Charter Hall Long WALE REIT

ARSN 144 613 641

Financial report and other information
For the year ended 30 June 2018

Important Notice

This report comprises Charter Hall Direct Industrial Fund and its controlled entities (together referred to as Charter Hall Long WALE REIT, REIT or CLW). Charter Hall WALE Limited ABN 20 610 772 202; AFSL 486721 (CHWALE) is the Responsible Entity of the Stapled Trusts and is a controlled entity of Charter Hall Limited ABN 57 113 531 150 (Charter Hall).

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

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

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

Contents

Directors' report

The Directors of Charter Hall WALE Limited (CHWALE) present the consolidated financial report and other information of Charter Hall Direct Industrial Fund ("DIF") and its controlled entities (together "Charter Hall Long WALE REIT", "REIT" or "CLW") for the year ended 30 June 2018.

The REIT was formed by stapling together the securities of the entities listed below (collectively referred to as the "Stapled Trusts"):

Stapled Entity	Description
Charter Hall Direct Industrial Fund ("DIF")	Owns all of the REIT's investment properties and equity accounted investments other than those listed below
LWR Finance Trust ("Finance Trust")	Holds the REIT's bank debt and interest rate swaps through Charter Hall LWR Limited
Franklin Street Property Trust ("FSPT)	100% ownership of ATO, Adelaide SA
Canning Vale Logistics Trust ("CVLT1")*	50% ownership of Metcash, Canning Vale WA
218 Bannister Road Trust ("218 BRT")*	50% ownership of Metcash, Canning Vale WA
CPOF Kogarah Holding Trust ("CPOF KHT")*	50.1% ownership of Westpac, Kogarah NSW
CHPT Dandenong Trust ("CHPT DT")*	50% ownership of Coles, Truganina VIC and 26% ownership of Woolworths, Dandenong VIC

* The entities were de-stapled and acquired by DIF on 22 September 2017 and no longer constitute Stapled Trusts. Refer to "Significant changes in the state of affairs" for further details.

The prior year results comprise those of DIF from 1 July 2016 until 9 November 2016 and that of DIF and the other six stapled trusts from 10 November 2016 until 30 June 2017.

CHWALE is the Responsible Entity of the Stapled Trusts and is a controlled entity of Charter Hall Limited.

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 financial 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:

- Peeyush Gupta - Chairman and Non-Executive Director
- Glenn Fraser - Non-Executive Director
- Ceinwen Kirk-Lennox - Non-Executive Director
- David Harrison - Executive Director and Chief Executive Officer / Managing Director of Charter Hall Group
- Adrian Taylor - Executive Director

Directors' Report (continued)

Distributions

Distributions paid or declared during the year are as follows:

	2018 Number of securities on issue	2018 Cents per security	2018 $'m	2017 Number of securities securities on issue	2017 Cents per security	2017 $'m
Ordinary securityholders of DIF						
30 September[1]	208,673,257	**5.00**	**10.5**	120,445,046	2.38	2.9
10 November[1]	N/A	**N/A**	**N/A**	120,445,046	1.06	1.3
31 December[2]	232,300,142	**5.00**	**11.6**	206,683,097	1.90	3.9
31 March	232,300,142	**5.10**	**11.8**	206,683,097	3.60	7.4
30 June	232,300,142	**5.20**	**12.1**	207,787,175	3.50	7.3
Total distributions		**20.30**	**46.0**		12.44	22.8
Ordinary securityholders of Stapled Trusts other than DIF						
30 September	208,673,257	**1.50**	**3.1**	N/A	N/A	N/A
31 December[2]	232,300,142	**1.50**	**3.5**	206,683,097	1.50	3.1
31 March	232,300,142	**1.50**	**3.5**	206,683,097	2.80	5.8
30 June	232,300,142	**1.60**	**3.7**	207,787,175	2.90	6.0
Total distributions		**26.40**	**59.8**		19.64	37.7

1 Prior period distributions paid to DIF securityholders prior to the formation of the REIT.

2 Includes $1.4m paid on stapled securities issued at cum-price under Entitlement Offer in December 2017.

In the prior period, DIF also made a capital distribution of $66.6 million to its former unitholders on 10 November 2016.

Distribution Reinvestment Plan (DRP)

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 issues of new securities rather than being paid in cash.

The DRP issue price is determined at a discount of 1.0% to the daily volume weighted average price of all securities traded on the ASX during the 10 business days commencing on the third business day following the distribution record date. The REIT raised $3.6 million from the DRP for the 30 June 2017 distribution allotted on 14 August 2017 and $4.0 million from the DRP for the 30 September 2017 distribution allotted on 15 November 2017. The DRP was inactive for the remainder of the year.

Review and results of operations

The REIT recorded a statutory profit of $83.3 million for the year ended 30 June 2018 (30 June 2017: $34.6 million). Operating earnings amounted to $58.4 million (26.4 cents per stapled security) for the year ended 30 June 2018 (30 June 2017: $38.3 million) and a distribution of $59.8m (26.4 cents per stapled security) was declared for the same period.

The table below sets out income and expenses that comprise operating earnings on a proportionate consolidation basis:

	30 June 2018 Post-IPO $'m	1 July 2016 to 9 Nov 2016 Pre-IPO $'m	10 Nov 2016 to 30 June 2017 Post-IPO $'m	30 June 2017 $'m
Net property income	**90.5**	6.8	52.5	59.3
Interest income	**0.2**	-	0.2	0.2
Fund management fees	**(6.6)**	(0.6)	(3.7)	(4.3)
Finance costs	**(23.2)**	(1.3)	(13.3)	(14.6)
Administration and other expenses	**(2.5)**	(0.2)	(2.1)	(2.3)
Operating earnings	**58.4**	4.7	33.6	38.3

* Further detail on Operating Earnings is contained in Note A1

Operating earnings is a financial measure which represents profit under Australian Accounting Standards adjusted for net fair value movements, non-cash accounting adjustments such as straight lining 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.

Directors' Report (continued)

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

	30 June 2018 Post-IPO $'m	1 July 2016 to 9 Nov 2016 Pre-IPO $'m	10 Nov 2016 30 June 2017 Post-IPO $'m	30 June 2017 $'m
Operating earnings	**58.4**	4.7	33.6	38.3
Net fair value movements on investment properties[1]	**24.3**	(0.4)	29.3	28.9
Net fair value movements on derivative financial instruments[1]	**(1.9)**	0.1	3.7	3.8
Net fair value movements on investments at fair value through profit or loss	**0.3**	-	0.2	0.2
Loss on early settlement of derivative financial instruments	**-**	-	(4.3)	(4.3)
Straightlining of rental income, amortisation of lease fees and incentives[1]	**4.0**	0.4	2.0	2.4
Debt extinguishment and amortisation of borrowing costs	**-**	(0.2)	(0.4)	(0.6)
Performance and disposal fees[2]	**-**	(5.2)	-	(5.2)
Costs associated with Initial Public Offering	**-**	-	(14.9)	(14.9)
Acquisition costs	**-**	-	(14.0)	(14.0)
Income support	**(1.8)**	-	-	-
Statutory profit for the year	**83.3**	(0.6)	35.2	34.6
Basic weighted average number of stapled securities (millions)[3]	**221.0**	38.8	206.9	145.6
Basic earnings per stapled security (cents)	**37.69**	(1.55)	17.01	23.76
Operating earnings per stapled security (cents)	**26.43**	12.11	16.24	26.30

[1] Includes the REIT's proportionate share of non-operating items of equity accounted investments on a look through basis.
[2] The REIT paid $5.2 million of disposal fees and $5.3 million of performance fees. The performance fees were provisioned for at 30 June 2016. These fees were expensed prior to the formation of the REIT.
[3] Prior period takes into account conversion of each unit issued by DIF into approximately 0.32 units on 10 November 2016.

Property valuation gains

Valuation gains totalling $32.2 million were recorded during the year (30 June 2017: $37.8 million). These gains were partially offset by revaluation decrements attributable to acquisition costs of $3.9 million (30 June 2017: $6.5 million) and straightlining of rental income, amortisation of lease fees and incentives of $4.0 million (30 June 2017: $2.4 million).

The financial results are summarised as follows:

	Year to 30 June 2018	Year to 30 June 2017
Revenue ($ millions)	**69.0**	45.6
Statutory profit for the year ($ millions)	**83.3**	34.6
Basic earnings per stapled security (cents)	**37.69**	23.76
Operating earnings ($ millions)	**58.4**	38.3
Operating earnings per stapled security (cents)	**26.43**	26.30
Distributions ($ millions)[1]	**59.8**	37.7
Distributions per stapled security (cents)	**26.40**	25.89

[1] Includes $1.4m paid on stapled securities issued at cum-price under Entitlement Offer in December 2017.

	30 June 2018	30 June 2017
Total assets ($ millions)	**1,395.0**	1,192.7
Total liabilities ($ millions)	**454.6**	375.3
Net assets attributable to securityholders ($ millions)	**940.4**	817.4
Stapled securities on issue (millions)	**232.3**	207.8
Net assets per stapled security ($)	**4.05**	3.93
Balance sheet gearing - total debt (net of cash) to total assets (net of cash)	**30.6%**	29.9%
Look through gearing - total debt (net of cash) to total assets (net of cash)	**37.2%**	37.7%

Directors' Report (continued)

Significant changes in the state of affairs

Simplification of REIT's structure

On 22 September 2017, DIF acquired all of the securities of CVLT1, 218 BRT, CPOF KHT and CHPT DT from Securityholders for $153.2 million which represents the relative net tangible asset value in these Stapled Trusts, in exchange for additional securities in DIF. As part of simplification, equity attributable to the securityholders of CVLT1, 218 BRT, CPOF KHT and CHPT DT has been reduced by $153.2million. Immediately thereafter, the DIF securities were consolidated to preserve the one to one stapling ratio. The stapled securities of the REIT traded on a deferred settlement basis from 20 to 25 September 2017 in connection with this transaction. Following simplification, the REIT now comprises three Stapled Trusts (DIF, FSPT and Finance Trust).

Equity Raising

In December 2017, the REIT raised $94.1 million of equity, issuing 22.7 million stapled securities at $4.15 per stapled security to both institutional and retail investors. The proceeds were used to fund the acquisition of Virgin Australia's head office building at 56 Edmondstone Road, Brisbane QLD and associated transaction and capital raising costs.

Acquisitions

On 3 July 2017, the REIT acquired Bunnings, South Mackay QLD for $28.5 million from a related party.

On 4 December 2017, LWIP (45% owned by the REIT) acquired Bridge Inn, VIC for $21.2 million and sold Preston Hotel, VIC for $9.2m million. The REIT contributed equity of approximately $6 million in relation to these transactions.

On 4 January 2018, the REIT acquired the trust that owns Virgin Australia's head office building at 58 Edmondstone Road, Brisbane QLD for $90.8 million. The responsible entity of the acquired trust is a related party.

During the year, the REIT contributed $48.4 million in equity to CH DC Fund to fund the development of Woolworths, Dandenong VIC which reached practical completion on 22 March 2018.

Exchange of Contract

On 18 May 2018, the REIT exchanged contracts to sell Grace, Willawong QLD to the tenant occupier for $38.7 million (book value) with expected settlement on 16 August 2018.

Debt arrangements

On 22 December 2017, the REIT increased the limit of its syndicated debt facility by $20 million to $470 million and extended its debt maturity from November 2021 to February 2022.

On 18 April 2018, the REIT entered into two interest rate swap agreements with a total principal amount of $100 million which mature in June 2025. The REIT was 75% hedged as at 30 June 2018 (30 June 2017: 66%).

There were no other significant changes in the state of affairs of the REIT that occurred during the year under review.

Business Strategies and Prospects

The REIT's objective is to provide investors with stable and secure income and the potential for both income and capital growth through an exposure to a diversified property portfolio with a long WALE.

The REIT aims to maintain and enhance the existing portfolio through active asset and property management and to grow the portfolio through the acquisition of assets that are predominantly leased to tenants with strong covenants on long-term leases.

The REIT aims to proactively manage its equity and debt. It has a target balance sheet gearing range of 25–35%.

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

i) Tenant concentration

The majority of the REIT's properties are single tenanted. This exposes the value and performance of each property to the ability of those tenants to continue to meet their obligations under the respective lease agreements. In aggregate, 74.4% of the gross property income is generated from the top five tenants (2017: 75.5%).

ii) Re-leasing and vacancy

The REIT's portfolio is currently 100% leased and has no major forecast lease expiries prior to FY21. However, in the longer term, leases will come up for renewal on a periodic basis. There is a risk that the REIT may not be able to negotiate suitable lease renewals. This may result in periods of vacancy which could result in a reduction in income received by the REIT, a reduction in the distributions of the REIT and a reduction in the value of the assets of the REIT. This risk is mitigated through

Directors' Report (continued)

active property and asset management of the REIT's portfolio and the diversified nature of the REIT. Any impact will depend on future economic conditions that are not known at balance date.

iii) 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.

iv) Rental income and expenses risk

Distributions made by the REIT are largely dependent on the rents received from tenants across the portfolio and expenses incurred during operations, which may be affected by a number of factors, including overall economic conditions and property market conditions.

Matters subsequent to the end of the financial period

On 19 July 2018, the REIT exchanged contracts to acquire a 50% interest in 40 Tank Street, Brisbane, QLD for $46.5 million with expected settlement on 31 August 2018.

On 6 August 2018, securityholders voted in favour of the proposed sale of a 50% interest in ATO Adelaide, SA and simplification of the REIT structure from a 3 staple structure to a 2 staple structure. Simplification is to occur on 22 August 2018. On 8 August 2018, a call option was exercised to sell a 50% interest in ATO Adelaide, SA to a related party for proceeds of $135.0 million as well as half the related income support fund. Settlement is expected to occur in mid August.

The directors of the Responsible Entity are not aware of any other matter or circumstance not otherwise dealt with in this report or the financial report that has significantly affected or may significantly affect the operations of the REIT, the results of its operations or the state of affairs of the REIT in future financial years.

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 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 contributed to the premium for a contract to insure all directors, secretaries, executive officers and officers of the REIT and of each related body corporate of the REIT, with the balance of the premium paid by Charter Hall Group and funds managed by members of Charter Hall Group. 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 constitutions 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 insurance does not provide cover for the independent auditors of the REIT or of a related body corporate 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 $6.6 million (2017: $4.3 million) and other fees were paid or are payable to the Responsible Entity and its associates for the services provided during the year, in accordance with the REIT's constitutions as disclosed in Note D1 to the consolidated financial statements.

Interests in the REIT held by the Responsible Entity or its associates as at 30 June 2018 are also disclosed in Note D1 to the consolidated financial statements.

Directors' Report (continued)

Interests in the REIT

	2018	2017
Securities on issue at the beginning of the year	**207,787,175**	120,445,047
Securities issued to fund acquisition of CVL1T, 218BRT, CHPT DT and CPOF KHT	**68,851,727**	-
Change in number of securities after security consolidation	**(68,851,727)**	-
Change in the number of securities after security reorganisation	**-**	(81,644,447)
Security redemption	**-**	(30,747,042)
Securities issued during the year		
- via Initial Public Offering	**-**	198,629,539
- via Distribution Reinvestment Plan	**1,848,121**	1,104,078
- via Entitlement Offer	**22,664,846**	-
Securities on issue at the end of the year	**232,300,142**	**207,787,175**

Environmental Regulations

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

Under the lease agreements for the industrial sites 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.

Directors' Report (continued)

Information on Current Directors

Director	Experience	Special responsibilities	Interest in securities of the REIT
Peeyush Gupta	Appointed 6 May 2016 Peeyush was the co-founder and the inaugural Chief Executive Officer of Ipac Securities Limited, a pre-eminent wealth management firm. He has experience in starting and growing businesses, acquisitions and divestments, roll-ups and integration, general management, investment management and corporate governance. He is a Non-Executive Director of National Australia Bank Limited, Special Broadcasting Service ("SBS"), Link Administration, BNZ Life, and Insurance & Care (NSW). He is also currently the Chair of Charter Hall Direct Property Management Limited, Chair of MLC RE and IDPS Board and serves in a pro bono capacity as a trustee of Western Sydney University, and the Australian School of Business Dean's Advisory Committee. Peeyush holds a Master of Business Administration in Finance from the Australian Graduate School of Management and a Bachelor of Arts in Computing Studies from the University of Canberra. Peeyush is also a Fellow of the Australian Institute of Company Directors.	Chairman	394,243
Glenn Fraser	Appointed 6 May 2016 Glenn is a professional non executive director with significant experience in finance, infrastructure and property. He was a member of Transfield Holdings Advisory Board from 1999 to 2015. He was instrumental in Transfield Holdings' acquisition of a 50% interest in Charter Hall and its subsequent expansion and listing in 2005. Previously, Glenn was a Non-Executive Director of the Charter Hall Group from 6 April 2005 to 15 August 2012. Joining Transfield Holdings in 1996, Glenn was General Manager – Finance Project Development, where he was responsible for the financial elements of Transfield Holdings' infrastructure and property projects. Glenn was appointed Chief Financial Officer in 1999 of Transfield Holdings, which at that time had turnover in excess of $1 billion per annum, and over 8,000 staff. Glenn was a principal and director of a project finance advisory business, Perry Development Finance Pty Limited from 1985, which was sold to Hambros Corporate Finance Limited in 1995. Glenn holds a Bachelor of Commerce, and is a member of the Institute of Chartered Accountants and a graduate of the Australian Institute of Company Directors.	Audit, Risk & Compliance Committee Chair	44,325

Directors' Report (continued)

Director	Experience	Special responsibilities	Interest in securities of the REIT
Ceinwen Kirk-Lennox	Appointed 28 June 2016 Ceinwen has over 32 years' experience in many aspects of property including agency, property development, project and construction management, and community development. Her executive career includes 26 years at Lendlease Corporation, where she held executive roles, running business units, client accounts and functions across the Lendlease Group. Ceinwen now runs her own consultancy, with clients across both private and public sectors. Ceinwen holds a Bachelor of Business (Land Economy) from the University of Western Sydney, and is a graduate of the Australian Institute of Company Directors. Ceinwen brings 18 years' experience as an executive and non-executive director serving on a number of boards including both for-profit and not-for-profit companies. Ceinwen is a National Director of the Property Industry Foundation, and an Advisory Member of the Justice NSW PBCP.	Nil	25,764
David Harrison	Appointed 16 February 2016 David has 32 years of property market experience across office, retail and industrial sectors in multiple geographies globally. As Charter Hall Managing Director and Group CEO, David is responsible for all aspects of the Charter Hall business, with specific focus on strategy. He continues to build the momentum of a $22.5 billion investment portfolio and is 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 Group. David has overseen the growth of the Charter Hall Group from $500 million to $22.5 billion of assets under management in 14 years. David has been principally responsible for transactions exceeding $25 billion of commercial, retail and industrial property assets over the past 28 years. David holds a Bachelor of Business Degree (Land Economy) from the University of Western Sydney, is a Fellow of the Australian Property Institute (FAPI) and holds a Graduate Diploma in Applied Finance from the Securities Institute of Australia.	Nil	290,458

Directors' Report (continued)

Director	Experience	Special responsibilities	Interest in securities of the REIT
Adrian Taylor	Appointed 18 July 2016 Adrian Taylor is Charter Hall's Office CEO and a member of Charter Hall's Executive Committee, with 26 years industry experience and eight years with Charter Hall. Adrian leads the A$10.5 billion office sector from end to end including Investment Management, Asset Management, Development and Property Management teams, and helps develop the overall strategy and objectives for the office funds in conjunction with the Charter Hall Fund Managers and our Investors and helps guide the portfolio management, capital transactions, treasury and trust management teams to execute strategy. He has extensive capital management experience including debt and equity raising. Prior to the Charter Hall Office REIT's privatisation, he was its Chief Executive Officer and has deep capital transaction and extensive joint venture experience in Australia and the US. Adrian graduated with a Bachelor of Business from Monash University, is a Certified Practising Accountant, is Fellow of the Financial Services Institute of Australasia, a fellow Of the Royal Institute of Chartered Surveyors and is involved in numerous property industry groups including sitting on the Division Council of the Capital Markets Division of the Property Council of Australia.	Nil	72,530

Meetings of Directors

	Full meetings of Directors		Meetings of Audit, Risk and Compliance Committee	
Name	Eligible to attend	Attended	Eligible to attend	Attended
Peeyush Gupta	8	8	4	4
Glenn Fraser	8	8	4	4
Ceinwen Kirk-Lennox	8	8	4	4
David Harrison	8	7	-	-
Adrian Taylor	8	7	-	-

Company Secretary

Tracey Jordan acted as Company Secretary for the REIT from 16 February 2016 to 21 November 2017. Mark Bryant was appointed as Company Secretary for the REIT on 21 November 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 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*.

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 14.

Rounding of Amounts to the Nearest Hundred Thousand Dollars

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

This report is made in accordance with a resolution of the Board of Directors of Charter Hall WALE Limited.

Peeyush Gupta
Chairman

Sydney
9 August 2018

Auditor's Independence Declaration

As lead auditor for the audit of Charter Hall Long WALE REIT for the year ended 30 June 2018, 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 Long WALE REIT, which comprises the stapled entities of Charter Hall Direct Industrial Fund (DIF), LWR Finance Trust (Finance Trust) and Franklin Street Property Trust (FSPT) and the entities they controlled during the period.

J A Dunning
Partner
PricewaterhouseCoopers

Sydney
9 August 2018

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Consolidated statement of comprehensive income

For the year ended 30 June 2018

	Notes	2018 $'m	2017 $'m
Revenue			
Property rental income		**68.8**	45.4
Interest income		**0.2**	0.2
Total revenue		**69.0**	45.6
Other income			
Share of equity accounted profit	B2	**45.6**	38.2
Net fair value gain on financial assets		**0.3**	0.2
Net fair value gain on investment properties	B1	**6.1**	7.4
Net gain from derivative financial instruments	C3	**-**	0.3
Total other income		**52.0**	46.1
Total revenue and other income		**121.0**	91.7
Expenses			
Property expenses		**(10.7)**	(6.2)
Fund management fees	D1	**(6.6)**	(4.3)
Finance costs		**(16.2)**	(9.9)
Administration and other expenses		**(2.4)**	(2.2)
Net loss from derivative financial instruments	C3	**(1.8)**	-
Net loss on early settlement of derivative financial instruments	C3	**-**	(0.4)
Acquisition costs	B2	**-**	(14.0)
Costs associated with Initial Public Offering (IPO)		**-**	(14.9)
Performance and disposal fees		**-**	(5.2)
Total expenses		**(37.7)**	(57.1)
Net profit for the year		**83.3**	34.6
Other comprehensive income		**-**	-
Total comprehensive income		**83.3**	34.6
Net profit and Total comprehensive income attributable to:			
DIF		**70.3**	8.4
Stapled Trusts other than DIF		**13.0**	26.2
		83.3	34.6
Basic and diluted earnings per ordinary securityholder of the REIT			
Earnings per stapled security (cents)	A2	**37.69**	23.76
Earnings per unit of DIF (cents)	A2	**33.63**	5.77

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

Consolidated balance sheet

As at 30 June 2018

	Notes	2018 $'m	2017 $'m
Assets			
Current assets			
Cash and cash equivalents		**5.5**	2.9
Receivables	D2	**4.7**	4.4
Other assets	D2	**0.6**	4.9
Investment property held for sale	B1	**38.7**	-
Total current assets		**49.5**	12.2
Non-current assets			
Investment properties	B1	**855.6**	760.4
Investments accounted for using the equity method	B2	**474.1**	402.3
Investment in financial assets at fair value	B3	**15.7**	17.2
Derivative financial instruments	C3	**0.1**	0.6
Total non-current assets		**1,345.5**	1,180.5
Total assets		**1,395.0**	1,192.7
Liabilities			
Current liabilities			
Payables	D2	**5.8**	4.4
Distribution payable	A2	**15.8**	13.3
Other liabilities	D2	**2.7**	-
Total current liabilities		**24.3**	17.7
Non-current liabilities			
Borrowings	C2	**428.1**	356.7
Derivative financial instruments	C3	**2.2**	0.9
Total non-current liabilities		**430.3**	357.6
Total liabilities		**454.6**	375.3
Net assets		**940.4**	817.4
Equity			
Equity holders of DIF			
Contributed equity	C6	**661.5**	434.8
Retained profits		**48.7**	24.4
Parent entity interest		**710.2**	459.2
Equity holders of Stapled Trusts other than DIF			
Contributed equity	C6	**174.1**	261.5
Retained profits		**56.1**	96.7
Equity holders of Stapled Trusts other than DIF		**230.2**	358.2
Total equity		**940.4**	817.4

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 2018

	Notes	Attributable to securityholders of DIF Contributed equity $'m	Retained profits $'m	Total $'m
Balance at 1 July 2016		119.2	38.8	158.0
Total comprehensive income		-	8.4	8.4
Capital return		(66.6)	-	(66.6)
Security redemptions	C6	(70.2)	-	(70.2)
Contributions of equity, net of issue costs	C6	452.4	-	452.4
Distributions provided for or paid	A2	-	(22.8)	(22.8)
Balance at 30 June 2017		434.8	24.4	459.2
Balance at 1 July 2017		434.8	24.4	459.2
Total comprehensive income		**-**	**70.3**	**70.3**
DIF's acquisition of CVI1T, 218BRT, CHPT and CPOF KHT	C6	**153.2**	**-**	**153.2**
Contributions of equity, net of issue costs	C6	**73.5**	**-**	**73.5**
Distributions provided for or paid	A2	**-**	**(46.0)**	**(46.0)**
Balance at 30 June 2018		**661.5**	**48.7**	**710.2**

	Notes	Attributable to securityholders of Stapled Trusts other than DIF Contributed equity $'m	Retained profits $'m	Total $'m
Balance at 10 November 2016		-	-	-
Business combination		202.1	85.4	287.5
Total comprehensive income		-	26.2	26.2
Contributions of equity, net of issue costs	C6	59.4	-	59.4
Distributions provided for or paid	A2	-	(14.9)	(14.9)
Balance at 30 June 2017		261.5	96.7	358.2
Balance at 1 July 2017		261.5	96.7	358.2
Total comprehensive income			**13.0**	**13.0**
DIF's acquisition of CVI1T, 218 BRT, CHPT and CPOF KHT		**(113.4)**	**(39.8)**	**(153.2)**
Contributions of equity, net of issue costs	C6	**26.0**	**-**	**26.0**
Distributions provided for or paid	A2		**(13.8)**	**(13.8)**
Balance at 30 June 2018		**174.1**	**56.1**	**230.2**

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 2018

	Notes	2018 $'m	2017 $'m
Cash flows from operating activities			
Property rental income received		**73.7**	49.4
Property expenses paid		**(10.9)**	(5.5)
Distributions received from investment in joint venture entities		**28.4**	14.6
Interest received		**0.2**	0.2
Finance costs paid		**(15.5)**	(9.5)
Fund management fees paid		**(7.2)**	(4.5)
Administration and other expenses paid		**(2.7)**	(2.2)
Net GST paid with respect to operating activities		**(4.3)**	(3.2)
Net cash flows from operating activities	A3	**61.7**	39.3
Cash flows from investing activities			
Cash acquired on business combination		**-**	3.4
Payments for investment properties		**(119.0)**	(76.8)
Payment to income support fund		**-**	(17.0)
Draws from income support fund		**1.8**	**-**
Payment of performance and disposal fees		**-**	(10.5)
Payments for investments in joint venture entities		**(54.9)**	(72.8)
Net cash flows from investing activities		**(172.1)**	(181.0)
Cash flows from financing activities			
Proceeds from issue of securities, net of equity raising costs		**91.9**	33.9
Distributions paid to securityholders		**(49.7)**	(26.6)
Proceeds from borrowings (net of borrowing costs)		**86.2**	392.1
Repayment of borrowings		**(15.4)**	(248.2)
Costs associated with IPO		**-**	(7.1)
Net cash flows from financing activities		**113.0**	144.1
Net increase in cash and cash equivalents		**2.6**	2.4
Cash and cash equivalents at the beginning of the year		**2.9**	0.5
Cash and cash equivalents at the end of the year		**5.5**	2.9

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:

	Note	2018 $'m	2017 $'m
Gross consideration received from IPO / Entitlement Offer		**94.1**	826.7
Equity raising fees paid		**(2.2)**	(15.0)
Rollover investment by DIF unitholders		**-**	(18.4)
Capital returns paid to DIF unitholders		**-**	(66.6)
Payments for redemption of units to former DIF unitholders		**-**	(70.2)
Exercise of call options to acquire interest in joint venture entities		**-**	(188.1)
Rollover investment by unitholders of Stapled Trusts other than DIF		**-**	(41.0)
Capital return and unit redemptions paid to former unitholders of Stapled Trusts other than DIF		**-**	(393.5)
Proceeds from issue of units, net of equity raising costs		**91.9**	33.9
Distributions by the REIT during the year satisfied by the issue of units under the DRP	A2, C6	**(7.6)**	(4.4)

About this report

The consolidated financial statements of Charter Hall Long WALE REIT comprises of the entities listed below (collectively referred to as the "Stapled Trusts":

Stapled Entity	Description
Charter Hall Direct Industrial Fund ("DIF")	Owns all of the REIT's investment properties and equity accounted investments other than those listed below
LWR Finance Trust ("Finance Trust")	Holds the REIT's bank debt and interest rate swaps through Charter Hall LWR Limited
Franklin Street Property Trust ("FSPT)	100% ownership of ATO, Adelaide SA
Canning Vale Logistics Trust ("CVLT1")*	50% ownership of Metcash, Canning Vale WA
218 Bannister Road Trust ("218 BRT")*	50% ownership of Metcash, Canning Vale WA
CPOF Kogarah Holding Trust ("CPOF KHT")*	50.1% ownership of Westpac, Kogarah NSW
Franklin Street Property Trust ("FSPT)	100% ownership of ATO, Adelaide SA
CHPT Dandenong Trust ("CHPT DT")*	50% ownership of Coles, Truganina VIC and 26% ownership of Woolworths, Dandenong VIC

* The entities were de-stapled and acquired by DIF on 22 September 2017 and no longer constitute Stapled Trusts.

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:

A. **REIT performance** – provides key metrics used to measure financial performance.

B. **Property portfolio assets** – explains the investment property portfolio structure.

C. **Capital structure and financial risk management** – details how the REIT manages its exposure to capital and financial risks.

D. **Other information –** provides additional disclosures relevant in understanding the REIT's financial statements.

Critical accounting estimates and judgements

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

A. REIT 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, distributions and earnings per stapled security.

Operating earnings is a financial measure which represents profit under Australian Accounting Standards adjusted for net fair value movements, non-cash accounting adjustments such as straight lining 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.

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 has one operating segment being its Australian operations however the results of DIF pre-IPO are not relevant to the REIT's investors going forward and therefore have been separated out in the comparative information in the tables below.

(b) Segment information provided to the Board

The operating earnings reported to the Board for the year ended 30 June 2018 are as follows:

	30 June 2018 Post-IPO $'m	1 July 2016 to 9 Nov 2016 Pre-IPO $'m	10 Nov 2016 to 30 June 2017 Post-IPO $'m	30 June 2017 $'m
Total revenue	**69.0**	6.6	39.0	45.6
Income support	**1.8**	-	-	-
Non-cash adjustments	**(3.6)**	(0.4)	(1.6)	(2.0)
Property expenses	**(10.7)**	(0.8)	(5.4)	(6.2)
Net property income	**56.5**	5.4	32.0	37.4
Share of operating earnings from investments accounted for using equity method	**27.1**	1.1	15.9	17.0
Fund management fees	**(6.6)**	(0.6)	(3.7)	(4.3)
Finance costs	**(16.2)**	(1.0)	(8.6)	(9.6)
Administration and other expenses	**(2.4)**	(0.2)	(2.0)	(2.2)
Operating earnings	**58.4**	4.7	33.6	38.3
Weighted average number of stapled securities*	**221.0**	38.8	206.9	145.6
Operating earnings per stapled security (cents)	**26.43**	12.11	16.24	26.30

* Prior period takes into account conversion of each unit issued by DIF into approximately 0.32 units on 10 November 2016.

The operating earnings on a proportionate consolidation basis are set out below:

	30 June 2018 Post-IPO $'m	1 July 2016 to 9 Nov 2016 Pre-IPO $'m	10 Nov 2016 to 30 June 2017 Post-IPO $'m	30 June 2017 $'m
Net property income	**90.5**	6.8	52.5	59.3
Interest income	**0.2**	-	0.2	0.2
Fund management fees	**(6.6)**	(0.6)	(3.7)	(4.3)
Finance costs	**(23.2)**	(1.3)	(13.3)	(14.6)
Administration and other expenses	**(2.5)**	(0.2)	(2.1)	(2.3)
Operating earnings	**58.4**	4.7	33.6	38.3

A. REIT performance (continued)

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

	30 June 2018 Post-IPO $'m	1 July 2016 to 9 Nov 2016 Pre-IPO $'m	10 Nov 2016 30 June 2017 Post-IPO $'m	30 June 2017 $'m
Operating earnings	**58.4**	4.7	33.6	38.3
Net fair value movements on investment properties[1]	**24.3**	(0.4)	29.3	28.9
Net fair value movements on derivative financial instruments[1]	**(1.9)**	0.1	3.7	3.8
Net fair value movements on investments at fair value through profit or loss	**0.3**	-	0.2	0.2
Loss on early settlement of derivative financial instruments	**-**	-	(4.3)	(4.3)
Straightlining of rental income, amortisation of lease fees and incentives[1]	**4.0**	0.4	2.0	2.4
Debt extinguishment and amortisation of borrowing costs	**-**	(0.2)	(0.4)	(0.6)
Performance and disposal fees[2]	**-**	(5.2)	-	(5.2)
Costs associated with Initial Public Offering	**-**	-	(14.9)	(14.9)
Acquisition costs	**-**	-	(14.0)	(14.0)
Income support	**(1.8)**	-	-	-
Statutory profit for the year	**83.3**	(0.6)	35.2	34.6

[1] Includes the REIT's proportionate share of non-operating items of equity accounted investments on a look through basis.
[2] The REIT paid $5.2 million of disposal fees and $5.3 million of performance fees. The performance fees were provisioned for at 30 June 2016. These fees were expensed prior to the formation of the REIT.

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.

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

	0 to 1 year $'m	1 to 5 years $'m	Over 5 years $'m	Total $'m
2018	**60.0**	**242.8**	**285.2**	**588.0**
2017	54.6	223.2	297.2	575.0

Property expenses

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

A. REIT performance (continued)

A2. Distributions and earnings per unit

(a) Distributions paid and payable

	2018 Number of secruities on issue	2018 Cents per security	2018 $'m	2017 Number of securities securities on issue	2017 Cents per security	2017 $'m
Ordinary securityholders of DIF						
30 September[1]	208,673,257	**5.00**	**10.5**	120,445,046	2.38	2.9
10 November[1]	N/A	**N/A**	**N/A**	120,445,046	1.06	1.3
31 December[2]	232,300,142	**5.00**	**11.6**	206,683,097	1.90	3.9
31 March	232,300,142	**5.10**	**11.8**	206,683,097	3.60	7.4
30 June	232,300,142	**5.20**	**12.1**	207,787,175	3.50	7.3
Total distributions		**20.30**	**46.0**		12.44	22.8
Ordinary securityholders of Stapled Trusts other than DIF						
30 September	208,673,257	**1.50**	**3.1**	N/A	N/A	N/A
31 December[2]	232,300,142	**1.50**	**3.5**	206,683,097	1.50	3.1
31 March	232,300,142	**1.50**	**3.5**	206,683,097	2.80	5.8
30 June	232,300,142	**1.60**	**3.7**	207,787,175	2.90	6.0
Total distributions		**26.40**	**59.8**		19.64	37.7

[1] Prior period distribution paid to DIF unitholders prior to the formation of the REIT.

[2] Includes $1.4m paid on stapled securities issued at cum-price under Entitlement Offer in December 2017.

In the prior period, DIF also made a capital distribution of $66.6 million to its former unitholders on 10 November 2016.

Pursuant to the REIT's constitutions, the amount distributed to unitholders is at the discretion of the Responsible Entity. The Responsible Entity uses operating earnings as a guide to assessing an appropriate distribution to declare. Operating earnings for the year ended 30 June 2018 was $58.4 million (26.43 cents per stapled security) and distributions of $59.8 million (26.40 cents per stapled security) were declared for the same period of which $1.4m was debt funded as part of the equity raising in December 2017.

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 constitutions, is fully distributed to unitholders, by way of cash or reinvestment.

(b) Earnings per unit

	2018	2017
Basic and diluted earnings		
Earnings per stapled security (cents)	**37.69**	23.76
Operating earnings per stapled security (cents)	**26.43**	26.30
Earnings per DIF (cents)^	**33.63**	5.77
Earnings used in the calculation of basic and diluted earnings per security		
Net profit of the REIT for the year ($ millions)	**83.3**	34.6
Net profit of DIF for the year ($ millions)	**70.3**	8.4
Operating earnings of the REIT for the year ($ millions)	**58.4**	38.3
Weighted average number of stapled securities* used in the calculation of basic and diluted earnings per security (millions)	**221.0**	145.6

^ Takes into account conversion of each unit issued by DIF into approximately 0.75 securities on 22 September 2017.

* Prior year takes into account conversation of each security issued by DIF into approximately 0.32 securities on 10 November 2016.

Basic and diluted earnings per unit is determined by dividing statutory profit attributable to the stapled securityholders by the weighted average number of stapled securities on issue during the year.

Operating earnings per stapled security is determined by dividing operating earnings attributable to the stapled securityholders by the weighted average number of stapled securities on issue during the year.

A. REIT performance (continued)

A3. Reconciliation of net profit to operating cash flow

	2018 $'m	2017 $'m
Profit for the year	**83.3**	34.6
Non-cash items		
Net fair value movements on financial assets	**(0.3)**	(0.2)
Net fair value movements on investment properties	**(6.4)**	(7.4)
Net fair value movements on derivative financial instruments	**1.8**	(0.3)
Loss on early settlement of derivative financial instruments	**-**	0.4
Share of non-operating earnings from investments accounted for using the equity method	**(18.5)**	(21.2)
Straightlining of rental income	**(3.9)**	(2.0)
Amortisation of incentives	**0.3**	-
Debt extinguishment and amortisation of borrowing costs	**0.6**	0.3
Classified as investing activities		
Performance and disposal fees	**-**	5.2
Acquisition costs	**-**	14.0
Classified as financing activities		
Costs associated with Initial Public Offering	**-**	14.9
Decrease in trade and other receivables	**1.4**	0.1
Increase in trade and other payables	**3.4**	0.9
Net cash flows from operating activities	**61.7**	39.3

B. Property portfolio assets

The REIT's property portfolio assets comprise directly held investment properties, indirectly held interests in investment property held through joint ventures and investments in financial assets at fair value. Investment properties comprise investment interests in land and buildings held for long term rental yields.

The following table summarises the property portfolio assets detailed in this section.

	Note	**2018 $'m**	2017 $'m
Assets held for sale	B1	**38.7**	-
Investment properties	B1	**855.6**	760.4
Investments in joint ventures	B2	**474.1**	402.3
Investment in financial asset at fair value	B3	**15.7**	17.2
Total property portfolio assets		**1,384.1**	1,179.9

The valuation policies stated in B1 also apply to property held in joint operations (B1) and joint ventures (B2).

B1. Investment properties

Investment properties

Initially, investment properties are measured at cost including transaction costs. Subsequent to initial recognition, investment properties are 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

Investment properties are classified as assets held for sale when it is highly probable that the carrying amount will be recovered principally through a sale transaction rather than through continuing use. Investment properties classified as held for sale are measured at fair value. 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.

(a) Valuation techniques and key judgements

In determining fair value of investment properties and assets held for sale, 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 assets held for sale and investment properties:

	Fair value $'m	Net market rent ($ sq.m./p.a.)	Adopted capitalisation rate (% p.a.)	Adopted terminal yield (% p.a.)	Adopted discount rate (% p.a.)
2018	**894.3**	**15 - 489**	**5.0 - 8.3**	**5.5 - 8.0**	**6.5 - 8.3**
2017	760.4	15 - 422	5.0 - 8.3	5.0 - 8.0	6.5 - 9.0

B. Property portfolio assets (continued)

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.
Net market rent	A net market rent is the estimated amount for which a property or space within a property should lease between a willing lessor and a willing lessee on appropriate lease terms in an arm's length transaction, after proper marketing and wherein the parties have each acted knowledgeably, prudently and without compulsion. In a net rent, the owner recovers outgoings from the tenant on a pro-rata basis (where applicable).
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 is likely to have an impact on the fair value of investment properties. An increase in net 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.

(b) 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.

Each investment property is valued by an independent external valuer at least once every 12 months, or earlier, where the Responsible Entity deems it appropriate or believes there may be a material change in the carrying value of the property. Independent valuers are engaged on a rotational basis.

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

	Notes	**2018** **$'m**	2017 $'m
Carrying amount at the beginning of the year		**760.4**	199.2
Business combination		**-**	479.4
Additions		**120.8**	66.7
Acquisition costs incurred		**3.3**	5.7
Revaluation increment		**13.1**	15.1
Revaluation decrement attributable to acquisition costs and straightlining of rental income		**(6.9)**	(7.7)
Straightlining of rental income and amortisation of incentives and leasing fees		**3.6**	2.0
Transfer of assets classified as held for sale		**(38.7)**	-
Carrying amount at the end of the year		**855.6**	760.4

B. Property portfolio assets (continued)

(d) List of investment properties

As at 30 June 2018, the investment properties have been valued as set out below:

Properties	Sector	Acquisition date	Date of latest independent valuation	Independent valuation $'m	2018 Fair value $'m	2017 Fair value $'m
Held for sale						
Grace, Willawong QLD^	Industrial	23/12/10	30/06/17	38.7	**38.7**	-
Total				38.7	**38.7**	-
Investment properties						
ATO, Adelaide SA	Office	10/11/16	30/06/18	270.0	**270.0**	270.0
Virgin, Brisbane QLD	Office	04/01/18	31/12/17	90.8	**90.8**	-
Bunnings, Mackay QLD	Retail	03/07/17	31/12/17	29.0	**29.0**	-
Toll Holdings, Altona North VIC	Industrial	02/07/10	30/06/18	33.5	**33.5**	33.1
Australia Post, Kingsgrove NSW	Industrial	05/11/10	31/12/17	23.4	**23.5**	22.0
Grace, Willawong QLD^	Industrial	23/12/10	30/06/17	-	**-**	38.7
Woolworths, Hoppers Crossing VIC	Industrial	22/06/12	30/06/18	46.7	**46.7**	46.7
Coates Hire, Kingston QLD	Industrial	12/09/12	31/12/17	32.0	**32.0**	31.1
Electrolux, Beverly SA	Industrial	17/12/12	31/12/17	35.5	**35.9**	34.0
Coles, Truganina VIC*	Industrial	10/11/16	30/06/18	56.0	**56.0**	52.0
Metcash, Canning Vale WA	Industrial	10/11/16	31/12/17	169.0	**169.2**	166.5
Suez, Artarmon NSW	Industrial	23/12/16	31/12/17	17.6	**17.6**	17.3
Suez, Davis Road, Wetherill Park NSW	Industrial	23/12/16	31/12/17	10.7	**10.7**	10.1
Suez, Newton Road, Wetherill Park NSW	Industrial	23/12/16	31/12/17	9.2	**9.2**	8.7
Suez, South Boulder WA	Industrial	23/12/16	31/12/17	0.6	**0.6**	0.6
Suez, Welshpool WA	Industrial	23/12/16	31/12/17	12.9	**12.9**	12.5
Suez, Landsdale WA	Industrial	23/12/16	31/12/17	3.9	**3.9**	3.8
Suez, Lower Nudgee QLD	Industrial	23/12/16	31/12/17	4.2	**4.2**	3.8
Suez, South Dandenong VIC	Industrial	23/12/16	31/12/17	7.5	**7.5**	7.0
Suez, Campbellfield VIC	Industrial	23/12/16	31/12/17	2.0	**2.0**	2.1
Suez, Bairnsdale VIC	Industrial	23/12/16	31/12/17	0.4	**0.4**	0.4
Total				854.9	**855.6**	760.4

^Classified as asset held for sale, contracts exchanged 18 May 2018 with expected settlement to occur 16 August 2018.
*50% ownership accounted for as joint operations.

Joint operations (Coles, Truganina VIC)

The REIT recognises its direct right to the assets, liabilities, revenues and expenses of joint operations and its share of any jointly held or incurred assets, liabilities, revenues and expenses. These have been incorporated in the consolidated financial statements under the appropriate headings.

B. Property portfolio assets (continued)

B2. Investment in joint venture entities

The REIT has investments in joint venture entities. The REIT exercises joint control over the joint venture entities, but neither the REIT nor its joint venture partners have control in their own right, irrespective of their ownership interest. The principal activity of all joint venture entities during the year was property investment.

Information relating to the joint venture entities are detailed below:

Name of entity	Properties	2018 Ownership %	2017 Ownership %	2018 $'m	2017 $'m
Perth RDC Trust	Coles, Perth WA	**49.9%**	49.9%	**123.1**	120.5
LWIP	ALH National Portfolio	**45.0%**	45.0%	**189.2**	170.2
CH DC Fund	Woolworths, Dandenong VIC*	**26.0%**	26.0%	**58.0**	9.5
Kogarah Trust	Westpac, Kogarah NSW	**50.1%**	50.1%	**103.8**	102.1
				474.1	402.3

* Preleased development reached practical completion on 22 March 2018.

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

	2018 $'m	2017 $'m
Balance at the beginning of the year	**402.3**	35.4
Business combination (including acquisition costs)	**-**	99.3
Additions (including acquisition costs)	**54.9**	260.4
Acquisition costs written off	**-**	(14.0)
Share of equity accounted profit	**45.6**	38.2
Distributions received and receivable	**(28.7)**	(17.0)
Balance at the end of the year	**474.1**	402.3

B. Property portfolio assets (continued)

(b) Summarised financial information for material joint ventures

The information presented below reflects the amounts in the financial statements of the joint ventures:

2018	Perth RDC Trust $'m	LWIP $'m	CH DC Fund $'m	Kogarah Trust $'m	Total $'m
Summarised balance sheet:					
Cash and cash equivalents	**0.3**	**1.5**	**3.1**	**1.4**	**6.3**
Other current assets	**-**	**1.2**	**0.3**	**0.4**	**1.9**
Non-current assets	**248.3**	**768.8**	**220.9**	**207.0**	**1,445.0**
Current liabilities	**(1.9)**	**(10.0)**	**(1.2)**	**(1.6)**	**(14.7)**
Derivative financial instruments - non-current liabilities	**-**	**(0.2)**	**-**	**-**	**(0.2)**
Borrowings - non-current liabilities	**-**	**(340.8)**	**-**	**-**	**(340.8)**
Net assets	**246.7**	**420.5**	**223.1**	**207.2**	**1,097.5**
REIT's share in %	**49.9**	**45.0**	**26.0**	**50.1**	
REIT's share in $'m and carrying value	**123.1**	**189.2**	**58.0**	**103.8**	**474.1**
Summarised statement of comprehensive income:					
Revenue	**20.4**	**52.3**	**4.1**	**12.3**	**89.1**
Interest expense	**-**	**(15.9)**	**-**	**-**	**(15.9)**
Profit for the year	**21.0**	**55.4**	**11.0**	**14.7**	**102.1**
Other comprehensive income	**-**	**-**	**-**	**-**	**-**
Total comprehensive income	**21.0**	**55.4**	**11.0**	**14.7**	**102.1**
REIT's share in $'m	**10.5**	**24.9**	**2.8**	**7.4**	**45.6**
REIT's share of distribution received	**7.9**	**12.5**	**2.7**	**5.6**	**28.7**

2017	Perth RDC Trust $'m	LWIP $'m	CH DC Fund $'m	Kogarah Trust $'m	Total $'m
Summarised balance sheet:					
Cash and cash equivalents	0.5	3.1	0.4	2.3	6.3
Other current assets	0.2	2.7	1.4	0.4	4.7
Non-current assets	242.5	727.0	34.8	203.5	1,207.8
Current liabilities	(1.7)	(9.8)	(0.3)	(2.4)	(14.2)
Derivative financial instruments - non-current liabilities	-	(0.1)	-	-	(0.1)
Borrowings - non-current liabilities	-	(344.7)	-	-	(344.7)
Net assets	241.5	378.2	36.3	203.8	859.8
REIT's share in %	49.9	45.0	26.0	50.1	
REIT's share in $'m and carrying value	120.5	170.2	9.5	102.1	402.3
Summarised statement of comprehensive income:					
Revenue	19.9	48.4	-	12.0	80.3
Interest expense	(1.9)	(15.2)	-	-	(17.1)
Profit for the year	15.9	48.6	9.1	27.3	100.9
Other comprehensive income	-	-	-	-	-
Total comprehensive income	15.9	48.6	9.1	27.3	100.9
REIT's share in $'m	6.8	17.4	2.3	11.7	38.2
REIT's share of distribution received	5.7	7.5	0.2	3.6	17.0

B. Property portfolio assets (continued)

Joint ventures (Coles, Perth WA, ALH National Portfolio, Woolworths, Dandenong VIC and Westpac, Kogarah NSW)

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. Distributions received or receivable from joint ventures are recognised as a reduction in the carrying amount of the investment.

Unrealised gains on transactions between the REIT and its joint venture entities are eliminated to the extent of the REIT's interest in these entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of equity accounted investees have been changed where necessary to ensure consistency with the policies adopted by the REIT.

B3. Investments in financial asset at fair value

	Note	**2018**	2017
		$'m	$'m
Balance at the beginning of the year		**17.2**	-
Additions		**-**	17.0
Withdrawals		**(1.8)**	-
Net fair value movement on investment at fair value		**0.3**	0.2
Balance at the end of the year		**15.7**	17.2

Income support account

In acquiring the ATO, Adelaide SA property, $17 million was deposited into an escrow account which can be drawn prior to the expiry of the ATO's lease to compensate the REIT for:

i. potential reductions in income;

ii. a vacancy in respect of the property arising;

iii. any incentives payable to a tenant at the property;

iv. any leasing costs payable in connection with a tenancy at the property;

v. any increase in property outgoings and repair and maintenance expenses; and

vi. any other operating or capital costs relating to the property.

As a result of the ATO rent review determination, income support of $1.8 million was drawn from the income support account during the year (2017: nil).

B4. Commitments and contingent liabilities

As at 30 June 2018, the REIT has no commitments.

As at 30 June 2017, the REIT had the following commitments:

- $49.4 million equity commitment to CH DC Fund being the balance owing on partially paid units used to fund the development of the Woolworths Dandenong, VIC which reached practical completion 22 March 2018.
- $28.5 million commitment under an unconditional agreement to acquire Bunnings, South Mackay which settled on 3 July 2017.

These commitments have not been reflected in the consolidated financial statements of the REIT.

As at 30 June 2018, the REIT has no contingent liabilities (30 June 2017: nil).

The REIT's share in the commitments and contingent liabilities of joint venture entities, other than those described above, total nil (2017: nil).

C. Capital structure and financial risk management

The REITs 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

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

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

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

The REIT has a target balance sheet gearing level of 25% to 35% of debt to total assets and its balance sheet gearing at 30 June 2018 was 30.6% (30 June 2017: 29.9%).

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. 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. All borrowings are classified as non-current liabilities as they have maturities greater than 12 months.

	2018		2017	
	Total carrying amount	**Fair value**	Total carrying amount	Fair value
	$’m	**$’m**	$’m	$’m
Bank loan - term debt	**430.1**	**432.0**	359.0	360.5
Unamortised borrowing cost	**(2.0)**	**-**	(2.3)	-
Total	**428.1**	**432.0**	356.7	360.5
Balance available for drawing	**39.9**		76.5	

Bank loans

	Maturity Date	Facility limit 30 Jun 2018 $'m	**Utilised amount at 30 Jun 2018 $'m**	Facility limit 30 Jun 2017 $'m	Utilised amount at 30 Jun 2017 $'m
Syndicated bank facility					
- Tranche A	February 2022	400.0	**392.6**	380.0	326.0
- Tranche B	February 2022	50.0	**37.5**	50.0	33.0
- Tranche C	February 2022	20.0	**-**	20.0	14.5
		470.0	**430.1**	450.0	373.5

Borrowing in Joint Ventures

As at balance date, LWIP has a $150.0 million syndicated debt facility and a $200.0 million US Private Placement (USPP) notes. The syndicated debt facility matures in September 2020 and USPP notes mature in May 2027.

C. Capital structure and financial risk management (continued)

Net debt reconciliation

The table below sets out an analysis of net debt and the movements in net debt during the year.

	2017 $'m	Movement in borrowing costs $'m	Movement in cash $'m	2018 $'m
Bank debt	359.0	-	71.1	**430.1**
Borrowing costs	(2.3)	0.3	-	**(2.0)**
Total borrowings	356.7	0.3	71.1	**428.1**
Cash	(2.9)	-	(2.6)	**(5.5)**
Net debt	353.8	0.3	68.5	**422.6**

C3. Derivative financial instruments

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

(a) Interest rate swaps

The REIT has entered into interest rate swaps totalling $325 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 interest rate and swap agreements allow the REIT to raise long term borrowings at a floating rate and effectively swap them into a fixed rate.

At 30 June 2018, the fixed rate varied from 2.14% to 2.70% per annum (2017: 2.14% to 2.62% per annum).

Amounts reflected in the financial statements are as follows:

Balance Sheet	**2018**		2017	
	Asset $'m	**Liability $'m**	Asset $'m	Liability $'m
Non-current				
Interest rate swaps	**0.1**	**2.2**	0.6	0.9
Total non-current derivative financial instruments	**0.1**	**2.2**	0.6	0.9

As at 30 June 2018, the notional principal amount and period of expiry of the interest rate swap contracts are as follows:

	1 year or less $'m	1 - 2 years $'m	2 - 3 years $'m	3 - 4 years $'m	More than 4 years $'m	Total $'m
2018	**-**	**40.0**	**-**	**185.0**	**100.0**	**325.0**
2017	-	-	40.0	-	185.0	225.0

(b) 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.

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.

C. Capital structure and financial risk management (continued)

C4. Financial risk management

The REIT's principal financial instruments comprise cash and cash equivalents, receivables, investments in financial assets at fair value, 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 – 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.	• Interest rate swaps are used to hedge any movement in interest rates.
Liquidity risk	The risk the REIT has insufficient liquid assets to meet its obligations as they become due and payable.	Payables, borrowings and other liabilities.	• 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.
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.	• Performing credit reviews on perspective tenants, obtaining tenant collateral and detailed review of tenant arrears. • Review the aggregate exposure of receivables and tenancies across the portfolio. • Limiting the credit exposure to any financial institution and limiting to investment grade counterparties. • Monitoring the public credit rating of counterparties.

(a) Market risk – Interest rate risk

The table below shows the REITs exposure to interest rate risk. At balance date, the REIT fixed 75% (2017: 66%) of its direct and joint venture interest rate exposure.

	2018 $'m	2017 $'m
Fixed rate		
Borrowings - joint venture entities[1]	**90.0**	90.0
Net fixed rate exposure	**90.0**	90.0
Floating rate		
Cash	**(5.5)**	(2.9)
Cash - joint venture entities[1]	**(2.3)**	(2.9)
Borrowings	**430.1**	359.0
Borrowings - joint venture entities[1]	**63.7**	65.5
	486.0	418.7
Derivative financial instruments		
Interest rate swaps - floating to fixed[2]	**(325.0)**	(225.0)
Interest rate swaps - floating to fixed - joint venture entities[1&2]	**(24.8)**	(24.8)
Net floating rate exposure	**136.2**	168.9

1 The REIT's share of financial assets and liabilities included within its net investments in joint venture entities.

2 The amounts represent the notional principal payable under the derivative contracts (excluding derivatives where cash flows have not commenced at balance sheet date).

C. Capital structure and financial risk management (continued)

Sensitivity analysis

The table below reflects the potential net increase/(decrease) in profit and equity, resulting from changes in Australian interest rates applicable at 30 June 2018, with all other variables remaining constant. The change in interest payable on the REIT's floating rate interest bearing liabilities, is partially offset by changes in the fair value of derivative financial instruments hedging this exposure.

	2018				2017	
	Interest expense	**Net gain/(loss) from derivative financial instruments**	**Profit and loss**	**Other comprehensive income**	Profit and loss	Other comprehensive income
	$'m	**$'m**	**$'m**	**$'m**	$'m	$'m
Australian interest rates						
+ 1.00%	**(1.4)**	**12.2**	**10.8**	**-**	7.5	-
- 1.00%	**1.4**	**(12.9)**	**(11.5)**	**-**	(7.7)	-

Sensitivity analysis presented above does not take into account impact of changes in interest rates on inflation rate, market capitalisation rate and property values, which together with other external factors, may also influence operating earnings and statutory profit of the REIT in the future periods.

(b) 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 2018. The amounts presented represent the future contractual undiscounted principal and interest cash outflows based on interest 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
2018					
Financial liabilities					
Payables	**(5.8)**	**(5.8)**	**-**	**-**	**(5.8)**
Distribution payable	**(15.8)**	**(15.8)**	**-**	**-**	**(15.8)**
Borrowings	**(428.1)**	**(12.8)**	**(464.3)**	**-**	**(477.1)**
Derivative financial instruments	**(2.2)**	**(1.2)**	**(1.4)**	**0.6**	**(2.0)**
Other liabilities	**(2.7)**	**(2.7)**	**-**	**-**	**(2.7)**
Total financial liabilities	**(454.6)**	**(38.3)**	**(465.7)**	**0.6**	**(503.4)**
2017					
Financial liabilities					
Payables	(4.4)	(4.4)	-	-	(4.4)
Distribution payable	(13.3)	(13.3)	-	-	(13.3)
Borrowings	(356.7)	(9.4)	(390.5)	-	(399.9)
Derivative financial instruments	(0.9)	(0.6)	(0.4)		(1.0)
Total financial liabilities	(375.3)	(27.7)	(390.9)	-	(418.6)

C. Capital structure and financial risk management (continued)

(c) 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:

	Past due but not impaired				
	Less than 30 days $'m	31 to 60 days $'m	61 to 90 days $'m	More than 90 days $'m	Total $'m
2018					
Trade receivables	**-**	**-**	**-**	**0.1**	**0.1**
2017					
Trade receivables	-	-	-	0.1	0.1

C5. 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 counterparties, 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:

Consolidated entity	Gross amounts of financial instruments $'m	Amounts subject to set-off $'m	Net amount post set-off $'m
2018			
Derivative assets	**0.1**	**(0.1)**	**-**
Derivative liabilities	**(2.2)**	**0.1**	**(2.1)**
Borrowings	**(430.1)**	**-**	**(430.1)**
	(432.2)	**-**	**(432.2)**
2017			
Derivative assets	0.6	(0.6)	-
Derivative liabilities	(0.9)	0.6	(0.3)
Borrowings	(359.0)	-	(359.0)
	(359.3)	-	(359.3)

C. Capital structure and financial risk management (continued)

C6. Contributed equity

Details	*No. of Securities*	**2018 $'m**	2017 $'m
Securities on issue - 1 Jul 2016	120,445,047	**-**	119.2
Capital return	-	**-**	(66.6)
Change in number of securities after security reorganisation	(81,644,447)	**-**	-
Security redemptions	(30,747,042)	**-**	(70.2)
Securities issued via Initial Public Offering	198,629,539	**-**	449.9
Securities issued via DRP	1,104,078	**-**	2.5
Securities on issue - 30 Jun 2017	207,787,175	**434.8**	434.8
Securities issued to fund acquisition of CVl1T, 218BRT, CHPT DT and CPOF KHT	68,851,727	**153.2**	-
Change in number of securities after security consolidation	(68,851,727)	**-**	-
Securities issued via Entitlement Offer	22,664,846	**68.5**	-
Securities issued via DRP	1,848,121	**5.0**	
Securities on issue - 30 Jun 2018	232,300,142	**661.5**	434.8
Balance at the end of the year attributable to the securityholders of:			
DIF	**232,300,142**	**661.5**	434.8
LWR Finance Trust	**232,300,142**	**1.9**	1.9
FSPT	**232,300,142**	**172.2**	146.9
CVLT1	-	**-**	21.0
218BRT	-	**-**	22.8
CPOF KHT	-	**-**	42.2
CHPT DT	-	**-**	26.7
Equity holders of Stapled Trusts other than DIF		**174.1**	261.5

As stipulated in the REIT's constitutions, each security 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 securities and each unit has the same rights attaching to it as all other units in the REIT.

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

Distribution reinvestment plan (DRP)

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

The DRP issue price is determined at a discount of 1.0% to the daily volume weighted average price of all securities traded on the ASX during the 10 business days commencing on the third business day following the distribution record date. The REIT raised $3.6 million from the DRP for the 30 June 2017 distribution allotted on 14 August 2017 and $4.0 million from the DRP for the 30 September 2017 allotted on 15 November 2017. The DRP was inactive for the remainder of the year.

Simplification of REIT's structure

On 22 September 2017, DIF acquired all of the securities of CVLT1, 218 BRT, CPOF KHT and CHPT DT from Securityholders for $153.2 million which represents the relative net tangible asset value in these Stapled Trusts, in exchange for additional securities in DIF. As part of simplification, equity attributable to the Securityholders of CVLT1, 218BRT, CPOF KHT and CHPT DT has been reduced by $153.2 million. Immediately thereafter, the DIF securities were consolidated to preserve the one to one stapling ratio. The stapled securities of the REIT traded on a deferred settlement basis from 20 to 25 September 2017 in connection with this transaction. Following simplification, the REIT now comprises three Stapled Trusts (DIF, FSPT and Finance Trust).

C. Capital structure and financial risk management (continued)

Entitlement Offer

In December 2017, the REIT raised $91.9 million of equity net of costs ($68.5 million in DIF and $23.4 million in FSPT) issuing 22.7 million stapled securities at $4.15 per stapled security to both institutional and retail investors. The proceeds were used to fund the acquisition of Virgin Australia's head office building at 56 Edmondstone Road, Brisbane QLD and associated transaction costs.

D. Further Information

D1. Related Party Information

(a) Responsible Entity

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

(b) Directors

The following persons have held office as directors of the Responsible Entity during the year and up to the date of this report:

- Peeyush Gupta - Chairman and Non-Executive Director
- Glenn Fraser - Non-Executive Director
- Ceinwen Kirk-Lennox - Non-Executive Director
- David Harrison - Executive Director and Chief Executive Officer / Managing Director of Charter Hall Group
- Adrian Taylor - Executive Director

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

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

The Responsible Entity and its related parties held 47,402,894 units as at 30 June 2018 (2017: 41,461,705).

Following is a summary of related party transactions for the year ended 30 June 2018:

		Basis of fee calculation		Fee amount	
		2018	2017	**2018**	2017
Type of fee	Method of fee calculation	**$'m**	$'m	**$'000**	$'000
Post-IPO					
Base management	0.45% of average gross assets	**1,464.7**	1,353.4	**6,576**	3,772
Acquisition	1% of acquisition price	**121.7**	505.0	**1,219**	4,922
Disposal fee	1% of disposal price	**38.7**	-	**387**	-
Property management	Up to 3% of gross property income	**96.9**	36.8	**956**	404
Accounting services	Cost recovery	**-**	-	**714**	511
Leasing fees	% gross average annual rent based on a sliding fee scale	**4.3**	-	**258**	-
Debt arranger	Market rate	**-**	90	**-**	180
Facility management fee	Annual charge per property	**-**	-	**44**	14
Other cost recoveries	Cost recovery	**-**	-	**60**	-
				10,214	9,803
Pre-IPO					
Base management	0.6% of gross assets of previous month	**-**	261.7	**-**	570
Property management	Up to 3% of gross property income	**-**	6.6	**-**	72
Disposal	2% of sale price	**-**	261.3	**-**	5,227
Accounting services	Cost recovery	**-**	-	**-**	80
Performance*	Performance fee hurdle IRR 10%	**-**	-	**-**	(71)
				-	5,878
				10,214	15,681

*Represents change in fee accrued in 2016 and paid in 2017.

D. Further information (continued)

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

	2018 $'000	2017 $'000
Charter Hall Holdings Pty Limited	**958**	891
	958	891

(e) Key management personnel

Key management personnel (KMP) are defined in AASB 124 *Related Party Disclosures* as those having authority and responsibility for planning, directing and controlling the activities of the entity. The Responsible Entity meets the definition of KMP as it has this authority in relation to the activities of the REIT. These powers have not been delegated by the Responsible Entity to any other person. Details of management fees charged to the REIT by the Responsible Entity and its related parties are included in Note D1(c).

(f) Directors' fees and Fund Manager remuneration

Independent Directors' fees are as follows:

CHWALE	2018 $'000	2017 $'000
Peeyush Gupta	**140,000**	135,000
Glenn Fraser	**110,000**	97,000
Ceinwen Kirk-Lennox	**95,000**	94,073
	345,000	**326,073**

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.

(g) Directors' interests in REIT stapled securities

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

	Stapled securities held 2018	Stapled securities held 2017
Peeyush Gupta	**394,243**	382,111
Glenn Fraser	**44,325**	40,000
Ceinwen Kirk-Lennox	**25,764**	23,250
David Harrison	**290,458**	254,053
Adrian Taylor	**72,530**	63,513
Total	**827,320**	762,927

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

	Stapled securities 2018	Stapled securities acquired 2017
Peeyush Gupta	**12,132**	382,111
Glenn Fraser	**4,325**	40,000
Ceinwen Kirk-Lennox	**2,514**	23,250
David Harrison	**36,405**	254,053
Adrian Taylor	**9,017**	63,513
Total	**64,393**	762,927

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

D. Further information (continued)

D2. Working capital

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

(a) Receivables and other assets

	2018 $'m	2017 $'m
Receivables		
Trade receivable	**0.1**	0.1
Accrued income	**0.1**	0.1
Distributions receivable from joint ventures*	**4.5**	4.2
	4.7	4.4

*Distributions received in the corresponding July

	2018 $'m	2017 $'m
Other Assets		
Deposit and acquisition costs for the purchase of Bunnings, South Mackay	**-**	4.5
Prepayments	**0.6**	0.4
	0.6	4.9

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

(b) Payables and other liabilities

	2018 $'m	2017 $'m
Payables		
Accrued expenses	**4.2**	3.0
Accrued management fee	**0.6**	0.5
Accrued capital expenditure	**0.2**	0.3
Interest payable	**0.4**	0.3
GST Payable	**0.4**	0.2
Other	**-**	0.1
	5.8	4.4
Other liabilities		
Unearned income	**2.7**	-
	2.7	**-**

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.

D. Further information (continued)

D3. Parent entity information

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

Investments in controlled entities

Investments in controlled entities 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.

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

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.

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. If required, 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 2018 $'m	Parent 2017 $'m
Balance Sheet		
Current assets	**1.6**	-
Non-current assets	**982.6**	528.4
Total assets	**984.2**	528.4
Current liabilities	**12.7**	8.1
Non-current liabilities	**364.9**	125.5
Total liabilities	**377.6**	133.6
Equity		
Contributed equity	**661.5**	434.8
Retained profits	**(54.9)**	(40.0)
Total equity	**606.6**	394.8
Statement of comprehensive income		
Profit for the year	**43.2**	14.5
Total comprehensive income	**43.2**	14.5

(b) Guarantees and contingent liabilities

The parent entity did not have any material contingent liabilities, either individually or as a class, at 30 June 2018 (2017: $nil).

(c) Commitments

The parent entity did not have any contingent liabilities as at 30 June 2018 (2017: $nil).

(d) Net current asset deficiency

At 30 June 2018, the parent entity has a net deficiency of current assets over current liabilities of $11.1 million (2017: $8.1 million). The parent entity will be able to meet its day-to-day working capital requirements from the REIT's available loan facility and operating cash flows. Securityholders will only receive their distributions to the extent that the parent entity has sufficient working capital.

D. Further information (continued)

D4. Significant contract terms and conditions

Pre-emptive rights

The joint-ownership agreements to which the REIT is a party contain pre-emptive rights which restrict the REIT's dealings in respect of its interest in the respective co-owned trust or the co-owned property. In particular, where the REIT wishes to deal with its interests in a co-owned trust or property, each other co-owner will have a pre-emptive right over the REIT's interests, other than in limited circumstances (for example, by way of a permitted transfer to a member of the REIT's Securityholder or owner group).

A number of joint-ownership agreements also contain:

- tag-along options, pursuant to which the REIT may be required to take reasonable steps, if it wishes to sell its interest in a co-owned trust or co-owned property, to cause one or more of the other co-owners' interests to be acquired on substantively the same terms;
- drag along rights, pursuant to which a co-owner may require the REIT to sell its interests in a co-owned trust if the co-owner wishes to sell its interest and the REIT has not exercised its pre-emptive;
- provisions under which a default sale process may be triggered on a change of control event, including where the Responsible Entity is replaced with an entity that is not a related body corporate of the Responsible Entity, with the default sale process giving the other co-owners a right to acquire the REIT's interests at the relevant default interest value; and
- dispute resolution procedures which provide for the sale of the relevant property in circumstances where a co-owner does not acquire the other co-owners' interests.

D5. Remuneration of the auditor

	2018 $'000	2017 $'000
Amounts paid or payable to PricewaterhouseCoopers Australian firm for:		
Audit services	**290**	298
Amounts paid or payable to related practices of PricewaterhouseCoopers Australian firm for:		
Taxation compliance services	**52**	56
Accounting services*	**-**	18
Accounting and tax due diligence advice*		
- Recognised in the profit or loss	**137**	607
- Recognised in equity	**-**	225
	479	1,204

*Prior year amounts incurred in relation to IPO.

D6. Interest in other entities

Material subsidiaries

The REIT's principal subsidiaries at 30 June 2018 are set out below. Unless otherwise stated, they have 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.

D. Further information (continued)

Name of entity	Country of incorporation / Place of business	Ownership interest held by the REIT		Principal activities
		2018	2017	
CHDIF Altona North Trust	Australia	**100%**	100%	Property Investment
CHDIF Kingsgrove Trust	Australia	**100%**	100%	Property Investment
CHDIF Willawong Trust	Australia	**100%**	100%	Property Investment
CHDIF Hoppers Crossing Trust	Australia	**100%**	100%	Property Investment
CHDIF Kingston Holding Trust	Australia	**100%**	100%	Holding Trust
CHDIF Kingston Trust	Australia	**100%**	100%	Property Investment
CHDIF Beverley Holding Trust	Australia	**100%**	100%	Holding Trust
CHDIF Beverley Trust	Australia	**100%**	100%	Property Investment
CHDIF Perth Holding Trust	Australia	**100%**	100%	Holding Trust
CHDIF Perth Airport Trust	Australia	**100%**	100%	Property Investment
LWR LWIP Holding Trust	Australia	**100%**	100%	Holding Trust
LWR LWIP Investment Trust	Australia	**100%**	100%	Property Investment
Suez Portfolio Trust	Australia	**100%**	100%	Property Investment
CH Direct VA Trust	Australia	**100%**	-	Property Investment
LWR Bunnings Trust	Australia	**100%**	100%	Property Investment
LWR Finance Trust	Australia	**100%**	100%	Stapled Trust
Charter Hall LWR Limited	Australia	**100%**	100%	Provision of finance
CHPT Dandenong Trust*	Australia	**N/A**	100%	Stapled Trust
LWR Truganina Trust	Australia	**100%**	100%	Property Investment
LWR Canning Vale Trust	Australia	**100%**	-	Property Investment
Canning Vale Logistics Trust No.1*	Australia	**N/A**	100%	Stapled Trust
218 Bannister Road Trust*	Australia	**N/A**	100%	Stapled Trust
CPOF Kogarah Holding Trust*	Australia	**N/A**	100%	Stapled Trust
CPOF Kogarah Trust	Australia	**100%**	100%	Property Investment
Franklin Street Property Trust	Australia	**100%**	100%	Stapled Trust

*Wound up during the year.

Stapled Trusts

Summarised financial information about Stapled Trusts other than DIF is set out below:

	Finance Trust $'m	FSPT $'m	CVLT1 $'m	218BRT $'m	CPOF KHT $'m	CHPT DT $'m	Total $'m
Summarised balance sheet as at 30 June 2018:							
Current assets	**0.2**	**4.2**	**-**	**-**	**-**	**-**	**4.4**
Non-current assets	**430.3**	**285.7**	**-**	**-**	**-**	**-**	**716.0**
Current liabilities	**(0.4)**	**(7.7)**	**-**	**-**	**-**	**-**	**(8.1)**
Non-current liabilities	**(430.4)**	**(51.7)**	**-**	**-**	**-**	**-**	**(482.1)**
Net assets	**(0.3)**	**230.5**	**-**	**-**	**-**	**-**	**230.2**
Summarised statement of comprehensive income for the year ended 30 June 2018:							
Revenues	**16.3**	**21.3**	**1.7**	**1.7**	**1.3**	**0.8**	**43.1**
Net profit	**(1.9)**	**12.2**	**0.8**	**0.8**	**0.7**	**0.4**	**13.0**
Total comprehensive income	**(1.9)**	**12.2**	**0.8**	**0.8**	**0.7**	**0.4**	**13.0**
Summarised balance sheet as at 30 June 2017:							
Current assets	1.4	0.8	-	0.2	0.5	0.7	3.6
Non-current assets	358.1	287.2	83.3	83.3	102.1	61.5	975.5
Current liabilities	(0.3)	(4.2)	(1.1)	(1.1)	(0.9)	(0.4)	(8.0)
Non-current liabilities	(357.7)	(76.9)	(44.6)	(44.7)	(52.2)	(36.8)	(612.9)
Net assets	1.5	206.9	37.6	37.7	49.5	25.0	358.2
Summarised statement of comprehensive income for the year ended 30 June 2017:							
Revenues	8.7	13.5	4.3	4.3	11.7	2.6	45.1
Net profit	(0.4)	11.2	2.2	2.3	9.2	1.7	26.2
Total comprehensive income	(0.4)	11.2	2.2	2.3	9.2	1.7	26.2

Details of simplification of the REIT's structure provided in C6.

D. Further information (continued)

D7. Events occurring after balance date

On 19 July 2018, the REIT exchanged contracts to acquire a 50% interest in 40 Tank Street, Brisbane, QLD for $46.5 million with expected settlement on 31 August 2018.

On 6 August 2018, securityholders voted in favour of the proposed sale of a 50% interest in ATO Adelaide, SA and simplification of the REIT structure from a 3 staple structure to a 2 staple structure. Simplification is to occur on 22 August 2018. On 8 August 2018, a call option was exercised to sell a 50% interest in ATO Adelaide, SA to a related party for proceeds of $135.0 million as well as half the related income support fund. Settlement is expected to occur in mid August.

The Directors of the Responsible Entity are not aware of any other matter or circumstance not otherwise dealt with in this report or the annual consolidated financial statements that has significantly affected or may significantly affect the operations of the REIT, the results of those operations or the state of affairs of the REIT in the financial years subsequent to 30 June 2018.

D8. Other significant accounting policies

(a) Basis of preparation

These general purpose financial statements have been prepared in accordance with the requirements of the REIT's constitutions, 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. The consolidated financial statements are presented in Australian dollars, which is the REIT's functional and presentation currency.

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, assets held for sale 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 2018 that affect the REIT's operations or reporting requirements.

Principles of consolidation

Stapling

The units in the Stapled Trusts (collectively referred to as the stapled securities) are listed on the Australian Securities Exchange and cannot be traded or dealt with separately. The three entities (seven prior to simplification of the REIT) comprising the stapled group remain separate legal entities in accordance with the *Corporations Act 2001*, and are each required to comply with the reporting and disclosure requirements of Accounting Standards and the *Corporations Act 2001*.

Stapling arrangements are treated as a business combination by contract alone since none of the stapled entities (as opposed to their unitholders) obtain an ownership interest in another stapled entity.

Under AASB 3 *Business Combinations* and AASB 10 *Consolidated Financial Statements*, one of the stapled entities of a stapled structure is to be identified as the parent entity for the purpose of preparing a consolidated annual financial report. In accordance with this requirement, DIF has been identified as the parent entity. Accordingly, the consolidated financial statements of the REIT in the prior period, have been prepared as a continuation of the consolidated financial statements of DIF with the information presented being that of DIF from 1 July 2016 until 9 November 2016 and that of DIF and the other Stapled Trusts from 10 November 2016 until 30 June 2017.

The results and equity, not directly owned by DIF, of the other Stapled Trusts have been treated and disclosed as non-controlling interests in the consolidated financial statements of the REIT. Whilst the results and equity of the other Stapled Trusts are disclosed as non-controlling interests, the stapled securityholders of DIF are the same as the stapled securityholders of the other Stapled Trusts.

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.

D. Further information (continued)

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.

(b) Comparative information

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

(c) Rounding of amounts

Under the option provided by ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 (as amended) issued by the Australian Securities and Investments Commission relating to the 'rounding off' of amounts in the financial statements, amounts in the REIT's consolidated financial statements have been rounded to the nearest hundred thousand dollars in accordance with that Class Order, unless otherwise indicated.

(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 year ended 30 June 2018 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 (applied from 1 July 2018)

AASB 9 *Financial Instruments* addresses the classification, measurement and derecognition of financial assets and liabilities, sets out new rules for hedge accounting and applies new rules for impairment testing, including the requirements to assess the lifetime expected credit loss for financial assets rather than only incurred credit losses under AASB 139. The REIT will apply AASB 9 for the reporting period beginning on 1 July 2018.

A review of the REIT's financial assets and liabilities has been undertaken with the following impacts expected upon adoption of AASB 9.

Classification and measurement –Analysis has confirmed that there will be no likely change in the classification and measurement of financial assets and liabilities. All financial instruments will be held at either amortised cost or fair value through profit and loss. This reflects the current classification under AASB 139.

Hedge accounting - the REIT does not apply hedge accounting.

Impairment provision –The new expected credit loss model for calculating impairment on financial assets is not expected to have a material impact on the REIT's provision for doubtful debts.

The new standard does introduce expanded disclosure requirements. These are expected to change the nature and extent of the financial instrument disclosures.

(ii) AASB 15 Revenue from Contracts with Customers (applied from 1 July 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. Some change in presentation of certain revenue items and additional disclosures will be required. The REIT currently plans to apply AASB 15 for the reporting period beginning on 1 July 2018.

(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 consolidated financial statements.

Directors' declaration to stapled securityholders

In the opinion of the Directors of Charter Hall WALE Limited, the Responsible Entity of Charter Hall Long WALE REIT:

a the consolidated financial statements and notes set out on pages 15 to 44 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 REIT's financial position as at 30 June 2018 and of its performance for the year ended on that date; and

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

Note D8(a) confirms that the consolidated financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The Directors have been given declarations by the Fund Manager, who performs the Chief Executive Officer function, and the Head of Finance – Long WALE REIT, 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 directors.

Peeyush Gupta

Director

Sydney

9 August 2018

Independent auditor's report

To the stapled securityholders of Charter Hall Long WALE REIT

Report on the audit of the financial report

Our opinion

In our opinion:

The accompanying financial report of Charter Hall Long WALE REIT (the REIT) is in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the REIT's financial position as at 30 June 2018 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

The REIT financial report comprises:

- the consolidated balance sheet as at 30 June 2018
- 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 statement of cash flows for the year then ended
- the notes to the consolidated financial statements, which include a summary of significant accounting policies
- the directors' declaration of Charter Hall WALE Limited (the responsible entity of the REIT).

The REIT comprises the stapled entities of Charter Hall Direct Industrial Fund (DIF), LWR Finance Trust (Finance Trust) and Franklin Street Property Trust (FSPT) and the entities they controlled from time to time during the financial year.

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

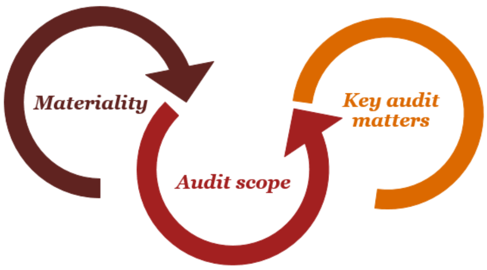
We are independent of the REIT in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit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

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.

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 REIT, its accounting processes and controls and the industry in which it operates.

The REIT's principal activity consists of property investment.



Materiality

- For the purpose of our audit we used overall quantitative materiality of $2.9 million, which represents approximately 5% of the REIT's operating earnings.
- For the stapled entities consolidated by DIF, individual materialities are calculated for the purposes of their audits. Information on materiality for each stapled entity is disclosed in their respective audit reports.
- 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) as the benchmark because, in our view, it is the benchmark against which the performance of the REIT is most commonly measured and is one of the generally accepted benchmarks within the industry.
- We selected a 5% threshold based on our professional judgement and noting it is within the range of acceptable quantitative materiality thresholds.

Audit Scope

- Our audit focused on 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.
- The structure of the REIT is commonly referred to as a 'stapled group' and is explained in Note A1.
- We also focused on the risk of management override of internal controls, including whether there was evidence of bias by the directors that may represent a risk of material misstatement due to fraud.
- 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 structure of the REIT, the accounting processes and controls, and the industry in which the REIT operates.

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, Risk and Compliance Committee.

Key audit matter	*How our audit addressed the key audit matter*
Valuation of investment properties, including those investment properties held in joint ventures accounted for under the equity method *(Refer to Note B)* The REIT's investment property portfolio is comprised of industrial, retail and office investment properties. At 30 June 2018 the carrying value of the REIT's total investment property portfolio (excluding investment properties held in equity accounted investments) was $855.6 million (2017: $760.4 million). The carrying value of the REIT's investment properties held by joint venture vehicles was $1,445 million (2017: $1,207 million). Investment properties are valued at fair value at reporting date using either the income capitalisation approach or the discounted cash flow approach as described in Note B. The value of investment properties is dependent on the valuation methodology adopted and the inputs into the valuation model. Factors such as prevailing market conditions, the individual nature, condition and location of each property and the expected future income for each property directly impact fair values. Amongst others, the following assumptions are key in establishing fair value: • capitalisation rate • adopted discount rate. At the end of each reporting period, the REIT determines the fair value of its investment property portfolio in accordance with Charter Hall's valuation policy. This policy requires all properties to be externally valued by an independent valuation expert at least once every 12 months. If a property is not externally valued at balance date, the REIT performs an internal valuation. We considered this a key audit matter because of the: • Relative significant size of the investment property balances in the consolidated balance sheet;	We obtained recent independent property market reports to understand the prevailing markets' conditions in which the REIT invests. We compared historical valuations against current year valuations, and noted that the movements in fair values were in line with overall movements in the market. We met with management of the REIT and discussed the specifics of selected individual properties including a sample of new leases entered into during the financial year and capital expenditure. For a sample of leases, we compared the rental income used in the valuation to underlying lease agreements. We found that the data used in the samples tested was consistent with tenant leases. We compared the REIT's capitalisation rates and discount rates by location and asset grade to our independent expectation of a reasonable range determined based on benchmark market data. Where capitalisation rates and discount rates fell outside of our anticipated ranges, we considered the rationale for the rate applied. We agreed the fair value per the final external valuation reports and internal valuations to the REIT's accounting records, noting no exceptions. **External valuations** For a sample of external valuations we assessed the competency and capability of the external valuers and considered that the valuations were performed in accordance with Charter Hall's valuation policy. **Internal valuations** We reviewed the methodologies used by the REIT to determine the properties' fair value, noting that the capitalisation and discounted cash flow models were consistent with industry standards.

Key audit matter	*How our audit addressed the key audit matter*
• Material quantum of revaluation gains that directly impact the consolidated statement of comprehensive income through the net fair value gain on investment properties; • Inherently subjective nature of investment property valuations due to the use of several assumptions in the valuation methodology; and • Sensitivity of valuations to key input assumptions, specifically capitalisation and discount rates.	
Simplification of the REIT structure *(Refer to Note C)* DIF acquired all the securities of the following four previously stapled entities, Canning Vale Logistics Trust No. 1 ("CVLT1"), 218 Bannister Road Trust ("218 BRT"), CPOF Kogarah Holding Trust ("CPOF KHT") and CHPT Dandenong Trust ("CHPT DT") from security holders on 22 September 2017. The securities were acquired at their net tangible asset value, in exchange for additional securities in DIF. Thereafter, the DIF securities were consolidated to preserve the one-to-one stapling ratio. Following simplification, the REIT comprises of three Stapled Trusts: DIF, FSPT and Finance Trust as at 30 June 2018. We considered the accounting for the above simplification to be a key audit matter in the current financial year because of the: • nature and complexity of the transactions to consolidate the four previously stapled entities into DIF; • magnitude, judgement and estimations involved in determining and accounting for the fair value of assets acquired and liabilities assumed; and • significant audit effort taken to perform audit procedures on the transactions.	We obtained an understanding and reviewed the steps performed by management of the REIT to achieve the simplified structure of the REIT. We performed a number of audit procedures including the following: • Assessed the accounting treatment through evaluation of sale and purchase agreements, unit registers, implementation deeds and other legal documentation supporting the simplification transactions. • Evaluated the completeness and accuracy of the REIT's calculation of the net tangible asset value of CVLT1, 218BRT, CPOF KHT and CHPT DT prior to simplification and their consolidation into DIF. We performed reasonableness testing over all material balances of each acquired stapled trust and agreed the fair value of investment properties and investments through the equity method to external valuations. • Agreed the net tangible asset value of CVLT1, 218 BRT, CPOF KHT and CHPT DT on the simplification date to the reduction in contributed equity and retained earnings of the remaining stapled trusts and increase in the contributed equity of DIF in the consolidated statement of changes in equity with no exceptions.

Other information

The directors of Charter Hall WALE Limited, the responsible entity of the REIT, are responsible for the other information. The other information comprises the information included in the REIT's financial report and other information for the year ended 30 June 2018, but does not include the financial report and our auditor's report thereon. Prior to the date of this auditor's report, the other information which we obtained included the Director's Report. We expect the remaining other information to be made available to use after the date of this auditor's report, including 2018 Highlights, Chair & Fund Manager Letter, Portfolio Performance and Our Board and Management.

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 Charter Hall WALE Limited and use our professional judgement to determine the appropriate action to take.

Responsibilities of the directors of the Responsible Entity for the financial report

The directors of Charter Hall WALE Limited, 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 *Corporations Act 2001* and for such internal control as the directors 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 are responsible for assessing the ability of the REIT 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 either intend to liquidate the REIT or to cease operations, or have no realistic alternative but to do so.

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. This description forms part of our auditor's report.

PricewaterhouseCoopers

PricewaterhouseCoopers

J A Dunning

J A Dunning
Partner

Sydney
9 August 2018

Charter Hall

LWR Finance Trust

ARSN 614 713 138

Financial report and other information
For the year ended 30 June 2018

Important Notice

The Charter Hall Long WALE REIT (REIT or CLW) consists of the units of the three Australian registered schemes listed below (collectively referred to as the “Stapled Trusts”):

- Charter Hall Direct Industrial Fund (“DIF”) and its controlled entities (ARSN 144 613 641);
- LWR Finance Trust (“Finance Trust”) and its controlled entity (ARSN 614 713 138); and
- Franklin Street Property Trust (“FSPT”) (ARSN 614 714 206).

Charter Hall WALE Limited ABN 20 610 772 202; AFSL 486721 (CHWALE) is the responsible entity of the schemes listed above, and is a controlled entity of Charter Hall Limited ABN 57 113 531 150 (Charter Hall).

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

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

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

Contents

Directors' report

For the year ended 30 June 2018

The Directors of Charter Hall WALE Limited (CHWALE) present the consolidated annual financial report of LWR Finance Trust (Trust or LWR FT) and its controlled entity for the year ended 30 June 2018.

The Trust was established on 30 August 2016 and registered as a managed investment scheme on 22 September 2016. The Trust was listed on the Australian Securities Exchange on 8 November 2016 and became a member of the Charter Hall Long WALE REIT consolidated group (REIT) on 10 November 2016 when its units were stapled to the units of the other stapled trusts comprising the REIT. Accordingly, the results of the comparative period are from 22 September 2016, date of registration, to 30 June 2017.

Principal activities

The principal activity of the Trust during the year was financing of the REIT through the Intra-Group Facility Agreement (IGFA). There were no significant changes in the nature of the Trust's activities during the financial 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:

- Peeyush Gupta - Chairman and Non-Executive Chairman
- Glenn Fraser - Non-Executive Director
- Ceinwen Kirk-Lennox - Non-Executive Director
- David Harrison - Executive Director and Chief Executive Officer/Managing Director of Charter Hall Group
- Adrian Taylor - Executive Director

Distributions

No distributions were paid or declared during the period.

Review and results of operations

The Trust recorded a statutory loss for the period of $1.9 million (30 June 2017: $0.4 million) which represents a net operating loss of $0.1 million (30 June 2017: $nil), net fair value losses on derivatives financial instruments of $1.8 million (30 June 2017: $0.2 million) and costs associated with Initial Public Offering (IPO) of $nil (30 June: $0.2 million).

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

	1 Jul 2018 to 30 Jun 2018 $'000	22 Sep 2016 to 30 Jun 2017 $'000
Interest income	**16,273**	8,700
Fund management fees	**(39)**	(14)
Finance costs	**(16,200)**	(8,619)
Administration and other expenses	**(100)**	(76)
Operating loss	**(66)**	(9)

Operating earnings is a financial measure which represents profit/(loss) under Australian Accounting Standards adjusted for net fair value movements, non-cash accounting adjustments 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 Trust'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.

Directors' report (continued)

For the year ended 30 June 2018

Review and results of operations (continued)

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

	1 Jul 2017 to 30 Jun 2018 $'000	22 Sep 2016 to 30 Jun 2017 $'000
Operating loss	**(66)**	(9)
Net fair value movements on derivative financial instruments	**(1,813)**	(216)
Costs associated with IPO	**-**	(214)
Statutory loss for the period	**(1,879)**	(439)
Basic weighted average number of securities (thousands)	**220,964**	178,320
Basic loss per security (cents)	**(0.85)**	(0.25)
Operating loss per security (cents)	**(0.03)**	(0.01)

The financial results are summarised as follows:

	1 Jul 2017 to 30 Jun 2018	22 Sep 2016 to 30 Jun 2017
Revenue ($ thousands)	**16,273**	8,700
Statutory loss for the period ($ thousands)	**(1,879)**	(439)
Basic loss per security (cents)	**(0.85)**	(0.25)
Operating loss ($ thousands)	**(66)**	(9)
Operating loss per security (cents)	**(0.03)**	(0.01)

	30 Jun 2018	30 Jun 2017
Total assets ($ thousands)	**430,454**	359,501
Total liabilities ($ thousands)	**430,820**	358,044
Net assets attributable to securityholders ($ thousands)	**(366)**	1,457
Securities on issue (thousands)	**232,300**	207,787
Net assets per security ($)	**-**	0.01

Significant changes in the state of affairs

Entitlement Offer

In December 2017, the REIT (of which the Trust is a member) raised $94.1 million of equity, issuing 22.7 million stapled securities at $4.15 per stapled security to both institutional and retail investors. The proceeds were used to fund the acquisition of Virgin Australia's head office building at 56 Edmondstone Road, Brisbane QLD on 4 January 2018 and associated transaction and capital raising costs. The Trust's share of the equity raised in December 2017 amount to $39,000.

Debt arrangements

On 22 December 2017, the Trust increased the limit of its syndicated debt facility by $20 million to $470 million and extended its debt maturity from November 2021 to February 2022.

On 18 April 2018, the REIT entered into two interest rate swap agreements with a total principal amount of $100 million to fix its floating rate debt. The interest rate swaps mature in June 2025. The REIT was 75% hedged as at 30 June 2018 (30 June 2017: 66%).

There were no other significant changes in the state of affairs of the Trust that occurred during the year under review.

Business strategies and prospects

The Trust is a member of the REIT. The REIT's objective is to provide investors with stable and secure income and the potential for both income and capital growth through an exposure to a property portfolio with a long WALE.

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

Funding

An inability to obtain the necessary funding or refinancing of an existing debt facility by the Trust, 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 Trust's performance and financial position. The Trust seeks to minimise this risk through proactive refinancing and maintaining

Directors' report (continued)

For the year ended 30 June 2018

adequate liquidity to fund the future forecast expenditure of other members of the Trust's and hedging its interest rate exposure in accordance with the Trust's Board approved Financial Risk Management Policy.

Matters subsequent to the end of the financial year

The directors of the Responsible Entity are not aware of any matter or circumstance not otherwise dealt within this report or the financial report that has significantly affected or may significantly affect the operations of the Trust, the results of its operations or the state of affairs of the Trust in future financial years.

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 the capital markets that may have an impact on the results of the Trust are unknown. Such developments could influence the ability to 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 Trust which would have a material impact on the future results of the Trust. Movements in interest rates may have a material impact on the Trust'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 Trust contributed to the premium for a contract insuring all directors, secretaries, executive officers and officers of the Trust and of each related body corporate of the Trust, with the balance of the premium paid by the Charter Hall Group and funds managed by members of the Charter Hall Group. In accordance with usual commercial practice, the insurance contract prohibits disclosure of details of the nature of the liabilities covered by the insurance, the limit of indemnity and the amount of the premium paid under the contract.

Provided the officers of the Responsible Entity act in accordance with the Trust's Constitution and the *Corporations Act 2001*, the officers are indemnified out of the assets of the Trust against losses incurred while acting on behalf of the Trust. The insurance does not provide any cover for the independent auditor of the Trust or of a related party of the Trust. The Trust indemnifies the auditor (PricewaterhouseCoopers Australia) against any liability (including legal costs) for third party claims arising from a breach by the Trust of the auditor's engagement terms, except where prohibited by the *Corporations Act 2001.*

Fees paid to and interests held in the Trust by the Responsible Entity or its associates

Base fees of $39,086 (30 June 2017: $14,347) and other fees were paid or are payable to the Responsible Entity and its associates for the services provided during the period, in accordance with the Trust's constitution.

The interests in the Trust held by the Responsible Entity or its associates as at 30 June 2018 and fees paid to its associates during the period are disclosed in Note 16 to the consolidated financial statements.

Interests in the Trust

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

	1 Jul 2017 to 30 Jun 2018	22 Sep 2016 to 30 Jun 2017
Securities on issue at the beginning of the period	**207,787,175**	100
Securities issued prior to the IPO	**-**	2,499,900
Change in the number of units after unit reorganisation	**-**	65,454,824
Security redemption	**-**	(67,954,824)
Securities issued during the year		
- via IPO	**-**	206,683,097
- via Entitlement Offer	**22,664,846**	-
- via Distribution Reinvestment Plan	**1,848,121**	1,104,078
Securities on issue at the end of the year	**232,300,142**	207,787,175

Environmental regulations

To the best of the directors' knowledge, the operations of the Trust have been undertaken in compliance with the applicable environmental regulations that apply to the Trust's activities.

Directors' report (continued)

For the year ended 30 June 2018

Information on Current Directors

Director	Experience	Special responsibilities	Interest in units of the Trust
Peeyush Gupta	Appointed 6 May 2016 Peeyush was the co-founder and the inaugural Chief Executive Officer of Ipac Securities Limited, a pre-eminent wealth management firm. He has experience in starting and growing businesses, acquisitions and divestments, roll-ups and integration, general management, investment management and corporate governance. He is a Non-Executive Director of National Australia Bank Limited, Special Broadcasting Service ("SBS"), Link Administration, BNZ Life, and Insurance & Care (NSW). He is also currently the Chair of Charter Hall Direct Property Management Limited, Chair of MLC RE and IDPS Board and serves in a pro bono capacity as a trustee of Western Sydney University, and the Australian School of Business Dean's Advisory Committee. Peeyush holds a Master of Business Administration in Finance from the Australian Graduate School of Management and a Bachelor of Arts in Computing Studies from the University of Canberra. Peeyush is also a Fellow of the Australian Institute of Company Directors.	Chairman	394,243
Glenn Fraser	Appointed 6 May 2016 Glenn is a professional non executive director with significant experience in finance, infrastructure and property. He was a member of Transfield Holdings Advisory Board from 1999 to 2015. He was instrumental in Transfield Holdings' acquisition of a 50% interest in Charter Hall and its subsequent expansion and listing in 2005. Previously, Glenn was a Non-Executive Director of the Charter Hall Group from 6 April 2005 to 15 August 2012. Joining Transfield Holdings in 1996, Glenn was General Manager – Finance Project Development, where he was responsible for the financial elements of Transfield Holdings' infrastructure and property projects. Glenn was appointed Chief Financial Officer in 1999 of Transfield Holdings, which at that time had turnover in excess of $1 billion per annum, and over 8,000 staff. Glenn was a principal and director of a project finance advisory business, Perry Development Finance Pty Limited from 1985, which was sold to Hambros Corporate Finance Limited in 1995. Glenn holds a Bachelor of Commerce, and is a member of the Institute of Chartered Accountants and a graduate of the Australian Institute of Company Directors.	Audit, Risk & Compliance Committee Chair	44,325

Directors' report (continued)

For the year ended 30 June 2018

Director	Experience	Special responsibilities	Interest in units of the Trust
Ceinwen Kirk-Lennox	Appointed 28 June 2016 Ceinwen has over 32 years' experience in many aspects of property including agency, property development, project and construction management, and community development. Her executive career includes 26 years at Lendlease Corporation, where she held executive roles, running business units, client accounts and functions across the Lendlease Group. Ceinwen now runs her own consultancy, with clients across both private and public sectors. Ceinwen holds a Bachelor of Business (Land Economy) from the University of Western Sydney, and is a graduate of the Australian Institute of Company Directors. Ceinwen brings 18 years' experience as an executive and non-executive director serving on a number of boards including both for-profit and not-for-profit companies. Ceinwen is a National Director of the Property Industry Foundation, and an Advisory Member of the Justice NSW PBCP.	Nil	25,764
David Harrison	Appointed 16 February 2016 David has 32 years of property market experience across office, retail and industrial sectors in multiple geographies globally. As Charter Hall Managing Director and Group CEO, David is responsible for all aspects of the Charter Hall business, with specific focus on strategy. He continues to build the momentum of a $22.5 billion investment portfolio and is 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 Group. David has overseen the growth of the Charter Hall Group from $500 million to $22.5 billion of assets under management in 14 years. David has been principally responsible for transactions exceeding $25 billion of commercial, retail and industrial property assets over the past 28 years. David holds a Bachelor of Business Degree (Land Economy) from the University of Western Sydney, is a Fellow of the Australian Property Institute (FAPI) and holds a Graduate Diploma in Applied Finance from the Securities Institute of Australia.	Nil	290,458

Directors' report (continued)

For the year ended 30 June 2018

Director	Experience	Special responsibilities	Interest in units of the Trust
Adrian Taylor	Appointed 18 July 2016 Adrian Taylor is Charter Hall's Office CEO and a member of Charter Hall's Executive Committee, with 26 years industry experience and eight years with Charter Hall. Adrian leads the A$10.5 billion office sector from end to end including Investmer Management, Asset Management, Development and Property Management teams, and helps develop the overall strategy and objectives for the office funds in conjunction with the Charter Hall Fund Managers and our Investors and helps guide the portfolio management, capital transactions, treasury and trust management teams to execute strategy. He has extensive capital management experience including debt and equity raising. Prior to the Charter Hall Office REIT's privatisation, he was its Chief Executive Officer and has deep capital transaction and extensive joint venture experience in Australia and the US. Adrian graduated with a Bachelor of Business from Monash University, is a Certified Practising Accountant, is Fellow of the Financial Services Institute of Australasia, a fellow Of the Royal Institute of Chartered Surveyors and is involved in numerous property industry groups including sitting on the Division Council of the Capital Markets Division of the Property Council of Australia.	Nil	72,530

Meetings of Directors

	Full meetings of Directors		Meetings of Audit, Risk and Compliance Committee	
Name	Eligible to attend	Attended	Eligible to attend	Attended
Peeyush Gupta	8	8	4	4
Glenn Fraser	8	8	4	4
Ceinwen Kirk-Lennox	8	8	4	4
David Harrison	8	7	-	-
Adrian Taylor	8	7	-	-

Company Secretary

Tracey Jordan acted as Company Secretary of the Trust from 16 February 2016. Mark Bryant was appointed as Company Secretary of the Trust on 21 November 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 Trust are important.

Details of the amounts paid to the auditor for audit and non-audit services provided during the year are disclosed in Note 16 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 16 of 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 11.

Directors' report (continued)

For the year ended 30 June 2018

Rounding of amounts to the nearest hundred thousand dollars

As permitted by ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 (as amended) 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 thousand dollars, unless otherwise indicated.

This report is made in accordance with a resolution of the Board of Directors of Charter Hall WALE Limited.

Peeyush Gupta
Chairman

Sydney
9 August 2018

Auditor's Independence Declaration

As lead auditor for the audit of LWR Finance Trust for the year ended 30 June 2018, 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 LWR Finance Trust and the entity it controlled during the period.

J A Dunning
Partner
PricewaterhouseCoopers

Sydney
9 August 2018

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Consolidated statement of comprehensive income

For the year ended 30 June 2018

	Note	1 Jul 2017 to 30 Jun 2018 $'000	22 Sep 2016 to 30 Jun 2017 $'000
Revenue			
Interest income		**16,273**	8,700
Total revenue		**16,273**	8,700
Expenses			
Fund management fees	16	**(39)**	(14)
Restructure costs		**-**	(214)
Administration and other expenses		**(100)**	(76)
Net loss on derivative financial instruments		**(1,813)**	(216)
Finance costs		**(16,200)**	(8,619)
Total expenses		**(18,152)**	(9,139)
Net loss for the period		**(1,879)**	(439)
Other comprehensive income		**-**	-
Total comprehensive loss		**(1,879)**	(439)
Basic and diluted loss per ordinary unitholder of the Trust			
Loss per unit (cents)	2	**(0.85)**	**(0.25)**

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

Consolidated balance sheet

As at 30 June 2018

	Notes	2018 $'000	2017 $'000
Current assets			
Cash and cash equivalents	3	**175**	1,362
Other assets		**-**	3
Total current assets		**175**	1,365
Non-current assets			
Loan receivable	4	**430,130**	357,501
Derivative financial instruments	5	**149**	635
Total non-current assets		**430,279**	358,136
Total assets		**430,454**	359,501
Liabilities			
Current liabilities			
Payables	7	**374**	313
Total current liabilities		**374**	313
Non-current liabilities			
Borrowings	8	**428,241**	356,847
Derivative financial instruments	5	**2,205**	884
Total non-current liabilities		**430,446**	357,731
Total liabilities		**430,820**	358,044
Net (liabilities) / assets		**(366)**	1,457
Equity			
Contributed equity	9	**1,952**	1,896
Accumulated losses	10	**(2,318)**	(439)
Total equity		**(366)**	1,457

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 2018

		Attributable to securityholders of LWR Finance Trust		
	Notes	Contributed equity $'000	Accumulated losses $'000	Total $'000
Balance at 22 Sep 2016		-	-	-
Security issuance	9	2,500	-	2,500
Capital return	9	(1,878)	-	(1,878)
Security redemptions	9	(626)	-	(626)
Securities issued via IPO, net of equity raising costs	9	1,889	-	1,889
Securities issued via DRP	9	11	-	11
Total comprehensive income		-	(439)	(439)
Balance as at 30 June 2017		1,896	(439)	1,457
Balance as at 1 July 2017		**1,896**	**(439)**	**1,457**
Securities issued via Entitlement Offer	9	**39**	**-**	**39**
Securities issued via DRP	9	**17**	**-**	**17**
Total comprehensive income		**-**	**(1,879)**	**(1,879)**
Balance as at 30 June 2018		**1,952**	**(2,318)**	**(366)**

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 2018

	Notes	1 Jul 2017 to 30 Jun 2018 $'000	22 Sep 2016 to 30 Jun 2017 $'000
Cash flows from operating activities			
Interest received		**93**	85
Finance costs paid		**(15,544)**	(7,998)
Fund management fees paid		**(44)**	(13)
Administration and other expenses paid		**(124)**	(23)
Net GST paid with respect to operating activities		**(2)**	(2)
Net cash flows from operating activities	11	**(15,621)**	(7,951)
Cash flows from investing activities			
Repayment under Intra-Group Facility Agreement		**(222,672)**	(610,894)
Drawdowns under Intra-Group Facility Agreement		**166,225**	262,008
Net cash flows from investing activities		**(56,447)**	(348,886)
Cash flows from financing activities			
Proceeds from issue of securities, net of equity raising costs		**56**	-
Proceeds from borrowings, net of borrowing costs		**86,225**	387,518
Repayment of borrowings		**(15,400)**	(31,000)
Proceeds from issue of securities prior to IPO		**-**	2,500
Net capital return paid on IPO		**-**	(635)
Costs associated with IPO		**-**	(184)
Net cash flows from financing activities		**70,881**	358,199
Net (decrease)/increase in cash and cash equivalents		**(1,187)**	1,362
Cash at the beginning of the year		**1,362**	-
Cash and cash equivalents at the end of the year	3	**175**	1,362

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

Notes to the consolidated financial statements

For the year ended 30 June 2018

1 Summary of significant accounting policies

The Charter Hall Long WALE REIT (REIT or CLW) is a stapled group comprising of LWR Finance Trust (Trust or LWR FT) and its controlled entity and the entities below (collectively referred to as the Stapled Trusts):

Stapled Entity	Description
Charter Hall Direct Industrial Fund (DIF)	Owns all of the REIT's investment properties and equity accounted investments other than those listed below
Franklin Street Property Trust (FSPT)	100% ownership of ATO, Adelaide SA

The units of the Stapled Trusts (collectively referred to as the stapled securities) are listed on the Australian Securities Exchange and cannot be traded or dealt with separately. The three entities comprising the stapled group remain separate legal entities in accordance with the *Corporations Act 2001*, and are each required to comply with the reporting and disclosure requirements of Accounting Standards and the *Corporations Act 2001*.

The accounting policies which have been adopted in the preparation of this annual financial report are set out below.

The custodian of the Trust is The Trust Company (Australia) Limited. The custodian's registered office is Level 12, 123 Pitt Street, Sydney NSW 2000.

LWR Finance Trust is a trust constituted in Australia. The nature of the operations and principal activities of the Trust are described in the Directors' Report.

The financial report for the period ended 30 June 2018 was authorised for issue by the directors on 10 August 2018. The directors have the power to amend and reissue the financial report.

(a) Basis of preparation

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

The consolidated financial statements are presented in Australian dollars, which is the Trust's functional and presentation currency.

Compliance with IFRS

The consolidated financial statements of the Trust 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 for the following:

- derivative financial instruments – 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 2018 that affect the Trust's operations or reporting requirements.

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 Trust's accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the consolidated financial statements are disclosed below:

- Derivative financial instruments – Note 1(j)

Estimates and judgements are continually evaluated. They are based on historical experience and other factors, including expectations of future events that may have a financial impact on the Trust and that are believed to be reasonable under the circumstances.

Net current asset deficiency and net asset deficiency

At 30 June 2018, the Trust has a net deficiency of current assets over current liabilities of $0.2 million (30 June 2017: $nil) and a net deficiency of total assets over total liabilities of $0.4 million (30 June 2017: $1.5 million net asset surplus). The Trust will be able to meet its day-to-day working capital requirements from the available loan facility and operating cashflows.

Notes to the financial statements (continued)

For the year ended 30 June 2018

1 Summary of significant accounting policies (continued)

Based on the facts set out above, the results and cash flows, there are reasonable grounds for the Trust to believe it will be able to meet its debts as and when they become due and payable and accordingly the financial statements have been prepared on a going concern basis.

(b) Principles of consolidation

Controlled entities

Subsidiaries are all entities over which the Trust has control. The Trust controls an entity when the Trust 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 Trust. 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 Trust.

(c) Segment reporting

The Trust has not produced segment reporting information as management had determined that only one operating segment exists. This is based on the information provided to the chief operating decision maker in accordance with AASB 8 *Operating Segments*. The segment is deemed to be property investment in Australia.

(d) Revenue recognition

Interest income

Interest income is recognised using the effective interest rate method.

(e) Expenses

Expenses are recognised on an accruals basis.

(f) Income tax

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

(g) Impairment of assets

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

(h) Cash and cash equivalents

For the purpose of presentation in the cash flow statement, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the consolidated balance sheet.

(i) Loans and other receivables

Loans and other receivables are initially recognised at the amounts due to the Trust.

Collectability of loans and other receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off in the year in which they are identified. A provision for doubtful debts is raised where there is objective evidence that the Trust will not collect all amounts due. The amount of the provision is the difference between the carrying amount and estimated future cash flows. Cash flows relating to current receivables are not discounted.

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2018

1 Summary of significant accounting policies (continued)

(j) Derivative financial instruments

Derivative financial instruments held as financial assets or financial liabilities designated at fair value through profit or loss are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance date.

None of the financial derivative contracts held by the Trust as at 30 June 2018 qualify for hedge accounting.

(k) Trade and other payables

Liabilities are recognised for amounts to be paid in the future for goods and services received, whether or not billed to the Trust. 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.

(l) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the consolidated statement of comprehensive income over the period of the borrowing using the effective interest rate method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down.

(m) Contributed equity

Stapled securities on issue are classified as equity and recognised at the fair value of the consideration received by the Trust. 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.

(n) Distributions paid and payable

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

(o) Fair value estimation

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

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

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

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. The Trust uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

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

(p) Loss per security

Basic loss per security is determined by dividing statutory loss attributable to the securityholders by the weighted average number of securities on issue during the year.

Diluted loss per security is determined by dividing statutory loss attributable to the securityholders by the weighted average number of ordinary securities and dilutive potential ordinary securities on issue during the year.

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2018

1 Summary of significant accounting policies (continued)

(q) Goods and Services Tax (GST)

Income, expenses, assets (with the exception of receivables) and liabilities (with the exception of payables) are recognised net of the amount of GST recoverable from the Australian Taxation Offices (ATO). The non-recoverable GST is recognised as part of the income, expense, asset or liability.

Receivables and payables are inclusive of GST. The net amount of GST recoverable from or payable to the Australian and overseas tax offices is included in receivables or payables in the consolidated balance sheet.

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

(r) Parent entity financial information

The financial information for the parent entity, LWR Finance Trust, disclosed in Note 12, has been prepared on the same basis as the Trust's consolidated financial statements except as set out below:

(i) 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.

(ii) Recoverable amount of assets

The carrying amounts of investments in controlled entities valued on the cost basis are reviewed to determine whether they are in excess of their recoverable amount at balance date. If the carrying value 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.

(s) Impact of new standards and interpretations issued but not yet adopted by the Trust

Certain new accounting standards and interpretations have been published that are not mandatory for the period ended 30 June 2018 but are available for early adoption. The impact of these new standards and interpretations (to the extent relevant to the Trust) 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, sets out new rules for hedge accounting and applies new rules for impairment testing, including the requirements to assess the lifetime expected credit loss for financial assets rather than only incurred credit losses under AASB 139. The Trust will apply AASB 9 for the reporting period beginning on 1 July 2018.

A review of the Trust's financial assets and liabilities has been undertaken with the following impacts expected upon adoption of AASB 9.

Classification and measurement – there will be no change in the classification and measurement of financial assets and liabilities. All financial instruments will be held at either amortised cost or fair value through profit and loss. This reflects the current classification under AASB 139.

Hedge accounting - the Trust does not apply hedge accounting.

Impairment provision – The new expected credit loss model for calculating impairment on financial assets is not expected to have a material impact on the Trust's provision for doubtful debts as its only material financial asset represents loans receivable from other Stapled Trusts which eliminate on consolidation in the consolidated financial statements of the REIT and there have been no write offs since the loan was advanced in November 2016.

The new standard does introduce expanded disclosure requirements. These are expected to change the nature and extent of the financial instrument disclosures.

(ii) AASB 15 Revenue from Contracts with Customers (applied from 1 July 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. Some change in presentation of certain

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2018

1 Summary of significant accounting policies (continued)

revenue items and additional disclosures will be required. The REIT currently plans to apply AASB 15 for the reporting period beginning on 1 July 2018. The adoption of this standard will not impact the LWR Finance Trust.

(t) Rounding of amounts

Under the option provided by ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 (as amended) issued by the Australian Securities and Investments Commission relating to the 'rounding off' of amounts in the financial statements, amounts in the Company and the Trust's consolidated financial statements have been rounded to the nearest thousand dollars in accordance with that Class Order, unless otherwise indicated.

2 Loss per security

	1 Jul 2017 to 30 Jun 2018	22 Sep 2016 to 30 Jun 2017
Basic and diluted loss per ordinary securityholder		
Loss per security (cents) for profit from operations	**(0.85)**	0.25
Loss used in the calculation of basic and diluted loss per security		
Net loss for the period ($'000)	**1,879**	(439)
Weighted average number of securities* used in the calculation of basic and diluted loss per security (thousands)	**220,964**	178,320

*Prior period, takes into account conversion of each security issued by the Trust into approximately 27.18 units on 10 November 2016.

3 Cash and cash equivalents

	30 Jun 2018 $'000	30 Jun 2017 $'000
Cash and cash equivalents	**175**	1,362
	175	1,362

Interest is receivable monthly in arrears. At 30 June 2018, the interest rate on the operating account was 1.75% p.a. (30 June 2017: 1.75% p.a.).

4 Loans receivable

	30 Jun 2018 $'000	30 Jun 2017 $'000
Loans receivable		
Charter Hall Direct Industrial Fund	**378,613**	102,350
Franklin Street Property Trust	**51,517**	76,911
CHPT Dandenong Trust*	**-**	36,758
218 Bannister Road Trust*	**-**	44,701
Canning Vale Logistics Trust No. 1*	**-**	44,619
CPOF Kogarah Holding Trust*	**-**	52,162
	430,130	357,501

*Entities de-stapled and loan balances transferred to Charter Hall Direct Industrial Fund upon simplification of the REIT on 22 September 2017.

On 10 November 2016, the Trust entered an Intra-Group Facility Agreement (IGFA) with the other Stapled Trusts. This agreement expires in November 2021. Interest rates under IGFA are variable and reset periodically. As at 30 June 2018, the interest rate under IGFA was 4.00% per annum (30 June 2017: 4.25%).

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2018

5 Derivative financial instruments

	30 Jun 2018 $'000	30 Jun 2017 $'000
Non-current assets		
Interest rate swaps	**149**	635
	149	635
Non-current liabilities		
Interest rate swaps	**2,205**	884
	2,205	884

Interest rate swaps

The Trust has entered into interest rate swaps totalling $325 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 interest rate swap agreements allow the Trust to raise long term borrowings at a floating rate and effectively swap them into a fixed rate.

As at 30 June 2018, the notional principal amount and period of expiry of the interest rate swap contracts are as follows:

	30 Jun 2018 $'000	30 Jun 2017 $'000
1 - 2 years	**40,000**	-
2 - 3 years	**-**	40,000
3 - 4 years	**185,000**	-
4 - 5 years	**-**	185,000
More than 5 years	**100,000**	-
	325,000	225,000

6 Net tangible assets

	30 Jun 2018 $'000	30 Jun 2017 $'000
Total assets	**430,454**	359,501
Less: Total liabilities	**430,820**	358,044
Net tangible assets/(liabilities) attributable to the Trust	**(366)**	1,457
Total number of securities on issue (thousands)	**232,300**	207,787
Net tangible asset/(liability) backing per security ($)	**-**	0.01

7 Payables

	30 Jun 2018 $'000	30 Jun 2017 $'000
Current liabilities		
Interest payable	**351**	2,58
Accruals	**23**	55
	374	3,13

8 Borrowings

	30 Jun 2018 $'000	30 Jun 2017 $'000
Non-current		
Bank loan	**430,100**	359,000
Unamortised borrowing costs	**(1,859)**	(2,153)
	428,241	356,847

The Trust is a party to an unsecured debt facility agreement with two large Australian banks. In December 2017, the facility limit was increased to $470 million and the term extended from November 2021 to February 2022.

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2018

9 Contributed equity

Details	*No. of securities*	**1 Jul 2017 to 30 Jun 2018 $'000**	22 Sep 2016 to 30 Jun 2017 $'000
Securities on issue - 22 Sep 2016	100	**-**	-
Security issued prior to IPO	2,499,900	**-**	2,500
Capital return	-	**-**	(1,878)
Change in number of units after unit re-organisation	65,454,824	**-**	-
Security redeemed	(67,954,824)	**-**	(626)
Securities issued during the period:			
- via IPO	206,683,097	**-**	1,889
- via DRP	1,104,078	**-**	11
Securities on issue - 30 June 2017	207,787,175	**1,896**	1,896
Securities issued via Entitlement Offer	**22,664,846**	**39**	-
Securities issued via DRP	**1,848,121**	**17**	-
Securities on issue - 30 June 2018	**232,300,142**	**1,952**	-

As stipulated in the Trust's constitution, each security represents a right to an individual share in the Trust and does not extend to a right to the underlying assets of the Trust. There are no separate classes of securities.

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

Entitlement Offer

In December 2017, the REIT (of which the Trust is a member) raised $94.1 million of equity, issuing 22.7 million stapled securities at $4.15 per stapled security to both institutional and retail investors. The proceeds were used to fund the acquisition of Virgin Australia's head office building at 56 Edmondstone Road, Brisbane QLD on 4 January 2018 and associated transaction and capital raising costs. The Trust's share of the equity raised in December 2017 amounted to $39,000.

10 Accumulated losses

	1 Jul 2017 to 30 Jun 2018 $'000	22 Sep 2016 to 30 Jun 2017 $'000
Opening balance	**(439)**	-
Loss for the year	**(1,879)**	(439)
Closing balance	**(2,318)**	(439)

11 Reconciliation of loss to net cash flows from operating activities

	1 Jul 2017 to 30 Jun 2018 $'000	22 Sep 2016 to 30 Jun 2017 $'000
Loss for the year	**(1,879)**	(439)
Non-cash items		
Net fair value movements on derivative financial instruments	**1,813**	216
Amortisation of borrowing costs	**582**	330
Capitalised interest on Intra-Group Facility	**(16,182)**	(8,615)
Classified as financing activity		
Costs associated with Initial Public Offering	**-**	214
Other		
Increase in receivables	**(5)**	(2)
(Decrease)/increase in payables	**50**	345
Net cash flows from operating activities	**(15,621)**	(7,951)

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2018

11 Reconciliation of loss to net cash flows from operating activities (continued)

Non-cash financing and investing activities

The following non cash items are not reflected in the statement of cash flows:

	1 Jul 2017 to 30 Jun 2018 $'000	22 Sep 2016 to 30 Jun 2017 $'000
Distributions by the Trust during the period satisfied by the issue of units under the DRP	**17**	11
	17	11
Gross consideration received from IPO / Entitlement Offer	**40**	1,904
Equity raising fees paid to Joint Lead Managers	**(1)**	(35)
Capital return and unit redemptions paid to former unitholders	**-**	(2,504)
	39	(635)

Net debt reconciliation

The table below sets out an analysis of net debt and the movements in net debt during the year:

	2017 $'000	Movement in borrowing costs $'000	Movement in cash $'000	2018 $'000
Bank debt	359,000	-	71,100	**430,100**
Borrowing costs	(2,153)	294	-	**(1,859)**
Total borrowings	356,847	294	71,100	**428,241**
Cash	(1,362)	-	1,187	**(175)**
Net debt	355,485	294	72,287	**428,066**

12 Parent entity financial information

(a) Summary financial information

The individual financial statements for the parent entity are shown below:

	30 Jun 2018 $'000	30 Jun 2017 $'000
Assets		
Current assets	**680**	3
Non-current assets	**2,500**	2,500
Total assets	**3,180**	2,503
Liabilities		
Current liabilities	**1,471**	705
Total liabilities	**1,471**	705
Net assets	**1,709**	1,798
Equity		
Contributed equity	**1,949**	1,900
Accumulated losses	**(240)**	(102)
Total equity	**1,709**	1,798

	1 Jul 2017 to 30 Jun 2018 $'000	22 Sep 2016 to 30 Jun 2017 $'000
Net loss	**(138)**	(102)
Total comprehensive loss	**(138)**	(102)

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2018

12 Parent entity financial information (continued)

(b) Guarantees entered into by the parent entity

The parent entity has not provided any guarantees in relation to the debts of its subsidiaries as at 30 June 2018 (30 June 2017: nil).

(c) Commitments and contingent liabilities of the parent entity

The parent entity did not have any commitments or contingent liabilities as at 30 June 2018 (30 June 2017: nil).

(d) Directors fees

The parent entity paid nil directors fees (30 June 2017: $2,771) to Charter Hall WALE Limited.

(e) Net current asset deficiency

At 30 June 2018, the parent entity has a net deficiency of current assets over current liabilities of $0.8 million (30 June 2017: $0.7 million). The parent entity will be able to meet its day-to-day working capital requirements from the available loan facility held by its subsidiary and operating cash flows. The unitholders will only receive their distributions to the extent that the parent entity has sufficient working capital.

13 Capital and financial risk management

(a) Capital risk management

The Trust optimises capital through the mix of available capital sources whilst complying with the 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 Trust assesses its capital management approach as a key part of its overall strategy and it is regularly reviewed by management and the Board.

The Trust is able to alter its capital mix by issuing new units, activating the DRP, electing to have the DRP underwritten, adjusting the amount of distributions paid, activating a unit buyback program or reducing borrowings through the sale of assets of the other members of the REIT.

(b) Financial risk management

The Trust's principal financial instruments comprise cash and cash equivalents, receivables, payables, derivatives and borrowings.

The Trust's activities expose it to a variety of financial risks: market risk - interest rate risk, credit risk and liquidity risk.

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

The Trust uses various measures to manage exposures to these types of risks. The Trust undertakes counterparty credit assessment and will seek to spread its credit exposures, where practical. The Finance Trust and its controlled entity centrally manage the REIT's exposure to floating interest rates through the use of interest rate swaps.

(c) Market risk – interest rate risk

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

The Trust is exposed to interest rate risk predominantly through borrowings. The Finance Trust applies benchmark hedging bands across differing interest rate exposures and utilises interest rate swaps, to exchange floating interest rates to fixed interest rates, to centrally manage the REIT's exposure between these bands. Compliance with policy is reviewed regularly by management and is reported to the Board regularly.

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2018

13 Capital and financial risk management (continued)

(c) Market risk – interest rate risk (continued)

The Trust has exposure to interest rate risk on its monetary assets and liabilities, as shown in the table below:

	30 Jun 2018 $'000	30 Jun 2017 $'000
Floating rate		
Cash and cash equivalents	**175**	1,362
Loans receivable	**430,130**	357,501
Borrowings	**(430,100)**	(359,000)
	205	(137)
Derivative financial instruments		
Interest rate swaps - floating to fixed (notional amount)*	**325,000**	225,000
	325,000	225,000
Net exposure	**325,205**	224,863

*The amounts represent the notional principal payable under the derivative contracts.

The table below demonstrates the sensitivity to reasonably possible changes in year end interest rates, with all other variables held constant. A negative amount in the table reflects a potential net reduction in profit or equity, while a positive amount reflects a potential net increase.

	2018				2017	
	Interest expense	Net gain/(loss) from derivative financial instruments	Profit and loss	Other comprehensive income	Profit and loss	Other comprehensive income
	$'m	$'m	$'m	$'m	$'m	$'m
Australian interest rates						
+ 1.00%	**-**	**12,222**	**12,222**	-	8,114	8,114
- 1.00%	**-**	**(12,929)**	**(12,929)**	-	(8,316)	(8,316)

At balance date the Trust has fixed 75% (30 June 2017: 63%) of its net floating interest rate exposure (excluding IGFA), through the use of interest rate swaps.

(d) Liquidity risk

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

The following table provides the contractual maturity of the Trust's floating rate financial liabilities and derivatives as at 30 June 2018. The amounts presented represent the future contractual undiscounted principal and interest cash flows and therefore do

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2018

13 Capital and financial risk management (continued)

(d) Liquidity risk (continued)

not equate to the value shown in the balance sheet. Repayments which are subject to notice are treated as if notice were given immediately.

	Carrying value $'000	Less than 1 year $'000	1 to 5 years $'000	More than 5 years $'000	Total $'000
30 Jun 2018					
Financial liabilities					
Payables	**374**	**374**	**-**	**-**	**374**
Borrowings	**428,241**	**12,824**	**464,284**	**-**	**477,108**
Derivative financial instruments	**2,205**	**1,182**	**1,382**	**(622)**	**1,942**
Total undiscounted financial liabilities	**430,820**	**14,380**	**465,666**	**(622)**	**479,424**
30 Jun 2017					
Financial liabilities					
Payables	313	313	-	-	313
Borrowings	356,847	9,369	390,547	-	399,916
Derivative financial instruments	884	552	359	-	911
Total undiscounted financial liabilities	358,044	10,234	390,906	-	401,140

(e) Credit risk

Credit risk is the risk that a contracting entity will not complete its obligations under a financial asset and cause the Trust to incur a financial loss. The Trust has exposure to credit risk on all of its financial assets included in the Trust's consolidated balance sheet.

The Trust is exposed to credit risk on cash and cash equivalents. The Trust has policies that limit the amount of credit exposure to any financial institution. Cash transactions are limited to investment grade counterparties in accordance with the Trust's FRM policy. The Trust monitors the public credit rating of its counterparties.

The Trust is also exposed to credit risk on loans receivable due from other Stapled Trusts. No amounts have been impaired or written off since the loan was advanced in November 2016.

The geographic concentration of credit exposure of the Trust's assets is based entirely in Australia.

All cash and cash equivalents and loans receivable are neither past due or not impaired.

There are no significant financial assets that have had renegotiated terms that would otherwise have been past due or impaired.

(f) Offsetting financial assets and financial liabilities

The Trust does not have any financial assets or financial liabilities that are subject to set off to a net position.

14 Fair value measurement

(a) Recognised fair value measurement

AASB 13 *Fair value measurement* requires disclosure of fair value measurement using the following fair value measurement hierarchy:

i Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.

ii Level 2 - Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

iii Level 3 - Inputs for the asset or liability that are not based on observable market data.

Financial assets and liabilities not carried at fair value have carrying values that reasonably approximate their fair values and are categorised within fair value as follows:

- Cash and cash equivalents and borrowings – Level 1.
- All other financial assets and liabilities – Level 2.

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2018

14 Fair value measurement (continued)

The following table presents the Trust's assets and liabilities measured at fair value according to the fair value hierarchy at 30 June 2018:

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial assets - recurring fair value measurement				
Derivative financial instruments	-	**149**	-	**149**
Total assets	-	**149**	-	**149**
Financial liabilities - recurring fair value measurement				
Derivative financial instruments	-	**2,205**	-	**2,205**
Total liabilities	-	**2,205**	-	**2,205**

The following table presents the Trust's assets and liabilities measured at fair value according to the fair value hierarchy at 30 June 2017:

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial assets - recurring fair value measurement				
Derivative financial instruments	-	635	-	635
Total assets	-	635	-	635
Financial liabilities - recurring fair value measurement				
Derivative financial instruments	-	884	-	884
Total liabilities	-	884	-	884

There were no transfers between levels of fair value measurement during the period.

(b) Disclosed fair values

The fair value of derivative financial instruments are disclosed in the consolidated balance sheet. The carrying amounts of receivables and payables are assumed to approximate their fair values due to their short-term nature.

The following table represents the carrying amounts and fair values of borrowings at 30 June 2018. Fair value is estimated by discounting the future contractual cash flows at the current market interest rate curve since quoted prices are not available.

	30 Jun 2018 Carrying amount $'000	30 Jun 2018 Fair value $'000	30 Jun 2017 Carrying amount $'000	30 Jun 2017 Fair value $'000
Non-current				
Bank loans	**430,100**	**432,019**	359,000	360,498
	430,100	**432,019**	359,000	360,498

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

The fair value of investment in financial assets and derivative financial instruments are estimated internally using generally acceptable valuation models based on discounted cash flow analysis using quoted market inputs (i.e. interest rates, forward rates, etc.) adjusted for specific features of the financial instruments and debit or credit valuation adjustments.

Credit value adjustments are based on the counterparty's credit risk using counterparty's credit default swap curve as a benchmark.

Debit value adjustments are based on the Trust's credit risk using debt financing available to the Trust as a benchmark.

15 Remuneration of auditors

During the year the auditor of the Trust, PricewaterhouseCoopers, earned the following remuneration:

	1 Jul 2017 to 30 Jun 2018 $	22 Sep 2016 to 30 Jun 2017 $
Audit services	**17,500**	17,500
	17,500	17,500

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2018

16 Related party transactions

(a) Responsible Entity

The Responsible Entity of the Trust is Charter Hall WALE Limited.

The registered office of the Responsible Entity is Level 20,1 Martin Place, Sydney NSW 2000.

(b) Directors

The following persons have held office as directors of the Responsible Entity during the period and up to the date of this report:

- Peeyush Gupta - Chairman and Non-Executive Director
- Glenn Fraser - Non-Executive Director
- Ceinwen Kirk-Lennox - Non-Executive Director
- David Harrison - Executive Director and Chief Executive Officer/Managing Director of Charter Hall Group
- Adrian Taylor - Executive Director

(c) Transactions with related parties of the Responsible Entity

The responsible entity and its related parties held 47,402,894 units of the Trust as at 30 June 2018 (30 June 2017: 41,461,705 units).

Amounts paid/payable to related party (excluding fund management fees detailed separately) for the period are as follows:

	30 Jun 2018	30 Jun 2017
	$	$
Accounting services	**41,811**	24,102
	41,811	24,102

(d) Trust management fees

Under the terms of the Trust's constitution, the Responsible Entity is entitled to receive a base fee calculated as 0.45% per annum of the look through value of the total assets of the Trust and payable monthly in arrears. Management fees for the period ended 30 June 2018 amounted to $39,086 (30 June 2017: $14,347).

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

As at 30 June 2018, the outstanding payable balance with the Responsible Entity and its related parties was $192 (30 June 2017: $1,494).

(f) Key management personnel

Key management personnel (KMP) are defined in AASB 124 *Related Party Disclosures* as those having authority and responsibility for planning, directing and controlling the activities of the entity. The Responsible Entity meets the definition of key management personnel as it has this authority in relation to the activities of the Trust. The Trust paid nil directors fees (30 June 2017: $2,771) to the Responsible Entity.

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2018

16 Related party transactions (continued)

(g) Director equity holdings

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

	Units held 2018	Units held 2017
Peeyush Gupta	**394,243**	382,111
Glenn Fraser	**44,325**	40,000
Ceinwen Kirk-Lennox	**25,764**	23,250
David Harrison	**290,458**	254,053
Adrian Taylor	**72,530**	63,513
	827,320	762,927

The aggregate number of units of the Trust acquired by the directors of the Responsible Entity or their related parties during the year is set out below:

	Units acquired 2018	Units acquired 2017
Peeyush Gupta	**12,132**	382,111
Glenn Fraser	**4,325**	40,000
Ceinwen Kirk-Lennox	**2,514**	23,250
David Harrison	**36,405**	254,053
Adrian Taylor	**9,017**	63,513
	64,393	762,927

No units of the Trust were sold by the directors of the Responsible Entity or their related parties during the period.

17 Commitments and contingent liabilities

The Trust has no commitments or contingent liabilities as at 30 June 2018.

As at 30 June 2017, the Trust had a commitment to DIF, another member of the REIT, to fund the $28.5 million acquisition of Bunnings, South Mackay QLD which settled in July 2017.

18 Interest in other entities

Material subsidiaries

The Trust's principal subsidiary at 30 June 2018 is set out below. It has contributed equity consisting solely of ordinary units that is held directly by the Trust, and the proportion of ownership interests held equals the voting rights held by the Trust. The country of incorporation or registration is also its principal place of business.

Name of entity	**Country of incorporation / Place of business**	**Ownership interest held 2018**	**2017**	**Principal activities**
Charter Hall LWR Limited	Australia	**100%**	100%	Financing Activities

19 Events occurring after reporting date

The directors of the Responsible Entity are not aware of any matter or circumstance not otherwise dealt with in this report that has significantly affected or may significantly affect the operations of the Trust, the results of its operations or the state of affairs of the Trust in future financial years.

Directors' declaration to unitholder

In the opinion of the directors of Charter Hall WALE Limited, the Responsible Entity of LWR Finance Trust:

a The consolidated financial statements and notes set out on pages 12 to 29 are in accordance with the *Corporations Act 2001*, including:

   i complying with Accounting Standards, *Corporations Regulations 2001* and other mandatory professional reporting requirements; and

   ii giving a true and fair view of the Trust's financial position as at 30 June 2018 and of its performance for the financial year ended on that date; and

b There are reasonable grounds to believe that the Trust will be able to pay its debts as and when they become due and payable.

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

The Directors have been given declarations by the Fund Manager, who performs the Chief Executive Officer function, and the Head of CLW 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 Directors.

Peeyush Gupta

Director

Sydney

9 August 2018

Independent auditor's report

To the securityholders of LWR Finance Trust

Report on the audit of the financial report

Our opinion

In our opinion:

The accompanying financial report of LWR Finance Trust (the Registered Scheme) and its controlled entity (together the consolidated entity) is in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the consolidated entity's financial position as at 30 June 2018 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

The consolidated entity's financial report comprises:

- the consolidated balance sheet as at 30 June 2018
- 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 directors' declaration of Charter Hall WALE Limited (the responsible entity of the Registered Scheme).

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

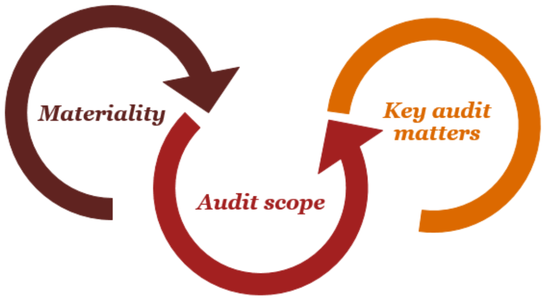
We are independent of the consolidated entity in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant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

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.

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 consolidated entity, its accounting processes and controls and the industry in which it operates.

The consolidated entity's principal activity is financing.



Materiality

- For the purpose of our audit we used overall materiality of $4.3 million, which represents approximately 1% of the consolidated entity's total assets.
- We chose total assets as the benchmark because, in our view, it is the benchmark most appropriate for the nature of the consolidated entity as a financing vehicle.
- We selected 1% based on our professional judgement, noting it is within the range of commonly acceptable asset-related materiality thresholds.
- 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.

Audit Scope

- Our audit focused on where the directors' of the responsible entity of the Registered Scheme made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events.
- We also focused on the risk of management override of internal controls, including whether there was evidence of bias by the directors that may represent a risk of material misstatements due to fraud.
- We tailored the scope of our audit to ensure that we performed enough work to be able to given an opinion on the financial report as a whole, taking into account the structure of the consolidated entity, the accounting processes and controls, and the industry in which the consolidated entity operates.

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 matter was 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 this matter. Further, any commentary on the outcomes of a particular audit procedure is made in that context. We communicated the key audit matter to the Audit, Risk and Compliance Committee.

Key audit matter	*How our audit addressed the key audit matter*
Finance costs *(Refer to Note 8)* Charter Hall LWR Pty Limited (a wholly owned subsidiary of the Registered Scheme) entered into a syndicated facility agreement with third party financiers. For the financial year ended 30 June 2018, the finance costs recognised in the consolidated statement of comprehensive income was $16.2 million (2017: $8.6 million). We considered the completeness and accuracy of the finance costs to be a key audit matter because of the: • relative size of the interest expense and line fee for the financial year ended 30 June 2018 in relation to the consolidated statement of comprehensive income; • nature of the consolidated entity's operations; and • significant audit effort taken to perform audit procedures on the balance.	We obtained and reviewed the executed syndicated facility agreement to validate the • term of the facility • interest rate and • line fee. We agreed all facility drawdowns and repayments recorded by the consolidated entity for the financial year ended 30 June 2018 to bank statements. We independently recalculated the interest expense and line fee expense for the financial year ended 30 June 2018 using the key terms set out in the facility agreement, and agreed these amounts to the finance costs in the consolidated statement of comprehensive income.

Other information

The directors of Charter Hall WALE Limited, the responsible entity of the Registered Scheme, are responsible for the other information. The other information comprises the information included in the financial report and other information for the year ended 30 June 2018, including Director's Report, but but does not include the financial report and auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express 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, 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.

Responsibilities of the directors of the Responsible Entity for the financial report

The directors of Charter Hall WALE Limited, the responsible entity of the consolidated entity, are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and *Corporations Act 2001* and for such internal control as the directors 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 are responsible for assessing the ability of the consolidated entity 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 either intend to liquidate the consolidated entity or to cease operations, or have no realistic alternative but to do so.

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. This description forms part of our auditor's report.

PricewaterhouseCoopers

PricewaterhouseCoopers

J A Dunning

J A Dunning
Partner

Sydney
9 August 2018

Franklin Street Property Trust

ARSN 614 714 206

Financial report and other information
For the year ended 30 June 2018

Important Notice

Contents

Directors' report

For the year ended 30 June 2018

The Directors of Charter Hall WALE Limited (CHWALE) present the annual financial report of Franklin Street Property Trust (Trust or FSPT) for the year ended 30 June 2018.

The Trust was established on 13 October 2010 and registered as a managed investment scheme on 22 September 2016. The Trust was listed on the Australian Securities Exchange on 8 November 2016 and became a member of the Charter Hall Long WALE REIT consolidated group (REIT) on 10 November 2016 when its units were stapled to the units of the other stapled trust comprising of the REIT. Accordingly, the results of the comparative period are from 22 September 2016, date of registration, to 30 June 2017.

Principal activities

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

- Peeyush Gupta - Chairman Non-Executive Director
- Glenn Fraser - Non-Executive Director
- Ceinwen Kirk-Lennox - Non-Executive Director
- David Harrison - Executive Director and Chief Executive Director/Managing Director of Charter Hall Group
- Adrian Taylor - Executive Director

Distributions

Distributions paid or declared during the year are as follows:

	Cents per security	$'000
Total distribution for the period from 1 July 2017 to 30 September 2017	**1.50**	**3,130**
Total distribution for the period from 1 October 2017 to 31 December 2017	**1.50**	**3,485**
Total distribution for the period from 1 January 2018 to 31 March 2018	**1.50**	**3,485**
Total distribution for the period from 1 April 2018 to 30 June 2018	**1.60**	**3,716**
Total distribution	**6.10**	**13,816**
Total distribution for the period from 1 July 2016 to 21 September 2016 [1]	5.51	1,936
Total distribution for the period from 22 September 2016 to 30 June 2017 [2]	5.30	9,668
Total distribution	10.81	11,604

[1] Represents distributions paid to former securityholders prior to the registration of the Trust as a managed investment scheme.

[2] Calculated with reference to weighted average number of securities (refer Note 3).

In the prior period, the Trust also made a capital distribution of $45.5 million to former securityholders on 10 November 2016.

A distribution of 1.60 cents per security for the quarter ended 30 June 2018 was declared on 19 June 2018 and is expected to be paid on 14 August 2018.

Distribution Reinvestment Plan (DRP)
The Trust, being a member of the REIT, has established a Distribution Reinvestment Plan (DRP) under which stapled securityholders may elect to have all or part of their distribution entitlements satisfied by the issues of new stapled securities rather than being paid in cash.

The DRP issue price is determined at a discount of 1.0% to the daily volume weighted average price of all securities traded on the ASX during the 10 business days commencing on the third business day following the distribution record date. The Trust raised $0.9 million from the DRP for the 30 June 2017 distribution allotted on 14 August 2017 and $1.0 million from the DRP for the 30 September 2017 distribution allotted on 15 November 2017. The DRP was inactive for the remainder of the year.

Directors' report (continued)

For the year ended 30 June 2018

Review and results of operations

The Trust recorded a statutory profit of $12.2 million which predominantly reflects operating earnings of $13.8 million reduced by income support of $1.8 million.

In the prior period, the Trust recorded a statutory loss of $16.2 million which represents operating earnings of $9.2 million and net revaluation gains of $6.7 million on investment properties and financial assets and $1.7 million fair value gains on derivative financial instruments, offset by $0.5 million loss on extinguishment of debt facility, $3.6 million of costs associated with Initial Public Offering (IPO) and $29.9 million loss on the disposal of two wholly owned subsidiaries of the Trust. Refer to Note 7 of the financial statements for further details.

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

	1 Jul 2017 to 30 Jun 2018 $'000	22 Sep 2016 to 30 Jun 2017 $'000
Net property income	**18,070**	13,391
Interest income	**27**	18
Fund management fees	**(1,307)**	(951)
Finance costs	**(2,657)**	(2,994)
Administration and other expenses	**(303)**	(279)
Operating earnings	**13,830**	9,185

Operating earnings is a financial measure which represents profit/(loss) under Australian Accounting Standards adjusted for net fair value movements, non-cash accounting adjustments such as straight lining 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 Trust'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.

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

	1 Jul 2017 to 30 Jun 2018 $'000	22 Sep 2016 to 30 Jun 2017 $'000
Operating earnings	**13,830**	9,185
Net fair value movements on investment properties	**(842)**	6,699
Net fair value movements on derivative financial instruments	**-**	1,664
Net fair value gain on financial assets	**302**	190
Other income	**-**	226
Loss on extinguishment of debt facility	**-**	(479)
Straightlining of rental income	**692**	(259)
Costs associated with IPO	**-**	(3,588)
Loss on disposal of subsidiaries	**-**	(29,859)
Income support	**(1,831)**	-
Statutory profit/(loss) for the period	**12,151**	(16,221)
Basic weighted average number of securities (thousands)	**220,964**	182,582
Basic profit/(loss) per security (cents)	**5.50**	(8.89)
Operating earnings per security (cents)	**6.26**	5.03

Directors' report (continued)

For the year ended 30 June 2018

Review and results of operations (continued)

The financial results are summarised as follows:

	1 Jul 2017 to 30 Jun 2018	22 Sep 2016 to 30 Jun 2017
Revenue ($ thousands)	**20,741**	16,227
Statutory profit/(loss) for the period ($ thousands)	**12,151**	(16,221)
Basic earnings/(loss) per security (cents)	**5.50**	(8.89)
Operating earnings ($ thousands)	**13,830**	9,185
Operating earnings per security (cents)	**6.26**	5.03
Distributions ($ thousands)	**13,816**	9,668
Distributions per security (cents)	**6.10**	5.30

	30 Jun 2018	30 Jun 2017
Total assets ($ thousands)	**289,834**	288,034
Total liabilities ($ thousands)	**59,331**	81,139
Net assets attributable to securityholders ($ thousands)	**230,503**	206,895
Securities on issue (thousands)	**232,300**	207,787
Net assets per security ($)	**0.99**	1.00

Significant changes in the state of affairs

Equity Raising

In December 2017, the REIT (of which the Trust is a member) raised $94.1 million of equity, issuing 22.7 million stapled securities at $4.15 per stapled security to both institutional and retail investors. The proceeds were used to fund the REIT's acquisition of Virgin Australia's head office building at 56 Edmondstone Road, Brisbane QLD on 4 January 2018 and associated transaction and capital raising costs.

The Trust's share of the equity raised in December 2017 amounted to $23.3 million which was used to repay the Trust's borrowings from other Stapled Trusts under the Intra-Group Facility Agreement.

There were no other significant changes in the state of affairs of the Trust that occurred during the period under review.

Business strategies and prospects

The Trust's objective is to provide investors with stable and secure income and the potential for both income and capital growth through an exposure to a property portfolio with a long WALE.

The Trust aims to maintain and enhance the existing portfolio through active asset and property management.

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

Tenant concentration

The Trust's property has a significant tenant concentration. This exposes the value and performance of the property to the ability of those tenants to continue to meet their obligations under the respective lease agreements.

Re-leasing and vacancy

The REIT's portfolio is currently 100% leased and has no major forecast lease expiries prior to 2023. There is a risk that the Trust may not be able to negotiate suitable lease renewals. This may result in periods of vacancy which could result in a reduction in income received by the Trust, a reduction in the distributions of the Trust and a reduction in the value of the asset of the Trust. This risk is mitigated through active property and asset management. Any impact will depend on future economic conditions that are not known at balance date.

Funding

The Trust obtains necessary funding from LWR Finance Trust, another stapled entity of the REIT. An inability by LWR Finance Trust 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 Trust's performance and financial position. The REIT seeks to minimise this risk across the Stapled Trusts, including the Trust, 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.

Directors' report (continued)

For the year ended 30 June 2018

Rental income and expenses risk

Distributions made by the Trust are largely dependent on the rents received from its tenants and expenses incurred during operations, which may be affected by a number of factors, including overall economic conditions and property market conditions.

Matters subsequent to the end of the financial year

On 6 August 2018, securityholders voted in favour of the proposed sale of a 50% interest in ATO Adelaide, SA and simplification of the REIT structure from a three-staple structure to a two-staple structure. On 22 August 2018 DIF will acquire all of the units in the Trust and the Trust will become a wholly owned subsidiary of DIF.

On 8 August 2018, a call option was exercised to sell a 50% interest in ATO Adelaide, SA to a related party for proceeds of $135.0 million as well as half the income support account. Settlement is expected to occur in mid August.

The directors of the Responsible Entity are not aware of any other matter or circumstance not otherwise dealt within this report or the financial report that has significantly affected or may significantly affect the operations of the Trust, the results of its operations or the state of affairs of the Trust in future financial years.

Likely developments and expected results of operations

The 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 Trust are unknown. Such developments could influence property market valuations, the ability to 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 Trust which would have a material impact on the future results of the Trust. Property valuation changes and movements in interest rates may have a material impact on the Trust'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 Trust contributed to the premium for a contract insuring all directors, secretaries, executive officers and officers of the Trust and of each related body corporate of the Trust, with the balance of the premium paid by the Charter Hall Group and funds managed by members of the Charter Hall Group. In accordance with usual commercial practice, the insurance contract prohibits disclosure of details of the nature of the liabilities covered by the insurance, the limit of indemnity and the amount of the premium paid under the contract.

Provided the officers of the Responsible Entity act in accordance with the Trust's Constitution and the *Corporations Act 2001*, the officers are indemnified out of the assets of the Trust against losses incurred while acting on behalf of the Trust. The insurance does not provide any cover for the independent auditor of the Trust or of a related party of the Trust. The Trust indemnifies the auditor (PricewaterhouseCoopers Australia) against any liability (including legal costs) for third party claims arising from a breach by the Trust of the auditor's engagement terms, except where prohibited by the *Corporations Act 2001.*

Fees paid to and interests held in the Trust by the Responsible Entity or its associates

Base and other fees of $1,307,210 (30 June 2017: $950,171) were paid or are payable to the Responsible Entity and its associates for the services provided during the period, in accordance with the Trust's constitution.

The interests in the Trust held by the Responsible Entity or its associates as at 30 June 2018 are disclosed in Note 19 to the financial statements.

Directors' report (continued)

For the year ended 30 June 2018

Interests in the Trust

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

	1 Jul 2017 to 30 Jun 2018	22 Sep 2016 to 30 Jun 2017
Securities on issue at the beginning of the period	**207,787,175**	34,620,222
Securities issued prior to IPO	**-**	504,890
Redemption of Class B securities	**-**	(20)
Change in the number of securities after security reorganisation	**-**	32,829,732
Security redemption	**-**	(67,954,824)
Securities issued		
- via IPO	**-**	206,683,097
- via Entitlement Offer	**22,664,846**	
- via DRP	**1,848,121**	1,104,078
Securities on issue at the end of the period	**232,300,142**	207,787,175

Environmental regulations

To the best of the directors' knowledge, the operations of the Trust have been undertaken in compliance with the applicable environmental regulations that apply to the Trust's activities.

Directors' report (continued)

For the year ended 30 June 2018

Information on Current Directors

Director	Experience	Special responsibilities	Interest in units of the Trust
Peeyush Gupta	Appointed 6 May 2016 Peeyush was the co-founder and the inaugural Chief Executive Officer of Ipac Securities Limited, a pre-eminent wealth management firm. He has experience in starting and growing businesses, acquisitions and divestments, roll-ups and integration, general management, investment management and corporate governance. He is a Non-Executive Director of National Australia Bank Limited, Special Broadcasting Service ("SBS"), BNZ Life, and Insurance & Care (NSW). He is also currently the Chair of Charter Hall Direct Property Management Limited, Chair of MLC RE and IDPS Board and serves in a pro bono capacity as a trustee of Western Sydney University, and the Australian School of Business Dean's Advisory Committee. Peeyush holds a Master of Business Administration in Finance from the Australian Graduate School of Management and a Bachelor of Arts in Computing Studies from the University of Canberra. Peeyush is also a Fellow of the Australian Institute of Company Directors.	Chairman	394,243
Glenn Fraser	Appointed 6 May 2016 Glenn is a professional non executive director with significant expertise in finance, infrastructure and property. He was a member of Transfield Holdings Advisory Board from 1999 to 2015. He was instrumental in Transfield Holdings' acquisition of a 50% interest in Charter Hall and its subsequent expansion and listing in 2005. Previously, Glenn was a Non-Executive Director of the Charter Hall Group from 6 April 2005 to 15 August 2012. Joining Transfield Holdings in 1996, Glenn was General Manager – Finance Project Development, where he was responsible for the financial elements of Transfield Holdings' infrastructure and property projects. Glenn was appointed Chief Financial Officer in 1999 of Transfield Holdings, which at that time had turnover in excess of $1 billion per annum, and over 8,000 staff. Glenn was a principal and director of a project finance advisory business, Perry Development Finance Pty Limited from 1985, which was sold to Hambros Corporate Finance Limited in 1995. Glenn holds a Bachelor of Commerce from the University of NSW, and is a member of the Institute of Chartered Accountants and a graduate of the Australian Institute of Company Directors.	Audit, Risk & Compliance Committee Chair	44,325

Directors' report (continued)

For the year ended 30 June 2018

Director	Experience	Special responsibilities	Interest in units of the Trust
Ceinwen Kirk-Lennox	Appointed 28 June 2016 Ceinwen has over 32 years of experience in many aspects of property including agency, property development, project and construction management, and community development. Her executive career includes 26 years at Lendlease Corporation, where she held executive roles, running business units, client accounts and functions across the Lendlease Group. Ceinwen now runs her own consultancy, with clients across both private and public sectors. Ceinwen holds a Bachelor of Business (Land Economy) from the University of Western Sydney, and is a graduate of the Australian Institute of Company Directors. Ceinwen brings 18 years' experience as an executive and non-executive director serving on a number of boards including both for-profit and not-for-profit companies. Ceinwen is a National Director of the Property Industry Foundation, and an Advisory Member of the Justice NSW PBCP.	Nil	25,764
David Harrison	Appointed 16 February 2016 David has 32 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. He continues to build the momentum of a $22.5 billion investment portfolio and is 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 Group. David has overseen the growth of the Charter Hall Group from $500 million to $22.5 billion of assets under management in 14 years. David has been principally responsible for transactions exceeding $25 billion of commercial, retail and industrial property assets over the past 28 years. David holds a Bachelor of Business Degree (Land Economy) from the University of Western Sydney, is a Fellow of the Australian Property Institute (FAPI) and holds a Graduate Diploma in Applied Finance from the Securities Institute of Australia.	Nil	290,458

Directors' report (continued)

For the year ended 30 June 2018

Director	Experience	Special responsibilities	Interest in units of the Trust
Adrian Taylor	Appointed 18 July 2016 Adrian is Charter Hall's Office CEO and a member of Charter Hall's Executive Committee, with 26 years industry experience and eight years with Charter Hall. Adrian leads the A$10.5 billion office sector from end to end including Investment Management, Asset Management, Development and Property Management teams, and helps develop the overall strategy and objectives for the office funds in conjunction with the Charter Hall Managers and our Investors and helps guide the portfolio management, capital transactions, treasury and trust management teams to execute strategy. He has extensive capital management experience including debt and equity raising. Prior to the Charter Hall Office REIT's privatisation, he was Chief Executive Officer and has deep capital transaction and extensive joint venture experience in Australia and the US. Adrian graduated with a Bachelor of Business from Monash University, is a Certified Practising Accountant, a Fellow of the Financial Services Institute of Australasia, a Fellow Of the Royal Institute of Chartered Surveyors and is involved in numerous property industry groups including being Deputy Chair of the ICMD Division Council of the Property Council of Australia.	Nil	72,530

Meetings of Directors

	Full meetings of Directors		Meetings of Audit, Risk and Compliance Committee	
Name	Eligible to attend	Attended	Eligible to attend	Attended
Peeyush Gupta	8	8	4	4
Glenn Fraser	8	8	4	4
Ceinwen Kirk-Lennox	8	8	4	4
David Harrison	8	7	-	-
Adrian Taylor	8	7	-	-

Company Secretary

Tracey Jordan acted as Company Secretary for the Trust on 16 February 2016 to 21 November 2017. Mark Bryant was appointed as a Company Secretary for the Trust on 21 November 2017. Mark holds a Bachelor of Business (Accounting) and a Bachelor of Laws (Hons) and has over 13 years of 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 18 to the 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 18 of the 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 13.

Directors' report (continued)

For the year ended 30 June 2018

Rounding of amounts to the nearest hundred thousand dollars

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

This report is made in accordance with a resolution of the Board of Directors of Charter Hall WALE Limited.

Peeyush Gupta
Chairman

Sydney
9 August 2018

Auditor's Independence Declaration

As lead auditor for the audit of Franklin Street Property Trust for the year ended 30 June 2018, 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.

J A Dunning
Partner
PricewaterhouseCoopers

Sydney
9 August 2018

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Statement of comprehensive income

For the year ended 30 June 2018

	Notes	1 Jul 2017 to 30 Jun 2018 $'000	22 Sep 2016 to 30 Jun 2017 $'000
Revenue			
Property rental income		**20,714**	15,983
Interest and other income		**27**	244
Total revenue		**20,741**	16,227
Other income			
Net fair value gain on investment property	7	**-**	6,699
Net fair value gain on financial assets	8	**302**	190
Net gain on derivative financial instruments		**-**	1,664
Total other income		**302**	8,553
Total revenue and other income		**21,043**	24,780
Expenses			
Property expenses		**(3,783)**	(2,851)
Fund management fees		**(1,307)**	(951)
Costs associated with Initial Public Offering		**-**	(3,588)
Administration and other expenses		**(303)**	(279)
Net fair value loss on investment property	7	**(842)**	-
Finance costs	13	**(2,657)**	(3,473)
Loss on disposal of subsidiaries		**-**	(29,859)
Total expenses		**(8,892)**	(41,001)
Profit/(loss) for the period		**12,151**	(16,221)
Other comprehensive income		**-**	-
Total comprehensive income/(loss)		**12,151**	(16,221)
Basic and diluted loss per ordinary securityholder of the Trust			
Earnings/(loss) per security (cents)	3	**5.50**	(8.89)

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

Balance sheet

As at 30 June 2018

	Notes	30 Jun 2018 $'000	30 Jun 2017 $'000
Assets			
Current assets			
Cash and cash equivalents	4	**3,969**	836
Receivables	5	**41**	-
Other assets	6	**163**	8
Total current assets		**4,173**	844
Non-current assets			
Investment property	7	**270,000**	270,000
Investment in financial assets at fair value	8	**15,661**	17,190
Total non-current assets		**285,661**	287,190
Total assets		**289,834**	288,034
Liabilities			
Current liabilities			
Payables	10	**2,173**	903
Distribution payable	11	**3,716**	3,325
Other liabilities	12	**1,925**	-
Total current liabilities		**7,814**	4,228
Non-current liabilities			
Borrowings	13	**51,517**	76,911
Total non-current liabilities		**51,517**	76,911
Total liabilities		**59,331**	81,139
Net assets		**230,503**	206,895
Equity			
Contributed equity	14	**172,223**	146,950
Retained profits	15	**58,280**	59,945
Total equity		**230,503**	206,895

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

Statement of changes in equity

For the year ended 30 June 2018

		Attributable to securityholders of Franklin Street Property Trust		
	Notes	Contributed equity $'000	Retained profits $'000	Total $'000
Balance as at 22 September 2016		51,494	87,770	139,264
Securities issued	14	2,135	-	2,135
Capital return	14	(45,504)	-	(45,504)
Securities redeemed	14	(68,256)	-	(68,256)
Securities issued via IPO, net of equity raising costs	14	205,995	-	205,995
Securities issued via DRP	14	1,086	-	1,086
Distributions provided for or paid	2	-	(11,604)	(11,604)
Total comprehensive income		-	(16,221)	(16,221)
Balance at 30 June 2017		146,950	59,945	206,895
Balance at 1 July 2017		146,950	59,945	206,895
Securities issued via equity raise	14	**23,349**	**-**	**23,349**
Securities issued via DRP	14	**1,924**	**-**	**1,924**
Distribution provided for or paid	2	**-**	**(13,816)**	**(13,816)**
Total comprehensive income		**-**	**12,151**	**12,151**
Balance at 30 Jun 2018		**172,223**	**58,280**	**230,503**

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

Cash flow statement

For the year ended 30 June 2018

	Notes	1 Jul 2017 to 30 Jun 2018 $'000	22 Sep 2016 to 30 Jun 2017 $'000
Cash flows from operating activities			
Property rental income received		**23,750**	16,189
Property expenses paid		**(2,964)**	(4,161)
Interest and other income received		**27**	244
Finance costs paid		**-**	(827)
Fund management fees paid		**(1,436)**	(1,109)
Administration and other expenses paid		**(276)**	(76)
Net GST paid with respect to operating activities		**(1,444)**	(1,355)
Net cash flows from operating activities	16	**17,657**	8,905
Cash flows from investing activities			
Payments for investment properties		**(150)**	(16)
Payments to income support fund		**-**	(17,000)
Draws from income support fund		**1,831**	-
Cash transferred on disposal of subsidiaries		**-**	(1,355)
Settlement of interest rate swaps		**-**	(6,863)
Net cash flows from investing activities		**1,681**	(25,234)
Cash flows from financing activities			
Repayments under Intra-Group Facility Agreement		**(16,367)**	(100,640)
Drawdowns under Intra-Group Facility Agreement		**11,663**	175,418
Costs associated with IPO		**-**	(1,420)
Proceeds from issue of securities, net of equity raising costs	16	**-**	90,080
Distributions paid to securityholders	11	**(11,501)**	(5,058)
Proceeds from borrowings		**-**	300
Repayment of borrowings		**-**	(144,500)
Net cash flows from financing activities		**(16,205)**	14,180
Net increase/(decrease) in cash and cash equivalents		**3,133**	(2,149)
Cash at the beginning of the year		**836**	2,985
Cash and cash equivalents at the end of the year		**3,969**	836

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

Notes to the financial statements

For the year ended 30 June 2018

1 Summary of significant accounting policies

The Charter Hall Long WALE REIT (REIT or CLW) is a stapled group comprising of Franklin Street Property Trust (Trust or FSPT) and the entities below (collectively referred to as the Stapled Trusts):

Stapled Entity	Description
Charter Hall Direct Industrial Fund (DIF)	Owns all of the REIT's other investment properties and equity accounted investments
LWR Finance Trust (Finance Trust)	Holds the REIT's bank debt and interest rate swaps through Charter Hall LWR Limited

The units of the Stapled Trusts (collectively referred to as the stapled securities) are listed on the Australian Securities Exchange and cannot be traded or dealt with separately. The three entities comprising the stapled group remain separate legal entities in accordance with the *Corporations Act 2001*, and are each required to comply with the reporting and disclosure requirements of Accounting Standards and the *Corporations Act 2001*.

The accounting policies which have been adopted in the preparation of this annual financial report are set out below.

The custodian of the Trust is The Trust Company (Australia) Limited. The custodian's registered office is Level 12, 123 Pitt Street, Sydney NSW 2000.

Franklin Street Property Trust is a trust constituted in Australia. The nature of the operations and principal activities of the Trust are described in the Directors' Report.

The financial report for the period ended 30 June 2018 was authorised for issue by the directors on 9 August 2018. The directors have the power to amend and reissue the financial report.

(a) Basis of preparation

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

The financial statements are presented in Australian dollars, which is the Trust's functional and presentation currency.

Compliance with IFRS

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

Historical cost convention

The financial statements have been prepared on a historical cost basis, except for the following:

- investments in financial assets held at fair value - measured at fair value
- investment property – 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 2018 that affect the Trust's operations or reporting requirements.

Critical accounting estimates

The preparation of the financial statements in conformity with Australian Accounting Standards requires the use of certain critical accounting estimates and management to exercise its judgement in the process of applying the Trust's accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements are disclosed below:

- Investment property – Note 1(j)
- Fair value estimation – Note 1(p)

Estimates and judgements are continually evaluated. They are based on historical experience and other factors, including expectations of future events that may have a financial impact on the Trust and that are believed to be reasonable under the circumstances.

Notes to the financial statements (continued)

For the year ended 30 June 2018

1 Summary of significant accounting policies (continued)

Net current asset deficiency

At 30 June 2018, the Trust has a net deficiency of current assets over current liabilities of $3.6 million (30 June 2017: $3.4 million). The Trust will be able to meet its day-to-day working capital requirements from the available Intra-Group Facility and operating cashflows. The unitholders will only receive their distributions to the extent that the Trust has sufficient working capital.

Based on the facts set out above, the results and cash flows, there are reasonable grounds for the Trust to believe the Trust will be able to meet its debts as and when they become due and payable and accordingly the financial statements have been prepared on a going concern basis.

(b) Segment reporting

The Trust has not produced segment reporting information as management had determined that only one operating segment exists. This is based on the information provided to the chief operating decision maker in accordance with AASB 8 *Operating Segments*. The segment is deemed to be property investment in Australia.

(c) Revenue recognition

Rental income

Property rental income represents income earned from the rental of Trust property (inclusive of outgoings recovered from tenants) and is recognised on a straight line basis over the lease term.

Interest income

Interest income is recognised using the effective interest rate method.

(d) Expenses

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

(e) Repairs and maintenance

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

(f) Income tax

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

The liability for capital gains tax that may arise if the Australian property was sold is not accounted for in these financial statements.

(g) Impairment of assets

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

(h) Cash and cash equivalents

For the purpose of presentation in the cash flow statement, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

(i) Trade and other receivables

Trade and other receivables are initially recognised at the amounts due to the Trust. Rent and outgoings receivables are usually settled within 30 days of recognition.

Notes to the financial statements (continued)

For the year ended 30 June 2018

1 Summary of significant accounting policies (continued)

(i) Trade and other receivables (continued)

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off in the year in which they are identified. A provision for doubtful debts is raised where there is objective evidence that the Trust will not collect all amounts due. The amount of the provision is the difference between the carrying amount and estimated future cash flows. Cash flows relating to current receivables are not discounted.

(j) Investment property

Investment property comprises investment interests in land and buildings (including integral plant and equipment) held for the purpose of producing rental income, including property that is under construction for future use as investment property.

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

At each balance date, the fair values of the investment property is assessed by the Responsible Entity with reference to independent valuation reports or through appropriate valuation techniques adopted by the Responsible Entity. Specific circumstances of the owner are not taken into account.

The fair value measurement of investment property takes into account the Trust's ability to generate economic benefits by using the asset in its highest and best use.

Each investment property is valued by an independent external valuer at least once every 12 months, or earlier, where the Responsible Entity deems it appropriate or believes there may be a material change in the carrying value of the property. Independent valuers are engaged on a rotational basis.

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

- Assume a willing buyer and willing seller, without duress and an appropriate time to market the property to maximise price;
- Information obtained from valuers, sales and leasing agents, market research reports, vendors and potential purchasers;
- Capitalisation rates used to value the asset, market rental levels and lease expiries;
- Changes in interest rates;
- Asset replacement values;
- Discounted cash flow models;
- Available sales evidence;
- Comparisons to valuation professionals performing valuation assignments across the market; and
- Contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements.

The carrying amount of investment property recorded in the balance sheet takes into consideration components relating to lease incentives, leasing costs and assets relating to fixed increases in operating lease rentals in future years.

Where the Trust disposes of a property at fair value in an arm's length transaction, the carrying value immediately prior to the sale is adjusted to the transaction price, and the adjustment is recorded in the statement of comprehensive income within net fair value gain/(loss) on investment property.

As the fair value method has been adopted for investment property, the buildings and any component thereof (including plant and equipment) are not depreciated. Taxation allowances for the depreciation of buildings and plant and equipment are claimed by the Trust and contribute to the tax deferred component of distributions.

Notes to the financial statements (continued)

For the year ended 30 June 2018

1 Summary of significant accounting policies (continued)

(j) Investment property (continued)

Critical accounting estimates and judgements

Judgement is required in determining the following key assumptions:

- **Capitalisation rate**: The return represented by the income produced by an investment, expressed as a percentage. The rate is determined with regard to market evidence and the prior external valuation.
- **Discount rate**: The rate of return used to convert a future monetary sum or cash flow into present value when carrying out a discounted cash flow calculation. The rate is determined with regard to market evidence and the prior external valuation.
- **Terminal yield**: A percentage return applied to the expected net income following a hypothetical sale at the end of the cash flow period. The rate is determined with regard to market evidence and the prior external valuation.
- **Net 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. The amount is determined with regard to market evidence and the prior external valuation.

(k) Lease incentives

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

(l) Trade and other payables

Liabilities are recognised for amounts to be paid in the future for goods and services received, whether or not billed to the Trust. 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.

(m) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the statement of comprehensive income over the period of the borrowing using the effective interest rate method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down.

(n) Contributed equity

Stapled securities on issue are classified as equity and recognised at the fair value of the consideration received by the Trust. 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.

(o) Distributions paid and payable

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

(p) Fair value estimation

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

A fair value measurement of a non-financial asset takes into account the Trust's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

Notes to the financial statements (continued)

For the year ended 30 June 2018

1 Summary of significant accounting policies (continued)

(q) Earnings per security

Basic earnings per security is determined by dividing statutory profit attributable to the securityholders by the weighted average number of securities on issue during the year.

Diluted earnings per security is determined by dividing statutory profit attributable to the securityholders by the weighted average number of ordinary securities and dilutive potential ordinary securities on issue during the year.

(r) Goods and Services Tax (GST)

Income, expenses, assets (with the exception of receivables) and liabilities (with the exception of payables) are recognised net of the amount of GST recoverable from the Australian Taxation Offices (ATO). The non-recoverable GST is recognised as part of the income, expense, asset or liability.

Receivables and payables are inclusive of GST. The net amount of GST recoverable from or payable to the Australian and overseas tax offices is included in receivables or payables in the balance sheet.

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

(s) Impact of new standards and interpretations issued but not yet adopted by the Trust

Certain new accounting standards and interpretations have been published that are not mandatory for the period ended 30 June 2018 but are available for early adoption. The impact of these new standards and interpretations (to the extent relevant to the Trust) 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, sets out new rules for hedge accounting and applies new rules for impairment testing, including the requirements to assess the lifetime expected credit loss for financial assets rather than only incurred credit losses under AASB 139. The Trust will apply AASB 9 for the reporting period beginning on 1 July 2018.

A review of the Trust's financial assets and liabilities has been undertaken with the following impacts expected upon adoption of AASB 9.

Classification and measurement – there will be no change in the classification and measurement of financial assets and liabilities. All financial instruments will be held at either amortised cost or fair value through profit and loss. This reflects the current classification under AASB 139.

Impairment provision –The new expected credit loss model for calculating impairment on financial assets is not expected to have a material impact on the Trust's provision for doubtful debts.

The new standard does introduce expanded disclosure requirements. These are expected to change the nature and extent of the financial instrument disclosures.

(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 Trust will be materially impacted. Some change in presentation of certain revenue items and additional disclosures will be required. The Trust currently plans to apply AASB 15 for the reporting period beginning on 1 July 2018.

(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 Trust currently plans to apply AASB 16 for the reporting period beginning on 1 July 2019. An initial

Notes to the financial statements (continued)

For the year ended 30 June 2018

1 Summary of significant accounting policies (continued)

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

assessment of the new standard has been undertaken and it is not expected to have a material impact on the Trust's financial statements.

(t) Rounding of amounts

Under the option provided by ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 (as amended) issued by the Australian Securities and Investments Commission relating to the 'rounding off' of amounts in the financial statements, amounts in the Trust's financial statements have been rounded to the nearest thousand dollars in accordance with that Class Order, unless otherwise indicated.

2 Distributions paid or payable

	Cents per security	$'000
Total distribution for the period from 1 July 2017 to 30 September 2017	**1.50**	**3,130**
Total distribution for the period from 1 October 2017 to 31 December 2017	**1.50**	**3,485**
Total distribution for the period from 1 January 2018 to 31 March 2018	**1.50**	**3,485**
Total distribution for the period from 1 April 2018 to 30 June 2018	**1.60**	**3,716**
Total distribution	**6.10**	**13,816**
Total distribution for the period from 1 July 2016 to 21 September 2016 [1]	5.51	1,936
Total distribution for the period from 22 September 2016 to 30 June 2017 [2]	5.30	9,668
Total distribution	10.81	11,604

[1] Represents distributions paid to former securityholders prior to the registration of the trust as a managed investment scheme.

[2] Calculated with reference to weighted average number of securities (refer to Note 3).

The distribution of 1.60 cents per security for the quarter ended 30 June 2018 was declared on 19 June 2018 and is payable on 14 August 2018.

3 Earnings/(loss) per security

	1 Jul 2017 to 30 Jun 2018	22 Sep 2016 to 30 Jun 2017
Basic and diluted earnings/(loss) per ordinary securityholder		
Earnings/(loss) per security (cents) for profit from operations	**5.50**	(8.89)
Earnings/(loss) used in the calculation of basic and diluted earnings per security		
Net earnings/(loss) for the period ($'000)	**12,151**	(16,221)
Weighted average number of securities* used in the calculation of basic and diluted earnings/(loss) per security (thousands)	**220,964**	182,582

*Prior year takes into account conversion of each unit issued by the Trust into approximately 1.93 units on 10 November 2016.

4 Cash and cash equivalents

	30 Jun 2018 $'000	30 Jun 2017 $'000
Cash and cash equivalents	**3,969**	836
	3,969	836

Interest is receivable monthly in arrears. At 30 June 2018, the interest rate on the operating account was 1.55% p.a (30 June 2017: 1.55%) and the interest rate on the cash management account was 1.75% p.a (30 June 2017: 1.75%).

Notes to the financial statements (continued)

For the year ended 30 June 2018

5 Receivables

	2018 $'000	2017 $'000
Current assets		
Trade receivables	**5**	-
Accrued income	**36**	-
	41	-

6 Other assets

	30 Jun 2018 $'000	30 Jun 2017 $'000
Current assets		
Prepayments	**-**	8
Other assets	**163**	-
	163	8

7 Investment property

As at 30 June 2018, the investment property has been valued as set out below:

Property	Acquisition date	Date of latest independent valuation	Independent valuation $'000	30 Jun 2018 Fair value $'000	30 Jun 2017 Fair value $'000
ATO, Adelaide SA	30/06/11	30/06/18	270,000	**270,000**	270,000
Total			270,000	**270,000**	270,000

A reconciliation of the carrying amount of investment property at the beginning and end of the financial year is set out below:

	1 Jul 2017 to 30 Jun 2018 $'000	22 Sep 2016 to 30 Jun 2017 $'000
Carrying amount at the beginning of the period	**270,000**	291,229
Additions	**150**	253
Straightlining of rental income	**692**	(259)
Revaluation increment attributable to straightlining of rental income	**(692)**	259
Revaluation (decrement)/increment	**(150)**	6,439
Disposal*	**-**	(27,921)
Carrying amount at the end of the period	**270,000**	270,000

*Prior to IPO, the Trust transferred its interest in FSPT GPO Trust and FSPT Site 7 Trust to a trust owned by the former unitholders for nominal consideration. The subsidiaries held two investment properties at 141 King William Street, Adelaide SA and 2-10 Franklin Street, Adelaide SA with a combined carrying value of $27.9 million on the date of transfer. A loss on disposal equal to the net tangible assets of these subsidiaries ($29.9 million) was recognised. An equal and offsetting gain on bargain purchase was recorded in the financial statements of the related trust.

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

	30 Jun 2018	30 Jun 2017
Capitalisation rate	**5.88%**	5.88%
Lease expiry (years)	**8.8**	9.8
Vacancy rate	**0.00%**	0.00%

Notes to the financial statements (continued)

For the year ended 30 June 2018

7 Investment property (continued)

The investment property is leased to tenants under long term operating leases with rent payable monthly. Minimum lease payments under non-cancellable operating leases of investment property not recognised in the financial statements are receivable as follows:

	30 Jun 2018 $'000	30 Jun 2017 $'000
Less than 1 year	**19,698**	19,880
1 to 5 years	**84,377**	83,008
Over 5 years	**93,351**	113,462
	197,426	216,350

8 Investment in financial assets at fair value

	1 Jul 2017 to 30 Jun 2018 $'000	22 Sep 2016 to 30 Jun 2017 $'000
Carrying amount at the beginning of the period	**17,190**	-
Additions	**-**	17,000
Withdrawals	**(1,831)**	-
Net fair value movements	**302**	190
Carrying amount at the end of the period	**15,661**	17,190

Income support account

In acquiring the ATO, Adelaide SA property, $17 million was deposited into an escrow account which can be drawn down prior to the expiry of the ATO's lease to compensate the REIT for:

- potential reductions in income;
- a vacancy in respect of the property arising;
- any incentives payable to a tenant at the property;
- any leasing costs payable in connection with a tenancy at the property;
- any increase in property outgoings and repair and maintenance expenses; and
- any other operating or capital costs relating to the Property.

As a result of the ATO rent review determination, income support of $1.8 million was drawn from the income support account during the year (2017: nil).

9 Net tangible assets

	30 Jun 2018 $'000	30 Jun 2017 $'000
Total assets	**289,834**	288,034
Less: Total liabilities	**59,331**	81,139
Net tangible assets attributable to the Trust	**230,503**	206,895
Total number of units on issue (thousands)	**232,300**	207,787
Net tangible asset backing per security ($)	**0.99**	1.00

Notes to the financial statements (continued)

For the year ended 30 June 2018

10 Payables

	30 Jun 2018 $'000	30 Jun 2017 $'000
Current liabilities		
Trade payables	**66**	18
Fund management fee payable	**107**	106
GST payable	**148**	129
Payable to tenant	**1,244**	-
Accruals	**608**	650
	2,173	903

11 Distribution payable

	1 Jul 2017 30 Jun 2018 $'000	22 Sep 2016 to 30 Jun 2017 $'000
Current liabilities		
Opening balance	**3,325**	2,135
Distributions declared	**13,816**	9,469
Distributions paid	**(11,501)**	(5,058)
Distributions reinvested	**(1,924)**	(3,221)
	3,716	3,325

12 Other liabilities

	2018 $'000	2017 $'000
Current liabilities		
Income received in advance	**1,925**	-
	1,925	-

13 Borrowings

	30 Jun 2018 $'000	30 Jun 2017 $'000
Non-current		
Intra-Group Facility Agreement	**51,517**	76,911
	51,517	76,911

On 10 November 2016, the Trust entered an Intra-Group Facility Agreement (IGFA) with the other Stapled Trusts. This agreement expires in November 2021. Interest rates under IGFA are variable and reset periodically. As at 30 June 2018, the interest rate was 4.00% per annum (30 June 2017: 4.25%).

Notes to the financial statements (continued)

For the year ended 30 June 2018

14 Contributed equity

Details	*No. of securities*	1 Jul 2017 to 30 Jun 2018 $'000	22 Sep 2016 to 30 Jun 2017 $'000
Securities on issue - 22 Sep 2016	34,620,222	-	51,494
Security issuance	504,890	-	2,135
Redemption of Class B units	(20)	-	-
Capital return	-	-	(45,504)
Change in number of securities after re-organisation	32,829,732	-	-
Security redemptions	(67,954,824)	-	(68,256)
Securities issued via IPO	206,683,097	-	205,995
Securities issued via DRP	1,104,078	-	1,086
Securities on issue - 30 June 2017	**207,787,175**	**146,950**	**146,950**
Securities issued via Entitlement Offer	**22,664,846**	**23,349**	-
Securities issued via DRP	**1,848,121**	**1,924**	-
Securities on issue - 30 June 2018	**232,300,142**	**172,223**	-

As stipulated in the Trust's constitution, each security represents a right to an individual share in the Trust and does not extend to a right to the underlying assets of the Trust. There are no separate classes of securities.

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

Distribution Reinvestment Plan (DRP)

The Trust, being a member of the REIT, has established a Distribution Reinvestment Plan (DRP) under which stapled securityholders may elect to have all or part of their distribution entitlements satisfied by the issues of new stapled securities rather than being paid in cash.

The DRP issue price is determined at a discount of 1.0% to the daily volume weighted average price of all stapled securities traded on the ASX during the 10 business days commencing on the third business day following the distribution record date. The Trust raised $0.9 million from the DRP for the 30 June 2017 distribution allotted on 14 August 2017 and $1.0 million from the DRP for the 30 September 2017 distribution allotted on 15 November 2017. The DRP was inactive for the remainder of the year.

Entitlement Offer

In December 2017, the REIT (of which the Trust is a member) raised $94.1 million of equity, issuing 22.7 million stapled securities at $4.15 per stapled security to both institutional and retail investors. The proceeds were used to fund the acquisition of Virgin Australia's head office building at 56 Edmondstone Road, Brisbane QLD on 4 January 2018 and associated transaction and capital raising costs.

The Trust's share of the equity raised in December 2017 amounted to $23.3 million which was used to repay the Trust's borrowings from the other Stapled Trusts under the Intra-Group Facility Agreement.

15 Retained profits

	1 Jul 2017 to 30 Jun 2018 $'000	22 Sep 2016 to 30 Jun 2017 $'000
Opening balance	**59,945**	87,770
Earnings/(loss) for the period	**12,151**	(16,221)
Distributions paid and payable	**(13,816)**	(11,604)
Closing balance	**58,280**	59,945

Notes to the financial statements (continued)

For the year ended 30 June 2018

16 Reconciliation of profit to net cash flows from operating activities

	1 Jul 2017 to 30 Jun 2018 $'000	22 Sep 2016 to 30 Jun 2017 $'000
Profit/(loss) for the period	**12,151**	(16,221)
Non-cash items		
Net fair value movements on investment property	**842**	(6,699)
Net fair value gain on financial assets	**(302)**	(190)
Straightlining of rental income	**(692)**	259
Capitalised interest on Intra-Group Facility	**2,658**	2,133
Net fair value movements on derivative financial instruments	**-**	(1,664)
Loss on disposal of subsidiaries	**-**	29,859
Loss on extinguishment of debt facility and amortisation of borrowing costs	**-**	654
Classified as financing activities		
Costs associated with IPO	**-**	3,588
Other		
(Increase)/decrease in receivables and other assets	**(28)**	414
(Decrease)/increase in payables	**3,028**	(3,228)
Net cash flows from operating activities	**17,657**	8,905

Non-cash financing and investing activities

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

	1 Jul 2017 to 30 Jun 2018 $'000	22 Sep 2016 to 30 Jun 2017 $'000
Distributions by the Trust during the period satisfied by the issue of securities under the DRP – pre-IPO	**-**	2,135
Distributions by the Trust during the period satisfied by the issue of securities under the DRP – post-IPO	**1,924**	1,086
	1,924	3,221
Gross consideration received from IPO / Entitlement Offer	**23,867**	207,599
Equity raising fees paid to Joint Lead Managers	**(518)**	(3,759)
Capital return and security redemptions paid to former securityholders	**-**	(113,760)
Net capital return paid on IPO	**23,349**	90,080

Net debt reconciliation

The table below sets out an analysis of net debt and the movements in net debt during the year:

	2017 $'000	Movement in cash $'000	2018 $'000
Intra-Group Facility Agreement	76,911	(25,394)	**51,517**
Cash	(836)	(3,133)	**(3,969)**
Net debt	76,075	(28,527)	**47,548**

Notes to the financial statements (continued)

For the year ended 30 June 2018

17 Capital and financial risk management

(a) Capital risk management

The Trust, as a member of the REIT, optimises capital through the mix of available capital sources whilst complying with the terms of the IGFA, statutory and constitutional capital and distribution requirements, and continuing to operate as a going concern.

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

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

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

(b) Financial risk management

The Trust's principal financial instruments comprise cash and cash equivalents, receivables, payables and borrowings.

The Trust's activities expose it to a variety of financial risks: market risk - interest rate risk, credit risk and liquidity risk.

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

The Trust uses various measures to manage exposures to these types of risks. The Trust undertakes counterparty credit assessment and will seek to spread its credit exposures, where practical.

(c) Market risk – Interest rate risk

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

The Trust is exposed to interest rate risk predominantly through borrowings. The counterparty to the Trust's IGFA is the Finance Trust. The Finance Trust applies benchmark hedging bands across REIT's differing interest rate exposures and utilises interest rate swaps, to exchange floating interest rates to fixed interest rates, to centrally manage the REIT's exposure between these bands. Compliance with policy is reviewed regularly by management and is reported to the Board regularly.

The Trust has exposure to interest rate risk on its monetary assets and liabilities, as shown in the table below:

	30 Jun 2018 $'000	30 Jun 2017 $'000
Floating rate		
Cash and cash equivalents	**3,969**	836
Borrowings - IGFA	**(51,517)**	(76,911)
Net exposure	**(47,548)**	(76,075)

The table below demonstrates the sensitivity to reasonably possible changes in year end interest rates, with all other variables held constant. A negative amount in the table reflects a potential net reduction in profit or equity, while a positive amount reflects a potential net increase.

	30 Jun 2018 $'000	30 Jun 2017 $'000
Sensitivity		
Profit		
BBSW +1%	**(475)**	(279)
BBSW -1%	**475**	279
Equity		
BBSW +1%	**(475)**	(279)
BBSW -1%	**475**	279

At balance date the Trust only held variable rate debt. However, on a consolidated basis, the REIT has fixed 75.0% (30 June 2017: 66.0%) of its net floating interest rate exposure, through the use of interest rate swaps.

Notes to the financial statements (continued)

For the year ended 30 June 2018

17 Capital and financial risk management (continued)

(d) Liquidity risk

Liquidity risk arises if the Trust has insufficient liquid assets to meet its short term obligations. Liquidity risk is managed by maintaining sufficient cash balances and adequate committed credit facilities. Prudent liquidity management implies maintaining sufficient cash and the availability of funding through the IGFA. The instruments entered into by the Trust were selected to ensure sufficient funds would be available to meet the ongoing cash requirements of the Trust.

The following table provides the contractual maturity of the Trust's floating rate financial liabilities as at 30 June 2018. The amounts presented represent the future contractual undiscounted principal and interest cash flows and therefore do not equate to the value shown in the balance sheet. Repayments which are subject to notice are treated as if notice were given immediately.

	Carrying value $'000	Less than 1 year $'000	1 to 5 years $'000	More than 5 years $'000	Total $'000
30 Jun 2018					
Financial liabilities					
Payables	**2,173**	**2,173**	**-**	**-**	**2,173**
Distribution payable	**3,716**	**3,716**	**-**	**-**	**3,716**
Borrowings	**51,517**	**2,061**	**55,866**	**-**	**57,927**
Other liabilities	**1,925**	**1,925**	**-**	**-**	**1,925**
Total undiscounted financial liabilities	**59,331**	**9,875**	**55,866**	**-**	**65,741**
30 Jun 2017					
Financial liabilities					
Payables	903	903	-	-	903
Distribution payable	3,325	3,325	-	-	3,325
Borrowings	76,911	3,269	87,902	-	91,171
Total undiscounted financial liabilities	81,139	7,497	87,902	-	95,399

(e) Credit risk

Credit risk is the risk that a contracting entity will not complete its obligations under a financial asset and cause the Trust to incur a financial loss. The Trust has exposure to credit risk on all of its financial assets included in the Trust's balance sheet.

The Trust is exposed to credit risk on cash and cash equivalents. The Trust has policies that limit the amount of credit exposure to any financial institution. Cash transactions are limited to investment grade counterparties in accordance with the Trust's FRM policy. The Trust monitors the public credit rating of its counterparties.

The Trust manages this risk by performing credit reviews of prospective tenants, obtaining tenant collateral where appropriate and performing detailed reviews on tenant arrears.

The Trust has policies to review the aggregate exposures of debtors and tenancies across its portfolio. The Trust has significant concentrations of credit risk on its trade receivables. At 30 June 2018, the largest individual lease, held by the Australian Taxation Office, represents 90.7% of the total portfolio income (30 June 2017: 92.0%).

The geographic concentration of credit exposure of the Trust's assets is based entirely in Australia.

(f) Offsetting financial assets and financial liabilities

The Trust does not have any financial assets or financial liabilities that are subject to set off to a net position.

Notes to the financial statements (continued)

For the year ended 30 June 2018

18 Fair value measurement

(a) Recognised fair value measurement

AASB 13 *Fair value measurement* requires disclosure of fair value measurement using the following fair value measurement hierarchy:

i Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.

ii Level 2 - Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

iii Level 3 - Inputs for the asset or liability that are not based on observable market data.Financial assets and liabilities not carried at fair value have carrying values that reasonably approximate their fair values and are categorised within fair value as follows:

- Cash and cash equivalents and borrowings – Level 1; and
- All other financial assets and liabilities – Level 2.

The following table presents the Trust's assets and liabilities measured at fair value according to the fair value hierarchy at 30 June 2018:

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial assets - recurring fair value measurement				
Investments in financial assets at fair value	**-**	**-**	**15,661**	**15,661**
Non-financial assets - recurring fair value measurement				
Investment property	**-**	**-**	**270,000**	**270,000**
Total assets	**-**	**-**	**285,661**	**285,661**

The following table presents the Trust's assets and liabilities measured at fair value according to the fair value hierarchy at 30 June 2017:

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial assets - recurring fair value measurement				
Investment in financial assets at fair value	-	-	17,190	17,190
Non-financial assets - non recurring fair value measurement				
Investment property	-	-	270,000	270,000
Total assets	-	-	287,190	287,190

There were no transfers between levels of fair value measurement during the year.

The Trust's fair value accounting policy is disclosed in Note 1(p).

(b) Disclosed fair values

The following table represents the carrying amounts and fair values of borrowings. Fair value is estimated by discounting the future contractual cash flows at the current market interest rate curve since quoted prices are not available.

	30 Jun 2018		30 Jun 2017	
	Carrying amount $'000	**Fair value $'000**	Carrying amount $'000	Fair value $'000
Non-current				
Intra-Group Facility Agreement	**51,517**	**51,087**	76,911	77,496
	51,517	**51.087**	76,911	77,496

Notes to the financial statements (continued)

For the year ended 30 June 2018

18 Fair value measurement (continued)

(d) Valuation techniques used to derive level 3 fair values

In determining fair values of investment property and investments in financial assets at fair value, management has considered the nature, characteristics and risks the investment property as well as the level of the fair value hierarchy.

Class of property	Fair value hierarchy	Fair value as at 30 Jun 2018 $'000	Valuation technique	Inputs used to measure fair value	Range of unobservable inputs
Recurring fair value adjustments					
Office	Level 3	**270,000**	DCF, income capitalisation and direct comparison method	Net market rent (per sqm p.a.) Adopted capitalisation rate Adopted termination yield Adopted discount rate	$425 5.88% 6.75% 6.75%
Income support	Level 3	**15,661**	DCF	Adopted discount rate	1.75%

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.
Direct comparison	This method assesses site value by direct comparison based on comparable sales ratios such as a rate per square metre of floor area and a dollar rate per unit site.
Net market rent	A net market rent is the estimated amount for which a property or space within a property should lease between a willing lessor and a willing lessee on appropriate lease terms in an arm's length transaction, after proper marketing and wherein the parties have each acted knowledgeably, prudently and without compulsion. In a net rent, the owner recovers outgoings from the tenant on a pro-rata basis (where applicable).
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.

The adopted valuation for investment property portfolios generally reflects a value somewhere between the valuations determined using discounted cash flow (DCF) method and the income capitalisation method.

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 by using Discounted Cash Flow (DCF) and income capitalisation methods.

Each investment property is valued by an independent external valuer at least once every 12 months, or earlier, where the Responsible Entity deems it appropriate or believes there may be material change in the carrying value of the property. Independent valuers are engaged on a rotational basis.

Carrying values of all investment property measured at recurring fair value reflect the highest and best use value.

Sensitivity analysis

Significant input	Fair value measurement sensitivity to significant increase in input	Fair value measurement sensitivity to significant decrease in input
Net market rent (per sqm p.a.)	Increase	Decrease
Adopted capitalisation rate	Decrease	Increase
Adopted terminal yield	Decrease	Increase
Adopted discount rate	Decrease	Increase

Notes to the financial statements (continued)

For the year ended 30 June 2018

19 Remuneration of auditors

During the year the auditor of the Trust, PricewaterhouseCoopers, earned the following remuneration:

	1 Jul 2017 to 30 Jun 2018 $	22 Sep 2016 to 30 Jun 2017 $
Audit services	**23,500**	23,500
Taxation compliance services	**2,761**	2,986
Accounting and tax due diligence advice associated with IPO	**-**	194,592
	26,261	221,078

20 Related party transactions

(a) Responsible Entity

The Responsible Entity of the Trust is Charter Hall WALE Limited.

The registered office of the Responsible Entity is Level 20,1 Martin Place, Sydney NSW 2000.

(b) Directors

The following persons have held office as directors of the Responsible Entity from 6 September 2016 (date of appointment) and up to the date of this report:

- Peeyush Gupta - Chairman and Non-Executive Director
- Glenn Fraser - Non-Executive Director
- Ceinwen Kirk-Lennox - Non-Executive Director
- David Harrison - Executive Director and Chief Executive Officer/Managing Director of Charter Hall Group
- Adrian Taylor - Executive Director

(c) Transactions with related parties of the Responsible Entity

The responsible entity and its related parties held 47,402,894 units of the Trust as at 30 June 2018 (30 June 2017: 41,461,705 units).

Amounts paid/payable to related party transactions (excluding fund management fees detailed separately) for the period are as follows:

	30 Jun 2018 $	30 Jun 2017 $
Charter Hall Holdings Pty Limited		
Accounting services	**64,324**	37,080
Property management fees	**44,529**	-
Development management fees*	**-**	18,000
	108,853	55,080

*Paid by the Trust prior to the formation of the REIT.

(d) Trust management fees

Under the terms of the Trust's constitution, the Responsible Entity is entitled to receive a base fee calculated as 0.45% per annum (0.40% per annum prior to listing) of the look through value of the total assets of the Trust and payable monthly in arrears. Management fees for the period ended 30 June 2018 amounted to $1,307,210 (30 June 2017: $950,171).

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

As at 30 June 2018, the outstanding payable balance with the Responsible Entity and its related parties was $107,226 (30 June 2017: $126,245).

Notes to the financial statements (continued)

For the year ended 30 June 2018

20 Related party transactions (continued)

(f) Key management personnel

Key management personnel (KMP) are defined in AASB 124 *Related Party Disclosures* as those having authority and responsibility for planning, directing and controlling the activities of the entity. The Responsible Entity meets the definition of key management personnel as it has this authority in relation to the activities of the Trust. The Trust paid directors fees of $72,033 (30 June 2017: $50,893) to the Responsible Entity.

(g) Director equity holdings

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

	Units held 2018	Units held 2017
Peeyush Gupta	**394,243**	382,111
Glenn Fraser	**44,325**	40,000
Ceinwen Kirk-Lennox	**25,764**	23,250
David Harrison	**290,458**	254,053
Adrian Taylor	**72,530**	63,513
	827,320	762,927

The aggregate number of stapled securities of the Trust acquired by the directors of the Responsible Entity or their related parties during the year is set out below:

	Units acquired 2018	Units acquired 2017
Peeyush Gupta	**12,132**	382,111
Glenn Fraser	**4,325**	40,000
Ceinwen Kirk-Lennox	**2,514**	23,250
David Harrison	**36,405**	254,053
Adrian Taylor	**9,017**	63,513
	64,393	762,927

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

21 Commitments and contingent liabilities

The Trust has no commitments or contingent liabilities as at 30 June 2018.

22 Events occurring after reporting date

On 6 August 2018, securityholders voted in favour of the proposed sale of a 50% interest in ATO Adelaide, SA and simplification of the REIT structure from a three-staple structure to a two-staple structure. On 22 August 2018 DIF will acquire all of the units in the Trust and the Trust will become a wholly owned subsidiary of DIF.

On 8 August 2018, a call option was exercised to sell a 50% interest in ATO Adelaide, SA to a related party for proceeds of $135.0 million as well as half the income support account. Settlement is expected to occur in mid August.

The directors of the Responsible Entity are not aware of any other matter or circumstance not otherwise dealt with in this report that has significantly affected or may significantly affect the operations of the Trust, the results of its operations or the state of affairs of the Trust in future financial years.

Directors' declaration to unitholders

In the opinion of the directors of Charter Hall WALE Limited, the Responsible Entity of Franklin Street Property Trust:

a The financial statements and notes set out on pages 14 to 34 are in accordance with the *Corporations Act 2001*, including:

  i complying with Accounting Standards, *Corporations Regulations 2001* and other mandatory professional reporting requirements; and

  ii giving a true and fair view of the Trust's financial position as at 30 June 2018 and of its performance for the financial year ended on that date; and

b There are reasonable grounds to believe that the Trust will be able to pay its debts as and when they become due and payable.

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

The Directors have been given declarations by the Fund Manager, who performs the Chief Executive Officer function, and the Head of Finance – Long WALE REIT, 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 Directors.

Peeyush Gupta

Director

Sydney

9 August 2018

Independent auditor's report

To the securityholders of Franklin Street Property Trust

Report on the audit of the financial report

Our opinion

In our opinion:

The accompanying financial report of Franklin Street Property Trust (the Registered Scheme) is in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the Registered Scheme's financial position as at 30 June 2018 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

The financial report comprises:

- the balance sheet as at 30 June 2018
- the statement of comprehensive income for the year then ended
- the statement of changes in equity for the year then ended
- the cash flow statement for the year then ended
- the notes to the financial statements, which include a summary of significant accounting policies
- the directors' declaration of Charter Hall WALE Limited (the responsible entity of the Registered Scheme).

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 Registered Scheme 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.

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.

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 Registered Scheme, its accounting processes and controls and the industry in which it operates.

The Registered Scheme's principal activity consists of property investment.

Materiality

- For the purpose of our audit we used overall quantitative materiality of $0.6 million, which represents approximately 5% of the Registered Scheme'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) as the benchmark because, in our view, it is the benchmark against which the performance of the Registered Scheme is most commonly measured and is one of the generally accepted benchmark within the industry.
- We selected a 5% threshold based on our professional judgement, noting it is within the range of commonly acceptable thresholds.

Audit Scope

- Our audit focused on where the directors of the responsible entity made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events.
- We also focused on the risk of management override of internal controls, including whether there was evidence of bias by the directors that may represent a risk of material misstatements due to fraud.
- We tailored the scope of our audit to ensure that we performed enough work to be able to given an opinion on the financial report as a whole, taking into account the structure of the Registered Scheme, the accounting processes and controls, and the industry in which the Registered Scheme operates.

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 matter was 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 this matter. Further, any commentary on the outcomes of a particular audit procedure is made in that context. We communicated the key audit matter to the Audit, Risk and Compliance Committee.

Key audit matter	*How our audit addressed the key audit matter*
Valuation of investment property *(Refer to Note 7)* The Registered Scheme's investment property portfolio is comprised of an office property. At 30 June 2018 the carrying value of the Registered Scheme's investment property was $270 million (2017: $270 million). Investment property is valued at fair value at reporting date using either the income capitalisation approach or the discounted cash flow approach as described in Note 1. The value of investment property is dependent on the valuation methodology adopted and the inputs into the valuation model. Factors such as prevailing market conditions, the individual nature, condition and location of property and the expected future income for property directly impact its fair value. Amongst others, the following assumptions are key in establishing fair value: • capitalisation rate • adopted discount rate. At the end of each reporting period, the Registered Scheme determines the fair value of its investment property in accordance with Charter Hall's valuation policy. This policy requires all properties to be externally valued by an independent valuation expert at least once every 12 months. If a property is not externally valued at balance date, an internal valuation is performed. We focused on this matter because of the: • Relative significant size of the investment property balance in the balance sheet; • Inherently subjective nature of investment property valuations due to the use of several assumptions in the valuation methodology; and • Sensitivity of valuations to key input assumptions, specifically capitalisation and discount rates.	We obtained recent independent property market reports to understand the prevailing office market conditions. We compared the historical valuation against the current year valuation for the investment property, and noted that the fair value was in line with our understanding of the Adelaide market. We met with management of the Registered Scheme and discussed the specifics of the property including lease amendments, capital expenditure and market rent assumptions. For a sample of leases, we compared the rental income used in the valuation to underlying lease agreements. We found that the data used in the samples tested was consistent with tenant leases. We compared the capitalisation rate and discount rate to our independent expectation of a reasonable range determined based on benchmark market data for these assumptions. Where the capitalisation rate or discount rate fell outside of our anticipated ranges, we considered the rationale for the rates applied. We agreed the fair value per the final external valuation report to the Registered Scheme's accounting records. We assessed the competency and capability of the external valuer and considered that the valuation was in accordance with Charter Hall's valuation policy.

Other information

The directors of Charter Hall WALE Limited, the responsible entity of the Registered Scheme, are responsible for the other information. The other information included comprises the information included in the financial report and other information for the year ended 30 June 2018, including Director's Report, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express 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, 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.

Responsibilities of the directors of the Responsible Entity for the financial report

The directors of Charter Hall WALE Limited, the responsible entity of the Registered Scheme, are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and *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 are responsible for assessing the ability of the Registered Scheme 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 either intend to liquidate the Registered Scheme or to cease operations, or have no realistic alternative but to do so.

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/ar2.pdf. This description forms part of our auditor's report.

PricewaterhouseCoopers

PricewaterhouseCoopers

J A Dunning

J A Dunning
Partner

Sydney
9 August 2018