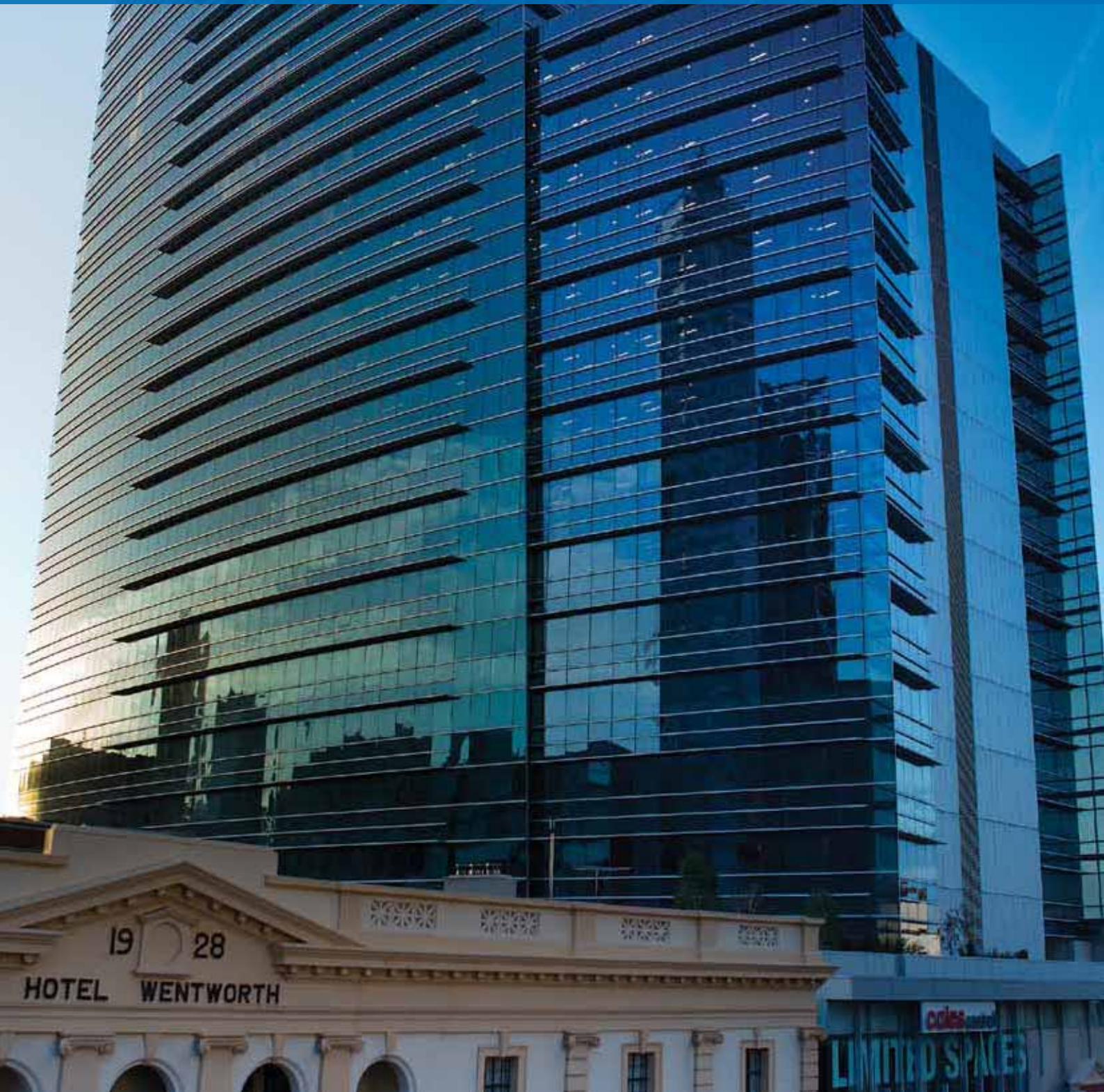


# Charter Hall Group

Securityholder Review 2013





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### Annual General Meeting

The 2013 Annual General Meeting will be held at The Westin Hotel, Ballroom 1, No.1 Martin Place, Sydney on Tuesday 12 November 2013 at 2.30pm.

Allianz Centre, 2 Market Street, Sydney NSW

Cover: Bankwest Place, Perth WA



# Proud owner and manager of Australian property.

# Highlights

# 11.3%

increase in operating EPS<sup>1</sup>

# \$1.2 billion

in new equity secured

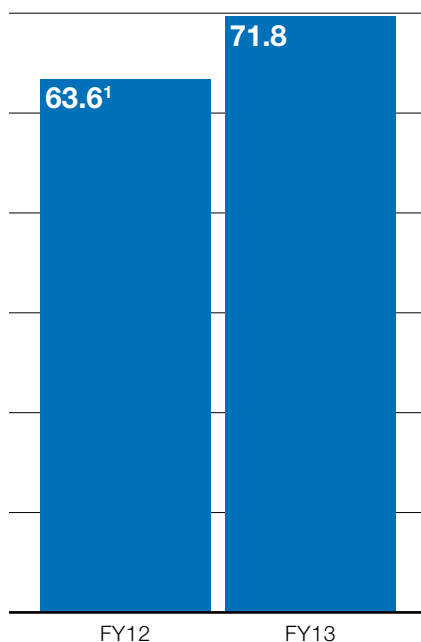
# \$3.1 billion

of transactions

# 18%

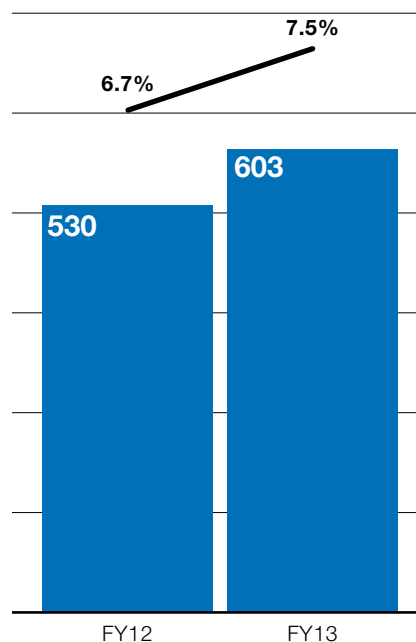
Australian funds under management (FUM) growth

## Operating Earnings (\$ million)



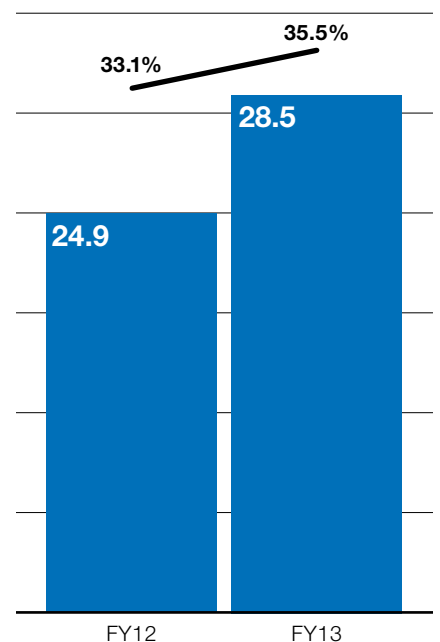
## Property Investment

■ CHC Investment Portfolio (\$ million)    ■ Property Investment Yield



## Property Funds Management (PFM)

■ PFM EBITDA (\$ million)    ■ EBITDA Margin<sup>2</sup>



<sup>1</sup> FY12 comparison excludes specific items.

<sup>2</sup> EBITDA margin on revenue on a like-for-like basis.

## About Us

Charter Hall Group has grown, since its launch in 1991, to become one of Australia's leading property groups, with a total property portfolio of over \$10 billion.

We own and manage 187 commercial properties around Australia, including office buildings, supermarket anchored retail centres, and a rapidly growing stable of industrial assets, on behalf of our institutional, wholesale and retail investors.

# Our vision: To be the smart property choice.

# 25

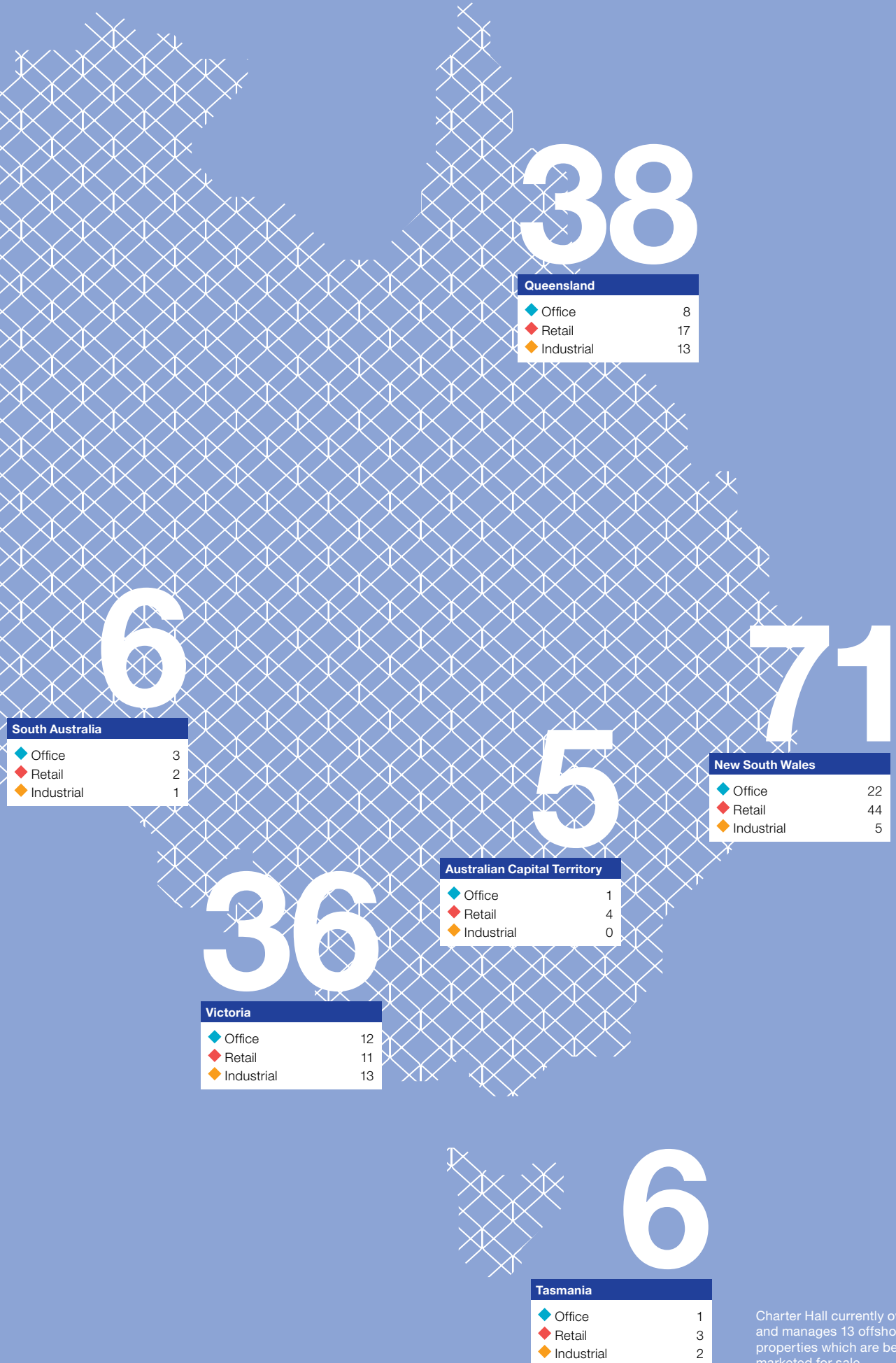
#### Western Australia

◆ Office	9
◆ Retail	11
◆ Industrial	5

Our integrated business model, coupled with our highly skilled and motivated team across investment management, asset management, property management, and project delivery produces sustainable returns for our investors, and positive experiences for our tenants and the community.

As a Group, we listed on the Australian Securities Exchange in 2005 under ASX Code: CHC. Charter Hall Group is a stapled security comprising a share in Charter Hall Limited (CHL), the operating business, and a unit in Charter Hall Property Trust (CHPT), which predominantly co-invests in the funds and partnerships the Group manages.





Charter Hall currently owns and manages 13 offshore properties which are being marketed for sale.

# Office



We are one of the largest managers of CBD office properties in Australia, with a \$6.2 billion office portfolio.

We manage 1,052,231sqm of office space accommodating 648 tenants.

We continue to provide smart, long-term accommodation solutions for our tenants while delivering income and capital returns for our investors. We adopt a proactive approach to enhance and maintain the quality, performance and value of our properties.

Brisbane Square,  
Brisbane Qld

# \$6.2 billion

Office portfolio

## 56

Office properties

## 97%

Total portfolio occupancy

## 5.1 years

Weighted average lease expiry

**Top 10 tenants**  
by gross income

1.	Australian governments	15.9%
2.	Telstra	8.4%
3.	Macquarie Group	6.6%
4.	Commonwealth Bank	4.6%
5.	Westpac Group	2.9%
6.	BHP Billiton	2.2%
7.	Suncorp Group	2.2%
8.	Citigroup	1.8%
9.	Queensland Gas Company	1.6%
10.	Wilson Parking	1.6%



# Retail



With a focus on non-discretionary retail, we manage a \$2.6 billion Australian retail portfolio.

We optimise returns for our investors by providing our centres with end-to-end property services and creating enjoyable environments for the 100 million shopper visitations to our retail assets each year.



Singleton Square,  
Singleton NSW

Singleton Square  
Charter Hall

\$2.6  
billion

Australian retail portfolio

105

Retail properties

98%

Total portfolio occupancy

6.6 years

Weighted average  
lease expiry

Top 10 tenants  
by gross income

1.	Wesfarmers	26.4%
2.	Woolworths	25.6%
3.	Rewe Group	3.0%
4.	The Reject Shop	1.4%
5.	Retail Food Group	0.9%
6.	Commonwealth Bank	0.9%
7.	John Wiley & Sons	0.8%
8.	Soul Pattinson Chemist	0.6%
9.	Möbel Walther	0.6%
10.	Aldi	0.6%

# Industrial




We own and manage 39 predominantly long-leased industrial properties, covering approximately 800,000sqm, in key growth areas around Australia.

Through our 50% interest in CIP, a national industrial pre-lease developer, we are able to access high quality pre-leased industrial and logistics properties. Over the past seven years, we have been actively involved in the ownership and delivery of 20 newly developed assets covering approximately 410,000sqm of floor space and valued in excess of \$600 million.



Australia Post Distribution Centre, Rowville Vic.



# \$1.1 billion

Industrial portfolio

## 39

Industrial properties

## 100%

Total portfolio occupancy

## 10.8 years

Weighted average lease expiry

Top 10 tenants by gross income

1.	Wesfarmers	20.6%
2.	Metcash	12.5%
3.	Woolworths	11.3%
4.	Volkswagen	6.0%
5.	Australian governments	4.9%
6.	Toll Holdings	4.1%
7.	Grace	3.2%
8.	Electrolux Home Products	3.1%
9.	Fastline International	3.1%
10.	Volvo Group	3.1%



# Our Year in Review

## July 2012

Charter Hall Retail REIT (CQR) finalises the documentation for the extension and refinancing of its €81 million German debt facility to December 2014, from its previous July 2012 maturity.

## August 2012

Charter Hall establishes a new partnership to acquire Bay Village Shopping Centre in NSW (renamed Bateau Bay Square) for \$164 million, reflecting an 8% capitalisation rate.

Direct Industrial Fund (DIF1) closes more than 5% oversubscribed, raising \$119.5 million since its launch in July 2010.

Charter Hall Office Trust's (CHOT) \$260 million 171 Collins Street building is awarded a 6 star Green Star – Office Design (v2) Certified Rating from the Green Building Council of Australia – a first for Melbourne.

Charter Hall Direct Property Management Limited was appointed manager and Responsible Entity of the \$422 million PFA Diversified Property Trust.

CQR enters into an unconditional contract to sell Mile End Homemaker Centre, South Australia for \$43.8 million.

144 Stirling Street syndicate raises \$32 million of equity to acquire the \$55 million Perth CBD property.

Charter Hall Group pays the final payment of its full year distribution of 18.2 cents per security, an increase of 10.3% on the previous year.



Toll Fleet & Auto Logistics Centre, Altona North Vic.

## September 2012

DIF1 acquires its sixth asset, the Coates Hire Distribution Centre in Kingston, Queensland, for a total consideration of \$20.9 million.

## October 2012

Charter Hall and a domestic institutional investor create a new partnership to acquire a national portfolio of recently completed Bunnings Warehouse retail stores for \$207 million.

CQR raises \$100 million through an institutional placement at a price of \$3.45 per unit, a 2.1% premium to the REIT's 30 June 2012 net tangible assets. This is a significant transaction for the listed REIT sector, which funds the acquisition of three supermarket anchored shopping centres.



Bunnings  
Rouse Hill, NSW

## November 2012

Core Plus Office Fund (CPOF) executes an agreement for lease with Bupa Australia Pty Limited for approximately 11,750sqm of net lettable area at CPOF's Melbourne flagship asset, 11 Exhibition Street, for a 10 year term.

The \$30 million redevelopment of CQR's Lansell Square in Bendigo is approved by the City of Greater Bendigo. Works are scheduled to commence in late 2013.

CQR raises an additional \$19 million from a Unit Purchase Plan giving retail unitholders the opportunity to participate in the October equity raising at the same price.



11 Exhibition Street,  
Melbourne Vic.

## December 2012

Charter Hall delivers its first Corporate Responsibility and Sustainability Report (CR&S) addressing the Group's CR&S journey and performance across key indicators for the 2012 financial year.

Charter Hall announces a distribution of 9.8 cents per security for the half year ended 31 December 2012.

Tracey Jordan joins Charter Hall as Group General Counsel and Company Secretary.

Core Plus Industrial Fund (CPIF) outperforms its sector specific benchmark in the IPD/Mercer Wholesale Unlisted Property Funds Index over the one, two and three year periods to 31 December 2012.

Charter Hall Direct Property Fund (CHDPF) acquires 181 St Georges Terrace, Perth for \$26.8 million.

Launch of Direct Industrial Fund No.2 (DIF2) and acquisition of its first two assets totalling \$55 million – industrial facilities in Victoria and Western Australia, following the success of DIF1.



181 St Georges Terrace,  
Perth WA



9 Castlereagh Street,  
Sydney NSW

## February 2013

Charter Hall establishes the Core Logistics Partnership (CLP) with two Australian institutional investors to acquire and manage a predominantly core Australian logistics portfolio. CLP acquires two seed assets totalling \$103.1 million as part of the transaction – the 36,213sqm AMCOR logistics facility at Scoresby in Melbourne and a 50% interest in the Metcash Distribution Centre at Canning Vale, Perth for \$63.5 million.

CPOF acquires the 21,000sqm Sydney CBD office tower, 9 Castlereagh Street, for \$172.5 million.

Philip Garling joins the Board of Charter Hall as a Non-Executive Director.

Charter Hall Group pays a distribution of 9.8 cents per security, a 7.7% increase on the prior period.

## June 2013

CPOF, in partnership with a domestic super fund and a global institutional investor, acquires the \$458 million Bankwest Place in Perth. The recently completed property comprises a 45,000sqm office tower 100% leased to Bankwest for 12 years, a 9,831sqm retail complex anchored by a 15 year lease to Coles and adjoining hotels.



Bankwest Place and Raine Square, Perth WA

## March 2013

CQR sells its interest in the last United States (US) joint venture entity with Regency Centers for a gross sale price of US\$49 million, in line with book value, and realises net proceeds of approximately A\$11 million.

Global law firm, DLA Piper, commits to 6,000sqm of office space at No.1 Martin Place, one of Sydney's largest leasing transactions this year.



175 Eagle Street,  
Brisbane Qld

## April 2013

Upgrade works commence on CHOT's 175 Eagle Street office building in Brisbane. Improvements will include an enhanced entry and lobby, upgraded lifts and services and the creation of an outdoor deck overlooking the Brisbane River.

Charter Hall announces a distribution of 10.4 cents per security (cps) for the half year ended 30 June 2013. The total distribution per security for the year ended 30 June 2013 was 20.2 cps, representing an 11.0% increase on the prior year.

CQR enters into a conditional contract for the sale of its five Polish assets for a gross sale price of €174.5 million, with settlement expected at the end September 2013.



100 Skyring Terrace,  
Brisbane Qld  
(Artist's impression)

## May 2013

CPOF acquires 100 Skyring Terrace in Brisbane in a 50:50 partnership with a global institutional partner. This A-grade building, currently under development, is secured by an initial 12 year lease pre-commitment across 12,700sqm to the Bank of Queensland. Due for completion in early 2015, the asset will comprise a total of 23,800sqm of A-grade office and 1,060sqm of retail space.

CPIF secures \$119 million of the \$150 million equity target for its 2013 capital raising, providing capacity to grow to approximately \$850 million once fully invested. The balance is anticipated to be committed by September 2013. The proceeds will be used to fund acquisitions and up to \$190 million of pre-leased projects on existing land banks.

171 Collins Street Melbourne, accommodating BHP Billiton's new headquarters, reaches practical completion.

CQR acquires the Secret Harbour Shopping Centre south of Rockingham, Western Australia and adjoining vacant land for \$33.2 million.



Secret Harbour Shopping Centre, Rockingham WA

CPIF secures national logistics company Northline for a new 16,500sqm facility to anchor Stage 1 of its \$80 million Smithfield development.

The 130 Stirling Street Trust is the third strongest performing property syndicate in Australia over the three years to 30 June 2013 (net return of 18.0% p.a.) according to IPD.

# Our Strategy



Utilising our specialist property expertise to **access, deploy, manage** and **invest** equity in the core real estate sectors of office, retail and industrial, creating value and generating superior income and capital returns for our clients and Charter Hall securityholders.



1.

Access

2.

Deploy

3.

Manage

4.

Invest

## FY13 objectives

- Continue to achieve our investors' investment objectives
- Enhance return on equity
- Source equity to invest into office, retail and industrial properties, targeting growth of 6-10% p.a. in the Australian funds management platform
- Realise and redeploy an additional \$100 million of capital in property and development investments over the next two years
- Drive further growth in property investment portfolio earnings and capital value
- Maintain high levels of tenant retention and low vacancy rates across our portfolios
- Diversify the sources of debt funding for our managed funds platform
- Continue to capitalise on a scalable operating platform to service FUM growth
- Reweight the investment portfolio, increasing the proportion of retail and industrial investments.

## FY13 achievements

- ✓ Secured \$1.2 billion of gross new equity
- ✓ Return on equity up from 9.9% to 11.2% (NTA basis)
- ✓ Core Plus Industrial Fund ranks first and Core Plus Office Fund ranks second best performing wholesale fund in their respective sectors for the year according to IPD
- ✓ 18% growth in Australian funds under management
- ✓ Established six new partnerships and funds
- ✓ Realised \$58 million of balance sheet capital
- ✓ Reinvested \$99 million of balance sheet capital
- ✓ Increased property co-investment earnings yield from 6.7% to 7.5%
- ✓ Maintained high tenant retention level with total portfolio occupancy of 97.4%
- ✓ Leased 301,924sqm of space
- ✓ Refinanced \$0.9 billion of debt
- ✓ Operating EPS up 11.3% to 23.94 cps
- ✓ Property funds management margin up 2.4% on a like-for-like basis to 35.5%.

# Chairman's Review

On behalf of the Board of Directors, I am pleased to present Charter Hall Group's 2013 Securityholder Review.

The Group has had another active year delivering its strategy of accessing, deploying and managing equity into Australian office, retail and industrial property and co-investing alongside its capital partners.

By delivering on this strategy, Charter Hall saw solid growth in its security price over the year, evidence that our business model and strategy are well received by investors. This also highlights the increasing demand for higher yields available from property investments relative to most other investment asset classes. Total return for our securityholders over the course of the year was 80.6%, making Charter Hall Group the best performing A-REIT during the period.

The number of new investment initiatives launched during the year, with both current partners looking to extend their investment portfolios with us and new partners who have chosen to invest with us, has been particularly pleasing. Many of these are through partnership style structures, reflecting our partners' recognition of our expertise, track record, governance and, ultimately, our ability to deliver growing income and capital returns, consistent with their risk appetite.

Charter Hall now manages a total portfolio of \$10.3 billion, comprising 200 office, retail and industrial properties servicing almost 3,000 tenants.

## Corporate responsibility

Over the last year, we have continued our sustainability and corporate responsibility focus, evolving our approach to ensure that we effectively listen, understand, and respond to our stakeholders. Last year, we focused on our operational platform, building the right systems and processes for long-term sustainable growth. This year, our focus has been on our people, ensuring that we understand and respond to their needs, develop their capabilities, and evolve a new way of working for the long term. Charter Hall's focus on the environmental operations of our managed properties continues to produce results, with improvements in average National Australian Built Environment Ratings System (NABERS) Energy ratings across our managed funds.

## Board changes

I was very pleased to welcome Philip Garling to the Board as a Non-Executive Director in February this year. Philip has extensive experience in property and funds management, and business strategy, and is a valuable addition to our Board.

Philip currently also serves as a director of Networks NSW, Downer EDI Limited and Water Polo Australia, and is Chairman of Australian Renewable Fuels.



Kerry Roxburgh,  
Chairman

# Total return for our securityholders was 80.6%.

Due to poor health, Roy Woodhouse retired as Deputy Chairman and a Non-Executive Director this year. Roy made a significant contribution to Charter Hall during his eight and a half years on the Board, initially when Charter Hall was a privately owned business and subsequently when it was a listed A-REIT, and on behalf of the Board I would again like to thank him for his industrious and enthusiastic approach.

Glenn Fraser also retired as a Non-Executive Director during the year, due to an illness in his family. Glenn, who was Chairman of the Audit, Risk and Compliance Committee, made a significant contribution to the Board and I would like to thank him for his constructive and balanced approach. On behalf of Charter Hall, I wish both Roy and Glenn every happiness and good health.

## Outlook

While labour markets remain subdued, as we highlighted last year, investment drivers have been strong, with a historically high spread between the cost of debt and sustainable rental income yields from property, making securely-leased, core property a very attractive investment proposition. As a result, we continue to see strong demand from both wholesale and retail investors, leading to opportunities to expand Charter Hall's funds management base.

I would like to thank our 300-plus people, the Board and management, and importantly all our securityholders and stakeholders for their continued support and commitment to Charter Hall over the past year. We look forward to working with you all in the years ahead.

**Kerry Roxburgh**  
Chairman



# Joint Managing Directors' Review

Financial year 2013 was another successful year for Charter Hall Group, where we executed on our strategy to access, deploy, manage and invest equity in core real estate markets throughout Australia. This has delivered an 11.3% increase in operating earnings per security on the prior corresponding period and a 16% increase in total funds under management (FUM) to \$10.3 billion.

This year, we have refined and provided greater clarity on our long-term future direction and goals. We now have a refreshed brand, underpinned by a clearly articulated vision for our people and the business.

Charter Hall has a 22 year strong history of accessing and managing Australian property on behalf of our investors, partners and clients, including working co-operatively with our stakeholders to deliver smart outcomes. Through our vision to be 'the smart property choice' we are uniting our people, continuing to generate smart ideas and creating products and solutions that deliver wealth through a combination of sustainable rental income and capital growth. Charter Hall strives to be the smart property choice for its investors, partners, clients and stakeholders.

## Results

We were pleased to deliver operating earnings of \$71.8 million, up 12.9% on the prior year. This represented an 11.3% increase in operating earnings of 23.94 cents per security (cps) and a full year distribution for securityholders of 20.2 cps, an 11.0% increase on the prior financial year.

Property investment income represented 62% of the Group's total operating earnings in FY13, with the annualised property investment portfolio earnings yield increasing from 6.7% to 7.5% during the year. This improvement has been the result of reweighting the Group's investment portfolio, active asset management across the Group's portfolio and lower borrowing costs through resetting debt facilities in many of the managed funds.

## Delivering on our strategy

We completed \$2.1 billion of property acquisitions and \$1.0 billion of divestments during the year, consistent with our strategy of deploying equity into core Australian real estate.

We secured \$1.2 billion of gross equity across our wholesale, listed and retail investor funds, and have secured \$179 million since financial year end to August 2013. This equity, raised from listed wholesale and retail investors, was invested across the office, retail and industrial sectors, with all sectors making solid contributions to our Group performance. In particular, we were pleased with the new initiatives within our wholesale partnerships business, where we have formed new long-term relationships with investors in each of these sectors.

Charter Hall has a total of \$603 million invested alongside our partners, and we continue to look to grow this through new partnerships and further investment in our managed funds.



Left to right:  
David Harrison and  
David Southon, Joint  
Managing Directors

### Investing in our brand

This year we introduced our refreshed brand, providing clarity on our vision and values for our business. As part of our refreshed brand, we have refined our logo and introduced a new colour palette to communicate and promote our focus on the office, retail and industrial property sectors.

Our upgraded website, reflecting our new brand, was recently launched to provide investors with more information on the Group and our properties, and greater functionality. We encourage you to take a look.

We are also investing into the branding of our properties. With over 338,000 people using a Charter Hall property each day – be it shopping in one of our centres or working in one of our buildings – we want to harness this exposure and promote both our property expertise and our commitment to delivering smart spaces for all our stakeholders.

Over the coming two years, we will be introducing Charter Hall signage on all our properties. Our retail business has already started this rollout, and on page 7 you can see the refreshed brand and new look signage on display at the recently completed Singleton Square.

### Outlook

We maintain our focus on accessing, deploying and managing equity and investing alongside our clients to create value and provide superior returns for our clients and Charter Hall securityholders.

Given the current low interest rate environment and the comparatively high yields available from core real estate, we expect that investors will continue to increase their exposure to Australian property. Charter Hall remains well positioned to capture these inflows, and we will continue to partner with both new and existing investors to invest in quality Australian property.

We have already seen positive progress on continuing to implement our strategy in the new financial year, completing the \$150 million Core Plus Industrial Fund equity raising and establishing a new retail partnership for the acquisition of Keperra Square in Brisbane.

We are committed to achieving sustainable income and growing value for all of our investors, and to delivering high quality outcomes for all of our stakeholders over FY14.

**David Harrison**  
Joint Managing Director

**David Southon**  
Joint Managing Director

# Our Performance

## Property Investment

A key element of our business model is co-investing alongside our capital partners, in our managed funds and partnerships, to align Charter Hall's interests with those of our investors.

Our property investment totalled \$603 million at 30 June 2013 and is well diversified across our equity sources and core property sectors of office, retail and industrial as detailed in the charts below. We continually review our investment portfolio allocation as our funds platform grows and are in the process of actively reweighting our investment portfolio through investing alongside partners in long weighted average lease expiry industrial and retail investments.

Our property investments delivered operating earnings of \$44.5 million for the year, representing 62% of the Group's operating earnings. Following the active management of Charter Hall's investment portfolio and lower borrowing costs in our managed funds, the annualised property funds investment earnings yield increased by 12% on the prior period from 6.7% to 7.5%.

In line with our strategy, over the past two years, we have realised \$126 million of capital from our co-investments and reinvested \$117 million into new higher yielding investments. During the next 18 months, we are aiming to recycle a further \$112 million of equity.

## Property Funds Management

Property funds management delivered operating earnings of \$27.3 million, representing 38% of the Group's operating earnings.

Charter Hall is focused on Australian office, retail and industrial property, and during the year our Australian property funds under management (FUM) increased by 18% to \$9.9 billion, with total FUM of \$10.3 billion.

### \$1.2 billion of gross equity secured

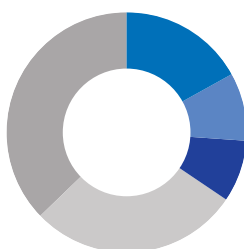
During the year we secured \$1.2 billion in gross equity across our wholesale pooled, wholesale partnership, listed and retail investor property funds (evidenced in the graph below). These solid inflows demonstrate the continuing attractiveness of Australian prime property.

This equity enabled Charter Hall and our managed funds to acquire \$2.1 billion of core Australian office, retail and industrial property during the year.

Within the office sector, our Core Plus Office Fund (CPOF) acquired the 21,000sqm Sydney CBD office tower, 9 Castlereagh Street, for \$172.5 million and, in partnership with our wholesale investors, the recently completed \$458 million Bankwest Place in Perth. Bankwest Place is Perth's newest CBD office development and comprises a 45,000sqm

### Property Investments by equity source

Wholesale partnerships	37.2%
Wholesale pooled	28.4%
Listed	17.1%
Direct property	9.1%
Retail investor funds and syndicates	8.2%

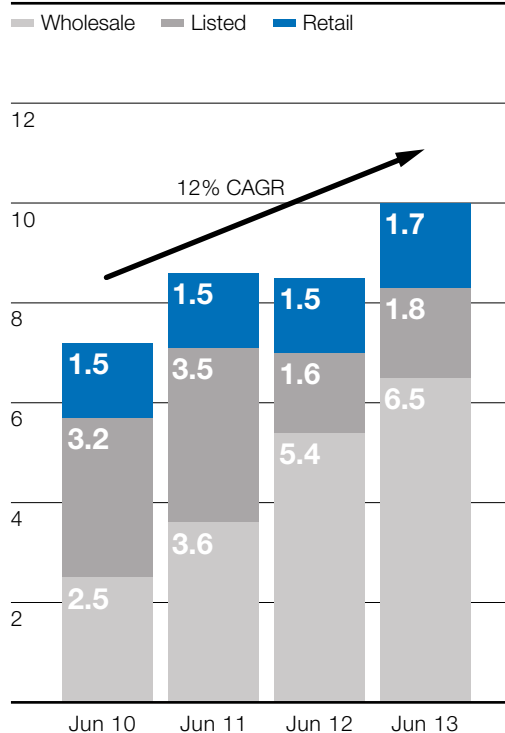


### Property Investments by sector

Office	\$311m	52%
Retail	\$213m	35%
Industrial	\$79m	13%



### Australian FUM by Equity Source (\$ billion)





office tower 100% leased to Bankwest for 12 years, a 9,831sqm retail complex anchored by a 15 year lease to Coles and adjoining hotels.

Within retail, our listed Charter Hall Retail REIT successfully raised \$119 million of capital from its institutional and retail investors to fund the acquisition of three supermarket anchored centres for \$101 million during the year. Charter Hall also extended its exposure to the non-discretionary retail sector, establishing a new wholesale partnership with a domestic institutional investor to acquire a \$235 million Bunnings portfolio, comprising 10 properties with long leases to Bunnings.

We have also actively increased our focus on the industrial sector over recent years. This year, we launched our new \$400 million Core Logistics Partnership (CLP) in partnership with two Australian institutional investors, with the new vehicle acquiring two seed assets totalling \$103 million.

Our Core Plus Industrial Fund (CPIF), which secured \$119 million of its \$150 million equity target for its 2013 capital raising (with the remaining \$31 million committed post balance date), acquired a 45,000sqm strategically located site in Brisbane. CPIF has the capacity to grow to approximately \$850 million once fully invested and is actively looking to continue to grow its portfolio of long leased logistics facilities.

Within our direct business, our \$210 million Direct Industrial Fund (DIF1) was closed oversubscribed, and we are now well advanced on raising \$120 million of equity for the Direct Industrial Fund No.2 (DIF2). DIF2 acquired two industrial facilities in Victoria and Western Australia as part of its launch and is in negotiations on several additional properties.

### Solid portfolio performance

Charter Hall provides end-to-end property services for all our funds and properties, from property and leasing to financial management services.

Revenue from our property and asset management services delivered \$44.4 million, up 20% from FY12, with solid growth across leasing and transaction services and steady contributions from property management and development services.

During the year, we completed 301,924sqm of lease renewals and new lease commitments across the 2.8 million sqm of space across the Australian portfolio. Our total Australian portfolio occupancy was 97.4%, with our weighted average lease expiry remaining steady at 6.1 years.

Our portfolio remains leased to a wide range of high calibre tenants including Wesfarmers, Woolworths, Citigroup, BHP Billiton, Telstra and the Australian and State governments.

As part of our integrated offering, we have continued to look for opportunities to enhance our managed funds' portfolios through redevelopment and refurbishment works. We currently have a number of projects underway and are pleased to have completed two major projects in the past 18 months.

Charter Hall Retail REIT's \$63 million redevelopment of Singleton Square was completed in August this year, delivering a new 21,142sqm centre, including a full line Coles and new two storey carpark to the community.

Charter Hall Office Trust and Cbus Property's 171 Collins Street in Melbourne was also officially completed during the year, with international fashion house, Dolce and Gabbana, opening its first Australian flagship store in the building's retail space fronting Collins Street.

### Charter Hall Group top 10 tenants by gross income

Tenant	% Portfolio leased
Australian governments	8.6
Woolworths	5.9
Telstra	5.6
Wesfarmers	5.6
Macquarie Group	3.0
Westpac Group	2.5
Metcash	1.9
BHP Billiton	1.8
Citigroup	1.6
Commonwealth Bank	1.5
<b>Total</b>	<b>37.8</b>

# 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

### Our objective

To grow investor wealth by delivering smart property outcomes.

#### What we planned to do in FY13

- Source equity to invest into core real estate sectors targeting growth in the Australian FUM platform of 6-10%
- Continue to develop an efficient and scalable operating model
- Provide greater consistency and better information about our business to our stakeholders
- 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 with Charter Hall for our stakeholders
- Launch our revised Code of Conduct to ensure that we instil our ethics and values across our people
- 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.

#### What we did in FY13

- Raised \$1 billion of net equity since June 2012
- Achieved 18% growth in Australian FUM
- Added six new partnerships and funds
- Released our first CR&S Report in December 2012 and seeking third-party assurance for our FY13 CR&S Report
- Upgraded our website, for launch in September 2013
- Revised our Code of Conduct to encompass a broader range of issues, reflecting third party advice and industry best practice
- Delivered training on our revised Code of Conduct to all employees
- Completed an initial review of our supply chain to determine key expense categories and vendors.

## The Environment

### Our objective

To actively work to reduce our consumption of natural resources.

#### What we planned to do in FY13

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

#### What we did in FY13

- Reduced energy usage in our managed retail properties by around 2% and water by around 3.5%
- Established energy performance targets for the majority of office assets
- Completed NABERS Energy and Water ratings on all eligible retail centres
- Extended the coverage of our waste data to the majority of retail assets
- Tracked our carbon emissions associated with our business travel.

Our new Sydney office location from February 2014 – No.1 Martin Place, Sydney NSW



## Our Workplace

### Our objective

To create a safe and engaging work environment that attracts, develops, retains and supports high performing people.

#### What we planned to do in FY13

- Increase the percentage of women in leadership and business related roles by 2015
- Promote a culture that values diversity, inclusion and flexibility
- Provide a clear strategic direction to our employees
- Continue to evolve our organisational structure to support our strategy
- Provide access to development opportunities
- Implement effective systems and processes for people to deliver results
- Evaluate performance against an improved balanced scorecard aligned with our strategic objectives
- Create a work/life balance working group to focus on providing a flexible workplace
- Invigorate our employees by providing a greener, healthier and more productive workplace for our head office during 2013
- Establish a Group wide occupational health and safety (OHS) strategy and training plan to enhance our OHS capability
- Reduce voluntary turnover to 14% by 2014.

#### What we did in FY13

- Increased the percentage of women in senior management roles
- Defined and aligned Charter Hall's vision, values and strategy with a new way of working
- Initiated a personal development plan for all employees with a defined learning and development budget for every employee
- Implemented an online balanced scorecard with improved transparency and reporting
- Developed flexible work guidelines and designed a suite of benefits to support this, which will be rolled out in FY14
- Aligned our retail safety management system with AS4801 and applied for third-party certification
- Recorded zero serious incidents and no lost time incidents involving Charter Hall employees or contractors in FY13
- Signed the lease for our new premises and committed to a new way of working from February 2014.

## The Community

### Our objective

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

#### What we planned to do in FY13

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

#### What we did in FY13

- Evolved Charter Hall's volunteer program to support both team and individual events in order to increase participation
- Developed our partnership approach with three key charities, establishing volunteering opportunities for our employees
- Supported our local communities by providing space and support to community groups local to our retail centres.



# The Board



**Kerry Roxburgh**

## **Kerry Roxburgh**

### Chairman

Kerry joined the Charter Hall Board in August 2005, becoming 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 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, and a Non-Executive Director of both the Medical Indemnity Protection Society Group and MIPS Insurance. He is the Chairman of Tyro Payments and of Tasman Cargo Airlines and he is Deputy Chairman of Marshall Investments. Kerry is also a Member of the Advisory Boards of AON Insurance and Built Pty Ltd. Kerry is a Practitioner Member of the Stockbrokers Association of Australia, and holds a Bachelor of Commerce degree, as well as an MBA.

## **Anne Brennan**

### Non-Executive Director

Anne joined the Charter Hall Board in October 2010, is currently the Chair of the Remuneration and Human Resources Committee, and is 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. Anne's executive roles included chief financial officer of CSR and finance director of the Coates Group. Prior to this she was a partner in KPMG, Arthur Andersen and Ernst & Young. 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 a Fellow of the AICD.



**Anne Brennan**



**David Deverall**

## **David Deverall**

### Non-Executive Director

David joined the Charter Hall Board in May 2012, is Chair of the Audit, Risk and Compliance Committee and a member of the Nominations 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, Group Head of Funds Management and Head of Strategy at Macquarie Group. David is currently CEO of Hunter Hall International Ltd, Australia's leading ethical funds management company. David holds an MBA (Stanford) and a Bachelor of Engineering (Sydney).

## **Philip Garling**

### Non-Executive Director

Philip joined the Board of the Charter Hall Group on 25 February 2013. Philip has over 35 years' experience in property and infrastructure, development, operations and asset and investment management. Philip's executive career included nine years as Global Head of Infrastructure at AMP Capital Investors and 22 years at Lend Lease Corporation, including five years as CEO of Lend Lease Capital Services. Philip holds a Bachelor of Building from the University of NSW, and has completed the Advanced Management Program at the Australian Institute of Management, and the Advanced Diploma at the Australian Institute of Company Directors. He is a Fellow of the Australian Institute of Company Directors, the Australian Institute of Building and the Institute of Engineers, Australia. Other current listed company directorships are Australian Renewable Fuels Limited (Chair); Downer EDI Limited; Networks NSW; Waterpolo Australia. Former listed company directorships in the last three years were at DUET Group.

## **Peter Kahan**

### Non-Executive Director

Peter joined the Charter Hall Board in October 2009, following an investment in Charter Hall by The Gandel Group. Peter is the Deputy Chairman of Gandel and has approximately 20 years of property and funds management experience. He joined Gandel in 1994, became the Group's Finance Director in 2001 and was



**Philip Garling**



**Peter Kahan**



**Colin McGowan**



**David Harrison**



**David Southon**

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. Peter is a member of the Remuneration and Human Resources Committee and the Nomination Committee.

**Colin McGowan**  
Non-Executive Director

Colin joined the Charter Hall Board in April 2005, and is presently the Chair of the Charter Hall Property Trust. He is also a member of the Group's Valuation Committee, 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.

**David Harrison**  
Joint Managing Director

As Charter Hall Group's Joint Managing Director, with over 27 years of property industry experience, David is responsible for all aspects of the Charter Hall 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, Legal/Company Secretariat and People, as well as Group Finance, Treasury and Capital Management via the Chief Financial Officer, Head of People and General Counsel.

In addition to his responsibilities on the various unlisted Fund Boards and Investment Committees, David is an Executive Director on the Responsible Entity Board of Charter Hall Retail REIT and various Wholesale Partnerships.

David has a wealth of experience in the Australian commercial property market and has jointly overseen the growth of the Charter Hall Group from \$500 million to \$10 billion of assets under management in seven years. David has been principally responsible for transactions exceeding \$15 billion of commercial, retail and industrial property assets across all property sectors over the past 20 years.

David holds a Bachelor of Business degree (Land Economy) from the University of Western Sydney, is a Fellow Member of the Australian Property Institute (FAPI) and holds a Graduate Diploma in Applied Finance from the Securities Institute of Australia.

**David Southon**  
Joint Managing Director

David is a co-founder of the Charter Hall Group and one of its Joint Managing Directors, with over 27 years of property industry experience. Together, and in conjunction with the CHC Executive Committee and the Board, 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; Asset Management; Property Management; Marketing and Communications, as well as strategic involvement in project origination and direction. Together with the relevant Divisional Heads, 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 and Capital Management.

In addition, David is an Executive Director on the Board of the Responsible Entity for the Charter Hall Direct Funds, a Non-Executive Director on the Board of Commercial Industrial Property (CIP), member of the Charter Hall Diversity Committee, and a member of the Investment Committees of Charter Hall Opportunity Funds 4 and 5.

David is a member of the Board of Advisers NSW for the Property Industry Foundation (PIF). David holds a Bachelor of Business degree (Land Economy) and is a Fellow Member of the Australian Property Institute (FAPI).

# 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 [www.charterhall.com.au](http://www.charterhall.com.au) and subscribe to updates.

## Can I receive my annual report electronically?

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

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

Direct credit enables you to receive automatic payment of your distributions quickly and securely. You can nominate any Australian or New Zealand bank, building society, credit union or cash management account for direct payment by downloading a direct credit form using the Investor Login facility and sending it to Link Market Services. On the day of payment, you will be sent a statement via post or email confirming that the payment has been made and setting out details of the payment. If you do not nominate a financial institution, your distribution will be paid by cheque.

## 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. If you would like to participate in the DRP, you can do so online using the Investor Login facility available on our website, or you can complete a DRP Application Form available from our registry.



Leasing agent and tenant representative 'sneak preview' event at 171 Collins Street, Melbourne Vic.



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

You are not required by law to supply your Tax File Number (TFN) 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 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) using the Investor Login facility to download the TFN form.

**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 2013 should be included in your 2013 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)

## Contact Details

**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:** +61 2 9287 0303

[charterhall.reits@linkmarketservices.com.au](mailto:charterhall.reits@linkmarketservices.com.au)  
[www.linkmarketservices.com.au](http://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)  
+ 612 8908 4000 (outside Australia)

**Fax:** +612 8908 4040

[reits@charterhall.com.au](mailto:reits@charterhall.com.au)

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### Annual General Meeting

The 2013 Annual General Meeting will be held at The Westin Hotel, Ballroom 1, No.1 Martin Place, Sydney on Tuesday 12 November 2013 at 2.30pm.

Cover: 171 Collins Street,  
Melbourne Vic.

# Corporate Governance Statement

## Our commitment to corporate governance

Charter Hall Group (comprising the jointly ASX listed Charter Hall Limited and the Charter Hall Property Trust) (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 of the Group.

Charter Hall's governance framework, as summarised in this Statement, has been designed to ensure that the Group is effectively managed, that the statutory obligations are met, and that Charter Hall's culture of corporate integrity is reinforced. Due consideration has been given to the *Corporate Governance Principles and Recommendations (2nd Edition) published June 2010 by the ASX Corporate Governance Council* (ASX Corporate Governance Principles) and any departure from these Principles is noted below.

This Statement provides a summary of the key governance practices in place and (unless stated otherwise) were followed throughout the financial year ended 30 June 2013.

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

### Roles of the Board and management

**ASX Corporate Governance Principle 1 – Lay solid foundations for management and oversight.**

**ASX Recommendation 1.1 – Companies should establish functions reserved to the board and those delegated to senior executives and disclose those functions.**

The Board of Charter Hall is committed to effectively representing and promoting the Group, and thereby adding long-term value to all security holders. 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 (JMDs), 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 (NEDs) 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/her duties and obligations, rights and responsibilities and entitlements.

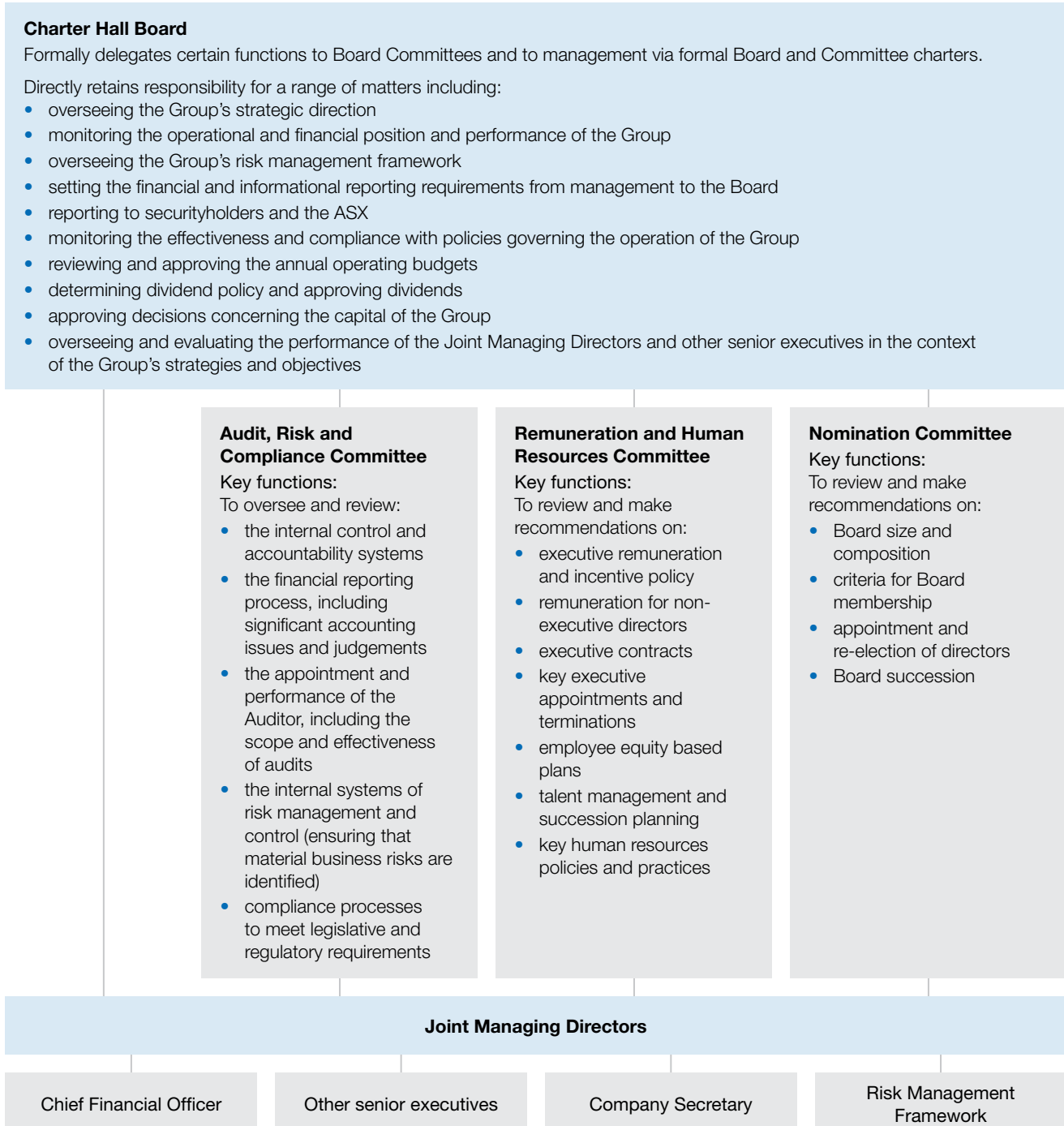


# Corporate Governance Statement

## continued

### 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.



## 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 charter, 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 4 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 until 15 August 2012), David Deverall (Chair from 8 November 2012), Anne Brennan (Acting Chair from 15 August to 8 November), Kerry Roxburgh
Remuneration and Human Resources	Anne Brennan (Chair), Colin McGowan, Roy Woodhouse, Peter Kahan
Nomination	Kerry Roxburgh (Chair), Roy Woodhouse, Peter Kahan

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

As at 30 June 2013 the membership of each Board Committee was the following:

Board Committee	Membership
Audit, Risk and Compliance	David Deverall (Chair), Anne Brennan, Kerry Roxburgh
Remuneration and Human Resources	Anne Brennan (Chair), Colin McGowan, Peter Kahan, Phil Garling (from 18.03.13)
Nomination	Kerry Roxburgh (Chair), David Deverall (from 18.03.13), Peter Kahan

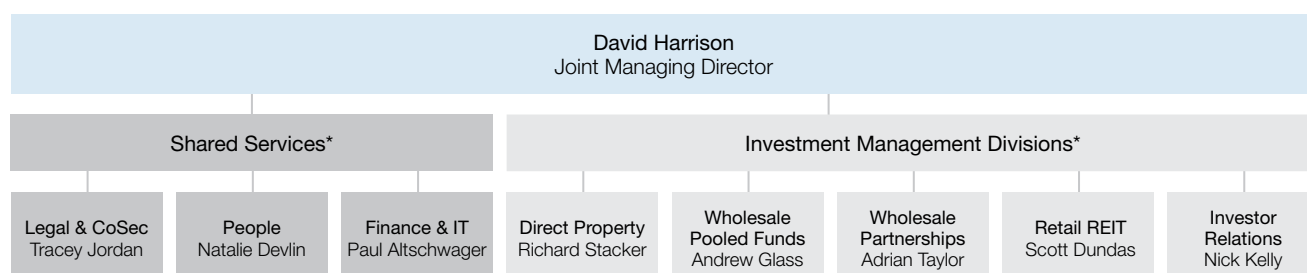
Glenn Fraser retired from the Audit, Risk and Compliance Committee on 15 August 2012. Roy Woodhouse retired from the Remuneration and Human Resources Committee and the Nomination Committee on 30 January 2013.

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 24 of this Annual Report.

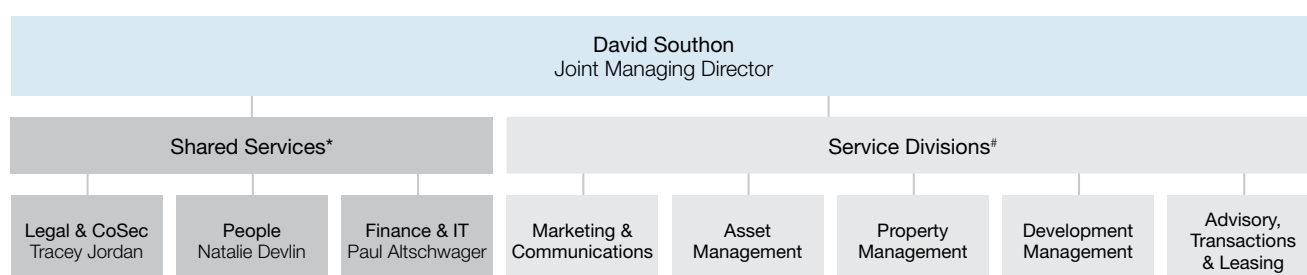
## Management

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 both share responsibility for the 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.

# Corporate Governance Statement

## continued

The Joint Managing Directors must consult with the Chairman on any matter which the Managing Directors consider is 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, who are also Key Management Personnel (KMPs) as defined 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 FY13 are set out in the Remuneration Report on pages 31 to 35 of this Annual Report.

The individual performance of the Joint Managing Directors is formally assessed on an annual basis by the Board. All KPIs are carefully considered by the Remuneration and Human Resources Committee, which evaluates each Joint Managing Director's performance and makes recommendations to the Board.

Executives reporting to the Joint Managing Directors are assessed annually against financial and non-financial KPIs. This assessment is undertaken by either or both of the Joint Managing Directors depending on the reporting lines. Executive performance results are reported to 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 letter of appointment which sets out his/her duties and obligations, rights and responsibilities and entitlements.

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 he/she gains 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

### ASX Corporate Governance Principle 2 – Structure the Board to add value.

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, review and challenge the performance of management and optimise the Group's performance.

Throughout the reporting period, the Board comprised of two executive directors and six non-executive directors. Of those six non-executive directors, a majority were independent directors. Glenn Fraser retired from the Board on 15 August 2012. Roy Woodhouse retired from the Board on 30 January 2013. Phil Garling joined the Board as a non-executive and independent director on 25 February 2013.

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
Glenn Fraser**	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
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
Phil Garling	Non-Executive Director	Yes	25 February 2013

\* Roy Woodhouse retired from the Board on 30 January 2013.

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

Details of the background, particular qualifications, expertise and period of service of each director are set out in the Directors' Report on pages 21 to 23 of this Annual Report.

### The Chairman of the Board

The Chairman is responsible for leadership of the Board and for the efficient organisation and conduct of the Board's functioning. The Chairman seeks effective contribution of all directors and promotes constructive and respectful relations between directors, and between Board and management.

### Director independence

**ASX Recommendation 2.1 – A majority of the board should be independent directors.**

**ASX Recommendation 2.2 – The Chair should be an independent director.**

**ASX Recommendation 2.3 – The roles of the chair & chief executive officer should not be exercised by the same individual.**

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 interfere with, the exercise of unfettered and independent judgement. 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 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 to fulfil their duties and in relation to their functions (including their Board Committee functions), subject to the estimates costs being first approved by the Chairman as reasonable.

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

### Nomination Committee

#### ***ASX Recommendation 2.4 – The board should establish a nomination committee.***

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.

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 developed 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 3 of this Statement and the independence of the members is provided on page 4 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 24 of this Annual Report.

### Board performance

#### ***ASX Recommendation 2.5 – Companies should disclose the process for evaluating the performance of the board, its committees and individual directors.***

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; and
- access by directors to continuing education to ensure that their skills and knowledge are updated and enhanced.

The formal annual performance self-assessment of the Board, Board Committees and individual directors was not conducted in FY13 due to the changes in the composition of the Board, and to allow new directors to settle in to their roles. This assessment will however be completed during calendar year 2013.

To ensure that directors are well-placed to discharge their duties effectively, they are provided Board reports in advance of Board meetings which contain 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.

### Independent professional advice

Directors are entitled to obtain independent professional advice at the cost of the Group.

### Company Secretary

The Company Secretary plays an important role in supporting the effectiveness of the Board by monitoring that Board policy and procedures are followed, and co-ordinating 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.

# Corporate Governance Statement

## continued

### Ethical and responsible decision making

**ASX Corporate Governance Principle 3 – Promote ethical and responsible decision-making**

**ASX Recommendation 3.1 – Companies should establish a code of conduct and disclose the code or a summary of the code as to: the practices necessary to maintain confidence in the company's integrity; the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders; and the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.**

Charter Hall has adopted a Code of Conduct which is periodically reviewed and endorsed by the Board. The Code of Conduct forms the basis for ethical behaviour by staff and 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. In addition to this, in order to deal specifically with responsibility and accountability of individuals for reporting and investigating reports of unethical behaviour, the Group has adopted a Fraud Risk Management Policy.

Staff are trained regularly on matters pertaining to ethical behaviour in the workplace. Topics covered during the year ended 30 June 2013 included the key aspects of the Code of Conduct, as well as a refresher course on controls against fraud and corruption, insider trading prohibitions and anti-money laundering and counter-terrorism financing.

The Fraud Risk Management Policy and a summary of Charter Hall's Code of Conduct are available to view under the 'Corporate Governance' section of Charter Hall's website.

#### 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 and Conflicts Protocol 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 Group has also established protocols for the Board in identifying and managing 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 the 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 above.

#### Securities trading

The Group has adopted a Securities Trading Policy which regulates the manner in which directors, senior executives and 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 pages 20 and 21 of Charter Hall's Securityholder Review 2013.

## Diversity

**ASX Recommendation 3.2 – Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the board to establish measurable objectives for achieving gender diversity for the board to assess annually both the objectives and progress in achieving them.**

**ASX Recommendation 3.3 – Companies should disclose in each annual report the measurable objectives for achieving gender diversity set by the board in accordance with the diversity policy and progress towards achieving them.**

**ASX Recommendation 3.4 – Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the board.**

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.

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 contains the overriding objectives to increase the percentage of women in leadership and business related roles, and to promote a culture that values diversity, inclusion and flexibility. To achieve these objectives, Charter Hall has put in place a number of strategies. Achievements against these strategies, in respect of the financial year ended 30 June 2013, are summarised below.

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

### FY13

As at 30 June 2013, the proportion of women on the Board was 12.5%, the senior management team was comprised of 17% women, and total staff across the Group was comprised of 47% women.

### FY13 strategy achievements

#### Recruitment

- Revised our recruitment process to ensure that long and short candidate lists as well as our selection panels include women.

#### Addressing impediments to diversity

- Developed our vision, values and leadership competencies to drive culture and set a framework for cultural transformation;
- Conducted an engagement survey which provided greater clarity around cultural and diversity issues;
- Increased the amount of paid parental leave from 12 to 14 weeks and continued to implement flexible work practices;
- Continued to foster flexibility including introducing a formal 'working from home' policy; and
- Conducted refresher training in appropriate workplace behaviour.

#### Identify, support and develop talented individuals with leadership potential across spectrum of gender, ethnicity and age

- Developed Study Assistance, External Training and Professional Membership policies.
- Provided specific development opportunities for senior women.
- Implemented a process for identifying talent and planning for succession.

### Our focus for FY14

In FY14, Charter Hall will be focusing on the following diversity and inclusion strategies:

**Flexible working:** to combine flexibility, business performance, productivity and sustainability with workforce well-being;

**Inclusive culture:** to create an environment where people with diverse backgrounds, skills and perspectives feel trusted, valued and respected;

**Gender balance:** to strive towards gender balance across the business; and

**External profile:** to develop our employment brand so that Charter Hall is perceived as a 'great place to work' by current employees and key external stakeholders (including active and passive candidates, tenants and investors) with an initial focus on gender.



# Corporate Governance Statement

## continued

### Financial integrity

#### **ASX Corporate Governance Principle 4 – Safeguard integrity in financial reporting.**

The Board has the responsibility for monitoring the integrity of the Group's financial reporting. To assist the Board in fulfilling this responsibility, the processes below have been adopted.

#### **Audit, Risk and Compliance Committee (ARCC)**

##### **ASX Recommendation 4.1 – The board should establish an audit committee.**

**ASX Recommendation 4.2 – The audit committee should be structured so that it: consists only of non-executive directors; consists of a majority of independent directors; is chaired by an independent chair, who is not chair of the board; and has at least three members.**

##### **ASX Recommendation 4.3 – The audit committee should have a formal charter.**

The Board has established an ARCC to oversee the quality and integrity of accounting, audit, financial and risk management practices for the Group. The ARCC is comprised of only independent directors, and is chaired by an independent director who is not the Chairman of the Board.

The Board has developed a charter which sets out the ARCC's role, responsibilities, composition, structure and membership requirements.

The responsibilities of the ARCC in relation to financial reporting are to:

- review the internal control and compliance systems of the Group;
- monitor the integrity of the financial statements of the Group;
- consider significant financial reporting issues and judgements made in connection with the Group's financial statements;
- review and inform the Board on matters relating to the Auditor;
- monitor compliance by the Group with legal and regulatory requirements;
- regularly monitor risk management reports provided by Management; and
- assess at regular intervals whether the Group's compliance plan, internal financial control systems, risk management policies and risk management systems are adequate.

The Auditor is invited to ARCC meetings and also meets privately with the ARCC at least twice a year.

The Committee's current membership is set out on page 3 of this Statement and the independence of the members is provided on page 4 of this Statement. Details of the Committee's meetings for the reporting period, and the attendance by members, are provided in the Directors' Report of page 24 of this Annual Report.

The Board regularly assesses and has determined that members of the ARCC, 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 ARCC, 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 a 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 ARCC.

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.

The Charter Hall Group 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. Charter Hall implemented an internal audit function in FY13, to commence assignments in FY14.

### Disclosure

#### **ASX Corporate Governance Principle 5 – Make timely and balanced disclosure.**

**ASX Recommendation 5.1 – Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior management level for that compliance and disclose those policies or a summary of those policies.**

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. The Board has adopted 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 Board has also established a Continuous Disclosure Committee to review issues surrounding continuous disclosure and to determine whether disclosure is required, and make corresponding recommendations to the Board.

The Policy includes procedures for dealing with potentially price-sensitive information, including referral to the Continuous Disclosure Committee, 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

**ASX Corporate Governance Principle 6 – Respect the right of shareholders.**

**ASX Recommendation 6.1 – Companies should design and disclose a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.**

Charter Hall's Continuous Disclosure and Communications Policy 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, 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. All meetings are also webcast.

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

**ASX Corporate Governance Principle 7 – Recognise and manage risk.**

**ASX Recommendation 7.1 – Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.**

Management has implemented a risk management framework under the oversight of the ARCC and the Board. The ARCC 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 ARCC regularly assesses whether Charter Hall's compliance plan, internal financial control systems, risk management policies and risk management systems are adequate.

**ASX Recommendation 7.2 – The board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks.**

Charter Hall's Risk and Compliance Manager is responsible for daily risk and compliance processes across the business and monitors the efficiency of Charter Hall's risk management 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 risk management framework.

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 ARCC and the Board.

During the reporting period, management has reported to the ARCC 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.

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

# Corporate Governance Statement

## continued

### CEO and CFO assurance

**ASX Recommendation 7.3 – The board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.**

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

**ASX Corporate Governance Principle 8 – Remunerate fairly and responsibly.**

**ASX Recommendation 8.1 – The board should establish a remuneration committee.**

**ASX Recommendation 8.2 – The remuneration committee should be structured so that it: consists of a majority of independent directors; is chaired by an independent chair; and has at least three members.**

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 recruitment, retention, performance measurement and termination policies and procedures. 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 and 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 3 of this Statement and the independence of members is discussed on page 4 of this Statement. Details of meetings held and attendance by each Committee member are contained in the Directors' Report on page 24 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 distinguishes the structure of non-executive directors' remuneration from that of executive directors and senior managers. Further information is provided in the Remuneration Report on pages 25 to 51 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 2013

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# Directors' Report

for the year ended 30 June 2013

The Directors of Charter Hall Limited and the Directors of Charter Hall Funds Management Limited, the Responsible Entity (RE) 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 2013, 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 RE 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 (resigned 30 January 2013)
- Anne Brennan – Non-Executive Independent Director
- David Deverall – Non-Executive Independent Director
- Glenn Fraser – Non-Executive Independent Director (resigned 15 August 2012)
- Philip Garling – Non-Executive Independent Director (appointed 25 February 2013)
- 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 activities of the Group consisted of:

- (a) Investment in property funds;
- (b) Direct property investments; and
- (c) Property funds management.

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:

	2013 \$'000	2012 \$'000
Final ordinary distribution for the six months ended 30 June 2013 of 10.40 cents per security payable on 28 August 2013	31,435	–
Interim ordinary distribution for the six months ended 31 December 2012 of 9.80 cents per security paid on 26 February 2013	29,276	–
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 2011 of 9.10 cents per security paid on 23 February 2012	–	26,888
	<b>60,711</b>	<b>53,839</b>

## Distribution Re-investment Plan (DRP)

The Group has a DRP under which securityholders may elect to have all or part of their distribution entitlements satisfied by the issue of new securities rather than being paid in cash. The DRP was reinstated for the half year ended 31 December 2012 and continued being in operation for the 30 June 2013 distribution.

The DRP issue price of \$3.8465 per security is determined at a discount of 1.0% to the volume weighted average market price of stapled securities traded on the ASX during the 15 business days following each balance date. The Group raised \$10.6 million from the DRP for the 31 December 2012 distribution and raised \$14.2 million from the DRP for the 30 June 2013 distribution.



# Directors' Report continued

for the year ended 30 June 2013

## Review and results of operations

The Group recorded a statutory profit after tax attributable to stapled securityholders for the financial year of \$54.8 million compared to \$16.7 million in 2012.

Operating earnings amounted to \$71.8 million for the financial year compared to \$54.8 million in 2012. Operating earnings before specific items amounted to \$71.8 million compared to \$63.6 million in 2012, an increase of 13% over the prior period.

Operating earnings is a financial measure which represents the profit under Australian Accounting Standards adjusted for fair value adjustments, gains or losses on sale of investments, non-operating movements in equity accounted investments, and non-cash items such as security-based benefits expense, amortisation and income taxes.

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 3: Segment information of the accompanying financial report.

	2013 \$'000	2012 \$'000
<b>Reconciliation of operating earnings to statutory profit</b>		
<b>Operating earnings before specific items</b>	<b>71,785</b>	63,586
Specific items <sup>1</sup>	–	(8,741)
<b>Operating earnings</b>	<b>71,785</b>	54,845
Non-cash security-based benefits expense	<b>(3,035)</b>	(2,338)
Fair value adjustments on derivatives <sup>2</sup>	<b>1,472</b>	(9,933)
Fair value adjustments on investments and property, including remeasurement gains <sup>2</sup>	<b>(3,615)</b>	(2,034)
Amortisation of management rights	<b>(7,838)</b>	(1,307)
Transfer from reserves of cumulative FX losses on disposal of foreign investments <sup>2</sup>	<b>(484)</b>	(12,176)
Loss on disposal of investments, property and derivatives	<b>(953)</b>	(890)
Inventory writedown <sup>2</sup>	–	(5,814)
Other <sup>2</sup>	<b>(2,490)</b>	(3,675)
<b>Statutory profit after tax attributable to stapled securityholders</b>	<b>54,842</b>	16,678

1 There are no specific items in 2013. The specific items in 2012 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 on a look-through basis (including losses on sale of offshore investment properties of \$nil (2012: \$2.0 million) and amortisation charges of \$0.5 million (2012: \$1.1 million)) and income taxes.

	2013	2012
Basic weighted average number of securities per Note 9 ('000s)	<b>299,805</b>	295,625
Basic earnings per stapled security per Note 9 (cents)	<b>18.29</b>	5.64
Operating earnings per stapled security before specific items per Note 3 (cents)	<b>23.94</b>	21.51
Operating earnings per stapled security (OEPS) per Note 3 (cents)	<b>23.94</b>	18.55

The 30 June 2013 financial results with comparatives are summarised as follows:

	CHARTER HALL GROUP		CHARTER HALL PROPERTY TRUST GROUP	
	2013	2012	2013	2012
Revenue including non-controlling interests (\$ million) <sup>1</sup>	<b>114.8</b>	123.6	<b>31.4</b>	53.3
Statutory profit after tax – stapled securityholders (\$ million)	<b>54.8</b>	16.7	<b>48.9</b>	36.1
Statutory earnings per stapled security (EPS) (cents)	<b>18.29</b>	5.64	<b>16.32</b>	12.21
Operating earnings before specific items for stapled securityholders (\$ m) <sup>2</sup>	<b>71.8</b>	63.6	<b>N/A</b>	N/A
Operating earnings before specific items per stapled security (cents) <sup>2</sup>	<b>23.94</b>	21.51	<b>N/A</b>	N/A
Operating earnings for stapled securityholders (\$ million) <sup>2</sup>	<b>71.8</b>	54.8	<b>N/A</b>	N/A
Operating earnings per stapled security (cents) <sup>2</sup>	<b>23.94</b>	18.55	<b>N/A</b>	N/A
Distributions to stapled securityholders (\$ million)	<b>60.7</b>	53.8	<b>60.7</b>	53.8
Distribution per stapled security (cents)	<b>20.2</b>	18.20	<b>20.2</b>	18.2
Total assets (\$ million)	<b>818.8</b>	875.6	<b>720.1</b>	775.5
Total liabilities (\$ million)	<b>78.5</b>	119.2	<b>60.2</b>	84.8
Net assets attributable to stapled securityholders (\$ million) <sup>3</sup>	<b>740.3</b>	728.9	<b>652.8</b>	650.2
Securities on issue (million) <sup>4</sup>	<b>302.3</b>	296.2	<b>302.3</b>	296.2
Net assets per security	<b>2.45</b>	2.46	<b>2.16</b>	2.20
Net tangible assets (NTA) attributable to stapled securityholders (\$ million)	<b>644.2</b>	630.2	<b>652.8</b>	650.2
NTA per stapled security (\$) <sup>4</sup>	<b>2.13</b>	2.13	<b>2.16</b>	2.20
Gearing – borrowings to total assets <sup>5</sup>	<b>1.88%</b>	1.45%	<b>3.51%</b>	4.27%
Funds under management (\$ billion)	<b>10.3</b>	8.9	<b>N/A</b>	N/A
Domestic funds under management (\$ billion)	<b>9.9</b>	8.5	<b>N/A</b>	N/A

1 Gross revenue does not include share of net profits of associates of \$42.5 million (2012: profit of \$2.9 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 in 2012.

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.

Distribution per stapled security (DPS) has increased from 18.2 cents in 2012 to 20.2 cents in 2013.

Net Tangible Assets per stapled security (NTA) remained constant at \$2.13 as at 30 June 2013 and 30 June 2012.

Funds Under Management (FUM) increased from \$8.9 billion at 30 June 2012 to \$10.3 billion at year end due to the establishment of new funds, including Charter Hall Direct Industrial Fund No.2, BP Fund, Core Logistics Partnership and Keperra Square Fund, property acquisitions in Charter Hall Retail Partnership No.2, Charter Hall Core Plus Office Fund, and Brisbane Square Wholesale Fund and changes in Charter Hall Retail REIT's property portfolio.

Gearing has increased from 1.45% at 30 June 2012 to 1.88% at 30 June 2013.

The Group delivered \$71.8 million of operating earnings before specific items compared to \$63.6 million in 2012. There were no specific items in the current year. Operating earnings before specific items comprises property funds investments of \$39.6 million (2012: \$33.4 million), direct property investments of \$4.9 million (2012: \$6.1 million) and property funds management of \$27.3 million (2012: \$24.1 million). The Group delivered \$71.8 million of operating earnings after specific items compared to \$54.8 million in 2012.

# Directors' Report continued

for the year ended 30 June 2013

## Review and results of operations continued

### Property funds investments

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

- co-investment property interest in a listed fund;
- co-investment property interest in wholesale unlisted funds and partnerships; and
- co-investment property interest in retail investor funds.

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

#### (i) Listed fund

**Charter Hall Retail REIT (CQR) – \$2.2 billion FUM, CHPT interest 9% with an equity interest carrying value of \$103.1 million**

CQR's investment strategy is to invest in neighbourhood and sub-regional shopping centres in Australia anchored by Coles and Woolworths Supermarkets. The REIT's supermarket-anchored portfolio comprises 74 properties across Australia with a reduced offshore exposure as a result of the REIT's successful offshore divestment program implemented in recent years. Following the completion of the sale of the REIT's Polish assets, expected in September 2013, the Australian portfolio will represent 97% of the REIT's net tangible assets.

At 30 June 2013, CQR was trading at a 14.7% premium to its net tangible assets of \$3.32 per unit. The REIT reported operating earnings of 29.77 cpa for the year, representing growth of 3.3% on prior year. CQR contributed \$9.1 million in investment earnings to the Group.

For the year ended 30 June 2013, asset revaluations of CQR's Australian grocery anchored portfolio were up \$1.5 million, with Australian FUM being \$1.7 billion. The occupancy of CQR's Australian portfolio at 30 June 2013 was 98.2%, with specialty rental rate growth of 4.0% for the 12 month period, reflecting the non-discretionary nature of income from the underlying assets.

During the year, the REIT completed a \$100 million institutional placement of 28,985,600 ordinary units at a price of \$3.45 per unit. The REIT used the proceeds of the placement to fund the acquisition of three sub-regional shopping centres located in regional New South Wales for a gross purchase price of \$100.7 million. In addition, the REIT raised a further \$18.9 million in equity through a Unit Purchase Plan (UPP). Under the UPP the REIT issued 5,484,400 ordinary units at a price of \$3.45 per unit. The Charter Hall Group did not participate in the institutional placement nor the UPP, resulting in a dilution of its investment position in CQR.

CQR reinstated its Distribution Re-investment Plan (DRP) for the 31 December 2012 interim distribution and it remains active for the final FY13 distribution, payable in August 2013. The Charter Hall Group has elected to participate in the DRP.

In July 2013, CQR acquired the Secret Harbour shopping centre in Rockingham, Western Australia, for \$33.2 million (representing an initial yield of 7.8%) and sold its 50% interest in Home HQ, Nunawading, Victoria, providing \$10 million in net equity proceeds to the REIT. The gross sale price was in line with the independent June 2013 valuation and represented a market equivalent capitalisation rate of 10.7%.

#### (ii) Wholesale unlisted funds and partnerships

**Charter Hall Office Trust (CHOT) – \$2.0 billion FUM, CHPT interest 15% with an equity interest carrying value of \$159.0 million**

CHOT's portfolio comprises 18 high grade office assets located in major business districts in Australia including the recently completed premium project at 171 Collins Street, Melbourne. The Trust earned \$197.0 million in rental income for the year and contributed \$11.8 million in investment earnings to the Group. CHOT's focus on creating value for investors through targeted leasing strategies has resulted in occupancy over 97% (including heads of agreement), with leasing success a significant contributing factor to the independent valuation uplift of \$59.9 million recognised on its existing property portfolio during the year. CHOT also recorded a further valuation uplift of \$12.3 million on completion of the 171 Collins Street development in June 2013.

Portfolio weighted average lease expiry (WALE) for the Trust is 4.4 years with a majority exposure to core Australian CBD office markets. The current weighted average capitalisation rate for the Trust is 7.73%.

Subsequent to year end, CHOT acquired the remaining 50% of the units in the No. 1 Martin Place Trust for \$220 million and, as a result, now owns 100% of the 1 Martin Place office tower in Sydney.

**Charter Hall Core Plus Office Fund (CPOF) – \$1.8 billion FUM, CHPT interest 11% and CHL interest 1% with a combined equity interest carrying value of \$114.7 million**

CPOF is an Australian unlisted wholesale office fund managed by the Group. The Fund earned \$135.1 million in gross income for the year and contributed \$7.7 million in investment earnings to the Group.

CPOF has continued to focus on improving portfolio metrics, creating value via enhancements and acquisitions. During the year, CPOF acquired 9 Castlereagh Street in Sydney for \$172.5 million, 50% of 100 Skyring Terrace in Queensland for \$18.0 million and 33% of Bankwest Place, Perth. Acquisitions have increased CPOF's gross asset value to \$1.8 billion and no significant valuation adjustments arose from the independent valuation of its entire existing portfolio during the last 12 months. CPOF has a current weighted average capitalisation rate of 7.77%, occupancy of 97% and a lease expiry profile of 5.2 years.

**Charter Hall Core Plus Industrial Fund (CPIF) – \$560 million FUM, CHPT interest 6% and CHL interest 7% with a combined equity interest carrying value of \$56.7 million**

CPIF is an Australian unlisted wholesale industrial fund managed by the Group. The Fund earned \$61.2 million in rental income for the year and contributed \$3.9 million in investment earnings to the Group.

CPIF has continued its focus on holding core logistics assets and executing accretive acquisitions. The Fund recently acquired a \$16.2 million industrial property at Huntingwood Drive, Huntingwood, a prime industrial precinct in Sydney's western suburbs. The transaction is subject to a 10 year lease to Home Timber and Hardware, guaranteed by Woolworths Ltd and reflects a core capitalisation rate of 7.9% with 3.25% p.a. rent increases.



The portfolio's current weighted average capitalisation rate is 8.28%, with a WALE of 9.6 years underpinned by strong tenant covenants such as Woolworths, Coles, Chevron, Australia Post, Metcash and Volkswagen. CPIF has been actively leasing over the financial year, reaching an occupancy level of 99% with minimal forward looking vacancy until 2017.

In late 2013, CPIF launched an equity raising with a target of \$150 million. As at 30 June 2013, \$119 million of new equity has been raised and an additional \$31 million has been secured subsequent to year end.

**Charter Hall Retail Partnership No.2 (RP2) (Bateau Bay Square) – \$164 million FUM, CHPT interest 20% with an equity interest carrying value of \$17.7 million**

RP2 was established in August 2012 with the acquisition of the Bateau Bay Square shopping centre (formerly Stockland Bay Village) on the Central Coast. RP2 is an unlisted wholesale single-asset vehicle with a 99% occupancy rate, a WALE of 3.9 years and a lease profile underpinned by national non-discretionary tenancies including Woolworths, Kmart and Aldi. The Fund earned \$15.3 million in rental income for the year and contributed \$1.3 million in investment earnings to the Group.

**BP Fund (BPF) (Bunnings partnership) – \$235 million FUM, CHL interest 13% with an equity interest carrying value of \$14.3 million**

BP Fund is an infinite life fund established in November 2012 as a new wholesale investment trust which owns 10 freestanding Bunnings warehouse properties. Partners include a major Australian Superannuation Fund and Charter Hall Group. The Fund earned rental income of \$8.5 million for the year and contributed \$0.6 million in investment earnings to the Group. BP Fund has accessed modern and newly constructed properties and the portfolio has a strong covenant. Bunnings is Australia and New Zealand's leading retailer of home and garden improvement products, a major supplier of building materials and a division of Wesfarmers Limited, a leading ASX 100 listed company. The property portfolio is 100% leased, has a WALE in excess of 12 years and a weighted average capitalisation rate of 7.58%. BP Fund is actively seeking to acquire further Bunnings leased assets.

**Core Logistics Partnership (CLP) – \$232 million FUM, CHL interest 5% with an equity interest carrying value of \$10.8 million**

CLP is a wholesale core industrial partnership established in December 2012 in partnership with wholesale investors for the acquisition and management of predominantly core Australian logistics properties. The Partnership also has minor investments in manufacturing based properties. CLP's mandate allows it to invest a proportion of its capital in land which provides a pipeline to additional assets based on pre-leased, design and construct industrial and logistics facilities. Currently, the development land comprises approximately 6% of the portfolio by gross asset value.

The Partnership targets institutional grade properties with strong lease covenants and has a target portfolio WALE of greater than eight years. The Partnership earned rental income of \$4.5 million for the year and contributed \$0.4 million in investment earnings to the Group. Its current portfolio has a weighted average capitalisation rate of 8.1% and a 14 year WALE from its leased assets with the income

predominantly generated from Woolworths, Metcash and Amcor. The property portfolio (excluding development land) is 100% occupied and CLP continues to actively pursue further property acquisitions in order to deploy its debt and equity commitments. Property revaluations since inception have resulted in a total valuation uplift of \$6.5 million.

**Keperra Square Fund (Keperra Square) – \$63 million FUM, CHL interest 10% with contributed equity of \$1.1 million**

The Keperra Square Fund is an unlisted wholesale trust established by Charter Hall, in partnership with an institutional investor, in June 2013. The Fund acquired the Great Western Super Centre, anchored by Woolworths and Aldi, in Keperra, Brisbane for \$62.9 million, reflecting a 7.75% capitalisation rate. Charter Hall has a 10% interest in the Fund and issued \$21.3 million in convertible preferred equity notes (PENS) in connection with the transaction. It is likely that an additional wholesale partner will be secured for the partnership, which would see Charter Hall's co-investment either repatriated or remain invested as a minority investor in an enlarged retail partnership. The earnings yield on the Group's \$22 million investment is expected to exceed 8% p.a.

**Other wholesale unlisted funds, mandates and partnerships**

The Group also originates and manages segregated mandate capital for direct property investments either in joint venture with funds such as CPOF or CQR or as 100% owned assets by our clients. The property portfolio for the segregated mandate business includes 275 George Street and Brisbane Square in Brisbane, Charter Hall Retail Partnership No. 1, Riverside Centre in Adelaide and Bankwest Place in Perth and represents a total portfolio value of \$1.0 billion.

*(iii) Retail investor funds*

This business manages equity raised from retail investors via advisers, high net worth individuals and through direct distribution channels.

**Charter Hall Direct Property Fund (CHDPF) – \$491 million FUM, CHPT interest 4% representing a carrying value of \$10.7 million**

CHDPF is an unlisted property fund that primarily invests in a diversified portfolio of Australian direct properties anchored by nine office properties located in established markets throughout Sydney, Melbourne, Brisbane and Perth. The Fund earned rental income of \$53.7 million during the year and contributed investment earnings of \$0.9 million to the Group. The Fund has a weighted average capitalisation rate of 8.33% and benefited from an occupancy rate of 95% and a WALE of 4.3 years with leases to over 100 tenants at 30 June 2013.

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 Diversified Property Fund (DPF) – \$51 million FUM, CHPT equity interest of 20% representing a carrying value of \$8.1 million**

DPF is an unlisted property fund that is invested in two office buildings and three industrial properties located in established markets throughout Sydney and Melbourne which benefited from an occupancy rate of 100% and a WALE of 5.5 years at 30 June 2013.

# Directors' Report continued

for the year ended 30 June 2013

## Review and results of operations continued

### Property funds investments continued

In accordance with DPF's Constitution, Charter Hall held a Unitholder Meeting in November 2012 at which a resolution was put to unitholders to terminate the fund. The resolution was not passed due to the total number of votes received not meeting the required threshold. Following the resolution not being passed and as outlined in the Explanatory Memorandum that was attached to the Notice of Meeting, DPF is continuing on the terms set out in its constitution and the Responsible Entity is proceeding with an orderly wind down of the Fund by seeking asset sales where property leasing profiles and market conditions make sales appropriate.

Subsequent to 30 June 2013, the two office properties have been sold, and the external debt facility repaid and capital returned to investors. The Fund no longer holds any external debt on its balance sheet.

### Charter Hall Umbrella Fund (CHUF) – \$116 million FUM, CHPT interest 24% representing a carrying value of \$30.1 million

CHUF is an unlisted fund of funds with investments in funds having portfolios comprising of over 55 office, industrial and retail properties across Australia. The Fund contributed investment earnings of \$2.2 million to the Group in the current year.

CHUF has a weighted average capitalisation rate of 8.0% and benefited from a WALE of 6.3 years and occupancy of 96% at 30 June 2013, calculated by looking through to the underlying properties held by funds in which CHUF has invested.

During the year the fund provided limited liquidity through six monthly withdrawal offers. The Charter Hall Group participated in the 20 June 2013 liquidity offer, reducing its investment interest to 24%.

### Other retail investor funds

The Group also has other minor co-investment interests.

Charter Hall Group has a co-investment in the PFA Diversified Property Trust (PFA) (0.1% interest, \$0.1 million) which is an unlisted property fund invested in a diversified portfolio across geographic location, property sector, tenant profile and lease expiry within Australia. Charter Hall took over as the responsible entity of this fund from Australian Property Growth Fund (APGF) in August 2012. The Trust was established in 2003 and currently invests in a portfolio of office and retail properties. As at 30 June 2013, PFA benefitted from 94% occupancy and a WALE of 3.9 years. In November 2012, the fund offered a \$5 million withdrawal offer to investors.

Charter Hall Group also has a co-investment in the Direct Industrial Fund (DIF) (0.2% interest, \$0.2 million). DIF is an unlisted property fund that invests in seven prime industrial assets across major industrial areas across Australia.

In May 2013, the Charter Hall Property Securities Fund (PSF), an equity securities fund investing in listed REITs on the Australian Securities Exchange was wound up. The Group held a 3.1% interest in this fund prior to wind up.

The Group also manages a series of pooled and single asset syndicates totalling \$429 million in FUM. This includes the Charter Hall Direct Industrial Fund No.2 (DIF2) which was launched in December 2012 and is currently open to new investment. Charter Hall Group does not have a co-investment in any of these funds.

### Direct property investments

The Group's direct property investment activities are carried out by Charter Hall Direct Retail Fund (DRF) which is 100% owned by the Group.

### Charter Hall Direct Retail Fund (DRF) – CHPT interest 84% and CHL interest 16%

DRF is an unlisted property fund that is consolidated in the financial statements of the Charter Hall Group and Charter Hall Property Trust Group. CHPT bought out the non-controlling interest on 19 April 2013, increasing its ownership interest from 66% to 84% and CHL continues to hold the remaining 16% interest in the fund. No gain or loss was recorded in profit or loss in connection with this transaction. DRF contributed a net \$4.9 million in operating earnings to the Group in 2013 (2012: \$6.1 million) and has a WALE of 4.3 years.

During the year, DRF sold the Bunnings Warehouse at Stafford, Queensland for \$19 million, the John Wiley Distribution Centre in Stafford, Queensland for \$11.7 million, Home HQ in Ipswich, Queensland for \$23.5 million and its 50% interest in the Lake Macquarie Shopping Centre for \$18.3 million (net of debt repaid to Westpac). At 30 June 2013, DRF's property portfolio comprised a 50% interest in Home HQ, Nunawading, Victoria and a direct interest in the Menai Central Shopping Centre at Old Illawara Road, Menai, New South Wales (Menai). Home HQ Nunawading was sold on 15 July 2013, providing \$10 million in net equity proceeds to the Group. The gross sale price was in line with the independent June 2013 valuation and represented a market equivalent capitalisation rate of 10.7%. Menai was sold on 17 September 2013 at a gross sale price in line with the asset's carrying value at 30 June 2013.

### 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-investment 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 property funds management business contributed \$27.3 million in operating earnings to the Group (2012: \$24.1 million).

Funds under management have increased \$1.4 billion during the year to \$10.3 billion. The Group's managed funds have acquired approximately \$2.1 billion of property in Australia including acquisition of management rights held over underlying assets in PFA (\$422 million). The Group's managed funds have also divested approximately \$960 million of assets.

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

This segment also includes the activities of the Group's 50% interest in Commercial and Industrial Property Pty Limited (CIP), an industrial development business. CIP contributed \$1.8 million (2012: \$1.5 million) of operating earnings to the Group (included in the above property funds management earnings of \$27.3 million).

### Interests in development funds and development properties

The Group's interests in development funds and development properties include interests in the Charter Hall Opportunity Fund No. 4 (CHOF4), the Charter Hall Opportunity Fund No. 5 (CHOF5) and a 50% interest in an office development at 685 La Trobe Street, Melbourne. Investment in development funds and development properties do not form part of the operating result of the Group.

#### Charter Hall Opportunity Fund 4 (CHOF4) – \$70 million FUM, CHL interest 3% with an equity interest carrying value of \$0.8 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 which exchanged on 13 September 2013 and is expected to settle by 30 September 2013. The Fund was scheduled to terminate on the earlier of the sale of all assets or 30 June 2013; however, the investors have voted to extend the term of the fund until 31 December 2013.

Performance fees raised in prior years 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. Based on the expected sale price of Home HQ North Shore, CHOF4 would not achieve the required IRR and accordingly, the Group paid the clawback of \$14.2 million in June 2013 to CHOF4. The clawback was fully provided for by the Group in the prior year, therefore this payment has no impact on the Group's statement of comprehensive income in the current year.

#### Charter Hall Opportunity Fund 5 (CHOF5) – \$278 million FUM, CHL interest 15% with an equity interest carrying value of \$14.9 million

CHOF5's mandate is to identify, acquire and deliver property development and value-add opportunities across various sectors. Progress on the fund's existing developments is outlined below.

Progress at WorkZone, Perth continues in line with program. 76% of the office space in the building has been pre-leased to anchor tenant, Leighton Contractors Pty Limited. Completion is scheduled for September 2013, with the intention of selling the property thereafter. In addition to its equity commitment through CHOF5, the Group provided a mezzanine loan in the amount of \$9.0 million to this project. A deed of amendment was entered on 20 May 2013 to extend the maturity date of the Group's \$9.0 million loan facility from 30 September 2013 to 31 March 2014. Refer to Note 35: Commitments of the financial statements for further details.

In respect of the Little Bay Cove project, development of the Estate Works to create individual housing and development superlots are progressing, with completion scheduled for November 2013. The Development Alliance (DA) partners in the Little Bay Cove project, being CHOF5 and TA Global Development Pty Ltd (TAG), have reserved all rights in relation to the future development and/or divestment of the project. The parties continue commercial negotiations with the intention of resolving this matter to the satisfaction of both parties; however, this matter is ongoing and yet to be finalised. The senior debt finance is being extended on a month to month basis subject to compliance with certain conditions. There are no assurances that the financier will continue to extend the term of the finance

facility; however, they have been working co-operatively with the Development Alliance partners on this basis since January 2013. CHOF5 has impaired the value of its share of the project having regard to the current position. Refer to Note 33: Investments in associates and Note 36: Contingent liabilities of the financial statements for further disclosure.

For the Aquilo residential development in Mentone, Victoria, as at 30 June 2013, 104 of the 119 townhouse development have been sold and settled (87%), seven unconditional contracts of sale have been exchanged (6%) and eight townhouses are available for sale. Purchaser settlements have continued during the year, with a total of 71 townhouses settled (65%) in the year ended 30 June 2013.

For the Lacrosse residential development in Melbourne Docklands, Victoria, as at 30 June 2013, 304 of the 312 apartment and eight of the 15 retail lot development (87%) have been sold and settled, three apartments and seven retail lots have exchanged unconditional contracts of sale and six apartments are available for sale. Purchaser settlements have continued during the year, with a total of 175 apartments and eight retail lots settled (56%) in the year ended 30 June 2013.

Development works have been completed on the Park Megacentre, Hastings, New Zealand. At 30 June 2013, there are three remaining lots being actively marketed for sale and one unconditional contract of sale has been exchanged.

The sale of 40 Creek Street, Brisbane occurred on 27 September 2012.

#### 685 La Trobe Street office development – CHL interest 50%

The development site at 685 La Trobe Street, Melbourne has planning approval for a ~38,000sqm office building and is seeking a satisfactory leasing pre-commitment with a view to on-selling this project to a suitable third party capital partner. This project has not made a contribution to the current period result.

## 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:

- Charter Hall acquired management rights valued at \$5.3 million in August 2012 and took over as responsible entity of PFA from Australian Property Growth Fund.
- DRF sold four of its six investment properties, recycling net capital of \$70.0 million for the Group.
- The Group established three new wholesale funds, RP2, BP and CLP, representing combined funds under management of \$0.6 billion.
- On 28 June 2013, the Group paid \$14.2 million in relation to the clawback of Charter Hall Opportunity Fund No. 4 (CHOF4) performance fees received in respect of the 2007, 2008, 2009 and 2010 financial years.
- On 28 June 2012, the Keperra Square Fund (Keperra Square) in which the Group has a 10% interest was established to acquire the Keperra Shopping Centre in Queensland for \$62.9 million. The Group issued PENS of \$21.25 million in connection with this transaction.

# Directors' Report continued

for the year ended 30 June 2013

## Matters subsequent to the end of the period

Since 30 June 2013, the Group has completed the following:

- The Group acquired \$14.7 million of new units in CHOT and the proceeds will be used to partially fund CHOT's acquisition of the remaining units of the 1 Martin Place Trust. The Group's ownership percentage in CHOT was unaffected by this transaction.
- A new Charter Hall managed entity entered into a put option agreement with Westfield Group and Westfield Retail Trust (Westfield) to acquire the Innaloo Shopping Centre and Shoppers Village, and the adjoining Innaloo Mega Centre in the inner metropolitan Perth suburb of Innaloo for a contract price of \$255.0 million. The put option became unconditional on 10 September 2013 and is exercisable by Westfield at any time until 25 December 2013.
- DRF sold its 50% interest in Home HQ located in Nunawading, Victoria on 15 July 2013, contributing net proceeds of \$10 million (after debt repayments) to the Group. DRF also sold its last remaining asset, the Menai Central Shopping Centre located in Menai, New South Wales on 17 September 2013, contributing net proceeds of \$31.5 million to the Group.
- The Group received a capital return of \$6.0 million from DPF following its sale of two office properties.

Except for the matters discussed above, no other matter or circumstance has arisen since 30 June 2013 that has significantly affected, or may significantly affect:

- (a) The Group's operations in future financial years; or
- (b) The results of those operations in future financial years; or
- (c) The Group's state of affairs in future financial years.

## Likely developments and expected results of operations

### Business strategy and prospects

Charter Hall's strategy is to use its specialist property expertise to access, deploy and manage equity invested in Australian Retail, Office and Industrial portfolios. Charter Hall invests alongside our partners to create value and provide superior returns for our clients and Charter Hall securityholders.

Charter Hall manages \$10.3 billion of real estate and derives approximately two thirds of its income from its \$600 million property investment portfolio, with the remaining one third being earned from property funds management.

Charter Hall is well positioned to benefit from projected growth of capital inflows from investors seeking property investments driven by the attractive spreads between property yields and long-term interest rates. During the last 12 months, Charter Hall has seen positive equity flows across all sectors from listed, wholesale and retail investors.

### Property investment portfolio

The investment portfolio composition is primarily driven by co-investment requirements; where typically between 10%–20% of the equity in a fund is contributed by Charter Hall. In addition to these co-investments the Group may invest a higher proportion in certain funds to reweight its investment portfolio and is currently reviewing opportunities to increase the proportion of retail and industrial investments and extend the overall WALE of its property investment portfolio.

The Group regularly reviews the performance of its investment portfolio and relevant economic drivers and actively manages performance at an asset level in each fund through its property management services and at an investment portfolio level by refinancing portfolios and recycling Charter Hall's capital and reinvesting into better performing investments.

The material business risks faced by the property investment portfolio that may have an effect on financial performance include interest rate risk, refinancing risk, lease defaults or extended vacancies, portfolio concentration risks and changes in economic or industry factors impacting tenants.

### Property funds management platform

The Group manages investments on behalf of listed, wholesale and direct investors and has strict policies in place to ensure appropriate governance procedures are in place to meet fiduciary responsibilities and manage any conflicts of interest. Charter Hall provides a suite of services including investment management, asset management, property management, transaction services, development services, treasury, finance, legal and custodian services based on each fund's individual requirements.

The Group regularly reviews investor requirements and preferences for an investment partner in the Australian core real estate sectors and transaction structures that would meet their requirements. It actively manages its portfolios with over 30% of FUM by value being transacted during the last financial year and with the core platform and depth of expertise it is well placed to service current partners and new funds.

The material business risks faced by the property funds management platform that may have an effect on financial performance of the Group include not delivering on investor expectations leading to loss of FUM, loss of key personnel impacting service delivery, economic factors impacting non-annuity fee streams and portfolio and economic factors impacting property valuations.



## 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 and of Tasman Cargo Airlines 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  
(resigned 30 January 2013)*

#### *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 was 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  
(until 30 January 2013)

Member of the Nomination Committee (until 8 November 2012)

#### *Interests in securities*

Not applicable

### 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  
(Acting Chair from 15 August to 7 November 2012)  
Chair of Remuneration and Human Resources Committee

#### *Interests in securities*

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

# Directors' Report continued

for the year ended 30 June 2013

## Information on Directors continued

### 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*

Member of the Audit, Risk and Compliance Committee (Chair from 8 November 2012)

Member of the Nomination Committee (from 18 March 2013)

#### *Interests in securities*

33,720 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*

Chair of the Audit, Risk and Compliance Committee (until 15 August 2012)

#### *Interests in securities*

Not applicable

### Philip Garling

*Independent Non-Executive Director*

#### *Experience and expertise*

Philip joined the Board of the Charter Hall Group on 25 February 2013.

Philip has over 35 years' experience in property and infrastructure, development, operations and asset and investment management. His executive career included nine years as Global Head of Infrastructure at AMP Capital Investors and 22 years at Lend Lease Corporation, including five years as CEO of Lend Lease Capital Services.

Phil holds a Bachelor of Building from the University of NSW, and has completed the Advanced Management Program at the Australian Institute of Management, and the Advanced Diploma at the Australian Institute of Company Directors. He is a Fellow of the Australian Institute of Company Directors, Australian Institute of Building and Institution of Engineers, Australia.

#### *Other current listed company directorships*

Australian Renewable Fuels Limited (Chair)

Downer EDI Limited

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

DUET Group

#### *Special responsibilities*

Member of the Remuneration and Human Resources Committee (from 18 March 2013)

Member of the Valuations Committee (from 18 March 2013)

#### *Interests in securities*

6,297 securities in Charter Hall Group

### David Harrison

*Joint Managing Director/Executive Director*

#### *Experience and expertise*

As Charter Hall Group's Joint Managing Director, with over 25 years of property industry experience, David is responsible for all aspects of the Charter Hall 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 operations of the Investment Management Divisions, including the listed REITs, Wholesale Unlisted and Retail Unlisted Divisions, together with Investor Relations.

Together with the relevant Divisional Heads, 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 and Capital Management. In addition, David is an Executive Director on the Board of the Responsible Entity for the Charter Hall Direct Funds, a Non-Executive Director on the Board of Commercial Industrial Property (CIP), and a member of various unlisted Fund Boards and Investment Committees.

David holds a Bachelor of Business Degree (Land Economy) from the University of Western Sydney, is a Fellow Member of the Australian Property Institute (FAP) and holds a Graduate Diploma in Applied Finance from the Securities Institute of Australia.

#### *Other current listed company directorships*

Charter Hall Retail REIT (ASX: CQR)

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

Charter Hall Office Management Limited for the Charter Hall Office REIT (ASX: CQO) (CQO delisted on 1 May 2012)

#### *Special responsibilities*

Member of the Valuations Committee

#### *Interests in securities*

1,841,773 securities in Charter Hall Group via indirect interests. 1,113,288 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.

### **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*

Member of the Remuneration and Human Resources Committee (from 8 November 2012)

Member of the Nomination Committee (from 8 November 2012)

#### *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 Valuations Committee (Chair until 8 November 2012)

Member of the Remuneration and Human Resources Committee

Member of the Nomination Committee (until 8 November 2012)

Chair of the Charter Hall Property Trust

#### *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. Together, and in conjunction with the CHC Executive Committee and the Board, 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; Asset Management; Property Management; Marketing and Communications, as well as strategic involvement in project origination and direction.

Together with the relevant Divisional Heads, 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 and Capital Management. In addition, David is an Executive Director on the Board of the Responsible Entity for the Charter Hall Direct Funds, a Non-Executive Director on the Board of Commercial Industrial Property (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 (FAP).

#### *Other current listed company directorships*

Charter Hall Retail REIT (ASX: CQR)

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

Charter Hall Office Management Limited for the Charter Hall Office REIT (ASX: CQO) (CQO delisted on 1 May 2012)

#### *Special responsibilities*

Alternate Member of the Valuations Committee

#### *Interests in securities*

1,880,612 securities in Charter Hall Group via direct interests. 1,175,122 Options and 1,113,288 Performance Rights in the Charter Hall Performance Rights and Options Plan; options and performance rights also vest after performance and service conditions are met.

# Directors' Report continued

for the year ended 30 June 2013

## Information on Directors continued

### Tracey Jordan

Company Secretary

Tracey Jordan was appointed Company Secretary of the Charter Hall Group on 19 November 2012. Tracey has more than 24 years' experience in real estate and funds management, with extensive knowledge of real estate transactions, structuring, funds management, compliance and corporate governance. Prior to joining Charter Hall, Tracey was National Manager, Unlisted Property Funds, and Senior Legal Counsel at Stockland. Tracey was also a Senior Associate for King & Wood Mallesons in their Canberra office in the Property and Projects division from 1999 to October 2005.

Tracey is a Solicitor of the Supreme Court of NSW, and has been admitted to the Supreme Court of the Australian Capital Territory and the High Court of Australia. She holds a Bachelor of Arts and Bachelor of Laws from the University of Sydney.

Carolyn Rodger was Company Secretary from 12 June 2012 to 29 January 2013.

### 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 2013, 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		VALUATION COMMITTEE	
	A	B	A	B	A	B	A	B	A	B
K Roxburgh	14	15	6	6	3	3	*	*	*	*
R Woodhouse <sup>1</sup>	9	10	*	*	2	2	1	2	*	*
A Brennan	15	15	6	6	*	*	6	6	*	*
D Deverall <sup>2</sup>	14	15	5	6	0	0	*	*	*	*
G Fraser <sup>3</sup>	1	1	*	*	*	*	*	*	*	*
P Garling <sup>4</sup>	2	3	*	*	*	*	2	2	*	*
D Harrison	13	15	*	*	*	*	*	*	2	2
P Kahan	15	15	*	*	2	2	6	6	*	*
C McGowan <sup>5</sup>	13	15	*	*	1	1	8	8	2	2
D Southon	15	15	*	*	*	*	*	*	*	*

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 R Woodhouse resigned on 30 January 2013.

2 D Deverall was appointed to the Nomination Committee on 18 March 2013.

3 G Fraser resigned on 15 August 2012.

4 P Garling was appointed to all committee roles on 18 March 2013.

5 C McGowan retired from certain committee roles on 8 November 2012.



## Remuneration overview – unaudited

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 their remuneration arrangements. 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).

This overview provides a summary of Group performance, key remuneration decisions taken during 2013, KMP remuneration received in 2013 and planned changes for 2014.

As required by section 308(C) of the Act, the full audited remuneration report from page 27 of this Annual Financial Report provides more detail on Charter Hall's remuneration strategy, components and outcomes.

### 1. Group performance

During 2013, the Group executed on a number of strategic initiatives to grow funds under management in its core real estate sectors and improve performance in the property investment portfolio and property funds management platform. These initiatives resulted in an 11.3% increase in operating earnings per stapled security (OEPS), before specific items, and distribution per stapled security (DPS) of 20.2 cents (an increase of 11.0%). This, together with the share price growth, resulted in a Total Securityholder Return of 80.6% for the 12 months ended 30 June 2013.

### 2. Key remuneration decisions taken in 2013

#### *Fixed Remuneration*

- No increases were awarded to the JMDs and Senior Executives for 2013.
- Fixed Remuneration increases for all other employees averaged 3%.
- No increases for NED fees for 2013.

#### *Short Term Incentive (STI)*

- The STI scheme was revised for 2013, introducing a Group financial gateway of 95% of budgeted OEPS. There is no STI entitlement below the gateway with the Board retaining overall discretion on performance achievement.
- The STI scheme revisions also articulated performance and pay outcomes at threshold, target and stretch.
- The quantum of STI deferral was adjusted for 2013 so that one-third of any STI awarded to JMDs and Senior Executives together with any award above 100% of target is converted into service rights vesting equally over two years.
- Based on the Group's financial performance in 2013, both the financial gateway and the target hurdles were achieved. The available STI pool was \$9.06 million with \$8.74 million being awarded.

#### *Long Term Incentive (LTI)*

- The range required for Absolute Total Securityholder Return (TSR) was increased from 10%-12% to 10%-13% in 2013.
- During 2013, the Group's Absolute TSR hurdles (12% compound average growth rate over three years) and Relative TSR hurdles (1.1 times A-REIT Index) were achieved, resulting in the vesting of the 2010 Performance Rights and Options Plan (PROP) grant on 1 July 2012.
- From 2013, rights issued under the PROP vest on 1 July of the relevant year, but cannot be exercised until the release of full year financial results.

#### *Clawbacks*

- The Group introduced clawback provisions, applicable to deferred, unpaid STI and unvested LTI for the JMDs and Senior Executives in 2013.

#### *General Employee Securities Plan*

- In 2013, a General Employee Securities Plan (GESP) was introduced to encourage greater employee ownership in Charter Hall. Under Employee Share Scheme legislation (Division 83A (ITAA 97)), this plan offers an annual gifting of up to \$1,000 of CHC securities each to non-probation employees who are not current participants in another LTI Plan.

#### *KMP remuneration received in 2013*

The actual remuneration presented in the following table provides the remuneration that KMPs received during the financial year ended 30 June 2013. This voluntary disclosure, provided to increase transparency, includes:

- fixed pay and other benefits for 2013;
- 2012 cash STI paid during 2013; and
- the value of any LTI award that vested during 2013.

The actual remuneration presented is distinct from the disclosed remuneration in the Remuneration Report on page 39, 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 and service conditions being met.

# Directors' Report continued

for the year ended 30 June 2013

## Remuneration overview – unaudited continued

### 2. Key remuneration decisions taken in 2013 continued

Executives' actual remuneration outcomes 2013

2013	SHORT-TERM BENEFITS		POST-EMPLOYMENT BENEFITS	SHARE-BASED EMPLOYMENT	OTHER		% of remuneration consisting of options/rights %
	Salary and fees \$	Short-term incentive \$	Super-annuation \$	Value of securities vested <sup>1</sup> \$	Non-monetary benefits <sup>2</sup> \$	Total \$	
Name							
<b>Executive Directors</b>							
D Harrison	1,009,530	–	16,470	588,496	38,894	1,653,390	36
D Southon	1,019,130	–	16,470	588,496	29,294	1,653,390	36
<b>Other Key Management Personnel</b>							
P Altschwager <sup>3</sup>	683,530	–	16,470	425,188	–	1,125,188	38
N Devlin	258,530	34,300	16,470	–	–	309,300	–
S Dundas	423,530	65,200	16,470	–	–	505,200	–
A Glass	529,530	48,500	16,470	145,553	–	740,053	20
T Jordan <sup>4</sup>	162,902	–	11,037	–	–	173,939	–
N Kelly	451,530	48,600	16,470	116,441	–	633,041	18
R Stacker	423,530	65,200	16,470	–	–	505,200	–
A Taylor	607,530	92,500	16,470	–	–	716,500	–
<b>Totals</b>	<b>5,569,272</b>	<b>354,300</b>	<b>159,267</b>	<b>1,864,174</b>	<b>68,188</b>	<b>8,015,201</b>	<b>23</b>

1 Values relate to 2010 LTI allocation which vested on 1 July 2012; N Devlin, S Dundas, T Jordan, R Stacker and A Taylor were not PROP participants at the time of the 2010 allocation.

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

3 P Altschwager was awarded a sign-on incentive of 260,054 service rights to the value of \$485,000 when he joined the Group in February 2012. The rights vested 50% (130,027) on 31 December 2012 to the value of \$425,188, with the remainder due to vest on 31 December 2013.

4 T Jordan appointed as KMP on 19 November 2012.

### 3. Planned changes for 2014

The Board and management reviewed the framework with a view to align it with stakeholders and providing a real strengthened incentive for employees to outperform. As a result, the following changes to STI are proposed for 2014:

- increasing the STI pool available for Group out-performance at stretch such that, at 120% of budgeted OEPS, 150% of the STI pool is available (increased from 125%);
- adjusting the Group financial gateway from 95% to 90% of budget OEPS for employees below Senior Executive level;
- S Dundas, CQR Fund manager, will have his deferred STI allocated in Charter Hall Retail REIT (CQR) units rather than Charter Hall Group (CHC) units.

## 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 2013. 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 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);
- Colin McGowan;
- Peter Kahan; and
- Philip Garling (appointed on 18 March 2013).

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 24. The Committee's charter is available on the Company's website at [www.charterhall.com.au](http://www.charterhall.com.au).

#### 1.2 External advisers and remuneration consultants

Where necessary, the Board seeks advice from independent experts and advisers including remuneration consultants who ensure that executives' remuneration is appropriately structured and consistent with comparable roles in the market. Other external advisers (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.

The Board follows 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 advisers are used as a guide only and 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 advisers provided advice to the Committee – Ernst & Young, Deloitte and Herbert Smith Freehills. These advisers did not provide any 'remuneration recommendations' to Charter Hall as defined by the Act.

# Directors' Report continued

for the year ended 30 June 2013

## Remuneration Report – audited continued

### 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 2013
<b>Non-Executive Directors</b>		
Anne Brennan	Director	
David Deverall	Director	
Philip Garling	Director	Appointed 25 February 2013
Peter Kahan	Director	
Colin McGowan	Director	
Kerry Roxburgh	Chairman	
<b>Executive Directors</b>		
David Harrison	Joint Managing Director	
David Southon	Joint Managing Director	
<b>Former Non-Executive Directors</b>		
Glenn Fraser	Director	Resigned 15 August 2012
Roy Woodhouse	Director	Resigned 30 January 2013
<b>Executives</b>		
Paul Altschwager	Group Chief Financial Officer	
Natalie Devlin	Head of People	
Scott Dundas	Fund Manager, Charter Hall Retail REIT (CQR)	
Andrew Glass	Head of Wholesale Pooled Funds	
Tracey Jordan	Group General Counsel and Company Secretary	Appointed 19 November 2012
Nick Kelly	Head of Investor Relations	
Richard Stacker	Head of Direct – Charter Hall Direct Property	
Adrian Taylor	Head of Wholesale Partnerships	

#### 1.4 Decisions and actions taken during 2013

##### 1.4.1 Remuneration framework changes for 2013

The Board endeavours to ensure that remuneration policies balance Charter Hall's performance objectives and remain in line with shareholder and community expectations. Whilst stability in the remuneration structure is important, where modifications can be made to optimise stakeholder alignment and incentivise performance, the Board actively considers such changes.

The following changes were implemented in 2013:

Component	Change
Short Term Incentive (STI)	<ul style="list-style-type: none"> <li>Introduced a Group financial gateway of 95% of budgeted OEPS. There is no STI entitlement below the gateway; however, the Board retains an overall discretion on performance achievement.</li> <li>Articulated performance and pay outcomes at threshold, target and stretch.</li> <li>Reweighted KPIs from 50% financial and 50% non-financial, to 67% financial and 33% non-financial.</li> <li>Introduced deferral of one-third of any STI awarded and any award in excess of 100% target 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>Retained 50% weighted Absolute TSR measure, after considering alternates, as it provides strong alignment with our business model of co-investing in managed funds with Absolute Return objectives.</li> <li>Increased the range of the Absolute TSR measure from 10%-12% to a range of 10%-13%.</li> </ul>
Clawbacks	<ul style="list-style-type: none"> <li>Introduced clawbacks (for JMDs, Reported and Senior Executives only) applicable to unvested deferred STI and LTI for material misstatement or misrepresentation of financial results. Board discretion applies to overall performance.</li> </ul>



Component	Change
Remuneration mixes	<ul style="list-style-type: none"> <li>Adjusted the remuneration mix for the JMDs from 50/25/25 to 45/27.5/27.5 and the KMP (excluding the CFO) from 60/20/20 to 60/25/15 to adjust for the introduction of STI deferral and improve the competitiveness of our remuneration mix.</li> </ul>
General Employee Securities Plan (GESP)	<ul style="list-style-type: none"> <li>Introduced the GESP to encourage greater employee ownership in Charter Hall. Under Employee Share Scheme legislation (Division 83A (ITAA 97)), this plan offers an annual gifting of up to \$1,000 of CHC securities each to non-probation employees who are not current participants in another LTI Plan.</li> </ul>

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.

#### 1.4.2 Aligning remuneration outcomes with Group performance in 2013

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

As a result, based on the remuneration framework changes outlined in 1.4.1, the following decisions on remuneration outcomes were taken:

Action	Explanation
JMD remuneration	<ul style="list-style-type: none"> <li>For the second year there were no increases to the Fixed Remuneration for the JMDs.</li> </ul>
Executive Fixed Remuneration	<ul style="list-style-type: none"> <li>There were no increases to Fixed Remuneration for KMP and other Senior Executives.</li> </ul>
Directors' fees	<ul style="list-style-type: none"> <li>There was no increase to NED fees in 2013.</li> </ul>
Fixed Remuneration for other employees	<ul style="list-style-type: none"> <li>Fixed Remuneration increases for all other employees averaged 3.0% for 2013.</li> </ul>
STI awarded to the JMDs	<ul style="list-style-type: none"> <li>In 2013, the required gateway for the JMDs' STI of 95% of budgeted OEPS was achieved. Based on their KPI achievement, David Harrison received 91.75% of his on-target STI and David Southon received 90.00%.</li> </ul>
STI awarded for other employees	<ul style="list-style-type: none"> <li>The required gateway for STI of 95% of budget OEPS was achieved. The available STI pool was \$9.06 million with \$8.74 million being awarded, inclusive of the award to JMDs.</li> </ul>
LTI vesting	<ul style="list-style-type: none"> <li>The Absolute TSR Hurdles (12% compound average growth rate over three years) and the Relative TSR (1.1 times A-REIT Index) for the 2010 PROP grant were achieved on 1 July 2012 having achieved a compound average growth rate over the three years to 1 July 2012 of 16.4%.</li> </ul>
LTI awarded for other employees	<ul style="list-style-type: none"> <li>In 2013, a General Employee Securities Plan (GESP) was introduced to encourage greater ownership in Charter Hall. Under Employee Share Scheme legislation (Division 83A (ITAA 97)), this plan offers an annual gifting of up to \$1,000 CHC securities each to non-probation employees who are not current participants in another LTI Plan.</li> </ul>
Retention arrangement	<ul style="list-style-type: none"> <li>A retention arrangement was established for Richard Stacker as Head of Charter Hall Direct Property, reflecting the fact that his Total Remuneration is below market and that adjustments to market will take a number of years. Under this arrangement he will receive 90,000 stapled securities vesting on 31 December each year for the next three years, commencing on 31 December 2013.</li> </ul>

#### 1.5 Proposed remuneration framework changes for 2014

Framework changes relate to the STI component and include:

- increasing the STI pool available for Group out-performance at stretch such that, at 120% of budgeted OEPS, 150% of the STI pool is available (increased from 125%);
- increasing the amount available for individual out-performance at stretch (cap increased from 125% to 150% of target STI);
- adjusting the Group financial gateway from 95% to 90% of budgeted OEPS for employees below Senior Executive level; and
- STI deferral for Scott Dundas, CQR Fund Manager, into CQR units rather than CHC securities in response to CQR securityholder request.

# Directors' Report continued

for the year ended 30 June 2013

## Remuneration Report – audited continued

### 1. Executive remuneration governance and structure continued

#### 1.6 2013 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 2013 BUSINESS STRATEGY

To be Australia's best performing property company through the cycle:

- deliver top quartile returns vs A-REIT 200;
- recycle equity into higher yielding investments;
- grow sustainable earnings (>80% annuity earnings);
- develop scalable and efficient platform;
- recruit, retain and motivate a high performance team; and
- average OEPS Growth > 5-7% p.a.

#### 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 gender pay equality; and</li> <li>• reviewed annually.</li> </ul>	<ul style="list-style-type: none"> <li>• Gateway of 95% of budget OEPS for all STI;</li> <li>• size of the STI pool is linked to the achievement of a budget OEPS number;</li> <li>• individual STI targets are linked to KPIs which include performance targets of the Group, Division and individual;</li> <li>• Group and Divisional Financial measures relate to OEPS, 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 67/33 financial and non-financial;</li> <li>• deferral of one-third of any STI awarded and any amount over 100% into service rights over two years; and</li> <li>• clawbacks on unvested LTI for material misstatement, financial misrepresentation and Board discretion on performance.</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;</li> <li>• capped at 10% of fully diluted securities on issue;</li> <li>• clawbacks on unvested LTI for material misstatement, financial misrepresentation and Board discretion on performance; and</li> <li>• General Employee Securities Plan (GESP) for non-probationary employees not participating in other LTI Plan.</li> </ul>

## 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 JMDs' 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.

The table below represents the target remuneration mix for KMP in 2013. 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	45.0%	27.5%	27.5%
CFO	50.0%	25.0%	25.0%
Other KMP	60.0%	25.0%	15.0%

Where the JMDs' remuneration approach differs from the Reported Executives' remuneration it is noted below.

### 2.1 Fixed Remuneration

<b>Composition</b>	Fixed Remuneration comprises cash base salary, statutory superannuation contributions and other nominated benefits (such as car parking, novated leases and additional superannuation contributions).
<b>Review process</b>	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>
<b>JMDs</b>	<p>Benchmarking is challenging, as there are few companies that replicate Charter Hall's business model. Given the unique nature of the JMD roles, the Board references the average remuneration paid to the comparator group CEOs and the 'next highest paid senior executive' (excluding the CFO) when setting their remuneration.</p> <p>The following comparator groups are used when determining JMD remuneration:</p> <ul style="list-style-type: none"> <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; and</li> <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> </ul> <p>No fixed remuneration increases were awarded to the JMDs in 2013.</p>
<b>KMP</b>	There were no fixed remuneration increases for Senior Executives in 2013.

# Directors' Report continued

for the year ended 30 June 2013

## Remuneration Report – audited continued

### 2. Executive remuneration components and outcomes continued

#### 2.2 Short Term Incentives (STI)

<b>Purpose</b>	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 (KPIs).
<b>Participants</b>	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.
<b>Gateway</b>	A Group financial gateway of 95% of budgeted OEPS exists before any STI entitlement is available, with the Board retaining overall discretion on performance achievement. From 2014, the Group financial gateway will be 90% of budgeted OEPS for employees below Senior Executive level. Group financial gateway will remain at 95% of budgeted OEPS for the JMDs and Senior Executives.
<b>Determining the STI pool</b>	Subject to an overall cap determined by the Board, the size of the pool is determined by the Board, upon advice from the Remuneration and Human Resources Committee, based on achieving a budgeted 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.
<b>Performance targets</b>	<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 2013 were split 67% financial and 33% non-financial and are based on a Balanced Scorecard approach which encourages executives to take a holistic approach to enhancing and protecting shareholder value.</p> <p>In 2013, the Group's financial target was set to be higher than market guidance of 22.5–23.5 cents per security. The gateway hurdle and financial target were achieved in 2013, resulting in 100% of the STI Pool being available for payment. Individuals could receive up to 125% of target STI opportunity for individual out-performance.</p>
<b>Delivery</b>	<p>For Reported and Senior Executives the STI is delivered in the form of cash (67%) and service rights (33%), with any award over 100% target also deferred into service rights. Service rights vest 50% at year 1 and 50% at year 2. The number of rights to be issued is 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 (for 2013 this was 12 September 2013).</p> <p>If an executive's employment terminates 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>
<b>Short-term performance</b>	<p>In 2013, Charter Hall's OEPS was 23.94 cents, which was broadly consistent with target.</p> <p>The STI pool for 2013 represented 12.6% of Group operating earnings (after STI).</p>



**2013 STI  
assessment  
– JMDs**

The JMDs have a financial gateway of 95% of budget 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. The Board retains discretion to increase or decrease the overall STI awarded, based on its assessment of the overall performance throughout the year. In 2013, the financial gateway of 95% of budget OEPS was achieved and the JMDs' KPI achievement for 2013 is summarised below:

**David Harrison**

Measure	KPI	Status
Financial 67%	Including OEPS at the Group level, domestic fund growth and EBITDA margin for funds management	Achieved
Non-financial 33%	<b>People</b> measures (11%) – including performance of the Executive Team, KMP succession, implementation of Diversity initiatives, employee engagement survey/action plan and retention rate	Mainly achieved
	<b>Stakeholder</b> measures (11%) – including improved investor satisfaction at a Group and fund level	Mainly achieved
	<b>Operational</b> excellence measures (11%) – including risk management and corporate governance processes, and sustainability targets	Achieved

**David Southon**

Measure	KPI	Status
Financial 67%	Including OEPS at the Group level, EBITDA margins across service division	Achieved
Non-financial 33%	<b>People</b> measures (11%) – including performance of the Management Team, KMP succession, implementation of Diversity initiatives, employee engagement survey and action plan and retention rate	Mainly achieved
	<b>Stakeholder</b> measures (11%) – including standards for service division delivery, stakeholder management and communication, and improved investor satisfaction at a Group and fund level	Mainly achieved
	<b>Operational</b> excellence measures (11%) – including design and implementation of a scalable platform, sustainability targets and risk and corporate governance processes	Achieved

**2013 STI  
assessment  
– other KMP**

For 2013, a financial gateway of 95% budgeted OEPS was introduced for STIs. KPIs for Senior Executives which are summarised below are broadly similar to that of the JMDs and are focused on individual areas of accountability:

Measure	KPI
Group financial 33%	Including OEPS at the Group level, domestic fund growth and EBITDA margin for funds management
Divisional financial 33%	Including investment earnings, fund growth, reduction in operating expenses and EBITDA margin for funds management
Non-financial 33%	<b>People</b> measures (11%) – including performance of the Executive Team, KMP succession, implementation of Diversity initiatives, employee engagement survey/action plan and retention rate
	<b>Stakeholder</b> measures (11%) – including improved investor satisfaction at a Group and fund level
	<b>Operational</b> excellence measures (11%) – including risk management and corporate governance processes, and sustainability targets

For Reported and Senior Executives the STI is delivered in the form of cash (67%) and service rights (33%), with any award over 100% target also deferred into service rights. Service rights vest 50% at year 1 and 50% at year 2.

# Directors' Report continued

for the year ended 30 June 2013

## Remuneration Report – audited continued

### 2. Executive remuneration components and outcomes continued

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

Table 2.2. Reported Executive STI outcomes for 2013 (statutory accounting)

Name	STI earned \$	Paid in cash \$	Deferred into rights \$	Target STI % of fixed pay %	% STI earned of target %	% STI forfeited of target %
<b>Executive Directors</b>						
D Harrison	588,729	392,486	196,243	61%	91.75%	8.25%
D Southon	577,500	385,000	192,500	61%	90.00%	10.00%
<b>Other Key Management Personnel</b>						
P Altschwager	315,000	210,000	105,000	50%	90.00%	10.00%
N Devlin	126,041	76,389	49,653	42%	110.00%	0.00%
S Dundas	188,833	122,222	66,611	42%	103.00%	0.00%
A Glass	159,250	106,167	53,083	42%	70.00%	30.00%
T Jordan <sup>1</sup>	76,560	46,400	30,160	41%	110.00%	0.00%
N Kelly	175,500	117,000	58,500	42%	90.00%	10.00%
R Stacker	192,500	122,222	70,278	42%	105.00%	0.00%
A Taylor	260,000	173,333	86,667	42%	100.00%	0.00%

<sup>1</sup> T Jordan appointed as KMP on 19 November 2012.

#### 2.3 Long Term Incentives (LTI)

<b>Purpose</b>	The LTI aligns key employee rewards with sustainable growth in securityholder value over time. It also plays an important role in staff retention.
<b>Participants</b>	Reported Executives, Senior Executives and Fund Managers.
<b>Type of equity awarded</b>	<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 2012, all grants under the PROP comprised Performance Rights only (i.e. no Options). Each Performance Right entitles the participant to one stapled 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 2013 are provided in Section 5 of the report.</p>
<b>Number of instruments awarded</b>	<p>The aggregate number of offers that can be made under the PROP, excluding those issued to Executive Directors, is limited to 10% of issued stapled securities of the Group. At 30 June 2013, LTI schemes accounted for 3.58% of the issued securities (Note 24 in the financial statements) made up of:</p> <ul style="list-style-type: none"> <li>• 6,251,439 Performance Rights</li> <li>• 4,092,325 Options</li> <li>• 473,015 Service Rights.</li> </ul> <p>These include securityholder approved issues of securities to Executive Directors.</p>
<b>Valuation</b>	The fair value of an executive's annual LTI grant is a set percentage of their Fixed Remuneration. In 2013, the number of rights granted to an executive was determined based on an independent fair value calculation by Deloitte using the Black Scholes valuation method.

<b>Performance hurdles (equally weighted) and vesting schedule</b>	<p>For the 2013 LTI allocation, the two performance hurdles that apply to the Performance Rights for vesting over a three year period commencing 1 July 2012 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 13% 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 2015 lapse.</p>
<b>Rationale for performance conditions</b>	<p>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 expected 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.</p> <p>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.</p> <p>Absolute TSR provides the strongest link to Charter Hall's business strategy of co-investing in managed funds with absolute and total return hurdles.</p> <p>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.</p>
<b>Cessation of employment provisions</b>	<p>For the 2013 LTI allocation, the following provisions apply in the case of cessation of a participant's employment:</p> <ul style="list-style-type: none"> <li>• <b>Misconduct:</b> all unvested Performance Rights are forfeited unless the Board determines otherwise;</li> <li>• <b>Resignation or where a participant breaches a post-termination restriction in their employment contract:</b> all unvested Performance Rights are forfeited unless the Board determines otherwise; and</li> <li>• <b>All other leavers:</b> 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.</li> </ul>
<b>Change of control provisions</b>	<p>There are no change of control provisions for grants prior to 2013. The 2013 grant allows the Board in its absolute discretion, to determine that all or a specified number of a participant's unvested Performance Rights vest. In doing so, the Board has regard to whether the performance is in line with the Performance Conditions over the period from the date of the grant of the Performance Right to the date of the relevant event.</p>
<b>Treatment of dividends on unvested securities</b>	<p>Participants who hold Performance Rights/Options are not entitled to receive any distributions or dividends declared by the Group until the Performance Rights/Options are exercised and held as stapled securities.</p>
<b>Hedging and margin lending prohibitions</b>	<p>In accordance with the <i>Corporations Act 2001</i> all Key Management Personnel are prohibited from hedging or otherwise protecting the value of unvested securities.</p>

# Directors' Report continued

for the year ended 30 June 2013

## Remuneration Report – audited continued

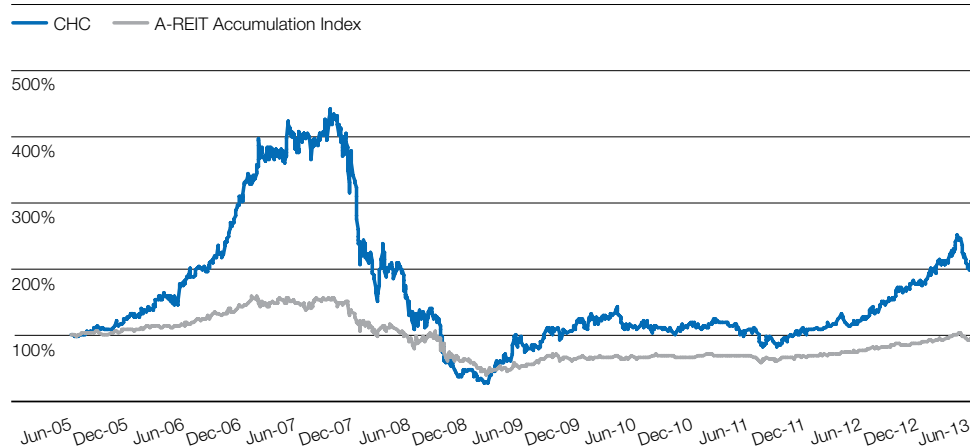
### 2. Executive remuneration components and outcomes continued

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

##### 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 cumulative Total Securityholder Return performance since inception



##### Relative performance

For the three years to June 2013, Charter Hall has outperformed its peers in the S&P/ASX 200 A-REIT Accumulation Index by 9.4% per annum, with Charter Hall returning a compound average growth rate of 21.8% per annum, compared to the index performance of 12.4% per annum.

##### Absolute performance

For the three years to June 2013, Charter Hall has achieved a compound average growth rate of 21.8%. This is based on a weighted average security price (VWAP) of \$2.44 for the month of July 2010, a 28 June 2013 closing security price of \$3.87 and cumulative distributions over the three years of 54.9 cents. This performance is in excess of the absolute TSR outperformance hurdle of 13% and ahead of the performance of the S&P/ASX 200 A-REIT Accumulation Index of 12.4% over the same period.

##### LTI outcomes

The LTI vesting conditions for the Reported Executives provide a clear link to long-term total securityholder returns of Charter Hall.

The following LTI outcomes occurred in 2013:

- **2010 PROP** – The Group's absolute TSR hurdles (12% compound average growth rate over three years) and relative TSR hurdles (1.1 times A-REIT Index) were achieved on 1 July 2012, resulting in the full vesting of the 2010 PROP grant on 1 July 2012.
- **2011 PROP** – The first tranche of the 2011 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 were retested with the second tranche on its vesting date of 1 July 2013. Both tranches vested on the retest date.

Subsequent issues of 2012 and 2013 PROP may only vest at the end of the third year. Further details of LTI grants under the PROP 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 five year performance

Key performance metrics	2009	2010	2011	2012	2013
Statutory Earnings/(Loss) per Security (cps)	(71.90)	3.22	17.85	5.64	18.29
Statutory Net Profit/(Loss) after Tax (\$'000s)	(82,222)	6,840	52,338	16,678	54,842
OEPS before specific items (%) <sup>1</sup>	30.44	16.83	20.60	21.51	23.94
Growth/(Decline) in OEPS before specific items on prior year (%)	(40.3%)	(44.7%)	22.4%	4.4%	11.3%
Operating Profit before specific items (\$'000s)	34,828	35,781	60,422	63,586	71,785
Total Distribution per Security (cps)	19.84	12.80	16.50	18.20	20.20
Security price at 30 June	2.00	2.40	2.15	2.27	3.87
Total Securityholder Return/(Loss) – Jul – Jun %	(44.6%)	26.4%	(3.5%)	14.0%	80.6%

1 A key performance metric for the Group, operating earnings per security (OEPS), before specific items, was 23.94 cents, which represented an increase of 11.3% on the prior corresponding period and was consistent with market guidance. There were no specific items in 2013.

Table 2.4.b. Executive Total Remuneration

Remuneration summary	2009	2010	2011	2012	2013
Fixed payments (\$)	3,415,610	3,991,129	6,236,089	5,513,308	5,978,392
STI accounting expense (\$)	105,000	3,194,100	1,640,944	354,294 <sup>5</sup>	2,659,913
LTI accounting expense (\$) <sup>1</sup>	137,247 <sup>4</sup>	794,115	1,866,842	1,680,857	2,369,843
Earned remuneration (\$) <sup>2</sup>	3,657,857	7,979,344	9,743,875	7,548,459	11,008,148
'At target' remuneration (\$) <sup>3</sup>	6,074,372	7,268,548	11,238,415	9,350,464	11,216,962
Earned remuneration relative to target remuneration – Over/(Under) (%)	(40%)	10%	(13%)	(21%)	(2%)

1 The LTI expense attributed to the Reported Executives reflects the statutory accounting expense under AASB 2. Paul Altschwager's sign-on LTI arrangement is reflected in the 2012 and 2013 LTI, and Richard Stacker's retention LTI arrangement is reflected in 2013 LTI expense.

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 45/27.5/27.5 and the Other KMP of 60/25/15. The 2013 figure reflects changes to the composition of the KMP (see Section 1.3), and additional LTI arrangements for Paul Altschwager and Richard Stacker.

4 One of the 2009 LTI vesting measures was an EPS target. The target was not achieved and the LTI expense was reversed.

5 In 2012, the Board exercised restraint in relation to STI pool available to employees based on Group financial performance.

# Directors' Report continued

for the year ended 30 June 2013

## Remuneration Report – audited continued

### 2. Executive remuneration components and outcomes continued

#### 2.5 Security holdings

Table 2.5. Key Management Personnel security holdings

Name	Opening balance	Purchased/ (sold) during the year	LTI securities vesting/ (forfeited) during the year	Closing balance
<b>Directors of Charter Hall Limited</b>				
<i>Ordinary securities</i>				
K Roxburgh	31,250	–	–	31,250
R Woodhouse <sup>1</sup>	21,429	(21,429)	–	–
A Brennan	30,000	–	–	30,000
D Deverall	15,287	18,433	–	33,720
G Fraser <sup>2</sup>	70,000	(70,000)	–	–
P Garling <sup>3</sup>	–	6,297	–	6,297
D Harrison	2,235,970	(167,748)	(226,449)	1,841,773
P Kahan	–	–	–	–
C McGowan	–	–	–	–
D Southon	2,274,809	(167,748)	(226,449)	1,880,612
<b>Other Key Management Personnel of the Group</b>				
P Altschwager	–	130,027	–	130,027
N Devlin	–	–	–	–
S Dundas	–	–	–	–
A Glass	–	–	–	–
T Jordan <sup>4</sup>	–	–	–	–
N Kelly	24,155	(24,022)	–	133
R Stacker	–	–	–	–
A Taylor	–	–	–	–

1 Resigned 30 January 2013; securities deemed to be disposed on date of resignation.

2 Resigned 15 August 2012; securities deemed to be disposed on date of resignation.

3 Appointed 25 February 2013.

4 Appointed 19 November 2012.

### 3. Executive remuneration in detail

#### 3.1 Total remuneration of executives

Details of the 2013 remuneration of the Reported Executives are provided in the following tables.

Table 3.1.a. Executives of the Group and Company 2013 (statutory accounting)

2013 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 \$	Superannuation \$	Securities, options and performance rights \$	Annual leave \$	Long service leave \$	Non-monetary benefits <sup>1</sup> \$		
<b>Executive Directors</b>									
D Harrison	1,009,530	588,729	16,470	489,446	33,980	22,554	38,894	2,199,603	22
D Southon	1,019,130	577,500	16,470	489,446	6,128	22,189	29,294	2,160,157	23
<b>Other Key Management Personnel</b>									
P Altschwager <sup>2</sup>	683,530	315,000	16,470	396,621	14,163	–	–	1,425,784	28
N Devlin	258,530	126,041	16,470	58,716	(2,196)	–	–	457,561	13
S Dundas	423,530	188,833	16,470	88,280	8,992	30,921	–	757,026	12
A Glass	529,530	159,250	16,470	112,413	8,749	–	–	826,412	14
T Jordan <sup>3</sup>	162,902	76,560	11,037	24,046	4,490	–	–	279,035	9
N Kelly	451,530	175,500	16,470	96,354	(3,586)	8,466	–	744,734	13
R Stacker <sup>4</sup>	423,530	192,500	16,470	448,940	7,198	5,961	–	1,094,599	41
A Taylor	607,530	260,000	16,470	165,581	(692)	14,348	–	1,063,237	16
<b>Total</b>	<b>5,569,272</b>	<b>2,659,913</b>	<b>159,267</b>	<b>2,369,843</b>	<b>77,226</b>	<b>104,439</b>	<b>68,188</b>	<b>11,008,148</b>	<b>22</b>

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

2 P Altschwager was awarded 260,054 service rights as a sign-on arrangement when he commenced employment on 27 February 2012. 130,072 service rights vested on 31 December 2012, with the balance due to vest on 31 December 2013, subject to meeting service conditions.

3 T Jordan appointed as KMP on 19 November 2012.

4 R Stacker was awarded 270,000 service rights in his retention arrangement. 90,000 service rights are due to vest annually on 31 December 2013, 2014 and 2015 subject to meeting the service condition.

# Directors' Report continued

for the year ended 30 June 2013

## Remuneration Report – audited continued

### 3. Executive remuneration in detail continued

#### 3.1 Total remuneration of executives continued

Table 3.1.b. Executives of the Group and Company 2012 (statutory accounting)

2012	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 \$	Long service leave \$	Non-monetary benefits <sup>5</sup> \$		
Name									
<b>Executive Directors</b>									
C Fuchs <sup>1</sup>	118,427	–	6,573	52,952	(5,768)	5,003	9,083	186,271	28
D Harrison	1,034,225	–	15,775	503,059	28,400	17,549	32,299	1,631,307	31
D Southon	1,034,225	–	15,775	503,059	4,168	17,549	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	5,078	9,124	–	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	(13,484)	43,492	–	656,375	17
S Sewell <sup>4</sup>	385,210	–	11,831	(110,694)	(7,206)	(41,612)	–	237,529	(47)
R Stacker	424,225	65,193	15,775	113,875	32,429	7,613	–	659,111	17
A Taylor	608,225	92,456	15,775	177,473	26,233	16,463	–	936,626	19
<b>Total</b>	<b>5,151,170</b>	<b>354,294</b>	<b>134,277</b>	<b>1,680,857</b>	<b>88,598</b>	<b>75,181</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 the remuneration receipts to 24 November 2011.

2 P Altschwager was awarded 260,054 service rights as a sign-on arrangement when he commenced employment on 27 February 2012. 130,072 service rights vested on 31 December 2012, with the balance due to vest on 31 December 2013, subject to meeting service conditions.

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.



### 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 1 for 4 security consolidation in 2011) 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 2011. Further information about these loans is included in Note 27(e) of the financial statements.

### 3.3 Key terms of employment

The remuneration and other terms of employment for Reported Executives are formalised in employment agreements. Each of these agreements provide 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	3 months	3 months
Scott Dundas	Fund Manager – Charter Hall Retail REIT	3 months	6 months
Andrew Glass	Head of Wholesale Pooled Funds	3 months	3 months
Tracey Jordan	Group General Counsel & Company Secretary	3 months	3 months
Nick Kelly	Head of Investor Relations	3 months	3 months
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 KMPs' 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).

# Directors' Report continued

for the year ended 30 June 2013

## Remuneration Report – audited continued

### 4. Non-Executive Director remuneration

#### 4.1 Policy

The Remuneration and Human Resources Committee makes recommendations to the Board on the total level of remuneration of the Chairman and other 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 NEDs;
- 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 and 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.

#### 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 succession at the Board. During the year, Roy Woodhouse resigned on 30 January 2013 and Philip Garling was appointed on 26 February 2013. The total amount paid to NEDs in 2013 was \$834,914.

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 did not receive a loading (role removed effective 30 January 2013). 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 2013, there was no increase to NED fees. For 2014, NED fees were increased by 3.0%.

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

Table 4.2. Summary of fee framework

	2012 \$	2013 \$	2014 \$
<b>Board</b>			
Chair	200,000	200,000	206,000
Non-Chair	100,000	100,000	103,000
<b>Audit, Risk and Compliance Committee</b>			
Chair	20,210	20,210	20,816
Non-Chair	13,475	13,475	13,879
<b>Remuneration and Human Resources Committee</b>			
Chair	20,210	20,210	20,816
Non-Chair	13,475	13,475	13,879
<b>Nomination Committee</b>			
Chair	2,000	2,000	2,060
Non-Chair	2,000	2,000	2,060
<b>Investment Committee of related party<sup>1</sup></b>			
	–	10,000	60,000
<b>Valuation Committee<sup>2</sup></b>			
	8,800	8,800	9,064

1 Investment Committee fees to C McGowan were previously paid by CHOF5 but effective 11 April 2013 will be paid by the Group. The 2013 figure reflects the pro-rated fee paid by the Group from 11 April to 30 June 2013. The 2014 figure reflects the full annual fee to be paid by the Group in 2014.

2 The Valuation Committee comprises two Non-Executive Directors (2012 – one Non-Executive Director).

#### 4.3 Total remuneration details

Table 4.3.a. Non-Executive Director remuneration 2013 (statutory accounting)

2013 Name	Salary and fees \$	Super- annuation \$	Total \$
<b>Non-Executive Directors</b>			
K Roxburgh – Chairman	215,475	–	215,475
R Woodhouse – Deputy Chairman <sup>1</sup>	58,946	5,305	64,251
A Brennan	124,198	11,178	135,376
D Deverall	104,212	9,379	113,591
G Fraser <sup>2</sup>	18,381	1,654	20,035
P Garling <sup>3</sup>	37,549	3,379	40,928
P Kahan	109,871	–	109,871
C McGowan	117,806	16,470	134,276
<b>Total</b>	<b>786,438</b>	<b>47,365</b>	<b>833,803</b>

1 Resigned 30 January 2013.

2 Resigned 15 August 2012.

3 Appointed 25 February 2013.

# Directors' Report continued

for the year ended 30 June 2013

## Remuneration Report – audited continued

### 4. Non-Executive Director remuneration continued

#### 4.3 Total remuneration details continued

Table 4.3.b. Non-Executive Director remuneration 2012 (statutory accounting)

2012 Name	Salary and fees \$	Super- annuation \$	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.

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

#### 5.1 Performance Rights and Options Plan details

Table 5.1.a. Performance Rights, Options and Service Rights issued and outstanding under the PROP

#### PERFORMANCE RIGHTS

Year of issue	Securities	Exercise price	Vesting conditions
2010	259,012	Nil	Absolute and relative performance criteria
2011	953,717	Nil	Absolute and relative performance criteria
2012	3,242,634	Nil	Absolute and relative performance criteria
2013	1,796,076	Nil	Absolute and relative performance criteria
<b>Total Performance Rights issued</b>	<b>6,251,439</b>		

#### OPTIONS

Year of issue	Securities	Exercise price	Vesting conditions
2010	1,060,062	\$1.94	Absolute and relative performance criteria
2010	647,264	\$2.80	Absolute and relative performance criteria
2011	2,357,756	\$2.44	Absolute and relative performance criteria
2011	27,243	\$2.35	Absolute and relative performance criteria
<b>Total Options issued</b>	<b>4,092,325</b>		

#### SERVICE RIGHTS

Year of issue	Securities	Exercise price	Vesting conditions
2011	72,988	Nil	Service conditions
2012	130,027	Nil	Service conditions – CFO sign-on
2013	270,000	Nil	Service conditions
<b>Total Service Rights issued</b>	<b>473,015</b>		

### Valuation model inputs

The Black-Scholes or Monte Carlo method, as applicable, are utilised for valuation and accounting purposes. Prior to 2013, the number of rights granted to an executive was determined based on an independent fair value calculation using the Monte Carlo simulation valuation method which is consistent with the accounting fair value standard AASB 2. For 2013, the allocation methodology was revised. LTI awards are now valued using the Black-Scholes methodology and will continue to be valued for accounting purposes using a Monte Carlo simulation valuation in accordance with AASB 2.

The model inputs for the PROP performance rights and options plan issued during 2010, 2011, 2012 and 2013, and to assess the fair value are as follows:

<b>PERFORMANCE RIGHTS</b>					
Grant date	18/06/10	06/09/10	19/11/10	17/01/12	23/11/12
Security price at grant date <sup>1</sup>	\$2.80	\$2.44	\$2.44	\$2.10	\$3.11
Fair value of right <sup>1</sup>	\$1.52	\$1.33	\$1.33	\$0.94	\$1.91
Expected price volatility	40.0%	40.0%	40.0%	39.0%	26.0%
Risk-free interest rate	5.5%	5.5%	5.5%	3.9%	3.0%

### OPTIONS

Grant date	13/11/09	18/06/10	06/09/10	11/11/10	11/01/11
Security price at grant date <sup>1</sup>	\$2.40	\$2.80	\$2.44	\$2.44	\$2.35
Fair value of option <sup>1</sup>	\$0.39	\$0.56	\$0.51	\$0.51	\$0.49
Exercise price per security <sup>1</sup>	\$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%

### SERVICE RIGHTS

Grant date	06/09/10	22/05/12	23/11/12
Security price at grant date <sup>1</sup>	\$2.44	\$2.08	\$3.11
Fair value of right <sup>1</sup>	\$2.06	\$1.87	\$2.73
Expected price volatility	40.0%	35.0%	25.0%
Risk-free interest rate	5.5%	4.3%	2.9%

<sup>1</sup> Security prices for prior years have been restated for the security consolidation during 2011.

Table 5.1.b. Number of Performance Rights and Options issued and outstanding to Reported Executives

	<b>PERFORMANCE RIGHTS</b>					<b>OPTIONS</b>			<b>SERVICE RIGHTS</b>		
	2010	2011	2012	2013	Total	2010	2011	Total	2012	2013	Total
<b>Executive Directors</b>											
D Harrison	-	201,924	564,517	346,847	1,113,288	345,060	504,808	849,868	-	-	-
D Southon	-	201,924	564,517	346,847	1,113,288	670,314	504,808	1,175,122	-	-	-
<b>Key Management Personnel</b>											
P Altschwager	-	-	-	189,190	189,190	-	-	-	130,027	-	130,027
N Devlin	-	10,897	97,581	37,163	145,641	-	27,243	27,243	-	-	-
S Dundas	35,752	-	107,527	59,460	202,739	89,252	-	89,252	-	-	-
A Glass	-	50,483	141,130	73,784	265,397	-	126,204	126,204	-	-	-
T Jordan	-	-	-	37,838	37,838	-	-	-	-	-	-
N Kelly	-	43,272	120,968	63,244	227,484	-	108,176	108,176	-	-	-
R Stacker	53,628	-	157,529	59,460	270,617	133,876	-	133,876	-	270,000	270,000
A Taylor	89,252	-	223,433	84,325	397,010	223,252	-	223,252	-	-	-



# Directors' Report continued

for the year ended 30 June 2013

## Remuneration Report – audited continued

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

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

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.

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 2013	Grant date
<b>Executive Directors</b>					
D Harrison	LTI Performance Rights	2,770	–	–	13-Nov-09
	LTI Performance Rights	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 Performance Rights	–	346,847	346,847	23-Nov-12
	LTI Options	9,903	–	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
	LTI Service Rights	85,731	–	–	22-May-12
D Southon	LTI Performance Rights	2,770	–	–	13-Nov-09
	LTI Performance Rights	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 Performance Rights	–	346,847	346,847	23-Nov-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	–	–	22-May-12

1 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.

Fair value per right at grant date	Option exercise price	No. vested and exercised during the year	Vesting date	Option expiry date	Maximum value to be realised in future years <sup>1</sup>
\$1.10	–	2,770	01-Jul-12	–	–
\$1.03	–	93,750	01-Jul-12	–	–
\$1.37	–	–	01-Jul-13	–	–
\$1.29	–	–	01-Jul-13	–	–
\$0.94	–	–	01-Jul-14	–	\$176,882
\$1.91	–	–	01-Sep-15	–	\$442,056
\$0.39	\$1.94	–	01-Jul-12	13-Nov-14	–
\$0.39	\$1.94	–	01-Jul-12	13-Nov-14	–
\$0.51	\$2.44	–	01-Jul-13	06-Sep-15	–
\$0.51	\$2.44	–	01-Jul-13	06-Sep-15	–
\$1.53	–	85,731	29-Aug-12	–	–
\$1.10	–	2,770	01-Jul-12	–	–
\$1.03	–	93,750	01-Jul-12	–	–
\$1.37	–	–	01-Jul-13	–	–
\$1.29	–	–	01-Jul-13	–	–
\$0.94	–	–	01-Jul-14	–	\$176,882
\$1.91	–	–	01-Sep-15	–	\$442,056
\$0.39	\$1.94	–	01-Jul-12	13-Nov-14	–
\$0.39	\$1.94	–	01-Jul-12	13-Nov-14	–
\$0.51	\$2.44	–	01-Jul-13	06-Sep-15	–
\$0.51	\$2.44	–	01-Jul-13	06-Sep-15	–
\$1.53	–	85,731	29-Aug-12	–	–

# Directors' Report continued

for the year ended 30 June 2013

## Remuneration Report – audited continued

### 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 continued

	Type of equity	Rights previously granted	Rights granted during the year	Rights held at 30 June 2013	Grant date
<b>Key Management Personnel</b>					
P Altschwager	LTI Performance Rights	–	189,190	189,190	23-Nov-12
	LTI Service Rights	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 Performance Rights	–	37,163	37,163	23-Nov-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 Performance Rights	–	59,460	59,460	23-Nov-12
	LTI Options	44,626	–	44,626	18-Jun-10
	LTI Options	44,626	–	44,626	18-Jun-10
A Glass <sup>2</sup>	LTI Performance Rights	1,108	–	–	13-Nov-09
	LTI Performance Rights	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 Performance Rights	–	73,784	73,784	23-Nov-12
	LTI Options	134,064	–	–	13-Nov-09
	LTI Options	134,064	–	–	13-Nov-09
	LTI Options	63,102	–	63,102	06-Sep-10
LTI Options	63,102	–	63,102	06-Sep-10	
T Jordan	LTI Performance Rights	–	37,838	37,838	23-Nov-12

1 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.

2 The intrinsic value at exercise date of options exercised by KMPs during the year were A Glass \$163,096 and N Kelly \$227,643. The intrinsic value represents the closing trading price of CHC securities on the exercise date, less the strike price on \$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	Vesting date	Option expiry date	Maximum value to be realised in future years <sup>1</sup>
\$1.91	–	–	01-Sep-15	–	\$241,122
\$1.87	–	130,027	31-Dec-12	–	–
\$1.87	–	–	31-Dec-13	–	\$66,300
\$1.37	–	–	01-Jul-13	–	–
\$1.28	–	–	01-Jul-13	–	–
\$0.94	–	–	01-Jul-14	–	\$30,575
\$1.91	–	–	01-Sep-15	–	\$47,364
\$0.49	\$2.35	–	30-Jun-13	06-Sep-15	–
\$0.49	\$2.35	–	30-Jun-13	06-Sep-15	–
\$1.58	–	–	01-Jul-13	–	–
\$1.46	–	–	01-Jul-13	–	–
\$0.94	–	–	01-Jul-14	–	\$33,692
\$1.91	–	–	01-Sep-15	–	\$75,782
\$0.56	\$2.80	–	30-Jun-13	18-Jun-15	–
\$0.56	\$2.80	–	30-Jun-13	18-Jun-15	–
\$1.10	–	1,108	01-Jul-12	–	–
\$1.03	–	37,500	01-Jul-12	–	–
\$1.37	–	–	01-Jul-13	–	–
\$1.27	–	–	01-Jul-13	–	–
\$0.94	–	–	01-Jul-14	–	\$44,221
\$1.91	–	–	01-Sep-15	–	\$94,038
\$0.39	\$1.94	134,064	01-Jul-12	13-Nov-14	–
\$0.39	\$1.94	134,064	01-Jul-12	13-Nov-14	–
\$0.51	\$2.44	–	01-Jul-13	06-Sep-15	–
\$0.51	\$2.44	–	01-Jul-13	06-Sep-15	–
\$1.91	–	–	01-Sep-15	–	\$48,224

# Directors' Report continued

for the year ended 30 June 2013

## Remuneration Report – audited continued

### 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 continued

Type of equity	Rights previously granted	Rights granted during the year	Rights held at 30 June 2013	Grant date
<b>Key Management Personnel continued</b>				
N Kelly <sup>2</sup>	LTI Performance Rights	886	–	13-Nov-09
	LTI Performance Rights	30,000	–	13-Nov-09
	LTI Performance Rights	21,636	–	06-Sep-10
	LTI Performance Rights	21,636	21,636	06-Sep-10
	LTI Performance Rights	120,968	–	17-Jan-12
	LTI Performance Rights	–	63,244	23-Nov-12
	LTI Options	55,250	–	13-Nov-09
	LTI Options	107,250	–	13-Nov-09
	LTI Options	54,088	–	06-Sep-10
	LTI Options	54,088	54,088	06-Sep-10
R Stacker	LTI Performance Rights	26,814	–	18-Jun-10
	LTI Performance Rights	26,814	–	18-Jun-10
	LTI Performance Rights	157,529	–	17-Jan-12
	LTI Performance Rights	–	59,460	23-Nov-12
	LTI Options	66,938	–	18-Jun-10
	LTI Options	66,938	–	18-Jun-10
	LTI Service Rights	–	90,000	23-Nov-12
	LTI Service Rights	–	90,000	23-Nov-12
	LTI Service Rights	–	90,000	23-Nov-12
A Taylor	LTI Performance Rights	44,626	–	18-Jun-10
	LTI Performance Rights	44,626	–	18-Jun-10
	LTI Performance Rights	223,433	–	17-Jan-12
	LTI Performance Rights	–	84,325	23-Nov-12
	LTI Options	111,626	–	18-Jun-10
	LTI Options	111,626	–	18-Jun-10

1 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.

2 The intrinsic value at exercise date of options exercised by KMPs during the year were A Glass \$163,096 and N Kelly \$227,643. The intrinsic value represents the closing trading price of CHC securities on the exercise date, less the strike price on \$1.94 per security, multiplied by the number of options exercised.

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

The final tranche under the ELSP plan was forfeited in July 2012. As at 30 June 2013, no securities are outstanding under this plan.



Fair value per right at grant date	Option exercise price	No. vested and exercised during the year	Vesting date	Option expiry date	Maximum value to be realised in future years <sup>1</sup>
\$1.10	–	886	01-Jul-12	–	–
\$1.03	–	30,000	01-Jul-12	–	–
\$1.37	–	–	01-Jul-13	–	–
\$1.28	–	–	01-Jul-13	–	–
\$0.94	–	–	01-Jul-14	–	\$37,903
\$1.91	–	–	01-Sep-15	–	\$80,604
\$0.39	\$1.94	55,250	01-Jul-12	13-Nov-14	–
\$0.39	\$1.94	107,250	01-Jul-12	13-Nov-14	–
\$0.51	\$2.44	–	01-Jul-13	06-Sep-15	–
\$0.51	\$2.44	–	01-Jul-13	06-Sep-15	–
\$1.58	–	–	01-Jul-13	–	–
\$1.46	–	–	01-Jul-13	–	–
\$0.94	–	–	01-Jul-14	–	\$49,365
\$1.91	–	–	01-Sep-15	–	\$75,782
\$0.56	\$2.80	–	01-Jul-13	13-Nov-14	–
\$0.56	\$2.80	–	01-Jul-13	13-Nov-14	–
\$2.90	–	–	31-Dec-13	–	\$87,635
\$2.72	–	–	31-Dec-14	–	\$147,202
\$2.56	–	–	31-Dec-15	–	\$164,777
\$1.58	–	–	01-Jul-13	–	–
\$1.46	–	–	01-Jul-13	–	–
\$0.94	–	–	01-Jul-14	–	\$70,009
\$1.91	–	–	01-Sep-15	–	\$107,472
\$0.56	\$2.80	–	01-Jul-13	13-Nov-14	–
\$0.56	\$2.80	–	01-Jul-13	13-Nov-14	–

# Directors' Report continued

for the year ended 30 June 2013

## 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 non-audit 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	
	2013 \$	2012 \$	2013 \$	2012 \$
<b>Taxation services</b>				
PricewaterhouseCoopers Australian firm				
Tax compliance services, including review of company income tax returns	50,341	60,976	–	10,000
<b>Total remuneration for taxation services</b>	<b>50,341</b>	<b>60,976</b>	<b>–</b>	<b>10,000</b>
<b>Advisory services</b>				
PricewaterhouseCoopers Australian firm				
Long-term incentive plan structure	–	10,000	–	–
Accounting advice	–	25,500	–	–
<b>Total remuneration for advisory services</b>	<b>–</b>	<b>35,500</b>	<b>–</b>	<b>–</b>
<b>Total remuneration for non-audit services</b>	<b>50,431</b>	<b>96,476</b>	<b>–</b>	<b>10,000</b>

Total fees paid to PricewaterhouseCoopers by the wider Charter Hall Group, including its managed funds, for audit and audit-related services amounted to \$1,699,691 (2012: \$1,477,617).

## Environmental regulation

The Group ensures compliance with applicable environmental standards and regulations and reports its greenhouse gas emissions and energy use on an annual basis under the National Greenhouse and Energy Reporting Act 2007. In October 2013, the Group will report to the Clean Energy Regulator emissions for the measurement period 1 July 2012 to 30 June 2013. The Group continues to implement resource efficiency measures to mitigate against energy 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 54.

## 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

30 September 2013

# Auditor's Independence Declaration



## 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 2013, 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'.

Robert Baker  
Partner  
PricewaterhouseCoopers

Sydney  
30 September 2013

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Liability limited by a scheme approved under Professional Standards Legislation.

# Consolidated Statements of Comprehensive Income

for the year ended 30 June 2013

	Note	CHARTER HALL GROUP		CHARTER HALL PROPERTY TRUST GROUP	
		2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
<b>Income</b>					
Revenue	4	114,841	123,630	31,362	53,287
Share of net profit of associates accounted for using the equity method		42,541	2,949	37,633	5,494
Net gain on remeasurement of equity interests	33(b)	–	4,645	–	4,533
Fair value adjustment on contingent consideration		1,123	1,355	–	–
Net unrealised gain from derivative financial instruments		121	–	121	–
Foreign exchange gains		112	–	–	–
<b>Total income</b>		<b>158,738</b>	132,579	<b>69,116</b>	63,314
<b>Expenses</b>					
Investment property expenses		(2,304)	(3,541)	(2,304)	(3,478)
Depreciation	5	(1,186)	(725)	–	–
Finance costs	5	(3,323)	(9,382)	(4,125)	(8,875)
Net loss on sale of investment properties and derivatives		(2,285)	(1,627)	(2,299)	(2,179)
Net fair value adjustments on investment properties		(8,419)	(7,692)	(8,419)	(7,692)
Net unrealised loss from derivative financial instruments		–	(310)	–	(310)
Net loss on investment in associates at fair value	33(b)	(1,596)	(1,774)	(1,691)	(1,757)
Net loss on remeasurement of equity interests		(368)	–	(368)	–
Foreign exchange losses		–	(943)	(1)	(955)
Amortisation of management rights	5,17	(7,838)	(1,307)	–	–
Asset management fees		–	–	(1,836)	(3,591)
Performance fee clawback provision	21	–	(14,239)	–	–
Management, administration and other expenses	5	(75,290)	(77,068)	(407)	(1,313)
<b>Total expenses</b>		<b>(102,609)</b>	(118,608)	<b>(21,450)</b>	(30,150)
<b>Profit before tax</b>		<b>56,129</b>	13,971	<b>47,666</b>	33,164
Income tax (expense)/benefit	7	(1,738)	432	–	–
<b>Profit for the year</b>		<b>54,391</b>	14,403	<b>47,666</b>	33,164
<b>Profit/(loss) for the year is attributable to:</b>					
Equity holders of Charter Hall Limited		5,899	(19,409)	–	–
Equity holders of Charter Hall Property Trust (non-controlling interest)		48,943	36,087	48,943	36,087
<b>Profit after tax attributable to stapled securityholders of Charter Hall Group</b>		<b>54,842</b>	16,678	<b>48,943</b>	36,087
Net loss attributable to other non-controlling interests		(451)	(2,275)	(1,277)	(2,923)
<b>Profit for the year</b>		<b>54,391</b>	14,403	<b>47,666</b>	33,164
<b>Other comprehensive income for the year</b>					
<i>Items that may be reclassified to profit or loss</i>					
Exchange differences on translation of foreign operations		1,141	2,021	986	2,334
Transfer of cumulative foreign exchange losses	25(a)	209	11,749	209	11,749
Other comprehensive income for the year, net of tax		1,350	13,770	1,195	14,083
<b>Total comprehensive income for the year</b>		<b>55,741</b>	28,173	<b>48,861</b>	47,247



# Consolidated Statements of Comprehensive Income

## continued

for the year ended 30 June 2013

	Note	CHARTER HALL GROUP		CHARTER HALL PROPERTY TRUST GROUP	
		2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
<b>Total comprehensive income for the year is attributable to:</b>					
Equity holders of Charter Hall Limited		<b>6,054</b>	(19,724)	-	-
Equity holders of Charter Hall Property Trust (non-controlling interest)		<b>50,138</b>	49,143	<b>50,138</b>	49,143
<b>Total comprehensive income attributable to stapled securityholders of Charter Hall Group</b>		<b>56,192</b>	29,419	<b>50,138</b>	49,143
Total comprehensive loss attributable to other non-controlling interests		<b>(451)</b>	(1,246)	<b>(1,277)</b>	(1,896)
<b>Total comprehensive income for the year</b>		<b>55,741</b>	28,173	<b>48,861</b>	47,247
<b>Basic and diluted earnings per stapled security</b>					
Basic earnings per stapled security (cents) attributable to securityholders	9(a)	<b>18.29</b>	5.64	<b>16.32</b>	12.21
Diluted earnings per stapled security (cents) attributable to securityholders	9(a)	<b>17.67</b>	5.35	<b>15.77</b>	11.49

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

# Consolidated Balance Sheets

as at 30 June 2013

	Note	CHARTER HALL GROUP		CHARTER HALL PROPERTY TRUST GROUP	
		2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
<b>Assets</b>					
<i>Current assets</i>					
Cash and cash equivalents	10	12,236	39,315	2,229	21,674
Trade and other receivables	11	63,550	32,110	32,432	17,601
Assets classified as held for sale	12	55,225	136,390	55,225	136,390
<b>Total current assets</b>		<b>131,011</b>	<b>207,815</b>	<b>89,886</b>	<b>175,665</b>
<i>Non-current assets</i>					
Trade and other receivables	11	2,400	12,870	145,891	163,542
Investment in associates at fair value through profit or loss	13	49,229	62,638	49,229	62,180
Inventories	15	10,848	9,518	-	-
Investments accounted for using the equity method	16	520,147	472,159	435,084	373,578
Intangible assets	17	96,066	98,687	-	-
Property, plant and equipment	18	2,743	3,026	-	-
Deferred tax assets	19	6,389	8,322	-	-
Other assets		-	564	-	564
<b>Total non-current assets</b>		<b>687,822</b>	<b>667,784</b>	<b>630,204</b>	<b>599,864</b>
<b>Total assets</b>		<b>818,833</b>	<b>875,599</b>	<b>720,090</b>	<b>775,529</b>
<b>Liabilities</b>					
<i>Current liabilities</i>					
Trade and other payables	20	48,821	50,788	32,740	30,288
Derivative financial instruments	14	-	669	-	669
Provisions	21	1,101	14,895	-	-
Interest-bearing liabilities	22	27,455	51,463	27,455	53,863
<b>Total current liabilities</b>		<b>77,377</b>	<b>117,815</b>	<b>60,195</b>	<b>84,820</b>
<i>Non-current liabilities</i>					
Provisions	23	1,162	1,428	-	-
<b>Total non-current liabilities</b>		<b>1,162</b>	<b>1,428</b>	<b>-</b>	<b>-</b>
<b>Total liabilities</b>		<b>78,539</b>	<b>119,243</b>	<b>60,195</b>	<b>84,820</b>
<b>Net assets</b>		<b>740,294</b>	<b>756,356</b>	<b>659,895</b>	<b>690,709</b>
<b>Equity</b>					
<i>Equity holders of Charter Hall Limited</i>					
Contributed equity	24(a)	211,335	209,550	-	-
Reserves	25(a)	(54,147)	(49,055)	-	-
Accumulated losses	25(b)	(69,717)	(81,738)	-	-
Parent entity interest		87,471	78,757	-	-
<i>Equity holders of Charter Hall Property Trust</i>					
Contributed equity	24(a)	753,610	739,175	753,610	739,175
Reserves	25(a)	(1,410)	(1,415)	(1,410)	(1,415)
Accumulated losses	25(b)	(99,377)	(87,609)	(99,377)	(87,609)
Equity holders of Charter Hall Property Trust (non-controlling interest)		652,823	650,151	652,823	650,151
<b>Interest attributable to stapled securityholders of Charter Hall Group</b>		<b>740,294</b>	<b>728,908</b>	<b>652,823</b>	<b>650,151</b>
Non-controlling interest in DRF	26	-	27,448	7,072	40,558
<b>Total equity</b>		<b>740,294</b>	<b>756,356</b>	<b>659,895</b>	<b>690,709</b>

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

# Consolidated Statement of Changes in Equity – Charter Hall Group

for the year ended 30 June 2013

ATTRIBUTABLE TO THE OWNERS OF CHARTER HALL GROUP						
	Contributed equity \$'000	Reserves \$'000	Accumulated losses \$'000	Total \$'000	Non- controlling interest \$'000	Total equity \$'000
Balance at 1 July 2011	943,961	(57,294)	(136,849)	749,818	32,127	781,945
Profit/(loss) for the year	–	–	16,678	16,678	(2,275)	14,403
Other comprehensive income	–	12,741	–	12,741	1,029	13,770
Total comprehensive income/(loss)	–	12,741	16,678	29,419	(1,246)	28,173
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)
Non-cash security-based benefits expense	–	2,600	–	2,600	–	2,600
Transactions with non-controlling interests	–	(2,402)	–	(2,402)	(766)	(3,168)
Transfer from accumulated losses	–	(4,663)	4,663	–	–	–
	4,764	(5,917)	(49,176)	(50,329)	(3,433)	(53,762)
<b>Balance at 1 July 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>
Profit/(loss) for the year	–	–	54,842	54,842	(451)	54,391
Other comprehensive income	–	1,350	–	1,350	–	1,350
<b>Total comprehensive income/(loss)</b>	<b>–</b>	<b>1,350</b>	<b>54,842</b>	<b>56,192</b>	<b>(451)</b>	<b>55,741</b>
Transactions with equity holders in their capacity as equity holders:						
Contributions of equity, net of issue costs	10,568	–	–	10,568	–	10,568
Performance rights and options exercised	5,652	(2,038)	–	3,614	–	3,614
Distribution provided for or paid	–	–	(60,711)	(60,711)	(10,870)	(71,581)
Non-cash security-based benefits expense	–	3,035	–	3,035	–	3,035
Transactions with non-controlling interests	–	(1,312)	–	(1,312)	(16,127)	(17,439)
Transfer to accumulated losses	–	(6,122)	6,122	–	–	–
	16,220	(6,437)	(54,589)	(44,806)	(26,997)	(71,803)
<b>Balance at 30 June 2013</b>	<b>964,945</b>	<b>(55,557)</b>	<b>(169,094)</b>	<b>740,294</b>	<b>–</b>	<b>740,294</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

for the year ended 30 June 2013

ATTRIBUTABLE TO THE OWNERS OF CHARTER HALL PROPERTY TRUST GROUP						
	Contributed equity \$'000	Reserves \$'000	Accumulated losses \$'000	Total \$'000	Non- controlling interest \$'000	Total equity \$'000
Balance at 1 July 2011	934,458	(9,747)	(74,520)	850,191	47,155	897,346
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 1 July 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>
Profit/(loss) for the year	–	–	48,943	48,943	(1,277)	47,666
Other comprehensive income	–	1,195	–	1,195	–	1,195
<b>Total comprehensive income/(loss)</b>	<b>–</b>	<b>1,195</b>	<b>48,943</b>	<b>50,138</b>	<b>(1,277)</b>	<b>48,861</b>
Transactions with equity holders in their capacity as equity holders:						
Contributions of equity, net of issue costs	9,395	–	–	9,395	–	9,395
Performance rights and options exercised	5,040	–	–	5,040	–	5,040
Distribution provided for or paid	–	–	(60,711)	(60,711)	(16,060)	(76,771)
Transactions with non-controlling interests	–	(1,190)	–	(1,190)	(16,149)	(17,339)
	14,435	(1,190)	(60,711)	(47,466)	(32,209)	(79,675)
<b>Balance at 30 June 2013</b>	<b>753,610</b>	<b>(1,410)</b>	<b>(99,377)</b>	<b>652,823</b>	<b>7,072</b>	<b>659,895</b>

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

# Consolidated Cash Flow Statements

for the year ended 30 June 2013

	Note	CHARTER HALL GROUP		CHARTER HALL PROPERTY TRUST GROUP	
		2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
<b>Cash flows from operating activities</b>					
Receipts from customers (inclusive of GST)		117,672	146,830	12,999	19,026
Clawback of performance fees (inclusive of GST)		(15,663)	–	–	–
Payments to suppliers and employees (inclusive of GST)		(84,715)	(93,503)	(12,509)	(14,150)
		17,294	53,327	490	4,876
Interest received		1,967	2,562	540	869
Interest paid		(2,708)	(8,654)	(3,681)	(8,644)
Distributions and dividends from investments		36,417	31,773	19,191	27,765
<b>Net cash inflow from operating activities</b>	29	<b>52,970</b>	<b>79,008</b>	<b>16,540</b>	<b>24,866</b>
<b>Cash flows from investing activities</b>					
Payments for property, plant and equipment		(1,233)	(587)	–	–
Proceeds on disposal of investment property		72,668	33,742	72,668	17,218
Payments for inventory		(1,329)	(1,294)	–	–
Payments for investment properties		(5,580)	(717)	(5,580)	(717)
Deferred payments for business combination		(7,685)	(15,752)	–	–
Investments in associates and joint ventures		(52,853)	(68,522)	(52,853)	(73,769)
Proceeds on disposal and return of capital from investments in associates		35,546	95,129	34,993	130,086
Payments for management rights		(5,217)	–	–	–
Loans to associates, joint ventures and related parties		(22,280)	(6,120)	(60,051)	(1,650)
Repayments from associates, joint ventures and related parties		1,650	–	73,575	26,527
Repayments from key management personnel		800	800	–	–
Transactions with non-controlling interests		(16,566)	–	(16,566)	–
<b>Net cash (outflow)/inflow from investing activities</b>		<b>(2,079)</b>	<b>36,679</b>	<b>46,186</b>	<b>97,695</b>
<b>Cash flows from financing activities</b>					
Proceeds from issues of securities and other equity securities		3,585	4,162	5,013	2,257
Payment on settlement of derivative financial instruments		(547)	(183)	(547)	(183)
Proceeds from borrowings		40,950	76,442	40,950	76,442
Repayment of borrowings		(64,950)	(128,728)	(64,950)	(128,728)
Distributions paid to securityholders		(57,143)	(54,379)	(62,637)	(55,524)
<b>Net cash outflow from financing activities</b>		<b>(78,105)</b>	<b>(102,686)</b>	<b>(82,171)</b>	<b>(105,736)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>					
		(27,214)	13,001	(19,445)	16,825
Cash and cash equivalents at the beginning of the year		39,315	26,266	21,674	4,841
Effect of exchange rate changes on cash and cash equivalents		135	48	–	8
<b>Cash and cash equivalents at the end of the year</b>	10	<b>12,236</b>	<b>39,315</b>	<b>2,229</b>	<b>21,674</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 2013

## 1. Summary of significant accounting policies

The significant policies which have been adopted in the preparation of these financial statements for the year ended 30 June 2013 are set out below. These policies have been consistently applied to the years presented, unless otherwise stated.

### (a) Basis of preparation

The Charter Hall Group (Group, CHC or Charter Hall) is a 'stapled' entity comprising Charter Hall Limited (Company or CHL) and its controlled entities, and Charter Hall Property Trust (Trust or CHPT) and its controlled entities (Charter Hall Property Trust Group). 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. CHL has been identified as the parent entity in relation to the stapling.

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 CHL and its controlled entities including Charter Hall Funds Management Limited (Responsible Entity) as responsible entity for CHPT. 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 financial report of the Charter Hall Property Trust Group comprises the Trust and its controlled entities.

The results and equity of the Charter Hall Direct Retail Fund (DRF) and Charter Hall Direct Industrial Fund No. 2 (DIF2) not directly owned by the Group and/or the Trust have been treated and disclosed as non-controlling interests. Effective 20 April 2013, the Charter Hall Group owns 100% of DRF and the non-controlling interest disclosed by Charter Hall Property Trust Group solely represents the 16% interest held by Charter Hall Holdings Pty Ltd (CHH), a subsidiary of CHL. At 30 June 2012, Charter Hall Group and Charter Hall Property Trust Group owned 65.91% and 49.63%, respectively of DRF with the remaining interest owned by non-controlling unitholders. Refer to Note 26 for further details regarding non-controlling interests. The Trust acquired its 82% interest in DIF2 in December 2012 and fully sold down to external investors prior to 30 June 2013.

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.

On 6 June 2005, CHL acquired 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.

### New and amended standards adopted

None of the new standards and amendments to standards that are mandatory for the first time for the financial year beginning 1 July 2012 affected any of the amounts recognised in the current period or any prior period and are not likely to affect future periods. However, amendments made to AASB 101 *Presentation of Financial Statements* effective 1 July 2012 now require the statement of comprehensive income to show the items of comprehensive income grouped into those that are not permitted to be reclassified to profit or loss in a future period and those that may have to be reclassified if certain conditions are met.

### Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of investment properties classified as held for sale and 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 2.

# Notes to the Consolidated Financial Statements

continued

for the year ended 30 June 2013

## 1. Summary of significant accounting policies continued

### (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 2013 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 sheet 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 less than 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.

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, the scope exemption available under AASB 128 *Investments in Associates* is applied and investments are designated at fair value through profit or loss upon initial recognition in accordance with AASB 139 *Financial Instruments: Recognition and Measurement*. Subsequent changes in fair value are recognised 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 34.

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 Group's proportionate interest in the assets of the 685 La Trobe property development are set out in Note 15. Given the nature of the joint venture's development activity, all expenses are capitalised to inventory.

### (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 currencies

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) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income, except when they are attributable to part of the net investment in a foreign operation and deferred in equity.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss.

#### (iii) Foreign operations

The results and financial position of foreign operations (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 and statement of comprehensive income are translated at average exchange rates; and
- all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

At the balance date, the spot and average rates used were:

	2013	2012
<b>Spot rate</b>		
US Dollar	<b>0.9138</b>	1.0238
NZ Dollar	<b>1.1811</b>	1.2778
Euro	<b>0.7025</b>	0.8084
British Pound	<b>0.6007</b>	0.6518
<b>Average rate</b>		
US Dollar	<b>1.0254</b>	1.0312
NZ Dollar	<b>1.2940</b>	1.2823
Euro	<b>0.7933</b>	0.7695
British Pound	<b>0.6541</b>	0.6509

### (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 straight-lining 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.

# Notes to the Consolidated Financial Statements

continued

for the year ended 30 June 2013

## 1. Summary of significant accounting policies continued

### (e) Revenue recognition continued

#### (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 services have been performed and the fee can be reliably estimated.

#### (iii) Performance and transaction fees

Performance fees are only recognised when the outcome can be reliably estimated. 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 2.

#### (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.

#### **(j) Trade and other receivables**

Trade and other 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 uncollectible are written off in the year in which they are identified. A provision for doubtful debts is raised where there is objective evidence that the Group will not collect all amounts due. The amount of the provision is the difference between the carrying amount and estimated future cash flows. Cash flows relating to current receivables are not discounted.

### **(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).

#### **(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.



# Notes to the Consolidated Financial Statements

continued

for the year ended 30 June 2013

## 1. Summary of significant accounting policies continued

### (k) Investments and other financial assets continued

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

##### 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(l) and Note 30.

##### 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 balance 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. From time to time, the Group may designate certain derivatives as either hedges of net investments in foreign operations (net investment hedges) or hedges of exposures to variability in cash flows associated with future interest payments on variable rate debt (cash flow hedges).

The Group does not hold any financial derivative contracts as at 30 June 2013.

### (m) 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.

### (n) 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 10 years
- Fixtures 5 to 10 years
- Software 3 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.

### (o) Investment properties

Investment properties comprise investment interests in land and buildings (including integral plant and equipment) held for the purpose of letting to produce rental income, including properties that are under construction for future use as investment properties.

Initially, investment properties are measured at cost including transaction costs. Subsequent to initial recognition, the investment properties are then stated at fair value. Fair value of investment property is the price at which the property could be exchanged between knowledgeable, willing parties in an arm's length transaction. A 'willing seller' is neither a forced seller nor one prepared to sell at a price not considered reasonable in the current market. The best evidence of fair value is given by current prices in an active market for similar property in the same location and condition. Gains and losses arising from changes in the fair values of investment properties are included in profit or loss in the year in which they arise.

At each balance date, the fair values of the investment properties are assessed by the Group with reference to independent valuation reports or through appropriate valuation techniques adopted by the Group. Fair value is determined using a long-term investment period. Specific circumstances of the owner are not taken into account.

The use of independent external valuers is on a progressive basis over a three year period, or earlier, where the Group believes there may be a material change in the carrying value of the property.

Where an independent valuation is not obtained, factors taken into account, where appropriate, by the Directors in determining fair value may include:

- assuming a willing buyer and a willing seller, without duress and an appropriate time to market the property to maximise price;
- information obtained from valuers, sales and leasing agents, market research reports, vendors and potential purchasers;
- capitalisation rates used to value the asset, market rental levels and lease expiries;
- changes in interest rates;
- asset replacement values;
- discounted cash flow models;
- available sales evidence; and
- comparisons to valuation professionals performing valuation assignments across the market.

The carrying amount of investment properties recorded in the balance sheet takes into consideration components relating to lease incentives, leasing costs and assets relating to fixed increases in operating lease rentals in future years. As the fair value method has been adopted for investment properties, the buildings and any component thereof (including plant and equipment) are not depreciated.

## **(p) Intangibles**

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

Management rights in relation to entities with a fixed life are amortised using the straight-line method over their useful life. Management rights of Charter Hall Office Trust (CHOT) are amortised over six years.

## **(q) 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 35). 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.

## **(r) Lease incentives**

Prospective lessees may be offered incentives as an inducement to enter into non-cancellable operating leases. These incentives may take various forms including rent-free periods, upfront cash payments, or a contribution to certain lessee costs such as a fitout contribution. Incentives are capitalised in the consolidated balance sheet as a component of investment properties and amortised over the term of the lease as an adjustment to net rental income.

## **(s) 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.

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

Liabilities are recognised for amounts to be paid in the future for goods and services received, whether or not billed to the Group. The amounts are unsecured and are usually paid within 30 days of recognition.

## **(u) Interest-bearing liabilities**

Interest-bearing liabilities are initially recognised at fair value, net of transaction costs incurred. Interest-bearing liabilities 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 interest-bearing liabilities using the effective interest method. Fees paid on the establishment of loan facilities, which are not incremental costs relating to the actual drawdown of the facility, are recognised as a reduction in the interest-bearing liabilities and amortised on a straight-line basis over the term of the facility.

Interest-bearing liabilities 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.

## **(v) 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.

## **(w) 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

continued

for the year ended 30 June 2013

## 1. Summary of significant accounting policies continued

### (x) 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) and the General Employees Security Plan (GESP). Information relating to these schemes is set out in Note 37.

For PROP, 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, impact of dilution, security price at grant date, expected price volatility of the underlying security, expected dividend yield and the risk-free interest rate for the term of the option and 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 benefits expense recognised each year takes into account the most recent estimate.

Upon the vesting of securities, the balance of the security-based benefits reserve relating to those securities is transferred to equity, net of any directly attributable transaction costs.

For GESP, eligible employees are entitled to receive up to \$1,000 in securities based on the unit price on the grant date. The cost of the shares bought on market to settle the award liability is included in employee benefits expense. The shares are held in trust on behalf of eligible employees until the earlier of the completion of three years' service or termination.

#### (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.

### (y) 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.

### (z) Distributions paid or payable

Liability is recognised for the amount of any distribution declared by the Group on or before the end of the reporting period but not distributed at balance date. A liability has been recognised in the financial statements at 30 June 2013 as the final distribution had been declared at the balance date.

### (aa) Fair value estimation

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

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.

### (ab) 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.

### (ac) 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.

#### **(ad) 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 38, 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 7.

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.

#### **(ae) New accounting standards and interpretations**

Certain new accounting standards and interpretations have been published that are not mandatory for year ended 30 June 2013 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 and AASB 2012-6 Amendments to Australian Accounting Standards – Mandatory Effective Date of AASB 9 and Transition Disclosures* (effective from 1 January 2015)

AASB 9 *Financial Instruments* addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until 1 January 2015 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.

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities. The derecognition rules have been transferred from AASB 139 *Financial Instruments: Recognition and Measurement* and have not been changed.

- (ii) *AASB 10 Consolidated Financial Statements, AASB 11 Joint Arrangements, AASB 12 Disclosure of Interests in Other Entities, revised AASB 127 Separate Financial Statements, AASB 128 Investments in Associates and Joint Ventures, AASB 2011-7 Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards and AASB 2012-10 Amendments to Australian Accounting Standards – Transition Guidance and Other Amendments* (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.



# Notes to the Consolidated Financial Statements

continued

for the year ended 30 June 2013

## 1. Summary of significant accounting policies continued

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

- (ii) AASB 10 *Consolidated Financial Statements*, AASB 11 *Joint Arrangements*, AASB 12 *Disclosure of Interests in Other Entities*, revised AASB 127 *Separate Financial Statements*, AASB 128 *Investments in Associates and Joint Ventures*, AASB 2011-7 *Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards* and AASB 2012-10 *Amendments to Australian Accounting Standards – Transition Guidance and Other Amendments* (effective 1 January 2013) continued

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 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.

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.

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 impact of adopting AASB 10, AASB 11, AASB 12, AASB 128 and related amendments is not expected to be material as Charter Hall Group and the Charter Hall Property Trust Group already apply the equity method of accounting for their joint arrangements except for Charter Hall La Trobe Trust (La Trobe) which is proportionately consolidated. Under AASB 11, La Trobe classifies as a joint operation and the Group is required to account for its share of La Trobe's assets, liabilities, revenues and expenses which is not materially different than the current accounting treatment. Adoption of the new accounting standards will not have a material impact on the presentation of the statement of comprehensive income.

The Charter Hall Group and the Charter Hall Property Trust Group will adopt the new standards from their operative date. They will therefore be applied in the financial statements for the year ending 30 June 2014.

- (iii) 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 Group has yet to determine which, if any, of its 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. The Charter Hall Group and the Charter Hall Property Trust Group will adopt the new standard from its operative date. It will therefore be applied in the financial statements for the year ending 30 June 2014.

### (af) 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.

## 2. Critical accounting estimates and judgements

The Charter Hall Group and Charter Hall Property Trust Group make estimates and assumptions concerning the future. 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. 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) Classification and carrying value of investments

Critical judgements are made by the Charter Hall Group and Charter Hall Property Trust Group in respect of the classification and carrying value of investments in associates (Notes 13 and 16) and assets classified as held for sale (Note 12). As stated in Note 1(b)(ii), the appropriate classification of each investment is assessed on acquisition and following any subsequent changes in ownership interests. Generally, investments in unlisted retail funds (typically representing less than 5% interests with the exception of two legacy funds, Charter Hall Umbrella Fund and Charter Hall Diversified Property Fund) are designated at fair value through profit or loss on acquisition and investments in listed and wholesale funds/partnerships where Charter Hall has significant influence (typically representing between 5% and 49% interests with the exception of one legacy fund, Charter Hall Opportunity Fund No. 4) are accounted for using the equity method.



Management regularly reviews equity accounted investments for impairment and remeasures investments carried at fair value through profit or loss by reference to external independent property valuations and market conditions, using generally accepted market practices.

The reported fair values of assets classified as held for sale 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 they can be reliably estimated. Detailed calculations are completed and the risks associated with the fee are assessed when deciding when it is appropriate to recognise revenue.

In 2013, the Group settled the outstanding performance fee clawback previously provided for in relation to Charter Hall Opportunity Fund 4 (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.

#### *(iii) 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 33(e) Investments in associates for further details.

#### *(iv) 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 short to medium term. Refer to Note 7(d) Tax expense/(benefit) for further details.

#### *(v) 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 having 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. Refer to Note 17 for further details.

## 3. 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 Funds Investments*

This segment comprises interests in funds under management.

#### *Property Direct Investments*

This segment comprises direct interests in investment properties.

#### *Property Funds Management*

This segment comprises funds management services, development management services and other property services.

#### **Change in composition of reportable segments**

Strategic initiatives implemented in the prior period, including a restructure of responsibilities within the executive committee, the introduction of reporting by business unit and the development of budgets and forecasts aligning responsibility by business unit, has resulted in a change to reporting of operating segments to the Board. Accordingly the information presented in the tables below reflect the new operating segments as described above. Comparatives for the prior period have been restated to reflect the revised reportable operating segments.

#### **Charter Hall Property Trust Group**

The Board allocates resources and assesses the performance of operating segments for the entire Charter Hall Group. Results are not separately identified and reported according to the legal structure of the Charter Hall Group.

# Notes to the Consolidated Financial Statements

continued

for the year ended 30 June 2013

## 3. 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 2013 are as follows:

30 June 2013	Property Funds Investments \$'000	Property Direct Investments \$'000	Property Funds Management \$'000	Combined Group \$'000
Net property income	–	9,101	–	9,101
Co-investment income	38,468	–	–	38,468
<b>Total rental and property income</b>	<b>38,468</b>	<b>9,101</b>	<b>–</b>	<b>47,569</b>
Total property funds management income	–	–	83,505	83,505
<b>Total income</b>	<b>38,468</b>	<b>9,101</b>	<b>83,505</b>	<b>131,074</b>
Operating expenses	(413)	(262)	(71,585)	(72,260)
Less: recovery of expenses	–	–	16,573	16,573
Net operating expenses	(413)	(262)	(55,012)	(55,687)
<b>Operating earnings before interest, tax, depreciation and amortisation (EBITDA)</b>	<b>38,055</b>	<b>8,839</b>	<b>28,493</b>	<b>75,387</b>
Depreciation	–	–	(1,186)	(1,186)
<b>Operating earnings before interest and tax (EBIT)</b>	<b>38,055</b>	<b>8,839</b>	<b>27,307</b>	<b>74,201</b>
Interest income	2,254	94	–	2,348
Interest expense	(769)	(2,383)	–	(3,152)
<b>Operating earnings (including non-controlling interests)</b>	<b>39,540</b>	<b>6,550</b>	<b>27,307</b>	<b>73,397</b>
Non-controlling interest	–	(1,612)	–	(1,612)
<b>Operating earnings attributable to stapled securityholders</b>	<b>39,540</b>	<b>4,938</b>	<b>27,307</b>	<b>71,785</b>
Weighted average number of securities ('000)				299,805
<b>Operating earnings per security before specific items</b>				<b>23.94 cps</b>
<b>Operating earnings per security (EPS)</b>				<b>23.94 cps</b>
Number of securities for dividend per security (DPS) ('000)				302,262
<b>DPS</b>				<b>20.20 cps</b>

Geographical segments are immaterial as the vast majority of the Group's income is from Australian sources.

Assets and liabilities have not been reported on a segmented basis as the Board is provided with consolidated information.

The reportable segments for the year ended 30 June 2012 are as follows:

30 June 2012	Property Funds Investments \$'000	Property Direct Investments \$'000	Property Funds Management \$'000	Combined Group \$'000
Net property income	305	13,946	–	14,251
Co-investment income	34,409	–	–	34,409
<b>Total rental and property income</b>	<b>34,714</b>	<b>13,946</b>	<b>–</b>	<b>48,660</b>
Total property funds management income	–	–	74,900	74,900
<b>Total income</b>	<b>34,714</b>	<b>13,946</b>	<b>74,900</b>	<b>123,560</b>
Operating expenses	(423)	(566)	(62,436)	(63,425)
Less: recovery of expenses	–	–	12,396	12,396
Net operating expenses	(423)	(566)	(50,040)	(51,029)
<b>EBITDA</b>	<b>34,291</b>	<b>13,380</b>	<b>24,860</b>	<b>72,531</b>
Depreciation	–	–	(725)	(725)
<b>EBIT</b>	<b>34,291</b>	<b>13,380</b>	<b>24,135</b>	<b>71,806</b>
Interest income	2,176	–	–	2,176
Interest expense	(3,063)	(4,789)	–	(7,852)
<b>Operating earnings (including non-controlling interests)</b>	<b>33,404</b>	<b>8,591</b>	<b>24,135</b>	<b>66,130</b>
Non-controlling interest	–	(2,544)	–	(2,544)
<b>Operating earnings before specific items</b>	<b>33,404</b>	<b>6,047</b>	<b>24,135</b>	<b>63,586</b>
<b>Specific items<sup>1</sup></b>	<b>–</b>	<b>–</b>	<b>(8,741)</b>	<b>(8,741)</b>
<b>Operating earnings attributable to stapled securityholders</b>	<b>33,404</b>	<b>6,047</b>	<b>15,394</b>	<b>54,845</b>
Weighted average number of securities ('000)				295,625
<b>Operating earnings per security before specific items</b>				21.51 cps
<b>Operating earnings per security (EPS)</b>				18.55 cps
Number of securities for dividend per security (DPS) ('000)				296,168
<b>DPS</b>				18.20 cps

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 (subsequently settled in June 2013) which is then reduced by \$0.3 million being the Group's 3% equity share of the clawback receivable in CHOF4.

The reconciliation of total segment income stated above to the statement of comprehensive income is as follows:

	2013 \$'000	2012 \$'000
Total income per segment note	<b>131,074</b>	123,560
Add: recovery of expenses	<b>16,573</b>	12,396
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
	<b>147,647</b>	152,297
Add: investment property expenses	<b>2,304</b>	3,541
Add: interest income	<b>2,348</b>	2,176
Less: amortisation of lease incentives	<b>(453)</b>	(556)
Less: equity accounted profit in Property Direct Investments segment	<b>(522)</b>	(1,675)
Less: equity accounted profit in Property Funds Investments segment	<b>(34,699)</b>	(30,049)
Less: equity accounted profit in Property Funds Management segment	<b>(1,784)</b>	(2,104)
Revenue per statement of comprehensive income	<b>114,841</b>	123,630

# Notes to the Consolidated Financial Statements

continued

for the year ended 30 June 2013

## 3. Segment information continued

### (b) Segment information provided to the Board continued

The reconciliation of net interest expense per the segment notes for 2013 and 2012 to the statement of comprehensive income is below:

	2013 \$'000	2012 \$'000
Net operating interest per segment note	(804)	(5,676)
Less: unwind of discount on contingent consideration	(171)	(1,240)
Less: early payout of derivative financial instrument	–	(265)
Add: bridging equity interest reclassified to investment income	113	480
Net interest expense	(862)	(6,701)
Interest income	2,461	2,681
Finance costs	(3,323)	(9,382)
Net interest expense	(862)	(6,701)

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 to statutory profit after tax attributable to stapled securityholders is shown below:

	2013 \$'000	2012 \$'000
<b>Operating earnings before specific items</b>	<b>71,785</b>	63,586
Specific items <sup>1</sup>	–	(8,741)
<b>Operating earnings</b>	<b>71,785</b>	54,845
Non-cash security-based benefits expense	(3,035)	(2,338)
Fair value adjustments on derivatives <sup>2</sup>	1,472	(9,933)
Fair value adjustments on investments and property, including remeasurement gains <sup>2</sup>	(3,615)	(2,034)
Amortisation of management rights	(7,838)	(1,307)
Transfer from reserves of cumulative FX losses on disposal of foreign investments <sup>2</sup>	(484)	(12,176)
Loss on disposal of investments, property and derivatives	(953)	(890)
Inventory writedown <sup>2</sup>	–	(5,814)
Other <sup>2</sup>	(2,490)	(3,675)
<b>Statutory profit after tax attributable to stapled securityholders</b>	<b>54,842</b>	16,678

1 There are no specific items in 2013. The specific items in 2012 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 on a look-through basis (including losses on sale of offshore investment properties of \$nil (2012: \$2.0 million) and amortisation charges of \$0.5 million (2012: \$1.1 million) and income taxes.

	2013	2012
Basic weighted average number of securities per Note 9	299,804,805	295,624,609
Operating earnings before specific items per stapled security (excl. non-controlling interest)	23.94 cents	21.51 cents
Specific items	–	2.96 cents
Operating earnings per stapled security (OEPS) (excluding non-controlling interest)	23.94 cents	18.55 cents

Refer to Note 9 for statutory earnings per security figures.

## 4. Revenue

	CHARTER HALL GROUP		CHARTER HALL PROPERTY TRUST GROUP	
	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
<i>Sales revenue</i>				
Gross rental income	10,443	15,561	10,443	15,532
Management, transaction and performance fees	98,295	101,863	–	–
	<b>108,738</b>	117,424	<b>10,443</b>	15,532
<i>Other revenue</i>				
Interest	2,461	2,681	17,277	34,276
Distributions/dividends <sup>1</sup>	3,642	3,525	3,642	3,479
	<b>6,103</b>	6,206	<b>20,919</b>	37,755
Total revenue	<b>114,841</b>	123,630	<b>31,362</b>	53,287

1 Represents the distribution of income from investments in associates accounted for at fair value by the Group and Trust Group. Refer to Note 33 for further details.

## 5. Expenses

	CHARTER HALL GROUP		CHARTER HALL PROPERTY TRUST GROUP	
	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
<b>Profit before income tax includes the following specific expenses:</b>				
<i>Depreciation</i>				
Plant and equipment	1,186	725	–	–
<i>Amortisation</i>				
Leasing and other incentives	453	1,031	453	546
Management rights	7,838	1,307	–	–
<i>Finance costs</i>				
Interest and finance charges paid/payable	3,152	8,142	4,125	8,875
Finance costs due to unwinding of discount on contingent consideration	171	1,240	–	–
	<b>3,323</b>	9,382	<b>4,125</b>	8,875
<i>Management, administration and other expenses</i>				
Employee benefits expense	55,508	53,561	–	–
Restructuring costs <sup>1</sup>	1,192	3,900	–	–
Non-cash security-based benefits expense	3,035	2,338	–	–
Superannuation expense	2,996	3,153	–	–
Legal and consulting costs	1,613	4,233	88	33
Rent expense – minimum lease payments on operating leases	1,623	1,541	–	–
Other occupancy costs	1,223	1,269	–	–
Communication and IT expenses	2,271	1,465	–	–
Other expenses	5,829	5,608	319	1,280
	<b>75,290</b>	77,068	<b>407</b>	1,313

1 2012 expense included as a specific item.



# Notes to the Consolidated Financial Statements

continued

for the year ended 30 June 2013

## 6. Fair value adjustments

	Note	CHARTER HALL GROUP		CHARTER HALL PROPERTY TRUST GROUP	
		2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
Included in total income:					
Contingent consideration payable	20	1,123	1,355	-	-
Derivative financial instruments	14	121	-	121	-
		<b>1,244</b>	1,355	<b>121</b>	-
Included in total expenses:					
Investment properties		(8,419)	(7,692)	(8,419)	(7,692)
Investments in associates at fair value through profit or loss	13, 33(b)	(1,596)	(1,774)	(1,691)	(1,757)
Derivative financial instruments	14	-	(310)	-	(310)
		<b>(10,015)</b>	(9,776)	<b>(10,110)</b>	(9,759)

## 7. Income tax expense/(benefit)

	Note	CHARTER HALL GROUP		CHARTER HALL PROPERTY TRUST GROUP	
		2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
<b>(a) Income tax expense/(benefit)</b>					
Current tax expense		-	-	-	-
Deferred income tax expense/(benefit)		1,933	(482)	-	-
(Under)/over provided in prior years		(195)	50	-	-
		<b>1,738</b>	(432)	-	-
Deferred income tax expense/(benefit) comprises:					
Decrease/(increase) in deferred tax assets		1,935	(1,538)	-	-
(Decrease)/increase in deferred tax liabilities		(2)	1,056	-	-
	19	<b>1,933</b>	(482)	-	-
<b>(b) Numerical reconciliation of income tax benefit to prima facie tax payable</b>					
Profit before income tax expense/(benefit)		<b>56,129</b>	13,971	<b>47,666</b>	33,164
Prima facie tax expense/(benefit) at the Australian tax rate of 30%		<b>16,839</b>	4,191	<b>14,300</b>	9,949
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:					
Charter Hall Property Trust income		<b>(14,374)</b>	(10,442)	<b>(14,374)</b>	(10,442)
Non-allowable expenses		2,231	549	-	-
Share-based payments expense		(33)	43	-	-
Utilisation of losses not previously recognised		<b>(2,856)</b>	4,096	-	-
Sundry items		-	348	74	493
Tax on LTI interest		-	37	-	-
Non-taxable dividends, net of equity accounted profit		<b>(535)</b>	732	-	-
Over provided in prior years		480	50	-	-
Difference in overseas tax rates		<b>(14)</b>	(36)	-	-
Income tax expense/(benefit)		<b>1,738</b>	(432)	-	-

**(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.

**(d) Tax losses – Charter Hall Group**

	2013 \$'000	2012 \$'000
Unused tax losses for which no deferred tax asset has been recognised	7,726	14,018
Potential tax benefit @ 30%	2,318	4,205

Based upon the completion of the June 2012 income tax return, the actual carried forward tax losses (unbooked) was calculated to be \$11,768,000. This was a reduction of \$2,250,000 on the previously disclosed carried forward losses (unbooked) in the prior year financial statements of \$14,018,000.

**8. Distributions paid and payable**

	CHARTER HALL GROUP		CHARTER HALL PROPERTY TRUST GROUP	
	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
<b>(a) Ordinary securities</b>				
Final ordinary distribution for the six months ended 30 June 2013 of 10.4 cents per security expected to be paid on 28 August 2013	31,435	–	31,435	–
Interim ordinary distribution for the six months ended 31 December 2012 of 9.80 cents per security paid on 28 February 2013	29,276	–	29,276	–
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 2011 of 9.10 cents per security paid on 23 February 2012	–	26,950	–	26,950
Total distributions paid and payable	60,711	53,963	60,711	53,963
Less: distributions paid to holders of LTI securities	–	(124)	–	(124)
	60,711	53,839	60,711	53,839
Paid or payable in cash	35,924	53,839	35,924	53,839
Satisfied by issue of securities <sup>1</sup>	24,787	–	24,787	–

<sup>1</sup> Inclusive of securities expected to be issued on 28 August 2013.

Franking credits available in the parent entity (Charter Hall Limited) for subsequent financial years based on a tax rate of 30% (2012: 30%) are \$3,336,951 (2012: \$3,336,951).

# Notes to the Consolidated Financial Statements

continued

for the year ended 30 June 2013

## 9. Earnings per security

	CHARTER HALL GROUP		CHARTER HALL PROPERTY TRUST GROUP	
	2013 Cents	2012 Cents	2013 Cents	2012 Cents
<b>(a) Basic earnings per stapled security</b>				
Basic earnings attributable to the stapled securityholders	<b>18.29</b>	5.64	<b>16.32</b>	12.21
<b>(b) Diluted earnings per security</b>				
Diluted earnings attributable to the stapled securityholders	<b>17.67</b>	5.35	<b>15.77</b>	11.49
	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'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	<b>54,842</b>	16,678	<b>48,943</b>	36,087
Interest received from LTI securities	–	124	–	–
<b>Profit attributable to the ordinary equity holders of the Group used in calculating diluted earnings per security</b>	<b>54,842</b>	16,802	<b>48,943</b>	36,087
	2013 Number	2012 Number	2013 Number	2012 Number
<b>(d) Weighted average number of securities used as the denominator</b>				
Weighted average number of ordinary securities used as the denominator in calculating basic earnings per security	<b>299,804,805</b>	295,624,609	<b>299,804,805</b>	295,624,609
Adjustments for calculation of diluted earnings per security:				
Performance rights	<b>5,614,052</b>	4,097,636	<b>5,614,052</b>	4,097,636
Service rights	<b>460,846</b>	240,139	<b>460,846</b>	240,139
Options	<b>4,364,646</b>	7,843,591	<b>4,364,646</b>	7,843,591
Securities issued under the Charter Hall Limited Executive Loan Security Plan	<b>63,161</b>	6,176,495	<b>63,161</b>	6,176,495
Weighted average number of ordinary securities and potential ordinary securities used as the denominator in calculating diluted earnings per security	<b>310,307,510</b>	313,982,470	<b>310,307,510</b>	313,982,470

### (e) Information concerning the classification of securities

#### (i) Performance rights, service rights and options issued under the Charter Hall Performance Rights and Options Plan

The performance rights and options are unquoted securities. Conversion to stapled securities and vesting to executives is subject to service and performance conditions.

#### (ii) Securities issued under the General Employee Share Plan (GESP)

Securities issued under the GESP are purchased on market on behalf of eligible employees but held in trust until the earlier of the completion of three years' service or termination. No adjustment to diluted earnings per security is required in relation to these securities.

#### (iii) Securities issued under the Charter Hall Limited Executive Loan Security Plan (ELSP)

Securities issued under the ELSP are issued in trust and corresponding loans are granted to employees. Under AASB 2 *Share-based Payment*, the loan, interest received on the loan, securities and the distribution paid and payable are not recognised in the preparation of the financial statements but included in the calculation of diluted earnings per security. All securities issued under this plan were cancelled prior to 30 June 2013. Refer to Note 37(a) for further details.

## 10. Cash and cash equivalents

	CHARTER HALL GROUP		CHARTER HALL PROPERTY TRUST GROUP	
	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
Cash at bank and on hand	<b>12,236</b>	39,315	<b>2,229</b>	21,674

These amounts earn floating interest rates of between nil and 3.1% (2012: nil and 3.4%).

## 11. Trade and other receivables

	Note	CHARTER HALL GROUP		CHARTER HALL PROPERTY TRUST GROUP	
		2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
<b>Current</b>					
Trade receivables		<b>15,423</b>	9,535	<b>283</b>	481
Loans to key management personnel		<b>1,122</b>	955	-	-
Loans to joint ventures	31(e)	<b>5,000</b>	-	-	-
Loans to associates	31(e)	<b>27,294</b>	1,650	<b>21,250</b>	1,650
Distributions receivable		<b>12,558</b>	10,441	<b>10,557</b>	9,703
Other receivables		<b>1,595</b>	8,821	<b>117</b>	5,573
Prepayments		<b>558</b>	708	<b>225</b>	194
		<b>63,550</b>	32,110	<b>32,432</b>	17,601
<b>Non-current</b>					
Loans to key management personnel		<b>2,400</b>	3,400	-	-
Loans to joint ventures	31(e)	-	5,000	-	-
Loans to associates	31(e)	-	4,470	-	-
Loan receivable from Charter Hall Limited		-	-	<b>145,891</b>	163,542
		<b>2,400</b>	12,870	<b>145,891</b>	163,542

Further information relating to loans to key management personnel is set out in Note 27.

### (a) Bad and doubtful trade receivables

In the year, the Charter Hall Group and Charter Hall Property Trust Group incurred \$nil expense (2012: \$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) Credit risk

There is a limited concentration of credit risk as the majority of current and non-current receivables are due from related parties of Charter Hall Group and Charter Hall Property Trust Group. Refer to Note 30 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	
	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
Current	<b>14,120</b>	8,084	<b>283</b>	481
1 to 3 months	<b>258</b>	732	-	-
3 to 6 months	<b>84</b>	-	-	-
More than 6 months	<b>961</b>	719	-	-
	<b>15,423</b>	9,535	<b>283</b>	481

As at 30 June 2013, trade receivables of \$1,303,000 (2012: \$1,451,000) were past due but not impaired.

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## 12. Assets classified as held for sale

	CHARTER HALL GROUP		CHARTER HALL PROPERTY TRUST GROUP	
	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
Menai Central, Menai	31,500	35,000	31,500	35,000
Home HQ, Nunawading	23,725	27,500	23,725	27,500
Bunnings Stafford, Stafford Road, Stafford	–	19,000	–	19,000
Home HQ, Ipswich	–	24,500	–	24,500
33 Windorah Street, Stafford	–	11,704	–	11,704
Charter Hall Retail Joint Venture Trust	–	18,686	–	18,686
	<b>55,225</b>	136,390	<b>55,225</b>	136,390

All assets are investment properties except for the Charter Hall Retail Joint Venture Trust in which the Group held a 50% interest. These assets are classified as held for sale as it was considered highly probable that they would be sold within 12 months of the balance date. The carrying values of Nunawading and Menai as at 30 June 2013 reflect their respective agreed sales price, indicative offer and/or director valuation. Nunawading settled on 15 July 2013 at a market equivalent capitalisation rate of 10.7% and Menai settled on 17 September 2013 at a market equivalent capitalisation rate of 9.8%. All other assets were sold during the current year.

A reconciliation of the movements in assets held for sale during the year is set out below:

	CHARTER HALL GROUP		CHARTER HALL PROPERTY TRUST GROUP	
	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
Opening balance	136,390	–	136,390	–
Assets reclassified to held for sale	–	136,390	–	136,390
Additions	768	–	768	–
Amortisation of lease incentives	(319)	–	(319)	–
Foreign exchange movements	–	–	–	–
Fair value adjustments	(8,419)	–	(8,419)	–
Disposals	(73,195)	–	(73,195)	–
<b>Closing balance</b>	<b>55,225</b>	136,390	<b>55,225</b>	136,390

### (a) Amounts recognised in the statement of comprehensive income for investment properties

	CHARTER HALL GROUP		CHARTER HALL PROPERTY TRUST GROUP	
	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
Property income	10,443	15,561	10,443	15,532
Direct operating expenses from property that generated rental income	(2,304)	(3,541)	(2,304)	(3,478)
	<b>8,139</b>	12,020	<b>8,139</b>	12,054

This table includes the total 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 earlier of the date of sale or 30 June of the relevant year.

### (b) Valuation basis

Assets held for sale are carried at fair value, representing the amount at which the assets could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction at the date of valuation, in accordance with Australian Valuation Standards.



## 13. Investments in associates at fair value through profit or loss

	Note	CHARTER HALL GROUP		CHARTER HALL PROPERTY TRUST GROUP	
		2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
Investments in associates	33(b)(i)	49,229	62,638	49,229	62,180

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 30(a)(i).

## 14. Derivative financial instruments

	CHARTER HALL GROUP		CHARTER HALL PROPERTY TRUST GROUP	
	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
<b>Current liabilities</b>				
Interest rate swap contracts	-	669	-	669
	-	669	-	669
<b>Non-current liabilities</b>				
Interest rate swap contracts	-	-	-	-
	-	-	-	-

### (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 30).

#### Interest rate swap contracts

All swaps were entered into by DRF, which is consolidated, and settled prior to 30 June 2013. No interest rate swaps were outstanding as at 30 June 2013. In 2012, swaps in place covered 39% of the loan principal outstanding. The fixed interest rates ranged between 5.05% and 5.46% for AUD swaps (including margin and line fees) and a NZD swap was paid out during the year. The interest rate swap was shown as current despite an expiry date of 2 December 2013 as it was expected to be closed out within 12 months of the balance date.

	2013 \$'000	2012 \$'000
1 to 2 years	-	20,000
	-	20,000

The contracts required settlement of net interest receivable or payable every 90 days. The settlement dates coincided 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 gain of \$121,000 (2012: loss of \$310,069). Interest rate swaps with a notional principal amount of \$18.0 million (2012: NZ\$23.6 million) were terminated during the year, resulting in \$nil accounting gain or loss (2012: gain of \$134,000).

### (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 30(a) for the Charter Hall Group and Charter Hall Property Trust Group's exposure to interest rate risk on interest rate swaps.

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## 15. Inventories

	CHARTER HALL GROUP		CHARTER HALL PROPERTY TRUST GROUP	
	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
<b>Non-current</b>				
685 La Trobe property development	10,848	9,518	-	-
	<b>10,848</b>	9,518	-	-

## 16. Investments accounted for using the equity method

	Note	CHARTER HALL GROUP		CHARTER HALL PROPERTY TRUST GROUP	
		2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
Investments in associates	33	459,908	444,515	401,966	373,578
Investments in joint venture entities	34	60,239	27,644	33,118	-
		<b>520,147</b>	472,159	<b>435,084</b>	373,578

Investments in associates represent units in listed and unlisted Charter Hall managed funds which are accounted for using the equity method. Investments in joint venture entities represent joint venture interests in Australian and overseas joint ventures which are accounted for using the equity method. Refer to Note 34(c) for carrying value assessments.

## 17. 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 and the Funds do not have a finite life. The carrying value of management rights with an indefinite life (i.e. excluding CHOT) is \$58.2 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.

	CHARTER HALL GROUP		CHARTER HALL PROPERTY TRUST GROUP	
	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
<b>Management rights</b>				
Opening balance	98,687	99,994	-	-
Additions <sup>1</sup>	5,217	-	-	-
Amortisation charge	(7,838)	(1,307)	-	-
Closing balance	<b>96,066</b>	98,687	-	-

<sup>1</sup> On 15 August 2012 a subsidiary of the Group acquired the management rights to PFA at a total cost of \$5.2 million. As PFA is an open ended fund with no termination date or review event contemplated in its constitution, management rights held over PFA are considered to have an indefinite useful life.

All management rights recognised on the balance sheet (excluding PFA) 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. Management's internal valuations for indefinite-life management rights as at 30 June 2013 have been prepared on a consistent basis in the current year.

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% (2012: 14% to 17%) 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% (2012: 3%) per annum; and
- terminal value multiple of 4.9 to 7.0 times earnings (2012: 4.9 to 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.

## 18. Property, plant and equipment

	CHARTER HALL GROUP		CHARTER HALL PROPERTY TRUST GROUP	
	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
Opening net book amount	3,026	3,167	-	-
Additions	1,233	584	-	-
Disposals	(330)	-	-	-
Depreciation charge	(1,186)	(725)	-	-
Closing net book amount	2,743	3,026	-	-
<b>At 30 June</b>				
Cost	4,777	6,950	-	-
Accumulated depreciation	(2,034)	(3,924)	-	-
Net book amount	2,743	3,026	-	-

## 19. Deferred tax assets

	CHARTER HALL GROUP		CHARTER HALL PROPERTY TRUST GROUP	
	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
<b>Deferred tax assets comprises temporary differences attributable to:</b>				
Employee benefits	4,217	2,052	-	-
Investments in associates	4,308	4,089	-	-
Provisions	-	4,272	-	-
Other	47	94	-	-
	8,572	10,507	-	-
<b>Deferred tax liabilities comprises temporary differences attributable to:</b>				
Accrued revenue	-	(84)	-	-
Contingent consideration payable	-	(903)	-	-
Investment in associates	(2,042)	(1,078)	-	-
Other	(141)	(120)	-	-
	(2,183)	(2,185)	-	-
Net deferred tax assets	6,389	8,322	-	-

Deferred tax liabilities have been set-off against deferred tax assets pursuant to set-off provisions.

# Notes to the Consolidated Financial Statements

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### 19. Deferred tax assets continued

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:

	Note	CHARTER HALL GROUP		CHARTER HALL PROPERTY TRUST GROUP	
		2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
Opening balance		<b>8,322</b>	10,126	-	-
Charged to income statement	7	<b>(1,933)</b>	482	-	-
Charged to other comprehensive income		-	9	-	-
Charged directly to equity reserves		-	(2,295)	-	-
Closing balance		<b>6,389</b>	8,322	-	-
Net deferred tax assets expected to reverse within 12 months		<b>3,538</b>	5,311	-	-
Net deferred tax assets expected to reverse after more than 12 months		<b>2,851</b>	3,011	-	-
		<b>6,389</b>	8,322	-	-

### 20. Trade and other payables

	CHARTER HALL GROUP		CHARTER HALL PROPERTY TRUST GROUP	
	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
<b>Current liabilities</b>				
Trade payables	<b>5</b>	712	<b>2</b>	359
Accruals	<b>2,933</b>	3,424	<b>1,193</b>	1,814
Distribution payable	<b>31,435</b>	27,585	<b>31,435</b>	27,888
GST payable	-	1,755	-	219
Annual leave payable	<b>2,129</b>	2,193	-	-
Contingent consideration payable <sup>1</sup>	<b>1,856</b>	10,539	-	-
Employee benefits payable	<b>9,693</b>	3,927	-	-
Other payables	<b>770</b>	653	<b>110</b>	8
	<b>48,821</b>	50,788	<b>32,740</b>	30,288

<sup>1</sup> 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 were 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 30 June 2013, additional purchase consideration of up to \$15 million may be payable in cash.

Based on the actual cumulative revenue targets achieved during the measurement period, contingent consideration of \$11.0 million is due and payable. Of this amount, \$1.5 million was paid in March 2012, \$7.7 million was paid in December 2012, \$1.2 million was paid in August 2013 and \$0.7 million remains payable.

All current liabilities are expected to be settled within 12 months.

## 21. Provisions – current

	CHARTER HALL GROUP		CHARTER HALL PROPERTY TRUST GROUP	
	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
Employee benefits – long service leave	1,101	656	–	–
Performance fee clawback	–	14,239	–	–
	<b>1,101</b>	<b>14,895</b>	<b>–</b>	<b>–</b>

On 26 June 2013, Charter Hall paid \$14.2 million to Charter Hall Opportunity Fund 4 (CHOF4) the clawback of performance fees received in respect of the 2007, 2008, 2009 and 2010 financial years. The amount paid was fully provided for in the prior year.

Refer to Note 23 for the movement in provisions and split between current and non-current.

## 22. Interest-bearing liabilities

	CHARTER HALL GROUP		CHARTER HALL PROPERTY TRUST GROUP	
	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
<b>Unsecured</b>				
Loan from Charter Hall Holdings Pty Ltd	–	–	–	2,400
<b>Secured</b>				
Bank loans drawn				
Charter Hall Property Trust loan	14,000	–	14,000	–
DRF loan	13,750	51,750	13,750	51,750
Unamortised borrowing costs	(295)	(287)	(295)	(287)
<b>Total current borrowings</b>	<b>27,455</b>	<b>51,463</b>	<b>27,455</b>	<b>53,863</b>

Unamortised borrowing costs as at 30 June 2013 comprise \$270,000 in relation to the Charter Hall Property Trust corporate facility and \$25,000 in relation to the DRF loan. As no debt was drawn on the CHPT facility as at 30 June 2012, the corresponding unamortised borrowing costs of \$564,287 are disclosed on the balance sheet as Other Assets in the comparative period.

### Charter Hall Property Trust loan

The Charter Hall Group and Charter Hall Property Trust Group's \$100 million corporate facility was reduced to \$75.0 million in April 2012 and expires in May 2014. At 30 June 2013, \$14.0 million had been drawn under this facility (2012: \$nil). Subsequent to 30 June 2013, the \$75.0 million corporate facility has been extended to August 2015 with reduced pricing.

Amounts drawn under this facility 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 4.0 times; or
- the ratio of 'net cash inflow' to gross interest to be a minimum of 4.25 times (2012: The ratio of EBIT to gross interest to fall below 3.0 times).

### DRF loan

The DRF loan represents the Group's \$13.8 million share of the total amount drawn on a \$64.0 million joint venture facility entered into by DRF, 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. 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). The facility is contractually not repayable until November 2013 but was classified as current as at 30 June 2012 due to the underlying assets being held for sale and an expectation that the borrowings would therefore be repaid within 12 months; however, the settlement date was delayed until 15 July 2013. This facility was fully repaid on settlement.



# Notes to the Consolidated Financial Statements

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## 22. Interest-bearing liabilities continued

### DRF loan continued

Amounts drawn under the DRF JV 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.

In 2013, DRF repaid the \$36.3 million balance owing on the National Australia Bank facility in connection with current year asset sales (refer to Note 12). In 2012, DRF also borrowed \$2.4 million from Charter Hall Holdings Pty Ltd which was fully repaid in November 2012.

### Security

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	
	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
<b>Current</b>				
<i>Floating charge</i>				
Cash and cash equivalents	–	1,265	–	1,265
Receivables	–	1,307	–	1,307
<i>First mortgage</i>				
Investment property classified as held for sale	<b>23,725</b>	117,704	<b>23,725</b>	117,704
Investment in jointly controlled entity classified as held for sale	–	18,686	–	18,686
Total current assets pledged as security	<b>23,725</b>	138,962	<b>23,725</b>	138,962
<b>Non-current</b>				
<i>First mortgage</i>				
Investment in associates	<b>462,995</b>	414,777	<b>462,995</b>	414,777
Total non-current assets pledged as security	<b>462,995</b>	414,777	<b>462,995</b>	414,777
Total assets pledged as security	<b>486,720</b>	553,739	<b>486,720</b>	553,739

### (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	
	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
Total facilities	<b>88,750</b>	130,500	<b>88,750</b>	132,900
Used at reporting date	<b>27,750</b>	51,750	<b>27,750</b>	54,150
<b>Unused at reporting date</b>	<b>61,000</b>	78,750	<b>61,000</b>	78,750

### (b) 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 2013 was 1.88% (2012: 1.45%), and of the Charter Hall Property Trust Group was 3.51% (2012: 4.3%). 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 monitoring compliance with covenants.

## 23. Provisions – non-current

	CHARTER HALL GROUP		CHARTER HALL PROPERTY TRUST GROUP	
	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
Employee benefits – long service leave	<b>1,162</b>	1,428	-	-

Movements in employee benefits provisions are set out below:

	CHARTER HALL GROUP		CHARTER HALL PROPERTY TRUST GROUP	
	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
<b>Long service leave</b>				
Opening balance	<b>2,084</b>	2,051	-	-
Additional provisions recognised	<b>179</b>	33	-	-
Closing balance	<b>2,263</b>	2,084	-	-

	CHARTER HALL GROUP		CHARTER HALL PROPERTY TRUST GROUP	
	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
Current	<b>1,101</b>	656	-	-
Non-current	<b>1,162</b>	1,428	-	-
<b>Total</b>	<b>2,263</b>	2,084	-	-

Movements in performance fee clawback provision is set out below:

	CHARTER HALL GROUP		CHARTER HALL PROPERTY TRUST GROUP	
	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
Opening balance	<b>14,239</b>	-	-	-
Provision (utilised)/recognised during the year	<b>(14,239)</b>	14,239	-	-
Closing balance	-	14,239	-	-
Current	-	14,239	-	-
Non-current	-	-	-	-
<b>Total</b>	-	14,239	-	-

# Notes to the Consolidated Financial Statements

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## 24. Contributed equity

### (a) Security capital

	2013 Securities	2012 Securities	2013 \$'000	2012 \$'000
Charter Hall Limited			211,335	209,550
Charter Hall Property Trust			753,610	739,175
Ordinary securities – stapled units, fully paid	302,262,312	296,168,170	964,945	948,725

### (b) Movements in ordinary security capital

Details	Number of securities <sup>1</sup>	Issue price	\$'000
Opening balance	293,755,894		943,961
Add back LTI securities reversed in prior 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>	<b>296,168,170</b>		<b>948,725</b>
Add back LTI securities reversed last year <sup>2</sup>	678,055		7,487
Performance rights and options exercised	2,835,759	\$1.94 <sup>3</sup>	5,652
Cancellation of forfeited LTI securities off market	(678,055)		(7,487)
Issuance under DRP	3,258,383	\$3.25	10,586
<b>Balance at 30 June 2013</b>	<b>302,262,312</b>		<b>964,963</b>
Less: Transaction costs on security issues			(18)
<b>Balance per accounts at 30 June 2013</b>	<b>302,262,312</b>		<b>964,945</b>

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 Includes 1,772,116 options with a strike price of \$1.94 and 72,117 options with a strike price of \$2.44.

### (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 Group 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 was reinstated for the half year ended 31 December 2012 and continued to be in effect at 30 June 2013.

## 25. Reserves and accumulated losses

### (a) Reserves

	CHARTER HALL GROUP		CHARTER HALL PROPERTY TRUST GROUP	
	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
Business combination reserve	(52,000)	(52,000)	-	-
Security-based benefits reserve	7,480	12,605	-	-
Transactions with non-controlling interests	(10,014)	(8,702)	(1,199)	(9)
Foreign currency reserve	(1,023)	(2,373)	(211)	(1,406)
	<b>(55,557)</b>	<b>(50,470)</b>	<b>(1,410)</b>	<b>(1,415)</b>
Charter Hall Limited	<b>(54,147)</b>	<b>(49,055)</b>	-	-
Charter Hall Property Trust	<b>(1,410)</b>	<b>(1,415)</b>	<b>(1,410)</b>	<b>(1,415)</b>
	<b>(55,557)</b>	<b>(50,470)</b>	<b>(1,410)</b>	<b>(1,415)</b>
<b>Movements:</b>				
<i>Business combination reserve</i>				
Opening and closing balance	<b>(52,000)</b>	(52,000)	-	-
<i>Security-based benefits reserve</i>				
Opening balance	<b>12,605</b>	11,457	-	-
Non-cash security-based benefits expense	<b>3,035</b>	2,338	-	-
Expense relating to deferred STI transferred to security-based payment reserve	-	262	-	-
Transferred to equity on options and performance rights exercised	<b>(2,038)</b>	(1,452)	-	-
Transferred to accumulated losses for ELSP lapse	<b>(6,122)</b>	-	-	-
<b>Closing balance</b>	<b>7,480</b>	12,605	-	-
<i>Transactions with non-controlling interests</i>				
Opening balance	<b>(8,702)</b>	(6,300)	<b>(9)</b>	52
DRF acquisition premium	<b>(1,312)</b>	(2,295)	<b>(1,190)</b>	-
Acquisitions above net tangible assets	-	(107)	-	(61)
<b>Closing balance</b>	<b>(10,014)</b>	<b>(8,702)</b>	<b>(1,199)</b>	<b>(9)</b>
<i>Foreign currency reserve</i>				
Opening balance	<b>(2,373)</b>	(10,451)	<b>(1,406)</b>	(9,799)
Exchange differences on translation of foreign operations	<b>1,141</b>	992	<b>986</b>	1,307
Transfer of cumulative FX losses to profit or loss	<b>209</b>	11,749	<b>209</b>	11,749
Transfer to accumulated losses	-	(4,663)	-	(4,663)
<b>Closing balance</b>	<b>(1,023)</b>	<b>(2,373)</b>	<b>(211)</b>	<b>(1,406)</b>

#### (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 benefits reserve

The security-based benefits reserve is used to recognise the fair value of rights and options issued under the PROP.

# Notes to the Consolidated Financial Statements

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for the year ended 30 June 2013

## 25. Reserves and accumulated losses continued

### (a) Reserves continued

#### (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's and Charter Hall Property Trust Group's share of foreign exchange differences arising from the 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	
	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
Opening balance	<b>(169,347)</b>	(136,849)	<b>(87,609)</b>	(74,520)
Profit for the year	<b>54,842</b>	16,678	<b>48,943</b>	36,087
Distributions	<b>(60,711)</b>	(53,839)	<b>(60,711)</b>	(53,839)
Transfer from foreign currency reserve	–	4,663	–	4,663
Transfer from security-based benefits reserve	<b>6,122</b>	–	–	–
Closing balance at 30 June	<b>(169,094)</b>	(169,347)	<b>(99,377)</b>	(87,609)
Charter Hall Limited	<b>(69,717)</b>	(81,738)	–	–
Charter Hall Property Trust	<b>(99,377)</b>	(87,609)	<b>(99,377)</b>	(87,609)
Closing balance at 30 June	<b>(169,094)</b>	(169,347)	<b>(99,377)</b>	(87,609)

## 26. Non-controlling interest

Effective 19 April 2013, the Charter Hall Group owns 100% of DRF and the non-controlling interest (NCI) disclosed by Charter Hall Property Trust Group solely represents the 16% interest held by Charter Hall Holdings Pty Ltd, a subsidiary of Charter Hall Limited. At 30 June 2012, Charter Hall Group and Charter Hall Property Trust Group owned 34.09% and 50.37%, respectively of DRF with the remaining interest owned by non-controlling unitholders.

	CHARTER HALL GROUP		CHARTER HALL PROPERTY TRUST GROUP	
	2013 \$'000 0% NCI	2012 \$'000 34.09% NCI	2013 \$'000 16.00% NCI	2012 \$'000 50.37% NCI
Interest in:				
Contributed equity	–	67,348	<b>32,145</b>	99,515
Accumulated losses	–	(39,900)	<b>(25,073)</b>	(58,957)
<b>Other non-controlling interest in DRF</b>	–	27,448	<b>7,072</b>	40,558



## 27. 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 (resigned 30 January 2013)
- Anne Brennan – Non-Executive Independent Director
- David Deverall – Non-Executive Independent Director
- Glenn Fraser – Non-Executive Independent Director (resigned 15 August 2012)
- Philip Garling – Non-Executive Independent Director (appointed 25 February 2013)
- 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 2013 was eight (2012: seven).

<i>Name</i>	<i>Position</i>
P Altschwager	Chief Financial Officer
N Devlin	Head of People
S Dundas	Fund Manager – Charter Hall Retail REIT
A Glass	Head of Wholesale Pooled Funds
T Jordan	Group General Counsel and Company Secretary (appointed 19 November 2012)
N Kelly	Head of Investor Relations
R Stacker	Head of Charter Hall Direct Property
A Taylor	Head of Wholesale Partnerships

### (c) Key management personnel compensation (including non-executive Directors)

Key management personnel are employed by Charter Hall Holdings Pty Ltd, a subsidiary of CHL. 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.

	2013 \$	2012 \$
Short-term employee benefits	<b>786,438</b>	761,962
Post-employment benefits	<b>47,365</b>	59,435
Non-executive Directors	<b>833,803</b>	821,397
Short-term employee benefits	<b>8,306,411</b>	5,594,061
Post-employment benefits	<b>159,267</b>	134,277
Security-based benefits	<b>2,369,843</b>	1,680,857
Long-term employee benefits	<b>104,439</b>	75,182
Non-monetary benefits	<b>68,188</b>	64,082
Other key management personnel	<b>11,008,148</b>	7,548,459
Total key management personnel	<b>11,841,951</b>	8,369,856

# Notes to the Consolidated Financial Statements

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for the year ended 30 June 2013

## 27. Key management personnel continued

### (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:

2013 Name	Opening balance	Purchased/ (sold) during the year	LTI securities vesting/ (forfeited) during the year	Closing balance
<b>Directors of Charter Hall Limited</b>				
<i>Ordinary securities</i>				
K Roxburgh	31,250	-	-	31,250
R Woodhouse <sup>1</sup>	21,249	(21,249)	-	-
A Brennan	30,000	-	-	30,000
D Deverall	15,287	18,433	-	33,720
G Fraser <sup>1</sup>	70,000	(70,000)	-	-
P Garling <sup>2</sup>	-	6,297	-	6,297
D Harrison	2,235,970	(167,748)	(226,449)	1,841,773
P Kahan	-	-	-	-
C McGowan	-	-	-	-
D Southon	2,274,809	(167,748)	(226,449)	1,880,612
<b>Other key management personnel of the Group</b>				
<i>Ordinary securities</i>				
P Altschwager	-	130,027	-	130,027
N Devlin	-	-	-	-
S Dundas	-	-	-	-
A Glass	-	-	-	-
T Jordan <sup>3</sup>	-	-	-	-
N Kelly	24,155	(24,022)	-	133
R Stacker	-	-	-	-
A Taylor	-	-	-	-

<sup>1</sup> Deemed disposal of all security holdings on date of resignation as no longer a director of the Group.

<sup>2</sup> Appointed on 25 February 2013.

<sup>3</sup> Appointed on 19 November 2012.

2012 Name	Opening balance	Purchased/ (sold) during the year	LTI securities vesting/ (forfeited) during the year	Closing balance
<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 <sup>1</sup>	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.

The Executive Directors of Charter Hall Group and other key management personnel of the Charter Hall Group held the following performance rights as at 30 June 2013:

	2010	2011	2012	2013	Total
<b>Executive Directors</b>					
D Harrison	–	201,924	564,517	346,847	<b>1,113,288</b>
D Southon	–	201,924	564,517	346,847	<b>1,113,288</b>
<b>Key management personnel</b>					
P Altschwager	–	–	–	189,190	<b>189,190</b>
N Devlin	–	10,897	97,581	37,163	<b>145,641</b>
S Dundas	35,752	–	107,527	59,460	<b>202,739</b>
A Glass	–	50,483	141,130	59,460	<b>251,073</b>
T Jordan <sup>1</sup>	–	–	–	37,838	<b>37,838</b>
N Kelly	–	43,272	120,968	63,244	<b>227,484</b>
R Stacker	53,628	–	157,549	59,460	<b>270,637</b>
A Taylor	89,252	–	223,433	84,325	<b>397,010</b>

1 Appointed on 19 November 2012.

# Notes to the Consolidated Financial Statements

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for the year ended 30 June 2013

## 27. Key management personnel continued

### (d) Equity instrument disclosures relating to key management personnel continued

#### (i) Security holdings continued

The Executive Directors of Charter Hall Group and other key management personnel of the Charter Hall Group held the following options as at 30 June 2013:

	2010	2011	2012	2013	Total
<b>Executive Directors</b>					
D Harrison	345,060	504,808	–	–	<b>849,868</b>
D Southon	670,314	504,808	–	–	<b>1,175,122</b>
<b>Key management personnel</b>					
P Altschwager	–	–	–	–	–
N Devlin	–	27,243	–	–	<b>27,243</b>
S Dundas	89,252	–	–	–	<b>89,252</b>
A Glass	–	126,204	–	–	<b>126,204</b>
T Jordan <sup>1</sup>	–	–	–	–	–
N Kelly	–	108,176	–	–	<b>108,176</b>
R Stacker	133,876	–	–	–	<b>133,876</b>
A Taylor	223,252	–	–	–	<b>223,252</b>

<sup>1</sup> Appointed on 19 November 2012.

The Executive Directors of Charter Hall Group and other key management personnel of the Charter Hall Group held the following service rights as at 30 June 2013:

	2012	2013	Total
<b>Key management personnel</b>			
P Altschwager	130,027	–	<b>130,027</b>
R Stacker	–	270,000	<b>270,000</b>

### (e) Loans to key management personnel

Details of loans made to Directors of Charter Hall Limited and other key management personnel of the Charter Hall Group, including their personally related parties, are set out below.

#### (i) Key management personnel with loans outstanding 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>2013</b>					
<b>D Harrison</b>	<b>2,281,732</b>	<b>146,044</b>	<b>(666,658)</b>	<b>1,761,118</b>	<b>2,333,025</b>
<b>D Southon</b>	<b>2,073,644</b>	<b>140,956</b>	<b>(453,482)</b>	<b>1,761,118</b>	<b>2,120,274</b>
<b>Total</b>	<b>4,355,376</b>	<b>287,000</b>	<b>(1,120,140)</b>	<b>3,522,236</b>	
<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
Total	5,106,250	507,684	(1,258,558)	4,355,376	

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 and again on 7 July 2011 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 30 September 2012 and 30 September 2013 respectively, with the remaining principal balance at the end of the term.

#### Interest

Interest is charged at the base rate (RBA cash rate) plus 7.75% for a loan to value ratio (LVR) greater than 50%, the base rate plus 5.75% for a LVR greater than 40% and less than 50% and the base rate plus 4.25% for a LVR less than or equal to 40%, with interest payable in arrears within five days of the Charter Hall Group's distribution date.

#### 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 2013, the number of CHC securities held by the Harrison Family Trust was 1,841,773 (2012: 2,009,521) and the number held by the Southon Family Trust was 1,880,612 (2012: 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.

## 28. 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 non-related audit firms:

	CHARTER HALL GROUP		CHARTER HALL PROPERTY TRUST GROUP	
	2013 \$	2012 \$	2013 \$	2012 \$
<b>(a) Audit services</b>				
PricewaterhouseCoopers Australian firm				
Audit and review of financial reports	<b>383,279</b>	347,597	<b>33,150</b>	32,184
Independent Review of the Charter Hall anti-money laundering program	-	55,000	-	-
<b>Total remuneration for audit services</b>	<b>383,279</b>	402,597	<b>33,150</b>	32,184
<b>(b) Taxation services</b>				
PricewaterhouseCoopers Australian firm				
Tax compliance services, including review of company income tax returns	<b>50,341</b>	60,976	-	10,000
<b>Total remuneration for taxation services</b>	<b>50,341</b>	60,976	-	10,000
<b>(c) Advisory services</b>				
PricewaterhouseCoopers Australian firm				
Long-term incentive plan structure	-	10,000	-	-
Accounting advice	-	25,500	-	-
<b>Total remuneration for advisory services</b>	-	35,500	-	-

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## 28. Remuneration of auditors continued

Total fees paid to PricewaterhouseCoopers by the wider Charter Hall Group, including its managed funds, for audit and audit-related services amounted to \$1,699,691 (2012: \$1,477,617).

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 and accounting advice 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.

## 29. Reconciliation of profit after tax to net cash inflow from operating activities

	CHARTER HALL GROUP		CHARTER HALL PROPERTY TRUST GROUP	
	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
Profit after tax for the year	<b>54,391</b>	14,403	<b>47,666</b>	33,164
<i>Non-cash items</i>				
Amortisation of management rights	<b>7,838</b>	1,307	–	–
Depreciation and amortisation	<b>2,845</b>	2,544	<b>1,020</b>	1,334
Non-cash employee benefits expense – security-based benefits	<b>3,035</b>	2,338	–	–
Net loss/(gain) on sale of investments, property and derivatives	<b>(376)</b>	1,627	<b>(249)</b>	2,179
Net loss/(gain) on remeasurement of equity interests	<b>368</b>	(4,645)	<b>368</b>	(4,533)
Fair value adjustments	<b>8,495</b>	8,421	<b>10,110</b>	9,759
<i>Change in assets and liabilities, net of effects from purchase of controlled entity</i>				
(Increase)/decrease in trade debtors and other receivables	<b>(7,836)</b>	20,189	<b>(18,181)</b>	(29,013)
Increase/(decrease) in trade creditors and accruals	<b>4,019</b>	(4,985)	<b>(2,110)</b>	(5,230)
Net income receivable from investment in associates and joint venture entities	<b>(7,503)</b>	24,185	<b>(22,084)</b>	17,206
(Decrease)/increase in provisions	<b>(14,239)</b>	14,239	–	–
Decrease/(increase) in provision for deferred income tax	<b>1,933</b>	(615)	–	–
<b>Net cash inflow from operating activities</b>	<b>52,970</b>	79,008	<b>16,540</b>	24,866

Dividend and interest income received on investments has been classified as cash flow from operating activities.

## 30. 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. From time to time, the Group uses derivative financial instruments such as interest rate swaps and option contracts 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 Group Treasurer identifies, evaluates and hedges financial risks in close co-operation with the Joint Managing Directors and 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 unit 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.

		-10%		+10%	
	Carrying amount \$'000	Profit \$'000	Equity \$'000	Profit \$'000	Equity \$'000
<b>2013</b>					
<b>Assets – Charter Hall Group</b>					
<b>Investment in associates at fair value through profit or loss</b>	<b>49,229</b>	<b>(4,923)</b>	<b>(4,923)</b>	<b>4,923</b>	<b>4,923</b>
<b>Assets – Charter Hall Property Trust Group</b>					
<b>Investment in associates at fair value through profit or loss</b>	<b>49,229</b>	<b>(4,923)</b>	<b>(4,923)</b>	<b>4,923</b>	<b>4,923</b>
		-10%		+10%	
	Carrying amount \$'000	Profit \$'000	Equity \$'000	Profit \$'000	Equity \$'000
<b>2012</b>					
<i>Assets – Charter Hall Group</i>					
Investment in associates at fair value through profit or loss	62,638	(6,264)	(6,264)	6,264	6,264
<i>Assets – Charter Hall Property Trust Group</i>					
Investment in associates at fair value through profit or loss	62,180	(6,218)	(6,218)	6,218	6,218

#### *(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 \$27,750,000 (2012: \$51,462,849). 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. The Group did not hold any derivatives as at 30 June 2013. In 2012, 54% of total borrowings had fixed interest rates through the use of derivatives and excluding debt in the Charter Hall Retail Joint Venture Trust (RJVT) to which the Group is a party, the ratio was 39% (refer Note 22).

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 and option contracts that provide a similar hedge under certain interest rate outcomes. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. 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.

#### **Interest rate risk exposure**

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 for its financial liabilities.

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.

# Notes to the Consolidated Financial Statements

continued

for the year ended 30 June 2013

## 30. Financial risk management continued

(a) Market risk continued

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

### Financial liabilities

	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 5 years \$'000		
Charter Hall Group 2013						
<b>Trade and other payables</b>	-	-	-	-	<b>46,965</b>	<b>46,965</b>
<b>Contingent consideration payable</b>	-	-	-	-	<b>1,856</b>	<b>1,856</b>
<b>Interest-bearing liabilities</b>	<b>27,750</b>	-	-	-	-	<b>27,750</b>
<b>Interest rate swaps</b>	-	-	-	-	-	-
	<b>27,750</b>	-	-	-	<b>48,821</b>	<b>76,571</b>
<b>Weighted average interest rate</b>	<b>5.7%</b>					

	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 5 years \$'000		
Charter Hall Group 2012						
Trade and other payables	-	-	-	-	40,249	40,249
Contingent consideration payable	-	-	-	-	10,539	10,539
Interest-bearing liabilities	51,750	-	-	-	-	51,750
Interest rate swaps	(20,000)	-	20,000	-	-	-
	31,750	-	20,000	-	50,788	102,538
<b>Weighted average interest rate</b>	<b>3.63%</b>		<b>5.46%</b>			

	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 5 years \$'000		
Charter Hall Property Trust Group 2013						
<b>Trade and other payables</b>	-	-	-	-	<b>32,740</b>	<b>32,740</b>
<b>Interest-bearing liabilities</b>	<b>27,750</b>	-	-	-	-	<b>27,750</b>
<b>Interest rate swaps</b>	-	-	-	-	-	-
	<b>27,750</b>	-	-	-	<b>32,740</b>	<b>60,490</b>
<b>Weighted average interest rate</b>	<b>5.7%</b>					

	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 5 years \$'000		
Charter Hall Property Trust Group 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
<b>Weighted average interest rate</b>	<b>3.75%</b>		<b>5.46%</b>			

### 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.

			-1%		+1%	
Charter Hall Group 2013	Fair value \$'000	Carrying amount \$'000	Profit \$'000	Equity \$'000	Profit \$'000	Equity \$'000
<b>Financial assets</b>						
Cash and cash equivalents	12,236	12,236	(122)	(122)	122	122
<b>Financial liabilities</b>						
Interest-bearing liabilities	27,750	27,455	278	278	(278)	(278)
<b>Total increase/(decrease)</b>			<b>156</b>	<b>156</b>	<b>(156)</b>	<b>(156)</b>

			-1%		+1%	
Charter Hall Group 2012	Fair value \$'000	Carrying amount \$'000	Profit \$'000	Equity \$'000	Profit \$'000	Equity \$'000
<b>Financial assets</b>						
Cash and cash equivalents	39,315	39,315	(393)	(393)	393	393
<b>Financial liabilities</b>						
Interest-bearing liabilities	51,750	51,463	518	518	(518)	(518)
Derivative financial instruments	669	669	(450)	(450)	445	445
Total (decrease)/increase			(325)	(325)	320	320

			-1%		+1%	
Charter Hall Property Trust Group 2013	Fair value \$'000	Carrying amount \$'000	Profit \$'000	Equity \$'000	Profit \$'000	Equity \$'000
<b>Financial assets</b>						
Cash and cash equivalents	2,229	2,229	(22)	(22)	22	22
Loan receivable from Charter Hall Ltd	145,891	145,891	(1,459)	(1,459)	1,459	1,459
<b>Financial liabilities</b>						
Interest-bearing liabilities	27,750	27,455	278	278	(278)	(278)
<b>Total (decrease)/increase</b>			<b>(1,203)</b>	<b>(1,203)</b>	<b>1,203</b>	<b>1,203</b>

			-1%		+1%	
Charter Hall Property Trust Group 2012	Fair value \$'000	Carrying amount \$'000	Profit \$'000	Equity \$'000	Profit \$'000	Equity \$'000
<b>Financial assets</b>						
Cash and cash equivalents	21,674	21,674	(217)	(217)	217	217
Loan receivable from Charter Hall Ltd	163,542	163,542	(1,635)	(1,635)	1,635	1,635
<b>Financial liabilities</b>						
Interest-bearing liabilities	54,150	53,863	542	542	(542)	(542)
Derivative financial instruments	669	669	(450)	(450)	445	445
Total (decrease)/increase			(1,760)	(1,760)	1,755	1,755

# Notes to the Consolidated Financial Statements

continued

for the year ended 30 June 2013

## 30. Financial risk management continued

### (a) Market risk continued

#### (ii) Cash flow and fair value interest rate risk continued

The fair value of interest-bearing liabilities 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.

#### (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 below 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:

	2013		2012	
	Profit \$'000	Equity \$'000	Profit \$'000	Equity \$'000
<b>Charter Hall Group</b>				
<i>US dollars + 10.0%</i>	<b>(72)</b>	<b>105</b>	140	(392)
<i>US dollars – 10.0%</i>	<b>81</b>	<b>(127)</b>	(170)	484
<i>Euros + 10.0%</i>	<b>270</b>	<b>(526)</b>	40	(600)
<i>Euros – 10.0%</i>	<b>(335)</b>	<b>647</b>	(40)	740
<i>NZ dollars + 10.0%</i>	<b>6</b>	<b>(115)</b>	18	(102)
<i>NZ dollars – 10.0%</i>	<b>(7)</b>	<b>146</b>	(22)	122

	2013		2012	
	Profit \$'000	Equity \$'000	Profit \$'000	Equity \$'000
<b>Charter Hall Property Trust Group</b>				
<i>US dollars + 10.0%</i>	<b>9</b>	<b>(120)</b>	140	(520)
<i>US dollars – 10.0%</i>	<b>(18)</b>	<b>147</b>	(170)	640
<i>Euros + 10.0%</i>	<b>267</b>	<b>(432)</b>	40	(600)
<i>Euros – 10.0%</i>	<b>(331)</b>	<b>534</b>	(40)	740
<i>NZ dollars + 10.0%</i>	–	<b>(55)</b>	27	(33)
<i>NZ dollars – 10.0%</i>	–	<b>74</b>	(33)	(2)

### (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, transaction and other fees from related parties. Approximately 7% (2012: 13%) of the Charter Hall Group's income is derived from rental properties, whilst approximately 15% (2012: 29%) 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 11(c) 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.

Charter Hall Group 2013	Carrying amount \$'000	Less than 1 year \$'000	Between 1 and 2 years \$'000	Over 2 years \$'000	Total cash flows \$'000
<b>Trade and other payables</b>	<b>46,965</b>	<b>46,965</b>	–	–	<b>46,965</b>
<b>Contingent consideration payable</b>	<b>1,856</b>	<b>1,856</b>	–	–	<b>1,856</b>
<b>Interest-bearing liabilities</b>	<b>27,455</b>	<b>27,815</b>	–	–	<b>27,815</b>
	<b>76,276</b>	<b>76,636</b>	–	–	<b>76,636</b>

Charter Hall Group 2012	Carrying amount \$'000	Less than 1 year \$'000	Between 1 and 2 years \$'000	Over 2 years \$'000	Total cash flows \$'000
Trade and other payables	40,249	40,249	–	–	40,249
Contingent consideration payable	10,539	10,788	–	–	10,788
Interest-bearing liabilities	51,463	1,878	52,820	–	54,698
Derivative financial instruments	669	1,092	461	–	1,553
	102,920	54,007	53,281	–	107,288

Charter Hall Property Trust Group 2013	Carrying amount \$'000	Less than 1 year \$'000	Between 1 and 2 years \$'000	Over 2 years \$'000	Total cash flows \$'000
<b>Trade and other payables</b>	<b>32,740</b>	<b>32,740</b>	–	–	<b>32,740</b>
<b>Interest-bearing liabilities</b>	<b>27,455</b>	<b>27,815</b>	–	–	<b>27,815</b>
	<b>60,195</b>	<b>60,555</b>	–	–	<b>60,555</b>

Charter Hall Property Trust Group 2012	Carrying amount \$'000	Less than 1 year \$'000	Between 1 and 2 years \$'000	Over 2 years \$'000	Total cash flows \$'000
Trade and other payables	30,288	30,288	–	–	30,288
Interest-bearing liabilities	53,863	4,281	52,820	–	57,101
Derivative financial instruments	669	1,092	461	–	1,553
	84,820	35,661	53,281	–	88,942

# Notes to the Consolidated Financial Statements

## continued

for the year ended 30 June 2013

### 30. Financial risk management continued

#### (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).

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 2013	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>Investments in associates at fair value through profit or loss</b>	–	–	<b>49,229</b>	<b>49,229</b>
<b>Total assets</b>	–	–	<b>49,229</b>	<b>49,229</b>
<b>Contingent consideration payable</b>	–	–	<b>1,856</b>	<b>1,856</b>
<b>Total liabilities</b>	–	–	<b>1,856</b>	<b>1,856</b>

Charter Hall Group 2012	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Investments in associates at fair value through profit or loss	–	–	62,638	62,638
Total assets	–	–	62,638	62,638
Derivative financial instruments	–	669	–	669
Contingent consideration payable	–	–	10,539	10,539
Total liabilities	–	669	10,539	11,208

Charter Hall Property Trust Group 2013	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>Investments in associates at fair value through profit or loss</b>	–	–	<b>49,229</b>	<b>49,229</b>
<b>Total assets</b>	–	–	<b>49,229</b>	<b>49,229</b>
<b>Derivative financial instruments</b>	–	–	–	–
<b>Total liabilities</b>	–	–	–	–

Charter Hall Property Trust Group 2012	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Investments in associates at fair value through profit or loss	–	–	62,180	62,180
Total assets	–	–	62,180	62,180
Derivative financial instruments	–	669	–	669
Total liabilities	–	669	–	669



The following tables present the changes in Level 3 instruments for the year:

	CHARTER HALL GROUP		CHARTER HALL PROPERTY TRUST GROUP	
	Investments in associates at fair value through profit or loss \$'000	Contingent consideration payable \$'000	Investments in associates at fair value through profit or loss \$'000	Contingent consideration payable \$'000
2013				
<b>Opening balance</b>	<b>62,638</b>	<b>10,539</b>	<b>62,180</b>	<b>-</b>
<b>Additions</b>	<b>195</b>	<b>-</b>	<b>195</b>	<b>-</b>
<b>Disposals</b>	<b>(12,008)</b>	<b>-</b>	<b>(11,455)</b>	<b>-</b>
<b>Payments made</b>	<b>-</b>	<b>(7,685)</b>	<b>-</b>	<b>-</b>
<b>(Decrease)/increase recognised in profit and loss</b>	<b>(1,596)</b>	<b>(998)</b>	<b>(1,691)</b>	<b>-</b>
<b>Closing balance</b>	<b>49,229</b>	<b>1,856</b>	<b>49,229</b>	<b>-</b>

	CHARTER HALL GROUP		CHARTER HALL PROPERTY TRUST GROUP	
	Investments in associates at fair value through profit or loss \$'000	Contingent consideration payable \$'000	Investments in associates at fair value through profit or loss \$'000	Contingent consideration payable \$'000
2012				
Opening balance	78,445	12,106	78,014	-
Additions	273	-	229	-
Disposals	(14,306)	-	(14,306)	-
Payments made	-	(1,452)	-	-
Decrease recognised in profit and loss	(1,774)	(115)	(1,757)	-
Closing balance	62,638	10,539	62,180	-

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.

## 31. 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 32.

### (c) Key management personnel

Disclosures relating to key management personnel are set out in Note 27.

# Notes to the Consolidated Financial Statements

## continued

for the year ended 30 June 2013

### 31. Related parties continued

#### (d) Transactions with related parties

The following income was earned from related parties during the year:

	CHARTER HALL GROUP		CHARTER HALL PROPERTY TRUST GROUP	
	2013 \$	2012 \$	2013 \$	2012 \$
Accounting fees	6,392,807	5,450,581	–	–
Marketing fees	1,632,511	895,930	–	–
Management and performance fees	39,651,732	37,756,063	–	–
Transaction and development fees <sup>1</sup>	15,675,243	28,622,218	–	–
Commitment fees	135,000	135,000	–	–
Property management fees	32,953,495	27,371,354	–	–

<sup>1</sup> Includes \$16.0 million fee revenue related to sale of CQO US assets which was treated as a specific item in 2012.

The following balances arising through the normal course of business were due from/to related parties at balance date:

	CHARTER HALL GROUP		CHARTER HALL PROPERTY TRUST GROUP	
	2013 \$	2012 \$	2013 \$	2012 \$
Management fee receivables	5,690,632	6,493,320	–	–
Other receivables	9,203,342	4,499,986	–	–

Transactions with associates and joint ventures are disclosed in Notes 33 and 34 respectively.

#### (e) Loans to/from related parties

	CHARTER HALL GROUP		CHARTER HALL PROPERTY TRUST GROUP	
	2013 \$	2012 \$	2013 \$	2012 \$
<i>Loans to joint ventures and associates</i>				
Opening balance	11,120,000	5,000,000	1,650,000	–
Loans advanced	22,280,000	6,120,000	21,250,000	1,650,000
Loan repayments received	(1,650,000)	–	(1,650,000)	–
Interest charged	1,184,114	601,644	–	–
Interest received	(640,216)	(601,644)	–	–
<b>Closing balance</b>	<b>32,293,898</b>	<b>11,120,000</b>	<b>21,250,000</b>	<b>1,650,000</b>
<i>Loans to Charter Hall Limited</i>				
Opening balance	–	–	163,541,643	355,874,328
Loans advanced	–	–	36,358,156	137,447,221
Loan repayments received	–	–	(70,750,253)	(163,127,456)
Capital reallocation	–	–	–	(200,000,000)
Interest charged	–	–	16,741,944	33,347,550
<b>Closing balance</b>	<b>–</b>	<b>–</b>	<b>145,891,490</b>	<b>163,541,643</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 CHL 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 2013, amounted to a weighted average rate of 11.26% (June 2012: 9.76%).

CHPT issued \$21,250,000 in convertible preference notes to Keperra Square Fund on 28 June 2013. The notes incur interest based on a yield formula and mature on 28 June 2014. On conversion, CHPT is entitled to receive units in a related fund where the number of units is equal to the principal value of the notes divided by the fund's net tangible assets on the date of conversion.

**(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 \$1,835,855 (2012: \$3,591,041). At 30 June 2013, related fees payable amounted to \$237,656 (2012: \$nil).

**32. 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	
			2013 %	2012 %
<b>Controlled entities of Charter Hall Limited</b>				
Charter Hall Holdings Pty Limited	Australia	Ordinary	100	100
CHTOM Pty Limited	Australia	Ordinary	100	100
Charter Hall Mordialloc Pty Limited	Australia	Ordinary	100	100
Charter Hall La Trobe Pty Limited	Australia	Ordinary	100	100
CH La Trobe Trust	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	Australia	Ordinary	100	100
Charter Hall Asset Services Pty Limited	Australia	Ordinary	100	100
Charter Hall Asset Services Europe Sp z.o.o	Poland	Ordinary	100	100
Charter Hall Direct Property Management Limited	Australia	Ordinary	100	100
Charter Hall Escrow Agent 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 Pty Limited	Australia	Ordinary	100	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
Charter Hall Development Services Pty Ltd <sup>1</sup>	Australia	Ordinary	100	–

1 On 2 May 2013, Charter Hall Development Services Pty Ltd was established to manage development activity in Queensland.

# Notes to the Consolidated Financial Statements

## continued

for the year ended 30 June 2013

### 32. 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	
			2013 %	2012 %
<b>Controlled entities of Charter Hall Property Trust</b>				
Charter Hall Direct Retail Fund	Australia	Ordinary	100	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	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 Retail REIT (CQR), Charter Hall Office Trust (CHOT), BP Fund (BP), Core Logistics Partnership (CLP), Keperra Square Fund (Keperra Square) and Charter Hall Direct Property Fund (CHDPF).

2 Special Situations Office Fund is inactive.

3 CHPT RP2 Trust was established on 29 May 2012 to acquire a 20% interest in the Retail Partnership No. 2 Trust (RP2T).

Name of entity	Country of incorporation	Class of securities	EQUITY HOLDING	
			2013 %	2012 %
<b>Controlled entities of Charter Hall Direct Retail Fund</b>				
Core Plus Retail Fund New Zealand	Australia	Ordinary	100	100
Stafford Retail Warehouse Trust	Australia	Ordinary	100	100
Stafford Wiley Trust	Australia	Ordinary	100	100
Ipswich Retail Property Trust	Australia	Ordinary	100	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

#### (b) Details of controlled entities of the Charter Hall Property Trust Group

Name of entity	Country of incorporation	Class of securities	EQUITY HOLDING	
			2013 %	2012 %
<b>Controlled entities of Charter Hall Property Trust</b>				
Charter Hall Direct Retail Fund <sup>1</sup>	Australia	Ordinary	84	49
Charter Hall Co-Investment Trust <sup>2</sup>	Australia	Ordinary	100	100
Charter Hall Special Situations Office Fund <sup>3</sup>	Australia	Ordinary	100	100
CHPT RP2 Trust <sup>4</sup>	Australia	Ordinary	100	100

1 Refer to Note 32(a) for the controlled entities of Charter Hall Direct Retail Fund.

2 Charter Hall Co-Investment Trust is an entity which was set up by Charter Hall Property Trust to hold its investments in Charter Hall Retail REIT (CQR), Charter Hall Office Trust (CHOT), BP Fund (BP), Core Logistics Partnership (CLP), Keperra Square Fund (Keperra Square) and Charter Hall Direct Property Fund (CHDPF).

3 Special Situations Office Fund is inactive.

4 CHPT RP2 Trust was established on 29 May 2012 to acquire a 20% interest in the Retail Partnership No. 2 Trust (RP2T).

## 33. Investments in associates

### (a) Carrying amounts

Information relating to associates is set out below. All associates are incorporated in Australia.

		OWNERSHIP INTEREST			
Charter Hall Group Name of entity	Principal activity	2013 %	2012 %	2013 \$'000	2012 \$'000
<b>Accounted for at fair value through profit or loss:</b>					
<i>Unlisted</i>					
Charter Hall Umbrella Fund	Property investment	<b>24.2</b>	26.6	<b>30,080</b>	39,469
Charter Hall Diversified Property Fund	Property investment	<b>19.6</b>	25.2	<b>8,085</b>	11,713
Charter Hall Direct Property Fund	Property investment	<b>4.0</b>	3.8	<b>10,665</b>	10,770
Charter Hall Direct Industrial Fund	Property investment	<b>0.2</b>	0.2	<b>234</b>	228
PFA Diversified Property Trust <sup>1</sup>	Property investment	<b>0.1</b>	–	<b>165</b>	–
Charter Hall Property Securities Fund <sup>2</sup>	REIT securities investment	–	2.1	–	458
				<b>49,229</b>	62,638
<b>Equity accounted:</b>					
<i>Unlisted</i>					
Charter Hall Core Plus Industrial Fund	Property investment	<b>13.2</b>	18.0	<b>56,661</b>	54,885
Charter Hall Opportunity Fund 5	Property development	<b>15.0</b>	15.0	<b>14,891</b>	28,493
Charter Hall Office Trust	Property investment	<b>14.5</b>	15.0	<b>158,971</b>	145,720
Charter Hall Core Plus Office Fund	Property investment	<b>12.3</b>	13.9	<b>114,722</b>	112,951
Charter Hall Opportunity Fund 4	Property development	<b>3.0</b>	3.0	<b>800</b>	1,128
Core Logistics Partnership <sup>3</sup>	Property investment	<b>5.3</b>	–	<b>10,808</b>	–
<i>Listed</i>					
Charter Hall Retail REIT	Property investment	<b>9.2</b>	10.0	<b>103,055</b>	101,338
				<b>459,908</b>	444,515
<b>Total investments in associates</b>				<b>509,137</b>	507,153

1 Units in the PFA Diversified Property Trust were acquired on 15 August 2012 in conjunction with the acquisition of management rights over the fund.

2 The Charter Hall Property Securities Fund was wound up in May 2013.

3 The Core Logistics Partnership was established in December 2012.

# Notes to the Consolidated Financial Statements

continued

for the year ended 30 June 2013

## 33. Investments in associates continued

### (a) Carrying amounts continued

		OWNERSHIP INTEREST			
Charter Hall Property Trust Group Name of entity	Principal activity	2013 %	2012 %	2013 \$'000	2012 \$'000
<b>Accounted for at fair value through profit or loss</b>					
<i>Unlisted</i>					
Charter Hall Umbrella Fund	Property investment	<b>24.2</b>	26.6	<b>30,080</b>	39,469
Charter Hall Diversified Property Fund	Property investment	<b>19.6</b>	25.2	<b>8,085</b>	11,713
Charter Hall Direct Property Fund	Property investment	<b>4.0</b>	3.8	<b>10,665</b>	10,770
Charter Hall Direct Industrial Fund	Property investment	<b>0.2</b>	0.2	<b>234</b>	228
PFA Diversified Property Trust <sup>1</sup>	Property investment	<b>0.1</b>	–	<b>165</b>	–
				<b>49,229</b>	62,180
<b>Equity accounted:</b>					
<i>Unlisted</i>					
Charter Hall Core Plus Industrial Fund	Property investment	<b>5.7</b>	7.8	<b>24,845</b>	23,885
Charter Hall Core Plus Office Fund	Property investment	<b>11.2</b>	12.6	<b>104,287</b>	102,635
Charter Hall Office Trust	Property investment	<b>14.5</b>	15.0	<b>158,971</b>	145,720
Core Logistics Partnership <sup>2</sup>	Property investment	<b>5.3</b>	–	<b>10,808</b>	–
<i>Listed</i>					
Charter Hall Retail REIT	Property investment	<b>9.2</b>	10.0	<b>103,055</b>	101,338
				<b>401,966</b>	373,578
<b>Total investments in associates</b>				<b>451,195</b>	435,758

<sup>1</sup> Units in the PFA Diversified Property Trust were acquired on 15 August 2012 in conjunction with the acquisition of management rights over the fund.

<sup>2</sup> The Core Logistics Partnership was established in December 2012.

All investments accounted for at fair value through the profit or loss (Note 13) are held by Charter Hall Property Trust (CHPT) except the Charter Hall Property Securities Fund which is held by a controlled entity of Charter Hall Limited. The investment in Charter Hall Diversified Property Fund (DPF) at 30 June 2012 consisted of units (17.9%) and bridging equity of \$7.4 million (7.3%). The bridging equity was fully repaid on 20 December 2012 and the related \$18.0 million facility was cancelled in August 2013.



**(b) Movements in carrying amounts***(i) Investments at fair value through profit or loss*

	CHARTER HALL GROUP		CHARTER HALL PROPERTY TRUST GROUP	
	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
<b>Charter Hall Umbrella Fund</b>				
Opening balance	39,469	40,612	39,469	40,612
Redemption of units	(8,074)	–	(8,074)	–
Fair value adjustment	(1,315)	(1,143)	(1,315)	(1,143)
Closing balance	30,080	39,469	30,080	39,469
<b>Charter Hall Diversified Property Fund</b>				
Opening balance	11,713	26,964	11,713	26,964
Redemptions and repayment of bridging equity	(3,381)	(14,306)	(3,381)	(14,306)
Fair value adjustment	(247)	(945)	(247)	(945)
Closing balance	8,085	11,713	8,085	11,713
<b>Charter Hall Direct Property Fund</b>				
Opening balance	10,770	10,438	10,770	10,438
Fair value adjustment	(105)	332	(105)	332
Closing balance	10,665	10,770	10,665	10,770
<b>Charter Hall Direct Industrial Fund</b>				
Opening balance	228	–	228	–
Investment	–	229	–	229
Fair value adjustment	6	(1)	6	(1)
Closing balance	234	228	234	228
<b>PFA Diversified Property Trust</b>				
Opening balance	–	–	–	–
Investment	195	–	195	–
Fair value adjustment	(30)	–	(30)	–
Closing balance	165	–	165	–
<b>Charter Hall Property Securities Fund</b>				
Opening balance	458	431	–	–
Investment	–	44	–	–
Redemption of units	(553)	–	–	–
Fair value adjustment	95	(17)	–	–
Closing balance	–	458	–	–
<b>Total investments at fair value through profit or loss</b>				
Opening balance	62,638	78,445	62,180	78,014
Investment	195	273	195	229
Redemptions and repayment of bridging equity	(12,008)	(14,306)	(11,455)	(14,306)
Fair value adjustment	(1,596)	(1,774)	(1,691)	(1,757)
Closing balance	49,229	62,638	49,229	62,180

# Notes to the Consolidated Financial Statements

continued

for the year ended 30 June 2013

## 33. Investments in associates continued

(b) Movements in carrying amounts continued

(ii) Equity accounted investments

	CHARTER HALL GROUP		CHARTER HALL PROPERTY TRUST GROUP	
	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
<b>Charter Hall Core Plus Industrial Fund</b>				
Opening balance	54,885	53,281	23,885	53,281
Share of profit after income tax	5,329	4,711	2,322	2,217
Distributions received/receivable	(3,885)	(3,324)	(1,694)	(1,724)
Disposal of units	–	–	–	(30,094)
Gain on remeasurement of equity interest	332	217	332	205
Closing balance	56,661	54,885	24,845	23,885
<b>Charter Hall Opportunity Fund 5</b>				
Opening balance	28,493	31,286	–	–
Investment	–	4,815	–	–
Share of loss after income tax	(424)	(7,331)	–	–
Distributions received/receivable	(13,199)	(259)	–	–
Share of movement in reserves	21	(18)	–	–
Closing balance	14,891	28,493	–	–
<b>Charter Hall Office Trust</b>				
Opening balance	145,720	185,681	145,720	185,681
Investment	7,114	47,662	7,114	47,662
Share of profit/(loss) after income tax	22,140	(8,161)	22,140	(8,161)
Distributions received/receivable	(14,852)	(93,735)	(14,852)	(93,735)
Share of movement in reserves	122	12,961	122	12,961
Gain on remeasurement of equity interest	(1,273)	1,312	(1,273)	1,312
Closing balance	158,971	145,720	158,971	145,720

	CHARTER HALL GROUP		CHARTER HALL PROPERTY TRUST GROUP	
	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
<b>Charter Hall Core Plus Office Fund</b>				
Opening balance	112,951	110,428	102,635	90,257
Investment	–	–	–	10,086
Share of profit after income tax	9,021	8,460	8,197	7,690
Distributions received/receivable	(7,708)	(6,992)	(7,003)	(6,353)
Gain on remeasurement of equity interest	458	1,055	458	955
Closing balance	114,722	112,951	104,287	102,635
<b>Charter Hall Opportunity Fund 4</b>				
Opening balance	1,128	1,218	–	–
Share of loss after income tax	(328)	(90)	–	–
Closing balance	800	1,128	–	–
<b>Core Logistics Partnership</b>				
Opening balance	–	–	–	–
Investment	11,102	–	11,102	–
Share of loss after income tax	(609)	–	(609)	–
Distributions received/receivable	(363)	–	(363)	–
Gain on remeasurement of equity interest	678	–	678	–
Closing balance	10,808	–	10,808	–
<b>Charter Hall Retail REIT</b>				
Opening balance	101,338	88,189	101,338	88,189
Investment	3,985	16,176	3,985	16,176
Share of profit after income tax	5,245	2,587	5,245	2,587
Distributions received/receivable	(8,175)	(7,820)	(8,175)	(7,820)
Share of movement in reserves	1,074	145	1,074	145
(Loss)/gain on remeasurement of equity interest	(412)	2,061	(412)	2,061
Closing balance	103,055	101,338	103,055	101,338
<b>Total equity accounted investments</b>				
Opening balance	444,515	470,083	373,578	417,408
Investment	22,201	68,653	22,201	73,924
Share of profit after income tax	40,374	176	37,295	4,333
Distributions received/receivable	(48,182)	(112,130)	(32,087)	(109,632)
Share of movement in reserves	1,217	13,088	1,196	13,106
Disposal of units	–	–	–	(30,094)
(Loss)/gain on remeasurement of equity interests	(217)	4,645	(217)	4,533
Closing balance	459,908	444,515	401,966	373,578

# Notes to the Consolidated Financial Statements

continued

for the year ended 30 June 2013

## 33. Investments in associates continued

### (c) Fair value of listed investments in associates

	CHARTER HALL GROUP		CHARTER HALL PROPERTY TRUST GROUP	
	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
Charter Hall Retail REIT	118,241	99,177	118,241	99,177

Fair value represents market value of units as at 30 June 2013 and 2012.

### (d) Share of equity accounted associates' profits or losses

	CHARTER HALL GROUP		CHARTER HALL PROPERTY TRUST GROUP	
	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
Profit before income tax	40,384	2,674	37,305	4,311
Income tax expense	(10)	(2,498)	(10)	22
Profit after income tax	40,374	176	37,295	4,333

### (e) Contingent liabilities of associates

Commercial negotiations continue between the Development Alliance (DA) partners in the Little Bay Cove project, being CHOF5, CHOF5 Little Bay Pty Limited (CHOF5LB) (a controlled entity of CHOF5) and TA Global Development Pty Limited (TAG) 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 the negotiations currently underway with TAG. The senior debt financier has waived compliance with the LVR covenant and granted an extension of the facility to 30 September 2013. A further extension of the facility until the completion of the Estate Works, currently scheduled for late 2013, is the subject to ongoing discussions with the senior debt financier.

The directors of CHOF5LB continue to closely monitor the solvency of CHOF5LB, given the structure of the DA partners corresponding mezzanine loans and continue to obtain external advice in relation to this issue. A change in circumstances going forward could impact the solvency status of CHOF5LB; however, the directors of CHOF5LB remain satisfied this project entity is solvent.

### (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>2013</b>				
<b>Accounted for at fair value through profit or loss:</b>				
Charter Hall Umbrella Fund	29,091	455	2,173	1,889
Charter Hall Diversified Property Fund	15,298	7,212	2,193	970
Charter Hall Direct Property Fund	20,919	10,189	2,212	775
Charter Hall Direct Industrial Fund	365	147	30	20
PFA Diversified Property Trust	389	224	47	(2)
Charter Hall Property Securities Fund	-	-	20	96
<b>Equity accounted:</b>				
Charter Hall Core Plus Industrial Fund	72,918	15,828	12,065	5,329
Charter Hall Opportunity Fund 5	38,201	23,334	21,249	(424)
Charter Hall Office Trust	304,798	146,252	19,000	22,140
Charter Hall Core Plus Office Fund	203,865	89,068	19,967	9,021
Charter Hall Opportunity Fund 4	2,758	1,958	1,522	(328)
Core Logistics Partnership	11,222	415	2,166	(609)
Charter Hall Retail REIT	188,747	85,691	19,106	5,245
	888,571	380,773	101,750	44,122

CHARTER HALL GROUP'S SHARE OF:				
Charter Hall Group	Assets \$'000	Liabilities \$'000	Revenues \$'000	Profit/(loss) \$'000
<b>2012</b>				
Charter Hall Umbrella Fund	37,417	586	2,355	1,892
Charter Hall Diversified Property Fund	25,333	5,945	2,855	(475)
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 Core Plus Industrial Fund	109,583	54,698	9,793	4,711
Charter Hall Opportunity Fund 5	52,731	24,238	14,393	(7,331)
Charter Hall Office Trust	296,878	151,158	18,092	(8,161)
Charter Hall Core Plus Office Fund	207,275	94,324	18,550	8,460
Charter Hall Opportunity Fund 4	3,556	2,428	818	(90)
Charter Hall Retail REIT	194,458	93,120	18,606	2,587
	947,496	435,207	88,233	2,728

CHARTER HALL PROPERTY TRUST GROUP'S SHARE OF:				
Charter Hall Property Trust Group	Assets \$'000	Liabilities \$'000	Revenues \$'000	Profit/(loss) \$'000
<b>2013</b>				
<b>Accounted for at fair value through profit or loss:</b>				
Charter Hall Umbrella Fund	29,091	455	2,173	1,889
Charter Hall Diversified Property Fund	15,298	7,212	2,193	970
Charter Hall Direct Property Fund	20,919	10,189	2,212	775
Charter Hall Direct Industrial Fund	365	147	30	20
PFA Diversified Property Trust	389	224	47	(2)
<b>Equity accounted:</b>				
Charter Hall Core Plus Industrial Fund	31,733	6,888	5,257	2,322
Charter Hall Office Trust	304,798	146,252	19,000	22,140
Charter Hall Core Plus Office Fund	185,245	80,933	18,144	8,197
Core Logistics Partnership	11,222	415	2,166	(609)
Charter Hall Retail REIT	188,747	85,691	19,106	5,245
	787,807	338,406	70,328	40,947

CHARTER HALL PROPERTY TRUST GROUP'S SHARE OF:				
Charter Hall Property Trust Group	Assets \$'000	Liabilities \$'000	Revenues \$'000	Profit/(loss) \$'000
<b>2012</b>				
Charter Hall Umbrella Fund	37,417	586	2,355	1,892
Charter Hall Diversified Property Fund	25,333	5,945	2,855	(475)
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 Industrial Fund	47,689	23,804	4,610	2,217
Charter Hall Office Trust	296,878	151,158	18,092	(8,161)
Charter Hall Core Plus Office Fund	188,344	85,709	16,862	7,690
Charter Hall Retail REIT	194,458	93,120	18,606	2,587
	809,912	369,011	66,088	6,856

# Notes to the Consolidated Financial Statements

## continued

for the year ended 30 June 2013

### 34. Investments in joint ventures

#### (a) Carrying amounts

Information relating to joint ventures is set out below.

		OWNERSHIP INTEREST			
Charter Hall Group Name of company	Principal activity	2013 %	2012 %	2013 \$'000	2012 \$'000
<i>Unlisted</i>					
Commercial and Industrial Property Pty Ltd	Property development	50.0	50.0	27,121	27,598
Retail Partnership No. 2 Trust <sup>1</sup>	Property investment	20.0	20.0	17,688	–
BP Fund <sup>2</sup>	Property investment	13.0	–	14,319	–
Keperra Square Fund <sup>3</sup>	Property investment	10.0	–	1,111	–
Macquarie-Regency Management LLC	Asset management	–	50.0	–	46
Reliance Investment Management Pty Ltd	Investment management	–	–	–	–
Charter Hall Retail JV Trust <sup>4</sup>	Property investment	–	50.0	–	–
				<b>60,239</b>	<b>27,644</b>

1 The Retail Partnership No. 2 Trust (RPT2) was established on 29 May 2012 to acquire the Bay Village shopping centre in Bateau Bay, New South Wales.

2 The BP Fund was established in November 2012 and has acquired a portfolio of Bunnings properties.

3 The Keperra Square Fund was established on 28 June 2013 to acquire an interest in the Keperra shopping centre in Keperra, Queensland.

4 The investment in the Charter Hall Retail JV Trust was reclassified to held for sale on 30 June 2012 and sold on 31 October 2012.

		OWNERSHIP INTEREST			
Charter Hall Property Trust Group Name of company	Principal activity	2013 %	2012 %	2013 \$'000	2012 \$'000
<i>Unlisted</i>					
Retail Partnership No. 2 Trust <sup>1</sup>	Property investment	20.0	20.0	17,688	–
BP Fund <sup>2</sup>	Property investment	13.0	–	14,319	–
Keperra Square Fund <sup>3</sup>	Property investment	10.0	–	1,111	–
Charter Hall Retail JV Trust <sup>4</sup>	Property investment	–	50.0	–	–
				<b>33,118</b>	<b>–</b>

1 The RPT2 Fund was established on 29 May 2012 to acquire the Bay Village shopping centre in Bateau Bay, New South Wales.

2 The BP Fund was established in November 2012 and has acquired a portfolio of Bunnings properties.

3 The Keperra Square Fund was established on 28 June 2013 to acquire an interest in the Keperra shopping centre in Keperra, Queensland.

4 The investment in the Charter Hall Retail JV Trust was reclassified to held for sale on 30 June 2012 and sold on 31 October 2012.

#### (b) Movements in carrying amounts

	CHARTER HALL GROUP		CHARTER HALL PROPERTY TRUST GROUP	
	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
<i>Commercial and Industrial Property Pty Limited</i>				
Opening balance	27,598	28,843	–	–
Share of profit after income tax	1,784	1,544	–	–
Dividends received/receivable	(2,261)	(2,789)	–	–
Closing balance	27,121	27,598	–	–
<i>Retail Partnership No. 2 Trust</i>				
Opening balance <sup>1</sup>	–	–	–	–
Investment	19,626	–	19,626	–
Share of loss after income tax	(683)	–	(683)	–
Dividends received/receivable	(1,255)	–	(1,255)	–
Closing balance	17,688	–	17,688	–

1 Investment of \$2, which is \$nil rounded to the nearest \$1,000.



	CHARTER HALL GROUP		CHARTER HALL PROPERTY TRUST GROUP	
	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
<i>BP Fund</i>				
Opening balance	-	-	-	-
Investment	14,604	-	14,604	-
Share of profit after income tax	443	-	443	-
Dividends received/receivable	(582)	-	(582)	-
Remeasurement loss	(146)	-	(146)	-
Closing balance	14,319	-	14,319	-
<i>Keperra Square Fund</i>				
Opening balance	-	-	-	-
Investment	1,111	-	1,111	-
Closing balance	1,111	-	1,111	-
<i>Macquarie-Regency Management LLC</i>				
Opening balance	46	26	-	-
Share of profit after income tax	45	86	-	-
Dividends received/receivable	(72)	(66)	-	-
Remeasurement loss	(5)	-	-	-
Disposal	(14)	-	-	-
Closing balance	-	46	-	-
<i>Reliance Investment Management Pty Limited</i>				
Opening balance	-	55	-	-
Investment	-	93	-	-
Share of profit after income tax	-	(18)	-	-
Disposal	-	(130)	-	-
Closing balance	-	-	-	-
<i>Charter Hall Retail JV Trust</i>				
Opening balance	-	18,700	-	18,700
Share of profit after income tax	-	1,161	-	1,161
Distribution received/receivable	-	(1,175)	-	(1,175)
Reclassified to assets held for sale	-	(18,686)	-	(18,686)
Closing balance	-	-	-	-
<b>Total investments in joint ventures</b>				
Opening balance	27,644	47,624	-	18,700
Investment	35,341	93	35,341	-
Share of profit/(loss) after income tax	1,589	2,773	(240)	1,161
Distributions/dividends received/receivable	(4,170)	(4,030)	(1,837)	(1,175)
Disposal	(14)	(130)	-	-
Remeasurement loss	(151)	-	(146)	-
Reclassified to assets held for sale	-	(18,686)	-	(18,686)
<b>Closing balance</b>	<b>60,239</b>	<b>27,644</b>	<b>33,118</b>	<b>-</b>

# Notes to the Consolidated Financial Statements

continued

for the year ended 30 June 2013

## 34. Investments in joint ventures continued

### (c) Carrying value of joint venture entity

The carrying values of investments in joint ventures are assessed for impairment at each reporting date against the higher of the investment's value-in-use (VIU) or fair value less cost to sell (FVLCTS). Management believes VIU provides the most accurate recoverable amount.

#### CIP

The Group's equity investment in CIP was independently valued as at 30 June 2013 by KPMG Corporate Finance. The valuation supports the carrying value and the methodology applied was an assessment of fair value (less costs to sell).

#### Retail Partnership No. 2 Trust, BP Fund and Keperra Square Fund

These funds were established during the current year and no indicators of impairment have been identified to date.

There has been no impairment or reversal of impairment in the year ended 30 June 2013 (2012: nil).

### (d) Share of joint venture's revenue, expenses and results

	CHARTER HALL GROUP		CHARTER HALL PROPERTY TRUST GROUP	
	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
Revenues	<b>55,620</b>	64,524	<b>4,751</b>	4,220
Expenses	<b>(53,809)</b>	(61,289)	<b>(4,991)</b>	(3,059)
Profit before income tax	<b>1,811</b>	3,235	<b>(240)</b>	1,161

### (e) Share of joint venture's assets and liabilities

	CHARTER HALL GROUP		CHARTER HALL PROPERTY TRUST GROUP	
	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
Current assets	<b>36,099</b>	30,622	<b>2,199</b>	–
Non-current assets	<b>65,806</b>	1,133	<b>64,820</b>	–
Total assets	<b>101,905</b>	31,755	<b>67,019</b>	–
Current liabilities	<b>22,002</b>	19,518	<b>1,342</b>	–
Non-current liabilities	<b>40,252</b>	5,198	<b>32,752</b>	–
Total liabilities	<b>62,254</b>	24,716	<b>34,094</b>	–
Net assets	<b>39,651</b>	7,039	<b>32,925</b>	–

## 35. Commitments

### (a) Lease commitments: Group as lessee

Commitments payable in relation to leases contracted for at the reporting date but not recognised as liabilities:

	CHARTER HALL GROUP		CHARTER HALL PROPERTY TRUST GROUP	
	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
Within one year	2,071	1,549	-	-
Later than one year but not later than five years	5,715	5,808	-	-
	<b>7,786</b>	7,357	-	-

### (b) Capital commitments

As at 30 June 2013 there were no contractual capital commitments (2012: \$nil).

### (c) Commitments: Other

#### *Charter Hall Opportunity Fund No. 5 (CHOF5) Workzone (Workzone)*

On 21 December 2011, CHL 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. A deed of amendment was entered on 20 May 2013 to extend the loan term from 30 September 2013 to 31 March 2014. At 30 June 2013 \$5.5 million of this facility had been drawn down and is included in receivables in this financial report. The undrawn commitment at the date of this report is \$3.5 million.

## 36. Contingent liabilities

Commercial negotiations continue between DA partners in the Little Bay Cove project, being CHOF5 and TAG, in an attempt to agree on the future direction of the project. The Group may be impacted by the outcome of these commercial negotiations as:

- CHL has a 15% investment in CHOF5;
- CHFML (a 100% owned entity of CHL) is the trustee of CHOF5; and
- CHH (a 100% owned entity of CHL) is the Manager of CHOF5 and is also a joint development manager with TAG on the Little Bay project under the development alliance agreement.

As at the date of signing the financial statements, neither CHOF5, CHL, CHFML or CHH are able to determine whether any financial impact will occur as a result of the negotiations currently underway with TAG.

Further information on this matter is contained in Note 33.

The Group did not have any other contingent liabilities as at 30 June 2013.

## 37. Security-based benefits

### (a) Charter Hall – Executive Loan Security Plan (ELSP) (legacy plan)

The ELSP was suspended on 1 July 2009. During the year 678,076 (2012: nil) securities were forfeited by ELSP members and the plan was wound up in late July 2012. Securities were granted under the plan at market value and were purchased with a loan to the employee. As ELSP members do not hold securities in their own name, the plan manager seeks instructions from plan members on their voting intentions.

Set out below are summaries of securities granted under the plan:

Charter Hall Group and Charter Hall Property Trust Group	2013 Number	2012 Number
Opening balance	678,076	12,585,920
Cancellation of forfeited LTI securities off market	(678,076)	(11,907,844)
	-	678,076

# Notes to the Consolidated Financial Statements

continued

for the year ended 30 June 2013

## 37. Security-based benefits continued

### (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	2010 Number	2011 Number	2012 Number	2013 Number	Total Number
<b>Performance rights</b>					
Rights issued on 13/11/09	1,562,250	–	–	–	<b>1,562,250</b>
Rights issued on 18/6/10	644,625	–	–	–	<b>644,625</b>
Rights issued on 6/9/10	–	863,345	–	–	<b>863,345</b>
Rights issued on 11/11/10	–	465,388	–	–	<b>465,388</b>
Rights issued on 17/1/12	–	–	3,905,231	–	<b>3,905,231</b>
Rights issued on 23/11/12	–	–	–	<b>1,796,076</b>	<b>1,796,076</b>
<b>Performance rights issued</b>	<b>2,206,875</b>	<b>1,328,733</b>	<b>3,905,231</b>	<b>1,796,076</b>	<b>9,236,915</b>
Number rights forfeited/lapsed in prior years	(648,111)	(241,355)	(433,564)	–	<b>(1,323,030)</b>
Number rights forfeited/lapsed in current year	(12,500)	(104,813)	(229,033)	–	<b>(346,346)</b>
Number rights vested in prior years	(704,912)	–	–	–	<b>(704,912)</b>
Number rights vested in current year	(582,340)	(28,848)	–	–	<b>(611,188)</b>
<b>Closing balance</b>	<b>259,012</b>	<b>953,717</b>	<b>3,242,634</b>	<b>1,796,076</b>	<b>6,251,439</b>
<b>Service rights</b>					
Rights issued on 6/9/10	–	316,377	–	–	<b>316,377</b>
Rights issued on 22/5/12	–	–	431,516	–	<b>431,516</b>
Rights issued on 23/11/12	–	–	–	<b>270,000</b>	<b>270,000</b>
<b>Service rights issued</b>	<b>–</b>	<b>316,377</b>	<b>431,516</b>	<b>270,000</b>	<b>1,017,893</b>
Number rights forfeited/lapsed in prior years	–	(158,680)	–	–	<b>(158,680)</b>
Number rights forfeited/lapsed in current year	–	(5,860)	–	–	<b>(5,860)</b>
Number rights vested in prior year	–	–	–	–	<b>–</b>
Number rights vested in current year	–	(78,849)	(301,489)	–	<b>(380,338)</b>
<b>Closing balance</b>	<b>–</b>	<b>72,988</b>	<b>130,027</b>	<b>270,000</b>	<b>473,015</b>
<b>Options</b>					
Options issued on 4/11/09 at \$1.94	4,088,078	–	–	–	<b>4,088,078</b>
Options issued on 13/11/09 at \$1.94	1,497,036	–	–	–	<b>1,497,036</b>
Options issued on 18/6/10 at \$2.80	1,611,656	–	–	–	<b>1,611,656</b>
Options issued on 6/9/10 at \$2.44	–	2,035,649	–	–	<b>2,035,649</b>
Options issued on 11/11/10 at \$2.44	–	1,163,464	–	–	<b>1,163,464</b>
Options issued on 19/1/11 at \$2.35	–	123,397	–	–	<b>123,397</b>
<b>Options issued</b>	<b>7,196,770</b>	<b>3,322,510</b>	<b>–</b>	<b>–</b>	<b>10,519,280</b>
Number options forfeited/lapsed in prior years	(1,978,733)	(603,369)	–	–	<b>(2,582,102)</b>
Number options forfeited/lapsed in current year	(31,252)	(262,025)	–	–	<b>(293,277)</b>
Number options vested and exercised in prior year	(1,707,343)	–	–	–	<b>(1,707,343)</b>
Number options vested and exercised in current year	(1,772,116)	(72,117)	–	–	<b>(1,844,233)</b>
<b>Closing balance</b>	<b>1,707,326</b>	<b>2,384,999</b>	<b>–</b>	<b>–</b>	<b>4,092,325</b>

**(c) Charter Hall General Employee Security Plan (GESP)**

During the year, eligible employees received up to \$1,000 in securities which vested immediately on issue but are held in trust until the earlier of the completion of three years' service or termination. An expense of \$211,878 was recognised in relation to this plan during the year.

**(d) PROP**

Total expenses related to the PROP recognised during the year as part of employee benefit expense were as follows:

	CHARTER HALL GROUP		CHARTER HALL PROPERTY TRUST GROUP	
	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
Performance rights and options plan	3,035	2,338	-	-

**(e) Option 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 FY10 through FY13 and outstanding as at 30 June 2013 to assess the fair value are as follows:

*Performance rights*

Grant date	18/06/10	06/09/10	19/11/10	17/01/12	23/11/12
Security price at grant date <sup>1</sup>	\$2.80	\$2.44	\$2.44	\$2.10	\$3.11
Fair value of right <sup>1</sup>	\$1.52	\$1.33	\$1.33	\$0.94	\$1.91
Expected price volatility	40.0%	40.0%	40.0%	39.0%	26.0%
Risk-free interest rate	5.5%	5.5%	5.5%	3.9%	3.0%

*Options*

Grant date	13/11/09	18/06/10	06/09/10	11/11/10	11/01/11
Security price at grant date <sup>1</sup>	\$2.40	\$2.80	\$2.44	\$2.44	\$2.35
Fair value of option <sup>1</sup>	\$0.39	\$0.56	\$0.51	\$0.51	\$0.49
Exercise price per security <sup>1</sup>	\$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%

*Service rights*

Grant date	06/09/10	22/05/12	23/11/12
Security price at grant date <sup>1</sup>	\$2.44	\$2.08	\$3.11
Fair value of right <sup>1</sup>	\$2.06	\$1.87	\$2.73
Expected price volatility	40.0%	35.0%	25.0%
Risk-free interest rate	5.5%	4.3%	2.9%

<sup>1</sup> Security prices for prior years have been restated for the unit consolidation during FY11.

# Notes to the Consolidated Financial Statements

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for the year ended 30 June 2013

## 38. 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	
	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
<b>Balance sheet</b>				
Current assets	<b>25,786</b>	1,310	<b>4,077</b>	31,772
Total assets	<b>272,283</b>	326,892	<b>707,696</b>	706,947
Current liabilities	<b>17</b>	45	<b>46,032</b>	27,320
Total liabilities	<b>145,908</b>	163,638	<b>46,032</b>	27,320
<i>Shareholders' equity</i>				
Issued capital	<b>211,335</b>	209,550	<b>753,610</b>	739,175
Security-based benefits reserve	<b>-</b>	1,717	<b>-</b>	-
Accumulated losses	<b>(84,960)</b>	(48,013)	<b>(91,946)</b>	(59,548)
	<b>126,375</b>	163,254	<b>661,664</b>	679,627
<b>Profit/(loss) for the year</b>	<b>(38,664)</b>	(5,395)	<b>28,313</b>	103,686
<b>Total comprehensive profit/(loss) for the year</b>	<b>(38,664)</b>	(5,395)	<b>28,313</b>	103,686

### (b) Contingent liabilities of the parent entity

Charter Hall Limited and Charter Hall Property Trust had no contingent liabilities (2012: \$nil).

### (c) Contractual commitments

As at 30 June 2013, neither Charter Hall Limited nor Charter Hall Property Trust had contractual commitments except as noted below (2012: \$nil).

#### *Charter Hall Opportunity Fund 5 (CHOF5) Workzone (Workzone)*

On 21 December 2011, CHL 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. A deed of amendment was entered on 20 May 2013 to extend the loan term from 30 September 2013 to 31 March 2014. At 30 June 2013 \$5.5 million of this facility had been drawn down and is included in receivables in this financial report. The undrawn commitment at the date of this report is \$3.5 million.

## 39. Deed of cross guarantee

### Charter Hall Group

Charter Hall Limited and its wholly-owned subsidiary, Charter Hall Holdings Pty Ltd (CHH), are parties to a deed of cross guarantee under which each company guarantees the debts of the other. By entering into the deed, CHH has been relieved from the requirement to prepare financial statements and a directors' report 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.

	2013 \$'000	2012 \$'000
<b>Statement of comprehensive income</b>		
Revenue	93,940	91,176
Fair value adjustment on contingent consideration	1,123	1,355
Depreciation	(1,207)	(720)
Finance costs	(16,916)	(37,506)
Foreign exchange gain/(loss)	349	(90)
Share of net gain/(loss) of associates accounted for using the equity method	1,032	(5,894)
Gain on sale of investments, property and derivatives	-	479
Fair value adjustments	(1,165)	(2,351)
Amortisation of management rights	(7,838)	(1,306)
Performance fee clawback	-	(14,239)
Other expenses	(72,982)	(56,267)
<b>Loss before income tax</b>	<b>(3,666)</b>	<b>(25,363)</b>
Income tax benefit	3,096	13,075
<b>Loss for the year</b>	<b>(570)</b>	<b>(12,288)</b>
<b>Other comprehensive income for the year:</b>		
Exchange differences on translation of foreign operations	20	18
<b>Total comprehensive loss for the year</b>	<b>(550)</b>	<b>(12,270)</b>
<b>Summary of movements in consolidated accumulated losses</b>		
Accumulated losses at the beginning of the financial year	(93,550)	(81,262)
Transferred to accumulated losses for ELSP lapse	6,122	-
Loss for the year	(570)	(12,288)
<b>Accumulated losses at the end of the financial year</b>	<b>(87,998)</b>	<b>(93,550)</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.

	2013 \$'000	2012 \$'000
<b>Assets</b>		
<i>Current assets</i>		
Cash and cash equivalents	2,180	6,866
Trade and other receivables	40,286	31,141
<b>Total current assets</b>	<b>42,466</b>	<b>38,007</b>
<i>Non-current assets</i>		
Trade and other receivables	5,077	5,000
Investments accounted for using the equity method	42,811	57,219
Investment in associates at fair value through profit or loss	7,233	13,110
Investments in controlled entities	85,284	85,465
Property, plant and equipment	2,744	3,026
Intangible assets	96,066	98,687
Deferred tax assets	8,572	11,523
<b>Total non-current assets</b>	<b>247,787</b>	<b>274,030</b>
<b>Total assets</b>	<b>290,253</b>	<b>312,037</b>

# Notes to the Consolidated Financial Statements

continued

for the year ended 30 June 2013

## 39. Deed of cross guarantee continued

### (b) Balance sheet continued

	2013 \$'000	2012 \$'000
<b>Liabilities</b>		
<i>Current liabilities</i>		
Trade and other payables	<b>63,262</b>	45,267
Provisions	<b>1,101</b>	14,847
<b>Total current liabilities</b>	<b>64,363</b>	60,114
<i>Non-current liabilities</i>		
Trade and other payables	–	10,540
Loans from Charter Hall Property Trust	<b>145,891</b>	163,542
Provisions	<b>1,162</b>	1,236
<b>Total non-current liabilities</b>	<b>147,053</b>	175,318
<b>Total liabilities</b>	<b>211,416</b>	235,432
<b>Net assets</b>	<b>78,837</b>	76,605
<b>Equity</b>		
Contributed equity	<b>211,335</b>	209,550
Reserves	<b>(44,500)</b>	(39,395)
Accumulated losses	<b>(87,998)</b>	(93,550)
<b>Total equity</b>	<b>78,837</b>	76,605

## 40. Events occurring after the reporting date

The following events have occurred subsequent to 30 June 2013:

- The Group acquired \$14.7 million of new units in CHOT and the proceeds will be used to partially fund CHOT's acquisition of the remaining units of the 1 Martin Place Trust. The Group's ownership percentage in CHOT was unaffected by this transaction.
- A new Charter Hall managed entity entered into a put option agreement with Westfield Group and Westfield Retail Trust (Westfield) to acquire the Innaloo Shopping Centre and Shoppers Village, and the adjoining Innaloo Mega Centre in the inner metropolitan Perth suburb of Innaloo for a contract price of \$255.0 million. The put option became unconditional on 10 September 2013 and is exercisable by Westfield at any time until 25 December 2013.
- DRF sold its 50% interest in Home HQ located in Nunawading, Victoria on 15 July 2013, contributing net proceeds of \$10 million (after debt repayments) to the Group. DRF also sold its last remaining asset, the Menai Central Shopping Centre located in Menai, New South Wales on 17 September 2013, contributing net proceeds of \$31 million to the Group. Refer to Note 12: Assets classified as held for sale for further details.
- The Group received a capital return of \$6.0 million from DPF following its sale of two office properties.

Except for the matters discussed above, no other matter or circumstance has arisen since 30 June 2013 that has significantly affected, or may significantly affect:

- (a) The Group's operations in future financial years; or
- (b) The results of those operations in future financial years; or
- (c) The Group's state of affairs in future financial years.

# Directors' Declaration to Unitholders

for the year ended 30 June 2013

In the opinion of the Directors of Charter Hall Limited (Company), and the Directors of the Responsible Entity of Charter Hall Property Trust (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 55 to 122 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 2013 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 39 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 39.

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

30 September 2013

# Independent Auditor's Report



## 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 2013, 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 2013, 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 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. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

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

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

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## Independent auditor's report to the stapled securityholders of Charter Hall Group and Charter Hall Property Trust Group (continued)

### *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 2013 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 27 to 51 of the directors' report for the year ended 30 June 2013. 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 2013, complies with section 300A of the *Corporations Act 2001*.

PricewaterhouseCoopers

Robert Baker  
Partner

Sydney  
30 September 2013

# Security Analysis

## A. Distribution of equity securities as at 30 August 2013

Number of securities held by securityholders	No. of holders	Ordinary securities held	% of issued securities
1 to 1,000	493	145,322	0.05
1,001 to 5,000	656	1,878,828	0.61
5,001 to 10,000	286	2,099,791	0.68
10,001 to 50,000	275	5,637,214	1.82
50,001 to 100,000	42	2,934,320	0.95
100,001 and over	62	296,323,368	95.89
<b>Total</b>	<b>1,814</b>	<b>309,018,843</b>	<b>100.00</b>

The total number of securityholders with less than a marketable parcel of 143 securities is 248 and they hold 10,165 securities.

## B. Top 20 registered equity securityholders as at 30 August 2013

	Ordinary securities held	% of issued securities
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	52,974,496	17.14
J P MORGAN NOMINEES AUSTRALIA LIMITED	32,890,742	10.64
BUTTONWOOD NOMINEES PTY LTD	30,510,829	9.87
NATIONAL NOMINEES LIMITED	28,706,562	9.29
CITICORP NOMINEES PTY LIMITED	19,150,835	6.20
BESGAN NO. 2 PTY LTD	14,326,067	4.64
BESGAN NO. 4 PTY LTD	14,326,067	4.64
BESGAN NO. 1 PTY LTD	14,326,067	4.64
BESGAN NO. 3 PTY LTD	14,326,067	4.64
BNP PARIBAS NOMS PTY LTD	13,112,634	4.24
AMP LIFE LIMITED	9,536,089	3.09
J P MORGAN NOMINEES AUSTRALIA LIMITED	7,799,431	2.52
JP MORGAN NOMINEES AUSTRALIA LIMITED	7,206,753	2.33
CITICORP NOMINEES PTY LIMITED	6,690,183	2.16
BNP PARIBAS NOMINEES PTY LTD ACF PENGANA	4,203,924	1.36
IDAMENEO (NO 79) NOMINEES PTY LIMITED	2,820,576	0.09
MR DAVID JOHN SOUTHON	1,880,612	0.06
PORTMIST PTY LIMITED	1,841,773	0.06
AUST EXECUTOR TRUSTEES SA LTD	1,729,463	0.06
RBC INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED	1,435,291	0.05
HSBC CUSTODY NOMINEE (AUSTRALIA) LIMITED	1,288,328	0.04
BRISLOT NOMINEES PTY LTD	1,171,909	0.04
EQUITY TRUSTEES LIMITED	1,105,554	0.04
<b>Total units held by top 20</b>	<b>283,360,252</b>	<b>91.70</b>
<b>Total units on issue</b>	<b>309,018,843</b>	<b>100.00</b>



## C. Substantial securityholder notices as at 30 August 2013\*

Ordinary securities	Date of change	Securities held	%
The Gandel Group	5/11/12	52,661,948	17.63
Macquarie Group	1/05/12	34,151,391	11.50
Commonwealth Bank of Australia	17/05/12	24,589,501	7.96
AMP Limited	8/07/13	21,551,346	7.13

\* Information in this table has been collated from the most recent relevant substantial holder notices lodged with ASX, as at 30 August 2013

## D. Voting rights as at 30 August 2013

The voting rights attaching to each class of equity securities are set out below:

### (a) Ordinary securities

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 security shall have one vote.

# 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: +61 2 9287 0303

Email: [charterhall.reits@linkmarketservices.com.au](mailto:charterhall.reits@linkmarketservices.com.au)

Website: [www.linkmarketservices.com.au](http://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](mailto:reits@charterhall.com.au)

## Directors

Kerry Roxburgh, Roy Woodhouse,

Anne Brennan, David Deverall, Philip Garling,

David Harrison, Peter Kahan,

Colin McGowan and David Southon

## Company Secretary

Tracey Jordan

## 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

## Website address

[www.charterhall.com.au](http://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 nor 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 2013 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.

