

# Charter Hall Retail REIT

Annual Report  
2017



**SECURITY  
STABILITY  
RESILIENCE**

# WHAT SETS US APART

Charter Hall Retail REIT invests in high quality convenience and community based supermarket anchored shopping centres that aim to provide a secure and growing income stream to unitholders.

With a focus on non-discretionary retail, we optimise returns for our investors and create enjoyable and convenient shopping experiences for more than 150 million shopper visitations to our centres each year. We do this through our dedicated team of highly skilled retail experts who provide end-to-end property services to our portfolio.

Charter Hall Retail REIT is managed by Charter Hall Group (ASX:CHC), one of Australia's leading property groups. Charter Hall owns and manages office, retail, industrial and logistics properties on behalf of institutional, wholesale, and retail clients, with funds under management totalling \$19.8 billion as at 30 June 2017.



(Left to right):  
Victoria Lockley (Executive Assistant),  
Scott Dundas (Fund Manager),  
Ben Weston (Fund Analyst),  
Christine Kelly (Head of Retail Finance  
and Deputy Fund Manager),  
Mark Bryant (Group General Counsel  
and Company Secretary),  
Yvette Keatings (National Retail  
Development Manager) and  
Lisa Ettore (Financial Analyst).

## **OUR GOAL**

Our goal is to maintain our position as the leading owner and manager of convenience based shopping centres in the Australian market and provide a secure and growing income stream for our investors.

## **SECURITY STABILITY RESILIENCE**

Our geographically diverse portfolio comprises 71 properties and has a combined value of \$2.8 billion. We derive approximately 50% of annual base rent from Wesfarmers and Woolworths.



# OUR STRATEGY

## #1 ACTIVE MANAGEMENT

Maintaining strong tenant relationships, optimising tenancy mix through proactive leasing and enhancing the overall shopper experience.

**98.0%**  
occupancy

**156**  
lease renewals  
and 79 new leases

**4.0%<sup>1</sup>**  
Majors MAT growth

**6.8yrs**  
Portfolio WALE  
and Anchor WALE  
of 10.4yrs

## #2 ENHANCE PORTFOLIO QUALITY

Through value enhancing redevelopment, selective acquisitions of higher growth properties and low growth disposals.

**\$2.8b**  
portfolio value

**3 forecast  
higher growth**  
properties acquired for  
**\$282.6m** at a yield of 6.0%

**8 lower growth**  
properties divested for  
**\$157.2m** at an average  
yield of 6.5%

**\$253m**  
redevelopment pipeline

## #3 PRUDENT CAPITAL MANAGEMENT

With a focus on a strong and flexible balance sheet, prudent gearing and a sustainable payout ratio.

**6.1yrs**  
weighted average debt maturity

**33.1%**  
balance sheet gearing

**36.2%**  
look through gearing

**5**  
bank lenders delivering  
increased debt diversity

1. For stores in turnover





## 05 2017 HIGHLIGHTS



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Woolworths

2017  
HIGHLIGHTS



**“We have continued to grow the REIT, enhancing the quality of the portfolio by recycling out of lower growth into higher growth assets that are the dominant convenience based supermarket anchored centres in the catchment complimented by population growth.”**

**SCOTT DUNDAS, CQR FUND MANAGER**

STATUTORY PROFIT

**\$251.3m**

**↑ 39.1%**

PORTFOLIO VALUE

**2.8b**

**↑ 8.4%**

TOTAL UNITHOLDER RETURN

**17.1%**

**↑ 3.7%**

STABLE OCCUPANCY

**98%**

MAJORS MAT GROWTH<sup>1</sup>

**4.0%**

NTA PER UNIT

**\$4.13**

**↑ 9.0%**

1. For stores in turnover



**JOHN  
HARKNESS**

Chair



**SCOTT  
DUNDAS**

Fund Manager



1. Divestments calculated at 100% values and includes acquisitions and divestments settling post balance sheet date.

Dear Unitholders,

We are pleased to report that Charter Hall Retail REIT has delivered earnings and distributions for FY17 in line with guidance. This financial year has been marked by the strategic reshaping of the portfolio to ensure the delivery of long-term resilience and improved investment performance in future years.

In our 22nd year as an ASX-listed REIT, we delivered a 9% increase in NTA per unit to \$4.13, with a 2.5% increase in operating earnings to \$123.3 million. Earnings were 30.4 cents per unit and Unitholders have been paid a full year distribution of 28.1 cents per unit, in line with guidance, representing a payout ratio of 92.4%.

The result of delivering on our three strategic drivers of active asset management, enhancing portfolio quality and prudent capital management was a total unitholder return of over 17% for the 2017 financial year.

### **Reshaping the portfolio**

Charter Hall Retail REIT is the leading owner and manager of convenience based supermarket-anchored shopping centres in Australia. The property portfolio comprises 71 community focused convenience based shopping centres, valued at \$2.8 billion.

Our strategy purposefully focuses on the non-discretionary retail sector because it relies predominantly on the provision of food and services to local communities, making it more resilient through market cycles.

To improve the portfolio quality, in FY17 we sold eight lower growth assets for \$157.2 million at an average yield of 6.5%<sup>1</sup>. Two of these divestments settled post 30 June, in July 2017; the remaining two assets settled in September 2017.

We also acquired three higher-growth, multi-tenanted assets for a total consideration of \$282.6 million. All three assets characteristically possess strong underlying fundamentals, including good population growth and a dominant position for convenience based shopping in their respective local markets. The three acquisitions were: Salamander Bay Centre, NSW, for \$174.5 million; Arana Hills Plaza, Qld, for \$67.1 million; and Highfields Village, Qld, for \$41.0 million.

We continue to transition the portfolio from lower growth assets into centres where we can add value through active management. The focus of the portfolio continues on non-discretionary retail uses driven by Australia's leading supermarket brands. Our transactions during the year demonstrate our ability to execute on this strategy.

### **Active Management**

The REIT's active asset management approach and focus on optimising tenancy mix delivered stable occupancy of 87%, with total NPI growth of 2.5%.

The REIT's supermarkets continued to perform well with 38% of supermarket tenants now paying turnover rent, up from 31% at June 2016. A further 14% are within a 10% margin of their turnover threshold. Supermarket moving annual turnover (MAT) growth for stores paying turnover rent was 3.8% over the course of FY17, with our anchor tenant Weighted Average Lease Expiry (WALE) at 10.4 years.

Including the REIT's Discount Department Stores, anchor tenant MAT growth has continued to strengthen, increasing to 4.0% for stores paying turnover rent.

Specialty MAT growth was 0.2% for the year, reflecting subdued trading conditions for specialty retailers, however, the REIT's rental structure continued to reflect an affordable occupancy cost of 10%.

Throughout the year, our skilled team of retail property professionals secured 79 new leases and 156 lease renewals, maintaining occupancy at 98%.



All major tenants which account for 50% of the base rent from our portfolio, and include supermarkets and discount department stores, recorded MAT growth of 2.0%. Pleasingly, we have seen a particularly strong rebound in performance from Woolworths.

In addition to maintaining our exposure to our largest tenants by base rent, Wesfarmers and Woolworths, we are also encouraging growth in Aldi store numbers, with Aldi now our seventh largest tenant by base rent. The Aldi brand continues to grow its Australian footprint and with broad customer appeal is playing a significant role in improving foot traffic in our centres.

Continued investor interest in the non-discretionary sector, from both domestic and offshore interests, has again had a positive impact on asset valuations. In the 12 months to 30 June 2017, the REIT's property valuations increased \$118 million, or 4.5%, underpinned by a 40 basis point firming in capitalisation rates to 6.31%.

The REIT property portfolio value is now \$2.8 billion, up 8.4% from June 2016.

### Proactive capital management

Since inception, the REIT has focused on maintaining prudent capital management, with conservative levels of gearing.

Throughout the year, we improved the diversity of our debt profile by adding two banks to the REIT's panel of bank lenders, bringing total panel numbers to five. This assisted to improve the weighted average debt maturity from 6.0 years at December 2016 to 6.1 years at 30 June 2017, and gearing remained in the middle of the target range of 30% to 40%.

Over the period, we continued to take advantage of the low interest rate environment by extending our hedging profile. As at 30 June, the weighted average hedge maturity was extended to 4.4 years, with a forecast medium term weighted average swap rate of 2.2%. Our debt is 59% hedged for the next 12 months, and 50% for the next five years.

We will continue our focused and disciplined investment strategy to enhance the quality of the portfolio through strategic acquisitions, redevelopments and divestments. In the year ahead, we have identified over \$100 million in lower growth asset divestments, which are forecast to complete in the first half of the 2018 financial year.

### Value enhancing redevelopments

Redevelopment will always form a strategic component of our active asset management strategy, driving value enhancements across our portfolio. This is a key element of our future growth strategy to ensure we provide an enjoyable and convenient shopping experience for our customers and deliver a secure and growing income stream for our investors.

In FY17, we completed a \$63 million redevelopment of the Secret Harbour Shopping Centre, which included the opening of one of Aldi's first supermarkets

in Western Australia. Other highlights included the expansion of the existing Woolworths store, a new Coles supermarket, additional car parking with shading, installation of WiFi capability and new dining options.

Our committed and planned \$253 million major projects redevelopment pipeline includes a \$58 million expansion of Lake Macquarie Fair in NSW and a \$21 million<sup>2</sup> upgrade to Wanneroo Central in WA, both of which will commence in the 2018 financial year.

The current \$253 million redevelopment pipeline for project starts, is forecast to produce a stabilised yield of 7%.

Following acquisitions, divestment of lower growth assets, revaluations and completed redevelopments the REIT's average asset value has increased from \$39.7 million at June 2016 to \$44.7 million at June 2017.

### Board enhancements

The REIT continues to enjoy the benefits of highly experienced senior management and Board membership, providing experienced and stable leadership.

In November 2016, we announced the appointment of Michael Gorman as an Independent Non-Executive Director to the REIT's Board. Michael brings more than 30 years of extensive experience in both real estate and the public equity and debt markets. In his 11 years with Novion Property Group, an ASX top 50 entity, Mr Gorman held a number of executive positions including Deputy Chief Executive Officer, Chief Investment Officer and Fund Manager. In these roles, Mr Gorman was directly responsible for raising several billion dollars of equity in the domestic and US markets.

Also in November 2016, investors ratified the election of Sue Palmer as an Independent Director, by way of a resolution at the REIT's Annual General Meeting. Sue has been a Director of REIT since 2015.

Alan Rattray-Wood will step down from the Board at the conclusion of the Unit Holders meeting to be held on 31 October 2017. Alan has been a member of the REIT's Board since 1996. His knowledge of the REIT's asset class has been invaluable and we thank Alan for his many contributions during his period of service.

### Outlook

Supermarkets continue to be the standout performers in our portfolio, despite recent market concern regarding 'supermarket price wars'. We are seeing continued growth from our supermarkets, with solid sales growth and margins remaining healthy relative to global peers.

We have witnessed conditions that are more challenging for speciality retailers, particularly single store operators. However, within the REIT's portfolio, more than 60% of our specialty retailers are national operators, who are largely well capitalised, with extensive and efficient distribution networks.

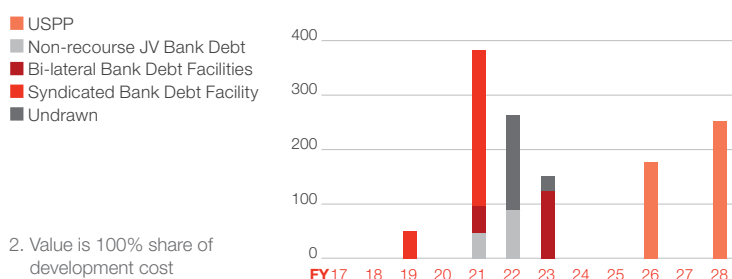
In the year ahead, we will continue to execute on our low growth asset divestments to enhance the portfolio quality. Consistent with our strategy, sale proceeds from divestments will be allocated to optimise returns via acquisitions, redevelopment, buy back or return of capital.

We continue to re-weight the portfolio towards higher growth non-discretionary focused assets. We believe this will position the portfolio to optimise long-term growth prospects.

Barring unforeseen events and subject to the timing of the various elements of the portfolio reconstruction, the REIT's FY18 guidance for operating earnings is expected to be 30.2 to 30.6 cents per unit, with an expected distribution payout ratio range of between 90% and 95% of operating earnings.

We thank you for your ongoing support and trust in the team. ♦

### DEBT MATURITY PROFILE



## CASE STUDY

### INVESTING IN HIGHER GROWTH ASSETS



Convenience shopping has long been a mainstay in the Australian retail market; a cornerstone investment due to its longer-term resilience through market cycles.

The centres that we favour dominate their respective catchment, and mostly comprise anchor tenants and specialty retailers who provide essential goods and services that have proven more resilient in times of market challenge and opportunity.

We regularly evaluate the performance of our assets, and have a clear strategy in place to reduce our exposure to low growth freestanding and smaller neighbourhood assets in favour of acquiring higher growth assets. In turn, we seek to increase the average asset size within the portfolio.

In 2017, we sold eight lower growth assets and replaced them with three higher growth, multi-tenanted assets. The common characteristics of these assets are that they comprise the dominant convenience based shopping centre within their respective catchments, and are forecast to produce significantly higher income growth than recent divestments.



AVERAGE ASSET VALUE AT 30 JUNE 2016

**\$39.7m**

AVERAGE ASSET VALUE AT 30 JUNE 2017

**\$44.7m**

#### HIGHFIELDS VILLAGE, QLD

Highfields Village is a strongly performing convenience-based centre located at Highfields, a major residential expansion corridor approximately 8 kilometres north of the Toowoomba CBD. Competition within the main trade area is limited, and the Centre has future expansion potential, with three pad sites.

##### HIGHLIGHTS

Purchased:	July 2017
Price:	\$41.0 million
Capitalisation rate:	6.0%
Centre size:	6,366 sqm GLA
Major tenants:	Woolworths
Others:	20 specialty stores, 1 mini major, 1 kiosk, 6 ATMs

#### ARANA HILLS, QLD

Arana Hills Plaza is strategically located in the fast-growing metropolitan Brisbane suburb of Arana Hills and provides the dominant supermarket-anchored offering within its trade area. The centre provides for very accessible on-grade car parking for 822 vehicles. The property also has potential for future development.

##### HIGHLIGHTS

Purchased:	December 2016
Price:	\$67.1 million
Capitalisation rate:	6.0%
Centre size:	16,406 sqm GLA
Major tenants:	Coles, Kmart, Aldi
Others:	23 specialty stores, 4 kiosk, 2 ATMs

#### SALAMANDER BAY CENTRE, NSW

Located in the Port Stephens region of NSW, northeast of Newcastle, the Salamander Bay Centre is a single level shopping centre that benefits from low levels of direct competition, with its captive trade area along with a resident population of 36,000 and strong tourism sector trade. The major anchors are either trading with turnover in excess of their percentage rent thresholds or are expected to pay percentage rent within the initial investment horizon.

##### HIGHLIGHTS

Purchased:	July 2017
Price:	\$174.5 million
Capitalisation rate:	6.0%
Centre size:	23,869 sqm GLA
Major tenants:	Coles, Woolworths, Kmart, Aldi and Target Country
Others:	64 specialty stores, 9 kiosks, 6 ATMs

## CASE STUDY

### ASSET EFFICIENCY BUILDS STRONGER PERFORMANCE



**“Energy, waste and water can’t be ignored. If we do the best we can in the built environment, then this will create shared value opportunities for our investors, tenant customers and the community.”**

**CHRIS LUSCOMBE**, HEAD OF OPERATIONS  
AND SUSTAINABILITY – RETAIL

As energy prices in Australia rise and the nation makes a steady transition to renewables, our long-term focus on portfolio resilience through active asset management continues to deliver benefits.

At year end, our portfolio enjoyed an average 3.5 star average NABERS<sup>1</sup> Energy rating. NABERS is an industry tool used to measure the energy efficiency of our property assets.

Our rating shows we are actively working to reduce the amount of energy our shopping centres consume. This has the combined benefits of reducing operational overheads – savings that we can pass on to our tenants – as well as reducing our grid consumption, which is good for all Australians.

In 2017, we replaced inefficient light bulbs across our portfolio with energy efficient LED lighting, delivering energy savings of some 1.469 GWh – which is enough to power 293 average Australian households for a year.

At Singleton Square, in NSW, we are installing a 250Kwh solar system, which is expected to deliver around 20% of the base building’s energy requirements. In addition, we are undertaking detailed reviews of 17 assets where similar systems may be installed.

Across the portfolio, we have systems in place to monitor the ongoing performance of our buildings, through which we can actively identify inefficiencies and opportunities. That has led to 62 of our assets receiving Green Star performance ratings – industry ratings that show the effectiveness of our monitoring programme. By aligning to Green Star, we can provide valuable information back to planners, architects, engineers and other industry participants on how our buildings perform, so that continuous improvement can be achieved industry-wide. We are committed to undertaking Green Star performance ratings across all retail assets, and in all future redevelopments, such as Lake Macquarie, we have targeted a minimum 4 star Green Star design and as-built rating.

We also leverage our substantive buying power to actively manage our energy pricing – capitalising upon opportunities as and when they are identified.

Since we are long term investors, the REIT has undertaken to have all our retail assets rated for climate risk. This is critical to enable us to understand the impacts that climate change may have on our assets, such as exposure to floods, heatwaves, storms and other natural events. It allows us to better design for the future, and to ensure asset resilience is always front of mind in our decision-making processes.

3.5 STAR AVERAGE  
NABERS ENERGY RATING



GREEN STAR PERFORMANCE RATING

**62**

CLIMATE RISK RATING

**72**

LIGHT REPLACEMENT PROGRAMME  
SAVED ENERGY

**1.469 GWh**

1. The National Australian Built Environment Ratings System (NABERS) is a performance-based environmental impact rating system for existing buildings.



# PORTFOLIO PERFORMANCE

GROSS LETTABLE AREA (GLA)

**>560,000**

RETAIL SALES

**\$5.0b+**

PORTFOLIO OCCUPANCY

**98.0%**

TENANTS

**1,880**

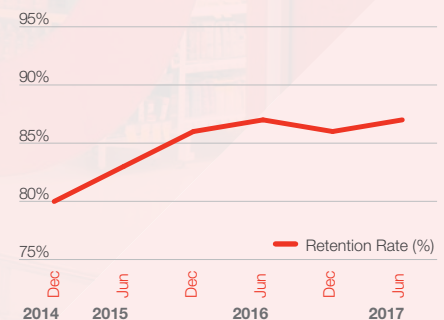
CUSTOMER VISITS ANNUALLY

**>150m**

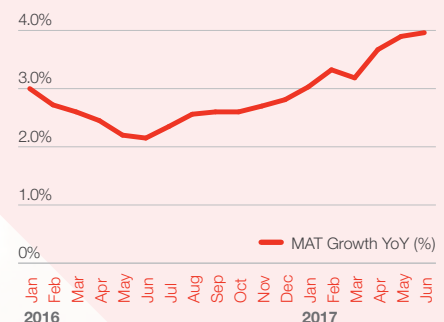
OCCUPANCY  
BY STATE

NSW	98.4%
ACT	96.8%
QLD	97.2%
VIC	98.6%
SA	97.0%
WA	97.6%
NT	94.4%
TAS	100.0%

SPECIALTY LEASE EXPIRY  
RETENTION RATE



ANCHOR TENANT MAT GROWTH<sup>1</sup>



1. Calculated on a 12 month rolling basis for stores turnover, excluding redevelopments

## TOP 10 TENANTS (BY SHARE OF BASE RENT)

Woolworths

25.4%

Wesfarmers

24.5%

Australian Pharmaceutical Industries Pty Ltd<sup>1</sup>

1.9%

The Reject Shop

1.5%

Retail Food Group<sup>2</sup>

1.1%

Commonwealth Bank

0.9%

Aldi

0.8%

Bakers Delight

0.8%

Pretty Girl Fashion Group<sup>3</sup>

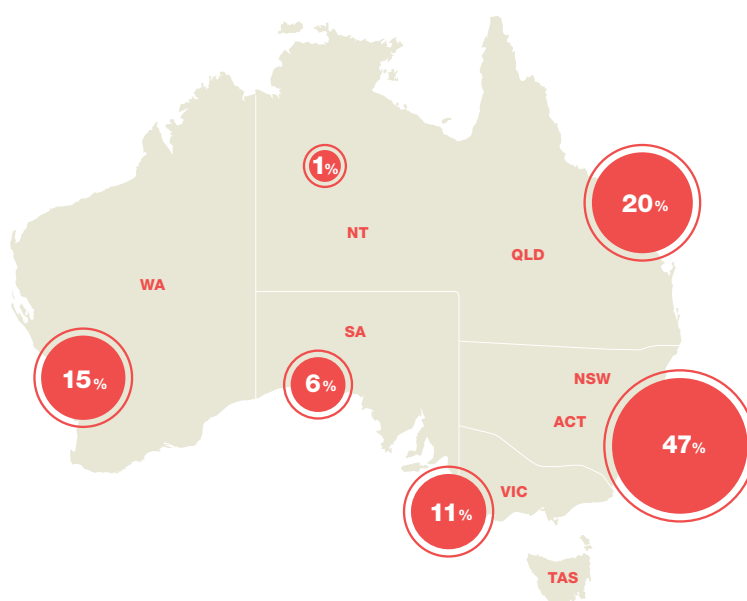
0.8%

Specialty Fashion Group<sup>4</sup>

0.7%

1. Including Soul Pattinson, Priceline
2. Including Brumby's, Donut King, Michel's Patisserie
3. Including Rockmans, Be Me and W Lane
4. Including Crossroads, Millers, Katies, Autograph, City Chic

## ASSET VALUE BY STATE (%)



## NEW LEASES

79

## LEASE RENEWALS

156

## TOTAL ASSETS

71

## PORTFOLIO VALUE

\$2.8b

## MAJORS MAT GROWTH FOR STORES IN TURNOVER

4.0%

## SUMMARY BY ASSET TYPE

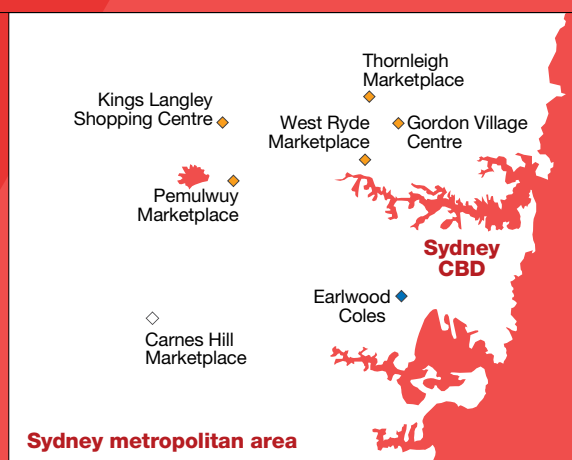
Summary by Asset Type	#	Value (\$m)	GLA ('000sqm)	Occupancy <sup>1</sup> %	Same Property NPI Growth %	Total NPI Growth %
Sub-regional shopping centres	20	1,401.2	285.8	98.1	0.6	4.8
Neighbourhood shopping centres	36	1,145.4	226.0	97.0	1.4	1.2
Freestanding supermarkets	15	217.6	48.3	100.0	1.1	(3.5)
<b>Total</b>	<b>71</b>	<b>2,764.2</b>	<b>560.1</b>	<b>98.0</b>	<b>1.0</b>	<b>2.5</b>

1. Excludes properties under redevelopment

## PROPERTY TYPE

- ◆ Sub-regional
- ◆ Neighbourhood
- ◆ Freestanding supermarket

## NSW



## Sydney metropolitan area

## ACT



## NEW SOUTH WALES/ACT

TOTAL VALUE  
OF PROPERTY PORTFOLIO

**\$1,214.7m**

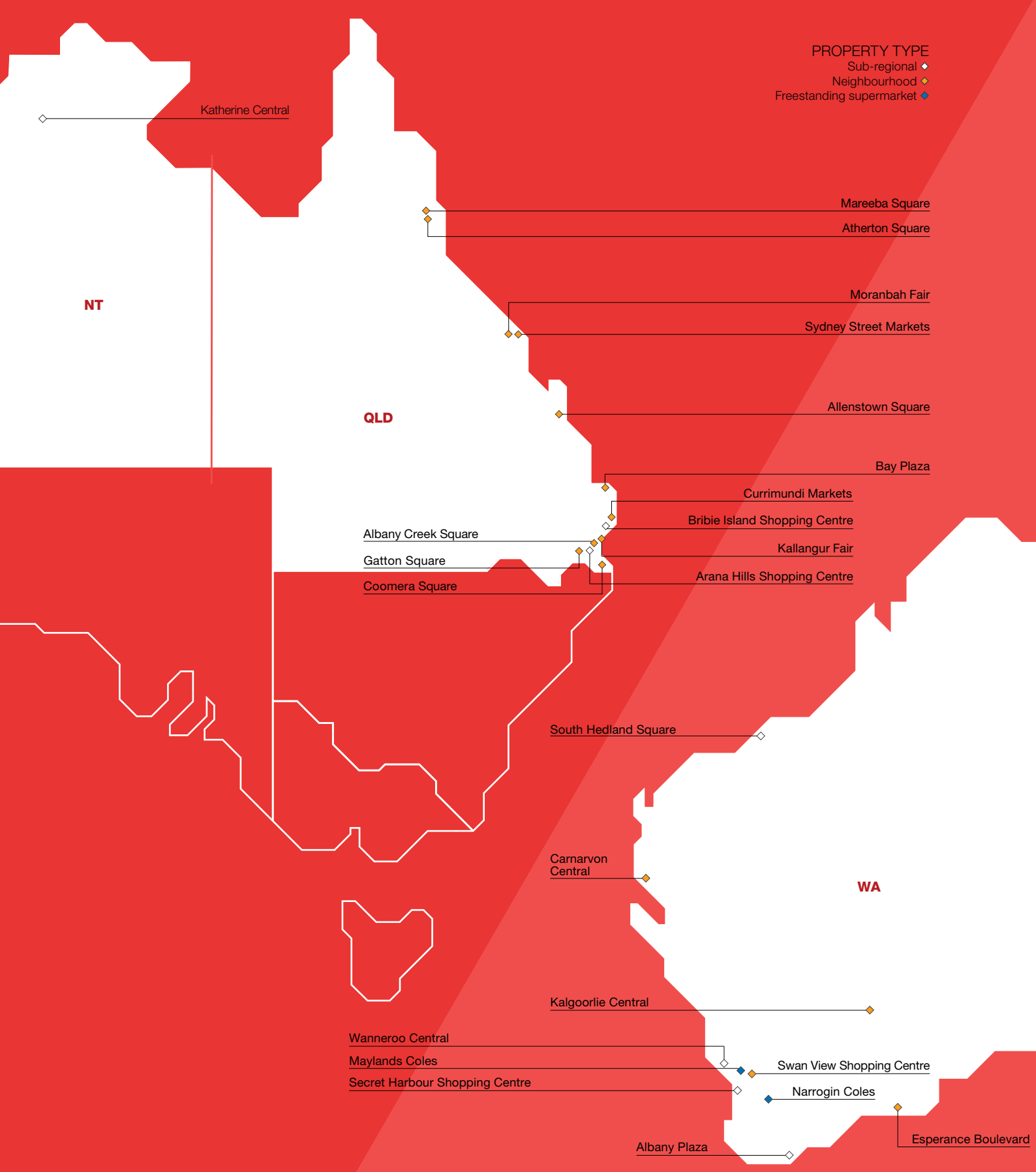
\* excludes properties held for sale



Property	Location	Asset Type	Metro/ Non-metro	Interest %	Book Value (CQR Share) \$	Cap Rate %
<b>ACT</b>						
Dickson Woolworths	Dickson	Freestander	Metro	100	18.9	5.75
Erindale Shopping Centre	Wanniassa	Neighbourhood	Metro	100	37.2	6.75
Manuka Terrace	Manuka	Neighbourhood	Metro	100	57.5	6.00
<b>ACT Total</b>					<b>113.6</b>	
<b>NSW</b>						
Balo Square	Moree	Neighbourhood	Non-metro	100	17.0	7.00
Bateau Bay Square	Bateau Bay	Sub-regional	Metro	47.5	107.4	5.75
Carnes Hill Marketplace	Horningsea Park	Sub-regional	Metro	50	66.3	5.50
Dubbo Square	Dubbo	Sub-regional	Non-metro	100	46.7	7.00
Earlwood Coles	Earlwood	Freestander	Metro	100	23.0	5.00
Gordon Village Centre	Gordon	Neighbourhood	Metro	100	119.2	6.00
Goulburn Shopping Centre	Goulburn	Sub-regional	Non-metro	100	82.7	6.00
Highlands Marketplace	Mittagong	Sub-regional	Non-metro	50	39.8	5.75
Jerrabomberra Village	Jerrabomberra	Neighbourhood	Non-metro	100	25.8	6.00
Kings Langley Shopping Centre	Kings Langley	Neighbourhood	Metro	100	40.4	6.00
Lake Macquarie Fair	Mount Hutton	Sub-regional	Non-metro	100	69.2	n/a
Morisset Square Shopping Centre	Morisset	Neighbourhood	Non-metro	100	40.0	6.80
Mount Hutton Plaza	Mount Hutton	Neighbourhood	Non-metro	100	11.0	n/a
Mudgee Metroplaza	Mudgee	Neighbourhood	Non-metro	100	25.8	6.50
Orange Central Square	Orange	Neighbourhood	Non-metro	100	54.0	6.25
Parkes Metroplaza	Parkes	Neighbourhood	Non-metro	100	22.8	6.50
Pemulwuy Marketplace	Greystanes	Neighbourhood	Metro	50	16.5	5.50
Rutherford Marketplace	Rutherford	Neighbourhood	Non-metro	50	19.3	6.00
Singleton Square	Singleton	Sub-regional	Non-metro	100	120.0	6.37
Sunnyside Mall	Murwillumbah	Neighbourhood	Non-metro	100	49.0	6.50
Tamworth Square	Tamworth	Sub-regional	Non-metro	100	47.8	7.00
Thornleigh Marketplace	Thornleigh	Neighbourhood	Metro	50	20.1	5.75
Tumut Coles	Tumut	Freestander	Non-metro	100	10.3	5.75
West Ryde Marketplace	West Ryde	Neighbourhood	Metro	50	27.0	5.50
<b>NSW Total</b>					<b>1,101.1</b>	

\* excludes properties held for sale

PROPERTY TYPE  
 Sub-regional ◆  
 Neighbourhood ◆  
 Freestanding supermarket ◆



**QUEENSLAND**  
 TOTAL VALUE  
 OF PROPERTY PORTFOLIO  
**\$509.7m**

**WESTERN AUSTRALIA**  
 TOTAL VALUE  
 OF PROPERTY PORTFOLIO  
**\$420.0m**

**NORTHERN TERRITORY**  
 TOTAL VALUE  
 OF PROPERTY PORTFOLIO  
**\$30.1m**

\* excludes properties held for sale

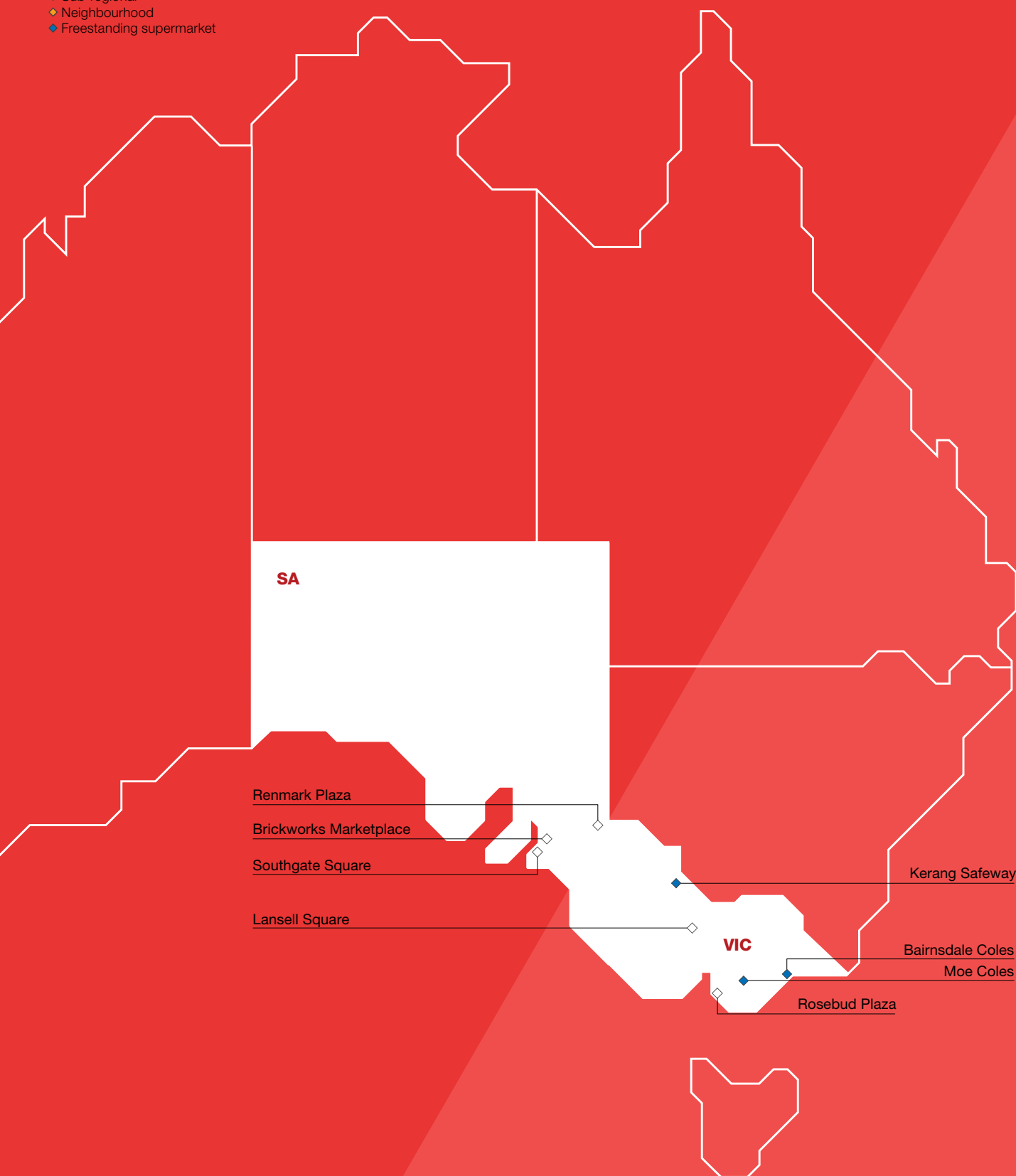
Property	Location	Asset Type	Metro/ Non-metro	Interest %	Book Value (CQR Share) \$	Cap Rate %
<b>NT</b>						
Katherine Central	Katherine	Sub-regional	Non-metro	100	30.1	7.75
<b>NT Total</b>					<b>30.1</b>	
<b>QLD</b>						
Albany Creek Square	Brisbane	Neighbourhood	Metro	100	57.5	6.25
Allenstown Square	Rockhampton	Neighbourhood	Non-metro	100	50.3	7.00
Arana Hills Shopping Centre	Brisbane	Sub-regional	Metro	100	67.5	5.75
Atherton Square	Atherton	Neighbourhood	Non-metro	100	35.5	6.25
Bribie Island Shopping Centre	Bribie Island	Sub-regional	Metro	100	57.0	6.25
Coomera Square	Coomera	Neighbourhood	Metro	100	59.7	6.50
Currimundi Markets	Currimundi	Neighbourhood	Non-metro	100	39.0	6.00
Gatton Square	Gatton	Neighbourhood	Non-metro	100	23.5	6.00
Bay Plaza	Hervey Bay	Neighbourhood	Non-metro	100	20.7	6.75
Kallangur Fair	Kallangur	Neighbourhood	Metro	100	17.9	6.50
Mareeba Square	Mareeba	Neighbourhood	Non-metro	100	18.8	6.50
Moranbah Fair	Moranbah	Neighbourhood	Non-metro	100	25.0	7.75
Sydney Street Markets	Mackay	Neighbourhood	Non-metro	100	37.3	6.75
<b>QLD Total</b>					<b>509.7</b>	
<b>WA</b>						
Albany Plaza	Albany	Sub-regional	Non-metro	100	61.5	6.75
Carnarvon Central	Carnarvon	Neighbourhood	Non-metro	100	18.4	7.50
Esperance Boulevard	Esperance	Neighbourhood	Non-metro	100	31.0	6.50
Kalgoorlie Central	Kalgoorlie	Neighbourhood	Non-metro	100	41.0	6.50
Maylands Coles	Maylands	Freestander	Metro	100	17.1	5.25
Narrogin Coles	Narrogin	Freestander	Non-metro	100	12.1	6.00
Secret Harbour Shopping Centre	Secret Harbour	Sub-regional	Metro	100	90.9	n/a
South Hedland Square	South Hedland	Sub-regional	Non-metro	100	77.3	7.00
Swan View Shopping Centre	Swan View	Neighbourhood	Metro	100	19.1	6.25
Wanneroo Central	Wanneroo	Sub-regional	Metro	50	51.6	6.25
<b>WA Total</b>					<b>420.0</b>	

\* excludes properties held for sale



#### PROPERTY TYPE

- ◆ Sub-regional
- ◆ Neighbourhood
- ◆ Freestanding supermarket



#### VICTORIA

TOTAL VALUE  
OF PROPERTY PORTFOLIO

**\$279.8m**

#### SOUTH AUSTRALIA

TOTAL VALUE  
OF PROPERTY PORTFOLIO

**\$135.7m**

\* excludes properties held for sale

Property	Location	Asset Type	Metro/ Non-metro	Interest %	Book Value (CQR Share) \$	Cap Rate %
<b>SA</b>						
Brickworks Marketplace	Torrensville	Sub-regional	Metro	50	33.0	6.50
Renmark Plaza	Renmark	Sub-regional	Non-metro	100	24.7	7.50
Southgate Square	Morphett Vale	Sub-regional	Metro	100	78.0	6.25
<b>SA Total</b>					<b>135.7</b>	
<b>VIC</b>						
Bairnsdale Coles	Bairnsdale	Freestander	Non-metro	100	16.8	5.50
Kerang Safeway	Kerang	Freestander	Non-metro	100	14.5	6.50
Lansell Square	Kangaroo Flat	Sub-regional	Non-metro	100	102.0	6.25
Moe Coles	Moe	Freestander	Non-metro	100	19.7	5.50
Rosebud Plaza	Rosebud	Sub-regional	Metro	100	126.8	6.00
<b>VIC Total</b>					<b>279.8</b>	

\* excludes properties held for sale

# SUSTAINABILITY

Charter Hall Retail REIT continues to align its sustainability aspirations, with that of the Charter Hall Group, and has adopted the Charter Hall Group's Shared Value Framework and the focus areas of Eco-Innovation, Place Creation and Wellbeing.





## ECO INNOVATION



### Resilience

Implementation of climate change framework.



Climate Change Adaptation Plan prepared for a retail development.

All assets and large developments, within operational control, have climate change adaptation plans.

Capital improvements in portfolio in line with Climate Change Adaptation plans.

Resilient communities and future proofed assets.

Create environmental management framework.



Environmental Management Framework commenced.

All assets have environmental management plans to AS 14001.

Maintain certified EMS to ISO 14001.

Implement emergency management framework.



Emergency management framework commenced in Charter Hall portfolio.

Emergency management framework extended across portfolio.

Fully integrated emergency management framework.



### Enhancing Environmental Performance

Green Star Performance rating for retail portfolio.



Green Star Performance Ratings across Retail assets.

Contribute to Charter Hall Group pathway to 2 degree reduction in emissions.

Achieve 2 Degree reduction in emissions.

Achieving net zero.

5 Star Green Star ratings sought on all new large developments.

Contribute to Charter Hall Group 3 Star average Green Star Performance Rating.

5 Star Green Star Design and As Built ratings sought on all new large developments.

NABERS ratings in retail centres over 15,000sqm.



3.5 Star Average NABERS Weighted Rating for Retail Assets.

3.75 Star Average NABERS Weighted Rating for Retail Assets.

4 Star Average NABERS Weighted Rating for Retail Assets.

Renewable energy on all new large retail developments.

Renewable energy creation in portfolio.

Renewable energy on all new large retail developments.



Renewable energy approved and construction commenced Singleton Shopping Centre.

Implementation of solar projects across Retail portfolio. Renewable energy on all new large retail developments.

Development and implementation of Waste Management Strategy.



Waste management strategy in Retail portfolio. Community sustainability program #Bestovers reducing food waste program implemented across retail portfolio.

50% Waste Diversion in Retail Assets.

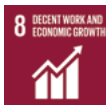
70% Waste Diversion in Retail Assets

Ongoing implementation of tenant and community sustainability programs.





## PLACE CREATION



### Fit for the Future

Stakeholder engagement plans for all new developments.

✓ Stakeholder engagement plans implemented in a retail development.

Stakeholder engagement plans prepared for 100% large developments.

100% of developments and assets, within operational control, have stakeholder engagement plans.

Creation of the largest community hub network in Australia.

Pilot an employment project in a new development.

✓ Employment approach developed.

Employment strategy piloted in one large development.

Employment projects in all new developments.



### Culture of Innovation

Develop a place impact index which measures our success in place and collective impact.

✓ Place Index developed and piloted in retail assets.

Place Index implemented across the portfolio. Provision of a menu of benefits and programs for our buildings and our communities.

Ongoing place experience ratings across our portfolio.

Leader in innovative place creation in our communities.

Pilot community hub concepts in retail properties.

✓ Place innovation implemented through community and startup use of our Places, including co-working with childcare, pop up community event space and social enterprise.

Community hubs in all large retail assets. National programs with communities and partners to curate creative and community programs in all large retail assets.

Create a national network of innovation enterprises.

Create innovative spaces in partnership with network of innovative enterprises.

Engage with our tenants and our supply chain to create innovation in place.

Community Investment Approach Pledge 1%.

✓ CQR adopted Charter Hall Group's Community investment approach Pledge 1% in making a difference in our communities.

Continued Pledge 1%  
Our People:  
Our Places:  
Our Partnerships

Continued Pledge 1%  
Our People:  
Our Places:  
Our Partnerships

Our People:  
Our Places:  
Our Partnerships



## WELLBEING



### Creating Healthy Mind Spaces and Environments

Investigate application of WELL Building Standard to Retail context.

✓ WELL Building Standard adopted in Charter Hall tenancies and WELL principles applied to shopping centre management office fitouts.

Review opportunities for application of WELL Building principles in retail developments.

Leader in health and wellbeing in our communities.

Investigate a Human Rights Framework.

✓ Charter Hall Group commenced Human Rights Framework review.

Human Rights Framework implemented across all Charter Hall developments and operations, within operational control.

Integrated sustainable and equitable supply chain into assets and developments.

Pilot new technologies in environmental quality and wellbeing monitors.

✓ Ongoing pilots of new technology, such as Nanosure.

Investigate application of new technologies in retail portfolio.

Enhanced Customer satisfaction experience in our assets.

Engage with our tenants and our supply chain to create innovation in place.

✓ Major suppliers engaged on social procurement and the social procurement approach integrated into national contracts executed in FY17.

Development of a social procurement strategy across supply chain.

Green, social and indigenous enterprises in the Charter Hall supply chain.

Procure Social Enterprises that promote fresh and healthy food, products, and physical and mental health.

✓ Social enterprises procured.

With our stakeholders develop Healthy Lifestyles Strategy for our assets and our communities.

✓ Wellbeing Survey undertaken for Charter Hall Group Employees by their Employee Assistance Provider.

Wellbeing Strategy for Charter Hall Group people and places developed and implemented.

Wellbeing programs / facilities available to all large assets and employees.

## OUR BOARD AND MANAGEMENT



### 1. SCOTT DUNDAS

Fund Manager Charter Hall Retail REIT  
LLB, Dip.Val, AAPI, FRICS

Scott joined Charter Hall in 2010 and has over 35 years' experience in the property sector. After initially managing the REIT's property assets between 1998 and 2000, Scott has been responsible for sourcing and implementing the majority of the REIT's capital transactions in the United States, Europe, New Zealand and Australia, as well as the recycling of capital back into the Australian market. He was named Best CEO 2014 in the Next 100 Property Sector at the East Coles Corporate Performance awards in 2014.

Before joining Charter Hall, Scott worked in a range of senior roles at Macquarie. Prior to that, he was the State Real Estate Manager for Coles Supermarkets and Coles Myer Limited in NSW and has also held senior positions in organisations ranging from commercial real estate agencies to various NSW statutory authorities.

He is a Barrister of the Supreme Court of NSW, a Registered Valuer, a Licensed Real Estate Agent, an Associate of the Australian Property Institute (AAPI) and a Fellow of the Royal Institute of Chartered Surveyors (RICS).



### 2. CHRISTINE KELLY

Deputy Fund Manager and Head of Retail Finance

Christine is the Deputy Fund Manager and Head of Retail Finance for Charter Hall. She has overall responsibility for the financial operations of the Charter Hall Retail funds including CQR and Property Management platform. This role assists the respective Fund Managers and Boards and works with the respective Fund Managers to set strategic direction and business planning initiatives for the retail business.

Prior to joining Charter Hall, Christine previously held the role as Treasurer for Sydney Airport Corporation for 9 years, where she has had significant experience in funding, structuring, capital management, capital expenditure management and retail operations. Christine has an Engineering (Elec)/Commerce Degree (Hons) from the University of Sydney and is a graduate of the Australian Institute of Company Directors.



### 1. JOHN HARKNESS

Independent Chairman



### 2. ALAN RATTRAY-WOOD

Independent Director



### 3. MICHAEL GORMAN

Independent Director



### 4. SUE PALMER

Independent Director



### 5. DAVID HARRISON

Executive Director



### 6. GREG CHUBB

Charter Hall Group Executive – Retail

See pages 30 – 32 for Director bios.





Brickworks Marketplace

**BIGW**

choice pharmacy

Your Health  
Your Pharmacy  
Your Choice



# ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED 30 JUNE 2017

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# DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2017

The Directors of Charter Hall Retail Management Limited (Responsible Entity or CHRML), the responsible entity of Charter Hall Retail REIT, present their report together with the consolidated financial statements of Charter Hall Retail REIT and its controlled entities (together, the REIT, the Fund) for the year ended 30 June 2017.

## Principal activities

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

## Directors

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

- John Harkness – Chair and Non-Executive Director
- Sue Palmer – Non-Executive Director and Chair of Audit, Risk and Compliance Committee
- Alan Rattray-Wood – Non-Executive Director
- Michael Gorman – Non-Executive Director (appointed on 10 November 2016)
- David Harrison – Executive Director and Managing Director / Group CEO of Charter Hall
- Greg Chubb – Executive Director and Group Executive – Retail of Charter Hall
- Scott Dundas – Alternate for David Harrison

## Distributions

Distributions paid or declared by the REIT to unitholders:

	2017 \$'m	2016 \$'m
Final distribution for the six months ended 30 June 2017 of 14.0 cents per unit payable on 31 August 2017	56.8	–
Interim distribution for the six months ended 31 December 2016 of 14.1 cents per unit paid on 28 February 2017	57.3	–
Final distribution for the six months ended 30 June 2016 of 14.1 cents per unit paid on 31 August 2016	–	57.0
Interim distribution for the six months ended 31 December 2015 of 14.0 cents per unit paid on 29 February 2016	–	56.3
	114.1	113.3

A liability has been recognised in the consolidated financial statements as the final distribution had been declared as at the balance date.

## Distribution Reinvestment Plan

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

The REIT raised \$9.0 million from the DRP for the 30 June 2016 distribution. The DRP was suspended for the year ended 30 June 2017.

## Review and results of operations

The REIT recorded a statutory profit for the year of \$251.3 million (2016: \$180.7 million). Operating earnings amounted to \$123.3 million (2016: \$120.3 million). Increased earnings are predominantly due to net property income growth during the year impacted by the timing of developments and the REIT's asset recycling strategy.

Operating earnings is a financial measure which represents the profit/(loss) under Australian Accounting Standards adjusted for net fair value movements, non-cash accounting adjustments such as straightlining of rental income and amortisations and other unrealised or one-off items. Operating earnings also aligns to the Funds from Operations (FFO) as defined by the Property Council of Australia.

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

## Review and results of operations continued

The table below sets out income and expenses that comprise operating earnings:

	Note	2017 \$'m	2016 \$'m
Net property income from wholly owned properties		148.8	147.0
Net income from joint venture entities		15.4	14.0
Other income		0.2	0.3
Management fees		(10.2)	(10.2)
Finance costs		(27.9)	(27.4)
Other expenses		(3.0)	(3.4)
<b>Operating earnings</b>	A	<b>123.3</b>	120.3

Reconciliation of operating earnings to statutory profit is set out below:

	2017 \$'m	2016 \$'m
<b>Operating earnings</b>	<b>123.3</b>	120.3
Revaluation increment on investment properties	118.3	107.0
Unrealised valuation gains/(losses) on assets held for sale at year end	0.6	(14.9)
Revaluation decrement on investment properties attributable to acquisition costs	(5.4)	(8.0)
Net gains/(losses) on derivative financial instruments	16.9	(19.0)
Gain/(loss) on sale of investment properties	2.8	(0.8)
Write off capitalised borrowing costs related to refinancing	(0.2)	(0.8)
Other	(5.0)	(3.1)
<b>Statutory profit for the year</b>	<b>251.3</b>	180.7
Basic weighted average number of units (millions)	405.8	395.8
Basic earnings per unit (cents)	61.92	45.65
Operating earnings per unit (cents)	30.40	30.40
Distribution per unit (cents)	28.10	28.10

The 30 June 2017 financial results are summarised as follows:

	2017	2016
Revenue (\$ millions)	215.5	211.9
Net profit after tax (\$ millions)	251.3	180.7
Basic earnings per unit (cents)	61.92	45.65
Operating earnings (\$ millions)	123.3	120.3
Operating earnings per unit (cents)	30.40	30.40
Distributions (\$ millions)	114.1	113.3
Distributions per unit (cents)	28.10	28.10
Total assets (\$ millions)	2,707.2	2,449.0
Total liabilities (\$ millions)	1,032.7	916.8
Net assets attributable to unitholders (\$ millions)	1,674.5	1,532.2
Units on issue (millions)	405.8	404.3
Net assets per unit (\$)	4.13	3.79
Balance sheet gearing – total debt (net of cash) to total assets (net of cash)	33.1%	32.0%
Look through gearing – total debt (net of cash) to total assets (net of cash)	36.2%	35.9%

## Significant changes in the state of affairs

### Acquisitions

In December 2016, the REIT acquired Arana Hills Plaza and the adjacent petrol station, Qld for a combined purchase price of \$67.1 million.

In May 2017, the REIT paid a deposit of \$8.7 million and entered an unconditional contract to acquire Salamander Bay, NSW. The REIT completed the acquisition in July 2017 for a gross price of \$174.5 million (including deposit). Only the deposit was recognised in the REIT's balance sheet at 30 June 2017.

In June 2017, the REIT paid a deposit of \$4.1 million and entered an unconditional contract to acquire Highfields Village, Qld. The REIT completed the acquisition in July 2017 for a gross price of \$41.0 million (including deposit). Only the deposit was recognised in the REIT's balance sheet at 30 June 2017.

### Disposals

In October 2016, Charter Hall Retail Partnership No.1 Trust (CHRP1), one of the REIT's joint venture entities, sold Pakington Strand, Vic for a gross price of \$31.8 million. The REIT's share of the asset was \$15.9 million.

In November 2016, the REIT sold Caboolture, Qld for a gross price of \$27.5 million.

In December 2016, the REIT sold Moe Kmart, Vic for a gross price of \$12.9 million.

In June 2017, the REIT sold Newstead, Tas for a gross price of \$9.0 million.

### Financing

In December 2016, the REIT entered into a new unsecured bilateral \$150.0 million bank debt facility due to mature in July 2022. The REIT also repaid and cancelled \$100.0 million of the existing unsecured syndicated bank debt facility which was due to mature in July 2018.

In June 2017, the REIT entered into a new unsecured bilateral \$175.0 million bank debt facility due to mature in June 2022. At 30 June 2017, the new debt facility was undrawn, the REIT used the facility to finance the acquisitions of Salamander Bay and Highfields Village in July 2017.

### Redevelopments

During the 12 months to June 2017 the REIT completed projects at Southgate (SA), Bateau Bay (NSW) (Charter Hall Retail Partnership No.2), Gatton (Qld), Goulburn (NSW) and Secret Harbour (WA).

### Cash position

The REIT had a cash balance of \$58.7 million at 30 June 2017. The cash was used to acquire Highfields Village, Qld in July 2017.

## Business strategies and prospects

The REIT's strategy is to invest in supermarket anchored shopping centres in Australia. When acquiring these properties the REIT's investment criteria include the following considerations:

- Exposure to predominantly non-discretionary retailing;
- Investing in regions with sound, long term demographic growth;
- Consideration of the geographic diversity of the REIT's portfolio; and
- Potential future development opportunity.

These centres typically range in area up to 25,000 sqm and have capital and income growth potential. The REIT aims to maintain and enhance the existing portfolio through active asset and property management and to proactively manage its equity and debt.

The REIT has a target look through gearing range of 30-40% and a target interest cover ratio of at least 2.5 times. The REIT maintains a Baa1 Moody's rating.

The material business risks faced by the REIT that are likely to have an effect on its financial performance include:

### Property valuations

Movements in property valuations may have a material impact on future financial results and hence may directly impact the financial covenants in the REIT's debt facilities. This risk is mitigated through active asset and portfolio management as well as maintaining a prudent approach to capital management including having a substantial buffer to those covenants.

### Structural change in retail environment

The retail environment is subject to continual change including but not limited to new market entrants. There is a focus on monitoring these changes and ensuring that the REIT's portfolio is well positioned to take advantage of them as they occur. The impact of future structural changes in the retail environment cannot be reliably measured at balance date.

### Leasing

Lease default, non-renewal and vacancy could result in a reduction in income received by the REIT. This risk is mitigated through active property and asset management of the REIT's portfolio and its exposure to predominantly non-discretionary retailing. Any impact will depend on future economic conditions that are not known at balance date.

### Funding

An inability to obtain the necessary funding or refinancing of an existing debt facility, or a material increase in the cost of such funding (including increases in interest rates that are not hedged), may have an adverse impact on the REIT's performance and financial position. The REIT seeks to minimise this risk through proactive refinancing and maintaining adequate liquidity to fund future forecast expenditure and hedging its interest rate exposure in accordance with the REIT's Board approved Financial Risk Management Policy.

### Development pipeline

For all future development activity undertaken by the REIT, achieving target returns will depend on achieving both practical completion on schedule and targets for leasing income. This risk is mitigated through fixed price construction contracts and through pre-leasing the redevelopment both prior to and during construction.

### Major anchor tenants' growth

The REIT has income linked to the level of sales achieved by its major tenants which is in addition to a base level of rent determined in the lease. This means the REIT is exposed to movement in the sales level of its major tenants, where they are trading above their threshold sales levels, for payment of additional percentage rent. An example of where sales could be impacted is in the event of an increase in competition following the introduction of a new or redeveloped centre within a particular shopping centre's catchment area.



### Events occurring after balance date

In July 2017, the REIT paid the remaining balance of \$36.9 million to settle the unconditional contract to acquire Highfields Village shopping centre, Qld. Total settlement (including deposit) was \$41.0 million.

In July 2017, the REIT paid the remaining balance of \$165.8 million to settle the unconditional contract to acquire Salamander Bay shopping centre, NSW. Total settlement (including deposit) was \$174.5 million.

In July 2017, the REIT disposed of Wharflands Plaza, SA for \$21.0 million. Wharflands Plaza was classified as held for sale at 30 June 2017.

In July 2017, the REIT entered an unconditional contract to dispose of Narrabri Coles, NSW for \$10.5 million. Narrabri Coles was classified as held for sale at 30 June 2017. Settlement is expected by early September 2017.

In July 2017, Charter Hall Retail Partnership No.1 Trust disposed of Gladstone Square, Qld for \$31.5 million, excluding settlement adjustments. The REIT's share of the asset was \$15.8 million. Gladstone Square was classified as held for sale at 30 June 2017.

### Likely developments and expected results of operations

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

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

### Indemnification and insurance of Directors, officers and auditor

During the year, the REIT, pursuant to Article 19 of its constitution, paid a premium for a contract to insure all Directors, secretaries and officers of the REIT and of each related body corporate of the REIT. The insurance does not provide cover for the independent auditors of the REIT or of a related body corporate of the REIT. In accordance with usual commercial practice, the insurance contract prohibits disclosure of details relating to the nature of the liabilities covered by the insurance, the limit of indemnity and the amount of the premium paid under the contract.

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

### Fees paid to, and interests held in the REIT by, the Responsible Entity or its associates

Base fees of \$11,182,258 (2016: \$10,389,053) were paid or are payable to the Responsible Entity, its associates or third party service providers for the services provided during the year, in accordance with the REIT's constitution as disclosed in Note D1 to the consolidated financial statements.

The interests in the REIT held by the Responsible Entity or its associates as at 30 June 2017 and fees paid to its associates during the year are disclosed in Note D1 to the consolidated financial statements.

## Interests in the REIT

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

	2017	2016
Units on issue at the beginning of the year	404,307,852	375,554,374
Units issued during the year		
– via Distribution Reinvestment Plan	1,881,240	5,311,633
– via Placement issue	–	23,441,845
Units cancelled during the year*	(411,358)	–
<b>Units on issue at the end of the year</b>	<b>405,777,734</b>	<b>404,307,852</b>

\* The REIT repurchased its own units in March 2017. The repurchased units were cancelled in April 2017.

## Value of assets

	2017 \$'m	2016 \$'m
<b>Value of REIT assets</b>	<b>2,707.2</b>	<b>2,449.0</b>

The value of the REIT's assets is derived using the basis set out in the notes to the consolidated financial statements for the year ended 30 June 2017.

## Environmental regulations

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

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

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

- (a) ensure that in carrying out the contractor's activities:
  - (i) it complies with all statutory requirements and other requirements of the contract for the protection of the environment;
  - (ii) it does not pollute, contaminate or otherwise damage the environment; and
  - (iii) its subcontractors comply with the requirements referred to in the contract;
- (b) make good any pollution, contamination or damage to the environment arising out of, or in any way in connection with, the contractor's activities, whether or not it has complied with all statutory requirements or other requirements of the contract for the protection of the environment; and
- (c) indemnify the REIT to the full extent permitted by law against:
  - (i) any liability to or a claim by a third party; and
  - (ii) all fines, penalties, costs, losses or damages suffered or incurred by the REIT, arising out of or in connection with the contractor's breach of the contract.

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

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

## Information on current Directors

Director	Experience	Special responsibilities	Interest in units of the REIT
John Harkness	<p>Appointed 18 August 2003</p> <p>John was appointed to the Board of the management company for the Charter Hall Retail REIT on 18 August 2003, and was appointed Chair on 27 April 2011. John brings extensive financial and business skills to the Board. A partner at KPMG for 25 years and National Executive Chair for five years, John has held a number of Non-Executive Director roles since leaving KPMG in 2000.</p> <p>He is currently Chair of Reliance Rail and an Independent Director of the Goodman Group. John is also Chair of the National Foundation for Medical Research and Innovation.</p> <p>John is a Fellow of both The Institute of Chartered Accountants (Australia and New Zealand) and the Australian Institute of Company Directors.</p> <p><b>Current listed directorships</b> Goodman Group (Director since 2005) (ASX: GMG)</p> <p><b>Former listed directorships in last three years</b> Nil</p>	Chair of Board of Directors, Member of Audit, Risk and Compliance Committee	Nil
Sue Palmer	<p>Appointed 10 November 2015</p> <p>Sue was appointed to the Board of the management company for the Charter Hall Retail REIT on 10 November 2015. Sue is a professional non-executive director and experienced corporate and finance executive. Sue has held senior finance roles across a range of diversified industries, with the most recent being as Chief Finance Officer of the large construction and mining company Thiess. During her executive career and subsequently, Sue has held a number of non-executive director roles on ASX listed, government and private company boards.</p> <p>Sue is a Chartered Accountant and Fellow of the Australian Institute of Company Directors.</p> <p><b>Current listed directorships</b> New Hope Corporation Limited (Director since 2012) (ASX: NHC) RCR Tomlinson Limited (Director since 2014) (ASX: RCR)</p> <p><b>Former listed directorships in last three years</b> Nil</p>	Chair of Audit, Risk and Compliance Committee	Nil
Alan Rattray-Wood	<p>Appointed 6 March 1996</p> <p>Alan was appointed to the Board of the management company for the Charter Hall Retail REIT on 6 March 1996, and is a member of the Audit, Risk and Compliance Committee. He is an experienced industry participant with more than 35 years' experience involving supermarket management, neighbourhood and regional sized shopping centre management, development and leasing. Alan has held management roles with Woolworths, Westfield Holdings, Knight Frank Agency and other private retail developers.</p> <p>Since 1990, he has operated his own retail development consultancy practice, focusing on all facets of shopping centre development and retail chain insolvency workouts.</p> <p><b>Current listed directorships</b> Nil</p> <p><b>Former listed directorships in last three years</b> Nil</p>	Member of Audit, Risk and Compliance Committee	10,867

Director	Experience	Special responsibilities	Interest in units of the REIT
Michael Gorman	<p>Appointed 10 November 2016</p> <p>Michael joined the Board in 2016. He brings more than 30 years' extensive experience in both real estate and the public equity and debt markets.</p> <p>In his 11 years with Novion Property Group, an ASX top 50 entity, and its predecessors, Michael held a number of executive positions including Deputy Chief Executive Officer, Chief Investment Officer and Fund Manager. In these roles, Michael was directly responsible for raising several billion dollars in debt and equity in Australia and the United States.</p> <p>Also in 2016, Michael was appointed Non-Executive Director of GPT Funds Management Limited, the Responsible Entity of the GPT wholesale unlisted funds platform.</p> <p>Michael completed the Advanced Management Programme at INSEAD, France, holds an MBA from the Australian Graduate School of Management of UNSW, a Bachelor of Science (Architecture) UNSW and a Bachelor of Architecture (First Class Honours, University Medal) at UNSW.</p> <p>Michael is a Graduate Member of the Australian Institute of Company Directors, a Fellow of the Australian Property Institute and a Fellow of the Royal Society of Arts.</p> <p><b>Current listed directorships</b></p> <p>Nil</p> <p><b>Former listed directorships in last three years</b></p> <p>Nil</p>	Member of Audit, Risk and Compliance Committee	Nil
David Harrison	<p>Appointed 1 March 2010</p> <p>David has 31 years of property market experience across office, retail and industrial sectors in multiple geographies globally. As Charter Hall's Managing Director and Group CEO, David is responsible for all aspects of the Charter Hall business, with specific focus on strategy and continuing the momentum from building an Investment Manager recognised as a multi-core sector market leader. David is an executive member of various Fund Boards and Partnership Investment Committees, Chair of the Executive Property Valuation Committee and Executive Leadership Committee.</p> <p>David has overseen the growth of the Charter Hall Group from \$500 million to \$19 billion of assets under management in 13 years.</p> <p>David holds a Bachelor of Business Degree (Land Economy) from the University of Western Sydney, is a Fellow of the Australian Property Institute (FAP I) and holds a Graduate Diploma in Applied Finance from the Securities Institute of Australia.</p> <p>David is National Vice President on the Board of Directors for the Property Council of Australia and Chair of the Audit &amp; Risk Committee. David is also a member of the Property Male Champions of Change.</p> <p><b>Current listed directorships</b></p> <p>Charter Hall Group (ASX: CHC)</p> <p>Charter Hall Long WALE REIT (ASX: CLW)</p> <p><b>Former listed directorships in last three years</b></p> <p>Nil</p>	Nil	124,378



## Information on current Directors continued

Director	Experience	Special responsibilities	Interest in units of the REIT
Greg Chubb	<p>Appointed 5 February 2016</p> <p>Greg is Charter Hall's Group Executive – Retail, joining the Group in October 2014 with more than 25 years property market experience. Greg's mandate includes overseeing the management of all Retail Funds Management platforms to deliver value creation within the retail portfolio and optimise returns for our investors.</p> <p>In addition to being appointed as an Executive Director of Charter Hall Retail REIT in February 2016, Greg is a Director of Charter Hall Wholesale Management Limited, Charter Hall Holdings Pty Limited, Charter Hall Nominees Pty Limited and Bieson Pty Limited.</p> <p>Prior to joining Charter Hall, Greg was Property Director at Coles Supermarkets Australia and Managing Director and Head of Retail for Sandalwood/Jones Lang LaSalle in Greater China. Greg has also held executive leadership roles at Mirvac and Lend Lease.</p> <p>Greg holds a Bachelor of Business Degree (Land Economy) from the University of Western Sydney.</p> <p>Greg is a Registered Valuer, Licensed Real Estate Agent and a Fellow of the Australian Property Institute (FAPPI).</p> <p><b>Current listed directorships</b></p> <p>Nil</p> <p><b>Former listed directorships in last three years</b></p> <p>Nil</p>	Nil	Nil

## Meetings of directors

Name	Full meetings of Directors		Meetings of Audit, Risk and Compliance Committee	
	Eligible to attend	Attended	Eligible to attend	Attended
John Harkness	7	7	4	4
Sue Palmer	7	7	4	4
Alan Rattray-Wood	7	7	4	4
Michael Gorman	5	5	3	3
David Harrison	7	7	4	4
Greg Chubb	7	7	4	4

## Company secretary

Mark Bryant and Tracey Jordan were appointed as Company Secretaries for the REIT on 1 July 2015. Tracey resigned as Company Secretary on 1 March 2017.

Mark holds a Bachelor of Business (Accounting) and a Bachelor of Laws (Hons) and has over 13 years experience as a solicitor, including advising on listed company governance, securities law, funds management, real estate and general corporate law. Mark is the Group General Counsel and Company Secretary for the Charter Hall Group.

## Non-audit services

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

Details of the amounts paid to the auditor for audit and non-audit services provided during the year are disclosed in Note D5 to the consolidated financial statements.

The Board of Directors has considered the position and, in accordance with the advice received from the Audit, Risk and Compliance Committee, is satisfied that the provision of the non-audit services is compliant with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The Directors are satisfied that the provision of non-audit services by the auditor, as set out in Note D5 to the consolidated financial statements, did not compromise the auditor's independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services have been reviewed by the Audit, Risk and Compliance Committee to ensure that they do not impact the integrity and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in Accounting Professional and Ethical Standards Board APES 110 *Code of Ethics for Professional Accountants*.

## Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 34.

## Rounding of amounts to the nearest hundred thousand dollars

As permitted by ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 issued by the Australian Securities and Investments Commission relating to the 'rounding off' of amounts in the Director's report and consolidated financial statements. Amounts in the Directors' report and consolidated financial statements have been rounded to the nearest hundred thousand dollars, unless otherwise indicated.

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

## Directors' authorisation

The Directors' report is made in accordance with a resolution of the Directors. The financial statements were authorised for issue by the Directors on 14 August 2017. The Directors have the power to amend and re-issue the financial statements.



**John Harkness**

Chair

Sydney

14 August 2017

## AUDITOR'S INDEPENDENCE DECLARATION

FOR THE YEAR ENDED 30 JUNE 2017



### Auditor's Independence Declaration

As lead auditor for the audit of Charter Hall Retail REIT for the year ended 30 June 2017, I declare that to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- (b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Charter Hall Retail REIT and the entities it controlled during the period.

A handwritten signature in black ink that reads 'Reilly'.

Jane Reilly  
Partner  
PricewaterhouseCoopers

Sydney  
14 August 2017

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# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2017

	Notes	2017 \$'m	2016 \$'m
<b>Revenue</b>			
Property rental income		<b>215.3</b>	211.6
Interest income		<b>0.2</b>	0.3
<b>Total revenue</b>		<b>215.5</b>	211.9
<b>Other income</b>			
Share of net profit on investment in joint venture entities	B2	<b>41.7</b>	34.4
Net gain on movement in fair value of investment properties		<b>91.3</b>	63.7
Net gain from derivative financial instruments	C3	<b>15.2</b>	–
Unrealised foreign exchange gains		<b>–</b>	0.3
<b>Total revenue and other income</b>		<b>363.7</b>	310.3
<b>Expenses</b>			
Property expenses		<b>(70.8)</b>	(67.7)
Net loss from derivative financial instruments	C3	<b>–</b>	(19.4)
Net loss on disposal of investment properties		<b>(0.2)</b>	(0.8)
Management fees	D1	<b>(10.2)</b>	(10.2)
Finance costs	C2	<b>(28.0)</b>	(28.1)
Other expenses		<b>(3.2)</b>	(3.4)
<b>Total expenses</b>		<b>(112.4)</b>	(129.6)
<b>Profit for the year</b>		<b>251.3</b>	180.7
<b>Other comprehensive income*</b>			
Change in the fair value of cash flow hedges	C4	<b>(2.1)</b>	(1.2)
<b>Other comprehensive income</b>		<b>(2.1)</b>	(1.2)
<b>Total comprehensive income for the year</b>		<b>249.2</b>	179.5
<b>Basic and diluted earnings per ordinary unitholder of the REIT</b>			
Earnings per unit (cents)	A2	<b>61.92</b>	45.65

\* All items in other comprehensive income can be reclassified into profit or loss.

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



# CONSOLIDATED BALANCE SHEET

AS AT 30 JUNE 2017

	Notes	2017 \$'m	2016 \$'m
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents		58.7	12.2
Receivables	D2	9.9	9.4
Derivative financial instruments	C3	4.3	4.5
Deposits on investment properties	B	12.8	–
Prepayments		0.9	1.4
Assets classified as held for sale	B1	158.3	27.4
<b>Total current assets</b>		<b>244.9</b>	<b>54.9</b>
<b>Non-current assets</b>			
Investment properties	B1	2,208.9	2,142.3
Investments in joint venture entities	B2	250.4	222.0
Derivative financial instruments	C3	3.0	29.8
<b>Total non-current assets</b>		<b>2,462.3</b>	<b>2,394.1</b>
<b>Total assets</b>		<b>2,707.2</b>	<b>2,449.0</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Payables	D2	37.9	35.4
Distribution payable	A2	56.8	57.0
Other liabilities		1.8	0.3
<b>Total current liabilities</b>		<b>96.5</b>	<b>92.7</b>
<b>Non-current liabilities</b>			
Borrowings	C2	910.1	805.7
Derivative financial instruments	C3	26.1	18.4
<b>Total non-current liabilities</b>		<b>936.2</b>	<b>824.1</b>
<b>Total liabilities</b>		<b>1,032.7</b>	<b>916.8</b>
<b>Net assets</b>		<b>1,674.5</b>	<b>1,532.2</b>
<b>Equity</b>			
Contributed equity	C4	2,276.3	2,269.6
Reserves	C4	(3.4)	(1.3)
Accumulated losses	C4	(598.4)	(736.1)
<b>Total equity</b>		<b>1,674.5</b>	<b>1,532.2</b>

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

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2017

	Notes	Contributed equity \$'m	Reserves \$'m	Accumulated losses \$'m	Total \$'m
Total equity at 1 July 2015		2,153.3	(0.1)	(803.5)	1,349.7
Profit for the year		–	–	180.7	180.7
Other comprehensive income		–	(1.2)	–	(1.2)
Total comprehensive income for the year		–	(1.2)	180.7	179.5
Transactions with unitholders in their capacity as unitholders					
– Contributions of equity, net of issue costs	C4	116.3	–	–	116.3
– Distributions paid and payable	A2	–	–	(113.3)	(113.3)
Total equity at 30 June 2016		2,269.6	(1.3)	(736.1)	1,532.2
<b>Total equity at 1 July 2016</b>		<b>2,269.6</b>	<b>(1.3)</b>	<b>(736.1)</b>	<b>1,532.2</b>
Profit for the year		–	–	251.3	251.3
Other comprehensive income		–	(2.1)	–	(2.1)
<b>Total comprehensive income for the year</b>		<b>–</b>	<b>(2.1)</b>	<b>251.3</b>	<b>249.2</b>
Transactions with unitholders in their capacity as unitholders					
– Contributions of equity, net of issue costs	C4	9.0	–	–	9.0
– Cancellation of units	C4	(2.3)	–	0.5	(1.8)
– Distributions paid and payable	A2	–	–	(114.1)	(114.1)
<b>Total equity at 30 June 2017</b>		<b>2,276.3</b>	<b>(3.4)</b>	<b>(598.4)</b>	<b>1,674.5</b>

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

## CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 30 JUNE 2017

	Note	2017 \$'m	2016 \$'m
<b>Cash flows from operating activities</b>			
Property rental income received		238.9	235.0
Property expenses paid		(70.2)	(68.1)
Distributions received from investment in joint venture entities		11.7	10.1
Other operating expenses paid		(12.2)	(17.4)
Finance costs paid		(29.3)	(30.9)
Interest and other income		0.2	0.3
Net GST paid to ATO on operating activities		(14.1)	(13.6)
Net GST received from/(paid to) ATO on investing activities		0.4	(0.2)
<b>Net cash flows from operating activities</b>	A3	<b>125.4</b>	115.2
<b>Cash flows from investing activities</b>			
Proceeds from sale of investment properties		49.8	19.3
Deposit received for investment property		1.3	–
Payments for investment properties and capital expenditure		(163.4)	(184.1)
Deposit paid for investment property		(12.8)	–
Payments for investment in joint venture entities		–	(50.7)
<b>Net cash flows from investing activities</b>		<b>(125.1)</b>	(215.5)
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		269.1	603.8
Repayment of borrowings		(115.8)	(483.7)
Settlement of derivative financial instruments		–	(22.3)
Proceeds from issue of units		–	94.4
Repurchase of units		(1.8)	–
Distributions paid to unitholders, net of DRP		(105.3)	(86.2)
<b>Net cash flows from financing activities</b>		<b>46.2</b>	106.0
Net increase in cash held		46.5	5.7
Cash and cash equivalents at the beginning of the year		12.2	6.5
<b>Cash and cash equivalents at the end of the year</b>		<b>58.7</b>	12.2

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

### Non-cash financing and investing activities

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

	Notes	2017 \$'m	2016 \$'m
Distributions by the REIT during the year satisfied by the issue of units under the DRP	A2, C4	9.0	21.9

## ABOUT THIS REPORT

The notes to these consolidated financial statements include additional information which is required to understand the operations, performance and financial position of the REIT. They are organised in four key sections:

- **Fund performance** – provides key metrics used to define financial performance.
- **Property portfolio assets** – explains the structure of the investment property portfolio and investments in joint ventures.
- **Capital structure and financial risk management** – details how the REIT manages its exposure to various financial risks.
- **Other information** – provides additional disclosures not included in previous sections but relevant in understanding the financial statements.

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### Critical accounting estimates

The preparation of the consolidated financial statements in conformity with Australian Accounting Standards requires the use of certain critical accounting estimates and management to exercise its judgement in the process of applying the REIT's accounting policies.

The areas involving significant estimates or judgements are:

- Consolidation decisions and classification of joint arrangements – B2 Investment in joint venture entities
- Fair value estimation – B1 Investment properties, C2 Borrowings and liquidity and C3 Derivative financial instruments



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

## A. FUND PERFORMANCE

This section provides additional information on the key financial metrics used to define the results and performance of the REIT, including: operating earnings by segment, net property income, distributions and earnings per unit.

Operating earnings is a financial measure that represents the statutory profit/(loss) adjusted for net fair value movements and non-cash accounting adjustments such as straightlining of rental income, unrealised gains and losses or one-off items.

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

Operating earnings also aligns to the Funds from Operations (FFO) as defined by the Property Council of Australia.

### A1. Segment information

#### (a) Description of segments

The Directors of the Responsible Entity have determined the operating segments based on the reports reviewed by the chief operating decision maker, being the Board of the Responsible Entity. The REIT's operating segments are as follows:

- *Freestanding supermarkets* – standalone supermarket with no specialty shops;
- *Neighbourhood shopping centres* – local shopping centres with one supermarket and a gross lettable area (GLA) less than 10,000 sqm;
- *Sub-regional shopping centres* – medium sized shopping centres typically incorporating at least one full line discount department store and a major supermarket with total GLA of up to 40,000 sqm; and
- *REIT operations*, which includes all other income and expenses which are not directly attributable to these shopping centres or standalone supermarkets.

Income is presented on the basis of each segment's operating earnings. The value of investments, income and expenses are included based on the REIT's ownership percentage. Investment properties are presented on the basis set out in Note B1. All other assets and liabilities are presented on a consolidated basis, in line with the consolidated balance sheet. This is consistent with the manner in which the information is presented to the Board in its capacity as chief operating decision maker.

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

The operating earnings reported to the Board for the operating segments for the years ended 30 June 2017 and 30 June 2016 are as follows:

	Freestanding supermarkets \$'m	Neighbourhood shopping centres \$'m	Sub-regional shopping centres \$'m	REIT operations \$'m	Total \$'m
<b>2017</b>					
Property rental income	16.2	101.2	97.9	–	215.3
Add back: non-cash adjustments	–	2.0	2.3	–	4.3
Property expenses	(2.4)	(33.2)	(35.2)	–	(70.8)
Total net property income from wholly owned properties (NOI)	13.8	70.0	65.0	–	148.8
Net income from joint venture entities	–	6.1	17.2	(7.9)	15.4
Other income	–	–	–	0.2	0.2
Management fees ( <i>refer to note D1</i> )	–	–	–	(10.2)	(10.2)
Finance costs	–	–	–	(27.9)	(27.9)
Other expenses	–	–	–	(3.0)	(3.0)
<b>Operating earnings</b>	<b>13.8</b>	<b>76.1</b>	<b>82.2</b>	<b>(48.8)</b>	<b>123.3</b>

	Freestanding supermarkets \$'m	Neighbourhood shopping centres \$'m	Sub-regional shopping centres \$'m	REIT operations \$'m	Total \$'m
2016					
Property rental income	16.6	99.2	95.8	–	211.6
Add back: non-cash adjustments	0.1	1.9	1.1	–	3.1
Property expenses	(2.4)	(32.4)	(32.9)	–	(67.7)
Total net property income from wholly owned properties (NOI)	14.3	68.7	64.0	–	147.0
Net income from joint venture entity	–	6.4	14.4	(6.8)	14.0
Other income	–	–	–	0.3	0.3
Management fees (refer to note D1)	–	–	–	(10.2)	(10.2)
Finance costs	–	–	–	(27.4)	(27.4)
Other expenses	–	–	–	(3.4)	(3.4)
Operating earnings	14.3	75.1	78.4	(47.5)	120.3

#### Rental income

Property rental income represents income earned from the long term rental of REIT properties (inclusive of outgoings recovered from tenants) and is recognised on a straight line basis over the lease term. The portion of rental income relating to fixed increases in operating lease rentals in future years is recognised as a separate component of investment properties. Investment properties include a straightlining asset of \$10.7 million (2016: \$10.2 million) and unamortised lease incentives of \$12.1 million (2016: \$9.3 million). Turnover rent is recognised on an accruals basis.

Minimum lease payments under non-cancellable operating leases of investment properties not recognised in the financial statements as receivable are as follows:

	0 to 1 year \$'m	1 to 5 years \$'m	Over 5 years \$'m	Total \$'m
<b>2017</b>	<b>170.8</b>	<b>517.0</b>	<b>475.8</b>	<b>1,163.6</b>
2016	165.7	493.1	447.5	1,106.3

#### Property expenses

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

A reconciliation between operating earnings to the profit after tax is set out below:

	2017 \$'m	2016 \$'m
Operating earnings	123.3	120.3
Revaluation increment on investment properties	118.3	107.0
Unrealised valuation gains/(losses) on assets held for sale at year end	0.6	(14.9)
Revaluation decrement on investment properties attributable to acquisition costs	(5.4)	(8.0)
Net gains/(losses) on derivative financial instruments	16.9	(19.0)
Gain/(loss) on sale of investment properties	2.8	(0.8)
Write off capitalised borrowing costs related to refinancing	(0.2)	(0.8)
Other	(5.0)	(3.1)
<b>Profit for the year</b>	<b>251.3</b>	<b>180.7</b>
Basic weighted average number of units (millions)	405.8	395.8
Operating earnings per unit (cents)	30.40	30.40

## **A2. Distributions and earnings per unit**

### **(a) Distributions paid and payable**

	Distribution Cents per unit	Total amount \$'m
<i>Ordinary unitholders</i>		
2017 distributions for the half year ended:		
31 December 2016 (paid 28 February 2017)	<b>14.1</b>	<b>57.3</b>
30 June 2017 (payable 31 August 2017)*	<b>14.0</b>	<b>56.8</b>
	<b>28.1</b>	<b>114.1</b>
<i>Ordinary unitholders</i>		
2016 distributions for the half year ended:		
31 December 2015 (paid 29 February 2016)	14.0	56.3
30 June 2016 (paid 31 August 2016)**	14.1	57.0
	28.1	113.3

\* The distribution of 14.0 cents per unit for the six month period ended 30 June 2017 was declared prior to 30 June 2017 and will be paid on 31 August 2017.

\*\* Includes distributions reinvested of \$9.0m for 30 June 2016.

Pursuant to the REIT's constitution, the amount distributed to unitholders is at the discretion of the Responsible Entity. The Responsible Entity uses operating earnings (refer to Note A1) as a guide to assessing an appropriate distribution to declare.

A liability is recognised for the amount of any distribution declared by the REIT on or before the end of the reporting period but not distributed at balance date.

Under current Australian income tax legislation, the REIT is not liable to pay income tax provided its income for the year, as determined under the REIT's constitution, is fully distributed to unitholders, by way of cash or reinvestment.

### **(b) Earnings per unit**

	2017	2016
<b>Basic and diluted earnings per ordinary unitholder of the REIT</b>		
Earnings per unit (cents)	<b>61.92</b>	45.65
Operating earnings per unit (cents)	<b>30.40</b>	30.40
<b>Earnings used in the calculation of basic and diluted earnings per unit</b>		
Net profit for the year (\$'m)	<b>251.3</b>	180.7
Operating earnings for the year (\$'m)	<b>123.3</b>	120.3
Weighted average number of units used in the calculation of basic and diluted earnings per unit (millions)*	<b>405.8</b>	395.8

\* Weighted average number of units is calculated from the date of issue.

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

Operating earnings per unit is determined by dividing the operating earnings by the weighted average number of ordinary units on issue during the year.

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

### A3. Reconciliation of net profit to operating cash flow

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

	Note	2017 \$'m	2016 \$'m
<b>Profit after tax</b>		<b>251.3</b>	180.7
<i>Non-cash items</i>			
Straightlining of rental income		(0.8)	(1.0)
Amortisation of lease incentives		5.2	4.1
Share of unrealised net profit on investment in joint venture entities		(26.3)	(20.4)
Property valuation gains		(91.3)	(63.7)
Loss on sale of investment properties		0.2	0.8
Unrealised net gain on derivative financial instruments	B2, C3	(15.2)	(2.9)
Settlement of derivative financial instruments		–	22.3
Unrealised foreign exchange gains		–	(0.3)
Write off of capitalised borrowing costs related to refinancing		0.1	–
<i>Change in assets and liabilities</i>			
(Increase)/decrease in assets			
Receivables		(0.5)	(0.2)
Accrued interest on cross currency and interest rate swap		0.2	(4.5)
Net income receivable from investment in joint venture entities		(2.0)	(2.8)
Other assets		0.4	(0.1)
Unamortised borrowing costs		(1.4)	(3.1)
Increase in liabilities			
Payables		5.3	6.3
Other liabilities		0.2	–
<b>Net cash flows from operating activities</b>		<b>125.4</b>	115.2



## B. PROPERTY PORTFOLIO ASSETS

The REIT's property portfolio assets comprise directly held investment properties and indirectly held interests in investments held through a joint venture. Investment properties comprise investment interests in land and buildings held for long term rental yields, including properties that are under development for future use as investment properties. Investments in joint ventures comprise indirect interests in investment properties held by a separate legal entity to the REIT.

The following table summarises the property portfolio assets detailed in this section, including those directly owned and the REIT's ownership share of the properties indirectly held:

30 June 2017 \$'m	Notes	Freestanding supermarkets	Neighbourhood shopping centres	Sub-regional shopping centres	** Joint venture Adjustment	Total
<b>Non-current assets</b>						
Investment properties	B1	132.4	1,085.1	991.4	–	2,208.9
Investments in joint ventures	B2	–	83.0	298.0	(146.5)	234.5
<b>Total non-current assets</b>		<b>132.4</b>	<b>1,168.1</b>	<b>1,289.4</b>	<b>(146.5)</b>	<b>2,443.4</b>
<b>Current assets</b>						
Assets held for sale*	B1	85.2	52.1	21.0	–	158.3
Joint venture assets held for sale*	B2	–	15.9	–	–	15.9
<b>Property portfolio assets, including interests in joint venture properties</b>		<b>217.6</b>	<b>1,236.1</b>	<b>1,310.4</b>	<b>(146.5)</b>	<b>2,617.6</b>

\* The REIT and its joint ventures have classified seven freestanding supermarkets, four neighbourhood shopping centres and one sub-regional shopping centre as held for sale. At 30 June 2017 Rosehill Woolworths (freestanding) was under an unconditional contract. An unconditional contract to dispose of Narrabri Coles (freestanding) was entered into in July 2017. Wharflands Plaza (sub-regional) and Gladstone Square (neighbourhood) have been subsequently sold, refer to Note D7. The others are being actively marketed, with a number of interested buyers. All the properties classified as held for sale are expected to be sold before 30 June 2018. The costs of disposal are not expected to be material.

\*\* Joint venture adjustment includes non-investment property assets and liabilities of the REIT's joint ventures.

30 June 2016 \$'m	Notes	Freestanding supermarkets	Neighbourhood shopping centres	Sub-regional shopping centres	Joint venture adjustment	Total
<b>Non-current assets</b>						
Investment properties	B1	223.6	1,040.6	878.1	–	2,142.3
Investments in joint ventures	B2	–	101.8	278.3	(158.1)	222.0
<b>Total non-current assets</b>		<b>223.6</b>	<b>1,142.4</b>	<b>1,156.4</b>	<b>(158.1)</b>	<b>2,364.3</b>
<b>Current assets</b>						
Assets held for sale*	B1	–	–	27.4	–	27.4
<b>Property portfolio assets, including interests in joint venture properties</b>		<b>223.6</b>	<b>1,142.4</b>	<b>1,183.8</b>	<b>(158.1)</b>	<b>2,391.7</b>

\* Relates to Caboolture Square, asset sold on 11 November 2016, no further material gains or losses were recognised.

### Deposits on investment properties

In May 2017 and June 2017, the REIT paid deposits of \$8.7 million and \$4.1 million and entered unconditional contracts to acquire Salamander Bay shopping centre and Highfields Village shopping centre respectively. The REIT completed the acquisitions in July 2017, acquiring Salamander Bay shopping centre for a gross price of \$174.5 million (including deposit) and Highfields Village shopping centre for \$41.0 million (including deposit).

## B1. Investment properties

### Investment properties

Initially, investment properties are measured at cost including transaction costs. Subsequent to initial recognition, the investment properties are then stated at fair value. Revaluation gains and losses are included in the consolidated statement of comprehensive income in the year in which they arise.

### Assets held for sale

Assets which are classified as held for sale are classified as current assets as it is expected they will be divested within the coming reporting period.

## Development properties

The total cost of a development property is generally capitalised to its carrying value until development is complete. At the commencement of a development project, an estimated valuation on completion is obtained and the capitalised costs during the project are monitored against this initial valuation.

Post completion, the property is externally valued with a full formal report and thereafter the stabilised asset valuation process applies.

At each reporting date, the carrying values of development properties are reviewed to determine whether they are in excess of their fair value. Where appropriate, a write-down is made to reflect fair value.

### (a) Valuation process

The Responsible Entity conducts an investment property valuation process on a semi-annual basis. Valuations are performed either by independent professionally qualified external valuers or by Charter Hall's internal valuers who hold recognised relevant professional qualifications. Fair value is determined using Discounted Cash Flow (DCF) and income capitalisation methods.

The use of independent external valuers is on a progressive basis over a three year period, or earlier, where the Responsible Entity deems it appropriate or believes there may be a material change in the carrying value of the property. For non-development properties, if the external valuation is more than 12 months old then the property is externally valued. For others, an assessment is made as to which properties are likely to have had material movements in the book value reported at the last reporting period to determine whether they should be revalued externally or whether an internal valuation is applicable.

During 2017, over 90% of non-development investment properties were externally valued (2016: 100%).

### (b) Valuation techniques and key judgements

In determining fair value of investment properties, management has considered the nature, characteristics and risks of its investment properties.

The table below identifies the inputs, which are not based on observable market data, used to measure the fair value (level 3) of the investment properties:

	Fair value \$'m	Gross market rent (\$ p.a./sqm)	Adopted capitalisation rate (% p.a.)	Adopted terminal yield (% p.a.)	Adopted discount rate (% p.a.)
2017	2,367.2	120 – 666	5.0 – 8.0	5.25 – 7.25	6.5 – 8.0
2016	2,169.7	100 – 661	5.5 – 8.0	5.75 – 8.25	6.5 – 9.0

Term	Definition
Discounted Cash Flow (DCF) method	A method in which a discount rate is applied to future expected income streams to estimate the present value.
Income capitalisation method	A valuation approach that provides an indication of value by converting future cash flows to a single current capital value.
Gross market rent	The estimated amount for which an interest in real property should be leased to a major tenant on the valuation date between a willing lessor and a willing lessee on appropriate lease terms in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion.
Capitalisation rate	The return represented by the income produced by an investment, expressed as a percentage.
Terminal yield	A percentage return applied to the expected net income following a hypothetical sale at the end of the cash flow period.
Discount rate	A rate of return used to convert a future monetary sum or cash flow into present value.

Movement in the inputs are likely to have an impact on the fair value of investment properties. An increase in gross market rent will likely lead to an increase in fair value. A decrease in adopted capitalisation rate, adopted terminal yield or adopted discount rate will likely lead to an increase in fair value.

## B1. Investment properties continued

### (c) Reconciliation of the carrying amount of investment properties at the beginning and end of year

	2017 \$'m	2016 \$'m
Carrying amount at the beginning of the year	2,142.3	1,937.5
Additions	149.7	182.0
Acquisition costs incurred	5.4	7.2
Revaluation decrement attributable to acquisition costs	(5.4)	(7.2)
Revaluation increment	96.7	70.9
Straightlining of rental income	0.8	1.0
Amortisation of lease incentives	(5.2)	(4.1)
Capitalised leasing fees	3.0	2.5
Disposals	(20.1)	(20.1)
Reclassification of investment properties as held for sale	(158.3)	(27.4)
<b>Carrying amount at the end of the year</b>	<b>2,208.9</b>	<b>2,142.3</b>

## B2. Investment in joint venture entities

The REIT has investments in two joint venture entities, which are accounted for in the consolidated financial statements using the equity method of accounting. The REIT exercises joint control over the joint venture entities, as neither the REIT nor its joint venture partners have control in their own right, irrespective of their ownership interest.

Interests in joint ventures are accounted for using the equity method, with investments initially recognised at cost and adjusted thereafter to recognise the REIT's share of post-acquisition profits or losses of the investee in profit or loss, and the REIT's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from joint ventures are recognised as a reduction in the carrying amount of the investment.

Information relating to the joint venture entities is detailed below:

Joint venture entity	Country of establishment	Principal activity	Ownership interest	
			2017 %	2016 %
Charter Hall Retail Partnership No.1 Trust	Australia	Property investment	50.0%	50.0%
Charter Hall Retail Partnership No.2 Trust	Australia	Property investment	47.5%	47.5%

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

	2017 \$'m	2016 \$'m
Balance at the beginning of the year	222.0	148.2
Acquisition of interest in CHRP2	–	50.6
Share of profits and property valuation gains	41.7	34.4
Distributions paid and payable	(14.2)	(13.9)
Distribution reinvested	0.9	2.7
<b>Balance at the end of the year</b>	<b>250.4</b>	<b>222.0</b>

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

The table below provides summarised information about the financial performance of the joint venture entities.

	CHRP1 100% interest		CHRP2 100% interest		Total CQR interest	
	2017 \$'m	2016 \$'m	2017 \$'m	30 Nov 2015 to 30 Jun 2016 \$'m	2017 \$'m	2016 \$'m
<b>Income</b>						
Property rental income	50.9	51.3	17.9	10.3	34.0	30.5
Property expenses	(17.0)	(16.8)	(4.7)	(2.6)	(10.7)	(9.6)
<b>Net property income</b>	<b>33.9</b>	<b>34.5</b>	<b>13.2</b>	<b>7.7</b>	<b>23.3</b>	<b>20.9</b>
Finance costs	(10.0)	(11.1)	(3.6)	(2.3)	(6.7)	(6.6)
Other expenses	(1.4)	(0.2)	(1.0)	(0.5)	(1.2)	(0.3)
<b>Total expenses</b>	<b>(11.4)</b>	<b>(11.3)</b>	<b>(4.6)</b>	<b>(2.8)</b>	<b>(7.9)</b>	<b>(6.9)</b>
<b>Operating earnings</b>	<b>22.5</b>	<b>23.2</b>	<b>8.6</b>	<b>4.9</b>	<b>15.4</b>	<b>14.0</b>
Revaluation increment on investment properties	37.3	29.0	7.5	14.2	22.2	21.2
Revaluation decrement on investment properties attributable to acquisition costs	–	(0.7)	–	(1.0)	–	(0.8)
Gain on disposal	6.0	–	–	–	3.0	–
Net unrealised gain/(loss) on derivative financial instruments	2.6	2.1	0.8	(1.4)	1.7	0.4
Other	(0.9)	(0.3)	(0.4)	(0.4)	(0.6)	(0.4)
<b>Statutory profit for the year</b>	<b>67.5</b>	<b>53.3</b>	<b>16.5</b>	<b>16.3</b>	<b>41.7</b>	<b>34.4</b>
Other comprehensive income	–	–	–	–	–	–
<b>Total comprehensive income</b>	<b>67.5</b>	<b>53.3</b>	<b>16.5</b>	<b>16.3</b>	<b>41.7</b>	<b>34.4</b>
REIT's interest in total comprehensive income	33.8	26.7	7.9	7.7	–	–

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

The table below provides summarised information about the financial position of the joint venture entities as a whole as at 30 June 2017, not the REIT's proportionate share.

	CHRP1		CHRP2	
	2017 \$'m	2016 \$'m	2017 \$'m	2016 \$'m
<b>Current assets</b>				
Cash and cash equivalents	3.7	4.2	1.6	1.2
Receivables	1.0	3.6	1.0	0.4
Other assets	–	0.5	0.2	0.1
Assets held for sale	31.8	–	–	–
<b>Total current assets</b>	<b>36.5</b>	<b>8.3</b>	<b>2.8</b>	<b>1.7</b>
<b>Non-current assets</b>				
Investment properties	547.2	555.3	226.0	215.5
<b>Total assets</b>	<b>583.7</b>	<b>563.6</b>	<b>228.8</b>	<b>217.2</b>
<b>Current liabilities</b>				
Payables	17.4	7.6	4.0	5.1
Derivative financial instruments	–	3.3	–	–
<b>Total current liabilities</b>	<b>17.4</b>	<b>10.9</b>	<b>4.0</b>	<b>5.1</b>
<b>Non-current liabilities</b>				
Borrowings	184.9	220.7	97.8	92.4
Derivative financial instruments	0.6	–	0.9	1.7
<b>Total liabilities</b>	<b>202.9</b>	<b>231.6</b>	<b>102.7</b>	<b>99.2</b>
<b>Net assets</b>	<b>380.8</b>	<b>332.0</b>	<b>126.1</b>	<b>118.0</b>
<b>REIT's interest in net assets</b>	<b>190.4</b>	<b>166.0</b>	<b>60.0</b>	<b>56.0</b>



## **B2. Investment in joint venture entities continued**

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

Charter Hall Retail Partnership No. 1 Trust (CHRP1) refinanced its debt facility in June 2017, by cancelling the existing debt facility agreement and entering into a new agreement. The new facility is secured by registered mortgages over nine investment properties. This facility matures in June 2022 and is repayable immediately if the joint venture entity defaults on payments of interest or principal, its total bank secured loan amount exceeds 55% of the carrying value of its total security pool assets or its security pool financial charges ratio falls below 2.00:1. The carrying value of the properties pledged as security is \$579.0 million (30 Jun 2016: \$555.3 million) against the total facility limit of \$220.0 million (30 Jun 2016: \$235.0 million).

Charter Hall Retail Partnership No. 2 Trust (CHRP2) has a bank loan secured by a registered mortgage over one investment property. This facility matures in April 2020 and is repayable immediately if the joint venture entity defaults on payments of interest or principal, its total bank secured loan amount exceeds 60% of the carrying value of its total security pool assets or its security pool financial charges ratio falls below 1.50:1. The carrying value of the properties pledged as security is \$226.0 million (30 Jun 2016: \$215.5 million) against the total facility limit of \$100.0 million (30 Jun 2016: \$100.0 million).

Both CHRP1 and CHRP2 maintain a proactive cash management practice of using excess available cash to reduce drawn revolving debt facilities. This practice, when combined with distribution liability at the end of the reporting period, may result in an excess of current liabilities over current assets. At 30 June 2017 CHRP2 had a net asset deficiency of \$1.2 million. CHRP2 has sufficient operating cash flows to meet current liabilities. In addition, as at 30 June 2017, CHRP2 had undrawn debt capacity of \$1.8 million.

## **B3. Expenditure commitments**

The REIT and joint venture entities have entered into contracts for the acquisition, construction and development of properties in Australia. The commitments of the REIT total \$203.2 million (2016: \$28.0 million). The REIT's share in the commitments of the joint venture entities total nil (2016: \$0.3 million). These commitments have not been reflected in the consolidated financial statements of the REIT.

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

## **C. CAPITAL STRUCTURE AND FINANCIAL RISK MANAGEMENT**

The REIT's activities expose it to numerous external financial risks such as market risk, credit risk and liquidity risk. This section explains how the REIT utilises its risk management framework to reduce volatility from these external factors.

### **C1. Capital risk management**

Prudent capital management is one of the key strategies of the REIT, aligning with the REIT's resilient portfolio of non-discretionary Australian supermarket anchored shopping centres.

The REIT sources its capital through:

- debt sourced from a diverse mix of local and international banks and the US private placement bond market; and
- the listed Australian equity market.

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

Its capital management approach is regularly reviewed by management and the Board to ensure compliance with statutory and constitutional capital and distribution requirements, maintaining gearing, interest cover ratios and other covenants within approved limits and continuing to operate as a going concern.

The REIT has a target look-through gearing of 30% to 40% of debt to total assets.

The REIT's policy is to hedge 100% of the foreign currency risk of any gross asset or liability value. The only foreign currency assets or liabilities are the US Private Placement notes (USPPs) on issue. The fair value of the hedge is reflected in the fair value of the USPPs.

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

## C2. Borrowings and liquidity

### (a) Borrowings

Borrowings are initially recognised at fair value, estimated by comparing the margin on the facility to the pricing of a similar facility in the current market, and subsequently measured at amortised cost using the effective interest rate method or at their fair value at the time of acquisition in the case of assumed liabilities in a business combination. Under the effective interest rate method, any transaction fees, costs, discounts and premiums directly related to the borrowings are recognised in profit or loss over the expected life of the borrowings unless there is an effective fair value hedge of the borrowings, in which case a fair value adjustment will be applied based on the mark to market movement in the benchmark component of the borrowings and this movement is recognised in profit or loss. All borrowings with maturities greater than 12 months after reporting date are classified as non-current liabilities. Refer to B2 c) for borrowings within joint ventures.

	2017				2016			
	Current \$'m	Non-current \$'m	Total carrying amount \$'m	Fair value \$'m	Current \$'m	Non-current \$'m	Total carrying amount \$'m	Fair value \$'m
US Private Placement notes*	–	406.6	406.6	416.4	–	454.0	454.0	454.0
Bank loan – term debt**	–	503.5	503.5	510.0	–	351.7	351.7	356.6
Total unsecured borrowings	–	910.1	910.1	926.4	–	805.7	805.7	810.6
Undrawn bank facility			201.2				129.5	

\* Includes a fair value hedge adjustment of \$(16.0)m (2016: \$18.2m).

\*\* Includes unamortised transaction costs of \$(5.3)m (2016: \$(3.8)m).

#### US Private Placement notes

Information about USPP notes is summarised in the table below:

	US dollar fixed coupon	Issue date	Maturity date	Australian Dollar equivalent at issue date \$'m	Carrying amount 30 June 2017 \$'m
USPP	3.55%	July 2015	July 2027	251.6	260.1
USPP	3.76%	May 2016	May 2026	177.4	162.5
<b>Net exposure</b>				429.0	422.6
Fair value hedge adjustment				–	(16.0)
<b>Total</b>				429.0	406.6

The REIT's interest rate and foreign exchange exposure under these notes is 100% hedged with cross currency interest rate swaps (Refer to Note C3).

#### Bank loans

	Interest rate at 30 June 2017*	Maturity date	Facility limit \$'m	Drawn amount at 30 June 2017 \$'m
Syndicated bank facility – Tranche B	2.37%	July 2018	50.0	50.0
Syndicated bank facility – Tranche C	2.47%	July 2020	285.0	285.0
Bilateral revolving facility agreement	2.92%	February 2021	50.0	50.0
Bilateral revolving facility agreement	2.58%	July 2022	150.0	123.8
Bilateral revolving facility agreement	N/A	June 2022	175.0	–
			710.0	508.8

\* Interest rates on the debt facility are variable and are reset periodically, usually after a period of 90 days.

## **C2. Borrowings and liquidity continued**

### **(a) Borrowings continued**

#### *Covenants*

The USPP notes and unsecured bank loans are repayable immediately if any of the following occurs:

- the REIT defaults on payments of interest or principal;
- interest cover ratio falls below 2.00:1;
- total liabilities to total assets ratio exceeds 50%;
- priority debt of the REIT over the total look through tangible assets exceeds 5%;
- the REIT's look through share in the priority debt of the joint venture entities over the total look through tangible assets exceeds 15%; and
- unencumbered wholly owned assets of the REIT over total tangible assets falls below 85%.

#### *Other significant contract terms*

Under loan documents in place with independent third party lenders, the lender may be entitled to call for early repayment of the facility or may place additional conditions upon the REIT if:

- CHRML ceases to be the responsible entity of the REIT;
- CHRML ceases to be under the control of Charter Hall Limited (CHL) or a wholly-owned subsidiary of CHL;
- any one person (or persons acting together) acquires control of the REIT; or
- the units in the REIT cease to be listed on the ASX.

### **(b) Finance costs**

	<b>2017 \$'m</b>	<b>2016 \$'m</b>
Finance costs paid or payable	<b>33.7</b>	32.1
Less: Capitalised finance costs	<b>(5.7)</b>	(4.0)
	<b>28.0</b>	28.1

Borrowing costs associated with development properties are capitalised as part of the cost of that asset during the period that is required to complete and prepare the asset for its intended use. The capitalisation rate is the weighted average interest rate applicable to the REIT's borrowing costs associated with funding developments during the year (2017: 6.40%; 2016: 5.88%). The weighted average interest rate takes into consideration the REIT's interest rate hedging profile, term debt and liquidity costs.

## **C3. Derivative financial instruments**

### **(a) Derivative financial instruments**

The REIT uses derivatives to hedge its exposure to interest rates and foreign currency on foreign denominated borrowings. Derivative financial instruments are measured and recognised at fair value on a recurring basis.

The REIT has entered into interest rate swap agreements totalling \$575.0 million (2016: \$575.0 million) that entitle it to receive interest, at quarterly intervals, at a floating rate on a notional principal amount and oblige it to pay interest at a fixed rate on the same amount.

The REIT has also entered in to four A\$/US\$ cross currency swap agreements, maturing July 2027 and May 2026, that entitle it to receive interest, at semi-annual intervals, at a fixed notional principal amount of US\$200.0 million and US\$125.0 million respectively, and oblige it to pay, at quarterly intervals, at a floating rate on a notional principal amount of A\$251.6 million and A\$177.4 million respectively.

The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The REIT designates certain derivatives as either fair value hedges or cash flow hedges.

#### *Fair value hedges*

The gain or loss relating to the effective portion of interest rate swaps hedging fixed rate borrowings is recognised in profit or loss within finance costs. Changes in the fair value of the hedged fixed rate borrowings attributable to interest rate risk are recognised within 'Net gains/(losses) from derivative financial instruments'. The gain or loss relating to the ineffective portion is also recognised in profit or loss within 'Net gains/(losses) from derivative financial instruments'.

#### *Cash flow hedges*

The effective portion of changes in the fair value of derivatives is recognised in other comprehensive income and accumulated in the cash flow hedge reserve in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss within 'Net gains/(losses) from derivative financial instruments'.

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss (for instance when the forecast transaction that is hedged takes place). The gain or loss relating to the effective portion of cross currency interest rate swaps hedging fixed rate borrowings is recognised in profit or loss within 'Finance costs'.

Amounts reflected in the financial statements are as follows:

	2017		2016	
	Asset \$'m	Liability \$'m	Asset \$'m	Liability \$'m
<b>Balance sheet</b>				
<b>Current</b>				
Interest rate swaps	–	–	–	–
Cross currency swaps	4.3	–	4.5	–
<b>Total current derivative financial instruments</b>	<b>4.3</b>	<b>–</b>	<b>4.5</b>	<b>–</b>
<b>Non-current</b>				
Interest rate swaps	2.1	0.9	–	10.0
Cross currency swaps	0.9	25.2	29.8	8.4
<b>Total non-current derivative financial instruments</b>	<b>3.0</b>	<b>26.1</b>	<b>29.8</b>	<b>18.4</b>
<b>Total derivative financial assets/liabilities</b>	<b>7.3</b>	<b>26.1</b>	<b>34.3</b>	<b>18.4</b>
<b>Statement of comprehensive income</b>			<b>2017 \$'m</b>	<b>2016 \$'m</b>
Loss on derivative financial instruments – realised			–	(22.3)
Gain on derivative financial instruments – unrealised*			15.2	2.9
			<b>15.2</b>	<b>(19.4)</b>

\* Includes net gain/(loss) of \$4.0m (2016: \$(2.6)m) on derivative financial instruments designated as a fair value hedge.

#### (b) Interest rate swaps

At 30 June 2017, the fixed rate varies from 1.96% to 2.42% per annum (2016: 2.10% to 2.42% per annum).

As at balance date the notional principal amounts and periods of expiry of the interest rate swap contracts which are linked to floating rates are as follows:

	1 year or less \$'m	2 – 3 years \$'m	3 – 4 years \$'m	4 – 5 years \$'m	More than 5 years \$'m	Net position – REIT pays fixed rate and receives floating rate \$'m
<b>2017</b>	–	–	<b>175.0</b>	<b>200.0</b>	<b>200.0</b>	<b>575.0</b>
2016	–	200.0	–	175.0	200.0	575.0

#### (c) Valuation techniques used to derive level 2 fair values

Derivatives are classified as level 2 on the fair value hierarchy as the inputs used to determine fair value are observable market data but not quoted prices.

The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of cross currency interest rate swaps is determined using forward foreign exchange market rates and the present value of the estimated future cash flows at the balance date.

Credit value adjustments are calculated based on the counterparty's credit risk using the counterparty's credit default swap curve as a benchmark. Debit value adjustments are calculated based on the REIT's credit risk using debt financing available to the REIT as a benchmark.

## C4. Contributed equity and reserves

### (a) Contributed equity

No. of units	Details	Date of income entitlement	2017 \$'m	2016 \$'m
375,554,374	Units on issue	30 June 2015		2,153.3
12,437,810	Placement issue	1 July 2015		49.2
3,055,054	DRP issue	1 July 2015		12.9
11,004,035	Placement issue	1 July 2015		45.2
2,256,579	DRP issue	1 January 2016		9.0
404,307,852	Units on issue	30 June 2016	<b>2,269.6</b>	2,269.6
1,881,240	DRP issue	1 July 2016	<b>9.0</b>	
(411,358)	Cancellation of units	4 April 2017	<b>(2.3)</b>	
405,777,734	Units on issue	30 June 2017	<b>2,276.3</b>	

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

Each unit confers the right to vote at meetings of unitholders, subject to any voting restrictions imposed on a unitholder under the *Corporations Act 2001* and the ASX Listing Rules. Units on issue are classified as equity and are recognised at the fair value of the consideration received by the REIT. Transaction costs arising on the issue of equity are recognised directly in equity as a reduction in the proceeds of units to which the costs relate.

#### *Distribution Reinvestment Plan (DRP)*

The REIT has established a DRP under which unitholders may elect to have all or part of their distribution entitlements satisfied by the issue of new units rather than being paid in cash. This plan was suspended for the year ended 30 June 2017. The DRP issue price is determined at a discount of 1.0% to the daily average of the volume weighted average market price of units traded on the ASX during the 15 business days commencing on the third business day following the distribution record date.

#### *Repurchase and cancellation of units*

On 31 March 2017, the REIT repurchased 411,358 units, on market, for a total consideration of \$1.8 million (\$4.34 per unit). The REIT cancelled the repurchased units on 4 April 2017. The cancellation reduced contributed equity and accumulated losses by the repurchased units entitlement of \$2.3 million and \$0.5 million respectively.

### (b) Reserves

	Cash flow hedge reserve \$'m	Accumulated losses \$'m
Opening balance 1 July 2016	<b>(1.3)</b>	<b>(736.1)</b>
Profit after tax	–	<b>251.3</b>
Distributions paid and payable	–	<b>(114.1)</b>
Cancellation of units	–	<b>0.5</b>
Changes in the fair value of cash flow hedges	<b>(2.1)</b>	–
<b>Balance 30 June 2017</b>	<b>(3.4)</b>	<b>(598.4)</b>
Opening balance 1 July 2015	(0.1)	(803.5)
Profit after tax	–	180.7
Distributions paid and payable	–	(113.3)
Changes in the fair value of cash flow hedges	(1.2)	–
Balance 30 June 2016	(1.3)	(736.1)

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



## C5. Financial risk management

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

The table below shows the REIT's exposure to a variety of financial risks and the various measures it uses to monitor exposures to these types of risks. The REIT manages its exposure to these financial risks in accordance with the REIT's Financial Risk Management (FRM) policy as approved by the Board. The policy sets out the REIT's approach to managing financial risks, the policies and controls utilised to minimise the potential impact of these risks on its performance and the roles and responsibilities of those involved in the management of these financial risks. Derivative financial instruments are used exclusively for hedging purposes and not for trading or speculative purposes.

Other than financial instruments, the REIT is exposed to property price risk including property rental risks.

Risk	Definition	Exposure	Exposure management
Market risk – Foreign exchange risk	The risk that changes in foreign exchange rates will change the Australian dollar value of the REIT's foreign denominated net assets or earnings.	US Private Placement issuances denominated in US dollars.	<ul style="list-style-type: none"> <li>• Cross currency swaps are used to convert US dollar borrowings into Australian dollar exposures.</li> </ul>
Market risk – Interest rate risk	The risk that changes in interest rates will change the fair value or cash flows of the REIT's monetary assets and liabilities.	Cash and borrowings at fixed and floating rates.	<ul style="list-style-type: none"> <li>• Interest rate swaps are used to hedge any movement in interest rates.</li> </ul>
Liquidity risk	The risk that the REIT has insufficient liquid assets to meet its obligations as they become due and payable.	Payables, borrowings and other liabilities.	<ul style="list-style-type: none"> <li>• Maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions.</li> </ul>
Credit risk	The risk a contracting entity will not complete its obligations under a contract and will cause the REIT to make a financial loss.	All financial assets including tenant receivables, financial instruments and derivatives.	<ul style="list-style-type: none"> <li>• Performing credit reviews on prospective tenants, obtaining tenant collateral and detailed review of tenant arrears.</li> <li>• Reviewing the aggregate exposure of receivables and tenancies across the portfolio.</li> <li>• Limiting the credit exposure to any one financial institution and limiting to investment grade counterparties.</li> <li>• Monitoring the public credit rating of counterparties.</li> </ul>

## C5. Financial risk management continued

### (i) Market risk – Foreign exchange risk

The REIT has hedged 100% of its material foreign exchange risk exposure.

### (ii) Market risk – Interest rate risk

The table below shows the REITs exposure to interest rate risk. At balance date, the REIT fixed 63.0% (2016: 73.4%) of its direct and joint venture interest rate exposure.

	Australian dollars		US dollars <sup>1</sup>		Euros <sup>1</sup>		Total	
	2017 \$'m	2016 \$'m	2017 \$'m	2016 \$'m	2017 \$'m	2016 \$'m	2017 \$'m	2016 \$'m
<b>Fixed rate</b>								
USPP <sup>2</sup>	–	–	(422.6)	(435.8)	–	–	(422.6)	(435.8)
<b>Net fixed rate exposure</b>	<b>–</b>	<b>–</b>	<b>(422.6)</b>	<b>(435.8)</b>	<b>–</b>	<b>–</b>	<b>(422.6)</b>	<b>(435.8)</b>
<b>Floating rate</b>								
Cash	58.7	11.7	–	–	–	0.5	58.7	12.2
Cash – joint venture entities <sup>3</sup>	2.6	2.7	–	–	–	–	2.6	2.7
Borrowings <sup>2</sup>	(508.8)	(355.5)	–	–	–	–	(508.8)	(355.5)
Borrowings – joint venture entities <sup>3</sup>	(138.9)	(154.9)	–	–	–	–	(138.9)	(154.9)
	(586.4)	(496.0)	–	–	–	0.5	(586.4)	(495.5)
<b>Derivative financial instruments</b>								
Cross currency interest rate swaps – fixed to floating <sup>4</sup>	(429.0)	(429.0)	422.6	435.8	–	–	(6.4)	6.8
Interest rate swaps – floating to fixed <sup>5</sup>	638.8	678.8	–	–	–	–	638.8	678.8
	209.8	249.8	422.6	435.8	–	–	632.4	685.6
<b>Net floating rate exposure</b>	<b>(376.6)</b>	<b>(246.2)</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>0.5</b>	<b>(376.6)</b>	<b>(245.7)</b>

1 Australian dollar equivalents of foreign denominated balances.

2 Represents the notional principal of the borrowings. Unamortised borrowing costs are excluded as they are not impacted by interest rate risk.

3 The REIT's share of financial assets and liabilities included within its net investment in joint venture entity.

4 The amounts represent the notional principal receivable and payable under the derivative contracts.

5 The amounts represent the notional principal payable under the derivative contracts (excluding derivatives where cash flows have not commenced at balance sheet date and including derivative contracts held by joint venture entities).

### Sensitivity analysis

The table below reflects the potential net increase/(decrease) in the REIT's profit and equity, resulting from changes in Australian interest rates applicable at 30 June 2017, with all other variables remaining constant. The analysis was performed on the same basis for 30 June 2016.

	2017		2016	
	Profit and loss \$'m	Reserves \$'m	Profit and loss \$'m	Reserves \$'m
<i>Australian interest rates</i>				
+ 1.00% (2016: + 1.00%)	(26.6)	–	(21.3)	–
- 1.00% (2016: - 1.00%)	27.0	–	25.0	–

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

### (iii) Liquidity risk

The following table provides the contractual maturity of the REIT's fixed and floating rate financial liabilities and derivatives as at 30 June 2017. The amounts presented represent the future contractual undiscounted principal and interest cash inflows/(outflows) based on interest rates and foreign exchange rates prevailing at balance date and therefore do not equate to the value shown in the consolidated balance sheet. Repayments which are subject to notice are treated as if notice were given immediately.

	Carrying value \$'m	Less than 1 year \$'m	1 to 5 years \$'m	Over 5 years \$'m	Total \$'m
<b>Liquidity risk</b>					
<b>2017</b>					
<b>Financial liabilities</b>					
Payables	(37.9)	(37.9)	–	–	(37.9)
Distribution payable	(56.8)	(56.8)	–	–	(56.8)
Borrowings	(931.4)	(28.2)	(478.0)	(614.2)	(1,120.4)
Derivative financial instruments					
Contractual amounts payable	(26.1)	(28.0)	(101.9)	(80.2)	(210.1)
Contractual amounts receivable	–	26.3	97.1	84.7	208.1
Other liabilities	(1.8)	(1.8)	–	–	(1.8)
<b>Total financial liabilities</b>	<b>(1,054.0)</b>	<b>(126.4)</b>	<b>(482.8)</b>	<b>(609.7)</b>	<b>(1,218.9)</b>
<b>2016</b>					
<b>Financial liabilities</b>					
Payables	(35.4)	(35.4)	–	–	(35.4)
Distribution payable	(57.0)	(57.0)	–	–	(57.0)
Borrowings	(771.3)	(28.4)	(446.4)	(524.5)	(999.3)
Derivative financial instruments					
Contractual amounts payable	(18.4)	(30.0)	(106.2)	(110.0)	(246.2)
Contractual amounts receivable	–	28.5	98.3	98.8	225.6
Other liabilities	(0.3)	(0.3)	–	–	(0.3)
<b>Total financial liabilities</b>	<b>(882.4)</b>	<b>(122.6)</b>	<b>(454.3)</b>	<b>(535.7)</b>	<b>(1,112.6)</b>

The amount of credit facilities unused by the REIT at 30 June 2017 is \$201.2 million (2016: \$129.5 million).

### (iv) Credit risk

The maximum exposure to credit risk at the end of each reporting period is equivalent to the carrying value of the financial assets.

The table below shows the ageing analysis of those rent receivables of the REIT which are past due or impaired.

	<b>Past due but not impaired</b>					
	Less than 30 days \$'m	31 to 60 days \$'m	61 to 90 days \$'m	More than 90 days \$'m	Impaired* \$'m	Total \$'m
<b>2017</b>						
Rent receivables	0.4	0.3	0.1	0.5	0.8	2.1
Provision						0.4
<b>2016</b>						
Rent receivables	0.6	0.2	0.1	0.7	0.7	2.3
Provision						0.4

\* The REIT holds \$0.5m (2016: \$0.3m) of collateral against the impaired rent receivables in the form of bank guarantees and security deposits and can also recover \$0.1m (2016: \$0.1m) of GST from any uncollected rent.

## C6. Offsetting financial assets and liabilities

The REIT is a party to the master agreement as published by International Swaps and Derivatives Associates, Inc. (ISDA) which allow the REIT's counterparty, under certain conditions (i.e. event of default), to set off the position owing/receivable under a derivative contract to a net position outstanding. As the REIT does not have legally enforceable right to set off, none of the financial assets or financial liabilities are offset on the balance sheet of the REIT.

The table below demonstrates effect of offsetting positions should the REIT's counterparties decide to enforce the legal right to set-off:

	Gross amounts of financial instruments \$'m	Amounts subject to set-off \$'m	Net amount post set-off \$'m
<b>2017</b>			
Derivative assets	7.3	(7.3)	–
Derivative liabilities	(26.1)	–	(26.1)
Borrowings	(910.1)	7.3	(902.8)
	(928.9)	–	(928.9)
<b>2016</b>			
Derivative assets	34.3	(34.3)	–
Derivative liabilities	(18.4)	–	(18.4)
Borrowings	(805.7)	34.3	(771.4)
	(789.8)	–	(789.8)

## D. OTHER INFORMATION

This section provides additional disclosures which are not covered in the previous sections.

### D1. Related party information

The REIT is provided investment management and property management related services by Charter Hall Retail Management Limited and Charter Hall Holdings Pty Ltd. In providing these services, the manager is entitled to fees as outlined in the REIT's constitution. These fees are regularly benchmarked to market to ensure that the REIT receives the highest quality service from the manager under the fee arrangements.

#### (a) Responsible Entity

The Responsible Entity of the REIT is Charter Hall Retail Management Limited, a wholly owned controlled entity of Charter Hall Limited. The registered office of the Responsible Entity is Level 20, No.1 Martin Place, Sydney NSW 2000.

#### (b) Directors

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

Audit, Risk and Compliance Committee fees and Directors' fees totalling \$417,204 (2016: \$362,407) were paid or payable by the REIT to the Independent Directors, being John Harkness, Michael Gorman, Sue Palmer and Alan Rattray-Wood, for the year, refer to Note D1(g) for a detailed breakdown of these payments. These amounts are reviewed from time to time in consultation with external experts to ensure that remuneration reflects the services expected to be performed.

#### (c) Management fees

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

##### Base fee

The base fee is calculated as:

- (i) 0.45% per annum of the value of the total assets of the REIT up to \$700 million; plus
- (ii) 0.40% per annum of the value of the total assets of the REIT over \$700 million.

Total assets are adjusted in the fee calculation to deduct the carrying value of investment in joint venture entities and to add back the REIT's share of total assets in CHRP1 up to 31 December 2016. From 1 January 2017, a base management fee was charged directly to CHRP1.

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

### Performance fee

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

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

- (i) 5% of the total Increased Unitholder Value from outperformance; plus
- (ii) 15% of the Increased Unitholder Value above 2% nominal outperformance per annum (1% per half year).

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

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

### Management fee expenses in CHRP1

Under the terms of its Investment Management Agreement, Charter Hall Holdings Pty Ltd as the Fund Manager of CHRP1 is entitled to the following remuneration from CHRP1:

#### Base fee (applicable from 1 January 2017)

The base fee is calculated quarterly as 0.40% of the investment property value of CHRP1, and paid within 14 days of quarter end.

### Management fee expenses in CHRP2

Under the terms of its Investment Management Agreement, Charter Hall Holdings Pty Ltd as the Fund Manager of CHRP2 is entitled to the following remuneration from CHRP2:

### Base fee

The base fee is calculated monthly as 0.40% of the total assets of CHRP2, and paid within 14 days of month end.

### Performance fee

In addition to the base management fees, Charter Hall Holdings Pty Ltd is entitled to a performance fee. The performance fee is calculated as:

- (i) 10% on any excess return over 10.5% but less than 13.0% equity IRR hurdle; plus
- (ii) 20% on any excess return over 13.0%

The performance fee is next due to be calculated in June 2022 with a possible 12 month deferment to allow for the sale of the portfolio.

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

	2017 \$'000	2016 \$'000
Base fees	10,190	10,167
Management fees paid by the REIT	10,190	10,167
REIT's share of management fees paid by CHRP1	567	–
REIT's share of management fees paid by CHRP2	425	222
<b>Total management fees paid</b>	<b>11,182</b>	<b>10,389</b>

No performance fee was earned by the Responsible Entity of the REIT during the year. In the calculation of the performance fee, outperformance will be assessed on a cumulative basis and, accordingly, underperformance for the period from 1 January 2004 to 30 June 2016 will need to be recovered before the Responsible Entity is entitled to any future performance fees. For the period from 1 January 2004 to 30 June 2017, the Index increased in value by 153.4% compared to the REIT's cumulative performance which increased by 66.9% (difference of 86.5%).



## D1. Related party information continued

### (d) Transactions with the Responsible Entity and its related parties

The Responsible Entity and its related parties held 75,321,744 units in the REIT as at 30 June 2017 (2016: 57,662,876).

Following is a summary of related party transactions, excluding base management fees, for the year ended 30 June 2017:

Type of fee	Method of fee calculation	Basis of fee calculation		Fee amount	
		2017 \$'m	2016 \$'m	2017 \$	2016 \$
Property management	3% of total property income	243.0	233.4	7,291,051	7,003,279
Acquisition	0.75% of sale price (no external agent used)	68.3	95.7	511,915	717,600
Acquisition	0.5% of sale price (external agent)	–	101.2	–	508,384
Disposal	0.25% of sale price less amounts paid to external agents	49.4	118.3	123,528	101,250
Due diligence	0.25% of sale price	95.8	139.5	244,500	348,850
Debt fees	0.25% of debt raised less fees paid to agents and lenders	–	835.0	–	1,075,000
Development management	3% of development cost if > \$1m 5% of development cost if < \$1m	19.3	31.2	599,098	683,881
Development management cost recovery	Cost recovery	–	–	317,960	709,730
Project management	6% of project cost	13.0	15.5	777,989	931,108
Majors and specialty leasing – new leases	17.5% – 15.0% of year one gross rent	19.7	14.9	3,408,034	2,336,815
Specialty leasing – renewals	10.0% – 7.5% of year one gross rent	17.7	15.0	1,383,940	1,426,109
Tenancy co-ordination and lease administration (number of tenants)	Range from \$500 – \$4,500 per tenancy	599	524	1,226,550	1,035,089
Accounting services	Cost recovery			1,211,640	1,126,564
				17,096,205	18,003,659

Payments excluding management fees to the related parties for the year total \$17,096,205 (2016: \$18,003,659).

Charter Hall Holdings Pty Limited was also reimbursed \$11,716,929 (2016: \$11,438,021) for centre and property management expenses incurred. These expenses include salaries, finance and IT costs and other overhead charges, of which approximately 39.8% (2016: 40%) were recovered in outgoings from tenants.

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

### (e) Outstanding payable balance with the Responsible Entity and its related parties

	2017 \$	2016 \$
Charter Hall Retail Management Limited	–	392,540
Charter Hall Holdings Pty Limited	4,425,349	1,736,404
	4,425,349	2,128,944

### (f) Key management personnel

Key management personnel (KMP) powers have not been delegated by the Responsible Entity to any other person. Accordingly, the Fund Manager of the REIT is not considered to be KMP of the REIT as he does not have sufficient individual authority and responsibility for planning, directing and controlling the activities of the REIT.

Details of management fees charged to the REIT by the Responsible Entity and its related parties are included in Note D1.(c).

#### (g) Directors' fees and Fund Manager remuneration

Independent Directors' fees are as follows:

	John Harkness \$	Sue Palmer \$	Alan Rattray- Wood \$	Maurice Koop \$	Michael Gorman \$	Total \$
<b>2017</b>						
Director fee	74,420	49,614	49,614	–	31,761	205,409
Compliance fee	52,621	35,080	35,080	–	22,456	145,237
Audit committee fee	8,018	12,027	8,018	–	5,133	33,196
<b>Total director fees</b>	<b>135,059</b>	<b>96,721</b>	<b>92,712</b>	<b>–</b>	<b>59,350</b>	<b>383,842</b>
<b>2016</b>						
Director fee	74,420	54,325	49,614	37,211	–	215,570
Compliance fee	52,621	–	35,080	26,310	–	114,011
Audit committee fee	8,018	7,770	8,018	9,020	–	32,826
<b>Total director fees</b>	<b>135,059</b>	<b>62,095</b>	<b>92,712</b>	<b>72,541</b>	<b>–</b>	<b>362,407</b>

The level of fees is not related to the performance of the REIT. The Board of the Responsible Entity considers remuneration payable to its Independent Directors from time to time. Remuneration of Independent Directors is approved by the Board and any increases are benchmarked to market rates.

The Executive Directors of the Responsible Entity and Fund Manager of the REIT are employees of Charter Hall Holdings Pty Ltd and are remunerated by Charter Hall Holdings Pty Ltd.

Scott Dundas, Fund Manager of the REIT, received, on a cash basis (inclusive of superannuation), remuneration of \$675,760 from 1 July 2016 to 30 June 2017 (\$655,200 from 1 July 2015 to 30 June 2016). In addition, deferred rights to CQR units were granted to the Fund Manager to the value of \$87,880 from 1 July 2016 to 30 June 2017 (\$100,880 from 1 July 2015 to 30 June 2016) as part of his incentive program. Half of these units will vest one year after they have been granted with the remaining units vesting two years following their grant.

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

The number of units held directly, indirectly or beneficially by the Directors of the Responsible Entity or the Directors' related parties at 30 June 2017 is as follows:

	Units held 2017	Units held 2016
Alan Rattray-Wood	10,867	10,867
David Harrison	124,378	–
Scott Dundas (alternate)	90,314	62,349

The aggregate number of units in the REIT acquired by the Directors of the Responsible Entity or their related parties during the year is set out below.

	Units 2017	Units 2016
Scott Dundas	26,131	26,426
David Harrison	124,378	–

No units of the REIT were sold by the Directors of the Responsible Entity or their related parties during the year.

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

## D2. Working capital

Financial assets and liabilities not carried at fair value have carrying values that reasonably approximate their fair values.

### (a) Receivables

	2017 \$'m	2016 \$'m
Rent receivable	2.1	2.3
Provision for doubtful debts	(0.4)	(0.4)
<b>Net rent receivable</b>	<b>1.7</b>	<b>1.9</b>
Turnover rent receivable	2.6	3.3
Accrued income	2.2	2.3
Other receivables	3.4	1.9
	<b>9.9</b>	<b>9.4</b>

The REIT's receivables are carried at amounts that approximate their fair value. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

### (b) Payables and other liabilities: current

	2017 \$'m	2016 \$'m
<b>Current</b>		
Accrued capital expenditure	8.4	11.3
Accrued property expenses	10.4	9.6
Income received in advance	8.4	6.9
Interest payable on interest bearing liabilities	5.1	5.3
Other	5.6	2.3
	<b>37.9</b>	<b>35.4</b>

Liabilities are recognised for amounts to be paid in the future for goods and services received, whether or not billed to the REIT. The amounts are unsecured and are usually paid within 30 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

## D3. Parent entity information

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

### (i) Investments in controlled entities

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

Dividends and distributions received from controlled entities, associates and joint ventures are recognised in the parent entity's statement of comprehensive income, rather than deducted from the carrying amount of these investments.

### (ii) Receivables and payables

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

### (iii) Recoverable amount of assets

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

#### (a) Summary financial information

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

	Parent 2017 \$'m	Parent 2016 \$'m
<b>Balance sheet</b>		
Current assets	241.3	54.9
Non-current assets	2,452.9	2,388.4
<b>Total assets</b>	<b>2,694.2</b>	<b>2,443.3</b>
Current liabilities	104.1	101.4
Non-current liabilities	936.2	824.1
<b>Total liabilities</b>	<b>1,040.3</b>	<b>925.5</b>
<b>Equity</b>		
Contributed equity	2,276.3	2,269.6
Reserves	(158.7)	(156.5)
Accumulated losses	(463.7)	(595.3)
<b>Total equity</b>	<b>1,653.9</b>	<b>1,517.8</b>
<b>Statement of comprehensive income</b>		
Profit after tax	245.2	156.0
<b>Total comprehensive income</b>	<b>245.2</b>	<b>156.0</b>

#### (b) Guarantees and contingent liabilities

The parent entity did not have any other contingent liabilities which are material, either individually or as a class, at 30 June 2017 (2016: \$nil).

#### (c) Commitments

The parent entity has entered into contracts for the acquisition, construction and development of properties in Australia. The commitments of the parent entity total \$203.2 million (2016: \$28.0 million). These commitments have not been reflected in the financial information of the parent entity.

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

### D4. Significant contract terms and conditions

#### Pre-emptive rights

Under the joint ownership arrangements in place with the other unitholders of our joint venture entities, should CHRML cease to be the Responsible Entity of the REIT, or if there is a change in control of CHRML or the REIT, the joint venture partner has the right to acquire the residual units for fair value in respect of CHRP1 and 98% of fair value in respect of CHRP2.

### D5. Remuneration of the auditor

	2017 \$'000	2016 \$'000
<b>Amounts paid or payable to PricewaterhouseCoopers</b>		
<b>Australian firm for:</b>		
Audit services	271	286
Other audit services	18	–
	<b>289</b>	<b>286</b>
<b>Amounts paid or payable to related practices of PricewaterhouseCoopers</b>		
<b>Australian firm for:</b>		
Taxation compliance services	–	109
<b>Total amount paid or payable to PricewaterhouseCoopers Australian firm</b>	<b>289</b>	<b>395</b>

## D6. Interest in other entities

### Material subsidiaries

The REIT's principal subsidiary at 30 June 2017 is set out below. Unless otherwise stated, it has contributed equity consisting solely of ordinary units that are held directly by the REIT, and the proportion of ownership interests held equals the voting rights held by the REIT.

Name of entity	Country of incorporation	Place of business	Ownership interest held by the REIT		Principal activities
			2017	2016	
Charter Hall Retail JV Trust	Australia	Australia	100%	100%	Property investment

## D7. Events occurring after balance date

In July 2017, the REIT paid the remaining balance of \$36.9 million to settle the unconditional contract to acquire Highfields Village shopping centre, Qld. Total settlement (including deposit) was \$41.0 million.

In July 2017, the REIT paid the remaining balance of \$165.8 million to settle the unconditional contract to acquire Salamander Bay shopping centre, NSW. Total settlement (including deposit) was \$174.5 million.

In July 2017, the REIT disposed of Wharflands Plaza, SA for \$21.0 million. Wharflands Plaza was classified as held for sale at 30 June 2017.

In July 2017, the REIT entered an unconditional contract to dispose of Narrabri Coles, NSW for \$10.5 million. Narrabri Coles was classified as held for sale at 30 June 2017. Settlement is expected by early September 2017.

In July 2017, CHRP1, a joint venture that the REIT has 50% share in, disposed of Gladstone Square, Qld for \$31.5 million, excluding settlement adjustments. The REIT's share of the asset was \$15.8 million. Gladstone Square was classified as held for sale at 30 June 2017.

## D8. Other significant accounting policies

### (a) Basis of preparation

The annual financial report of the Charter Hall Retail REIT comprises the Charter Hall Retail REIT and its controlled entities.

These general purpose financial statements have been prepared in accordance with the requirements of the REIT's constitution, Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board and the *Corporations Act 2001*. The REIT is a for-profit entity for the purpose of preparing the consolidated financial statements.

### Compliance with IFRS

The consolidated financial statements of the REIT also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

### Historical cost convention

The consolidated financial statements have been prepared on a historical cost basis, except derivative financial instruments, investments in financial assets held at fair value and investment properties, which have been measured at fair value.

### New and amended standards adopted

No new accounting standards or amendments have come into effect for the year ended 30 June 2017 that affect the REIT's operations or reporting requirements.

### (b) Principles of consolidation

#### Controlled entities

Subsidiaries are all entities over which the REIT has control. The REIT controls an entity when the REIT is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the REIT. They are deconsolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of controlled entities have been changed where necessary to ensure consistency with the policies adopted by the REIT.



## **(c) Foreign currency translation**

### ***(i) Functional and presentation currencies***

Items included in the financial statements of each of the REIT's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The financial statements are presented in Australian dollars, which is the REIT's functional and presentation currency.

### ***(ii) Transactions and balances***

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

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

## **(d) Comparative information**

Where necessary, comparative information has been adjusted to conform to changes in presentation in the current year. No material adjustments have been made to comparative information in this report.

## **(e) Rounding of amounts**

As permitted by ASIC Corporations (Rounding in Financial/Directors' reports) Instrument 2016/191 issued by the Australian Securities and Investments Commission relating to the 'rounding off' of amounts in the Directors' report and financial statements, amounts in the REIT's consolidated financial statements have been rounded to the nearest hundred thousand dollars in accordance with that instrument, unless otherwise indicated.

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

Certain new accounting standards and interpretations have been published that are not mandatory for the year ended 30 June 2017 but are available for early adoption. The impact of these new standards and interpretations (to the extent relevant to the REIT) is set out below:

### ***(i) AASB 9 Financial Instruments (Applicable 1 January 2018)***

AASB 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and liabilities and sets out new rules for hedge accounting. AASB 9 only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading. Fair value gains and losses on available-for-sale debt investments, for example, would therefore have to be recognised directly in the statement of comprehensive income. The REIT currently plans to apply AASB 9 for the reporting period beginning on 1 July 2018. An initial assessment of the new standard has been undertaken and it is not expected to have a material impact on the REIT's financial statements.

### ***(ii) AASB 15 Revenue from Contracts with Customers (Applicable 1 January 2018)***

The standard is based on the principle that revenue is recognised when control of a good or service is transferred to a customer, so the notion of control replaces the notion of risks and rewards. It applies to all contracts with customers except leases, financial instruments and insurance contracts. AASB 15 requires reporting entities to provide users of financial statements with more informative, relevant disclosures. An assessment has been performed on existing revenue streams. Based on this assessment, it is not expected that the REIT will be materially impacted.

### ***(iii) AASB 16 Leases (Applicable 1 January 2019 – early adoption allowed if AASB 15 is adopted at the same time)***

The standard will affect primarily the accounting by lessees and will result in the recognition of almost all leases on balance sheet. The standard removes the current distinction between operating and financing leases and requires recognition of an asset. The income statement will also be affected because the total expense is typically higher in the earlier years of a lease and lower in later years. Additionally, operating expense will be replaced with interest and depreciation, so key metrics like Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) will change. The accounting by lessors will not significantly change. The REIT currently plans to apply AASB 16 for the reporting period beginning on 1 July 2019. An initial assessment of the new standard has been undertaken and it is not expected to have a material impact on the REIT's financial statements.

## DIRECTORS' DECLARATION TO UNITHOLDERS

FOR THE YEAR ENDED 30 JUNE 2017

In the opinion of the Directors of Charter Hall Retail Management Limited, the Responsible Entity of Charter Hall Retail REIT:

- (a) the consolidated financial statements and notes set out on pages 35 to 63 are in accordance with the *Corporations Act 2001*, including:
- (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
  - (ii) giving a true and fair view of the consolidated entity's financial position as at 30 June 2017 and of its performance for the year ended on that date; and
- (b) there are reasonable grounds to believe that the REIT will be able to pay its debts as and when they become due and payable.

The Directors have been given declarations by the Fund Manager, who performs the Chief Executive Officer function, and the Head of Retail Finance, who performs the Chief Financial Officer function, required by section 295A of the *Corporations Act 2001*.

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



**John Harkness**  
Chair

Sydney  
14 August 2017



## *Independent auditor's report*

To the unitholders of Charter Hall Retail REIT

### *Report on the audit of the financial report*

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#### *Our opinion*

In our opinion:

The accompanying financial report of Charter Hall Retail REIT (the REIT) and its controlled entities (together the Group) is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Group's financial position as at 30 June 2017 and of its financial performance for the year then ended
- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

#### ***What we have audited***

We have audited the consolidated financial report of the REIT and its controlled entities, which comprises:

- the consolidated balance sheet as at 30 June 2017
- the consolidated statement of comprehensive income for the year then ended
- the consolidated statement of changes in equity for the year then ended
- the consolidated cash flow statement for the year then ended
- the notes to the consolidated financial statements, which include a summary of significant accounting policies
- the declaration of the directors of the responsible entity.

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#### *Basis for opinion*

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report.

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

#### ***Independence***

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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**PricewaterhouseCoopers, ABN 52 780 433 757**

One International Towers Sydney, Watermans Quay, Barangaroo, GPO BOX 2650 Sydney NSW 2001  
T: +61 2 8266 0000, F: +61 2 8266 9999, [www.pwc.com.au](http://www.pwc.com.au)

Liability limited by a scheme approved under Professional Standards Legislation.



### *Our audit approach*

An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

The Group's principal activity consists of property investment, either directly or through joint ventures.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial report as a whole, taking into account the geographic and management structure of the Group, its accounting processes and controls and the industry in which it operates.



#### **Materiality**

- For the purpose of our audit we used overall materiality of \$6 million, which represents 5% of the Group's operating earnings.
- We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole.
- We chose operating earnings (which is an adjusted profit metric disclosed in Note A1) as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured and is a generally accepted benchmark within the property industry.
- We selected 5% threshold based on our professional judgement and noting it is within the range of commonly accepted operating earnings related materiality thresholds.

#### **Audit Scope**

- Our audit focused on where we identified a higher risk of material misstatement to the financial report including areas where the directors of the responsible entity of the REIT made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events.



## Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. The key audit matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Further, any commentary on the outcomes of a particular audit procedure is made in that context. We communicated the key audit matters to the Audit and Risk Committee.

### Key audit matter

### How our audit addressed the key audit matter

#### Valuation of investment properties

(Refer to note B)

The Group's investment property portfolio is comprised of retail shopping centres anchored with major supermarkets.

The investment properties are included in the consolidated balance sheet as "Investment properties", the carrying value of which at 30 June 2017 was \$2,208.9 million (2016: \$2,142.3 million).

In measuring the carrying value of investment properties, the Group applied the principles of accounting for investment property at fair value under accounting standard AASB 140 *Investment Property* and applied the valuation methodology described in Note B of the financial report.

We focused on this area due to the magnitude of the balances noted above and because of the judgement involved given:

- a) the fair value of investment properties is inherently subjective having regards to, among other factors, prevailing market conditions, the individual nature and condition of each property, its location and the expected future income for each property,
- b) significant estimation uncertainty exists with respect to the key inputs and assumptions used by the Group in developing fair value estimates, including, amongst other things,

We updated our understanding of the prevailing conditions in the market in which the Group invests.

We met with management and developed our understanding of the specifics of the Group's investment properties portfolio, including key drivers affecting the value of the investment properties such as any new leases entered into and expired during the financial year, capital expenditure and vacancy rates.

We read valuations for all properties used by the Group to determine the carrying value of the investment properties as at 30 June 2017 and agreed the fair value identified in these valuations to the accounting records of the Group.

From the population of all internal and external valuations used by the Group, we chose a risk based sample of investment property valuations as at 30 June 2017 for detailed testing. For this sample, we tested the key assumptions and inputs applied in the Group's property valuations as follows:

- We compared the capitalisation rates and discount rates used to a range we determined via reference to industry benchmarks and market data. Where these rates fell outside of our anticipated ranges, we challenged the rationale supporting the rate applied in the valuation by discussing with management and assessing the reasons to support the



### Key audit matter

### How our audit addressed the key audit matter

- capitalisation rate and discount rate, and
- c) a small percentage difference in individual property valuations, when aggregated, could result in a material misstatement.

Group adopted rate. We found that the rate variances related to the relative condition, size or location of the property.

- We compared the Net Operating Income included in the valuation reports to the Net Operating Income for that property at 30 June 2017.
- We considered and compared other material assumptions in the Group's property valuations that were not market observable, such as vacancies, rent free periods and let up allowances and incentives, to the corresponding data for that property at 30 June 2017.

For a sample of properties where the Group obtained an external valuation, we assessed the competency and capabilities of the relevant external valuer engaged by the Group.

### Valuation of derivative financial instruments (Refer to note C3)

The Group issues foreign currency and domestic debt as one of its sources of funding and enters into derivative financial instruments (derivatives) contracts to manage foreign exchange risk and interest rate risk associated with the debt.

The Group currently holds a portfolio of cross currency interest rate swaps (CCIRS) and interest rate swaps (IRS). The CCIRS are in hedge accounting relationships with the foreign currency (USD) US Private Placement debt facilities disclosed in the consolidated balance sheet.

At 30 June 2017, the total carrying value of the Group's derivatives disclosed in the financial report (including current assets, non-current assets, current liabilities and non-current liabilities) was a net liability position of \$18.8m (2016: \$15.9m net asset position).

We considered the valuation of derivatives to be a key audit matter because of the:

We tested the key controls relevant to IRS derivatives including the key automated controls within the Group's treasury IT system.

For a sample of new and amended derivatives we agreed the key terms of the derivatives back to the individual third party contracts.

For CCIRS and IRS derivatives, we performed the below procedures as at 30 June 2017:

- We obtained independent counterparty confirmations to confirm the existence of each derivative at the financial year end.
- We engaged PwC valuation experts, who independently recalculated the fair value of the derivatives sourcing market data inputs used in the valuation calculations.

To test the application of hedge accounting in accordance with AASB 139, we performed the following procedures for all hedged derivatives we:

- inspected the key terms and hedging





#### Key audit matter

#### How our audit addressed the key audit matter

- |   |   |
|---|---|
| <ul style="list-style-type: none"> <li>- nature and complexity involved in valuing derivatives</li> <li>- relative size of the derivative balances and potential for fluctuation in the size of these balances year on year</li> <li>- judgement involved in determining key assumptions to forecast future cashflows including interest rates, foreign exchange rates and expected volatility of these assumptions used in the valuation</li> <li>- complexity involved in the application of hedge accounting in accordance with AASB 139 <i>Financial Instruments: recognition and measurement</i>.</li> </ul> | <ul style="list-style-type: none"> <li>- relationship as documented by the Group</li> <li>- checked the movement of the derivative against the hedged risk to assess whether the hedge was effective throughout the year</li> <li>- tested whether the year on year movement within the consolidated balance sheet has been accurately recorded in the income statement and cash flow hedge reserve for the year ended 30 June 2017.</li> </ul> |
|---|---|

#### Other information

The directors of the responsible entity of the REIT are responsible for the other information. The other information included in the Group's annual report for the year ended 30 June 2017 comprises the Directors' Report (but does not include the financial report and our auditor's report thereon), which we obtained prior to the date of this auditor's report.

We also expect other information to be made available to us after the date of this auditor's report, including About Us, 2017 Highlights, Chair & Fund Manager Letter, Case Studies, Portfolio Performance, Sustainability, Our Board and Management, Remuneration Report (Management Fees and Executives), Unitholder Analysis, Investor Information and Corporate Directory

Our opinion on the financial report does not cover the other information and we do not and will not express an opinion or any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the other information not yet received, as identified above, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors of the responsible entity of the REIT and use our professional judgement to determine the appropriate action to take.



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### *Responsibilities of the directors of the responsible entity for the financial report*

The directors of the responsible entity of the REIT 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 of the responsible entity determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors of the responsible entity are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the responsible entity either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

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### *Auditor's responsibilities for the audit of the financial report*

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: [http://www.auasb.gov.au/auditors\\_responsibilities/ar1.pdf](http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf). This description forms part of our auditor's report.

A handwritten signature in dark ink, appearing to read 'PricewaterhouseCoopers'.

PricewaterhouseCoopers

A handwritten signature in dark ink, appearing to read 'Reilly'.

Jane Reilly  
Partner

Sydney  
14 August 2017

## UNITHOLDER ANALYSIS

### Top 20 registered unitholder as at 26 September 2017

Rank	Name	A/C designation	Units	%
1	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED		117,869,329	29.10
2	TRUST COMPANY LIMITED	<CHARTER HALL CO-INVEST A/C>	75,321,744	18.59
3	J P MORGAN NOMINEES AUSTRALIA LIMITED		49,037,607	12.10
4	CITICORP NOMINEES PTY LIMITED		48,982,178	12.09
5	NATIONAL NOMINEES LIMITED		23,116,299	5.71
6	PERPETUAL CORPORATE TRUST LTD	<TTCAL>	19,903,266	4.91
7	BNP PARIBAS NOMINEES PTY LTD	<AGENCY LENDING DRP A/C>	8,015,057	1.98
8	BNP PARIBAS NOMS PTY LTD	<DRP>	4,487,689	1.11
9	CITICORP NOMINEES PTY LIMITED	<COLONIAL FIRST STATE INV A/C>	3,250,840	0.80
10	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED – A/C 2		1,180,932	0.29
11	NATIONAL NOMINEES LIMITED	<DB A/C>	788,973	0.19
12	BOND STREET CUSTODIANS LIMITED	<ENH PROPERTY SECURITIES A/C>	773,566	0.19
13	AMP LIFE LIMITED		737,884	0.18
14	BNP PARIBAS NOMS (NZ) LTD	<DRP>	701,881	0.17
15	POWERWRAP LIMITED	<SCHEME – IML TRADES A/C>	635,998	0.16
16	SBN NOMINEES PTY LIMITED	<10004 ACCOUNT>	550,000	0.14
17	PAN AUSTRALIAN NOMINEES PTY LIMITED		484,674	0.12
18	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	<NT-COMNWLTH SUPER CORP A/C>	482,388	0.12
19	MR PETER PALAN & MRS CLARE PALAN	<NAPLA PROVIDENT FUND A/C>	469,137	0.12
20	AKAT INVESTMENTS PTY LIMITED	<TAG FAMILY – CORE A/C>	400,000	0.10
<b>Total</b>			<b>357,189,442</b>	<b>88.17</b>
<b>Balance of register</b>			<b>47,921,762</b>	<b>11.83</b>
<b>Grand total</b>			<b>405,111,204</b>	<b>100.00</b>

### Range of units summary as at 26 September 2017

Range	Securities	%	No. of holders
100,001 and Over	361,291,988	89.18	45
50,001 to 100,000	2,718,958	0.67	40
10,001 to 50,000	17,388,246	4.29	914
5,001 to 10,000	11,077,051	2.73	1,556
1,001 to 5,000	11,772,420	2.91	4,441
1 to 1,000	862,541	0.21	1,820
<b>Total</b>	<b>405,111,204</b>	<b>100.00</b>	<b>8,816</b>
Unmarketable Parcels	6,517	0.00	417

### Voting rights

On a poll, each unitholder has one vote for each dollar of the value of their total interest in the REIT.

On a show of hands, each unitholder has one vote.

### Substantial unitholder notices as at 26 September 2017

Company	Date of change	Units	Ownership (%)
The Vanguard Group	12 May 2017	28,711,630	7.069
Trust Company Limited (TCL) as custodian for Bieson Pty Limited (Bieson) as trustee of the Charter Hall Co-Investment Trust (CHCT)	14 Nov 2016	71,869,950	17.69
Legg Mason Asset Management Australia Limited	27 Sep 2016	37,382,923	9.20
Mondrian Investment Partners Limited	28 Aug 2016	35,671,617	8.82

## INVESTOR INFORMATION

### How do I invest in Charter Hall Retail REIT?

Charter Hall Retail REIT units are listed on the Australian Securities Exchange (ASX: CQR). Unitholders will need to use the services of a stockbroker or an online broking facility to invest in Charter Hall Retail REIT.

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

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

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

### Can I receive my Annual Report electronically?

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

### How do I receive my distribution?

Charter Hall Retail REIT pays its distribution via direct credit. This enables you to receive automatic payment of your distributions quickly and securely. You can nominate any Australian or New Zealand bank, building society, credit union or cash management account for direct payment by downloading a direct credit form using the Investor Login facility and sending to Link Market Services. On the day of payment you will be sent a statement via post or email confirming that the payment has been made and setting out details of the payment.

The REIT no longer pays distributions by cheque.

### Can I reinvest my distribution?

When operating, the Distribution Reinvestment Plan (DRP) allows you to have your distributions reinvested in additional securities in Charter Hall Retail REIT, rather than having your distributions paid to you. If you would like to participate in the DRP, you can do so online using the Investor Login facility available on our website, or you can complete a DRP Application Form available from our registry.

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

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

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

At the end of each financial year, we issue unitholders with an Annual Taxation Statement. This statement includes information required to complete your tax return. The distributions paid in February and August are required to be included in your tax return for the financial year the income was earned, that is, the distribution income paid in August 2017 should be included in your 2017 financial year tax return.

### How do I make a complaint?

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

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

#### Financial Ombudsman Service

GPO Box 3  
Melbourne VIC 3001

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

### Contact details

#### Registry

To access information on your holding or update/change your details including name, address, tax file number, payment instructions and document requests, contact:

Link Market Services Limited  
Locked Bag A14  
Sydney South NSW 1235

Tel: 1300 303 063 (within Australia)  
+61 2 8280 7134 (outside Australia)  
Fax: +61 2 9287 0303

Email: [charterhall@linkmarketservices.com.au](mailto:charterhall@linkmarketservices.com.au)  
Web: [www.linkmarketservices.com.au](http://www.linkmarketservices.com.au)

#### Investor Relations

All other enquiries related to Charter Hall Retail REIT can be directed to Investor Relations:

Charter Hall Retail Management Limited  
GPO Box 2704  
Sydney NSW 2001

Tel: 1300 365 585 (local call cost)  
+61 2 8651 9000 (outside Australia)  
Fax: +61 2 9221 4655

Email: [reits@charterhall.com.au](mailto:reits@charterhall.com.au)  
Web: [www.charterhall.com.au](http://www.charterhall.com.au)

## Responsible Entity (and Manager)

Charter Hall Retail Management Limited  
ABN 46 069 709 468  
AFSL 246996

## Registered office

Level 20, No.1 Martin Place  
Sydney NSW 2000

## Directors of the Responsible Entity

John Harkness (Chair)  
Greg Chubb  
Michael Gorman  
David Harrison  
Sue Palmer  
Alan Rattray-Wood

## Fund Manager

Scott Dundas

## Company Secretaries

Mark Bryant / Charisse Nortje

## Responsible Entity's office

Level 20, No.1 Martin Place  
Sydney NSW 2000  
GPO Box 2704  
Sydney NSW 2001

**Tel:** 1300 365 585 (local call cost)  
+61 2 8651 9000 (outside Australia)

**Fax:** +61 2 9221 4655

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## Custodian

Perpetual Limited  
Level 12, Angel Place  
123 Pitt Street  
Sydney NSW 2000

## Auditor

PricewaterhouseCoopers  
One International Towers Sydney  
Watermans Quay, Barangaroo  
Sydney NSW 2000

## Unit registry

To access information on your holding or update/change your details including name, address, tax file number, payment instructions and document requests, contact:

Link Market Services Limited  
Locked Bag A14  
Sydney South NSW 1235

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## Important Notice

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

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