Charter Hall Retail REIT

ARSN 093 143 965

Interim financial report
For the period ended 31 December 2017

Contents

Directors' report

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 period ended 31 December 2017.

Principal activities

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

Directors

The following persons have held office as Directors of the Responsible Entity during the period 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 (resigned on 31 October 2017)
- Michael Gorman - Non-Executive Director
- David Harrison - Executive Director and Managing Director / Group CEO of Charter Hall
- Greg Chubb - Executive Director and Fund Manager / Retail CEO of Charter Hall
- Scott Dundas - Alternate for David Harrison (resigned on 8 November 2017)

Distributions

Distributions paid or declared by the REIT to unitholders:

	31 Dec 2017 $'m	31 Dec 2016 $'m
Interim distribution for the six months ended 31 December 2017 of 14.0 cents per unit will be paid on 28 February 2018	**56.5**	-
Interim distribution for the six months ended 31 December 2016 of 14.1 cents per unit paid on 28 February 2017	**-**	57.3
	56.5	57.3

A liability has been recognised in the consolidated financial statements as the interim 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 DRP was suspended for the period ended 31 December 2017.

Directors' report (continued)

Review and results of operations

The REIT recorded a statutory profit for the period of $80.8 million (31 December 2016: $178.9 million). Operating earnings amounted to $61.9 million (31 December 2016: $61.7 million). Increased earnings are predominantly due to net property income growth during the period 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.

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

	Notes	**6 months to 31 Dec 2017 $'m**	6 months to 31 Dec 2016 $'m
Net property income from wholly owned properties		**80.1**	74.4
Net income from joint venture entities		**7.5**	8.1
Other income		**0.1**	0.1
Management fees		**(5.0)**	(5.4)
Finance costs		**(19.1)**	(14.1)
Other expenses		**(1.7)**	(1.4)
Operating earnings	A	**61.9**	61.7

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

	6 months to 31 Dec 2017 $'m	6 months to 31 Dec 2016 $'m
Operating earnings	**61.9**	61.7
Net revaluation increment on investment properties	**41.9**	97.1
Revaluation decrement on investment properties attributable to acquisition costs	**(14.6)**	(0.2)
Net (loss)/gain on derivative financial instruments	**(2.7)**	19.5
(Loss)/gain on sale of investment properties	**(3.2)**	2.9
Write off capitalised borrowing costs related to refinancing	**-**	(0.1)
Other	**(2.5)**	(2.0)
Statutory profit for the period	**80.8**	178.9
Basic weighted average number of units (millions)	**404.8**	405.6
Basic earnings per unit (cents)	**19.95**	44.11
Operating earnings per unit (cents)	**15.30**	15.21
Distribution per unit (cents)	**14.00**	14.10

Directors' report (continued)

The 31 December 2017 financial results are summarised as follows:

	6 months to 31 Dec 2017	6 months to 31 Dec 2016
Revenue ($ millions)	**117.9**	108.1
Net profit after tax ($ millions)	**80.8**	178.9
Basic earnings per unit (cents)	**19.95**	44.11
Operating earnings ($ millions)	**61.9**	61.7
Operating earnings per unit (cents)	**15.30**	15.21
Distributions ($ millions)	**56.5**	57.3
Distributions per unit (cents)	**14.00**	14.10

	31 Dec 2017	30 Jun 2017
Total assets ($ millions)	**2,798.2**	2,707.2
Total liabilities ($ millions)	**1,108.4**	1,032.7
Net assets attributable to unitholders ($ millions)	**1,689.8**	1,674.5
Units on issue (millions)	**403.7**	405.8
Net assets per unit ($)	**4.19**	4.13
Balance sheet gearing - total debt (net of cash) to total assets (net of cash)	**36.0%**	33.1%
Look through gearing - total debt (net of cash) to total assets (net of cash)	**38.8%**	36.2%

Significant changes in the state of affairs

Acquisitions

In July 2017, the REIT acquired Salamander Bay, NSW for a gross price of $174.5 million and Highfields Village, Qld for a gross price of $41.0 million.

Disposals

In July 2017, Charter Hall Retail Partnership No.1 Trust (CHRP1), one of the REIT's joint venture entities, sold Gladstone Square, Qld for a gross price of $31.5 million. The REIT's share of the asset was $15.8 million.

In July 2017, the REIT sold Wharflands Plaza, SA for a gross price of $21.0 million.

In September 2017, the REIT sold Narrabri Coles, NSW for a gross price of $10.5 million and Rosehill Woolworths, NSW for a gross price of $13.0 million.

In November 2017, the REIT sold Albany Creek Square, Qld for a gross price of $55.9 million.

In December 2017, the REIT sold Kerang Safeway, Vic for a gross price of $15.7 million and Wynyard Woolworths, Tas for a gross price of $10.2 million.

Financing

In December 2017, the REIT repaid and cancelled $50 million of the existing unsecured syndicated bank facility which was due to mature in July 2018. The next debt maturity is $285 million in July 2020.

Re-developments

During the six months to 31 December 2017, the REIT commenced the re-development of Lake Macquarie Fair, NSW and Mount Hutton Plaza, NSW with completion expected by early 2019. CHRP1 commenced the redevelopment of Wanneroo Central, WA with completion expected by June 2018.

Directors' report (continued)

Events occurring after balance date

In January 2018, the REIT sold Moranbah Fair, Qld for a gross sale price of $25.0 million and Goonellabah Village, NSW for a gross sale price of $14.5 million.

In February 2018, the REIT sold Springfield Fair, Qld for a gross sale price of $23.5 million.

Interests in the REIT

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

	6 months to 31 Dec 2017	Year to 30 Jun 2017
Units on issue at the beginning of the period	**405,777,734**	404,307,852
Units issued during the period		
- via Distribution Reinvestment Plan	**-**	1,881,240
Units cancelled during the period*	**(2,030,395)**	(411,358)
Units on issue at the end of the period	**403,747,339**	405,777,734

* The REIT repurchased its own units. The repurchased units were cancelled in the same period.

Value of assets

	31 Dec 2017 $'m	30 Jun 2017 $'m
Value of REIT assets	**2,798.2**	2,707.2

The value of the REIT's assets is derived using the basis set out in the notes to the consolidated financial statements for the period ended 31 December 2017.

Directors' report (continued)

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 9.

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 16 February 2018. The Directors have the power to amend and re-issue the financial statements.

John Harkness
Chair
Sydney
16 February 2018

pwc

Auditor's Independence Declaration

As lead auditor for the review of Charter Hall Retail REIT for the half-year ended 31 December 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 review; and

(b) no contraventions of any applicable code of professional conduct in relation to the review.

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

JReilly

Jane Reilly
Partner
PricewaterhouseCoopers

Sydney
16 February 2018

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

Consolidated statement of comprehensive income

	Notes	6 months to 31 Dec 2017 $'m	6 months to 31 Dec 2016 $'m
Revenue			
Property rental income		**117.8**	108.0
Interest income		**0.1**	0.1
Total revenue		**117.9**	108.1
Other income			
Share of net profit on investment in joint venture entities	B2	**10.4**	32.8
Net gain on movement in fair value of investment properties		**24.0**	76.2
Net gain from derivative financial instruments		**-**	18.2
Total revenue and other income		**152.3**	235.3
Expenses			
Property expenses		**(40.0)**	(35.5)
Net loss from derivative financial instruments		**(2.8)**	-
Net loss on disposal of investment properties		**(2.9)**	(0.1)
Management fees		**(5.0)**	(5.4)
Finance costs		**(19.1)**	(14.1)
Other expenses		**(1.7)**	(1.3)
Total expenses		**(71.5)**	(56.4)
Profit for the period		**80.8**	178.9
Other comprehensive (expense)/income*			
Change in the fair value of cash flow hedges		**(0.9)**	4.4
Other comprehensive (expense)/income		**(0.9)**	4.4
Total comprehensive income for the period		**79.9**	183.3
Basic earnings per ordinary unitholder of the REIT			
Earnings per unit (cents)	A2	**19.95**	44.11

* 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

	Notes	31 Dec 2017 $'m	30 Jun 2017 $'m
Assets			
Current assets			
Cash and cash equivalents		**10.5**	58.7
Receivables		**12.9**	9.9
Derivative financial instruments	C2	**4.3**	4.3
Deposits on investment properties		**-**	12.8
Prepayments		**3.2**	0.9
Assets classified as held for sale	B	**87.7**	158.3
Total current assets		**118.6**	244.9
Non-current assets			
Investment properties	B	**2,432.0**	2,208.9
Investments in joint venture entities	B	**245.6**	250.4
Derivative financial instruments	C2	**2.0**	3.0
Total non-current assets		**2,679.6**	2,462.3
Total assets		**2,798.2**	2,707.2
Liabilities			
Current liabilities			
Payables		**33.9**	37.9
Distribution payable	A2	**56.5**	56.8
Other liabilities		**1.0**	1.8
Total current liabilities		**91.4**	96.5
Non-current liabilities			
Borrowings	C1	**979.6**	910.1
Derivative financial instruments	C2	**37.4**	26.1
Total non-current liabilities		**1,017.0**	936.2
Total liabilities		**1,108.4**	1,032.7
Net assets		**1,689.8**	1,674.5
Equity			
Contributed equity	C3	**2,264.9**	2,276.3
Reserves	C3	**(4.3)**	(3.4)
Accumulated losses	C3	**(570.8)**	(598.4)
Total equity		**1,689.8**	1,674.5

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

Consolidated statement of changes in equity

	Notes	Contributed equity $'m	Reserves $'m	Accumulated losses $'m	Total $'m
Total equity at 1 July 2016		2,269.6	(1.3)	(736.1)	1,532.2
Profit for the period		-	-	178.9	178.9
Other comprehensive income		-	4.4	-	4.4
Total comprehensive income for the period		-	4.4	178.9	183.3
Transactions with unitholders in their capacity as unitholders					
- Contributions of equity, net of issue costs	C3	9.0	-	-	9.0
- Distributions paid and payable	A2	-	-	(57.3)	(57.3)
Total equity at 31 December 2016		2,278.6	3.1	(614.5)	1,667.2
Total equity at 1 July 2017		**2,276.3**	**(3.4)**	**(598.4)**	**1,674.5**
Profit for the period		**-**	**-**	**80.8**	**80.8**
Other comprehensive income		**-**	**(0.9)**	**-**	**(0.9)**
Total comprehensive income for the period		**-**	**(0.9)**	**80.8**	**79.9**
Transactions with unitholders in their capacity as unitholders					
- Contributions of equity, net of issue costs	C3	**-**	**-**	**-**	**-**
- Cancellation of units	C3	**(11.4)**	**-**	**3.3**	**(8.1)**
- Distributions paid and payable	A2	**-**	**-**	**(56.5)**	**(56.5)**
Total equity at 31 December 2017		**2,264.9**	**(4.3)**	**(570.8)**	**1,689.8**

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

Consolidated cash flow statement

	6 months to 31 Dec 2017 $'m	6 months to 31 Dec 2016 $'m
Cash flows from operating activities		
Property rental income received	**124.8**	114.2
Property expenses paid	**(48.1)**	(32.0)
Distributions received from investment in joint venture entities	**7.2**	4.1
Interest received	**0.1**	0.1
Other operating expenses paid	**(7.5)**	(4.9)
Finance costs paid	**(18.0)**	(14.6)
Net GST paid to ATO on operating activities	**(6.0)**	(6.2)
Net GST received from ATO on investing activities	**0.3**	0.8
Net cash flows from operating activities	**52.8**	61.5
Cash flows from investing activities		
Proceeds from sale of investment properties	**122.6**	40.8
Payments for investment properties and capital expenditure	**(243.7)**	(118.0)
Capital distribution received from joint venture entity	**7.6**	-
Net cash flows from investing activities	**(113.5)**	(77.2)
Cash flows from financing activities		
Proceeds from borrowings	**245.9**	137.8
Repayment of borrowings	**(168.5)**	(69.9)
Repurchase of units	**(8.1)**	-
Distributions paid to unitholders, net of DRP	**(56.8)**	(47.9)
Net cash flows from financing activities	**12.5**	20.0
Net (decrease)/increase in cash held	**(48.2)**	4.3
Cash and cash equivalents at the beginning of the period	**58.7**	12.2
Cash and cash equivalents at the end of the period	**10.5**	16.5

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

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** – details of the REITs capital structure.
- **Other information** – provides additional disclosures not included in previous sections but relevant in understanding the financial statements.

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 30,000 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 periods ended 31 December 2017 and 31 December 2016 are as follows:

	Freestanding supermarkets $'m	Neighbourhood shopping centres $'m	Sub-regional shopping centres $'m	REIT operations $'m	Total $'m
Half year ended 31 December 2017					
Property rental income	**6.8**	**51.1**	**59.9**	-	**117.8**
Add back: non-cash adjustments	**-**	**1.4**	**0.9**	-	**2.3**
Property expenses	**(1.0)**	**(16.9)**	**(22.1)**	**-**	**(40.0)**
Total net property income from wholly owned properties (NOI)	**5.8**	**35.6**	**38.7**	**-**	**80.1**
Net income from joint venture entities	-	**2.5**	**8.5**	**(3.5)**	**7.5**
Other income	-	-	-	**0.1**	**0.1**
Management fees	-	-	-	**(5.0)**	**(5.0)**
Finance costs	-	-	-	**(19.1)**	**(19.1)**
Other expenses	-	-	-	**(1.7)**	**(1.7)**
Operating earnings	**5.8**	**38.1**	**47.2**	**(29.2)**	**61.9**

A. Fund performance (continued)

	Freestanding supermarkets $'m	Neighbourhood shopping centres $'m	Sub-regional shopping centres $'m	REIT operations $'m	Total $'m
Half year ended 31 December 2016					
Property rental income	8.4	49.3	50.3	-	108.0
Add back: non-cash adjustments	-	0.9	1.0	-	1.9
Property expenses	(1.3)	(15.9)	(18.3)	-	(35.5)
Total net property income from wholly owned properties (NOI)	7.1	34.3	33.0	-	74.4
Net income from joint venture entity	-	3.3	8.5	(3.7)	8.1
Other income	-	-	-	0.1	0.1
Management fees	-	-	-	(5.4)	(5.4)
Finance costs	-	-	-	(14.1)	(14.1)
Other expenses	-	-	-	(1.4)	(1.4)
Operating earnings	7.1	37.6	41.5	(24.5)	61.7

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

	6 months to 31 Dec 2017 $'m	6 months to 31 Dec 2016 $'m
Operating earnings	**61.9**	61.7
Net revaluation increment on investment properties	**41.9**	97.1
Revaluation decrement on investment properties attributable to acquisition costs	**(14.6)**	(0.2)
Net (loss)/gain on derivative financial instruments	**(2.7)**	19.5
(Loss)/gain on sale of investment properties	**(3.2)**	2.9
Write off capitalised borrowing costs related to refinancing	**-**	(0.1)
Other	**(2.5)**	(2.0)
Profit for the period	**80.8**	178.9
Basic weighted average number of units (millions)	**404.8**	405.6
Operating earnings per unit (cents)	**15.30**	15.21

A. Fund performance (continued)

A2. Distributions and earnings per unit

(a) Distributions paid and payable

	Distribution Cents per unit	Total amount $'m
Ordinary unitholders		
2017 distributions for the half year ended:		
31 December 2017 (payable 28 February 2018)*	**14.0**	**56.5**
	14.0	**56.5**
Ordinary unitholders		
2016 distributions for the half year ended:		
31 December 2016 (paid 28 February 2017)	14.1	57.3
	14.1	57.3

* The distribution of 14.0 cents per unit for the six month period ended 31 December 2017 was declared prior to 31 December 2017 and will be paid on 28 February 2018.

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.

(b) Earnings per unit

	6 months to 31 Dec 2017	6 months to 31 Dec 2016
Basic earnings per ordinary unitholder of the REIT		
Earnings per unit (cents)	**19.95**	44.11
Operating earnings per unit (cents)	**15.30**	15.21
Earnings used in the calculation of basic earnings per unit		
Net profit for the period ($'m)	**80.8**	178.9
Operating earnings for the period ($'m)	**61.9**	61.7
Weighted average number of units used in the calculation of basic earnings per unit (millions)*	**404.8**	405.6

* 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 period.

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

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 period.

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:

31 December 2017 $'m	**Notes**	**Freestanding supermarkets**	**Neighbourhood shopping centres**	**Sub-regional shopping centres**	****Joint venture adjustment**	**Total**
Non-current assets						
Investment properties	B1	**171.6**	**1,008.8**	**1,251.6**	**-**	**2,432.0**
Investments in joint ventures	B2	**-**	**84.6**	**302.5**	**(141.7)**	**245.4**
Total non-current assets		**171.6**	**1,093.4**	**1,554.1**	**(141.7)**	**2,677.4**
Current assets						
Assets held for sale*	B1	**-**	**63.0**	**24.7**	**-**	**87.7**
Joint venture assets held for sale*	B2	**-**	**0.2**	**-**	**-**	**0.2**
Property portfolio assets, including interests in joint venture properties		**171.6**	**1,156.6**	**1,578.8**	**(141.7)**	**2,765.3**

* The REIT and its joint ventures have classified three neighbourhood shopping centres and one sub-regional shopping centre as held for sale.

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

30 June 2017 $'m	Notes	Freestanding supermarkets	Neighbourhood shopping centres	Sub-regional shopping centres	**Joint venture adjustment	Total
Non-current assets						
Investment properties	B1	132.4	994.4	1,082.1	-	2,208.9
Investments in joint ventures	B2	-	83.0	298.0	(146.5)	234.5
Total non-current assets		132.4	1,077.4	1,380.1	(146.5)	2,443.4
Current assets						
Assets held for sale	B1	85.2	52.1	21.0	-	158.3
Joint venture assets held for sale	B2	-	15.9	-	-	15.9
Property portfolio assets, including interests in joint venture properties		217.6	1,145.4	1,401.1	(146.5)	2,617.6

B. Property portfolio assets (continued)

B1. Investment properties

Reconciliation of the carrying amount of investment properties at the beginning and end of period

	6 months to 31 Dec 2017 $'m	12 months to 30 Jun 2017 $'m
Carrying amount at the beginning of the period	**2,208.9**	2,142.3
Add back prior period held for sale	**158.3**	27.4
Additions	**239.1**	149.7
Acquisition costs incurred	**14.6**	5.4
Revaluation decrement attributable to acquisition costs	**(14.6)**	(5.4)
Net revaluation increment	**38.6**	96.7
Straightlining of rental income	**0.5**	0.8
Amortisation of lease incentives	**(2.8)**	(5.2)
Capitalised leasing fees	**4.5**	3.0
Disposals	**(127.4)**	(47.5)
Reclassification of investment properties as held for sale	**(87.7)**	(158.3)
Carrying amount at the end of the period	**2,432.0**	2,208.9

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 31 Dec 2017 %	Ownership interest 31 Dec 2016 %
Charter Hall Retail Partnership No.1 Trust (CHRP1)	Australia	Property investment	**50.0%**	50.0%
Charter Hall Retail Partnership No.2 Trust (CHRP2)	Australia	Property investment	**47.5%**	47.5%

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

	6 months to 31 Dec 2017 $'m	Year to 30 Jun 2017 $'m
Balance at the beginning of the period	**250.4**	222.0
Share of profits and property valuation gains	**10.4**	41.7
Distributions paid and payable	**(15.2)**	(14.2)
Distribution reinvested	**-**	0.9
Balance at the end of the period	**245.6**	250.4

B. Property portfolio assets (continued)

(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 REIT's interest	
	6 months to 31 Dec 2017 $'m	6 months to 31 Dec 2016 $'m	**6 months to 31 Dec 2017 $'m**	6 months to 31 Dec 2016 $'m	**6 months to 31 Dec 2017 $'m**	6 months to 31 Dec 2016 $'m
Income						
Property rental income	**23.9**	26.1	**9.1**	9.0	**16.3**	17.3
Property expenses	**(8.4)**	(8.6)	**(2.4)**	(2.4)	**(5.3)**	(5.4)
Net property income	**15.5**	17.5	**6.7**	6.6	**11.0**	11.9
Finance costs	**(3.5)**	(5.3)	**(1.9)**	(1.8)	**(2.7)**	(3.5)
Other expenses	**(1.2)**	(0.1)	**(0.5)**	(0.5)	**(0.8)**	(0.3)
Total expenses	**(4.7)**	(5.4)	**(2.4)**	(2.3)	**(3.5)**	(3.8)
Operating earnings	**10.8**	12.1	**4.3**	4.3	**7.5**	8.1
Net revaluation increment on investment properties	**4.0**	34.3	**2.8**	7.5	**3.3**	20.7
(Loss)/gain on disposal	**(0.5)**	6.0	**-**	-	**(0.3)**	3.0
Net unrealised gain on derivative financial instruments	**0.1**	1.6	**0.2**	1.1	**0.1**	1.3
Other	**(0.4)**	(0.3)	**(0.1)**	(0.2)	**(0.2)**	(0.3)
Statutory profit for the period	**14.0**	53.7	**7.2**	12.7	**10.4**	32.8
Other comprehensive income	**-**	-	**-**	-	**-**	-
Total comprehensive income	**14.0**	53.7	**7.2**	12.7	**10.4**	32.8
REIT's interest in total comprehensive income	**7.0**	26.8	**3.4**	6.0		

B. Property portfolio assets (continued)

(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 31 December 2017, not the REIT's proportionate share.

	CHRP1		CHRP2	
	31 Dec 2017 $'m	30 Jun 2017 $'m	**31 Dec 2017 $'m**	30 Jun 2017 $'m
Current assets				
Cash and cash equivalents	**3.3**	3.7	**1.5**	1.6
Receivables	**1.0**	1.0	**0.9**	1.0
Other assets	**1.1**	-	**-**	0.2
Assets held for sale	**0.3**	31.8	**-**	-
Total current assets	**5.7**	36.5	**2.4**	2.8
Non-current assets				
Investment properties	**555.2**	547.2	**230.5**	226.0
Total assets	**560.9**	583.7	**232.9**	228.8
Current liabilities				
Payables	**11.2**	17.4	**3.8**	4.0
Total current liabilities	**11.2**	17.4	**3.8**	4.0
Non-current liabilities				
Borrowings	**180.5**	184.9	**99.5**	97.8
Derivative financial instruments	**0.5**	0.6	**0.8**	0.9
Total liabilities	**192.2**	202.9	**104.1**	102.7
Net assets	**368.7**	380.8	**128.8**	126.1
REIT's interest in net assets	**184.4**	190.4	**61.2**	60.0

CHRP1 disposed of Gladstone Square, Qld in July 2017, 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.

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 31 December 2017 CHRP1 had a net current asset deficiency of $5.5 million and CHRP2 had a net current asset deficiency of $1.4 million. CHRP1 and CHRP2 have sufficient operating cash flows to meet current liabilities. In addition, as at 31 December 2017, CHRP1 had undrawn debt capacity of $38.3 million and CHRP2 had undrawn debt capacity of $5.0 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 $40.1 million (30 June 2017: $203.2 million). The REIT's share in the commitments of the joint venture entities total $3.7 million (30 June 2017: nil). 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

C1. Borrowings and liquidity

	31 Dec 2017 Current $'m	31 Dec 2017 Non-current $'m	31 Dec 2017 Total carrying amount $'m	30 Jun 2017 Current $'m	30 Jun 2017 Non-current $'m	30 Jun 2017 Total carrying amount $'m
US Private Placement notes*	**-**	**398.0**	**398.0**	-	406.6	406.6
Bank loan - term debt**	**-**	**581.6**	**581.6**	-	503.5	503.5
Total unsecured borrowings	**-**	**979.6**	**979.6**	-	910.1	910.1
Undrawn bank facility			**73.8**			201.2

* Includes a fair value hedge adjustment of $(18.5)m (30 June 2017: $(16.0)m).
** Includes unamortised transaction costs of $(4.6)m (30 June 2017: $(5.3)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 31 Dec 2017 $'m
USPP	3.55%	July 2015	July 2027	251.6	**256.3**
USPP	3.76%	May 2016	May 2026	177.4	**160.2**
Net exposure				429.0	**416.5**
Fair value hedge adjustment				-	**(18.5)**
Total				429.0	**398.0**

The REIT's interest rate and foreign exchange exposure under these notes is 100% hedged with cross currency interest rate swaps (Refer to Note C2).

Bank loans

	Interest rate at 31 Dec 2017*	Maturity date	Facility limit $'m	Drawn amount at 31 Dec 2017 $'m
Syndicated bank facility - Tranche C	2.55%	July 2020	285.0	**285.0**
Bilateral revolving facility agreement	3.00%	February 2021	50.0	**50.0**
Bilateral revolving facility agreement	2.70%	July 2022	150.0	**76.2**
Bilateral revolving facility agreement	2.43%	June 2022	175.0	**175.0**
			660.0	**586.2**

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

In December 2017, the REIT repaid and cancelled $50 million of the existing unsecured syndicated bank facility which was due to mature in July 2018.

C2. Derivative financial instruments

Amounts reflected in the financial statements are as follows:

Balance sheet	31 Dec 2017 Asset $'m	31 Dec 2017 Liability $'m	30 Jun 2017 Asset $'m	30 Jun 2017 Liability $'m
Current				
Cross currency swaps	**4.3**	**-**	4.3	-
Total current derivative financial instruments	**4.3**	**-**	4.3	-
Non-current				
Interest rate swaps	**2.0**	**0.7**	2.1	0.9
Cross currency swaps	**-**	**36.7**	0.9	25.2
Total non-current derivative financial instruments	**2.0**	**37.4**	3.0	26.1
Total derivative financial assets/liabilities	**6.3**	**37.4**	7.3	26.1

C. Capital structure (continued)

C3. Contributed equity and reserves

(a) Contributed equity

No. of units	*Details*	*Date of income entitlement*	**6 months to 31 Dec 2017 $'m**	Year to 30 Jun 2017 $'m
404,307,852	Units on issue	30 June 2016		2,269.6
1,881,240	DRP issue	July 2016		9.0
(411,358)	Cancellation of units	April 2017		(2.3)
405,777,734	Units on issue	30 June 2017	**2,276.3**	2,276.3
(200,634)	Cancellation of units	August 2017	**(1.1)**	
(566,858)	Cancellation of units	September 2017	**(3.2)**	
(1,027,841)	Cancellation of units	October 2017	**(5.8)**	
(235,062)	Cancellation of units	November 2017	**(1.3)**	
403,747,339	**Units on issue**	**31 December 2017**	**2,264.9**	

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 period ended 31 December 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

During the six months to 31 December 2017, the REIT repurchased 2,030,395 units, on market, for a total consideration of $8.1 million ($3.97 per unit). The REIT cancelled the repurchased units. The cancellation reduced contributed equity and accumulated losses by the repurchased units entitlement of $11.4 million and $3.3 million respectively.

D. Other information

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

D1. Working capital management

The REIT maintains a proactive cash management practice of using excess available cash to reduce drawn revolving debt facilities. The entity has readily accessible credit facilities with $73.8 million of undrawn non-current debt facilities at 31 December 2017 and operating cash flows to meet current liabilities. The REIT does not foresee any issues in meeting the current liabilities over the course of the next 12 months.

D2. Events occurring after balance date

In January 2018, the REIT sold Moranbah Fair, Qld for a gross sale price of $25.0 million and Goonellabah Village, NSW for a gross sale price of $14.5 million.

In February 2018, the REIT sold Springfield Fair, Qld for a gross sale price of $23.5 million.

D3. Other significant accounting policies

(a) Basis of preparation

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

This general purpose interim financial report for the half year ended 31 December 2017 has been prepared in accordance with the REIT's constitution, Australian Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Act 2001.

The interim financial report does not include all notes normally included in an annual financial report. Accordingly, this report should be read in conjunction with the annual report for the year ended 30 June 2017 and any public announcements made by the Charter Hall Retail REIT during the half year ended 31 December 2017 in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The accounting policies adopted in the preparation of the interim financial report are consistent with those of the previous financial year.

(b) Comparative information

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

(c) 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.

D. Other information (continued)

(d) 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 period ended 31 December 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

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 10 to 25 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 31 December 2017 and of its performance for the period 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

16 February 2018

Independent auditor's review report to the members of Charter Hall Retail REIT

Report on the Interim Financial Report

We have reviewed the accompanying interim financial report of Charter Hall Retail REIT (the REIT), which comprises the consolidated balance sheet as at 31 December 2017, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, selected explanatory notes and the Directors 's declaration for Charter Hall Retail REIT (the consolidated entity). The consolidated entity comprises the REIT and the entities it controlled during that half-year.

Directors 's responsibility for the interim financial report

The Directors of the REIT are responsible for the preparation of the interim financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the Directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the interim financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the consolidated entity's financial position as at 31 December 2017 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Charter Hall Retail REIT, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

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

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the interim financial report of Charter Hall Retail REIT is not in accordance with the *Corporations Act 2001* including:

1. giving a true and fair view of the consolidated entity's financial position as at 31 December 2017

PricewaterhouseCoopers, ABN 52 780 433 757
One International Towers Sydney, Watermans Quay, Barangaroo NSW 2000,
GPO BOX 2650 Sydney NSW 2001
T: +61 2 8266 0000, F: +61 2 8266 9999, www.pwc.com.au

pwc

and of its performance for the period ended on that date;

2. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

PricewaterhouseCoopers

Jane Reilly
Partner

Sydney
16 February 2018