

**COMMONWEALTH PROPERTY OFFICE FUND  
(ARSN 086 029 736)**

**FINANCIAL REPORT  
FOR THE YEAR ENDED 30 JUNE 2011**

**Contents**

DIRECTORS' REPORT .....	2
AUDITOR'S INDEPENDENCE DECLARATION.....	8
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME .....	9
CONSOLIDATED STATEMENT OF FINANCIAL POSITION .....	10
CONSOLIDATED STATEMENT OF CASH FLOWS .....	11
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY .....	12
NOTES TO THE FINANCIAL STATEMENTS.....	13
DIRECTORS' DECLARATION.....	52
INDEPENDENT AUDITOR'S REPORT .....	53

# COMMONWEALTH PROPERTY OFFICE FUND

## DIRECTORS' REPORT

The Directors of Commonwealth Managed Investments Limited (CMIL), the Responsible Entity for Commonwealth Property Office Fund, present their report together with the financial statements of Commonwealth Property Office Fund for the financial year ended 30 June 2011.

### 1.1. Directors

The names of the Directors of the Responsible Entity at any time during the financial year and up to the date of this report are:

#### (i) Chairman – Non-executive Director

R M Haddock

#### (ii) Non-executive Directors

J F Kropp

N J Milne

#### (iii) Executive Directors

G A Petersen

M J Venter (Executive Director for the full financial year and appointed alternate for G A Petersen on 4 July 2011)

G Johnston (alternate for G A Petersen) (resigned 4 July 2011)

### 1.2. Principal activities

The Commonwealth Property Office Fund (CPA) is a registered managed investment scheme domiciled in Australia and has its principle place of business at Level 7, 52 Martin Place, Sydney, New South Wales 2000.

The Responsible Entity of CPA is incorporated and domiciled in Australia and has its registered office at Ground Floor, Tower 1, 201 Sussex Street, Sydney, New South Wales 2000.

The principle activity of CPA and its controlled entities (the 'Fund') is investment in office property. There were no significant changes in the nature of the Fund's activity during the financial year.

### 1.3. Distributions

Total distributions paid/payable for the financial year ended 30 June 2011 amounted to \$134.8 million, representing 5.50 cents per unit (Jun 2010: \$107.7 million, representing 5.55 cents per unit). The distribution paid for the six months ended 31 December 2010 was \$67.4 million (2.75 cents per unit). The distribution declared but not paid for the six months ended 30 June 2011 is \$67.4 million (2.75 cents per unit).

# COMMONWEALTH PROPERTY OFFICE FUND DIRECTORS' REPORT

## 1.4. Review and results of operations

### (i) Financial results

Key financial highlights over the financial year include:

- The consolidated net profit for the financial year ended 30 June 2011 increased by 73% to \$197.7 million (Jun 2010: \$114.2 million profit), reflecting not only the strategic asset acquisitions but a general improvement in underlying office market fundamentals. To reflect the Fund's results from operations, the net profit in the reported result has been adjusted for unrealised and non-cash impacts, resulting in distributable income for the year ended 30 June 2011 of \$155.3 million (Jun 2010: \$136.2 million) as reconciled below:

	<b>Consolidated 30 Jun 2011 \$m</b>	<b>Consolidated 30 Jun 2010 \$m</b>
<b>Total revenue and other income</b>	<b>373.2</b>	<b>296.6</b>
<b>Net profit for the financial year</b>	<b>197.7</b>	<b>114.2</b>
Adjustments for unrealised and non-cash impacts:		
- straight-lining adjustment	(4.1)	(0.5)
- fair value adjustments from investment properties and associates	(35.3)	27.9
- other fair value adjustments to derivatives	(4.6)	13.9
- movement in fair value of unrealised performance fees	(3.3)	(21.8)
- non-cash convertible notes interest expense	4.9	2.5
<b>Distributable income</b>	<b>155.3</b>	<b>136.2</b>
Other adjustments		
- amount withheld in accordance with distribution policy <sup>(1)</sup>	(31.0)	(28.5)
- transfer from undistributed reserves <sup>(2)</sup>	10.5	-
<b>Distributions paid and payable</b>	<b>134.8</b>	<b>107.7</b>
<b>Value of Fund's total assets<sup>(3)</sup></b>	<b>3,860.7</b>	<b>3,107.4</b>
<b>Net tangible asset backing per unit (\$)</b>	<b>1.11</b>	<b>1.13</b>

(1) In accordance with the distribution policy the Fund distributes 70% to 80% of distributable income or the Fund's taxable income, whichever is greater, for any financial period.

(2) New units issued in November 2010 and December 2010 rank equally with existing units and were therefore entitled to the full distribution for the financial year ended 30 June 2011. Therefore the Fund has transferred an amount from undistributed reserves to deliver a distribution of 5.50 cents per unit.

(3) Details of the valuation methods applied to derive the Fund's assets and liabilities are set out in note 1.

- Distributable income increased by 14% to \$155.3 million (Jun 2010: \$136.2 million). The improvement was predominantly driven by additional income from the completed development at 58 Mounts Bay Road, Perth, from the Melbourne assets acquired, (Media House, 655 Collins Street, Melbourne (Media House), AXA Headquarters, 750 Collins Street, Melbourne (AXA Headquarters), and a 50% interest in QV Building, 180-222 Lonsdale Street, Melbourne (QV Building)), and income from new leases at 175 Pitt Street, Sydney.
- Total assets increased by 24.2% to \$3,860.7 million (Jun 2010: \$3,107.4 million), reflecting the new assets acquired and improving asset values.
- The entire property portfolio (excluding acquisitions and divestments made during the financial year) was independently revalued twice during the financial year. As a consequence of leasing success, capital expenditure and an improved outlook for Australian office markets, a total revaluation gain of \$35.3 million was recognised during the year (Jun 10: \$27.9 million loss). Some of the key contributors were 2 Southbank Boulevard, Melbourne (\$10.5 million gain), 45 Pirie Street, Adelaide (\$7.4 million gain), 385 Bourke Street, Melbourne (\$6.6 million gain), 175 Pitt Street, Sydney (\$5.6 million gain), 145 Ann Street, Brisbane (\$5.3 million gain), 259 George Street, Sydney (\$5.0 million gain), 56 Pitt Street, Sydney (\$4.8 million gain) and AXA Headquarters (\$9.4 million loss).

# COMMONWEALTH PROPERTY OFFICE FUND DIRECTORS' REPORT

## 1.4. Review and results of operations (continued)

- Net assets increased by 19.1% to \$2,707.5 million (Jun 2010: \$2,272.9 million), resulting in a net tangible asset backing per unit at 30 June 2011 of \$1.11 (Jun 2010: \$1.13). This decrease was driven by the issue of units during the financial year.
- Included within the net profit is a net gain on the unrealised fair value of interest rate swaps of \$4.6 million (Jun 2010: \$13.9 million loss). The swaps have continued to be effective in meeting their objective of providing the Fund with greater certainty of financing costs.
- For the half-year to December 2010, the Fund underperformed compared to the customised Commercial Property Trust Accumulation index by 12.9 percentage points. However, due to carry-over outperformance, the Fund recognised a capped performance fee equivalent to \$5.0 million which will be settled through the issue of units at net tangible asset backing per unit (NTA). For the six months to 30 June 2011, the Fund underperformed by 7.1 percentage points. After including the carry-over outperformance of 3.9 percentage points, a performance fee for the six month period to 30 June 2011 was not recognised. Following June 2011, the carry-over outperformance was valued at nil, resulting in a write-back of the fair value of unrealised performance fees. Total performance fee expense therefore recognised in the statement of comprehensive income is \$1.7 million, representing both the capped performance fee of \$5.0 million accrued and the decrease in the fair value of unrealised performance fees of \$3.3 million. 8.5 million units will be issued to the Manager in satisfaction of the \$9.5 million cumulative accrued performance fee for the six-month periods ended 30 June 2010 and 31 December 2010 as a result of the Fund's positive absolute performance during the six months to 30 June 2011. As the NTA at 30 June 2010 and 31 December 2010 was higher than the 10-day volume weighted average price post these performance fee periods, units will be issued at the NTA of \$1.13 and \$1.10 respectively.

### (ii) Operations

Key operational highlights over the year include:

- The Fund acquired a 100% interest in Media House and AXA Headquarters, and a 50% interest in QV Building. All assets are less than seven years old with high occupancy, low capital expenditure requirements and strong expected total returns, improving the overall portfolio's weighted average lease expiry with secure cash flows and structured growth provided from blue-chip tenants.
- On 30 November 2010, the Fund settled on the purchase of Media House and QV Building for \$91.6 million and \$269.75 million, respectively, excluding acquisition costs.
- On 21 December 2010, the Fund settled on the purchase of AXA Headquarters for \$220.0 million, excluding acquisition costs.
- On 14 February 2011, the Fund revised the terms of the option agreement that provides a third party with the right to purchase 1 and 5 Mill Street and 197 St Georges Terrace, Perth, which was entered into in December 2010. The purchaser is entitled to an unconditional right to exercise the option between 1 and 15 July 2011 and has paid a non-refundable option fee of \$3.8 million. The total purchase price is \$152 million, with settlement due on or before 1 December 2011. The option was subsequently exercised on 12 July 2011. Refer to section 1.6 for further details.

# COMMONWEALTH PROPERTY OFFICE FUND DIRECTORS' REPORT

## 1.4. Review and results of operations (continued)

### (iii) Capital management

Key capital management highlights over the year include:

- On 29 November 2010, the Fund issued 184,417,770 units via an institutional equity placement, 93,297,764 units via the institutional component of the non-renounceable entitlement offer and 837,675 units under the early acceptance retail component of the non-renounceable entitlement offer. All units were issued at \$0.86 per unit. The \$239.5 million proceeds were used to partly fund the acquisition of Media House and QV Building.
- On 30 November 2010, the Fund issued 50 million units at \$0.86 per unit. The \$43 million proceeds were used to pay a portion of the consideration to the vendor for the purchase of QV Building.
- On 17 December 2010, the Fund issued 40,061,453 units at \$0.86 per unit under the final close of the retail component of the non-renounceable entitlement offer. The \$34.4 million proceeds were issued to partly fund the acquisition of AXA Headquarters.
- On 21 December 2010, the Fund issued 68,181,819 units at \$0.88 per unit. The \$60 million proceeds were used to pay a portion of the consideration to the vendors for the purchase of AXA Headquarters.
- All units issued during the financial year rank equally with existing ordinary units and are entitled to the full distribution for the financial year.
- On 21 December 2010, the Fund entered into a new senior unsecured bank debt facility of \$155.0 million, negotiated as part of the acquisition of AXA Headquarters. The proceeds were used to partially fund the acquisition of AXA Headquarters.
- On 9 February 2011, the Manager concluded negotiations on the restructure of \$565 million of bank debt. This includes the remixing, repricing and extension of a \$345 million bank debt facility. The initial tranche of \$95 million was due to mature in March 2011 and a second \$250 million tranche was due to mature in September 2012. This facility has been reduced by \$45 million and extended to February 2014. An existing \$220 million bank debt facility maturing in June 2015 was repriced achieving reductions in both line fees and margins of 0.125% and 0.2%, respectively.
- On 10 March 2011, the Fund terminated a \$150 million bank debt facility that was due to expire in August 2011.
- On 11 March 2011, the Fund issued new five-year fixed rate medium-term notes (MTNs) for a total of \$200 million. The proceeds of the new issue were used to buy-back \$158 million of existing MTNs due on 28 June 2011 and repay \$42 million of MTNs upon maturity in June 2011.
- In March 2011, two interest rate swaps were terminated to reduce the Fund's over-hedged position which had arisen due to the issuance of fixed medium-term notes.
- At 30 June 2011, the Fund's borrowings were 86.9% hedged (Jun 2010: 94%).
- As a consequence of the Fund's active capital management during the financial year, the weighted average interest rate reduced from 7.2% at 30 June 2010 to 6.8% at 30 June 2011, and the weighted average duration is now 4.1 years.

The Fund's principal debt covenants and corresponding results at 30 June 2011 are as follows:

	<b>Covenant</b>	<b>Actual</b>
Loan to value ratio (LVR) <sup>(1)</sup>	45% or less	30%
Interest cover ratio (ICR) <sup>(2)</sup>	2.0 times or greater	3.2 times

(1) LVR is calculated as total liabilities divided by total assets excluding the effect of the option component of the convertible notes and the non-cash impact of the mark to market of the derivatives.

(2) ICR is calculated as earnings before interest divided by net interest expense. For the purposes of this calculation, earnings represent net profit excluding all fair value adjustments, straight-lining revenue, borrowing costs and net interest expense on interest rate swaps. Interest expense is the sum of borrowing costs, net interest expense on interest rate swaps, and capitalised interest, less non-cash convertible notes interest expense.

# COMMONWEALTH PROPERTY OFFICE FUND DIRECTORS' REPORT

## 1.5. Significant changes in the state of affairs

In the opinion of the Directors, there were no significant changes in the state of the affairs of the Fund that occurred during the financial year other than those matters stated in this report.

## 1.6. Matters subsequent to the end of the financial year

On 12 July 2011, the call option was exercised for the sale of 1 and 5 Mill Street and 197 St Georges Terrace, Perth. As a result, the previously paid option fee converted into deposit funds and the purchaser contributed an additional \$3.8 million towards the deposit. At the date of this report the total deposit stands at \$7.6 million. The total sale price is \$152 million, and settlement is due to take place on or before 1 December 2011.

On 27 July 2011, the Fund exchanged contracts to sell its 100% interest in 259 George Street, Sydney, for a sale price of \$395 million, representing a 15.3% premium to the asset's independent valuation. Settlement is expected to take place on 31 October 2011.

On 3 August 2011, the Fund exchanged contracts to sell its 50% interest in 5 Martin Place, Sydney for a total of \$36.5 million plus the reimbursement of 50% of the costs expended to date totalling \$5.8 million. Settlement is expected to take place on or before 20 June 2012. As part of the transaction, the buyer assumes full development and leasing risk for their 50% interest in the asset as part of the joint ownership arrangement put in place for the redevelopment of this asset. Furthermore, the Fund was also granted a call option to acquire a 50% interest in 8 Exhibition Street, Melbourne, exercisable between 1 July 2012 and 30 June 2013.

Apart from the above, the Directors are not aware of any other matter or circumstance that has arisen since 30 June 2011 that has significantly affected, or may significantly affect, the Fund's operations, the results of those operations or the state of the affairs of the Fund in future financial years, other than those matters stated in this report.

## 1.7. Likely developments and expected results of operations

Commentary on the expected results of operations is included in section 1.4 of this report. In addition, the Australian Government announced the 'Securing a Clean Energy Future – the Australian Government's Climate Change Plan' on 10 July 2011. Whilst the announcement provides further details of the framework for a carbon pricing mechanism, uncertainties continue to exist on the impact of the proposed legislation on the Fund as it is in preliminary form and must be voted on and passed by both houses of Parliament.

The Fund's Manager has taken a proactive approach to sustainability and responsible investment over the past few years and is consistently focused on improving the efficiency of the assets held in the Fund. An assessment of the impact of the proposed legislation on the Fund will be undertaken by the Manager as further details become available. Refer to note 1(aa)(i) in the financial statements for further details.

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

## 1.8. Environmental regulation

The Fund is subject to the reporting requirements of the National Greenhouse and Energy Reporting Act 2007 (the Act) as a result of its corporate holding structure. The Fund's reporting in respect of this Act will be consolidated through the Commonwealth Bank of Australia (the 'Bank') report.

The National Greenhouse and Energy Reporting Act 2007 requires the Fund to report its annual greenhouse gas emissions and energy use. For the measurement period 1 July 2010 to 30 June 2011, the Fund will submit its data to the Bank, for consolidation through the Bank's report to the Greenhouse and Energy Data Officer in October 2011.

The Fund is also subject to the Energy Efficiency Opportunity Act 2005 (EEOA), and submits its findings and report through the Bank via a consolidated group report, in accordance with the legislation.

# COMMONWEALTH PROPERTY OFFICE FUND DIRECTORS' REPORT

## 1.9. Indemnification and insurance of officers

No insurance premiums were paid out of the assets of the Fund for insurance cover provided to either the officers of the Responsible Entity or the auditor of the Fund. Where the officers of the Responsible Entity act in accordance with the Fund's Constitution and the Corporations Act 2001, the officers remain indemnified out of the assets of the Fund against losses incurred while acting on behalf of the Fund. The auditor of the Fund is not indemnified out of the assets of the Fund.

## 1.10. Responsible Entity interests and fees

Fees paid and payable to the Responsible Entity during the financial year are disclosed in note 14(d).

The holdings in units in the Fund held by the Responsible Entity or its associates as at the end of the financial year are set out in note 14(e).

## 1.11. Interests in the Fund

The interests in the Fund held by Directors of the Responsible Entity as at the end of the financial year are set out in note 14(e).

No Director of the Responsible Entity has received or become entitled to receive any benefit by reason of a contract made by the Fund or a related entity with a Director or with a firm of which a Director is a member, or with an entity in which a Director has a substantial interest.

The movement in units on issue in the Fund during the financial year, along with the number of units on issue at the end of the financial year, is disclosed in note 12.

## 1.12. Non-audit services

The Responsible Entity may employ the Fund's auditor on assignments in addition to its statutory audit duties. Details of the amount paid or payable to the auditor for audit and non-audit services are set out in note 18. The Directors, in accordance with advice received from the Audit Committee, are satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001 and did not compromise the auditor independence requirements of the Corporations Act 2001 for the following reasons:

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

## 1.13. Rounding of amounts

The Fund is of a kind referred to in Class Order 98/100 issued by the Australian Securities and Investments Commission (ASIC) relating to the 'rounding off' of amounts in the Director's report. Accordingly, amounts in the Directors' report have been rounded off to the nearest tenth of a million dollars (\$m) in accordance with that Class Order, unless stated otherwise.

## 1.14. Auditor

PricewaterhouseCoopers continues in office as the auditor of the Fund.

## 1.15. Auditor's independence declaration

A copy of the Auditor's independent declaration as required under section 307C of the Corporations Act 2001 is attached to the Directors' Report on page 8.



**R M Haddock**

Director  
Sydney  
16 August 2011



## ***Auditor's Independence Declaration***

As lead auditor for the audit of Commonwealth Property Office Fund 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 Commonwealth Property Office Fund and the entities it controlled during the period.

A handwritten signature in black ink, appearing to read 'Peter van Dongen', written over a horizontal line.

Peter van Dongen  
Partner  
PricewaterhouseCoopers

16 August 2011  
Sydney

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# COMMONWEALTH PROPERTY OFFICE FUND

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2011

	Note	Consolidated 30 Jun 2011 \$m	Consolidated 30 Jun 2010 \$m
<b>Revenue</b>			
Rental and other property income	3	308.7	265.5
Interest income		1.0	1.1
Alignment fee income	14(i)	0.8	0.5
Other revenue		0.1	-
		310.6	267.1
<b>Other income</b>			
Share of net profits from associates before fair value adjustments		27.0	25.9
Share of associates' gain from fair value adjustments		7.1	3.6
Share of net profit accounted for using the equity method	8(a)	34.1	29.5
Net interest expense on derivatives		(4.3)	-
Other fair value adjustments to derivatives		4.6	-
Net gain on derivatives		0.3	-
Fair value adjustments to investment properties	7(b)(i)	28.2	-
<b>Total revenue and other income</b>		<b>373.2</b>	<b>296.6</b>
<b>Expenses</b>			
Net interest expense on derivatives		-	7.9
Other fair value adjustments to derivatives		-	13.9
Net loss on derivatives		-	21.8
Fair value adjustments to investment properties	7(b)(i)	-	31.5
Rates, taxes and other outgoings		80.7	72.5
Repairs and maintenance		9.7	8.0
Bad and doubtful debts expense		0.2	0.1
Borrowing costs		65.5	46.2
Responsible Entity's base fee	14(d)(i)	14.3	13.5
Responsible Entity's performance fee	14(d)(ii)	1.7	(12.8)
Auditor's remuneration	18	0.6	0.5
Other expenses		2.8	1.1
<b>Total expenses</b>		<b>175.5</b>	<b>182.4</b>
<b>Net profit for the financial year</b>		<b>197.7</b>	<b>114.2</b>
Other comprehensive income		-	-
<b>Total comprehensive income for the financial year</b>		<b>197.7</b>	<b>114.2</b>
Basic earnings per unit (cents)	17	8.73	5.89
Diluted earnings per unit (cents)	17	8.70	5.78

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

# COMMONWEALTH PROPERTY OFFICE FUND

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2011

	Note	Consolidated 30 Jun 2011 \$m	Consolidated 30 Jun 2010 \$m
<b>Current assets</b>			
Cash and cash equivalents		5.5	8.1
Receivables	5	31.5	13.6
Derivatives		5.2	9.2
Non-current assets held for sale – investment property	7(b)(ii)	152.0	-
Other assets	6	4.5	4.7
<b>Total current assets</b>		<b>198.7</b>	<b>35.6</b>
<b>Non-current assets</b>			
Investment properties	7	3,249.4	2,666.5
Investments in associates	8	412.6	405.3
<b>Total non-current assets</b>		<b>3,662.0</b>	<b>3,071.8</b>
<b>Total assets</b>		<b>3,860.7</b>	<b>3,107.4</b>
<b>Current liabilities</b>			
Payables	10	73.8	47.0
Distribution payable	4	67.4	58.4
Responsible Entity's base fees payable	14(d)(i)	3.6	3.4
Interest bearing liabilities	11	100.0	257.1
Derivatives		75.1	31.2
<b>Total current liabilities</b>		<b>319.9</b>	<b>397.1</b>
<b>Non-current liabilities</b>			
Interest bearing liabilities	11	833.3	437.4
<b>Total non-current liabilities</b>		<b>833.3</b>	<b>437.4</b>
<b>Total liabilities</b>		<b>1,153.2</b>	<b>834.5</b>
<b>Net assets</b>		<b>2,707.5</b>	<b>2,272.9</b>
<b>Equity</b>			
Contributed equity	12	2,481.8	2,111.8
Reserves	13	225.7	161.1
<b>Total equity</b>		<b>2,707.5</b>	<b>2,272.9</b>

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

# COMMONWEALTH PROPERTY OFFICE FUND

## CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June 2011

	Note	Consolidated 30 Jun 2011 \$m	Consolidated 30 Jun 2010 \$m
<b>Cash flows from operating activities</b>			
Rental and other property income received		341.7	320.1
Distributions received		25.4	24.3
Interest income received		1.0	1.1
Interest expense on interest rate swaps		(4.6)	(11.2)
Payments for financial assets at fair value through profit and loss		(5.3)	(12.3)
Payments to suppliers		(135.0)	(126.9)
Borrowing costs paid		(56.0)	(51.2)
<b>Net cash flows from operating activities</b>	15	<b>167.2</b>	<b>143.9</b>
<b>Cash flows from investing activities</b>			
Payments for investment properties		(511.1)	(131.8)
Payments for property developments and improvements		(89.8)	(55.5)
Payments for investments in associates		(0.2)	(0.7)
Proceeds from disposal of investment properties		-	124.5
Capital distribution from associates		-	0.5
<b>Net cash flows used in investing activities</b>		<b>(601.1)</b>	<b>(63.0)</b>
<b>Cash flows from financing activities</b>			
Proceeds from issue of units		273.9	123.8
Unit issue costs paid		(6.9)	(1.6)
Proceeds from interest bearing liabilities		1,049.0	461.5
Repayment of interest bearing liabilities		(759.0)	(589.8)
Distributions paid		(125.7)	(127.5)
<b>Net cash flows from/(used in) financing activities</b>		<b>431.3</b>	<b>(133.6)</b>
<b>Net decrease in cash and cash equivalents held</b>		<b>(2.6)</b>	<b>(52.7)</b>
<b>Cash and cash equivalents at the beginning of the financial year</b>		<b>8.1</b>	<b>60.8</b>
<b>Cash and cash equivalents at the end of the financial year</b>		<b>5.5</b>	<b>8.1</b>

Non-cash financing and investing activities

16

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

# COMMONWEALTH PROPERTY OFFICE FUND

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2011

	Note	Contributed equity \$m	Reserves \$m	Total \$m
<b>Total equity as at 1 July 2009</b>		<b>1,944.2</b>	<b>188.1</b>	<b>2,132.3</b>
<b>Total comprehensive income for the 2010 financial year</b>		<b>-</b>	<b>114.2</b>	<b>114.2</b>
<b>Transactions with unitholders in their capacity as unitholders:</b>				
Issue of units	12	144.6	-	144.6
Unit issue costs	12	(1.6)	-	(1.6)
Value of conversion rights – conversion notes	12	24.6	-	24.6
Movement in Responsible Entity's performance fee recognised in equity		-	(33.5)	(33.5)
Distributions paid and payable	4	-	(107.7)	(107.7)
<b>Total equity as at 30 June 2010</b>		<b>2,111.8</b>	<b>161.1</b>	<b>2,272.9</b>
<b>Total comprehensive income for the 2011 financial year</b>		<b>-</b>	<b>197.7</b>	<b>197.7</b>
<b>Transactions with unitholders in their capacity as unitholders:</b>				
Issue of units	12	376.9	-	376.9
Unit issue costs	12	(6.9)	-	(6.9)
Movement in Responsible Entity's performance fee recognised in equity		-	1.7	1.7
Distributions paid and payable	4	-	(134.8)	(134.8)
<b>Total equity as at 30 June 2011</b>		<b>2,481.8</b>	<b>225.7</b>	<b>2,707.5</b>

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

# COMMONWEALTH PROPERTY OFFICE FUND

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2011

### 1. Summary of significant accounting policies

This consolidated financial report is for Commonwealth Property Office Fund (the 'parent entity' or 'CPA') and its controlled entities (together the 'Fund') for the financial year ended 30 June 2011. The principal accounting policies adopted in the preparation of the financial statements are set out below.

#### (a) Basis of preparation

This general purpose financial report has been prepared in accordance with the Fund Constitution, Australian Accounting Standards, other mandatory professional reporting requirements and the Corporations Act 2001.

This financial report has also been prepared in accordance with the historical cost convention, except for financial assets and liabilities (including derivatives) at fair value through profit and loss and investment properties.

The financial report is presented in Australian dollars (\$) and was approved by the Board of Directors on 16 August 2011. The Directors have the power to amend and reissue the financial report.

#### Compliance with IFRS

The financial report complies with Australian Accounting Standards and International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board.

#### New accounting standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year, apart from the adoption of the following new standards, interpretations and amendments which became mandatory in the annual reporting period commencing 1 July 2010:

- AASB 2009-5, AASB 2010-3 Further amendments to Australian Accounting Standards arising from the Annual Improvements Process
- AASB 2009-8 Amendments to Australian Accounting Standards – Group Cash Settled Share Based Payment Transactions
- AASB 2009-10 Amendments to Australian Accounting Standards – Classification of Rights Issues
- AASB 2010-3 Amendments to Australian Accounting Standards arising from the Annual Improvements Project
- AASB 2009-13 Amendments to Australian Accounting Standards arising from Interpretation 19
- AASB Interpretation 19 Extinguishing financial liabilities with equity instruments

The adoption of these standards and amendments did not result in any impact on the financial statements of the Fund.

In addition to the above, certain accounting standards and interpretations have been issued or amended but are not yet mandatory and have not been adopted by the Fund for the financial year ended 30 June 2011. The impact of the new or amended standards is set out below:

- AASB 9 Financial Instruments, AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (effective 1 July 2013).  
AASB 9 simplifies the classification of financial assets into those to be carried at amortised cost and those to be carried at fair value and replaces the recognition and measurement requirements of financial assets in AASB 139. The Fund is currently assessing the impact of this standard, however the impact is expected to be immaterial.
- Revised AASB 124 Related Party Disclosures, AASB 2009-12 Amendments to Australian Accounting Standards (effective 1 July 2011).  
The revised AASB 124 clarifies and simplifies the definition of a related party. Application of this standard will have no financial impact on any amount recognised in the financial report
- AASB 2010-4, AASB 2010-5 Amendments to Australian Accounting Standards (effective from 1 July 2011)

# COMMONWEALTH PROPERTY OFFICE FUND

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2011

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

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

No significant impact is expected on the Fund's financial performance or financial position upon adoption of these new or amended standards and interpretations from their effective dates.

The following pronouncements have been issued by the International Accounting Standards Board (IASB) however an equivalent pronouncement has not yet been issued by the AASB. Therefore these have not been adopted at 30 June 2011 and the Fund is currently assessing the impact of these pronouncements.

- IFRS 10 Consolidated Financial Statements
- IFRS 11 Joint Arrangements
- IFRS 12 Disclosure of Involvement with Other Entities
- IFRS 13 Fair Value Measurements
- IAS 27 Separate Financial Statements
- IAS 28 Investments in Associates and Joint Ventures

#### **(b) Parent entity financial information**

The financial information for the parent entity is disclosed in note 22 and has been prepared on the same basis as the consolidated financial statements, except for investments in controlled entities and associates which, in the parent entity, are classified as available-for-sale financial assets (refer to note 1(p)) in the statement of financial position.

#### **(c) Principles of consolidation**

##### **(i) Controlled entities**

Controlled entities are all entities (including special purpose entities) over which the parent entity has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Fund controls another entity.

Controlled entities are fully consolidated from the date on which control is transferred to the Fund and, where applicable, deconsolidated from the date control ceases.

The acquisition method of accounting is used to account for the acquisition of controlled entities, and the balances and effects of transactions between all controlled entities are eliminated in full.

The financial statements of controlled entities are prepared for the same reporting period as the parent entity, using consistent accounting policies.

##### **(ii) Associates**

Certain property investments are held via joint ownership arrangements. These joint ownership arrangements include the ownership of units in a single purpose unlisted trust over which the Fund exercises significant influence but does not control (associate).

The Fund has adopted the equity method of accounting for investments in associates. Under this method, the investment in associates in the statement of financial position is carried at cost plus post-acquisition changes of the Fund's share of the associate's net assets, less any impairment in value. The Fund's share of the associates' net profit after income tax expense is recognised in the consolidated statement of comprehensive income. Distributions received from the associates are recognised in the consolidated financial report as a reduction of the carrying amount of the investment.

The reporting date of associates are the same as the Fund and where associates' accounting policies differ from the Fund, adjustments are made so as to ensure consistency within the Fund.

##### **(iii) Jointly controlled assets**

The Fund recognises its share of revenues, expenses, assets and liabilities in jointly controlled assets under the appropriate headings in the consolidated statement of financial position and statement of comprehensive income (rather than as a separate line item).

# COMMONWEALTH PROPERTY OFFICE FUND

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2011

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

#### (d) Segment reporting

An operating segment is a group of assets and operations engaged in providing products and services that are subject to risks and returns that are different to those of other segments.

The Fund also determines and presents operating segments based on the information that is internally provided to the Fund's chief operating decision maker and used in making strategic decisions. The chief operating decision maker has been determined as the Fund Manager, Mr Charles Moore, and the Managing Director Property, Mr Darren Steinberg.

#### (e) Foreign currency translation

The functional and presentation currency of the Fund is Australian dollars (\$). The functional currency is the currency of the primary economic environment in which the Fund operates.

Transactions in foreign currencies are initially recorded in the functional currency at the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated to Australian dollars at the exchange rates ruling at reporting date.

All foreign exchange differences in the consolidated financial report are recognised as a revenue or expense in the statement of comprehensive income in the period in which they arise, with the exception of differences on non-monetary assets measured at fair value. These are taken directly to the foreign currency translation reserve until the disposal of the net investment, at which time they are recognised in the statement of comprehensive income.

The Fund has US dollar (USD) denominated debt and corresponding highly effective cross currency swaps which hedge the changes in the fair value of the debt relating to changes in the USD/AUD exchange rate and the benchmark USD interest rate. These swaps qualify for hedge accounting. Refer to note 1(r) for further details.

#### (f) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Fund and the amount can be reliably measured.

Fixed rental increases in the Fund's leases are recognised on a straight-line basis over the term of the lease. Rent not received at reporting date is reflected in the statement of financial position as a receivable, or if paid in advance, as rent in advance. Contingent rental income is recognised as income in the reporting period in which it is earned.

When the Fund provides lease incentives to tenants (refer to note 1(o)), the costs of the incentives are recognised over the lease term, on a straight-line basis, as a reduction in rental income.

Distribution and dividend revenue is recognised when the Fund has the right to receive payment, being the date when they are declared.

Interest income is recognised on an accruals basis using the effective interest method.

A gain or loss on disposal of assets is calculated as the difference between the carrying amount of the asset at the date of disposal and the net proceeds from disposal, and is included in the statement of comprehensive income in the year of disposal. 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.

If revenue is not received at reporting date, it is included in the statement of financial position as a receivable and carried at amortised cost.

#### (g) Expenditure

All expenses are recognised in the statement of comprehensive income on an accruals basis.

Property expenditure includes rates, taxes and other outgoings incurred in relation to investment properties, where such expenses are the responsibility of the Fund.

Borrowing costs incurred on interest bearing liabilities are included in note 1(v). Responsible Entity's base fees and performance fees are set out in notes 14(d)(i) and 14(d)(ii), 1(u) respectively.

# COMMONWEALTH PROPERTY OFFICE FUND

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2011

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

#### (h) Income tax

Under current income tax legislation, the Fund is not subject to income tax, provided that unitholders are presently entitled to the income of the Fund as calculated for trust accounting purposes.

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

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

Receivables and payables are stated inclusive of GST. The net amount of GST recoverable from, or payable to, the taxation authority is included in the statement of financial position as receivable or payable.

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

#### (j) Cash and cash equivalents

Cash and cash equivalents includes cash at bank and short-term money market deposits with maturities of three months or less that are readily converted to cash.

#### (k) Receivables

Rental and sundry debtors are recognised at amortised cost, which, in the case of the Fund, is the original invoice amount less a provision for any uncollected debts. Collectability of rental debtors is reviewed on an ongoing basis, and bad debts are written off when identified by reducing the amount of the receivable in the statement of financial position. A specific provision is made for any doubtful debts where objective evidence exists that the Fund will not be able to collect the amounts due according to the original terms of the receivables.

Indicators that debts may be uncollectable include default in payment (more than 30 days overdue), significant financial difficulties of the debtor and the probability that the debtor will be placed in administration or bankruptcy. The debtor's circumstances relating to the default in payment are considered, and in some cases alternative payment arrangements may apply. If the debtor defaults on the terms of these arrangements, the debt will be recognised as doubtful.

The amount of the doubtful debt provision is calculated as the difference between the original debt amount and the present value of the estimated future cash flows. The amount of the provision is recognised in the statement of comprehensive income as a bad and doubtful debts expense.

Where a rental debtor for which a provision for doubtful debt had been recognised becomes uncollectable in a subsequent period, it is written off against the doubtful debt provision. Subsequent recoveries of amounts previously written off are credited against the bad and doubtful debts expense in the statement of comprehensive income.

Normal commercial terms and conditions apply to receivables.

All receivables with maturities greater than 12 months after reporting date are classified as non-current assets.

#### (l) Non-current assets classified as held for sale

For a non-current asset to be classified as held for sale, its carrying value must be expected to be recovered principally through a sale transaction rather than through continuing use. It must also be available for immediate use in its present condition, and its sale must be highly probable.

Non-current assets which are classified as held for sale are measured at the lower of their carrying amount or fair value less costs to sell, except for investment properties which are measured at fair value as set out in note 1(m).

# COMMONWEALTH PROPERTY OFFICE FUND

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2011

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

#### (m) Investment properties

Investment properties are direct property investments held for long-term rental yields and comprise either freehold or leasehold land, buildings, leasehold improvements and property that is under development for future use as investment property.

Investment properties are initially recognised at cost plus associated costs of acquisition, including stamp duty. Subsequent to initial recognition, investment properties are stated at fair value. Fair value is the amount for which the investment property could be exchanged between knowledgeable, willing parties in an arm's length transaction. Gains and losses arising from changes in the fair value of investment properties are recognised in the statement of comprehensive income.

Investment properties are independently valued at intervals of not more than one year and all valuations are performed by registered valuers.

At each reporting date, the Responsible Entity of the Fund assesses the fair value of each investment property to ensure its carrying value, as determined by the independent valuation adjusted for subsequent capital expenditure, reflects fair value. In determining fair value, the valuation methods of capitalisation of net income and discounted cash flows have been used. These are based upon assumptions and judgement in relation to future rental income, anticipated maintenance costs and appropriate discount rates, and make reference to market evidence of transaction prices for similar properties. Refer to note 1(aa)(i) for the estimated yield for each property.

The reported fair value of investment property reflects market conditions at the end of the reporting period. While this represents the best estimates as at the reporting date, actual sale prices achieved may be higher or lower than the most recent valuation. This is particularly relevant in periods of market illiquidity or uncertainty.

Land and buildings (including integral plant and equipment) that comprise investment property are not depreciated. The carrying amount of investment properties may include the costs of acquisition, additions, refurbishments, redevelopments, improvements, lease incentives, assets relating to fixed increases in operating lease rental in future periods and borrowing costs incurred during the construction period of qualifying assets.

Investment properties are derecognised when disposed of. The gain or loss on disposal is calculated as the difference between the carrying amount of the asset at the date of disposal and the net proceeds from disposal. It is included in the statement of comprehensive income in the same reporting period as the year in which disposal occurs.

Where investment properties have been revalued, the potential effect of the Capital Gains Tax (CGT) on disposal has not been taken into account in the determination of the revalued carrying amount because the Fund does not expect to be ultimately liable for CGT in respect of the assets.

#### Property under development

Fair value measurement of property under development is only applied if the fair value is considered to be reliably measured. In order to evaluate whether the fair value of an investment property under development can be determined reliably, management considers the following factors, among others:

- the stage of completion
- whether the project/property is standard (typical for the market) or non-standard
- the level of reliability of cash inflows after completion
- the development risk specific to the property
- past experience with similar developments
- status of development/construction permits and
- the provisions of the construction contract.

Refer to note 1(l) for investment properties that are classified as held for sale.

# COMMONWEALTH PROPERTY OFFICE FUND

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2011

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

#### (n) Leases

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases.

The minimum lease payments of operating leases, which exclude contingent payments, are recognised as an expense in the statement of comprehensive income on a straight-line basis over the period of the lease.

#### (o) Lease incentives

Lease incentives may take the form of cash, rent-free periods, contributions to certain lessees' costs, relocation costs and lessee or lessor owned fit-outs and improvements. These incentives are capitalised as part of the carrying value of the investment properties and amortised on a straight-line basis over the term of the lease as a reduction of rental income. The carrying amount of the lease incentives is reflected in the fair value of investment properties.

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

Available-for-sale financial assets are non-derivatives that are either designated in this financial asset category or not classified in any other financial asset categories. Investments are designated as available-for-sale if they do not have fixed maturities, fixed or determinable payments and management intends to hold them for the medium to long term.

These investments are initially recognised at cost including any costs relating to acquisition. Subsequent to initial recognition, the investments are recognised at fair value.

The fair values of investments that have an active market are determined by reference to quoted market prices. For investments with no active market, fair values are determined using valuation techniques which keep judgemental inputs to a minimum, including the fair value of underlying assets, recent arm's length transactions and reference to market value of similar investments.

Gains and losses on available-for-sale investments are recognised in the investment revaluation reserve in the statement of financial position and included in other comprehensive income in the statement of comprehensive income until the investment is sold or impaired.

When available-for-sale financial assets are sold or impaired, cumulative gains recognised in the investment revaluation reserve are recognised in the statement of comprehensive income. Cumulative losses are recognised in the investment revaluation reserve to the extent they reverse previously recorded gains, and when previously recorded gains have been reversed in full, any impairment loss below original cost (when significant and prolonged) is recognised in the statement of comprehensive income.

Available-for-sale financial assets are classified as non-current assets unless management intends to dispose of the investments within 12 months of reporting date.

#### (q) Financial assets and liabilities

The Fund classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. Classification of financial assets and liabilities depends on the purpose for which the assets and liabilities were acquired.

# COMMONWEALTH PROPERTY OFFICE FUND

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2011

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

#### (q) Financial assets and liabilities (continued)

The Fund's classifications are set out below:

Financial asset/liability	Classification	Valuation basis	
Cash	Fair value through profit and loss	Fair value	Refer to note 1(j)
Receivables	Loans and receivables	Amortised cost	Refer to note 1(k)
Derivatives	Fair value through profit and loss	Fair value	Refer to note 1(r)
Investments (parent entity only)	Available-for-sale financial assets	Fair value	Refer to note 1(p)
Payables	Financial liability at amortised cost	Amortised cost	Refer to note 1(t)
Interest bearing liabilities	Financial liability at amortised cost	Amortised cost	Refer to note 1(v)

#### Derecognition of financial instruments

Financial assets are recognised on the date the Fund commits to purchase or sell the asset and derecognised when the Fund no longer controls the contractual rights that comprise the financial instrument which is normally the case when the instrument is sold or all risks and rewards of ownership have transferred to an independent third party.

#### (r) Derivatives

The Fund is exposed to changes in interest rates and foreign exchange rates, and uses derivatives including interest rate swaps, forward rate agreements and cross currency swaps to hedge these risks.

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured to fair value at each reporting date. The gain or loss on re-measurement to fair value is recognised in the statement of comprehensive income. Fair value at reporting date is calculated to be the present value of the estimated future cash flows of these instruments. The two key variables used in the valuation are the forward price curve and discount rates. Each instrument is discounted at the market interest rate appropriate to the instrument. Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

There is a comprehensive hedging program implemented by the Fund that is used to manage interest and exchange rate risk. Derivatives are not entered into for speculative purposes and the hedging policies are approved and monitored by the Capital Management Committee.

#### Interest rate swaps

The Fund enters into interest rate swap agreements that are used to convert certain variable interest rate borrowings to fixed interest rates or vice versa. The swaps are entered into with the objective of hedging the risk of adverse interest rate fluctuations. While the Responsible Entity has determined that these arrangements are economically effective, they have not satisfied the documentation, designation and effectiveness tests required by Australian Accounting Standards. As a result, they do not qualify for hedge accounting, and gains or losses arising from changes in fair value are recognised immediately in the statement of comprehensive income.

#### Cross currency swaps

Foreign currency denominated notes have been swapped back to Australian dollars via principal and interest cross currency swaps. These swaps qualify for hedge accounting as they have met the documentation, designation and effectiveness tests. Having satisfied these tests, these swaps are designated as fair value hedges of the underlying foreign currency exposures. Changes in the fair value of derivatives that qualify as fair value hedges are recorded in the statement of comprehensive income, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

# COMMONWEALTH PROPERTY OFFICE FUND

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2011

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

#### (s) Impairment of assets

All assets, including financial assets, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Where an indicator of impairment or objective evidence exists, an estimate of the asset's recoverable amount is made. An impairment loss is recognised in the statement of comprehensive income for the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

#### (t) Payables

Payables represent liabilities and accrued expenses owing by the Fund at year end which are unpaid. The amounts are unsecured and usually paid within 30 days of recognition. Payables are recognised at amortised cost, and normal commercial terms and conditions apply to payables.

A distribution payable to unitholders of the Fund is recognised for the amount of any distribution approved on or before reporting date but not distributed at reporting date.

All payables with maturities greater than 12 months after the reporting date are classified as non-current liabilities.

#### (u) Performance fees

The performance fee is calculated in accordance with the Fund Constitution. Refer to note 14(d)(ii) for further details on performance fees and to note 1(aa) for details of significant estimates and assumptions used in the determination of the fair value of the performance fee.

The Fund's performance fee is settled through the issue of units, therefore the movement in the fair value of the Responsible Entity's entitlement to a performance fee is recognised in the statement of comprehensive income with a corresponding increase in contributed equity.

#### (v) Interest bearing liabilities

Interest bearing liabilities are recognised initially at cost, being the fair value of the consideration received net of transaction costs associated with the borrowing. Subsequent to initial recognition, interest bearing liabilities are recognised at amortised cost using the effective interest method. Under the effective interest method, any transaction fees, costs, discounts and premiums directly related to the borrowings are recognised in the statement of comprehensive income over the expected life of the borrowings.

The fair value of the liability portion of the Fund's convertible notes is determined using a market interest rate for an equivalent non-convertible bond at the date of issue. This amount is recorded as a liability until extinguished on conversion or maturity of the notes. The remainder of the proceeds is allocated to the conversion option and recognised in contributed equity as units on issue.

Interest bearing liabilities are classified as current liabilities where the liability has been drawn under a financing facility which expires within one year. Amounts drawn under financial facilities which expire after one year are classified as non-current.

#### Borrowings costs

Borrowing costs include interest, amortisation of discounts or premiums relating to borrowings, and amortisation of ancillary costs incurred in connection with the arrangement of borrowings. Borrowing costs are expensed as incurred, unless they relate to a qualifying asset, and recognised in interest bearing liabilities in the statement of financial position. A qualifying asset is an asset which generally takes more than 12 months to get ready for its intended purpose. In these circumstances, borrowing costs incurred for the construction of a qualifying asset are capitalised to the cost of the asset for the period of time that is required to complete and prepare the asset. The capitalisation rate used to determine the amount of borrowing costs capitalised is the weighted average interest rate applicable to the Fund's outstanding borrowings during the financial year.

#### (w) Contributed equity

Units on issue are classified as equity and recognised at the value of the consideration received by the Fund. Incremental costs directly attributable to the issue of new units are recognised in equity as a deduction, net of tax, from the proceeds.

# COMMONWEALTH PROPERTY OFFICE FUND

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2011

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

#### (x) Distributions

In accordance with the Fund Constitution, the Fund distributes income adjusted for unrealised and other amounts, as determined by the Directors, to unitholders on a semi-annual basis.

Refer to note 1(t) for the accounting policy for the distribution payable to unitholders at reporting date.

#### (y) Earnings per unit

Basic earnings per unit is calculated as net profit/(loss) for the financial year divided by the weighted average number of units on issue. Alternative basic earnings per unit is calculated as net profit for the financial year before fair value adjustments to investment properties, associates, derivatives, performance fees, non-cash convertible notes interest expenses and straight-lining of rent increases divided by the weighted average number of units.

Diluted earnings per unit is calculated by adjusting the basic earnings per unit to take into account the effect of interest and other borrowing costs associated with dilutive potential ordinary units and the weighted average number of additional ordinary units that would have been outstanding assuming the conversion of all dilutive potential ordinary units, namely ordinary units issued to settle performance fees and convertible notes converted into units. The alternative diluted earnings per unit equals the diluted earnings per unit adjusted for fair value adjustments to investment properties, associates, derivatives, performance fees and straight-lining of rent increases.

#### (z) Rounding of amounts

The Fund is of a kind referred to Class Order 98/100, issued by the Australian Securities and Investments Commission (ASIC). Accordingly amounts in the financial report have been rounded to the nearest tenth of a million dollars (\$m), unless stated otherwise.

#### (aa) Critical accounting estimates and judgements

The preparation of the financial statements requires the Responsible Entity to make judgements, estimates and assumptions that affect the amounts reported in the financial statements. The Responsible Entity bases its judgements and estimates based on historical experience and other various factors it believes to be reasonable under the circumstances, but which are inherently uncertain and unpredictable, the result of which form the basis of the carrying values of assets and liabilities. As such, actual results could differ from those estimates.

The areas where a higher degree of judgement or complexity arises, or areas where assumptions and estimates are significant to the Fund's financial statements, are detailed below:

#### (i) Valuation of investment properties and associates

Critical judgements are made by the Responsible Entity in respect of the fair values of investment properties (including properties under development and properties classified as 'held for sale'). As referred to note 1(m), the fair values of these investments are reviewed regularly by the Responsible Entity with reference to external independent property valuations, recent offers and market conditions existing at reporting date.

At reporting date, the key assumptions used by the Fund in determining fair value for the Fund's investment properties, excluding properties under development, are outlined below:

	30 Jun 2011	30 Jun 2010
Weighted average discount rate	9.34%	9.41%
Weighted average terminal yield	7.78%	7.94%
Weighted average capitalisation rate	7.59%	7.74%
Expected vacancy period range	6 to 15 months	6 to 15 months
Rental growth rate range	2.75% to 4.75%	2.90% to 4.50%

All of the above key assumptions have been taken from the last independent valuation report for the assets in the portfolio.

# COMMONWEALTH PROPERTY OFFICE FUND

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2011

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

#### (aa) Critical accounting estimates and judgements (continued)

##### (i) Valuation of investment properties and associates (continued)

The Fund continues to obtain independent valuations of properties at least annually, with the latest valuation details set out in note 7. The critical assumptions underlying the Responsible Entity's estimates of fair values relate to the receipt of contractual rents, expected future market rentals, maintenance requirements and discount rates that reflect current market uncertainties. If there is any change in these assumptions or regional or national economic conditions, the fair value of investment properties may differ.

The introduction of a carbon pricing mechanism has the potential to impact the assumptions used for investment property valuations. Until legislation has been passed and the Fund's assessment of the impact of a carbon pricing mechanism is complete, the Fund has not incorporated the potential impact of any carbon price mechanism in the property valuations at 30 June 2011.

##### (ii) Valuation of performance fees

The Responsible Entity of the Fund is entitled to a performance fee when the Fund outperforms the UBS Commercial 200 Property Trust Accumulation Index customised to remove the effect of the Fund on the index.

Although the amount of the performance fee to be paid each six-month period is capped, any outperformance in prior periods may be carried over and used in the calculation of the performance fee in future periods. The fair value of the 'carry-over' outperformance is determined as the present value of future cash flows, based upon assumptions relating to the probability of paying capped performance fees in future periods and an appropriate discount rate. Therefore, the actual future performance fee may differ from the fair value of the 'carry-over' outperformance included in these financial statements if any of these assumptions change. In a period where the 'carry-over' equates to nil or is negative the fair value of future performance fees is reduced to nil.

##### (iii) Valuation of derivatives

The fair value of derivatives is based on certain assumptions about future events and involves significant estimates. Volatility in global financial markets makes it difficult to estimate with certainty the present value of the estimated future cash flows. The fair value of derivatives reported at 30 June 2011 may differ if there is volatility in market rates, indexes, equity prices or foreign exchange rates in future periods.

# COMMONWEALTH PROPERTY OFFICE FUND

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2011

### 2. Segment information

The Fund operates in one segment, being office property in Australia.

This operating segment, as described in note 1(d), has been determined based on internal reports provided to the Fund Manager, Mr Charles Moore, and the Managing Director Property, Mr Darren Steinberg, being the Fund's chief operating decision makers.

The Fund Manager assesses the performance of the operating segment based on distributable income and distribution per unit. A reconciliation of the net profit to distributable income and distributions paid and payable (used in calculating the distribution per unit) is set out below. It shows the impact reflected in the reported results from unrealised amounts, whilst the distributable income reflects the consistent results from operations.

	Note	Consolidated 30 Jun 2011 \$m	Consolidated 30 Jun 2010 \$m
<b>Total revenue and other income</b>		<b>373.2</b>	<b>296.6</b>
<b>Net profit for the financial year</b>		<b>197.7</b>	<b>114.2</b>
Adjustments for unrealised and non-cash impacts:			
- straight-lining adjustment <sup>(A)</sup>		(4.1)	(0.5)
- fair value adjustments from investment properties and associates <sup>(B)</sup>		(35.3)	27.9
- other fair value adjustments to derivatives <sup>(C)</sup>		(4.6)	13.9
- movement in fair value of unrealised performance fees <sup>(D)</sup>	14(d)(ii)	(3.3)	(21.8)
- non-cash convertible notes interest expense <sup>(E)</sup>	11(a)	4.9	2.5
<b>Distributable income</b>		<b>155.3</b>	<b>136.2</b>
Other adjustments			
- amount withheld in accordance with distribution policy <sup>(F)</sup>		(31.0)	(28.5)
- transfer from undistributed reserves <sup>(G)</sup>		10.5	-
<b>Distributions paid and payable</b>	4	<b>134.8</b>	<b>107.7</b>

The material adjustments to the net profit to arrive to distributable income for the financial year shown in the financial report are described below.

- (A) Straight-lining rental revenue, which is required by Australian Accounting Standards, is an unrealised non-cash amount. As such, it has been excluded to better reflect distributable income that has been realised during the financial year.
- (B) Movements in the fair value of investment properties are required by Australian Accounting Standards for valuation purposes but are unrealised non-cash amounts. Similarly, movements in the value of the underlying assets of the Fund's investments in associates are required by Australian Accounting Standards but do not reflect the cash distributions received from these investments. As such, these amounts have been excluded to better reflect distributable income that has been realised during the financial year.
- (C) Fair value movements in derivatives comprise mark-to-market movements required by Australian Accounting Standards for valuation purposes, but are unrealised non-cash amounts. These movements have been excluded to better reflect distributable income that has been realised during the financial year.
- (D) Fair value movements in the carry-over of unrealised performance fees are required by Australian Accounting Standards for valuation purposes, but are unrealised non-cash amounts. These movements have therefore been excluded to better reflect distributable income that has been realised during the year.
- (E) The difference between the actual coupon paid on the Fund's convertible notes and the interest expense calculated at the market rate for an equivalent non-convertible bond is required to be recognised by Australian Accounting Standards. As it represents a non-cash amount, it has been excluded to better reflect distributable income that has been realised during the year.
- (F) In accordance with the distribution policy, the Fund distributes 70% to 80% of distributable income or the Fund's taxable income, whichever is greater, for any financial period.
- (G) New units issued in November 2010 and December 2010 rank equally with existing units and are therefore entitled to the full distribution for the full financial year. Therefore the Fund has transferred an amount from undistributed reserves to deliver the distribution per unit.

# COMMONWEALTH PROPERTY OFFICE FUND

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2011

### 2. Segment information (continued)

The information provided to the Fund Manager in respect of total assets and total liabilities is measured in a manner consistent with the accounting policies disclosed in note 1 of these financial statements and is presented in the same manner as the statement of financial position.

The operating segment derives all its revenue in Australia primarily from the rental of office space from a large number of tenants. Only one tenant or group under common control, being Commonwealth Bank of Australia (the 'Bank'), contributes more than 10% of the Fund's revenues. The total revenue contributed by the Bank for the financial year ended 30 June 2011 is \$54,073,190 (Jun 2010: \$57,545,875).

### 3. Rental and other property income

	Consolidated 30 Jun 2011 \$m	Consolidated 30 Jun 2010 \$m
Rental and other property income (excluding straight-lining adjustment)	304.6	265.0
Rental income resulting from straight-lining adjustment	4.1	0.5
<b>Total rental and other property income</b>	<b>308.7</b>	<b>265.5</b>

### 4. Unitholders' distribution

Distributions paid and payable by the Fund during the financial year are:

	30 Jun 2011		30 Jun 2010	
	\$m	cents/unit	\$m	cents/unit
Distribution paid – February	67.4	2.75	49.3	2.65
Distribution payable – August	67.4	2.75	58.4	2.90
<b>Total distributions paid and payable</b>	<b>134.8</b>	<b>5.50</b>	<b>107.7</b>	<b>5.55</b>

### 5. Receivables

	Note	Consolidated 30 Jun 2011 \$m	Consolidated 30 Jun 2010 \$m
<b>Current</b>			
Rental debtors	19(c)	1.6	0.2
Less: Provision for doubtful debts	19(c)	(0.2)	-
		1.4	0.2
Distribution receivable from associates		4.3	2.7
Receivables from managing agents		22.7	10.0
Other		3.1	0.7
<b>Total receivables</b>		<b>31.5</b>	<b>13.6</b>

### 6. Other assets

<b>Current</b>			
Prepayments		4.5	4.7
<b>Total other assets</b>		<b>4.5</b>	<b>4.7</b>

# COMMONWEALTH PROPERTY OFFICE FUND

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2011

### 7. Investment properties

Properties	Owner -ship	Original purchase date	Original purchase price	Latest independent valuation date	Independent valuation (A)	Additions/ (disposals) since valuation/ acquisition (A)	Book value 30 Jun 11	Book value 30 Jun 10
	%		\$m		\$m	\$m	\$m	\$m
<b>Current</b>								
<b>WA</b>								
1 Mill Street, Perth <sup>(H)</sup>	100	Oct-02	11.5	Dec-10	30.0	(0.2)	29.8	-
5 Mill Street, Perth <sup>(H)</sup>	100	Oct-02	10.8	Dec-10	30.0	(0.2)	29.8	-
197 St Georges Terrace, Perth <sup>(H)</sup>	100	Oct-02	71.2	Dec-10	92.5	(0.1)	92.4	-
<b>Non-current assets held for sale - investment property</b>							<b>152.0</b>	<b>-</b>
<b>Non-current</b>								
<b>ACT</b>								
Finlay Crisp Centre, Canberra ACT <sup>(B)</sup>	100	Apr-99	55.0	Mar-11	94.3	0.1	94.4	95.8
<b>NSW</b>								
60 Castlereagh Street, Sydney	100	Oct-02	191.2	Mar-11	239.0	1.8	240.8	235.1
36 George Street, Burwood	100	Apr-99	40.0	Jun-11	52.5	-	52.5	51.5
101 George Street, Parramatta	100	Jan-05	19.0	Jun-11	90.1	-	90.1	90.0
150 George Street, Parramatta	100	Oct-02	81.0	Mar-11	98.5	(0.3)	98.2	98.2
259 George Street, Sydney	50	Apr-99						
	50	Oct-05	267.1	Jun-11	342.5	-	342.5	340.0
14 Lee Street, Sydney <sup>(B)</sup>	100	Oct-02	56.5	Mar-11	70.0	0.3	70.3	69.1
201 Miller Street, North Sydney	100	Jun-03	72.3	Mar-11	67.0	0.3	67.3	64.8
56 Pitt Street, Sydney	100	Oct-02	136.0	Mar-11	157.0	(0.4)	156.6	152.1
5 Martin Place, Sydney <sup>(G)</sup>	100	Apr-99	112.0	Jun-11	73.0	-	73.0	71.0
175 Pitt Street, Sydney	100	Apr-99	116.0	Jun-11	221.5	-	221.5	193.0
10 Shelley Street, Sydney	50	Dec-03	110.4	Mar-11	134.0	-	134.0	131.0
Site 4B, Sydney Olympic Park <sup>(B)</sup>	100	Jan-08	8.7	Jun-11	3.6	-	3.6	3.5
<b>SA</b>								
108 North Terrace, Adelaide	100	Oct-05	77.0	Mar-11	75.3	-	75.3	74.0
45 Pirie Street, Adelaide	100	Oct-02	55.2	Jun-11	83.0	-	83.0	76.0
11 Waymouth Street, Adelaide	100	Dec-04	146.6	Mar-11	150.0	-	150.0	149.1
<b>QLD</b>								
145 Ann Street, Brisbane <sup>(B,C)</sup>	100	Nov-09	-	Jun-11	79.5	-	79.5	31.0
<b>VIC</b>								
385 Bourke Street, Melbourne	100	Apr-99	151.0	Jun-11	307.0	-	307.0	288.6
2 Southbank Boulevard, Melbourne	50	Jul-03	136.8	Jun-11	176.0	-	176.0	165.5
Media House, 655 Collins Street, Melbourne <sup>(D)</sup>	100	Nov-10	96.8	Jun-11	93.0	-	93.0	-
QV Building, 180-222 Lonsdale Street, Melbourne <sup>(E)</sup>	50	Nov-10	285.0	Jun-11	285.8	-	285.8	-
AXA Headquarters, 750 Collins Street, Melbourne <sup>(F)</sup>	100	Dec-10	232.3	Jun-11	223.0	-	223.0	-
<b>WA</b>								
46 Colin Street, West Perth <sup>(B)</sup>	100	Apr-02	30.0	Mar-11	32.0	-	32.0	32.0
1 Mill Street, Perth	100	Oct-02	11.5	Dec-10	30.0	-	-	30.0
5 Mill Street, Perth	100	Oct-02	10.8	Dec-10	30.0	-	-	33.0
58 Mounts Bay Road, Perth	50	Jun-10	95.0	Mar-11	100.0	-	100.0	100.2
197 St Georges Terrace, Perth	100	Oct-02	71.2	Dec-10	92.5	-	-	92.0
<b>Total</b>							<b>3,249.4</b>	<b>2,666.5</b>

- (A) Valuation excludes additions and disposals subsequent to the last independent valuation. Additions/(disposals) since valuation includes the cost of properties purchased and the carrying amount of properties sold. It also includes capital expenditure and payments for incentives and leasing fees, net of amortisation since valuation. For a summary of significant estimates and assumptions used in valuations, refer to note 1(aa).
- (B) The titles to these properties are leasehold. The remaining lease terms range from 87 to 120 years. Only 46 Colin Street, West Perth has ongoing lease commitments.
- (C) This is a property under development. In November 2009, the Fund entered into a development agreement to acquire a 120-year leasehold interest in the land of 145 Ann Street, Brisbane upon practical completion. Total development payments as at 30 June 2011 were \$70.8 million.
- (D) On 30 November 2010, the Fund purchased Media House, 655 Collins Street, Melbourne (Media House) for \$91.6 million plus acquisition costs of \$5.2 million.
- (E) On 30 November 2010, the Fund purchased a 50% interest in the QV Building, Lonsdale Street, Melbourne (QV Building) for \$269.75 million plus acquisition costs of \$15.2 million.
- (F) On 21 December 2010, the Fund purchased AXA Headquarters, 750 Collins Street, Melbourne (AXA Headquarters) for \$220.0 million plus acquisition costs of \$12.3 million.
- (G) Formerly 120 Pitt Street, Sydney.
- (H) In December 2010, the Fund entered into an agreement providing a third party with the right to purchase 1 and 5 Mill Street and 197 St Georges Terrace, Perth WA, subject to a number of contractual arrangements in exchange for a non-refundable option fee of \$3.8 million. The option period ends on 15 July 2011 and under the terms of the option, the purchase price of the properties is \$152.0 million with settlement due on or before 1 December 2011. Refer to note 7(b)(ii) for reclassification details and note 20 for updates on the exercise of the option subsequent to 30 June 2011.

# COMMONWEALTH PROPERTY OFFICE FUND

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2011

### 7. Investment properties (continued)

#### (a) Details of valuers

Property	Valuer	Qualifications	Company
Finlay Crisp Centre, Canberra ACT	M Fiddin	AAPI	Savills
60 Castlereagh Street, Sydney NSW	S Kearney	AAPI	Savills
36 George Street, Burwood NSW	P Blakeley	FAPI	Colliers International
101 George Street, Parramatta NSW	A Duguid	AAPI	m3
150 George Street, Parramatta NSW	P Rhodes	AAPI	Jones Lang Lasalle
259 George Street, Sydney NSW	A Duguid	AAPI	m3
14 Lee Street, Sydney NSW	R Price	AAPI	CBRE
201 Miller Street, North Sydney NSW	M Pisano	AAPI	Colliers International
56 Pitt Street, Sydney NSW	R Hitter	AAPI	CBRE
5 Martin Place, Sydney NSW	D Hillier	AAPI	Colliers International
175 Pitt Street, Sydney NSW	S Kearney	AAPI	Savills
10 Shelley Street, Sydney NSW	J Marks	AAPI	Jones Lang Lasalle
Site 4B, Sydney Olympic Park NSW	S Young	FAPI	Savills
108 North Terrace, Adelaide SA	C Barlow	AAPI	Knight Frank
45 Pirie Street, Adelaide SA	S Hickin	AAPI	Jones Lang Lasalle
11 Waymouth Street, Adelaide SA	A Harry	AAPI	Colliers International
145 Ann Street, Brisbane QLD	P Zischke	AAPI	Knight Frank
385 Bourke Street, Melbourne VIC	G Boyd	AAPI	Jones Lang Lasalle
2 Southbank Boulevard, Melbourne VIC	A Lett	AAPI	CBRE
46 Colin Street, West Perth WA	J Fenner	AAPI	CBRE
QV Building	D Hillier	AAPI	Colliers International
AXA Headquarters	D Hillier	AAPI	Colliers International
Media House	D Hillier	AAPI	Colliers International
58 Mounts Bay Road, Perth WA	G Kennedy	FAPI	Jones Lang Lasalle
1 Mill Street, Perth WA	G Kennedy	FAPI	Jones Lang Lasalle
5 Mill Street, Perth WA	G Kennedy	FAPI	Jones Lang Lasalle
197 St Georges Terrace, Perth WA	G Kennedy	FAPI	Jones Lang Lasalle

# COMMONWEALTH PROPERTY OFFICE FUND

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2011

### 7. Investment properties (continued)

#### (b) Reconciliations

##### (i) Investment properties

A reconciliation of the carrying amount of investment properties at the beginning and end of the financial year is as follows:

	Note	Consolidated 30 Jun 2011 \$m	Consolidated 30 Jun 2010 \$m
Opening balance		2,666.5	2,531.0
Additions - capital expenditure		65.0	53.1
Additions – interest capitalised <sup>(A)</sup>		3.7	2.2
Additions – asset acquisitions		614.1	131.8
Disposals		-	(14.5)
Investment properties reclassified as non-current assets held for sale	7(b)(ii)	(152.0)	-
Property, plant and equipment reclassified as investment property		-	4.0
Revaluations/(devaluations)		28.2	(31.5)
Leasing fees and incentives deferred		36.3	5.4
Amortisation of leasing fees and incentives		(16.5)	(15.5)
Movement in straight-lining adjustment		4.1	0.5
<b>Closing balance</b>		<b>3,249.4</b>	<b>2,666.5</b>

(A) Borrowing costs incurred in the construction of qualifying assets have been capitalised at a weighted average rate ranging from 6.8% to 7.3% (Jun 2010: 7.4%).

##### (ii) Non-current assets held for sale – investment property

A reconciliation of the carrying amount of investment properties classified as non-current assets held for sale at the beginning and end of the financial year is as follows:

Opening balance		-	-
Reclassification from investment properties <sup>(A)</sup>	7(b)(i)	152.0	-
<b>Closing balance</b>		<b>152.0</b>	<b>-</b>

(A) The investment properties reclassified as non-current assets held for sale are 1 and 5 Mill Street and 197 St Georges Terrace, Perth WA. Refer to note 20 for further details.

#### (c) Capital commitments

Estimated capital expenditure contracted for at reporting date, but not provided for:

Not later than one year	88.8	88.9
Later than one year and not later than five years	53.8	100.7
<b>Total capital commitments</b>	<b>142.6</b>	<b>189.6</b>

# COMMONWEALTH PROPERTY OFFICE FUND

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2011

### 7. Investment properties (continued)

#### (d) Operating lease commitments

Estimated operating lease expenditure in relation to 99-year leasehold of 46 Colin Street, West Perth WA, contracted for at reporting date, but not provided for in the financial statements:

	Consolidated 30 Jun 2011	Consolidated 30 Jun 2010
	\$m	\$m
Not later than one year	1.4	1.4
Later than one year and not later than five years	5.4	5.5
Later than five years	10.0	10.8
<b>Total operating lease commitments</b>	<b>16.8</b>	<b>17.7</b>

#### (e) Operating lease receivables

The investment properties are leased to tenants under long-term operating leases with rentals payable monthly. Minimum rental revenue receivable under non-cancellable operating leases of investment properties are as follows:

Not later than one year	260.8	209.8
Later than one year and not later than five years	778.0	563.5
Later than five years	545.2	255.6
<b>Total operating lease receivables</b>	<b>1,584.0</b>	<b>1,028.9</b>

### 8. Investments in associates

	Ownership %		Consolidated 30 Jun 2011	Consolidated 30 Jun 2010
	2011	2010	\$m	\$m
<b>Non-current</b>				
Kent Street Trust <sup>1(A)</sup>	50	50	83.1	80.5
Grosvenor Place Holdings Trust <sup>2(A)</sup>	50	50	252.4	248.6
Site 6 Homebush Bay Trust <sup>3(A)</sup>	50	50	32.5	32.0
Site 7 Homebush Bay Trust <sup>4(A)</sup>	50	50	44.6	44.2
PIF Managed Property Pty Limited <sup>5</sup>	50	50	-	-
Grosvenor Place Pty Limited <sup>6</sup>	25	25	-	-
<b>Total investments in associates</b>			<b>412.6</b>	<b>405.3</b>

(A) The titles to these properties are leasehold and the remaining lease terms range from approximately 74 to 97 years.

(1) The Fund owns 50% of the units in the Kent Street Trust, which in turn owns 50% of 201-207 Kent Street, Sydney. The Fund therefore indirectly owns 25% of the property. At 30 June 2011, the property was independently valued at \$310.0 million (100%) (Jun 2010: \$300.0 million). It has been determined that the Fund's 50% interest in the Trust does not represent control.

(2) The Fund owns 50% of the units in the Grosvenor Place Holdings Trust, which in turn owns 50% of 225 George Street, Sydney. The Fund therefore indirectly owns 25% of the property. At 30 June 2011, the property was independently valued at \$1.02 billion (100%) (Jun 2010: \$1.0 billion). It has been determined that the Fund's 50% interest in the Trust does not represent control. The Fund's equity accounted investment includes its share of the non-property assets and liabilities of the Grosvenor Place Holdings Trust.

(3) The Fund owns 50% of the units in the Site 6 Homebush Bay Trust, which in turn owns 100% of 4 Dawn Fraser Avenue, Sydney Olympic Park (formerly known as Site 6 Dawn Fraser Avenue). The Fund therefore indirectly owns 50% of the property. At 30 June 2011, the property was independently valued at \$65.0 million (100%) (Jun 2010: \$64.0 million). It has been determined that the Fund's 50% interest in the Trust does not represent control. The Fund's equity accounted investment includes its share of the non-property assets and liabilities of Site 6 Homebush Bay Trust.

(4) The Fund owns 50% of the units in the Site 7 Homebush Bay Trust, which in turn owns 100% of 2 Dawn Fraser Avenue, Sydney Olympic Park (formerly known as Site 7 Dawn Fraser Avenue). The Fund therefore indirectly owns 50% of the property. At 30 June 2011, the property was independently valued at \$90.0 million (100%) (Jun 2010: \$89.0 million). It has been determined that the Fund's 50% interest in the Trust does not represent control. The Fund's equity accounted investment includes its share of the non-property assets and liabilities of Site 7 Homebush Bay Trust.

(5) In February 2004, the Fund established an effective 50% interest in PIF Managed Property Pty Limited at a nominal cost of \$10. The net assets at reporting date were \$10. It has been determined that the Fund's 50% interest in the company does not represent control.

(6) On 21 November 2008, the Fund purchased a 25% interest in Grosvenor Place Pty Limited from Commonwealth Funds Management Pty Limited at a nominal cost of \$25. Grosvenor Place Pty Limited is a dormant company with net assets of \$100.

All associates are domiciled in Australia, and their principal activity is investment in office property.

# COMMONWEALTH PROPERTY OFFICE FUND

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2011

### 8. Investment in associates (continued)

#### (a) Equity accounting information

The Fund's share of its associates' financial information is:

	Consolidated 30 Jun 2011 \$m	Consolidated 30 Jun 2010 \$m
Assets	502.3	488.4
Liabilities	89.7	83.1
Revenue	33.3	31.8
Net profit after tax expense	34.1	29.5

#### (b) Share of associates' commitments and contingencies

The Fund's share of its associates' capital expenditure commitments which have been approved but not provided for at reporting date, operating lease commitments and contingencies is set out below:

Capital commitments	0.1	0.3
Lease commitments payable	13.2	19.2
Lease commitments receivable	148.0	172.0
Other expenditure commitments	1.2	1.3
Contingent liabilities	-	-

# COMMONWEALTH PROPERTY OFFICE FUND

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2011

### 9. Interests in jointly controlled properties

The Fund has a 50% participating interest in the following jointly controlled properties and is entitled to 50% of their output. The Fund's interests in the assets and liabilities of the jointly controlled properties are included in the statement of financial position in accordance with accounting policy note 1(c)(iii) under the following classifications:

As at 30 June 2011	QV Building, 180-222 Lonsdale St, Melbourne \$m	2 Southbank Boulevard, Melbourne \$m	10 Shelley Street, Sydney \$m	58 Mounts Bay Rd, Perth \$m
Current assets	3.3	0.6	0.1	-
Non-current assets	<sup>(A)</sup> 283.6	176.0	134.0	100.0
<b>Total assets</b>	<b>286.9</b>	<b>176.6</b>	<b>134.1</b>	<b>100.0</b>
Current liabilities	2.3	0.8	0.1	0.5
<b>Total liabilities</b>	<b>2.3</b>	<b>0.8</b>	<b>0.1</b>	<b>0.5</b>

(A) The carrying amount of non-current assets differs to the total QV Building investment property balance included within note 7. The difference relates to the 100% owned creche valued at \$2.2 million at 30 June 2011 which is not included within interests in jointly owned properties.

#### Share of revenues, expenses and results

Revenue	16.5	16.7	13.8	8.9
Expenses	4.5	4.1	2.2	1.8
<b>Net profit</b>	<b>12.0</b>	<b>12.6</b>	<b>11.6</b>	<b>7.1</b>

#### As at 30 June 2010

Current assets	-	1.4	0.3	-
Non-current assets	-	165.5	131.0	100.2
<b>Total assets</b>	<b>-</b>	<b>166.9</b>	<b>131.3</b>	<b>100.2</b>
Current liabilities	-	0.8	0.4	1.1
<b>Total liabilities</b>	<b>-</b>	<b>0.8</b>	<b>0.4</b>	<b>1.1</b>

#### Share of revenues, expenses and results

Revenue	-	16.9	13.4	0.1
Expenses	-	4.5	2.0	-
<b>Net profit</b>	<b>-</b>	<b>12.4</b>	<b>11.4</b>	<b>0.1</b>

#### (a) Share of jointly controlled properties' commitments and contingencies

The Fund's share of its jointly controlled properties' capital expenditure commitments which have been approved but not provided for at reporting date, operating lease commitments and contingencies is set out below.

Lease commitments receivable	295.8	226.3
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The Fund's interest in the commitments of its jointly controlled properties is included within total investment property commitments with note 7(c), (d) and (e).

# COMMONWEALTH PROPERTY OFFICE FUND

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2011

### 10. Payables

	Consolidated 30 Jun 2011 \$m	Consolidated 30 Jun 2010 \$m
Accrued property expenses	20.6	13.5
Rents received in advance	4.3	3.9
Accrued interest expense	6.6	1.0
Accrued capital expenditure	38.0	26.3
Other	4.3	2.3
<b>Total payables</b>	<b>73.8</b>	<b>47.0</b>

### 11. Interest bearing liabilities

#### Current – unsecured

Cash advance facility	-	58.2
Medium-term notes	-	198.9
Short-term notes	100.0	-
<b>Total current interest bearing liabilities</b>	<b>100.0</b>	<b>257.1</b>

#### Non-current - unsecured

Cash advance facility	249.3	-
US medium-term notes	208.0	265.8
Convertible notes <sup>(A)</sup>	177.0	171.6
Medium-term notes	199.0	-
<b>Total non-current interest bearing liabilities</b>	<b>833.3</b>	<b>437.4</b>
<b>Total interest bearing liabilities</b>	<b>933.3</b>	<b>694.5</b>

(A) On 11 December 2009, the Fund executed a \$200 million issuance of senior, unsecured convertible notes, redeemable at the option of the noteholder on 11 December 2014. Unless previously redeemed or converted to ordinary units, the notes will be redeemed on the final maturity date of 11 December 2016. At 30 June 2011, the conversion price is \$1.1255 per unit. The price is subject to adjustments in accordance with the Offering Circular. The notes were issued to fund the acquisitions of 145 Ann Street, Brisbane and 58 Mounts Bay Road, Perth. The notes are listed on the Singapore Stock Exchange.

#### (a) Reconciliation of convertible notes

A reconciliation of the carrying amounts of the convertible notes at the beginning and end of the financial year is set out below:

Opening balance	171.6	-
Face value of notes issued	-	200.0
Less: Value of conversion right <sup>(A)</sup>	-	(27.8)
Change in unamortised issue costs	0.5	(3.1)
	172.1	169.1
Interest expense at market rate <sup>(B)</sup>	15.4	8.3
Less: Accumulated coupon paid and payable	(10.5)	(5.8)
<b>Closing balance of convertible notes</b>	<b>177.0</b>	<b>171.6</b>

(A) A portion of the proceeds from the issue of the convertible notes is deemed to represent the value of the conversion option and is recognised as equity. The fair value of the liability portion of the convertible notes is determined using a market interest rate for an equivalent non-convertible bond at the date of issue. This amount is recorded as a liability until extinguished on conversion or maturity of the notes. The remainder of the proceeds are allocated to the conversion option and classified as equity.

(B) The difference of \$4.9 million (Jun 2010: \$2.5 million) between interest expense calculated at the market rate for an equivalent non-convertible bond and the coupon rate paid is included in borrowing costs expense in the statement of comprehensive income and added to the carrying amount of the convertible notes liability in the statement of financial position. As a result, on 11 December 2014, the carrying amount of the liability will be equal to the face value of the notes less any amounts converted to units.

# COMMONWEALTH PROPERTY OFFICE FUND

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2011

### 11. Interest bearing liabilities (continued)

#### (b) Financing facilities

The Fund has the following facilities available:

	Expiry	30 June 2011			30 June 2010		
		Drawn <sup>(H)</sup> \$m	Facility limit \$m	Undrawn line of credit \$m	Drawn <sup>(H)</sup> \$m	Facility limit \$m	Undrawn line of credit \$m
Cash advance facility <sup>(A)</sup>	19 Mar 11	-	-	-	62.0	95.0	33.0
Cash advance facility <sup>(B)</sup>	11 Aug 11	-	-	-	-	150.0	150.0
Cash advance facility <sup>(A)</sup>	29 Sep 12	-	-	-	-	250.0	250.0
Cash advance facility <sup>(C)</sup>	10 Feb 14	155.0	155.0	-	-	-	-
Cash advance facility <sup>(A)</sup>	28 Feb 14	47.0	300.0	253.0	-	-	-
Cash advance facility <sup>(D)</sup>	21 Jun 15	50.0	220.0	170.0	-	220.0	220.0
Short-term notes <sup>(E)</sup>	6 Jul to 27 Jul 11	100.0	100.0	-	-	-	-
Medium-term notes <sup>(F)</sup>	28 Jun 11	-	-	-	200.0	200.0	-
Medium-term notes <sup>(F)</sup>	11 Mar 16	200.0	200.0	-	-	-	-
Convertible notes <sup>(G)</sup>	11 Dec 14	200.0	200.0	-	200.0	200.0	-
US medium-term notes	22 Dec 12 to 22 Dec 17	208.1	208.1	-	266.1	266.1	-
		<b>960.1</b>		<b>423.0</b>	<b>728.1</b>		<b>653.0</b>
Less: Short-term notes drawn <sup>(I)</sup>				(100.0)			-
<b>Total undrawn lines of credit</b>				<b>323.0</b>			<b>653.0</b>

- (A) In February 2011, the Fund concluded the remixing, repricing and extension of a \$345 million bank debt facility. The initial tranche of \$95 million was due to mature in March 2011 and a second \$250 million tranche was due to mature in September 2012. This facility has been reduced by \$45 million and extended to February 2014.
- (B) On 10 March 2010, the Fund terminated a \$150 million bank debt facility. This facility is no longer available.
- (C) In December 2010, the Fund entered into a new bank debt facility of \$155 million to partly finance the purchase of the AXA Headquarters. The facility has a maturity date of February 2014.
- (D) In February 2011, this bank debt facility was repriced achieving reductions in both line fees and margins.
- (E) The Fund has a same day funding facility of \$150 million within existing bank debt facilities that provides liquidity support for maturing short-term notes.
- (F) On 11 March 2011, the Fund issued new five- year fixed rate medium-term notes (MTNs) for a total of \$200 million. The proceeds of the new issue were used to buy-back \$158 million of existing MTNs due on 28 June 2011 and repay \$42 million of MTNs upon maturity in June 2011.
- (G) The convertible notes are redeemable at the option of the noteholder on 11 December 2014. Unless previously redeemed or converted to ordinary units, the notes will be redeemed on the final maturity date of 11 December 2016.
- (H) In accordance with AASB139 Financial Instruments: Recognition and Measurement, interest bearing liabilities are carried at amortised cost, net of deferred borrowing costs of \$6.4 million (Jun 2010: \$8.4 million) and other adjustments to convertible notes of \$20.4 million (Jun 2010: \$25.2 million). However, for the purpose of this reconciliation, the actual drawn amounts are used and not adjusted to amortised cost.
- (I) As the Fund's same day funding facility was in place to provide liquidity support to maturing short-term notes, the capacity of the facilities is reduced by the total amount of short-term notes issued.

The facilities are senior unsecured. The Fund has a long-term credit rating of A3 from Moody's and A-/stable from Standard & Poor's. Refer to note 19 for details of the Fund's debt covenants and the fair value of the liabilities.

# COMMONWEALTH PROPERTY OFFICE FUND

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2011

### 12. Contributed equity

	Note	30 Jun 2011 No. of units '000	30 Jun 2010 No. of units '000	30 Jun 2011 \$m	30 Jun 2010 \$m
Opening balance		2,012,803	1,860,814	2,111.8	1,944.2
Issue of units	(b)(i)	-	109,890	-	100.0
Issue of units	(b)(ii)	-	15,890	-	20.7
Issue of units	(b)(iii)	-	26,209	-	23.9
Issue of units	(b)(iv)	278,553	-	239.5	-
Issue of units	(b)(v)	50,000	-	43.0	-
Issue of units	(b)(vi)	40,062	-	34.4	-
Issue of units	(b)(vii)	68,182	-	60.0	-
Unit issue costs		-	-	(6.9)	(1.6)
Value of conversion rights on convertible notes <sup>(A)</sup>		-	-	-	24.6
<b>Total contributed equity</b>		<b>2,449,600</b>	<b>2,012,803</b>	<b>2,481.8</b>	<b>2,111.8</b>

(A) On 11 December 2009, the Fund successfully executed a \$200 million issuance of senior, unsecured convertible notes, redeemable at the option of the noteholder on 11 December 2014. The proceeds from the issue of the convertible notes represent the fair value of an equivalent non-convertible bond and the fair value of the conversion options. The fair value of the conversion options of \$27.8 million was initially recognised as liability due to restrictions on the issue of units upon conversion. The restrictions on the issue of units were lifted following the unitholder vote in March 2010, at which time the fair value of the conversion options was revalued to \$24.6 million and reclassified as equity. As the conversion options are subject to fair value adjustments through the statement of comprehensive income, the gain on the revaluation of the conversion option of \$3.2 million was recognised within the other fair value adjustments to derivatives.

#### (a) Rights and restrictions over units

Each unit ranks equally with all other units for the purpose of distributions and on termination of the Fund.

#### (b) Placement of units

- (i) On 24 November 2009, the Fund issued 109,890,110 units at \$0.91 per unit via an institutional placement. The funds raised were used to retire existing bank debt.
- (ii) On 12 April 2010, 15,890,452 units were issued to the Manager, Colonial First State Property Limited (CFSPL) in satisfaction of the \$20,769,576 of cumulative accrued performance fee for the six-month periods ended 30 June 2008, 31 December 2008, 30 June 2009 and 31 December 2009.
- (iii) On 6 January 2010, the Fund issued 26,208,685 units at \$0.91 per unit via a unitholder purchase plan. The funds raised were used to retire existing bank debt and partially fund distribution payments to unitholders in February 2010.
- (iv) On 29 November 2010, the Fund issued 184,417,770 units via an institutional equity placement, 93,297,764 units via the institutional component of the non-renounceable entitlement offer and 837,675 units under the early acceptance retail component of the non-renounceable entitlement offer. All units were issued at \$0.86 per unit. The proceeds were used to partly fund the acquisition of Media House and QV Building.
- (v) On 30 November 2010, the Fund issued 50 million units at \$0.86 per unit to the vendor as part of the consideration for the acquisition of QV Building.
- (vi) On 17 December 2010, the Fund issued 40,061,453 units at \$0.86 per unit under the final close of the retail component of the non-renounceable entitlement offer. The proceeds were used to partly fund the acquisition of AXA Headquarters.
- (vii) On 21 December 2010, the Fund issued 68,181,819 units at \$0.88 per unit. The proceeds were used to pay a portion of the consideration to the vendors for the purchase of AXA Headquarters.

#### (c) Unit buy-back

There is currently no on-market buy-back scheme for the Fund's units.

# COMMONWEALTH PROPERTY OFFICE FUND

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2011

### 13. Reserves

	Note	Consolidated 30 Jun 2011 \$m	Consolidated 30 Jun 2010 \$m
Undistributed reserve		225.7	161.1
<b>Total reserves</b>		<b>225.7</b>	<b>161.1</b>

Reconciliation of the movements in the reserve at the beginning and end of the current financial year:

#### Undistributed reserve

Opening balance		161.1	188.1
Net profit for the financial year		197.7	114.2
Less: Responsible Entity's performance fee to be settled in units	14(d)(ii)	1.7	(33.5)
Less: Distributions paid and payable	4	(134.8)	(107.7)
<b>Closing balance of undistributed reserve</b>		<b>225.7</b>	<b>161.1</b>

The closing balance of the undistributed reserve comprises:

Unrealised loss on derivatives		(10.7)	(20.6)
Unrealised straight-lining revenue		52.8	48.7
Responsible Entity's performance fee to be settled in units		9.5	7.8
Net gain on properties and associates and other retained earnings <sup>(A)</sup>		174.1	125.2
		<b>225.7</b>	<b>161.1</b>

(A) The movement comprises the movements in fair values of investment properties and associates (\$35.3 million), the amount withheld from the revised distribution policy (add \$31.0 million), the transfer to fund the distribution (less \$10.5 million), the write-back of the fair value of 'carry-over' outperformance (add \$3.3 million), the realised loss on termination of interest rate swaps (less \$5.3 million) and the non-cash interest expense for convertible notes (less \$4.9 million).

The undistributed reserve is used to record the Fund's net profit for the financial year and the distributions paid and provided for during the financial year.

# COMMONWEALTH PROPERTY OFFICE FUND

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2011

### 14. Related parties

#### (a) Responsible Entity and Manager

Commonwealth Managed Investments Limited (CMIL), the Responsible Entity, has appointed Colonial First State Property Limited (CFSPL) as the Manager of the Fund. CMIL is a wholly owned subsidiary of Colonial First State Group Limited (CFSG). CFSG and CFSPL are wholly owned subsidiaries of the Bank, the ultimate parent of the group, and are considered to be related parties of the Fund.

#### (b) Trustee of the Fund's sub-trusts

CFS Managed Property Limited (ABN 13 006 464 428), the Trustee of the Fund's sub-trusts, is a wholly owned subsidiary of the Bank and is considered to be a related party of the Fund. CFS Managed Property Limited has not received a fee for acting as Trustee of the sub-trusts.

#### (c) Details of Key Management Personnel

##### (i) Directors

The Directors of CMIL, the Responsible Entity of the Fund, are considered to be Key Management Personnel.

##### Chairman – Non-executive Director

R M Haddock

##### Non-executive Directors

J F Kropp

N J Milne

##### Executive Directors

G A Petersen

M J Venter (Executive Director for the full financial year and appointed alternate for G A Petersen on 4 July 2011)

G Johnston (alternate for G A Petersen) (resigned 4 July 2011)

##### (ii) Other Key Management Personnel

In addition to the Directors noted above, the following persons are Key Management Personnel with the authority for the strategic direction and management of the Fund.

Name	Position	Employer
Darren Steinberg	Managing Director Property	Commonwealth Bank of Australia
Charles Moore	Fund Manager	Commonwealth Bank of Australia

##### (iii) Remuneration of Key Management Personnel

Compensation is paid to the Responsible Entity in the form of fees and is disclosed in note 14(d). No other amounts are paid by the Fund directly or indirectly to the Key Management Personnel for services provided to the Fund.

The Directors of the Responsible Entity receive remuneration in their capacity as Directors of the Responsible Entity. Remuneration of non-executive Directors is paid directly by the Responsible Entity or related party. Executive Directors are employed as executives of the Bank, and in that capacity, part of their role is to act as a Director of the Responsible Entity. Other Key Management Personnel are employed and paid by the Bank. Consequently, no compensation as defined in AASB 124 Related Parties is paid by the Fund to its Key Management Personnel, other than that paid to the Responsible Entity.

# COMMONWEALTH PROPERTY OFFICE FUND

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2011

### 14. Related parties (continued)

#### (d) Responsible Entity fees

##### (i) Base fees

In accordance with the Fund Constitution, CMIL is entitled to receive a base fee of 0.45% per annum of the gross asset value of the Fund less any derivative assets, calculated and accrued on a monthly basis and payable quarterly in arrears.

The Responsible Entity's base fee for the financial year ended 30 June 2011 is \$14,316,945 (Jun 2010: \$13,509,648). As at 30 June 2011, the total amount owed to the Responsible Entity in relation to base fees is \$3,644,440 (Jun 2010: \$3,391,598).

##### (ii) Performance fees

The Responsible Entity is entitled to a performance fee if the Fund's total return (distributions and unit price performance) exceeds the benchmark provided by Standard & Poor's. The benchmark is the UBS Commercial 200 Property Trust Accumulation Index, customised to remove the effect of the Fund on the index. The 20-day volume weighted average price (VWAP) is used in both the Fund's price and in the customised index. The performance fee entitlement is determined on the Fund's cumulative performance since the last period in which a performance fee was accrued (the date of last reset). Maximum fee entitlement for a six-month performance period absorbs 1.67% of outperformance.

Performance fees are paid via the issue of units to the Manager. The number of units to be issued upon settlement of the performance fee is based on the higher of the Fund's net tangible assets (NTA) and the 10-day VWAP post the performance fee period. These units are accrued at the time of entitlement and issued when the Fund achieves positive, absolute performance.

The measure of outperformance will be assessed on a cumulative basis, meaning any underperformance needs to be earned back before the Responsible Entity can earn performance units (refer to the Fund Constitution for the complete method of calculation of the performance fee).

The performance fee is calculated and payable, if the Responsible Entity is entitled, each half-year at December and June. The performance fee rate is calculated as 5% of the first 1% of outperformance and 15% of outperformance in excess of 1%. This rate is multiplied by the Fund's gross asset value. The fee is capped at 0.15% per six-month period of the Fund's gross asset value.

Although the amount of the performance fee to be paid each period is capped, the 'carry-over' outperformance may be used to generate performance fee entitlement in future periods. The fair value of the outperformance is calculated by assigning probabilities to the likelihood of paying capped performance fees in future periods, and discounting these estimated cash flows to the reporting date.

The performance fee for the financial year ended 30 June 2011 was \$4,959,372 (Jun 2010: \$9,006,431). As the Fund achieved positive absolute performance for the six-month period to 30 June 2011, 8,523,841 units will be issued to the Manager in satisfaction of the \$9,496,685 cumulative accrued performance fee for the six-month periods ended 30 June 2010 and 31 December 2010. As the NTA at 30 June 2010 and 31 December 2010 was higher than the 10-day volume weighted average price post these performance fee periods, units will be issued at the NTA of \$1.13 and \$1.10 respectively.

As there is no carried over outperformance, the fair value of the 'carry-over' outperformance has been valued at nil (Jun 2010: \$3,270,770) resulting in a write-back in the statement of comprehensive income of \$3,270,770 (Jun 2010: \$21,827,250).

# COMMONWEALTH PROPERTY OFFICE FUND

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2011

### 14. Related parties (continued)

#### (ii) Performance fees (continued)

2011 financial year    2010 financial year

#### Determination of performance fee for the six months to 31 December

*Performance since date of last reset<sup>(A)</sup>:*

Opening 'carry-over' outperformance (percentage points)	18.48	32.66
Commonwealth Property Office Fund <sup>(A)</sup> (%)	(8.04)	13.05
Commercial Property Trust Accumulation Index (%) <sup>(A)</sup>	4.83	34.32
Current (under)/outperformance (percentage points)	(12.87)	(21.27)
'Carry-over' outperformance (percentage points)	5.61	11.39
'Carry-over' absorbed to fund maximum performance fee for the half-year (percentage points)	(1.67)	(1.67)
<b>Closing 'carry-over' outperformance (percentage points)</b>	<b>3.94</b>	<b>9.72</b>
	<b>\$'000</b>	<b>\$'000</b>
Performance fee for the six months to 31 December	4,959	4,469

#### Determination of performance fee for the six months to 30 June

*Performance since date of last reset<sup>(A)</sup>:*

Opening 'carry-over' outperformance (percentage points)	3.94	9.72
Commonwealth Property Office Fund <sup>(A)</sup> (%)	15.37	(0.07)
Commercial Property Trust Accumulation Index (%) <sup>(A)</sup>	22.46	(10.50)
Current (under)/outperformance (percentage points)	(7.09)	10.43
'Carry-over' outperformance (percentage points)	-	20.15
'Carry-over' absorbed to fund maximum performance fee for the half-year (percentage points)	-	(1.67)
<b>Closing 'carry-over' outperformance (percentage points)</b>	<b>-</b>	<b>18.48</b>
	<b>\$'000</b>	<b>\$'000</b>
Performance fee for the six months to 30 June	-	4,537
Total capped performance fees for the financial year <sup>(B)</sup>	4,959	9,006
Movement in fair value of 'carry-over' outperformance <sup>(C)</sup>	(3,271)	(21,827)
Total performance fee recognised in the statement of comprehensive income <sup>(C)</sup>	1,688	(12,821)
Corresponding transfer to equity	(3,271)	(21,827)

(A) Calculated in accordance with the customised index provided by Standard & Poor's. The 20-day volume weighted average price is used in both the Fund price and in the customised UBS Commercial 200 Property Trust Accumulation Index (which excludes the Fund). In accordance with the performance fee methodology, the performance fee is determined on the Fund's performance since the last period in which a performance fee was accrued (the date of the last reset).

(B) Performance fee is capped at 0.15% of the Fund's average gross asset value per six-month period, based on performance since the date of last reset.

(C) Although the amount of the performance fee to be paid each period is capped, the 'carry-over' outperformance may be used to absorb performance fee entitlement in future periods. At 30 June 2011, the value of the 'carry-over' outperformance was calculated as nil based on the Fund performance in the last six months.

# COMMONWEALTH PROPERTY OFFICE FUND

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2011

### 14. Related parties (continued)

#### (e) Related party unitholdings

Directors, employees and associates of CMIL and entities controlled by the Bank may hold investments in the Fund. Such investments were purchased on normal commercial terms and were at arm's length. The number of units held by Directors of CMIL (including entities controlled, jointly controlled or significantly influenced by them), the Bank and other funds managed by Bank related entities are as follows:

	Parent entity No. of fully paid units 30 Jun 2011	Parent entity No. of fully paid units 30 Jun 2010
Commonwealth Bank of Australia and related entities	222,526,748	229,544,820
Dunefort Pty Limited <sup>(1)</sup>	37,239	37,239

(1) Dunefort Pty Limited is the trustee for the self-managed superannuation fund of N J Milne, who was appointed as a non-executive Director of CMIL from 1 January 2009.

#### (f) Rental income

The Bank occupies 17.2% (Jun 2010: 19.1%) of the Fund's lettable area. Rents received during the financial year amounted to \$53,690,205 (Jun 2010: \$57,996,853). The amount outstanding at reporting date is \$nil (Jun 2010: \$nil). All leases are based on normal commercial terms and conditions.

#### (g) Bank accounts

As at 30 June 2011, the Fund has \$13,274,237 cash deposited in bank accounts operated by the Bank (Jun 2010: \$14,096,300). This amount includes the Fund's share of cash held within associate trusts which are equity accounted. Interest received during the financial year in relation to these accounts amounted to \$1,153,217 (Jun 2010: \$1,155,713). These accounts are provided on normal commercial terms and conditions.

#### (h) Interest bearing liabilities

The Fund has a borrowing facility with the Bank. This facility is provided on normal commercial terms and conditions. Borrowings outstanding at reporting date with the Bank are \$47.0 million (Jun 2010: \$62.0 million). Interest paid and payable in respect of the borrowings for the financial year are \$6,176,227 (Jun 2010: \$1,171,531). No amount was prepaid by the Fund to the Bank in respect of these borrowings as at 30 June 2011 (Jun 2010: \$nil).

The Fund has entered into a number of interest rate swaps with the Bank to fix interest payable on \$150.0 million of the Fund's borrowings as at 30 June 2011 (Jun 2010: \$150.0 million). The weighted average rate of these swaps is 5.62% (Jun 2010: 5.62%) and maturity ranges from 19 October 2011 to 1 December 2011 (Jun 2010: 9 October 2011 to 1 December 2011). Interest of \$1,203,759 (Jun 2010: \$1,146,292) was paid during the financial year in relation to these swaps.

The Fund has also entered into a number of forward dated interest rate swaps with the Bank to fix interest payable on \$350.0 million (Jun 2010: \$425.0 million) of the Fund's future borrowings. The weighted average rate of these swaps is 5.61% (Jun 2010: 5.65%) and maturity ranges from 10 July 2013 to 1 October 2018 (Jun 2010: 10 July 2013 to 1 October 2018).

All swaps are on normal commercial terms and conditions.

#### (i) Alignment fee income

Colonial First State Management Pty Ltd (CFSM), a wholly owned subsidiary of the Bank, derives revenue from the Fund assets which it manages. The Fund is entitled to an alignment fee, being a share of its assets' contribution towards CFSM's distributable income. Total alignment fee income of the Fund for the financial year ended 30 June 2011 was \$807,050 (Jun 2010: \$445,000) and the amount receivable at reporting date is \$424,588 (Jun 2010: \$209,987).

# COMMONWEALTH PROPERTY OFFICE FUND

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2011

### 14. Related parties (continued)

#### (j) Other related party transactions

Identity of related party	Nature of relationship	Type of transaction	Terms and conditions	12 months to 30 Jun 2011 \$	12 months to 30 Jun 2010 \$
Colonial First State Management Pty Ltd	Property manager of the Fund	Property management fees paid/payable by the Fund to Colonial First State Property Management Pty Ltd	Arm's length in accordance with the property management agreement	10,430,297	9,205,548
Colonial First State Management Pty Ltd	Development manager of the Fund	Development fees paid/payable by the Fund to Colonial First State Property Management Pty Ltd	Arm's length in accordance with the development management agreement	2,239,751	1,813,752

#### (k) Property jointly owned by funds

Direct Property Investment Fund, a related party of the Fund, has a 50% interest in the following trusts:

- Grosvenor Place Holding Trust, which holds a 50% interest in the property known as Grosvenor Place, Sydney NSW.
- Site 6 Homebush Bay Trust, which holds a 100% interest in 4 Dawn Fraser Avenue, Sydney Olympic Park.
- Site 7 Homebush Bay Trust, which holds a 100% interest in 2 Dawn Fraser Avenue, Sydney Olympic Park.
- Kent Street Trust, which holds a 50% interest in 201-207 Kent Street, Sydney NSW.

The Fund owns 100% of 5 Martin Place, Sydney (formerly 120 Pitt Street), 150 and 101 George Street, Parramatta and 385 Bourke Street, Melbourne which are leased by the Bank. Arrangements are in place to the effect that if CMIL ceases to be the Responsible Entity or should the Fund wish to sell the properties, then the Bank has the right to reacquire the properties at market value.

Colonial First State Property Limited, a related party of the Fund, owns an effective 50% interest in PIF Managed Property Pty Limited. In the event of a change of the Fund's Responsible Entity to a non-related party of the Bank, the income stream from PIF Managed Property Pty Limited reverts back to Colonial First State Property Limited.

# COMMONWEALTH PROPERTY OFFICE FUND

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2011

### 15. Notes to the statement of cash flows

Reconciliation of net profit for the financial year to net cash provided by operating activities:

	Note	Consolidated 30 Jun 2011 \$m	Consolidated 30 Jun 2010 \$m
<b>Net profit for the financial year</b>		<b>197.7</b>	<b>114.2</b>
Straight-lining adjustment		(4.1)	(0.5)
Increase/(decrease) in payables		14.2	(9.6)
(Increase)/decrease in receivables and other assets		(14.8)	7.3
Interest capitalised		(3.7)	(2.2)
Provision for performance fee to be settled in units/(write-back)		1.7	(12.8)
Fair value adjustments to investment properties and associates		(35.3)	27.9
Other fair value adjustments to derivatives		(4.6)	13.9
Payments for derivatives		(5.3)	(12.3)
Amortisation of leasehold improvement		16.5	15.5
Non-cash convertible notes interest expense		4.9	2.5
<b>Net cash provided by operating activities</b>		<b>167.2</b>	<b>143.9</b>

#### (a) Reconciliation of cash

Cash and cash equivalents as at reporting date comprises cash at bank and money market securities.

#### (b) Financing arrangements

Refer to note 11(b) for details of the Fund's financing facilities. The Fund has no other lines of credit.

### 16. Non-cash financing and investing activities

Distributions reinvested:

Grosvenor Place Holding Trust		-	1.3
<b>Total distributions reinvested</b>		<b>-</b>	<b>1.3</b>

Issue of units in consideration of performance fee	12	-	<b>20.7</b>
Issue of units as part of the consideration for QV building and AXA headquarters	12(b)(v)(vii)	<b>103.0</b>	-

# COMMONWEALTH PROPERTY OFFICE FUND

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2011

### 17. Earnings per unit

	Note	Consolidated 30 Jun 2011	Consolidated 30 Jun 2010
<b>Basic earnings per unit</b>			
Basic earnings in cents per unit		8.73	5.89
Alternative basic earnings in cents per unit		6.86	7.02
<b>Diluted earnings per unit</b>			
Diluted earnings in cents per unit		8.70	5.78
Alternative diluted earnings in cents per unit		6.77	6.70

#### (a) Weighted average number of units used in calculating earnings per unit

		30 Jun 2011 No. of units '000	30 Jun 2010 No. of units '000
Weighted average number of units used as the denominator in calculating basic earnings per unit (epu)		2,262,675	1,940,646
Adjustments for calculation of diluted earnings per unit:			
Performance fees settled through the issue of units	14(d)(ii)	8,524	4,015
Convertible notes converted into units <sup>(A)</sup>		177,699	175,824
Weighted average number of units and units used as the denominator in calculating the diluted earnings per unit (epu)		<b>2,448,898</b>	<b>2,120,485</b>

(A) The number of units to be issued upon conversion is calculated on the assumption that \$200.0 million of convertible notes will be converted into units at the price of \$1.1255.

#### (b) Reconciliations of earnings used in calculating earnings per unit

The following reflects the income denominator used in the basic and alternative basic earnings per unit calculations:

		Consolidated 30 Jun 2011 \$m	Consolidated 30 Jun 2010 \$m
Net profit/(loss) for the financial year		197.7	114.2
<b>Earnings used in calculating basic epu</b>		<b>197.7</b>	<b>114.2</b>
Adjustments for:			
Fair value adjustments from investment properties and associates		(35.3)	27.9
Other fair value adjustments to derivatives		(4.6)	13.9
Movement in fair value of unrealised performance fees		(3.3)	(21.8)
Straight-lining adjustment		(4.1)	(0.5)
Non-cash convertible notes interest expense		4.9	2.5
<b>Earnings used in calculating alternative basic epu</b>	2	<b>155.3</b>	<b>136.2</b>

# COMMONWEALTH PROPERTY OFFICE FUND

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2011

### 17. Earnings per unit (continued)

#### (b) Reconciliations of earnings used in calculating earnings per unit (continued)

The following reflects the income denominator used in the diluted and alternative diluted earnings per unit calculations:

	Consolidated 30 Jun 2011 \$m	Consolidated 30 Jun 2010 \$m
Net profit for the financial year	197.7	114.2
Adjusted for:		
Borrowing costs attributable to convertible notes	15.4	8.4
<b>Earnings used in calculating diluted epu</b>	<b>213.1</b>	<b>122.6</b>
Adjustments for:		
Fair value adjustments from investment properties and associates	(35.3)	27.9
Other fair value adjustments to derivatives	(4.6)	13.9
Movement in fair value of unrealised performance fees	(3.3)	(21.8)
Straight-lining revenue	(4.1)	(0.5)
<b>Earnings used in calculating alternative diluted epu</b>	<b>165.8</b>	<b>142.1</b>

### 18. Auditor's remuneration

Amounts received or due and receivable by the auditor of the Fund, PricewaterhouseCoopers:

	Consolidated 30 Jun 2011 \$	Consolidated 30 Jun 2010 \$
<b>Audit services</b>		
Statutory audit and review of financial reports	398,309	220,742
Regulatory required audits	16,865	15,352
Other assurance services	163,384	214,238
<b>Total auditor's remuneration expensed</b>	<b>578,558</b>	<b>450,332</b>
<b>Non-audit services</b>		
Due diligence services	71,455	150,000
<b>Total auditor's remuneration capitalised<sup>(A)</sup></b>	<b>71,455</b>	<b>150,000</b>
<b>Total auditor's remuneration</b>	<b>650,013</b>	<b>600,332</b>

(A) The capitalised auditor's remuneration of \$71,455 relates to the due diligence work performed on the acquisition of QV Building, AXA Headquarters, Media House and 145 Ann Street, Brisbane (Jun 2010: capitalised auditor's remuneration of \$150,000 related to procedures performed for the convertible notes offer documents and was booked as part of deferred borrowing costs).

# COMMONWEALTH PROPERTY OFFICE FUND

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2011

### 19. Capital and financial risk management

The Fund's overall risk management program focuses on ensuring compliance with the Fund's Constitution and seeks to maximise the returns derived for the level of risk to which the Fund is exposed.

Capital and financial risk management is carried out by the Manager through the Capital Strategy and Risk Management Group (CSRMM). CSRMM identifies, evaluates and hedges financial risks in consultation with the Fund Manager and reports directly to the Capital Management Committee (CMC). The CMC is charged with overseeing the capital and financial risk management function under policies approved by the Manager and Responsible Entity's Board of Directors (Board) and in accordance with the Fund Constitution and compliance plan.

On an annual basis, the Fund's capital management strategy is reviewed and adjusted, where necessary, by CSRMM in conjunction with the Fund Manager and presented to the CMC and the Board for approval. This strategy includes the debt and hedging strategy overview for the Fund.

The Fund's objective when managing its capital requirements is to maintain an optimal capital structure to reduce the cost of capital, considering the balance between risks and returns to investors, while ensuring that the Fund:

- complies with capital requirements of the Constitution, regulatory authorities and lenders
- maintains a strong credit rating, and
- continues to operate as a going concern.

#### (a) Debt covenants

Throughout the capital management process, the Fund considers any likely impact its actions may have on the financial strength ratings set down by independent ratings agencies. Any change to these ratings may have an impact on the Fund's ability to access funding and the cost at which it can be secured. The Fund performed a review of debt covenants as at 30 June 2011 and no breaches were identified.

As at reporting date, the Fund's most restrictive debt covenants are:

	Covenant	Actual 30 June 2011	Actual 30 June 2010
LVR <sup>(1)</sup>	45% or less	30.0%	26.8%
ICR <sup>(2)</sup>	2.0 times or greater	3.2 times	3.5 times

(1) LVR is calculated as total liabilities divided by total assets excluding the effect of the option component of the convertible notes and the non-cash impact of the mark to market of the derivatives.

(2) ICR is calculated as earnings before interest divided by net interest expense. For the purposes of this calculation, earnings represent net profit excluding all fair value adjustments, straight-lining revenue, borrowing costs and net interest expense on interest rate swaps. Interest expense is the sum of borrowing costs, net interest expense on interest rate swaps, and capitalised interest, less non-cash convertible notes interest expense.

The Fund may alter its capital mix by drawing upon existing credit facilities, issuing new securities, offering a distribution plan, underwriting the distribution reinvestment plan, divesting assets to repay borrowings, or undertaking a security buy-back program.

# COMMONWEALTH PROPERTY OFFICE FUND

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2011

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

#### (b) Financial risk management

The financial risks arising from the Fund's activities are credit risk, liquidity risk, foreign exchange risk, interest rate risk and other price risk. The Manager uses different risk management methods to measure exposure to these risks, including ageing analysis and selection of appropriately rated counterparties to manage credit risk, financial modelling of future rolling cash flow forecasts for liquidity risk, and sensitivity analysis in the case of interest rate and other price risks (refer note 19(g)). The Fund uses derivatives such as foreign exchange contracts and interest rate swaps to hedge interest rate and foreign exchange risks.

It is, and has been throughout the financial year under review, the Fund's policy that derivatives are used for hedging purposes only and not as speculative or trading instruments.

The Fund's principal financial instruments, other than derivatives, comprise bank debt, short-term notes, medium-term notes, convertible notes and US dollar senior fixed rate notes. The main purpose of these financial instruments is to raise finance for the Fund's operations.

#### (c) Credit risk

Credit risk represents the financial loss that would be recognised if counterparties failed to perform as contracted. Credit risk primarily arises from trade and other receivables and derivatives. The maximum exposure to credit risk at reporting date is the carrying amount of financial assets recognised in the statement of financial position.

The Fund manages this risk by:

- investing and transacting derivatives with:
  - multiple counterparties that have an S&P long-term corporate credit rating of A- or higher or Moody's equivalent A3 rating (where ratings agencies assign different ratings to an entity, the lower rating will be applied to the counterparty); and
  - counterparties holding an Australian Financial Services Licence (AFSL) and \$10 million of tier one capital or are an Approved Deposit Institution (ADI)
- an annual review by the CMC of the approved panel of counterparties with any addition to the panel receiving CMC endorsement
- regularly reviewing the allocation of counterparty credit limits between counterparties by the CMC
- analysing the creditworthiness of individual tenants when providing leases and transacting with high quality tenants predominantly with a stable credit history
- obtaining security in the form of rent deposits or bank guarantees (where appropriate) which can be called upon in the event of default under the terms of the lease
- regularly monitoring receivables on an ongoing basis.

The Fund's ageing analysis of trade receivables is as follows:

	Note	Consolidated 30 Jun 2011 \$m	Consolidated 30 Jun 2010 \$m
0-30 days		1.1	0.2
31-60 days		0.1	-
61-90 days		0.2	-
90+ days		0.2	-
<b>Total</b>	5	<b>1.6</b>	<b>0.2</b>
Impaired	5	0.2	-

There were no significant financial assets that were past due as at 30 June 2011 and 30 June 2010. Additionally, there are no other significant financial assets that would have otherwise been past due or impaired if terms had not been renegotiated.

As at 30 June 2011, credit risk on trade receivables is considered low, as there is no concentration of material risk from any individual tenant.

# COMMONWEALTH PROPERTY OFFICE FUND

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2011

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

#### (d) Liquidity risk

Liquidity risk refers to the risk that the Fund will not have sufficient funds to settle a transaction on the due date.

The Fund manages liquidity risk by:

- prudent monitoring of cash levels
- the use of a detailed fund model which allows for continuous monitoring of forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities
- maintaining access to funding through committed credit facilities (refer to note 11)
- raising funds through the issue of new securities.

The Fund had access to the following undrawn facilities at reporting date:

	Note	Consolidated 30 Jun 2011 \$m	Consolidated 30 Jun 2010 \$m
<b>Floating rate</b>			
Expiring within one year		-	33.0
Expiring beyond one year		323.0	620.0
<b>Total undrawn facilities</b>	11(b)	<b>323.0</b>	<b>653.0</b>

A key component of liquidity risk is refinancing risk, which arises when the Fund is required to refinance existing debt positions or undertake new debt. A change in the Fund's credit rating or unfavourable credit market conditions, including increased interest rate and credit margins, may impact the availability and acceptable pricing of required finance for the Fund's operations. Refinancing risk is managed by the Fund by diversifying the sources of debt and spreading the maturities of borrowings and interest rate swaps. The impact on the Fund's credit rating is considered when analysing potential transactions.

Although the Fund has a net current deficiency (current liabilities exceed current assets) at reporting date, the Fund has sufficient non-current undrawn borrowing facilities and operating cash flows to meet this deficit. The financial report is therefore prepared on a going concern basis.

As part of the Fund's risk monitoring process with regard to debt covenant requirements, six-monthly 'stress testing' is carried out by the Fund Manager and CSRM. The basis of this testing is to determine the impact against the base case used in the fund model on the Fund's LVR when subjected to certain market 'shock' scenarios, such as a 10%-30% decrease in asset values, or the impact on the Fund's ICR as a result of a similar 10%-30% decrease in market rental income levels. The results of the 'stress testing' are used to evaluate and manage the risk profile of the Fund with regard to its debt covenant obligations. In each scenario, the tests have not resulted in any breaches of the Fund's debt covenant obligations in the next financial year.

#### Maturities of financial liabilities

The table on the following page shows the Fund's financial liabilities and net and gross settled derivative financial liabilities in relevant maturity groupings based on the remaining period at reporting date to the contractual maturity date. Derivatives that are held at fair value as financial assets at balance date are not included as an offset to the financial liabilities in this analysis. The amounts in the table are the contractual undiscounted cash flows including interest payments for the remaining period of the contract. Principal amounts are assumed to be paid at the expiry date of the facility. Future cash flows on floating rate debt and interest rate swaps have been estimated assuming interest rates prevailing at reporting date remain constant for each instrument. Future payments on USD denominated debt and the offsetting receipts from cross-currency swaps are estimated assuming the exchange rate at reporting date remains constant for the remaining periods of the instruments. Convertible notes are assumed to be redeemed at face value of \$200.0 million on 11 December 2014, rather than being converted to units.

Funding obligations will be met either by drawing upon existing undrawn facilities or by establishing new lines of credit as required.

The weighted average debt maturity is 4.1 years (Jun 2010: 3.9 years). The weighted average maturity on floating to fixed interest rate swaps is 5.5 years (Jun 2010: 5.7 years).

# COMMONWEALTH PROPERTY OFFICE FUND

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2011

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

#### (d) Liquidity risk (continued)

As at 30 June 2011	Note	1 year or less	1 to 2 years	2 to 5 years	Over 5 years	Total contractual cash flows	Carrying amount (A)
Financial liabilities		\$m	\$m	\$m	\$m	\$m	\$m
<b>Non-derivatives</b>							
<b>Non-interest bearing</b>							
Payables (excluding accrued interest)	10	67.2	-	-	-	67.2	67.2
Responsible Entity's base fee payable	14(d)(i)	3.6	-	-	-	3.6	3.6
Distribution payable	4	67.4	-	-	-	67.4	67.4
<b>Variable rate</b>							
Cash advance facility	11	13.6	13.6	265.7	-	292.9	249.3
Short-term notes	11	100.0	-	-	-	100.0	100.0
<b>Fixed rate</b>							
Medium-term notes	11	14.5	14.5	243.6	-	272.6	199.0
US medium-term notes	11	10.2	66.4	123.6	25.2	225.4	208.0
Convertible notes	11	10.5	10.5	215.8	-	236.8	177.0
<b>Total non-derivatives</b>		<b>287.0</b>	<b>105.0</b>	<b>848.7</b>	<b>25.2</b>	<b>1,265.9</b>	<b>1071.5</b>
<b>Derivatives<sup>(B)</sup></b>							
Net settled (interest rate swaps)		3.8	2.0	2.1	-	7.9	7.2
Gross settled							
- inflow		(10.2)	(66.4)	(123.6)	(25.2)	(225.4)	-
- outflow		7.5	88.9	164.0	34.7	295.1	58.4
<b>Total derivatives</b>		<b>1.1</b>	<b>24.5</b>	<b>42.5</b>	<b>9.5</b>	<b>77.6</b>	<b>65.6</b>
<b>As at 30 June 2010</b>							
Financial liabilities		\$m	\$m	\$m	\$m	Total contractual cash flows \$m	Carrying amount (A) \$m
<b>Non-derivatives</b>							
<b>Non-interest bearing</b>							
Payables (excluding accrued interest)	10	46.0	-	-	-	46.0	46.0
Responsible Entity's base fee payable	14(d)(i)	3.4	-	-	-	3.4	3.4
Distribution payable	4	58.4	-	-	-	58.4	58.4
<b>Variable rate</b>							
Cash advance facility	11	64.3	-	-	-	64.3	58.2
Medium-term notes	11	63.2	-	-	-	63.2	59.7
<b>Fixed rate</b>							
Medium-term notes	11	149.2	-	-	-	149.2	139.2
US medium-term notes	11	12.9	12.9	101.6	169.7	297.1	265.8
Convertible notes	11	10.5	10.5	226.3	-	247.3	171.6
<b>Total non-derivatives</b>		<b>407.9</b>	<b>23.4</b>	<b>327.9</b>	<b>169.7</b>	<b>928.9</b>	<b>802.3</b>
<b>Derivatives<sup>(B)</sup></b>							
Net settled (interest rate swaps)		6.2	4.9	5.2	-	16.3	11.7
Gross settled							
- inflow		(12.9)	(12.9)	(101.5)	(169.8)	(297.1)	-
- outflow		7.4	7.4	99.0	188.3	302.1	0.4
<b>Total derivatives</b>		<b>0.7</b>	<b>(0.6)</b>	<b>2.7</b>	<b>18.5</b>	<b>21.3</b>	<b>12.1</b>

(A) The carrying amount of borrowings includes accrued interest.

(B) This analysis includes cash flows from derivatives that are in a mark-to-market liability position on the statement of financial position. Additionally, net cash inflows will be generated from derivatives that are in a mark-to-market asset position on the statement of financial position.

# COMMONWEALTH PROPERTY OFFICE FUND

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2011

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

#### (e) Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The Fund's exposure to market risk for changes in interest rates relates primarily to the long-term debt obligations.

The Fund manages its interest cost using a mix of fixed and variable rate debt. To limit exposure to interest rate fluctuations in order to establish certainty over long-term cash flows, the Fund has adopted guidelines to keep between 70% and 85% of its borrowings at fixed rates of interest. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within the established limits. To manage exposure to interest rate risk, the Fund enters into interest rate swaps, in which the Fund agrees to exchange, at specified intervals, the difference between fixed and variable interest amounts calculated by reference to an agreed-upon notional principal amount. Refer to note 19(g) for interest rate sensitivity analysis.

As at 30 June 2011, the Fund's exposure to floating interest rates on Australian dollar debt has been hedged with interest rate swap agreements that are used to convert certain variable interest rate borrowings to fixed interest rates or vice versa. While the Responsible Entity has determined that these arrangements are economically effective, they have not satisfied the documentation, designation and effectiveness tests required by accounting standards. As a result, they do not qualify for hedge accounting, and gains or losses arising from changes in fair value are recognised immediately in the statement of comprehensive income.

As at reporting date, the Fund had the following variable rate borrowings and interest rate swap contracts outstanding:

	<b>Consolidated 30 Jun 2011</b>	<b>Consolidated 30 Jun 2010</b>
	<b>\$m</b>	<b>\$m</b>
<b>Total drawn debt</b>		
Cash advance facility	252.0	62.0
Short-term notes	100.0	-
Medium-term notes	-	60.0
Interest rate swaps	(218.5)	(78.5)
<b>Net exposure to cash flow interest rate risk</b>	<b>133.5</b>	<b>43.5</b>

An analysis of maturities is provided in note 19(d).

#### (f) Other price risk

Foreign exchange risk is the risk that the value and cash flows of a financial commitment, asset or liability will fluctuate due to changes in foreign exchange rates. As the Fund holds borrowings denominated in a foreign currency, namely USD, it is therefore exposed to this risk.

This risk is managed through the use of cross-currency swaps which hedge the changes in the fair value of the USD denominated debt relating to changes in foreign currency exchange rates and the benchmark USD interest rate, in accordance with the hedging objectives set out by the Fund.

The hedge relationship is highly effective as all key terms of the hedge instruments, being the consolidated notional principal of the cross-currency swaps and the consolidated underlying cash flows, coincide with the hedged item. As a result, no portion of the change in fair value of the cross-currency swap is ineffective.

At 30 June 2011, the Fund has hedged 100% of the \$US200.0 million senior unsecured fixed-rate notes with cross currency swaps (Jun 2010: 100%).

The Fund made a loss of \$58.0 million through fair value adjustments to its cross-currency swaps, offset by a corresponding gain on the underlying USD denominated debt (Jun 2010: a loss of \$4.8 million on cross-currency swaps was offset by a corresponding gain on the underlying USD denominated debt).

# COMMONWEALTH PROPERTY OFFICE FUND

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2011

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

#### (f) Other price risk (continued)

The Fund's financial instruments include performance fees payable which are determined by reference to the Fund's total return (distribution and unit price performance) relative to the customised Commercial Property Trust Accumulation Index. This index is influenced by a range of factors which are outside of the control of the Fund. Refer to note 14(d)(ii) for further details. Due to the nature of this risk, financial instruments are not used to manage the Fund's exposure. Sensitivity analysis (per note 19(g)) measures the impact of movement in the index on Fund profit and equity.

#### (g) Summarised sensitivity analysis

The following table summarises the impact on Fund profit and equity of a reasonably possible upwards or downwards movement in each of the risk variables below, assuming that all other variables remain constant. These movements are based on management's best estimate, having regard to a number of factors, including historical levels of changes in interest rates, historical correlation with the relevant benchmark and fund volatility. Due to unexpected market conditions, actual movements may be greater than anticipated and therefore these ranges should not be used as a definitive indicator of future movements in the stated risk variables.

Interest rate risk represents the effect of a change in interest rates applied to the interest rate risk exposures at reporting date, including the estimated change in the value of financial instruments that are carried at fair value. Cash and floating rate debt at reporting date are multiplied by the reasonably possible change in interest rates to determine the effect on profit for the year. The Fund's financial instruments whose carrying values are affected by changes in interest rates are interest rate swaps and performance fees carried at fair value. In calculating the change in value of interest rate swaps, a change in interest rates at reporting date is assumed to result in a parallel shift in the forward yield curve. A change in interest rates of up to 100 basis points (1%) is considered to be reasonably possible in the current economic environment.

Other price risk represents the estimated change in the value of performance fees payable resulting from a change in the Fund's benchmark commercial property index provided by Standard & Poor's. While the index may be volatile from one six-month period to the next, for the purpose of this analysis a 10% change in the index at balance date has been assumed to be reasonably possible. The analysis assumes all other variables at balance date, including the Fund's unit price, are unchanged.

**2011**

	Interest rate risk				Other price risk				
	Impact on profit		Impact on equity		Impact on profit		Impact on equity		
	Increase/(decrease)	Increase/(decrease)	Increase/(decrease)	Increase/(decrease)	Increase/(decrease)	Increase/(decrease)	Increase/(decrease)	Increase/(decrease)	
	+100bps	-100bps	+100bps	-100bps	+10%	-10%	+10%	-10%	
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	
Cash and cash equivalents	-	-	-	-	-	-	-	-	-
Borrowings	(1.3)	1.3	-	-	-	-	-	-	-
Derivatives	25.9	(28.3)	-	-	-	-	-	-	-
Payables	-	-	-	-	-	-	-	-	-
	<b>24.6</b>	<b>(27.0)</b>	-	-	-	-	-	-	-

**2010**

	Interest rate risk				Other price risk				
	Impact on profit		Impact on equity		Impact on profit		Impact on equity		
	Increase/(decrease)	Increase/(decrease)	Increase/(decrease)	Increase/(decrease)	Increase/(decrease)	Increase/(decrease)	Increase/(decrease)	Increase/(decrease)	
	+100bps	-100bps	+100bps	-100bps	+10%	-10%	+10%	-10%	
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	
Cash and cash equivalents	-	-	-	-	-	-	-	-	-
Borrowings	(0.4)	0.4	-	-	-	-	-	-	-
Derivatives	34.0	(37.2)	-	-	-	-	-	-	-
Payables	-	-	-	-	-	-	-	-	-
	<b>33.6</b>	<b>(36.8)</b>	-	-	-	-	-	-	-

# COMMONWEALTH PROPERTY OFFICE FUND

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2011

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

#### (h) Fair value of financial assets and liabilities

The Fund has adopted the classification of fair value measurements for its financial assets and liabilities into the following hierarchy as required by AASB 7:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices)

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable prices)

The Fund's financial assets and liabilities measured and recognised at fair value at reporting date are:

	Level 1		Level 2		Level 3		Total	
	30 Jun 2011	30 Jun 2010	30 Jun 2011	30 Jun 2010	30 Jun 2011	30 Jun 2010	30 Jun 2011	30 Jun 2010
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<b>Current</b>								
Derivative assets	-	-	5.2	9.2	-	-	5.2	9.2
Derivative liabilities	-	-	(75.1)	(31.2)	-	-	(75.1)	(31.2)
<b>Total current</b>	-	-	<b>(69.9)</b>	<b>(22.0)</b>	-	-	<b>(69.9)</b>	<b>(22.0)</b>

The level 2 derivatives that the Fund has at 30 June 2011 include interest rate swaps and cross-currency swaps. The fair values of these derivatives are calculated as the present value of the estimated future cash flows based on the forward price curve of interest rates and compared to the counterparties' valuation for the derivative. The fair values of all derivative contracts have also been confirmed with the counterparties.

The fair value of financial assets and liabilities included on the statement of financial position approximates their carrying value except for interest bearing borrowings. The fair values of interest bearing borrowings have been calculated by discounting the expected future cash flows by market swap rates applicable to the relevant term of the borrowing (for floating rate borrowings), and appropriate margins for borrowings with similar risk profiles.

The carrying amounts and fair values of interest bearing borrowings for the Fund are:

	Carrying amount	Fair value	Carrying amount	Fair value
	30 Jun 2011	30 Jun 2011	30 Jun 2010	30 Jun 2010
	\$m	\$m	\$m	\$m
Short-term notes	100.0	100.0	-	-
Medium-term notes	199.0	203.3	198.9	199.3
Cash advance facility	249.3	250.9	58.2	61.0
US medium-term notes	208.0	208.1	265.8	265.8
Convertible notes	177.0	175.3	171.6	173.3
<b>Total interest bearing borrowings</b>	<b>933.3</b>	<b>937.6</b>	<b>694.5</b>	<b>699.4</b>

Refer to note 1(c)(ii) for valuation of investments in associates, note 1(r) for derivatives, note 1(u) and 14(d)(ii) for performance fee liabilities, note 1(k) for receivables, note 1(t) for payables and note 1(v) for interest bearing liabilities.

# COMMONWEALTH PROPERTY OFFICE FUND

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2011

### 20. Events occurring after the reporting date

On 12 July 2011, the call option was exercised for the sale of 1 and 5 Mill Streets and 197 St Georges Terrace, Perth. As a result, the previously paid option fee converted into deposit funds and the purchaser contributed an additional \$3.8 million towards the deposit. At the date of this report the total deposit stands at \$7.6 million. The total sale price is \$152 million and settlement is due to take place on or before 1 December 2011.

On 27 July 2011, the Fund exchanged contracts to sell its 100% interest in 259 George Street, Sydney, for a sale price of \$395 million, representing a 15.3% premium to the asset's independent valuation. Settlement is expected to take place on 31 October 2011.

On 3 August 2011, the Fund exchanged contracts to sell its 50% interest in 5 Martin Place, Sydney for a total of \$36.5 million plus the reimbursement of 50% of the costs expended to date totalling \$5.8million. Settlement is expected to take place on or before 20 June 2012. As part of the transaction, the buyer assumes full development and leasing risk for their 50% interest in the asset as part of the joint ownership arrangement put in place for the redevelopment of this asset. Furthermore, the Fund was also granted a call option to acquire a 50% interest in 8 Exhibition Street, Melbourne exercisable between 1 July 2012 and 30 June 2013.

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

### 21. Contingencies

#### (a) Contingent liabilities

The Fund has no contingent liabilities as at 30 June 2011 (Jun 2010: Nil).

#### (b) Contingent assets

In May 2009 and May 2010, the Fund was awarded a total of \$4,541,738 from the Department of Innovation, Industry, Science and Research as part of the Green Building Fund to help improve the energy efficiency of buildings in direct property funds. The Green Building Fund was established by the Australian Government to reduce the impact of Australia's built environment on greenhouse gas emissions, by reducing the energy consumed in the operation of existing commercial office buildings.

As the conditions of the grant for 385 Bourke Street, Melbourne could not be met by mutual agreement between the Manager and the grantee, the grant was terminated on 9 December 2010, resulting in the total grants awarded being reduced to \$2,193,783.

The grants are paid in instalments over the course of the projects to which they relate. Total cash received in relation to the grants above was \$2,143,681 as of 30 June 2011. Though it is considered probable that the Fund will fulfil the criteria outlined in the grant agreements and will receive the remaining \$50,102 (Jun 2010: \$2,939,692), the existence of the conditions attached to its receipt has resulted in the amount being classified as a contingent asset.

# COMMONWEALTH PROPERTY OFFICE FUND

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2011

### 22. Parent entity financial information

#### (a) Summary information

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

	30 Jun 2011 \$m	30 Jun 2010 \$m
<b>Statement of financial position</b>		
Current assets	883.6	751.0
Total assets	4,075.3	3,249.3
Current liabilities	534.6	539.0
Total liabilities	1,367.8	976.4
<b>Equity</b>		
Contributed equity	2,481.8	2,111.8
Undistributed reserves	(57.4)	(65.0)
Available-for-sale investment revaluation reserve	283.1	226.1
<b>Total equity</b>	<b>2,707.5</b>	<b>2,272.9</b>
<b>Net profit for the financial year</b>	<b>153.3</b>	<b>221.6</b>
<b>Total comprehensive income for the financial year</b>	<b>210.3</b>	<b>101.2</b>

#### (b) Contingent liabilities of the parent entity

The parent entity has no contingent liabilities at reporting date (Jun 2010: nil)

#### (c) Commitments of the parent entity

The parent entity is committed to finance the development of 145 Ann Street, Brisbane of \$139.2 million (Jun 2010: \$178.6 million) via a loan to its controlled entity 145 Ann Street Brisbane Trust. The interest charged is the weighted average interest rate for the Fund. Apart from this commitment, there are no other material commitments at reporting date.

### 23. Net tangible asset backing per unit

	Consolidated 30 Jun 2011	Consolidated 30 Jun 2010
Net tangible assets (\$m)	2,707.5	2,272.9
Net tangible asset backing per unit (\$)	1.11	1.13

Net tangible asset backing per unit is calculated by dividing the total equity attributable to unitholders of the Fund by the number of ordinary units on issue. The number of ordinary units used in the calculation can be found in note 12.

### 24. Management expense ratio (MER)

MER is the ratio of expenses pertaining to the management of the Fund to total average assets. Total average assets is the average of total assets at the beginning and end of each month.

Actual MER related expenses (\$'000)	22,634	24,370
Total average assets (\$'000)	3,460,560	3,015,911
<b>MER %</b>	<b>0.65</b>	<b>0.81</b>

MER related expenses include Responsible Entity's base and performance fee (excluding the movement in the fair value of unrealised performance fees), auditor's remuneration, registry fees and other operating expenses as disclosed in the statement of comprehensive income.

# COMMONWEALTH PROPERTY OFFICE FUND DIRECTORS' DECLARATION

In accordance with a resolution of the Directors of Commonwealth Managed Investments Limited, the Responsible Entity for the Commonwealth Property Office Fund, we declare that:

- (a) in the opinion of the Directors, the financial statements and notes set out on pages 9 to 51 are in accordance with the Corporations Act 2001, including:
  - (i) giving a true and fair view of the Fund and its controlled entities' financial position as at 30 June 2011 and of the performance for the financial year ended on that date; and
  - (ii) complying with Australian Accounting Standards, the Corporations Regulations 2001 and the Fund Constitution; and
- (b) in the opinion of the Directors, there are reasonable grounds to believe that the Fund and its controlled entities will be able to pay their debts as and when they become due and payable; and
- (c) the Directors have been given the Declarations required to be made to the Directors in accordance with section 295A of the Corporations Act 2001 for the financial year ended 30 June 2011.

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

Signed in accordance with the resolution of the Directors of Commonwealth Managed Investments Limited.



**R M Haddock**

Director

Sydney

16 August 2011



## ***Independent auditor's report to the unitholders of Commonwealth Property Office Fund***

### ***Report on the financial report***

We have audited the accompanying financial report of Commonwealth Property Office Fund (the registered scheme), which comprises the statement of financial position as at 30 June 2011, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for the Commonwealth Property Office Fund group (the consolidated entity). The consolidated entity comprises the registered scheme 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 Commonwealth Managed Investments Limited (the responsible entity) are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

### ***Auditor's responsibility***

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

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

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

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

### ***Independence***

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001.

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***Matters relating to the electronic presentation of the audited financial report***

This auditor's report relates to the financial report of Commonwealth Property Office Fund (the registered scheme) for the year ended 30 June 2011 included on the Commonwealth Property Office Fund website. The directors of the responsible entity are responsible for the integrity of the Commonwealth Property Office Fund website. We have not been engaged to report on the integrity of this website. The auditor's report refers only to the financial report named above. It does not provide an opinion on any other information which may have been hyperlinked to/from the financial report. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report to confirm the information included in the audited financial report presented on this website.

***Auditor's opinion***

In our opinion:

- a) the financial report of Commonwealth Property Office Fund 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.

PricewaterhouseCoopers

Peter van Dongen  
Partner  
PricewaterhouseCoopers

16 August 2011

Sydney

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