# APPENDIX 4E

Preliminary Final Report
for the year ended 30 June 2011

**Name of Entity:** Charter Hall Retail REIT
ARSN: 093 143 965

**Results for announcement to the market**

| | 12 months to 30 June 2011 $m | 12 months to 30 June 2010 $m | Variance (%) |
|---|---|---|---|
| Revenue from ordinary activities* | 229.5 | 237.8 | (3.5%) |
| | | | |
| Profit from ordinary activities after tax attributable to members | 64.3 | 63.6 | 1.1% |
| | | | |
| Profit for the year attributable to members | 62.9 | 73.8 | (14.8%) |
| | | | |
| Operating earnings** | 85.2 | 98.7 | (13.7%) |

* The composition of revenue from ordinary activities is detailed in note 2(a) of the financial statements.

** Operating earnings is a financial measure which represents the net profit/(loss) under Australian Accounting Standards adjusted for certain unrealised and non-cash items, reserve transfers, capital transactions and other non-core items. A reconciliation of the REIT's profit to operating earnings is provided in Note 26 of the financial statements.

| | 12 months to 30 June 2011 | 12 months to 30 June 2010 | Variance (%) |
|---|---|---|---|
| Basic earnings per unit | 20.64¢ | 24.75¢ | (16.6%) |
| Operating earnings per unit | 27.96¢ | 33.10¢ | (15.5%) |

| Distributions | Amount per unit | Tax deferred amount per unit |
|---|---|---|
| *Current year:* | | |
| Final distribution | 12.80¢ | |
| Interim distribution | 12.00¢ | |
| Total | 24.80¢ | 7.22¢ |
| *Previous corresponding year:* | | |
| Final distribution | 11.50¢ | |
| Interim distribution | 15.00¢ | |
| Total | 26.50¢ | 12.80¢ |
| Record date for determining entitlements to the distribution | 30 June 2011 | |

### Results for announcement to the market (continued)

The annual financial report for the year ended 30 June 2011 has been prepared under Australian Accounting Standards. Operating earnings of the REIT were $85.2 million, in line with management's expectations. This result reflects the significant reweighting of the REIT's portfolio to Australian based investment properties following acquisitions of investment properties in Australia and further disposal of New Zealand and US joint venture properties during the year.

CQR's statutory accounting result is a profit of $62.9 million. This includes a number of unrealised, non-cash, capital and other non-core items:

- ($12.4) million – Unrealised valuation losses on investment properties in Australia, Europe and the United States;
- ($4.6) million – Unrealised valuation losses on discontinued operations in New Zealand;
- ($9.8) million – Unrealised valuation losses on investment properties in joint venture entities;
- $15.6 million – Unrealised net gain on derivative financial instruments;
- ($20.5) million – Transfer of cumulative foreign exchange losses from equity on disposal of United States joint venture entities; and
- $8.9 million – Change in fair value of consideration receivable on disposal of US joint venture entity.

Refer to the attached Balance Sheet, Statement of Comprehensive Income and Cash Flow Statement for further detail.

### Details of Distributions

Refer attached financial statements (Directors Report and Note 5: Distributions Paid and Payable).

### Details of Distribution Reinvestment Plan

The REIT has a Distribution Reinvestment Plan (DRP) under which unitholders may elect to have all or part of their distribution entitlements satisfied by the issue of new units rather than being paid in cash. This plan has been suspended during the year.

### Statement of Undistributed Income

Refer attached financial statements (Note 21: Accumulated losses).

### Net Tangible Assets

| | Current year | Previous corresponding year |
|---|---|---|
| Net tangible asset backing per unit[1] | $3.54 | $3.69 |

[1] Under the listing rules NTA Backing must be determined by deducting from total tangible assets all claims on those assets ranking ahead of the ordinary securities (ie: all liabilities, preference shares, outside equity interest etc).

### Control gained or lost over entities during the year

Prior to acquiring 50% interest in one investment property in Australia, Charter Hall Retail REIT established CQR Nunawading Trust on 25 November 2010.

### Details of Associates and Joint Venture entities

Refer attached financial statements (Note 13: Investment in Joint Venture Entities).

### Other significant information

In July 2010, the REIT entered into a 50% joint venture with the Charter Hall Direct Retail Fund (DRF) to acquire two Australian properties for $66.0 million, of which the REIT's share is $33.0 million.

In June 2011, the REIT entered into a 50% joint venture with Telstra Super to acquire eight Australian properties for $266.0 million, of which the REIT's share is $133.0 million.

The REIT also acquired an Australian property for $67.0 million on 31 January 2011.

On 1 March 2010, Charter Hall Limited (Charter Hall) acquired the economic ownership of the Responsible Entity from Macquarie Capital International Holdings Pty Limited (MCIH). The legal ownership of the shares is expected to be transferred in the quarter ending 30 September 2011. Once the sale of shares in the Responsible Entity is complete, the immediate parent of the Responsible Entity will change to Charter Hall Holdings Pty Limited.

In September 2010, the REIT completed a consolidation of its units on the basis of one new unit for every five pre-consolidation units. Where the consolidation of a holding resulted in a fractional unit, that fraction was rounded up to the next whole unit. The consolidation of units resulted in the REIT reducing its total units on issue from 1,529,040,700 to 305,810,723 units. Accordingly, there has been a corresponding increase in pre-consolidation metrics including price, earnings and net tangible assets per unit by a factor of five. Prior period comparative information, where shown on a per unit basis, has been restated to a post unit consolidation basis, unless stated otherwise.

In April 2011, the REIT completed the sale of its 50% interest in 15 properties in its non-core New Zealand portfolio for a total consideration of NZ$85.3 million ($63.0 million). The REIT's interest in these properties was acquired by its New Zealand co-owner, which elected to terminate its joint venture relationship with the REIT in early 2010. The disposal price was determined by way of external valuation, in line with the terms of the joint venture operating agreement. The sale of the remaining two properties has been delayed pending the purchaser obtaining adequate insurance cover and is expected to be completed by the end of December 2011.

In May 2011, the REIT completed the sale of its 60% interest in the United States portfolio of properties previously owned in a joint venture with Desco Group (Desco) and Regency Centers. Parties associated with Desco acquired the REIT's interest for a gross sale price of US$168.0 million ($157.6 million).

During the year, the REIT also sold five Australian properties for $33.9 million and three individual US properties for US $27.4 million ($29.4 million).

In addition, the REIT entered into a conditional agreement to sell seven wholly owned properties from its US portfolio for a gross sale price of US$75.0 million ($70.0 million). One property was settled in June 2011 and the settlement of five properties remains conditional on achieving lender consents, with these expected to be finalised and settled by October 2011. On one property, the purchaser was unable to achieve acceptable terms for the required consent and contract and due diligence discussions have been initiated with another party that has expressed strong interest in the asset owing to its geographic location.

In January 2011, the REIT initiated the regulatory process to undertake an on-market buyback for up to $20.0 million of the REIT's units on or after 23 February 2011. As at balance date, the REIT had acquired 3,648,644 units for $12.0 million. The buy-back program was completed post balance date, see note 6 of the Directors' Report.

In April 2011, the REIT secured a conditional funding commitment to repay its CMBS facility in September 2011, twelve months ahead of its maturity in September 2012. The existing CMBS facility is to be refinanced by a new $250 million facility with maturity in September 2015. The interest rate under this facility is variable and includes margin of 1.80% over BBSW. The transaction remains subject to completing documentation and rating agency confirmation of AAA credit rating on the notes backed by a portfolio of core Australian retail assets.

In June 2011, the REIT extended a €131.9 million ($178.2 million) European bank loan secured by a portfolio of five Polish properties, maturing in December 2011 to July 2014.

**Accounting standards used by foreign entities**
International Financial Reporting Standards

**Significant features of operating performance:**

| | 2011 | 2010 |
|---|---|---|
| **Income** | **$'m** | **$'m** |
| Property rental income | 197.6 | 181.5 |
| Property expense | (63.5) | (56.7) |
| **Net property income** | **134.1** | **124.8** |
| | | |
| Net fair value gain from investment held for sale | - | 16.5 |
| Valuation gains on investment properties | - | 27.9 |
| Net gains from derivative financial instruments | 21.7 | 10.7 |
| Other income | 10.2 | 1.2 |
| **Total income net of property expenses** | **166.0** | **181.1** |
| | | |
| **Expenses** | | |
| Share of profits and valuation losses from investment in joint venture entities | (1.7) | (8.3) |
| Valuation losses on investment properties | (12.4) | - |
| Loss on sale of investment properties | (1.1) | - |
| Management fees | (7.3) | (7.0) |
| Finance costs | (53.1) | (37.0) |
| Transfer of cumulative foreign exchange losses on disposal of assets held for sale | (20.5) | (51.3) |
| Other expenses | (4.6) | (5.2) |
| **Total expenses** | **(100.7)** | **(108.8)** |
| | | |
| **Profit before tax** | **65.3** | **72.3** |
| Tax expense | (1.0) | (8.7) |
| **Profit after tax** | **64.3** | **63.6** |
| Profit/(loss) from discontinued operations | (1.4) | 10.2 |
| **Net profit for the year** | **62.9** | **73.8** |

| |
|---|
| Segment results:<br>Refer attached financial statements (Note 26: Segment reporting). |
| Performance Trends:<br>Refer to Significant features of operating performance above. |
| Other factors:<br>Refer to Other significant information (above). |

**Audit**
This report is based on accounts to which one of the following applies:

| | | | |
|---|---|---|---|
| ☑ | The accounts have been audited.<br>(refer attached financial statements) | ☐ | The accounts have been subject to review.<br>(refer attached financial statements) |
| ☐ | The accounts are in the process of being audited or subject to review. | ☐ | The accounts have not yet been audited or reviewed. |

**CHARTER HALL RETAIL REIT**

**ARSN 093 143 965**

FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2011

# Financial report
## for the year ended 30 June 2011

**Important Notice**

Charter Hall Retail Management Limited ABN 46 069 709 468; AFSL 246996 (CHRML) is the Responsible Entity of Charter Hall Retail REIT ARSN 093 143 965 (REIT). CHRML is a wholly owned controlled entity of Charter Hall Limited ABN 57 113 531 150 (Charter Hall).

Past performance is not a reliable indicator of future performance. Due care and attention have been exercised in the preparation of forecast information; however, forecasts, by their very nature, are subject to uncertainty and contingencies, many of which are outside the control of CHRML. Actual results may vary from forecasts and any variation may be materially positive or negative.

This report has been prepared for general information purposes only and is not an offer or invitation for subscription or purchase of, or recommendation of, securities. It does not take into account the investment objectives, financial situation or needs of any investor. Before investing, the investor or prospective investor should consider whether such an investment is appropriate to their particular investment needs, objectives and financial circumstances and consult an investment adviser if necessary.

CHRML does not receive fees in respect of the general financial product advice it may provide; however, it will receive fees for operating the REIT which, in accordance with the REIT's constitution, are calculated by reference to the value of the assets and the performance of the REIT. Controlled entities of Charter Hall may also receive fees for managing the assets of, and providing resources to, the REIT. Charter Hall and its related entities, together with their officers and directors, may hold securities in the REIT from time to time.

# Financial report
## for the year ended 30 June 2011

Contents

# Directors' report to unitholders
## for the year ended 30 June 2011

The Directors of Charter Hall Retail Management Limited (Responsible Entity or CHRML), the responsible entity of Charter Hall Retail REIT, present their report together with the consolidated financial statements of Charter Hall Retail REIT and its controlled entities (together, the REIT) for the year ended 30 June 2011.

### 1. Principal Activities

The principal activity of the REIT during the year was property investment. There were no significant changes in the nature of the REIT's activities during the year.

### 2. Directors

The following persons have held office as Directors of the Responsible Entity during the year and up to the date of this report, unless otherwise stated:

John Harkness (Chairman, appointed as Chairman 28 April 2011)
David Harrison
Maurice Koop
Alan Rattray-Wood
David Southon (replaced as Chairman on 28 April 2011)
Steven Sewell (alternate for David Southon and David Harrison)

### 3. Distributions Paid and Payable

The distribution of income for the year ended 30 June 2011 was 24.80 cents per unit (2010: 26.50 cents per unit). An interim distribution of 12.00 cents per unit was paid on 22 February 2011. A final distribution for the year ended 30 June 2011 of 12.80 cents per unit will be paid on 23 August 2011. A liability has been recognised in the consolidated financial statements at 30 June 2011 as the final distribution had been declared as at the balance date.

### 4. Review and Results of Operations

Net profit for the year ended 30 June 2011 was $62.9 million compared to $73.8 million for the prior year as detailed below:

| | 2011<br>$'m | 2010<br>$'m |
|---|---|---|
| Net property income from wholly owned properties | 139.5 | 131.5 |
| Net income from joint venture entities | 8.1 | 26.1 |
| Realised net gain/(loss) on derivative financial instruments | 1.4 | (8.7) |
| Other income | 1.3 | 1.3 |
| Management fees | (7.6) | (7.4) |
| Finance costs | (52.8) | (37.0) |
| Other expenses | (4.7) | (5.2) |
| Tax expense | - | (1.9) |
| **Operating earnings*** | **85.2** | **98.7** |
| Unrealised net valuation (losses)/gains on investment properties | (26.8) | 15.4 |
| Unrealised net gain on derivative financial instruments | 15.6 | 30.0 |
| Capital transaction related realised net gain/(loss) on derivative financial instruments | 4.7 | (10.6) |
| Loss on sale of investment properties | (2.0) | - |
| Change in fair value of consideration receivable on disposal of US joint venture entity | 8.9 | - |
| Deferred tax expense | (0.8) | (6.8) |
| Transfer from reserves of cumulative FX losses on disposal of assets held for sale | (20.5) | (51.3) |
| Other | (1.4) | (1.6) |
| **Profit from continuing and discontinued operations** | **62.9** | **73.8** |
| **Basic earnings per unit (cents)** | **20.64** | **24.75** |
| **Operating earnings per unit (cents)** | **27.96** | **33.10** |
| **Distributions per unit (cents)** | **24.80** | **26.50** |
| **NTA per unit (cents)** | **3.54** | **3.69** |

* Further detail on Operating Earnings is contained in Note 26.

# Directors' report to unitholders
## for the year ended 30 June 2011

### 4. Review and Results of Operations (continued)

The operational performance of the REIT for the year has been profitable and is in line with management's expectations. The reported profit for the year reflects the significant reweighting of the REIT's portfolio to Australian based investment properties following acquisitions of investment properties in Australia and further disposal of New Zealand and US joint venture properties during the year.

### 5. Significant Changes in the State of Affairs

In July 2010, the REIT entered into a 50% joint venture with the Charter Hall Direct Retail Fund (DRF) to acquire two Australian properties for $66.0 million, of which the REIT's share is $33.0 million.

In November 2010, the REIT acquired a 50% interest in an Australian property for a gross price of $62.0 million of which the REIT's share is $31.0 million. The REIT also acquired an Australian property for $67.0 million on 31 January 2011.

In June 2011, the REIT entered into a 50% joint venture with Telstra Super to acquire eight Australian properties for $266.0 million, of which the REIT's share is $133.0 million.

On 1 March 2010, Charter Hall Limited (Charter Hall) acquired the economic ownership of the Responsible Entity from Macquarie Capital International Holdings Pty Limited (MCIH). The legal ownership of the shares is expected to be transferred in the quarter ending 30 September 2011. Once the sale of shares in the Responsible Entity is complete, the immediate parent of the Responsible Entity will change to Charter Hall Holdings Pty Limited.

In September 2010, the REIT completed a consolidation of its units on the basis of one new unit for every five pre-consolidation units. Where the consolidation of a holding resulted in a fractional unit, that fraction was rounded up to the next whole unit. The consolidation of units resulted in the REIT reducing its total units on issue from 1,529,040,700 to 305,810,723 units. Accordingly, there has been a corresponding increase in pre-consolidation metrics including price, earnings and net tangible assets per unit by a factor of five. Prior period comparative information, where shown on a per unit basis, has been restated to a post unit consolidation basis, unless stated otherwise.

In April 2011, the REIT completed the sale of its 50% interest in 15 properties in its non-core New Zealand portfolio for a total consideration of NZ$85.3 million ($63.0 million). The REIT's interest in these properties was acquired by its New Zealand co-owner, which elected to terminate its joint venture relationship with the REIT in early 2010. The disposal price was determined by way of external valuation, in line with the terms of the joint venture operating agreement. The sale of the remaining two properties has been delayed pending the purchaser obtaining adequate insurance cover and is expected to be completed by the end of December 2011.

In May 2011, the REIT completed the sale of its 60% interest in the United States portfolio of properties previously owned in a joint venture with Desco Group (Desco) and Regency Centers. Parties associated with Desco acquired the REIT's interest for a gross sale price of US$168.0 million ($157.6 million).

During the year, the REIT also sold five Australian properties for $33.9 million and three individual US properties for US$27.4 million ($29.4 million).

In addition, the REIT entered into a conditional agreement to sell seven wholly owned properties from its US portfolio for a gross sale price of US$75.0 million ($70.0 million). One property was settled in June 2011 and the settlement of five properties remains conditional on achieving lender consents, with these expected to be finalised and settled by October 2011. On one property, the purchaser was unable to achieve acceptable terms for the required consent and contract and due diligence discussions have been initiated with another party that has expressed strong interest in the asset owing to its geographic location.

In January 2011, the REIT initiated the regulatory process to undertake an on-market buyback for up to $20 million of the REIT's units on or after 23 February 2011. As at balance date, the REIT had acquired 3,648,644 units for $12.0 million. The buy-back program was completed post balance date, see note 6 of the Directors' Report.

# Directors' report to unitholders
## for the year ended 30 June 2011

### 5. Significant Changes in the State of Affairs (continued)

In April 2011, the REIT secured a conditional funding commitment to repay its CMBS facility in September 2011, twelve months ahead of its maturity in September 2012. The existing CMBS facility is to be refinanced by a new $250 million facility with maturity in September 2015. The interest rate under this facility is variable and includes a margin of 1.80% over BBSW. The transaction remains subject to completing documentation and rating agency confirmation of AAA credit rating on the notes backed by a portfolio of core Australian retail assets.

In June 2011, the REIT extended a €131.9 million ($178.2 million) European bank loan secured by a portfolio of five Polish properties, maturing in December 2011 to July 2014.

### 6. Events Occurring after Balance Date

In July 2011, the REIT completed its $20.0 million on-market buyback program, with 6,182,152 units bought at an average price of $3.24 per unit.

In August 2011, the REIT contracted to acquire an Australian property for a gross price of $40.1 million. In addition, the REIT sold one Australian property in July 2011 and one US wholly owned property in August 2011 for gross sale price of $3.2 million and US$6.7 million ($6.3 million) respectively.

Since the end of the year, the Directors of the Responsible Entity are not aware of any other matter or circumstance not otherwise dealt with in this report or the consolidated financial statements that has significantly affected or may significantly affect the operations of the REIT, the results of those operations or the state of affairs of the REIT in the financial years subsequent to 30 June 2011.

### 7. Likely Developments and Expected Results of Operations

The consolidated financial statements have been prepared on the basis of current known market conditions. The extent to which a potential deterioration in either the capital or physical property markets that may have an impact on the results of the REIT are unknown. Such developments could influence property market valuations, the ability of borrowers, including the REIT, to raise or refinance debt and the cost of such debt, or the ability to raise equity.

At the date of this report and to the best of the Directors' knowledge and belief, there are no other anticipated changes in the operations of the REIT which would have a material impact on the future results of the REIT. Property valuation changes, movements in deferred tax, movements in the fair value of derivative financial instruments and movements in foreign exchange and interest rates may have a material impact on the REIT's results in future years; however, these cannot be reliably measured at the date of this report.

### 8. Indemnification and Insurance of Officers and Auditor

During the year, the REIT, pursuant to Article 19 of its Constitution, paid a premium for a contract insuring all directors, secretaries, executive officers and officers of the REIT and of each related body corporate of the REIT. The insurance does not provide cover for the independent auditors of the REIT or of a related body corporate of the REIT. In accordance with usual commercial practice, the insurance contract prohibits disclosure of details relating to 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 REIT's constitution and the *Corporations Act 2001*, the officers remain indemnified out of the assets of the REIT against losses incurred while acting on behalf of the REIT. The REIT indemnifies the auditor (PricewaterhouseCoopers Australia) against any liabilities, losses, claims, costs, damages and expenses for third party claims except where prohibited by the Corporations Act 2001.

# Directors' report to unitholders
## for the year ended 30 June 2011

### 9. Fees Paid to, and Interests Held in the REIT by, the Responsible Entity or its Associates

Base fees of $7,608,000 (2010: $7,437,000) were paid or are payable to the Responsible Entity, its associates or third party service providers for the services provided during the year, in accordance with the REIT constitution as disclosed in Note 25(d) to the consolidated financial statements.

In addition, related parties of the Responsible Entity have earned management fees of $643,138 (2010: $734,000) relating to the US properties. These are included in the management fees disclosed in Note 25(d) to the consolidated financial statements.

The interests in the REIT held by the Responsible Entity or its associates as at 30 June 2011 and fees paid to its associates during the year are disclosed in Note 25 to the consolidated financial statements.

### 10. Interests in the REIT

The movement in units of the REIT during the year is set out below:

| | 2011 | 2010 |
|---|---|---|
| Units on issue at the beginning of the year | 1,505,216,260 | 1,464,577,398 |
| Units issued during the year | 23,824,440 | 40,638,862 |
| Reduction in the number of units due to consolidation | (1,223,229,977) | - |
| Units cancelled during the year | (3,648,644) | - |
| Units on issue at the end of the year | 302,162,079 | 1,505,216,260 |

### 11. Value of Assets

| | 2011<br>$'m | 2010<br>$'m |
|---|---|---|
| Value of REIT assets | 1,905.4 | 1,955.1 |

The value of the REIT's assets is derived using the basis set out in Note 1 to the consolidated financial statements.

### 12. Environmental Regulations

The operations of the REIT are subject to environmental regulations under Commonwealth, State and Territory legislation in relation to property developments and the ownership of eight petrol stations.

Under the lease agreements for the petrol stations owned by the REIT, any environmental exposures are the responsibility of the tenant, and the REIT is indemnified against any losses resulting from environmental contamination.

In relation to the property developments, the REIT is obliged to ensure all works carried out under any development approval comply with that approval as well as any further relevant statutory requirements. The REIT ensures contracts entered into with builders for its developments stipulate that the builder must:

(a) ensure that in carrying out the contractor's activities:
  (i) it complies with all statutory requirements and other requirements of the contract for the protection of the environment;
  (ii) it does not pollute, contaminate or otherwise damage the environment; and
  (iii) its subcontractors comply with the requirements referred to in the contract;

(b) make good any pollution, contamination or damage to the environment arising out of, or in any way in connection with, the contractor's activities, whether or not it has complied with all statutory requirements or other requirements of the contract for the protection of the environment; and

# Directors' report to unitholders
## for the year ended 30 June 2011

### 12. Environmental Regulations (continued)

(c) indemnify the REIT to the full extent permitted by law against:

- (i) any liability to or a claim by a third party; and
- (ii) all fines, penalties, costs, losses or damages suffered or incurred by the REIT, arising out of or in connection with the contractor's breach of the contract.

Approvals for property developments are required under various local State and Territory environmental laws.

To the best of the Directors' knowledge, the operations of the REIT have been undertaken in compliance with the applicable environmental regulations in each jurisdiction where the REIT operates.

### 13. Information on Current Directors

| Director | Experience | Special responsibilities | Interest in units of the REIT |
|---|---|---|---|
| John Harkness | Appointed 18 August 2003<br>Age: 66<br><br>In his role as Chairman of Charter Hall Retail Management Limited (the Responsible Entity of the Charter Hall Retail REIT), John brings extensive financial and business skills to the board. A partner at KPMG for 25 years and National Executive Chairman for five years, John has held a number of Non-Executive Director roles since leaving KPMG in 2000. He is currently Chairman of Reliance Rail and an Independent Director of both the Goodman Group and Sinclair Knight Merz. John is also Chairman of the Sydney Foundation for Medical Research and President of Northern Suburbs Rugby Football Club Limited.<br><br>Current listed directorships<br>Goodman Group (Director since 2005)<br><br>Former listed directorships in last three years<br>Crane Group Limited (retired 31 December 2010) | Chairman | Nil |
| David Harrison | Appointed 1 March 2010<br>Age: 46<br><br>As Charter Hall Group's Joint Managing Director, David is jointly responsible for all aspects of the Charter Hall business, with specific focus on Funds, Asset and Property Management operations. David also substantially contributes to investment sourcing, capital raisings and structuring of transactions. In addition to his responsibilities on the various unlisted Fund Boards and Investment Committees, David is an Executive Director of the Boards of Charter Hall Office REIT and is a Chairman of the Charter Hall Direct Responsible Entity Board.<br><br>David has more than 24 years 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 six years. David has been principally responsible for transactions exceeding $13 billion of commercial, retail and industrial property assets across all property sectors.<br><br>Current listed directorships<br>Charter Hall Limited (Director since 2005)<br>Charter Hall Office Management Limited (Director since 2010)<br><br>Former listed directorships in last three years<br>Nil | | Nil |

# Directors' report to unitholders
## for the year ended 30 June 2011

### 13. Information on Current Directors (continued)

| Director | Experience | Special responsibilities | Interest in units of the REIT |
|---|---|---|---|
| Maurice Koop | Appointed 12 August 2002<br>Age: 67<br><br>Maurice's experience includes 26 years in consulting with particular focus on consumer goods, retailing and the financial services industry. Maurice is a senior advisor to The Boston Consulting Group. He served as a Non-Executive Director with retailer Just Jeans for 13 years. He has a BCom and a DipEd from Melbourne University and an MBA from the University of Toronto.<br><br>Current listed directorships<br>Nil<br><br>Former listed directorships in last three years<br>Nil | Chairman of Audit and Risk Committee | 44,104 |
| Alan Rattray-Wood | Appointed 6 March 1996<br>Age: 59<br><br>Alan is an experienced industry participant with more than 30 years experience involving supermarket management, neighbourhood and regional sized shopping centre management, development and leasing. Alan has held management roles with Woolworths, Westfield Holdings, Lustig & Moar and other private developers. Since 1990, he has operated his own retail development consultancy practice, focusing on all facets of shopping centre development and retail chain insolvency workouts.<br><br>Current listed directorships<br>Nil<br><br>Former listed directorships in last three years<br>Nil | Member of Audit and Risk Committee | 10,867 |
| David Southon | Appointed 1 March 2010<br>Age: 45<br><br>David is Charter Hall Group's Joint Managing Director and a co-founder, with over 24 years of property industry experience. He is primarily responsible for overseeing wholesale opportunistic funds, the operation of the development services division, project origination, project strategy and the formulisation and implementation Group strategy together with the other Joint Managing Director, David Harrison, the Charter Hall Executive Committee and the Board. In addition, David is involved in the procurement and divestment of investment properties for the various funds managed by the Group. He is an Executive Director on the Board of Charter Hall Office REIT, as well as the Responsible Entity Board of Charter Hall Direct Funds. He is also a member of the Investment Committees of the Group's series of opportunity funds.<br><br>Prior to co-founding Charter Hall in 1991, David was a Development Manager with Eurolynx Limited, the Heine Group's property arm (now part of ING), and prior to that with Leighton Properties. David holds a Bachelor of Business degree (Land Economy) from the University of Western Sydney and is a Fellow of the Australian Property Institute (FAPI).<br><br>Current listed directorships<br>Charter Hall Limited (Director since 2005)<br>Charter Hall Office Management Limited (Director since 2010)<br><br>Former listed directorships in last three years<br>Nil | | Nil |

# Directors' report to unitholders
## for the year ended 30 June 2011

### 13. Information on Current Directors (continued)

| Director | Experience | Special responsibilities | Interest in units of the REIT |
|---|---|---|---|
| Steven Sewell | Appointed 5 March 2010<br>Age: 45<br><br>Steven is chief executive officer of Charter Hall Retail Management Ltd, the manager of the REIT and alternate director to David Southon and David Harrison. Steven has led the management team of the REIT since becoming CEO in September 2006, implementing a strategy of re-weighting the portfolio to being majority invested in Australia, and overseeing major capital transactions for the REIT in all markets, including in Europe in Poland and Germany, the US, New Zealand and the redeployment of equity into acquisitions in Australia. Steven also holds the position of Head of Charter Hall's property management services group which provides all property level services, including property management, retail leasing, financial management and regulatory and OH&S compliance.<br><br>Steven joined the then Macquarie CountryWide Trust in January 2003 as Senior Portfolio Manager, being promoted to Chief Operating Officer in August 2004. Prior to joining Macquarie, Steven was National Head of Property Management at QIC Property Group and he has a Bachelor of Science degree from University of Melbourne.<br><br>Currently Steven is Chairman of Shopping Centre Council of Australia Limited.<br><br>Current listed directorships<br>Chairman of Shopping Centre Council of Australia Limited.<br>Non Executive Director, Capitol Health Pty Ltd (ASX:CAJ)<br><br>Former directorships in last three years<br>Nil | Chief Executive Officer | 20,657 |

### 14. Meetings of Directors

| | Full meetings of Directors | | Meetings of Audit and Risk Committee | |
|---|---|---|---|---|
| Name | Eligible to attend | Attended | Eligible to attend | Attended |
| John Harkness | 10 | 10 | 3 | 3 |
| David Harrison | 10 | 9 | N/A | N/A |
| Maurice Koop | 10 | 9 | 3 | 2 |
| Alan Rattray-Wood | 10 | 10 | 3 | 3 |
| David Southon | 10 | 10 | N/A | N/A |
| Steven Sewell (Alternate) | - | - | N/A | N/A |

### 15. Company Secretary

Douglas Hunt was admitted as a lawyer in 1987 and is an Associate of The Institute of Chartered Accountants in Australia, as well as a Fellow of Chartered Secretaries Australia. Douglas holds Bachelor of Laws and Bachelor of Economics degrees from Macquarie University. Prior to joining Charter Hall, Douglas was General Counsel and Company Secretary of Macquarie CountryWide Trust (now Charter Hall Retail REIT) and Macquarie Direct Property (now Charter Hall Direct Property) and was Acting General Counsel and Company Secretary for DUET Group, an energy infrastructure business listed on ASX. Between 2000 and 2008, Douglas was Head of Legal for the Macquarie Group's Real Estate Group and prior to that was Assistant Company Secretary of the Macquarie Bank Group from 1996 to 2000, having previously worked at Ernst & Young and KPMG.

# Directors' report to unitholders
for the year ended 30 June 2011

## 16. Non-Audit Services

The Responsible Entity may decide to employ the auditor (PricewaterhouseCoopers) on assignments additional to the statutory audit duties where the auditor's expertise and experience with the REIT are important.

Details of the amounts paid to the auditor for audit and non-audit services provided during the year are disclosed in Note 4 to the consolidated financial statements.

The Board of Directors has considered the position and, in accordance with the advice received from the Audit and Risk Committee, is satisfied that the provision of the non-audit services is compliant 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 in Note 4 to the consolidated financial statements, did not compromise the auditor's independence requirements of the *Corporations Act 2001* for the following reasons:

— all non-audit services have been reviewed by the Audit and Risk Committee to ensure that they do not impact the integrity and objectivity of the auditor; and

— none of the services undermine the general principles relating to auditor independence as set out in Accounting Professional and Ethical Standards Board APES 110 *Code of Ethics for Professional Accountants*.

## 17. 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 9.

## 18. Rounding of Amounts to the Nearest Hundred Thousand Dollars

The REIT is a registered scheme of a kind referred to in Class Order 98/0100 (as amended) issued by the Australian Securities & Investments Commission relating to the 'rounding off' of amounts in the Directors' report and consolidated financial statements. Amounts in the Directors' report and consolidated financial statements have been rounded to the nearest hundred thousand dollars in accordance with that Class Order, unless otherwise indicated.

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

John Harkness
Chairman

Sydney
22 August 2011

PRICEWATERHOUSECOOPERS

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## Auditor's Independence Declaration

As lead auditor for the audit of Charter Hall Retail REIT for the year ended 30 June 2011, 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 Retail REIT and the entities it controlled during the period.

J A Dunning
Partner
PricewaterhouseCoopers

Sydney
22 August 2011

# Financial statements
for the year ended 30 June 2011

## Consolidated statement of comprehensive income

| | Note | 2011 $'m | 2010 $'m |
|---|---|---|---|
| **Income** | | | |
| Property rental income | 2(a) | 197.6 | 181.5 |
| Property expenses | | (63.5) | (56.7) |
| Net property income | | 134.1 | 124.8 |
| | | | |
| Net fair value gain from investment held for sale | | - | 16.5 |
| Valuation gains on investment properties | 2(b) | - | 27.9 |
| Net gains from derivative financial instruments | 2(c) | 21.7 | 10.7 |
| Other income | 2(d) | 10.2 | 1.2 |
| Total income net of property expenses | | 166.0 | 181.1 |
| | | | |
| **Expenses** | | | |
| Share of profits and valuation losses of investment in joint venture entities | 13(b) | (1.7) | (8.3) |
| Valuation losses on investment properties | 2(b) | (12.4) | - |
| Loss on sale of investment properties | 11(e) | (1.1) | - |
| Management fees | 25(d) | (7.3) | (7.0) |
| Finance costs | 2(e) | (53.1) | (37.0) |
| Transfer from reserves of cumulative FX losses on disposal of assets held for sale | 20 | (20.5) | (51.3) |
| Other expenses | 2(f) | (4.6) | (5.2) |
| Total expenses | | (100.7) | (108.8) |
| Profit before tax from continuing operations | | 65.3 | 72.3 |
| Tax expense | 3 | (1.0) | (8.7) |
| **Profit after tax from continuing operations** | | **64.3** | **63.6** |
| Profit/(loss) from discontinued operations | 11(c) | (1.4) | 10.2 |
| **Profit for the year** | | **62.9** | **73.8** |
| | | | |
| **Other comprehensive income** | | | |
| Exchange differences on translation of foreign operations | 20 | (49.0) | (36.0) |
| Transfer from reserves of cumulative FX losses on disposal of assets held for sale | 20 | 20.5 | 51.3 |
| Other comprehensive income, net of tax | | (28.5) | 15.3 |
| **Total comprehensive income** | | **34.4** | **89.1** |
| | | | |
| **Basic and diluted earnings per ordinary unitholder of the REIT** | | | |
| Earnings per unit (cents) for profit from continuing operations | 6 | 21.10 | 21.33 |
| Earnings per unit (cents) for (loss)/profit from discontinued operations | 6 | (0.46) | 3.42 |
| Earnings per unit (cents) | 6 | 20.64 | 24.75 |

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

# Financial statements
as at 30 June 2011

## Consolidated balance sheet

| | Note | 2011 $'m | 2010 $'m |
|---|---|---|---|
| **Current assets** | | | |
| Cash and cash equivalents | 7 | 14.3 | 10.0 |
| Receivables | 8 | 13.0 | 12.3 |
| Derivative financial instruments | 9 | 7.6 | 4.2 |
| Other assets | 10 | 4.2 | 3.6 |
| | | 39.1 | 30.1 |
| Assets classified as held for sale | 11 | 92.9 | 108.3 |
| Total current assets | | 132.0 | 138.4 |
| **Non-current assets** | | | |
| Investment properties | 12 | 1,624.4 | 1,697.6 |
| Investment in joint venture entities | 13 | 113.5 | 85.6 |
| Derivative financial instruments | 9 | 3.4 | 3.5 |
| Deferred tax assets | 14 | 4.1 | 5.5 |
| Other assets | 10 | 28.0 | 24.5 |
| Total non-current assets | | 1,773.4 | 1,816.7 |
| Total assets | | 1,905.4 | 1,955.1 |
| **Current liabilities** | | | |
| Payables | 15 | 23.2 | 21.2 |
| Distribution payable | 16 | 38.7 | 34.6 |
| Interest bearing liabilities | 17 | 6.3 | 19.5 |
| Derivative financial instruments | 9 | 0.4 | - |
| Other liabilities | 18 | 2.0 | 2.0 |
| | | 70.6 | 77.3 |
| Liabilities classified as held for sale | 11 | 26.2 | 13.3 |
| Total current liabilities | | 96.8 | 90.6 |
| **Non-current liabilities** | | | |
| Interest bearing liabilities | 17 | 721.4 | 723.7 |
| Deferred tax liabilities | 14 | 12.7 | 13.5 |
| Derivative financial instruments | 9 | 4.7 | 17.5 |
| Total non-current liabilities | | 738.8 | 754.7 |
| Total liabilities | | 835.6 | 845.3 |
| **Net assets** | | **1,069.8** | **1,109.8** |
| **Equity** | | | |
| Contributed equity | 19 | 1,927.5 | 1,997.3 |
| Reserves | 20 | (60.4) | (31.9) |
| Accumulated losses | 21 | (797.3) | (855.6) |
| **Total equity** | | **1,069.8** | **1,109.8** |

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

# Financial statements
## for the year ended 30 June 2011

## Consolidated statement of changes in equity

| | Note | Contributed equity $'m | Reserves $'m | Accumulated losses $'m | Consolidated $'m |
|---|---|---|---|---|---|
| Total equity at 1 July 2009 | | 1,982.1 | 86.2 | (946.3) | 1,122.0 |
| Profit for the year | | - | - | 73.8 | 73.8 |
| Other comprehensive income | | - | 15.3 | - | 15.3 |
| Total comprehensive income for the year | | - | 15.3 | 73.8 | 89.1 |
| Transactions with unitholders in their capacity as unitholders | | | | | |
| - Contributions of equity, net of issue costs | 19 | 21.9 | - | - | 21.9 |
| - Return of capital from US REITs | 19,21 | (6.7) | - | 6.7 | - |
| - Distributions paid and payable | 16 | - | - | (123.2) | (123.2) |
| - Transfer to accumulated losses on disposal of US joint venture entities | 20 | - | (133.4) | 133.4 | - |
| **Total equity at 30 June 2010** | **20** | **1,997.3** | **(31.9)** | **(855.6)** | **1,109.8** |
| Total equity at 1 July 2010 | | 1,997.3 | (31.9) | (855.6) | 1,109.8 |
| Profit for the year | | - | - | 62.9 | 62.9 |
| Other comprehensive income | | - | (28.5) | - | (28.5) |
| Total comprehensive income for the year | | - | (28.5) | 62.9 | 34.4 |
| Transactions with unitholders in their capacity as unitholders | | | | | |
| - Contributions of equity, net of issue costs | 19 | 13.0 | - | - | 13.0 |
| - Return of capital from US REITs | 19,21 | (70.8) | - | 70.8 | - |
| - Distributions paid and payable | 16 | - | - | (75.4) | (75.4) |
| - Units cancelled | 19 | (12.0) | - | - | (12.0) |
| **Total equity at 30 June 2011** | | **1,927.5** | **(60.4)** | **(797.3)** | **1,069.8** |

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

# Financial statements
for the year ended 30 June 2011

## Consolidated cash flow statement

| | Note | 2011<br>$'m<br>Inflows/<br>(Outflows) | 2010<br>$'m<br>Inflows/<br>(Outflows) |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Property rental income received | | 215.8 | 203.6 |
| Property expenses paid | | (61.8) | (62.0) |
| Distributions received from investment in joint venture entities | | 5.5 | 18.0 |
| Distributions received from discontinued operations | | 4.9 | 6.0 |
| Other operating expenses paid | | (28.1) | (25.8) |
| Finance costs paid | | (50.4) | (40.8) |
| Interest income and derivative gains/(losses) | | 9.1 | (25.7) |
| Taxes paid | | (1.8) | (0.2) |
| **Net cash flows from operating activities** | 23 | **93.2** | **73.1** |
| | | | |
| **Cash flows from investing activities** | | | |
| Proceeds from sale of investment properties | | 132.1 | 25.6 |
| Proceeds from sale of interest in joint venture entity | | 55.6 | 106.6 |
| Payments for investment in joint venture entities | | (107.6) | (0.2) |
| Payments for investment properties and capital expenditure | | (129.1) | (92.2) |
| **Net cash flows from investing activities** | | **(49.0)** | **39.8** |
| | | | |
| **Cash flows from financing activities** | | | |
| Proceeds from borrowings | | 327.8 | 211.6 |
| Repayment of borrowings | | (296.3) | (332.2) |
| Payments for unit buy-back | | (12.0) | - |
| Distributions paid to unitholders | | (58.3) | (66.7) |
| **Net cash flows from financing activities** | | **(38.8)** | **(187.3)** |
| | | | |
| **Net increase/(decrease) in cash held** | | 5.4 | (74.4) |
| Cash and cash equivalents at the beginning of the year | | 10.0 | 81.3 |
| Effect of exchange rate changes on cash and cash equivalents | | (1.1) | 3.1 |
| **Cash and cash equivalents at the end of the year** | 7 | **14.3** | **10.0** |

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

# Notes to the consolidated financial statements
for the year ended 30 June 2011

## 1. Summary of significant accounting policies

The significant policies which have been adopted in the preparation of these consolidated financial statements for the year ended 30 June 2011 are set out below. These policies have been consistently applied to the years presented, unless otherwise stated.

### (a) Basis of preparation

These general purpose financial statements have been prepared in accordance with the requirements of the REIT's constitution, Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the *Corporations Act 2001*. These financial statements are for the consolidated entity consisting of Charter Hall Retail REIT and its controlled entities (together, the REIT).

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

*Historical cost convention*

These consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of investment properties, investments held for sale and derivative financial instruments held at fair value.

*Critical accounting estimates*

The preparation of the consolidated financial statements in conformity with Australian Accounting Standards may require the use of certain critical accounting estimates and management to exercise its judgement in the process of applying the REIT's accounting policies. Other than the estimation of fair values described in Notes 1(d), 1(f), 1(i) and 1(v), assessment of provision against deferred sale consideration (refer Note 10) and assumptions relating to deferred tax assets and liabilities, no key assumptions concerning the future, or other estimation of uncertainty at the balance date, have a significant risk of causing material adjustments to the financial statements in the next year.

### (b) Principles of consolidation

The consolidated financial statements of the REIT incorporate the assets and liabilities of the REIT's controlled entities as at 30 June 2011 and their results for the year then ended. The effects of all transactions between entities in the REIT have been eliminated in full.

Controlled entities are those entities over which the REIT has the power to govern the financial and operating policies.

Where control of an entity is obtained during a year, its results are included in the consolidated statement of comprehensive income from the date on which control commences. Where control of an entity ceases during the year, its results are included for that part of the year during which control existed.

### (c) Receivables

Receivables are initially recognised at the amounts due to the REIT. Rent and outgoings receivables are usually settled within 30 days of recognition and turnover rent receivables due to the REIT are usually settled within 90 days of the end of the tenants' lease years.

The collectability of debts 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 REIT 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.

# Notes to the consolidated financial statements
for the year ended 30 June 2011

1. Summary of significant accounting policies (continued)

(d) 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 the consolidated statement of comprehensive income in the year in which they arise.

At each balance date, the fair values of the investment properties are assessed by the Responsible Entity with reference to independent valuation reports or through appropriate valuation techniques adopted by the Responsible Entity. 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 Responsible Entity 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 fair value of investment properties in the United States and Europe has been adjusted to reflect market conditions at the end of the year. While this represents the best estimates as at the balance date, the current uncertainty in these markets means that if investment property is sold in the future, the price achieved may be higher or lower than the most recent valuation, or higher or lower than the fair value recorded in the consolidated financial statements.

The carrying amount of investment properties recorded in the consolidated 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. Taxation allowances for the depreciation of buildings and plant and equipment are claimed by the REIT and contribute to the tax deferred component of distributions.

# Notes to the consolidated financial statements
## for the year ended 30 June 2011

### 1. Summary of significant accounting policies (continued)

#### (e) Investment in joint venture entities

Investments in joint venture entities over which the REIT exercises joint control, irrespective of ownership interest, are accounted for in the consolidated financial statements using the equity method of accounting, after initially being recognised at cost. Under this method, the REIT's share of the profits or losses of each relevant joint venture entity is recognised as income in the consolidated statement of comprehensive income, and its share of movements in reserves is recognised in the consolidated balance sheet. Distributions receivable from such joint venture entities reduce the carrying value of the equity accounted investment.

At each balance date, the recoverable amount of the REIT's investment in joint venture entities is assessed to ensure that it is carried at the lower of the equity accounted amount and recoverable amount. Where the equity accounted value exceeds recoverable amount, a write-down is recognised to reflect the value of the investment at its recoverable amount.

*Joint venture operations*

The REIT has interests in properties through unincorporated joint ventures where interests are held directly and jointly. The REIT's proportionate share of revenues, expenses, assets and liabilities in property interests held as tenants in common are included in their respective items of the consolidated statement of comprehensive income and consolidated balance sheet.

#### (f) Non-current assets classified as held for sale and discontinued operations

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell, except for assets such as deferred tax assets and investment property that are carried at fair value.

An impairment loss is recognised for any initial or subsequent write-down of the asset to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset, but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset is recognised at the date of derecognition.

Non-current assets classified as held for sale are presented separately from the other assets in the balance sheet. The liabilities directly associated with assets classified as held for sale are also presented separately from other liabilities in the balance sheet.

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately in the consolidated statement of comprehensive income.

#### (g) 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.

#### (h) Impairment of assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

# Notes to the consolidated financial statements
for the year ended 30 June 2011

1. Summary of significant accounting policies (continued)

(h) Impairment of assets (continued)

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell, and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash generating units). Non-financial assets that suffered impairment in prior years are reviewed for possible reversal of the impairment at each reporting date.

(i) 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 REIT 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).

To qualify as effective hedging, at the inception of the hedging transaction, the REIT documents the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The REIT also documents its assessment, both at hedge inception and on an ongoing basis, of whether derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

None of the financial derivative contracts held by the REIT qualify for hedge accounting, and accordingly, changes in the fair value of these contracts are recorded in the profit or loss.

(j) Payables

Liabilities are recognised for amounts to be paid in the future for goods and services received, whether or not billed to the REIT. The amounts are unsecured and are usually paid within 60 days of recognition.

(k) Distributions paid and payable

Liability is recognised for the amount of any distribution payable by the REIT on or before the end of the year but not distributed at balance date. A liability has been recognised in the consolidated financial statements at 30 June 2011 as the final distribution had been declared at the balance date.

(l) Interest bearing liabilities

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost.

Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the consolidated statement of comprehensive income over the period of the borrowing using the effective interest rate method.

(m) Borrowing costs

Borrowing costs associated with the acquisition or construction of a qualifying asset, including interest expense, are capitalised as part of the cost of that asset during the period that is required to complete and prepare the asset for its intended use. Borrowing costs not associated with qualifying assets are expensed.

The capitalisation rate used to determine the amount of borrowing costs to be capitalised is the weighted average interest rate applicable to the REIT's outstanding Australian bank borrowings during the year, in this case 7.15% per annum (2010: 6.02% per annum).

# Notes to the consolidated financial statements
## for the year ended 30 June 2011

1. Summary of significant accounting policies (continued)

(n) Income tax

The income tax expense or benefit for the year is the tax payable on the current year's taxable income based on the notional 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 consolidated financial statements, and to unused tax losses.

Under current Australian income tax legislation, the REIT is not liable to pay income tax provided its income for the year, as determined under the REIT's constitution, is fully distributed to unitholders, by way of cash or reinvestment. The liability for capital gains tax that may arise if the Australian and New Zealand properties were to be sold is not accounted for in these financial statements.

Under New Zealand, German and Polish tax legislation, controlled entities of the REIT are taxed as companies and a current tax liability is recognised for the expected tax payable on taxable income in those jurisdictions, using tax rates enacted or substantively enacted at balance date.

Macquarie CountryWide (US) Corporation and Macquarie CountryWide (US) No. 2 Corporation (US REITs), controlled entities of the REIT, have both elected to be taxed as Real Estate Investment Trusts under US federal taxation law, and on this basis, will generally not be subject to US income taxes on that portion of the US REITs' taxable income or capital gains which are distributable to the US REITs' shareholders, provided that the US REITs comply with the requirements of the US Internal Revenue Code of 1986 and maintain their Real Estate Investment Trust status.

In respect of its US investments, the REIT may ultimately realise a capital gain or loss on disposal which, if not distributed, may attract a US income tax liability. If the gain is distributed, a US withholding tax liability at a withholding tax rate of 35% may arise and may give rise to a foreign tax credit which would be available to unitholders. A current tax liability is recognised in the financial statements for realised gains on disposals of US investments, except where the proceeds of such disposals are reinvested in a qualifying asset or offset by available losses. A deferred tax asset or liability is recognised based on the temporary difference between the carrying amount of the US assets in the consolidated balance sheet and their associated tax cost bases.

Where applicable, deferred income tax is determined using the balance sheet method, being the temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. 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 unused tax losses. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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.

(o) Goods and Services Tax (GST) and Value Added Tax (VAT)

Income, expenses, assets and liabilities are recognised net of the amount of GST recoverable from the Australian and New Zealand taxation offices and VAT recoverable from German and Polish tax offices. The non-recoverable GST/VAT is recognised as part of the income, expense, asset or liability. Receivables and payables are inclusive of GST/VAT. The net amount of GST/VAT recoverable from or payable to the Australian and overseas tax offices is included in receivables or payables in the consolidated balance sheet. Cash flows relating to GST/VAT are included in the consolidated cash flow statement on a gross basis.

(p) Contributed equity

Ordinary units are classified as equity and recognised at the fair value of the consideration received by the REIT. Transaction costs arising on the issue of equity are recognised directly in equity as a reduction in the proceeds of units to which the costs relate.

# Notes to the consolidated financial statements
for the year ended 30 June 2011

1. Summary of significant accounting policies (continued)

(q) Reserves

In accordance with the REIT's constitution, amounts may be transferred from reserves or contributed equity to fund distributions.

(r) Revenue recognition

Property rental income represents income earned from the rental of REIT properties (inclusive of outgoings recovered from tenants) and is recognised on a straight line basis over the lease term. The portion of rental income relating to fixed increases in operating lease rentals in future years is recognised as a separate component of investment properties. Turnover rent is recognised on an accruals basis.

Interest income is recognised using the effective interest rate method.

Distributions received are recognised as revenue when the right to receive payment is established.

Gains or losses on the sale of investment properties and investment in joint venture entities are calculated as the difference between the carrying amount of the asset at the date of disposal and the net proceeds from disposal and are included in the consolidated statement of comprehensive income in the year of disposal. Where revenue is obtained from the sale of properties or assets, it is recognised when the significant risks and rewards have transferred to the buyer. This will normally take place on exchange of unconditional contracts.

(s) Expenses

Property expenses and outgoings including rates, taxes and other property outgoings incurred in relation to investment properties where such expenses are the responsibility of the REIT are recognised on an accruals basis.

(t) Repairs and maintenance

Repairs and maintenance costs and minor renewals are charged as expenses when incurred. These repairs and maintenance costs will consist of those that, under the relevant lease agreements, are non-recoverable from tenants.

(u) Foreign currency translation

*(i) Functional and presentation currencies*

Items included in the consolidated financial statements of the REIT are measured using the currency of the primary economic environment in which the REIT operates (the functional currency). The consolidated financial statements are presented in Australian dollars, which is the REIT'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 consolidated statement of comprehensive income, except when deferred in equity as qualifying net investment hedges and qualifying cash flow hedges.

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 fair value gain or loss in the consolidated statement of comprehensive income.

# Notes to the consolidated financial statements
## for the year ended 30 June 2011

1. Summary of significant accounting policies (continued)

(u) Foreign currency translation (continued)

*(iii) Foreign operations*

Transactions of foreign controlled entities and joint venture entities are measured using the currency of the primary economic environment in which those entities operate. Assets and liabilities of foreign controlled entities and joint venture entities are translated at exchange rates ruling at balance date while income and expenses are translated at weighted average exchange rates for the year. Exchange differences arising on translation of the interests in foreign controlled entities and joint venture entities are taken directly to the foreign currency translation reserve. On consolidation or by way of reserve transfer, exchange differences on loans, forward foreign currency exchange contracts and cross currency swaps denominated in foreign currencies, which hedge net investments in foreign operations, are reflected in the foreign currency translation reserve. At the balance date, the spot and average rates used were:

| | 30 June 2011 | 30 June 2010 |
|---|---|---|
| **Spot rate** | | |
| US Dollar | 1.0713 | 0.8532 |
| NZ Dollar | 1.2965 | 1.2362 |
| Euro | 0.7401 | 0.6943 |
| | | |
| **Average rate** | | |
| US Dollar | 1.0006 | 0.8796 |
| NZ Dollar | 1.3047 | 1.2478 |
| Euro | 0.7293 | 0.6047 |

(v) Fair value estimation

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

The fair value of financial instruments traded in active markets is determined using quoted market prices at the balance date. The quoted market price used for financial assets held by the REIT is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price.

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. The REIT uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps and cross currency swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using forward foreign exchange market rates at the balance date.

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

(w) Segment reporting

Segment information is presented on the same basis as that used for internal reporting purposes. The segments are reported in a manner that is consistent with internal reporting provided to the chief operating decision maker. The chief operating decision maker has been identified as the board of the responsible entity.

# Notes to the consolidated financial statements
## for the year ended 30 June 2011

1. Summary of significant accounting policies (continued)

(x) Earnings per unit

Basic earnings per unit from continuing operations is determined by dividing profit from continuing operations attributable to the unitholders by the weighted average number of ordinary units on issue during the financial period.

Basic earnings per unit from discontinued operations is determined by dividing profit/(loss) from discontinued operations attributable to the unitholders by the weighted average number of ordinary units on issue during the financial period.

Basic earnings per unit is determined by dividing the profit/(loss) by the weighted average number of ordinary units on issue during the year.

Diluted earnings per unit from continuing operations is determined by dividing profit from continuing operations attributable to the unitholders by the weighted average number of ordinary units and dilutive potential ordinary units on issue during the financial period.

Diluted earnings per unit from discontinued operations is determined by dividing profit/(loss) from discontinued operations attributable to the unitholders by the weighted average number of ordinary units and dilutive potential ordinary units on issue during the financial period.

Diluted earnings per unit is determined by dividing the profit/(loss) by the weighted average number of ordinary units and dilutive potential ordinary units on issue during the year.

Following the consolidation of units during the year (refer Note 19), the comparative information for basic earnings per unit and diluted earnings per unit has been restated to a post unit consolidation basis.

(y) Parent entity financial information

The financial information for the parent entity, Charter Hall Retail REIT, disclosed in Note 29 has been prepared on the same basis as the REIT's consolidated financial statements except as set out below:

*(i) Investments in controlled entities*

Investments in controlled entities are accounted for at cost in the financial statements of the parent entity. Such investments include both investments in equity securities issued by the controlled entity and other parent entity interests that in substance form part of the parent entity's investment in the controlled entity. These include investments in the form of interest-free loans which have no fixed contractual terms and which have been provided to the controlled entity as an additional source of long term capital.

Dividends and distributions received from controlled entities are recognised in the parent entity's statement of comprehensive income.

*(ii) 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.

*(iii) Recoverable amount of assets*

The carrying amounts of investments in controlled entities valued on the cost basis are reviewed to determine whether they are in excess of their recoverable amount at balance date. If the carrying value of these investments exceeds their recoverable amount, the assets are written down to the lower amount. The write-down is expensed in the year in which it occurs.

# Notes to the consolidated financial statements

## for the year ended 30 June 2011

1. Summary of significant accounting policies (continued)

(z) Impact of new standards and interpretations issued but not yet adopted by the REIT

Certain new accounting standards and interpretations have been published that are not mandatory for the 30 June 2011 reporting period. The impact of these new standards (to the extent relevant to the REIT) and interpretations is set out below:

*(i) AASB 9 Financial Instruments and AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9 and AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (effective from 1 January 2013)*

AASB 9 *Financial Instruments* addresses the classification, measurement and derecognition of financial assets and liabilities. The standard is not applicable until 1 January 2013 but is available for early adoption. AASB 9 only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not traded. 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. The REIT has not yet decided when to adopt AASB 9. However, management does not expect this will have a significant impact on the REIT's consolidated financial statements as the REIT does not hold any available-for-sale investments.

*(ii) Revised AASB 124 Related Party Disclosures and AASB 2009-12 Amendments to Australian Accounting Standards (effective from 1 January 2011)*

In December 2009, the AASB issued a revised AASB 124 *Related Party Disclosures*. It is effective for accounting periods beginning on or after 1 January 2011 and must be applied retrospectively. The amendment clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The REIT will apply the amended standard from 1 July 2011. When the amendments are applied, the REIT will need to disclose information about transactions between its subsidiaries and its associates. However, there will be no impact on any of the amounts recognised in the consolidated financial statements.

*(iii) AASB 2010-4 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project (effective from 1 January 2011)*

The standard introduces amendments to AASB 7 *Financial Instruments: Disclosures* which clarifies the credit risk disclosures for certain financial instruments. The standard also introduces minor amendments to AASB 134 *Interim Financial Reporting* in relation to the presentation of significant events and transactions. These amendments are not expected to have any significant impact on the REIT's disclosure. The REIT intends to apply the amendment from 1 July 2011.

*(iv) AASB 2010-6 Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets (effective from 1 July 2011)*

Amendments made to AASB 7 *Financial Instruments: Disclosures* in November 2010 introduce additional disclosures in respect of risk exposures arising from transferred financial assets. The amendments will particularly affect entities that sell, factor, securities, lend or otherwise transfer financial assets to other parties. These amendments are not expected to have any significant impact on the REIT's disclosures. The REIT intends to apply the amendment from 1 July 2011.

# Notes to the consolidated financial statements
for the year ended 30 June 2011

1. Summary of significant accounting policies (continued)

(z) Impact of new standards and interpretations issued but not yet adopted by the REIT (continued)

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

In December 2010, the AASB amended AASB 112 *Income Taxes* to provide a practical approach for measuring deferred tax liabilities and deferred tax assets when investment property is measured using the fair value model. AASB 112 requires the measurement of deferred tax assets or liabilities to reflect the tax consequences that would follow from the way management expects to recover or settle the carrying amount of the relevant assets or liabilities, that is through use or through sale. The amendment introduces a rebuttable presumption that investment property which is measured at fair value is recovered entirely by sale. The REIT will apply the amendment from 1 July 2012. Management is currently evaluating the impact of the amendments.

*(vi) IFRS 10 Consolidated Financial Statements (IFRS 10), IFRS 11 Joint Arrangements (IFRS 11), IFRS 12 Disclosure of Interests in Other Entities (IFRS 12) and revised IAS 27 Separate Financial Statements (IAS 27) and IAS 28 Investments in Associates and Joint Ventures (IAS 28) (effective 1 January 2013)*

In May 2011, the IASB issued a suite of five new and amended standards which address the accounting for joint arrangements, consolidated financial statements and associated disclosures. The AASB is expected to issue equivalent Australian standards shortly.

IFRS 10 replaces all of the guidance on control and consolidation in *IAS 27 Consolidated and Separate Financial Statements*, and *SIC-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 before control is present. Power is the current ability to direct the activities that significantly influence returns. Returns must vary and can be positive, negative or both. There is also new guidance on participating and protective rights and on agent/principal relationships. While the REIT does not expect the new standard to have a significant impact on its financial statements, it has yet to perform a detailed analysis of the new guidance in the context of its various investments that may or may not be controlled under the new rules.

IFRS 11 introduces a principles based approach to accounting for joint arrangements. The focus is no longer on the legal structure of joint arrangements, but rather on how rights and obligations are shared by the parties to the joint arrangement. Based on the assessment of rights and obligations, a joint arrangement will be classified as either a joint operation or joint venture. Joint ventures are accounted for using the equity method, and the choice to proportionately consolidate will no longer be permitted. 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. The standard also provides guidance for parties that participate in joint arrangements but do not share joint control. Management is currently evaluating impact of the new standard.

IFRS 12 sets out the required disclosures for entities reporting under the two new standards, IFRS 10 and IFRS 11, and replaces the disclosure requirements currently found in IAS 28. Application of this standard by the REIT will not affect any of the amounts recognised in the financial statements, but will impact the type of information disclosed in relation to the REIT's investments.

IAS 27 is renamed *Separate Financial Statements* and is now a standard dealing solely with separate financial statements. Application of this standard by the REIT will not affect any of the amounts recognised in the financial statements.

Amendments to IAS 28 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 REIT is currently assessing the impact of these amendments.

The REIT does not expect to adopt the new standards before their operative date. They would therefore be first applied in the financial statements for the annual reporting period ending 30 June 2014.

# Notes to the consolidated financial statements
## for the year ended 30 June 2011

### 1. Summary of significant accounting policies (continued)

(z) Impact of new standards and interpretations issued but not yet adopted by the REIT (continued)

*(vii) IFRS 13 Fair Value Measurement (IFRS 13) (effective 1 January 2013)*

IFRS 13 was released in May 2011. The AASB is expected to issue an equivalent Australian standard shortly. IFRS 13 explains how to measure fair value and aims to enhance fair value disclosures. The REIT 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 REIT does not intend to adopt the new standard before its operative date, which means that it would be first applied in the annual reporting period ending 30 June 2014.

*(viii) Revised IAS 1 Presentation of Financial Statements (IAS 1) (effective 1 July 2012)*

In June 2011, the IASB made an amendment to IAS 1. The AASB is expected to make equivalent changes to AASB 101 shortly. The amendment requires entities to separate items presented in other comprehensive income into two groups, based on whether they may be recycled to profit or loss in the future. It will not affect the measurement of any of the items recognised in the balance sheet or the profit or loss in the current period. The REIT intends to adopt the new standard from 1 July 2012.

(aa) Comparative information

Where necessary, comparative information has been adjusted to conform with changes in presentation in the current year.

(ab) Rounding of amounts

The REIT is a registered scheme of a kind referred to in Class Order 98/0100 (as amended) issued by the Australian Securities & Investments Commission relating to the ‘rounding off’ of amounts in the financial statements. Amounts in the financial statements have been rounded to the nearest hundred thousand dollars in accordance with that Class Order, unless otherwise indicated.

### 2. Profit for the year

The profit from continuing activities before income tax includes the following items of revenue and expenses:

(a) Revenues

| | Note | 2011 $'m | 2010 $'m |
|---|---|---|---|
| Property rental income | | 197.6 | 181.5 |
| Net fair value gain from investment held for sale | | - | 16.5 |
| Valuation gains on investment properties | 2(b) | - | 27.9 |
| Net gains from derivative financial instruments | 2(c) | 21.7 | 10.7 |
| Other income | 2(d) | 10.2 | 1.2 |
| | | **229.5** | **237.8** |

# Notes to the consolidated financial statements
for the year ended 30 June 2011

## 2. Profit for the year (continued)

### (b) Property valuation gains/(losses)

| | Note | 2011 $'m | 2010 $'m |
|---|---|---|---|
| **Valuation gains/(losses) on wholly owned investment properties** | | | |
| *Australia* | | | |
| Revaluation increment on investment properties | | 0.6 | 43.5 |
| Revaluation adjustments* | | (1.0) | - |
| | | (0.4) | 43.5 |
| *Europe* | | | |
| Revaluation increment/(decrement) on investment properties | | 3.1 | (7.9) |
| Revaluation adjustments* | | (0.3) | (0.3) |
| | | 2.8 | (8.2) |
| *United States* | | | |
| Revaluation decrement on investment properties | | (14.7) | (7.4) |
| Revaluation adjustments* | | (0.1) | - |
| | | (14.8) | (7.4) |
| | | (12.4) | 27.9 |
| **Valuation losses on investment properties in joint venture entities** | | | |
| *Australia* | | | |
| Revaluation decrement on investment properties | | (4.2) | - |
| Revaluation adjustments* | | - | - |
| | | (4.2) | - |
| *United States* | | | |
| Revaluation decrement on investment properties | | (5.5) | (16.7) |
| Revaluation adjustments* | | (0.1) | (0.2) |
| | | (5.6) | (16.9) |
| | 13(b) | (9.8) | (16.9) |
| | | **(22.2)** | **11.0** |

* Adjustments relating to straightlining of rental income, amortisation of lease incentives and capitalisation of leasing fees.

### (c) Net gains/(losses) from derivative financial instruments

| | 2011 $'m | 2010 $'m |
|---|---|---|
| Gain/(loss) on derivative financial instruments - realised | 6.1 | (19.3) |
| Gain on derivative financial instruments - unrealised | 15.6 | 30.0 |
| | **21.7** | **10.7** |

### (d) Other income

| | | |
|---|---|---|
| Change in fair value of consideration receivable on disposal of US joint venture entity | 8.9 | - |
| Interest and other income | 1.3 | 1.2 |
| | **10.2** | **1.2** |

### (e) Finance costs

| | | |
|---|---|---|
| Finance costs paid or payable | 53.6 | 37.8 |
| Less: Capitalised finance costs | (0.5) | (0.8) |
| | **53.1** | **37.0** |

# Notes to the consolidated financial statements
for the year ended 30 June 2011

## 2. Profit for the year (continued)

### (f) Other expenses

| | 2011 | 2010 |
|---|---|---|
| | $'m | $'m |
| Accounting fees | 1.4 | 1.4 |
| Audit committee and compliance fees - independent directors | 0.1 | 0.1 |
| Audit fees | 0.3 | 0.4 |
| Custodian fees | 0.1 | 0.3 |
| Consulting expenses | 0.1 | 0.5 |
| Insurance expenses | 0.2 | 0.1 |
| Legal fees | 0.5 | 0.7 |
| Postage and printing costs | 0.1 | 0.2 |
| Registry fees | 0.2 | 0.2 |
| State and indirect taxes | 0.2 | 0.1 |
| Stock exchange costs | 0.2 | 0.1 |
| Taxation fees | 0.4 | 0.3 |
| Travel expenses | 0.2 | 0.2 |
| Unitholder communications costs | 0.2 | 0.2 |
| Other | 0.4 | 0.4 |
| | **4.6** | **5.2** |

Other expenses have been paid in accordance with the REIT constitution.

## 3. Tax expense

| | | |
|---|---|---|
| Withholding tax expense | 0.9 | 1.5 |
| Deferred tax expense | 0.8 | 6.8 |
| Current income tax (benefit)/expense | (0.7) | 0.4 |
| | **1.0** | **8.7** |

## 4. Remuneration of the auditor

| | 2011 | 2010 |
|---|---|---|
| | $'000 | $'000 |
| Amounts paid or payable to PricewaterhouseCoopers Australian firm for: | | |
| Audit services | 218 | 328 |
| Taxation compliance services | 52 | 59 |
| | 270 | 387 |
| Amounts paid or payable to related practices of PricewaterhouseCoopers Australian firm for: | | |
| Audit services* | 110 | 23 |
| Taxation compliance services* | 321 | 191 |
| | 431 | 214 |
| | **701** | **601** |

* Includes fees relating to the REIT's New Zealand, US and European entities.

# Notes to the consolidated financial statements
for the year ended 30 June 2011

## 5. Distributions paid and payable

| Consolidated | Distribution cents per unit | Total amount $'m | Tax deferred % | CGT concession amount % | Taxable % |
|---|---|---|---|---|---|
| *Ordinary unitholders* | | | | | |
| 2011 distributions for the half year ended: | | | | | |
| 31 December 2010 | 12.00 | 36.7 | | | |
| 30 June 2011 | 12.80 | 38.7 | | | |
| | **24.80** | **75.4** | **29.12** | **22.50** | **48.38** |
| *Ordinary unitholders* | | | | | |
| 2010 distributions for the half year ended: | | | | | |
| 31 December 2009 | 15.00 | 44.7 | | | |
| 30 June 2010 | 11.50 | 34.6 | | | |
| | **26.50** | **79.3** | **48.32** | **-** | **51.68** |

* The distribution of 12.80 cents per unit for the half year ended 30 June 2011 was declared prior to 30 June 2011 and will be paid on 23 August 2011.

Pursuant to the REIT constitution, the amount distributed to unitholders is at the discretion of the Responsible Entity. The Responsible Entity uses operating earnings (refer to Note 26) as a guide to assessing an appropriate distribution to declare.

## 6. Earnings per unit

| | 2011 | 2010 |
|---|---|---|
| Basic and diluted earnings per ordinary unitholder of the REIT | | |
| Earnings per unit (cents) for profit from continuing operations* | 21.10 | 21.33 |
| Earnings per unit (cents) for (loss)/profit from discontinued operations* | (0.46) | 3.42 |
| Earnings per unit (cents)* | 20.64 | 24.75 |
| Earnings used in the calculation of basic and diluted earnings per unit | | |
| Net profit from continuing operations ($'m) | 64.3 | 63.6 |
| Net profit/(loss) from discontinued operations ($'m) | (1.4) | 10.2 |
| Net profit for the year ($'m) | 62.9 | 73.8 |
| Weighted average number of units used in the calculation of basic and diluted earnings per unit (millions)* | 304.8 | 298.2 |

* Prior period comparative information has been restated to a post-unit consolidation basis (refer to Note 19).

# Notes to the consolidated financial statements
for the year ended 30 June 2011

## 7. Cash and cash equivalents

| | 2011 $'m | 2010 $'m |
|---|---|---|
| Australian operating accounts | 6.2 | 3.0 |
| US operating accounts | 1.2 | 2.1 |
| European operating accounts | 6.9 | 4.9 |
| | **14.3** | **10.0** |

### (a) Operating accounts

The majority of the cash and cash equivalents is held in operating accounts earning market rates of interest.

### (b) Cash not available for use

Australian operating accounts included $0.1 million (2010: $40.2 million) relating to collateral obligations of the REIT's commercial mortgage backed securities.

## 8. Receivables

| | 2011 | 2010 |
|---|---|---|
| Rent receivable | 3.7 | 4.2 |
| Provision for doubtful debts | (1.2) | (1.7) |
| | 2.5 | 2.5 |
| Outgoings receivable | 1.8 | 1.9 |
| Turnover rent receivable | 4.5 | 5.9 |
| Sundry debtors | 4.2 | 2.0 |
| | **13.0** | **12.3** |

The REIT's receivables are carried at amounts that approximate their fair value.

## 9. Derivative financial instruments

| | 2011 | 2010 |
|---|---|---|
| *Assets* | | |
| **Current** | | |
| Cross currency swaps | 6.1 | 2.2 |
| Forward foreign exchange contracts | 1.5 | 2.0 |
| | **7.6** | **4.2** |
| **Non-current** | | |
| Interest rate swaps | 0.7 | 0.6 |
| Cross currency swaps | - | 0.8 |
| Forward foreign exchange contracts | 2.7 | 2.1 |
| | **3.4** | **3.5** |
| *Liabilities* | | |
| **Current** | | |
| Interest rate swaps | 0.4 | - |
| | **0.4** | **-** |
| **Non-current** | | |
| Interest rate swaps | 4.6 | 17.2 |
| Cross currency swaps | 0.1 | 0.2 |
| Forward foreign exchange contracts | - | 0.1 |
| | **4.7** | **17.5** |

**Interest rate swaps**

The REIT has entered into interest rate swap agreements totalling $588.5 million (2010: $608.0 million) that entitle it to receive interest, at quarterly intervals, at a floating rate on a notional principal amount and oblige it to pay interest at a fixed rate on the same amount or, receive interest, at quarterly intervals, at a fixed rate on a notional principal amount and oblige it to pay interest at a floating rate on the same amount.

At 30 June 2011, the fixed rate varies from 1.87% to 5.40% per annum (2010: 1.87% to 5.29% per annum).

# Notes to the consolidated financial statements
## for the year ended 30 June 2011

9. Derivative financial instruments (continued)

**Interest rate swaps (continued)**

As at balance date, the notional principal amounts and periods of expiry of the interest rate swap contracts are as follows:

| | 2011<br>$'m | 2010<br>$'m |
|---|---|---|
| Swaps - REIT pays fixed rate | | |
| 1 year or less | 191.9 | - |
| 1 - 2 years | 320.4 | 204.6 |
| 2 - 3 years | 75.0 | 443.6 |
| 3 - 4 years | - | 58.6 |
| 4 - 5 years | 100.0 | - |
| | 687.3 | 706.8 |
| Swaps - REIT pays floating rate | | |
| 1 - 2 years | (98.8) | - |
| 2 - 3 years | - | (98.8) |
| | (98.8) | (98.8) |
| **Net position - REIT pays fixed rate** | **588.5** | **608.0** |

**Forward foreign exchange contracts**

Following the disposal of 15 New Zealand properties (refer to Note 11), the REIT closed out its remaining forward foreign exchange contracts to sell New Zealand dollars and receive Australian dollars at an average exchange rate of A$1.00 = NZ$1.1833, realising a gain of $0.6 million.

Following disposal of the REIT's interest in a US joint venture entity and one wholly owned investment property, the REIT early closed out several foreign exchange contracts to sell US dollars and receive Australian dollars at an average exchange rate of $A1.00 = US$0.8227, realising gains of $8.0 million.

The REIT has also entered into forward foreign exchange contracts to sell US dollars and receive Australian dollars at an average exchange rate of A$1.00 = US$0.7550 (2010: A$1.00 = US$0.7456) totalling A$9.9 million/US$7.5 million (2010: A$52.7 million/US$39.3 million). The last of these forward foreign exchange contracts matures in September 2014.

The REIT has also entered into forward foreign exchange contracts to sell Euro and receive Australian dollars at an average exchange rate of A$1.00 = €0.5561 (2010: A$1.00 = €0.5605) totalling A$9.9 million/€5.5 million (2010: A$12.3 million/€6.9 million). The last of these forward foreign exchange contracts matures in August 2014.

**Cross currency swaps**

The REIT has entered into A$/US$ cross currency swap agreements totalling A$101.2 million/US$82.0 million (2010: A$181.6 million/US$145.0 million) that entitle it to receive Australian dollar interest, at quarterly intervals, at a rate on a notional Australian dollar principal amount and oblige it to pay US dollar interest at a rate on the corresponding US dollar amount as per the swap contract. The swap agreements allow the REIT to raise borrowings at an Australian dollar interest rate and effectively swap them into a US dollar interest rate. These cross currency swaps have been partially offset by forward foreign exchange contracts totalling A$76.9 million/US$59.0 million (2010: A$93.0 million/US$72.0 million).

# Notes to the consolidated financial statements
for the year ended 30 June 2011

## 9. Derivative financial instruments (continued)

**Cross currency swaps (continued)**

As at balance date, the notional principal amounts and periods of expiry of the cross currency swap contracts are as follows:

| | 2011 $'m | 2010 $'m |
|---|---|---|
| 1 year or less | 46.5 | 80.5 |
| 1 - 2 years | 54.7 | 46.4 |
| 2 - 3 years | - | 54.7 |
| 3 - 4 years | - | - |
| | 101.2 | 181.6 |
| Offsetting forward foreign exchange contracts | (76.9) | (93.0) |
| | **24.3** | **88.6** |

At 30 June 2011, the Australian dollar interest rate prevailing on the cross currency swaps varies from 5.00% to 6.76% per annum (2010: 4.97% to 6.76% per annum) and the US dollar interest rate prevailing on the cross currency swaps varies from 0.24% to 5.04% per annum (2010: 0.54% to 5.04% per annum).

## 10. Other assets

| | 2011 $'m | 2010 $'m |
|---|---|---|
| **Current** | | |
| Prepayments and deposits | 4.2 | 3.6 |
| | **4.2** | **3.6** |
| **Non-current** | | |
| Deferred consideration | 28.0 | 24.5 |
| | **28.0** | **24.5** |

In the prior year, the REIT completed a sale of its 75% interest in a US joint venture with Regency, Macquarie CountryWide-Regency II LLC (MCWR II). As part of the terms of the disposal contract, the REIT agreed to provide a three year guarantee over net operating income (NOI) (Refer to Note 27). This NOI guarantee was secured by deferring part of the consideration from the disposal in the amount of US$30.0 million ($28.0 million). At 30 June 2011, no provision (2010: US$9.1 million; $10.7 million) was made against this deferred consideration.

## 11. Assets and liabilities classified as held for sale and discontinued operations

### (a) Details of discontinued operations

In April 2011, the REIT completed the sale of its 50% interest in 15 properties in its non-core New Zealand portfolio for a total consideration of NZ$85.3 million ($63.0 million), in line with its carrying value. The REIT's interest in these properties was acquired by its New Zealand co-owner, which elected to terminate its joint venture relationship with the REIT in early 2010. The sale of the remaining two properties has been delayed pending the purchaser obtaining adequate insurance cover and is expected to be completed by the end of December 2011. The New Zealand portfolio has been classified as a discontinued operation at 30 June 2011.

# Notes to the consolidated financial statements
for the year ended 30 June 2011

## 11. Non-current assets classified as held for sale and discontinued operations (continued)

### (b) Details of assets and liabilities classified as held for sale

The table below sets out assets and liabilities that continue to be owned by the REIT as at balance date. These assets and liabilities are presented as aggregate amounts in the balance sheet.

| | 2011 | | | | 2010 |
|---|---|---|---|---|---|
| | Discontinued operations | Assets held for sale | | Total | Total |
| | New Zealand | Australia | US | | |
| | $'m | $'m | $'m | $'m | $'m |
| **Assets classified as held for sale** | | | | | |
| Cash and cash equivalents | 0.1 | - | - | 0.1 | 0.6 |
| Receivables | 0.2 | - | - | 0.2 | 0.2 |
| Investment properties | 6.3 | 3.0 | 83.3 | 92.6 | 107.5 |
| Total assets classified as held for sale | 6.6 | 3.0 | 83.3 | 92.9 | 108.3 |
| **Liabilities classified as held for sale** | | | | | |
| Payables | 0.3 | - | - | 0.3 | 0.4 |
| Interest bearing liabilities | - | - | 25.9 | 25.9 | 12.9 |
| Total liabilities directly associated w ith assets classifed as held for sale | 0.3 | - | 25.9 | 26.2 | 13.3 |

At 30 June 2011, the REIT was under contract to sell one Australian property for $3.0 million. In addition the REIT's remaining US wholly owned properties are either under contract or being actively marketed. These assets have been classified as held for sale given their value will be recovered principally through sale rather than through continuing use.

### (c) Details of financial performance and cash flow information relating to discontinued operations

The table below sets out the financial performance and cash flow information up to 30 June 2011 for the discontinued operations that continued to be owned by the REIT at balance date. For assets that have been divested during the year, the relevant financial performance and cash flow information up to the date of disposal have been included.

| | 2011 | 2010 |
|---|---|---|
| | $'m | $'m |
| Net property income | 4.8 | 6.1 |
| Other income | - | 0.1 |
| Valuation (losses)/gains on investment properties | (4.6) | 4.4 |
| Management fees | (0.3) | (0.4) |
| Expenses | (0.1) | - |
| Profit/(loss) before income tax | (0.2) | 10.2 |
| Income tax expense | (0.3) | - |
| Profit/(loss) after income tax | (0.5) | 10.2 |
| Loss on sale of investment properties | (0.9) | - |
| Profit/(loss) from discontinued operations | (1.4) | 10.2 |
| | | |
| Net cash inflow from operating activities | 4.4 | 5.9 |
| Net cash outflow from investing activities | (4.9) | (6.0) |
| Net cash inflow from financing activities | - | - |
| Net decrease in cash generated by discontinued operations excluding sales proceeds | (0.5) | (0.1) |

# Notes to the consolidated financial statements
## for the year ended 30 June 2011

### 11. Non-current assets classified as held for sale and discontinued operations (continued)

#### (d) Details of disposals

As part of the REIT's strategy to exit non-core assets, and in addition to the disposals in its discontinued operations, the REIT also disposed of the following assets during the year:

| | Date of disposal | Principal activity | Ownership interest disposed | Total consideration $'m |
|---|---|---|---|---|
| **Australian portfolio** | | | | |
| Margaret River, WA | 17 Jan 2011 | Investment property | 100% | 11.0 |
| Manjimup, WA | 28 Feb 2011 | Investment property | 100% | 2.4 |
| Cardiff, NSW | 16 May 2011 | Investment property | 100% | 3.0 |
| Caringbah, NSW | 16 May 2011 | Investment property | 100% | 11.5 |
| Riverside, TAS | 24 May 2011 | Investment property | 100% | 6.0 |
| **US portfolio** | | | | |
| Franklin Square, KY | 14 Oct 2010 | Investment property | 100% | 16.8 |
| Orchard Square, GA | 8 Sep 2010 | Investment property | 100% | 8.4 |
| Regency Milford Square, OH | 1 Mar 2011 | Investment property | 100% | 3.4 |
| Macquarie CountryWide-Regency-Desco, LLC | 16 May 2011 | Joint venture | 60% | 56.1 |
| Ocala Corners, FL | 2 Jun 2011 | Investment property | 100% | 10.3 |
| | | | | 128.9 |

#### (e) Net loss on disposals in discontinued operations and the general course of business

| | Discontinued operations | Assets held for sale | 2011 Total $'m | 2010 Total $'m |
|---|---|---|---|---|
| **Details of disposals during the year** | | | | |
| Sale price | 63.0 | 128.9 | 191.9 | 219.0 |
| Selling costs | (0.9) | (3.5) | (4.4) | (66.2) |
| Carrying amount of net assets sold | (63.0) | (126.5) | (189.5) | (152.8) |
| **Profit/(loss) on sale after income tax** | (0.9) | (1.1) | (2.0) | - |
| Income tax expense | - | - | - | - |
| **Profit/(loss) on sale after income tax** | (0.9) | (1.1) | (2.0) | - |

### 12. Investment properties

| | 2011 $'m | 2010 $'m |
|---|---|---|
| **Non-current** | | |
| Australian properties | 1,230.5 | 1,143.3 |
| European properties | 393.9 | 416.1 |
| US properties | - | 138.2 |
| | **1,624.4** | **1,697.6** |

Investment properties include a straightlining asset of $7.7 million (2010: $6.4 million) and unamortised lease incentives of $5.0 million (2010: $3.3 million).

## 12. Investment properties (continued)

A reconciliation of the carrying amount of investment properties at the beginning and end of the current and previous years is set out below:

| | 2011 $'m | 2010 $'m |
|---|---|---|
| Carrying amount at the beginning of the year | 1,697.6 | 1,655.9 |
| Additions | 124.6 | 91.0 |
| Distributions of assets from joint venture entities | - | 101.2 |
| Disposals | (20.8) | (0.3) |
| Revaluation (decrement)/increment | (11.3) | 32.5 |
| Revaluation adjustments | (1.1) | (0.3) |
| Straightlining of rental income | 1.1 | 0.6 |
| Amortisation of lease incentives | (1.8) | (1.2) |
| Capitalised leasing fees | 1.8 | 0.9 |
| Foreign exchange rate differences on translation | (48.7) | (84.7) |
| Reclassification of investment property previously classified as held for sale | - | 9.5 |
| Reclassification of investment property as held for sale | (117.0) | (107.5) |
| **Carrying amount at the end of the year** | **1,624.4** | **1,697.6** |

As referred to in Note 1(d), independent external valuations of properties are prepared on a progressive basis over a three year period, or earlier, where the Responsible Entity believes there may be a material change in the carrying value of the property. At each balance date, the Directors update their assessment of the fair value of each property, taking into account the most recent independent valuations. The REIT determines a property's value within a range of reasonable fair value estimates.

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

| | Australia | Europe | US |
|---|---|---|---|
| 2011 | | | |
| Weighted average capitalisation rate (%) | 8.0% | 8.5% | N/A |
| Weighted average lease expiry (years) | 7.6 years | 2.9 years | N/A |
| Weighted average occupancy (%) | 98.8% | 98.3% | N/A |
| | | | |
| 2010 | | | |
| Weighted average capitalisation rate (%) | 7.8% | 8.2% | 8.6% |
| Weighted average lease expiry (years) | 6.5 years | 3.5 years | 7.2 years |
| Weighted average occupancy (%) | 99.1% | 98.7% | 92.7% |

*Leasing arrangements*

The investment properties are leased to tenants under long term operating leases with rentals payable monthly. Minimum lease payments receivable on leases of investment properties are as follows:

| | 2011 $'m | 2010 $'m |
|---|---|---|
| Minimum lease payments under non-cancellable operating leases of investment properties not recognised in the financial statements are receivable as follows: | | |
| Within 1 year | 147.0 | 147.8 |
| Later than 1 year but not later than 5 years | 451.4 | 418.2 |
| Later than 5 years | 539.7 | 291.4 |
| | **1,138.1** | **857.4** |

# Notes to the consolidated financial statements
for the year ended 30 June 2011

## 13. Investment in joint venture entities

As at 30 June 2011, the REIT has an investment in one US joint venture entity and two Australian joint venture entities. The REIT exercises joint control over the joint venture entities, but neither the REIT nor its joint venture partners have control in their own right, irrespective of their ownership interest. During the year, the investments have been accounted for in the consolidated financial statements using the equity method of accounting (refer to Note 1(e)).

Information relating to the joint venture entities is detailed below:

| Joint venture entity | Country of incorporation/ establishment | Principal activity | Ownership interest 2011 % | Ownership interest 2010 % |
|---|---|---|---|---|
| Macquarie CountryWide-Regency III LLC | United States | Property investment | 75.00 | 75.00 |
| Macquarie CountryWide-Regency-Desco LLC* | United States | Property investment | - | 60.00 |
| Charter Hall Retail JV Trust | Australia | Property investment | 50.00 | 50.00 |
| Charter Hall Retail Partnership No.1 Trust | Australia | Property investment | 50.00 | - |

* The REIT completed the sale of its interest in this joint venture entity on 16 May 2011.

### (a) Gross equity accounted value of investment in joint venture entities

| | Note | 2011 $'m | 2010 $'m |
|---|---|---|---|
| Balance at the beginning of the year | | 85.6 | 167.5 |
| Additions | | 107.6 | 0.2 |
| Share of profits before property valuation losses | 13(b) | 8.1 | 8.6 |
| Share of property valuation losses | 13(b) | (9.8) | (16.9) |
| Disposal of interest in US joint venture entity | | (56.2) | - |
| Cash distributions paid and payable | | (5.5) | (5.7) |
| Distributions in kind | | - | (55.7) |
| Foreign exchange rate differences on translation | | (16.3) | (12.4) |
| **Balance at the end of the year** | | **113.5** | **85.6** |

### (b) Share of results attributable to joint venture entities

| | | |
|---|---|---|
| **Income** | | |
| Property rental income | 28.7 | 35.3 |
| Property expenses | (9.6) | (12.1) |
| Net property income | 19.1 | 23.2 |
| **Expenses** | | |
| Management fees | (0.6) | (1.6) |
| Finance costs | (10.1) | (12.7) |
| Other expenses | (0.3) | (0.3) |
| Total expenses | (11.0) | (14.6) |
| Share of profits before property valuation losses | 8.1 | 8.6 |
| **Property valuation losses** | | |
| Revaluation decrement on investment properties | (9.7) | (16.7) |
| Revaluation adjustments* | (0.1) | (0.2) |
| Share of property valuation losses | (9.8) | (16.9) |
| **Share of profits and valuations losses of investment in joint venture entities** | **(1.7)** | **(8.3)** |

* Adjustments relating to straightlining of rental income, amortisation of lease incentives and capitalisation of lease fees.

# Notes to the consolidated financial statements
for the year ended 30 June 2011

## 13. Investment in joint venture entities (continued)

### (c) Share of joint venture entities' assets and liabilities

| | 2011 $'m | 2010 $'m |
|---|---|---|
| **Current assets** | | |
| Cash and cash equivalents | 1.5 | 3.7 |
| Receivables | 1.6 | 2.7 |
| Other assets | 0.5 | 0.2 |
| | 3.6 | 6.6 |
| **Non-current assets** | | |
| Investment properties | 214.0 | 249.8 |
| Total assets | 217.6 | 256.4 |
| **Current liabilities** | | |
| Payables | 3.7 | 5.0 |
| Other liabilities | 0.2 | 0.4 |
| | 3.9 | 5.4 |
| **Non-current liabilities** | | |
| Interest bearing liabilities | 100.2 | 165.4 |
| Total liabilities | 104.1 | 170.8 |
| **Net assets** | **113.5** | **85.6** |

The joint venture entities did not commit to expenditure activities in the current year (2010: nil).

## 14. Deferred tax assets and liabilities

| | | |
|---|---|---|
| **Non-current assets** | | |
| Deferred tax assets | 4.1 | 5.5 |
| | **4.1** | **5.5** |
| **Non-current liabilities** | | |
| Deferred tax liabilities | 12.7 | 13.5 |
| | **12.7** | **13.5** |
| Net deferred tax liability | **(8.6)** | **(8.0)** |

Reconciliation of the carrying amount of net deferred tax liability at the beginning and end of the current and previous years is set out below:

| | | |
|---|---|---|
| Opening balance | (8.0) | (2.0) |
| Deferred tax expense | (0.8) | (6.8) |
| Foreign exchange rate differences on translation | 0.2 | 0.8 |
| Closing balance | **(8.6)** | **(8.0)** |

## 15. Payables

| | | |
|---|---|---|
| Sundry creditors | 9.4 | 7.3 |
| Management fees | 1.5 | 3.0 |
| Custodian fees | 0.1 | 0.1 |
| Interest payable on interest bearing liabilities | 2.7 | 1.0 |
| GST payable | 0.8 | 0.9 |
| Accrued expenses | 8.0 | 6.7 |
| Withholding and current tax payable | 0.7 | 2.2 |
| | **23.2** | **21.2** |

# Notes to the consolidated financial statements
## for the year ended 30 June 2011

### 16. Distribution payable

| | Note | 2011 $'m | 2010 $'m |
|---|---|---|---|
| Distributions to ordinary unitholders | | | |
| Opening balance | | 34.6 | - |
| Distributions declared | 21 | 75.4 | 123.2 |
| Paid during the year | | (58.3) | (66.7) |
| Distributions reinvested | 19 | (13.0) | (21.9) |
| **Closing balance** | | **38.7** | **34.6** |

### 17. Interest bearing liabilities

| | 2011 $'m | 2010 $'m |
|---|---|---|
| **Current** | | |
| Bank loan - term debt | | |
| US property level debt | - | 12.1 |
| European property level debt | 6.3 | 7.4 |
| | **6.3** | **19.5** |
| **Non-current** | | |
| Bank loan - term debt | | |
| Australian multi-currency facility | 192.1 | 107.9 |
| Australian property level debt | 15.5 | - |
| US property level debt | - | 28.8 |
| European property level debt | 283.3 | 326.1 |
| Commercial mortgage backed securities (CMBS) | 233.3 | 265.0 |
| Less: Unamortised transaction costs | (2.8) | (4.1) |
| | **721.4** | **723.7** |

The REIT's borrowings are carried at amounts that approximate their fair value.

| **Credit facilities** | 2011 $'m | 2010 $'m |
|---|---|---|
| At 30 June 2011 and 2010, the REIT had access to: | | |
| Bank loan facility | | |
| Australian multi-currency facility | 265.0 | 225.0 |
| Australian property level debt | 15.5 | - |
| US property level debt | - | 40.9 |
| European property level debt | 289.6 | 333.5 |
| CMBS debt | 233.3 | 265.0 |
| Bank overdraft facility | 1.0 | 1.0 |
| | 804.4 | 865.4 |
| Amount of facilities used: | | |
| Draw down to date - bank loan | 497.2 | 482.3 |
| Draw down to date - CMBS debt | 233.3 | 265.0 |
| Draw down to date - bank overdraft facility | - | - |
| | 730.5 | 747.3 |
| **Amount of facilities unused** | **73.9** | **118.1** |

**Bank loans**

The Australian multi-currency bank loan facility is secured by registered mortgages over the REIT's ownership interest in all Australian properties, except those specifically pooled as security for the REIT's CMBS debt. The carrying value of the properties pledged as security amounts to $453.9 million (2010: $367.7 million). The facility matures in September 2015.

The Australian multi-currency bank loan facility is repayable immediately if the REIT defaults on payments of interest or principal, its total bank secured loan amount exceeds 60% of the carrying value of its total security pool assets or its security pool financial charges ratio falls below 1.75:1.

17. Interest bearing liabilities (continued)

**Bank loans (continued)**

The Australian property level bank loan is secured by a registered mortgage over three properties owned in joint venture with Charter Hall Direct Retail Fund. The carrying value of the REIT's share of the properties pledged as security is $66.2 million (2010: nil) against the REIT's share of the total facility of $32.0 million. The facility matures in November 2013.

The Australian property level bank loan is repayable immediately if the REIT defaults on payments of interest or principal, its total bank secured loan amount exceeds 60% of the carrying value of its total security pool assets or its security pool financial charges ratio falls below 1.60:1.

Investment properties in Europe are partially funded by term debt amounting to €214.4 million ($289.6 million) (2010: €231.5 million, $333.5 million) which are secured by registered mortgages over investment properties. The carrying value of the properties pledged as security amounts to €291.5 million ($393.9 million) (2010: €288.9 million, $416.1 million).

European bank loans funding the REIT's investment in Poland are repayable immediately if the REIT defaults on payments of interest or principal, its total property debt exceeds 80% of the carrying value of its total assets (only in respect of the period from December 2011 to maturity) or its projected financial charges ratio to falls below 1.1:1. The loan matures in July 2014.

European bank loans funding the REIT's investment in Germany are repayable immediately if the REIT defaults on payments of interest or principal or its historic or projected financial charges ratio falls below 1:2:1. The loan matures in July 2012.

Interest rates on the bank loans are variable and are reset periodically, usually after a period of 90 days. As at 30 June 2011, the interest rates on the bank loans vary from 2.44% to 8.65% per annum (2010: 1.49% to 8.65% per annum).

**Commercial mortgage backed securities**

The commercial mortgage backed securities (CMBS) are secured by registered mortgages over 40 Australian properties. The carrying amount of properties pledged as security as at 30 June 2011 amounts to $748.6 million (2010: $772.4 million). The CMBS facility matures in September 2012 with the REIT having an early redemption option in September 2011. Interest rates on CMBS notes are variable and are reset periodically, usually after a period of 90 days.

18. Other liabilities

| | 2011<br>$'m | 2010<br>$'m |
|---|---|---|
| Rental deposits | **2.0** | **2.0** |

# Notes to the consolidated financial statements
for the year ended 30 June 2011

## 19. Contributed equity

| No. of units | Details | Date of income entitlement | Note | 2011 $'m | 2010 $'m |
|---|---|---|---|---|---|
| 1,464,577,398 | Units on issue | 30 June 2009 | | | 1,982.1 |
| 24,091,427 | DRP issue | 1 July 2009 | | | 12.2 |
| 16,547,435 | DRP issue | 1 January 2010 | | | 9.7 |
| | Transfer for return of capital from US REITs* | | 21 | | (6.7) |
| 1,505,216,260 | Units on issue | 30 June 2010 | | 1,997.3 | 1,997.3 |
| 23,824,440 | DRP issue** | 1 July 2010 | 16 | 13.0 | |
| 1,529,040,700 | Balance before consolidation | 1 September 2010 | | 2,010.3 | |
| (1,223,229,977) | Consolidation of units | 1 September 2010 | | - | |
| (3,648,644) | Units bought back and cancelled*** | 1 January 2011 | | (12.0) | |
| | Transfer for return of capital from US REITs* | | 21 | (70.8) | |
| **302,162,079** | **Units on issue** | **30 June 2011** | | **1,927.5** | **1,997.3** |

* During the current and prior years, the US REITs paid dividends to the parent entity. These dividends are classified as a return of capital to the extent that the dividend amount exceeds the US REIT profits. This return of capital reduces the amount of income in the parent entity and reduces the cost base of the parent entity's investment in the US REITs. A transfer is made to accumulated losses to offset this return of capital from the US REITs.

** The current year DRP units were issued on 20 August 2010 but were entitled to income from 1 July 2010.

*** Units bought back and cancelled before 30 June 2011 carry no entitlement to income from 1 January 2011.

As stipulated in the REIT's constitution, each unit represents a right to an individual share in the REIT and does not extend to a right to the underlying assets of the REIT. There are no separate classes of units and each unit has the same rights attaching to it as all other units in the REIT.

Each unit confers the right to vote at meetings of unitholders, subject to any voting restrictions imposed on a unitholder under the *Corporations Act 2001* and the Australian Securities Exchange Listing Rules.

### Consolidation of units

In September 2010, the REIT completed a consolidation of its units on the basis of one new unit for every five pre-consolidation units. Where the consolidation of a holding resulted in a fractional unit, that fraction was rounded up to the next whole unit. The consolidation of units resulted in the REIT reducing its total unit on issue from 1,529,040,700 to 305,810,723 units. Accordingly, there has been a corresponding increase in pre-consolidation metrics including price, earnings and net tangible assets per unit by a factor of five.

Prior year comparative information, where shown on a per unit basis, has been restated to a post unit consolidation basis, unless stated otherwise.

### Distribution reinvestment plan

The REIT has established a Distribution Reinvestment Plan (DRP) under which unitholders may elect to have all or part of their distribution entitlements satisfied by the issue of new units rather than being paid in cash. This plan has been suspended for the half year ended 31 December 2010 and 30 June 2011.

### On-market buyback

In January 2011, the REIT initiated the regulatory process to undertake an on-market buyback for up to $20.0 million of the REIT's units on or after 23 February 2011. The program was completed on 15 July 2011 after 6,182,152 units were bought at an average price of $3.24 per unit (refer to Note 30).

# Notes to the consolidated financial statements
## for the year ended 30 June 2011

## 20. Reserves

| | Note | 2011 $'m | 2010 $'m |
|---|---|---|---|
| Foreign currency translation reserve | | | |
| Opening balance | | (31.9) | 86.2 |
| Translation of foreign operations and foreign denominated borrowings | | (49.0) | (36.0) |
| Transfer to profit of cumulative FX losses on disposal of assets held for sale | | 20.5 | 51.3 |
| Transfer to accumulated losses on disposal of US joint venture entities* | 21 | - | (133.4) |
| **Closing balance** | | **(60.4)** | **(31.9)** |

* Following disposal and dissolutions of some of the REIT's US joint venture entities during prior years, cumulative foreign exchange losses arising on the cross currency swaps transferred into the foreign currency translation reserve over the life of these investments were reclassified back to accumulated losses.

**Nature and purpose of foreign currency translation reserve**

Foreign exchange differences arising on translation of the investments in foreign controlled entities and foreign joint venture entities are taken directly to the foreign currency translation reserve, as described in Note 1(u).

On disposal of interest in foreign controlled entities, the cumulative foreign exchange losses relating to these investments are transferred to the consolidated statement of comprehensive income in accordance with the requirements of AASB 121 *The Effect of Changes in Foreign Exchange Rates*. Similarly, cumulative foreign exchange differences on cross currency swaps transferred into the foreign currency translation reserve over the life of the investment are reclassified back to accumulated losses (refer to Note 21).

## 21. Accumulated losses

| | Note | 2011 $'m | 2010 $'m |
|---|---|---|---|
| Opening balance | | (855.6) | (946.3) |
| Profit after tax | | 62.9 | 73.8 |
| Transfer from contributed equity: | | | |
| - Return of capital from US REITs | 19 | 70.8 | 6.7 |
| Distributions paid and payable* | 16 | (75.4) | (123.2) |
| Transfer from foreign currency translation reserve on disposal of US joint venture entities | 20 | - | 133.4 |
| Closing balance | | **(797.3)** | **(855.6)** |

* The Responsible Entity uses operating earnings (refer to Note 26) as a guide to assessing an appropriate distribution to declare.

## 22. Net tangible assets

| | 2011 | 2010 |
|---|---|---|
| Total assets | 1,905.4 | 1,955.1 |
| Less: Total liabilities | (835.6) | (845.3) |
| **Net tangible assets attributable to the REIT** | **1,069.8** | **1,109.8** |
| Total number of units on issue | 302,162,079 | 301,043,252 |
| Net tangible asset backing per unit | $3.54 | $3.69 |

# Notes to the consolidated financial statements
for the year ended 30 June 2011

## 23. Cash flow information

### (a) Reconciliation of profit after tax to net cash flows from operating activities

| | 2011 $'m | 2010 $'m |
|---|---|---|
| Profit after tax | 62.9 | 73.8 |
| *Non-cash items* | | |
| Straightlining of rental income | (1.1) | (0.6) |
| Amortisation of lease incentives | 1.8 | 1.2 |
| Property valuation (gains)/losses | | |
| Discontinued operations | 4.6 | (4.4) |
| Wholly owned entities | 12.4 | (27.9) |
| Joint venture entities | 9.8 | 16.9 |
| Change in fair value of consideration receivable on disposal of US joint venture entity | (8.9) | - |
| Unrealised net gain on derivative financial instruments | (15.6) | (30.0) |
| Deferred tax expense | 0.8 | 6.8 |
| Transfer from reserves of cumulative FX losses on disposal of assets held for sale | 20.5 | 51.3 |
| *Change in assets and liabilities* | | |
| (Increase)/decrease in assets | | |
| Receivables | (0.6) | (2.4) |
| Prepayments | 3.8 | 2.9 |
| Net income receivable from investment in joint venture entities | (2.6) | (12.9) |
| Increase in liabilities | | |
| Payables | 5.4 | (1.6) |
| **Net cash flows from operating activities** | **93.2** | **73.1** |

### (b) Non-cash financing and investing activities

The following non-cash financing activities are not reflected in the statement of cash flows:

| | 2011 $'m | 2010 $'m |
|---|---|---|
| Distributions by the REIT during the year satisfied by the issue of units under the DRP | 13.0 | 21.9 |

## 24. Capital and financial risk management

### (a) Capital risk management

The REIT manages capital through the mix of available capital sources whilst complying with statutory and constitutional capital and distribution requirements, maintaining gearing, interest cover ratios and other covenants within approved limits and continuing to operate as a going concern.

The REIT assesses its capital management approach as a key part of its overall strategy and this is regularly reviewed by management and the Board.

The REIT is able to alter its capital mix by issuing new units, activating the DRP, electing to have the DRP underwritten, adjusting the amount of distributions paid, activating a unit buy-back program or selling assets to reduce borrowings.

The REIT has a target balance sheet gearing of 30% to 40% of debt to total assets.

Protection of the REIT's equity in foreign denominated assets is achieved through borrowing in the local currency to provide a natural hedge, which may be supplemented by the use of forward foreign exchange contracts and cross currency swaps to provide additional hedge protection. The REIT has a target equity hedge of 60% to 100% of the gross asset value by foreign currency.

The REIT also protects its assets by taking out insurance with creditworthy insurers.

### (b) Financial risk management

The REIT's principal financial instruments comprise cash and cash equivalents, receivables, payables, interest bearing liabilities and derivative financial instruments.

The REIT's activities expose it to a variety of financial risks: market risk (foreign exchange risk and interest rate risk), liquidity risk and credit risk.

The REIT manages its exposure to these financial risks in accordance with the REIT's Financial Risk Management (FRM) policy as approved by the Board. The policy sets out the REIT's approach to managing financial risks, the policies and controls utilised to minimise the potential impact of these risks on its performance and the roles and responsibilities of those involved in the management of these financial risks.

The REIT uses various measures to monitor exposures to these types of risks. The main methods include foreign exchange and interest rate sensitivity analysis, ageing analysis and counterparty credit assessment, and the use of future rolling cash flow forecasts.

The REIT uses derivative financial instruments such as forward foreign exchange contracts, interest rate swaps and cross currency swaps to manage its financial risk as permitted under the FRM policy. Such instruments are used exclusively for hedging purposes and not for trading or speculative purposes.

*(i) Market risk*

**Foreign exchange risk**

Foreign exchange risk is the risk that changes in foreign exchange rates will change the Australian dollar value of the REIT's foreign denominated net assets or earnings. Foreign exchange risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the REIT's functional currency.

The REIT is exposed to foreign exchange risk through investing in overseas investment properties and deriving income from those properties. The REIT manages this exposure on a 'look through' basis including exposures generated by both controlled properties and those held through the REIT's net investment in joint venture entities.

*Foreign income*

Through investing in overseas assets, the REIT earns foreign denominated income. Net property income derived is naturally offset by local denominated expenses including interest and tax. This is further reduced by natural and derivative interest expenses incurred on cross currency swaps.

The REIT uses forward foreign exchange contracts to convert this net foreign denominated currency exposure back to Australian dollars at pre-determined exchange rates in the future.

## 24. Capital and financial risk management (continued)

### (b) Financial risk management (continued)

*(i) Market risk (continued)*

**Foreign exchange risk (continued)**

*Foreign investments*

The REIT aims to minimise the impact of fluctuations in foreign currency exchange rates on its net investments overseas by borrowing in the local overseas currencies to fund such investments, by entering into debt cross currency swaps that exchange Australian dollar denominated debt for the local currency debt and by entering into equity cross currency swaps that create a synthetic local currency liability used to offset any residual foreign currency exposure. The REIT's policy is to hedge 60% to 100% of its gross overseas investments in this way. Compliance with this policy is reviewed regularly by management and is reported to the Board.

The following table sets out the REIT's overseas investments, by currency exposure (in Australian dollar equivalents) and how, through the use of debt, forward foreign exchange contracts and cross currency swaps, this exposure is reduced.

| | Australian dollar exposure | | US dollar exposure | | Euro exposure | | NZ dollar exposure | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 |
| Consolidated | $'m | $'m | $'m | $'m | $'m | $'m | $'m | $'m | $'m | $'m |
| **Assets** | | | | | | | | | | |
| Cash and cash equivalents | 6.1 | 3.0 | 1.2 | 2.1 | 7.0 | 4.9 | - | - | 14.3 | 10.0 |
| Receivables | 8.7 | 1.7 | 1.2 | 7.6 | 3.1 | 3.0 | - | - | 13.0 | 12.3 |
| Derivative financial instruments* | 4.9 | 4.7 | - | - | - | - | - | - | 4.9 | 4.7 |
| Assets classified as held for sale | 3.0 | - | 83.3 | 27.0 | - | - | 6.6 | 81.3 | 92.9 | 108.3 |
| Investment properties** | 1,230.5 | 1,143.3 | - | 138.2 | 393.9 | 416.1 | - | - | 1,624.4 | 1,697.6 |
| Investment in joint venture entities | 104.1 | - | 9.4 | 85.6 | - | - | - | - | 113.5 | 85.6 |
| Deferred tax assets | 0.3 | - | - | - | 3.8 | 5.5 | - | - | 4.1 | 5.5 |
| Other assets | 2.8 | 2.2 | 28.5 | 25.0 | 0.9 | 0.9 | - | - | 32.2 | 28.1 |
| | 1,360.4 | 1,154.9 | 123.6 | 285.5 | 408.7 | 430.4 | 6.6 | 81.3 | 1,899.3 | 1,952.1 |
| **Liabilities** | | | | | | | | | | |
| Payables | 14.7 | 11.3 | 1.6 | 4.2 | 6.9 | 5.7 | - | - | 23.2 | 21.2 |
| Derivative financial instruments* | 5.0 | 17.3 | - | - | - | - | - | - | 5.0 | 17.3 |
| Liabilities classified as held for sale | - | 0.2 | 25.9 | 12.9 | - | - | 0.3 | 0.2 | 26.2 | 13.3 |
| Distribution payable | 38.7 | 34.6 | - | - | - | - | - | - | 38.7 | 34.6 |
| Interest bearing liabilities | 419.6 | 338.3 | - | 64.8 | 308.1 | 340.1 | - | - | 727.7 | 743.2 |
| Deferred tax liabilities | - | (0.4) | - | - | 12.7 | 13.9 | - | - | 12.7 | 13.5 |
| Other liabilities | 0.4 | 0.4 | - | - | 1.6 | 1.6 | - | - | 2.0 | 2.0 |
| | 478.4 | 401.7 | 27.5 | 81.9 | 329.3 | 361.3 | 0.3 | 0.2 | 835.5 | 845.1 |
| **Net assets** | **882.0** | **753.2** | **96.1** | **203.6** | **79.4** | **69.1** | **6.3** | **81.1** | **1,063.8** | **1,107.0** |
| **Derivative financial instruments** | | | | | | | | | | |
| Cross currency swaps - debt*** | 27.4 | 87.4 | (21.5) | (85.6) | - | - | - | - | 5.9 | 1.8 |
| Cross currency swaps - equity*** | 0.2 | 1.1 | (0.1) | (0.1) | - | - | - | - | 0.1 | 1.0 |
| | 27.6 | 88.5 | (21.6) | (85.7) | - | - | - | - | 6.0 | 2.8 |
| **Net exposure - Australian dollar equivalent** | **909.6** | **841.7** | **74.5** | **117.9** | **79.4** | **69.1** | **6.3** | **81.1** | **1,069.8** | **1,109.8** |
| Net exposure percentage | 85.0% | 75.9% | 7.0% | 10.6% | 7.4% | 6.2% | 0.6% | 7.3% | 100.0% | 100.0% |

* Fair value of interest rate swaps and forward foreign exchange contracts used to hedge the REIT's foreign net income.

** AASB 7 *Financial Instruments: Disclosure* does not require inclusion of non-financial assets such as investment properties in this table. However, these have been included to provide more meaningful representation of the total foreign currency exposure of the REIT.

*** Foreign currency exposure amounts represent the notional principal amounts and interest payable under derivative contracts used to hedge the REIT's foreign capital. Australian dollar exposure amounts represent the remaining component of fair value of these derivatives, which is not affected by foreign exchange rate movements.

## 24. Capital and financial risk management (continued)

### (b) Financial risk management (continued)

*(i) Market risk (continued)*

**Foreign exchange risk (continued)**

*Sensitivity analysis*

An exchange rate movement in the Australian dollar against foreign currencies at 30 June 2011 would have increased/(decreased) profit, operating earnings and equity by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis was performed on the same basis for 30 June 2010.

| | 2011 | | | 2010 | | |
|---|---|---|---|---|---|---|
| | Profit and loss | Operating earnings | Reserves | Profit and loss | Operating earnings | Reserves |
| Consolidated | $'m | $'m | $'m | $'m | $'m | $'m |
| *US dollars* | | | | | | |
| + 10.0% (2010: + 10.0%) | 2.6 | - | (8.7) | 12.0 | - | (17.0) |
| - 10.0% (2010: - 10.0%) | (3.2) | - | 10.7 | (20.8) | - | 20.7 |
| *Euros* | | | | | | |
| + 10.0% (2010: + 10.0%) | 0.7 | - | (7.2) | 0.9 | - | (4.4) |
| - 10.0% (2010: - 10.0%) | (0.8) | - | 8.8 | (4.2) | - | 5.4 |
| *NZ dollars* | | | | | | |
| + 10.0% (2010: + 10.0%) | - | - | (0.6) | 0.7 | - | (9.2) |
| - 10.0% (2010: - 10.0%) | - | - | 0.7 | (1.2) | - | 11.2 |

A movement in foreign currency exchange rates applied to the net exposures in the table above would result in a change to the net assets of the REIT. In assessing the impact of changes in foreign currency exchange rates a 10% (2010: 10%) movement has been applied. This sensitivity has been used as it reflects management's estimate of the reasonably possible movements in foreign exchange rates, given recent trends, and has resulted in:

— the A$/US$ exchange rate increasing/decreasing by 10.7 cents (2010: 8.5 cents);
— the A$/€ exchange rate increasing/decreasing by 7.4 cents (2010: 6.9 cents); and
— the A$/NZ$ exchange rate increasing/decreasing by 13.0 cents (2010: 12.4 cents).

Foreign currency exposure in the REIT arises from the translation of overseas assets and liabilities held by the REIT's foreign entities from the local currency to Australian dollars. Under the REIT's accounting policy (refer to Note 1(u)), exchange differences arising on such translations are recognised as part of equity (foreign currency translation reserve). As a result, the revaluation of these assets and liabilities which would result from a movement in foreign exchange rates would have no impact on the REIT's consolidated statement of comprehensive income.

However, the REIT's consolidated statement of comprehensive income would be affected by changes in the fair value of derivative financial instruments hedging this exposure and the impact of this is presented in the above table.

All unrealised foreign exchange gains/losses and changes in the fair value of derivative financial instruments are excluded when determining operating earnings.

## 24. Capital and financial risk management (continued)

### (b) Financial risk management (continued)

#### *(i) Market risk (continued)*

The impact on equity includes the combined effect of foreign exchange gains/losses on overseas assets and liabilities recognised in the foreign currency translation reserve and changes in the fair value of derivatives hedging this exposure.

**Interest rate risk**

Interest rate risk is the risk that changes in market interest rates will impact the earnings of the REIT.

The REIT is exposed to interest rate risk predominantly through floating rate borrowings. The REIT manages this exposure on a 'look through' basis including exposures generated by the borrowings of controlled entities and joint venture entities. The REIT applies benchmark hedging bands across its differing interest rate exposures and utilises interest rate swaps to exchange floating interest rates to fixed interest rates as well as entering into fixed rate debt, to manage its exposure between these bands. Compliance with the FRM policy is reviewed regularly by management and is reported to the Board.

The REIT has exposures to interest rate risk on its monetary assets and liabilities, which are mitigated by the use of interest rate swaps, as shown in the table below.

| | Australian dollars | | US dollars* | | Euros* | | NZ dollars* | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 |
| Consolidated | $'m | $'m | $'m | $'m | $'m | $'m | $'m | $'m | $'m | $'m |
| **Fixed rate** | | | | | | | | | | |
| Interest bearing liabilities** | - | - | (26.1) | (53.8) | - | - | - | - | (26.1) | (53.8) |
| Interest bearing liabilities - joint venture entities*** | - | - | (30.9) | (165.4) | - | - | - | - | (30.9) | (165.4) |
| Cross currency swaps - equity (fixed)**** | 73.8 | 90.7 | (55.1) | (84.4) | - | - | - | - | 18.7 | 6.3 |
| **Net fixed rate exposure** | **73.8** | **90.7** | **(112.1)** | **(303.6)** | **-** | **-** | **-** | **-** | **(38.3)** | **(212.9)** |
| **Floating rate** | | | | | | | | | | |
| Cash | 6.1 | 3.0 | 1.2 | 2.1 | 7.0 | 4.9 | - | - | 14.3 | 10.0 |
| Cash - discontinued operations | - | - | - | - | - | - | 0.1 | 0.6 | 0.1 | 0.6 |
| Cash - joint venture entities*** | 1.1 | - | 0.3 | 3.7 | - | - | - | - | 1.4 | 3.7 |
| Interest bearing liabilities** | (421.8) | (340.2) | - | (24.1) | (308.7) | (342.1) | - | - | (730.5) | (706.4) |
| Interest bearing liabilities - joint venture entities*** | (69.8) | - | - | - | - | - | - | - | (69.8) | - |
| Cross currency swaps - debt (floating)*** | 27.3 | 90.9 | (21.5) | (85.6) | - | - | - | - | 5.8 | 5.3 |
| | (457.1) | (246.3) | (20.0) | (103.9) | (301.7) | (337.2) | 0.1 | 0.6 | (778.7) | (686.8) |
| **Derivative financial instruments** | | | | | | | | | | |
| Interest rate swaps - floating to fixed**** | 373.8 | 198.8 | - | 58.6 | 300.0 | 319.8 | - | - | 673.8 | 577.2 |
| Interest rate swaps - fixed to floating**** | (98.8) | (98.8) | - | - | - | - | - | - | (98.8) | (98.8) |
| | 275.0 | 100.0 | - | 58.6 | 300.0 | 319.8 | - | - | 575.0 | 478.4 |
| **Net floating rate exposure** | **(182.1)** | **(146.3)** | **(20.0)** | **(45.3)** | **(1.7)** | **(17.4)** | **0.1** | **0.6** | **(203.7)** | **(208.4)** |

* Australian dollar equivalents of foreign denominated balances.
** Unamortised borrowing costs are excluded as they are not impacted by interest rate risk.
*** The REIT's share of financial assets and liabilities included within its net investment in joint venture entities.
**** These amounts represent the notional principal payable under the derivative contracts.

At balance date, the REIT has fixed 75.1% (2010: 76.8%) of its net interest rate exposure.

# Notes to the consolidated financial statements
## for the year ended 30 June 2011

24. Capital and financial risk management (continued)

(b) Financial risk management (continued)

*(i) Market risk (continued)*

**Interest rate risk (continued)**

*Sensitivity analysis*

The table below reflects the potential net increase/(decrease) in the profit, operating earnings and equity, resulting from changes in interest rates applicable at 30 June 2011, with all other variables remaining constant. The analysis was performed on the same basis for 30 June 2010.

| | 2011 | | | 2010 | | |
|---|---|---|---|---|---|---|
| Consolidated | Profit and loss $'m | Operating earnings $'m | Reserves $'m | Profit and loss $'m | Operating earnings $'m | Reserves $'m |
| *Australian dollars* | | | | | | |
| + 1.00% (2010: + 1.00%) | 4.0 | (1.8) | - | (2.8) | (1.5) | - |
| – 1.00% (2010: - 1.00%) | (4.0) | 1.8 | - | 2.8 | 1.5 | - |
| *US dollars* | | | | | | |
| + 1.00% (2010: + 1.00%) | - | (0.2) | - | 3.9 | (0.5) | - |
| – 1.00% (2010: - 1.00%) | - | 0.2 | - | (3.9) | 0.5 | - |
| *Euros* | | | | | | |
| + 1.00% (2010: + 1.00%) | (6.0) | (0.2) | - | 2.9 | 1.1 | - |
| – 1.00% (2010: - 1.00%) | 6.0 | 0.2 | - | (2.9) | (1.1) | - |

A movement in interest rates applied to the net exposures in the table above would result in a change to the net assets of the REIT. This sensitivity has been used as it reflects management's estimate of the reasonably possible movements in interest rates within the next 12 months, given recent trends.

The effect of changes in interest rates on the REIT's profit and equity shown in the table above is mainly impacted by a change in interest payable on the REIT's floating rate interest bearing liabilities, offset by changes in the fair value of derivative financial instruments hedging this exposure.

In determining operating earnings, the unrealised change in the fair value of derivative financial instruments is excluded.

*(ii) Liquidity risk*

Liquidity risk arises if the REIT has insufficient liquid assets to meet its obligations as they become due and payable. It is managed by maintaining sufficient cash balances and adequate committed credit facilities. Prudent liquidity management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. The instruments entered into by the REIT were selected to ensure sufficient funds would be available to meet the ongoing cash requirements of the REIT.

# Notes to the consolidated financial statements
## for the year ended 30 June 2011

24. Capital and financial risk management (continued)

(b) Financial risk management (continued)

*(ii) Liquidity risk (continued)*

The following table provides the contractual maturity of the REIT's fixed and floating rate financial liabilities and derivatives as at 30 June 2011. The amounts presented represent the future contractual undiscounted principal and interest cash inflows/(outflows) based on interest rates and foreign exchange rates prevailing at balance date 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.

| Consolidated | Liquidity risk Carrying value $'m | Less than 1 year $'m | 1 to 2 years $'m | 2 to 3 years $'m | 3 to 4 years $'m | 4 to 5 years $'m | Over 5 years $'m | Total $'m |
|---|---|---|---|---|---|---|---|---|
| *30 June 2011* | | | | | | | | |
| **Financial liabilities** | | | | | | | | |
| Payables | (23.2) | (23.2) | - | - | - | - | - | (23.2) |
| Distribution payable | (38.7) | (38.7) | - | - | - | - | - | (38.7) |
| Interest bearing liabilities | (756.7) | (80.3) | (375.1) | (14.7) | (182.3) | (211.9) | - | (864.3) |
| Derivative financial instruments | | | | | | | | |
| Contractual amounts payable | (5.1) | (56.1) | (26.9) | (11.6) | (8.4) | (5.2) | - | (108.2) |
| Contractual amounts receivable | 11.0 | 63.3 | 22.7 | 12.8 | 9.2 | 4.9 | - | 112.9 |
| Other liabilities | (2.0) | (2.0) | - | - | - | - | - | (2.0) |
| Total financial liabilities | (814.6) | (137.0) | (379.3) | (13.5) | (181.5) | (212.2) | - | (923.5) |
| *Joint venture entities* | | | | | | | | |
| Interest bearing liabilities | (100.2) | (6.6) | (6.6) | (22.4) | (16.4) | (63.6) | (26.4) | (142.0) |
| **Total financial liabilities including all joint venture entities** | **(914.8)** | **(143.6)** | **(385.9)** | **(35.9)** | **(197.9)** | **(275.8)** | **(26.4)** | **(1,065.5)** |
| *30 June 2010* | | | | | | | | |
| **Financial liabilities** | | | | | | | | |
| Payables | (21.6) | (21.6) | - | - | - | - | - | (21.6) |
| Distribution payable | (34.6) | (34.6) | | | | | | (34.6) |
| Interest bearing liabilities | (756.1) | (64.1) | (350.6) | (393.6) | (1.3) | (3.2) | (26.2) | (839.0) |
| Derivative financial instruments | | | | | | | | |
| Contractual amounts payable | (17.5) | (42.9) | (66.7) | (29.6) | (17.5) | (6.7) | - | (163.4) |
| Contractual amounts receivable | 7.7 | 42.3 | 65.1 | 23.0 | 16.8 | 7.6 | - | 154.8 |
| Other liabilities | (2.0) | (2.0) | - | - | - | - | - | (2.0) |
| Total financial liabilities | (824.1) | (122.9) | (352.2) | (400.2) | (2.0) | (2.3) | (26.2) | (905.8) |
| *Joint venture entities* | | | | | | | | |
| Interest bearing liabilities | (165.4) | (11.6) | (11.6) | (11.6) | (11.6) | (11.6) | (174.0) | (232.0) |
| **Total financial liabilities including all joint venture entities** | **(989.5)** | **(134.5)** | **(363.8)** | **(411.8)** | **(13.6)** | **(13.9)** | **(200.2)** | **(1,137.8)** |

The amount of credit facilities unused by the REIT at 30 June 2011 is $73.9 million (2010: $118.1 million). Refer to Note 17.

*(iii) Credit risk*

Credit risk is the risk that a contracting entity will not complete its obligations under a contract and will cause the REIT to make a financial loss. The REIT has exposure to credit risk on all of its financial assets included in the REIT's Balance Sheet.

The REIT manages its risk on tenant receivables by performing credit reviews of prospective tenants, obtaining tenant collateral where appropriate and performing detailed reviews on any tenant arrears.

In respect of risk on financial instruments and derivatives, there is only a credit risk where the contracting entity is liable to pay the REIT in the event of a close out. The REIT has policies that limit the amount of credit exposure to any financial institution where practical and commercially appropriate. Derivative counterparties and cash transactions are limited to investment grade counterparties in accordance with the REIT's FRM policy. The REIT monitors the public credit rating of its counterparties.

# Notes to the consolidated financial statements
## for the year ended 30 June 2011

24. Capital and financial risk management (continued)

(b) Financial risk management (continued)

*(iii) Credit risk (continued)*

The REIT has policies to review the aggregate exposures of receivables and tenancies across its portfolio. The REIT has no significant concentrations of credit risk on its receivables. At 30 June 2011, the largest individual lease represents 2.4% (2010: 2.7%) of the total portfolio income including income generated by US joint venture entities. The REIT holds collateral in the form of security deposits or bank guarantees over some receivables where appropriate.

The table below details the concentration of credit exposure of the REIT's financial assets to significant geographical locations:

| | Consolidated 2011 $'m | Consolidated 2010 $'m |
|---|---|---|
| *Australia* | | |
| Cash and cash equivalents | 6.2 | 3.0 |
| Receivables | 8.7 | 8.1 |
| Derivative financial instruments | 11.0 | 7.7 |
| Other financial assets | 1.5 | - |
| | 27.4 | 18.8 |
| *United States* | | |
| Cash and cash equivalents | 1.2 | 2.1 |
| Receivables | 1.2 | 1.2 |
| Derivative financial instruments | - | - |
| Other financial assets | 28.0 | 24.5 |
| | 30.4 | 27.8 |
| *Europe* | | |
| Cash and cash equivalents | 6.9 | 4.9 |
| Receivables | 3.1 | 3.0 |
| | 10.0 | 7.9 |
| Total financial assets | 67.8 | 54.5 |
| **Joint venture entities** | | |
| *Australia* | | |
| Cash and cash equivalents | 1.2 | - |
| Receivables | 1.2 | - |
| | 2.4 | - |
| *United States* | | |
| Cash and cash equivalents | 0.3 | 3.7 |
| Receivables | 0.4 | 2.7 |
| | 0.7 | 6.4 |
| **Total financial assets including joint venture entities** | **70.9** | **60.9** |

# Notes to the consolidated financial statements
## for the year ended 30 June 2011

24. Capital and financial risk management (continued)

(b) Financial risk management (continued)

*(iii) Credit risk (continued)*

All cash, derivative financial instruments and interest bearing assets are neither past due nor impaired. The table below shows the ageing analysis of those receivables of the REIT and its joint venture entities which are past due or impaired:

| | Past due but not impaired | | | | | |
|---|---|---|---|---|---|---|
| Consolidated | Less than 30 days $'m | 31 to 60 days $'m | 61 to 90 days $'m | More than 90 days $'m | Impaired $'m | Total $'m |
| *2011* | | | | | | |
| Receivables - Australia | 0.1 | 0.1 | - | 0.1 | 0.3 | 0.6 |
| Receivables - Europe | 0.8 | 0.2 | - | 0.2 | 0.6 | 1.8 |
| Receivables - US | 0.9 | - | 0.1 | - | 0.3 | 1.3 |
| | 1.8 | 0.3 | 0.1 | 0.3 | 1.2 | 3.7 |
| Receivables - joint venture entities | 1.5 | - | 0.1 | - | 0.1 | 1.7 |
| | **3.3** | **0.3** | **0.2** | **0.3** | **1.3** | **5.4** |
| *2010* | | | | | | |
| Receivables - Australia | 0.2 | 0.2 | - | - | 0.2 | 0.6 |
| Receivables - Europe | 0.6 | 0.2 | - | 0.1 | 0.4 | 1.3 |
| Receivables - US | 1.1 | 0.1 | - | - | 1.1 | 2.3 |
| | 1.9 | 0.5 | - | 0.1 | 1.7 | 4.2 |
| Receivables - joint venture entities | 2.5 | 0.1 | - | 0.1 | 0.3 | 3.0 |
| | **4.4** | **0.6** | **-** | **0.2** | **2.0** | **7.2** |

Based on a review of receivables by management, a provision of $1.3 million (2010: $2.0 million) has been provided against rent receivables with a gross balance of $5.4 million (2010: $7.2 million).

The REIT holds collateral against the impaired receivables in the form of bank guarantees and security deposits; however, these are not material. There are no significant financial assets that have had renegotiated terms that would otherwise have been past due or impaired.

(c) Fair value

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 and liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

(iii) Level 3 - Inputs for the asset and liability that are not based on observable market data (unobservable inputs).

## 24. Capital and financial risk management (continued)

### (c) Fair value (continued)

The following table presents the REIT's financial assets and financial liabilities measured and recognised at fair value:

| | | Level 1 | | Level 2 | | Level 3 | | Total | |
|---|---|---|---|---|---|---|---|---|---|
| | | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 |
| | Note | $'m | $'m | $'m | $'m | $'m | $'m | $'m | $'m |
| Assets | | | | | | | | | |
| *Derivative assets* | | | | | | | | | |
| Interest rate swaps | 9 | - | - | 0.7 | 0.6 | - | - | 0.7 | 0.6 |
| Cross currency swaps | 9 | - | - | 6.1 | 3.0 | - | - | 6.1 | 3.0 |
| Forward foreign exchange contracts | 9 | - | - | 4.2 | 4.1 | - | - | 4.2 | 4.1 |
| Total assets | | - | - | 11.0 | 7.7 | - | - | 11.0 | 7.7 |
| Liabilities | | | | | | | | | |
| *Derivative liabilities* | | | | | | | | | |
| Interest rate swaps | 9 | - | - | (5.0) | (17.2) | - | - | (5.0) | (17.2) |
| Cross currency swaps | 9 | - | - | (0.1) | (0.2) | - | - | (0.1) | (0.2) |
| Forward foreign exchange contracts | 9 | - | - | - | (0.1) | - | - | - | (0.1) |
| Total liabilities | | - | - | (5.1) | (17.5) | - | - | (5.1) | (17.5) |

The fair value of the REIT's interest rate swaps is calculated as the present value of the estimated future cash flows based on the forward price curve of interest rates at balance date, the fair value of the REIT's cross currency swaps is calculated as the present value of the estimated future cash flows based on the forward price curve of interest rates and the forward foreign exchange market rates at balance date and the fair value of the REIT's forward foreign exchange contracts is determined using forward foreign exchange market rates at balance date.

## 25. Related party information

### (a) Responsible Entity

The Responsible Entity of the REIT is Charter Hall Retail Management Limited, a wholly owned controlled entity of Charter Hall. The registered office of the Responsible Entity is Level 11, 333 George Street, Sydney NSW 2000.

On 1 March 2010, Macquarie Capital International Holdings Pty Limited (MCIH) disposed of its economic interest in the Responsible Entity to Charter Hall. Prior to this date, Macquarie Group Limited and its controlled entities were related parties of the REIT. Following the transaction, Charter Hall and its controlled entities became related parties of the REIT.

### (b) Directors

The following persons were Directors of the Responsible Entity during the year:

John Harkness
David Harrison
Maurice Koop
Alan Rattray-Wood
David Southon
Steven Sewell (alternate for David Southon and David Harrison)

# Notes to the consolidated financial statements
for the year ended 30 June 2011

## 25. Related party information (continued)

### (b) Directors (continued)

No payments were made by the REIT or by the Responsible Entity on behalf of the REIT to the Executive Directors during the year.

Board Audit and Risk Committee fees and compliance fees totalling $135,883 (2010: $133,000) were paid or payable by the REIT to the Independent Directors, being John Harkness, Maurice Koop and Alan Rattray-Wood, for the year. These amounts are reviewed from time to time in consultation with external experts to ensure that remuneration reflects the services expected to be performed.

### (c) Parent entity

The parent entity of the consolidated entity is Charter Hall Retail REIT. Refer to Note 29 for parent entity financial information.

### (d) Management fees

Under the terms of the REIT constitution, the Responsible Entity is entitled to receive the following remuneration from the REIT, comprising a base fee and a performance fee:

*Base fee*

The base fee is calculated as:

(i) 0.45% per annum of the value of the total assets of the REIT up to $700 million; plus

(ii) 0.40% per annum of the value of the total assets of the REIT over $700 million.

Total assets are adjusted in the fee calculation to add back total liabilities held by joint venture entities to the investment in joint venture entities.

The base fee is calculated six monthly and is paid quarterly in arrears with the first quarterly payment being a part payment on account for the half year.

The base fee payable to the Responsible Entity is reduced to the extent that management fees are paid or payable to service providers, including CHREI US Retail LLC, Macquarie-Regency Management LLC, related parties of the Responsible Entity, and Regency Centers during the year.

*Performance fee*

In addition to the base management fees, the Responsible Entity is entitled to a performance fee satisfied by the issue of units in the REIT to the Responsible Entity, dependent upon the relative performance of the REIT to the Retail Property Trust Accumulation Index (Index). This Index, calculated from a peer group of property securities that have a principal focus on the retail sector, measures the income and capital growth of the unit prices of the representative trusts.

If the REIT's performance during the half year is higher than the percentage increase in the Index, then the Responsible Entity is entitled to new units in the REIT with a total value equal to:

(i) 5% of the total Increased Unitholder Value from outperformance; plus

(ii) 15% of the Increased Unitholder Value above 2% nominal outperformance per annum (1% per half year).

The Increased Unitholder Value is measured as the market capitalisation of the REIT at the commencement of the relevant year, multiplied by the nominal percentage outperformance of the REIT relative to the Index for that year.

The performance fee is calculated and payable, if entitled, each half year at December and June. The performance fee is payable, if entitled, subject to an annual cap, whereby total management fees paid in any one year must not exceed 80 basis points of the value of the gross assets of the REIT (except where the REIT has outperformed its sector peers continuously over a three year period). Any unpaid fees will continue to be paid up to 80 basis points of the value of the assets in any future year.

# Notes to the consolidated financial statements
## for the year ended 30 June 2011

25. Related party information (continued)

(d) Management fees (continued)

*Management fees calculation*

The total management fees for the year are detailed as follows:

| | 2011 | 2010 |
|---|---|---|
| | $'000 | $'000 |
| *Continuing operations* | | |
| Base fees | 7,323 | 7,085 |
| Performance fees | - | - |
| *Discontinued operations* | | |
| Base fees | 285 | 352 |
| | **7,608** | **7,437** |

In addition, a related party of the Responsible Entity has earned management fees of $643,138 (2010: $734,000) relating to the US properties. These are included in the management fees disclosed in Note 13(b).

No performance fee was earned by the Responsible Entity during the year. In the calculation of the performance fee, outperformance will be assessed on a cumulative basis and accordingly, underperformance for the period from 1 January 2004 to 30 June 2011 will need to be recovered before the Responsible Entity is entitled to any future performance fees. For the period from 1 January 2004 to 30 June 2011, the Index increased in value by 23.74% compared to the REIT's cumulative performance which decreased by 14.29% (difference of 38.03%).

(e) Transactions with the Responsible Entity and its related parties

The Responsible Entity and its related parties held 25,564,991 units as at 30 June 2011 (2010: 22,330,033).

Charter Hall Asset Services Limited (formerly Macquarie Asset Services Limited) received fees totalling $5,790,728 (2010: $12,661,786) during the year relating to acquisitions, disposals and due diligence, property development management, and property leasing consultancy services.

Charter Hall Real Estate Management Services Pty Limited (formerly Macquarie Real Estate Management Services Pty Limited) received fees totalling $6,037,010 (2010: $4,812,794) during the year relating to project management, property management and property leasing consultancy services.

Charter Hall Asset Services Europe Sp. z o.o. received fees totalling $760,462 (2010: nil) during the year relating to property leasing consultancy services.

Charter Hall Holdings Pty Limited was reimbursed $950,000 (2010: $316,000) during the year and Macquarie Group Limited was reimbursed $398,570 in the prior year for the cost of providing accounting services to the REIT.

Charter Hall Holdings Pty Limited also received fees totalling $1,332,655 (2010: nil) during the year relating to acquisitions and due diligence services.

In the prior year, Macquarie Capital Group Limited received fees totalling $3,040,117 relating to disposal services.

The above fees and transactions were all based on market rates and on normal commercial terms and conditions and have been approved by the Independent Directors.

(f) Outstanding balance with the Responsible Entity and its related parties

Management fees payable to the Responsible Entity at 30 June 2011 were $1,510,763 (2010: $3,089,000).

Fees owing to Charter Hall Asset Services Limited at 30 June 2011 totalled $1,650,308 (2010: $898,194) relating to acquisitions, disposals and due diligence, property development management and property leasing consultancy services.

Fees owing to Charter Hall Real Estate Management Services Pty Limited at 30 June 2011 totalled $201,547 relating to property management and property leasing consultancy services.

# Notes to the consolidated financial statements
for the year ended 30 June 2011

## 25. Related party information (continued)

### (f) Outstanding balance with the Responsible Entity and its related parties (continued)

Fees owing to Charter Hall Asset Services Europe Sp. z o.o. at 30 June 2011 totalled $218,803 (2010: nil) relating to property leasing and consultancy services.

There were no accounting fees owing to Charter Hall Holdings Pty Limited at 30 June 2011 (2010: $316,000).

### (g) Key management personnel and remuneration

Key management personnel (KMP) are defined in AASB 124 *Related Party Disclosures* as those having authority and responsibility for planning, directing and controlling the activities of the entity. The Responsible Entity meets the definition of KMP as it has this authority in relation to the activities of the REIT. These powers have not been delegated by the Responsible Entity to any other person. Accordingly, the Chief Executive Officer of the REIT is not considered to be KMP as he does not have sufficient individual authority and responsibility for planning, directing and controlling the activities of the REIT.

Details of management fees charged to the REIT by the Responsible Entity and its related parties are included in Note 25(d) above.

### (h) Directors' interests in REIT units

The number of units held directly, indirectly or beneficially by the Directors of the Responsible Entity or the Directors' related parties at 30 June is as follows:

| | Units held 2011 | Units held 2010 |
|---|---|---|
| John Harkness | - | - |
| David Harrison | - | - |
| Maurice Koop | 44,104 | 42,315 |
| Alan Rattray-Wood | 10,867 | 10,867 |
| David Southon | - | - |
| Steven Sewell (Alternate) | 20,657 | 20,657 |

The aggregate number of units of the REIT acquired or disposed of by the Directors of the Responsible Entity or their Director related parties during the year was as follows:

| | Units 2011 | Units 2010 |
|---|---|---|
| Acquisitions | | |
| Maurice Koop | 1,789 | 4,103 |
| Alan Rattray-Wood | - | 796 |
| Steven Sewell (Alternate) | - | 8,600 |

No options in the REIT are held by Directors of the Responsible Entity.

## 26. Segment reporting

The Directors of the Responsible Entity have determined the operating segments based on the reports reviewed by the chief operating decision maker, being the Board of the Responsible Entity. The Board considers the business from the perspective of each regional portfolio and the overall REIT operations, and has identified five operating segments. The segments are: the Australian investment properties comprising controlled and joint venture investment properties, New Zealand investment properties, European investment properties, United States investment properties comprising controlled and joint venture investment properties and the REIT operations. REIT operations include all non-property related activities including derivative financial instruments, debt and expenses.

Income is presented on the basis of each segment's operating earnings. Operating earnings is a financial measure which represents the profit/(loss) under Australian Accounting Standards adjusted for certain unrealised and non-cash items, reserve transfers, capital transactions and other non-core items.

# Notes to the consolidated financial statements
for the year ended 30 June 2011

## 26. Segment reporting (continued)

The value of investments, income and expenses are included based on the REIT's ownership percentage. Investment properties are presented on the basis set out in Note 12. All other assets and liabilities are presented on a consolidated basis, in line with the consolidated Balance Sheet. This is consistent with the manner in which the information is presented to the Board in its capacity as chief operating decision maker.

| | Note | 2011 $'m | 2010 $'m |
|---|---|---|---|
| Net property income from wholly owned properties | | | |
| Australia | | 91.2 | 79.5 |
| New Zealand | | 4.8 | 6.2 |
| Europe | | 33.4 | 36.4 |
| United States | | 10.1 | 9.4 |
| Total net property income from wholly owned properties | | 139.5 | 131.5 |
| Net income from joint venture entities | | | |
| Australia | | 2.1 | - |
| United States | | 6.0 | 26.1 |
| Realised net gain/(loss) from derivative financial instruments | | 1.4 | (8.7) |
| Other income | | 1.3 | 1.3 |
| Total income net of property expenses | | 150.3 | 150.2 |
| Management fees | | (7.6) | (7.4) |
| Finance costs* | | (52.8) | (37.0) |
| Other expenses | | (4.7) | (5.2) |
| Tax expenses | | - | (1.9) |
| Total expenses | | (65.1) | (51.5) |
| **Operating Earnings** | | **85.2** | **98.7** |
| Operating earnings per unit (cents) | | 27.96 | 33.10 |

* Excluding debt break costs of $0.3 million (2010: nil).

A reconciliation between profit for the year and operating earnings is set out below:

| | Note | 2011 $'m | 2010 $'m |
|---|---|---|---|
| Operating earnings | | 85.2 | 98.7 |
| Unrealised net valuation losses on investment properties | | (26.8) | 15.4 |
| Unrealised net gain on derivative financial instruments | | 15.6 | 30.0 |
| Capital transaction related realised net gain/(loss) on derivative financial instruments | | 4.7 | (10.6) |
| Loss on sale of investment properties | 11(e) | (2.0) | - |
| Change in fair value of consideration receivable on disposal of US joint venture entity | | 8.9 | - |
| Deferred tax expense | | (0.8) | (6.8) |
| Transfer from reserves of cumulative FX losses on disposal of assets held for sale | | (20.5) | (51.3) |
| Other | | (1.4) | (1.6) |
| **Profit from continuing and discontinued operations** | | **62.9** | **73.8** |

# Notes to the consolidated financial statements
for the year ended 30 June 2011

## 27. Commitments and contingent liabilities

The REIT has entered contracts for the construction and development of properties in Australia within the next 12 months. The commitments of the REIT total $0.9 million (2010: $0.7 million). These commitments have not been reflected in the financial statements of the REIT.

In addition, as detailed in Note 10, the REIT has also entered into a three year guarantee over net operating income relating to the disposal of its interest in MCWR II. This NOI guarantee remains in place until July 2012 and is capped at US$30.0 million ($28.0 million).

Unless otherwise disclosed in the financial statements, there have been no material changes to the REIT's commitments or contingent liabilities since the last financial statement.

## 28. Significant contract terms and conditions

*Pre-emptive rights*

If CHRML is removed as the responsible entity of the REIT, or there is a change in control of Regency or Macquarie CountryWide (US) No. 2 Trust, or other defined events occur, then either Regency or Macquarie CountryWide (US) No. 2 Trust may exercise their pre-emptive right to acquire the other party's share of joint venture assets. In addition, under the joint ownership arrangements in place with Charter Hall Direct Retail Fund (DRF) and Telstra Superannuation Scheme (TS), should CHRML cease to be the responsible entity of the REIT, the respective joint venture partner will have the right to acquire the REIT's proportion of the respective portfolio at market value.

*Financing documents*

Under loan documents in place with independent third party lenders, should CHRML cease to be the responsible entity of the REIT, the lender may be entitled to call for early repayment of the facility or may place additional conditions upon the borrower.

## 29. Parent entity financial information

### (a) Summary financial information

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

| | Parent 2011 $'m | Parent 2010 $'m |
|---|---|---|
| **Balance Sheet** | | |
| Current assets | 161.8 | 264.5 |
| Assets held for sale | 6.6 | 62.7 |
| Total assets | 1,544.0 | 1,520.6 |
| Current liabilities | 54.4 | 46.4 |
| Total liabilities | 478.1 | 427.3 |
| Equity | | |
| Contributed equity | 1,927.5 | 1,997.3 |
| Reserves | (200.9) | (59.7) |
| Accumulated losses | (660.7) | (844.3) |
| | 1,065.9 | 1,093.3 |
| **Statement of comprehensive income** | | |
| Profit after tax | 107.0 | 86.2 |
| Total comprehensive income | 107.0 | 86.2 |

### (b) Guarantees

The parent entity has not entered into any guarantees in relation to the debts of its controlled entities.

# Notes to the consolidated financial statements
for the year ended 30 June 2011

## 29. Parent entity financial information (continued)

### (c) Contingent Liabilities

The parent entity did not have any contingent liabilities which are material, either individually or as a class, at 30 June 2011 (2010: nil).

### (d) Commitments

The parent entity has entered into contracts for the construction and development of properties in Australia within the next 12 months. The commitments of the parent entity total $0.9 million (2010: $0.7 million). These commitments have not been reflected in the financial information of the parent entity.

There have been no material changes to the parent entity's commitments since the last financial statement.

## 30. Events occurring after balance date

In July 2011, the REIT completed its $20.0 million on-market buyback program, with 6,182,152 units bought at an average price of $3.24 per unit.

In August 2011, the REIT contracted to acquire an Australian property for a gross price of $40.1 million. In addition, the REIT sold one Australian property in July 2011 and one US wholly owned property in August 2011 for gross sale price of $3.2 million and US$6.7 million ($6.3 million) respectively.

Since the end of the year, the Directors of the Responsible Entity are not aware of any other matter or circumstance not otherwise dealt with in this report or the consolidated financial statements that has significantly affected or may significantly affect the operations of the REIT, the results of those operations or the state of affairs of the REIT in the financial years subsequent to 30 June 2011.

# Directors' Declaration to Unitholders
## for the year ended 30 June 2011

In the opinion of the Directors of Charter Hall Retail Management Limited:

(a) the consolidated financial statements and notes set out on pages 10 to 55 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 the consolidated entity's financial position as at 30 June 2011 and of its performance for the year ended on that date; and

(b) there are reasonable grounds to believe that the REIT will be able to pay its debts as and when they become due and payable.

Note 1(a) confirms that the consolidated financial statements also comply with the International Financial Reporting Standards as issued by the International Accounting Standards Board.

The Directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer required by section 295A of the *Corporations Act 2001*.

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

John Harkness

Sydney

22 August 2011

PRICEWATERHOUSECOOPERS

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# Independent auditor's report to the Unitholders of Charter Hall Retail REIT

## Report on the financial report

We have audited the accompanying financial report of Charter Hall Retail REIT (the REIT), which comprises the consolidated balance sheet as at 30 June 2011, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated 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 Retail REIT (the consolidated entity). The consolidated entity comprises the REIT 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 Retail Management Limited (the responsible entity) are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1(a), the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

*Auditor's responsibility*

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

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

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

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

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## Independent auditor's report to the Unitholders of Charter Hall Retail REIT (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 Retail REIT is in accordance with the *Corporations Act 2001*, including:

  (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of its performance for the year ended on that date; and

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

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

PricewaterhouseCoopers

PricewaterhouseCoopers

J A Dunning

J A Dunning
Partner

Sydney
22 August 2011