Cancellation of forfeited LTI securities off market	(11,907,844)	–
	678,055	12,585,920

During the year, nil (2011: nil) securities were forfeited by ELSP members but have been retained in the plan.

The remaining ELSP securities were forfeited on 23 July 2012.

### (b) Charter Hall – Performance Rights and Options Plan (PROP)

The performance rights and options are unquoted securities and conversion to stapled securities, and vesting to executives, is subject to service and performance conditions which are discussed in the Remuneration Report.

Charter Hall Group and Charter Hall Property Trust Group	2009 Number	2010 Number	2011 Number	2012 Number	Total Number
<b>Performance rights</b>					
Rights issued on 22/12/08	407,242	–	–	–	407,242
Rights issued on 13/11/09	–	1,562,250	–	–	1,562,250
Rights issued on 18/6/10	–	644,625	–	–	644,625
Rights issued on 6/9/10	–	–	863,345	–	863,345
Rights issued on 11/11/10	–	–	465,388	–	465,388
Rights issued on 17/1/12	–	–	–	3,905,231	3,905,231
<b>Rights issued</b>	407,242	2,206,875	1,328,733	3,905,231	7,848,081
Number rights forfeited/lapsed in prior years	(27,094)	(109,467)	(7,693)	–	(144,254)
Number rights forfeited/lapsed in current year	(380,148)	(344,768)	(427,538)	(433,564)	(1,586,018)
Number rights vested in prior year	–	–	–	–	–
Number rights vested in current year	–	(704,912)	–	–	(704,912)
<b>Closing balance</b>	–	1,047,728	893,502	3,471,667	5,412,897

# Notes to the consolidated financial statements for the year ended 30 June 2012

## 41 Security-based benefits (continued)

### (b) Charter Hall – Performance Rights and Options Plan (PROP) (continued)

Charter Hall Group and Charter Hall Property Trust Group	2009 Number	2010 Number	2011 Number	2012 Number	Total Number
<b>Service rights</b>					
Rights issued on 6/9/10	–	–	316,377	–	316,377
Rights issued on 22/5/12	–	–	–	431,516	431,516
<b>Rights issued</b>	–	–	316,377	431,516	747,893
Number rights forfeited/lapsed in prior years	–	–	(51,096)	–	(51,096)
Number rights forfeited/lapsed in current year	–	–	(107,584)	–	(107,584)
Number rights vested in prior year	–	–	–	–	–
Number rights vested in current year	–	–	–	–	–
<b>Closing balance</b>	–	–	157,697	431,516	589,213
<b>Options</b>					
Options issued on 4/11/09 at \$1.94	–	4,088,078	–	–	4,088,078
Options issued on 13/11/09 at \$1.94	–	1,497,036	–	–	1,497,036
Options issued on 18/6/10 at \$2.80	–	1,611,656	–	–	1,611,656
Options issued on 6/9/10 at \$2.44	–	–	2,035,649	–	2,035,649
Options issued on 11/11/10 at \$2.44	–	–	1,163,464	–	1,163,464
Options issued on 19/1/11 at \$2.35	–	–	123,397	–	123,397
<b>Options issued</b>	–	7,196,770	3,322,510	–	10,519,280
Number options forfeited/lapsed in prior years	–	(391,472)	(19,232)	–	(410,704)
Number options forfeited/lapsed in current year	–	(1,587,261)	(584,137)	–	(2,171,398)
Number options vested in prior year	–	–	–	–	–
Number options vested in current year	–	(1,707,343)	–	–	(1,707,343)
<b>Closing balance</b>	–	3,510,694	2,719,141	–	6,229,835

### (c) Expenses arising from security-based benefits transactions

Total expenses arising from security-based benefits transactions recognised during the year as part of employee benefit expense were as follows:

	Charter Hall Group		Charter Hall Property Trust Group	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Performance rights and options plan	2,338	4,090	–	–

The Black-Scholes or Monte Carlo method, as applicable, is utilised for valuation and accounting purposes. The model inputs for the PROP performance rights and options plan issued during FY09, FY10, FY11 and FY12 and to assess the fair value are as follows:

#### Options

Grant date	13/11/09	18/06/10	06/09/10	11/11/10	11/01/11
Security price at grant date*	\$2.40	\$2.80	\$2.44	\$2.44	\$2.35
Fair value of option*	\$0.39	\$0.56	\$0.51	\$0.51	\$0.49
Exercise price per security*	\$1.94	\$2.80	\$2.44	\$2.44	\$2.35
Expiry of loan	01/07/14	18/06/15	06/09/15	06/09/15	06/09/16
Expected price volatility	40.0%	40.0%	40.0%	40.0%	40.0%
Risk-free interest rate	5.5%	5.5%	5.5%	5.5%	5.5%

#### Performance rights

Grant date	22/12/08	13/11/09	18/06/10	06/09/10	19/11/10	17/01/12
Security price at grant date*	\$1.20	\$2.40	\$2.80	\$2.44	\$2.44	\$2.10
Fair value of right*	\$0.64	\$1.07	\$1.52	\$1.33	\$1.33	\$0.94
Expected price volatility	59.0%	40.0%	40.0%	40.0%	40.0%	39.0%
Risk-free interest rate	3.2%	5.5%	5.5%	5.5%	5.5%	3.9%

#### Service rights

Grant date	06/09/10	22/05/12	22/05/12
Security price at grant date*	\$2.44	\$2.08	\$2.17
Fair value of right*	\$2.06	\$1.87	\$1.53
Expected price volatility	40.0%	35.0%	30.0%
Risk-free interest rate	5.5%	4.3%	3.7%

\* Security prices for prior years have been restated for the unit consolidation during FY11.

## Notes to the consolidated financial statements for the year ended 30 June 2012

### 42 Deed of cross guarantee

#### Charter Hall Group

Charter Hall Limited and Charter Hall Holdings Pty Ltd are parties to a deed of cross guarantee under which each company guarantees the debts of the other. By entering into the deed, the wholly-owned entities have been relieved from the requirement to prepare financial statements and directors' reports under Class Order 98/1418 (as amended) issued by the Australian Securities and Investments Commission.

#### (a) Consolidated statement of comprehensive income and summary of movements in consolidated accumulated losses

The above companies represent a 'closed group' for the purposes of the Class Order and, as there are no other parties to the deed of cross guarantee that are controlled by Charter Hall Limited, they also represent the 'extended closed group'.

Set out below is a consolidated statement of comprehensive income and a summary of movements in consolidated accumulated losses for the year of the closed group consisting of Charter Hall Limited and Charter Hall Holdings Pty Ltd.

	2012 \$'000	2011 \$'000
<b>Statement of comprehensive income</b>		
Revenue	91,176	60,783
Fair value adjustment on contingent consideration	1,355	–
Depreciation	(720)	(1,506)
Finance costs	(37,506)	(16,565)
Foreign exchange loss	(90)	(407)
Share of net (loss)/gain of associates accounted for using the equity method	(5,894)	2,742
Gain on sale of investments, property and derivatives	479	793
Impairment of goodwill	–	(19,171)
Fair value adjustments	(2,351)	(10,742)
Amortisation of management rights	(1,306)	–
Performance fee clawback	(14,239)	–
Other expenses	(56,267)	(51,715)
<b>Loss before income tax</b>	<b>(25,363)</b>	<b>(35,788)</b>
Income tax benefit	13,075	7,247
<b>Loss for the year</b>	<b>(12,288)</b>	<b>(28,541)</b>
<b>Other comprehensive income/(loss) for the year:</b>		
Exchange differences on translation of foreign operations	18	(18)
<b>Total comprehensive loss for the year</b>	<b>(12,270)</b>	<b>(28,559)</b>
<b>Summary of movements in consolidated accumulated losses</b>		
Accumulated losses at the beginning of the financial year	(81,262)	(52,721)
Loss for the year	(12,288)	(28,541)
<b>Accumulated losses at the end of the financial year</b>	<b>(93,550)</b>	<b>(81,262)</b>

**(b) Balance sheet**

Set out below is a consolidated balance sheet of the closed group consisting of Charter Hall Limited and Charter Hall Holdings Pty Ltd.

	2012 \$'000	2011 \$'000
<b>Assets</b>		
<i>Current assets</i>		
Cash and cash equivalents	6,866	12,501
Trade and other receivables	31,142	39,011
<b>Total current assets</b>	<b>38,008</b>	<b>51,512</b>
<i>Non-current assets</i>		
Trade and other receivables	5,000	5,000
Investments accounted for using the equity method	57,219	61,402
Investment in associates at fair value through profit or loss	13,110	15,461
Investments in controlled entities	85,465	75,455
Property, plant and equipment	3,026	3,159
Investment property	–	15,800
Intangible assets	98,687	99,994
Deferred tax assets	12,513	10,767
<b>Total non-current assets</b>	<b>275,020</b>	<b>287,038</b>
<b>Total assets</b>	<b>313,028</b>	<b>338,550</b>
<b>Liabilities</b>		
<i>Current liabilities</i>		
Trade and other payables	45,267	77,786
Provisions	14,847	816
<b>Total current liabilities</b>	<b>60,114</b>	<b>78,602</b>
<i>Non-current liabilities</i>		
Trade and other payables	10,539	12,106
Loans from Charter Hall Property Trust	163,543	355,874
Deferred tax liabilities	990	872
Provisions	1,236	1,086
<b>Total non-current liabilities</b>	<b>176,308</b>	<b>369,938</b>
<b>Total liabilities</b>	<b>236,422</b>	<b>448,540</b>
<b>Net assets/(liabilities)</b>	<b>76,606</b>	<b>(109,990)</b>
<b>Equity</b>		
Contributed equity	209,551	9,503
Reserves	(39,395)	(38,231)
Accumulated losses	(93,550)	(81,262)
<b>Total equity</b>	<b>76,606</b>	<b>(109,990)</b>

On 18 June 2012, the Group announced implementation of the \$200 million capital reallocation from Charter Hall Property Trust (CHPT) to Charter Hall Limited (CHL), effective 30 June 2012. The capital reallocation aims to ensure a more appropriate allocation of capital between CHPT and CHL (which together trade on the Australian Securities Exchange as Charter Hall Group) which is more closely aligned with the Group's long-term growth strategy. Under the capital reallocation proposal approved by securityholders at the Annual General Meeting on 24 November 2011, CHPT made capital payments of \$200 million which were compulsorily applied as a capital contribution for existing shares of CHL.

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## Director's Declaration to Unitholders for the year ended 30 June 2012

In the opinion of the Directors of Charter Hall Limited (the Company), and the Directors of the Responsible Entity of Charter Hall Property Trust (the Trust), Charter Hall Funds Management Limited (collectively referred to as the Directors):

- (a) the financial statements and notes of Charter Hall Limited and its controlled entities including Charter Hall Property Trust and its controlled entities (Charter Hall Group) and Charter Hall Property Trust and its controlled entities (Charter Hall Property Trust Group) set out on pages 68 to 141 are in accordance with the *Corporations Act 2001*, including:
- (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
  - (ii) giving a true and fair view of Charter Hall Group's and Charter Hall Property Trust Group's financial position as at 30 June 2012 and of their performance for the financial year ended on that date; and
- (b) there are reasonable grounds to believe that both Charter Hall Limited and the Charter Hall Property Trust will be able to pay their debts as and when they become due and payable; and
- (c) at the date of this declaration, there are reasonable grounds to believe that the members of the extended closed group identified in note 42 will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in note 42.

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 Joint Managing Directors 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.



K Roxburgh  
Chairman  
Sydney  
17 September 2012



## Independent auditor's report to the stapled securityholders of Charter Hall Group and Charter Hall Property Trust Group

### *Report on the financial report*

We have audited the accompanying financial report which comprises:

- The balance sheet as at 30 June 2012, the statement of comprehensive income, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for Charter Hall Group (the consolidated stapled entity or Charter Hall Group). The consolidated stapled entity, as described in Note 1 to the financial report, comprises Charter Hall Limited and the entities it controlled at the year's end or from time to time during the financial year.
- The balance sheet as at 30 June 2012, the statement of comprehensive income, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for Charter Hall Property Trust Group (the consolidated entity or Charter Hall Property Trust Group). The consolidated entity comprises Charter Hall Property Trust and the entities it controlled at the year's end or from time to time during the financial year.

### *Directors' responsibility for the financial report*

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

### *Auditor's responsibility*

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

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

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

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**PricewaterhouseCoopers, ABN 52 780 433 757**  
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T: +61 2 8266 0000, F: +61 2 8266 9999, [www.pwc.com.au](http://www.pwc.com.au)

Liability limited by a scheme approved under Professional Standards Legislation.



**Independent auditor's report to the stapled securityholders of Charter Hall Group and Charter Hall Property Trust Group (continued)**

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 Charter Hall Group and Charter Hall Property Trust Group is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of Charter Hall Group's and Charter Hall Property Trust Group's financial positions as at 30 June 2012 and of their performances for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in Note 1.

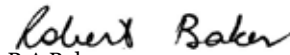
***Report on the Remuneration Report***

We have audited the remuneration report included in pages 43 to 64 of the directors' report for the year ended 30 June 2012. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

*Auditor's opinion*

In our opinion, the remuneration report of Charter Hall Limited for the year ended 30 June 2012, complies with section 300A of the *Corporations Act 2001*.

  
PricewaterhouseCoopers

  
R A Baker  
Partner

Sydney  
19 September 2012

## Unitholder analysis

### Securityholder information 31 August 2012

The shareholder information set out below was applicable as at 31 August 2012.

#### A Distribution of equity securities as at 31 August 2012

Analysis of numbers of equity securityholders by size of holding:

Number of securities held by security holders	Ordinary securities held per band
1 to 1,000	140,694
1,001 to 5,000	1,755,395
5,001 to 10,000	1,994,688
10,001 to 50,000	6,898,461
50,001 to 100,000	3,115,904
100,001 and Over	284,494,205
Total	298,399,347

The total number of securityholders with less than a marketable parcel of 151 securities is 202 and they hold 10,922 securities

#### B Registered equity securityholders as at 31 August 2012

Twenty largest quoted equity securityholders

The names of the twenty largest registered holders of quoted equity securities are listed below:

	Number held	Ordinary securities Percentage of issued securities
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	46,021,737	15.42
J P MORGAN NOMINEES AUSTRALIA LIMITED	36,322,288	12.17
WOODROSS NOMINEES PTY LTD	30,122,493	10.09
NATIONAL NOMINEES LIMITED	25,227,012	8.45
CITICORP NOMINEES PTY LIMITED	22,575,728	7.57
BESGAN NO. 1 PTY LTD	12,990,488	4.35
BESGAN NO. 3 PTY LTD	12,990,488	4.35
BESGAN NO. 2 PTY LTD	12,990,487	4.35
BESGAN NO. 4 PTY LTD	12,990,487	4.35
CITICORP NOMINEES PTY LIMITED	12,013,832	4.03
AMP LIFE LIMITED	9,054,504	3.03
J P MORGAN NOMINEES AUSTRALIA LIMITED	5,650,626	1.89
RBC INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED	5,195,739	1.74
BNP PARIBAS NOMS PTY LTD	3,663,161	1.23
JP MORGAN NOMINEES AUSTRALIA LIMITED	3,389,558	1.14
BNP PARIBAS NOMS PTY LTD	2,981,025	1.00
BNP PARIBAS NOMS PTY LTD	2,956,202	0.99
EQUITY TRUSTEES LIMITED	2,461,198	0.82
MR DAVID JOHN SOUTHON	2,048,360	0.69
PORTMIST PTY LIMITED	2,009,521	0.67
AUST EXECUTOR TRUSTEES SA LTD	1,895,359	0.64
RBC INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED	1,639,696	0.55

## Unitholder analysis

### Securityholder information 31 August 2012

#### C Substantial holders as at 31 August 2012

Substantial holders of ordinary stapled securities in the Group are set out below\*:

Ordinary securities	Date of Change	Number held	%
The Gandel Group	07/03/12	51,961,950	17.54
Macquarie Group	01/05/12	34,151,391	11.50
Commonwealth Bank of Australia	17/05/12	24,589,501	7.96
AMP Limited	05/04/12	20,301,923	6.58

\*Information in this table has been collated from the most recent relevant substantial holder notices lodged with ASX, as at 31 August 2012.

#### D Voting rights as at 31 August 2012

The voting rights attaching to each class of equity securities are set out below:

##### a) Ordinary shares

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

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## Corporate directory

### Registry

To access information on your holding or update/change your details including name, address, tax file number, payment instructions and document requests, contact:

Link Market Services  
Locked Bag A14  
Sydney South NSW 1235

Tel: 1300 303 063 (within Australia)  
+61 2 8280 7134 (outside Australia)

Fax: +612 9287 0303

Email: charterhall.reits@  
linkmarketservices.com.au

Website: www.linkmarketservices.com.au

### Investor relations

All other enquiries related to Charter Hall Group can be directed to Investor Relations:

Charter Hall Group  
GPO Box 2704  
Sydney NSW 2001

Tel: 1300 365 585 (local call cost)  
+61 2 8908 4000 (outside Australia)

Fax: +61 2 8908 4040

Email: reits@charterhall.com.au

### Directors

Kerry Roxburgh, Roy Woodhouse,  
Anne Brennan, David Deverall,  
David Harrison, Peter Kahan,  
Colin McGowan and David Southon

### Company Secretary

Carolyne Rodger

### ASX Code

Charter Hall Group stapled securities are listed on the Australian Securities Exchange (code CHC).

Principal registered office in Australia  
Level 11, 333 George Street  
Sydney NSW 2000

Tel: +61 2 8908 4000

### Auditor

PricewaterhouseCoopers  
Darling Park Tower 2  
201 Sussex Street  
Sydney NSW 1171

### Solicitors

Allens Linklaters  
Level 28, Deutsche Bank Place  
Cnr of Hunter & Phillip Streets  
Sydney NSW 2000

### Website address

www.charterhall.com.au

## IMPORTANT NOTICE

This Annual Report has been prepared and issued by Charter Hall Limited (ABN 57 113 531 150) and Charter Hall Funds Management Limited (ABN 31 082 991 786 AFSL 262861) (CHFML) as Responsible Entity of the Charter Hall Property Trust (together, the Charter Hall Group or the Group). The information contained in this report has been compiled to comply with legal and regulatory requirements and to assist the recipient in assessing the performance of the Group independently and does not relate to, and is not relevant for, any other purpose.

This report is not intended to be and does not constitute an offer or a recommendation to acquire any securities in the Charter Hall Group. This report does not take into account the personal objectives, financial situation or needs of any investor. Before investing in Charter Hall Group securities, you should consider your own objectives, financial situation and needs and seek independent financial, legal and/or taxation advice.

Historical performance is not a reliable indicator of future performance. Due care and attention has been exercised in the preparation of forward looking statements. However, any forward looking statements contained in this report are not guarantees or predictions of future performance and, by their very nature, are subject to uncertainties and contingencies, many of which are outside the control of the Group. Actual results may vary materially from any forward looking statements contained in this report. Readers are cautioned not to place undue reliance on any forward looking statements. Except as required by applicable law, the Group does not undertake any obligation to publicly update or review any forward looking statements, whether as a result of new information or future events.

The receipt of this report by any person and any information contained herein or subsequently communicated to any person in connection with the Charter Hall Group is not to be taken as constituting the giving of investment, legal or tax advice by the Charter Hall Group or any of their related bodies corporate, directors or employees to any such person. Neither the Charter Hall Group, their related bodies corporate, directors, employees nor any other person who may be taken to have been involved in the preparation of this report represents or warrants that the information contained in this report, provided either orally or in writing to a recipient in the course of its evaluation of the Charter Hall Group or the matters contained in this report, is accurate or complete.

CHFML does not receive fees in respect of the general financial product advice it may provide; however, entities within the Charter Hall Group receive fees for operating the Charter Hall Property Trust in accordance with its constitution. Entities within the Group may also receive fees for managing the assets of, and providing resources to the Charter Hall Property Trust.

All information herein is current as at 30 June 2012 unless otherwise stated. All references to dollars (\$) or A\$ are Australian Dollars unless otherwise stated.

### Information regarding US Investors/US Persons:

Each person that holds Charter Hall Group securities that is in the United States (US) or is a US person is required to be a Qualified Institutional Buyer/Qualified Purchaser (QIB/QP) at the time of the acquisition of any Charter Hall Group securities, and is required to make the representations in a subscription agreement as of the time it acquired the applicable securities.

The securities can only be resold or transferred in a regular brokered transaction on the ASX in accordance with Rule 903 or 904 of Regulation S, where neither it nor any person acting on its behalf knows or has reason to know, that the sale has been prearranged with, or that the purchaser is, in the United States or a US person (e.g. no prearranged trades ('special crossing') with US Persons or other off-market transactions).

To the maximum extent permitted by law, the Charter Hall Group reserves the right to (i) request any person that they deem to be in the United States or a US Person, who was not at the time of acquisition of the securities a QIB/QP, to sell its securities, (ii) refuse to record any subsequent sale or transfer of securities to a person in the United States or a US Person, and (iii) take such other action as they deem necessary or appropriate to enable the Charter Hall Group to maintain the exception from registration under Section 3(c)(7) of the Investment Company Act.

If you are not the beneficial owner of securities in the Charter Hall Group, you must pass this information to the beneficial owner of the securities.

### Complaints handling

A formal complaints handling procedure is in place for the Group. CHFML is a member of the Financial Ombudsman Service (FOS). Complaints should in the first instance be directed to CHFML. If you have any enquiries or complaints, please contact the Compliance Manager on +61 2 8908 4000.



