

Charter Hall Retail REIT

Annual
Report
2018



About us

Charter Hall Retail REIT (ASX:CQR) is Australia's leading owner and manager of convenience based retail.

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

With a focus on non-discretionary retail, we optimise returns for our investors and create enjoyable and convenient shopping experiences for more than 130 million shopper visitations to our centres each year.

We do this through our dedicated team of highly skilled retail experts who provide end-to-end property services to our portfolio.

Charter Hall Retail REIT is managed by Charter Hall Group (ASX:CHC), one of Australia's leading property groups. Charter Hall owns and manages office, retail, industrial and logistics properties on behalf of institutional, wholesale and retail clients, with funds under management totalling \$23.2 billion as at 30 June 2018.

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Our Strategy

The REIT's strategy is unchanged, and its focus remains on being the leading owner and manager of convenience based retail. CQR's aim is that all of its convenience and convenience plus centres are the leading convenience based retail offerings in their respective catchments.



Secret Harbour Square, Secret Harbour, WA

Our Strategy

#1

Active management

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

OCCUPANCY

98.1%

LEASE RENEWALS

235

NEW LEASES

165

SPECIALTY LEASING SPREAD

1.3%

MAJORS MAT GROWTH¹

3.3%

#2

Enhance portfolio quality

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

PORTFOLIO VALUE

\$2.8b

THREE FORECAST HIGHER GROWTH PROPERTIES ACQUIRED FOR²

\$274m

DISPOSED 15 LOWER GROWTH ASSETS FOR³

\$309m

#3

Prudent capital management

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

WEIGHTED AVERAGE DEBT MATURITY⁴

5.4 yrs

PRO-FORMA BALANCE SHEET GEARING⁵

32.7%

NO DEBT MATURING UNTIL

FY21



1. For stores in turnover.

2. Includes the 50% post balance date settlement of Gateway Plaza contracted in June 2018.

3. Divestments calculated at CQR's share and excludes the 47.5% sale of Salamander Bay Square contracted and settled in August 2018.

4. June 2018 pro-forma weighted average debt maturity post funding of two new debt facilities and equivalent cancellation of syndicated debt facility (5.1 years at 30 June 2018).

5. June 2018 pro-forma balance sheet gearing post contracted asset disposals and acquisitions (33.4% at 30 June 2018).

2018 Financial Highlights

OPERATING EARNINGS

\$123.2m

PORTFOLIO WALE

6.6 yrs

PORTFOLIO VALUE

\$2.8b

↑ 1.0%

NTA PER UNIT

\$4.22

↑ 2.2%

MAT GROWTH⁶

2.2%

DISTRIBUTION PER UNIT

28.2c

↑ 0.4%

NPI GROWTH⁶

1.8%



6. Like-for-like.

Gateway Plaza, Leopold, VIC

Chair and Fund Manager's Letter

FY18 marked a year of transition for the Charter Hall Retail REIT, the result being a portfolio that is positioned for growth.



John Harkness and Greg Chubb



It has been a significant year of transition for CQR, the result being a portfolio that is positioned for growth.”

GREG CHUBB

RETAIL CEO, CHARTER HALL
EXECUTIVE DIRECTOR &
FUND MANAGER, CQR

We were pleased to deliver operating earnings per unit growth of 0.4% to 30.51 cents, in line with market guidance, and distributions per unit of 28.20 cents, an increase from 28.10 cents in the prior year. The rise in net tangible assets per security of 2.2% to \$4.22 is due in roughly equal measure to an increase in rental revenue and tightening cap rates.

The gains made over the 2018 financial year are a result of the sustained income growth we have been able to achieve for our investors. This is reflected in like-for-like net property income growth of 1.8%, higher than the 1.0% we reported in the 2017 financial year.

Improved portfolio quality

Key to our year of transition has been the improvement in portfolio quality, demonstrated by the high volume of executed transactions resulting in improved portfolio operations.

During the period, we invested in three high quality assets totalling \$274 million, being Highfields Village in Queensland, Salamander Bay in New South Wales and most recently in July, Gateway Plaza in Victoria. All three centres are the dominant convenience based offers in their respective catchments and are positioned to deliver sustainable growth.

We settled 15 divestments of smaller assets over the period with a total value of \$309 million, averaging \$23 million per asset. Since their initial acquisition, these assets delivered double-digit property returns to the Fund, with some of them having been held for over 22 years.

At the same time, we reduced our exposure to small assets in regional locations where there was limited



Key to our year of transition has been the improvement in portfolio quality, demonstrated by the high volume of executed transactions resulting in improved portfolio operations.”

JOHN HARKNESS
INDEPENDENT CHAIRMAN

opportunity to deliver future growth and reinvested into convenience and convenience-plus assets that dominate in strong population growth catchments.

At 30 June 2017, the Fund held 71 assets. At the end of the 2018 financial year, CQR owned 59 convenience and convenience-plus assets, including the acquisition of Gateway Plaza in Victoria which occurred post balance date.

The average size of our assets has grown 23% since June 2017 to \$54.8 million. Importantly, we've preserved the diversification benefits for unitholders through joint-venturing. This has been fundamental in driving portfolio performance.

This transition has not been without its challenges. We have reconstructed the portfolio and we have done this with the intent of delivering long-term sustainable growth for investors.

Focused strategy

Our strategy is unchanged, and our focus remains on being the leading owner and manager of convenience based retail. Our aim is that all of our convenience and convenience-plus centres are the leading convenience based retail offerings in their respective catchments.

We achieve this through active asset management, enhancing the portfolio quality and maintaining a prudent capital position.

To deliver shared value for our customers and investors, we draw on the deep retail management experience through the Charter Hall platform, with a clear focus on our tenant customers to build long-term meaningful relationships.

Active asset management

Convenience based retail remains the foundation of our offering, with 70 supermarkets across our 59 centres generating 76% of our major tenant rental income.

The portfolio of supermarkets delivered strong Moving Annual Turnover (MAT) sales growth of 2.8% over the period, up from 1.8% at June 2017. Our supermarkets in turnover rent achieved even stronger growth at 3.0%.

During the past two-year period, 26% of our supermarkets have been refurbished, ensuring our store fit-outs are current and relevant and provide a modern experience.

Our leasing team executed 235 renewals and 165 new lease agreements with our specialty tenants. Leasing spreads have lifted from 0.2% to 1.3% year on year and occupancy has improved to 98.1%.

We have worked to align our capital expenditure programs with our major tenants, leading to the extension of several leases and increasing our majors' WALE to 10.7 years. Overall, the portfolio's weighted average lease expiry was a healthy 6.6 years at year-end.

Sales growth across the portfolio has been sustained with Moving Annual Turnover remaining positive at 2.2%.

Development pipeline progressing well

Redevelopments continue to focus on enhancing convenience and essential services based on market demand.

The redevelopments continue with both the \$11 million¹ redevelopment of Wanneroo Central in Western Australia and the \$59 million redevelopment of Lake Macquarie Fair in New South Wales well progressed.

At Wanneroo, the new Aldi opened in June with the final stage of the development completed in early September. In line with our commitment to own and manage the dominant convenience based centre within the primary trade area, we have added an additional 100 car parking spaces, enhanced the car park layout and added further specialty food, services and general retail.

At Lake Macquarie, the integration of the Mount Hutton centre is well progressed as is the construction of a new full-line Coles supermarket over 4,200sqm. We are also significantly enhancing the customer amenity by creating additional new undercover car parking area and bolstering the food and services offering. Our expectation is that this redevelopment will complete towards the end of the 2018 calendar year.

Our in-house development team continues to work on a number of major projects which are also supplemented with several smaller capex projects that generally align with refurbishment activities associated with our major tenants.

Robust balance sheet

Prudent capital management remains a core area of focus for CQR's management team, ensuring that we can execute on strategy and deliver a secure and growing income stream.

In July 2018, we added two more banks to our pool of lenders, and we refinanced \$125 million of existing facilities to extend the weighted average debt maturity to 5.4 years.



For more information, please visit
charterhall.reportonline.com.au/fy18/cqr/

1. CQR's 50% ownership share.

Proceeds from asset sales were used to repay and cancel a \$50 million bank debt facility that was due to mature in July 2018. As a result, we have no debt maturing until FY21, which we will continue to address well in advance of maturity.

Our weighted average cost of debt has fallen from 4.0% to 3.8%. We also recently extended two existing swaps and increased our near-term hedging to ensure that we manage the risk of rising interest rates.

Our balance sheet gearing of 32.7% is post the contracted acquisitions and divestments, highlighting the deleveraging of CQR over the last six months of the financial year. This sits comfortably at the lower end of our 30-40% target range. Our balance sheet remains in a robust position to fund our committed developments and enhance the portfolio quality into FY19.

Outlook

It has been a significant year of transition for CQR, the result being a portfolio that is positioned for growth.

We remain focused on owning convenience and convenience plus assets to deliver long-term sustainable growth in earnings for investors. This growth is underpinned by the strength of our supermarkets, convenience based food retailing and non-discretionary needs.

We expect supermarket sales to remain strong, underpinning customer visitation and underlining centre performance.

Going forward, we will continue to shape the portfolio, both in terms of tenant mix and enhancing the centres within the fund. This is central to CQR's strategy.

Barring unforeseen events, CQR's FY19 guidance is for operating earnings to grow by 2.0% per security over FY18.

The distribution payout range is expected to be between 90% to 95% of operating earnings.

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



John Harkness
Independent Chairman



Greg Chubb
Retail CEO, Charter Hall
Executive Director &
Fund manager, CQR

Orderly Board renewal

At the 2017 CQR Annual Unitholder Meeting, I announced that following the appointment of an additional non-executive director to the Board and an appropriate transition period, that I intended to resign as Director and Chair.

In June 2018, we announced the appointment of Mr Roger Davis as Independent Non-Executive Director and Chair Elect. Mr Davis was identified for the position following a search undertaken on behalf of the Boards of Charter Hall Group and CHRML. Mr Davis' appointment is a continuation of the orderly process of Board renewal undertaken by CHRML in recent years.

Mr Davis brings to the Board over 35 years' experience in banking and investment banking in Australia, the US and Japan. He is currently a Consulting Director at Rothschild (Australia) Limited, a Director of Argo Investments Ltd, and the Chairman of Bank of Queensland.

Mr Davis will assume the role of Chair at the conclusion of the 2018 CQR Annual Unitholder Meeting in November.

In my final letter to you, I would like to thank my fellow Board members, our tenant customers, unitholders and the dedicated and passionate team that work tirelessly to make CQR one of the most consistent and high performing retail REITs in the sector.

I am confident that the REIT continues to enjoy the benefits of highly experienced senior management and Board membership, providing experienced and stable leadership.

The appointment of Roger and his transition to Chair will conclude the process of Board renewal undertaken over recent years. The Board and I look forward to working with Roger and assisting in his progression to Chair in November 2018.

John Harkness
Independent Chairman

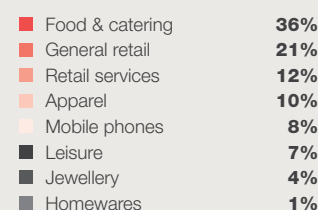
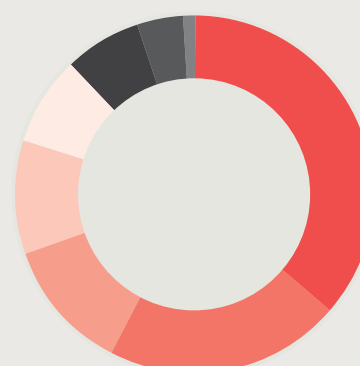
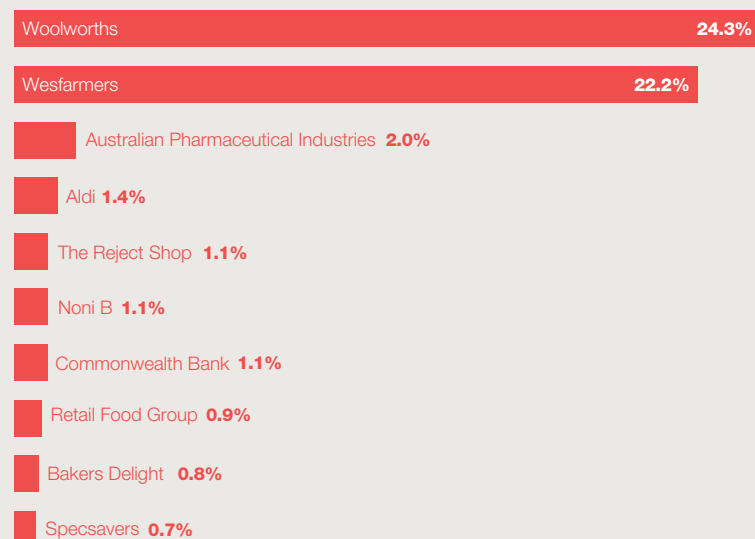




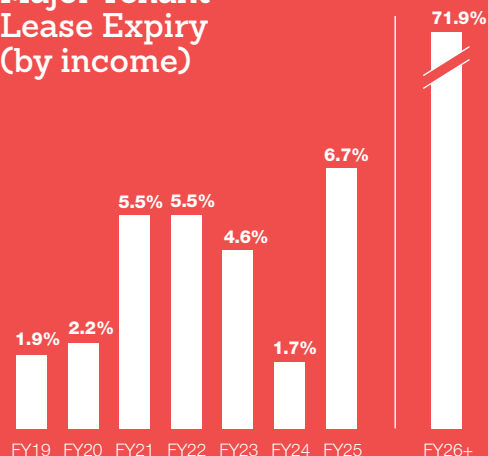
Convenience based retail remains the foundation of our offering to the 130 million shoppers who visit our centres annually.

Portfolio Performance

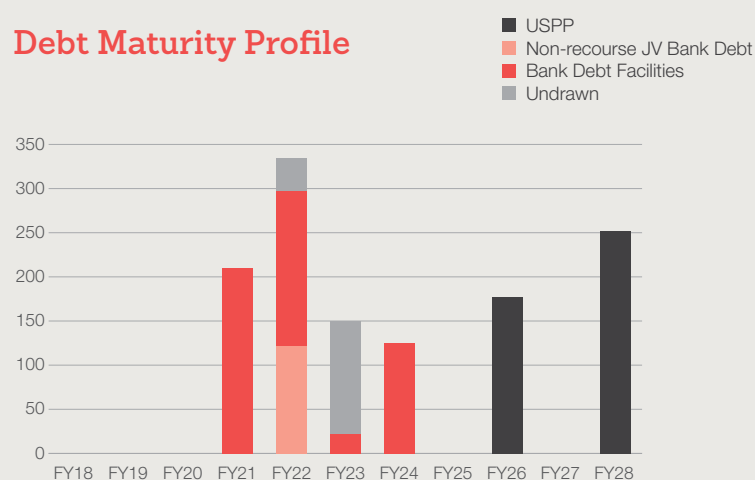
Top 10 Tenants (by Share of Rental Income)



Major Tenant Lease Expiry (by income)

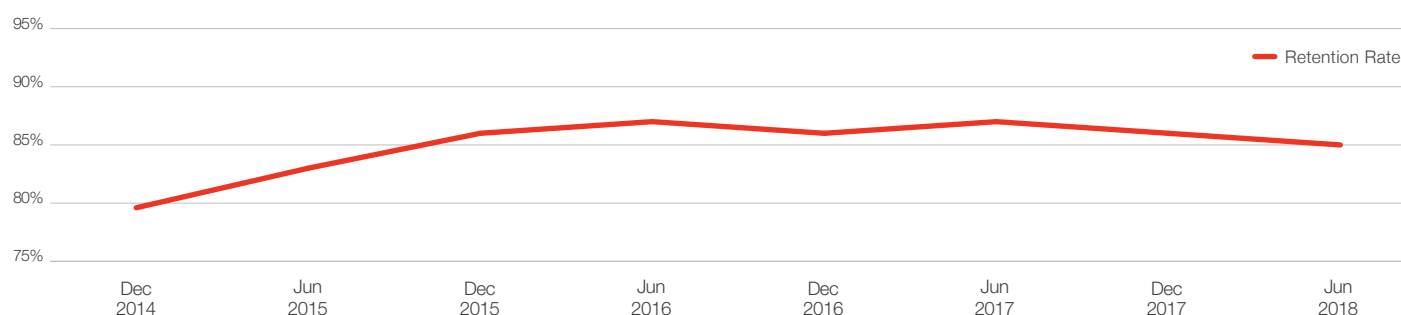


Debt Maturity Profile

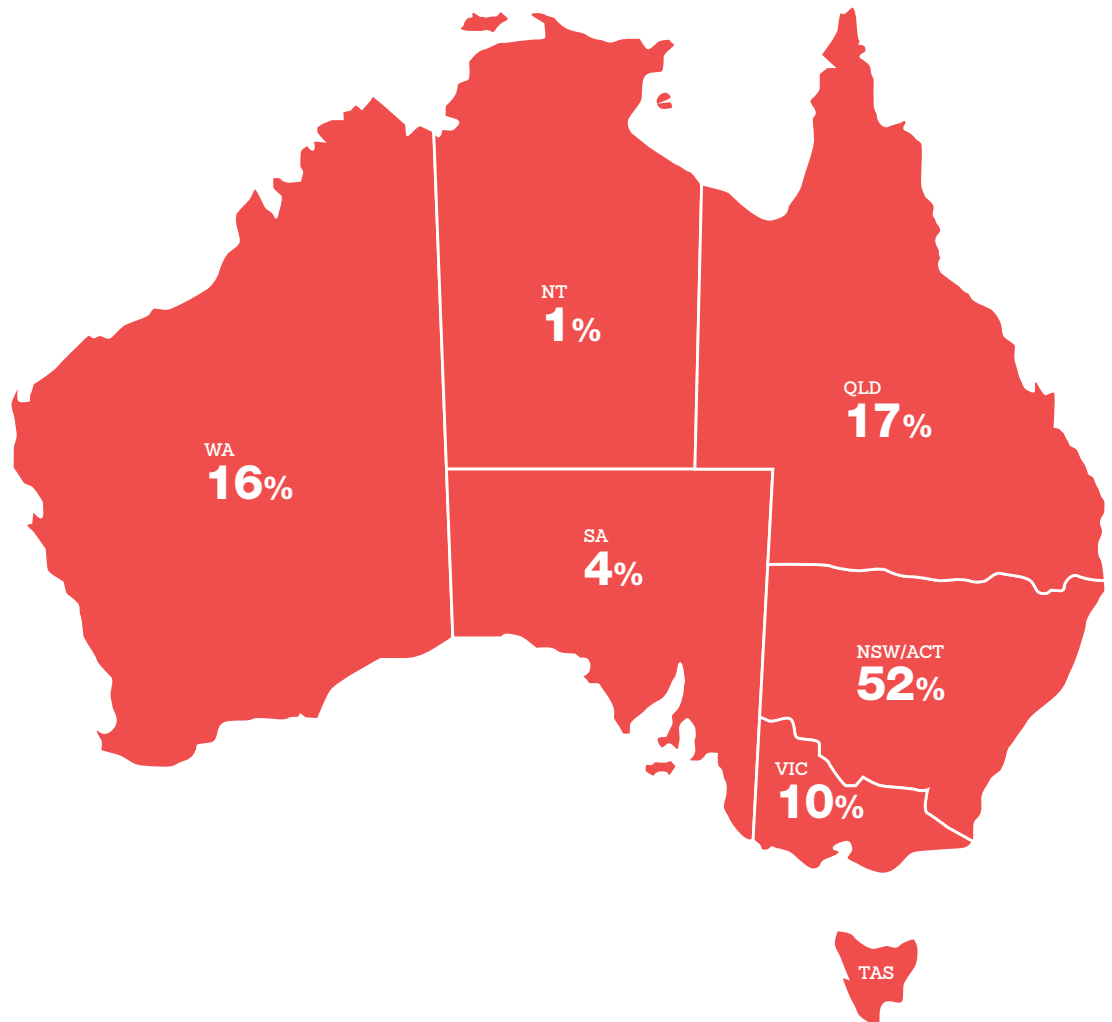


1. June 2018 pro-forma post funding of two new debt facilities and equivalent cancellation of syndicated debt facility (5.1 years at 30 June 2018).

Specialty Lease Expiry Retention Rate



Asset Value by State (%)



“



We have continued to grow the REIT, enhancing the quality of the portfolio by acquiring assets that are the dominant convenience based supermarket anchored centres in the catchment.”

CHRISTINE KELLY

HEAD OF RETAIL FINANCE & DEPUTY FUND MANAGER

GROSS LETTABLE AREA (GLA)

>580,000sqm

RETAIL SALES

\$5.0b+

PORTFOLIO
OCCUPANCY

98.1%

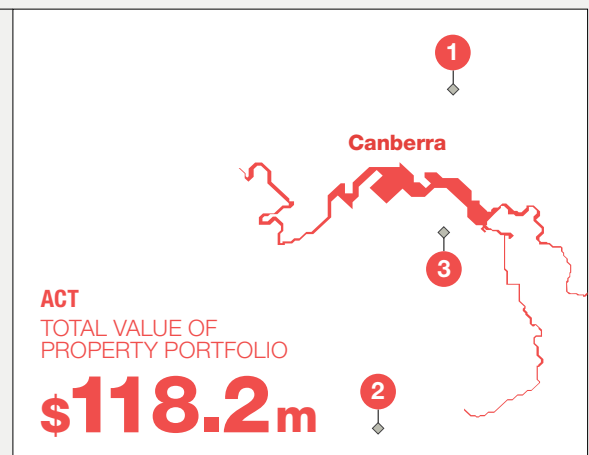
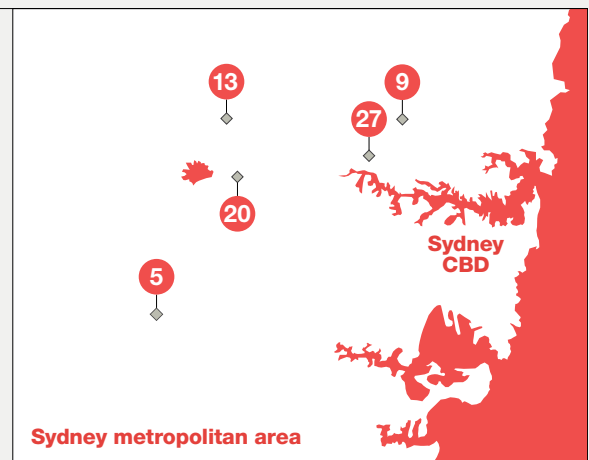
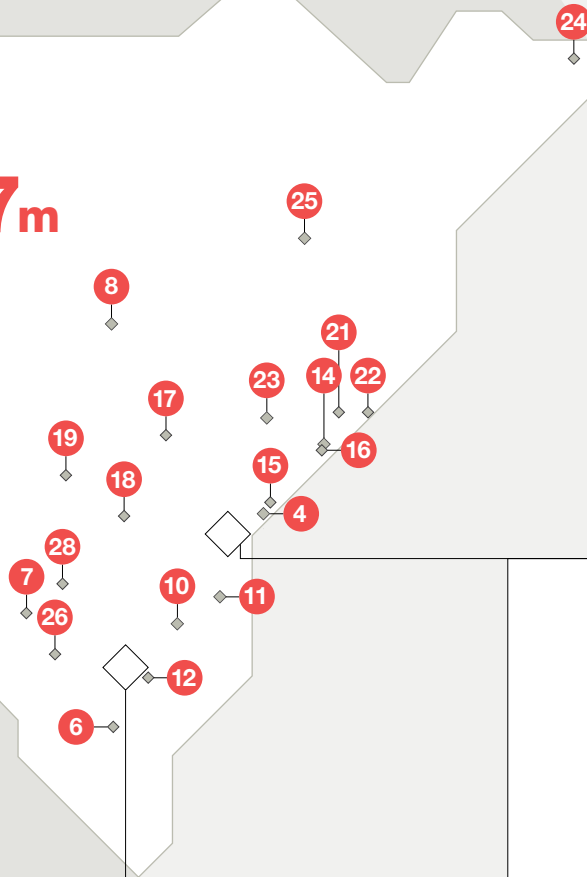
CUSTOMER VISITS
ANNUALLY

>130m

Portfolio Performance – NSW

NEW SOUTH WALES
TOTAL VALUE OF
PROPERTY PORTFOLIO

\$1,332.7m

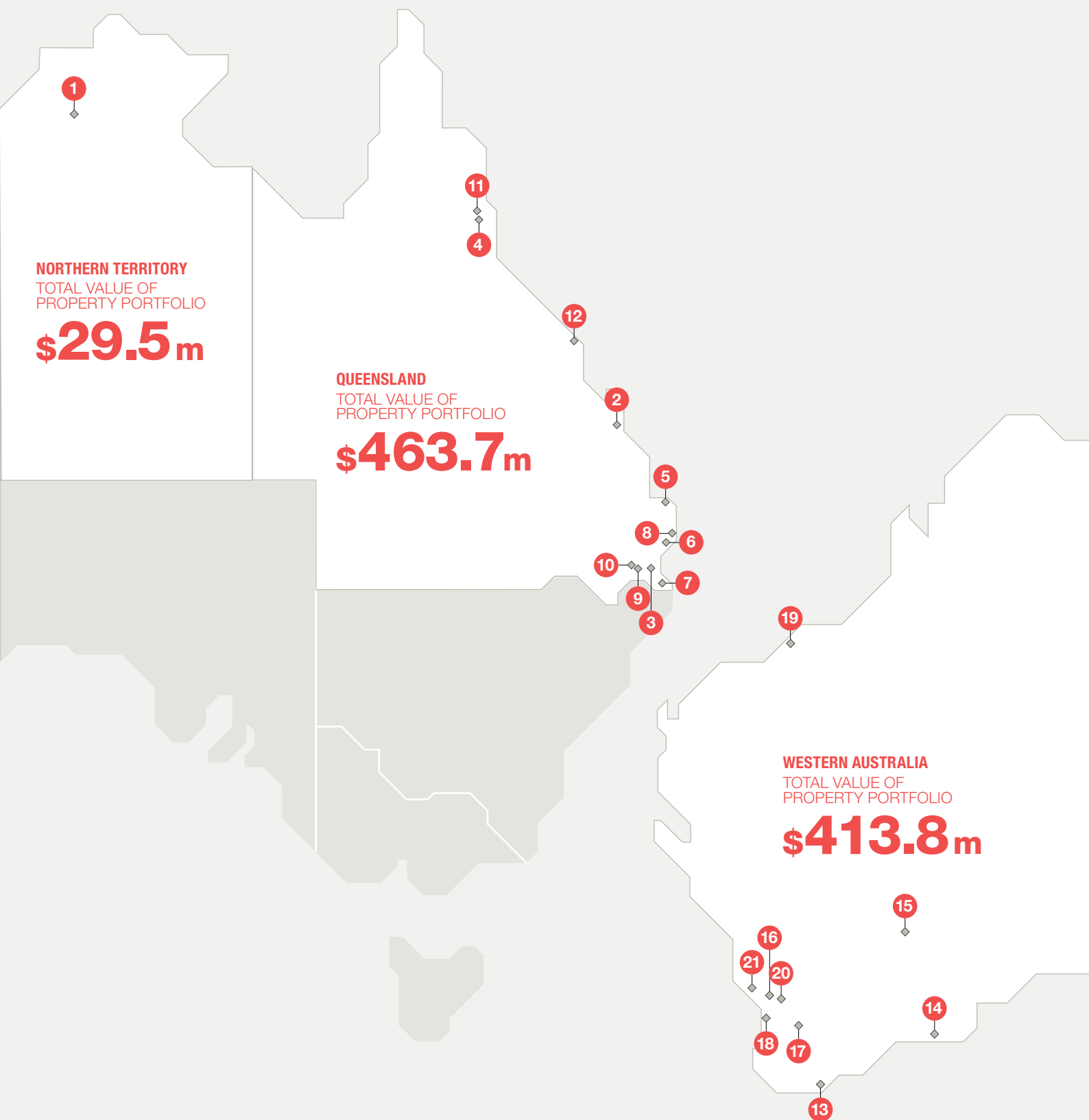


* Excludes properties held for sale.

Property	Location	Ownership Interest %	Book Value (\$m)	Cap Rate %
ACT				
1. Dickson Woolworths	Dickson	100.0	18.7	5.75%
2. Erindale Shopping Centre	Wanniassa	100.0	38.8	6.50%
3. Manuka Terrace	Manuka	100.0	60.7	5.75%
ACT Total			118.2	
NSW				
4. Bateau Bay Square	Bateau Bay	47.5	110.2	5.75%
5. Carnes Hill Marketplace	Horningsea Park	50.0	67.5	5.50%
6. Cooma Woolworths	Cooma	100.0	13.2	6.50%
7. Cootamundra Woolworths	Cootamundra	100.0	14.1	6.75%
8. Dubbo Square	Dubbo	100.0	50.2	7.00%
9. Gordon Village Centre	Gordon	100.0	142.0	5.28%
10. Goulburn Square	Goulburn	100.0	83.3	6.00%
11. Highlands Marketplace	Mittagong	50.0	40.5	5.75%
12. Jerrabomberra Village	Jerrabomberra	100.0	27.6	5.75%
13. Kings Langley Shopping Centre	Kings Langley	100.0	43.8	5.75%
14. Lake Macquarie Fair ¹	Mount Hutton	100.0	91.5	n/a
15. Morisset Shopping Centre	Morisset	100.0	42.9	6.55%
16. Mount Hutton Plaza ¹	Mount Hutton	100.0	11.5	n/a
17. Mudgee Metroplaza	Mudgee	100.0	26.3	6.50%
18. Orange Central Square	Orange	100.0	55.0	6.25%
19. Parkes Metroplaza	Parkes	100.0	23.0	6.50%
20. Pemulwuy Marketplace	Greystanes	50.0	16.8	5.50%
21. Rutherford Marketplace	Rutherford	50.0	19.8	6.00%
22. Salamander Bay Square	Salamander Bay	100.0	175.0	5.75%
23. Singleton Square	Singleton	100.0	122.0	6.35%
24. Sunnyside Mall	Murwillumbah	100.0	49.3	6.50%
25. Tamworth Square	Tamworth	100.0	51.0	6.75%
26. Tumut Coles	Tumut	100.0	10.8	5.75%
27. West Ryde Marketplace	West Ryde	50.0	27.6	5.50%
28. Young Woolworths	Young	100.0	17.8	6.25%
NSW Total			1,332.7	

1. Asset currently under redevelopment.

Portfolio Performance – QLD, WA, NT

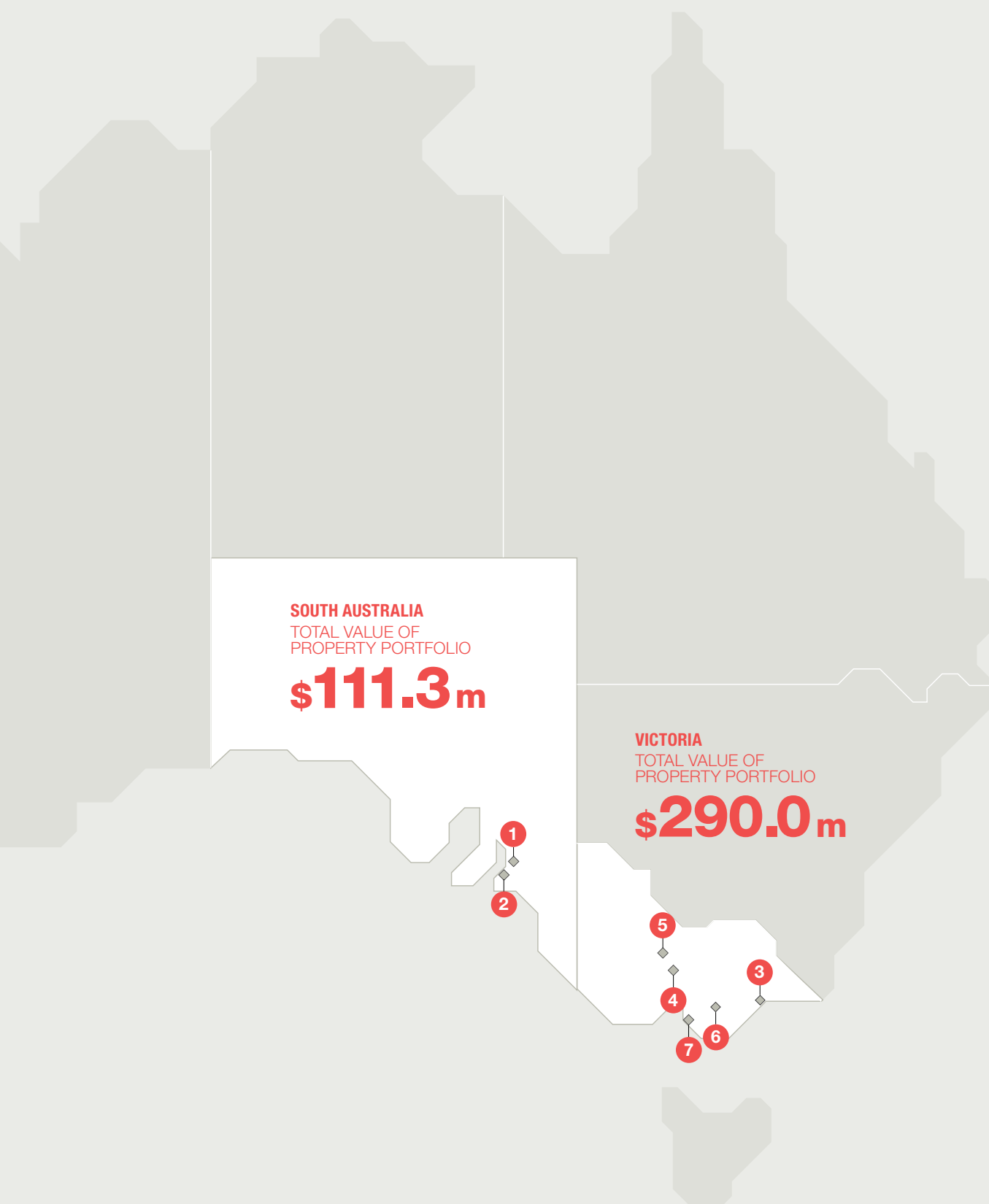


* Excludes properties held for sale.

Property	Location	Ownership Interest (%)	Book Value (\$m)	Cap Rate (%)
NT				
1. Katherine Central	Katherine	100.0	29.5	7.75%
NT Total			29.5	
QLD				
2. Allentown Square	Rockhampton	100.0	48.7	7.00%
3. Arana Hills Shopping Centre	Brisbane	100.0	68.2	5.75%
4. Atherton Square	Atherton	100.0	36.0	6.25%
5. Bay Plaza	Hervey Bay	100.0	23.3	6.50%
6. Bribie Island Shopping Centre	Bribie Island	100.0	61.3	6.00%
7. Coomera Square	Coomera	100.0	60.0	6.50%
8. Currimundi Markets	Currimundi	100.0	42.5	5.75%
9. Gatton Square	Gatton	100.0	24.5	6.00%
10. Highfields Village	Highfields	100.0	42.5	6.00%
11. Mareeba Square	Mareeba	100.0	19.4	6.50%
12. Sydney Street Markets	Mackay	100.0	37.3	6.75%
QLD Total			463.7	
WA				
13. Albany Plaza	Albany	100.0	62.1	6.75%
14. Esperance Boulevard	Esperance	100.0	31.5	6.50%
15. Kalgoorlie Central	Kalgoorlie	100.0	41.2	6.50%
16. Maylands Coles	Maylands	100.0	17.1	5.25%
17. Narrogin Coles	Narrogin	100.0	12.1	6.00%
18. Secret Harbour Square	Secret Harbour	100.0	96.6	6.25%
19. South Hedland Square	South Hedland	100.0	75.5	7.00%
20. Swan View Shopping Centre	Swan View	100.0	19.5	6.25%
21. Wanneroo Central ¹	Wanneroo	50.0	58.2	n/a
WA Total			413.8	

1. Asset currently under redevelopment.














Portfolio Performance – SA, VIC











* Excludes properties held for sale.



Property	Location	Ownership Interest (%)	Book Value (\$m)	Cap Rate (%)
SA				
1. Brickworks Marketplace	Torrensville	50.0	33.0	6.50%
2. Southgate Square	Morphett Vale	100.0	78.3	6.25%
SA Total			111.3	
VIC				
3. Bairnsdale Coles	Bairnsdale	100.0	17.1	5.50%
4. Kyneton Shopping Centre	Kyneton	100.0	19.5	5.75%
5. Lansell Square	Kangaroo Flat	100.0	104.5	6.25%
6. Moe Coles	Moe	100.0	20.8	5.50%
7. Rosebud Plaza	Rosebud	100.0	128.1	6.00%
VIC Total			290.0	

Sustainability

Deliverable/ Issue	FY18 Progress towards FY20 Targets	FY20 Target	FY25 Target	Aspiration
<div> Eco Innovation</div>				
<div><div></div><div>Environmental Performance</div></div>				
Reduce our impact on the planet	<div><div></div><div>Draft pathway developed using Science Based Targets methodology.</div></div>	Pathway to an equivalent 2-degree reduction in emissions.	Achieve the equivalent of a 2-degree reduction in emissions.	Net Zero Emissions.
Invest in renewable technologies	<div><div></div><div>250kW solar system installed at Singleton Square.</div></div> <div><div></div><div>Feasibility studies underway on solar installations across 13 shopping centres.</div></div> <div><div></div><div>Lake Macquarie Fair to install 250kW solar system as part of redevelopment.</div></div>	Implementation of solar projects across applicable shopping centres. Renewable energy on all new large retail developments.	Renewable energy creation in portfolio.	
Improve our Green footprint	<div><div></div><div>Maintained Australia's largest Green Star footprint with annual Green Star Performance certification for all eligible shopping centres.</div></div> <div><div></div><div>3.75 Star NABERS Energy weighted average.</div></div> <div><div></div><div>3.43 Star NABERS Water weighted average.</div></div>	3 Star weighted average Green Star Performance rating across the portfolio. 5 Star Green Star Design and As Built ratings sought on all new large developments. 3.75 Star NABERS Energy weighted average rating. 3.5 Star NABERS Water weighted average rating.	5 Star Green Star Design and As Built ratings sought on all new large developments. 4 Star NABERS Energy weighted average rating. 4 Star NABERS Water weighted average rating.	
Improve our waste management	<div><div></div><div>22% waste diverted from landfill.</div></div>	50% waste diverted from landfill.	70% waste diverted from landfill.	
<div><div></div><div>Resilience</div></div>				
Addressing Climate Change Risk	<div><div></div><div>Climate Change Risk and Adaptation workshops held and Climate Change Adaptation Plans commenced.</div></div>	All assets have Climate Change Adaptation Plans.	Capital improvements in portfolio in line with Climate Change Adaptation Plans.	Resilient communities and future proofed assets.
Addressing Environmental Risk	<div><div></div><div>Draft Environmental Management Plan developed for rollout in FY19.</div></div>	All assets have Environmental Management Plans in line with ISO14001.	Maintain certified Environmental Management Plans to ISO14001.	

Deliverable/ Issue	FY18 Progress towards FY20 Targets	FY20 Target	FY25 Target	Aspiration
<div><div></div><div>Building Community</div></div>				
<div><div>11</div><div>SUSTAINABLE CITIES AND COMMUNITIES</div><div></div></div>	<div>Community and Social Cohesion</div> <div>Investing in our communities </div> <div>Our Pledge made a difference in our communities through:<ul style="list-style-type: none">Our People: 81% of Our People undertook 330 Volunteer Days.Our Places: contributed \$1.3 Million or 46,054sqm in space for the community.Our Partnerships: donated \$600,000 towards services and programs through our community partners.</div>	Continued Pledge 1% Our People: Our Places: Our Partnerships.	Continued Pledge 1% Our People: Our Places: Our Partnerships.	Creation of the largest community hub network in Australia.
Engaging our stakeholders	<div><div>Stakeholder engagement plans prepared for all developments.</div></div> <div><div>Tenant Customer surveys undertaken.</div></div>	100% of developments and assets have stakeholder engagement plans.	100% of developments and assets have stakeholder engagement plans.	
	<div><div>100% of large retail centres have a community space.</div></div>	Community hubs in all large retail assets. National programs with communities and partners to curate creative and community programs in all large assets.	Create a national network of innovation enterprises.	
<div><div>11</div><div>SUSTAINABLE CITIES AND COMMUNITIES</div><div></div></div>	<div>Inclusive Places</div> <div>Creating great customer experiences </div> <div>Retail place experience under implementation.</div>	Place Index implemented across the portfolio.	Ongoing place experience ratings across our portfolio.	Leader in innovative place creation in our communities.
Deliverable/ Issue	FY18 Progress	FY20 Target	FY25 Target	Aspiration

Enabling Well-being

 Creating Healthy Spaces and Environments	<ul style="list-style-type: none"> Charter Hall Melbourne and Perth Tenancies achieved Silver WELL Interiors Certification. 		WELL building accreditation reviewed for applicability to retail assets.	WELL building accreditation reviewed and applied across select retail assets.	Leader in health and well-being in our communities.
	<ul style="list-style-type: none"> Charter Hall Human Rights Policy developed as part of the Human Rights Framework. Supplier human rights risk assessment commenced. 		Human Rights Framework implemented across all Charter Hall assets, developments and operations.	Integrated sustainable and equitable supply chain into assets and developments.	
	<ul style="list-style-type: none"> Social procurement integrated into national contracts. 		Development of social procurement strategy and expansion across our supply chain.	Green, social and Indigenous enterprises in the Charter Hall supply chain.	
	<ul style="list-style-type: none"> Well-being offer in our retail centres, through our tenants' identified. 		Well-being Strategy for our places developed and implemented.	Well-being programs/ facilities available to all large assets.	

Our Board and Management

Management Team



7. Greg Chubb

Retail CEO, Charter Hall & Executive Director and Fund Manager, Charter Hall Retail REIT

Greg is Fund Manager of the Charter Hall Retail REIT and Charter Hall's Retail CEO, joining the Group in 2014 with more than 29 years' property market experience. Greg is responsible for all management aspects of the Retail Funds Management platform to deliver value creation within the retail portfolio and optimise returns for our investors.

In addition to being appointed as an Executive Director of Charter Hall Retail REIT in February 2016, Greg is a Director of Charter Hall Wholesale Management Limited, Charter Hall Holdings Pty Limited, Charter Hall Nominees Pty Limited and Bieson Pty Limited.

Prior to joining Charter Hall, Greg was the Property Director at Coles Supermarkets Australia and Managing Director and Head of Retail for Sandalwood/Jones Lang LaSalle in Greater China. Greg has also held executive leadership roles at Mirvac and Lend Lease.

Greg holds a Bachelor of Business Degree (Land Economy) from the University of Western Sydney, is a Fellow of the Australian Property Institute (FAPPI) and Joint Deputy Chair of the Shopping Centre Council of Australia.

8. Christine Kelly

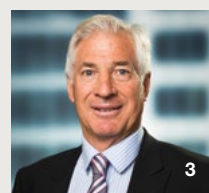
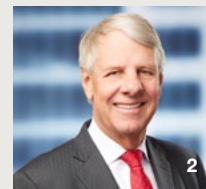
Head of Retail Finance, Charter Hall & Deputy Fund Manager, Charter Hall Retail REIT

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

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



Board of Directors



1. John Harkness

Independent Chairman

2. Roger Davis

Independent Non-Executive Director & Chair Elect

3. Alan Rattray-Wood

Independent Director

4. Michael Gorman

Independent Director

5. Sue Palmer

Independent Director

6. David Harrison

Executive Director

7. Gregg Chubb

Executive Director

See pages 27–29 for Director bios.



Secret Harbour Square, Secret Harbour, WA

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED 30 JUNE 2018

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DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2018

The Directors of Charter Hall Retail Management Limited (Responsible Entity or CHRML), the responsible entity of Charter Hall Retail REIT, present their report together with the consolidated financial statements of Charter Hall Retail REIT and its controlled entities (together, the REIT, the Fund) for the year ended 30 June 2018.

Principal activities

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

Directors

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

- John Harkness – Chair and Non-Executive Director
- Sue Palmer – Non-Executive Director and Chair of Audit, Risk and Compliance Committee
- Alan Rattray-Wood – Non-Executive Director (resigned on 31 October 2017)
- Michael Gorman – Non-Executive Director
- Roger Davis – Chair Elect and Non-Executive Director (appointed on 7 June 2018)
- David Harrison – Executive Director and Managing Director / Group CEO of Charter Hall
- Greg Chubb – Executive Director and Fund Manager / Retail CEO of Charter Hall
- Scott Dundas – Alternate for David Harrison (resigned on 8 November 2017)

Distributions

Distributions paid or declared by the REIT to unitholders:

	2018 \$'m	2017 \$'m
Final distribution for the six months ended 30 June 2018 of 14.2 cents per unit payable on 31 August 2018	57.2	–
Interim distribution for the six months ended 31 December 2017 of 14.0 cents per unit paid on 28 February 2018	56.5	–
Final distribution for the six months ended 30 June 2017 of 14.0 cents per unit paid on 31 August 2017	–	56.8
Interim distribution for the six months ended 31 December 2016 of 14.1 cents per unit paid on 28 February 2017	–	57.3
	113.7	114.1

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

Distribution Reinvestment Plan

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

The DRP was suspended for the year ended 30 June 2018.

Review and results of operations

The REIT recorded a statutory profit for the year of \$146.4 million (2017: \$251.3 million). Operating earnings amounted to \$123.2 million (2017: \$123.3 million). Higher net property income, offset by higher financing costs resulting from the REIT's asset recycling strategy, delivered stable operating earnings for the year. Operating earnings per unit increased to 30.51 cents (2017: 30.40 cents) due to units repurchased during the period.

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

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

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2018

Review and results of operations continued

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

	Notes	2018 \$'m	2017 \$'m
Net property income from wholly owned properties		158.0	148.8
Net income from joint venture entities		14.9	15.4
Other income		0.2	0.2
Management fees		(9.8)	(10.2)
Finance costs		(36.8)	(27.9)
Other expenses		(3.3)	(3.0)
Operating earnings	A	123.2	123.3

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

	2018 \$'m	2017 \$'m
Operating earnings	123.2	123.3
Net revaluation increment on investment properties	55.7	118.9
Revaluation decrement on investment properties attributable to acquisition costs	(14.6)	(5.4)
Net (loss)/gain on derivative financial instruments	(3.7)	16.9
(Loss)/gain on sale of investment properties	(8.4)	2.8
Write off capitalised borrowing costs related to refinancing	–	(0.2)
Other	(5.8)	(5.0)
Statutory profit for the year	146.4	251.3
Basic weighted average number of units (millions)	403.9	405.8
Basic earnings per unit (cents)	36.22	61.92
Operating earnings per unit (cents)	30.51	30.40
Distribution per unit (cents)	28.20	28.10

The 30 June 2018 financial results are summarised as follows:

	2018	2017
Revenue (\$ millions)	226.9	215.5
Net profit after tax (\$ millions)	146.4	251.3
Basic earnings per unit (cents)	36.22	61.92
Operating earnings (\$ millions)	123.2	123.3
Operating earnings per unit (cents)	30.51	30.40
Distributions (\$ millions)	113.7	114.1
Distributions per unit (cents)	28.20	28.10
Total assets (\$ millions)	2,769.5	2,707.2
Total liabilities (\$ millions)	1,073.0	1,032.7
Net assets attributable to unitholders (\$ millions)	1,696.5	1,674.5
Units on issue (millions)	402.5	405.8
Net assets per unit (\$)	4.22	4.13
Balance sheet gearing – total debt (net of cash) to total assets (net of cash)	33.4%	33.1%
Look through gearing – total debt (net of cash) to total assets (net of cash)	36.1%	36.2%

Significant changes in the state of affairs

Acquisitions

Acquisitions in the period totalled \$215.5 million. In July 2017, the REIT acquired Salamander Bay, NSW for a gross price of \$174.5 million and Highfields Village, Qld for a gross price of \$41.0 million.

Disposals

During the 12 months to 30 June 2018, the REIT sold the following properties:

Property	State	Settlement date	Gross settlement value \$'m
Wharflands Plaza	SA	July 2017	21.0
Narrabri Coles	NSW	September 2017	10.5
Rosehill Woolworths	NSW	September 2017	13.0
Albany Creek Square	Qld	November 2017	55.9
Kerang Safeway	Vic	December 2017	15.7
Wynyard Woolworths	Tas	December 2017	10.2
Goonellabah Village	NSW	January 2018	14.5
Moranbah Fair	Qld	January 2018	25.0
Springfield Fair	Qld	February 2018	23.5
Smithton Woolworths	Tas	May 2018	7.5
Renmark Square	SA	May 2018	24.7
Earlwood Coles	NSW	June 2018	28.7
Kallangur Fair	Qld	June 2018	21.4
			271.6

During the 12 months to 30 June 2018, Charter Hall Retail Partnership No.1 Trust (CHRP1), one of the REIT's joint venture entities, sold the following properties:

Property	State	Settlement date	REIT's share of gross settlement value \$'m
Gladstone Square	Qld	July 2017	15.8
Thornleigh Marketplace	NSW	June 2018	21.6
			37.4

Financing

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

Redevelopments

During the 12 months to 30 June 2018, the REIT commenced the redevelopment of Lake Macquarie Fair, NSW and Mount Hutton Plaza, NSW with completion expected by early 2019. CHRP1 commenced the redevelopment of Wanneroo Central, WA with completion expected in early September 2018.

Cash position

The REIT had a cash balance of \$61.4 million at 30 June 2018. The cash balance was predominantly from the timing of the disposals of Earlwood Coles, NSW and Kallangur Fair, Qld. The cash was used to repay borrowings in July 2018.

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2018

Business strategies and prospects

The REIT's strategy is to invest in convenience based retail assets in Australia. When acquiring these properties the REIT's investment criteria include the following considerations:

- exposure to predominantly non-discretionary retailing;
- investing in regions with sound, long-term demographic growth;
- consideration of the geographic diversity of the REIT's portfolio; and
- potential future development opportunity.

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

The REIT has a target look through gearing range of 30% to 40% and a target interest cover ratio of at least 2.5 times. The REIT maintains an investment grade credit rating.

The material business risks faced by the REIT that are likely to have an effect on its financial performance are set out below. A dedicated risk and compliance team are responsible for the ongoing review and monitoring of compliance and risk management systems. The Board regularly reviews material risks to ensure they remain within the REIT's agreed risk appetite.

Property valuations

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

Structural change in retail environment

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

Leasing

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

Funding

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

Development pipeline

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

Major anchor tenants' growth

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

Other business risks

Further key strategic and operational risks include breaches of cyber security and privacy, workplace health and safety, as well as environmental, social, governance and regulatory risks.

Events occurring after balance date

In July 2018, the REIT paid the remaining balance of \$55.5 million to settle the unconditional contract to acquire 50% of Gateway Plaza, Leopold, Vic. The REIT's 50% interest is held through a joint venture with Charter Hall Prime Retail Fund. The REIT's share of the total settlement (including deposit) was \$58.5 million.

In July 2018, the REIT entered into two new unsecured bilateral bank debt facilities. The facility limits are \$75.0 million and \$50.0 million. The new facilities are due to mature in July 2023 and August 2023 respectively.

In August 2018, the REIT sold 47.5% of Salamander Bay shopping centre, NSW for \$83.1 million by establishing a further joint venture with Charter Hall Prime Retail Fund.

In August 2018, the REIT repaid and cancelled \$125.0 million of the existing unsecured syndicated bank debt facility which was due to mature in July 2020.

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 may have an impact on the results of the REIT is unknown. Such developments could influence property market valuations, the ability to raise or refinance debt and the cost of such debt, or the ability to raise equity.

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

Indemnification and insurance of Directors, officers and auditor

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

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

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

Base fees of \$11,322,644 (2017: \$11,182,258) were paid or are payable to the Responsible Entity, its associates or third party service providers for the services provided during the year, in accordance with the REIT's constitution as disclosed in Note D1 to the consolidated financial statements.

The interests in the REIT held by the Responsible Entity or its associates as at 30 June 2018 and fees paid to its associates during the year are disclosed in Note D1 to the consolidated financial statements.

Interests in the REIT

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

	2018	2017
Units on issue at the beginning of the year	405,777,734	404,307,852
Units issued during the year		
– via Distribution Reinvestment Plan	–	1,881,240
Units cancelled during the year*	(3,294,230)	(411,358)
Units on issue at the end of the year	402,483,504	405,777,734

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

Value of assets

	2018 \$'m	2017 \$'m
Value of REIT assets	2,769.5	2,707.2

The value of the REIT's assets is derived using the basis set out in the notes to the consolidated financial statements for the year ended 30 June 2018.

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2018

Environmental regulations

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

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

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

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

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

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

Information on current Directors

Director	Experience	Special responsibilities	Interest in units of the REIT
John Harkness	<p>Appointed 18 August 2003</p> <p>John was appointed to the Board of the management company for the Charter Hall Retail REIT on 18 August 2003, and was appointed Chair on 27 April 2011. John brings extensive financial and business skills to the Board. A partner at KPMG for 25 years and National Executive Chair for five years, John has held a number of non-executive director roles since leaving KPMG in 2000.</p> <p>He is currently Chair of the National Foundation for Medical Research and Innovation.</p> <p>John is a Fellow of both The Institute of Chartered Accountants (Australia and New Zealand) and the Australian Institute of Company Directors.</p> <p>Current listed directorships Nil</p> <p>Former listed directorships in last three years Goodman Group (Director 2005 to 2017) (ASX:GMG)</p>	<p>Chair of Board of Directors, Member of Audit, Risk and Compliance Committee</p>	Nil
Sue Palmer	<p>Appointed 10 November 2015</p> <p>Sue was appointed to the Board of the management company for the Charter Hall Retail REIT on 10 November 2015. Sue is a professional non-executive director and experienced corporate and finance executive. Sue has held senior finance roles across a range of diversified industries, with the most recent being as Chief Finance Officer of the large construction and mining company Thiess. During her executive career and subsequently, Sue has held a number of non-executive director roles on ASX listed, government and private company boards.</p> <p>Sue is a Chartered Accountant and Fellow of the Australian Institute of Company Directors.</p> <p>Current listed directorships New Hope Corporation Limited (Director since 2012) (ASX:NHC) RCR Tomlinson Limited (Director since 2014) (ASX:RCR) Qube Holdings Limited (Director since 2017) (ASX:QUB)</p> <p>Former listed directorships in last three years Nil</p>	<p>Chair of Audit, Risk and Compliance Committee</p>	Nil
Alan Rattray-Wood	<p>Appointed 6 March 1996 and resigned 31 October 2017</p> <p>Alan was appointed to the Board of the management company for the Charter Hall Retail REIT on 6 March 1996, and is a member of the Audit, Risk and Compliance Committee. He is an experienced industry participant with more than 35 years' experience involving supermarket management, neighbourhood and regional sized shopping centre management, development and leasing. Alan has held management roles with Woolworths, Westfield Holdings, Knight Frank Agency and other private retail developers.</p> <p>Since 1990, he has operated his own retail development consultancy practice, focusing on all facets of shopping centre development and retail chain insolvency workouts.</p> <p>Current listed directorships Nil</p> <p>Former listed directorships in last three years Nil</p>	<p>Member of Audit, Risk and Compliance Committee</p>	N/A

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2018

Director	Experience	Special responsibilities	Interest in units of the REIT
Michael Gorman	<p>Appointed 10 November 2016</p> <p>Michael joined the Board in 2016. He brings more than 30 years' extensive experience in both real estate and the public equity and debt markets.</p> <p>In his 11 years with Novion Property Group, an ASX top 50 entity, and its predecessors, Michael held a number of executive positions including Deputy Chief Executive Officer, Chief Investment Officer and Fund Manager. In these roles, Michael was directly responsible for raising several billion dollars in equity on the Australian Securities Exchange and corporate bonds in the domestic and US markets.</p> <p>Also in 2016, Michael was appointed Non-Executive Director of GPT Funds Management Limited, the Responsible Entity of the GPT wholesale unlisted funds platform. Michael is also a Non-Executive Director of Adelaide Airport Limited and a member of its Property Development Committee and the Aeronautical and Related Infrastructure Committee.</p> <p>Michael completed the Advanced Management Programme at INSEAD, France, and holds an MBA from the Australian Graduate School of Management of UNSW, a Bachelor of Science (Architecture) UNSW and a Bachelor of Architecture (First Class Honours, University Medal) at UNSW.</p> <p>Michael is a Graduate Member of the Australian Institute of Company Directors, a Fellow of the Australian Property Institute and a Fellow of the Royal Society of Arts.</p> <p>Current listed directorships Nil</p> <p>Former listed directorships in last three years Nil</p>	Member of Audit, Risk and Compliance Committee	Nil
Roger Davis	<p>Appointed 7 June 2018</p> <p>Roger was appointed to the Board of the management company of the Charter Hall Retail REIT on 7 June 2018 as Independent Non-Executive Director and Chair Elect. Roger brings over 35 years' experience in banking and investment banking in Australia, the US and Japan. He is currently a Consulting Director at Rothschild (Australia) Limited, a Director of Ardent Leisure Management Limited and Argo Investments Limited, as well as the Chairman of Bank of Queensland.</p> <p>In his career as senior executive, Roger was a Managing Director at Citigroup, where he worked for over 20 years in Australia, Japan and the US. More recently, he was a Group Managing Director at ANZ Banking Group responsible for all the Commercial, Investment and Institutional Banking activities.</p> <p>Roger has a Bachelor of Economics (Hons) from the University of Sydney and a Master of Philosophy from Oxford. He is also a qualified CPA.</p> <p>Current listed directorships Ardent Leisure Management Limited (ASX:AAD) Argo Investments Limited (ASX:ARG) Bank of Queensland (ASX:BOQ)</p> <p>Former listed directorships in the last three years Aristocrat Leisure Limited (ASX:ALL)</p>	Chair Elect of Board of Directors, Member of Audit, Risk and Compliance Committee	Nil

Director	Experience	Special responsibilities	Interest in units of the REIT
David Harrison	<p>Appointed 1 March 2010</p> <p>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 \$23.2 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, and Chair of the Executive Property Valuation Committee and Executive Leadership Group.</p> <p>David has overseen the growth of the Charter Hall Group from \$500 million to \$23.2 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.</p> <p>David holds a Bachelor of Business Degree (Land Economy) from the University of Western Sydney, is a Fellow of the Australian Property Institute (FAP I) and holds a Graduate Diploma in Applied Finance from the Securities Institute of Australia.</p> <p>Current listed directorships Charter Hall Group (ASX:CHC) Charter Hall Long WALE REIT (ASX:CLW)</p> <p>Former listed directorships in last three years Nil</p>	Nil	124,378
Greg Chubb	<p>Appointed 5 February 2016</p> <p>Greg is Fund Manager of the Charter Hall Retail REIT and Charter Hall's Retail CEO, joining the Group in 2014 with more than 29 years' property market experience. Greg is responsible for all management aspects of the Retail Funds Management platform to deliver value creation within the retail portfolio and optimise returns for our investors.</p> <p>In addition to being appointed as an Executive Director of Charter Hall Retail REIT in February 2016, Greg is a Director of Charter Hall Wholesale Management Limited, Charter Hall Holdings Pty Limited, Charter Hall Nominees Pty Limited and Bieson Pty Limited.</p> <p>Prior to joining Charter Hall, Greg was the Property Director at Coles Supermarkets Australia and Managing Director and Head of Retail for Sandalwood/Jones Lang LaSalle in Greater China. Greg has also held executive leadership roles at Mirvac and Lend Lease.</p> <p>Greg holds a Bachelor of Business Degree (Land Economy) from the University of Western Sydney, is a Fellow of the Australian Property Institute (FAP I) and is Joint Deputy Chair of the Shopping Centre Council of Australia.</p> <p>Current listed directorships Nil</p> <p>Former listed directorships in last three years Nil</p>	Nil	Nil

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2018

Meetings of Directors

Name	Full meetings of Directors		Meetings of Audit, Risk and Compliance Committee	
	Eligible to attend	Attended	Eligible to attend	Attended
John Harkness	6	6	5	5
Roger Davis	1	1	1	1
Sue Palmer	6	6	5	5
Alan Rattray-Wood	2	2	1	1
Michael Gorman	6	6	5	5
David Harrison	6	6	–	–
Greg Chubb	6	6	–	–

Company Secretary

Mark Bryant was appointed as Company Secretary for the REIT on 1 July 2015.

Mark holds a Bachelor of Business (Accounting) and a Bachelor of Laws (Hons) and has over 14 years' experience as a solicitor, including advising on listed company governance, securities law, funds management, real estate and general corporate law. Mark is the General Counsel and Group Company Secretary for the Charter Hall Group.

Non-audit services

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

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

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

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

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 31.

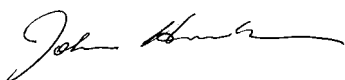
Rounding of amounts to the nearest hundred thousand dollars

As permitted by ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 issued by the Australian Securities and Investments Commission relating to the 'rounding off' of amounts in the 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.

Directors' authorisation

The Directors' report is made in accordance with a resolution of the Directors. The financial statements were authorised for issue by the Directors on 15 August 2018. The Directors have the power to amend and re-issue the financial statements.


John Harkness

Chair

Sydney

15 August 2018

AUDITOR'S INDEPENDENCE DECLARATION

FOR THE YEAR ENDED 30 JUNE 2018



Auditor's Independence Declaration

As lead auditor for the audit of Charter Hall Retail 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 Retail REIT and the entities it controlled during the period.

A handwritten signature in black ink, appearing to read 'Reilly', with a stylized, cursive script.

Jane Reilly
Partner
PricewaterhouseCoopers

Sydney
15 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		226.7	215.3
Interest income		0.2	0.2
Total revenue		226.9	215.5
Other income			
Share of net profit on investment in joint venture entities	B2	18.0	41.7
Net gain on movement in fair value of investment properties		36.7	91.3
Net gain from derivative financial instruments	C3	–	15.2
Total revenue and other income		281.6	363.7
Expenses			
Property expenses		(73.6)	(70.8)
Net loss from derivative financial instruments	C3	(3.6)	–
Net loss on disposal of investment properties		(8.1)	(0.2)
Management fees	D1	(9.8)	(10.2)
Finance costs	C2	(36.8)	(28.0)
Other expenses		(3.3)	(3.2)
Total expenses		(135.2)	(112.4)
Profit for the year		146.4	251.3
Other comprehensive income/(expense)*			
Change in the fair value of cash flow hedges	C4	2.2	(2.1)
Other comprehensive income/(expense)		2.2	(2.1)
Total comprehensive income for the year		148.6	249.2
Basic earnings per ordinary unitholder of the REIT			
Earnings per unit (cents)	A2	36.22	61.92

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

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

CONSOLIDATED BALANCE SHEET

AS AT 30 JUNE 2018

	Notes	2018 \$'m	2017 \$'m
Assets			
Current assets			
Cash and cash equivalents		61.4	58.7
Receivables	D2	13.0	9.9
Derivative financial instruments	C3	4.5	4.3
Deposits on investment properties	B	3.0	12.8
Prepayments		1.7	0.9
Assets classified as held for sale	B	33.6	158.3
Total current assets		117.2	244.9
Non-current assets			
Investment properties	B	2,385.6	2,208.9
Investments in joint venture entities	B2	245.8	250.4
Derivative financial instruments	C3	20.9	3.0
Total non-current assets		2,652.3	2,462.3
Total assets		2,769.5	2,707.2
Liabilities			
Current liabilities			
Payables	D2	36.0	37.9
Distribution payable	A2	57.2	56.8
Other liabilities		0.4	1.8
Total current liabilities		93.6	96.5
Non-current liabilities			
Borrowings	C2	930.1	910.1
Derivative financial instruments	C3	49.3	26.1
Total non-current liabilities		979.4	936.2
Total liabilities		1,073.0	1,032.7
Net assets		1,696.5	1,674.5
Equity			
Contributed equity	C4	2,257.9	2,276.3
Reserves	C4	(1.2)	(3.4)
Accumulated losses	C4	(560.2)	(598.4)
Total equity		1,696.5	1,674.5

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	Contributed equity \$'m	Reserves \$'m	Accumulated losses \$'m	Total \$'m
Total equity at 1 July 2016		2,269.6	(1.3)	(736.1)	1,532.2
Profit for the year		–	–	251.3	251.3
Other comprehensive income		–	(2.1)	–	(2.1)
Total comprehensive income for the year		–	(2.1)	251.3	249.2
Transactions with unitholders in their capacity as unitholders					
– Contributions of equity, net of issue costs	C4	9.0	–	–	9.0
– Cancellation of units	C4	(2.3)	–	0.5	(1.8)
– Distributions paid and payable	A2	–	–	(114.1)	(114.1)
Total equity at 30 June 2017		2,276.3	(3.4)	(598.4)	1,674.5
Total equity at 1 July 2017		2,276.3	(3.4)	(598.4)	1,674.5
Profit for the year		–	–	146.4	146.4
Other comprehensive income		–	2.2	–	2.2
Total comprehensive income for the year		–	2.2	146.4	148.6
Transactions with unitholders in their capacity as unitholders					
– Contributions of equity, net of issue costs	C4	–	–	–	–
– Cancellation of units	C4	(18.4)	–	5.5	(12.9)
– Distributions paid and payable	A2	–	–	(113.7)	(113.7)
Total equity at 30 June 2018		2,257.9	(1.2)	(560.2)	1,696.5

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		242.8	238.9
Property expenses paid		(75.5)	(70.2)
Distributions received from investment in joint venture entities		14.6	11.7
Other operating expenses paid		(14.7)	(12.2)
Finance costs paid		(35.4)	(29.3)
Interest and other income		0.2	0.2
Net GST paid to ATO on operating activities		(13.8)	(14.1)
Net GST (paid to)/received from ATO on investing activities		(0.4)	0.4
Net cash flows from operating activities	A3	117.8	125.4
Cash flows from investing activities			
Proceeds from sale of investment properties		262.5	49.8
Deposit received for investment property		–	1.3
Payments for investment properties and capital expenditure		(278.9)	(163.4)
Capital distribution received from joint venture entity		7.6	–
Deposit paid for investment property		(3.0)	(12.8)
Net cash flows from investing activities		(11.8)	(125.1)
Cash flows from financing activities			
Proceeds from borrowings		315.3	269.1
Repayment of borrowings		(292.4)	(115.8)
Repurchase of units		(12.9)	(1.8)
Distributions paid to unitholders, net of DRP		(113.3)	(105.3)
Net cash flows from financing activities		(103.3)	46.2
Net increase in cash held		2.7	46.5
Cash and cash equivalents at the beginning of the year		58.7	12.2
Cash and cash equivalents at the end of the year		61.4	58.7

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

Non-cash financing and investing activities

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

	Notes	2018 \$'m	2017 \$'m
Distributions by the REIT during the year satisfied by the issue of units under the DRP	A2, C4	–	9.0

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

ABOUT THIS REPORT

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

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

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Critical accounting estimates

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

The areas involving significant estimates or judgements are:

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

A. FUND PERFORMANCE

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

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

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

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

A1. Segment information

(a) Description of segments

The Directors of the Responsible Entity have determined the operating segments based on the reports reviewed by the chief operating decision maker, being the Board of the Responsible Entity. The REIT has one operating segment being its Australian operations. The REIT's operating segments reported in the June 2017 financial report were freestanding supermarkets, neighbourhood shopping centres and sub-regional shopping centres. The chief operating decision maker no longer allocates resources or assesses performance based on the previously reported segments. The previously reported segments have been consolidated to one operating segment being its Australian operations. The consolidation of segments has a \$nil net effect on the total operating earnings.

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

(b) Segment information provided to the Board

The operating earnings reported to the Board for the operating segments for the years ended 30 June 2018 and 30 June 2017 are as follows:

	2018 \$'m	2017 \$'m
Property rental income	226.7	215.3
Add back: non-cash adjustments	4.9	4.3
Property expenses	(73.6)	(70.8)
Total net property income from wholly owned properties (NPI)	158.0	148.8
Net income from joint venture entities	14.9	15.4
Other income	0.2	0.2
Management fees (refer to note D1)	(9.8)	(10.2)
Finance costs	(36.8)	(27.9)
Other expenses	(3.3)	(3.0)
Operating earnings	123.2	123.3

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

A1. Segment information continued

(b) Segment information provided to the Board continued

Rental income

Property rental income represents income earned from the long term rental of REIT properties and is recognised on a straight line basis over the lease term. The portion of rental income relating to fixed increases in operating lease rentals in future years is recognised as a separate component of investment properties. Investment properties include a straightlining asset of \$10.5 million (2017: \$10.7 million) and unamortised lease incentives of \$21.2 million (2017: \$16.6 million). Turnover rent is recognised on an accruals basis.

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

	0 to 1 year \$'m	1 to 5 years \$'m	Over 5 years \$'m	Total \$'m
2018	163.7	483.9	427.5	1,075.1
2017	170.8	517.0	475.8	1,163.6

Property expenses

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

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

	2018 \$'m	2017 \$'m
Operating earnings	123.2	123.3
Net revaluation increment on investment properties	55.7	118.9
Revaluation decrement on investment properties attributable to acquisition costs	(14.6)	(5.4)
Net (loss)/gain on derivative financial instruments	(3.7)	16.9
(Loss)/gain on sale of investment properties	(8.4)	2.8
Write off capitalised borrowing costs related to refinancing	–	(0.2)
Other	(5.8)	(5.0)
Profit for the year	146.4	251.3
Basic weighted average number of units (millions)	403.9	405.8
Operating earnings per unit (cents)	30.51	30.40

A2. Distributions and earnings per unit

(a) Distributions paid and payable

	Distribution Cents per unit	Total amount \$'m
<i>Ordinary unitholders</i>		
2018 distributions for the half year ended:		
31 December 2017 (paid 28 February 2018)	14.0	56.5
30 June 2018 (payable 31 August 2018)*	14.2	57.2
	28.2	113.7
<i>Ordinary unitholders</i>		
2017 distributions for the half year ended:		
31 December 2016 (paid 28 February 2017)	14.1	57.3
30 June 2017 (paid 31 August 2017)	14.0	56.8
	28.1	114.1

* The distribution of 14.2 cents per unit for the six months period ended 30 June 2018 was declared prior to 30 June 2018 and will be paid on 31 August 2018.

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

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 the trustee has attributed all the taxable income of the REIT to unitholders.

(b) Earnings per unit

	2018	2017
Basic earnings per ordinary unitholder of the REIT		
Earnings per unit (cents)	36.22	61.92
Operating earnings per unit (cents)	30.51	30.40
Earnings used in the calculation of basic earnings per unit		
Net profit for the year (\$'m)	146.4	251.3
Operating earnings for the year (\$'m)	123.2	123.3
Weighted average number of units used in the calculation of basic earnings per unit (millions)*	403.9	405.8

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

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

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

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

A3. Reconciliation of net profit to operating cash flow

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

	Notes	2018 \$'m	2017 \$'m
Profit after tax		146.4	251.3
<i>Non-cash items</i>			
Straightlining and amortisation of lease incentives		4.9	4.4
Share of unrealised net profit on investment in joint venture entities		(3.2)	(26.3)
Property valuation gains		(36.7)	(91.3)
Loss on sale of investment properties		8.1	0.2
Unrealised net loss/(gain) on derivative financial instruments	B2, C3	3.6	(15.2)
Write off of capitalised borrowing costs related to refinancing		–	0.1
<i>Change in assets and liabilities</i>			
(Increase)/decrease in assets			
Receivables		(3.1)	(0.5)
Accrued interest on cross currency and interest rate swap		(0.1)	0.2
Net income receivable from investment in joint venture entities		(0.3)	(2.0)
Other assets		(0.7)	0.4
Unamortised borrowing costs		1.0	(1.4)
(Decrease)/increase in liabilities			
Payables		(1.9)	5.3
Other liabilities		(0.2)	0.2
Net cash flows from operating activities		117.8	125.4

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

B. PROPERTY PORTFOLIO ASSETS

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

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

	Notes	2018 \$'m	2017 \$'m
Non-current assets			
Investment properties	B1	2,385.6	2,208.9
Investments in joint venture investment property		373.6	381.0
Joint venture adjustment*	B2	(127.8)	(146.5)
Total non-current assets		2,631.4	2,443.4
Current assets			
Assets held for sale**	B1	33.6	158.3
Joint venture assets held for sale	B2	–	15.9
Property portfolio assets, including interests in joint venture properties		2,665.0	2,617.6

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

** The REIT has classified two properties as held for sale.

Deposit on investment property

In June 2018, the REIT paid a deposit of \$3.0 million and entered an unconditional contract to acquire 50% of Gateway Plaza, Leopold, Vic. The REIT completed the acquisition in July 2018, acquiring 50% of Gateway Plaza for a gross price of \$58.5 million (including deposit).

B1. Investment properties**Investment properties**

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

Assets held for sale

Assets which are classified as held for sale are classified as current assets as it is expected they will be divested within the coming reporting period. Each asset is for sale in its current condition and is subject to an active marketing campaign.

Development properties

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

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

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

(a) Valuation process

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

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

For the year ended 30 June 2018, 100% of non-development investment properties were externally valued (2017: 90%).

(b) Valuation techniques and key judgements

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

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

	Fair value \$'m	Gross market rent (\$ p.a./sqm)	Adopted capitalisation rate (% p.a.)	Adopted terminal yield (% p.a.)	Adopted discount rate (% p.a.)
2018	2,419.2	136 – 666	5.3 – 7.8	5.5 – 7.3	6.0 – 8.0
2017	2,367.2	120 – 666	5.0 – 8.0	5.3 – 7.3	6.5 – 8.0

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

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

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

	2018 \$'m	2017 \$'m
Carrying amount at the beginning of the year	2,208.9	2,142.3
Add back prior period held for sale	158.3	27.4
Additions	277.5	152.7
Acquisition costs incurred	14.6	5.4
Revaluation decrement attributable to acquisition costs	(14.6)	(5.4)
Net revaluation increment	51.3	96.7
Straightlining and amortisation of lease incentives	(4.9)	(4.4)
Disposals	(271.9)	(47.5)
Reclassification of investment properties as held for sale	(33.6)	(158.3)
Carrying amount at the end of the year	2,385.6	2,208.9

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

B2. Investment in joint venture entities

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

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

Information relating to the joint venture entities is detailed below:

Joint venture entity	Country of establishment	Principal activity	Ownership interest	
			2018 %	2017 %
Charter Hall Retail Partnership No.1 Trust (CHRP1)	Australia	Property investment	50.0%	50.0%
Charter Hall Retail Partnership No.2 Trust (CHRP2)	Australia	Property investment	47.5%	47.5%

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

	2018 \$'m	2017 \$'m
Balance at the beginning of the year	250.4	222.0
Share of profits and net property valuation gains	18.0	41.7
Distributions paid and payable	(22.6)	(14.2)
Distribution reinvested	–	0.9
Balance at the end of the year	245.8	250.4

(b) Share of results attributable to joint venture entities

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

	CHRP1 100% interest		CHRP2 100% interest		Total REIT's interest	
	2018 \$'m	2017 \$'m	2018 \$'m	2017 \$'m	2018 \$'m	2017 \$'m
Income						
Property rental income	47.9	50.9	18.2	17.9	32.6	34.0
Property expenses	(16.6)	(17.0)	(4.8)	(4.7)	(10.6)	(10.7)
Net property income	31.3	33.9	13.4	13.2	22.0	23.3
Finance costs	(7.0)	(10.0)	(4.0)	(3.6)	(5.4)	(6.7)
Other expenses	(2.4)	(1.4)	(1.0)	(1.0)	(1.7)	(1.2)
Total expenses	(9.4)	(11.4)	(5.0)	(4.6)	(7.1)	(7.9)
Operating earnings	21.9	22.5	8.4	8.6	14.9	15.4
Net revaluation increment on investment properties	6.2	37.3	2.7	7.5	4.4	22.2
(Loss)/gain on disposal	(0.5)	6.0	–	–	(0.3)	3.0
Net unrealised (loss)/gain on derivative financial instruments	(0.2)	2.6	(0.1)	0.8	(0.1)	1.7
Other	(1.2)	(0.9)	(0.5)	(0.4)	(0.9)	(0.6)
Statutory profit for the year	26.2	67.5	10.5	16.5	18.0	41.7
Other comprehensive income	–	–	–	–	–	–
Total comprehensive income	26.2	67.5	10.5	16.5	18.0	41.7
REIT's interest in total comprehensive income	13.1	33.8	4.9	7.9		

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

The table below provides summarised information about the financial position of the joint venture entities as a whole as at 30 June 2018, not the REIT's proportionate share.

	CHRP1		CHRP2	
	2018 \$'m	2017 \$'m	2018 \$'m	2017 \$'m
Current assets				
Cash and cash equivalents	3.3	3.7	1.6	1.6
Receivables	0.9	1.0	0.7	1.0
Other assets	0.4	–	0.2	0.2
Assets held for sale	–	31.8	–	–
Total current assets	4.6	36.5	2.5	2.8
Non-current assets				
Investment properties	526.8	547.2	232.0	226.0
Total assets	531.4	583.7	234.5	228.8
Current liabilities				
Payables	14.7	17.4	4.0	4.0
Total current liabilities	14.7	17.4	4.0	4.0
Non-current liabilities				
Borrowings	146.2	184.9	101.3	97.8
Derivative financial instruments	0.7	0.6	1.0	0.9
Total liabilities	161.6	202.9	106.3	102.7
Net assets	369.8	380.8	128.2	126.1
REIT's interest in net assets	184.9	190.4	60.9	60.0

CHRP1 disposed of Gladstone Square, Qld in July 2017, for \$31.5 million and Thornleigh Marketplace, NSW in June 2018, for \$43.1 million excluding settlement adjustments. The REIT's share of the assets was \$15.8 million and \$21.6 million respectively. Gladstone Square was classified as held for sale at 30 June 2017.

CHRP2 refinanced its debt facility in November 2017, increasing the facility limit from \$100.0 million to \$105.0 million and extending the facility maturity date from October 2020 to October 2021.

Both CHRP1 and CHRP2 maintain a proactive cash management practice of using excess available cash to reduce drawn revolving debt facilities. This practice, when combined with distribution liability at the end of the reporting period, may result in an excess of current liabilities over current assets. At 30 June 2018, CHRP1 had a net current asset deficiency of \$10.1 million and CHRP2 had a net current asset deficiency of \$1.5 million. CHRP1 and CHRP2 have sufficient operating cash flows to meet current liabilities. In addition, as at 30 June 2018, CHRP1 had undrawn debt capacity of \$72.8 million and CHRP2 had undrawn debt capacity of \$3.3 million.

B3. Expenditure commitments

The REIT and joint venture entities have entered into contracts for the acquisition, construction and development of properties in Australia. The commitments of the REIT total \$88.3 million (2017: \$203.2 million). The REIT's share in the commitments of the joint venture entities total \$1.1 million (2017: nil). These commitments have not been reflected in the consolidated financial statements of the REIT.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

C. CAPITAL STRUCTURE AND FINANCIAL RISK MANAGEMENT

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

C1. Capital risk management

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

The REIT sources its capital through:

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

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

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

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

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

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

C2. Borrowings and liquidity

(a) Borrowings

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

	2018				2017			
	Current \$'m	Non-current \$'m	Total carrying amount \$'m	Fair value \$'m	Current \$'m	Non-current \$'m	Total carrying amount \$'m	Fair value \$'m
US Private Placement notes*	–	402.6	402.6	415.4	–	406.6	406.6	416.5
Bank loan – term debt**	–	527.5	527.5	533.3	–	503.5	503.5	510.0
Total unsecured borrowings	–	930.1	930.1	948.7	–	910.1	910.1	926.5
Undrawn bank facility			128.3				201.2	

* Includes a fair value hedge adjustment of \$(36.3) million (2017: \$(16.0) million).

** Includes unamortised transaction costs of \$(4.2) million (2017: \$(5.3) million).

US Private Placement notes

Information about USPP notes is summarised in the table below:

	US dollar fixed coupon	Issue date	Maturity date	Australian dollar equivalent at issue date \$'m	Carrying amount 30 Jun 2018 \$'m
USPP	3.55%	July 2015	July 2027	251.6	270.1
USPP	3.76%	May 2016	May 2026	177.4	168.8
Net exposure				429.0	438.9
Fair value hedge adjustment				–	(36.3)
Total				429.0	402.6

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

Bank loans

	Maturity date	Facility limit \$'m	Drawn amount at 30 Jun 2018 \$'m
Syndicated bank facility – Tranche C	July 2020	285.0	285.0
Bilateral revolving facility agreement	February 2021	50.0	50.0
Bilateral revolving facility agreement	July 2022	150.0	21.7
Bilateral revolving facility agreement	June 2022	175.0	175.0
		660.0	531.7

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

Net debt reconciliation

	2017 \$'m	Movement in derivatives and foreign exchange \$'m	Movement in transaction costs \$'m	Movement in cash \$'m	2018 \$'m
Bank loans	508.8	–	–	22.9	531.7
Unamortised transaction costs	(5.3)	–	1.1	–	(4.2)
USPP	422.6	16.3	–	–	438.9
Fair value hedge adjustment	(16.0)	(20.3)	–	–	(36.3)
Total unsecured borrowings	910.1	(4.0)	1.1	22.9	930.1
Cash	(58.7)	–	–	(2.7)	(61.4)
Net Debt	851.4	(4.0)	1.1	20.2	868.7

**NOTES TO THE CONSOLIDATED
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FOR THE YEAR ENDED 30 JUNE 2018

C2. Borrowings and liquidity continued**(a) Borrowings continued****Covenants**

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

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

Other significant contract terms

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

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

(b) Finance costs

	2018 \$'m	2017 \$'m
Finance costs paid or payable	39.6	33.7
Less: Capitalised finance costs	(2.8)	(5.7)
	36.8	28.0

Borrowing costs associated with development properties are capitalised based on the weighted average interest rate as part of the cost of that asset during the period that is required to complete and prepare the asset for its intended use. The weighted average interest rate takes into consideration the REIT's interest rate hedging profile, term debt and liquidity costs.

C3. Derivative financial instruments**(a) Derivative financial instruments**

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

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

Fair value hedges

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

Cash flow hedges

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

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

Amounts reflected in the financial statements are as follows:

	2018		2017	
	Asset \$'m	Liability \$'m	Asset \$'m	Liability \$'m
Consolidated balance sheet				
Current				
Derivatives	4.5	–	4.3	–
Total current derivative financial instruments	4.5	–	4.3	–
Non-current				
Derivatives	20.9	49.3	3.0	26.1
Total non-current derivative financial instruments	20.9	49.3	3.0	26.1
Total derivative financial assets/liabilities	25.4	49.3	7.3	26.1
Consolidated statement of comprehensive income				
			2018 \$'m	2017 \$'m
(Loss)/gain on derivative financial instruments – unrealised*			(3.6)	15.2
			(3.6)	15.2

* Includes net (loss)/gain of (\$1.5 million) (2017: \$4.0 million) on derivative financial instruments designated as a fair value hedge.

(b) Interest rate swaps

At 30 June 2018, the fixed rate varies from 1.96% to 2.42% per annum (2017: 1.96% to 2.42% per annum).

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

	1 year or less \$'m	2 – 3 years \$'m	3 – 4 years \$'m	4 – 5 years \$'m	More than 5 years \$'m	Net position – REIT pays fixed rate and receives floating rate
2018	–	175.0	200.0	200.0	177.0	752.0
2017	–	–	175.0	200.0	200.0	575.0

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

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

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

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

**NOTES TO THE CONSOLIDATED
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FOR THE YEAR ENDED 30 JUNE 2018

C4. Contributed equity and reserves
(a) Contributed equity

No. of units	Details	Date of income entitlement	2018 \$'m	2017 \$'m
404,307,852	Units on issue	30 June 2016		2,269.6
1,881,240	DRP issue	July 2016		9.0
(411,358)	Cancellation of units	April 2017		(2.3)
405,777,734	Units on issue	30 June 2017	2,276.3	2,276.3
(200,634)	Cancellation of units	August 2017	(1.1)	
(566,858)	Cancellation of units	September 2017	(3.2)	
(1,027,841)	Cancellation of units	October 2017	(5.8)	
(235,062)	Cancellation of units	November 2017	(1.3)	
(180,426)	Cancellation of units	February 2018	(1.0)	
(575,506)	Cancellation of units	March 2018	(3.2)	
(507,903)	Cancellation of units	April 2018	(2.8)	
402,483,504	Units on issue	30 June 2018	2,257.9	

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

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

Distribution Reinvestment Plan (DRP)

The REIT has established a DRP under which unitholders may elect to have all or part of their distribution entitlements satisfied by the issue of new units rather than being paid in cash. This plan was suspended for the year ended 30 June 2018. The DRP issue price is determined at a discount of 1.0% to the daily average of the volume weighted average market price of units traded on the ASX during the 15 business days commencing on the third business day following the distribution record date.

Repurchase and cancellation of units

For the year ended 30 June 2018, the REIT repurchased 3,294,230 units, on market, for a total consideration of \$12.9 million (\$3.91 per unit). All repurchased units have been cancelled. The cancellation reduced contributed equity and accumulated losses by the repurchased units entitlement of \$18.4 million and \$5.6 million respectively.

(b) Reserves

	Cash flow hedge reserve \$'m	Accumulated losses \$'m
Opening balance 1 July 2017	(3.4)	(598.4)
Profit after tax	–	146.4
Distributions paid and payable	–	(113.7)
Cancellation of units	–	5.5
Changes in the fair value of cash flow hedges	2.2	–
Balance 30 June 2018	(1.2)	(560.2)
Opening balance 1 July 2016	(1.3)	(736.1)
Profit after tax	–	251.3
Distributions paid and payable	–	(114.1)
Cancellation of units		0.5
Changes in the fair value of cash flow hedges	(2.1)	–
Balance 30 June 2017	(3.4)	(598.4)

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

C5. Financial risk management

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

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

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

Risk	Definition	Exposure	Exposure management
Market risk – Foreign exchange risk	The risk that changes in foreign exchange rates will change the Australian dollar value of the REIT's foreign denominated net assets or earnings.	US Private Placement issuances denominated in US dollars.	<ul style="list-style-type: none"> Cross currency swaps are used to convert US dollar borrowings into Australian dollar exposures.
Market risk – Interest rate risk	The risk that changes in interest rates will change the fair value or cash flows of the REIT's monetary assets and liabilities.	Cash and borrowings at fixed and floating rates.	<ul style="list-style-type: none"> Interest rate swaps are used to hedge any movement in interest rates.
Liquidity risk	The risk that the REIT has insufficient liquid assets to meet its obligations as they become due and payable.	Payables, borrowings and other liabilities.	<ul style="list-style-type: none"> 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, financial instruments and derivatives.	<ul style="list-style-type: none"> Performing credit reviews on prospective tenants, obtaining tenant collateral and detailed review of tenant arrears. Reviewing the aggregate exposure of receivables and tenancies across the portfolio. Limiting the credit exposure to any one financial institution and limiting to investment grade counterparties. Monitoring the public credit rating of counterparties.

(i) Market risk – Foreign exchange risk

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

C5. Financial risk management continued

(ii) Market risk – Interest rate risk

The table below shows the REIT's exposure to interest rate risk. At balance date, the REIT fixed 59.0% (2017: 63.0%) of its direct and joint venture interest rate exposure.

	Australian dollars		US dollars ¹		Total	
	2018 \$'m	2017 \$'m	2018 \$'m	2017 \$'m	2018 \$'m	2017 \$'m
Fixed rate						
USPP ²	–	–	(438.9)	(422.6)	(438.9)	(422.6)
Net fixed rate exposure	–	–	(438.9)	(422.6)	(438.9)	(422.6)
Floating rate						
Cash	61.4	58.7	–	–	61.4	58.7
Cash – joint venture entities ³	2.4	2.6	–	–	2.4	2.6
Borrowings ²	(531.7)	(508.8)	–	–	(531.7)	(508.8)
Borrowings – joint venture entities ³	(121.9)	(138.9)	–	–	(121.9)	(138.9)
	(589.8)	(586.4)	–	–	(589.8)	(586.4)
Derivative financial instruments						
Cross currency interest rate swaps – fixed to floating ⁴	(429.0)	(429.0)	438.9	422.6	9.9	(6.4)
Interest rate swaps – floating to fixed ⁵	816.1	638.8	–	–	816.1	638.8
	387.1	209.8	438.9	422.6	826.0	632.4
Net floating rate exposure	(202.7)	(376.6)	–	–	(202.7)	(376.6)

1 Australian dollar equivalents of foreign denominated balances.

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

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

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

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

Sensitivity analysis

The table below reflects the potential net increase/(decrease) in the REIT's profit and equity, resulting from changes in Australian interest rates applicable at 30 June 2018, with all other variables remaining constant. The analysis was performed on the same basis for 30 June 2017.

	2018		2017	
	Profit and loss \$'m	Reserves \$'m	Profit and loss \$'m	Reserves \$'m
Australian interest rates				
+ 1.00% (2017: + 1.00%)	(22.5)	–	(26.6)	–
- 1.00% (2017: - 1.00%)	23.3	–	27.0	–

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

(iii) Liquidity risk

The following table provides the contractual maturity of the REIT's fixed and floating rate financial liabilities and derivatives as at 30 June 2018. The amounts presented represent the future contractual undiscounted principal and interest cash inflows/(outflows) based on interest rates and foreign exchange rates prevailing at balance date and therefore do not equate to the value shown in the consolidated balance sheet. Repayments which are subject to notice are treated as if notice were given immediately.

Liquidity risk	Carrying value \$'m	Less than 1 year \$'m	1 to 5 years \$'m	Over 5 years \$'m	Total \$'m
2018					
Financial liabilities					
Payables	(36.0)	(36.0)	–	–	(36.0)
Distribution payable	(57.2)	(57.2)	–	–	(57.2)
Borrowings	(970.6)	(30.7)	(622.5)	(479.0)	(1,132.2)
Derivative financial instruments	(49.3)	(1.4)	(5.8)	(22.2)	(29.4)
Other liabilities	(0.4)	(0.4)	–	–	(0.4)
Total financial liabilities	(1,113.5)	(125.7)	(628.3)	(501.2)	(1,255.2)
2017					
Financial liabilities					
Payables	(37.9)	(37.9)	–	–	(37.9)
Distribution payable	(56.8)	(56.8)	–	–	(56.8)
Borrowings	(931.4)	(28.2)	(478.0)	(614.2)	(1,120.4)
Derivative financial instruments	(26.1)	(1.7)	(4.8)	4.5	(2.0)
Other liabilities	(1.8)	(1.8)	–	–	(1.8)
Total financial liabilities	(1,054.0)	(126.4)	(482.8)	(609.7)	(1,218.9)

The amount of credit facilities unused by the REIT at 30 June 2018 is \$128.3 million (2017: \$201.2 million).

(iv) Credit risk

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

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

	Past due but not impaired				Impaired*	Total
	Less than 30 days \$'m	31 to 60 days \$'m	61 to 90 days \$'m	More than 90 days \$'m	\$'m	\$'m
2018						
Rent receivables	1.2	0.5	0.2	0.3	0.4	2.6
Provision						0.2
2017						
Rent receivables	0.4	0.3	0.1	0.5	0.8	2.1
Provision						0.4

* The REIT holds \$0.4 million (2017: \$0.5 million) of collateral against the impaired rent receivables in the form of bank guarantees and security deposits and can also recover nil (2017: \$0.1 million) of GST from any uncollected rent.

**NOTES TO THE CONSOLIDATED
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C6. Offsetting financial assets and liabilities

The REIT is a party to the master agreement as published by International Swaps and Derivatives Associates, Inc. (ISDA) which allows the REIT's counterparty, under certain conditions (i.e. event of default), to set off the position owing/receivable under a derivative contract to a net position outstanding. As the REIT does not have a 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 the effect of offsetting positions should the REIT's counterparties decide to enforce the legal right to set off:

	Gross amounts of financial instruments \$'m	Amounts subject to set off \$'m	Net amount post set off \$'m
2018			
Derivative assets	25.4	(25.4)	–
Derivative liabilities	(49.3)	25.4	(23.9)
Borrowings	(930.1)	–	(930.1)
	(954.0)	–	(954.0)
2017			
Derivative assets	7.3	(7.3)	–
Derivative liabilities	(26.1)	–	(26.1)
Borrowings	(910.1)	7.3	(902.8)
	(928.9)	–	(928.9)

D. FURTHER INFORMATION

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

D1. Related party information

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

(a) Responsible Entity

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

(b) Directors

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

Audit, Risk and Compliance Committee fees and Directors' fees totalling \$373,076 (2017: \$383,842) were paid or payable by the REIT to the Independent Directors, being John Harkness, Michael Gorman, Sue Palmer, Roger Davis and Alan Rattray-Wood (resigned on 31 October 2017), for the year, refer to Note D1(g) for a detailed breakdown of these payments. These amounts are reviewed from time to time in consultation with external experts to ensure that remuneration reflects the services expected to be performed.

(c) Management fees

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

Base fee

The base fee is calculated as:

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

Total assets are adjusted in the fee calculation to deduct the carrying value of investment in joint venture entities.

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

Performance fee

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

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

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

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

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

Management fee expenses in CHRP1

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

Base fee

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

Management fee expenses in CHRP2

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

Base fee

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

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D1. Related party information continued

(c) Management fees continued

Performance fee

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

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

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

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

	2018 \$'000	2017 \$'000
Base fees	9,787	10,190
Management fees paid by the REIT	9,787	10,190
REIT's share of management fees paid by CHRP1	1,095	567
REIT's share of management fees paid by CHRP2	441	425
Total management fees paid	11,323	11,182

No performance fee was earned by the Responsible Entity of the REIT during the year. In the calculation of the performance fee, outperformance will be assessed on a cumulative basis and, accordingly, underperformance for the period from 1 January 2004 to 30 June 2017 will need to be recovered before the Responsible Entity is entitled to any future performance fees. For the period from 1 January 2004 to 30 June 2018, the Index increased in value by 188.9% compared to the REIT's cumulative performance which increased by 83.5% (difference of 105.4%).

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

The Responsible Entity and its related parties held 75,321,744 units in the REIT as at 30 June 2018 (2017: 75,321,744).

Following is a summary of related party transactions, excluding base management fees, for the year ended 30 June 2018:

Type of fee	Method of fee calculation	Basis of fee calculation		Fee amount	
		2018 \$'m	2017 \$'m	2018 \$	2017 \$
Property management	3% of total property income	254.1	243.0	7,621,537	7,291,051
Acquisition	0.75% of sale price	216.2	68.3	1,621,125	511,915
Disposal	0.25% of sale price less amounts paid to external agents	272.4	49.4	680,950	123,528
Due diligence	0.25% of sale price	450.6	95.8	1,126,450	244,500
Development management (including cost recovery)	3% of development cost if > \$1 million 5% of development cost if < \$1 million	37.9	19.3	1,304,212	917,058
Project management	6% of project cost	11.8	13.0	707,687	777,989
Majors leasing	7.5% – 15.0% of year one gross rent	3.0	10.8	453,016	1,625,206
Accounting services	Cost recovery	–	–	1,211,640	1,211,640
				14,726,617	12,702,887

Payments excluding management fees to the related parties for the year total \$14,726,617 (2017: \$12,702,887).

Charter Hall Holdings Pty Limited was also reimbursed \$16,511,321 (2017: \$16,110,247) for centre, property management and specialty leasing expenses incurred. These expenses included salaries and related finance management and IT costs.

During the period the REIT moved to cost recovery for the provision of specialty leasing. This did not result in an increase in related party fees during the period.

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

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

	2018 \$	2017 \$
Charter Hall Holdings Pty Limited	4,161,776	4,425,349
	4,161,776	4,425,349

(f) Key management personnel

Key management personnel (KMP) 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).

(g) Directors' fees and Fund Manager remuneration

Independent Directors' fees are as follows:

Total Directors' fees	John Harkness	Sue Palmer	Alan Rattray- Wood	Michael Gorman	Roger Davis	Total
2018	140,000	100,000	31,667	95,000	6,409	373,076
2017	135,059	96,721	92,712	59,350	–	383,842

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.

Greg Chubb was appointed as Fund Manager of the REIT on 8 November 2017. Greg Chubb, as Executive Director, Retail CEO of Charter Hall and Fund Manager of the REIT, received, on a cash basis (inclusive of superannuation) remuneration of \$421,023 from 8 November 2017 to 30 June 2018. In addition, deferred rights to CQR units were granted to Greg Chubb to the value of \$134,332 from 8 November 2017 to 30 June 2018 as part of his incentive program. Half of these units will vest one year after they have been granted with the remaining units vesting two years following their grant.

Scott Dundas resigned as Fund Manager of the REIT on 8 November 2017. Scott Dundas received, on a cash basis (inclusive of superannuation), remuneration of \$454,852 from 1 July 2017 to 8 November 2017 (\$675,760 from 1 July 2016 to 30 June 2017). In addition, deferred rights to CQR units were granted to Scott Dundas to the value of \$nil from 1 July 2017 to 8 November 2017 (\$87,880 from 1 July 2016 to 30 June 2017) as part of his incentive program. Half of these units will vest one year after they have been granted with the remaining units vesting two years following their grant.

(h) Directors' interests in REIT units

The number of units held directly, indirectly or beneficially by the Directors of the Responsible Entity or the Directors' related parties at 30 June 2018 is as follows:

	Units held 2018	Units held 2017
Alan Rattray-Wood*	–	10,867
David Harrison	124,378	124,378
Scott Dundas (alternate)*	–	90,314

* Alan resigned on 31 October 2017 and Scott resigned as Director on 8 November 2017. The Fund is not required to disclose holdings of previous Directors.

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

	Units 2018	Units 2017
David Harrison	–	124,378
Scott Dundas*	–	26,131

* Resigned as Director on 8 November 2017; the Fund is not required to disclose holdings of previous Directors.

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

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

**NOTES TO THE CONSOLIDATED
FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 30 JUNE 2018

D2. Working capital

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

(a) Receivables

	2018 \$'m	2017 \$'m
Rent receivable	2.6	2.1
Provision for doubtful debts	(0.2)	(0.4)
Net rent receivable	2.4	1.7
Turnover rent receivable	3.7	2.6
Accrued income	3.1	2.2
Other receivables	3.8	3.4
	13.0	9.9

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

(b) Payables and other liabilities: current

	2018 \$'m	2017 \$'m
Current		
Accrued capital expenditure	8.4	8.4
Accrued property expenses	11.3	10.4
Income received in advance	6.6	8.4
Interest payable on interest bearing liabilities	5.7	5.1
Other	4.0	5.6
	36.0	37.9

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

D3. Parent entity information

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

(i) Investments in controlled entities

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

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

(ii) Receivables and payables

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

(iii) Recoverable amount of assets

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

(a) Summary financial information

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

	Parent 2018 \$'m	Parent 2017 \$'m
Balance sheet		
Current assets	108.2	241.3
Non-current assets	2,620.3	2,452.9
Total assets	2,728.5	2,694.2
Current liabilities	80.0	104.1
Non-current liabilities	979.4	936.2
Total liabilities	1,059.4	1,040.3
Equity		
Contributed equity	2,257.9	2,276.3
Reserves	(156.5)	(158.7)
Accumulated losses	(432.3)	(463.7)
Total equity	1,669.1	1,653.9
Statement of comprehensive income		
Profit after tax	139.5	245.2
Total comprehensive income	139.5	245.2

(b) Guarantees and contingent liabilities

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

(c) Commitments

The parent entity has entered into contracts for the acquisition, construction and development of properties in Australia. The commitments of the parent entity total \$88.3 million (2017: \$203.2 million). These commitments have not been reflected in the financial information of the parent entity.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018

D4. Significant contract terms and conditions

Pre-emptive rights

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

D5. Remuneration of the auditor

	2018 \$'000	2017 \$'000
Amounts paid or payable to PricewaterhouseCoopers Australian firm for:		
Audit services	271	271
Other audit services	10	18
Total amount paid or payable to PricewaterhouseCoopers Australian firm	281	289

D6. Interest in other entities

Material subsidiaries

The REIT's principal subsidiary at 30 June 2018 is set out below. Unless otherwise stated, it has contributed equity consisting solely of ordinary units that are held directly by the REIT, and the proportion of ownership interests held equals the voting rights held by the REIT.

Name of entity	Country of incorporation	Place of business	Ownership interest held by the REIT		Principal activities
			2018	2017	
Charter Hall Retail JV Trust	Australia	Australia	100%	100%	Property investment

D7. Events occurring after balance date

In July 2018, the REIT paid the remaining balance of \$55.5 million to settle the unconditional contract to acquire 50% of Gateway Plaza, Leopold, Vic. The REIT's 50% interest is held through a joint venture with Charter Hall Prime Retail Fund. The REIT's share of the total settlement (including deposit) was \$58.5 million.

In July 2018, the REIT entered into two new unsecured bilateral bank debt facilities. The facility limits are \$75.0 million and \$50.0 million. The new facilities are due to mature in July 2023 and August 2023 respectively.

In August 2018, the REIT sold 47.5% of Salamander Bay shopping centre, NSW for \$83.1 million by establishing a further joint venture with Charter Hall Prime Retail Fund.

In August 2018, the REIT repaid and cancelled \$125.0 million of the existing unsecured syndicated bank debt facility which was due to mature in July 2020.

D8. Other significant accounting policies

(a) Basis of preparation

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

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

Compliance with IFRS

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

Historical cost convention

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

New and amended standards adopted

No new accounting standards or amendments have come into effect for the year ended 30 June 2018 that affect the REIT's operations or reporting requirements.

(b) Principles of consolidation**Controlled entities**

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

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

(c) Foreign currency translation**(i) Functional and presentation currencies**

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

(ii) Transactions and balances

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

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

(d) Comparative information

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

(e) Rounding of amounts

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

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

Certain new accounting standards and interpretations have been published that are not mandatory for the year ended 30 June 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 (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 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 confirms that its current hedge accounting relationship for its cross currency interest rate swaps will continue under AASB 9.

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 (applicable 1 January 2018)

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

DIRECTORS' DECLARATION TO UNITHOLDERS

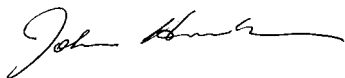
FOR THE YEAR ENDED 30 JUNE 2018

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

- (a) the consolidated financial statements and notes set out on pages 32 to 59 are in accordance with the Corporations Act 2001, including:
- (i) complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
 - (ii) giving a true and fair view of the consolidated entity's financial position as at 30 June 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.

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

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



John Harkness
Chair

Sydney
15 August 2018

INDEPENDENT AUDITOR'S REPORT

FOR THE YEAR ENDED 30 JUNE 2018



Independent auditor's report

To the unitholders of Charter Hall Retail REIT

Report on the audit of the financial report

Our opinion

In our opinion:

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

- (a) giving a true and fair view of the Group's financial position as at 30 June 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 Group 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 declaration of the directors to unitholders.

Basis for opinion

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

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

Independence

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

PricewaterhouseCoopers, ABN 52 780 433 757

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INDEPENDENT AUDITOR'S REPORT

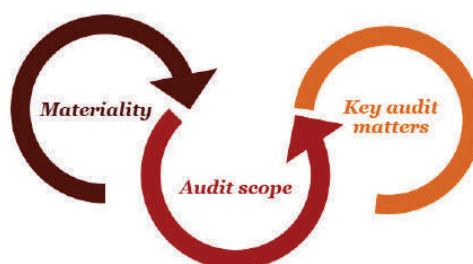
FOR THE YEAR ENDED 30 JUNE 2018

***Our audit approach***

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

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

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

**Materiality**

- For the purpose of our audit we used overall materiality of \$6.0 million, which represents approximately 5% of the Group's operating earnings.
- We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole.
- We chose operating earnings (which is an adjusted profit metric disclosed in Note A1) as the benchmark because, in our view, it is the primary benchmark against which the performance of the Group is most commonly measured and one of the generally accepted benchmarks within the property industry.
- We selected a 5% threshold based on our professional judgement, noting it is within the range of commonly accepted operating earnings related materiality thresholds.

Audit Scope

- Our audit focused on where the directors made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events.



Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
<p>Valuation of investment properties (Refer to note B)</p> <p>The Group's investment property portfolio is comprised of retail shopping centres anchored with major supermarket tenants.</p> <p>The investment properties are included in the consolidated balance sheet as "Investment properties", the carrying value of which at 30 June 2018 was \$2,385.6 million (2017: \$2,208.9 million).</p> <p>In measuring the carrying value of investment properties, the Group applied the principles of accounting for investment property at fair value under accounting standard AASB 140 <i>Investment Property</i> and applied the valuation methodology described in Note B of the financial report.</p> <p>We considered this a key audit matter due to the magnitude of the balance noted above and because of the judgement required by the Group given:</p> <ul style="list-style-type: none"> a) the fair value of investment properties is inherently subjective regarding factors such as, prevailing market conditions, the individual nature and condition of each property, its location and the expected future income for each property, b) significant estimation uncertainty exists with respect to the key inputs and assumptions used by the Group in developing fair value estimates, 	<p>We updated our understanding of the prevailing conditions in the market in which the Group invests.</p> <p>We met with management and developed our understanding of the specifics of the Group's investment property portfolio, including key drivers affecting the value of the investment properties such as any new leases entered into and expiries during the financial year, capital expenditure and vacancy rates.</p> <p>Where external valuations were obtained and used by the Group to determine the carrying value of the investment properties as at 30 June 2018, we read a sample of these valuation reports and agreed the fair value identified in these valuations to the accounting records of the Group.</p> <p>From the population of all internal and external valuations used by the Group, we chose a risk based sample of investment property valuations as at 30 June 2018 for detailed testing. For this sample, we tested the key assumptions and inputs applied in the Group's property valuations as follows:</p> <ul style="list-style-type: none"> - We compared the capitalisation rates and discount rates used to a range we determined via reference to industry benchmarks and market data. Where these rates fell outside of our anticipated ranges, we considered the rationale supporting the rate applied in the valuation by discussing with management

INDEPENDENT AUDITOR'S REPORT

FOR THE YEAR ENDED 30 JUNE 2018



Key audit matter	How our audit addressed the key audit matter
including, capitalisation rates and discount rates, and	and assessing the reasons to support the Group's adopted rate. We found that the rate variances related to the relative condition, size or location of the property
c) a small percentage difference in individual property valuations, when aggregated, could result in a material misstatement of the financial report.	<ul style="list-style-type: none"> - For those in the sample with external valuations we compared the Net Operating Income included in the valuation reports to the Net Operating Income for that property at 30 June 2018 - For the sample we considered and compared other material assumptions in the Group's property valuations that were not market observable, such as vacancies, rent free periods and let up allowances and incentives, to the corresponding data for that property at 30 June 2018. <p>For a sample of properties where the Group obtained an external valuation, we assessed the competency and capabilities of the relevant external valuer engaged by the Group and considered that the valuations were performed in accordance with the Group's valuation policy.</p>

Valuation of derivative financial instruments

(Refer to note C3)

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

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

At 30 June 2018, the total carrying value of the Group's derivatives disclosed in the financial report (including current assets, non-current

We tested a sample of key controls relevant to interest rate swap derivatives including IT general controls within the Group's treasury IT system.

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

For all derivatives, we performed the below procedures as at 30 June 2018:

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



Key audit matter	How our audit addressed the key audit matter
<p>assets, current liabilities and non-current liabilities) was a net liability position of \$23.9m (2017: \$18.8m net liability position).</p> <p>We considered the valuation of derivatives to be a key audit matter because of the:</p> <ul style="list-style-type: none"> - nature and complexity involved in valuing derivatives - relative size of the derivative balances and potential for fluctuation in the size of these balances year on year - judgement required by the Group in determining key assumptions to forecast future cashflows including interest rates, foreign exchange rates and expected volatility of these assumptions used in the valuation - complexity involved in applying hedge accounting in accordance with Australian Accounting Standards. 	<p>To test the application of hedge accounting in accordance with Australian Accounting Standards, we performed the following procedures, amongst others, for all hedged derivatives:</p> <ul style="list-style-type: none"> - inspected the key terms and hedging relationship as documented by the Group - checked the movement of the derivative against the hedged risk to assess whether the hedge was effective throughout the year - tested whether the year on year movement within the consolidated balance sheet was accurately recorded in the consolidated statement of comprehensive income and cash flow hedge reserve for the year ended 30 June 2018.

Other information

The directors of the responsible entity of the REIT (the directors) are responsible for the other information. The other information comprises the information included in the Group's annual report 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 we obtained included the Directors Report.

We expect the remaining other information to be made available to us after the date of this auditor's report, including 2018 Highlights, Chair and 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.

INDEPENDENT AUDITOR'S REPORT

FOR THE YEAR ENDED 30 JUNE 2018



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 and use our professional judgement to determine the appropriate action to take.

Responsibilities of the directors for the financial report

The directors are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that 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 Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group 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 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.

A handwritten signature in dark ink, appearing to read 'PricewaterhouseCoopers', with a stylized flourish at the end.

PricewaterhouseCoopers

A handwritten signature in dark ink, appearing to read 'Reilly', with a stylized flourish at the end.

Jane Reilly
Partner

Sydney
15th August 18

UNITHOLDER ANALYSIS

Top 20 registered unitholders as at 28 August 2018

Rank	Name	A/C designation	Units	%
1	HSBC Custody Nominees (Australia) Limited		116,231,088	28.88
2	Trust Company Limited	<Charter Hall Co-Invest A/C>	75,321,744	18.71
3	J P Morgan Nominees Australia Limited		56,529,007	14.05
4	Citicorp Nominees Pty Limited		36,236,847	9.00
5	National Nominees Limited		22,532,515	5.60
6	Perpetual Corporate Trust Ltd	<TTCAL>	19,903,266	4.95
7	BNP Paribas Nominees Pty Ltd	<Agency Lending DRP A/C>	9,401,016	2.34
8	BNP Paribas Noms Pty Ltd	<DRP>	7,770,677	1.93
9	Citicorp Nominees Pty Limited	<Colonial First State Inv A/C>	4,002,395	0.99
10	AMP Life Limited		2,463,115	0.61
11	Hsbc Custody Nominees (Australia) Limited-Gsco Eca		1,214,152	0.30
12	Bond Street Custodians Limited	<ENH Property Securities A/C>	867,548	0.22
13	Powerwrap Limited	<Scheme – IML Trades A/C>	792,619	0.20
14	BNP Paribas Noms (Nz) Ltd	<DRP>	636,344	0.16
15	HSBC Custody Nominees (Australia) Limited – A/C 2		564,277	0.14
16	HSBC Custody Nominees (Australia) Limited	<NT-Comnwith Super Corp A/C>	563,121	0.14
17	AKAT Investments Pty Limited	<Tag Family – Core A/C>	500,000	0.12
18	National Nominees Limited	<DB A/C>	487,988	0.12
19	HSBC Custody Nominees (Australia) Limited		486,713	0.12
20	Australian Executor Trustees Limited		443,797	0.11
Total			356,948,229	88.69
Balance of register			45,535,275	11.31
Grand total			402,483,504	100.00

Range of units summary as at 28 August 2018

Range	Securities	%	No. of holders
100,001 and Over	361,083,792	89.71	44
50,001 to 100,000	2,815,537	0.70	42
10,001 to 50,000	16,158,113	4.01	855
5,001 to 10,000	10,539,313	2.62	1,488
1,001 to 5,000	11,087,391	2.75	4,133
1 to 1,000	799,358	0.20	1,711
Total	402,483,504	100.00	8,273
Unmarketable parcels	4,943	0.00	399

Voting rights

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

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

Substantial unitholder notices as at 28 August 2018

Company	Date of change	Units	Ownership (%)
Mondrian Investment Partners Limited	26 Jul 2018	27,379,969	6.74
Commonwealth Bank of Australia CAN 123 123 124 (CBA) and its related bodies corporate	17 May 2018	20,153,408	5.00
Mondrian Investment Partners Limited	02 May 2018	31,752,563	7.82
Trust Company Limited (TCL) as custodian for Bieson Pty Limited (Bieson) as trustee of the Charter Hall Co-Investment Trust (CHCT)	28 Mar 2018	75,321,744	18.69
Legg Mason Asset Management Australia Limited	18 Jan 2018	33,270,851	8.19

INVESTOR INFORMATION

How do I invest in Charter Hall Retail REIT?

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

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

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

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

Can I receive my Annual Report electronically?

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

How do I receive my distribution?

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

The REIT no longer pays distributions by cheque.

Can I reinvest my distribution?

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

Do I need to supply my Tax File Number?

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

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

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

How do I make a complaint?

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

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

Financial Ombudsman Service

GPO Box 3
Melbourne VIC 3001
Tel: 1300 780 808
Fax: +61 3 9613 6399
Email: info@fos.org.au
Web: www.fos.org.au

CONTACT DETAILS

Registry

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

Link Market Services Limited

Locked Bag A14

Sydney South NSW 1235

Tel: 1300 303 063 (within Australia)

+61 2 8280 7134 (outside Australia)

Fax: +61 2 9287 0303

Email: charterhall@linkmarketservices.com.au

Web: www.linkmarketservices.com.au

Investor Relations

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

Charter Hall Retail Management Limited

GPO Box 2704

Sydney NSW 2001

Tel: 1300 365 585 (within Australia)

+61 2 8651 9000 (outside Australia)

Fax: +61 2 9221 4655

Email: reits@charterhall.com.au

Web: www.charterhall.com.au

CORPORATE DIRECTORY

Responsible Entity (and Manager)

Charter Hall Retail Management Limited

ABN 46 069 709 468
AFSL 246996

Registered Office

Level 20, No.1 Martin Place
Sydney NSW 2000

Directors of the Responsible Entity

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

Fund Manager

Greg Chubb

Company Secretaries

Mark Bryant/Charisse Nortje

Responsible Entity's office

Level 20, No.1 Martin Place
Sydney NSW 2000
GPO Box 2704
Sydney NSW 2001
Tel: 1300 365 585 (within Australia)
+61 2 8651 9000 (outside Australia)
Fax: +61 2 9221 4655
Email: reits@charterhall.com.au
Web: www.charterhall.com.au/cqr
ASX code: CQR

Custodian

Perpetual Limited

Level 12, Angel Place
123 Pitt Street
Sydney NSW 2000

Auditor

PricewaterhouseCoopers

One International Towers Sydney
Watermans Quay, Barangaroo
Sydney NSW 2000

Unit registry

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

Link Market Services Limited

Locked Bag A14
Sydney South NSW 1235
Tel: 1300 303 063 (within Australia)
+61 2 8280 7134 (outside Australia)
Fax: +61 2 9287 0303
Email: charterhall@linkmarketservices.com.au
Web: www.linkmarketservices.com.au

DISCLAIMER

Important Notice

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

This report is not intended to be and does not constitute an offer or a recommendation to acquire any securities in the REIT. This report does not take into account the personal objectives, financial situation or needs of any investor. Before investing in REIT securities, you should consider your own objectives, financial situation and needs and seek independent financial, legal and/or taxation advice. Historical performance is not a reliable indicator of future performance. Due care and attention has been exercised in the preparation of forward looking statements. However, any forward looking statements contained in this report are not guarantees or predictions of future performance and, by their very nature, are subject to uncertainties and contingencies, many of which are outside the control of CHRML. Actual results may vary materially from any forward looking statements contained in this report. Readers are cautioned not to place undue reliance on any forward looking statements. Except as required by applicable law, CHRML does not undertake any obligation to publicly update or review any forward looking statements, whether as a result of new information or future events.

The receipt of this report by any person and any information contained herein or subsequently communicated to any person in connection with the REIT is not to be taken as constituting the giving of investment, legal or tax advice by the REIT nor any of its related bodies corporate, Directors or employees to any such person. Neither the REIT, its related bodies corporate, Directors, employees nor any other person who may be taken to have been involved in the preparation of this report represents or warrants that the information contained in this report, provided either orally or in writing to a recipient in the course of its evaluation of the REIT or the matters contained in this report, is accurate or complete.

CHRML does not receive fees in respect of the general financial product advice it may provide; however, it will receive fees for operating the REIT which, in accordance with the REIT's 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. All information herein is current as at 30 June 2018 unless otherwise stated. All references to dollars (\$) or A\$ are to Australian Dollars unless otherwise stated.

