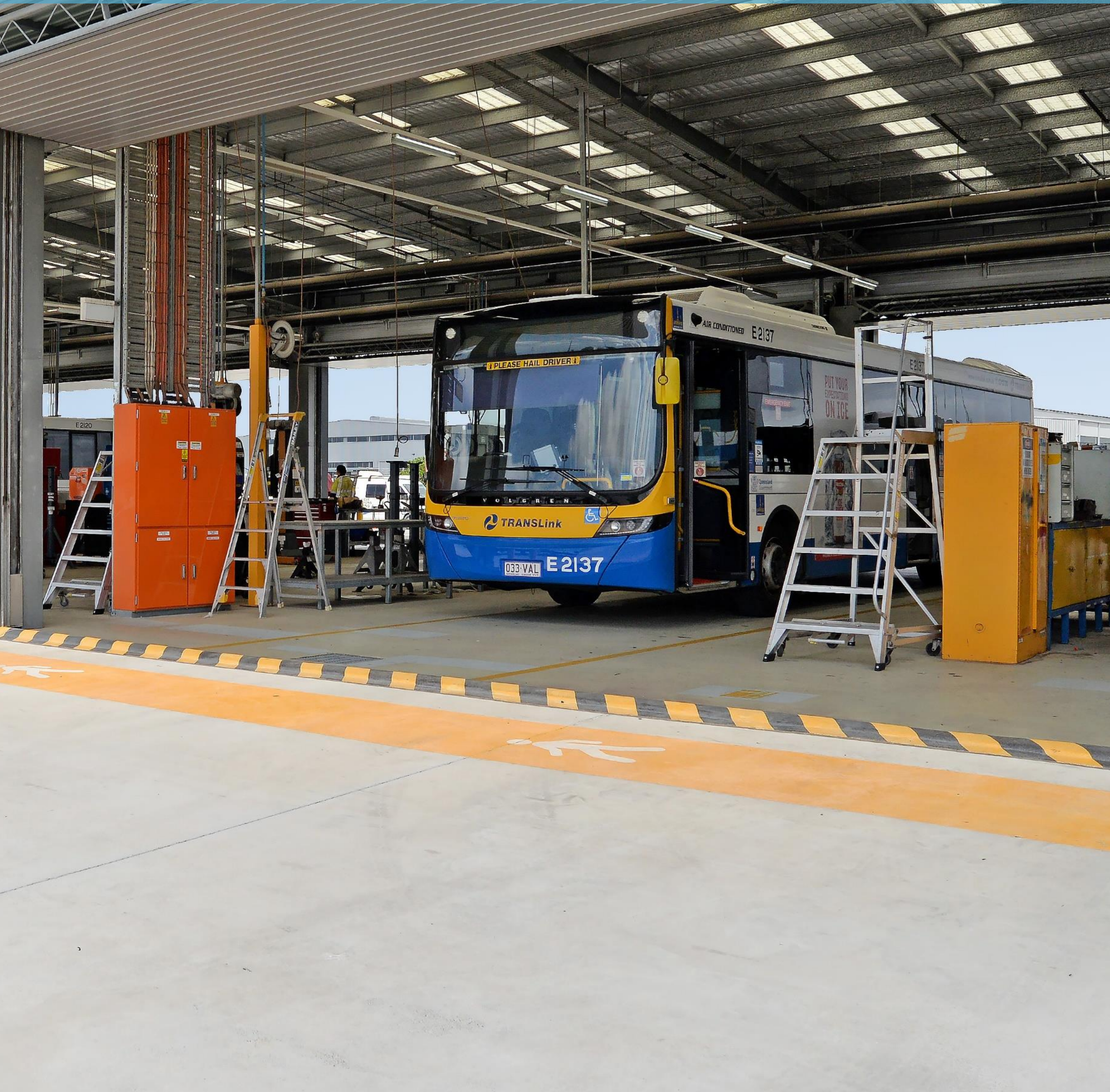
Charter Hall Long WALE REIT

ARSN 144 613 641

Financial report and other information
For the year ended 30 June 2019



Important Notice

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

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

Charter Hall WALE Limited ABN 20 610 772 202; AFSL 486721 (CHWALE) is the Responsible Entity of the Stapled Trusts and is a controlled entity of Charter Hall Limited ABN 57 113 531 150 (Charter Hall).

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

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

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

Contents

Directors' report

The Directors of Charter Hall WALE Limited (CHWALE) present the consolidated financial report and other information of Charter Hall Direct Industrial Fund ("DIF") and its controlled entities (together "Charter Hall Long WALE REIT", "REIT" or "CLW") and the consolidated financial report and other information of LWR Finance Trust and its controlled entity (together "Finance Trust") for the year ended 30 June 2019. DIF and Finance Trust are collectively referred to as "Stapled Trusts".

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

Principal activities

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

Directors

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

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

Distributions

Distributions paid or declared during the year are as follows:

	2019			2018		
	Number of securities on issue	**Cents per security**	**$'000**	Number of securities on issue	Cents per security	$'000
Ordinary securityholders of DIF						
30 September	232,300,142	**6.40**	14,867	208,673,257	5.00	10,434
31 December[1]	280,706,919	**6.50**	18,246	232,300,142	5.00	11,615
31 March	282,039,579	**6.90**	19,461	232,300,142	5.10	11,847
30 June[2]	322,986,420	**7.10**	22,932	232,300,142	5.20	12,080
Total distributions		**26.90**	**75,506**		20.30	45,976
Ordinary securityholders of Stapled Trusts other than DIF						
30 September	232,300,142	**-**	-	208,673,257	1.50	3,130
31 December[1]	280,706,919	**-**	-	232,300,142	1.50	3,485
31 March	282,039,579	**-**	-	232,300,142	1.50	3,485
30 June	322,986,420	**-**	-	232,300,142	1.60	3,716
Total distributions		**26.90**	**75,506**		26.40	59,792

[1] Includes $2.0 million paid on stapled securities issued at cum-price under Entitlement Offer in December 2018 (31 December 2017: $1.4 million)

[2] Includes $2.9 million paid on stapled securities issued at cum-price under Placement in June 2019.

Finance Trust did not declare any distributions in its own right in the current or prior year.

Distribution Reinvestment Plan (DRP)

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

The DRP issue price is determined at a discount of 1.0% to the daily volume weighted average price of all securities traded on the ASX during the 10 business days commencing on the third business day following the distribution record date. The DRP was activated in December 2018 and the REIT raised $5.6 million from the DRP for the 31 December 2018 distribution allotted on 14 February 2019 and $3.9 million from the DRP for the 31 March 2019 distribution allotted on 15 May 2019. An additional $6.0 million is expected to be raised from the DRP for the 30 June 2019 distribution to be allotted on 14 August 2019.

Directors' report (continued)

Review and results of operations

The financial results of the REIT and LWR Finance Trust are summarised as follows:

	Charter Hall Long WALE REIT		LWR Finance Trust	
	Year to 30 Jun 2019	Year to 30 Jun 2018	**Year to 30 Jun 2019**	Year to 30 Jun 2018
Revenue ($'000)	**85,633**	68,707	**24,294**	16,273
Statutory profit/(loss) for the year ($'000)	**69,559**	83,329	**(19,160)**	(1,879)
Basic earnings per stapled security (cents)	**26.44**	37.69	**(7.28)**	(0.85)
Operating earnings of the REIT ($'000)	**70,810**	58,376		
Operating earnings of the REIT per stapled security	**26.92**	26.43		
Distributions ($'000)[1]	**75,506**	59,792	**-**	-
Distributions per stapled security (cents)	**26.90**	26.40	**-**	-

[1] Includes $4.9 million paid on stapled securities issued at cum-price under Entitlement /Placement Offers (2018: $1.4 million).

	30 Jun 2019	30 Jun 2018	**30 Jun 2019**	30 Jun 2018
Total assets ($'000)	**1,905,082**	1,395,020	**527,519**	430,454
Total liabilities ($'000)	**583,627**	454,650	**547,045**	430,820
Net assets attributable to securityholders ($'000)	**1,321,455**	940,370	**(19,526)**	(366)
Stapled securities on issue ('000)	**322,986**	232,300	**322,986**	232,300
Net assets per stapled security ($)	**4.09**	4.05	**(0.06)**	-
Balance sheet gearing - total debt (net of cash) to total assets (net of cash)	**27.5%**	30.6%		
Look through gearing - total debt (net of cash) to total assets (net of cash)	**34.3%**	37.2%		

The REIT recorded a statutory profit of $69.6 million for the year ended 30 June 2019 (30 June 2018: $83.3 million). Operating earnings amounted to $70.8 million (26.9 cents per stapled security) for the year ended 30 June 2019 (30 June 2018: $58.4 million) and a distribution of $75.5 million (26.9 cents per stapled security) was declared for the same period.

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

	30 Jun 2019 $'000	30 Jun 2018 $'000
Net property income	**108,264**	90,558
Interest income	**320**	187
Fund management fees	**(7,569)**	(6,576)
Finance costs	**(27,712)**	(23,296)
Administration and other expenses	**(2,493)**	(2,497)
Operating earnings*	**70,810**	58,376

* Further detail on Operating Earnings is contained in Note A1

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

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

Directors' report (continued)

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

	30 Jun 2019 $'000	30 Jun 2018 $'000
Operating earnings	**70,810**	58,376
Net fair value movements on investment properties[1]	**31,031**	24,343
Net fair value movements on derivative financial instruments[1]	**(20,186)**	(1,905)
Net fair value movements on investments at fair value through profit or loss	**145**	302
Straightlining of rental income, amortisation of lease fees and incentives[1]	**6,281**	4,044
Acquisition and disposal related costs	**(16,794)**	-
Income support	**(1,728)**	(1,831)
Statutory profit for the year	**69,559**	83,329
Basic weighted average number of stapled securities ('000)	**263,081**	220,964
Basic earnings per stapled security (cents)	**26.44**	37.69
Operating earnings per stapled security (cents)	**26.92**	26.43

[1] Includes the REIT's proportionate share of non-operating items of equity accounted investments on a look through basis.

Property valuation gains

Valuation gains totalling $63.8 million were recorded during the year (2018: $32.2 million). These gains were partially offset by revaluation decrements attributable to acquisition costs of $26.5 million (2018: $3.9 million) and straightlining of rental income, amortisation of lease fees and incentives of $6.3 million (2018: $4.0 million).

Significant changes in the state of affairs

Simplification of REIT's structure

On 22 August 2018, DIF acquired all of the securities of Franklin Street Property Trust (FSPT) from Securityholders for $232.4 million which represents the relative net tangible asset value of FSPT, in exchange for additional securities in DIF. As part of the simplification, equity attributable to the securityholders of FSPT has been reduced by $232.4 million. Immediately thereafter, the DIF securities were consolidated to preserve the one to one stapling ratio. The stapled securities of the REIT traded on a deferred settlement basis from 20 to 23 August 2018 in connection with this transaction. Following simplification, the REIT now comprises two Stapled Trusts (DIF and Finance Trust).

Prior year results include the results of CHPT Dandenong Trust (CHPT DT), CPOF Kogarah Holding Trust (CPOF KHT), 218 Bannister Road Trust (218 BRT) and Canning Vale Logistics Trust No.1 (CVLT1) for the period from 1 July 2017 to 22 September 2017, when these entities were de-stapled and acquired by DIF.

Equity Raising

During October and November 2018, the REIT raised $70.9 million of equity, issuing 17.6 million stapled securities at $4.04 per stapled security to both institutional and retail investors. The proceeds were used to fund the acquisition of a 50% interest in 85 George Street in Brisbane, QLD, National Archives Facility in Chester Hill, Sydney NSW and the Optima Centre in Perth, WA as well as associated transaction and capital raising costs.

In December 2018, the REIT raised $124.9 million of equity, issuing 30.8 million stapled securities at $4.05 per stapled security to both institutional and retail investors. The proceeds were used to fund the acquisition of the Inghams Portfolio consisting of 27 agri-logistics properties and associated transaction and capital raising costs.

In June 2019, the REIT undertook a fully underwritten $190 million institutional placement at an issue price of $4.74 per security to partially fund the acquisition of a 50% interest in Brisbane City Council (BCC) Bus Network Terminal in Eagle Farm, Brisbane, QLD, Telstra Building in Canberra, ACT and Thales Building in Sydney Olympic Park, NSW and associated transaction costs.

The REIT also undertook an $11 million underwritten Security Purchase Plan ("SPP") at an issue price of $4.67 to eligible securityholders in Australia and New Zealand, proceeds of which were received in July 2019.

Directors' report (continued)

Acquisitions

During the year, the REIT acquired the following assets:

	Acquisition date	Acquisition price $'000
40 Tank Street, Brisbane QLD (50% interest)[1]	20/08/2018	46,519
LWIP units[2]	4/09/2018	20,870
Coles, Waterford, Brisbane QLD	10/09/2018	22,000
85 George Street, Brisbane QLD (50% interest) [1]	19/10/2018	30,000
National Archives, Chester Hill, Sydney NSW	23/10/2018	54,132
Optima Centre, Perth WA (50% interest) [1]	26/10/2018	62,550
Austral Hotel, Mackay QLD (acquired by LWIP, 49.9% interest)	21/12/2018	11,771
Inghams Portfolio (National)	28/12/2018	207,000
Henley Beach Hotel, Adelaide SA (acquired by LWIP, 49.9% interest)	14/03/2019	5,140
BCC Bus Network Terminal, Eagle Farm, Brisbane, QLD (50% interest) [3]	3/06/2019	51,250
Telstra, Canberra ACT	14/06/2019	108,500
Suez, Lower Nudgee, Brisbane QLD	21/06/2019	4,050
		623,782

[1] These assets are held as joint operations with a related party. 85 George Street, Brisbane QLD was acquired from a related party.

[2] 4.9% LWIP units acquired from a related party, increasing the REIT's ownership interest to 49.9%.

[3] This asset is held in a joint venture with a related party.

During the year, the REIT disposed of the following assets:

	Disposal date	Disposal $'000
ATO, Adelaide SA (50% interest)*	13/08/2018	135,000
Grace, Willawong, Brisbane QLD	16/08/2018	38,730
		173,730

* The REIT also disposed of 50% of its entitlement to the related income support fund ($7.7 million) to a related party. Asset is now held as joint operations with a related party. Refer to Note B3.

Debt arrangements and hedging

During the year, Finance Trust on behalf of the REIT, entered into two new unsecured $100 million bilateral facilities with two offshore lenders maturing in August 2023 and July 2024, respectively. In addition, the REIT increased its existing syndicated debt facility limit by $10 million to $480 million and extended the maturity to February 2023.

In May 2019, as part of the Brisbane Bus Depot transaction, a debt facility was established at the joint venture level with a total facility limit of $51.25 million (CLW share $25.6 million) and a five-year term.

During the year, Finance Trust on behalf of the REIT, entered into $200 million of new interest rate swaps, bringing the total interest rate swap notional value up to $525 million.

In June 2019, Finance Trust on behalf of the REIT, restructured a $100 million interest rate swap, reducing the fixed rate from 2.70% to 1.35% p.a.

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

Business Strategies and Prospects

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

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

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

Directors' report (continued)

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

i) Tenant concentration

The majority of the REIT's properties are single tenanted. This exposes the value and performance of each property to the ability of those tenants to continue to meet their obligations under the respective lease agreements. In aggregate, 71.0% of the gross property income is generated from the top five tenants (2018: 74.4%).

ii) Re-leasing and vacancy

The REIT's portfolio is currently 100% leased and has no major forecast lease expiries prior to FY21. However, in the longer term, leases will come up for renewal on a periodic basis. There is a risk that the REIT may not be able to negotiate suitable lease renewals. This may result in periods of vacancy which could result in a reduction in income received by the REIT, a reduction in the distributions of the REIT and a reduction in the value of the assets of the REIT. This risk is mitigated through active property and asset management of the REIT's portfolio and the diversified nature of the REIT. Any impact will depend on future economic conditions that are not known at balance date.

iii) Funding

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

iv) Rental income and expenses risk

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

Matters subsequent to the end of the financial period

On 10 July 2019, CLW settled on Thales Building, Sydney Olympic Park, NSW for $46.2 million which was acquired from a related party.

On 11 July 2019, the REIT raised $11.0 million of equity from the Security Purchase Plan.

The Directors of the Responsible Entity are not aware of any other matter or circumstance not otherwise dealt with in this report or the annual consolidated financial statements that has significantly affected or may significantly affect the operations of the REIT or Finance Trust, the results of their operations or the state of affairs of the REIT or Finance Trust in future financial years.

Likely Developments and Expected Results of Operations

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

At the date of this report and to the best of the Directors' knowledge and belief, there are no other anticipated changes in the operations of the REIT or Finance Trust which would have a material impact on their future results. 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 and Finance Trust's results in future years, however, these cannot be reliably measured at the date of this report.

Indemnification and Insurance of Directors, Officers and Auditor

During the year, the REIT and Finance Trust contributed to the premium for a contract to insure all directors, secretaries, executive officers and officers of the REIT and Finance Trust and of each related body corporate, with the balance of the premium paid by Charter Hall Group and funds managed by members of Charter Hall Group. In accordance with usual commercial practice, the insurance contract prohibits disclosure of details relating to the nature of the liabilities covered by the insurance, the limit of indemnity and the amount of the premium paid under the contract.

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

Directors' report (continued)

Fees Paid to and Interests Held in the REIT by the Responsible Entity or its Associates

Base fees of $7.6 million (2018: $6.6 million) by the REIT and $10,933 (2018: $39,086) by the Finance Trust and other fees were paid or are payable to the Responsible Entity and its associates for the services provided during the year, in accordance with the REIT's and Finance Trust's constitutions as disclosed in Note D1 to the consolidated financial statements.

Interests in the REIT and Finance Trust held by the Responsible Entity or its associates as at 30 June 2019 are also disclosed in Note D1 to the consolidated financial statements.

Interests in the REIT and Finance Trust

	2019	2018
Securities on issue at the beginning of the year	**232,300,142**	207,787,175
Securities issued to fund acquisition of FSPT	**75,618,617**	-
Change in number of securities after reorganisation	**(75,618,617)**	-
Securities issued to fund acquisition of CVL1T, 218BRT, CHPT DT and CPOF KHT	**-**	68,851,727
Change in number of securities after reorganisation	**-**	(68,851,727)
Securities issued during the year		
- via Distribution Reinvestment Plan	**2,195,112**	1,848,121
- via Entitlement Offers / Placement / Security Purchase Plan	**88,491,166**	22,664,846
Securities on issue at the end of the year	**322,986,420**	**232,300,142**

Environmental Regulations

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

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

Directors' report (continued)

Information on Current Directors

Director	Experience	Special responsibilities	Interests in securities of the REIT/ Finance Trust
Peeyush Gupta AM	Appointed 6 May 2016 Peeyush was the co-founder and the inaugural Chief Executive Officer of Ipac Securities Limited, a pre-eminent wealth management firm. He has experience in starting and growing businesses, acquisitions and divestments, roll-ups and integration, general management, investment management and corporate governance. He is a Non-Executive Director of National Australia Bank Limited, Special Broadcasting Service ("SBS"), Link Administration, BNZ Life, and Insurance & Care (NSW). He is also currently the Chair of Charter Hall Direct Property Management Limited, Chair of MLC RE and IDPS Board and serves in a pro bono capacity as a trustee of Western Sydney University, and the Australian School of Business Dean's Advisory Committee. Peeyush holds a Master of Business Administration in Finance from the Australian Graduate School of Management and a Bachelor of Arts in Computing Studies from the University of Canberra. Peeyush is also a Fellow of the Australian Institute of Company Directors.	Chairman	374,344
Glenn Fraser	Appointed 6 May 2016 Glenn is a professional non executive director with significant experience in finance, infrastructure and property. He was a member of Transfield Holdings Advisory Board from 1999 to 2015. He was instrumental in the acquisition of a 50% interest in Charter Hall and its subsequent expansion and listing in 2005. Previously, Glenn was a Non-Executive Director of the Charter Hall Group from 6 April 2005 to 15 August 2012. Joining Transfield Holdings in 1996, Glenn was General Manager – Finance Project Development, where he was responsible for the financial elements of infrastructure and property projects. Glenn was appointed Chief Financial Officer in 1999, which at that time had turnover in excess of $1 billion per annum, and over 8,000 staff. Glenn was a principal and director of a project finance advisory business, Perry Development Finance Pty Limited from 1985, which was sold to Hambros Corporate Finance Limited in 1995. Glenn holds a Bachelor of Commerce from the University of New South Wales, and is a member of the Institute of Chartered Accountants and a graduate of the Australian Institute of Company Directors.	Audit, Risk and Compliance Committee Chair	52,535

Directors' report (continued)

Director	Experience	Special responsibilities	Interests in securities of the REIT/ Finance Trust
Ceinwen Kirk-Lennox	Appointed 28 June 2016 Ceinwen has over 32 years' experience in many aspects of property including agency, property development, project and construction management, and community development. Her executive career includes 26 years at Lendlease Corporation, where she held executive roles, running business units, client accounts and functions across the Lendlease Group. Ceinwen now runs her own consultancy, with clients across both private and public sectors. Ceinwen holds a Bachelor of Business (Land Economy) from the University of Western Sydney, and is a graduate of the Australian Institute of Company Directors. Ceinwen brings 20 years' experience as an executive and non-executive director serving on a number of boards including both for-profit and not-for-profit companies. Ceinwen is a National Director of the Property Industry Foundation, and an Advisory Member of the Justice NSW PBCP.	Nil	34,936
David Harrison	Appointed 16 February 2016 With a specific focus on strategy, David is responsible for all aspects of the Charter Hall business. Recognised as a multi-core sector market leader, David has over 30 years' global property market experience and has led transactions exceeding $25 billion of commercial, retail and industrial property assets. Under his stewardship, the Charter Hall Group portfolio has grown from $500 million to $28.4 billion of assets under management. David is a Fellow of the Australian Property Institute (FAPI) and Property Male Champion of Change. David's vision for Charter Hall is to ensure that Charter Hall always delivers on its promise of putting people at the heart of what it does and that its team-members are given opportunities to excel in their service to customers. David holds a Bachelor of Business Degree (Land Economy) from the University of Western Sydney, is a Fellow of the Australian Property Institute (FAPI) and holds a Graduate Diploma in Applied Finance from the Securities Institute of Australia.	Nil	326,318

Directors' report (continued)

Director	Experience	Special responsibilities	Interests in securities of the REIT/ Finance Trust
Adrian Taylor	Appointed 18 July 2016 Adrian Taylor is Charter Hall's Head of Office and a member of Charter Hall's Executive Leadership Group. Adrian leads the office platform including setting th strategy and objectives for the wholesale office funds in conjunction with the Charter Hall fund managers and wholesale investors, and guides the asset management, property management, technical service and development teams. He has extensive capital transaction and capital management experience including debt and equity raising and deep joint venture experience in Australia and the US. He spent 15 years in listed REIT markets as General Manager, Chief Investment Officer and Chief Executive Officer of the Charter Hall Office REIT prior to its privatisation. In his prior role as Head of Wholesale Investment, he ran the investment management functions across office, retail and industrial sectors. Adrian graduated with a Bachelor of Business from Monash University, is a Certified Practicing Accountant, a Fellow of the Financial Services Institute of Australasia, and a Fellow of the Royal Institute of Chartered Surveyors and is involved in numerous property industry groups including the Capital Markets Division of the Property Council of Australia.	Nil	73,645

Meetings of Directors

	Full meetings of Directors		Meetings of Audit, Risk and Compliance Committee	
Name	Eligible to attend	Attended	Eligible to attend	Attended
Peeyush Gupta AM	16	16	4	4
Glenn Fraser	16	16	4	4
Ceinwen Kirk-Lennox	16	16	4	4
David Harrison	16	15	-	-
Adrian Taylor	16	13	-	-

Company Secretary

Mark Bryant was appointed as Company Secretary for the REIT and Finance Trust on 21 November 2017. 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 Group General Counsel and Company Secretary for the Charter Hall Group.

Non-Audit Services

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

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

Directors' report (continued)

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 14.

Rounding of Amounts to the Nearest Hundred Thousand Dollars

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

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

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 12 August 2019. The Directors have the power to amend and re-issue the financial statements.

Peeyush Gupta AM
Chairman

Sydney
12 August 2019

Auditor's Independence Declaration

As lead auditor for the audit of Charter Hall Long WALE REIT and LWR Finance Trust for the year ended 30 June 2019, I declare that to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

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

This declaration is in respect of Charter Hall Long WALE REIT, which comprises Charter Hall Direct Industrial Fund and the entities it controlled at year end or from time to time during the financial year (DIF) and LWR Finance Trust and its controlled entity (Finance Trust).

J A Dunning

J A Dunning
Partner
PricewaterhouseCoopers

Sydney
12 August 2019

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Consolidated statements of comprehensive income

For the year ended 30 June 2019

	Notes	Charter Hall Long WALE REIT 2019 $'000	Charter Hall Long WALE REIT 2018 $'000	LWR Finance Trust 2019 $'000	LWR Finance Trust 2018 $'000
Revenue					
Property income	A1	**85,376**	68,520	**-**	-
Interest income		**257**	187	**24,294**	16,273
Total revenue		**85,633**	68,707	**24,294**	16,273
Other income					
Share of equity accounted profit	B2	**47,577**	45,615	**-**	-
Net fair value gain on financial assets		**145**	302	**-**	-
Net fair value gain on investment properties	B1	**14,779**	6,142	**-**	-
Total other income		**62,501**	52,059	**-**	-
Total revenue and other income		**148,134**	120,766	**24,294**	16,273
Expenses					
Property expenses		**(12,835)**	(10,412)	**-**	-
Fund management fees	D1	**(7,569)**	(6,576)	**(11)**	(39)
Finance costs	C2	**(19,644)**	(16,218)	**(24,096)**	(16,200)
Administration and other expenses		**(2,405)**	(2,418)	**(19)**	(100)
Net loss from derivative financial instruments	C3	**(19,328)**	(1,813)	**(19,328)**	(1,813)
Acquisition and disposal related costs	B	**(16,794)**	-	**-**	-
Total expenses		**(78,575)**	(37,437)	**(43,454)**	(18,152)
Net profit / (loss) for the year		**69,559**	83,329	**(19,160)**	(1,879)
Other comprehensive income		**-**	-	**-**	-
Total comprehensive income / (loss)		**69,559**	83,329	**(19,160)**	(1,879)
Net profit / (loss) and Total comprehensive income / (loss) attributable to:					
DIF		**86,813**	70,284		-
Stapled Trusts other than DIF		**(17,254)**	13,045	**(19,160)**	(1,879)
		69,559	83,329	**(19,160)**	(1,879)
Basic and diluted earnings / (loss) per ordinary securityholder					
Earnings per stapled security (cents)	A2	**26.44**	37.69	**(7.28)**	(0.85)
Earnings / (loss) per unit of parent entity (cents)	A2	**35.11**	33.63	**(0.01)**	(0.06)

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

Consolidated balance sheets

As at 30 June 2019

		Charter Hall Long WALE REIT		LWR Finance Trust	
		2019	2018	**2019**	2018
	Notes	**$'000**	$'000	**$'000**	$'000
Assets					
Current assets					
Cash and cash equivalents		**6,413**	5,515	**1,053**	175
Receivables	D2	**9,202**	4,668	**20**	-
Other assets	D2	**3,120**	586	**-**	-
Investment property held for sale	B1	**-**	38,730	**-**	-
Total current assets		**18,735**	49,499	**1,073**	175
Non-current assets					
Investment properties	B1	**1,328,445**	855,564	**-**	-
Investments accounted for using the equity method	B2	**551,051**	474,147	**-**	-
Intra-group facility receivable	D4	**-**	-	**526,446**	430,130
Investment in financial assets at fair value	B3	**6,851**	15,661	**-**	-
Derivative financial instruments	C3	**-**	149	**-**	149
Total non-current assets		**1,886,347**	1,345,521	**526,446**	430,279
Total assets		**1,905,082**	1,395,020	**527,519**	430,454
Liabilities					
Current liabilities					
Payables	D2	**12,154**	5,856	**385**	374
Distribution payable	A2	**22,932**	15,796	**-**	-
Derivative financial instruments	C3	**8,126**	-	**8,126**	-
Other liabilities	D2	**2,033**	2,712	**-**	-
Total current liabilities		**45,245**	24,364	**8,511**	374
Non-current liabilities					
Borrowings	C2	**525,017**	428,081	**525,169**	428,241
Derivative financial instruments	C3	**13,365**	2,205	**13,365**	2,205
Total non-current liabilities		**538,382**	430,286	**538,534**	430,446
Total liabilities		**583,627**	454,650	**547,045**	430,820
Net assets / (liabilities)		**1,321,455**	940,370	**(19,526)**	(366)
Equity					
Equity holders of DIF					
Contributed equity	C6	**1,280,894**	661,453	**-**	-
Retained profits		**60,087**	48,780	**-**	-
Parent entity interest		**1,340,981**	710,233	**-**	-
Equity holders of Stapled Trusts other than DIF					
Contributed equity	C6	**1,952**	174,125	**1,952**	1,952
Retained profits / (losses)		**(21,478)**	56,012	**(21,478)**	(2,318)
Equity holders of Stapled Trusts other than DIF		**(19,526)**	230,137	**(19,526)**	(366)
Total equity		**1,321,455**	940,370	**(19,526)**	(366)

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

Consolidated statements of changes in equity

For the year ended 30 June 2019

		Attributable to securityholders of DIF		
	Notes	Contributed equity $'000	Retained profits $'000	Total $'000
Balance at 1 July 2017		434,758	24,472	459,230
Total comprehensive income		-	70,284	70,284
DIF's acquisition of CVL1T, 218BRT, CHPT		-	-	-
and CPOF KHT	C6	153,239	-	153,239
Contributions of equity, net of issue costs	C6	73,456	-	73,456
Distributions provided for or paid	A2	-	(45,976)	(45,976)
Balance at 30 June 2018		661,453	48,780	710,233
Balance at 1 July 2018		661,453	48,780	710,233
Total comprehensive income		**-**	**86,813**	**86,813**
DIF's acquisition of FSPT	C6	**232,409**	**-**	**232,409**
Contributions of equity, net of issue costs	C6	**387,032**	**-**	**387,032**
Distributions provided for or paid	A2	**-**	**(75,506)**	**(75,506)**
Balance at 30 June 2019		**1,280,894**	**60,087**	**1,340,981**

		Attributable to securityholders of Stapled Trusts other than DIF		
	Notes	Contributed equity $'000	Retained profits $'000	Total $'000
Balance at 1 July 2017		261,505	96,609	358,114
Total comprehensive income		-	13,045	13,045
DIF's acquisition of CVl1T, 218 BRT, CHPT and CPOF KHT		(113,370)	(39,826)	(153,196)
Contributions of equity, net of issue costs	C6	25,990	-	25,990
Distributions provided for or paid	A2	-	(13,816)	(13,816)
Balance at 30 June 2018		174,125	56,012	230,137
Balance at 1 July 2018		174,125	56,012	230,137
Total comprehensive income		**-**	**(17,254)**	**(17,254)**
DIF's acquisition of FSPT		**(172,173)**	**(60,236)**	**(232,409)**
Contributions of equity, net of issue costs	C6	**-**	**-**	**-**
Distributions provided for or paid	A2	**-**	**-**	**-**
Balance at 30 June 2019		**1,952**	**(21,478)**	**(19,526)**

Consolidated statements of changes in equity (continued)

		Attributable to securityholders of LWR Finance Trust		
	Notes	Contributed equity $'000	Accumulated losses $'000	Total $'000
Balance at 1 July 2017		1,896	(439)	1,457
Contributions of equity, net of issue costs		56	-	56
Total comprehensive income		-	(1,879)	(1,879)
Balance at 30 June 2018		1,952	(2,318)	(366)
Balance at 1 July 2018		1,952	(2,318)	(366)
Contributions of equity, net of issue costs		**-**	**-**	**-**
Total comprehensive income		**-**	**(19,160)**	**(19,160)**
Balance at 30 June 2019		**1,952**	**(21,478)**	**(19,526)**

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

Consolidated cash flow statements

For the year ended 30 June 2019

	Notes	Charter Hall Long WALE REIT 2019 $'000	Charter Hall Long WALE REIT 2018 $'000	LWR Finance Trust 2019 $'000	LWR Finance Trust 2018 $'000
Cash flows from operating activities					
Property rental income received		**85,515**	73,743	**-**	-
Property expenses paid		**(15,697)**	(10,856)	**-**	-
Distributions received from investment in joint venture entities		**30,212**	28,379	**-**	-
Interest received		**257**	189	**114**	93
Finance costs paid		**(18,784)**	(15,544)	**(18,784)**	(15,544)
Fund management fees paid		**(8,147)**	(7,159)	**(6)**	(44)
Administration and other expenses paid		**(3,465)**	(2,701)	**(41)**	(124)
Net GST paid with respect to operating activities		**(6,208)**	(4,358)	**17**	(2)
Net cash flows from operating activities	A3	**63,683**	61,693	**(18,700)**	(15,621)
Cash flows from investing activities					
Payments for investment properties		**(598,327)**	(118,977)	**-**	-
Receipts from sale of investments properties		**173,730**	-	**-**	-
Draws from income support fund		**1,728**	1,831	**-**	**-**
Receipts from sale of share in income support fund		**7,711**	-	**-**	**-**
Payments for investments in joint venture entities		**(61,680)**	(54,893)	**-**	-
Repayment under Intra-Group Facility Agreement		**-**	-	**(682,618)**	(222,672)
Drawdowns under Intra-Group Facility Agreement		**-**	-	**606,995**	166,225
Acquisition and disposal related costs		**(666)**	-	**(666)**	-
Net cash flows from investing activities		**(477,504)**	(172,039)	**(76,289)**	(56,447)
Cash flows from financing activities					
Proceeds from issue of securities, net of equity raising costs		**377,732**	91,878	**-**	56
Distributions paid to securityholders		**(58,880)**	(49,729)	**-**	-
Proceeds from borrowings (net of borrowing costs)		**511,867**	86,225	**511,867**	86,225
Repayment of borrowings		**(416,000)**	(15,400)	**(416,000)**	(15,400)
Net cash flows from financing activities		**414,719**	112,974	**95,867**	70,881
Net increase in cash and cash equivalents		**898**	2,628	**878**	(1,187)
Cash and cash equivalents at the beginning of the year		**5,515**	2,887	**175**	1,362
Cash and cash equivalents at the end of the year		**6,413**	5,515	**1,053**	175

The above consolidated cash flow statements 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 statements of cash flows:

	Note	Charter Hall Long WALE REIT 2019 $'000	Charter Hall Long WALE REIT 2018 $'000	LWR Finance Trust 2019 $'000	LWR Finance Trust 2018 $'000
Distributions by the REIT during the year satisfied by the issue of stapled securities under the DRP	A2, C6	**(9,490)**	(7,569)	**-**	-

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:

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

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

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

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

Critical accounting estimates and judgements

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

The areas involving significant estimates or judgements are:

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

A. REIT performance

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

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

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

A1. Segment information

(a) Description of segments

The Directors of the Responsible Entity have determined the operating segments based on the reports reviewed by the chief operating decision maker, being the Board of the Responsible Entity. The REIT has one operating segment being its Australian operations.

(b) Segment information provided to the Board

The operating earnings reported to the Board for the year ended 30 June 2019 are as follows:

	30 Jun 2019 $'000	30 Jun 2018 $'000
Property lease revenue*	**81,960**	66,269
Services income	**3,416**	2,251
Property income	**85,376**	68,520
Income support	**1,728**	1,831
Non-cash adjustments	**(5,291)**	(3,619)
Property expenses	**(12,835)**	(10,412)
Net property income from wholly owned properties (NPI)	**68,978**	56,320
Share of operating earnings from investments accounted for using equity method	**31,193**	27,081
Interest income	**257**	187
Fund management fees	**(7,569)**	(6,576)
Finance costs	**(19,644)**	(16,218)
Administration and other expenses	**(2,405)**	(2,418)
Operating earnings	**70,810**	58,376
Weighted average number of stapled securities	**263,081**	220,964
Operating earnings per stapled security (cents)	**26.92**	26.43

* Top five tenants are 71% of rental revenue.

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

	30 Jun 2019 $'000	30 Jun 2018 $'000
Net property income	**108,264**	90,558
Interest income	**320**	187
Fund management fees	**(7,569)**	(6,576)
Finance costs	**(27,712)**	(23,296)
Administration and other expenses	**(2,493)**	(2,497)
Operating earnings	**70,810**	58,376

A. REIT performance (continued)

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

	30 Jun 2019 $'000	30 Jun 2018 $'000
Operating earnings	**70,810**	58,376
Net fair value movements on investment properties[1]	**31,031**	24,343
Net fair value movements on derivative financial instruments[1]	**(20,186)**	(1,905)
Net fair value movements on investments at fair value through profit or loss	**145**	302
Straightlining of rental income, amortisation of lease fees and incentives[1]	**6,281**	4,044
Acquisition and disposal related costs	**(16,794)**	-
Income support	**(1,728)**	(1,831)
Statutory profit for the year	**69,559**	83,329

[1] Includes the REIT's proportionate share of non-operating items of equity accounted investments on a look through basis.

Property lease revenue

Property lease revenue represents income earned from the long-term rental of REIT properties (inclusive of outgoings recovered from tenants) and is recognised on a straight line basis over the lease term.

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

	0 to 1 year $'000	1 to 5 years $'000	Over 5 years $'000	Total $'000
2019	**98,843**	**392,183**	**727,559**	**1,218,585**
2018	67,545	274,843	322,320	664,708

Services income

Other income principally includes non-lease income derived under lease agreements with tenants. Non-lease income relates to the proportion of property operating costs which are recoverable from tenants in accordance with lease agreements and relevant legislative acts. See note D8(d) for further details.

Property expenses

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

A. REIT performance (continued)

A2. Distributions and earnings per security

(a) Distributions paid and payable

	2019			2018		
	Number of securities on issue	**Cents per security**	**$'000**	Number of securities on issue	Cents per security	$'000
Ordinary securityholders of DIF						
30 September	232,300,142	**6.40**	14,867	208,673,257	5.00	10,434
31 December[1]	280,706,919	**6.50**	18,246	232,300,142	5.00	11,615
31 March	282,039,579	**6.90**	19,461	232,300,142	5.10	11,847
30 June[2]	322,986,420	**7.10**	22,932	232,300,142	5.20	12,080
Total distributions		**26.90**	**75,506**		20.30	45,976
Ordinary securityholders of Stapled Trusts other than DIF						
30 September	232,300,142	**-**	-	208,673,257	1.50	3,130
31 December[1]	280,706,919	**-**	-	232,300,142	1.50	3,485
31 March	282,039,579	**-**	-	232,300,142	1.50	3,485
30 June	322,986,420	**-**	-	232,300,142	1.60	3,716
Total distributions		**26.90**	**75,506**		26.40	59,792

[1] Includes $2.0 million paid on stapled securities issued at cum-price under Entitlement Offer in December 2018 (31 December 2017: $1.4 million)

[2] Includes $2.9 million paid on stapled securities issued at cum-price under Placement in June 2019.

No distributions were paid or declared during the year by Finance Trust.

Pursuant to the REIT's constitutions, the amount distributed to securityholders is at the discretion of the Responsible Entity. The Responsible Entity uses operating earnings as a guide to assessing an appropriate distribution to declare. Operating earnings for the year ended 30 June 2019 was $70.8 million (26.9 cents per stapled security) and distributions of $75.5 million (26.9 cents per stapled security) were declared for the same period of which $4.9 million was debt funded as part of the equity raisings during the year.

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

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

(b) Earnings per unit

	Charter Hall Long WALE REIT		**LWR Finance Trust**	
	2019	2018	**2019**	2018
Basic and diluted earnings				
Earnings/(loss) per stapled security (cents)	**26.44**	37.69	**(7.28)**	(0.85)
Operating earnings of the REIT per stapled security (cents)	**26.92**	26.43	**N/A**	N/A
Earnings/(loss) of the parent entity (cents)^	**35.11**	33.63	**(0.01)**	(0.06)
Earnings used in the calculation of basic and diluted earnings per stapled security				
Net profit/(loss) for the year ($'000)	**69,559**	83,329	**(19,160)**	(1,879)
Net profit/(loss) of the parent entity for the year ($'000)	**86,813**	70,284	**(30)**	(138)
Operating earnings of the REIT for the year ($'000)	**70,810**	58,376	**N/A**	N/A
Weighted average number of stapled securities used in the calculation of basic and diluted earnings per stapled security ('000)	**263,081**	220,964	**263,081**	220,964

^ Takes into account conversion of each security issued by DIF into approximately 0.75 securities on 22 August 2018 and conversion of each unit issued by DIF into approximately 0.75 securities on 22 September 2017.

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

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

A. REIT performance (continued)

A3. Reconciliation of net profit to operating cash flow

	Charter Hall Long WALE REIT		LWR Finance Trust	
	2019 $'000	2018 $'000	**2019 $'000**	2018 $'000
Profit for the year	**69,559**	83,329	**(19,160)**	(1,879)
Non-cash items				
Net fair value movements on financial assets	**(145)**	(302)		
Net fair value movements on investment properties	**(14,779)**	(6,142)		
Net fair value movements on derivative financial instruments	**19,328**	1,813	**19,994**	1,813
Share of non-operating earnings from investments accounted for using the equity method	**(16,385)**	(18,534)		
Straightlining of rental income and amortisation of incentives	**(5,291)**	(3,619)		
Debt extinguishment and amortisation of borrowing costs	**743**	587	**1,124**	582
Capitalised interest on Intra-Group Facility	**-**	-	**(20,692)**	(16,182)
Classified as investing activities				
Acquisition and disposal related costs	**16,794**	-		
Classified as financing activities				
Decrease in trade and other receivables	**(2,389)**	1,431	**(1)**	(5)
Increase in trade and other payables	**(3,752)**	3,130	**35**	50
Net cash flows from operating activities	**63,683**	61,693	**(18,700)**	(15,621)

B. Property portfolio assets

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

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

	Note	2019 $'000	2018 $'000
Assets held for sale	B1	**-**	38,730
Investment properties	B1	**1,328,445**	855,564
Investments in joint ventures	B2	**551,051**	474,147
Investment in financial assets at fair value	B3	**6,851**	15,661
Total property portfolio assets		**1,886,347**	1,384,102

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

Summary of acquisition and disposal costs directly expensed to the statement of comprehensive income in relation to transactions which occurred during the year:

Costs in relation to transactions with:	2019 $'000	2018 $'000
Investment properties	**15,061**	-
Investments in joint ventures	**1,733**	-
Total	**16,794**	-

B1. Investment properties

Investment properties

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

Assets held for sale

Investment properties are classified as assets held for sale when it is highly probable that the carrying amount will be recovered principally through a sale transaction rather than through continuing use. Investment properties classified as held for sale are measured at fair value. Assets which are classified as held for sale are classified as current assets as it is expected they will be divested within the coming reporting period.

(a) Valuation techniques and key judgements

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

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

	Fair value $'000	Net market rent ($ sq.m./p.a.)	Adopted capitalisation rate (% p.a.)	Adopted terminal yield (% p.a.)	Adopted discount rate (% p.a.)
2019	**1,328,445**	**16 - 921**	**4.8 - 8.3**	**5.0 - 7.8**	**6.3 - 8.0**
2018	894,294	15 - 489	5.0 - 8.3	5.5 - 8.0	6.5 - 8.3

B. Property portfolio assets (continued)

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

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

(b) Valuation process

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

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

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

	Notes	**2019 $'000**	2018 $'000
Carrying amount at the beginning of the year		**855,564**	760,360
Additions		**565,299**	120,842
Acquisition and disposal costs incurred		**22,512**	3,368
Disposals		**(135,000)**	-
Revaluation increment		**42,582**	13,092
Revaluation decrement attributable to acquisition costs, straightlining of rental income, and amortisation of incentives and leasing fees		**(27,803)**	(6,950)
Straightlining of rental income and amortisation of incentives and leasing fees		**5,291**	3,582
Transfer of assets classified as held for sale		**-**	(38,730)
Carrying amount at the end of the year		**1,328,445**	855,564

B. Property portfolio assets (continued)

(d) List of investment properties

As at 30 June 2019, the investment properties have been valued as set out below:

Properties	Sector	Acquisition date	Date of latest independent valuation	Independent valuation $'000	2019 Fair value $'000	2018 Fair value $'000
Held for sale						
Grace, Willawong, Brisbane QLD[1]	Industrial	23/12/10	30/06/17	-	**-**	38,730
Total				-	**-**	38,730
Investment properties						
ATO, Adelaide SA[2,3]	Office	10/11/16	30/06/19	136,250	**136,250**	270,000
Virgin, Brisbane QLD	Office	04/01/18	30/06/19	95,500	**95,500**	90,800
40 Tank Street, Brisbane QLD[2]	Office	20/08/18	30/06/19	48,750	**48,750**	-
85 George St, Brisbane QLD[2]	Office	19/10/18	30/06/19	46,750	**46,750**	-
Optima Centre, Perth WA[2]	Office	26/10/18	30/06/19	62,700	**62,700**	-
Telstra, Canberra ACT[4]	Office	14/06/19	30/06/19	108,500	**108,500**	-
Bunnings, Mackay QLD	Retail	03/07/17	30/06/19	30,000	**30,000**	29,034
Coles, Waterford, Brisbane QLD	Retail	10/09/18	30/06/19	22,400	**22,400**	-
Toll Holdings, Altona North VIC	Industrial	02/07/10	30/06/19	33,500	**33,500**	33,500
Australia Post, Kingsgrove NSW	Industrial	05/11/10	30/06/19	24,750	**24,750**	23,488
Woolworths, Hoppers Crossing VIC	Industrial	22/06/12	30/06/19	47,250	**47,250**	46,700
Coates Hire, Kingston QLD	Industrial	12/09/12	30/06/19	33,900	**33,900**	32,000
Electrolux, Beverly SA	Industrial	17/12/12	30/06/19	36,500	**36,500**	35,877
Coles, Truganina VIC[2]	Industrial	10/11/16	30/06/19	57,875	**57,875**	56,000
Metcash, Canning Vale WA	Industrial	10/11/16	30/06/19	169,750	**169,750**	169,210
Suez Portfolio (National)[5]	Industrial	23/12/16	30/06/19	81,770	**81,770**	68,985
National Archives, Chester Hill, Sydney NSW	Industrial	23/10/18	30/06/19	57,300	**57,300**	-
Ingham's Portfolio (National)	Agrilogistics	28/12/18	30/06/19	235,000	**235,000**	-
Total				**1,328,445**	**1,328,445**	855,594

1 Classified as asset held for sale, contracts exchanged 18 May 2018 and settlement 16 August 2018
2 50% ownership accounted for as joint operations with related parties
3 50% interest sold in August 2018
4 Leasehold
5 Suez, Lower Nudgee acquired on 21 June 2019 for $4.05 million. Date of latest independent valuation for this property is 6 March 2019.

Joint operations

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

B2. Investment in joint venture entities

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

Information relating to the joint venture entities is detailed below:

Name of entity	Properties	2019 Ownership %	2018 Ownership %	2019 $'000	2018 $'000
Perth RDC Trust	Coles, Perth WA	**49.9%**	49.9%	**124,199**	123,085
LWIP^	ALH (National Portfolio)	**49.9%**	45.0%	**233,456**	189,225
CH DC Fund*	Woolworths, Dandenong VIC	**26.0%**	26.0%	**61,742**	58,010
Kogarah Trust	Westpac, Kogarah NSW	**50.1%**	50.1%	**105,804**	103,827
CH BBD Trust	BCC Bus Network Terminal, Eagle Farm, Brisbane, QLD	**50.0%**	-	**25,850**	-
				551,051	474,147

^ Acquired additional 4.9% interest in September 2018 for $20.9 million and contributed additional equity of $3.0 million to fund the acquisition of the Henley Beach Hotel, Adelaide SA in March 2019 and $7.0 million to fund the acquisition of the Austral Hotel, Mackay QLD in December 2018.
* Preleased development reached practical completion on 22 March 2018.

B. Property portfolio assets (continued)

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

	2019 $'000	2018 $'000
Balance at the beginning of the year	**474,147**	402,284
Additions (including acquisition costs)	**61,680**	54,993
Acquisition costs written off	**(1,733)**	-
Share of equity accounted profit	**47,577**	45,615
Distributions received and receivable	**(30,620)**	(28,745)
Balance at the end of the year	**551,051**	474,147

(b) Summarised financial information for material joint ventures

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

2019	Perth RDC Trust $'000	LWIP $'000	CH DC Fund $'000	Kogarah Trust $'000	CH BBD Trust $'000	Total $'000
Summarised balance sheet:						
Cash and cash equivalents	**797**	**613**	**1,556**	**2,332**	**498**	**5,796**
Other current assets	**-**	**2,920**	**233**	**377**	**274**	**3,804**
Non-current assets	**249,250**	**833,100**	**237,000**	**211,000**	**102,500**	**1,632,850**
Current liabilities	**(1,151)**	**(10,586)**	**(1,321)**	**(2,523)**	**(364)**	**(15,945)**
Derivative financial instruments - non-current liabilities	**-**	**(1,760)**	**-**	**-**	**(179)**	**(1,939)**
Borrowings - non-current liabilities	**-**	**(356,439)**	**-**	**-**	**(51,029)**	**(407,468)**
Net assets	**248,896**	**467,848**	**237,468**	**211,186**	**51,700**	**1,217,098**
REIT's share in %	**49.9**	**49.9**	**26.0**	**50.1**	**50.0**	
REIT's share in $'000 and carrying value	**124,199**	**233,456**	**61,742**	**105,804**	**25,850**	**551,051**
Summarised statement of comprehensive income:						
Revenue	**19,901**	**54,266**	**15,924**	**12,571**	**566**	**103,228**
Interest expense	**-**	**(16,333)**	**-**	**-**		**(16,333)**
Profit/(loss) for the year	**16,614**	**55,734**	**27,166**	**15,427**	**(6,166)**	**108,775**
Other comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**
Total comprehensive income	**16,614**	**55,734**	**27,166**	**15,427**	**(6,166)**	**108,775**
REIT's share in $'000	**8,290**	**27,578**	**7,063**	**7,729**	**(3,083)**	**47,577**
REIT's share of distribution received in $'000	**7,176**	**14,230**	**3,331**	**5,752**	**131**	**30,620**

B. Property portfolio assets (continued)

2018	Perth RDC Trust $'000	LWIP $'000	CH DC Fund $'000	Kogarah Trust $'000	CH BBD Trust $'000	Total $'000
Summarised balance sheet:						
Cash and cash equivalents	253	1,454	3,122	1,366	-	6,195
Other current assets	-	1,176	312	429	-	1,917
Non-current assets	248,250	768,770	220,900	206,960	-	1,444,880
Current liabilities	(1,839)	(9,940)	(1,218)	(1,515)	-	(14,512)
Derivative financial instruments - non-current liabilities	-	(165)	-	-	-	(165)
Borrowings - non-current liabilities	-	(340,795)	-	-	-	(340,795)
Net assets	246,664	420,500	223,116	207,240	-	1,097,520
REIT's share in %	49.9	45.0	26.0	50.1	-	
REIT's share in $'000 and carrying value	123,085	189,225	58,010	103,827	-	474,147
Summarised statement of comprehensive income:						
Revenue	20,365	52,287	4,077	12,244	-	88,973
Interest expense	-	(15,870)	-	-	-	(15,870)
Profit for the year	21,019	55,431	11,008	14,666	-	102,124
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income	21,019	55,431	11,008	14,666	-	102,124
REIT's share in $'000	10,488	24,917	2,862	7,348	-	45,615
REIT's share of distribution received in $'000	7,938	12,451	2,718	5,638	-	28,745

Joint ventures

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

When the REIT's share of losses in an equity accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the REIT does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.

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

B. Property portfolio assets (continued)

B3. Investments in financial assets at fair value

	2019 **$'000**	2018 $'000
Balance at the beginning of the year	**15,661**	17,190
Withdrawals	**(1,244)**	(1,831)
Disposals	**(7,711)**	-
Net fair value movement on investment at fair value	**145**	302
Balance at the end of the year	**6,851**	15,661

Income support account

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

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

On 13 August 2018, the REIT disposed of 50% of its entitlement to the income support fund in conjunction with the sale of 50% interest in ATO, Adelaide SA.

Following the ATO market rent review in November 2017, income support of $1.2 million was drawn from the income support fund during the year (2018: $1.8 million).

B4. Commitments and contingent liabilities

As at 30 June 2019, the REIT had a commitment of $43.9 million to fund the acquisition of Thales Building, Sydney Olympic Park NSW which settled on 10 July 2019 and a further $7.2 million of other capital commitments (30 June 2018: nil). Finance Trust had no commitments as at 30 June 2019 (30 June 2018: nil).

As at 30 June 2019, the REIT and Finance Trust have no contingent liabilities (30 June 2018: nil).

The REIT's share in the commitments and contingent liabilities of joint venture entities, other than those described above, total nil (2018: nil).

C. Capital structure and financial risk management

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

C1. Capital risk management

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

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

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

The REIT has a target balance sheet gearing level of 25% to 35% of debt to total assets and its balance sheet gearing at 30 June 2019 was 27.5% (30 June 2018: 30.6%).

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

C2. Borrowings and liquidity

(a) Borrowings

Borrowings are initially recognised at fair value, estimated by comparing the margin on the facility to the pricing of a similar facility in the current market, and subsequently measured at amortised cost using the effective interest rate method. Under the effective interest rate method, any transaction fees, costs, discounts and premiums directly related to the borrowings are recognised in profit or loss over the expected life of the borrowings. All borrowings are classified as non-current liabilities as they have maturities greater than 12 months. Figures below represent both the REIT and Finance Trust.

	2019		2018	
	Total carrying amount	**Fair value**	Total carrying amount	Fair value
	$'000	**$'000**	$'000	$'000
Bank loan - term debt	**527,800**	**530,860**	430,100	432,019
Unamortised borrowing cost	**(2,783)**	**-**	(2,019)	-
Total	**525,017**	**530,860**	428,081	432,019
Balance available for drawing	**152,200**		39,900	

Bank loans

	Maturity Date	**Facility limit at 30 Jun 2019 $'000**	**Utilised amount at 30 Jun 2019 $'000**	Facility limit at 30 Jun 2018 $'000	Utilised amount at 30 Jun 2018 $'000
Syndicated bank facility	February 2023	**480,000**	**475,200**	470,000	430,100
Bilateral facility	August 2023	**100,000**	**25,100**	-	-
Bilateral facility	July 2024	**100,000**	**27,500**	-	-
		680,000	**527,800**	470,000	430,100

Intra-Group Facility Agreement

	30 Jun 2019 $'000	30 Jun 2018 $'000
Loans receivable under IGFA		
Charter Hall Direct Industrial Fund	**526,446**	378,613
Franklin Street Property Trust	**-**	51,517
	526,446	430,130

On 10 November 2016, Finance Trust entered an Intra-Group Facility Agreement (IGFA) with the other Stapled Trusts. This agreement expires in November 2021. On 28 December 2018, the Intra-Group Facility Agreement (IGFA) was amended to reflect the REIT's new simplified structure and the acquisition of the Ingham's portfolio on 28 December 2018 held by LWR AL Holding Trust, a subsidiary of DIF.

Interest rates under the IGFA are variable and reset periodically. As at 30 June 2019, the interest rate under the IGFA was 4.50% (30 June 2018: 4.00%) per annum.

C. Capital structure and financial risk management (continued)

Borrowing in Joint Ventures

As at balance date, LWIP has a $170.0 million syndicated debt facility and $200.0 million US Private Placement (USPP) notes. The syndicated debt facility matures in December 2023 and USPP notes mature in May 2027.

As part of the BCC Bus Network Terminal, Eagle Farm, Brisbane, QLD transaction, a new debt facility was established at the joint venture level with a total facility limit of $51.3 million (CLW share $25.6 million) and a 5 year term, maturing in May 2024.

Net debt reconciliation

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

	2017 $'000	Movement in borrowing costs $'000	Movement in cash $'000	2018 $'000	Movement in borrowing costs $'000	Movement in cash $'000	2019 $'000
Bank debt	359,000		71,100	430,100	-	97,700	**527,800**
Borrowing costs	(2,330)	311		(2,019)	(764)	-	**(2,783)**
Total borrowings	356,670	311	71,100	428,081	(764)	97,700	**525,017**
Cash	(2,887)		(2,628)	(5,515)	-	(898)	**(6,413)**
Net debt	353,783	311	68,472	422,566	(764)	96,802	**518,604**

(b) Finance costs

	Charter Hall Long WALE REIT		LWR Finance Trust	
	2019 $'000	2018 $'000	**2019 $'000**	2018 $'000
Finance costs incurred on financial instruments:				
- At amortised cost	**18,922**	15,211	**19,222**	15,193
- At amortised cost – related party *	**-**	-	**3,487**	-
- Fair value through profit or loss	**722**	1,007	**1,387**	1,007
	19,644	16,218	**24,096**	16,200

* Relates to costs incurred under IGFA

C3. Derivative financial instruments

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

(a) Interest rate swaps

The Finance Trust, on behalf of the REIT, has entered into $200 million of new interest rate swaps during the year, bringing the total interest rate swap notional value up to $525 million. At balance date, 92% (2018: 75%) of the REIT's direct and joint venture interest rate exposure was hedged. The Finance Trust, on behalf of the REIT, is entitled to receive interest, at quarterly intervals, at a floating rate on a notional principal amount and oblige it to pay interest at a fixed rate on the same amount. The interest rate and swap agreements allow the REIT to raise long-term borrowings at a floating rate and effectively swap them into a fixed rate.

At 30 June 2019, the fixed rates varied from 1.35% to 2.54% per annum (2018: 2.14% to 2.70% per annum). Amounts reflected in the financial statements are as follows:

Balance Sheet	**2019**		2018	
	Asset $'000	**Liability $'000**	Asset $'000	Liability $'000
Current				
Interest rate swaps	**-**	**8,126**	-	-
Total current derivative financial instruments	**-**	**8,126**	-	-
Non-current				
Interest rate swaps	**-**	**13,365**	149	2,205
Total non-current derivative financial instruments	**-**	**13,365**	149	2,205
Total derivative financial assets/liabilities	**-**	**21,491**	149	2,205

C. Capital structure and financial risk management (continued)

As at 30 June 2019, the notional principal amount and period of expiry of the interest rate swap contracts are as follows:

	1 year or less $'000	1 - 2 years $'000	2 - 3 years $'000	3 - 4 years $'000	More than 4 years $'000	Total $'000
2019	**40,000**	**-**	**240,000**	**-**	**245,000**	**525,000**
2018	-	40,000	-	185,000	100,000	325,000

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

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

The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows.

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

C4. Financial risk management

The REIT's principal financial instruments comprise cash and cash equivalents, receivables, investments in financial assets at fair value, payables, interest bearing liabilities and derivative financial instruments.

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

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

Risk	Definition	Exposure	Exposure management
Market risk – Interest rate risk	The risk that changes in interest rates will change the fair value or cash flows of the REIT's monetary assets and liabilities.	Cash and borrowings at fixed and floating rates.	• Interest rate swaps are used to hedge any movement in interest rates.
Liquidity risk	The risk the REIT has insufficient liquid assets to meet its obligations as they become due and payable.	Payables, borrowings and other liabilities.	• Maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions.
Credit risk	The risk that a contracting entity will not complete its obligations under a contract and will cause the REIT to make a financial loss.	All financial assets including tenant receivables.	• Performing credit reviews on prospective tenants, obtaining tenant collateral and detailed review of tenant arrears. • Review the aggregate exposure of receivables and tenancies across the portfolio. • Limiting the credit exposure to any financial institution and limiting to investment grade counterparties. • Monitoring the public credit rating of counterparties.

C. Capital structure and financial risk management (continued)

(a) Market risk – Interest rate risk

The table below shows the REIT and Finance Trust's exposure to interest rate risk.

	Charter Hall Long WALE REIT		LWR Finance Trust	
	2019 $'000	2018 $'000	**2019 $'000**	2018 $'000
Fixed rate				
Borrowings - joint venture entities[1]	**99,800**	90,000	**-**	-
Net fixed rate exposure	**99,800**	90,000	**-**	-
Floating rate				
Cash	**(6,413)**	(5,515)	**(1,053)**	(175)
Cash - joint venture entities[1]	**(2,526)**	(2,276)	**-**	-
Loans receivable	**-**	-	**(526,446)**	(430,130)
Borrowings	**527,800**	430,100	**527,800**	430,100
Borrowings - joint venture entities[1]	**104,218**	63,675	**-**	-
	623,079	485,984	301	(205)
Derivative financial instruments				
Interest rate swaps - floating to fixed[2]	**(525,000)**	(325,000)	**(525,000)**	(325,000)
Interest rate swaps - floating to fixed - joint venture entities[1&2]	**(42,445)**	(24,750)	**-**	-
Net floating rate exposure	**55,634**	136,234	(524,699)	(325,205)

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

[2] The amounts represent the notional principal payable under the derivative contracts.

Sensitivity analysis

The table below reflects the potential net increase/(decrease) in profit and equity, resulting from changes in Australian interest rates applicable at 30 June 2019, with all other variables remaining constant. The change in interest payable on the REIT's and Finance Trust's floating rate interest bearing liabilities is partially offset by changes in the fair value of derivative financial instruments hedging this exposure.

	Charter Hall Long WALE REIT					
	2019				2018	
	Interest expense $'000	**Net gain/(loss) from derivative financial instruments $'000**	**Profit and loss $'000**	**Other comprehensive income $'000**	Profit and loss $'000	Other comprehensive income $'000
Australian interest rates						
+ 1.00%	**(556)**	**18,988**	**18,432**	-	10,860	-
- 1.00%	**556**	**(19,929)**	**(19,373)**	-	(11,567)	-

	LWR Finance Trust					
	2019				2018	
	Interest expense $'000	**Net gain/(loss) from derivative financial instruments $'000**	**Profit and loss $'000**	**Other comprehensive Income $'000**	Profit and loss $'000	Other comprehensive income $'000
Australian interest rates						
+ 1.00%	**-**	**17,598**	**17,598**	-	12,222	-
- 1.00%	**-**	**(18,478)**	**(18,478)**	-	(12,929)	-

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

C. Capital structure and financial risk management (continued)

(b) Liquidity risk

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

	Charter Hall Long WALE REIT				
	Carrying value $'000	Less than 1 year $'000	1 to 5 years $'000	Over 5 years $'000	Total $'000
2019					
Financial liabilities					
Payables	**(12,154)**	**(12,154)**	**-**	**-**	**(12,154)**
Distribution payable	**(22,932)**	**(22,932)**	**-**	**-**	**(22,932)**
Borrowings	**(525,017)**	**(11,166)**	**(528,233)**	**(27,545)**	**(566,944)**
Derivative financial instruments	**(21,491)**	**(12,201)**	**(9,799)**	**264**	**(21,736)**
Other liabilities	**(2,033)**	**(2,033)**	**-**	**-**	**(2,033)**
Total financial liabilities	**(583,627)**	**(60,486)**	**(538,032)**	**(27,281)**	**(625,799)**
2018					
Financial liabilities					
Payables	(5,856)	(5,856)	-	-	(5,856)
Distribution payable	(15,796)	(15,796)	-	-	(15,796)
Borrowings	(428,081)	(12,824)	(464,284)	-	(477,108)
Derivative financial instruments	(2,205)	(1,182)	(1,382)	622	(1,942)
Other liabilities	(2,712)	(2,712)	-	-	(2,712)
Total financial liabilities	(454,650)	(38,370)	(465,666)	622	(503,414)

	LWR Finance Trust				
	Carrying value $'000	Less than 1 year $'000	1 to 5 years $'000	Over 5 years $'000	Total $'000
2019					
Financial liabilities					
Payables	**(385)**	**(385)**	**-**	**-**	**(385)**
Borrowings	**(525,169)**	**(11,166)**	**(528,233)**	**(27,545)**	**(566,944)**
Derivative financial instruments	**(21,491)**	**(12,201)**	**(9,799)**	**264**	**(21,736)**
Total financial liabilities	**(547,045)**	**(23,752)**	**(538,032)**	**(27,281)**	**(589,065)**
2018					
Financial liabilities					
Payables	(374)	(374)	-	-	(374)
Borrowings	(428,241)	(12,824)	(464,284)	-	(477,108)
Derivative financial instruments	(2,205)	(1,182)	(1,382)	622	(1,942)
Total financial liabilities	(430,820)	(14,380)	(465,666)	622	(479,424)

C. Capital structure and financial risk management (continued)

(c) Credit risk

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

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

	Past due but not impaired				
	Less than 30 days $'000	31 to 60 days $'000	61 to 90 days $'000	More than 90 days $'000	Total $'000
2019					
Rent receivable	**1,190**	**180**	**19**	**35**	**1,424**
2018					
Rent receivable	-	-	-	86	86

The REIT applies the AASB 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade and other financial assets. The REIT considers its financial asset balances to be low risk and thus the methodology has not resulted in the recognition of any material impairment of financial assets'.

The loss allowances for rent receivables and other financial assets are based on assumptions about risk of default and expected loss rates. The REIT uses judgement in making these assumptions, based on the REIT's past history and existing market conditions as well as forward looking estimates at the end of each reporting period.

C5. Offsetting financial assets and liabilities

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

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

Consolidated entity	Gross amounts of financial instruments $'000	Amounts subject to set-off $'000	Net amount post set-off $'000
2019			
Derivative liabilities	**(21,491)**	**-**	**(21,491)**
Borrowings	**(527,800)**	**-**	**(527,800)**
	(549,291)	**-**	**(549,291)**
2018			
Derivative assets	149	(149)	-
Derivative liabilities	(2,205)	149	(2,056)
Borrowings	(430,100)	-	(430,100)
	(432,156)	-	(432,156)

C. Capital structure and financial risk management (continued)

C6. Contributed equity

		Charter Hall Long WALE REIT		LWR Finance Trust	
		2019 $'000	2018 $'000	**2019 $'000**	2018 $'000
Details	*No. of Securities*				
Securities on issue - 1 July 2017	207,787,175	-	434,758	-	1,896
Securities issued to fund acquisition of CVL1T, 218BRT, CHPT DT and CPOF KHT	68,851,727	-	153,239	-	-
Change in number of securities after reorganisation	(68,851,727)	-	-	-	-
Securities issued via equity raise, net of issue costs	22,664,846	-	68,484	-	39
Securities issued via DRP	1,848,121	-	4,972	-	17
Securities on issue - 30 June 2018	232,300,142	**661,453**	661,453	**1,952**	1,952
Securities issued to fund acquisition of FSPT	75,618,617	**232,409**		-	
Change in number of securities after reorganisation	(75,618,617)	-		-	
Securities issued via equity raise, net of issue costs	88,491,166	**377,542**		-	
Securities issued via DRP	2,195,112	**9,490**		-	
Securities on issue - 30 June 2019	322,986,420	**1,280,894**		**1,952**	

Balance at the end of the year attributable to the securityholders of:					
DIF	**322,986,420**	**1,280,894**	661,453	-	-
LWR Finance Trust	**322,986,420**	**1,952**	1,952	**1,952**	1,952
FSPT*	-	-	172,173	-	-
Equity holders of Stapled Trusts other than DIF		**1,952**	174,125	**1,952**	1,952

* FSPT ceased being Stapled Trust following the Simplification on 22 August 2019.

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

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

Distribution reinvestment plan (DRP)

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

The DRP issue price is determined at a discount of 1.0% to the daily volume weighted average price of all securities traded on the ASX during the 10 business days commencing on the third business day following the distribution record date. The DRP was activated in December 2018 and the REIT raised $5.6 million from the DRP for the 31 December 2018 distribution allotted on 14 February 2019 and $3.9 million from the DRP for the 31 March 2019 distribution allotted on 15 May 2019. An additional $6.0 million is expected to be raised from the DRP for the 30 June 2019 distribution to be allotted on 14 August 2019.

Simplification of REIT's structure

On 22 August 2018, DIF acquired all of the securities of Franklin Street Property Trust (FSPT) from Securityholders for $232.4 million which represents the relative net tangible asset value of FSPT, in exchange for additional securities in DIF. As part of simplification, equity attributable to the securityholders of FSPT has been reduced by $232.4 million. Immediately thereafter, the DIF securities were consolidated to preserve the one to one stapling ratio. The stapled securities of the REIT traded on a deferred settlement basis from 20 to 23 August 2018 in connection with this transaction. Following simplification, the REIT now comprises two Stapled Trusts (DIF and Finance Trust).

C. Capital structure and financial risk management (continued)

Equity raising

During October and November 2018, the REIT raised $70.9 million of equity, issuing 17.6 million stapled securities at $4.04 per stapled security to both institutional and retail investors. The proceeds were used to fund the acquisition of a 50% interest in 85 George Street in Brisbane, QLD, National Archives Facility in Chester Hill, Sydney NSW and the Optima Centre in Perth, WA as well as associated transaction and capital raising costs.

In December 2018, the REIT raised $124.9 million of equity, issuing 30.8 million stapled securities at $4.05 per stapled security to both institutional and retail investors. The proceeds were used to fund the acquisition of the Inghams Portfolio consisting of 27 agri-logistics properties and associated transaction and capital raising costs.

In June 2019, the REIT undertook a fully underwritten $190 million institutional placement at an issue price of $4.74 per security to partially fund the acquisition of a 50% interest in Brisbane City Council (BCC) Bus Network Terminal in Eagle Farm, Brisbane, QLD, Telstra Building in Canberra, ACT and Thales Building in Sydney Olympic Park, NSW and associated transaction costs.

The REIT also undertook an $11 million underwritten Security Purchase Plan (“SPP”) to eligible securityholders in Australia and New Zealand, proceeds of which were received in July 2019.

D. Further Information

D1. Related party information

(a) Responsible Entity

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

(b) Directors

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

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

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

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

The Responsible Entity and its related parties held 49,074,083 stapled securities as at 30 June 2019 (2018: 47,402,894).

Following is a summary of related party transactions for the year ended 30 June 2019:

		Charter Hall Long WALE REIT			
		Basis of fee calculation		Fee amount	
Type of fee	Method of fee calculation	2019 $'000	2018 $'000	2019 $'000	2018 $'000
Base management	0.45% of average gross assets	**1,737,657**	1,464,689	**7,569**	6,576
Acquisition	1% of acquisition price	**632,750**	121,848	**6,328**	1,219
Disposal fee	1% of disposal price*	**-**	38,730	**-**	387
Property management	Up to 3% of gross property income	**132,648**	97,009	**1,256**	956
Accounting services	Cost recovery	**N/A**	N/A	**683**	714
Leasing fees	% gross average annual rent based on a sliding fee scale	**12,019**	4,306	**750**	258
Project management fees	3% of the project value	**8,067**	-	**242**	-
Facility management fee	Annual charge per property	**-**	-	**63**	44
Other cost recoveries	Cost recovery	**N/A**	N/A	**16**	60
				16,907	10,214

* No fee payable on disposal of 50% interest in ATO Adelaide, SA.

D. Further information (continued)

Type of fee	Method of fee calculation	LWR Finance Trust Basis of fee calculation 2019 $'000	2018 $'000	Fee amount 2019 $'000	2018 $'000
Base management	0.45% of average gross assets	**2,429**	8,686	11	39
Accounting services	Cost recovery	-	-	-	42
				11	81

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

	Charter Hall Long WALE REIT 2019 $'000	2018 $'000	LWR Finance Trust 2019 $'000	2018 $'000
Charter Hall Holdings Pty Limited	**751**	958	**6**	-
	751	958	**6**	-

(e) Key management personnel

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

(f) Directors' fees and Fund Manager remuneration

Independent Directors' fees are as follows:

CHWALE	2019 $'000	2018 $'000
Peeyush Gupta AM	**143,500**	140,000
Glenn Fraser	**110,000**	110,000
Ceinwen Kirk-Lennox	**97,375**	95,000
	350,875	345,000

The level of fees is not related to the performance of the REIT and Finance Trust. 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 and Finance Trust are employees of Charter Hall Holdings Pty Ltd and are remunerated by Charter Hall Holdings Pty Ltd.

(g) Directors' interests in REIT stapled securities

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

	Stapled securities held 2019	Stapled securities held 2018
Peeyush Gupta AM	**374,344**	394,243
Glenn Fraser	**52,535**	44,325
Ceinwen Kirk-Lennox	**34,936**	25,764
David Harrison	**326,318**	290,458
Adrian Taylor	**73,645**	72,530
Total	**861,778**	827,320

D. Further information (continued)

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

	Stapled securities acquired 2019	Stapled securities acquired 2018
Peeyush Gupta AM	**32,115**	12,132
Glenn Fraser	**8,210**	4,325
Ceinwen Kirk-Lennox	**9,172**	2,514
David Harrison	**35,860**	36,405
Adrian Taylor	**1,115**	9,017
Total	**86,472**	64,393

Peeyush Gupta AM disposed of 52,014 stapled securities of the REIT during the year. No other stapled securities of the REIT were sold by the Directors of the Responsible Entity or their related parties during the year.

D2. Working capital

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

(a) Receivables and other assets

	Charter Hall Long WALE REIT		**LWR Finance Trust**	
	2019 $'000	2018 $'000	**2019 $'000**	2018 $'000
Receivables				
Trade receivables	**1,424**	86	**-**	-
Provision for doubtful debts	**(15)**	-	**-**	-
Accrued income and other receivables	**2,155**	111	**-**	-
Net GST receivable	**759**	-	**20**	-
Distributions receivable from joint ventures*	**4,879**	4,472	**-**	-
	9,202	4,669	**20**	-
*Distributions received in the corresponding July.				
Other Assets				
Deposit for the purchase of Thales Building, Sydney Olympic Park	**2,358**	-	**-**	-
Prepayments	**762**	586	**-**	-
	3,120	586	**-**	-

Trade receivables includes property income receivable together with receivables relating to revenue from contracts with customers.

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

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

D. Further information (continued)

(b) Payables and other liabilities

	Charter Hall Long WALE REIT		LWR Finance Trust	
	2019 $'000	2018 $'000	**2019 $'000**	2018 $'000
Payables				
Accrued expenses	**9,297**	4,264	**68**	23
Accrued management fee	**751**	571	**6**	-
Accrued capital expenditure	**1,795**	231	**-**	-
Interest payable	**311**	351	**311**	351
GST payable	**-**	439	**-**	-
	12,154	5,856	**385**	374
Other liabilities				
Unearned income	**2,033**	2,712	**-**	-
	2,033	2,712	**-**	**-**

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 entities of the REIT and Finance Trust has been prepared on the same basis as the consolidated financial statements except as set out below:

Investments in controlled entities

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

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

Receivables and payables

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

Recoverable amount of assets

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

D. Further information (continued)

(a) Summary financial information

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

	Parent entity of Charter Hall Long WALE REIT 2019 $'000	2018 $'000	Parent entity of LWR Finance Trust 2019 $'000	2018 $'000
Balance Sheet				
Current assets	**5,198**	1,639	**699**	680
Non-current assets	**1,256,978**	982,561	**2,500**	2,500
Total assets	**1,262,176**	984,200	**3,199**	3,180
Current liabilities	**31,363**	12,743	**1,521**	1,471
Non-current liabilities	**440,055**	364,920	**-**	-
Total liabilities	**471,418**	377,663	**1,521**	1,471
Equity				
Contributed equity	**770,921**	661,453	**1,949**	1,949
Retained profits / accumulated losses	**19,837**	(54,916)	**(271)**	(240)
Total equity	**790,758**	606,537	**1,678**	1,709
Statement of comprehensive income				
Profit for the year	**147,393**	43,178	**(30)**	(138)
Total comprehensive income	**147,393**	43,178	**(30)**	(138)

(b) Guarantees and contingent liabilities

The parent entities did not have any material contingent liabilities, either individually or as a class, at 30 June 2019 (2018: $nil).

(c) Commitments

The parent entities did not have any contingent liabilities as at 30 June 2019 (2018: $nil).

(d) Net current asset deficiency

At 30 June 2019, the parent entities have net deficiencies of current assets over current liabilities of $26.2 million (2018: $11.1 million) for the REIT and $0.8 million (2018: $0.8 million) for LWR Finance Trust. The parent entities will be able to meet their day-to-day working capital requirements from their available loan facility and operating cash flows. Securityholders will only receive their distributions to the extent that the parent entities have sufficient working capital.

D4. Significant contract terms and conditions

Pre-emptive rights

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

A number of joint-ownership agreements also contain:

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

D. Further information (continued)

D5. Remuneration of the auditor

	Charter Hall Long WALE REIT 2019 $'000	Charter Hall Long WALE REIT 2018 $'000	LWR Finance Trust 2019 $'000	LWR Finance Trust 2018 $'000
Amounts paid or payable to PricewaterhouseCoopers Australian firm for:				
Audit services	**308**	290	**16**	18
Amounts paid or payable to related practices of PricewaterhouseCoopers Australian firm for:				
Taxation compliance services	**53**	52	**3**	-
Accounting and tax due diligence advice	**51**	137	**-**	-
	412	479	**19**	18

D6. Interests in other entities

Material subsidiaries

The REIT's and Finance Trust's principal subsidiaries at 30 June 2019 are set out below. Unless otherwise stated, they have contributed equity consisting solely of ordinary units that are held directly by the parent entity, and the proportion of ownership interests held equals the voting rights held by the parent entity.

Name of entity	Country of incorporation / Place of business	Ownership interest held by the REIT 2019	Ownership interest held by the REIT 2018	Principal activities
Charter Hall Direct Industrial Fund				
CHDIF Altona North Trust	Australia	**100%**	100%	Property Investment
CHDIF Kingsgrove Trust	Australia	**100%**	100%	Property Investment
CHDIF Hoppers Crossing Trust	Australia	**100%**	100%	Property Investment
CHDIF Kingston Holding Trust	Australia	**100%**	100%	Holding Trust
CHDIF Kingston Trust	Australia	**100%**	100%	Property Investment
CHDIF Beverley Holding Trust	Australia	**100%**	100%	Holding Trust
CHDIF Beverley Trust	Australia	**100%**	100%	Property Investment
CHDIF Perth Holding Trust	Australia	**100%**	100%	Holding Trust
CHDIF Perth Airport Trust	Australia	**100%**	100%	Property Investment
LWR LWIP Holding Trust	Australia	**100%**	100%	Holding Trust
LWR LWIP Investment Trust	Australia	**100%**	100%	Property Investment
Suez Portfolio Trust	Australia	**100%**	100%	Property Investment
CH Direct VA Trust	Australia	**100%**	-	Property Investment
LWR Bunnings Trust	Australia	**100%**	100%	Property Investment
LWR Truganina Trust	Australia	**100%**	100%	Property Investment
LWR Canning Vale Trust	Australia	**100%**	-	Property Investment
CPOF Kogarah Trust	Australia	**100%**	100%	Property Investment
LWR Tank Street Trust	Australia	**100%**	-	Property Investment
LWR Club Hotel Waterford Trust	Australia	**100%**	-	Property Investment
LWR Optima Centre Trust	Australia	**100%**	-	Property Investment
LWR George Street Trust	Australia	**100%**	-	Property Investment
Charter Hall Chester Hill Trust	Australia	**100%**	-	Property Investment
LWR AL Holding Trust	Australia	**100%**	-	Holding Trust
LWR AL Trust	Australia	**100%**	-	Property Investment
LWR BBD Trust	Australia	**100%**	-	Property Investment
LWR Mort Street Trust	Australia	**100%**	-	Property Investment
LWR Franklin Street Trust	Australia	**100%**	-	Property Investment
LWR Finance Trust				
Charter Hall LWR Limited	Australia	**100%**	100%	Provision of finance

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

D. Further information (continued)

D7. Events occurring after balance date

On 10 July 2019, CLW settled on Thales Building, Sydney Olympic Park, NSW for $46.2 million which was acquired from a related party.

On 11 July 2019, the REIT raised $11.0 million of equity from the Security Purchase Plan.

The Directors of the Responsible Entity are not aware of any other matter or circumstance not otherwise dealt with in this report or the annual consolidated financial statements that has significantly affected or may significantly affect the operations of the REIT or Finance Trust, the results of their operations or the state of affairs of the REIT or Finance Trust in future financial years.

D8. Other significant accounting policies

(a) Basis of preparation

These general purpose financial statements have been prepared in accordance with the requirements of the REIT's and Finance Trust's constitutions, Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board and the *Corporations Act 2001*. The REIT and Finance Trust is a for-profit entity for the purpose of preparing the consolidated financial statements. The consolidated financial statements are presented in Australian dollars, which is the REIT's and Finance Trust's functional and presentation currency.

Compliance with IFRS

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

Historical cost convention

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

New and amended standards adopted

No new accounting standards or amendments have come into effect for the year ended 30 June 2019 that affect the REIT's and Finance Trust's operations or reporting requirements.

Net current asset deficiency and net asset deficiency

At 30 June 2019, the REIT has a net deficiency of current assets over current liabilities of $26.5 million (30 June 2018: $25.1 million net current asset surplus). At 30 June 2019, the Finance Trust has a net deficiency of current assets over current liabilities of $7.4 million (30 June 2018: $0.2 million) and a net deficiency of total assets over total liabilities of $19.5 million (30 June 2018: $0.4 million). The REIT and Finance Trust will be able to meet their day-to-day working capital requirements from readily accessible credit facilities of $152.2 million and operating cashflows.

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

(b) Principles of consolidation

Stapling

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

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

Under AASB 3 *Business Combinations* and AASB 10 *Consolidated Financial Statements*, one of the stapled entities of a stapled structure is to be identified as the parent entity for the purpose of preparing a consolidated annual financial report. In accordance with this requirement, DIF has been identified as the parent entity.

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

D. Further information (continued)

Controlled entities

Subsidiaries are all entities over which the REIT and Finance Trust 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) Comparative information

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

(d) Rounding of amounts

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

(e) Impact of new standards and interpretations issued and adopted by the REIT and Finance Trust

The REIT and Finance Trust adopted AASB 9 *Financial Instruments* and AASB 15 *Revenue from Contracts with Customers* from 1 July 2018. The REIT and Finance Trust have elected to utilise the retrospective transitional concessions. The impact of adopting these new standards are described below:

AASB 9 *Financial Instruments*

AASB 9 *Financial Instruments* addresses the classification, measurement and derecognition of financial assets and liabilities and sets out new rules for hedge accounting. This standard replaces AASB 139 *Financial Instruments: Recognition and Measurement.*

Classification and measurement

The adoption of AASB 9 has not impacted the carrying value of the financial assets or liabilities but has resulted in classification changes on initial application at 1 July 2018. These changes are illustrated in the table below.

Financial Asset	Classification under AASB 139	Classification under AASB 9	Carrying amount as at 30 June 2019 Charter Hall Long WALE REIT $'000	LWR Finance Trust $'000
Receivables	Loans and receivables	Financial asset at amortised cost	9,202	20
Other assets	Loans and receivables	Financial asset at amortised cost	3,120	-

Financial assets at amortised cost are initially recognised at fair value and are subsequently measured at amortised cost using the effective interest rate method less any impairment.

Impairment of financial assets

AASB 9 replaces the incurred loss model under AASB 139 with an expected credit loss (ECL) model. The ECL model applies to financial assets measured at amortised cost, contract assets and debt investments at fair value through other comprehensive income (FVOCI). Measurement under ECLs is based on the anticipated impact of default events arising either in the 12 months after reporting date, or the entire lifetime of the asset.

The REIT and Finance Trust assessed the ECL associated with:

- Receivables by applying the simplified impairment approach permitted by AASB 9. This requires expected lifetime losses to be recognised on initial recognition of the receivables.
- All other financial assets, other than trade receivables, on a forward looking basis and measured using the expected lifetime ECL.

The REIT's and Finance Trust's impairment provision has not been materially impacted by the adoption of this standard.

D. Further information (continued)

Hedging

The REIT and Finance Trust do not apply hedge accounting. The adoption of AASB 9 has not impacted the carrying value of the REIT's and Finance Trust's derivatives. The REIT's and Finance Trust's risk management strategies are aligned with the requirements of AASB 9.

AASB 15 *Revenue from Contracts with Customers*

AASB 15 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.

The table below summarises the changes in respect to the timing of revenue recognition under AASB 118 compared to AASB 15 and the new revenue recognition policies under AASB 15.

Type of revenue	Description	Revenue recognition policy under AASB 118	Revenue recognition policy under AASB 15
Recoveries revenue	The REIT recovers the costs associated with tenancy operations from certain lessees in accordance with tenancy acts and specific clauses within lease agreements. These are invoiced monthly based on an annual estimate. The consideration is due 30 days from invoice date. Should any adjustment be required based on actual costs incurred, this is recognised in the statement of financial performance within the same reporting period and billed annually.	Recognised on an accruals basis based on the contract terms	Over time
Recharge revenue	The REIT recovers costs for any additional specific services requested by the lessee under the lease agreement. These costs are recovered in accordance with specific clauses within the lease agreements. Revenue from recharges is recognised as the services are provided. The lessee is invoiced on a monthly basis, where applicable. Consideration is due 30 days from invoice date.	Recognised when costs are incurred	Point in time

An assessment has been undertaken of when the REIT's performance obligations are satisfied and no changes have been identified that impact the timing of revenue recognition. See note A1(b) for disclosure changes.

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

Certain new accounting standards and interpretations have been published that are not mandatory for the period ended 30 June 2019 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:

AASB 16 *Leases* (Applicable for year commencing 1 July 2019)
The accounting by lessors will not significantly change. The REIT currently plans to apply AASB 16 for the reporting period beginning on 1 July 2019. An initial assessment of the new standard has been undertaken and it is not expected to have a material impact on the REIT's consolidated financial statements. This standard does not apply to Finance Trust.

Directors' declaration to stapled securityholders

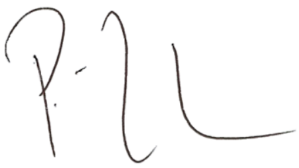
In the opinion of the Directors of Charter Hall WALE Limited, the Responsible Entity of Charter Hall Long WALE REIT and LWR Finance Trust:

- a the consolidated financial statements and notes set out on pages 15 to 47 are in accordance with the *Corporations Act 2001*, including:
  - i complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
  - ii giving a true and fair view of the REIT's and LWR Finance Trust's financial position as at 30 June 2019 and of their performance for the year ended on that date; and
- b there are reasonable grounds to believe that the REIT and LWR Finance Trust will be able to pay their debts as and when they become due and payable.

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

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

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



Peeyush Gupta AM

Director

Sydney

12 August 2019

Independent auditor's report

To the stapled securityholders of the Charter Hall Long WALE REIT and LWR Finance Trust

Report on the audit of the financial reports

Our opinion

In our opinion:

The accompanying financial reports of the Charter Hall Long WALE REIT and LWR Finance Trust are in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the Charter Hall Long WALE REIT's and LWR Finance Trust's financial positions as at 30 June 2019 and of their financial performance for the year then ended

(b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

What we have audited

We have audited the accompanying financial reports of the Charter Hall Long WALE REIT and LWR Finance Trust which comprise:

- the consolidated balance sheets as at 30 June 2019
- the consolidated statements of comprehensive income for the year then ended
- the consolidated statements of changes in equity for the year then ended
- the consolidated cash flow statements for the year then ended
- the notes to the consolidated financial statements as contained in the "About this report" section, which include a summary of significant accounting policies
- the directors' declaration to stapled securityholders

The Charter Hall Long WALE REIT (the REIT) comprises Charter Hall Direct Industrial Fund and the entities it controlled at year end or from time to time during the financial year (DIF) and LWR Finance Trust and its controlled entity (Finance Trust).

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 reports* section of our report.

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

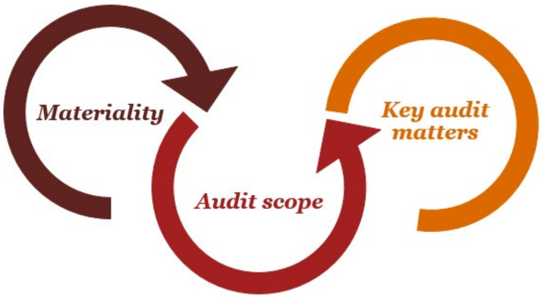
Independence

We are independent of the REIT and the Finance Trust 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 reports in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Our audit approach

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

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial reports as a whole, taking into account the operational and management structure of the REIT and the Finance Trust, their accounting processes and controls and the industry in which they operate.



Materiality

- For the purpose of our audit of the REIT we used overall quantitative materiality of $3.5 million, which represents approximately 5% of the REIT'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 reports as a whole.
- We chose operating earnings (which is an adjusted profit metric) as the benchmark because, in our view, it is the benchmark against which the performance of the REIT is most commonly measured and is a generally accepted benchmark within the industry. We selected a 5% threshold based on our professional judgement and noting it is within the range of acceptable quantitative materiality thresholds.

Audit Scope

- Our audit focused on where the REIT and the Finance Trust made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events.
- We also focused on the risk of management override of internal controls, including whether there was evidence of bias by the directors of Charter Hall WALE Limited, the responsible entity of the REIT and Finance Trust (the directors) that may represent a risk of material misstatement due to fraud.

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
Valuation of investment properties, including those investment properties held in joint ventures accounted for under the equity method – Charter Hall Long WALE REIT *(Refer to Note B)* The REIT's investment property portfolio is comprised of industrial, retail, office and agrilogistic investment properties. At 30 June 2019 the carrying value of the REIT's total investment property portfolio (excluding investment properties held in equity accounted investments) was $1,328.4 million (2018: $855.6 million). The carrying value of the investment properties held by the REIT's joint venture vehicles was $1,632.8 million (2018: $1,445 million), refer to Note B(b). Investment properties are valued at fair value at reporting date using an average of the income capitalisation approach and the discounted cash flow approach as described in Note B. The value of investment properties is dependent on the valuation methodology adopted and the inputs into the valuation model. Factors such as prevailing market conditions, the individual nature, condition and location of each property and the expected future income for each property directly impact fair values. Amongst others, the following assumptions are key in establishing fair value: • capitalisation rate • adopted discount rate. At the end of each reporting period, the REIT determines the fair value of its investment property portfolio in accordance with Charter Hall Group's valuation policy. This policy requires all properties to be externally valued by an independent valuation expert at least once every 12 months. If a property is not externally valued at balance date, the REIT performs an internal valuation.	We performed the following procedures amongst others: • Inspected recent independent property market reports detailing the prevailing market conditions in which the REIT invests. • Compared historical valuations against current year valuations, and noted that the movements in fair values were in line with overall movements in the market. • Met with management of the REIT and discussed the specifics of a sample of individual properties including new leases entered into during the financial year and capital expenditure. • For a sample of leases, compared the rental income used in the valuation to underlying lease agreements. The data used in the selected samples was consistent with tenant leases. • Compared the REIT's capitalisation rates and discount rates by location and asset grade to industry benchmarks and market data, including comparable transactions where possible. • Agreed the fair value per the final valuation reports to the REIT's accounting records. • For a sample of external valuations, assessed the competency and capability of the external valuers and evaluated whether the valuations were performed in accordance with Charter Hall Group's valuation policy. • Evaluated whether the disclosures were consistent with the requirements of Australian Accounting Standards.

We considered this a key audit matter because of the:

- Relative significant size of the investment property balances in the consolidated balance sheet.
- Material quantum of revaluation gains that directly impact the consolidated statement of comprehensive income through the net fair value gain on investment properties.
- Inherently subjective nature of investment property valuations due to the use of several assumptions in the valuation methodology.
- Sensitivity of valuations to key input assumptions, specifically capitalisation and discount rates.

Simplification of the REIT structure – Charter Hall Long WALE REIT *(Refer to Note C6)* DIF acquired all the securities of the stapled trust Franklin Street Property Trust (FSPT) from its security holders on 22 August 2018. The FSPT securities were acquired at their net tangible asset value, in exchange for additional securities in DIF. Thereafter, the DIF securities were consolidated to preserve the one-to-one stapling ratio. Following simplification, the REIT comprises two stapled trusts: DIF and the Finance Trust. The accounting for the acquisition was a key audit matter because it was a significant transaction for the year given the financial and operational impacts on the REIT. In addition, the REIT made significant judgements when accounting for the acquisition, due to the: • nature and complexity of the transaction to consolidate FSPT into DIF. • magnitude, judgement and estimations involved in determining and accounting for the fair value of assets acquired and liabilities assumed.	We developed an understanding of the steps performed by management of the REIT to achieve the simplified structure. We performed a number of audit procedures including the following: • Assessed the accounting treatment through inspection of implementation deeds, unit registers and other legal documentation supporting the simplification transactions and the requirements of Australian Accounting Standards. • Evaluated the completeness and accuracy of the REIT's calculation of the net tangible asset value of FSPT prior to simplification and its consolidation into DIF. We performed reasonableness testing over all material balances of the acquired stapled trust and agreed the fair value of investment properties to an external valuation report. • Agreed the net tangible asset value of FSPT on the simplification date to the reduction in contributed equity and retained earnings of the remaining stapled trusts and increase in the contributed equity of DIF in the consolidated statement of changes in equity.
Valuation of derivative financial instruments – Charter Hall Long WALE REIT and LWR Finance Trust *(Refer to Note C3)* Charter Hall LWR Pty Limited (a wholly owned subsidiary of the Finance Trust) enters into domestic debt as one of its sources of funding and enters into derivative financial instruments (derivatives) contracts to manage interest rate risk associated with the debt.	We performed the following audit procedures, amongst others: • For all new or amended derivatives, agreed key terms of the derivatives back to the individual third party contracts. • Obtained independent counterparty confirmations to confirm the existence of each derivative at the financial year end.

For the financial year ended 30 June 2019, the total carrying value of the derivatives recognised in the consolidated balance sheets (including current assets, non-current assets, current liabilities and non-current liabilities) was a net liability position of $21.5 million (2018: $2.1 million). We considered the valuation of derivatives to be a key audit matter because of the: • nature and complexity involved in valuing derivatives • relative size of derivative balances and potential for fluctuation in the size year on year • judgement required by the REIT and Finance Trust in determining key assumptions to forecast future cashflows, including interest rates, and the expected volatility of these assumptions used in the valuation.	• Assessed reasonableness of the fair value of the derivatives by comparing inputs in the valuation calculations to market data, with the assistance of our valuation experts. • We evaluated whether the disclosures were consistent with the requirements of Australian Accounting Standards.
Finance costs – LWR Finance Trust *(Refer to Note C2(b))* Charter Hall LWR Pty Limited (a wholly owned subsidiary of the Finance Trust) enters into facility agreements with third party financiers and is party to an Intra-Group Facility Agreement (IFGA) with the other stapled trusts. For the financial year ended 30 June 2019, the finance costs recognised in the consolidated statement of comprehensive income was $24.1 million (2018: $16.2 million). We considered the completeness and accuracy of the finance costs to be a key audit matter because of the: • relative size of the finance costs for the financial year ended 30 June 2019 in relation to the consolidated statement of comprehensive income. • nature of the Finance Trust's operations.	We performed of the following audit procedures amongst others: • Read the most up-to-date borrowing agreements between the Finance Trust and its financiers to develop an understanding of the terms associated with the facilities, interest rate, line fee and the amount of facility available for drawdown. • Obtained confirmations directly from the Finance Trust's financiers to confirm all borrowings' balances, tenure and conditions. • Agreed a sample of facility drawdowns and repayments recorded by the Finance Trust for the financial year ended 30 June 2019 to bank statements. • Recalculated the interest expense for all facilities and line fee expense for external facilities for the financial year ended 30 June 2019 using the key terms set out in the facility agreements, and agreed these amounts to the finance costs in the consolidated statement of comprehensive income. • Evaluated whether the disclosures were consistent with the requirements of Australian Accounting Standards.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report for the year ended 30 June 2019, but does not include the financial reports and our auditor's report thereon. Prior to the date of this auditor's report, the other information we obtained included the Director's Report. We expect the remaining other information to be made available to us after the date of this auditor's report.

Our opinion on the financial reports 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 reports, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial reports or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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

When we read the other information not yet received, 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 of the Responsible Entity for the financial reports

The directors are responsible for the preparation of the financial reports that give 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 reports that give a true and fair view and are free from material misstatement, whether due to fraud or error.

In preparing the financial reports, the directors are responsible for assessing the ability of the REIT and Finance Trust 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 or to cease operations, or have no realistic alternative but to do so.

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Auditor's responsibilities for the audit of the financial reports

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

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

PricewaterhouseCoopers

PricewaterhouseCoopers

J A Dunning

J A Dunning
Partner

Sydney
12 August 2019